

L&T Finance Holdings Limited

Q4 & FY16

Analyst Meeting / Conference Call - May 3, 2016

Moderator: Ladies and gentlemen, good evening and welcome to the L&T Finance Holdings Q4 and FY16 analyst meeting. We have with us today, Mr. Y.M. Deosthalee - Chairman and Managing Director, L&T Finance Holdings; Mr. Dinanath Dubhashi - Deputy Managing Director, L&T Finance Holdings; Mr. G. Krishnamurthy - Chief Executive, L&T Infrastructure Finance Company; Mr. Kailash Kulkarni - Chief Executive Officer, L&T Mutual Fund and Mr. Sachinn Joshi - Chief Financial Officer, L&T Finance Holdings. We would like to start with introductory remarks by Mr. Deosthalee, followed by a detailed presentation by Mr. Dubhashi on the FY 2016 performance and future growth strategy. This will be followed by Q&A session. I now invite Mr. Deosthalee to initiate proceedings for today's discussions. Thank you.

Y.M. Deosthalee: Good evening ladies and gentlemen. Thank you very much for coming to this analyst meet. This is a special meeting from many angles - first is that we do believe that given the environment, the company has produced very decent results. I am not suggesting that there are no issues, we will talk about that in the presentation. Given the environment where there is very limited activity in the infrastructure space and a stressed situation in the rural markets - which are two of our very important businesses, we have in the last eight quarters consistently produced decent results.

The second important point is that in the financial services sector i.e. banks and NBFCs, if you look at the performance of many of them everybody is having some kind of pressure. This is true even in the case of large institutions, barring a few because they have chosen to be in sectors which have not been affected. So barring a few, most of the entities have been substantially impacted because of the economic environment and every day you hear numbers which are extremely frightening in terms of the NPA numbers or the provisioning made, etc. On the one hand, it is good that at least the information is available and on the other hand, we always wonder whether there is anything more to come. Under these circumstances in the last quarter and for the year as a whole also, our asset quality has remained stable. In the last quarter there is a marginal improvement over the previous quarter in spite of the fact that the farm sector is reeling under tremendous pressure. Most of the increase in our non-performing assets is in this particular sector. So the backdrop is not very encouraging and given these circumstances, our asset quality is quite stable and the growth in overall profit is extremely decent.

But the more important reason why this meeting is special is that we are going to talk about what is going to happen going forward - what is going to be the focus of the organization, the strategy of the organization, what we plan to do in terms of creating value through internal restructuring and several initiatives which are on their way. So the presentation which is going to be made to you will be in two parts - the first part is going to deal with the results, the numbers and the performance; and the second part is

going to talk about the strategy going forward which is going to be extremely useful.

To summarize in one sentence, the management is focused, the team inside the organization is unified and is going to focus on consistent improvement in return on equity. That is a single minded focus with which we are going to work on. There are several initiatives which have been undertaken. Implementation of those initiatives, execution of those actions will all result and are directed towards consistent improvement in return on equity. Dinanath will talk a little more about that in his presentation.

Somebody during the tea break asked me a question “Why did you not do it earlier?” Let me deal with that upfront - it is not that we were not doing it earlier. But many of you are aware and I think I am open about this, we were and continue to be an aspirant for a banking license. However, in anticipation of that we took several initiatives in year 2012-13. We have been talking about a comprehensive financial services business if you recollect which included product lines that make sense for the bank. Therefore there are several product lines where we did not have a significant or a distinctive position but we got into them. We were in growth mode. The size was not meaningful because we did not have a distinctive position and the profitability also was very-very limited. So there are a number of product lines that we got into in anticipation of the bank license.

It is not that we have given up this aspiration. Let me upfront answer the question. We do believe that the organization is prepared to address this situation as and when it arises and therefore it is not necessary for us to make preparation in anticipation. Therefore we will not do anything to prepare ourselves in anticipation of the eventual or prospective bank license. As and when it happens, we will look at it.

I also want to clarify and answer one more question. It is not bank at any cost. It is an extremely important aspiration for us, but I think the supreme aspiration is to consistently improve return on equity. So if banking as a platform is an enabler for us to superior return on equity on a medium to long term basis, we will examine it. But if it is coming in the way of our aspiration of consistently improving return on equity, we may not. It is a very important issue, but it will be addressed in this particular manner. The actions, initiatives, strategy are focused around this single theme and we feel reasonably confident that the plan which Dinanath will talk in detail is a reasonably robust plan in this direction. I am not suggesting therefore there will be exponential growth in 1 year, but we are reasonably confident that next 2-3-years’ time you will see substantial change as far as return on equity is concerned. That is why this particular analyst meet is different and special. We will divide equal time on both performance as well as strategy. After the presentation there will be enough time for us to answer all your questions. I am also eagerly looking forward to listening to you and getting your inputs. Thank you very much once again. Over to you Dinanath.

Dinanath Dubhashi: Thank you, Mr. Deosthalee. My name is Dinanath Dubhashi. Many of you would have met me before in my previous capacity as Head of the Retail Platform of L&T Finance Holdings. I have been with L&T Finance Holdings for the last 9 years, have been part of the management and today I stand

here in my new capacity as the Deputy Managing Director of L&T Finance Holdings. It is my great pleasure to welcome you, talk about our results, explain how we have done and as Mr. Deosthalee has said, we are pretty happy with what we have delivered and fully aware that much more needs to be done.

So as Mr. Deosthalee mentioned, we will talk about the outlook, how the year has been, we will talk about the financials and the strategy roadmap we have. I would like to really talk about it, get your feedback on this roadmap we have for the company.

Let us start with the Performance Highlights - This slide covers our performance for the last eight quarters. You are all aware that last 2 years has seen number of ups and downs in the economy. Infrastructure sector, agriculture sector and many other sectors that we are present in have been through some turmoil. But I believe that it is due to our strategy of having a fairly comprehensive book and our risk management practices that we have been able to maintain a very stable performance. We have seen the performance of various NBFCs and banks being volatile, but L&T Finance Holdings has been quite stable on various parameters. The growth has been pretty stable every quarter - we have shown a 22% growth in loans and advances this year. Even the quarterly PAT, it has been growing quite steadily - it has shown a 15% growth this quarter.

We have been emphasizing about the strategy we have been following and how the portfolio composition is shifting and how the quality of disbursements is also shifting. This includes the movement to B2C category in Retail and movement towards more operational projects as well as Renewables in our Wholesale portfolio. B2C products over the last 5 years have moved from just about 19% to 61%. CE and CV was a very large part of our portfolio – it is very cyclical and our position in that industry was not that of a leader. We have generally seen this market not doing well and our portfolio was also not doing that well. So we had articulated this strategy to reduce exposure of CE and CV. As a result you see it has come down from 41% of the book to just about 5% of the book over the last 5 years.

Similarly, if you see in Wholesale Finance - we have increased the operational projects exposure from 21% in FY11 to about 61% in FY16. This signifies that our strategy is working and that the risk profile of this portfolio is also coming down. Four years back we started investing in a sector that we believed is going to be the sector of growth in Infrastructure which is the Renewable Energy sector, both wind and solar. We have been proven right and the weightage of Renewables in the overall portfolio has continuously increased. Large part of it is wind followed by solar. We have been the leaders in these sectors and done quite well.

While we have faced issues in certain sectors like for example Farm - the monsoons have not been good in the last year and for the last 2 years crops have not been good and rural India is in problem. But our strategy over the years has ensured that the overall portfolio quality has been quite stable. In fact compared to December 2015, we have shown a fairly smart improvement from about 3.3% to about 3.05% and it has been stable even

compared to last year. You would notice that this makes us one of the very few financiers who have maintained a stable asset quality in this current year when there is literally blood on the street.

In our non-lending businesses that is Mutual Fund - we have done quite well. This is a business that we started in a small way when we took over DBS Cholamandalam a few years back and then consolidated by taking over Fidelity Asset Management about 4 years back. Since then the growth has been very good. Even this year the overall assets have done well and equity has done even better. Our equity AUM as a percentage of overall assets is at 41%, which makes us 4th in the entire industry as far as percentage of equity assets on total AUM is concerned. So this is a brief background of how the company has performed over the last 5 years.

In the next section I will deal with what has happened this year and this quarter specifically. With respect to the consolidated results of the lending entities, the basic point I would like make is that the growth in book and growth in income has been good, mainly on the back of growth in operating projects, housing, MFI and two-wheelers. As we have been saying in all our quarterly analyst calls, the contribution before credit cost has been continuously stable to increasing. This shows that the basic business model and portfolio has done pretty well. Credit cost has increased, but a fair bit of it is in anticipation of what is to come next year. Around Rs.200 crore of credit cost has been taken in anticipation of the 120 day norm which will come into effect in FY17. If we adjust for that, then it actually accounts for close to 30 basis points of book and the adjusted RoE would have been higher by close to 150 basis points. In spite of this there is an RoE increase from 11.07% to 11.68%. What I would like you to note here is that if we do not take into account this incremental credit cost that we have taken in preparation of FY17, the ROE would have been upwards of 13%.

So what will happen to the credit cost in the current year? The timetable is such that we will have to move to 90 DPD next year due to which we will again take some additional credit cost in this year in anticipation of FY18. But that would be it, from year after that i.e. FY18 we would have moved to stable NPA norms of 90 days and this preponing of credit cost or taking voluntary credit cost in anticipation of a new norm will stop. So these would be the highlights of this slide - the growth in loan assets as well as income has been good, operating expense is in control, contribution before credit cost has been steady and increasing, and credit cost is definitely up. Farm portfolio stress has also had its effect on credit costs. But more importantly close to 30 basis points of the credit cost which translates to 1.5% of lower RoE is due to voluntary credit cost or provisions that we have taken in anticipation.

At a consolidated level (slide 12) you will see that both the lending businesses as well as the non-lending businesses, including the mutual fund have shown an increase in profit. While the RoE has shown an increase for the lending business, it is slightly down from 10.29% to 9.78% at the consolidated level. It is very important to note that the operating companies i.e. the lending entities as well as the mutual fund business has actually seen their RoEs increasing. But we had raised preference shares at the holding company level at the beginning of the year in anticipation of

a much stronger growth. Of course there was growth but it was less than what we had predicted. We had assumed at the beginning of the year to have a normal monsoon and growth to be much higher, but it did not happen. The growth in assets did not need significant infusion of additional equity and hence the preference shares remained in liquid funds for most part of the year, resulting in a negative carry. We have been able to successfully repay Rs 750 Cr of the preference shares in March. The management is very clear that in future any such preference shares will be raised only when we see growth, even if it implies that it is raised at 10 to 20 basis points higher. We will not raise preference shares in anticipation of growth. While we remain confident of growth, we will raise funds only when actual growth happens. In fact, any action we take going ahead will be when we are sure of the particular event happening and not in anticipation.

Now I will just quickly cover all the businesses with some introductory remarks. I am sure you will have more questions on this and anyways I would like to spend a little more time on the strategy part, what the company is going to do differently than what it has been doing now.

On slide 14 - Rural products that is Farm, everybody is I believe quite concerned about it. Certainly the sector is not doing well, but there has been some good news on monsoon recently. These are only anticipations at this point of time. We also have reasons to believe that monsoon will be good, but obviously there is a time lag between rains and actual cash flow. After rains the crop is to be sown, it has to be reaped and then it is to be sold and only then money comes. So we expect that even if monsoon is quite good which is quite likely, the real money would start flowing in the sector only by the 3rd or 4th quarter.

How we have done in this space? Now, this is where I can say that distinctiveness comes to help. We believe that we can do tractors as good as anybody else in the industry. We are in the top three in the tractor industry. We believe that we know the rural market very well and hence certain steps that we have taken to manage this situation have indeed come to our help. So what did we do? Yes, certainly, we moderated disbursements. That is what normally people will do. But what we also did was actually put a lot of analytics into which part of India is doing worse than others, which are the crops which can grow without that much rain, which are the areas which are irrigated, which are not irrigated, ground water levels and started moving our portfolio slowly to what we call "green areas" and away from "red areas".

We also moved to financing second hand tractors which is a portfolio that is doing well. We also increased our collection manpower on the ground. Results are quite visible. After hitting a peak in December the tractor NPAs have reduced quite smartly in March. No doubt that in Q1, the NPAs will again go up. It is cyclical, but we believe that we have the ability to handle them well, to reduce them once again in September and then of course a secular reduction can be seen.

One fact that I will mention here to reduce many of your fears is that by numbers, 51% of our total farm NPAs have less than 1 EMI due. This ratio

was just about 39%-40% last quarter. So this number actually represents that for a large part of our portfolio, it is a matter of temporary inability to pay rather than people not being willing to pay. These are farmers who are genuinely out of cash at this point of time. Interactions with our customers actually make us quite sanguine that it is a temporary problem. Once some decent rains come and we see some good crops and some cash flow with the farmer, the portfolio will once again come back in control. We have been managing this portfolio with very low NPAs historically. Definitely in FY16 the NPAs peaked in December and have already come down in March.

Two wheelers - the sector growth was at about 3%, we have grown by 22%. In microfinance we are doing very well and the book has more than doubled. In housing we have grown by 60% though on a smaller base, while SME has grown by 53% and Mid-Market loans have grown by 17%.

Moving to slide 15 - Overall disbursement growth of 29% despite almost 28% negative growth in rural products. A large part of it has been moderation that we ourselves have done; we have not been too aggressive in tractor lending this year. In spite of this the overall disbursement growth is at 29% and resulting book growth is of 17%. Also in the sectors that we want to grow which are Microfinance, Housing and two wheelers the growth has been quite smart.

Moving to slide 16 which is Summary Financials for Retail – the interest income has grown by around 6% while NIMs have grown by around 17%. This shows our ability to hold prices and demand good prices from the market based on our strengths i.e. the turnaround time we deliver to the customer. It is also reflective of the change in product mix which has more B2C products now. Earnings before credit cost increased by 24% and credit cost has increased by 48%. Out of Rs. 213 crore of incremental credit cost for the year, Rs. 208 crore is coming straight out of Farm which is close to 100% of the incremental credit costs. This also means that the asset quality of all other products in the portfolio is in control. Even in Farm we believe that large part of it is only temporary. They are provisions and not write offs and we will be able to recover a large part of the Rs 208 Cr as the situation improves.

Additionally, out of the Rs. 658 crore of credit cost that you see, almost Rs.130 crore is anticipatory provisions that we have taken in preparation of the 120 day regime. This amounts to almost 60 basis points of credit costs. The NPAs have come down quite smartly from Q3 and yes, they are a little bit above what it was in March last year, but as I explained to you obviously Farm has seen elevated levels of stress.

Moving to slide 17 which gives the ratios - Net Interest Margins are up smartly from 7.38% to 8.29%. As we have been guiding, earnings before credit cost are up by close to 90 basis points from 4.71% to 5.62%. What this shows is our ability to be good in the market, deliver value in the market, do so at good operating cost levels and continuously increase the contribution before credit cost. Credit costs have increased from 2.15% to 3.06%. This is of course optical, 60 basis points out of the 3.06% is voluntary provision taken for the current year as mentioned before. RoE

has been more or less stable at around 11.5%. The 60 basis points convert into close to 3.5% of incremental RoE impact. So, without the 60 basis points RoE would have been close to 14%. This is a thought that I would like to leave with you.

Slide 18 - as far as the Housing Finance Company is concerned, the growth has been pretty much on predicted lines. We have shown smart growth all through the year and if you see the ratios, again, things are moving as planned and the RoE is up from 11% to 12.8%. Here also we are changing directions a little bit - we are moving away from salaried home loans which are sourced by DSAs. We believe that they are not profitable and hence moving towards direct sourcing of salaried home loans and more self-employed home loans and LAP. We believe that self-employed segment is our strength. We will see further increased profitability in the housing business.

Slide 20 - as far as Wholesale Finance business is concerned, we have seen growth from areas that we believe are our strengths. Excellent growth has been seen in renewables. About 79% of renewable disbursements this year have been from wind. We believe there is excellent potential in wind, close to 3 GW of wind power is already under implementation. Similarly for solar also about 3 GW is under implementation. We also believe that even though the tariffs in solar have fallen but good capacity is under implementation for tariffs above Rs. 5/MW. The lowest that we have financed is at around Rs. 5.45/MW. We have a very strong business model, a strong risk assessment model for both wind as well as solar. Especially in solar we finance projects only after the PPA is signed. So, with this kind of expertise, this kind of reach in renewables, we have done pretty well. We are as of now the number two financier of renewables. More importantly, our expertise is very valued in the market and this gives us good potential of earning fee income through our sell down desk. So we take a certain portion of the exposure on our books and the remaining exposure is distributed amongst the lending community. We are able to manage risk as well as churn capital and earn fee income, by selling a substantial part of it.

The other area of growth has been operational roads. We have begun leveraging our Infrastructure Debt Fund (IDF) for funding operational projects. As you saw in the graph earlier that shows the product mix over a 5 year period, a good proportion of the growth has been in operational projects. As we go ahead, we believe that there is definite scope of moving good amount of projects that we have funded at the construction stage and which have now become operational into IDF. This will benefit us as well as the customers. Good trajectory of infrastructure growth is coming primarily from renewables and operational roads.

We have largely stayed away from taking construction or project risk in most of the other sectors of infrastructure. We have stayed away from Thermal. We definitely believe there are refinancing opportunities as these projects become operational, but as far as project risk is concerned, we will largely concentrate on renewables which is our strength. Along with this we will focus on refinancing of operational projects both in energy generation, transmission as well as in the road sector. We believe that in roads there is

a definite uptick. Certainly much more needs to be done, but in both EPC projects as well as hybrid annuity model (HAM) projects there has been certain uptick that we have seen. We are certainly at the forefront of financing that, and are working with those developers.

Another good trend that we see and which is a possible positive is that as more and more projects get allocated, EPC contractors' order book and liquidity can undergo a positive change over the next 12-18-months. One of the big problems of this sector as well as the construction equipment sector has been the bad health of EPC contractors. We believe that as we go ahead, we will see improvement in that. Though albeit slowly but definitely some improvement is happening there.

Slide 21-23: How does all this look in our portfolio? Renewables disbursements have grown by close to 77%, roads by 65% and a very similar kind of growth in the book as well. Something that I would like to point out is a very smart increase in fees that we have achieved this year. This is on account of the fee income center of excellence that we are developing or rather the sell-down center of excellence. We believe that our expertise is more in project appraisal, assessment and asset management. Yes, definitely, an optimum amount of capital needs to be put in these assets, but we need not put 100% of the capital for all the exposures we take. There are a number of financiers who want to use our appraisal and sourcing expertise for their book. So we will sell down assets, generate fees, manage our risks and also manage capital allocation to the sector.

As you would see gross NPAs have been fairly stable. There is a small increase from December, which has happened due to one restructured asset moving into NPA. Similar increase in net restructured asset is also because one thermal project has undergone a technical restructuring. While the project remains viable, the increase in project cost was beyond 10% of the original estimated cost and hence it had to be classified as restructured. Overall, if I have to give a summary of the wholesale book, our strategy of financing and growing in renewables as well as operational assets is working well. It is yielding good results in terms of income, NIMs and contribution before credit costs. Credit costs have also been fairly well controlled. We may see a small uptick because of a couple of more thermal projects being classified as technical restructured cases. Generally we believe that asset quality is well under control.

Another point that I need to mention about this portfolio is that we are carrying close to about Rs. 860 crore of assets in form of private equity VC units as well as prop equity. This does not yield any income but definitely lends itself to value unlocking. We will definitely look to sell these and unlock value this year. We will definitely take the opportunity to utilize the capital gains arising out of this to make additional provisions and strengthen the balance sheet quality even further in this business.

Slide 24 -25: Investment Management - this is the business which we are very proud of. It is doing extremely well. A very smart growth in equity assets has led to a good growth in profits and this is in line with our expectations. We broke even in the very first year that we acquired Fidelity.

Fidelity of course was making pretty big losses. In FY15 we made a small profit of about Rs. 5 crore and this year we have made a profit of about Rs. 17 crore. As we go ahead, we expect this to continuously increase and support the overall fee income potential of the group.

Slide 26: On the Wealth Management business, we were in the news recently. We were offering this business through two channels – private and premier wealth. We believe that it does not make sense to have two separate teams as there is not much differentiation in the way these two businesses operated. Also with the recent change in the SEBI guidelines vis-à-vis payments of fees from mutual funds i.e. upfront versus the trail income. It made sense to merge these two, rationalize costs and approach the customer as one unified team. We have already completed that exercise.

As a result, we expect our AUS which has already grown pretty smartly to grow further and this business which made close to about Rs. 23 crore loss in FY16 will nearly breakeven in FY17 itself. So that is another big positive which will come in FY17. Once we break even there is no capital required for this business. Once this business starts generating profit, it is pure fee income.

This completes the Results Update section and we move onto the Strategy Roadmap for the company.

The management has been talking to you over the last one year about the roadmap that we have for improving profitability and return on equity. As I described a few minutes back, we have moved our asset mix slowly to B2C in the Retail segment and to more operational and renewable energy assets in the Wholesale segment. We have definitely seen the results. We have seen the RoE increasing. Of course the increase could have been much better. But as I described some of the costs that we have taken are anticipatory costs. The management is fully aware that the shareholders want to see a roadmap as to where this RoE is going. We are aware that our RoE is just about 10% which puts us well below median RoE in the sector. Very clearly, we want to set a goal and a path to reach top quartile RoEs, which we believe is what a company of our pedigree, a company coming from L&T stable should be delivering.

Now, just having a strategy is of no use without having very clear milestones. We will have quarterly milestones that the management will be responsible for. What we are unfolding here in front of you is the strategy that we have in mind. Based on the strategy we are setting milestones, KPIs and metrics for ourselves. As Mr. Deosthalee rightly said what has changed? Yes, a few things have changed. Why now? Why we did not do this before? I think I must repeat what he said that we have been certainly doing it before. But what we are putting across now is a very detailed study that we have done towards the end of FY16 with the help of a leading international consultant and we are now 100% sure of this strategy. More importantly, we are also sure that this strategy is not predicated on some eureka moment on us developing some great innovative product or us waiting for something to happen but rather it is predicated on incessant, strong execution.

Slide 28 - 31: So without further ado, let me start talking about the need for this decisive change, the need for putting the strategy and clear milestones ahead of you, to set a goal and the route to achieving top quartile ROEs. We are calling this **Transform, Focus, and Deliver**.

We see the need to transform - the strategy totally talks about focusing in what we do and obviously, it cannot be all talk, it is how the management will deliver. The roadmap clearly is the continuous improvement in RoE till we reach a top quartile RoE.

To see the need to transform, we must first see what we are. Because if we get what we are wrong, if we get our strengths and weaknesses wrong, we will not be able to make a success of the strategy that is in front of us. So, what are our strengths? What are our achievements? So obviously a big strength is that we belong to the L&T stable. We have great synergies that we can use with our parent. But on our own we are now among the largest NBFCs by asset size. We have a fairly wide spread reach, we have 700 plus points of presence and more importantly we are not even depending on those points of presence. Yes, branches are important. But today every microfinance feet on street, every tractor feet on street carries his mobile or tablet with him and can close business on the mobile or tablet. In rural India we have become almost completely paperless. We are very proud of this. We have played industry shaping roles in certain initiatives like the Infrastructure Debt Fund. We actually advised the ministry and the government to form the rules. We have been at the forefront of shaping the regulations and norms for IDF. Last but not the least we believe that our product mix allows us to participate in the growth engines of India which are Infrastructure Development, Housing, Urban Consumption and the Rural Economy. So we have all these things going for us.

Using these we have achieved a leadership position in at least four products. In renewables, we are ranked #2. In the private sector we are in fact #1 in renewables. In farm, we are in the top three with 8% market share. We were in fact #2 last year with 10% market share. This year we have let go some market share in new tractors and moved to used tractors, but we will gain it back. In two wheelers we are in the top 5 with a 10% market share. In Microfinance, from being a very small company we are already ranked #7 and definitely amongst one of the lowest cost and best turnaround time providers of Microfinance.

Slide 32-33: Now, with so many strengths, what is the need to transform? We have to look at our history to talk about it. Now starting from 2007 - before that we were a very small company, we really started growing from 2007. We believe that the company has gone through three distinct phases. So 2007 to 2011 was the growth phase of the company, from almost nowhere the company was growing, starting to get noticed. 2012 to 2015 we started making our financial coverage more comprehensive. As Mr. Deosthalee said, it was largely in preparation of the bank. We started launching products which are very bank-like products in our confidence that we will get the banking license. April 2014 - the banking license did not come. Obviously, our Plan B kicked in. We started growing in products that are more NBFC-like and slowly running down the products which were bank products like say car finance or salaried housing. We believe that

2016 to 2020 is a phase where we will concentrate on only one thing - that is generating superior return on equity for the shareholders.

How will it be done? This is what I am about to talk to you. It is no rocket science. The strategy that we are laying in front of you is noticeable by its simplicity. But the need to transform is really highlighted by slide 33. Our RoE has been around 10%-11% for the last 4 years. We are aware that certainly for NBFC this RoE is not sufficient. Definitely the management is very keenly aware and keenly focused that this should within the next 4 years and with specific milestones go up to be in the top quartile.

Slide 34-35: How this is going to be done? One key word of this happening is "Focus". Focus on RoE, focus on everything that we do. We will ask for every opportunity that comes up not why not, but the question of why. There will be very clear filters looking at every opportunity and we will use those filters very strictly.

The strategy can be very simply stated in using these three levers – Right businesses, Right Structure and most importantly the Right People for delivering this.

Slide 36: Now, we come to Right Businesses, which are the pillars to achieve our aspiration. There are three pillars starting with the Lending business which is our main business. But within the lending business we will concentrate on products which we believe will generate the superior RoE for us and I will go into the details shortly.

The second pillar is the Investment Management business. Our concentration will be on value creation. We believe that with 41% equity assets which are growing at a very good pace every year we are creating value in this business year-on-year. Focus very clearly will be our value creation as far as mutual fund is concerned.

The third pillar is the Wealth Management business. There is no capital required in this business, focus will be on maximizing fees which will straightaway help in increasing RoE.

In all the businesses, profitable growth will be the key. Definitely, we want growth. Growth is a good thing. But we do not want growth at any cost. The growth that we will achieve will be a profitable growth. This is the summary message of what we want to achieve and what we mean by Right Businesses.

Slide 37: How are we selecting the right businesses? This is specifically related to the lending businesses. How have we selected the businesses that we will focus on as we go ahead? #1 is obviously industry attractiveness. The industry needs to be attractive. We have looked at size of industry, future growth and regulations in the industry. For example, there are certain industries like say Construction Equipment where actually no financier has made consistent amount of money over the last 4-5 years. So from sheer industry attractiveness point of view we have decided not to expand in Construction Equipment.

The second filter is our ability to make money. Do we have it in us to make money on a consistent manner, to make money across cycles? Many of these businesses are cyclical. Do we have it in us to make money across cycles?

Last but not the least our ability to extract value. This is what we call distinctiveness. Now, why is this important? Let us take example of Tractors. We all talk about the bad situation in Farm, bad situation in rural India, rains not being good, Tractor market being in trouble. Now, we being distinctive in this market are confident that when the market goes up, we gain more than others and when the cycle goes down, we lose less than others. This is what we call a very clear example of distinctiveness.

We will do businesses where we believe that we are already distinctive or we have a very clear line of sight to be distinctive. So if the industry is very attractive, let me give you an example, Commercial Vehicles. Next year when such a meeting will happen I am sure that commercial vehicles market would be doing extremely well. Maybe analyst will ask me as to why we are not in the Commercial Vehicles business? Other companies have done well because Commercial Vehicles market already turned around. In fact, the market seems to have discounted that already and stock prices have already gone up. But we believe that this company is not confident of making money in Commercial Vehicles market. We have not made money till now, we are not confident of making money.

There are several products, several businesses where we are very confident of making money. We will concentrate and focus on those products. It will involve very decisive choices. We will not be emotional with this. Of course, it is not an individual's decision but this is a decision of the entire management and has been validated as I said by an external consultant. We will concentrate on whatever we do well. We will do much more of that. Whatever we believe we cannot do well we will stop doing. It is actually as simply as that.

Slide 38-39: So from 17 different products that we have been doing, we are coming down to three focused businesses. What will these three focused businesses give us?

In terms of the most costly resource in financing which is capital, it will help us prioritize. It will release capital from businesses which are not generating money, which are generating RoE lower than our average. We can then put this capital in businesses where we believe that we can generate superior RoE.

Second is the ability to make the right investment. So there are other expenses – manpower, technology, rent, etc which go into products which are not making money. Now, we will remove those expenses from there and invest in the right products where we believe we can make money and superior money. Not only capital, but also other expenses will get prioritized.

Third is management bandwidth - what we have seen is that the products which are small in scale and in which our ability to control risk is minimum, 80% of management time is likely to go there. This is because problems happen more where you are small in scale and you cannot control risk. Whereas where you are large you can control risks well and management has to spend less time, there are people on the ground to handle these. So we will free up management bandwidth so that we can concentrate on our focus products and achieve much higher profitable growth.

Last but not the least, there are people who ask me if this will increase concentration risk. Let me handle this upfront. Diversification is of use only if in all the products that you are diversified, you are strong enough to control risks. If you are very small in a sector and you are not strong enough to control risks there is no use to diversify in those sectors. So we will be in sectors where we believe we are strong or where we have the line of sight to be strong. We believe this in fact will reduce risks because our ability to handle downturns will be much better. So in an upturn, we will make very superior RoEs and during downturn we will be able to manage risks much better. This is the overall plan.

How does this look in terms of products? Based on the filters we have applied the three businesses and the seven products that we are concentrating on would be –

- 1) **Wholesale Finance** - consisting of Infrastructure Finance, especially operational Roads and Renewables; and Structured Corporate Lending. We have been doing very well there, doing very selective Corporate Loans and Promoter Loans that are heavily structured. We do not lend basis of only the balance sheet, we lend against a specific asset and specific cash flows. We are making good money there.
- 2) **Rural Finance** – consisting of Farm Equipment, Microfinance and Two Wheeler Finance. We are already very strong in these segments.
- 3) **Housing Finance** – consisting of Self Employed home loans, LAP and Developer Finance. The difference between the first two focus businesses and Housing Finance is that in the first two we believe that we are already quite strong and already have a distinctive position, whereas in Housing Finance we are quite new.

But our parent is Larsen & Toubro, our parent builds houses and buildings for most of the developers in the country. We believe that gives us tremendous synergies, tremendous strengths to make an impact in both Retail Housing as well as Developer Financing. We have a very clear roadmap and we are working on a very clear path to extract the synergies.

In addition to this, there is a short-term product i.e. supply chain finance which we do largely with large anchors like our parent or large automobile manufacturers. Those are short-term products which help us in our ALM as well as deliver good profitability. But as far as focus is concerned, these three businesses and seven products is what we will be focusing on. We believe that in each of these businesses we will be able to make RoEs which are upwards of 14%-15%. It may not be for all these products in the

current year, but there is a clear roadmap to achieving that which will take us to the top quartile RoE.

Slide 40: Now, when we talk of lending businesses one of the questions which comes is credit cost. Sector as well as our company's credit cost is one of the things which have troubled us in the past. The reasons are clearly explainable, but nonetheless the credit cost has been at slightly elevated levels than what it should be. So apart from being strong in a particular sector which gives us good ability to manage risks, we have put in place a very strong and formal risk framework.

The biggest risk that a lender faces is portfolio and credit risk. We have got a very clear framework for both Retail and Wholesale business of how to manage credit risk. On the portfolio side, we are investing in analytics and asset management to give us early warning signals when something is going wrong in a particular sector. On the operational risk side, we are investing heavily in technology to take away manual processes as much as possible. This is what I meant by when you concentrate on three businesses, the ability to invest in those three businesses is much higher. We will invest heavily in technology, thus controlling operating risk and on the ALM side we have been managing our treasury quite well. We believe that interest rate risk is quite well in control. So that covers the risk management framework for the lending businesses.

Slide 41: Moving forward to the AMC - since the acquisition of Fidelity, we have more than doubled the AUM. There has been a very clear and continuous focus on increasing equity AUM. We believe that have already generated tremendous value over what we paid to Fidelity. We are close to double the value and we believe that this pace of increase in value will continue based on our strategy.

Slide 42: On Wealth Management - in last three years, we have multiplied the customer count by seven times and assets under service by four times. Very clearly the roadmap for further growth and profitable growth is in place. I have already talked about that. Clearly, with one vertical concentrating on productivity and efficiency we will grow in this business.

Slide 43: From "Right Businesses", where the clear message is that we will do the businesses and grow quite aggressively in businesses where we believe that we are distinctive, we move to the "Right Structure". The Structure has two parts – the corporate structure and the way we allocate capital. You would have noticed in our Annual Report that we have quite a number of subsidiaries. It is as a result of regulations and acquisitions that we have made. We have undertaken a project to merge four or five of these subsidiaries into one. We will continue with some because it gives us big tax advantage as well as regulatory advantages. But the number of subsidiaries will be reduced, thus reducing regulatory cost, management time and making capital allocation more efficient.

But a more important part of structure is capital allocation. Very clearly from now on, capital will go towards businesses which generate higher RoE, thus overall increasing the RoE. As mentioned earlier we have a sell-down center of excellence. We have a tremendous opportunity in Infrastructure

and in Real Estate but there is no need to provide balance sheet to the entire opportunity. It increases risk and it also occupies the balance sheet. The sell-down center of excellence fills up this gap. So based on our appraisal skills and asset management skills we will source assets and sell down a good part of it to other people who would want to also own those assets. It will help us in capital allocation and in generating fee income.

I also referred to certain non-interest bearing assets in the form of proprietary equity and private equity VC units which we are carrying. Very clearly the focus in the first two or three quarters will be to monetize these and redeploy that capital in businesses that are making money.

Slide 44-45: After the Right Structure comes the Right People. We are a large organization, especially the Retail businesses and we have divided our organization into three parts and we will manage these three parts in three distinct ways. The junior management is our execution engine. We train them exceedingly well functionally and measure them on very clear performance /productivity standards. A clear ABC analysis is done and the A-category is always moved to the middle management and C-category is exited. Very strong performance standards are implemented. The middle management is our leadership of tomorrow. They bring leadership skills to the organization and large part of the investment will go in the middle management. When we come to the top management, these are the people having the highest impact on the organization. This is the top management team that we have. We believe that whatever plan we do, whatever milestones we put in place, a strong top management is required to implement them. We believe that we have the top management team who are ready to take aspirational targets and who are ready to be outward looking and ready to shape industry regulations and industry directions. This is the management team which will deliver this plan to the shareholders in the quarters and years coming ahead. This is as far as the plan to transform and focus is concerned.

Slide 47: Now we come to why you should trust us in terms of delivery. The most important point I made here is quite anti-climatic that the plan is nothing brilliant, it is not waiting for some one-off event from heaven or god to come tomorrow and say, "Let your RoE be in top quartile." The plan is very clearly about three words – Execution, Execution, Execution. It is very clearly based on that and we believe because of the execution timelines and the milestones that we have put we will be able to deliver this plan. So clearly, we will work as one LTFH. There are various structures within L&T Finance Holdings. We will change those structures to become client-focused. So a particular customer or a particular company will get all products offered by L&T Finance Holdings as a unified face.

We are also re-describing certain tools of delivering value – Cost Excellence. Now, cost excellence is understood as cutting cost. Yes, definitely, we cut cost. But we do not cut cost for cutting, we are not downsizing. The cost will be reduced as I said from areas which are not making profits and reinvested in areas which we believe can make high RoE. Hence, we are not talking about cost reduction, we are not talking about cost optimization, we are talking about cost excellence.

Innovation – Innovation is often understood as the best practice, as doing something completely different, coming with the products which nobody else has come up with. In financial services that does not work. You invest a lot, you come up with a product and in three months somebody will copy and compete with you. In financial services, Innovation means doing a particular action everyday one rupee cheaper or reaching one more customer in the same cost. Giving that loan one minute faster than what you did yesterday. We call that “Next Practice.” Every day we should try to be better in some aspects from what we were yesterday. We are developing centers of excellence. There are a few areas like real estate, sell down, renewables, road, etc where we are developing centers of excellence. We believe that we can be the first port of call for every customer in these segments and this will give us ability to generate good returns.

Last but not the least, the synergies with the parent - there are tremendous synergies and I must stand here and admit that we may have used about 25%-30% of them. A very clear plan to see how all the synergies can be exploited will definitely drive this change. There are very clear timelines on what we will be delivering.

Slide 48: So in the short term most definitely developing the sell-down center of excellence and driving the cost efficiency will be the focus. You would have read in the newspapers about certain cost cuts that we did, some newspapers talked about whether it is lack of business, etc., Let me be very clear. Yes, definitely, as we cut down on certain businesses, the number of positions in the organization will reduce, no doubt. We have done a very scientific exercise of looking at the talent in the entire organization and the best people have got the jobs which were available. What does it mean? As I have said, yes, we have cut costs in areas where we believe that we are not making money and reinvested a large part of that cost in areas where we believe that we should invest and we can make a lot of money. Now, a lot of these things have already happened and hence I am putting them in the short-term pipeline, that over the last month we have taken many of these steps.

In the medium-term, what we are looking at are two things - as capital gets unlocked from businesses like Car, CE, CV, etc we will reinvest that capital in areas where we believe that we can generate much higher RoE. Also, in certain investments like the proprietary equity or the PE VC units we will unlock value, monetize them and use that money again to reinvest in the products that were doing well or maybe take even more provisions to make the balance sheet stronger.

Last but not the least in the longer term, which is say FY18 onwards is when these businesses that we are now heavily investing in will start showing growth and higher RoE.

Slide 49: So this Ladies and Gentlemen is the overall plan. The plan has no meaning unless we have clear measurement metrics. So the management is ready to be measured on the following metrics - Improvement in cost-to-income ratio. We will demonstrate continuous improvement in cost-to-income ratio, maybe somewhere towards the end of FY17 because all the

cost initiatives that we take will take some time to roll out. There are some exit costs associated too. From the third quarter onwards, we will start seeing a serious reduction in cost-to-income ratio. Second metric would be specific initiatives that I have talked about and how those are moving and the most important one is continuous improvement in RoE. We will definitely show improvement in RoE in FY17 itself. I believe that as our book of non-distinctive businesses becomes less and less and the book of businesses which generate high RoEs occupies a higher percentage of the balance sheet there will be a very serious uptick in RoE, especially from FY18 onwards which will continue till we reach our promised top quartile RoE.

Thank you, Ladies and Gentlemen. I am very happy to have this good fortune of rolling out the plan for L&T Finance Holdings, the plan that we will follow over the next 4 years. The management is here, my senior colleagues are here and we are open to take any questions.

Manish Ostwal: This is Manish Ostwal from Nirmal Bang Securities. My question is on the strategy. You say you are looking at three metrics which are cost-to-income ratio improvement, progress of initiatives and improving RoE. So, if it is so execution focused, why we are you not sharing some numbers so that on a quarterly basis or even a half yearly basis we can evaluate the credibility of this plan?

Y.M. Deosthalee: Yes, there are numbers to this. The plan is not without numbers. But in our own wisdom, we thought that let us first deliver and then talk about it. There are internal targets. Ultimately the goal is to reach high teen RoE. It is the supreme goal. So all these initiatives are in that particular direction whether it is cost-to-income ratio or efficient execution. So, you can say that this is the overall goal for the organization. The management is working towards that and a lot of initiatives have been launched. It is expected that the visible results will be seen from this year onwards. I am not here to suggest, as I said in the beginning that there will be an exponential growth in this year itself. But I think in a couple of years' time, we will reach to a very respectable number as far as that goal is concerned. But, as far as the management is concerned and the board is concerned there are goals and they are going to monitor it on quarterly basis.

Manish Ostwal: Secondly, do we have businesses which are miniscule in nature in terms of market size or customer segments, which you would like to exit over a period of time?

Y.M. Deosthalee: There are a number of products which we will exit.

Manish Ostwal: What would be the impact of that on the portfolio in terms of size?

Dinanath Dubhashi: Good question. Our calculation shows that the growth in our distinctive products that we have chosen will more than make up for the reduction in book on account of these businesses on a run down basis. If we get an opportunity to sell some of these businesses, then the growth can be lower. But this is better because though growth will be lower, capital is released

faster and we do not have to keep associated expenses on the ground. If everything goes based on the rundown basis, the growth will be quite similar to what we have achieved this year. But the growth in book can be lower if we are able to sell off some of the assets.

Manish Ostwal: In your assessment, what is the market value of the investments you are carrying which are worth Rs. 860 crore?

Dinanath Dubhashi: We will be giving out competitive information. If we run a process, we would like people to bid for it.

Y.M. Deosthalee: One point I want to expand basis your earlier question about the products which we are deprioritizing or defocusing. It is not that we have started the process today. Even in this year which has gone by these products existed and there has been a substantial reduction in the book as far as those products are concerned. In spite of that, we have shown 22% growth in our assets. That is because there is a significant growth in the focus product line. So, that answers your question to some extent that the process of de-growing the defocused products had in any case started earlier.

Manish Ostwal: Who is the consultant?

Y.M. Deosthalee: The plan or roadmap which has been presented is a management roadmap. It is not a consultant roadmap. Consultants have actually facilitated or validated that roadmap. It is not being thrust on anybody, this is the roadmap created by the team and that is why the execution is going to be simpler to some extent.

Dinanath Dubhashi: The consultant has only validated that plan using the industry knowledge and global knowledge. We have our plan. They have definitely helped and validated, but it is management's plan and management owns it and definitely lot of KPIs of management are very clearly linked to it internally. A large part of that management is sitting here and on their behalf I am making this statement.

Nikhil Walecha: This is Nikhil from J M Financial. Could you please give the breakup of the geographies where the Tractor portfolio is facing stress?

Dinanath Dubhashi: It is largely in Madhya Pradesh, Maharashtra and Karnataka.

Sameer Dalal: This is Sameer from Natverlal & Sons. Just want to know in three categories that you are going to work in, what would be the maximum exposure you would take to each individual category? One of them which you mentioned is construction finance. So what would be the maximum exposure you would take in this? What kind of exposure do you plan to take given the risk profile?

Dinanath Dubhashi: I would not like to give a number to maximum exposure at this point of time. We have just started. Our portfolio today is less than Rs.1,000 crore in real estate. We believe that we have the skill to fund and structure loans across the needs of a developer right from construction funding to inventory funding to LRD. We are even developing products for land

funding which we currently do not have. So we will be across the value chain and across customer and builder category. This will distribute and diversify the exposure within real estate as well. Also, there are very clear targets to convert a good part of it to Retail home loans as we go ahead. There will definitely be predefined limits but I would not like to talk about that information in public domain and we will reach those limits two to three years down the line. We are too small right now as a part of our overall balance sheet to reach anywhere near that limit. We need to actually make an impression, grow in that sector to reach anywhere near that limit.

Y.M. Deosthalee: Just to supplement what Dinanath is saying, in lending business you need to have a robust risk management framework whether it is Retail, Wholesale or Real Estate. We have been in these businesses for the last about 10-years or so in a significant manner. So for example in case of Wholesale or Infrastructure finance we have the risk management framework which defines what is the maximum exposure you can take to your customer. So before we start doing any activity or business, this is defined. So similarly, as we grow in the real estate business exposure limits will be defined. But it suffices to say that currently the large ticket exposures are very limited and over a period of time as business grows it will be much more relevant than what it is today.

Dinanath Dubhashi: One more important thing is the sell-down capability that we already have and will further strengthen. We believe that for sourcing the right business and for well-structured business, there should not be a limitation. If balance sheet and capital is a limitation, then we can look at sell-down.

Sameer Dalal: What would be the loan outstanding for each of the three business lines on a regular standardized basis?

Dinanath Dubhashi: Housing - we are small today. So obviously, Housing as a percentage of overall assets is going to increase from today. For the rest of the Retail and Wholesale business the percentage will remain similar to today. What will change is the product mix within these verticals. For example you would have seen that in Wholesale business Corporate Loans have come down drastically. It was at 48% about 5 years back and now it is at around 12% - 13%. So, that will change. Hence the more relevant question is not how much would Wholesale be and how much would Retail be.

The more relevant question is within those are we doing businesses where we are strong and hence can we generate good returns and control risks. So that is what we are looking at. I think looking at Housing, Wholesale, Retail or Rural, how much it is as a percentage of total balance sheet is less relevant. What is more relevant is in which segments we are in, which industry we are in and are we capable of generating returns and controlling risk.

Sameer Dalal: You also very briefly mentioned that you might even sell down some of the sectors that you are not going to focus on. So can you give us a timeline by when you are planning to sell these assets? By when could you get the capital gains?

Dinanath Dubhashi: There are two things – one is the prop equity and private equity VC units and the other is sale of portfolios we are defocusing. I talked about both. We will definitely try and sell down the prop equity and private equity VC units in this year. As far as the defocused portfolio is concerned, we have a plan in place to run down the portfolio very efficiently. If an opportunity comes i.e. if a buyer is available either an NBFC or a bank, we will certainly look at it. But there is no rush to sell down the portfolio at a loss which is not warranted. This is true for the prop equity book also. We are confident of making good gains in the prop equity book. We will not sell it at a price less than what the true value is just for the sake of timelines.

Y.M. Deosthalee: Actually, when we are talking of the product lines that we are defocusing, it is a question of how much you will realize by selling the portfolio vis-à-vis how much loss you are going to incur if you run down the portfolio. So that is the equation which we are going to constantly look at and take a decision. But if an opportunity arises which helps us to quickly exit we will definitely explore that.

Vipul Shah: My question is regarding your focus on Housing. What is the logic for concentrating on Housing Finance which is so overcrowded, where there are very strong players like HDFC, LIC and host of PSU and private banks?

Y.M. Deosthalee: I agree with you that there are a lot of players in this market. But we do believe that there is a scope for additional players because if India has to grow, this particular business has to definitely grow. Again there is substantial gap between demand and supply in spite of so many players being there. You would have seen that we have been able to grow very well in this business in the last year. That is point #1.

The second important point is we have a distinctive advantage which we have not exploited so far. As Dinanath mentioned during his presentation, L&T is one of the largest constructors for almost all developers, especially good quality developers in the country. So be it housing, be it commercial or residential, L&T builds large complexes, they work with developers across segments. So if we utilize the synergy better, then we will be able to grow much faster than many others. Not many people have this advantage.

The last point which I think I must clarify is that the market is extremely crowded as far as salaried home loans are concerned. This is certainly a bank like product and therefore our focus is going to be in other areas and not in the salaried home loans area. It is not that we will not do salaried home loans, we will do some salaried home loans, but on select basis where we have some advantage of working with the developer. That is the way in which we go forward. But a clear focus is going to be on non-salaried class and loans against property.

Dinanath Dubhashi: If you see in the last three years journey in housing finance business we have demonstrated a growth in the book from almost nothing to Rs.7,000 crore and the RoE is also about 12%. Of course it must go up further but at a decent RoE we have been able to build that book.

Ramesh Bhojwani: Ramesh Bhojwani from Mehta & Vakil. The first point was that from 17 products you have brought it down to 3 focus businesses. So the focus becomes very clear. You were speaking about Housing and there was one aspect in Housing – Developer Finance. That is a little bit of worry because in our country let it be commercial or residential, any single project needs about 42 clearances where many a developer goes bust. So you have to be very cautious apart from having synergy of the parent with a developer.

Y.M. Deosthalee: I agree with you and that is where the synergy comes in. Because L&T starts construction only after all the clearances are obtained. So there is an advantage in that. So, this has to be utilized very efficiently.

Secondly, it is not only clearances. Clearances are an extremely important aspect, but it is also essential for you to make a choice of location and choice of developer. So the risk management framework has to be robust. This business we understand is relatively risky, but at the same time if you play it well it is a very good business. By the way most of the large housing finance companies are in this business and they have been doing it for decades. They have been extremely profitable in this business. There is good scope for a company like ours which has started well in the last one or two years to grow in this area.

Dinanath Dubhashi: Also, it depends on what stage you fund. There are various stages at which you can fund. So we are across the stages. There is a category which includes buildings that are almost complete and only the last few crores need to be spent. There you can do inventory funding.

Then there is another category where the construction is half complete, there is some small liquidity stress but the property is there and the bookings are there. We also study the pace of bookings, how bookings have gone over the last few quarters and then take the call. So according to me with a very clear view on the asset cover as well as the cash flow cover, the risk can be managed pretty well. In fact, we have done it quite well. Since our parent constructs for many of the developers it has tremendous knowledge about them. So we can definitely use this.

Ramesh Bhojwani: In the presentation, there was an emphasis on microfinance. Very recently, two companies from the micro finance segment have gone public. Your microfinance business ranking is #7. Both these companies are at that rank or near to that rank and both of them have applied in principle for a small finance bank license and have got the license. So you are very close to that. In the initial remarks the chairman referred to the bank license and gave an elaborate explanation. But a small finance bank in any case is achievable right away. Also the microfinance segment can grow from 50% to 100% CAGR over the next 5 years. Both the companies' CMDs that I was interacting with say that even if they grow to a size of 1 lakh crore, they will be still be called as small finance bank. This is the kind of expression of how the central bank or how our economy describes a small bank from a normal bank. He was trying to give us the scope, the measurement and the lengths to which his business can grow.

Y.M. Deosthalee: This is not a question. This is a comment, is it not? What I said in the beginning was about universal banking license. All these institutions have

got small bank license. I must clarify to you that we were not eligible to apply for the small bank license. The second important point is there are a lot of restrictions on the small bank license. If you get a small bank license, you cannot offer all the products which we are talking about. So, it is not really applicable to us. However, even if there are so many small banks and micro finance companies, the market is quite big and it is going to grow. Along with this Housing is also an underpenetrated segment and therefore there is a lot of scope for us to grow in this particular area too. So in NBFC construct also, we will be able to grow.

Aditya Narain:

Aditya Narain from Citi. I had two questions - one was on what you briefly alluded to on the banking license. If we could get some sense of exactly how keen you are on it? If it comes in the form that has recently come, is it something that you will very naturally take up? Secondly if there is an inorganic opportunity to merge into a banking platform of an existing entity either a smaller bank or otherwise, what would be your thoughts on that?

The other aspect which you have not alluded to at all is related to technology and branding in this entire exercise. If you could just give us some thoughts on what you are doing on that front? A lot of the existing competition that you have or will evolve with these new licenses is all starting on a single platform and a new platform. Whereas in your case given that you have a breath of businesses, I would suspect if it has been a little bit of challenge on how you are looking at going forward.

Y.M. Deosthalee:

I will answer the first question and Dinanath will talk about the technology and branding part. I did mention in the beginning that our aspiration of becoming a high quality bank certainly remains. But, it is not at any cost. As Dinanath mentioned in his presentation and I also said in the beginning, we are committed to producing good quality returns to shareholders. If banking means that for a period of 10 years there is going to be pressure on RoE, we will seriously not consider it. However, if there is a possibility, whereby there may be a short term pain but there will be a huge long term gain we will certainly look at it. So what I am trying to say is that it is an extremely attractive business proposition. That is why we had initially applied.

But going forward given the changed situation there are several other versions of banking which are now coming to the market. We will examine it from the point of view of our goal of producing consistent returns on equity. So if it is coming in the way of this goal for a long period of time we will not consider it. Otherwise, we will certainly examine it. As far as inorganic transaction is concerned, the answer is same – there is no difference. That means if there is an inorganic opportunity which enables us to achieve our aspiration but which also helps us to walk on this path of consistent improvement in returns, we will look at it. But if it is going to be a long term pain, we may not.

Aditya Narayan:

Just if I might add a corollary to that - your current focus areas that you mentioned for example housing. You are not seeking to do necessarily bank side stuff and products like tractor finance are not necessarily tied into what banks do by choice. Has that gone into your thinking in terms of how you align the strategy?

Y.M. Deosthalee: Actually, the strategy is to look at products which are suitable for an NBFC. I said in the beginning that we will prepare in case we come to a conclusion that banking makes sense from the point of view of consistent returns. If it makes sense, we will examine that. I also mentioned that the organization is ready to change if that happens. Today, we are not prepared to build product lines which makes sense for banking and which do not make sense for NBFC. Some of the product lines are extremely good for the bank, they are not good for NBFC, that is what our understanding is.

So, you are right, currently, the areas which we have chosen are more NBFC type areas. As you rightly said in rural product i.e. tractor financing although banks are also in this business, there are some banks which are leaders. But yes, I think some of the NBFCs have an edge and therefore we believe that can continue. But, it is also important for us to know that the line of demarcation is very thin. There are banks which are becoming aggressive in some of the product lines.

This is where the technology question comes in. You talked about technology and brand. It is very important for us to maintain the distinctive position which we have. Dinanath talked about innovation which is the next practice. Every time you have to look at what next, what next, what next and then constantly improve. Unless we do that, it is not possible to maintain that distinctive advantage which we have today. So, in the product lines like Tractors, Microfinance and Two Wheelers, in some ways we have created a position for ourselves. But the effort of the organization will be continuously maintain that position. Otherwise, you can easily lose your market leadership in that.

So unless you improve turnaround time, unless you use analytics, unless you use technology, it will be tough for you to maintain your leadership position and that is what is required to be done on a continuous basis. A lot of initiatives have been taken in this area, Dinanath will talk about it.

Dinanath Dubhashi: Just talking about the banking aspiration and the questions that you asked about products. Very clearly, we did our soul searching and we reached a conclusion that we would rather be an aspiring NBFC than a bank aspiring NBFC right now. When there are no guidelines, any bank aspiration is only a dream at this point of time. When the guidelines come, we will look at it and then we will decide.

But at this point of time, the aspiration is top quartile RoE. If the form for that is NBFC, so be it. If it is bank, so be it. So that is very clear. Secondly as far as technology is concerned, once again, technology is great, but technology for what? If it involves some heavy investment in technology to come up with a product which nobody has done before, it would be less likely that we will invest technology there. Technology also will be linked to RoE. What does it mean? By reaching the customer a little bit faster, can I get a little higher yield? Then I would definitely invest in technology. Can I save cost by doing it paperless and doing everything over mobile and tablets? Then I will invest in technology. Can I save cost by centralizing processing? If yes then I will invest in technology. Can I reduce credit cost by doing high quality analytics and hence have early warning signals? In that case I will invest in technology. Do I want to invest in technology for

doing a product line which I have not done or nobody has done? Say something like B2B, do I invest in technology? May be not at this point of time.

So, at this point of time, technology will go with a very clear view of which part of RoE tree we are touching. Just to give an example, we have invested heavily in mobile technology. So microfinance, we have the lowest cost on a pan India basis and globally are number 4, the other three being small African companies in microfinance. We can reach very distant corners of India at the cheapest level because there is no paper involved in our microfinance disbursements. We were the first to use tablets for tractor financing. What we will do in the future in terms of technology is that the technology head and the business head will very clearly have to show the case to the top management as to which part of RoE tree it impacts and we will definitely invest.

The beauty is that the cost that we have saved from the rationalization measures that we have already taken will be reinvested in this. So that is what we are planning to do in the medium-term. In the short-term we have cut costs, we will invest in mobile technology, in analytics and such things which will immediately affect RoE positively.

Y.M. Deosthalee: Just one clarification I want to give because you asked a very important question about bank versus NBFC. This entire strategy is predicated on two points – we want to grow and we want to profitably grow. So, we believe that even if we remain as an NBFC for next 5 years minimum, let us assume. We should be able to grow in the chosen product lines based on the distinctive advantages which we currently have and which we need to continuously have because growth is also important and then profitably grow.

So, growth is important. It is not that by reducing products, growth is getting compromised. In fact, we will be able to grow in areas of our choice where we have created some capabilities and competencies in the current format of NBFC. So that is the way in which the plan has been prepared. So it should be clear to everybody that this plan does not mean that growth is compromised, the growth will be there in our areas of focus and it will be a profitable growth.

Saurabh Kumar: This is Saurabh from JP Morgan. My question is on the credit cost. So sitting today how do you feel about your credit cost for FY17 especially on your Tractors and Thermal portfolios and also on account of the shift you will do to 120-day next quarter?

Dinanath Dubhashi: I will answer Tractor first and then the overall 120-days part. I will talk about the tractor segment at a sector level and then our portfolio. In terms of the sector, perhaps it is at its worst point with four continuous crops failures. All indications are that monsoons are going to be good. We have to wait for that. If monsoon is good, farmer will start sowing. So the funds will first move to seeds and not to paying EMIs. When the crop comes, normally, the kharif money starts coming from October-November onwards. The country has never seen four continuous bad monsoons. El Nino is receding and La Nina effects are expected to play out. Our chief economist is here

and she also confirms that we may see good monsoon. But it doesn't rain money! Only water!! For money to start flowing, it will be the third quarter or so. After a good kharif and good rabi hopefully we will see a secular trend coming back and the cycle will be in the normal pace.

How are we managing it? We are managing it in three-folds - #1, using our analytics and our product knowledge, we have actually moved our portfolio away from seriously risky areas. Various analytics go into it including irrigation, 10-year IMD data, etc. Portfolio in green areas as we call it has increased from 70% to more than 80% over the last couple of years. So portfolio is in decent health. Secondly we have also moved to second hand Tractors which is done at 40%-50% LTV. Thus the safety, risk characteristics are much better because unless the tractor is used for rice, the life of the tractor is 12-15 years and funding is typically for 5 years. So it is very amenable to funding.

Last but not the least is our collection strength on the ground. With this we have been able to bring down NPAs in farm sizably between December and March. As we see June it will go up again, may not be to December levels, but it will certainly go up again. September again seasonally it will come down. By that time if the rains are good, crops are good, we will start seeing a secular decrease. Obviously I can't guarantee rain, but given our portfolio strength & our efforts, I am reasonably sure that March'17 as compared to March '16 will definitely see NPAs coming down in the Farm portfolio. So that is as far as Tractors is concerned.

As far as portfolio provisioning policy is concerned, we provide completely based on LGD or Loss Given Default and Probability of Default calculation. Based on that and based on our portfolio behavior we have calculated that the cost of doing business on the entire retail portfolio would be in the range of about 1.7% - 1.8% of provisions as a percentage of our whole portfolio. We are more or less there. Now, we have to marry that with the regulations because the regulator does not allow you to do portfolio level provisions. We have to provide for each asset. As of now, we have taken a 10% provision on the 120-180 bucket for Farm. We have done 100% income reversal for the 120-150bucket assets. In Farm, we have already taken the provision, there may be slightly more to be provided because of regulation. But as far as the requirement of portfolio provisioning is concerned, we are adequately provided for. So if anything more is required for regulations, it is only provisions and not real loss. As I always say, the farmer does not understand 120, 90, etc., He will pay when he has money which is twice a year. So that is on the Retail part.

Y.M. Deosthalee: Actually, this move to 120 days is an arithmetical calculation. So what you might see is that the GNPA numbers may go up when we move to 90 days, but that does not mean that the provisioning requirement will go up. The impact on the P&L account will not be significant. Our analysis shows that it is actually the assets with overdue of 180 days and more that are relevant for calculation of losses. This is based on data over a period of last 5-years that we have analyzed. So provisioning requirement may not significantly increase and therefore the deterioration in the P&L may not be there.

Dinanath Dubhashi: Just to give an example - on Tractors we believe that we will start losing money only after 180 days or more and seriously after 360 days and 540 days. While in two wheelers we believe that the likelihood of losing money begins at 90 days overdue. So we start providing at 90 day overdue even if RBI does not require it. Though it is not NPA we start providing a major portion at 90 day overdue

G. Krishnamurthy: Overall, we have a very low coal thermal exposure on the portfolio now. It is 13% of our assets compared to a much higher number for other infrastructure finance companies and this is only as a percentage of the Wholesale business segment. Within that the under construction is less than 50%. So primarily we have three large projects which are under construction and where the CoD has been extended as it has taken a long time to complete construction due to multiple issues including clearances, equity infusion, etc., So, one of the projects got restructured in Q4 this year which has resulted in an increase in the restructured assets number.

We have been guiding on this for the last couple of quarters. There are two more such assets. So last time I had said that a total of Rs 750 crore is on account of these 3 assets. So a couple of more assets which make up to this number will be restructured most likely in Q1. These will be technical restructuring because either it has missed the CoD by two years or due to cost overruns. RBI says that in a 5 year project, if you miss the CoD by 2 years you have to start treating it as a restructured asset or if the overrun funding is more than 10% of project cost then too it has to be treated as a restructured asset.

But typically, many of these projects were taken up when rupee was at 45 and today it is a very different number and overruns are inevitable, tariffs have also dramatically changed. The tariff assumptions when we funded these projects were closer to Rs.3.55 whereas today what people are able to get under auctioned PPAs are much higher. So we believe that the fundamental viability of these projects still continues. Having said that, whatever is the P&L impact required for making restructuring provisions for these two assets have already been provided in Q4. So, while the RSA will worsen next quarter in Q1 or Q2, the P&L impact has already been taken by us.

Y.M. Deosthalee: To put it differently, provisioning requirement arising out of this has already been taken care of but because of this technical restructuring, the restructured asset number might go up. It is also important for you to know that all these three projects are in advance stage of completion. I do believe that a couple of them at least have good PPA at very attractive rate. So, it is important to complete these projects. The banking system along with us is actually working towards completion of the project. Once the projects are completed, I think there is an extremely good chance that they do well. So, we do not expect any losses arising out of that. It is because of the RBI requirement that this provisioning has been made.

Nitin Kumar: Nitin from Prabhudas Liladhar here. Can you guide us on wealth management business in terms of some performance overview - the percentage of fees or how big the team's cost is, fixed cost? How do you

propose to take this forward as the number of clients has grown significantly? Is there something you can share on this?

Y.M. Deosthalee: As Dinanath mentioned in his presentation, this particular business was being offered through two channels – Private Wealth and Premier Wealth. Really speaking there is not much of differentiation between the two. So it probably made sense to the banks but does not make sense in a standalone wealth management company. Therefore we decided to combine these two.

Now, when we were offering these products through different channels, the Premier Wealth business was growing and the cost was substantially higher because of the number of people that were getting added in that business. Also that business would have taken a much longer time to break even. So that is why we decided to combine both these operations and we feel reasonably confident that in this year we will almost be closer to a breakeven. Now, what has happened because of this? There is a reduction in the manpower.

The second important point is this business has structurally changed. The upfront commission that can be charged by wealth managers has been capped at 1% and they get a much larger trail commission. So, in this particular year what has happened is that for the business which has been booked the upfront commission has been restricted whereas trail will come over a period of time. It has started coming in the last quarter. So the costs have gone up whereas the income has not gone up to that particular extent. That is the reason why you see a significant drop in profitability as far as this business is concerned.

This trail income will start coming in as the assets which we are managing remain with us for a period of time. It depends on how long we keep the assets with us and therefore enjoy the trail income. So that is likely to happen in this year.

Two other important points – because of the cost optimization and with number of people getting reduced, the cost should come down and there are very steep productivity benchmarks which have been set for these teams. So there has to be an improvement in productivity. Normally when you are growing in this business you hire people and for them to become productive it takes almost 6-9 months. What we are doing today is that because of the cost optimization the hiring will come down and the experienced and good people continue the business. So the time taken for becoming productive is getting reduced. The cost will come down in the current year and it will almost reach break even this year.

Nitin: So average billing will be 1% of AAUS?

Kailash Kulkarni: That is what Mr. Deosthalee was just mentioning that the upfront is capped at 1%. It does not mean that the income is 1%, it depends on the asset class you sell. So for example on equities it may be 1% while for other different product categories it is different. So what he was mentioning is

that on the equities part of the business which is sold, upfront is capped at 1% while trail keeps coming in from day one.

Devam Modi: Devam from Equirus Securities. Could you give a sense of our presence in Housing in terms of geography? Whether it is completely urban and semi-urban or we also have some rural presence over there. What is our long term plan over there?

Dinanath Dubhashi: As of now we have no plans for rural housing. We are completely semi-urban and urban. We are also in metros today but we will move to urban, non-metro urban and semi-urban. In metros we will do LAP and self-employed home loans. For rural there are no immediate plans. In spite of our rural strength, the reason very clearly is the cost of doing business there is pretty high and also there is a little bit of problem in terms of not having clear titles of land, etc., We may explore it using our Microfinance engine to give individual loans for home improvements, etc., But for purchase of houses or as a separate rural housing product we do not have plans at this point of time.

Devam Modi: Can we have a breakdown of credit costs with regards to the standard assets, the restructured assets and NPA provisions that we would have accumulated at a balance sheet level?

Dinanath Dubhashi: The overall provisions you can calculate based on the provision coverage that we have given. That is the provision on the balance sheet.

Devam Modi: Does any portion of our current portfolio qualify for PSL in the banking context?

Dinanath Dubhashi: Certainly it does and we can sell it. Certainly, we can consider it if need be but at this point of time they are high RoE portfolio.

Devam Modi: What percentage would that be?

Dinanath Dubhashi: Almost entire Tractor and Micro Finance.

Nitin Kumar: I have two observations on the Wholesale Finance business. Firstly, if I see the overall provision that you have mentioned it is written that over and above RBI norm, the provisions is around Rs.89 crore which is roughly half of the total provisions made in that business this year. So does that imply that all the bad loans are sub-standard and hence we have made incrementally higher provisions as these bad loans age?

G. Krishnamurthy: The provisions over RBI norms are balance sheet numbers not P&L numbers. So I think you are comparing balance sheet number with the P&L number in this question. But having said that, a substantial part of the NPA currently is fairly less matured and in fact substantially it is in the sub-standard category. It has not gone to D1 or D2. The required regulatory coverage is much lesser and rightly so. Therefore while we have made much higher provisions compared to what regulations require, we have extra provisions even at 30% PCR. So in that sense you are right, the ageing of this portfolio is not much. It is just from the last one and a half

years or so. Therefore, PCR which is currently at 30% is pretty comfortable and that is well above RBI norms.

Y.M. Deosthalee: The question is whether they are all sub-standard?

G. Krishnamurthy: Yes they are sub-standard but not in Doubtful-1, Doubtful-2 or loss category. They still have not come to that level.

Nitin Kumar: Secondly, the cost of funds has gone up pretty sharply in this quarter in the Wholesale business. So what explains that?

G. Krishnamurthy : On a Quarter-to-quarter basis our business is so lumpy. In Q3 actually a lot of disbursements as well as borrowings happened in the last one week. So Q3 numbers in terms of cost are purely due to averaging than actuals. I would suggest you look at TTM or annual kind of 12 months period. Any quarterly ratio in this business will be wrong. So 8.45% as cost of funds in Q3 is purely because of averaging. Even the yield is also comparatively understated in Q3. You will see both are correspondingly lower. So just look at the spreads rather than NIMs. That gives you a better trend.

Nitin Kumar: When we talk about the medium term, we have ambition of 17%-18% RoE. What do you think is the bigger ROE driver for us? Is it cost ratios? This time I notice that we have placed much more emphasis on cost ratios versus credit cost that we earlier used to aim for?

Dinanath Dubhashi: We have not put emphasis on cost ratios alone. I do not know how you got the impression. I only said that we will measure cost to income ratio along with RoE. In fact, cost as a percentage of book may go up because of the change in product mix as we move more towards tractors, two wheelers and micro finance. So, we will measure cost-to-income ratio. Having said this, RoE will be delivered at overall level.

Most important part we are forgetting is the denominator. We believe that the biggest delivery of RoE according to the plan it will be denominator. As products which are taking up space on the balance sheet and capital and not generating RoE go off the balance sheet, the capital will get deployed into the high RoE business. Especially products like CE, CV which are actually generating negative RoE at this point of time will go off the balance sheet.

So even at this point of time, several products are generating top quartile RoEs. Of course, we will see cost coming down slightly, credit cost coming down majorly and overall NIMs remaining constant or even slightly increasing as we shift product mix. Those will be arithmetic. But most important determinant will actually be the denominator as capital gets reallocated to more profitable products.

Nischint Chawathe: This is Nischint from Kotak. Just one aspect I guess we did not touch upon and that is essentially capitalization levels. Where we are right now, are we comfortable with the current capital levels? What are the capital raising plans incrementally as this plan rolls out? What is the leverage level that we are looking at?

Y.M.Deosthalee: Given the growth plan in the current year, we do not see any need of capital in the current year. As capital gets released from de-focused business, it will be put in other businesses. We also have the highest growing businesses which are Housing and IDF that will be able to leverage much more than the other entities. This is the big advantage because we will move large amount of operating assets from the Infrastructure entity to the IDF and hence using its AAA status, it will be able to leverage much more. Same will happen to the HFC. So given the ability to leverage more, we do not think that capital is required.

At sub product level if the growth is better than what we expect, say in Tractors, etc., we can always raise small preference capital at holding company and give capital to subsidiary. As you also know there are warrants that we have issued to Bain Capital in the transaction and that capital is also due from them. But we expect that only in FY18. Even with the growth that we are planning, we believe that we will be able to fund that growth through higher leverages in HFC and IDF and reallocation of capital to higher RoE generating businesses. As we go ahead, as the RoE increases and moves to high teens, the need for capital obviously comes down because as we generate more accruals.

Nischint Chawathe: In this backdrop, can you give some guidance in absolute loan growth targets for the next two years in terms of percentage growth target?

Y.M.Deosthalee: We normally do not give the loan growth target, we refrain from giving. We presented a plan and what we said is in the areas which we are focusing, we have grown extremely well in the last year and there is no reason why we should not grow in this year. So based on this it is desirable that you make estimates rather than us giving targets.

Dinanath Dubhashi: We can definitely say that even after considering a run down of the defocused portfolio, we will still show good growth.

Y.M. Deosthalee: There is one point I want to just supplement to what Dinanath mentioned about capital. As the things stand today, yes, certainly we do not believe that there is a need. But if you see in the last year we have suffered by raising the preference share capital at the beginning of the year and that mistake we do not want to make. In anticipation of the growth we do not want to raise capital. So if there is any need, say for example in the second half of the year, we always have an opportunity to raise preference capital at that point in time if it is necessary. If we are able to release capital from these defocused businesses, then it will not be definitely required.

Participant: Can you comment on profitability or productivity per employee?

Dinanath Dubhashi: Given the range of products we are in, it will be such an average that it will not make any sense.

Y.M. Deosthalee: It is very important for you to know there are different businesses. Say for example, to illustrate the point, the Wholesale book is almost about Rs.28,000 crore, but it is managed by less than 200 people. Whereas the Retail book of similar size the manpower requirement is very different. It

depends on the composition of that. But suffice to say that we are focusing on improving productivity and the whole organization is focusing on performance. So that is very critical. You would have read in the newspapers about some separations which have happened. They are all performance based actions which have been taken and that is a continuous exercise we will do. So we have to constantly raise the bar of productivity. That is the effort.

Participant: What are your views on Smart city project?

Dinanath Dubhashi: We will study that opportunity. There is always a small team which keeps studying new opportunities. We are in the Infrastructure sector. So like Renewables where we saw an opportunity, if we see opportunity to develop a center of excellence, we may look at it. But there are no plans at this point of time.

Y.M. Deosthalee: Smart City as a business, L&T is definitely examining and they are working on that. But from a financing perspective, we do not know what is going to be the structure of those Smart Cities, who is developing, what is the capital required, what is the financing requirement. We will look at it. However for getting into a new business line, we will not jump into it. As we have said in the beginning, this management is committed to producing returns. If it is going to make sense for us to get into the business of Smart City and maintain our goal of consistent improvement in RoE, we will look at it. But if it is going to be a fancy idea to get into financing of Smart City, we would not do it.

Moderator: Ladies and Gentlemen, with this we conclude today's conference call. Thank you for joining us. You may now disconnect your lines.