



# ***L&T Finance Holdings***

## **“L&T Finance Holdings Q1 FY13 Earnings Conference Call”**

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***L&T Finance Holdings***



**Management:**

**Mr. N. Sivaraman – President & Whole-time Director, L&T Finance Holdings Ltd.**

**Mr. Dinanath Dubhashi – Chief Executive, L&T Finance Ltd.**

**Mr. Suneet Maheshwari – Managing Director & Chief Executive, L&T Infrastructure Finance Company Ltd.**

**Moderator:**

**Mr. Karan Uberoi – JM Financial Institutional Securities Pvt. Ltd.**

**Moderator**

Ladies and gentlemen, good day and welcome to L&T Finance Holdings Q1 FY13 Earnings Conference Call, hosted by JM Financial Institutional Securities Private Limited. As a reminder, for the duration of the conference, all participants' lines are in listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Karan Uberoi from JM Financial. Thank you. And over to you, sir.

**Karan Uberoi**

Thanks. Good evening everybody, and welcome to L&T Finance Holdings Earnings Call to discuss the first quarter FY13 results. To discuss the results we have on the call Mr. N. Sivaraman who is the President and Whole-time Director and the entire senior management team at L&T Finance Holdings.

Before I begin I would like to inform the participants that the presentation has already been uploaded on the company's website. May I request Mr. N. Sivaraman to take us through the financial highlights subsequent to which we can open the floor for Q&A session. Over to you, sir.

**N. Sivaraman**

Thank you, Karan, and thank you, friends for being with us on this call. It is encouraging to hear so many people participating in the call. Let me straight go to Slide No. 4 which talks about industry overview. Not that any one of this is going to be unknown to you guys. It is just that the growth has slowed down, the interest transmission that we expected in the previous rate cut did not happen, thanks to the liquidity situation. While the liquidity situation has currently improved, we are hoping that it will remain stable and would help in actually the bank passing down the rate cuts that happened in the December policy.

The asset quality has been very volatile. The general NPA levels have gone up by close to about 45% and in fact if you look at the number of cases which have come up for debt restructuring have also tripled as compared to the previous year. And even as we speak there are more and more entities which have been encouraged to get into debt restructuring situation but I think what is driving this is also something we need to understand. It is a combination of slow order inflow and the payments which have been stuck as retention money or disputed amount or even a lack of disbursements by the customers, so this is also capturing down to various levels within the system, the main customer to the next level contractor and also to the subcontractor. All of this has had an impact in terms of the various constituents' cash

flows that have been serviced by the financial services sector. This is something which we hope with some steps which the government is taking now should ease up in the next two quarters and should result in improvement in the situation as far as the constituents are concerned.

In terms of the two sectors; Infrastructure sector as well as the Retail and Corporate sector, the Power sector has been a laggard for a long time now and hopefully with the steps that are being initiated by the Government, the Prime Minister's office, on the fuel supply side we should see some movement happening, perhaps in the next two quarters. The hike in power tariff by the Discoms of the various states which have been visible, we have seen several states raising the power tariff, which should improve the cash flows of these Discoms and consequently, also should enable them to start making payment to various vendors that they have been not paying so far.

Telecom sector, yes, it is in a standstill, 3G rollout has been not as encouraging as one would have thought, subsequently in the area that we focus, around the Telecom Infrastructure, the momentum has been slow over there.

Road sector, that's one area where a lot of project awards have happened. I think we know that around 7000 Kms of orders have so far been placed in the last 3-4 quarters and the Government's target is to add another about 8000-9000 Kms to order which means that this is an area which is going to be extremely attractive, is going to be a very, very large opportunity for developers and also financiers like ourselves.

The Retail sector, we have seen the CE and CV slow down considerably, thanks to the level of economic activity and also to some extent the change in the transportation model that we have seen, shifting from the 9 to 16 tonner vehicle or the 2-3 axle vehicles to multi-axle vehicles as a way of intercity transportation. So that has also had an impact in terms of the bread and butter M&H CV growth.

The monsoon has not so far had any impact in the rural sector, but could potentially have, depending on how it progresses. For example, yesterday, Mumbai rains were quite good in the night. So if this picks up, the expectation is also typically the rain picks up around the second half of July to after middle of August, the peak season for rain. So if that happens perhaps we can recover most of the lost deficits of monsoon, so consequently, the farm output as well as the cash flows available to the rural customers should improve. As we discussed, over the last about close to two quarters the stress on borrowers of cash flows have been increasing and the overdues have also increased and the NPL – this is overall within the system.

Moving over to the next slide, summary of financial performance, we are happy to say that on a YoY basis we have grown our loan book by about 37% even though the disbursements have actually come down by close to 5%.

The PAT for the lending business has also grown quite well, by about 15%. This is, as we will explain to you later on in the presentation, net of some of the provisioning that we have taken as a precaution given the environment. So, we have taken close to about 30-35 crores of incremental provisioning in our P&L. So, this has had a reflection on the PAT.

The NIMs have remained stable. While L&T Finance has marginally dropped by a few basis points, L&T Infra has been able to improve the margin, thanks to the level of large composition of fixed rate borrowing that existed in the book, even as the rate kept going up. So, that has helped in ensuring that the margins are slightly better.

Given the environment today in terms of lack of new origination, definitely, the fee income opportunities have been lower.

Operating expenses have been pretty steady, even though in absolute numbers as you will see from the P&L account, the salaries and operating expenses have gone up by a significant percentage, but as a percentage of assets, they have remained quite stable, there have been no concerns.

And on the gross NPAs, yes, we have seen that as compared to the Q4 numbers we have seen a reduction and also with reference to the previous year same time also there is a significant reduction.

The credit costs have gone up mainly because of provisioning for micro finance as well as some precautionary provision that we have taken in L&T Infrastructure Finance.

In the Investment Management business, the average AUM has dropped, as we took some steps to improve the quality of the assets and took some conservative investment options rather than being little aggressive which is resulted in the drop in the returns and naturally the institutional investors they do shift for even 10-20 basis points difference in the investment returns. But since that we have been able to catch up and we have improved our overall AUM.

PAT at the holding company level has moved up by about 25% from 96 crores to 121 crores. I just want to remind you that this is after factoring in provisions for micro

finance as well as additional contingency provision that we have taken for the infra assets.

Moving over to the next slide, company overview, all of you will be familiar, I will say that there are three NBFCs which are in operational mode, and each will focus around certain sectors. Of course, there are investments in Federal Bank and City Union Bank as well as the Mutual Fund investment in L&T Mutual Fund.

On the Loan portfolio, 32% consists of Retail Finance, 25% from Corporate and 43% from Infrastructure. The shareholding pattern has remained pretty stable. This is that the FII holding continues to be same; there have been no major change in the FII investments. So, that I feel, it is an opportunity for investors in terms of the number of retail shareholders that we have in the stock

Next slide: This is to explain history because there have been questions about very aggressive loan book growth. But this has been contributed by two set of factors. One is the disbursement growth. And, of course, the major disbursement growth has happened in LTIF on a relative basis. And if you look at the other piece, that is the elongated maturity of assets in the books of both L&T Finance and LTIF front. This is a very clear strategy that we have followed wherever we find the customer is good and past performance has been great. In order that our origination cost gets amortized over a longer period we have actually pushed on the maturities. In L&T Finance, it has moved up by about seven months and in L&T Infra, we have gone up by about 1.8 years, which actually means that the project assets, as you will see and we talked about infra, have become a much larger portion of the portfolio than what it used to be in the past.

The PAT has kept pace with the asset growth. This of course, we are talking in the context of the micro finance being excluded as some kind of one-off event. But it kept good pace with the asset growth.

Again, while I focus around the loan portfolio, it remains pretty steady except that the Construction Equipment and Transportation Equipment have seen a reduction in the share in the overall portfolio whereas Rural Products Finance has gained 2% as compared to the first quarter of last year. And Corporate Loans and Leases have grown by about 7% as compared to the previous year. Clearly, this is what we have been talking about; that in order to ensure that growth is more consistent a diversified approach is necessary, the product base is extremely important, both diversified product base as well as diversified customer segment. That is what is very well demonstrated over here. In fact, if you look at the disbursements for the current year,

L&T Finance had an overall growth of about 9%, of which 7% was contributed by the Rural Products growth.

What we have also done is that we have recently reorganized the LTF organization, more with the perspective of being close to the customer, while at the same time reducing the overall cost inefficiencies. As we have done it in the first quarter of the current year, this has had an impact in terms of business and collections, but I think we should be able to recoup it within the next few quarters, but what we have seen is that potential upside by eliminating redundancies of some significance will help us improve the cost structure.

We operate on a hub and spoke model with 100 plus branches which means that our sales staff very frequently operate out of their home to cover about 50 Kms radius from their home but report to the closest branch. That way we have been able to achieve a much better cost efficiency than most others in the industry. And we have actually converted these hub and spokes into branches as the business volumes have grown.

Just to cover that risk management, I think it is well supported by the credit evaluation, again, a combination of balance sheet analysis as well as score sheet for the retail asset base. The second is that the provisioning is on a very, very conservative basis. We recognize the foreclosure losses when the account becomes NPL. And again, one of the biggest supports that the retail portfolio has enjoyed is the analytics group which has helped us plan the portfolio better, create better credit scores and also help in collection planning, based on the performance of the customers over a period of time.

So beside all that we have seen in the environment over the last say more than 15 months, you can see that our NPLs have remained pretty flat as a percentage terms. Even on an absolute amount basis they have not really grown significantly except in the first quarter. I think I used to tell you all that for almost five consecutive quarters we have been able to bring down the absolute amount of NPLs even as the book increased. But in the first quarter that trend has been broken, thanks to the environment and we expect that over the next 12 months we should be able to attack this better.

L&T Infra, as I mentioned the loan compositions have changed quite dramatically over the last two years. The Project Loans which is the bread and butter of the Infra has increased to 67% of the book, also resulting in the average loan life increasing. The Corporate Loans are about 31%. This is part of the initial strategy that we

adopted to first use the capital quite well. And second is also that we are able to experience and build a relationship with the corporates and thereby make a choice about financing their project. And out of the Project Loans, the operational and the under construction ones are about 50-50. As you see in the table below, Renewable Energy is about 21%, all of them are operational, that have actually helped us increase the level of operational projects and we can say that these operational projects are today servicing the loans from operating cash flow. Thermal has remained flat because there have been no new disbursements of significance. The Road sector has seen a relative drop, thanks to the other, especially the Renewable Power sectors growing. Telecom, I think we are saved from all the other drama around voice segment, as most our assets in Telecom are in telecom towers and other infrastructure. So we are quite happy that this is performing quite well.

Going over to the next slide 13, which is talking about Risk Management – L&T Infra, I think none of these will be new to you, but I think there are two pieces that I will say. The Risk Management Committee and the Investment Credit Committee are headed by independent directors with a very very long experience. And this portfolio regularly gets reviewed by the Risk Management Committee for the sector exposure limit, the stress cases and how do we handle it, what are the terms that we are using, how do we really improve the security and performance of the loan on the ground, all of this are very, very closely monitored by the Risk Management Committee.

Out of 120-odd accounts that we have, we have about four customers in NPL situation. Definitely, given the size of a loan, there is and always will be volatility. We have reduced the overall NPL by about 26 basis points because one of the accounts got settled in the current year. We had a very, very marginal provision that we had to make.

In terms of provisioning norm, our standard assets provisioning are more conservative than what RBI requires. This is based on our internal rating. Since the last quarter of the last year we have started also providing certain provisions just to make sure that in the current environment if things do get into stress on a slightly longer basis than what we have seen it is. So, we have created a provision between 3% and 7% of all assets which are in the overdue bracket of 4 to 6 months. Now, we also have reversed the entire income that we have accounted for in these accounts till the period. So, it is almost like from income reversal we treated as almost like NPL but whereas from a provision point of view we are gradually doing that. So, two things: One is that it will help us migrate to Usha Thorat recommendation over a period of time and also that in case any of the accounts really get into a stress situation, continue the stress situation, then our P&L will be more evenly balanced

right through the year. Today, we have close to 38 crores of cumulative provision constituting both income reversal as well as the principal provision against the principal. So, this should help us to mitigate any potential challenges that we may face on the NPL side.

ALM, we try to concentrate more on the three to five year bucket as far as our liabilities are concerned. Of course, we have 7 and 10 and 17 years loans as well as part of the overall liability portfolio. The bonds and the infrastructure bonds and the issuances to insurance companies do provide us with both fixed as well as long tenor loans which have actually helped over the period to maintain the margin.

Pricing matrix does exist so that we are able to capture the interest rate movement quite quickly. We use interest rate swaps on a selective basis depending on our outlook. We do not take long-term interest rate swaps; we take about shorter-term interest rate swaps.

L&T Mutual Fund – we are covering also the financials over here. The point I would like to highlight is that there is a consistent increase in the management fee to the assets under management which is heartening, even though AUMs have significantly dropped. I think at this rate with the Fidelity acquisition also merging into it, in a matter of three months we should see good progress and the breakeven should be nearer than what it would have been on a standalone basis.

Going to L&T Infra summary financials, Slide 16, what I would like to emphasize on is that even though there is a very low disbursements, thanks to the disbursements we were able to achieve in the last financial year, we have seen the YoY growth on assets to about 32%. The business as you can see is substantially lower than what we have seen in the previous year first quarter. We are not concerned about this because we would like to be selective in the credit and of course the number of opportunities in the markets is also being fewer.

Gross NPAs we did talk about. The good thing is that in addition to the provision against the NPA, we also carry a cumulative provision of 38 crores which should come in handy for us as we face up to a more difficult environment going forward.

The decline in fee income has been mainly because there are fewer loan originations and fewer projects have been on the anvil so the impact, but we do have a strong pipeline of mandates that we are executing currently on our hand.



We have also created dedicated stressed asset monitoring team at very senior level which helps us make progress and interact with other financiers and try and find most elegant ways of resolving these NPAs.

As I mentioned the net interest margin have marginally gone up. I would like you to note the asterisk and the notes attached to it. What we have done over here is that the income reversal on the NPAs and the stressed assets have been added to the credit costs rather than reducing it from the yield and income. Just to reflect that this is perhaps the right way to say how to assess the credit costs, because this is a situation where money has been invested but no returns have been taken, that is how we have taken it. So you have seen that the margins have marginally gone up despite the increase in short-term rate. This is on account of the strong fixed rate portfolio of liabilities that we have.

The operating expenses have remained pretty flat on a YoY basis and also for the first quarter. The Return on Equity has been about 15.92%; again I will just remind you about the provisioning that we have taken and also the lower fee income that we have been able to earn in the first quarter.

Gearing levels have marginally gone up which is healthy from a point of view of improving the overall RoE.

On L&T Finance and Fincorp on Slide 18, the interest income has increased in line with the book size, thanks to the yield increases that we were able to pass-through but the cost of liabilities also caught up with us subsequently, the increase in interest costs have been higher than the previous quarter, so you will see a marginal dip in the overall NIM.

Operating expenses have shown improvement both on QoQ basis and also on annualized basis. The credit costs have been higher, largely for the retail book – it has been on account of the season, it is quite seasonal. And on the corporate book, yes, as I mentioned upfront there have been some stress on the portfolio.

We have tried to introduce a slide to make you all understand the balance sheet of LTF and Fincorp better so that the underlying business performance can be understood better, because, the ratios will be around the column 'Adjusted', so that it reflects actually the underlying business performance.

We do have investments in the AMC and certain other corporate investments which add up to about 300 crores in the two quarters. We have also been investing in our own office which should get ready by sometime in the second half of next year. So

that should result in reduction in the overall rental cost for the company. Not only the operating business performance is well understood, we have tried to separate it out. The new column gives you the impact of both corporate assets and micro finance on the overall performance of the company.

Moving over to the next slide 20, the ratios, as you will see that the net interest margin have remained quite flat. Of course, we had a favorable impact of MTM in the fourth quarter of last year which has been negative in the current year, thanks to depreciation of rupee. This is we consider it as one-off impact and we should see some better situation as the year passes by.

The fee income has been lower because of the general insurance, the environment, and the mutual fund investment environment have been weak. As you will see the operating expenses have actually improved as compared to the fourth quarter and on an annualized basis it is still pretty good which we should see some more improvement coming up as the benefit of organization restructuring comes in to help us.

The credit costs have gone up as a combination of two things – the Corporate and the overall NPLs have gone up. In addition, the provision for micro finance which we have taken about 14.5 crores in the second quarter.

Debt composition has remained pretty similar except that for L&T Finance, we are slowly moving into a non-bank kind of a structure as the shorter-term interest rates soften. So that is something which we will continue to do as we go along. So that is what we expect should give us some improvement in the margin in the next few quarters provided the liquidity situation remains as steady as it is today.

Just from strategy perspective as far as the Mutual Fund is concerned, I think our condition is that with the demographic change and also the improvement in income level, over the next about 7-10 years we should see the AUM under the Mutual Fund segment to reach up to the same level as same ratio in the developed market. We have seen some of the markets having 50% to 120% of GDP as assets under management by the mutual fund industry, so that should happen at the condition that we are, and that is the context in which we have invested in this Mutual Fund business and also trying to consolidate and improve our position more aggressively and in an accelerated manner. We do see this to be a steady-state high RoE business over a period of time after the initial breakeven is reached.

As regards Housing Finance, I think that is again a segment that all of us understand that there is a great opportunity over here and with the reach and brand name that we have plus L&T as a developer of some of the properties and they do contracting work for several builders. So, this should help us connect with the customers more easily and we should be able to grow this business quite well. It is currently in the process of getting approval from NHB so we could share some broad strategies around this in a few months time, maybe when we talk about it in the next quarter.

As far as Microfinance is concerned, we continue to believe it is a very large opportunity even though Andhra situation has upset most of the calculations of the players in this segment, but I think for a institutional player like ourselves it continues to present a good opportunity but at the same time currently we are being very conservative, just being present rather than being expansive in this segment.

On the outlook, the Road sector should offer us opportunity and Thermal and Coal segment should start picking up in the fourth quarter assuming that the government initiatives do produce results. In addition to that, in Renewable Energy segment where we have already established our name, especially in the Solar Energy segment, we can perhaps see more and more of opportunities and with the revision in the tariff by various Discoms, the affordability of this also becomes better. So, I think that should help us in sourcing this business.

Among the rest of the business of L&T Finance, I think rural continues to show good momentum, we will have to wait and see the progress of monsoon and the impact of that. Otherwise, I think the rest of the segment will depend on the overall improvement in the cash flows in the system.

Margins expected to remain stable, is a very cautious statement we are making, but if liquidity situation continues to remain benign as it is today, we can see some improvement in the margin.

Asset quality, we believe there could be some volatility around this for the next two quarters, before we settle down by the end of the year. As I said it depends on the way the cash flows in the system improve.

There are some slides which are as part of the Annexure, which basically gives a few other facets which you are all familiar with, is not that you are not familiar with. So, you can go through that as well but we can now open the floor for questions.

**Moderator**

Thank you. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press “\*” and “1” on their touchtone telephone. If you wish to

remove yourself from the question queue you may press '\*' and '2.' Participants are also requested to use handsets while asking a question. We have a first question from the line of Devam Modi from Equirus Securities. Please go ahead.

**Devam Modi**

The first question we wanted to ask was regarding the asset quality. Whether there is any stress we foresee in any particular sector in Infra or any portfolio of L&T Finance as of now?

**N. Sivaraman**

The stress has been around the corporate loans both in Infra and L&T Finance but we are actively managing it, with some delay the payments keep coming but as I said the provisions that we have made is more in some kind of anticipation that still continues for one or two more quarters which is some of them we were slipping in NPA but now we are building it up but at the same time there is at least one more account in our balance sheet for which resolution is in progress, we should see some improvement over there maybe if we're lucky one more account also should get resolved at the end of this year. Also consequently I think we would expect that the NPA level could get volatile between two quarters but by the end of the year we should see some stability around this.

**Devam Modi**

Should we like expect more than the standard asset provisioning of around 0.25%, do we see that still in the remaining part of the year, we would have reasons to provide for something like 0.5 to 0.75% rates for L&T Infra to corporate books?

**N. Sivaraman**

There are two pieces of provisions that we do, one is the standard asset provisioning which is on the portfolio basis, we instead of going by RBI mandate we look at the underlying rating of these assets and then on the pooled basis we take this provision so it is consequently slightly higher than what RBI requires about 35 basis points or so. There is nothing that indicates that the assets are stressed or anything. The second phase is that we have seen about 2 to 3 quarters of sluggish cash flows to the corporate which has cumulatively been having an impact on their ability to pay the loan on time. So as a prudent practice we said okay, may be a few of them could slip into NPAs in the next two or three quarters, may not be all of them also. So we are just trying to make sure that we avoid taking all of provisioning requirement at once. If the cash flow situation improves as I said during the presentation maybe we may not need some of these provisions.

**Devam Modi**

Do we see any stress in the construction equipment or the rural equipment and the rural product portfolio, especially given the possibility of a delay in monsoon and the fact that there has been a mining ban and all, would you expect a hit to any of these portfolios because of that?

**Dinanath Dubhashi**

Construction equipment yes, we have seen certain areas like Orissa or North Karnataka or Goa these areas are coming under stress because of the iron ore mining policy, definitely there has been a delay I would say more non-uniform payment, some delayed payments coming in. Yes, some stress is there, but we are seeing the silver lining of some mines starting. However, it is difficult to say when the situation will come back to normal. The only thing is the good thing is it is pretty localized and if you take out the couple of states things do not seem to be too bad in the construction equipment segment.

As far as rural is concerned there are two effects, one is seasonal effect, normally as the summer ends there is no cash flow coming into the farm sector in the 1<sup>st</sup> Quarter so normally every year you will see in the 1<sup>st</sup> Quarter the debtors growing up and which stabilize by September and as the cash start coming in NPAs and debtors start going down so that has been the trend which we have seen over the last few years. This year with the monsoon currently about 23% below normal one really doesn't know because nearly after 10 years we are having this kind of a situation. We are watching the situation and closely monitoring for any kind of deterioration, this situations can be managed by shifting most of the business into collection and this is a situation needs to be managed more dynamically.

So just to conclude construction equipment, yes there is a stress but it is quite localized and for the tractor business the situation is developing and we would have to watch it very closely.

**N. Sivaraman**

And the other part I wish to add is that in L&T Finance where people have talked about the portfolio, that it is growing very fast but if you really do an analysis of fresh slippages I think you will realize that as compared to most of the NBFCs in the country our slippages are very low. Our NPL reduction is through resolution and foreclosure rather than by being write-off. Of course L&T Infra is at still about only five years old and still lumpy situations as far as the NPLs are concerned so that will take some more time to stabilize. All that I am trying to communicate is that the way we handle the NPL both in infra and as well as in L&T Finance just help us in ensuring that the losses are lesser and the account really become standard sooner than later.

**Devam Modi**

Sir, one last question, what is the strategy regarding the Fidelity acquisition and when do we expect to starting factor in our quarterly in numbers and what do we like estimated log in its first year of operation?

- N. Sivaraman** This is something which will definitely, maybe we will not talk about the estimates, at least we can talk about the improvements that Fidelity have been able to achieve over the last FY12 as compared to FY 11 and also in the 1<sup>st</sup> Quarter of the current year, we will definitely share with you after we consummate the transaction. We are interacting with SEBI I do not want to double guess what the timing of when SEBI will approve but I think we can expect in the near future the approvals and then consummation of this transaction.
- Moderator** We have a next question from the line of Mangesh Kulkarni from Almondz Global, please go ahead.
- Mangesh Kulkarni** Our promoter holding is around 83% so what is the roadmap to achieve the SEBI norms?
- N. Sivaraman** We have time till about August 2014 because we got listed in August 2011 which means we have almost two years to go before we need to compulsively dilute but given the overall capital requirement that should come through. With the acquisition as well as the business growth that we can achieve within two years, the dilution could happen earlier than that for businesses purposes than for meeting regulatory requirements.
- Mangesh Kulkarni** So both the possibilities are there L&T itself selling in the secondary sales?
- N. Sivaraman** It can but it has to be follow those rules, as I said some are pure capital requirement perspective it can achieve 75% through raising capital for business requirement but if for any unforeseen reasons is not possible to be achieved before August 2014 then I think L&T would be balancing this, if capital requirement does not exist L&T will not compulsorily compel L&T Finance Holding to raise equity so that we don't sit on unnecessary capital.
- Mangesh Kulkarni** What we are hearing in terms of banking license from the regulators and all these things?
- N. Sivaraman** You know as much as I know.
- Mangesh Kulkarni** Any progress what we are seeing in this thing?
- N. Sivaraman** RBI runs it process, Ministry of Finance runs its process it's not something that we can keep progress check or encourage them to do it faster or slower. These are regulators so we need to respect them.

- Moderator** Thank you. We have our next question from Ameya Sathe from JM Financial, please go ahead.
- Ameya Sathe** Can you share your plans with respect to the housing finance subsidiary?
- N. Sivaraman** Our vision will be to achieve about 4000 to 6000 crores of assets in about 4 to 5 years' timeline that is the way we are setting out the plan but the actual execution will depend on the way the market pans out as well as the way we are able to scale up quickly. We also want to balance between the growth expansion and return. So within that we will definitely have an accelerated growth plan for this business because this is an opportunity which is extremely good for us. Suffice to say that at the moment the company is sitting on about 120 to 130 crores of net worth which will easily enable us given the capital adequacy requirement to move up to close to around say about 1200 to 1500 crores without really putting fresh equity.
- Ameya Sathe** And your MFI portfolio what will be the AP portfolio in that?
- N. Sivaraman** AP portfolio outstanding will be around 43-44 crores will be uncovered the balance provisioning has already been made out of 193 crores. So, if things do not improve then we will provide for it on a quarterly basis.
- Our AP exposure was about 58 crores as of end of last year; we did collect in between 15 to 20 lakhs per month so that actually brings it down to some extent. So we are just watching the situation but if things do not improve we are quite happy to write it off over the next three quarters.
- Ameya Sathe** How is the experience in states like West Bengal and Gujarat? We do not have an exposure?
- N. Sivaraman** Of course, we have an exposure. The situation just immediately after the AP issue there were little bit of contagion that happened in West Bengal, Gujarat, etc., however, that did not spread. The good thing that happened, I wonder whether you are aware of it, that because of this big shock the industry came together and really put a good working credit bureau in operation. So this is the bureau called Hi Mark, which now has almost 80 million records and all of us resort to this credit bureau before giving a loan. So what is happening because of that the credit discipline has improved, the safety of giving a particular loan has improved and the contingent because of that was arrested in the bud. So now it is more a question of finding the volume, finding the borrowers which satisfied their microfinance norms that RBI come up with, but the credit quality and the repayment behavior has come almost

completely under control from the days of 2010, when the AP ordinance had come out.

**Moderator** We have the next question from the line of Nischint Chawathe from Kotak Securities, please go ahead.

**Nischint Chawathe** My question pertains to the growth traction of the company's which really seen that on the quarter-on-quarter basis the growth traction has significantly lower than what we have seen in the past so going forward I mean, what would be your guidance, how should we really see growth playing out?

**Suneet Maheshwari** I think, from infra point of view till December you have some pipeline but it is a bit flat. We are expecting some kind of revival in the second quarter because some people who are holding on their investment plans cannot hold onto any further, but I think with the government's some consulted actions that are being promised we expect all of that to start off in August and September and it will have a lag of about 3 months so in effect we might see if all goes well, growth coming back into this group post December.

**N. Sivaraman** Given the environment today, it may be difficult to predict growth trajectory, but we have about 200 to 3000 crores of undisbursed sanctioned amounts.

**Suneet Maheshwari** I think what we would have is that we have project sanctions, we have some undisbursed amount out of last year and we still have some pipeline, we still have some cases coming in new and we are picking up some of the good companies who would have normally not come to us, but they are also looking for money and we are in a position to give them some solutions. So we do have some pipeline but suffice to say, in the worst case scenario, we would still be able to maintain it as much as we did last year.

**N. Sivaraman** What I will say is that if you look at L&T Infra's balance sheet it is about 11,000 crores of total assets and given that loan life is fairly long the repayments are spread over a long period of time. Even if we disburse around 2500 to 3500 crores, we may end up being close to around 25 to 30% growth so that is the difference in Infra.

I will ask Dinanath to explain the L&T Finance part.

**Dinanath Dubhashi** L&T Finance I will answer in 2 horizons, one is absolute short-term horizon over the next couple of quarters and the strategy that we have, and we have sustained growth over a medium-term to long-term period.



So over the next couple of quarters we have most definitely the corporate portfolio, construction equipment portfolio and CV portfolio growth will be very subdued if at all a positives growth is there. It goes with our philosophy that we will not follow growth for growth sake, we would look at quality of assets and most importantly maintaining returns and profitability. So we are not too worried about that and this is the time actually to take advantage of our strategy of following the diversified products mix. The growth will continue from products like farm equipment, not only tractors but other farm equipment, cars where we are fairly small player now and hence the growth potential is very good in small commercial vehicles. Now these are sectors which are relatively unaffected by the cycles of the economy, both in terms of growth, as well as credit quality and we expect diversification of our portfolio to come to our benefit. However, yes you have to say that compared to last few years we definitely expect the growth to be lower this year. As we go ahead the strategy always has been continuously launching if not new products at least products extensions which injects growth in the portfolio. So we are looking at getting into, along with rural assets finance, we are also making some pilots into rural enterprise finance which is financing all businesses like dairies, etc., in rural India and this strategy we expect will enable sustained growth – even in certain sectors which are more closely linked to the economy growth; though I would say a lower growth over the next three years.

**N. Sivaraman**

I think it is also, by design that we have grown less rather disbursements have shown a reduction as compared to the previous quarter because we have been selective on credit and also in terms of threshold returns that we would like to maintain on the asset.

**Nischint Chawathe**

Have you picked up any business for refinancing that it is essentially refinancing some of the loans of banks or so?

**N. Sivaraman**

I think reset related or in terms of project refinancing has been seen as a normal course so those are the projects where the project completion has happened and stabilization has happened normally in all of those cases, a refinancing does take place. So I would reckon that the projects that were launched in late 2008 and may be early 2009 their completions are about to be happening. As a normal course they would get refinanced to the extent we do not participate in all of them but to the extent there are projects that are good in the market and give us the kind of returns we are looking at and we definitely look at those kind of opportunities, we also look at these kinds of opportunities even in our portfolio whenever they reach a maturity stage to work on a refinancing, so I'm not sure whether your question was directed in any other way. But, yes, refinancing is a legitimate business in the market and we do

see coming but they are related more to the project cycle and the project completion cycle.

**Nischint Chawathe** My question was very much on the refinancing on the legitimate side itself. I was just wondering that despite our comment on the macro environment will the refinancing business swing in a particular manner to kind of temper the growth rate that we are talking about at this point of time?

**N. Sivaraman** No, in fact they would increase because the interest rates had gone up a bit and they are softening and if we believe that the rates would soften further, that is what our belief is, I reckon that in the second half that we would see quite a few refinancing coming through the market.

**Suneet Maheshwari** And also most projects have reached the stage of near completion or actual completion so most developers would have to look at some reduction in the borrowing costs. And I think during the last 12 to 15 months the spread that were charged by the bank are high so for us this represents an opportunity.

**Nischint Chawathe** Today what would be the share of this in the overall loan book?

**Suneet Maheshwari** May be less than 10% I think at the moment in Infra.

**N. Sivaraman** In L&T Finance, there would be probably be hardly any cases.....

**Nischint Chawathe** And any outlook or any sense as to where you could take it or it would be function of the market?

**N. Sivaraman** Well as we have been repeatedly emphasizing that the question is around quality and the rates. We are happy to preserve our capital for exciting opportunity or better opportunities that will come. So this is one reason why we do not want to say that we will achieve a 30% growth.

**Moderator** We have the next question from the line of Manit Varaiya from Vallum Capital, please go ahead.

**Manit Varaiya** My question is related to your talking about the stress in the corporate loan portfolio. So is there any specific sector where we are seeing the stress or like some specific sectors?

**Suneet Maheshwari** Infra, it is around the construction sector.

- N. Sivaraman** I would say largely construction, EPC, roads. These are the ones.
- Suneet Maheshwari** No: roads, meaning the people who are actually roads developers, those projects are being quite safe as of now.
- N. Sivaraman** Power sector of the portfolio is not very large as compared to the overall size of our company.
- Dinanath Dubhashi** In L&T Finance, it is more from people engaged in iron ore mining mostly and medium sized corporates.
- Manit Varaiya** Just wanted to have a broad idea regarding the housing finance company – our target is to achieve 4000 to 6000 crores of asset over next five years so if we can just broadly what is the strategy to achieve this asset base?
- N. Sivaraman** We have said it is a vision that we want to keep for ourselves. The targets will depend on the way we see the opportunity, the way we roll out net worth, by keeping the balance between the returns and the net worth cost. So I would not say that 6000 crores is the target at the moment. But as I said we will exploit the benefit of our presence in the semi urban and the rural India to support the self-employed and the lower strata of the society and also use L&T connections with the developers and L&T's own development projects to look at the salaried class so that the overall portfolio remains balanced, but as I said these plans will evolve in the next about 2 to 3 months' period.
- Moderator** We have a follow-up question from Ameya Sathe from JM financial, please go ahead.
- Sanket** I have a couple of questions, one is regarding the competition what the company is facing especially in LTF business across various product portfolio and my second question would be on the margins, basically just wanted to understand how the company is looking forward the margins to pan out in the coming quarters?
- Dinanath Dubhashi** You guys are all analysts in this sector so you all know the competitors. There is no new competition which has come in, in farm equipment it is Mahindra & Mahindra Finance, HDFC, Kotak and in construction equipment it is SREI and in CV it is Magma, and Sundaram these are same names. Something which has changed, what we're seeing is as the asset quality becomes more of a concern and is on everybody's radar, deals which are of excellent asset quality face much larger competition and hence sometimes those deals go at rates which are not remunerative, so our clear corporate philosophy is to stay away from these deals even if it affects growth to

certain extent. So about competition I do not know what specific comment to make – there is nothing new which has happen in this sector it is all business as usual.

**Sanket**

And my second question is regarding margins.

**Dinanath Dubhashi**

Frankly we were expecting a little bit of increase in margins as our borrowing costs went down, however, as you're all aware even though the repo rate were cut by 50 basis point at the shorter end, interest rates have just started coming down and hence we did not get the benefit in Q1. However, we have been able to maintain the margins. We are hopeful that as yield curve corrects now from an inverted yield curve is becoming now a proper yield curve we will see some improvement in margins in Q2 or Q3 but I'm keeping my fingers crossed.

**Moderator**

We have the next question from the line of Santosh Singh from Espirito Santo, please go ahead.

**Santosh Singh**

My only question is about this contingency provision if I look at the contingency provision which you said from 3% to 7% and the total amount if I'm right that is around 34 crores. So is it that the overdue for which you have made contingency provision is fairly large; it is around 500 to 600 crores – is my calculation right or am I missing something?

**N. Sivaraman**

Let me explain the philosophy. So we have provisions under three different heads, one is standard provision where we're supposed to make about 0.25% but we go on a basis of some rating classification, so effectively our provisioning there would be upto 0.35%. Then we have NPA provisions in case of those cases where the delays are happening beyond let us say 6 months. However, there may be delays which is lesser than that so the moment we go beyond three months say between 4 to 6 months bracket we internally have a forum whereby everybody in the management meets, looks at the risks and makes an assessment of the cash flow of each of those companies and we take a call on how much provision that needs to be made. The minimum that we would like to make is 3%, the higher end would depend on what is the level of risk we see is slipping into something in the next 1 or 2 or 3 quarters and it is a step that we take based on our assessment. We also want to ensure that we are as close as possible in respect of those assets to make a 10% provision should it slip, so the gap between the final provision that we have when we said 7% and the 10% provisions required in respect of some of those assets is then only 2 or 3% which is reasonable enough for us to be able to absorb, so this cushion has been created given the current state of the economy.

Having said that, we had made some contingency provisions of this kind in 2009, the provisions of this kind in 2010-11 were actually written-back and so if you would look at our numbers of that time we see that our provisioning numbers actually show a degrowth. So I'd reckon that the if the economy turns around and all of these steps take into effect these provisions are there and that is good to have; but we have had a history in the last five years itself of some of these actually getting unwound and we would expect that to happen going forward too.

**Suneet Maheshwari**

Unlike the banks, the NBFCs do not have a benefit of a floating provision – with this step, actually we are trying to step in that direction. Also what we have developed as a philosophy is around the portfolio which is overdue, to develop a formula to create some conservative assessment of this and take a provision – that was the idea. So to put the answer it is not as if these are already gone beyond a particular threshold rate of RBI, this is our assessment of assets under watch and when we think we should be overly conservative.

**Moderator**

There are no further questions.

**Karan Uberoi**

On behalf of JM Financial I would like to thank Mr. N. Sivaraman and the entire senior management of L&T Finance Holdings and all the participants for joining us on the call today. Thank you and goodbye.

**Moderator**

Thank you gentlemen and management. On behalf of JM Financial Institutional Securities Pvt. Ltd. that concludes this conference. Thank you for joining us. You may now disconnect your lines.