

L&T Finance Holdings Limited

Analyst Meeting Transcript
April 24, 2015

Moderator: Ladies and Gentlemen, we welcome you to the L&T Finance Holdings' Analyst Meet for Q4 & FY 15. We have with us today, the senior management team, led by Mr. Y M Deosthalee - Chairman and Managing Director, L&T Finance Holdings; Mr. N. Sivaraman - President and Wholetime Director, L&T Finance Holdings; Mr. Dinanath Dubhashi - Managing Director & CEO, L&T Finance; Mr. G. Krishnamurthy - CEO, L&T Infrastructure Finance; Mr. Kailash Kulkarni - CEO, L&T Mutual Fund. We will begin with a brief presentation by Mr. Sivaraman followed by Q&A session. I would invite Mr. Sivaraman to start with the proceedings.

N. Sivaraman: Good morning and welcome to this event. I do not know how to describe the year 2014-15. It started with a great amount of hope, with the change in government or rather expectation of change in government as we went into the general election. It has been a year of perpetual hope and optimism. The expectations of rapid actions and consequent effect on the economic environment have not really materialized. I think for the government as well as for all of us, it took quite some time to realize that to bring about change in a country which has had a lack of firm executive decision-making for a long period of time, was going to be challenging. The good thing that happened was that there was visible action by the government - a determination demonstrating its intent to clear up the bottlenecks and cobwebs. In terms of action - introducing transparent processes wherever there were challenges in progress, with the coal auction being an excellent example. We were also supported by a very benign inflation situation - one can call it God-sent or an outcome of policy actions. A combination of low food prices, low petroleum prices and the monetary actions by the RBI helped in fiscal discipline, even if it came at the cost of pulling back on supporting growth in the economy. All of them did help in managing the inflation situation quite well.

At the same time, shrinking exports on the back of strong currency, oil prices going up again to some extent and a weak monsoon did aggravate the situation. Even as we were looking forward to a strong agricultural output, the unseasonal rains have impacted crops in multiple states. We are also aware of the forecast day before yesterday about deficient monsoon, if not as alarming as it was for the previous year. This is the context in which we were and as it was quite a challenging environment as we look to close the year for 2015. But what I can only say is that as we exited 2015, it was definitely satisfying for us in terms of outcomes for the year.

So with that I will begin the presentation, giving you some level of historical perspective that would give a context to where we are today as well as cover the current year's performance. While I am not going to speak for industry, right through the year we have maintained fairly consistent disbursement levels which resulted in healthy asset growth all through the

year. Every quarter we have seen asset growth coming through. This has been supported by our focus on assets, which were going to bring about a balance in our portfolio as well as bring down the risk levels in the portfolio. There was a strong de-focus on commercial vehicle and construction equipment segments due to low freight availability, issues of cost of operation and challenges that individual asset owners faced in terms of having a decent living style as inflation ate away large amounts of their disposable surplus. Thus it was clearly the B2C segments that proved to be the most optimistic asset class or one which would provide us with a fairly secure and less risky asset growth opportunity. As far as the wholesale segment is concerned, we shifted away from coal thermal exposures and from supporting corporates for downstream investments. We focused on operational projects and a sector which opened up about 3 years back – renewables was a clear opportunity for us. We were, as you all know, one of the pioneers in supporting these initiatives on the ground based on very clear selection criteria. So this has actually helped us maintain the robust growth momentum right through this year. Our reputation as a good underwriter also helped us win syndication mandates and thereby we were in a position to distribute the loans that we booked.

The next slide is on the Retail Finance business where we saw a clear shift towards the B2C segment. We were able to do this only because we have had our feet wet in this segment and were able to quickly exploit opportunities. If we take the tractor segment as an example, the industry witnessed de-growth last year, but we had a robust 16% growth in disbursements for this segment. I would not say that we are worried about the quality of the asset as of last year end. Definitely, while the unseasonal rains and the potential monsoon effect could put some stress on the portfolio, but the fact is that we approach this segment with a clear strategy - with a level of manufacturer support and ability to build quality book. Even as industry de-grew, we were able to build a robust farm book. The reason am emphasizing on this example is to highlight our ability to shift levers by moving to products which offer us growth opportunities with lower risks. This has been the kind of approach that we have implemented over the last 3 years. The result is that the B2C segment which was 24% of the retail book in 2010 is today at 57% of the retail book. Commercial vehicle and construction equipment are no doubt the largest financed segments, but we had no hesitation in dropping our exposure to these segments from 40% in 2010 to 8% as of 2015. The risk levels in this segment definitely grew over the last 3 years.

The next slide is on the Wholesale Finance business - from 24% of our portfolio being operational projects in 2010, today it is double that number at 47% of the portfolio. If you look at the under construction projects, it has moved from 23% to 28%. The shift has been to become a project financier rather than being a financier of balance sheets of companies. When we started our business, the kind of network we had in the early stages and the fact that we were a new player did force us or made us build a strategy around the tier-II and tier-III developers for building our loan book. But over the years as we have grown and as the network of the entire group has grown, our ability to address the needs of larger developers as well as bigger projects have grown. The consequence has been the shift from the exposure to pure balance sheet funding to funding projects.

As you would see in the next slide, our exposure to coal thermal which is one of the most risky segment has actually come down over the last 3-4 years. Our exposure has clearly never been in excess of 10%-15% in this book, whereas our exposure to the renewable power segment where the risks are far less has steadily increased to 27% of the portfolio. There is no significant construction risk in this segment because these are done within a period of say 8-9 months, we can insist on upfront equity contribution because the promoter does not have to wait for a long time to realize returns as the project is up and running in 6 to 9 months. Operational risks are very less so long as the technology selection is good and finally, the market risk in terms of being able to collect the tariff from the electricity board can be addressed by making a choice amongst the electricity boards. So the segment offers participation in the power segment without the pain of waiting for construction risk and the regulatory changes that might come in the meantime. Similarly the road sector projects which are more like annuity projects once traffic starts has clearly been our chosen segment to grow. Also given the IDF-NBFC that we have, it offers an opportunity to competitively offer pricing to this segment. As a consequence of this approach the renewable and roads sector today occupy about 48% of our total book. This also corresponds well with the level of operational projects exposure that we have on our balance sheet which we discussed in the previous slide.

Moving to the next slide - asset quality has consistently improved. We had a peak in the first quarter of 2014-15 where total stressed assets including the restructured assets and SRs we had close to around 10%. As we exit financial year 2015, they are at about 5.9%. What we can confidently say is that the increase if any or slippages if any has been from one category to another category. There has not been any new account which has gone into the stressed segment. As we look to the future, our belief is that in the current environment, we do not see any new slippages coming and impacting our balance sheet.

What we have also achieved over the last year has been to improve the provision coverage from 28% to 44% which means that our balance sheet looks far healthier or in terms of potential losses, we are well provided for. There could be a debate about whether this is adequate or not, but this is definitely far in excess of what the regulators want. As we look to the next three years, I think we have a fairly reasonable coverage on the potential loss in our books.

Moving to the next slide - last year has also been an opportunity to manage our liabilities better. While even as the banks were reluctant to bring down the lending rates, the capital markets offered us a great opportunity and we have not hesitated to use it effectively. From 47% of our Loans coming from the banks it has now gone down to about 33% as we close the year. We have also not hesitated to use higher leverage, as you will see the Tier-II bonds and PD have moved from 3% on Rs.37,000 crores to 4% on Rs.44,000 crores, which is close to around ~Rs.800 crores of Tier-II. This has been raised to bolster the capital adequacy requirement as well. As we have always expressed, our first objective will be to improve the quality of the balance sheet using provision coverage as a key tool to make sure that the rating agencies are comfortable and also be able to use the Tier-II

bonds as a way of meeting of the growth needs. Even as we look to the next year, this will be one of our key strategies to make sure that our equity raising requirements are minimized.

The next slide is on the asset management business - it has been a great year for them. The equity assets have moved up by almost 80% from a composition point of view, from 25% of the total AUM last year it is now at 39% of the total AUM. This has also partially been due to the market performance, but that is not the only reason – the fund performances and connect with the intermediaries have also helped us realize a slightly disproportionate share of fresh mobilization into our schemes. What is heartening is also that 51% of our assets are high margin products - duration, debt product schemes as well as the equity assets. So, we believe that this provides us a good foundation to build this business to be valuable as we look forward.

The opportunity to bring down the interest cost, change in the product mix, rundown of some of the older books in the CV/CE segment, helped us actually improve and maintain the margins even as we achieved growth right through this year. The outcome was that the PAT growth despite increasing provision levels has shown a consistent growth right through this year. Quarter-on-quarter, we have seen a growth and what gives us confidence is that as we look to the next two years we definitely should see this kind of consistent growth coming through.

The year that ended, has not only seen an increase in the provision coverage, but also factors in some of the provisions which were expected in the next year - both based on the regulatory changes that are coming in i.e. increase in the standard asset provisioning, the need to recognize NPAs starting when they are overdue at 150 days rather than 180 days and some of the restructured accounts which are currently in a bit of stress situation and could potentially slip into NPA. We have accelerated the provisioning as we ended the year 31st March 2015. The total provision that we have made more than what was required for the year was Rs.96 crores in the fourth quarter alone. Standard asset provision got increased to 30 bps which is 5 basis points additional provisioning on the entire asset book. For assets which were overdue beyond 150-days and up to 180-days as of 31st March, we have reversed the income as well. So the one-time effect of these changes that would have impacted the first quarter has been fully absorbed. For some of the assets in the wholesale book and certain mid-corporate segment exposures, which were either NPAs or in a stress situation, we have increased the provisions.

We took advantage of the change in the profitability of two of our entities - one at the holding company level and the other at the L&T Vrindavan which operates the infrastructure of the company. Both of these had large MAT payments which were available for set off in the future and we have been able to create a deferred tax asset in this quarter. Out of the total available tax credit we have taken a partial credit amounting to Rs.23 crores. Even if this is treated as a one-off event, the fact is that net of the MAT we still have more than Rs.40 crores of impact on PAT for the last year because of the accelerated provisioning. So, if these accelerated provisions were not there, the ROE for the year as a whole would have been close to 70 bps

higher and for the fourth quarter it would have been higher by about 250 bps.

Moving to the next slide on the performance for the current year - the growth in disbursements and loan book for the current year has been driven by B2C segments and operational projects with 25% growth in disbursements and loan book growth of 18%. Normally, where we engage in term lending, the loan growth should be higher than the disbursement growth. But our active participation in the syndication market which results in booking loans and selling them down subsequently, and the growth in the supply chain financing segment during the current year have resulted in our disbursement growth being higher. The loans and advances growth have been lower because of the sell-downs and faster churn of some of these assets.

NIMs have been healthy - NIM growth has been higher than the loan growth which implies that the margins have grown. Credit cost grew by 41% partially because of the accelerated provision made during the current year. In addition to that the impact of delinquencies has been there right through the year as part of the business. Despite all these, the PAT growth for the NBFCs has been at 10%. If one were to adjust the effect of the accelerated provisioning, this would be more like about 25% growth for the year as a whole. Clearly that is a healthy number that we can be proud about.

Gross NPAs have dropped on back of both strong collections and sale of certain assets to ARCs. We sold about Rs.159 crores of assets at net value in the fourth quarter. If one were to treat this differently for argument sake and say that one or two accounts may have slipped if not for the sale, even then we have been able to maintain the gross NPAs at a far lower level than what it was in the third quarter. RoEs would have been higher by about a percentage point for the year and about 2.5% for the quarter without accelerating provisions. In the AMC business, we saw the equity assets growing by 78%. The composition of equity assets in the overall AUM has gone up to 40% Once again as I mentioned about this, the good piece is that despite such large mobilization the company has maintained profitability.

Moving to the next slide – the PAT before exceptional items has grown by 23% for the year as a whole. Of course the key contributor has been the lending business, but the lending business could also accelerate the provisioning because the rest of the companies, some of which are in the early stages of development have instead of a loss of Rs.60 crores last year, contributed a profit of Rs.16 crores in the current year. Yes, it does contain a level of deferred tax adjustment that we have availed of. If you take out the Rs.23 crores of tax credit, even then it is a loss of only Rs.9 crores as compared to Rs.60 crores in the previous year.

We have used preference shares as a way of capitalizing ourselves. The dividend payout on preference shares in the current year has been Rs.110 crores as compared to Rs.76 crores last year. So if one considers the true PAT for equity shareholders it has gone up from Rs.521 crores last year to

Rs.626 crores, representing a 20% increase. Consequently EPS growth has been at about 20% in the current year.

Moving on to individual business segments - we spoke about tractor sales having dropped but we had a growth of about 16% in the disbursement in tractors. The fourth quarter saw a 24% drop in the industry sales. What it did to us was that our market share improved. In the current year the tractor industry is not expected to grow very robustly. The monsoon effect will also play out perhaps. So we are sanguine about the growth in this segment.

Personal vehicles segment – the scooter segment grew very well whereas motorcycle did not grow well, cars also had a tepid growth. Let us hope that the change in the disposable income on the back of benign inflation and the reduction in interest rates help change sentiments in this segment.

Microfinance - demand is not an issue; it is about the network being built. As we see the small commercial banks coming up, it is possible that the competition level will grow, but the key point is that these applicants are basically those who have already existed in this segment. Hopefully, it does not increase the intensity and more importantly impact pricing and credit based competition negatively. That is what we will look forward to for the future.

Housing - despite the real estate problems, we have continued to see growth and for us as a lender into the segment, we are a small player and it offers great opportunity to grow.

SME Finance - while there is a general impression based on CRISIL report or ICRA report, we have seen upgrades exceeding the downgrades but the fact is that if you look at the total liabilities being rated, I do not think the proportion has dramatically changed. So we have to continue to be selective about lending into this segment. Yes, if the economic activity picks up, they are going to be one of the important growth drivers for us.

CV/CE: There are green shoots being seen, we have seen growth in the last few months. How far it will sustain is what we need to really look at. Our view is that till such time the mining activity picks up, either in coal or in the iron ore and bauxite segments, it is going to be tough to see growth coming in an aggressive manner. We will continue to watch it cautiously. We will not hesitate to take the opportunity to participate in this business if there is quality business available.

Moving to the next slide, the focus that we have had on the B2C segment is what has helped us maintain asset growth. You can see that in CE/CV financing our disbursement dropped by 75% which reflects our approach to the segment as we stand today. Growth has been about 21% in disbursements in the segments that we have had focused on, you will also see that the book size growth has been seen in the set of segments that we have looked at actively. The exposure to the CE/CV segment has dropped from 16% of the book last year to 8% this year. That is going to be helpful to us in terms of building the foundation for the next few years.

Moving to the Summary Financials slide on Retail - the highlights are clearly in terms of the margin improvement. Fee income has grown - we have been able to do some structured deals during the current year in the mid-market segment. I am sure as the economy revives, this segment will continue to offer opportunity to participate actively. Operating expenses have remained more or less stable in the context of the change in the segments that we are addressing. Earnings before credit cost have consequently grown by 32% which represents the operating performance of this vertical. The credit cost for the quarter has actually dropped even as we took certain accelerated provisioning amounting to Rs.48 crores.

The gross NPAs have actually dropped due to strong collections. Gross NPAs have reduced by about 10% year-on-year. I think it is creditable that the gross NPAs are lower than even the gross NPAs that we had as of last year's closing. The provision coverage has gone up to 54%. I will just dwell a bit on this - this is based on 180-day NPAs. Our experience especially in the retail segment is that the highest probable loss occurs when the account crosses 180 days. There is a big difference in the potential loss of any overdue account at 150 days and overdue account beyond 180 days. Our loss provisioning as we do currently more than sufficiently covers the embedded loss in the portfolio of difficult accounts which are very clearly NPAs. Actually, we do not see a need to increase the level of provisioning that we follow to make sure that the balance sheet is well represented.

So, as we move to the next year, two things are likely to happen - one, the 180 day overdue assets will definitely go up due to the seasonal impact when the farm segment shows weakness in terms of collections. Combined with that will also be the effect of 150 days overdue. So, when we look at the provision coverage as of June 2015, our focus will be to ensure we are well provided with reference to 180 days because that is where we see the maximum loss potential. This provision coverage ratio will go down slightly as the age of the NPAs reduces. Currently a larger portion of NPAs are constituted by 540-days or more overdue against which our provisioning norms are 100% if the asset has not been repossessed. So, when the 540 days plus overdue assets are higher on a relative basis, the provision coverage looks very high. But, as we close June 2015 we could potentially see increase in the 180 to 540 days segment. So consequently, the provision coverage will drop. But, will it drop to some minimalistic level? No. I think our provision coverage will continue to be even higher than 42-43%. So we will be comfortable in terms of ensuring that our losses are well provided for at all points of time.

On the ratios, we have seen a good reduction in the cost of funds. In addition to this the improving yield levels due to the segments that we have concentrated on have resulted in the margins expanding. The operational expenses have remained quite stable after considering the fact that in the mid-market and CV/CE segments, the distribution engine has been largely involved in managing delinquencies rather than originating new assets. We have also moved to manpower intensive segments such as two-wheelers and microfinance. Consequently the operating expenses have gone up on a relative basis. But if you really look at the earnings before credit costs, it has gone up by 71%. Of this, the contribution from reduction in the cost of

funds is only about 35-40 basis points, whereas the rest has come from additional contribution from this segment.

The credit cost without the accelerated provision, would have been 1%. In fact, during multiple conversations we have been guiding all of you to consider around 1.25% as the steady state credit cost independent of the cycles. So, I think we are close to that. While there could be certain increase in the first quarter but if you look at it for the year as a whole, I think we can continue to bat for credit cost range in the region of about 1.25% to 1.4%. It will take some time for it to really come down, as the economy picks up and some of the older accounts get knocked out from the books. The ROE without considering the accelerated provision, which perhaps sanitizes performance, is at 15.36% for the fourth quarter, which I think is a healthy ROE given where we are coming from. This business is well provided as far as capital is concerned. A reasonable level of about 15-20% growth can happen without raising fresh capital.

Moving on to housing finance - we have given a slightly more detailed performance statement than what we have done in the past. The key reason for that is the fact that this has reached a certain size and if you look at the capital structure also, it has reached a level of saturation and maturity. The networth has gone up by about Rs.34 crores whereas the gross loans and advances have more than doubled. So what it means is that the gearing level has gone up to 10.0x as compared to 5.5x in the last year. So, we are quite happy to present it in a detailed manner, it gives you an anchor with which you can compare the future years. I would also add that what is stated as gross loans and advances here does not factor in close to around Rs.700-800 crores of construction funding which are in the other balance sheets. Again this demonstrates our ability to use capital very efficiently and not block capital on the basis of just a single business. That is one of the things that we have been able to do.

Next slide is on the segments of the Wholesale business. Renewable energy - we expect it to be a good story going forward. We have heard enough from the government. Larger capacity additions are going to happen in the next 3 years than what has happened in the last 10-years. Being a pioneer in this segment, we will continue to see deals close in our favor. We believe that we know how to manage the risk in this segment, our ability to respond to opportunities in this segment are also fast and good with ability to structure deals in line with what the promoter would want. So we will expect to take a disproportionate share of this market.

Roads - activity has just about started. We have seen NHAI announcement on award of orders close to around Rs.12,000 crores. A lot of it has been on EPC mode. NHAI's has also announced a hybrid model; I think it has to be experimented with before we can say with a level of confidence as to how to finance them. Being a government body, we have always had problems. In fact, many of the construction companies have got into trouble, awaiting disbursements from NHAI against their extra claims. So, one has to be watchful about how this will evolve and migrate into operational assets. So, we do believe that establishment of a regulator in the segment who will be different from NHAI which is the implementing agency will help

in making sure that this one segment of infrastructure becomes far more predictable than what it was in the past.

Thermal Power - coal availability issues may be getting sorted out, but still many of these projects will have to find capital to complete the existing projects. The second piece is also that the PPAs need to be executed by the state governments. Hopefully, the electricity boards also will improve and that will give them confidence to sign up PPAs to take up demand for the available power. So, let us wait and see. We will be cautious in this segment. We will see stray opportunities to be able to lend.

Refinance opportunities are expected in PPP port projects and we might also look at some of the operational assets in the real estate segment to build our overall loan book.

The proposed change in the guidelines for assets which can be financed by NBFC-IDF would also be helpful to us as it will help in faster transfer of assets to the IDF so that the capital that we have invested can be better utilized. In addition to that, the combination of tax exemption and easier transfer of the loans to the IDF, will definitely help in being competitive and grow this balance sheet also very well.

Moving to the next slide on the disbursements and loan book composition – there has been a 77% growth in disbursements. We have had some opportunities to lend to larger borrowers during the last year. It also reflects how cautious we have been in the last two years. In the previous years we have done about Rs.6,000 crores disbursement for 2012-13 and 2013-14 but 2014-15 was the year of pick up where we have been able to locate opportunities and also disburse effectively on the ground. The composition remains skewed towards renewable power and roads in our overall exposure. On the “Others” segment, they consist of largely operational assets, a few balance sheet exposures, which are anyway being monitored very closely. The happier part is 75% of our assets are projects and 47% are operational projects which definitely reflect a healthy portfolio mix that we have today.

I will just spend a minute on the equity and investments. We have been promoting a private equity initiative on the Infrastructure side. We also have seed investments in some of the assets as a way to enable the private equity fund to really get to closing as well as deployment of the funds. But unfortunately, the private equity fund closures have been more delayed than what we had estimated. So, when you look at the returns of the wholesale business, the amount we have invested close to around Rs.700-800 crores are really not producing returns today, but they are expected to produce capital gains over a period of time. Hopefully, some of this will happen in the current year. This will release capital and also help in taking care of any volatile credit situation that might arise.

Moving to the summary financials - NIM growth has been subdued, primarily on account of some of the stressed assets that we have by way of restructured assets as well as NPAs. We would expect this situation to slowly start correcting, but that does not mean that the NIMs will really grow faster. The fact that we are going to be targeting higher quality

projects which are going to involve lesser monitoring and lesser origination costs need to be kept in mind while looking at wholesale NIMs. Second is that the leverage is expected to go up further.

The credit costs are about Rs.48 crores higher than normal. The NPAs, as we have explained, have come down both absolute terms and at a ratio level. So, if you add up the stressed asset segment, it has come down from close to 10% in Mar, 2014 to around 7.5% in Mar, 2015. The stressed assets consisting of net NPAs, net restructured asset, and also the SRs that we carry. This indicates consistent improvement in the quality of the balance sheet. The provision coverage levels have gone up from 19% to 30% as we close the year and our target provision coverage for this segment is between 30% and 35%. Our endeavor will be to maintain it at this level. It also needs to be mitigated by the fact that in many of the cases we have assets and security. So while the ability to realize these assets will take some time, our belief is that we are reasonably well covered on our losses.

Moving to the next slide - this is the business where there are lumpy disbursements. So we would encourage you to look at the trailing 12-month number which will be more representative. So the margins have remained stable but for increase in the leverage between the 2 years. The reason I am guiding you to look at the 12-month number is if you look at Q3, our margins were 3.69%. The question will come up as to how did we manage to increase the margin to 4.25% in the fourth quarter. Towards the end of the last quarter, we had a fairly lumpy disbursement adding to the denominator which had an impact on our overall margin ratio calculations. The fact is that the margin is around the 4% level is what I would like to guide you. In spite of the CSR expenses, which was a new concept for the year, our operating expenses have actually reduced. What it means is that the strategy to target higher quality, larger ticket assets is actually playing out in the form of lower operational expenses.

Earnings before credit cost actually remains steady as compared to the last year, adjusted for the gearing. The credit cost for the year as a whole is 1.77%, for the quarter it has spiked also because of the one-time provisioning that we have taken of Rs.48 crores. The point is that if this Rs.48 crores were not considered, our credit cost for the current year would have been at 1.5%. Despite a deteriorating environment, the credit cost as compared to the last year has really not changed - 1.45% to 1.5%. This also reflects our approach to provisioning over the last few years. The intent has been to create as much stability as possible in the provisioning. We started providing for any asset which is more than 120-days. We do not recognize interest on those accounts in the wholesale book and also start providing against the principal as well in a gradual manner, which is the reason why we find that the credit cost ratio has really not gone up.

The hearty piece is that if we do not factor in the credit cost increase due to accelerated provisioning in the last quarter, the RoE for the quarter would have been at about 17% which again is very healthy. CRAR levels are fair. I would say that the Tier-1 will have to be buffered if there is going to be a strong growth coming in the second quarter on the back of potential projects that will come up.

Moving to the Investment Management business - The big highlight in this business has been the growth in the equity assets. We have 39% of our assets in equity. Along with this the Other Fixed Income segment comprises of duration products which earn us margins of about 12%. Our focus will continue to be these two segments. While cash and ultra will provide us with the volume, they cannot really add much to the margins on the ground.

FMPs - we will have to see how the investors will react to the clarifications that have come through and whether it will be a sustainable product for the future. Would there be investors who will take a 3-year view about interest rate is what we need to really see.

Our rank has improved. Over the last year we have also earned the reputation of being an innovative fund management house by launching three new schemes – Business Cycles, Resurgent India Bond and Emerging Business Fund. So these have been something which we have tried to launch in a unique way with a new design of the scheme itself. They have been very well received - in fact the Business Cycles fund has grown very well even after the NFO closed.

The margin in this business is about 60 bps and is perhaps one of the best in the industry. From here on it is a question of scale to generate the returns. If the new scheme of paying upfront fees and trailing fees does continue for a period more than the trial period, I think it will augur well for disciplined behavior of the AMCs in the market. This should also ensure that the risk of earning is evenly spread between the manufacturer which is the mutual fund and the distributors. Our belief is that this should bring about healthy behavior and conduct in the market.

On Wealth Management - this is actually building up to be a strong distribution or a differentiated distributor. Ultimately, while you can be a manufacturer, you need the distribution strength as well to be successful in manufacturing. Otherwise you leave yourself to be exploited by the distributors. So this is one segment which will become a differentiated service provider not only to the manufacturer but for the clients too. We have seen a healthy asset growth. At the moment from a PAT perspective, we are happy to say that the cost is far less than what many other wealth managers have taken. I can say that this is going to be an important differentiator as we keep building our insurance and mutual fund business within the group.

Before we wrap up I would want to address an important question you may have - what happens when the new norms come in? So we thought we would rather address it upfront. We have already increased the standard asset provisioning to 30 bps in the Retail business while the Wholesale book has always been providing more than 30 bps. As of Mar, 2015 the Wholesale book carries 36 basis points provisioning against standard assets. So the impact is going to be only on incremental assets.

Coming to NPA recognition at 150-days, first at the income reversal level - retail has already provided for this as far as assets as on 31st March is concerned. The current year impact will be on incremental assets alone.

In the Wholesale book we do not recognize income on any account where the overdue is more than 120-days, so there will be no impact during 2015-16. I am saying it with a level of confidence because we do see the stress on overdue accounts coming down. So we do not see any account hitting the NPA bucket at 150-days to cause us any stress at the moment.

As far as the principal provisioning is concerned, as I was mentioning when we discussed the Retail business segment, our assessment based on the analysis of the portfolio, is that what we provide against the 180-day plus category in the Retail book adequately covers the potential losses. Just to represent, if I have to give an indicative number, in the book beyond 150-days, the loss potential is less than 10%. This means less than 10% of the accounts potentially results in losses, whereas in the 180-day plus, it is close to around 80%. So in a sense it reflects that the NPA recognition we have today and making provisions against such NPAs reflects the true losses that we are likely to suffer. So, as we look to the implementing the changed norms by RBI, we do not see a need to really change our amount of provisioning we make against the principal amount of loans that is in our books. So, we will have to really modify our policy to make sure it fits within RBI norms. Currently, before we make a definitive statement, we need to do some more work on the back end. Ultimately what is important is that the losses are well provided for while complying with RBI. So, we need to find a balance between the regulatory requirement and the business realities. So we do not see a very large need for making a provision against the principal amount as we go into the next year.

On the mid-market portfolio - again, this is like any corporate account, either it remains current or marginally overdue or it is an NPA. So, we do not see any new accounts slipping into NPA because of change in norms. So the likely impact is going to be very marginal.

In the Wholesale book, we already have a policy to make calibrated provision against the overdue accounts. We start making principal provision against these accounts from 120-day plus. So we do not see any significant impact coming from change in norms alone.

Moving to the next slide which is to give a direction on what we can expect in the next year. As we look forward to the next year, on the ground the sentiments are definitely far better. Yes, there are steps which the government has taken. Whether the operational environment has substantially changed? It continues to remain sluggish. The good news is that we are not seeing stress levels going up. But, have they come down significantly or do we see large disbursement opportunities and loan proposals? Very-very few segments are reflecting that.

So, if we look at the Retail business, our focus will continue to be on the existing segments while retaining our flexibility to exploit any opportunity that might come in other segments because we have not vacated any one of the segments. But clearly we do see opportunities around Housing, Microfinance - obviously there are persistent source of demand for loans, Two Wheelers - select segments will continue to be there. We anyway hold a small market share which gives us opportunity to grow as we expand our network. Tractors - we will continue to follow a differentiated approach or a

very discerning strategy either by manufacturer or by states where we can really pull up our market share. We will continue to be conscious about the way the monsoon disbursements take place or the effect of the unseasonal rains over the last quarter. These have always been in our mind as we look to build our disbursements.

In the Wholesale business - we talked about the renewable power and roads to be the key segment for us to really build which is where things seem to be happening. We will continue to grab operational projects to keep our book balanced at all points of time.

For the Investment Management business, the emphasis will be on building the equity and duration / fixed income products. SIPs have consistently shown growth. That is one area that we will continue to focus to build more recurring investors coming to our schemes. Our focus will be to increase the number of clients, expand our presence across markets and build our distribution reach to these segments.

On asset quality - there could be volatility during the quarter as monsoon effects play out or seasonal effects play out. One of the reasons why we saw a strong reduction in 180-days plus to 540-days was also the focus on the collection efforts. The slippages have been contained from the 150-day bucket to 180-day bucket, because right from the beginning of the year we have been focusing on disciplining the collection in the early buckets which has helped us. So that will intensify and we will build on the learnings that we have got. We believe that while there could be seasonal effects, we will look to definitely keeping the 180 plus day bucket under control, 150-day bucket we will manage it far better than what we have done in the past. Other than some slippage in restructured assets to NPA, we do not see any incremental stressed assets in the Wholesale segment.

With regards to profitability – Margins are expected to remain stable. We do not see an increase in the margins from the current 7.5% levels in the Retail segment because competition will intensify, there will be a need to pass down price improvements. So that is a piece that we will have to be conscious about, but our effort will be to maintain the margins at the current level. Operating expenses will be commensurate with the kind of products that we will have. Hopefully, if the CV/CE segment picks up in the second half, it will offer some opportunity to bring down the ratios of operating expenses. Credit costs to remain stable to benign, lower actually. It is little early to predict as to how it will behave in the context of the change in RBI norms, but our belief is that it should continue to reduce as we go into the fourth quarter of the current year. Leverage is one that we will actively use in all the businesses to improve our overall returns.

In the Wholesale book, our focus will be on underwriting and syndication and generation of fee income. The margins are not expected to be disturbed so long as we maintain the balance in the portfolio between under construction projects and operational projects.

The Investment Management business will continue to benefit from the growth in the high margin products. So consequently, we will see scale economics slowly playing out. To some extent, the upfront fee and new

schemes should help us manage the overall cost of mobilization as well. I hand over to Mr. Deosthalee to make a few remarks before we take up the questions.

Y M Deosthalee: Good morning once again to all of you and thank you very much for coming in such a large number. It also increases our confidence. So, thanks a lot for joining this morning. Mr. Sivaraman has extensively covered the performance for the last year and our strategic focus for the current year. At the cost of repetition, I just want to make a few points, would not take more than a couple of minutes but I do believe that they are important points.

The first point which I want to mention is that, yes, we are a comprehensive financial services player, we are building. However, in that we have focused on a few areas which are of important to us. Going forward, in the Retail business, the focus will be on B2C products, which means the Retail products where we have an extremely good position or where we want to create a good position. We do believe that in a couple of businesses, we have established extremely well in the marketplace and in a couple of others, there is a potential. There is huge market out there and we definitely can grow.

So, in Tractors and Two Wheelers, we have a reasonably good position and in Microfinance and in Housing, our base is small on which we can grow. That is going to be the thrust. In addition to that, there is one more area that is the SME lending, which is largely small ticket lending and anchor-based. This is going to be the focus for the Retail business. What has happened is with this change of focus, two-three key things have happened – one, we have grown in a very difficult environment. If we had continued with construction equipment and commercial vehicles, it would have been an extremely challenging period for us. Yes, we still have some book and opportunistically we will decide what to do with that, but with this change in the strategic focus clearly, the margins have improved. Also the market potential in these businesses being huge, it will provide for sustainable growth in the years to come. That is extremely important.

Similarly, in the Wholesale business, thanks to the fact that there are not many opportunities and also that there are huge problems still in some of the sectors like thermal power and limited opportunities in other areas, the focus has been on renewable energy sector. The amount of work which our team did three years ago on renewable energy has substantially helped. So, today, we can proudly say that we are one of the leading players in financing renewable energy projects. I am saying this in competition with public sector banks, private sector banks; it is a very happy situation. It is not that we do not have to learn anything and there are risks in this business also. But I think the fact is that we have to a large extent understood the appraising capabilities of this business and we did some pioneering work which will help us in building this business going forward. The government also is working on providing tremendous thrust to this business. So, shift to the renewable energy segment helps in a number of ways - the gestation period is small and the projects get completed faster. Secondly, the ticket size is smaller and the third thing is that there is a proven track record. In projects that we have financed for the last three

years there is enough history and I am very happy to tell you that there is hardly any delinquency or any problem in any of the projects which we have financed in this particular sector. So, this is something very important.

The other important point is the operational assets which is the other focus area. Operational assets growth will happen in L&T Infrastructure Finance as well as in the IDF-NBFC which we have created. So, we are creating capacity in the Infra Finance Company by first booking the projects while they are under construction and eventually, as they become operational, there is an ability to transfer them to the IDF.

Also, one more point - Reserve Bank of India recently, in the last monetary policy announced liberalization of the norms for the IDF which means that apart from those which require tripartite agreement, other projects also can be financed through the IDF mechanism. This provides us with opportunity to create capacity for financing renewable energy projects going forward and then transferring it to IDF. So the strategic focus is going to be on these areas. We do believe that there is enough potential for us to grow in a sustainable manner for the next few years. That is point #1.

Secondly, we have also used this year for strengthening our balance sheet and preparing for the future. So the provision coverage ratio, which Mr. Sivaraman talked about and the prudential provisioning which we have made in this year will make us well prepared for the current year when the new prudential norms come into being in terms of standard asset provisioning as well as 150-days NPA recognition. So we have prepared the organization for that. I am not suggesting therefore that the gross NPAs will not go up, from time-to-time, from quarter-to-quarter there will be variations; especially during the first quarter it is also the seasonal factor which will have an impact on that. But the ability of the organization to ensure that the profit and loss account is not impacted has been created now. Therefore, there will be stability in terms of overall earnings during the year.

The other important point is on the Investment Management business. There were doubts about our ability to turn this around. So not only has the turn around happened, but the equity assets in this business have grown by more than 75% in the last year. I would like to say that generally performance of the schemes has been steady. So that is the reason why we have been getting continuous flows. So, today this business is also on a growth trajectory.

The last point which I want to mention and I think we need to understand this very clearly - if you look at our business in whole, there are investments which we have made for the future and those investments have started generating returns. However, in the next couple of years, we are reasonably confident that all of them will provide opportunities for improvement in ROE. I would want to give you examples of which investments I am talking about. We have invested in acquiring Fidelity mutual fund. That is in our books today. In the first year after acquisition we have broken even, in the second year, it is a profitable organization today and I think the way in which it is getting strategized we feel reasonably

confident that in two to three years, it will be at the same RoE levels as the lending entities.

Similarly, in the Wholesale Finance business, there are two areas where we have made investment and Mr. Sivaraman talked about them. There is an equity portfolio housed in that business. Out of this equity portfolio, some of them have matured now and there is a potential of having a capital gain. There are about Rs.600 to Rs.700 crores of investments. So, this currently is not earning much. Our idea is to liquidate them in the next one or two years and generate capital gains and release capital too. So this is also an important point.

Lastly, it is there are some investments which are not earning at their optimum level. We made investments a couple of years ago in the Housing Finance business and you would have seen how the housing finance business has picked up. In two years of operation, we have built a very healthy book. It is also a business which is synergetic with L&T, and we also feel reasonably confident that this will be a growth engine going forward for the financial services business.

And last but not the least, the investment which we made in Infrastructure Debt Fund. All these investments were strategic investments for growth and we had to invest to make sure that we have a sustainable long-term growth story in financial services business. We are here building an institution for long-term and all these investments are now getting into actual business mode. In the next couple of years, you will find that they will reach a level where their RoEs will be comparable to the RoEs in other lending businesses. So, this is an extremely important point, because otherwise the comparisons get vitiated.

These investments are for the future and very humbly I am stating that we have proved the point that these investments are now turning around. If anyone of you needs more detailed numbers on this, our team will be happy to discuss on one-on-one basis. So, these are some of the points which I wanted to clarify and we will be very happy to take questions from you now. Thank you.

Participant:

Just one small clarification on your project funding. You talked about your focus on renewable energy space in last year and that is going to be your thrust area going forward. Could you throw some light on this? Sometimes what happens is concentration on a one specific industry when it is in limelight, we tend to get overweight on that and if it turns to be flat to negative, it backfires on us. So what is your thought on that?

Mr. Y M Deosthalee:

I request my colleague Mr. Krishnamurthy to answer this, but before he answers, two things we need to know - it is not that our book is entirely renewable energy. You would have seen it is about 27% of our total wholesale portfolio. So there are other assets also. In addition to that we have also talked about the thrust on operational assets. This means that the risk profile in the portfolio is getting reduced. So about 47% to 48% of the assets are now operating. Then there are assets in the other areas like roads for example. We are not saying that we are not going to be there in road sector. Today, because of IDF, it is possible for us to book assets

which are operational road assets. So the growth will be there. Today we do not see many opportunities in the other areas.

Your point is very well taken. We do understand single sector exposure and there is a single sector exposure for renewables also. In that sense we will not exceed those limits. What might happen is that we will book the assets and then sell down, which is also what we have done from time-to-time. So, now there is an interest in the banking sector also. So, there are banks which are willing to buy. But, having created capability, you can initially book it and sell it down. We would have this kind of approach.

G. Krishnamurthy: While renewables is classification as a single block, actually there are three different sectors out there - we have solar, wind and small hydro. In each of these the resource behavior is very different. You will not have a problem with the wind sector as well as the solar sector in terms of resource availability in the same year. So, typically therefore while it is appearing as a block the way the operational performance of each of these is going to work, it is going to be very-very different. So that is something which you need to be aware of.

In these sectors, wind currently is running at about 3,000 MW p.a. which is annual capacity addition. In solar the cumulative capacity created in the country so far is 3,000 MW, while incrementally we now expect 3,000 MW per year. So there is going to be a large increase. Small hydro would continue to be a small sector. There will be opportunistic investments in various places. Now, the commonality with all these is that there are off-taker risk, many of whom are going to be Discoms. But even here what we see is, if we take solar for example, the off-taker is SECI, which is a centralized Government of India entity. This is also the situation in transmission, there is a centralized entity where there is a pooling of risks and the risk that you are taking on is a collective average risk of all the Discoms in India. So if you do central schemes, then you are bypassing the risk of individual SEBs.

With respect to doing state wise also, we have been very-very conscious of the risk of state discoms and the change in policies particularly in renewable, because policies typically come on an annual basis. There have been policy improvements, reversals and modifications. So we have been very active in deciding which state's schemes to get into and where not to get into. Just an example in this forum, when we started solar, we did most of it for a particular western India state in 2012. We took almost 30% market share out there. But then in 2013 and 2014 we did not do anything in solar in any state government scheme although there were announcements by multiple states. So, we are acutely aware of two things - the bankability of the PPA and the responsibility of the state government to alter the regulatory structure to meet lenders requirements, and second is the paying capacity of the SEBs itself.

So, as Mr. Deosthalee rightly said, while we have sectoral exposure caps within each sub-sector as well as for the total sector, when you look at the off taker, you have to aggregate everything — coal thermal, gas thermal and so on. The entire energy sector finally is in some way dependent upon the Discoms. Therefore we have sub-limits on how much we will take in A-

rated SEBs, B-rated SEBs and C-rated SEBs. So we have a fairly healthy risk management procedure.

I take your point that in some ways, yes, there is sudden sense of optimism in renewables. Everybody wants to get in and that is always the situation when euphoria comes in and that is when more mistakes happen. We have seen this happen in roads and thermal sectors. Being the pioneer in renewables, we have been going around, trying to educate some of other co-lenders of the risk matrices which are required, controls which are required to ensure that, we do not have a large scale indiscriminate lending happening in the sector. If such a situation were to happen we will be happy to be very-very selective and temper or moderate growth. So that will ensure that our credit standards are going to drive our business, and business does not drive credit standards. That is going to be the focus.

Rishikesh Samanth: My name is Rishikesh Samanth. I am from Bain Capital. I have two questions - One is on the tractor growth. Given the market is not quite growing, how do we see our market position in this particular segment going forward? The second point is around the mid-market book. We have seen de-growth in disbursements and loan book. So like CV/CE, is this also a segment we are consciously defocusing on or is it more of a one-off de-growth?

Dinanath Dubhashi: I will take your question on tractor first. I will first talk about 2014-15 and then talk about the strategy. So last year we saw about 13% de-growth in the tractor market, whereas in terms of numbers, we grew by 13+%, which is just a coincidence. Market share went up from about 8.5% to ~10.7%. What we need to understand is the model on which we base our strategy, especially the sourcing strategy.

So we tie up with a few manufacturers, of course, we do all tractors, but a couple of manufacturers we tie up on a very-very close sourcing model. Here we work closely with the manufacturer for sourcing i.e. work with the dealers of the manufacturers for sourcing. This is not only for the retail sourcing, but we also do insurance with them, we do inventory finance and in some places we have even funded showrooms. That kind of engagement happens at the time of sourcing. Not only this on the collection front, we get into tie-ups where the manufacturers' people help us for collection. Two things have happened because of this - we have been able to calibrate our growth to geographies which have been relatively low risky. So, even if the rainfall is low we have been able to get disproportionate market share in the areas where rainfall has been good or in the areas which are irrigated.

So if you actually see the TIV numbers and our numbers, we have increased market share in almost every state other than one. In certain states like Punjab, Haryana and Bihar, where the effect of the unseasonal rains or drought has been the least, we have taken disproportionate market share. So this is the strategy. Somebody who is in the tractor market for long would realize that it will be quite dangerous to draw conclusions based on average rainfall such as 93% or 94% rainfall. Yes, it is good to see the averages, but the spread of monsoon vis-à-vis time and geography is very important. I believe that L&T Finance over the last seven to eight years has

got the formula right. Hope to continue that. I may not take a guess as to what would be the absolute growth that we will show, but fairly confident of continuously gaining market share and at the same time keeping the book quality in check. So that is as far as the tractor segment is concerned.

The Mid-Market book is not the SME book. So SME is the supply chain finance where we have shown about 20% plus growth and our SME strategy as of now is more anchor-based. So we work with certain anchors and look at both in the physical world as well as on the internet. We look at their suppliers, supply chains on both the sides. This book has shown a little more than 20% growth.

The Mid-Market is actually the mid and large corporates where we do very structured finance, opportunistic structured finance as well as promoter funding, where clearly the growth number is only the result of the risk/return paradigm that we have. We look very closely at structuring cash flow, structuring security, do not do open balance sheet lending. In fact, we try to avoid that, and clearly the growth there is a function of the opportunities available. So always the growth will be result of opportunities available here. Each lending on the average will be of the order of about Rs.100 crores and hence few deals here and there will change the growth rate. So, let us not draw any conclusion out of that. This year it is -23%, next year it can be +20%. I would not be able to say that we are de-focusing on this segment as of today, but as Mr. Deosthalee said, the other businesses which are B2C businesses as well as SME are more granular businesses and where we are confident of maintaining the growth.

Saurabh Kumar: My name is Saurabh and I am from JP Morgan. I actually had three questions - first is on your gross NPLs in the Wholesale business. So, if you can give some color on Rs.150 odd crore sell down to ARCs which you have done this quarter? We realized Rs.40 crores, so you certainly realized 25% of that, could you give some color on which sector it was? If you add the sell down to the gross NPL, your quarter-on-quarter stress has only grown. So, what gives you confidence that this comes down next year?

The second is on the private equity investments. You said roughly Rs.600 crores is locked in. I am just trying to assess, how much can you realistically get out of these over the next two years? How much capital can you unlock?

Third question is essentially on the Investment Management business. Your income to AUM growth has been pretty high this year. Is that just because of the share of equity assets or is there anything else? And also, your operating expense growth is also high this year. Will that stabilize going into next year?

G. Krishnamurthy: Yes, we sold two assets this quarter. One of the assets was essentially in the EPC sector supporting construction of plants for various power projects as well as roads and buildings, so more into the construction sector. The other was small captive power project associated with a steel project, so a very small project as such. So these are the two assets if that is the question you had asked.

On the stressed asset size, it has not increased. Actually if you see the numbers it has decreased and decreased as a percentage also. Absolute number, there has been a fair degree of reduction. So if you add the net NPA, net restructured assets and net security receipts that we had it is closer to 10% last year and this year we are at about 7.7%. So in that sense it has kind of come down definitely.

Moving forward, we do expect some slippages moving from restructured assets to NPAs, but that is only inter say movement of stressed assets. We do not expect our total numerator as such to go up. And if there is a faster recovery of the economy, faster order book growth for particularly EPC companies we expect much faster improvement in our asset profile. So, it is in a way dependent upon the turnaround in the economy happening and order book growing for the EPC players which is the key risk area as far as our restructured assets is concerned.

Regarding our equity investments, it is not possible to normally give a timeline as such but we will be making our best attempts to monetize some of our equity investments. Yes, we hope to be successful in the next couple of years. We cannot exactly tell you which quarter and how much, etc, that is something which we will take as it comes.

Y M Deosthalee:

I think the point which you made is very important. In terms of overall stress, we do not expect that it will go up. So the combination of restructured assets, net NPA and security receipts, that is the number which we are tracking. This has come down. There may be a shift from restructured to NPA, that can happen. However, the overall number is not expected to go up now given the composition of our book. In fact if we are able to resolve some of the things over a period of time that should definitely come down, not go up.

On the equity assets, our effort will be to definitely liquidate. But it has got to be at a fair valuation and I think we must get the right opportunity. These are good quality assets, so we should be able to do it in the next one or two years, exact timing we will not be able to say.

N. Sivaraman:

I think I will just supplement on the query on equity assets. As I said these are seed investments to support our private equity initiative in the infrastructure sector. You are all familiar with the way we measure value creation in terms of 1x, 2x, 3x multiple of invested value. I do not want you to take it as a guidance but it is a question of helping you create your own benchmarks on assessing how and what we can realize. We had made these investments about two years back, on an average two and half years back. It may take about a year plus to really realize some of these. I leave it to your imagination to see how these pan out and as Mr. Deosthalee said these are quality investments. It is a question of timing to realize their value.

As far as the Investment Management business is concerned, the increase in expenditure has come mainly on account of upfront fee payment which have been absorbed by the AMC on the mobilization done over the last year. We have amortized the upfront commission over the exit period, which can be ranging between 12 to 18 months. That is really the reason

for the increase. Otherwise in terms of manpower or other operating expenses, there is hardly any increase in the current year. What gives us confidence in making this gap between the fee and the expense ratio to go up is what I would call as the retention of equity assets and the persistency of the equity assets in the portfolio, both at the scheme level and overall the AMC level. Second will be the scale effects that are going to play out, which is what will create the margin accrual to us. As regards the fee income - based on the composition of our assets right through from the time we acquired Fidelity and then merged it with ourselves, the margins have been in the region of about 55 plus basis points on assets. So if you ask me, with the equity share increase it has only improved marginally to 60 bps. We will have to wait and see how the composition will play out in the next two or three years.

Nitin Kumar: This is Nitin here from Prabhudas Lilladher. I have a question on the duration of your Loan book in the supply chain and the Mid-Market finance. How much is the average loan duration?

Dinanath Dubhashi: In supply chain finance it is anything between 60 to 180 days, but average will be between 90 and 100 days, and Mid-Market will be 2.5 to 3 years.

Nitin Kumar: But then if we look at the Retail Finance slide, the details on the disbursements and the loan growth - we have disbursed almost Rs.2,200 crores in supply chain and Rs 965 crores in mid-market, but the growth in loan book is only a fraction of that.

Dinanath Dubhashi: In Mid-Market, there will be some prepayments and some repayments also. Supply chain is also a function of what disbursements happen in February and March. So there were large disbursements in March and hence the volume went up. That is why the book growth you can see is very less in supply chain whereas in mid-market we had a few large repayments in the third and the fourth quarter. That is why the book has not gone up.

Nitin Kumar: Secondly, what is like the average ticket size for us in the renewable energy segment? Now that RBI has come up with a revised PSL guidelines wherein it has classified renewable energy and some social sectors to be eligible under the PSL category, so how would they impact us?

G. Krishnamurthy: Our business in renewables is part of the Wholesale business and typically if it is solar, we fund about 50 MW projects. That is the kind of typical size and if it is wind it is anywhere from 100 MW to 200 MW. So in Solar therefore when we underwrite it could be Rs.300 to Rs. 500 crores project. Even wind is also typically Rs.500 to 600 crores. So these are large projects and once we underwrite then we invite participation from our co-lenders and banking consortia and we typically retain about 20% to 25% of the underwritten amount. Balance we sell down. So, this sector is not going to be affected as such by the priority lending guidelines. The priority sector lending has been focused on very small lending segments typically which is retail solar installations for households, etc. So, our renewable funding should not be affected as such. I should complement the growth of the sector as such.

Aadesh Mehta: This is Aadesh Mehta from Ambit Capital. We have seen that gross NPAs in your Retail book have come down from 3.4% to 2.99%. So which segments are doing well in terms of asset quality in the Retail segment?

Dinanath Dubhashi: To answer this question, we have to take into perspective as to how the increase happened in the last two years. So if you have been following our quarterly analyst calls, in FY13 and FY14 large increases actually happened in the Mid-Market book. So about 20 to 25 assets going bad had largely contributed to the NPA percentage rising. As some of these got solved especially some of these accounts had been restructured but of course included in NPA. As good performance i.e. one year of regular performance has got over the NPAs have come down. In fact we had said that towards the end of this year quite a few assets will start showing regular performance on the restructured assets and hence those have been upgraded. So that has been one large improvement.

Our CE/CV book being a rundown book and hence has the percentage of stress in the CE/CV book will look little more, but overall quality of that is improving as we solve, repossess, sell and clean up that book. So the overall GNPA is coming down. Even in farm from the peak of December, we happened to do substantial amount of actual collections and rolled back from the GNPA bucket. So, overall if you see last March to this March, farm NPAs would have actually slightly gone up but December to March, farm NPAs have substantially come down.

Aadesh Mehta: And sir, from December to March the kind of decline you have seen in the NPAs in the farm segment, how has that been compared to historical trends? Has the decline been in line with historical trends?

Dinanath Dubhashi: The fourth quarter decline is largely in line with historical trends.

Aadesh Mehta: Around 2.99% of NPAs we had seen, this would be on 180-day basis, right?

Dinanath Dubhashi: That is correct.

Aadesh Mehta: So if you are doing it on 90-day basis, what could this number be?

N. Sivaraman: 90-day recognition of NPAs is after three years. As much as any other NBFC we have also been following this and so our risk collection strategy as well as the foreclosure strategy is calibrated around the 180-day number. So if you ask me to give a number as of today, it will give you a wrong impression because internally we are still putting in place all philosophies around how to manage the 90-day.

We are trying to manage the shift to 150-days to begin with. This is going to take some time for us to really get there. It is not appropriate to really put a number in front of you and then allow you to really predict what it will be after three years. It will not be appropriate. Allow us to manage that part of it, and we will continue to maintain healthy asset book.

As I mentioned during the presentation, the true loss assets are sitting in the 180-day plus bucket and believe us when we say this. It is out of experience that we changed our provisioning policy in the 180-day plus segment about three years back. I can say with a level of confidence that in the Retail book, the losses that we have incurred even in bad market for retail assets have not exceeded our assessment and the provisioning that we have made. I think as business leaders we will continue to monitor our provision coverage with reference to 180-days because that truly represents the loss assets. That is what I have communicated to you in the presentation as well. There is no point in speculating around what it will be at 90-day, 150-days and 120-days. It will not be helpful because we have not yet really changed the way we conduct ourselves in the market on collections and it will be an evolution that will have to happen.

Kunal Shah:

Kunal over here from Edelweiss. Sir, the question is particularly in terms of the strategy which you highlighted on the Retail side. So, is this strategy more to do with the current operating environment or will it be more of a longer-term strategy? The focus will be on say Housing, MFI and the other segments which you highlighted, particularly the rural side. Or suppose if the economy revives, would you see CV/CE segment coming up. Then you will tend to be more opportunistic and the shift would happen equally. So, will the longer-term growth in some of these segments which you highlighted as a thrust area always be higher than that of the other segments. So is it a long-term strategy or say near to medium term strategy?

Consequently two questions arise from this – one, what is the niche or differentiation which we are trying to create particularly say on the housing finance business or say MFI which you mentioned about your base being relatively low as of now. Secondly, how would the operating leverage play out, because I think the dynamics are altogether different for each of these segments? Maybe in terms of say the investments which we have done in people for say housing, MFI or say CV/CE, what kind of operating leverage will we have over a period of time?

Dinanath Dubhashi: The final result in terms of growth is an outcome. Next year if you see CE/CV book suddenly showing a 100% growth in disbursements, then it would be because the CE/CV book has run down so much that even some opportunistic activity in CE/CV may skew the numbers. The disbursement in CE/CV this year is Rs.200 crores or Rs.150 crores. So let us keep that aside and talk about strategy.

The products that Mr. Deosthalee talked about are products where we believe that we can achieve consistent profitability and scalability. They are products where we have a very clear competitive advantage or the ability to develop some. That is the basis of calling them focus products. There will be products like you said CE/CV. Over the last five years, if you have seen that in good market the yields fall so much that people do not make money and in bad market the losses increase so much that people still do not make money. This has been the experience, other than two to three exceptions. So we believe that there will be opportunistic plays there, we can take some advantages.

However, as a strategy and the strength that we would like to build in the organization, these are the sectors that we will be concentrating on. That does not mean that if we get some opportunities in the CE/CV segment in certain sectors and certain geographies where we have strengths we will definitely explore it. It is the same kind of answer that I gave even in Mid-Market. There are strengths on the ground, where there is an opportunity we will definitely do. So, in terms of strategy what we have talked is about being more sustainable. In terms of quarter-to-quarter growth, etc., you may see certain strange numbers coming especially in businesses where we are small. So, that is to answer your first question.

Your second question was about operating leverage and about costs. In every business that we do, we very clearly concentrate on what is the value we are adding to the customer in terms of turnaround time and the customer value that we are giving and secondly, also on cost. We very clearly, across the organization believe that the only competitive advantage as a lender is cost because both the cost of borrowing and the cost of lending are largely controlled by the market. Hence a very strict guideline on span of control, on productivity, etc., is implemented on the ground. We see in each of our businesses that we track, information that we may not be able to share with you, both ours and competitors, we actually have best in the market productivity.

The cost increase that you have seen this year, the basis point increase in cost is about 50% of the basis point increase on yields. Why this has happened is because of a very specific shift to B2C products. So as you do more two wheelers, more microfinance, you will obviously incur higher cost. As long as the weighted average yield increases more than that you are doing well. So if you see about 83 basis points is the increase which has happened because of the product mix change and around 30 to 35 basis points is the increase in cost simply because you require more people to do microfinance than you would require for a Corporate Loan or SME of the same amount. But the yields also increase. So that is about cost.

As far as competitive advantage is concerned - in microfinance, clearly, the reach that we have is one; we do only rural microfinance as of now. The rural experience that we have, in most of the places we do microfinance we already have a strong rural presence. Cost is another advantage we have. Obviously, being a part of the overall L&T Financial Services, we have advantage in the borrowing cost. More importantly we have a great advantage in operating cost. This is public information. If you see the micrometer published by MFIN, you will see clearly best-in-class ratios as far as loans per person, etc., are concerned. So, that is the competitive advantage and hence we will always be able to be competitive in the market. That is what our belief is.

As far as Housing is concerned, clearly, two vectors of competitive advantage — one is L&T the parent being present both in both construction as well as developer of property. This gives us extremely good contacts as well as knowledge of most of the property developers in the country, and that synergy clearly is being used and can only increase. So that is one advantage. Second, we try to of course match our rates to the competition and make sure that we do not have disadvantage vis-à-vis yields, because

these are 10 to 15 year old products and being costlier by even 10 to 15 basis points can be a great disadvantage as far as competition is concerned. So we match that. But we try to be better than the market as far as turnaround time is concerned. So, early days yet, but the traction that we have seen, especially in the second half of last year makes us believe is because of this competitive advantage that we have. We are there in the salaried segment as well, but clearly the area of strength that we have is the non-salaried and self-employed segment. Most of our businesses as an asset finance company have been towards the self-employed segment, we try to use that advantage even for Housing.

Y M Deosthalee: I just want to supplement two things. One point we need to know that it is misunderstood that we want to do everything and we are a diversified player, etc. I think what I want to clarify here is that the skill sets have been created. If we find that we can make money and we can improve RoE in a particular business, we will look at it. Construction equipment and commercial vehicles - we do not believe that at the moment that business we can generate decent RoE. So, everything will depend on that. Today, we believe that the B2C segment where we are present can consistently improve our return on equity and that is the focus in the entire organization. That is one point I want to make very clear.

Second important point is about competitive advantage. Dinanath dealt with competitive advantage in both the segments. In case of microfinance, just one small point I want to add is the systems and processes which we have created over the years. I think they are very robust, stable and our approach is not faster growth in that business. Our approach is systemic growth. So, a lot of time is spent before we enter a particular market, almost 6-9 months study is made of every market before we enter. But I think it is important for us to understand India being a very large country and the market is still substantially underpenetrated for both these businesses. Yes, competitive advantage is extremely important and we have to build it. But the market opportunities are also there and therefore it is possible for you to grow. We do not want to grow any which way. We have some of these advantages. But the market is also out there which will help us to grow consistently for the next few years at least. So this is important.

But I just want to leave this point with you that whether it is the strategic shift which has been made or the opportunistic business we talked about, it is all based on what kind of returns we are going to get. So the lending entities, the entire focus in the last year and I think going forward also is to make sure that we work towards a desired level of return on equity. That is the reason why the strategic shift is extremely important.

Ashish: This is Ashish from Reliance Mutual Fund. I had got three questions: My first question was on the housing finance business. We see LAP as a big segment of your housing finance portfolio. It has come down from the last year. So, going forward, what is the strategy in terms of your housing portfolio mix? What are the kind of centers that you are operating in – is it like a Tier-II, Tier-III towns or is it more of the rural segment that will be a focus going forward?

The next question was on a more macro perspective between the rural and the urban divide. Since you operate in both the urban centers as well as the rural markets, is there any divergence currently playing out in the rural segment vis-à-vis the urban segment, because MSPs have not gone up, the rainfalls have been scanty.

The third question was more related to transition to the 90 days going forward. Can you give some color on the industry as a whole? For instance, someone is having an NPA of 2% presently. So if you move from 180 to 90, it will just double? Or will the entire process and systems work towards ensuring that it remains in the 2.0%-2.5% range for 90 days also, given the customers that you are dealing with may not be having the adequate cash flows to pay out on a 90 day basis?

Dinanath Dubhashi: I will take these one by one. So LAP - we have a good mix of LAP and HL. Largely on a steady state basis, within Retail we would want to have about 60-40 kind of mix. Slight variations may happen from time-to-time - your competitiveness in terms of rate in certain months go up and down, as you would have seen in market certain competitors came with almost HL like rates for LAP. Sometimes you lose your competitiveness when the market again changes. But in the overall medium to long-term, 60-40 kind of range will remain.

As far as geographies are concerned, we operate from close to around 30 geographies and 70% of the business come from around 7-8 centers. But last year we have opened new centers from which we are seeing good traction. These are largely urban and semi-urban in Housing as of now. We are not yet in absolute Rural Housing. The smaller cities Tier-II, Tier-III cities are giving good traction on the affordable housing space and what that has resulted in is better profitability and average ticket sizes have come down substantially from last year to this year. It ensures a more steady performance. If you would have seen the NPA levels which were pretty high last year have come down and in fact on our organic portfolio, we will be at around 0.6% - 0.7% levels. This is the dual effect of some of the large NPAs from our initial book getting solved and also we are falling now into a steady rhythm. It is just the second full year of operations of the Housing Finance Company and as a business model the company is falling into operating rhythm. That is the way the ratios will play on. NIMs will more or less remain where they are today and operating expenses ratios will steadily fall and that is how we will go towards 15% to 16% ROE range in Housing Finance in the next two to three years. That is as far as Housing Finance is concerned.

On the urban-rural divide, actually very few businesses of ours straddle both the places. You actually can divide our businesses - tractor is entirely rural, most of the SME and Mid-Market is entirely urban, housing today as I said is urban and semi urban. Thus it is only the two wheeler finance which really goes across urban and rural areas. Last two years, the growth in scooters has been largely based on not only the rural income, but more importantly, the improvement in conditions of rural roads. This has been a good operating push for increasing the scooter market. We believe that the road infrastructure in rural India will continue to improve. Most certainly rural demand will be much more moderated this year based on prediction

of monsoon, expectations of monsoon, expectation of crops and lower MSPs. However, given the mix of our businesses, even mix of our focus businesses, we think we should be able to maintain a decent growth in the overall portfolio.

I think Mr. Sivaraman has already answered the last question. I will try and repeat it and give a specific example. Let us say Tractors. Since the NPA norm is 180-days currently what are our collection strategies? So, when it is 60 or 90-days due, you start sending initial notices, etc., to the farmer. At around 150-days after following all processes, you repossess the tractor. And normally at that age the farmer will come and get the tractor released. You do not have to sell it at a loss. This is the operating cycle as far as the tractor recovery is concerned. Hence till it becomes 250 to 300-days, we actually do not think that we will lose money in a tractor. Only after this time, we are clear that the farmer is either not capable of getting his tractor back or not interested in getting his tractor back. You have to sell the tractor and perhaps book a loss. That is the operating cycle.

Now as the industry adjusts to this, the operating cycle will have to keep coming down. So this year it will go down by 30 days and keep going down. What will happen at 90 days is that I will send repo notices at 30 or 45 days overdue. One really wonders that after three years does RBI even really want that all tractor finance companies start sending repo notices after 35 to 40 days? So it will play out. We are not sure. We have made various representations also to the regulator. We are not sure how the industry will play out. A farmer getting a repo notice after 35 to 40 days according to me is crazy. But let us see how it plays out. I think 150-days will be pretty smooth. 120-days, etc., there may be issues. If you know even at banks the NPA norms for a farm loan is one cycle, which is 180-days, it is not 90-days. So, let us see how it goes in the next three years. Giving figures as 90-days today will not be of any use at all. As Mr. Sivaraman rightly said, because the rhythm on the ground is for longer and let us say more understanding recoveries from a farmer. We will as an industry have to become more aggressive in recoveries.

N. Sivaraman:

Let us avoid the fear of the unknown. Let us allow the change in behavior on the ground, both at the lender level and also at the borrower level to improve for us to really look at this aspect. Be assured that we talk as business leaders sitting in front of you. The loss assets are largely 180-day plus when very clearly the borrower demonstrates a lower level of interest in servicing the loan or even having the asset. Our provisioning coverage as I mentioned more than adequately covers our potential losses on such accounts on 180-day book portfolio and we feel good about it. It must be true for most other NBFCs too, the way they approach provisioning. I do not think you need to really be worried about the ultimate crystallized credit cost levels for NBFCs to dramatically change from where it is today.

Dinanath Dubhashi:

GNPA levels might be one but I think Mr. Sivaraman gave you a hint sometime back that our findings and statistical analysis show that if you take 150 to 180, the probability of default and loss given default is even lower than 10% and if you go to 120 to 150 and 90 to 120 it is almost negligible. So the P&L impact is actually quite negligible.

Dipen Sheth: This is Dipen Sheth from HDFC Securities. The telecom exposure in the wholesale book has reduced. Could you throw some color on this?

G. Krishnamurthy: Historically we have not been very aggressive in the telecom space and we had very little exposures. Yes, a couple of exposures got prepaid more because of competitive pressures and that is why you see a reduction. Otherwise from an aspiration stand point, we do not want to grow big in telecom. We do not see any special advantage that we bring on the table for this sector because there are one set of players who are very large, who get very good rates, very fine rates and then there are others who are aspirational where we do not want to get into. So in that sense we do not see this sector to add momentum to our growth play for the next couple of years or so.

Dipen Sheth: Similarly could you also explain the increase in the Others segment this year and what are the sectors we have lent to?

G. Krishnamurthy: Yes, main movement out there is that we have started an active bond desk, which essentially subscribes to or originates the rated bonds and subsequently sells it down. So that is a substantially large component. One other significant component has been lease rental discounting, where we discount commercial properties. So these are the two significant components of others.

Devam Modi: This is Devam from Equirus. It is heartening to hear about the learning curve that you have been through and how the organization has got a capability to deliver, probably on a consistent basis. So, we just wanted to understand something on the Retail Finance side. In the past we have seen certain asset quality stress like in the case of Microfinance or CE or CV or the Mid-Market segments. So, what is it that we are confident about going forward? Obviously, the cycle is going to be better from here, but what are the objective measures that we have built that our credit quality and underwriting will be much better going ahead? Have we changed some geographic selections or loan values or management changes or some changes in the mode of selling or something like that? What is it that we have done, that would inspire more confidence going ahead?

Dinanath Dubhashi: So, microfinance let us take that out. You cannot change your systems for governments asking people not to repay. But, of course, there is one change - we have tightened up our processes of selecting a particular place. If I have to talk about ruefully about the positives of the Andhra Pradesh episode, the industry is much better and much more disciplined in giving data to credit bureaus. Hence the information availability is very good. So we can now actually develop red, amber, green map of the entire country as to where we should operate based on the portfolio quality of the entire industry. On a portfolio basis, we have capped the exposures that we will have in any state. So till the Microfinance Bill is passed on the floor of the Lok Sabha which does not seem to be the priority now, it will still remain vulnerable for any particular state to behave like Andhra Pradesh. But I think it will be less likely now, but what we do is of course limit the exposures as a percentage of total book to any state. So that is as far as microfinance is concerned.

In the rural finance we have never had NPA shocks till now, but even there the risk as far as irrigation is concerned or as far as monsoon is concerned or the dealer behavior is concerned - the analytics in this is much stronger now. I would say we do not wait for the NPA to happen or the book to go bad in a particular area to react. Very early indicators in terms of post disbursement documents or non-starters, very-very clear portfolio norms are in place today. So strong analytics is what keeps this book in control rather than LTV being reduced, etc., because LTV being reduced is only a kneejerk reaction. What will happen is only your market share will go down, nothing else will happen; because if the farmer needs money, he needs money, it is more on a portfolio basis.

As far as SME is concerned, large amount of lending is mainly anchor-based and hence the strength and the mechanisms we put with the anchor, the information we get from the anchor mitigate risks. For example, if we are very strong with Maruti dealers, strong information exchange with Maruti helps us to keep that portfolio in control.

As far as the Mid-Market is concerned, all our losses were on pure balance sheet lending which we had done either with a pari-passu charge of overall assets or some of them were unsecured. We are being very-very selective in this type of lending now. About 90% of the lending will be either based on tracking specific cash flows or having access to very specific security. Also, once the access to SARFAESI for NBFCs is notified, it will be a huge advantage for us. So in terms of learnings, definitively, subtle learnings have come from all these.

On CE/CV, we will be very watchful on the risk/return paradigm. We believe that in this industry when the market is good everybody believes that everybody is AAA and lend at base rates. We will try and avoid that and if there is no improvement in the risk/return space, we will not grow.

Devam Modi: Basically, you are saying analytics and also credit data availability has also improved that has helped you

Dinanath Dubhashi: For the Retail segments, analytics and data availability and for the corporate segment, it is very clear shift of lending model.

Devam: On Investment Management - we did not see a lot of operating leverage coming through in the last year. Going ahead say next year we grow by around 25% in AUMs and you manage a similar yield of say 60 basis points. So on the incremental growth of say Rs.30 odd crores of income, how much more profit contribution can we see over there?

N. Sivaraman: It is a bit of a cocktail, assuming the scale economics to some extent will be offset by the amount of upfront fee that you pay. So, in context of what this business is, this is a function of mobilization too. I think we will have to see how the mobilizations do play out. Suffice to say that on operational basis the net margin is what we would target to achieve. In this industry if you look at the other players, they are doing about 25 to 30 basis points of the assets as a net margin. I think when we look at mobilization, we do keep this as a benchmark to ensure that we are able to achieve that number.

Prabodh Agarwal: My name is Prabodh Agarwal, I am from IIFL. My question is regarding your profitability. Your RoE of 11% and RoA of 1.5%, I believe is rather low compared to industry average. Many of your industry peers would be having a much higher profitability. So, do you have the RoE, RaA target in mind? Where do you think it will be in 3-years time?

N. Sivaraman: Very clearly 18% to 20% is the RoE range that we would like to work with. If you look at the current RoE tree, we are at the target level as far as the margin is concerned. If it gets impacted, it will be impacted because our leverage goes up. On the operating expenses, some of the new acquisitions and the initiatives that we are putting in place will play out in the next few years. But we may not see half a per cent kind of improvement on the operating expenses. So we can assume that we will have a steady state operating expense at the current level. In the Wholesale book we can see some continued improvement, but again it will be very marginal, it will be a function of ticket size, the quality of assets that we will do.

The area that we have suffered over the last two years very clearly has been the credit costs. I suppose it is a function of the cycle. I will put a lot of the blame on the cycle and partially to some extent may be on the initial strategy that we adopted. As we discussed extensively right through this one hour session and also through the presentation, some of these have been put in place that much better. As I mentioned to you, the credit cost for the Retail segment for the four quarter on a standalone basis was 1% without considering the effect of accelerated provisioning. Given the portfolio mix, if we target about 1.25% to 1.4% kind of credit cost levels, we should be able to achieve RoAs of about 2.4% to 2.5% and with a steady state leverage of 7x the RoEs should be around 18%.

As far as the Wholesale book is concerned, yes, today we have the stress of amortizing some of the assets we have sold to the ARC, plus continuing stress, especially in the EPC segment that we are facing. So, these are likely to either be resolved as the economy picks up or otherwise will have to be provided for over a period of time. So, if you look at our standard asset book with normalized NPA levels, the credit cost over here should be in the region of about 0.6% to 0.8%. So, if you really re-compute our RoE tree, I think we will be in the target range of RoE that we are looking at.

The Investment Management business is going to be a scale business. As the numbers keep flowing in the form of margin earning assets, the gap between the fee and operating expenses will continue to widen. That is what will deliver us returns. Our belief is that in about two to three years we should reach a decent level of RoE in the segment.

Y M Deosthalee: I think I dealt with this to some extent because this particular question was expected. Yes, it is a fact if you compare us with some of the competitors, the RoE looks low. But we also need to understand one thing that we have entered in a very significant manner in the last six to seven years whereas competitors have been there for a number of years. So, in view of this particular scenario, we have made investments for our growth. Investments for growth take a little time to catch up. As far as the lending businesses are concerned, especially the steady state businesses, you would have seen that but for these provisions which we have made due to the changed

regulatory environment, our RoEs would have been far better. Particularly in the last quarter if you look at in the Wholesale business, it could have looked like 17% and in this Retail business it would have looked like 15% or so. So, I am not saying that we have arrived at that level but what I am trying to say is that as far as the matured businesses are concerned, they will move towards that level much faster.

The investments will take a couple of years to reach those levels and I think in business even if you start all by yourself it takes two to three years for you to reach that level. I do not think in year one or year two you can reach that. But in terms of our aspiration I think we are reasonably confident that you will see consistent improvement in that in the next one or two years. Given the fact that the strength of the balance sheet, the kind of provisions which we have made in the books of account and the growth opportunity - the sectors which we have chosen, should provide us enough opportunity to grow and healthily grow with this targeted ROE in mind. So I think for us to reach those aspirational numbers, maybe about a couple of years is what it should take.

Moderator:

With that we will bring to close the formal discussion on this forum. The management team will be available for some more time for informal discussions over coffee. Thank you for your time today.