



“L&T Finance Holdings Analyst Meet ”

April 26, 2012



Management:

Mr. Y. M. Deosthalee – Chairman & Managing Director, L&T Finance Holdings Ltd.
Mr. N. Sivaraman – President & Whole-time Director, L&T Finance Holdings Ltd.
Mr. Suneet Maheshwari – Managing Director & Chief Executive, L&T Infrastructure Finance Company Ltd.
Mr. Dinanath Dubhashi – Chief Executive, L&T Finance Ltd.

Introduction

Thank you for being here this evening to discuss the first annual results of L&T Finance Holdings Limited post listing. We have on the dais my esteemed colleagues: Mr. Y M Deosthalee, the Chairman & Managing Director of the company; and Mr. N Sivaraman, President and whole-time Director of the company. To the extreme left is my colleague Mr. Suneet Maheshwari, Managing Director of L&T Infrastructure Finance Company Limited and to my immediate left is Mr. Dinanath Dubhashi, CEO of L&T Finance Limited, which is the other large NBFC subsidiary of L&T Finance Holdings. So we start with the initial remarks of the business by our chairman followed by presentation by Mr. Sivaraman; and then a Q&A session.

Y M Deosthalee

Good evening ladies and gentlemen. Thank you very much for responding to our invitation. We have not yet completed one year of listing but the financial year is over and we feel very happy and proud with the performance of L&T Financial Services. All of you are experts here and therefore I don't need to tell you the kind of environment we witnessed last year. Through the year interest rates went up by almost 2-3%; inflation continued at a high level and therefore RBI continued to raise interest rates. There were structural problems in many sectors, especially in infrastructure sector and they still continue and it is not easy to find a solution. Hopefully we would get good results coming out of actions which are being taken in power sector in the next few months, but the fact remains that we had challenges in certain sectors. In addition to that, thanks to the global environment and high level of interest rate, industrial capex and some infrastructure projects saw some kind of slowdown. We started the last year with the expectation that the economy will grow by more than 8%. We had seen that kind of growth in the previous few years so naturally everybody was hopeful. We don't have numbers still but it is likely that it would be somewhere in the range of 6.5% to 7% and next year expectations are also going to be in that range. And there are issues with reference to fiscal deficit. There are our own created problems as well due to various policy indecisions and I don't want to repeat all the issues which the economy is facing, but we have to see the performance of this company in the backdrop of all these factors.

At the start of the last year, the environment was reasonably good and then slowly things started deteriorating. On this background we are very happy to say that we have delivered a sustainable and consistent performance that demonstrates the robustness of our business model.

The asset book for L&T Finance holdings comprises largely of two subsidiaries - L&T Finance and L&T Infra, and recently we operationalized one more entity called L&T FinCorp which is going to do business for non-AFC loans. On a consolidated basis we had a 40% growth in our assets, in line with our long term trend of consistent growth. In the last five years we had a compounded annual growth rate of 40% in terms of assets. We have crossed the landmark number of Rs. 25,000 crores in assets as of March 2012.

We have maintained profitability while achieving this robust growth. While the NIMs have dropped, they continue to be healthy. In case of Retail and Corporate businesses, the NIM in the last quarter was 6.7%. For the infrastructure segment NIM was at 5.0%. Last quarter we witnessed a PAT growth of 45% with an improved margin over the first nine months. In retail business, passing on the cost increase to the customers happens with a lag or may not happen fully.

For the year the profit growth was 16% after considering the provision for the AP portfolio of microfinance business. Considering the write offs and the provisions which we have done during this year, about 50 to 55 crores is the net exposure, from which we expect some small recovery. But I think the order of magnitude of the problem is substantially reduced now. This year we made an additional provision of 75 crores on account of this microfinance business. So this profit number is after considering this. Excluding this provision, the profit growth would have been approximately 29% and the difference between that 40% and 29% is really the margin contraction which we had. To have a 28-29% growth in profit with conservative accounting policy is quite an achievement in this kind of environment. This also vindicates our strategy of a diversified portfolio.

We are not a niche company and we have chosen to be that way. We have a diversified portfolio. It helps us to manage various cycles. Last year there was perceptible slowdown in some pockets of construction equipments like mining, and we decided to stay away from those pockets. But that has been more than compensated with a significant growth in rural market. Presence in different sectors and the ability to diversify further through product adjacencies, has been an extremely helpful strategy. Our objective is to address the customer needs and provide a range of financial services under one roof.

Another quick couple of points. We have ensured that the quality of assets remains quite healthy and very happy to tell you that in retail business the NPA percentages both at gross and the net level have come down as compared to last year. In wholesale or infrastructure business, the ticket size is large and if there is delay in one particular asset, the impact is substantial. While NPAs have gone up on account of slight delays, it is important for us to know that these are secured assets and our relationship with the customer continues to be good and therefore it is unlikely that they may really become write-offs.

With these opening remarks I will hand over to Mr. Sivaraman and thereafter we will take questions.

N Sivaraman

Good evening. It's heartening to see such a good attendance. I used to handle investor relations for L&T. For the kind of market capitalization size that we are right now, it is heartening to see this kind of good turnout. I will quickly go into summary. I presume that all of you must have seen the press release advertisement as part of the financials announcement. I just want to mention that we had a year of good growth and consolidated profit for the quarter grew by 45% Y-o-Y and profit for the year as a whole grew by 16%.

Well for a change I will not stress so much on micro finance at this point in time. I hope you understand the impact that it has left on us, and try and hence, focus on operational performance from the various companies.

In the investment management business which is in the news recently thanks to announcement about the acquisition of the Fidelity's MF business in India, there has been consistent improvement by way of size of AUM and fee income that we are able to generate.

We also could bring down the consolidated losses to Rs. 25 Cr from Rs. 40 Cr last year. A very healthy growth of 40% in loan assets according to me is a great achievement in the context of the overall credit environment with credit growth being slow in economy and it has also been matched by a large extent with the portfolio quality. The NIMs for the quarter as seen between L&T Infra and L&T Finance has shown improvement as compared to year as whole with quarterly NIM at 5.95% vis-à-vis whole year figure of 5.38%. A good part of this margin improvement is contributed by price resets triggered in the fourth quarter when yields finally began to rise and cost pressures stabilized or declined. On fee incomes, there was a generally difficult environment where you didn't have too many mandates for syndication. Advisory fee income level as percentage of assets have been quite stable; and it's a good achievement in that context and this fee income does not include the upfront fee on infra loans. Upfront fee that is paid on infra loans will be amortized over the life of the loan so these are pure advisory fees. We have been still able to improve our operating efficiency as you can see (even though its marginal) – we had some increase in cost arising from royalty payment in the first year; but in addition to that, there has been some other management related expense or other consultancy expense we have incurred in getting portfolio review performed among other aspects. Despite that overall cost to asset ratio has declined on a Y-o-Y basis. We talked about NPA levels having remained quite stable – we will see some more details as we go along. Credit losses have actually come down by 25 basis point compared to last year and I would say its extremely remarkable given the environment, the level of stress that exist in the portfolio of various lenders. Despite that the overall loss level has been lower as compared to last year.

Our growth has been mainly contributed by two segments – rural segment growth on the Retail side, and renewable energy projects on the Infrastructure side. Especially the renewable energy projects that we participated in, happy to say that most of them have become operational and its actually increased the level of operational loans quite significantly. The result is still good growth in the last quarter as compared to a year ago.

Among the other developments is the acquisition of Fidelity's India mutual fund business. We see it as a way of helping us leap frog in terms of the size as well the asset mix and help us gain leadership position in the asset management industry. One of the big advantage as we can see as part of the transaction is the complimentary nature of assets by the way of type of assets class, second in terms of investor mix – while we cater mainly to the corporates, Fidelity's overall investor mix is mainly individual – around HNIs and some of the other urban population. So we believe that this combination provides us with the good set of mix of investors which will help us sustain the asset growth and that would give the ability to

accelerate the breakeven and make it profitable in shorter term. The third important compliment between the two businesses is the nature of the distribution. Fidelity is around banking channel and some of the larger national distributors, while we have more of IFAs so consequently it gives us extremely balance mix of distributors so we will be able to sell the all the products that we have all across the investor segments. One can always debate about the attrition level of assets under management or in terms of what price we have paid but at the end of the day this is going to really accelerate and lead progress in terms of our strategy than what we would be able to do through organic growth. Under this inorganic route, we have a complimentary business which will help us build AUM faster so consequently the probability of the success is extremely high.

The second transaction we announced during the quarter was mortgage finance. In terms of our strategy we have always been focused around the economic value of the assets to the borrowers, something on which we build our business, which are largely income generating activities. So it is in line with our business philosophy – around the importance of the assets. And the other important point was that it is a natural extension to create an emotional connect with the customers and we value that. Given the opportunity in this business, it was always something which we had in our mind and it is just an opportunity which came at the right time. Currently the book size is about Rs. 193 crores for this company with almost nil NPA, since all the stressed cases have already been provided for. It also serves a segment which aligns well with our existing business focus in terms of the semi-urban and rural areas. So that is something which is a complimentary thing. And they got a net worth of about Rs. 105 crores. At least for the first year depending on the size of the growth that we achieve and build the business, there will be no need for any additional capital commitment towards this business and that is something which is very important. It has got a deposit taking license and it is also SARFAESI notified. So it is something which is much better than trying to start the business on an organic basis from almost on a Greenfield basis I would say that. So it gives us that accelerated time-to-market. As of today it is profit making.

We have started building a wealth management practice. We got a small team which has joined us and is just about making a beginning. For the size of the team and the time that we have spent in building this business, we have a pretty healthy AUM with us; hopefully this will slowly get built up over time.

L&T FinCorp which was formerly known as India Infrastructure Developers Limited (IIDL) has been operationalized. This company will start by taking some of the product lines in retail and corporate finance – especially supply chain finance and car financing that we do in the rural and semi-urban areas and also some of the asset backed financing or unsecured loans which do not qualify under the definition of Asset-Finance by RBI. So L&T Finance which is an asset finance company, because all the products including some of these segments are also growing very fast, is having a challenge of meeting the threshold requirement of 60% Asset-Finance loans under the regulation by RBI. So just to clarify Asset Financing under RBI definition is productive assets which generate income. If we finance plant and machinery, it does not qualify as asset finance. So there is a very fine distinction between what is defined as

Asset-Finance and what is not. There will be of course a full fledged organization which will be really working for this company – the origination team will do that and the assets will be booked directly in that company. As we speak as of 31st March we are close to Rs. 2,000 Cr assets in the balance sheet of this company. For the sake of comparison we are presenting L&T Finance and L&T FinCorp as a consolidated entity otherwise the comparison from year to year becomes meaningless.

Our companies you are all familiar with. So I will quickly run through it but these are also for those who may not have heard us earlier we try to put that as an introduction. L&T Finance is a company which has been in existence for almost about 17 years now. Till about 2005-2006 it was not one of the focused entities for us but then we started putting more capital and building the business over there. But then the question came as to how much more we want to do it. So we went back to the board of L&T and presented an overall vision which was supported by the board. Overall goal will be to build a full scale financial services business over a period of time. We are here to enable growth and make sure that each one of the businesses that we build is viable, profitable, and valuable. So that is the way we want to build the business.

As Mr. Deosthalee also mentioned in his opening remarks, I want to spend some time on diversification because we keep hearing a lot of questions about what is the benefit of being a diversified entity. First of all, many of the focused companies are not focused companies in practicality. There is diversity by asset type. There is a diversity by way of clients that they service which is important for you to understand. We are also diversified by way of customer segments, by way of asset type that we finance and by way of geography. In our belief, it has proven its success in almost 3 to 4 years – in stressful years 2008-09 and 2011-12, independent of the cycles that this economy was experiencing, the good thing was that we were maintaining growth at about 30% per year. This got delivered only because we had a diversified client base, diversified product base, and asset type, all of those have helped us by achieving the growth. Definitely it has also ensured that the quality of book that we have built is good. So this diversification allows the organization to focus on growth in areas which offer you healthy growth without compromising on asset quality, rather than chasing growth for sake of growth. So that is the basic philosophy around which we are doing the business which we are convinced to believe with full heart that this is the best way to grow the business.

At the overall level, L&T Finance Holdings is a listed entity with four active subsidiaries. The overall loan book size is about 26,000 crores which comprises of a little under 35% retail, corporate about 19% of the portfolio and infra about 47% of the book. One thing heartening right through this period since listing has been the constant support of our retail investors, the relative shareholding in the company of the retail investors has also gone up. L&T continues to hold about 83% of the shares.

L&T Infra is an extremely robust group which does financing of both – project loans and also corporate loans. In L&T Finance, (when you see in the respective slide), you'll notice that over the last 5 to 7 years we have expanded the product base. Apart from mutual fund, we also have

portfolio and wealth management services which should start adding on to the fee income share in a substantial manner in the overall business in the near term.

On the way, we have also achieved a few milestones – we crossed the Rs. 10,000 Cr. mark in 2008, acquired DBS Chola AMC in 2010 and our infra finance company was classified as an IFC and notified as a PFI in the last year. That is very commendable – is recognition from the government because it gives us access to SARFAESI.

One question that we have been asked is that we have grown too fast, but your book has not matured – if one believes that the levels of NPLs is a good indicator of maturity, then from December 2010 onwards for 6 quarters we have successfully reduced the absolute amount of gross NPLs. That has shown that despite the growth of this portfolio we have managed the asset quality by taking proactive steps.

On L&T Finance and L&T Infra, I would not spend too much time on this except to emphasize a few points – in L&T Finance, we have a strong presence across the country. This strong rural presence facilitates in reaching out to customers, and this segment also represents good potential for products that we may add in the future. In L&T Infra, we now have established project appraisal skills which help us understand the risks in projects better. Our overall portfolio in L&T Infra is well diversified across sectors. Also, we have about 35% exposure to corporates, and of the rest 65% project loans, around 30% are currently operating – which means that 65% of our balance sheet is getting serviced on an operational basis.

A quick overview of our Mutual Fund business. Since the acquisition of DBS Chola AMC, we have expanded the branches, number of people, and our presence across the country. We have also been able to improve the management fee by ensuring our customer segment is more retail now, than earlier. However, the asset mix has not dramatically changed in terms of percentage, and we still need to improve the fee income that we are earning this business.

Microfinance, the scenario has changed. However, from a long-term perspective, we believe that it continues to represent a large opportunity – anywhere in excess of Rs. 3 trillion. The success factor in this business will be around three things. One is the disciplined way of doing business. The second is ability to improve the operating cost – being a diversified and full-fledged player, we have demonstrated our ability to be operationally efficient. The third is the ability to scale-up – we believe we can do this well as capital raising has never been a constraint for us. Being well-poised on all these counts, we feel confident that we can achieve RoEs of ~20%+ in long-term. We were about 265 crores as of March 2011, which we have reduced as of March 2012 to about 132 crores. The reason for this is that we had a very conscious calibrated approach. At the same time, one reason we don't want to exit this business is because it is a large opportunity, second in vacating we may have to consider much higher loss because everybody in the system gets disinterested in the business so that is something which we do not want to do. There has been always an assumption we need to grant fresh loans to those borrowers to continue repayment on the existing ones, but in reducing the book from Rs. 264 to Rs. 132 Cr. we have not lost much or we have not lost more than what is normal in this business. So that myth or that anomaly does

not exist in this business. What we have done is that we have used our time of establishing this business to improve the processes, improve the approval policies, build the organization, reorganized our people, rationalize and reduce people to the extent required and use the credit bureau records that is available which is today about 50 million strong. This enables us to make sure that the borrower is not defaulter. His track record is good. So that is the way we are going about our business. So that helped us. So the quality of the book is good. We are not expanding in a hurry. The current size is too small for organization that we are using for this so that there are losses, but we see this as an investment so we would like to stay in this business rather than exit in a hurry but would take it to a different level once the regulatory environment improves.

That is as far as non-AP is concerned. In AP, the good news is that despite the 15 months from the last current dues there is still some collection happening. In last four months we have collected 25-30 lakhs per month. One can ask why they are paying. They are paying that's one. Second is that they have also seen there is some opportunity to liquidate their dues, create a credit history and take fresh credit. That's the way some of the borrowers are continuing to pay us. Out of the 193 crores that we had a year ago today uncovered exposure is about 58 crores, 90 crores we have written-off in the current year and 44 crores additionally we have provided. So that leaves about 58 crores to be covered and we would take a progressive call on this as we look at the environment, we will not hesitate to provide more if needed.

L&T Infra, you will see that the margin that has been pretty steady right through these four quarters. It has not lost much margin. The loans are on a floating rate basis largely. We have also benefitted by about 30% of loans coming at fixed rate which was raised over the last 2 years for a longer term so that makes sure that some of the volatility in interest rate has been taken out. On the assets side it is largely floating though with a lag. With our low level of fixed rate borrowing, the margin impact has been very, very marginal. The fee income number we spoke about is similar. Our operating expenses have gone up slightly in this business because we are also investing in some of newer product lines and services. The credit loss has gone up in the fourth quarter mainly because there is an elevated level of NPA that we talked about right in the beginning, which definitely moved up, but we are hopeful that in the next two quarters we will see some improvement over here. There will be some stress on the existing portfolio also, but we confidently expect that there will no significant losses that we need to be worried about I think more than what we have already provided for in our books. We are slowly gearing up. We will see the gearing level going up in the current year for the target to achieve.

L&T Finance, you will see a smart improvement in the margins in the fourth quarter from 5.6% from the year as a whole to about 6.6%, it is extremely good but I would say that not all of it is due to the certain pricing decisions or asset management. There is some mark-to-market impact on some of the foreign currency positions that we had. In addition to that, we are also able to collect extremely large amounts where we hold the interest from the customers who have delayed the payments. So these have contributed. On a portfolio basis, we have achieved an improvement in margin of about 30 to 40 basis points in the fourth quarter. This is despite some level of elevated short-term borrowing costs during the fourth quarter.

Going forward in this environment where there is liquidity deficit, high inflation rates and all-round worries, I would not like to hazard a guess on the margins, it is difficult to say that margins will improve and by what percentage, etc., but given that in the first quarter many banks have reduced the base rate in response to RBI's steps and at least we believe that RBI is looking actively to reduce the liquidity deficit and if the inflation levels stay here or improve, it will be downward bias from the interest rate is what will exist. So I would guess that given that L&T Finance lends at almost 99% on fixed rate basis, we can hope to achieve some improvement in margins from where we are today.

We continue to earn fee income in this business as well through distribution, through certain loan servicing that we do. Opex just gone up marginally but I would say that the OPEX increase is coming from two sources – one is the royalty that we pay and second also certain management charges that we have had; so this has increased the opex to some extent. But compared to what we used to have about 2 to 3 years back today we are much better and that is the way we want to build our business. We believe that in financial services there are only three competitive advantages. One is efficiency, second turn around time, and third customer servicing and that is what we want to build our capabilities on in our business.

ROE has been subdued at 15.7% as compared to the last year about 20%, but it is important to note that the margin drop which we had in the first three quarters have kind of impacted our ROE levels. So with the margin expansion coming in Q4, we should start seeing the improvement of the overall ROE levels – that is something that we need to reach, at the 20% mark. With an improvement of about 50 basis points to 70 basis points in the margins which all of us believe may happen if this is where the environment is going, it is not going to be out of range.

One point I have not highlighted over here but the first time I will speak about the credit loss and then come back to the P&L issues. You will see that the gross NPLs despite almost 40% growth have gone up from 134 crores to only 154 crores. I would say that it is not any significant increase especially in the context of this environment and I am happy to say that the retail NPLs actually have come down over the last 5 to 6 quarters in absolute terms. It is corporates which have gone into some stress on cash flows where the NPLs have gone up. Again like in Infra we believe that most of this is reversible and we should be able to get it back. Our provision coverage will be a point of discussion I want to upfront speak about it before anyone asks this question. Our provision coverage level on a gross to net NPA is about 45 to 46%, what it does not factor in this is also the value of repossessed assets in our balance sheet. These will be in our hand which until resold is unrealized, and that will add about 10 to 15% to the overall coverage. We also have an active foreclosure philosophy. These provisions or this coverage is more than adequate in our view and in fact it is proven by the fact that the credit losses or the foreclosure losses are very much in line with the provisions that we made. Our provisioning philosophy is to recognize foreclosure losses at the time of the account becoming NPA, so at the time of foreclosure, the loss moves from provision to credit loss instead of incremental impact. And you can see that as compared to the last years 1.0% we have been able to bring down credit costs to around 0.6% this year. One thing I have explained to you this does not include microfinance impact right. So we will give you that separately when we will talk about the financials for that.

Second is that L&T Finance also owns two pieces of assets one is the investment in the AMC and second is the land which we have bought for the purpose of building our corporate office which is under construction. Currently, it is about Rs. 140 crores. These two have an impact on the returns. They are not ready yet. It is not to say that they are doing well but one thing we have to understand that once the office becomes commercially operational the rentals that various companies pay will go down. In this table we have made these adjustments so that we understand the portfolio performance quite well on a normalized basis.

So as I said in microfinance one cost is the provision and the second is that organization that we are maintaining for building business or maintaining business in the other states in addition to the organization that will look to collect whatever receivables we are able to collect from Andhra Pradesh. So that is something which is today a cost that we are incurring versus what we are collecting it seems to be breaking even but those collections don't necessarily be shown as a separate profit currently so that is one. The third is the cost of portfolio that we have carried so far in our balance sheet so that is also factored in. So all in all, this has an impact of about 83 crores on the P&L for the current year as compared to about 25 crores in the last year. But the good news is that the AP book is coming to an end now, with about two quarters or three quarters we should see a kind of end of this drag in the balance sheet. But going forward that drag is not going to be so significant as it has happened in the last two years.

We talked about asset quality. Infra did see a spike in the NPLs. In addition to the 10% that RBI requires for NPAs, we have provided for ~5% on the book between 4-6 months DPD. This excludes the standard asset provision that we have. What we did in the last quarter was to provide additional in some of the slightly difficult cases even though they are standard assets today. In LTF, the provisioning norm is that we provide 100% of the difference between the book value of the loan and the realizable value of the asset. This helps people focus on the losses on the ground and improves the standard of the asset quality.

The debt composition as compared to 31st March, 2011, we have enhanced the levels of bank borrowings because the short-term CPs and others are more expensive than the bank lending so we chose to go for bank borrowing with a clear view that yes, there is going to be some improvement in the interest rates coming in the coming quarters.

Outlook is an interesting point. I know as much as you all know but the fact is that we continue to move forward today with positive frame of mind. We should continue to see whether growth will be 40% or 20% but we remain positive about the outlook in the future. This year (FY13) definitely the second half we should see improvement in the run rate with reduction in interest rate with the government having taken few actions – many more can come in the next two quarters which will help revive investment potential in the country. Now margins should stabilize and improve from here definitely and asset quality we will be watching it like a hawk and cost leadership which is going to be the winner for us in terms of we're not going to fight on rates to be more competitive.

Participant	First I would like to congratulate you for delivering such a good result in such environment as you rightly said. Sir, my first question is as Mr. Sivaraman said that most of the assets have been floating so whether we will benefit out of interest rate going down so whether you are thinking of passing on any benefits. On your books the asset side also will always have to reduce the rates so whether you will benefit out of this.
Suneet Maheshwari	Just to speak for Infra on the asset side we have reset clauses. On an average we think that it takes about 6 to 9 months lag effect from the time the market moves either upwards or downwards; so in reality in the market if we expect interest rates to move down there is a positive impact when that lag is happening. In a market where the interest rates are going up as it happened last year, there is a negative impact. So the expectation this year is that the markets will be going to go down – on interest rates to that extent I don't see any negative impact, if at all it would be positive.
Dinanath Dubhashi	As far as L&T Finance is concerned, yes the retail book which is about 2/3 rd of L&T Finance book is entirely fixed rate. Now on the corporate book side, there are two types – for supply chain finance is floating but it does not matter because the average tenure is 60 days; and on the remaining corporate loans of course the endeavor is to have more and more floating but still a large part of it is fixed today. Now if you see the average tenure of the asset you will see that it is 3 to 3.5 years so roughly 1/3 rd to 1/4 th of the book comes from new business. Now we are sitting in a situation that we have asset book at a higher embedded margin which is there, so you can do the maths – if interest rates fall yes the new business definitely you will have to pass on, but the existing book will remain attractive.
Participant	The other point is regarding composition of the book. This year we had 12,000 crores book in L&T Finance where as you have mentioned that ~ 20% rural product finance is. Now I think as Mr. Sivaraman told that last year was a very good year for rural, but now from last three four months whatever indications we are getting in terms of whatever tractor sales rural India is passing through a slightly temporary sluggish pace so whether you see NPA to pick up or new lending to slow down in rural India.
N Sivaraman	It has been fairly difficult to judge the tractor industry growth and every year we come with different explanations of why the industry has grown by so much. Leaving that apart most companies which do farm equipment have normally maintained higher growth rate than overall tractor industry growth. The reason being a gradual shift from the mortgage backed segment to non-mortgage backed segment for various advantages like turnaround time etc. Secondly, one of the success factors of L&T Finance is not sticking to a single product which is tractor and moving into various related products around our strength which is our rural presence. So just in farm equipment, we used to call ourselves tractor finance that portfolio now it is called farm equipment, we are diversifying more into other products like harvesters etc. Also once you have the knowledge of the particular geography, you can do various farm related businesses there like dairy finance or warehouse finance etc. You can do other asset-backed businesses like cars or small commercial vehicles using the knowledge of same geography as well. Having the knowledge of the repayment track record becomes very important. So having your

own data base has this advantage of doing product adjacencies and hence making your growth fairly independent of the ups and downs in the tractor industry as such. So considering that I would again talk about the future; but in the past tractor industry has grown up and down and the growth rate has been 25% and 8%, but total growth in our rural portfolio has been steady and pretty robust.

Dinanath Dubhashi

One point we would like to talk about the ability to get market share also, so that is the standard thing – industry may grow or may not grow so long you can have a go-to-market strategy where you don't have a presence or consolidate markets where you have some presence.

N Sivaraman

The market share of, I would say non-mortgage finance itself has been increasing overall and within that the share of L&T Finance has also been increasing. So just if you take tractor also, the growth has been more than industry.

Participant

Sir, in the infra portfolio, 14% is thermal and 11% is telecom; so we can expect some large restructuring coming to that portfolio?

Suneet Maheshwari

Just to talk about power the stress is actually expected in that sector only because of coal. Our analysis is that of that 14 in only 3% of the portfolio there is a delay in the coal process. I do not therefore expect any significant stress in that sector, even though specific cases we are having and quite confident that we do not expect any significant default. Now when you come to telecom, bulk of our exposure to telecom is not so much in voice but more in terms of broadband which is a new and developing area where until now the license by the government has not been that severe issue but we do see digital growing substantially. The other areas of exposure has been telecom towers, which I think no matter what happens these towers are already there and they are being used anyway by number of telecom operators, which itself if increasing. So simple point is the investments are not in stress, so we are not very largely exposed to what is called as telecom services in the new licenses there is zero exposure there. Therefore I think in the telecom sector there might be some waxing and waning of growth in all those companies, but our portfolio is robust.

Participant

And also we don't have any exposure to electricity board. As far as equity investments is concerned, are those strategic fundamental investments?

N Sivaraman

It is definitely strategic but not in the way you are thinking. As an NBFC your role in financial services is limited, we're not in the position to participate in some of the banking products. These investments enable us that opportunity. And we are not even considering the market value of these investments.

Participant

Given that they can add 20% and higher to the overall value?

Management

We are not looking at the market value alone. These investments were done 3 years back and not only from capital gains perspective.

Participant Thank you.

Participant I am from Kotak Securities. There are four questions from my side:

On the retail finance business, what would be the impact of Usha Thorat Committee recommendations?

How do you see the infrastructure finance business going forward, what could be that segment which could be the key contributor, how could the sectoral mix change?

What was the methodology used to evaluate the Fidelity deal in terms of valuations or the valuation methodology used, and

Finally, how do you see us reaching a RoE of 21% to 24%?

N Sivaraman

The Fidelity valuation is something which we are waiting for the transaction to close. We have used all the potential methods to value a business. The comparative transactions, of course there are not many strictly comparable deals, with most of the deals being partial sale of equity. Second, it is safe to say that it is not an exorbitant price. It is well within the range that one can expect. As I said during the presentation one can argue that it may be 5% or 10% higher – but then again, if in a strategic transaction 5% or 10% destroys value, then you should walk away.

As far as the Usha Thorat committee, I think the recommendations are around sensible large NBFC's to incorporate discipline. With the norm on capital adequacy, if you want to get a good rating you'd like to retain flexibility on the tier 1 capital, we can protest and see, but definitely it is not going to be such a major impact on us anyway. One area which will impact will be a need to provide based on NPA definition. But it will be one-time effect if one understands that foreclosure losses are the ultimate losses, then nothing changes if you change the way provisions are defined.

The way we operate the portfolio means that we work with the infra book should give about 16% RoE on the portfolio, and 2% of the ROE would come from the fee income, which has an underlying intention of about 50 basis point assets in the fee income. Many others do much more than 50 bps, so it is a near term goal for us. As far as the retail finance is concerned, the retail book operates between 18 to 23% ROE and the corporate book operates between 16 to 18% ROE. The book should give around 19 to 21% ROE but this is on a steady-state gearing of six times. They would not be able to achieve this exact growth; there would be other volatilities in the market as we have suffered in the last year. However, if you take the previous five years timeframe with stable numbers, we should be able to achieve this.

Suneet Maheshwari

I think your next question was on the growth sectors you see with respect to infrastructure for coming year – I would see renewable and roads as the major drivers for the current year. Renewable growth started in the second half of the last year and we have seen quite a few good projects coming in that area. So for this year probably we will continue. That is what we can

see. If the government's processes sort of turnaround and we're hoping that at least things would improve by second half, then we could see some revival of the investment gamut of that sector. If something happens on telecom which again is expected by the second half, I think these two things could be better. But at the moment, there is one sector that is a small silver lining I would say it would show growth this year, but for future years, we see some traction coming from water sanitation and urban infrastructure projects. We would like to see some solid waste management projects coming up. We have ourselves done a few transactions, and we are hopeful that this could be, I would not recommend this to be a major in terms of numbers as a growth area, but probably the next few years later I think this would be another focus area.

Participant

Just a related question, are you also involved in refinancing of some of the loans?

N Sivaraman

We do not go by, whether it is fresh, refinancing or is it a dual securitization, if it makes good business sense for us, it gives us good credit risks and at the rates that we would like to get. But suffice to say that refinancing of projects which are operated do give us good yields or, we would like to look at such assets because it gives a good hedge to operating vs. under construction projects.

Participant

Thank you very much all the best.

Moderator

One question from Mr. Choksey.

Participant

This is regarding the housing finance business that we are going to acquire. What is the plan for ramping it up and also about the geographies that they are currently dealing in and what is the scope of this business in the next one or two years that you are foreseeing?

N Sivaraman

First of all let us see what is the advantage of this acquisition on a purely regulatory side of business as well as license. We have the license. We also have a deposit taking license, we also hold access to the SARFAESI for recovery of balances. By taking over this company what we have achieved is a substantial saving of time to market. We can use the advantage of fairly complimentary geography – they are present in mostly tier 2, tier 3 cities, which gives the advantage of using other network – so that is one aspect. Of course, there are other aspects but definitely we would be growing in a fairly calibrated way.

Dinanath Dubhashi

Just wanted to supplement what Mr. Sivaraman mentioned, there are more than 700 points of presence which we have among 80 odd branches now this network is extremely useful for this business. The second is that they are also significantly present in non-salaried markets and I think that is one area where we need to innovate the business model, there is tremendous potential in non-salaried sector and most of the housing finance companies today go after this particular sector. There is too large a potential there to not develop a model. We also need to understand that today we have a sizably large portfolio of constructions of housing projects and practically all our major product developers are with us. I think the size of any particular relationship is pretty high. I think, today the size is very small is what we are seeing so I think

there is a significant scope to expand. Now these are future numbers and we don't want to put any estimates on any of the businesses, but potential is very significant.

Participant And the emphasis on whether it will be on wholesale lending or retail lending?

Dinanath Dubhashi It can be both but largely it will be retail. Of course there can be wholesale and normally it would be mix of both. But as I said we are investing in a network for future geographies. So the major growth would be driven by retail..

Participant And how fast you see ramping it up, whether in 2-3 years?

N Sivaraman I think for industry we can expect 20-25% growth, any further comments can be made after we finalize the business plan.

Dinanath Dubhashi I think you need to know that it is a small base so obviously the growth rates will be high.

Participant Sir, Devam Modi from Equirus Securities. Just wanted to ask a couple of things. One was on asset and liabilities duration for both the businesses and the other on how many cases are restructured and what is the asset exemptions for the growth not going up?

N Sivaraman The LTF portfolio would be at about 2-2½ years. On the Infra side, I think it would be somewhere around 6 to 7 years. The other question was on the restructured assets. It comes to about five cases in our lifetime. After five or six years of operations we have as of now five cases. And we expect 2 or 3 to get resolved reasonably quickly. Maybe in six months time. The remaining we expect, depends little bit on the economic environment based on our analysis, that there should be a revival by 2013 end. So in the business of this size I think some of the assets there will always be an issue. In the history of 5 to 5 ½ years we have had problems, we had to take NPA provisions but we have been able to resolve these problems.

Dinanath Dubhashi I just wanted to add. What we are doing is on the asset side as the average asset life is becoming longer and longer, the portfolio gets more stable and second, the origination cost gets amortized over a much longer period so you will start seeing the benefit of economies of scale coming up in opex.

Participant Good evening Sir, this is Nitesh Pant. I have two questions. Are you looking forward to any equity infusion going forward? Second, there has been a lot of focus on gold loan business, specially in the media. Could you just throw some light on your plans around the same?

N Sivaraman We still have some unutilized IPO proceeds, to the tune of Rs. 400 Cr, part of which is lent to L&T Finance. So when that gets repaid, we can infuse equity in any of the NBFCs as required. At the same time, we have substantial equity investments in a couple of banks, which can readily be liquidated for raising capital. And we are looking at utilizing tier 2 route as well. Capital infusion would depend on the performance that we achieve on the business growth side. So we have few options and flexibility around capital raising. We would look at the

business growth over the next few years and then plan for a capital infusion. No firm plans are yet in place.

About the gold loans business, we think it's a very interesting business, which has been growing very rapidly in recent past. But we would have to evaluate the product adjacencies before taking a call. Also, after microfinance, we are more wary of getting into a business where regulatory controls are still evolving. At the same time, although this is a secured loan, please appreciate that no one likes to part with the jewellery he has pledged. We would continue to watch this place closely but no plans as of now.

Dinanath Dubhashi

I think I need to supplement Mr. Sivaraman here. It is an interesting segment with pretty attractive yields and we would like to look at such businesses. However, there is no immediate plan of getting into this business unless there is an organization, a process and central facilities for storage etc. Without that, as Mr. Sivaraman said, its an interesting segment and a potential segment for us; but unless there is some organization and regulatory clarity, there is no plan to get into that business.

Moderator

We had a very interesting session interacting with all of you, hopefully we have answered most of your queries. Thank you very much.