

**Shiv Muttoo:** Good evening and welcome to L&T Finance Holdings Q3 FY16 Earnings Conference Call. We have with us today on the call Mr. Y. M. Deosthalee – Chairman and Managing Director, Mr. N. Sivaraman – President and Whole-time Director and other members of the senior management.

We will initiate the call with opening remarks by the management followed by Q&A. Kindly note that some of the statements made in today's call could be forward-looking in nature and a note to this effect is stated in the presentation sent to you earlier. I would now like to request Mr. Deosthalee to provide his views on the results for the third quarter. Thank you.

**Y. M. Deosthalee:** Thank you, and good evening to everybody. In line with the past few quarters, this quarter also has been a reasonably good quarter where the results have been pretty decent given the current economic situation.

Slide No 4 – So as compared to Q3 FY15 we had 40% growth in our disbursements with Rs. 13,135 crores in this quarter. The loans and advances have also shown a consistent growth in the last eight quarters or so and if you look at the year-on-year performance there is 23% growth in loans and advances. So as of end of December 2015, our loan book stands at Rs. 55,694 crores.

The net interest margins have been pretty stable and, if you will look at this from Q4 FY2014, they have been around 5.6-5.65% level. So at the end of this quarter also the net interest margins have been at 5.63%. Last quarter we had some extraordinary gain, but if you remove that it has been an extremely consistent performance on net interest margins.

The profit after tax growth has been 17% for the quarter. As against Rs. 182 crores last year, it stands at Rs. 212 crores as of December 2015. We will talk about the details of the profit performance later.

Slide No 5 – As you are aware, in our business composition we have made some strategic changes over the last two years. In the case of retail business, the shift has been more towards the B2C products and some new products have been added. So the percentage of the B2C products is 61% in our total portfolio as of now which last year was around 57%. Similarly, in the case of the wholesale book, the focus has been on operational projects which now stand at 59% today as against 47% last year. The significance of this is that the risk profile of the book has changed and this is the book which has been built over the last three years and we are happy to say that the quality of the book has been extremely good, and we will talk about that later when Mr. Krishnamurthy talks about the wholesale book.

Slide No 6 – As far as the asset quality is concerned, it is pretty stable on the basis of 150 days recognition of NPA norms. In fact on the basis of 150 days, actually there is a reduction in the percentage of NPAs as compared to Q3 of last year. As against 4.48% it now stands at 3.33%. And as far as the net NPA level is concerned, it is down from 3.42% to 2.23%. However, if we look at it on the basis of 180 days, there is also a small reduction

compared to the previous year. So this is in spite of the fact that there has been considerable stress in the rural economy. So the point to be noted here is that in spite of substantial problems in the rural markets, the asset quality has remained pretty stable, and in fact the NPA percentages look reasonably healthy. It is a different matter that as compared to Q2, in Q3 the NPAs have slightly gone up, but that we had indicated last time because we were expecting increase in NPAs in the farm equipment business. And I must say at the beginning itself that a substantial part of increase in NPAs for the third quarter as compared to Q2 are due to farm equipment. But despite that I think the overall percentages look pretty stable.

Slide No 7 – We have been changing the liability profile over the last few years. We are shifting more and more towards market borrowing and the result of that is that the overall borrowing cost has been consistently coming down. It is at around 9.03% on the average book for Q3 FY2016. So there is almost about 1% or so improvement in that.

Slide No 8 – As far as the asset management business is concerned, it has been an extremely decent performance. As compared to the assets of Rs. 21,336 crores last year in December, the average assets are now at Rs. 25,059 crores. There has been a healthy increase in the equity assets in the overall percentage of assets. From 35%, equity assets have moved up to 41% as of December 2015. So our focus on equity and core assets in the debt portfolio is extremely important. What this means is that the earning AUMs are going up and you will find that there may be a marginal reduction in other assets, but our focus area has been in the last two years on building equity assets and also on core assets.

So with those opening remarks, now I will hand over to Mr. Sivaraman and his team to take you through the detailed financial performance.

**N. Sivaraman:**

Year-on-year basis growth in disbursement was 40%. We have been emphasizing on our focus on both the operational projects and the B2C segments. The key growth areas have been operational projects in renewable energy as well as roads and on the B2C segment the high growth segments of housing and micro finance. So all of these have resulted in strong disbursement growth, giving us the book growth of 23%. This is, as we have maintained, in line with the guidance which is for the year as a whole. You might have also seen that we have maintained a kind of 20% as an average growth rate for the year as a whole. We are in line with that.

The NIM has been keeping pace with the loan growth indicating that the NIMs have been stable as it is also reflected in the ratio that we have provided in the line below. The credit cost has gone up but it is in line with our guidance, it is also our desire to accelerate some of the provisioning coverage available on the book. In addition to that there has been the deterioration or the rise in the NPA levels in the farm book as Mr. Deosthalee mentioned. You will hear about what is the outlook on this segment as we discuss the retail business slides. We believe that it is

something which is recoverable and would help us reduce the credit cost for the year as a whole by the fourth quarter.

We have been able to increase the gearing which also resulted in less utilization of equity in the operating businesses. Partially that made up for the higher credit cost in keeping the ROE at a stable 11.5% to 12% for the entire five to six quarters span.

We talked about investment management, strong growth in line with the industry levels. While our focus has not been so much on the short term and liquid funds, the focus has been on the core assets of equity and duration products on the fixed income side. We continue to maintain the positive contribution from the AMC despite a significant equity mobilization during the current year.

Consolidated PAT has grown by 17% for the quarter. The lending business contributed to Rs. 204 crores of the aggregate profit, the balance coming from both AMC as well as the others businesses which are under incubation. The EPS shows a slight dip as compared to Q2 and maybe the growth is also relatively marginal compared to the PAT growth. It is mainly because the way we have used the leverage as well as the slightly subdued growth compared to what we expected at the beginning of the year. The preference shares that we have raised have remained underutilized. In addition to that, the reduction is also on account of the issue of shares to Bain Capital towards the end of December, these too have depressed the EPS numbers. But I think it is a matter of time before it catches up in line with the PAT growth.

I will request Mr. Dinanath Dubhashi to take retail business and explain you the performance of the segment.

**Dinanath Dubhashi:** Good evening everybody. If you see the first slide on Retail Business, we are talking about the six core businesses that we do within this platform as I had explained last time. And I think the headline number which I can talk about is other than farm which I will talk a little bit more in detail; in all other businesses we have shown smart growth this quarter.

As far as tractors are concerned, which is the majority of the business within the farm sector for us, this quarter drop in the industry was limited to about 2%. It has to do with the time of the season when Diwali is etc, but overall nine months' drop continues to be in the high teens. We have let go of close to 40% in new tractors business. Reason has been that, as I explained last time, we have used analytics to categorize the geographical areas where we do business based on various criteria and then in the high risk and very high risk areas we are actually giving up market share. Secondly, the areas that are our strength which are MP, Maharashtra, Rajasthan, Punjab, Haryana, these are the places we are going through more difficulties than other part of India and which has seen them coming in the high risk category areas and we are giving up market share there. What we have done to make up for some of the loss of business here is that we got aggressively into used tractor and refinance business. We are also

doing top up loans for some of our good customers. So in fact this year if you see the proportion of disbursement of used tractors, refinance, etc, in overall tractor disbursements, in fact we have gone up to close to 20%. So these are some of the measures that we are taking on the business side to cope up with this kind of drop that we are seeing in the rural sector in general and tractor industry in particular. I will talk specifically about what we are doing on the collection side as we go into those slides.

Two wheelers: again as a sector two wheelers have not done well. It has been largely flat, though we have grown in this quarter by 35% mainly riding on very close dealer tie-ups and dealer engagements but also on use of technologies which helps us deliver extremely good TAT which are becoming actually benchmark TATs in the industry.

Micro finance: we have increased branch network by about 16%. Customer base has also gone up. We have increased our penetration in the areas that we were there already and that has led to a 75% growth.

Housing finance: of course continues the way we had planned. It is still a small book, we have touched by the way about Rs 6000 crores and the rate of growth, as we had indicated, continues.

SME finance, which is largely supply chain finance, continues its smart growth for this year. In fact, non-L&T business continues to grow here and this business is doing pretty well.

Mid-Market: as we have always explained is more opportunistic, we do very structured deals and that business itself also has seen good growth.

So headline again, out of our six core businesses, tractors we are managing through good risk management measures in this industry in the current scenario, but all other five products are growing smartly.

If you see the next slide which talks about the disbursement and book growth, it largely reflects what I have spoken already. If you see the book growth overall, as Mr. Sivaraman said, it is about 17% headline growth. But one number that I would like to talk about is the CE/CV business which we have been de-emphasizing for the last three years. If you adjust for the reduction in that, the actual growth in the rest of the book is 24% and the disbursement growth, instead of 22%, is 32%. So this is just trying to bring about smart growth that disbursements and book is having and is continuing to have.

As we come to the P&L, it largely continues the trend that we have shown in the first two quarters of the year. NIMs continue to be healthy, slightly adjusted for the Rs 20 crores one-time income that we had explained in Q2. We will see that in the ratio analysis on the next page. The issue here that I need to specifically talk about is the overall NPA increase, from 4.82% last quarter to 5.89%. But something that I would like to point out is actually between Q3 last year to Q3 this year, the overall NPAs' absolute amount

has remained the same and as a percentage actually it has fallen. Most importantly, the thing to be noted is that while the overall NPA has remained the same at around Rs. 1,267 Cr, the farm NPA has actually gone up and that means in the rest of the businesses the NPAs have actually come down smartly. So that is overall the picture, I will talk specifically about farm NPAs as we come to the next slide.

The next slide: ratios, bears everything that we talked about. Net interest margin continues to be healthy, quarter-on-quarter the entire difference between 8.63% and 8.24% largely explained by the 40 bps impact on high yield loan prepayment in the last quarter. But otherwise if you compared with last year there has been an excellent increase in net interest margin explained with the reduction in cost of funds, in line with overall interest rate reduction as well as our treasury strategy and move of the portfolio to more B2C. In fact, if you see earning before credit cost has actually increased from 4.77% to 5.51% compared to last nine months. The credit cost however has increased from 2.2% to 2.9% and in fact if you see Q3 to Q3 it increased by almost 90 basis points from 2.4% to 3.3%. Almost the entire increase of this credit cost is by farm, the numbers are actually given there. The credit cost of farm is 102 basis points in this nine months compared to 35 basis points in the last nine months.

Now here I think it is appropriate to talk about what is the outlook that we see in the next quarter and the time going ahead. The negatives of course I think are well known and well discussed. There continues negative cash cycle, fairly over borrowed farmer, in six states and six states with large tractor demand already declared drought, reservoir levels are close to 50% of normal and actual cash flows coming to the farmer is relatively slow. I think this is the sort of news which all of you are aware.

I will try and put some silver linings at some of the positives that we are seeing. The late winter and a good winter that the country is seeing is likely to basically have a good rabi crop. The rabi sowing is also picking up, it still continues to be negative over last year but the negative has reduced substantially. The moistness, the dampness in soil which is expected due to some rains as well as the winter climate is expected to have a good wheat crop. Also in most of these drought affected areas a trend has started where on part of the land the farmer is sowing vegetables, thus shortening the cash cycles. Generally speaking, this is some analysis done by one of the research firms, that El Nino years normally, unless and until something horribly goes wrong like last time's hail storm, are good for rabi crops and more importantly MSPs are inching up actually for most of the crops all over India.

Now this is a silver lining as far as the industry is concerned, I will talk specifics about our portfolio. Out of the total, and this is the number I keep giving every time, out of the total NPA accounts that we have, precisely 37% are NPAs where less than one EMI is balance. This shows that farmers have come and paid partially. We believe, based on our experience for the last two quarters, that any such trend where we see that a farmer has paid partially, quickly over the next three months we have seen those



accounts rolling back. This is something I have been mentioning in the last two quarters and as I analyze past data now this trend is confirming. So 37% of the total NPA accounts being less than one EMI gives me a lot of hope and a lot of confidence about the portfolio. Almost 10% of the NPAs which were outstanding as of 31<sup>st</sup> of December we have actually been able to collect already and that is another positive. Government relief has started flowing into certain states which is relieving certain liquidity with the farmers. I already talked about the vegetable crop which has seen the money coming in and most importantly the states where we have large portfolios and hence large NPAs we have hardly any billings in Q4. All this gives us good confidence that we will be able to roll back a substantial part of the NPA increase in Q3 during Q4, this is the indication we have always been giving and we see no need to revise that at this point of time.

So these were the headline messages, everything before credit cost is going as per expected, improving year-on-year. Credit costs are high, the entire part of the increase is farm and we believe that at least in the short-term this stress is definitely going to come down because of the precise reasons that I gave. A long-term correction or a medium to long-term correction in the farm fortunes will obviously depend on the next monsoon. We have no big positive news on that as of now. About the La Niña, etc. there are conflicting reports. Something that global warming has done surely is that ability to predict six months before is no longer there. So I will stop there, I will not try to predict the next monsoon but what I can at this point of time say is that at least March looks good both by the industry indications as well as our portfolio.

Next slide: Housing. I will not take too much time on that. I should say that things are going generally as expected. We have reached good traction in retail disbursements as well as construction finance business which we started about 1.5 years back has now started picking up good traction in this quarter. So we are sure that this business is going on its route of expansion and as we start building the book which absorbs more and more expenses of the network that we have put in, it will start showing better and better profitability.

With this, I hand over to my colleague Mr. G. Krishnamurthy to talk about the wholesale business. Thank you.

**G. Krishnamurthy:** Thank you, Dinanath. So running to the first slide on Wholesale Finance market scenario, I will try to be brief as I would have expected that this would have been read through.

So the extension of tax free status for Non Tripartite Assets for IDFs is a very key positive for us, it will enable us in increasing our competitiveness in operating projects. Also, we will be transitioning some part of our existing portfolio into IDF. So as we move forward, we will see that the composition of IDF balance sheet in wholesale is going to increase over the next few quarters.

Second thing which I want to highlight is that our solar assets had peaked at Rs 1,800 crores in Q1 and are now down to about Rs 1,635 crores or so. Essentially, we are on a wait and watch mode with respect to all the new bids which are happening and we read to ourselves the detailed viability of these projects. And once we take a call then we will decide whether to support these projects or not.

Point number three is the increase in road projects awards and execution is a key positive particularly because much of our stressed assets are in the EPC books and increasing order book and investment cycles in roads will definitely be a key positive in ensuring that our assets get updated faster.

Announcement of UDAY is also a positive for us, we definitely expect more long-term PPAs to be entered into by the Discoms over the next few quarters. Also the liquidity position of the many of the weaker Discoms will improve, so this is a positive for our coal thermal portfolio as such.

Moving on to the next slide, the disbursements for Q3 have been at Rs 6,100-plus crores which is a record positive, a good 48% growth over last year Q3. A few features of this, one is, along with this we also had almost a 10% churn in our book due to prepayments and down sell. So increasingly our business, in terms of creating assets, a good part of which we churn or down-sell gets prepaid, so that is an increasing feature of the asset. And 83% of this quarter's disbursements are again just in roads and renewables, so Q3 is emerging as a new peak for us. Even this trend was there last year also where in Q3 we peaked subsequently. Q4, our focus is on down streaming to the banking sector because banking sector really pushes for assets in Q4 and there is a greater amount of rate based competition which happens in Q4. So our asset build-up happens slightly earlier in Q3 itself, so Q4 comparatively will be tempered like last year.

And our asset book has now grown to Rs 28,000 crores, up about 29% when we compare with Q3 last year and even if we compare with FY15 that is March 31<sup>st</sup>, we have achieved about 26% growth for the current year already. And as Mr. Deosthalee remarked, yes when we had a look at our assets which have been originated after 2012, that is March 31 2012, what we see is about 70% plus of that is operational and more significantly this book is well matured and well seasoned. What I mean is that all the operational assets have been on an average operational for 4.3 years, although these assets have been on our books only for less than 1.5 years. Essentially, much of this book which has been created is assets which have significant operational history and where the risks are much lower.

Moving on to the next slide: summary financials. Our PAT has increased 28% vis-à-vis Q3 of last year, but more significant just look at it on nine months' basis because last year Q3 and Q4 were significantly lower. So on a nine months' basis PAT has been at 13% vis-à-vis the 28% increase in assets which we have seen. Moving to the assets, impaired assets first, one point to note is the total impaired assets, net impaired assets was Rs 1,691 crores as of last Q3 FY15 and currently is Rs 1,642 crores. So over the last one year there has been no significant change or slippages as

such, in fact the net impaired assets have been steadily coming down, very slowly and steadily coming down even on an absolute amount basis. On a percentage basis, it has come down sharply from 8.12% to 6.08%.

And on our restructured book, we have seen some headlines and questions on increasing provisioning requirements as required by the financial sector regulator. Now our restructured assets, we already have 18% provision coverage ratio which we have built up over the last few quarters, so that is something which needs to be noted. Having said that, we have three coal thermal projects where we will be doing either an overrun funding or COD will go beyond. To the extent of Rs 750 crores there is a technical RSA increase which could happen in Q4 or Q1, so that is something which I would like to highlight. Also 40% of the incremental provision for that has already been provided in the current quarter. So current quarter credit cost includes about Rs 36 crores, one is out of the expected RSAs, whenever there is SDR we have not recognized interest. We have also provided for mark-to-market losses and the equity so converted. So we have been more conservative in the provisioning for all the SDR cases.

Moving on to the next slide on key ratios. Across Q3 FY15 to Q3 FY16, NIMs have been maintained despite debt to equity increasing from 6.09 to 6.83, ROE has improved from 10.17% to 11.09% and on a nine months' basis, the ROEs are steadily improving. And on a forward-looking basis, yes we have been talking to you about monetizing some of our equity assets and at least in two assets we have done some degree of progress and we expect the capital gains of Rs 200 crores upwards to happen over the next two, three quarters and this will help us mitigate any additional provision requirements that we may like to put on advance basis.

With that, I hand over to Kailash Kulkarni.

**Kailash Kulkarni:** Good evening everyone. With regard to Investment Management, during the last call we had said that our core focus is going to be in terms of selling duration products on the fixed income side, and equity products. To that extent, we have ensured that we have continued to focus on these areas. Not just in the last quarter, we will continue to do so in this quarter as well. The industry grew by about 2% to Rs 13.39 lakh crores, there were positive flows in the equity market all through this quarter despite the quarter being absolutely flat. Our equity portion has grown vis-à-vis last year's third quarter from 35% to 41% of the overall book and the core fixed income that we talk about which is a duration product has grown from 20% to 25%. The AUM correspondingly in third quarter last year was Rs 22,500 crores which has grown to about 25,000 plus during this period of time. Our focus is paying dividends in terms of the profitability. We are able to ensure that we continue to be a profit making entity. Our average AUMs having grown on the equity and fixed income side we have seen that our management fees are at 0.45% on the AUM. So that will be our focus area as we go ahead.

SIP is an integrated part of building an equity book and we have nearly doubled our SIP input book over last year. We continue to work towards some of the SEBI objectives of investor education and growing the pie.



Today we have close to 9 lakh investors. We will ensure that as we go ahead to the last quarter the success that we had in equity would continue to be there in the next quarter as well. This has come with a strong robust fund performance both on the fixed income side as well as the equity side.

On the wealth management space, despite there being significant challenges in terms of the regulations, the growth has been there. We have seen that the AAUS of the wealth management team has grown from Rs 6,200-odd crores to Rs 8,300 crores as of today and the number of clients also continues to be increasing on a month-on-month basis. Today, we have crossed 4,000 clients as we talk. More importantly, in terms of being ranked by external agencies, we are ranked as the sixth private bank overall and ranked one in terms of client confidentiality by a survey done by Asia Money in June 2015. Currently, we operate in 14 major cities in India and the focus as we go ahead will be to continue to grow the AUS of the firm and widen the product range as we go ahead.

I will hand it over to Mr. Sivaraman who will proceed with the call.

**N. Sivaraman:**

So that was the broad summary of our overall performance. In terms of our direction, I think we will continue both on the retail as well as wholesale. The key focus areas will continue on the segments that we are focused in. Without doubt, the delinquency management as well as minimizing the effect of the impaired assets will be another key point that we will look to achieve as we go forward. The conservative approach to provisioning would also continue. As Mr. Krishnamurthy mentioned, it will be to some extent mitigated by the amount of capital gains as we would get to see in the next say about three to four quarters. That is something which will be helping us.

Last but not the least, the asset management business continues focus on garnering assets around the equity as well as duration products, we will be able to build value in the business and also continue to earn positive contribution from the asset management business.

With that, I leave the floor open for question-and-answers. Feel free to start.

**Moderator:**

Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Nitin Kumar of Prabhudas Lilladher. Please go ahead.

**Nitin Kumar:**

Sir, what is your growth expectation in the retail business excluding housing, as we have pruned down the net worth deployed in that business by way of dividend payment? And secondly, any targeted loan mix between retail and wholesale while we guide for overall loan growth of 25%?

**Dinanath Dubhashi:**

I will answer your question about the retail business. The kind of growth that you are seeing, business wise we are giving, we are likely to see the same kind of growth over the next few quarters. Why we have reduced net worth is because certain businesses, CE/CV we have talked about already,

cars, and then we were doing small commercial vehicles, these are the businesses that we are de-emphasizing and we believe that at least in the immediate next two to three quarters while the rest of the businesses will continue to grow at a rate that we have achieved already this year, we reduced the book sizes in these products. The overall growth rate will be at around 20% or so and hence we may not need that kind of equity. As you have seen, the gearing has substantially gone up, as we improve asset quality the attempt will be to increase the gearing a little more. So that was the call that retail business other than housing may not need substantial equity over the next two to three quarters, that is why the call to reduce equity was taken. So that answers this question.

**Y. M. Deosthalee:** As far as the overall book is concerned; there is no fixed percentage between retail and wholesale. The entire focus of the organization is on improving returns and therefore as the opportunities emerge from time to time we will decide. However, the focus will remain on B2C products in retail, and renewable energy and operational assets in the wholesale business. So it is not that we are chasing growth in a particular segment because we want to have a particular proportion, if we do not get assets which will meet with our ROE expectation, as I had said last time also, our effort is towards improving the returns every year and move towards at least a respectable 15% plus of ROE over the years, that is the main goal. And use our competencies in various businesses; there are some strengths in each of these businesses. So using those strengths from time to time and work towards achieving this important goal. So from time to time the percentage might change here and there, so it is not that we are going to have 50-50 or 60-40 or nothing of that sort at the moment. So depending on what are the quality assets available in the market which will help us to achieve this objective of ROE we will decide about the allocation.

**Nitin Kumar:** And sir secondly, there has been some pickup in the CE/CV disbursements during the quarter, so are we seeing any signs of turnaround there?

**Y. M. Deosthalee:** Before Dinanath answers that question, I also want to mention to you about the competencies. You must understand one thing that in the last two-three years in all the areas where we are focusing, like for example in tractors, two wheelers as well as micro finance we have created significant strengths and we are moving towards a leadership position in some of these businesses and then the idea is to really improve on these strengths which we have created. Similarly, in the case of wholesale business, on renewable energy and operational assets. So for example, tomorrow we come to a conclusion that renewable energy we have some opportunities but the pricing is going to be extremely poor, we may not chase those assets. So we will constantly work towards quality of assets and improving the returns. So that is very critical for us.

**Dinanath Dubhashi:** I will specifically answer your CE/CV business and put it in perspective both long-term and short-term. So if you have been following our results you have seen that from 2011 onwards when we started seeing the cycle going down we have reduced this portfolio. In fact, the Rs 1,500 crores that you see now is down from the peak of around between Rs 4,500 to 5,000

crores and which has actually moderated the overall impact on profitability. That could have happened and some companies were concentrating on that segment. Going in the future, I will give two answers. In the short-term, yes growth is 183% but it is exactly Rs 164 crores in the whole quarter. So at this point of time, let us say that there is a team which is collecting, the team is on the ground and if the team sees profitable opportunities within the good risk parameters they do business. So we should not and do not want to draw conclusions out of double-digit crore disbursements per month. That is number one. Strategically, we obviously are looking at this business as it is growing. However, we need to get convinced that we can make good ROEs in this business over the cycle. As of now that conviction is not there, we need to get convinced before making this a core and strategic product once again. However, as it has happened this quarter, some opportunities will definitely be taken because we have an existing customer base and if the existing customer base needs financing and if this customer is a good pay master, we will do. But it is not a core business at this point of time.

**Nitin Kumar:** And sir one last question, the credit cost of the wholesale business appears to be pretty sticky despite significant increase in share of operating assets the credit cost is just around the same level over the last one year. So what is the outlook there and when can we see this moderating from the current levels?

**G. Krishnamurthy:** We have unamortized losses of about Rs 30 crores per quarter which is going to continue till Q1 of next year and in Q2 and Q3 it will be about Rs 15 crores each, so that part of it is going to be sticky for some time.

**Moderator:** Thank you. Our next question is from the line of Devam Modi of Equirus Securities. Please go ahead.

**Devam Modi:** Firstly, I would like to begin by congratulating the management on a wonderful set of numbers and especially it shows, it is pretty heartening how a long-term approach to building a business works out in the medium-to long-term perspective. So few things I wanted to understand, firstly on the wholesale finance side we completely appreciate the approach taken of minimizing the risk and focusing on growth across safer assets. So what will this mean in terms of the peak leverage, what is the long-term leverage that the business can target because the yields would not be high with this approach? So what is the kind of long-term leverage we will be looking at for the wholesale finance business?

**Y. M. Deosthalee:** Krishnamurthy will answer in detail, but I think we need to understand two parts of this wholesale business. One is the normal infrastructure financing business and the second one is infrastructure debt fund and therefore the leverage in both these is going to be different. And you need to know that thanks to relaxation in terms of guidelines for infrastructure debt fund we have an active infrastructure debt fund which is going and by the end of the year we expect reasonable growth in assets in the infrastructure debt fund. So what is critical for us is to actually increase leveraging of infrastructure debt fund as soon as possible for us to achieve our ROE targets in that

business. So these are two separate activities considering the risk weightages in two businesses, considering the fact that the IDF is tax-free and we also have a flexibility of incubating assets in infra and then transfer them.

**N. Sivaraman:** IDF is also AAA.

**Y. M. Deosthalee:** Yes, that is because with the risk weightage and the AAA status. So I just wanted to mention this point.

**G. Krishnamurthy:** So that answers the question. Essentially in L&T Infra balance sheet we are already at about 7.4 leverage, which is almost close to our level of comfort while in Fincorp we still have good headroom to grow in terms of leverage, we are about 5.8 times or so. So in L&T Infra and Fincorp as we move forward somewhere about 7 to 7.5 will be the comfortable working range. That again will depend upon the proportion of operating assets we continue to do through these balance sheets as well as the level of impaired assets in these. So this will determine the extent of leverage we are comfortable with. IDF will be very comfortable in going up to eight to nine times, essentially because it is an entity which is conceived as AAA with low yield assets. In fact we are operating in a 10% to 11% kind of range out there, a good 100 bps lower than L&T Infra. So because of which the leverage expectation in IDF will be much higher. Also the point to be noted is IDF is an internally held company where about 23% is held by L&T Finance Holdings and the balance is held by the subsidiaries of L&T Finance Holdings implying a multiplier effect on the leveraging. So these will dictate the overall leverage. At an overall level, the leverage could be much higher for LTFH at a consol level as we scale up the IDF business.

**Devam Modi:** Sure, that explains a part of the plan. And sir, your net impaired assets have actually dropped over the last one year from around 8% to 6.1% odd. So two questions over there. One is, have we seen some NPA resolutions or is this mainly driven by the asset growth? And secondly, given all the positive steps that we are seeing across the sectors and various positive developments on renewables also, has the asset quality stress peaked out or do we see some further stress that could accrue from here in the infra asset side?

**Y. M. Deosthalee:** Here also let me chip in first and then Krishnamurthy will come in. See, at the beginning itself we said that the book which we have built over the last three years has been an extremely healthy book as of now and there is hardly any stress in that. So all this is before 2012 and therefore some assets there is a resolution, in some cases we have sold to ARCs and written off. So there are various ways in which it has been reduced. So it is a consistent plan to make sure that no new things come into this RSA book that is the way in which we are working. And that is why these operational assets and renewable energy strengths is extremely important. However, Krishnamurthy also mentioned that there is a possibility of a technical slippage in the last quarter or the next quarter and this might go up because of the cost overrun funding which we are likely to have for some of the projects. So you can explain that.

**G. Krishnamurthy:** So our restructured assets, the total impaired assets I have quoted has remained constant. As I told you, it was Rs 1,691 crores last Q3, in Q2 FY16 it was Rs 1,682 crore today it is Rs 1,642 crore. So the good part is that all the core issues have been I think precipitated, crystallized and are fairly well-known in that sense and the only question is how fast some of these assets are going to move up or do we need to factor in any additional provisioning as we go forward. So the extent of the issues and the problems with the sector are fairly crystallized and known and yes we are trending towards providing increasing coverage to the extent that the aging of some of these assets is higher and will take a longer time to recover. We will start looking at improving the provisioning coverage on the restructured assets particularly. We already have 18% of that and yes in some of the core assets in the restructured category, there the coverage is in fact much higher. So this is a key differential vis-à-vis elsewhere what we see in the system at large where the regulator is pushing for 5% or 15% coverage on weak assets. I think here we are fairly there and we are fairly ahead of the curve in terms of estimating the regulatory provisions and we have started moving towards essentially looking at eventual recoverability over a five-year period. That is the planning paradigm now. We look at the next five years, how much will we recover and based on that we have started making provisions. And some of the additional income streams that we will get in the next three quarters will also support us in changing from a regulatory model to actually an eventual-recovery model where we will be completely happy with the extent of, even in a worst case scenario, we will be covered completely. So P&L impact, as we move forward, should not be significant. While you will see at a net impaired asset levels, because of technical restructuring, some of the numbers could increase but our P&L impact should not be significant from the normal business income streams.

**Devam Modi:** And finally sir, could you just provide us some flavor on the micro finance segment, the lessons we learnt from the past time and what are the things that are different this time around?

**Dinanath Dubhashi:** So I think number one big difference is the credit bureau. There is a very well working credit bureau which is High Mark. Second big difference is most companies, I will not make a very blanket statement, but most companies are very well disciplined and follow the MFI code of conduct as well as RBI norms quite strictly. And I think third, last but not the least, the state wise diversification which many companies are following, including us of course, is more methodical and less dependent on one particular state than before. If you see a large part of portfolios at that point of time in FY10 were in Andhra Pradesh, you will normally not see national players behaving like that now. Speaking about us, our business is not only tracked by our own performance but also by performance of other companies. The good thing about having a bureau is everybody can get data about the performance of everybody's portfolio and we have strong analytics which actually mark taluka wise, district wise red, amber, green kind of heat map using these complete analytics. With all this, also the processes and the technology we are putting in place, I am very happy to tell you that by end of this financial year we will move completely on handheld devices for microfinance. Entire disbursement, collection, analytics and hence risk



management will happen paperless on mobiles. So what is different? I think discipline is different, process following discipline is different, diversification is different and, with us, following the process and use of technology for analytics and hence quick control is different. Cracks of course show in every system, there are ways to beat every system. Every company has to be ahead of the curve to try and see that this kind of lack of discipline does not come because at the top of every cycle such things will start coming. So here, moving ahead, I am making Aadhar Card compulsory from next year onwards which will save us from many malpractices like using different kind of reference numbers, fraudulent KYC documents etc. We have got a UIDAI license to check Aadhar Cards online and the authentication of Aadhar Cards online which we will be using for most of our businesses, especially microfinance. So given all this, we are pretty confident that clear black swan event, the political risk sort of always remains, but there also the diversification across states makes us less vulnerable than what we were before. So I believe that is the best I can answer. Things can of course and always can go wrong in any financing business but we are quite confident that the systems that we have put in place will leave us reasonably well protected. Just as a case in point, even with this Chennai and neighboring area floods we have not lost anything. We obviously gave about a month's extension for collection but before the end of December the entire December amount was collected even in Tamil Nadu which gives us tremendous faith in our systems. This is the third event, before this was the Cyclone Phailin and Cyclone Hudhud and after this there were Tamil Nadu rains. We coming almost unscathed out of these three national calamities gives us good confidence in ourselves.

**Moderator:** Thank you. Our next question is from the line of Saurabh Kumar of JP Morgan. Please go ahead.

**Saurabh Kumar:** Sir, firstly on your borrowing mix, your funding cost have come down fairly well over the last one year, so how much delta do you think you still have to tweak this mix. Bank loans are now almost 25% of your mix. So how much more down can you go for next one year and how much do you think it can contribute in terms of your funding cost reduction?

**Y. M. Deosthalee:** I will ask my colleagues to answer this but broadly I will explain to you. See this borrowing cost reduction is arising out of two factors. One is that the general interest rates have also come down, but apart from that we have also changed the borrowing mix. So we have moved towards bond markets or the markets for borrowing and reduced our dependence on the banking sector. However, it is important for us to note that some part of the borrowings will remain from the banking sector. The other important point is that as we are increasing the businesses which are for short-term maturity. The borrowings are also of short-term maturity. For example, a business like microfinance which is typically for 12 to 18 months and SME, so that helps you to raise money for shorter duration and in the last one year the short-term rates have been fairly reasonable. Going forward two things: one, we will continue to optimize the borrowing cost and our focus on market borrowing is definitely going to continue. Now, how much will it come down further, ultimately we have to see what happens in the

economy, how the global situation is going to pan out and how the Indian economy is also going to behave. Our estimate is that the interest rates may not come down substantially from here onwards; more or less they will remain at these levels. However, if the economy really picks up and also if the inflation picks up, which I do not think so, we do not believe that inflation is going to go up, so I think it is fair to expect that these rates will remain stable for quite some time. The other important point is that we also will have to see between short-term and long-term. As the business mix changes, the opportunity to raise money for shorter duration will continue to increase. So the focus will be on optimizing this, but you must also understand one thing that what is important is the net interest margin and they have remained stable. So in some of the businesses if the interest rates tomorrow they go up by few basis points, the ability to pass on is extremely good. In some businesses we lend fixed rate and then borrow on flexible basis. So there are some businesses which may be somewhat vulnerable but overall I think the cost is expected to remain stable. I do not expect the cost to substantially come down, we also do not expect the cost to go up, so maybe it will remain at these levels.

**Saurabh Kumar:** So your funding cost is just a shade under 9%, assuming there is no movement in rates to be roughly stable next year.

**Y. M. Deosthalee:** However, the business complexion will continue to change, that I think we are there. See for example, as the microfinance business increases or the two wheeler grows the SME, IDF some of these businesses. The overall NIMs will remain stable, even if the interest rates marginally go up.

**Sachin Joshi:** Just to add to what the Chairman said, the Reserve Bank of India has been pushing banks to bring down the base rate, the benefits were not passed on. You have seen for the last couple of months the interest rates coming down, the base rates coming down. However, in the recent past there have been some regulatory changes which have come in, which are putting some stress on the short-term borrowing and we need to really look at it in the couple of quarters how this thing pans out and based on the internal mix of assets that we have as well as the way the market behaves will finally decide which way the interest rates could really move.

**Y. M. Deosthalee:** But suffice to say that the treasury is extremely active and responsive to changes.

**Saurabh Kumar:** Sir second is on your growth in supply chain finance, renewables and roads. So renewables and roads, especially renewables, I am not sure how much is solar and how much is wind on this, but given the aggressive bidding which you see in solar off late, do you see any risks building up there currently? And supply chain finance, what does this relate to exactly? This is to vendors of L&T?

**G. Krishnamurthy:** Yes, so as discussed in the initial part, our solar portfolio has actually come down from Q1 to as of now where I actually gave you the numbers where the peak was about Rs 1,800 crores which has come down to Rs 1,635 crores or so. So currently in Q3 particularly the growth has been

predominantly in wind whether greenfield or operational. There is negligible amount of disbursements which have happened in solar. Now solar tariffs have come down drastically, in fact till a few weeks ago we said Rs. 4.64 is the new paradigm. Now it has gone down much further than what we expected. And some of these are very large bids in terms of the megawatts which are there. Whereas typically we are a player who supports 5,000 MW, these are much larger projects where there is a broader banking system involvement which is required to close these projects financially. So we are waiting for developments out here, some of these projects will come for financial closure six months to one year down the line only because of all the conditionality which needs to be met in terms of land acquisition, in terms of evacuation, RONWs, as well as finalizing orders, etc. So we will be taking our stance on this once we start looking at some of these projects. So as of now it is kind of an orange, amber for us, we are waiting and watching on the sidelines, we are not really going to be aggressive in the solar sector for greenfields. So that is on the solar part.

Roads, essentially as IDF business scales up and we have been able to now get more and more tripartite assets signed through NHAI, the cycle of time has improved in terms of signing agreements with NHAI. And also because now IDF is allowed to finance other sectors, operational assets from other sectors, I think our ability to scale up this operational business is going to be much faster.

**Dinanath Dubhashi:** So, supply chain, I will just go into the history a little bit. Till about 1.5 years back you would have been absolutely right, in this business close to 90% was vendors and dealers of L&T. About 1.5 years back we put very core concentration on this business and started growing beyond L&T. So now, of the disbursements that you see this year, L&T actually forms less than 50% and we have got quite strongly into dealer funding and inventory funding of quite a few auto manufacturers, tractor manufacturers, two wheeler manufacturers as well as doing quite good volumes on vendor funding of ecommerce players through escrow mechanism. So that is where you see the volumes of supply chain coming and we see good potential in this business.

**Saurabh Kumar:** You are diversified out into?

**Dinanath Dubhashi:** Yes, yes, we have diversified, I mean the L&T business continues but we have added many more vendors.

**Y. M. Deosthalee:** There is one comment I want to make, since you asked this question about supply chain, solar, wind, renewable, roads etc. I think we have been always saying that we are a diversified financial services entity with a focus on some products. As I said in the beginning the focus is going to be on improving the returns to the shareholders. That is very clear. Now, from time to time depending on the market situation, opportunities available, our strengths, there may be a mix in the portfolio within these products. That is the advantage of having this diversified portfolio and that is why I want you to really look at the last few quarters. The numbers which we have shown, slide number four, you will see quarter four of 2014 our assets were Rs

40,082 crores and consistently quarter after quarter we have shown growth. Similarly, if you look at the PAT numbers, there has been a consistent performance in this. So this consistency of performance is largely arising out of this diversification because in some quarters, for example in this quarter tractor business is under stress because of the rural situation, however, in spite of that there is a very decent growth both in terms of disbursements, asset books as well as profits. So that is the important strength which the company has today. And I think in all these products which we have, it is not that we are doing it just for the sake of it, in all these products there is some competitive advantage which we believe we have to make.

**Saurabh Kumar:** And sir just one last question, you mentioned a Rs 200 crores gain on that prop book of Rs 800 crores and that will get realized in the next two quarters, right?

**G. Krishnamurthy:** No, I mentioned that with respect to two equity assets we are monetizing, there are others which will take maybe slightly longer. So this is the expectation out of two specific equity assets which we are monetizing in the next few quarters.

**Saurabh Kumar:** And what will be the book value of those assets sir?

**G. Krishnamurthy:** Well, I will have to think through that but I think the point is that we are trying to make is not in terms of specifics but in terms of getting capital gains which are fairly at a low tax rate and which will enable us wherever required to provide for contingencies. This will help us mitigate any additional provisions. That is the overall point.

**Y. M. Deosthalee:** I think the point which is important to be noted here is, as the things stand today in terms of provisions for the wholesale book, on the overall restructured portfolio we have provided reasonably well, we are well covered. However, considering the situation in the market it will provide us an opportunity to provide something more so that we are quite comfortable from next year onwards. That is the point which we are making; it is not that today we are inadequately provided. We have sufficiently provided, however this sale of assets will give us an opportunity to make sure that we are extremely comfortably placed going forward.

**Moderator:** Thank you. Our next question is from the line of Nischint Chawathe of Kotak. Please go ahead.

**Nischint Chawathe:** First on the retail business, I was just curious why would you want to grow your tractor business in newer kinds of segments like used tractors, etc. when at this point of time you know you have enough stress within the entire rural space?

**Dinanath Dubhashi:** General industry if you check across the good tractor players, used tractors were done at very low LTV because in used tractors there is no competitive LTV pressure, have generally proven to be much better pay masters. So it

has double reason, one is to get a good and profitable book and secondly general experience of used tractors is quite good because a tractor lasts, I mean unless and until it is used for paddling it lasts for 12 to 13 years and doing a 3-3.5 year tractor for a two to three years tenure with a 40%, 45% LTV is very-very safe.

**Nischint Chawathe:** But if you look at the current experience, are we able to say that some states in the south have a problem, etc, but are we able to really differentiate in terms of saying that this particular ticket size of tractors or these particular tractors originated in a particular year are giving problem or is the problem also out?

**Dinanath Dubhashi:** I did not say south, our south is okay. Actually, I said MP. So we are okay, we have issue with MP, Maharashtra, Rajasthan, Punjab, that is what I said. Maybe little bit in Telangana but generally speaking, quite good. So we see more issue perhaps in geographies rather than vintage. So we have done lots of research, I don't see vintage being an issue, or even brands being an issue. I mean if we generally see the leading brands, which are Sonalika, Mahindra, Escorts, Eicher, TAFE, we do not see any brand wise differentiations and issues. Actually, the only differentiation that we have been able to actually find, track and hence take action is geography and that too geography and not states. I mean state wise geography. I am talking to you in a summary manner that is why I am talking states. Even within a state we actually look district, taluka wise and specific actions are taken. So we have actually used that to be able to stop business only at minimum dealers or minimum talukas wherever absolutely required. Where really bad trends are there not only in our portfolio but also in overall trends that we are seeing, we have stopped business but otherwise business is on. But in spite of that obviously where we have stopped business there are high tractor sales markets and hence we have lost market share but so be it, we will gain it back, that is not an issue.

**Nischint Chawathe:** Moving to the housing business, why were the credit costs higher in this business?

**Dinanath Dubhashi:** This quarter we have had a few frauds which we have provided 100%, so it is not so much NPA but a fairly large portion of what we have taken this quarter is because of frauds and which actually we may recover a large part of it but we have provided completely. So it ties up to the total credit cost this quarter of Rs 9 crores, out of which more than 50%, around Rs 5 crores is this.

**Nischint Chawathe:** Within the LAP segment what would be your average yield currently be? Are you seeing any competition?

**Dinanath Dubhashi:** Nischint would you like such granular answers, you can give me a call.

**Nischint Chawathe:** We will take it offline, no issues.



**Y. M. Deosthalee:** I think what I suggest very strongly, all these questions are extremely important Nischint but my suggestion is, I am telling my people that we should set up a separate meeting immediately with Dinanath and Krishnamurthy and they should meet you personally.

**Dinanath Dubhashi:** Nischint knows my number, I will give you all the things.

**Y. M. Deosthalee:** So it is very important because all these questions are very relevant.

**Nischint Chawathe:** Sure. Maybe I can ask one last question that is more on the wind energy side, if you could share your outlook out there. I know you did kind of sound a bit cautious on the solar side, but how do you look at the wind business?

**G. Krishnamurthy:** Wind, in terms of greenfield growth, has been across the country very slow and steady, volumes have not really picked up on a year-on-year basis, so it is more a question of us gaining market share. But having said that, in greenfield wind we are today running in just a couple of major states. Actually, we have pulled out of greenfield wind and for example Maharashtra and Rajasthan and of course Tamil Nadu we were never there. So today we are looking at Tamil Nadu, Karnataka, Telangana, Andhra Pradesh and to a certain extent Madhya Pradesh. So our policy on greenfield wind varies from geography to geography, essentially because we track the RPU obligations with respect to the state governments and there has been a history in Maharashtra where after projects came up PPAs were not signed. So we were able to smartly pull out while there is a certain mix of stalled capacity out there which has been funded by others. So we are very dynamic in our selection of greenfield wind. The other thing is, for us a significant opportunity continues to be the operational wind portfolio and we see more and more that the top 10 to 15 players in the sector are now looking at refinancing the entire wind portfolio anyway from 200 megawatt to 1000 megawatt and deal sizes are getting larger and larger. And yes concurrently, there will be pressure on yields which will be there as the risk profile goes down where there is a larger diversification effect. And some of our competition on low risk assets has to be done through IDF rather than through our L&T Infra book. But wind, as refinancing, continues to be an attractive opportunity for us.

**Nischint Chawathe:** And very briefly, if you could give a broad breakup as to what is driving maximum growth within the renewable segment?

**G. Krishnamurthy:** Today wind refinancing is on which is running maximum, in solar we did a very small number this quarter, current quarter disbursements in solar were pretty small, so substantially it is wind.

**Moderator:** Thank you. As there are no further questions from the participants, I now hand the floor back to the management for closing comments.

**Y. M. Deosthalee:** Thank you very much for joining the call. If you have any further questions you are always welcome to write to us and our team will be very happy to meet with you. For some of you, I have requested our investor relations

department to set up individual meetings and we will be shortly in touch with all of you. Thank you very much.

**Moderator:**

Thank you. Ladies and Gentlemen, on behalf of L&T Finance Holdings Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.