



L&T Finance Holdings

**“L&T Finance Holdings Limited”
Earnings Conference Call”**

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L&T Finance Holdings



L&T Finance Holdings Spokesperson: Mr. N. Sivaraman

Moderator:

Ladies and Gentlemen, good evening and welcome to the analyst call for the third quarter results of L&T Finance Holdings Limited. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the call over to N. Sivaraman, President & Whole Time Director at L&T Finance Holdings Limited. Thank you, and over to you sir.

N. Sivaraman:

Good evening to all of you. Thanks for joining the call with us this evening. I hope each one of you would have received the presentation by this time. While our board meeting got over only about 45 minutes back, I am sure that you will get this presentation by e-mail in your mail boxes even as you are listening to the presentation.

The highlight of the performance is that the loans and advances for the fiscal year 2012 (as of December 2011) have grown by ~ 51% as compared to the previous year, and as compared to March 2011, we have registered ~ 30% growth. The loans and advances as of December 2011 were ~ Rs. 23,600 Crores and the PBT excluding the impact of microfinance business (we will definitely give some details about microfinance business impact) was ~ Rs. 560 Crores, which represents 28% growth over the same period in FY11.

The Q3 PBT for the current year (excluding microfinance) was ~ Rs. 181 Crores, which represents ~ 26% growth over the same period last year. The NIMs for both L&T Infra and L&T Finance (excluding microfinance) have remained steady.

At the microfinance level, including a provision of Rs. 25 Crores additionally we made this quarter, the loss before tax for Q3FY12 was ~ Rs. 37 Crores. If you add this to the losses for the first half year that we have of ~ Rs. 48 Crores, the effect of microfinance on the results have been ~ Rs. 85 Crores so far and as a result of that we have a consolidated PAT of ~ Rs. 314 Crores as compared to last year's number of ~ Rs. 290 Crores, representing ~ 7% growth on a consolidated basis.

The other important point is that our average AUM for the AMC has improved. Our market share has improved to ~ 0.65% and the fee income from the AMC business has improved from ~ 0.17% of AUM for FY11 to ~ 0.21%, so we are seeing traction in terms of the profitability of the AMC improving as well.

We have been able to maintain overall asset quality with an exception of one account getting into NPA situation in L&T Infra, so the gross NPAs have moved from ~ 1.08% as of

September 2011 to ~ 1.31% as of December 2011. For L&T Finance (excluding microfinance), as compared to FY11, gross NPAs have improved from 1.40% to 1.23%, so I think from monitoring and performance evaluation point of view, this could be the most important part of the information.

I am not going to spend time on certain other details that most of you would be aware of. Instead, I will move straight to the shareholding pattern as it exists today. L&T holds nearly 82.6%. The retail shareholding has gone up from the time we did the IPO; it is ~ 7.8% as we speak. The domestic financial institutions including banks hold ~ 2.1%, which includes ~ 1.5% held by the PSU banks, and 3.1% is with FIIs and 4.4% is with others.

As we have been saying through the IPO phase and also during the initial conversations with most of you, the operating philosophy of the company has been around diversifying product lines to make sure that we are not adversely impacted by any one economic cycle. We have benefited from this diversification. We have also been focused around maintaining the net interest margins as an important goal. Even though the rate increases over the last three quarters have impacted our margins, we expect that as the rate situation improves we should get back to our normal levels of margins in the next two to three quarters.

We have also focused on operational efficiency. To give an example, the operating cost for L&T Finance, which used to be ~ 2.75% of assets, is today down to 2.1-2.2%. We have been able to achieve this by focusing on productivity and also focusing on initiatives that improve efficiency, including centralizing operations, loan processing and credit checks.

Asset quality has been the next important focus for us, which we have achieved through a 200 member team, which focuses on the delinquent cases and never hesitates to pre-close the loans if they believe that the account is not going to become standard in the immediate future.

The other aspect has been the focus on credit quality. Our well established system over the last 10 years plus has proved us in good stead; in fact we have witnessed steady improvement over there. Underwriting of the loan has been moved to a centralized process based on data submitted by the various originators. This has further helped us in improving the asset quality.

We continue to focus on fee income. Even though in the current quarter we have not been as successful in bagging some advisory mandates, given the environment the ones which we are working on should fructify and result in some income in the fourth quarter of the current year.

The organization has return on networth as a supreme goal and this culture has spread throughout the companies.

L&T Finance, as you are all aware, is primarily focused on asset-backed financing for income generating activities as well as distribution of financial products. We also have built substantial business in financing the supply chain of large corporates. The overall assets for L&T Finance as of December 2011 is ~ Rs. 13,800 Crores with the spread remaining pretty similar to what it was in the first half of the current year. The retail business adds up to ~ 60% even though it has come down from March level of ~ 65%. We see this 65 to 35 ratio being maintained over a medium-to-long-term.

L&T Infra is working around supporting project financing as well as financing the developers of new projects, where the products are typically senior debt, mezzanine debt as well as equity investment and financial advisory services. As I speak, the total book is around Rs. 9000 Crores with thermal power constituting ~ 14% of our exposure, renewal power ~ 21%, roads ~ 16%, telecom ~ 11.5%, urban & infrastructure projects ~ 10% and the other balance of ~ 26% or so is around construction, mining, water and sanitation, and logistics related purposes. The other important thing is that the project loans have consistently grown from less than 50% to 63% today and even out of this, 26% are actually operational. In addition if you consider our corporate exposures of ~ 37% then we are at a ~ 60% constantly churning asset book.

As I mentioned to you on the investment management business, we have increased the number of branches to 56 from 19 when we acquired the business. The employees have gone up to 191, and the distribution connectivity is improving, with ~ 11,500 empanelled distributors. The corporate clients have moved up from ~ 633 to 2183 clients, and the average AUM has increased to Rs. 4600 Crores from Rs. 2600 Crores giving us a market share of ~ 0.65% today as compared to ~ 0.36% when we acquired. The AUM breakup is ~ 9% in favor of retail book and ~ 91% in favor of institutional. As I mentioned right at the beginning the margins of earnings from asset management have improved from ~ 0.15% of the AUM to ~ 0.21%. The PAT from this business is ~ Rs. 17 Crores negative as compared to ~ Rs. 40 Crores negative for the last year. Another important event was that we could mobilize ~ Rs. 133 Crores through two NFOs addressed to the retail segment, which is interesting in a very tough market. These NFOs were around predominantly debt funds, with one fund being the balanced fund that we launched.

At the overall performance level, with the total income of the holding company (consolidated) of ~ Rs. 2,200 Crores, we have already exceeded the income for the whole year FY11, which was ~ Rs. 2,115 Crores. This is as compared to ~ Rs. 1,500 Crores of income for the same period in the previous year. Given the rate environment and the increasing gearing levels of the company, interest costs have grown faster than total income.

The PBT excluding microfinance improved from ~ Rs. 434 Crores (9M FY11) to Rs. 555 Crores (YTD FY12), which represents an improvement of ~ 28%.

This is after accounting for provisions and write-offs from other businesses, which increased from ~ Rs. 73 Crores as of last year to ~ Rs. 144 Crores in the current year. Some of this increase is mainly because of two new accounts becoming NPA during the current year in L&T Infra. Also, we took precautionary provisions of ~ Rs. 10 Crores in the asset financing business, because with the start of the new year, the value of the assets would reduce only because of change in year related depreciation. So while all these have resulted in increase, what it also means is that in the balance part of the current year, we should not see any significant increase in the overall provision requirement for the company.

The PAT after accounting for microfinance impact has grown from ~ Rs. 294 Crores to ~ Rs. 314 Crores, an increase of ~ 7%. The contribution from the various entities to the PAT is as follows:

L&T Finance has contributed ~ Rs. 134 Crores as compared to ~ Rs. 172 Crores in the previous year. Without accounting for microfinance, there would have been a gain of ~ 25% over last year, but yes we have had a 26% drop in this number because of the microfinance provisioning.

L&T Infra has improved from ~ Rs.150 Crores to ~ Rs.193 Crores, which is an improvement of close to 30%. For L&T Investment Management Limited, the losses have reduced from ~ Rs.30 Crores to ~ Rs.17 Crores, and L&T Finance Holdings (standalone) has contributed to ~ Rs.11 Crores of PAT, aggregating to ~ Rs.314 Crores of total PAT as compared to the last year figure of ~ Rs.294 Crores.

As far as the balance sheet is concerned, we crossed the Rs. 25,000 Crores mark with total assets amounting to Rs. 25,530 Crores. This is a very healthy increase as compared to the March 31 number as I mentioned right at the beginning. We have witnessed a growth of 30%; as of first half of the year, this growth was around 20%. I must also say that good amount of the increase actually happened in December, due to which the margin as computed on a point-to-point average is lower than the actual margin. Gross NPA excluding microfinance has actually increased to Rs. 305 Crores from Rs. 183 Crores as of FY11. Gross NPAs as a % of assets increased from 1.02% as of March to 1.31% as of Q3 FY12 whereas if we compare it with the similar period last year it was 1.71%. Gross NPAs (including microfinance) moved up from Rs. 192 Crores to ~ Rs. 513 Crores. The primary reason for increase as I mentioned to you has been the two accounts, which has got into NPA, and which we are quite hopeful will get cleared out by March 2012.

The network invested in this company can be split into four parts. The network in the NBFCs amount to ~ Rs. 3,721 Crores; ~ Rs. 675 Crores are yet to be deployed, currently they are deployed as an inter-corporate deposit with the operating NBFCs. So this network, which is going to be used in future for the business growth requirements, effectively makes the operating network ~ Rs.4,400 Crores in the NBFCs. Rs.152 Crores is the network related to bank investments and the AMC's network is ~ Rs.55 Crores, so that it adds up to a total network of Rs. 4,629 Crores. Why I am giving this detail is to really make sure that when someone values this company, they have the adequate information that NBFCs get valued based on NBFC parameters and bank investment be valued based on the market value of these investments. On the AMC, we expect to get valued based on the AUM.

For L&T Finance, the PBT (excluding microfinance) has moved up from Rs. 232 Crores to Rs. 277 Crores. So that represents ~ 20% increase in the overall numbers. After adjusting for the impact of MFI business, the PAT is Rs. 129 Crores as compared to Rs. 169 Crores for the same period last year. The balance sheet has grown from Rs. 10,600 Crores approximately as of end of last year to ~ Rs. 14,000 Crores as of now with loans and advances growing from Rs. 10,368 Crores to Rs. 13,763 Crores. This represents a growth of ~ 30%. We have recomputed the ratios after including IIDL, as IIDL is an associate company of LTF, and it also carries out similar businesses of supply chain finance. The Net Interest Margin for this quarter is around 5.6% to 5.7%, but you would have noticed that there is a marginal increase in gearing from 5.2 times to 5.5 times. Hence, implicitly, spreads have improved and on a like to like basis the NIM is better. The gross NPAs (excluding microfinance) remained quite steady as compared to FY11 numbers. FY11 end of the year GNPA was 1.4%, which has reduced to 1.23% and even as compared to H1 numbers of 1.3%, we are lower. ROE has remained steady around 13.5%. As I mentioned there are a few things that has happened. One is that the margins got impact as compared to the previous year. The second one has been some of the cautionary provision that we have taken in December itself in terms of adjusting for value of assets on account of change of the year. What it leaves with you is the potential improvement in the ROE based on the margin improvement and the provision requirement being lower in the fourth quarter.

L&T Infra PAT has grown from Rs. 150 Crores as of the same period last year to Rs. 193 Crores; that is again 30% growth in the overall PAT numbers. Rs. 10,600 Crores of total assets as compared to Rs. 7,500 Crores as of the end of last year represents an increase of close to around Rs. 3,000 Crores, which means ~ 40% growth in overall assets. The loans and advances have improved from Rs. 7,165 Crores to close to Rs. 9,700 Crores, again representing ~ 40% growth in the overall loans and advances. The gross NPAs have moved up even though there are only two accounts, which have moved into NPA category during the current year. There have been concerns that the GNPA can get really bumped up as we are still a growing entity and even a single account becoming NPA can have a significant impact. The good part is that the net interest margin has been very well maintained even

though the gearing levels have actually increased when compared to the last year. The ROE, which was at 19.4% as of H1, has dropped to 17% over the period mainly on account of the provisioning. We are reviewing these accounts very closely and we believe some of these accounts will get squared up before March 2012, and we should see an improvement of provisioning requirement and unless, because of the stress existing in the system if another new account becomes NPA, we should be able to see a much better picture as of year-end.

As far as the debt composition is concerned, it has remained quite steady as compared to the March 2011 level. We continue to have larger portion of loans from banks and hopefully we should benefit in the next two to three quarters. One important point is that in L&T Finance (excluding microfinance), as of December 2011, we carry a provision of Rs. 48 Crores over and above the RBI norms, and in L&T Infrastructure Finance also we carry a provision of ~ Rs. 11 Crores over and above what RBI stipulates. Microfinance has a total of Rs. 193 Crores book in Andhra Pradesh and we have so far provided close to Rs. 105 Crores, which represents provision coverage of ~ 57%. The heartening part of the news is that there is marginal improvement in the collections. Even though we do not have any billing at this point of time, we see some trickle of collections coming in, so we believe that some of the steps that we have taken on the ground in Andhra Pradesh can help us to improve the collection levels. In terms of the remaining book we will take a call close at to March 2012, depending on the results of our efforts on the ground.

On the business outlook, the balance sheet should continue to grow although at a more subdued rate than what we have seen. We do not see any further stress in the margins. We should see some improvement coming in the fourth quarter given the stand that RBI has already dictated and with the liquidity improvement, the short-term rate should start correcting, which should be good news for L&T Finance definitely.

As far as the credit quality is concerned, on the retail side we have been proactive in the past and we will continue to be proactive and make sure that there is no deterioration in the quality of the book that we carry today. What it means is that we will hope to maintain the current levels of NPAs. As regards the L&T Infra book as I mentioned we do see some improvement coming in the quality of the book as we go along. Even though we continue to see some delays in payments but with our assessment of the credit, which we have done in each case with a great detail, hopefully we will not see further deterioration in the quality of the book. And we will continue to focus on operational efficiency, which should help us remain competitive and also compensate on the lower margin because of the interest rates. With that I hand over to you for any questions that you might have. I hope all of you would have received the presentation in your mailbox by this time.

Moderator:

Thank you so much Mr. Sivaraman. We have the first question from the line of Devam Modi from Equirus Securities. Please go ahead.

- Devam Modi:** Congratulations sir on a very fast growing asset book and a decent set of numbers. We just had a few queries. To begin, as you mentioned probably a lot of the asset growth was towards the later part of the quarter because of which the NIMs probably look a little bit lower so what would be the existing weighted average yield on L&T finance and L&T Infra portfolios?
- N. Sivaraman:** The book yield should be closer to be around 13.5% to 13.75% kind of range. What I can say is that the current yield is around 14.1% for the third quarter on the book. It could show some improvement because we have been able to increase the pricing right through this period even though marginally. What we can also see is that the net interest margin could see a marginal improvement even in the current book because as you rightly mentioned the major part of the increase has come in the month of December actually. So we should see the average effect wearing off in the fourth quarter, and you should see some improvement in the NIM.
- Devam Modi:** So, existing weighted average yield would be for L&T Finance and L&T Infra would be?
- N. Sivaraman:** For L&T Finance, it will be somewhere in the region of ~ 13.0% to 13.5%. For L&T Infra, the yield on the loans is ~ 12.7% is.
- Devam Modi:** Okay, and so what would be the asset as well as the liability duration that you will be maintaining for L&T Infra and L&T Finance?
- N. Sivaraman:** There is no significant change in the asset duration compared to the past; so L&T Finance average asset life will be in the region of ~ 18 to 24 months, L&T Infra will be in the region of ~ 3.5 to 4 years based on the options and the amortizing structure. On the liability side we are more or less matched.
- Devam Modi:** Okay, and sir what would be the proportion of mezzanine loans to the non-mezzanine loans in L&T Infrastructure?
- N. Sivaraman:** It should be in the region of ~ 25% to 30% will be the mezzanine loans. But as you know, all the mezzanine loans are secured by way of either first or second charge and the security cover available on all of these will be in the region of ~ 1.2 times DSCR.
- Devam Modi:** Sir what would be the nature of the sector, in which the incremental stress assets have come about and is there any sector specific commonality in the asset, which are getting stress recently in the infrastructure-financing front?

- N. Sivaraman:** Primarily these companies are supplying into the PSU utilities. Some of them have not been receiving payments on a regular basis that has created a level of stress. What we are very confident is that by March 2012, two of these PSU related cases should be squared.
- Devam Modi:** Sure, has there been any increase in the investment of the equity book over there in L&T Infrastructure?
- N. Sivaraman:** No, I do not think so; if anything that will be very marginal.
- Devam Modi:** Sure sir, and just a detail on how the intercorporate deposit that has been provided by L&T Finance Holdings has been broken up between the two NBFCs?
- N. Sivaraman:** I must say that part of the funding requirement of L&T Finance / L&T Infra has been provided by the way of debt issued by L&T Finance Holdings. The idea is that it provides with a slightly higher level of flexibility at the holding company level to make any additional investment that will be required in the various businesses. So other than that we have got ~ Rs. 690 Crores; so this will be divided into ~ Rs. 450 Crores in L&T Infra and ~ Rs. 200 Crores in L&T Finance.
- Devam Modi:** Sure sir and I just wanted a number on the quantum of loss that would be coming in from the mutual fund business?
- N. Sivaraman:** That is ~ Rs.17 Crores or so, for the nine month period ended December 31, 2011.
- Devam Modi:** All right that is it from my side.
- Moderator:** Thank you. Our next question is from the line of Ganesh Jayaram from Spark Capital. Please go ahead.
- Jyothy Kumar:** Hello sir Jyothy Kumar from Spark Capital. I just had a couple of questions on the book. I see your L&T Infrastructure book and on a quarter-on-quarter basis, the proportion of renewable power has gone up substantially from 16.5% to 20%. Is it fair to assume that opportunities in this business continue to be very high? Is that a fair assumption?
- N. Sivaraman:** Yes, it continues to be high. If I have to explain on a philosophical basis, we have selected certain states where we believe these electricity boards are in good financial condition and will not hesitate to honor their commitments; i.e. there will be not be significant delays in payment. So, for example, we have selected Gujarat as an important state for this and as you must be aware Gujarat had floated a tender for the first phase of renewable energy for the solar energy project to come up before December.
- Ganesh Jayaraman:** What will be the main constituents in the others book I mean it has gone up from 14%-odd?

- N. Sivaraman:** It is around construction companies where we would have some exposure. Mining, water sanitation, rail container and logistics, these are the main components. In fact it is the construction business entities, with which we are facing a level of stress at the moment in terms of delay. We believe they should come out of the stress and get normal sometime soon.
- Ganesh Jayaraman:** Okay sir the other question what I had, was there any capital infusion?
- N. Sivaraman:** Yes we have infused ~ Rs. 450 Crores in the current year.
- Ganesh Jayaraman:** Because I see from your presentation your average gearing in the L&T Infra business to be much lower than the L&T Finance. I wanted to know, was it more to do with capital requirements or you see a significant opportunity?
- N. Sivaraman:** There is big ticket lending that happens in L&T Infra and the size of exposure that they can take is linked to the networth. So, right through we have maintained that we will operate with 5 to 5.5 times gearing level (i.e. 6.5 times balance sheet level leverage) and consequently we are maintaining slightly conservative levels of gearing level in this company and the capital infusion in the L&T Infra was Rs. 300 Crores till December.
- Ganesh Jayaraman:** The other question was from the liability side, if you could give the breakup of the liability side being from term loans. I see that you have operated with who is the final owner of the debt?
- N. Sivaraman:** Mutual funds will be typically 90 days to 180 days kind of CDs, the rest are term loans.
- Ganesh Jayaraman:** Okay and what proportion of the liabilities would be replaced in lets say the next one-year?
- N. Sivaraman:** Generally the banks will get replaced.
- Ganesh Jayaraman:** The entire bank space will be replaced?
- N. Sivaraman:** As far as Infra is concerned you should know that asset side is also equally floating, so generally with the lag of a few months the price adjustments happens on the assets side and the liability side.
- Ganesh Jayaraman:** So not much of delta can come from there?
- N. Sivaraman:** Yes, but in the L&T Finance it will be an important delta.
- Ganesh Jayaraman:** But in L&T Finance how much in the asset side would be the fixed proportion?

- N. Sivaraman:** Very negligible amount is floating; everything else is fixed.
- Ganesh Jayaraman:** So it is fair to assume that entire L&T Finance on the assets side is fixed rate?
- N. Sivaraman:** That's right, as the bank rate improves and also the short term rate comes down further, this fixed rate in ~ 75% - 80% of the book will have the opportunity to benefit.
- Ganesh Jayaraman:** I will come back to you with the next set of questions later.
- Moderator:** Thank you. Our next question is from Umang Shah from Motilal Oswal. Please go ahead.
- Umang Shah:** Good evening. Thanks for taking my question, just a couple of them, on the microfinance side, as you have mentioned out of a portfolio of around 190 Crores you have already provided around 105 Crores, what is the strategy going forward pertaining to the rest of the portfolio, I mean, do we plan to provide 100% of it probably in the coming quarter, or what is the strategy there?
- N. Sivaraman:** Our approach in the first half was that it looked likely that both the government and the microfinance institution (MFIN, the industrial body) will be able to work out a solution and improve the situation of the ground, but somehow it has not happened. But what we see on the ground is that, the political situation has become more benign towards this industry and the noises which were being made by various political parties have died down. That is one reason for taking provisions in a phased manner.
- The second is that the borrower needs for credit are really coming out today. We are seeing that the significant need that they have for credit is an important lubricant for their livelihood. Why I am saying this, is that we took certain steps on the ground to get the borrowers to talk to us and we see a very heartening response from at least some of the locations where the borrowers have an intention to repay and get their credit lines going again. Just to give you an example – even though we do not have any current demand in Andhra Pradesh, over the last two months, we have collected more than 40 lakhs from these borrowers. As I have mentioned to you there is a marginal improvement in the collections, which makes us feel at least little bit hopeful but does it change our mindset in terms of what could be the potential in AP as of now? Not yet. Our first effort in taking legal steps on the ground happened towards the end of December and we would observe till about February to see what the situation in AP. is So what the board has discussed and we feel is that we will take a final call around March and if there is a need for further provisioning we will definitely do that. We have increased the provision coverage to 57% and depending on the development on the ground, we will not hesitate to increase the provisions; whether it will be 100% or it will be 75-80% we will take the call as we go on.

- Umang Shah:** As on December, I believe our MFI portfolio stands at Rs. 3.5 billion, so what would be the covering on the overall portfolio basis as such?
- N. Sivaraman:** Other than AP, anything, which is beyond the 180 days, we provide 100%. Particularly in AP we are taking a calibrated approach, because of it being an extraordinary situation.
- Umang Shah:** Okay and at this point in time we are not growing on that portfolio right?
- N. Sivaraman:** We are not doing any disbursements in AP. Other than AP, we have increased our disbursements from ~ Rs. 5-6 Crores to Rs. 15 Crores per month. These states we are cautious; we have ensured that the credit process has substantially improved. In fact one of the things that is impacting the borrowers is the existence of the robust credit bureau, which impairs the ability of an aspiring borrower from getting credit if he has defaulted in any of the loans that he has got already. So that is actually pushing even the AP borrowers to come forward to discuss with us.
- Umang Shah:** Correct, just one more question on microfinance, our microfinance business is housed in L&T Finance so with the recent guidelines, which have been released by the RBI pertaining to the NBFC-MFIs, I mean do they impact us, because I do understand that we are not NBFC-MFI certified?
- N. Sivaraman:** We have enabled ourselves by incorporating a company called L&T Unnati with the intention of being solely a microfinance company. While RBI has announced the broad guidelines, they are yet to commence the process of registration. They are just about releasing the form for registration seeking certain details, so once that comes in we will definitely opt for the registration and the running portfolio, which is not impaired by the AP situation will be migrated to, and new business will be done out of L&T Unnati.
- Umang Shah:** Great, just one more thing, in terms of our infrastructure exposure do we have any direct exposures to SEBs?
- N. Sivaraman:** In SEBs, no.
- Umang Shah:** So no direct exposure?
- N. Sivaraman:** No direct exposure to the SEBs.
- Umang Shah:** The two accounts that you have mentioned on the call I mean, which have currently clustered as NPAs what would be the quantum of these two exposures?
- N. Sivaraman:** That will be an increase of ~ Rs. 100 Crores.

- Umang Shah:** Roughly 100 Crores, both put together, so effectively the whole increase that has come in gross NPAs has probably come in from these two large deals?
- N. Sivaraman:** Yes. Given that these are corporate exposures and not project exposures, we expect the cash flows to resume. I can't say whether it will happen before March, but having reviewed all the accounts we are confident that these are more temporary issues than something that we expect to go on for a while.
- Umang Shah:** You have mentioned that these are the accounts of the equipment suppliers to state utilities right?
- N. Sivaraman:** Yes, they are suppliers to public sector undertakings.
- Umang Shah:** Public Sector undertaking? Okay and just sir last, final question, during your initial remarks you mentioned that the net interest margin has been recalculated, I mean has there been some change in terms of margin calculation method?
- N. Sivaraman:** Yes, see we have mentioned about IIDL, which is one of the NBFCs which was dormant earlier; we plan to get it activated. So if you really want to look at the NBFC performance or lending performance (excluding infrastructure finance), we need to look at L&T Finance and IIDL on a consolidated basis. Also, till the time it becomes fully operational and active, we would be using that company more by way of transfer of portfolios. Until some of the processes and IT systems are established and become fully independent and operational, the assets would get booked in L&T Finance and get transferred to IIDL.
- Umang Shah:** Then IIDL would be subsidiary, which would be housing details of retail segment or of telecom?
- N. Sivaraman:** See L&T Finance is an asset finance company. Because we are seeing growth in those assets which are outside the RBI definition of 'asset-finance', (which is not necessarily unsecured), these will get migrated to IIDL gradually.
- Umang Shah:** Okay, so from here on whenever we refer to L&T Finance margins, they should be looked at as L&T Finance and IIDL combined?
- N. Sivaraman:** That is correct.
- Umang Shah:** L&T Infra would be separate?
- N. Sivaraman:** That's correct.
- Umang Shah:** All right, not a problem, thank you so much.

Moderator: Thank you. Our next question is the follow up question from Ganesh Jayaraman from Spark Capital. Please go ahead.

Ganesh Jayaraman: Just a quick question, how do you see the construction equipment phase panning out and could you comment a little bit more on how you see the rural demand I mean, there is lot of noise about rural slowdown or potential rural slowdown – how do you view this argument and could you comment specifically with respect to construction equipment?

N. Sivaraman: I would like to comment based on the infrastructure orders which are issued and the pipeline of projects - the outlook is that the demand growth for the construction equipments and also the loans therefore will continue to be robust. What we have seen as disbursement growth in the first nine months in the construction equipment segment has been quite healthy and above average.

As far as the rural demand is concerned I think we are seeing one of the most phenomenal years just like 2008-09, 2010-11. We have not seen either slowdown in terms of volume or in terms of the quality of the assets. For us it is a much diversified asset base in terms of the type of asset within tractors, harvesters; in fact we are market leaders in terms of financing small commercial vehicles. In fact on account of continuing focus of the government in the rural areas and the retention price mechanism and NREGA based consumption, we continue to see good growth over there. We have not seen any signs of slowdown or concerns and unless there is a poor monsoon in this year, I don't think that should be a risk factor.

Ganesh Jayaraman: So you would not prescribe to that argument?

N. Sivaraman: Also with construction equipments, we have moved out of the mining segment big time in 2010-11. Having had some experience on the iron ore mining as well as the coal mining segments, our focus has been more on pure construction related equipment cranes rather than supporting the other ones in the base.

Ganesh Jayaraman: Sir the other question that I have is that as you have mentioned you will set up a new NBFC for microfinance, and also set up IIDL, I mean would it not be very onerous with respect to capital commitments because at each of these NBFC levels you will have to maintain capital commitment. I mean, would it be possible for you to efficiently allocate capital in all these subsidiaries?

N. Sivaraman: Yes, that is why what we are doing is that the equity infusion into each one of the entities is being calibrated with reference to the asset growth that is happening. See we did not deploy capital to both L&T Infra and L&T Finance as soon as we got the money; we have kept that flexibility to allocate the capital depending upon asset growth. Thus, when part of the business is being moved to IIDL, it is clear release of capital from L&T Finance. The

second important point is that, as I have mentioned during my call, a part of the capital infusion in L&T Finance has been through perpetual debt, so that will help to maintain a healthy level of gearing on a consolidated basis and create flexibility for the holding company to reallocate capital depending on the need. At an opportune time and depending on the liquidity, we would dispose it off in the market and raise additional capital required for further our activities. So this is something that we have done in a calibrated manner and is very deliberate.

Ganesh Jayaraman: That is it from my side.

Moderator: Thank you. Our next question is from Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain: Good evening everybody. Thanks for taking my question. My first question is more macro in nature. How do you see the outlook in terms of asset quality because you mentioned that two accounts have already slipped in NPA in this quarter, which caused an increase of ~ 100 Crores to the gross NPA. How do you see this going forward? Are you seeing more stress building up over there or what will be likely scenario going forward in your view?

N. Sivaraman: Let me take this question in three parts.

One in project business, as far as the projects are concerned, I think except where there are delays in execution, we are not seeing any concerns as far as the servicing capabilities of these borrowers are concerned. So, the project finance business as of now, except for one odd case, we do not see any significant delays. We are hopeful that none of the project loans will get into a serious situation. The advantage on the project loans is also that depending on the COD you have an opportunity to restructure the loan without it becoming a NPA.

The second part is that on our corporate book we do see delays as I have mentioned to you. We have looked at the underlying credit a little more deeply as we see delays in servicing. Two of the cases, which have become NPAs (in L&T Infra), have been due to delays in receiving payments from their PSU customers, but we expect that these should get sorted out soon. That is the kind of discussion we have had with the corporates. In other cases, there are delays but we are being very proactive and actually managing this in a manner that we will minimize the impact in our balance sheets in terms of the quality of the book. It will not be right to say that I have no stress. I think the entire system is very stressed because of working capital cycle getting elongated. Yes it has put some difficulty on the customers to continue to service the loans on time but as I said we are continuously working along with the customers and making sure that the stress is minimized. If you ask me before March 31, will there be an increase in the NPA? Unlikely, but we are going to be pretty watchful in the first half of next year and would like to be very careful about it. We have provided balance

sheet support to the corporate segment in L&T Finance and L&T Infra to the extent needed.

Thirdly, as far as the retail segment is concerned, our philosophy has been to proactively manage the asset book and never hesitate to close a loan if it is not likely to become a standard asset in a short period of time. So that should ensure that our quality as such should not deteriorate in any case and one of the thing that has been helping us to be courageous in this is that our provisioning philosophy is to recognize loss as if the foreclosure has happened. These are important changes in our way of managing our balance sheet so that should help us and keep us in good stead.

Rahul Jain: If I may ask one more follow up question on these two accounts; can you elaborate on the public sector utility that have delayed the payment to the equipment supplier?

N. Sivaraman: One of them is with BSNL and the other one is oil major.

Rahul Jain: You said BSNL, okay and another one is oil major. How do you see the asset quality generally speaking in the power sector because we have been hearing that funding to SEBs have been choked because of the various issues related to large corporate offices, so how do you see the scenario panning out in next three to six months?

N. Sivaraman: I think we have to link it to the commencement date on some of these projects, because that gives time for our customers to make sure that their receivables are fairly secured. For example in Tamil Nadu there's a 30% increase in the power tariff and RBI in conjunction with the government has asked the banks to restructure the loans – so as long as the SEBs take steps on the ground to improve their financial situation, both by way of reducing the losses and also the tariff increases, they should do alright. What they have also said is that it will be set up from the grant that the States will enjoy from the Central government – even if they have not carried out their reforms, definitely it will be paid off to the banks. That I think is putting all the SEBs under pressure. I hope that the situation in other states also improves and these kinds of changes happen by the time the projects what we have financed come up for commercial operation.

Independent of all these, the legal opinion given by the Department of Company Affairs, is that the states cannot stop direct supply of power by any technical or legal manner. Now that is a very, very important development, which gives you an assurance that even if SEBs do not pay, there may be six to eight months delay in payment but beyond that the producers need not be in a situation that will not be able to supply to the bulk consumers. So that is important. It is risk mitigation. It will take some effort on part of the producers and for us some delays, but it is not going to be permanent.

- Rahul Jain:** Just if I may ask one question, again macro, how do you see the momentum in the infrastructure financing sector given that we are already witnessing a slow down?
- N. Sivaraman:** I would see the loan growth of first half on the next year be little subdued. Till such time the road sector orders really get converted into financially closed projects and the disbursement picks up and some of the initiatives that the Prime Minister is rolling out to take on the power sector also produces results, I wouldn't bet on very robust growth in the first half of next year.
- Rahul Jain:** Right and then you expect some momentum to pick up in the second half of next year?
- N. Sivaraman:** That depends on the development and I am not going to comment on the third and fourth quarter of the next year at this point.
- Rahul Jain:** All right. Thank you so much.
- Moderator:** Thank you. We have a question from the line of Venkata Rajesh from Premji Invest. Please go ahead.
- Venkata Rajesh:** Good evening. Sir, as you have mentioned in road sector if you can highlight on the outlook and where exactly are you seeing the growth momentum there?
- N. Sivaraman:** We already have projects which have been awarded on the ground of Rs. 35,000-40,000 Crores, which are in various stages of the financial closure. The second is the NHAI's own efforts to award further contracts. Every quarter they have talked about close to 2,500 km being awarded. So these are some indicators of the momentum in the road sector in infrastructure financing.
- Venkata Rajesh:** Are you seeing any stress in terms of mismatches in revenue projections and what was initially budgeted to that extent?
- N. Sivaraman:** I would say yes but the stress is going to be in terms of enhancement in the equity component through promoter contributions that will come into the project. As a lender I would not be concerned at the moment as to whether the bids have been very aggressive or otherwise.
- Venkata Rajesh:** If you could share this figure, what was the percentage of our road sector that are operationalized right now?
- N. Sivaraman:** Our exposure is ~ 50% to annuity projects and I would guess in terms of overall operational projects, it would be in the region of 25%-30%.

- Venkata Rajesh:** This is on the toll side?
- N. Sivaraman:** It is on the road sector, toll side is ~ 50% and the balance is annuity.
- Venkata Rajesh:** Okay and in the operations side you are 25%-30% and also just on the retail finance book, sir right now if I understand L&T Finance is the key group, which is the asset financing company for your retail activities. Is it because we need to maintain the asset finance company stature that is the reason we are doing this division between L&T Finance and IIDL?
- N. Sivaraman:** Yes you are right. See as an asset finance company we have got certain preferred treatment in terms of borrowing that the banks attach with us. So there is a need to maintain this asset financing status and make sure that we do not violate or we get into a stress on that. As growth is happening in the supply chain and corporate financing, this ratio is likely to be little stressed.
- Venkata Rajesh:** Sir, you will have to have at least 50% of the assets financed (to be an AFC)?
- N. Sivaraman:** 60%, and the Usha Thorat committee talks about raising this limit to 75% and I think we need to be prepared for that too.
- Venkata Rajesh:** Okay, all right. That is all.
- Moderator:** Thank you. Our next question is from the line of Aryan Rana from Adfactors PR Private Limited. Please go ahead.
- Aryan Rana:** Sir just wanted to tell the analysts that if in case anyone has not got the presentation, they can e-mail to me at aryan.rana@adfactors.com.
- N. Sivaraman:** Can you repeat it slowly?
- Aryan Rana:** If anyone didn't get the presentation, please mail me at aryan.rana@adfactors.com,
- Moderator:** As there are no further questions at this time I would now like to hand over the call to Mr. N. Sivaraman for closing comments. Thank you and over to you Sir.
- N. Sivaraman:** Thank you all for participating in this call and being interested in understanding us and asking relevant questions. I think the questions covered almost the entire spectrum well . If you need any more details, please free to talk to Adfactors. Thank you.
- Moderator:** On behalf of L&T Finance Holdings Private Limited that concludes this conference. Thank you for joining us. You may disconnect your lines now. Thank you.