

**L&T Finance Holdings Limited**  
**Q1 FY18 Earnings Conference Call Transcript**  
**July 27, 2017**

- Moderator** Ladies and gentlemen, good day, and welcome to the L&T Finance Holdings Limited Q1 FY2018 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing \* and 0 on your touchtone telephone. Please note, that this conference is being recorded.
- I would now like to hand the conference over to Mr. Shiv Muttoo of CDR India. Thank you, and over to you, sir.
- Shiv Muttoo** Thank you. Good morning everyone and thank you for joining us today for L&T Finance Holdings Q1 FY 2018 Earnings Conference Call. We have with us on the call today, Mr. Dinanath Dubhashi -- Managing Director & CEO and other senior management members.
- Before we proceed, as a standard disclaimer some of the statements made on today's call may be forward-looking in nature. A note to that effect is provided in the Q1 result's Presentation sent out to you earlier.
- I would now like to request Mr. Dubhashi to kindly provide his thoughts on the company's performance and the strategy going forward.
- Dinanath Dubhashi** Good morning everybody and welcome to this call. I am happy to report the fifth straight quarter of successful implementation of our strategy that we had put in front of you five quarters back. Actually, a couple of days before the call, I was wondering how to structure the call. And I got lot of feedback that I talk a lot about intent, and I should be talking more in detail about the businesses. I meet many of you one-to-one, my colleagues meet many of you one-to-one. There will be many opportunities to talk about businesses, markets etc. But I firmly believe that if you compare intent versus details, future of companies, health of companies, the direction of companies is firmly determined by management intent and the ability of the management to execute on the intent, and less so on how the market goes or how a particular quarter growth or anything is happening. So, I would once again spend some time in talking about our intent, the way we have delivered on that intent, and what is the intent going ahead. We will, of

course, touch on some details about each of the markets and then, of course, you can ask questions now or any time that we meet.

First, most important point is that, we have always made it a practice of declaring our intent in advance and then delivering on majority of those things. I have always stood against delivering something first and then telling the market this is what I wanted all the while. We have always shown integrity by saying that this is what we plan to deliver and I am sure that you will forgive us, if we miss 5% to 10% of it. After five quarters I think we have shown various examples of it. Whether it is the ROE journey, whether it is demonetization or whether it is straight away declaring what was our problem in Infra and how we are going to provide, that I am going ahead of it. We have delivered steadily increasing ROE in line with our intent, and this quarter too, as you would have seen, we have delivered our best-ever Q1 ROE.

Last quarter, when we had the analyst meet, I actually took you through the acceleration of the plan and said that our P&L strategy of growth in our core businesses, increasing fee income and cost control has worked well. Our balance sheet strategy of putting a strong risk framework in place and increasing provision coverage, making aggressive provisioning so as to protect the balance sheet from any future problems and most importantly, building strong processes and systems. We are now ready for fearless growth. I am happy to report that in the first quarter, as you would have seen, we have delivered growth along with ROE. A 95% increase in disbursements and a 22% increase in book, we believe that this intent too is being delivered. We will talk more about that and I guess we will have to talk more about that just to convince you that this growth is coming from very specifically built and developed rights to win and not because of a some one-time happening in the market and most definitely not because we are growing recklessly. We are not. Each part of this growth is well calibrated and coming out of very strong Right to Win that we are building.

Now that we have delivered for 5 quarters of it, and have shown a decent track record of executing it, actually we feel confident enough to state the identity that we want to establish in the long-term. I have been asked many often that after 2020 what? Of course, after 2020 strong presences in the market that we have, strong growth, strong ROE, these are just numbers. But what we would like to be known as, I think after 5 quarters, it is good that we are able to state it. I am going to make some statements, you all have them, at the first page of the presentation. I acknowledge that these are big statements. These are not statements which can be delivered quarter-to-quarter, some of them at least. Some of them we do not even know what will be the metrics. But yes, once again in the tradition that we have established, I am going to make the statements, and my team is going to try utmost to deliver on each one of them, so that this identity is very

firm in your mind and you continue to support us based on this identity the way you all supported us for the last 5 quarters.

So now coming to the presentation, the first slide. What would be our commitment? What is it that we would like you to recognize us as? Obviously, the first thing which we have talked all the while is we will be a company which will deliver ROE, top quartile ROE by 2020 or earlier and definitely sustain at that onwards. We will establish very specific, very clearly articulated rights to win in each of our businesses. In fact, as I said last time, that every year one or two businesses we will choose for dominance. This year also there are couple of these businesses, we will talk more about them. Third is building a strong balance sheet and strong systems and a company which grows fearlessly without looking back over its shoulders, knows where the growth is coming from, knows very specifically that this growth is not going to cause problems in the future. Fourth, a company which uses data intelligence, not only as a competitive advantage, but most importantly, uses data intelligence for unlocking ROE. And last but not the least, we have said this long time back, we continue to say that, that may demonetisation may come, may GST come, RERA come, we will continue to deliver results and not give reasons.

If we come to the next slide, (slide number 4) we will talk about an early example of what we talk about results, what we talk about of our delivery. Just last quarter I talked about that we will put growth now on the front foot without sacrificing profitability. And if you see, every metric of growth, may it be disbursement, may it be book, total income and mind you, I have told you last time that we will keep talking about total income which is NIMs plus fees, and PAT of course, each one of them has shown very strong growth and profitability, of course, as it is very clearly seen from the ROE. Here, this is not as a matter of guidance, but just would like to point out, some of you who would not have noticed is, this PAT growth is on a PAT of last year first quarter where admittedly our turnaround story had not started showing great results. So it is on a low base. This is not to say that in future we will or we will not deliver similar numbers, but this is just arithmetic and I would like to point out this arithmetic to you that last year first quarter was not in line with what we have delivered in the next 4 quarters.

That takes me to slide number 5, which is just a repeat of the slide that we have shown to you during the Q4 FY'17 analyst meet, that how we are redefining and pressing on the accelerator on our strategy which is well set. I think, yes, this slide you have seen quite a number of times, anybody who have met me I have talked about it. But what I am going to do in the next 20 minutes or so is talk about each of the aspects of the deliveries that we had promised. If you would see, we had stuck our neck out and promised certain deliveries in H1 FY18 in medium term and we actually defined it saying by end of FY18 and then over the long-term, which are more systemic, more

long-term, more cultural changes in the organization. I will try and talk about each one of them.

If we take to the next slide, slide 6, we are talking about growth. This is what we talked about that in every product that we are now concentrating on, we will show good growth. And you will see across products, not only lending businesses but also in our Investment Management and Wealth Management business very impressive growth has been shown. The two businesses that we chose for dominance this year are Farm Equipment and Infrastructure Finance, we have grown disbursement by 170% and 250% respectively.

Infrastructure Finance, as you know, we are already leaders. We continue on our core sectors and chosen sectors right now of renewable energy, roads, power transmission. We are also identifying new sectors in soft Infra like healthcare, hospitality, education and continue to be the front-runners in this business.

Farm Equipment: Gone are the times for very big generalizations, like if monsoon is good, Farm Equipment business will do well and if monsoon is bad, Farm Equipment business will do bad. I think these times are gone, and good companies in this business have to come out of that mind frame. You cannot dominate a market if the market thinks that your strategy depends on the weather gods. So what we have done this year and this has been our try for the last one year and showing fruits now is precision bombing versus carpet bombing, in each of our retail businesses actually. Data analytics shows us actually monthly targets branch wise. So depending on external factors, depending on internal factors like collection record, portfolios etc. dynamic target setting is done for each branch. We will move actually to model dealers etc. So the growth that you see is neither a matter of accident nor a matter of adrenaline, it is a matter of very carefully planned precision bombing, that which brand, which branch, which dealer we grew, and that has shown results. The number that you see 170% is a result of that; once again in last year first quarter we were not good. But what is important is that a 11% market share, very clearly regaining our number two position in Farm Equipment and going strong. The details about the other businesses are given behind, and any detailed questions that you have about the growth in any other businesses, we will be very happy to talk. I have specifically chosen these two, because very clearly, this year these two are chosen for dominance and next year there will be something else.

The second short-term delivery that we had talked about, obviously, is to, forget assuring you, but we had to assure ourselves that we are not growing recklessly. And hence, as I said one year back, that risk always comes to the fore when the organization is going through big changes. We had initially, as you know, had hired McKinsey to show us the gaps in our risk frameworks.

After that we hired Oliver Wyman, one of the best risk consultants in the world to actually suggest to us, how do we fill in those gaps. That exercise is now over, and as you would see from the color, it is in a very, very advanced stage of implementation.

The 5 factors there, the 5 aspects that we are taking care of are very much put there. The first two are risk appetite statement and risk limits framework. This will ensure, as I say, that we very clearly know what is the risk and it is articulated very well across the organization. What are the risks that we are ready to take? And there are very specific limits, which will ensure that, yes, while doing business we will lose money, but we will never lose more than what we can afford, the mistakes that happened in the past, in microfinance or in infra. On credit side, we will try not to repeat, but on the risk side we will ensure that they are not repeated. And that is what these first two aspects of the risk framework mean. Risk dashboards and early warning signals are more of very very precise MIS. Often it happens in organizations that there is a circuit of MIS and hence something that you want to see and you need to notice is missed. Risk dashboards, each one of us, starting from me, get specific MIS's where any aspect is RED, I take the whole company on my head and that is what this risk dashboard does, it points out very specific risks to the person who has to shout. Early warning signals is, of course, early warning signals, I mean, it is simple English. We need to know before the account becomes NPA that it is likely to become NPA, so you can take various actions.

Last but not the least, liquidity risk management. As a NBFC, this is a big risk, but often the most ignored risk. I wonder in analyst calls, how much time or how much question is taken by on the liability side, right? And we are now paying lot of attention to it, because I always say that for a NBFC credit risk or the asset side risk will take one or two years to cause problems, but a liability risk will cause problem in a day. And hence, we need to be very sure that our liability side risk is well covered. We are well on our way of implementing this. To put it simply, we actually measure what is our one-month repayable and calculate a liquidity gap based on certain analytics which Oliver Wyman has put and that liquidity gap will be kept in liquid instruments. So, given a black swan event which has happened, say, twice in the last seven years, it is prepared for that, it has nothing to do with returns. It is prepared for the worst kind of risk that for one month, well it maybe noted that no black swan event in the Indian market had lasted for more than 4-5 days, after that money is always available, costlier though. We are not talking about cost, we are not talking about profitability, we are sheerly talking here about sheer lack of money in the system, we are prepared for that. When I say we are prepared, it is being prepared and by September it will be fully in place.

The third short-term delivery, we had talked about strengthening fee income and the sell down desk, you would see our fee income is continuously growing. There were several questions about the nature of it, I had clarified last time and I think we are giving proofs again and again of the sustainability of fee income. Sell down volumes, we are once again establishing ourselves as one of the major players in the underwriting and sell down area, and if you would see our sell down volumes have been the highest ever, right? We also came into the league tables of Thomson Reuters etc. But it just shows the strength that we are building here. So, once again, just to take it in the spirit, each of these items we had said that we will deliver, and we are progressing very well on that.

Slide number 9: Now, if we talk about medium-term, we had talked two things, one is strengthening our balance sheet continuously, and secondly, our cost-to-income ratio, controlling costs. So asset quality. Look, once again I have to say that this is looking very good, a reduction from 7.11% to 5.7%, 5.02% to 3.31%. But this company will take credit where it deserves? We have done reasonably well. But this reduction is merely because of the factor that in March nobody was monitoring the 90 DPD, right? So this 7.11% is just a number. The number we were monitoring were 120 DPD. So do not give us the credit, give us the credit for maintaining our asset quality well. Do not give us the credit for reducing it by 150 basis points, because that is just a number, right? What we will take credit is, of course, the increasing amount of provision coverage. Now, you will see whether my provision coverage was 15% and 17%? No, it was not, it was always 30%, 35%, 40%, because it was on 120 DPD. So, these are all restated numbers. But having said that, today at 90 DPD, the provision coverage is 43% and increasing.

Two, three things I will talk about the provision coverage is the infra journey provisioning continues, we are well on the way. We had said that by FY18, we will finish a large part of it and then what will remain is the normal cost of doing business, very manageable cost so that to take the wholesale ROE to 15% to 17%. We stick to that. We are on track. I will talk a little bit more about it when I talk about the voluntary provision slides. In Rural, we have actually reduced our NPAs, especially in farm. First time in my memory, NPA levels are lower in June than in March. I think good monsoon, a lot of use of analytics, tremendous spirit and discipline shown by the team, and also the fact, of course, which I said that 90 DPD we were not monitoring really in March. So we have actually shown a good amount of reduction. What it has done is, the microfinance NPAs which have gone up naturally, because there is some collection which is not happening and as days go they become NPA. Microfinance, two things are happening. One, the total number of debtors we have been able to keep steady from the last 4 months, from February onwards. They deteriorated rapidly from December-January-February and from then we have kept it steady. We have taken Rs 63 crore as voluntary

provision last quarter. We have taken another Rs 95 crore. So we are licking that problem as we go ahead. We will talk more about it; there is a lot of analytics coming into it and that is where we are doing. Generally speaking, things seem to be going towards strengthening the balance sheet book. We hope to continue with this collection performance as we go ahead. Cost controls, I think this story is what something that we are getting used to. Cost-to-income ratio, of course, not a big reduction over Q4. I had indicated that that from now onwards it will not be percentage point reductions, remaining steady and at 22%, 23%, I think, we are one of the best. So we are quite okay.

Now coming to the long-term one. I am talking about the oft repeated adage of digital and analytics. It is so oft repeated that my digital head we keep teasing that, if he does not hear this word 10 times in a day, he does not get his salary. So, we keep talking about that, the world keeps talking about that. But I would like to point out two axis over which our digital and analytics we are pushing. Number one, this is something that I have said that 2 to 3 years down the line, the NBFC world will be divided into two areas or two categories. One, which uses a symmetry or lack of information as a competitive advantage. I believe frankly that this is the diminishing breed. Second, if people will use availability of information and ability to use it timely, fast and rightly, we have a competitive advantage. There are companies already in the sector who are well ahead of us in that. But, yes, we have started now and we have all intentions and all intent to be one of the very best companies in use of this. Second aspect is what I always live by, the ROE tree. And if anything that we do, if it does not touch the ROE tree we will not do it, and that holds true for digital and data sciences as well. So the next slide (number 11) actually puts all our projects vis-à-vis the ROE tree, and I have been doing that, you would have noticed that last year also all our execution projects were mapped against the ROE tree. So what are we doing? Growth in loans and advances, cross-sell, upsell, our own database, prospect marketing by using analytical scrubbing. I am not going to repeat the slide, but basically to tell you that whatever we do will touch our growth. Hopefully, will allow us to manage risk better, so that we can take little higher yields. And then get higher income or lower cost of acquisition, the next point, by doing direct sourcing, by doing more precision sourcing.

Lower operating expenses, I mean this is my favorite, is that, continuously looking, doing a hackathon on all our processes, what can be done automatically, what need not be done. There are many things which now data is able to eliminate like field investigation, right? Just one year back, giving a retail loan without field investigation was sacrilege, right? Even today many people believe that without seeing a person how to give money. Well, time has come, I mean data shows that a large part of my retail loans, especially in products like two-wheelers and all, I can actually do without

doing field investigation because data very clearly points in particular direction, and you do not get any additional information from field investigation. Just an example, just processes, elimination of paper and sky is the limit where we can work there. And last but not the least, consistently lower the credit cost by better sourcing, by more targeted collection is what we will use algorithms for. So, if you would notice, none of the things that I have talked about, talks about fintech, talks about something which begs the question that what is the meaning? It is very targeted towards ROE tree, and I hope to be able to show metrics to you. I don't know when, hopefully, within couple of quarters, where how much we are gaining in each of these aspects, each of these parts of ROE tree, because of our digital and analytics. I know, once again, I am sticking my neck out and saying this, I would be able to establish to you that what we are gaining in each of these aspects because of digital and analytics. So, I know, I am saying something which is oft repeated, digital and analytics is something which is becoming that everybody speaks about, that we hope to be different.

Slide number 12: Now, after this statement of intent, we move to numbers. You would also notice in the placement of slides, our ROE bridge which was often our first slide is coming towards the end. That does not mean our importance on ROE is coming down, it just means now that we do not talk very specifically about it. I mean, it is given that we will deliver the ROE. There is nothing new in that, you can take it for granted, right?

The financial highlights show and I'm not going to talk too much about it. Again, as you said, we have shown GNPA numbers, last year at 10.26 etc. you can get scared or you can give us a big pat on our back for big improvement. But it's not that. It is just that nobody was monitoring 90 days. We were all monitoring 120 days. So it is just a number, okay? But if you see everything else 177% growth in fee income, 49% growth in PAT, ROE all-time best in first quarter. Focused book increased 22%. AUM of mutual fund up by 57%, AUS of wealth up by 71%. Generally, you will see growth being the theme everywhere. Then coming to, of course, the ROE bridge. Generally very similar trends, as we have been showing in the last couple of quarters. The Rural business ROE, I must say is after taking a Rs 95 crore voluntary provision for microfinance. Now, why Rs 95 crore? So, Rs 95 plus Rs 63 is close to Rs 158, is the provision we have taken. Now, we do not take these provisions based on above 90 days certain provision, above 180 days certain provision, of course, we have those rules, but we are well above that. We do not even take them by states that if it is Maharashtra then it is very bad and if Tamil Nadu then very good etc. okay? We have actually divided our debtors from extreme-risk to low-risk category. These are based on their repayment record, and not only that, their specific correlation to each other in their repayment records.



The areas where we have seen very high correlation in repayment behavior we have made higher provision as much as 80%. And there are areas where we have seen that there is hardly any correlation, what one person pays one month, it has nothing to do whether what she pays in second month, and nothing to do with what the group member pays, the game is on. And there the lowest risk we have provided is 10%. As a mix of all this, this Rs 160 crore odd provision has been made, the overall problem it is still getting crystalized, but my estimate is it will be around Rs 250 crore, Rs 260 crore or so. So, I believe we are well provided at Rs 160 crore. As things develop, if more provision is required, we will do. But we will do not based on some age old rules of microfinance provisioning. We are beginning to develop tremendous confidence in our power of data and we are using that to make these provisions. I can only assure you that there will be no shocks to P&L because of this.

Our Housing business continues to do well. The momentum in developer funding, again a product which we are developing very strong shops. Most importantly, a product that we will chose for dominance next year, that is doing extremely well. On the retail housing though, we are quite just steady. We have been steady for one year now. We are still looking for the right model to deliver big volumes and profitability in this. But, yes, we are doing pretty well. There is nothing, which is going horribly wrong. There is nothing which is going tremendously right. We are at around Rs 700 crore, Rs 800 crore for quarter volume there, doing reasonably well using our group synergies. The plan that we are having, we are now very seriously implementing it and it is giving a good value proposition to our our developer finance customers to have the first right of refusal there. Again, early signs of success, but too many things are happening here. So headline, developer funding doing very well, HL and LAP remaining where it is, steady performance.

Wholesale, you have seen some tremendous amount of power there, infrastructure funding doing extremely well, DCM Desk making good money, IDF growing excellently, Structured Finance some very good deals we have done. I must point out that all the growth number that you see is without our IPO financing, because that I do not think should come in the growth numbers. It is one-time. So, the 100% growth that you see in disbursements of wholesale would be something completely out of the sky if I include IPO in that, but that obviously we are not including. What we have done in wholesale this time is, one, we have continued to provide. But we have also continued to look for good ARCs to give us good value for some of our impaired assets. So we have sold something in Q4. We have sold about Rs 360 crore in Q1. It can be looked in two ways, right? It can be looked in something that you are selling something to this. But I will put it in perspective. The Rs 2,000 crore provisioning that we were talking about on our entire past problem of close to Rs 5,000 crore was what? Was preparing

for ultimate resolution. Now, resolution and this number is a moving number, because it is based on guesstimates. Resolution, hopefully, now with some of the new measures will come, in some of the assets it will come. But sale to ARC, management sees it as a way to not keeping this a moving number, but actually crystallizing the loss, that we will do. And this loss is well within that number that we have talked about, and we look at it as provision, we take it as loss on ARC sales, it is all the same for us. It is the assets coming out of that problem book, and this loss is just we have to look at crystallization of those process.

As we come down, you will notice that Investment Management has made Rs 19 crore profit. This is equal to the profit that we made entire year FY16. So proper turnaround, this is what I had talked about the hockey stick. Wealth Management, we had broken even last year. This quarter it continues and at this run rate, we will make well above Rs 20 crore as profit in Wealth Management. So, basic is that, all five businesses doing extremely well, growing well, making good money and it flows down, whole thing flows down to 13.63% ROE.

Slide number 14: The next slide is voluntary provisions, I think I have already explained them. So, let me not spend any time and move straight away to my last slide which would be the last two minutes that I take on this call, and I will open to questions. As I have said, LTFH obviously has completed yet another quarter of successful implementation, created a benchmark actually in Q1 ROE. All 5 focused businesses are doing well. The next point shows the growth numbers for 2018 to 2019. The most important part is the deliverables that we have promised. We continue to deliver and not only that, as you would notice this presentation now, we have now dared and feeling confident of giving promise on what we will deliver 2020 and ever after. That is the identity that we want to establish and we will continue to deliver on that. Growing fearlessly, it's something that we are popularizing within the Company, having the right systems and processes and the balance sheet strength to be able to grow without looking back over our shoulders has been the hallmark of Q1, and it has been delivered on back of a strong P&L, and more importantly, a strong balance sheet, and of course, we stay committed to delivering the top quartile ROE and staying there, hopefully, earlier than 2020.

Thank you, ladies and gentlemen. Open to questions.

**Moderator**

Thank you very much, Sir. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Kunal Shah from Edelweiss. Please go ahead.

**Kunal Shah**

Yes. Sir, firstly, in terms of the wholesale book, particularly on the renewable side, wherein we have almost Rs 12,000 crore of exposure and there are

perceived challenges in the sector. So, if you can throw some light as to what makes us equally comfortable with this entire portfolio, how we are positioned in this space and what could be the asset quality performance, particularly in renewable over next 18 months to 24 months?

**Dinanath Dubhashi**

Okay. I will request Virender to take this. But let me only state that the perceived challenges can be different, right? I mean, the reduction, I think, specifically you are talking about the reduction in tariffs. We look at the reduction in tariff as major de-risking of the sector. Because now all of a sudden the evacuation, the risk or the policy risk is gone. And what remains now is only actually the credit risk on discounts, and that also there are several structures which are coming to reduce that. So that has to be taken into consideration. Actually, the risk now remains is a portfolio on which some very old projects with very high rates which are remaining. We have been continuously reducing that and we feel pretty comfortable about not only our portfolio, but about the future prospects in this particular area. So that is the headline from my point of view. I will request Virender to elaborate.

**Virender Pankaj**

Sure. First of all, we continue to be focused on renewables along with transportation and transmission. Just to share, during Q1 FY18, actually, our disbursements towards road segment were higher than renewable segment. It's for the first time this has happened. Now, let me just take you through quickly our book. Our book in the renewable is 83% operational when it comes to wind, 73% operational when it comes to solar. And our churn efficiency on renewable side is pretty good. We down sell to 24 banks and financial institutions whatever we underwrite in this area. Coming to, as Dinanath mentioned, that the sector has now moved from a policy-led sector which it was in 2011 and when Gujarat came out with its solar policy with tariffs of Rs. 18 to today's Central grid bidding tariff of Rs. 2.44 is now completely market-led. So there is no subsidy of any kind, which is now being required by the solar sector. And while the headline numbers looks slightly odd when you compare a high tariff of, let's say, even last year Rs. 5 upward tariff to today's tariff. But let's be clear that the megawatts involved are small. India is now getting into a real high gear in terms of capacity additions because still now there were hardly 4 gigawatt additions. We are now talking about 12 to 18 gigawatt additions, which will come at these low tariffs. And these low tariffs are aided by falling cost of solar panels, strong rupee which continues and let's also understand that the way current bidding is structured, many of the risks pertaining to evacuation, payment security mechanism, land risk, even generation risk by way of providing deemed generation status, etc. have been mitigated. Hence, it is natural that the equity investors also settle for lower returns on their equity because risks have gone down. So, de-risking of sector is what is leading to lower tariffs and I do not think that there is any cause for alarm here, it is rather positive for the sector in long run.

**Kunal Shah** Okay. Sir, maybe in terms of, say, most of the states are defaulting on, say, the RPOs. So that should not be a major problem as such.

**Virender Pankaj** No, it's not an issue now, because now these same states are going to buy renewable because they are more competitive in tariffs. So, you do not need to really chase them with a stick on RPO. They will do it for commercial reasons, which is all the better.

**Kunal Shah** Okay. So no major risk out there for us?

**Virender Pankaj** No. I mean, see, discom receivables is a common issue. It's not limited to renewables, but there also a lower price vendor will always get priority. So I see only upside.

**Kunal Shah** Okay. And the second question is in terms of the real estate finance. So within Housing when we look at it, that is a segment which is going pretty strong both in terms of disbursements, as well as the overall book is also growing at almost like more than 50 odd percent. So, if you can give some insights in terms of what is the average size, which are the kind of developers? So we have always highlighted in terms of better-rated developers, but with this RERA and all, do we see any kind of an impact on this portfolio?

**Dinanath Dubhashi** Okay. This is a rhetorical question. I mean, if you saw impact, we would not be growing so fast. But I will again hand over to Srikanth, who heads our Housing. But again, give a topline on this. We come in this particular sector with a big advantage of having excellent surname, right? For once, I think it is very useful to us. L&T comes with all the chops of knowledge, like it was infrastructure and continues to be infrastructure and in construction. I have been saying for last one year that we must use it. We use it. We use it a lot in kind of the contact, the knowledge that L&T has for developers. Also, using that knowledge, as well as using our acquired knowledge, as well as using consultants that we had put in this business time and again, we have now developed a very strong appraisal framework, a very strong early warning mechanism, a way of doing this business as an engineers business rather than a financial business. So, we are in very much in control of the project as far as asset coverage, cash flows, our presence on the sites and have been able to control the risk. See, any sector, Kunal, or any business, if we talk that this sector is risky, or this sector is not risky. In this , we will never be able to do business, because if you give the headline this sector is not risky, then banks will always do business there, right? We need to see opportunities to do business and do business in a differentiated way in something that maybe people are thinking it is risky, right? We see a business, we see, when we talk about construction, a business, where we have a parentage, where we have an excellent asset cover, where we have an excellent cash flow cover, where we have the escrow account, where we

can actually monitor the receipts, where every disbursement is done after our engineer certifies the progress, where L&T and L&T engineers keep telling us whether a project is going slow, going fast, how the sales are going etc. and where with RERA coming, the wheat will be separated from chaff, if at all there were risks of some spurious people, they are all going to consolidate and only strong people will probably remain. If there was any risk of money being received outside the escrow, there will be a threat of imprisonment if the builder does that. So if anything, a sector where we have all the ingredients are being successful and is going to become more disciplined only with RERA. I'm not talking about what will happen in the next two quarters, because most certainly, as RERA is not being implemented very efficiently. I mean, there are only two states where all the stages of forming of rules, forming of the authority, having a website. There are just two states where all these has happened and rest of the states, it is in the state of implementation and because of that launch of new projects is very slow. But this phase will go and once this goes, I think the sector will become much more disciplined. I would request Srikanth to add to that anything.

**J. R. Srikanth**

So I think, Dinanath has provided a lot of the clarification. But frankly, in addition to what he said, I think basically, our focus has always been on the large developers in this space. That is something which we mentioned even last year and that we continue to focus on even in the current year. Close to 96% of our disbursements are in this space, even in the current quarter. As far as RERA is concerned, like he mentioned, it's basically likely to be a short-term impact until the registrations happen as far as the projects are concerned. And the structuring of our project finance, loans are always going to take into account of such short-term mismatches. Ultimately, it's basically a cash flow mismatch which is occurring. And the way we structure the loans take into account of this kind of issues. What we've also noticed over the last one year, we have a fairly strong and stringent portfolio monitoring mechanism which we do on a quarterly basis. And we have seen that our portfolio has held up quite well, not just in terms of servicing, but also in terms of covenant compliance. So, it means that we have structured the loan well enough to take care of this kind of slowdown in sales velocity and construction progress, etc. So we are not seeing any major concern as far as growth potential is concerned in this sector. And I think it will always be a question of identifying the right developer and then structuring a project finance requirement around that and that likely already highlighted just earlier, with the kind of parentage which we have and the kind of skill sets that we have already built in our team, we are quite confident of sustaining this momentum.

**Moderator**

Thank you. We take the next question from the line of Pritesh Bumb from Prabhudas Lilladher. Please go ahead.

**Pritesh Bumb** Sir, just some data points. Can you give comparative numbers of gross NPA and net NPA on 120 DPD if it would have been same?

**Dinanath Dubhashi** No.

**Pritesh Bumb** You are not disclosing that number, is it?

**Dinanath Dubhashi** No.

**Pritesh Bumb** Okay. Sir, second question was this sell down contribution from different businesses, can you give that break up at least?

**Dinanath Dubhashi** It is largely at this point of time from Infra. We have just sold, I think one or two from Real Estate and one from Structured Finance. We are in the process, we have done one in our sell down portfolio and our rundown portfolio, but majority it is Infra, large majority.

**Pritesh Bumb** Because we continue to book good fees in Housing as well.

**Dinanath Dubhashi** Yes.

**Pritesh Bumb** So it is only one or two?

**Dinanath Dubhashi** Those are largely, at this point of time just fees not underwriting. And it will now slowly go up, because as we acquire the skills, because you need to understand that it is all the matter of skills. So the skills, the knowledge and the reputation in the market was largely for Infra of the sell down team. And it will take time for us to build that reputation for other sectors. And that's what we are doing now. But of course, retail will be slow, because we are committed to slowly increase the percentage of retail in our book. So, both Retail Housing, as well as Rural, it will be slow and only done because of risk limits. I will give you an example. I will not sell down microfinance, because microfinance is becoming large. But I may sell down a particular state microfinance because my limit of that state is being reached. So it will be done more for risk management than profit management or securitization income or anything like that.

**Pritesh Bumb** Right. Sir, third was one follow up on the MFI for Maharashtra, we were seeing some pain and some collections were lower in some districts. So what is the status? The collection trends have improved there. Can you share some numbers there?

**Dinanath Dubhashi** Okay. Once again, I will give you the headline number and then I will request Sunil to talk about it. I mean, we can talk a little bit granular about Maharashtra etc. but we have actually started monitoring very granularly meeting center wise. So, I will ask Sunil to give you the color. But there are 2

or 3 things that we are beginning to see in a much focused way. Number one is our total debtors, that is one DPD or more, is it going out of control? And that we are being assured that it is not being going out of control. What it means is largely the amount we are billing is largely coming back, either from that much billing or from previous billing. So that debtors are not going largely out of control. Secondly, the most important is our regular paying customers; the collection efficiency was 92% in December. Today, it is above 99% back. So these are regular customers, basically it is back to normal for regular customers. Then OD customers, if we take overall with Maharashtra and without Maharashtra, the numbers are well above 30% and in fact, without Maharashtra they are close to 40%. That OD customers paying something, right, something meaning one installment. So if there is somebody who is 4 installments or 5 installments due, the person is paying one installment, right? So what the provisioning etc. that I talked about is all subject to this because somebody who is, say, NPA because he is 4 months or 5 months due, but he has shown behavior of paying 1 or 2 installments off and on, I need to make only regulatory provision for him, because we do not doubt his/her intentions. Whereas any customer who has not paid at all, we will provide a lot. So that is where we are saying, on headline basis we are definitely seeing improvement. On headline basis, if we take previous months, if you take December number for example, or you say, January number, January number on pan India collection efficiency without Maharashtra if it was 93%, now it has reached around 97%. So, we continue to do collections out of previous months also. So if you ask me has the condition dramatically improved? Problems in microfinance are over? In a way problems are over. Those old problems will remain old problems. Situation has certainly improved, but what has happened is a permanent change in model in microfinance. And I would now not take the thunder out of Sunil, allow him to explain that how he will look at the microfinance business completely differently. Yes, Sunil, please.

**Sunil Prabhune**

Sure. To amplify some of the key points that DD made, one way to give a very specific answer to your question on Maharashtra, I will just tweak it a little bit. The view that we take is no longer view of the state as a whole. The view we take is granular view, reaching into the depths of meeting center, reaching into the depth of every single district to form a view. Why? Fundamental beliefs, microfinance as a business has changed and changed forever. The mythical belief that we all reposed on the Joint Liability Group as panacea for ensuring 99.9% repayment, high productivity levels, ensuring automatically fairly high levels of ROE are no longer true. Let me elaborate four or five key things, which are fundamentally changed. First and foremost, we have started taking a far more analytics based individual view of our borrower. A borrower has to be a good credit in herself for us to be able to extend the loan. Second, instead of taking a view which is at the state level or a district level, we have created abilities to take a view of our business, portfolio and the market at a level of a pincode. Third, expansion

and presence, based on tremendous amount of data that is becoming available through the credit bureaus as well as multiple other sources to form a view of how our business will unfold in days ahead. Fourth, resetting our structure that takes into account very fundamental need to pay attention to collections as a factor that is as important as generating new business. To give you an illustration, Dinanath mentioned our collection efficiency for the regular customers. To me the key factor also is collection efficiency of the first time OD customers. So, clearly, an emphasis in our structures and processes to ensure that the first time OD customer is also collected from very quickly. And clearly, if there is any customer that goes beyond that, if the reason for default is not actions in concert, but a genuine default due to individual customer circumstances, a collection method and strategy that allows for that. And fifth and the last, which is going beyond the JLG model to look at individual products based on the holistic credit view that we have formed not just of our borrower but based on co-borrower data of the entire family's income and the cash flows and taking a call on products that we can offer to this customer going beyond the plain vanilla, JLG. So these will be some of the key business model changes that you will see will underpin, what we believe is the successful and profitable MFI model in the days ahead, as it has been so far.

**Dinanath Dubhashi** Bottom line is, as usual, we have put this thing behind us and we are moving ahead. We continue to be bullish about the sector; problems will keep happening, profitability models and ROE trees are going to change. We have to take into account and we are taking into account the new reality, and still believe that the businesses extremely profitable and can give excellent growth to the Company..

**Moderator** Thank you. Next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

**Karthik Chellappa** On the Two-Wheeler Finance and Farm Equipment where we have shown very strong growth of 83% and 169%. Can you give us some sense on what will that be in terms of a volume growth? And if I just do a back of the envelope, in the first quarter, we would have financed, say around 42,000 two-wheelers per month and about 8,000 farm equipment per month, would that be a right ballpark?

**Dinanath Dubhashi** There is a small calculation error that you may do. Because in the disbursement, what is also counted is the trade advance given to the dealers, right? So, it is more the book growth that you may have to look. Having said that, we have done outstandingly well in both. The precise numbers, Sunil, would you like to talk about? Just to answer, but also give some color to, how we have achieved this?



**Sunil Prabhune** Sure. So, Karthik, to start with Farm Equipment business, in Farm Equipment business, we funded just over 17,000 tractors in the first quarter. Obviously, it was quite decent

**Dinanath Dubhashi** Sunil, one minute. Is that new or total?

**Sunil Prabhune** This is total.

**Dinanath Dubhashi** Right.

**Sunil Prabhune** Clearly, it was a decent quarter rather for the tractors. Just to give you some color to it, the month of June when we funded 8,000 tractors was for us the best-ever month for Farm Equipment business. There are few things that have underpinned this growth. There is a point that Dinanath has mentioned quite consistently across his communications which is a right to win, comes with it, right to be able to pivot and gain market share when we find that we are equipped and the situation is right to do so. So clearly, this was an action, which was reclaiming of our market share. This was achieved clearly by higher penetrations that we have achieved in key OEMs in the marketplace by claiming our rightful share at the top dealers across the geographies, and clearly continuing to build upon our proposition of our turnaround time. In this as well, analytics is underpinned our precision bombing strategy, that has helped us, not just with what products, what geographies to target, but also what branch, what frontline staff will focus on what priority. On two-wheeler side, we funded close to about a lakh vehicles in the quarter that went by. There again, we have showed substantial growth over the quarter last year. If you recall from our presentation for the fourth quarter of last year, there are some very decisive actions we had taken. One of them was to move completely over to an automated credit algorithm taking completely out of picture human intervention taken in the credit costs. We had contended that it gave us not just efficiency but that gave us fundamentally better credit cost numbers. Second thing we had done was to move away from this generic notion of regions or zones as typically a retail business has done, but to focus on every single micro market as a location. As a result, the portfolio view, credit view, sales strategy, resourcing strategy, all of it was focused on 44 key locations where we were looking to acquire market leadership. I'm happy to tell you that out of these 44 locations, we are number one financier in 9 and number two in further 8 locations. Clearly, our quarter one performance also is indicative of that location strategy along with our credit strategy playing out for us.

**Karthik Chellappa** Got it, sir. Just one follow up, earlier in your comments on digital as well, you emphasized on bringing down the field investigation and the human intervention part in two wheelers. Now, does that mean that the profile of the customers that we target will also be, let's say, the salary type with the

CIBIL score because what I am unable to reconcile is a person who doesn't have a CIBIL score and probably a self-employment person, how can we bypass the field investigation step and still get a control over our credit cost, especially when it comes to two-wheeler financing?

**Sunil Prabhune**

Just simplest of the factor that required us to confront ourselves with, was that all definitions of market that we had done so far had only one-third of the market taken as a finance market and two-third of the market was taken as non-finance market. Now, easiest perception to form is that, therefore that two-thirds of the market is some shady market where there are informal channels of funding for buying of that two-wheeler. One deep look told us that that market consisted of a fairly healthy chunk of people who actually used their credit card swipe or one of the pre-approved bank loans that they get to go and buy two-wheeler. When you bring into the equation, tremendous advantage of our convenience where we decide on 90% of the loan applications within two minutes of data entry being completed and almost all within 10 minutes of data entry being completed, that gives the advantage of convenience. Second, it allows us to tap into the segment that was either not interested in waiting for an NBFC finance. Second point, perhaps this point clearly establishes, it is an absolutely worst market which was artificially defined in a narrow fashion. When we expand it, we clearly have a scope to determine through analytics that which of the accounts do not require field investigation to still give you the portfolio performance that you desire. And then, very comfortably separate this grain to black and white and say that so much of customers do not require field investigation and we can still have satisfactory portfolio performance and equally say with clarity that where I have this hesitation not do that business and move on. We very strongly believe that two wheeler finance market, the way it is conventionally defined is not the correct definition. There is a larger market and there is a scope to grow even further. I hope that answers your question.

**Karthik Chellappa**

Yes. Thank you very much for the detailed response, sir. Just one more on the Farm Equipment side, the AUM quarter-on-quarter hasn't changed much. It has only changed by about Rs 100 odd crore. But the disbursement Q-on-Q has been strong which would suggest strong repayment. Given that first quarter is seasonally weak, what would explain the strong repayments in the Farm Equipment segment?

**Dinanath Dubhashi**

Sir, there are two questions here, okay? The first question is just arithmetic. If you just do arithmetic on a 6-year product, amortizing product where we have shown strong de-growth in disbursement in the last 2 to 2.5 years. If you just take the arithmetic, you will see and you will find out that the book growth is just about to explode now. We are just at an arithmetically low point of book growth, that is the inflection point and we keep the similar disbursement trend, the book growth will go on. It is just the book growth is

not up more than repayment, more as a arithmetic of last two years negative growth. So, if you just do the excel it comes up, simple. And the collection performance has been strong, I told you. I mean, very precision collection strategies and enthusiasm of the team, also good monsoon, good sentiment, those things are there.

**Moderator** Thank you. Next question is from the line of Nitin Agarwal from Antique Stock Broking. Please go ahead.

**Nitin Agarwal** Sir, the first question is on the fee income. Now, fee income for us has been scaling up very rapidly. So, can you give us like some color on its composition as to how much is coming in because of the sell down, how much of the loan growth and like?

**Dinanath Dubhashi** Sure. I will ask Virender to give you the fee income color of the wholesale size, because the other fee income is pretty simple. In Housing and in Retail, it is more the processing fee, upfront fees. Then, of course, we have our non-fund businesses like mutual fund and wealth, it comes from that. What perhaps you are asking is where the large fee from wholesale is coming. I will ask Virender to not give the precise breakup but sort of indicate where the major thing is coming from.

**Virender Pankaj** As we had discussed two quarters back, fee is a very important focus area for us and bulk of the fee, as you would have seen in Q3 and Q4 even more sharply continues to come from our underwriting business of renewable energy, roads, transmission, which is our bread and butter. So, roughly more than two-third of the fee comes from this aspect, where we underwrite, and over a period, we down-sell bulk of the exposure typically down-selling about 70% to 75% and keeping 25% to 30% with us, so as to boost our profitability. Then second component of this, which has been accelerating and it has done well and actually even better than Q4 in Q1 FY18 is our DCM book. Now, DCM book, the income is a combination of fee income because there also we underwrite large well-structured bond issuances. But there is a component of capital gain also that is a part of it. So, DCM is our second largest in quantum terms, but very fast-growing driver for fee income. Other fee incomes, of course, our IDF has grown very strongly, as you would see the assets are up by 87% and disbursements nearly 4 times. So there also, we get a component of fee, but top two are underwriting and DCM.

**Dinanath Dubhashi** Absolutely. Thanks Virender for the details. But more of the concept and why this is coming, and we have been always talking about it, this is by no accident. It is first by realization that super normal NIMs will always lead, I mean, it is good to say that we have some special skills which will get us more NIMs than the market. I mean, in the long-term it is not true. It will always and always lead to higher credit costs at some point of time. So we have to accept the NIMs will be at the market and especially NIMs will be

controlled by the banks and not by NBFCs. And hence, we had put this strategy very clearly to develop a very strong fee income engine. I have been talking about this for the last five quarters and the last 3 quarters, we have actually delivered results also. It is a matter of strategy. It is a matter of establishing the right to win. Very specific center of excellence projects are going on for fee income in each of the business. So that gives me the confidence that this is sustainable, I mean, the levels can be 10-20 basis points up and down every quarter, but it is a sustainable number.

**Nitin Agarwal**

And Sir, secondly what gives us an edge to underwrite and sell down? Like because if I see, our sell down volume has increased by nearly 5x in last one year, and especially this comes in an environment which still remains slow and most lenders have themselves been cautious to grow their infra portfolio. So, what drives our success here?

**Dinanath Dubhashi**

See, I can give you a very simple answer that we are good. But let me try and elaborate a little bit is that, for the very reason that you said, that many people, while realize that infra is not such a bad world, perhaps don't have the capability to source, underwrite, assess infra projects. And they are very happy with an established name and with somebody with an established track record doing that. Our skills and especially turnaround time, in doing that gives us the edge vis-à-vis the promoters also and vis-à-vis the banks also, right? Just let me give you an example, solar project to implement takes 8 months to 9 months, right? And we are giving a loan in less than a month vis-à-vis an X bank taking 5 months, can change the fortunes of the promoter, and the promoter is always ready to pay a fee for that. So, it comes back to saying we are good. Virender, you want to add to that?

**Virender Pankaj**

Yes. And one more thing, see, when we say that activity has been slow in infra, let's be very clear that solar project, every year fresh addition of solar projects is equal to the installed base of the country till previous year. So, last year we would have added 7 to 8 gigawatt of solar projects, coming year the target is to add 18 gigawatt. Now, let's not be very optimistic, let's say, country will add 12 gigawatt that is Rs 48,000 crore opportunity in solar alone. Wind, which used to add 1.5 gigawatt to 2.5 gigawatt a year, after moving to bid-based model leading to tariffs which are now sustainable without any subsidy. You have seen 2.5 gigawatt bidding happened in last one month. So the scale in our focus sector, we happened to be in a sweet spot and I don't see that slowing down anytime soon. Similarly look at roads the number of kilometers built in the country, number of projects that are becoming operational, it's phenomenal. Transmission, I think country needs it more than anything else and every year transmission capacity that is getting added is very strong. So our three focus areas are doing very, very well within infra space.

**Dinanath Dubhashi** Thanks, Virender, the expert's answer. My answer will be, yes, the negative somehow perception overhang on infra, we used to feel very bad about it. Today, we see it as an opportunity, it is good. We are very strong. We are very positive. Let us do business, it is good.

**Moderator** Thank you. We take the next question from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

**Amit Premchandani** Sir, on the IPO funding, sir, how do you actually make money on IPO, if you can explain that?

**Dinanath Dubhashi** It is very low, but it happens. It's okay. It is very low risk. The funding is done when you largely know how much is getting oversubscribed. It is hardly any risk. The risk is only operational risk. And we make very small amount. I mean, let me give you examples, how much did we fund? Rs 8,000 crore, this quarter? We funded Rs 8,000 crore, we made what Rs 7 - 8 crore. So it is 0.1%. So it is small money but it is money which is done in 3 days and it is done at only operational risk, no credit risk.

**Amit Premchandani** Sir, just to give an example, ICICI PruLife got oversubscribed significantly.

**Dinanath Dubhashi** Correct.

**Amit Premchandani** And on day zero, people started losing money. I don't know whether you have funded that or not. In case something like this happens, what is the loss that you can have?

**Dinanath Dubhashi** No, nothing no. See, that is what, I mean, we will get into technical discussions on a call which I don't want to. But we fund only based on the over subscription amount. So we get repaid by the refund, not by the sale of shares. Suppose, it is 100 times oversubscribed and we have done at a margin of 5% that means we needed only 20 times oversubscription. That person is going to get 1% allocation and 99% of his money is going to be repaid and my funding is only 95%. So I get my repayment.

**Amit Premchandani** Sir, and on the renewable power book, you have almost Rs 12,000 crore exposure, you very well explained how this is of new vintage generally. In terms of average tariff of the power book in the renewable side that you have funded, what could be that?

**Virender Pankaj** I think, we can get back with statistics, but since we have been market leader right through the time renewable started, we would have book at all price points....

**Dinanath Dubhashi** ....but we have been reducing it continuously. Precise numbers, Amit, not on a call.

**Amit Premchandani** Thank you. And sir, on the Transport segment, what exactly you have seen over the last one year that you have again started growing aggressively on that?

**Virender Pankaj** Transportation, for last couple of years we have been largely focused on refinancing of operational road projects because most of them fit the bill for our IDF's credit appetite. That's the safest piece of business. What we have started doing new in last one year is based on opportunity and the project progress, we have started doing last-mile financing. As you are aware, that banking system in general has not been very decisive when it comes to taking calls on projects, which have some bit of a change in their timelines are caught. So, after our engineers have assessed the progress of the project and we are comfortable taking a call, we step-in take-out everybody and support the last-mile financing, leading the project to quick commissioning, which again lends itself to a round of refinancing and so on. So, we have been very cautious and careful when it comes to pure play greenfield road projects, that we do on a very, very selective manner, and only when the risk rewards are to our liking. So, we would have done couple of projects, for example, under HAM till now, rest of them we have let them pass. So as I said, nearly 9:1 is the ratio for our operating road projects to under construction road projects. So that is the ratio.

**Dinanath Dubhashi** So, mostly Refinancing, right.

**Virender Pankaj** Mostly Refinancing.

**Moderator** Thank you. We take next question from the line of Piran Engineer from Motilal Oswal Securities. Please go ahead.

**Piran Engineer** Most of my questions are answered, just a couple of incremental one. Firstly, in the HFC segment, what is the incremental cost of funds on an incremental basis? Because I see your cost of funds have dropped really sharply in the quarter. And just trying to figure out how much lower it can go?

**Dinanath Dubhashi** Okay. I will answer that because I think the numbers have been given. So this is our call on interest rates and our Group Economist is here, so under your control. We expect a rate cut certainly, in fact, our house view is that more is required. Though, we do not expect really it to happen, 50 basis points, but we believe that 50 basis points should happen. But we also believe that at least a 25 basis points rate cut is already in the market, is already discounted. The rate reduction you are seeing is the mix of both rate cuts and our treasury management which has managed our market borrowings. Our bank borrowings are substantially down to just about 15% of our overall. Answering the question very straight, so we have reduced in our cost of funds around 924 to about 830 as you see. As we go ahead, we

do not think any such dramatic reduction is possible, but we do not even see any increase. We believe that this cost as well as the environment will remain quite bullish.

**Piran Engineer** No. I was referring to be HFC segment. There your cost of fund is 7.6%. Am I right?

**Dinanath Dubhashi** That is the leveraged cost. There is an equity also, which is not taken as cost. It is not cost of debt, because then you take ROE at the end, right? So you don't give cost-to-equity there.

**Piran Engineer** Okay. It is divided by assets, okay.

**Dinanath Dubhashi** Yes.

**Piran Engineer** So, what would be your incremental cost be there, in this segment?

**Dinanath Dubhashi** See, on number one, okay. We do not talk about HFC segment or anything, because we have a common treasury which manages overall costs. And it is then allocated based on 10 or some things like that. So, nobody raises a particular money for HFC. There are very few exceptions to it. For example, we just raised \$100 million green bond for infra, for green infra. So other than such things, some specifics, normally our treasury manages Rs 60,000 crore treasury, and it is allocated that way. On the incremental cost, I have already answered your question that we do not think cost is going to either go up or go down drastically from the current level.

**Piran Engineer** Got it. And, sir, just if I could add one more question, if I may. Just trying to reconcile the credit cost numbers, and if I add up the credit cost for all the lending businesses and I see the total credit cost, the difference is about Rs 75 crore. So, is that all allocated to the defocused segment or how do I reconcile these numbers?

**Dinanath Dubhashi** One second. So there is a slide number 14, where you see whole credit cost. So where is your confusion?

**Piran Engineer** No. So, if I add the credit costs for each segment, wholesale, rural...?

**Dinanath Dubhashi** Are you looking at slide 14?

**Piran Engineer** Yes. Okay.

**Dinanath Dubhashi** Slide 14 whole thing is given, and you will see that Rs 86 crore is there, which is below the line. Do you remember our tax gains, which we took one time in Q4. Now, this year it will come every quarter, right? So this year

every quarter there will be Rs 86 crore of tax gain. And that would be the difference. So if not 75, it will be 86.

**Moderator** Thank you. Next question is from the line of Ankit Choudhary from Equirus Securities. Please go ahead.

**Ankit Choudhary** I have few questions. One is regarding this, when you sell down the portfolio, does the credit risk get transferred to the buyer across all the product lines or do we retain the credit risk in certain products like MFI?

**Dinanath Dubhashi** So sell down in any wholesale business, whether it is Real Estate or Infra, it is a true sale, everything credit risk and all other risks are transferred to the buyer. If it is a portfolio sale, that is Retail, it's like a pass through certificate, we have a particular what you call credit enhancement to it, a small credit enhancement, that would be our part of the risk. But other than that it is true sale. So every transaction is true sale.

**Ankit Choudhary** Okay. Now, second question is, could you please provide me with the movement of NPL based on 90 days DPD, what were the slippages and the recoveries?

**Dinanath Dubhashi** For 90 days, we have given on 90 days only.

**Ankit Choudhary** The breakup, right? What were the slippages during the quarter and what were the recoveries over there, write-offs?

**Dinanath Dubhashi** We do not provide that data.

**Ankit Choudhary** Okay. The third part is, over there you have mentioned in the PPT that you would be focusing or dominating like Infra and Farm Segments will be dominating in FY18, any specific reason for this, only these two segments?

**Dinanath Dubhashi** Yes. Because we have confidence in these two segments that we can dominate. We will have to still develop, see, you remember that I do not know whether you were with me when I talked about, in the analyst meet, one quarter back, I said, with much difficulty I have got an asset from you people, that is my credibility. We did not have credibility 5 quarters back, right? Nobody believed what we have said. With much difficulty credibility has come and I am not about to lose it in a hurry, not for the next 20, 25 years at least. So, anything that I say, we will do. And right now we are very confident on dominating in these two segments, that's why these two segments. We will build confidence in other segments and take one by one.

**Ankit Choudhary** Okay, understood. And the last question is, basically due to this farm loan waivers there has been some impact in most of the NBFCs and banks on this agri loans. But over here in the PPT you have mentioned that GNPA and



Rural is steady despite increase in MFI, GNPA because of smart collections in Farm. So, what do you really mean by this smart collections in Farm?

**Dinanath Dubhashi** Smart collections, NPA has become less, what else I can say. But let me elaborate, okay? Farm waivers have happened in UP in the first quarter, small one in Karnataka in the first quarter. Maharashtra it is happening now. So, how will it affect too much anybody's portfolio in Q1? So you guys also should counter question that how the event happening in July will affect in June.

**Ankit Choudhary** Okay. But just farm loan waivers were announced few months back only, in 1Q only. So, basically when the loan waiver is announced, definitely the books of the banks and NBFCs get impacted as the credit discipline will get affected due to that, isn't it?

**Dinanath Dubhashi** It is not that simple, okay? It is like overall farm waivers will be what? Everything summed up, it will be about Rs 100,000 crore, Rs 125,000 crore max. Just add that top 5 NPAs of the corporate world. And you will get there, right? It does not mean that there is going to be problem for corporate portfolio of all the banks. It does not happen that way. There are many nuances which come into play. The most important thing is how the farm waiver is implemented. If the farm waiver, say, in none of the state the farm waiver is more than Rs 20,000 crore, Rs 25,000 crore, Rs 30,000 crore, right? The big one is Maharashtra which is Rs 30,000 crore. Now, if you implement it well, if the government communicates very well as to what does it entail and more importantly, what it does not entail and there is no confusion on the ground, then it actually helps credit discipline, because one, the money in hand of farmer improves, the sentiment improves. So demand goes up. Then he will have more money to give me as he does not have to give to the bank. So, it improves. If it is implemented badly and misinformation is given, that all the loans have been waived then it will not only affect farm, because if that person thinks that it is not only crop loans, all loans, even tractor loan is now waived, she will also think that her microfinance loan is also waived and his two wheeler loan is also waived and his home loan is also waived, this information can go anywhere. So, there is no broad-brush with which you can paint it. We should look at the portfolio of every business, of every company and in which area it is, okay? Now, there are out of the 4 states where it has been implemented, 2 are in first category, 2 are in second category. You don't catch me now by asking which 2, it is your guess, but we believe that in those 2 states where it has not been implemented very well, we will have to try much more harder to do our collections. Whereas those states where it has implemented well, our collections are actually been helped because of the farm waiver. So, I am not always a contrarian in these things but once again , these all we have to put behind and keep performing. Look, I will ask you a question. If anybody does farm loan business without anticipating that once in 5 years, there will

a farm waiver, does that person deserve to be in farm loan business? So your business models have to take care of that.

**Moderator** Thank you. With this, I now hand the conference over to the management for their closing comments. Over to you, sir.

**Dinanath Dubhashi** Okay. Thank you. I think, thank you a lot for a very interesting question-and-answer session. I will answer Amit's question on capital requirement before I sign off, because it is an important question. We had said that the growth that we were anticipating for the year, we were pretty sure of the capital, there was no capital required. We still believe so. As you know, we had said that Bain was supposed to give us, convert the warrants of about Rs 370 odd crore. They did so in May. So we are right now tanked up capital well for the current growth that we have seen. If growth continues to be excellent and in this way, we will need Tier 1 capital and we will take a call at that point of time. It will be good news at that point of time, because it will be supported by growth. But at this point of time, no such plans, don't start any rumors. We have enough capital for current growth. With that, let me just end by saying, I think, the management number one, I would say this again, extremely grateful for the faith that you have put in us and the credibility that we have gained by the faith that you have put in us. By the positivity that you are creating for us. I feel good now and confident in committing, in telling you that what this management is aiming to achieve, what it is striving very hard to achieve, it will be the endeavor of me and my team to never let you down. Thank you very much. Thanks a lot for your support. Hope to see you soon. Bye.

**Moderator** Thank you very much, sir. Ladies and gentlemen, on behalf of L&T Finance Holdings Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.