



**L&T Finance Holdings Limited**  
**Annual Investor and Analyst Meet for Q4 FY 2018 & FY 2018**  
**Transcript**  
**May 07, 2018**

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**Moderator**

Very Good Morning to all of you. On behalf of L&T Finance Holdings, I welcome you all to the Annual Investor and Analyst Meet for FY 2018. We would also like to thank JM Financial for co-hosting the meet with us today.

We have with us here today our Managing Director and CEO -- Mr. Dinanath Dubhashi and members of the senior management team.

Before we start, as a standard disclaimer, I would like to say that certain statements made here today could be forward-looking in nature. And hence, notes to that effect have been provided in the Annual Result's Presentation on the website.

I would now invite Mr. Manish Prasad – MD & CEO Institutional Equities, JM Financial on the dais to share his thoughts on the L&T Finance Holdings story.

**Manish Prasad**

Thank you & good morning, ladies and gentlemen. A very warm welcome to the Investor and Analyst Meet of L&T Finance Holdings. I am Manish Prasad representing JM Financial. We are very proud to be associated with L&T Finance and have a long relationship. With a leadership like Mr. Dinanath Dubhashi, we look to continue that going ahead.

Before I invite Dinanath on the stage, just a few words that I want to kind of share into what we think on L&T Finance., It's been about two years since Mr. Dubhashi took over as MD and CEO. It has been a remarkable transformation of the Company and we are proud, and we are pretty vocal about it and thought why not probably share it in Analyst Meet, as well as our thoughts around it.

So if you look at from strategy, plan, execution the roadmap of 2020 has been very clearly articulated, very well defined and chugging along to execute those strategies is exhibited well in the last two years. Be it growing the share of profitable businesses within the different verticals or its focus on increasing the proportion of fee income, Cost efficiencies, digitization of the businesses and again, increasing the non-lending part of the business. I think, the journey has been wonderful. The numbers are there to see for everyone and within that I think, the leadership has clearly demonstrated its two years and longtime going ahead we are very-very positive moving ahead in terms of the execution and the roadmap that will be executed.

Between seven - eight quarters, ROE that was in the range of 10% is today 15% plus; stupendous rise over there. Return on equity is a great parameter for everyone to actually judge.

What that has done is and we do not really identify minute-by-minute, quarter-by-quarter stock wise performance. No, that is not what it is. We have to see shareholder diversification, we have to see geographic spread of shareholders and clearly, you can see it over the past maybe four quarters, the kind of investors that have been proactively coming into L&T Finance Holdings as a stock and that is actually a vindication of the efforts that have been put into the Company and going ahead.

Of course, I can talk about how AUM growth has happened, P&L is way superior, balance sheet undoubtedly stronger. I can go on and actually I can do the entire Investor Analyst Meet.

But without much ado, I would love to invite a great leader, a person who leads from the front with sleeves folded up, Mr. Dinanath Dubhashi to address the Investor and Analyst Meet.

**Dinanath Dubhashi**

Thank you, Manish. You know I was a little lighter two years back and it would have been possible to fold up the sleeves, it is now a little bit heavier. Welcome all of you and very good morning. This is the third Analyst and Investor Meet of LTFH 2.0.

The first was made two years back when we had a strategy to unfold and all of you gave it a patient listening at that point of time, because we ourselves could not show anything more than a Presentation at that point of time frankly.

One year back when we presented the first step in that journey, we were the new kid on the block, you were if I would say even lovingly indulgent, all of you and were very encouraging in that okay, good beginning and keep it up.

When we stand here today in terms of time, the midpoint of this four-year plan, we today realize that things are different. You love us equally even now perhaps more. But today, that has taken the form of critically examining us, critically comparing every parameter that we deliver or do not deliver vis-à-vis our peers. And all of you are very clearly giving us a signal that now you are no longer a new kid on the block and maybe almost grown up, we would have loved to stay a kid for some more time. But yes, you are measuring us along with the best.

When I am asked questions like how I compare with some of the NBFC or banks who have been around much more, not necessarily that we compare well with them. Not necessarily, for there are certainly NBFCs which have delivered ROEs higher than us for a period longer than us. But it just makes us feel good, it makes us feel proud that you have started comparing us with them. And thank you for that. And what it does is, it gives us a great sense of responsibility. Responsibility to continue to deliver, responsibility to stay steadfast on our route and never disappoint. This was one of the big treasures that you guys have given us and I mean it treasures for safekeeping is your credibility. Trust, credibility which we lacked and even after belonging to a great industrial house L&T is what we lacked. And you have given it to us and we are not going to squander it.

It makes us really responsible to deliver on it especially because one big test of this credibility was the Rs. 3,000 crore equity raise that we did in March. The parent L&T put Rs. 2,000 crore at Rs. 185/-, which was at that point of time a substantial premium close to around Rs. 20/- - Rs. 22/- premium on that time's market price or perhaps even more. I was asked many questions whether L&T will put? etc. and I am so thankful to L&T. So thankful for supporting us. But mostly importantly the commentary that L&T management gave was that we are not looking at the price

obviously, as a promoter, they are looking at us to deliver returns on the capital they have put.

And we raised money through QIP of Rs. 1,000 crore at Rs.158.6/-. This Rs. 3,000 crore is much higher responsibility on us to keep delivering. I mean if nothing else this Rs. 3,000 crore about Rs. 1,200 crore of retained earnings is Rs. 4,200 crore of more equity to service, and at 15% there is just Rs. 600 crore more profit. It is a big responsibility to just maintain the ROE. And thank you, we are fully aware of that.

When we look back, what was the strategy that we have put two years back? The strategy was simple, Right Businesses, Right Structure, Right People. We have our own what we call our own special formula to deliver it, that is clarity of management intent which Manish so nicely talked about, our execution engine and the culture of delivering results without talking about reasons. I will talk specifically of FY 2018. But when I was musing about how I will start talking today, I just looked back and said, okay so many things have changed, the context have changed. Last two years what have we not seen? We have seen it all starting with Demonetization, RERA, GST, Farm loan waivers, NCLT, on the good side turning from two bad monsoons to two good monsoons. Life has not been easy and life has not been simple, let me put it this way.

Events have happened and lots of these events have happened. These two years have been interesting. And we have changed, we have changed as a Company, our context has changed. But many times, even today when we have to take a particularly difficult decision, we just look back and think of that original strategy of Right Business, Right Structure, and Right People and most often we get the answers, often right answers. And that is what makes us confident that, that the strategy is a sustainable strategy. As long as we stay true to that strategy, we will cross our delivery because it is very important to recognize that. I am speaking to my management team as much as you; that many times success brings its own problem and if think we can start being a bit indulgent every time we go back and think Right Business, Right Structure and Right People, it just brings us back to what we should do and perhaps one of the reasons why we have delivered, we have delivered for two years and hopefully, we will continue to deliver even further.

Over these two years there is one more character that this Company has acquired, and I would like to talk about that and elaborate a little bit about that because it is very-very important, and I am going to talk about that character repeatedly during my presentation and that is the character of Contrarian. Contrarian does not mean that when the markets say sell, you buy it, when the market says buy you sell, it does not necessarily mean just taking the opposite stand to what everybody is saying. But in our dictionary, what it means is to think about it, let us take a very considered call and then work very hard to stay with that call, to make that call deliver. It is not easy because the most scary thing about a Contrarian is that you are always wrong till you are right because one small thing going wrong, people will say see, I told you. Staying focused has really helped us to take these calls and stick to them.

Just to prove that I do not mean that just doing the opposite to what everybody says. I will quote one example - we stayed away from complaining about every negative happening in the environment. In FY 2017, we did not crib about demonetization. In FY 2018, we did not crib about GST, we did not crib about NCLT, and we have not cribbed about rising interest rate. Working hard and of course, these have affected us, no doubt. But working hard to try and deliver despite that is what we call a Contrarian.

The second aspect is a clear realization, we realize that when we are starting from behind in any business, which we did, right. I mean, two years back we were nothing. In any business when you start from behind, not only you have to work hard but you have to change the rules of the game. Perhaps and more probably even change the playground and that is what we have tried to do. For example, micro loans, when everybody talks about average ticket size, we talked about total indebtedness and as long as indebtedness is in control, we do not worry. If we are providing loan of Rs. 20,000 we say okay, we will limit total indebtedness to Rs. 60,000, then what is wrong? And data has helped us to do that. This has helped us deliver in FY 2017 and more importantly in FY 2018.

Let me now talk specifically about FY 2018. I will talk specifically of what are the specific things we have delivered and which will perhaps take us into FY 2019 and what we want to do. But this is a summary in one slide and if you look at it carefully, it is really the ROE tree.

The first two, what we are talking about is how we are growing our business. We had always said that we will deliver profitability by profitable growth in our businesses and not by cutting expenses, not by playing on the liability side, not by doing some financial juggling and what is the only way of doing that is continuously improving your competitive position, in the product after product and we will talk specifically of every product. But trust me; I am confident that in every product, we have moved rightwards on the competitive scale. Yes, most definitely certain products maybe we are still 2 or 3 on 10 and certain products we are maybe 8 or 9 on 10. But every product that we are doing, we have moved rightwards in the right direction over what we were one year back.

The second one, yes, we are calling it out now. When this question was asked to me always by all of you that how are you going to change the portfolio, till I was not confident, I used to answer that this is how capital will go. Capital will first go to Rural then to Housing and then whatever remains to Wholesale. Because during that time we were not sure of how we will grow our Rural and Housing portfolio. Today we are quite sure and we are calling it out and you see some slides we are continuing to increase the proportion of Rural and Housing in our portfolio. Already from last year from 34%, it has increased to 43% and we will increase it approximately, hopefully to 50% in FY 2019.

Third part, this is interesting, two years back we started this, Wholesale fees, lots of question about the sustainability of that. What started with Wholesale was taken up by other businesses. And today, out of the Rs. 1,400 crore that you see, Wholesale contributes just about Rs. 550 crore. And all other businesses are contributing a large percentage of the fee pie. And not only is it good for P&L, but most importantly, it is helping us manage what is to come. Because most definitely FY 2019 interest cost are going to be higher than FY 2018 and there is no doubt anymore that this is going to help us.

And then in digital and data analytics also, we believe we have taken a contrarian call. . The way we have started is we have started from the other side of the ROE tree. We have started first working on credit cost, collection cost and productivity rather than the “cool aspects” of cross-selling, customer acquisition. But, surely we will get there. You have to fight much more to get there because that is what everybody does. We are starting on the other side and we are seeing very good results.

And last but not the least; what I think makes more than anything else the most important line of the ROE tree of lender is credit cost, right? Credit cost even if it looks above 2% today, a large part of it is voluntary that we are taking. But let me

point out that the gross NPA's are reducing continuously and we are confident of keeping them down and at the same time while increasing provision coverage.

So, with this small introduction, let us start specifically with FY 2018. So obviously all of you have seen that, we have delivered on track most of the ROE trajectory that we have promised till FY 2020.

Now here the 15.03% ROE consists of two things. One is, of course, the proportionate amount of equity. So we had the L&T money to use for 23 days and the QIP money for 15 days. So the proportionate amount of equity is there in denominator obviously. But more importantly there is something that I may point out I do not know whether you noticed in the Investor Presentation, there is an Rs. 29 crore of charge of tax in the fourth quarter for the last four years as per Section 14A. We can go into the details, but it is something to do with the holding company investing in others and there was an ITAT judgment in favor of coincidentally JM Financial and now Honorable Supreme Court has ruled against it. So, we have provided.

A lot of people have asked me what will be the ROE without it, etc., we are not going into the calculations. Going by our principle of results, not reasons, all this keep happening, you know if I can take out all negative things and show what will be the ROE without these negative things, I will have to take out all positive things also and say what will be the ROE without the positive things. So we will not delve into that. Our ROE is 15.03%. But just for your models, I wanted to make this Rs. 29 Crore item clear.

So the focus clearly in increasing ROE in each business, increasing market share, strong fee income, cost reduction and risk framework, so that as we grow, we are sure that nothing goes wrong. And across my presentations, you will see that everything is structured according to the ROE tree. This shows that way we think ROE in everything. That if you go it just goes down the ROE tree or up the ROE tree as the case may be. But this is what we said we will deliver at the beginning of the year and the rest of the Presentation is the report card on what we have done on this right-hand side. So we will grow, we will put in place a very strong risk framework, strengthen the sell down desk, continue to deliver ROE, of course, be it counter-cyclical provisions. Really the meaning of this, we have today interpreted as increasing provision coverage because there is still clarity to be provided over IndAS and without that building counter-cyclical provision is something perhaps is regulatory not possible. So take it in that spirit and then maximize productivity and efficiency gains and the third is more important which is clearly work-in-progress, this continues to use data and digital to keep driving that every small one basis points advantage in the ROE.

And then move to be a dominant player across every product that we have. We do not want to declare a timeline to this, it will be perhaps maybe too presumptive to say that but we have a clear definition of what is called dominant : you are in the top five in size and the top two in profitability, we will call ourselves prominent. And there are products where we have moved up. But there are products which are far away from that. But the idea clearly is that across products we will move there. And what follows is the report card and all of this.

So these are just numbers. In Rural, we have grown by 97%. The Housing book, disbursements have grown by 56% and the Wholesale the disbursements have grown by 65%. Rural and Housing, the book has grown proportionately but Wholesale, we have kept the book limited to just 13% growth and this kind of trend will continue to increase.

The sell-down engine that we have put in place, makes sure that Retalization is not happening at the cost of business. The Wholesale team has never told to stop business. We kept doing business until 31st of March. And just the clear target on what will be the capital available is what is important.

No longer, we put capital there just to make a GNPA number look small because we are using the denominator, the profitability to provide for it. Also doing collections and making sure that the GNPA number is not only in control but is reducing. The former slide, of course, is this. And which is an obviously conclusion coming from that kind of growth.

Just to take you back in FY 2016, wholesale was 60% of the loan portfolio. And it actually increased to 62% in FY 2017 and that is the time we were actually waiting for seeing how we build our strength especially in Rural and to some extent in Housing. That is the time perhaps we were reticent in giving targets. But today we have built those strengths. We are quite confident of growth irrespective of the market growth sure we have been held by the market growth, there have been tailwinds there is no doubt about it. But we have gained market share disproportionate market share, we will talk about how we have done that. And today, we are confident to say that what is 42% (Rural & Housing put together as % of loan portfolio) today, we will endeavor to increase to 50% by end of year. If we end up at 49%, I am sure you are not going to hang us. But today we can confidently say that while maintaining growth, we will endeavor to increase the share. And the most important part is that this has happened without reducing Wholesale business at all. Another small part of it is the continuous running down of the non-core or the run-down business as we call; it is less than 2% of the loan portfolio. This should disappear. We have actually stopped bothering too much about it. The team is doing extremely well, keeping it fully in control running it down and hence, we are not too worried about whether we will run down fully in FY 2019 or FY 2020. It does not matter now to the overall P&L. That is the confidence that this team is giving us that there is nothing which is going explode here. We are running it down very well.

Slide no.7 - So here are the details of how each business is growing and you will see tremendous outperformance of the rural business. No doubt that there have been tailwinds, no doubt. So there have been tailwinds by the rain gods, good rains, cropping pattern has been good, groundwater levels have increased, and reservoir levels have increased generally. Lots of investment in Rural India, loan waivers, support prices, even wherever the mandi prices are lower than support prices very quick intervention, lots of things are happening at the ground level. But what we would like to point out and call out is that the kind of strengths we have gained is making us actually gain market share. Let us take farm and two-wheelers sort of together as they are largely similar in types of there is OEM and there are dealers and you try to get their share. What we have used is we have used data to do what we call collection based business. What does it mean? It means that we will do business where we are confident of doing collections. And lots of data analytics actually point us to places where we are confident to do collections and then what we do is dynamic target allocation. So moving from a stand, where we used to say okay, good rainfall we will do a lot of business, bad rainfall not do business to today we can actually do dynamic target allocation, pin code wise, monthly, at least quarterly and what is more to come is now we can do it maybe model wise, dealer-wise, there is no end, as we get more confidence in data, we can actually do this more and more and more. And the basic theme has been not to spread ourselves wide, choose our OEMs, and choose our dealers and getting disproportionate stake, disproportionate share of those dealers. That is what is helping us gain share.

Just to talk about numbers, tractors, we at number two, 14% market share. Two-wheelers, we at around 9.5% market share, we at number five. And I am growing this kind of market share.

In microloans, it is actually a little bit opposite. Instead of concentrating more and more on the same area, lending more to the same customer, we have decided to go wide. More than 30% of our disbursement in microloans comes from branches we have opened in FY 2018. About 50% of our customers, we are the only lender. Though our average ticket size is more than 30%, none of my customers have total indebtedness is more than Rs.60,000. And last but not the least, my renewal rate which is not necessarily a good thing, but in this context, it is a good thing. My renewal rate is as low as 25%. What it really means is today I have the means to say that after I have lent and before I am fully repaid, the customer has already gone and borrowed, and the indebtedness has increased more than Rs.60,000 that is the limit we have set and hence we can't lend. Yes, cost wise it is not so efficient because we lose 75% of our customers but credit wise it is great. And what is important is today we have the tools to monitor. I will talk about it when I come to early warning signals. In terms of disbursements, we are number three in the market, in terms of book we are number four in market. And again we are growing at a good rate.

In Micro Loans, we do not lend at the bottom of the pyramid

Hardly any customers of mine will be having income below Rs. 1 lakh. So this business is growing. FY 2019 looks like more tailwinds and we will take full advantage of it but most importantly what we are building here is that when there are no tailwinds or perhaps even where there are headwinds, we continue to gain share and most importantly keep our collection parameters in control.

Lot of people asks that despite this tremendous growth how we know that things will not go bad after a year let me answer that. So first things first, my tractor portfolio is five years, so two years is already more than the duration of the loan and microloans and two-wheelers is two years. Already one full cycle is over since we have started growing. Even the tremendous growth of FY 2018, one year is over and absolute NPAs have absolutely come down. And there are numbers that we do not declare but let me share just the summary with you that early bucket collection, zero DPD, all these are trending excellently. So we believe that all the parameters are reflecting that it is good business happening.

Then we come to home loans before we come to real estate. In Home Loans (HL) admittedly the growth is muted. The book growth is just 15%, disbursement growth 23%. However, it has come because though lower than average growth in Loan Against Property (LAP) portfolio. I hope you will be happy with that as our LAP growth is actually just about 10% or perhaps lower and HL growth is proportionately higher. Because we saw that this market is going crazy, LTV is growing to 70% - 75%, treating LAP like HL is not the way to do the business and we have actually tried and stayed away from that. But in itself can HL grow faster, bigger, most definitely, yes. We are building strength, our interest rates are competitive, our direct sourcing is increasing, our direct sourcing if we take our construction funding to Retail as well as from APF to Retail in fourth quarter we touched 50%, this was zero two years back. 34% just for quarter back and we have touched 50%. So we have said the direct sourcing is going to be the key of success here and we are doing well there and still I am the first person to admit that we can do way better. We have not been able to scale up this. But all the building blocks for scaling up this business are in place and hopefully, that is what is going to get us to that side.

On the other side, on real estate, I think very recently we had an Analyst Meet where we actually went into great details as to how we do real estate funding. Here again, we believe that we are doing it differently. We are using all the synergies especially in terms of knowledge synergies of our parent and monitoring our early warning signal, very-very properly, very-very keenly, my monitoring team, my engineer's team on the field is actually more numerous than our sales team. And because we believe that perhaps this is the most important part of this business and of course the success will also come from converting more and more to Retail. That is how it is moving.

And then of course Wholesale, this is a business where we were always the leader especially Infrastructure finance, especially Renewables. We went through a lot of noise, the whole country was talking about how Renewables is getting over and in problems, etc. we stuck to our belief that that it was just noise and today I think things are settling down.

Here, we were also faced with a challenge of lower demand from public sector banks clearly because when we talk about sell down obviously you know public sector banks most of them not lending anymore what will be the problem? I remember that when public sector bank got capital, we were told that you are going to have great problems because public sector banks are going to do great and when public sector banks are not allowed to lend, we were told that you will have great problems because public sector banks are not lending. So we have decided, okay, be it any case we are going to work at it. And that is what we are doing, we are continuing.

There are two businesses that I did not talk and let me come back to them for a second which is Mutual fund and Wealth. Now, these two also were very clearly the success stories. Both these businesses were sort of losing money two years back. Here also I enjoyed the way commentary has changed. I used to receive lots of calls asking if I was interested in selling the business, but today I get an equal number of calls asking whether you would like to buy this business. We have believed that fund performance is the most important criteria why we will get flows into fund? Of course, distribution is important; of course, relationships are important. But none of them alone can get you flows if your fund is not doing well and this is where we are proud of the performance of our fund managers and very clearly, we have the best performing schemes, we are managing and that is what is leading to this growth wherein equity now accounts for more than 50% of the overall AUM.

Wealth is another success story. Again, I stopped, I will not use this word Contrarian everywhere, but we have believed differently. Wealth business typically whenever you see projections for wealth business anywhere and if anyone of you has seen this projection there is increases in losses for five years and then suddenly profit in the sixth year. That is how wealth business is normally projected, right? And we took again here a contrarian call and clearly engineered a turnaround concentrating on productivity. We do red, amber, green analysis of our wealth relationship managers, just like Retail and it has worked. This business made (Rs. 23 crore) loss two years back, it has turned around to make Rs. 31 crore profit this year. So business after business after business, we have moved in the right direction that is the point.

Rural

Slide no. 8: Moving onto early warning signals. I keep hearing questions Rural is growing this much, real estate is growing this much, what is the problem? Or what



problem can occur? Of course, problem can be anything but most probably such issues will not happen because of what we do – viz; Early Warning Signals

We have been putting in place Early Warning Signals for the last two years and today we are feeling confident of putting it in public space because today we believe that we have moved enough that even if competition sees it, it is okay. There is no problem. So the way we have structured it is that there are triggers and there are flags and the difference between triggers and flag is trigger is like a trigger, you do something and something happens. So if something happens, it has to have only one result immediately, you don't think. Whereas flag is something that you think if that flag happens, you think and take a decision.. And hence my derived conclusion is that the things from the left-hand side are more relevant to B2C businesses on the right-hand side and more relevant to B2B though there is always an overlap.

So let me talk about some of the details, right because this picture is good, what does it really mean. So customer behavior, very simple thing. By the way, first of all, the early warning means we know before something happens its zero DPD before it goes beyond zero DPD. Sometimes, yes, it goes up to X bucket, first bucket, etc. but before it crosses zero DPD can we know that there is a problem with the lending, that is what we call early warning. I mean one of the consultants who helped us actually put early warnings on NPAs, we completely disagreed, that is not early warning. You have 90 days to know that it is going to be NPA. So it is not early warning. But early warning is before it becomes zero DPD. And hence, today the power of data can tell us for example, that the customer is regular with us but defaulting with someone else. We had said that this much will be indebtedness of the customer but if it has gone beyond that after we have lent OR the customers have paid only partly or delayed a little bit. These are some of the early warnings. Portfolio trends, this is great learning at somebody else's cost. So today very easily data is available as to how portfolio of competitors are behaving in a particular geography at a particular pin code and you can get early warning signals that nothing is happening to you then why it is not happening, do something about it. And under operational risk event this is somewhere looking inwards and saying, "There is some mistake in us, why is it happening?" and try and correct that. For example, say delayed deposits of cash makes my system tell me when the cash is collected. If there is a more than a given time interval between that and deposition something is going wrong in that area. Or just non-contactability of customers like: if a customer is captured in a welcome call but if the customer cannot be contacted after two or three attempts after that it is an early warning signals and mind you these are triggers. So there are particular levels touched and it is acted on like: either business stops, higher collections happens in that particular area, higher collection efforts and that really has helped our zero DPD portfolio.

On the other side, sectoral outlook provides how the sector is moving, how Government policies are moving, this overall covers what we are establishing as our early warning signals internally.

Slide 9: Moving on we talked about fees, lots of questions here. So first of all, let me tell you out of Rs. 1,400 crore - Rs. 110 crore is one-time; Rs. 110 crore is what we earned by selling some of our Private Equity (PE) assets. So last year (FY'17) we started, full year and had no success in selling PE assets. This year (FY'18) we have been able to sell quite a bit. There are still two positions remaining but most of the others we have sold and all the income we have made, we have used it to make provisions. So none of this 15.03% ROE even Re. 1 of that Rs. 110 crore has been utilized. We have used it to make provisions. But out of Rs.1,404 crore, Rs.110 crore is that and as I said now wholesale fees are just about Rs. 550 crore and out of that also DCM is just about Rs.50 crore total for the year out of Rs. 550 crore. Most of the others, they are coming within Wholesale from sell down

advisory and the rest which is around Rs. 1,300 crore minus Rs. 550 crore is coming from Rural, Housing, Mutual Fund and Wealth. So the sustainability of the fee which we were always confident of is now we can even demonstrate it by the composition of the same.

On the other side, the sell down, so there are a lot of question asked about how much is DCM out of this etc. so about Rs. 5,550 crore is our funded sell down and about Rs. 9,000 crore is our total sell down which is funded plus non-funded..

Continuing questions about what will happen when PSBs stop lending and now that PSBs have stopped lending once again happy to say that we are prepared in advance. If PSBs used to form 50% of my total sell down volume in FY 2017, in FY 2018 it is 30% of my total volumes. So the dependence on PSBs is also coming down. But this clearly has been one of the reasons why we are confident of facing the ups and downs in interest rates.

NIM's plus fees is what we monitor. Our NIM's plus fees is 6.9% today for FY 2018 vis-à-vis around 6.5% one year back and we are quite confident of maintaining it between say 6.7% to 7% range as we go ahead. And if we are able to do that, we should be delivered on the profitability in our ROE required.

And this is something that I am proud of. There is a theory that I have, and I hope you all endorse that while the whole ROE tree is all fine and as long as finally, you deliver the ROA and ROE is good but the NPA and credit cost line within that just that line perhaps is the most important line because it talks about the future. And we realize that we still have a long way to go. We would like to bring our GNPA ratios to well below this and NNPA definitely well below this but it is all moving in the right direction. And what you will notice is not only the ratios because with a 28% growth in book ratios will look good no doubt. But we have been through that and remember, so we are not going to talk ratios again ever. So ratios are for showing but the absolute NPA is also coming down, relatively slowly, but they are coming down no doubt. And the NNPA is coming down at a much higher rate. At the same time, the provision coverage is continuously increasing. We are asked: what is your target level of provision coverage? There is really no quite answer to that. There is one business where we have been very clear. Wholesale, we have said we will require and we know that even this answer has changed; we have started with about Rs. 2,200 odd crore. We today believe that we will require about Rs. 2,700 crore to Rs. 3,000 crore of total provisions in Wholesale. But that is the number that we can give. In Rural and Housing, it is a matter of data; it is the matter of provision coverage that we believe based on the life of our NPA, the aging of our NPA. We believe that in Rural & Housing it is today actually quite high than what we need. And if we increase it, it will be more from the view of providing counter-cyclical provisions when things grow even worse. But Wholesale is what we will increase and in FY 2019 even this level we will almost complete. Why this level has changed? Most definitely as I have said it is because earlier we thought we had four years to complete provisioning as solutions/ resolutions were not coming easily. With the new regulations and with NCLT coming, we believe that this might happen faster, the resolutions, we believe, we are hopeful, and we have one company which is looking at this NCLT with hopes because even if we have to take the haircut we will be ready for it and the capital which will be released, we will generate 17% - 18% on the capital. So we are actually quite happy if it happens faster. What is the point in keeping provisions, collecting provisions and then nothing happens? Provisions were taken for taking haircuts when the time comes, and we actually hope that that the time comes faster, and we will be ready when it comes.

Just going into the details, so you have seen these slides, Rural clearly has been the success story - Big reduction in NPA, big reduction in NNPA's how has this

happened? As I said three sets of factors. First is definitely climatic tailwind. Second is tailwinds of government policies, but third is our ability to concentrate collection efforts on specific areas, on specific customer segments, pinpointing our collection efforts, concentrating on early buckets as that makes sure that this trend of reduction in NPAs will continue because our early buckets are well in control and then big push on GNPA reduction, that is what is happening in Rural with quality under control.

Housing too, the quality is under control. But there are two things that I would like to point out, a few years back we bought Citibank's portfolio, large part of it is collected and gone and some part is remaining, we will have to take, we took some write off, this year, we will have to take some next year. Secondly, even our early mistakes, we are new in this business, we tried a few things, over the last four years - five years and we have made some mistakes.

In FY 2018 we believe that we have finally got our credit score model perfect. The early trends are now trending well and as we go to FY 2019, we believe that our home loan GNPA should also trend downwards. And then we come to Wholesale, the graph on the left looks good but what is important is the graph on the right. I am asked that if the February 12 circular is applicable to you, what will happen. So number one, it is not applicable. Clarity from the regulator is awaited. It may apply and we will have to see in what form it applies to know the exact details. But simple answer, if the circular as it looks today is applied to us in total, the GNPA number from Rs. 2,080 crore will be above Rs. 3,200 crore but it is well within that. So our answer very clearly since we are showing the whole lot to you anyway the GNPA number according to new circular is well within that. This is complete transparency. If the circular as it comes into effect, we will be at Rs. 3,200 crore around vis-à-vis that Rs. 2,080 crore.

Costs, from 33% to 26% last year came very largely through cost cut. This year we have not cut any cost. In fact, you will see that if you have seen our business wise P&L, the Rural cost has actually gone up in the fourth quarter and this has happened as we have invested. We have opened a number of new branches, no. of meeting centers in Micro Loans, hired people for the volumes that we expect in Q1 and Q2. So we are not cutting any more cost. The reduction which has come this year and will continue to come in cost to income ratio is coming from increase in productivity.

So let me say tractors, if one person was doing about 7 tractors a month, today that person does about 11 tractors to 12 tractors. If one person was doing 22 two-wheelers per month, today he does about 30 two-wheelers per month.

Let me give an example of Wealth for example if one person was earning Rs. 18 lakhs per person per quarter, today he or she is earning Rs. 31 lakhs. So across businesses actually productivity has gone up. It has gone up on the back of digital and most importantly able to concentrate our energy on where we think maximum results can come. And that really has been the changing theme. World War II movies are some of my favorite genre. If you notice, the whole direction of whole World War II changed when the American Airforce moved from carpet bombing to daylight precision bombing. And we are trying to do that. It is precision bombing which will get you the productivity not just doing a lot of things which a lot of people will be doing and that is once again a contrarian view that we are taking.

Slide 12: This one is interesting; somebody asked everyone does digital and data analytics, what is different in you? So if you will notice this is also ROA tree. But it is reversed. It is the reverse ROA tree. We are starting from cost of collections, credit cost and moving to growth and this is how our investment dollar in data

analytics is going and this genuinely is really opening the heart of our Company and showing all of you that is what we are doing. So initially most important is data analytics and digital if it does not help credit cost and GNPA collections then it is of no use.

First thing customer differentiation, identifying specific customers as I said early warning signal even taking credit decisions based on individual customer score and if they are not available then putting customers in particular category creating customer segments and taking credit call is what is making this difference here. As far as cost of servicing is concerned as much as possible, we are trying to automate services. Simple things like collecting RC books of the assesses that we do. Today we are actually been able to say okay, let us not waste time of our sales force, there will be robots going to onsite and getting those details and updating our systems. That is what is happening. It is just wonderful, whatever you do you can just get immediate results. So just imagine how much the sales force can do more if he or she does not have the weight of collecting the RC book. And again, contrarian because NBFC's do not collect RC book. This was the biggest lacuna at some point of time. But it is no longer required wherever especially the onsites are working, you do not need it, whether your hypothecation is there the sites can tell you and we started initially with somebody going on the site and getting the inputs. Today there are bots doing it, right. And elimination of manual data entry, just by capturing the Aadhaar Card number and the fingerprint, there is so much data that can be captured. The person on the ground used to fill up by hand and somebody in head office operations will type it again but mostly do a mistake. Today whatever is to be entered is entered in a mobile or tablet at the front end / on -field and it just comes with some cheques. Every small thing and you know every rupee saved, every basis points saved in the ROA tree comes of use. Next customer onboarding the biggest cost and this is very important, what was the biggest cost for going deep. The deeper you go in Retail, the more new customers that you find better will be your credit quality, that is simple. But the deeper you go, higher will be your cost and one way to do that was completely eliminate paper. So initially we started with eliminating our forms, etc. but now even documentation can also be eliminated. With E-stamping with E-document variation, E-signing, E-KYC, everything can be eliminated and that is what we are working more and more to do. Genuinely trying to make things totally paperless. And soon will come a time when we will be able to lend by taking your fingerprint only, that's it. That time will come at some point of time and that is what gives the upside of moving and this, of course, does wonder to the turnaround time.

When I go to dealers and ask them then why do you give us business when you have choice, of private sector, I am being told that because we are the fastest, service is the best and the customer gets money within 15 minutes. Get the sanction within 30 seconds and that really works. Will people copy it, most definitely yes and that puts us under the responsibility of keeping on innovating more and more. Like I use to spend tonnes of energy, money and then get frustrated because I could not monitor whether my people are working or not working is as simple as that. But today I can actually do latitude longitude tracking. How many customers a person has met, which customers how much time he has spent with the customer can be tracked.

We do very-very simple things for productivity enhancement. If one branch manager could monitor say, six people, because he had to actually monitor where they are going for collections, he had to then check whether they have really gone then the trouble of punishing them rewarding them. Today he gets all this feedback at the end of the day and very soon during FY 2019, we will actually start allocating the routes of collection from head office from a computer. And then very soon, the supervisor can actually sit in a call center and in an industry where at that level the employee turnover is 50% to 60%, this can be life-changing. This can be life

changing because two years back my every collection manager could hold me for ransom. If he chose to leave the job, then we would be held to ransom for two months till we hire someone. All that is suddenly becoming completely irrelevant and that is the power that digital and data analytics and of course then growth is fairly obvious that is what everybody tries to do but yes, cross-selling, continuous improvement in turnaround time is what is working across the business.

With your permission, I will go ahead. Generally speaking, everything that one sees in a lenders balance sheet that is growth, margins, fees, expenses, GNPA, have trended well.

This is the ROE bridge that we started showing eight quarters back which is constantly used to monitor our progress. So our core lending business's ROE continuously increasing. Rural and Housing are trending very well. I am asked what kinds of levels are sustainable. Most definitely Rural at these levels is very sustainable. Housing it will actually come down, I have been saying it again and again and if it has not come down it is because of our inability to even scale up Retail Housing frankly. So if it has not come to 24% to 25% it reflects bad on us actually. And that is something we need to get right in FY 2019. And these ROEs will probably trend down because these Retail Housing ROEs. But the business will become more consistent, more stable as we do a Retailization of Housing business. As we have done the Retailization of overall balance sheet. And Wholesale, I believe FY19 is one more year of seeing sub-10% ROEs because this is the year we are very hopeful of largely completing, this journey of providing for all the assets, bad assets that we have put before FY 2012.

Let me assure you once again that the business done after FY 2012, there is no asset which is beyond 90 DPD, there are a couple which are at 30, 45, 60. We are absolutely trying everything to keep everything put after FY 2012 at 0 DPD. That is the push for this year.

We have also formed a very specific group called special situations group to take specific charge of all our Wholesale NPAs and try and resolve them. This has been done to separate it from business so that people can concentrate completely trying to resolve them. This is also a sign of our confidence that we are coming now FY 2019, we should end up finishing the provisions and now time has come to resolve them really. Because till now nobody was talking about resolving Wholesale, we will try and do that this year.

As we go down, you will see Investment and Wealth management. From last year PAT of Rs. 50 crore we have increased it to Rs. 110 crore. More importantly, we will try and start up-streaming dividend from the subsidiaries this year because you will see a huge amount of capital. This is something that we have put while acquiring Fidelity. As we start up-streaming dividend this capital will come down and obviously we will act well on the overall ROE. So that is something in our normal trend of saying something first and then doing it, this is a target for my finance team to make it possible this year and we will do that.

Defocused businesses just continuously going down, the overall NPA are actually coming down in numbers but in percentages obviously, it will be quite large but trending well. The holding company has this Rs. 29 crore one-time tax, which brings the overall ROE to 15.03%. We remain on our journey of delivering a top quartile ROE by 2020.

This is the consolidated P&L, that has moved well, close to Rs. 1,100 crore ,increase in the top-line as you would see, and of course, the Rs. 400 crore increase in PAT. The Rs. 1,100 crore increase in top-line for that the expense

increases just about Rs. 150 crore. And this is the productivity gains that we keep talking. Provisions as I said, we will keep making till FY 2019 till we finish the wholesale provision and continue to deliver this kind of growth impact also.

These are the ratios. Some important ratios that I will point out as I said is NIMs plus fees. People ask me how NIMs will grow. Okay, let me try and clarify that. First, our interest rates are going to be higher in FY 2019 than FY 2018. But even within that, I am happy to say that we have taken some right calls and as we end on 31st March 2018, 51% of our liabilities were medium-term that is about four years and fixed rate at about 8%. So 51% of liabilities is fixed which is fixed rate at 8% with residual maturity for four years. My fixed asset side is just about 30%. So I am today sitting on the PV01 which is positive - a positive gap. So theoretically actually, as interest rate goes up I stand to gain. Theoretically, it would not happen like that because as I pass on some of those loans, we may get prepaid. But from ALM point of view, we are actually quite safe. So that is number one. Number two, most definitely we will pass on some of the increases, we have taken a 25 basis points increase in Infra and 15 basis points increase in Housing loans already.

And last but not the least. Once again, I come to the answer on our fee income, will they hold us in good state and before that, of course, there is one more point as portfolio moves to more Rural obviously the overall NIMs are going to be quite protected even if the NIM on every product comes down this Rural is a 13% NIM business, it is going to help the overall NIMs. But the NIMs plus fees is 6.93% and we hope that we will maintain it. Operating expense should be around these levels may be a little lower but should be around these levels and as we go ahead we should be able to see a good trend in our ROA.

So that is it - FY 2018 round up. Again, I will talk about the ROA tree. We continue to maintain our ROA trajectory. All five focus businesses are doing well. ROE has increased, PAT has increased by 40% and most importantly the PPOP to Average Assets, have grown to 5.32% from 4.77% and asset quality is showing a continuous improvement and of course, digital and data analytics continue to be differentiators.

People ask me about ROE projections, etc. You know that I do not give for every year but 2020 definitely top quartile. 2019, I would like to just point out one statistic for the analyst friends here. We were at around Rs.8,500 crore net worth till beginning of March. We raised Rs.3,000 crore and we will retain around Rs.1,200 crore from this year's profit, a little less though. About Rs.4,200 crore increase in net worth, so from Rs. 8,500 net worth will just like that grow to Rs.12,500 crore which is just gone. So, to maintain the same ROE it is 50% or 40%-45% profit growth. So, there will be a mathematical trend in FY19 but FY20 promise remains.

So, what is the strategy for FY19? We believe that our strategy is long-term, it is sustainable, and we have to just do more things on the same, let me give an example. Increasing competitiveness of products, what do we do? People ask me what are the new products that we going to launch especially in Rural? For this kind of growth or most certainly we will launch new products. There are lots of things which are in lab, how many will come to the market we do not know because very clearly again fundamentals, that the industry should be large enough, we should have a clear USP/ Advantage and we should make profits. If it is does not satisfy and we are not sure that it satisfies this across cycles, we will not launch the product. But what we will surely do, we will use adjacencies. We have started implements -farm implements which we accept market is small but by doing it, we will get higher share of our desired OEMs. So with that objective, we have started that. We have started financing old tractors and some movements that some of the OEMs are doing including Mahindra are helping us that. So, Mahindra Tractorbaazi, for example, is a great initiative and we will be with them on that

initiative. And lastly, we have started taking our own refinancing very seriously. What do I mean by that? So, refinancing of tractors for us was always possible, the tractor life is 10 years loan is 5 years, rest five year what did we do? So, normally what did we used to do - Two things, old tractor is 5 year old. So, we will reduce the LTV to 50%. We will increase the interest rates by 1% or 2% because it is old tractors and then offer this product to our best customers. Why would the best customers take it at 50% LTV and that too with increase interest rates. Now data allows you to actually categorize into your customers from deep green to deep red and have different refinancing offers for each one. And that is something that we are very confident for FY19, okay.

Secondly, we were earlier waiting for the customer to come for a NOC to us after the loan is over which lead to bad customer service, higher expenses and loss of opportunity of refinance. But now, when a loan is done having the NOC ready, I am going to the customer and say your NOC is ready with me but why you take it do not take it, take a loan, it is much more powerful, much many more opportunities and much cheaper actually and customer service score fantastic. So, it's just turning some of the set equations in the NBFC world on its head and trying and growing. In Housing, clearly the concentration is of scaling up Retail and continuously increasing our direct sourcing. It is already beyond 50% which is definitely more than what we had expected. But we have to grow it faster, quicker and scale it up.

Infra – new opportunity is coming up. I think if you want to have any specific questions on Hybrid Annuity Model (HAM), etc., during the question-answer session, Virender will talk about it but we look at it as a good opportunity to grow and a safe opportunity to grow.

Mutual Fund and Wealth – not only that we believe that the tailwinds and our formula of growth will help us grow further but we also believe that the rich database that we have across businesses we can start using. Of course, we will have to procure regulatory clearances, we will do that, but we will start using the power of this data. So, while the statement of improve competitive position across product remains same, it will just mean much more in FY19.

Same Retailization – As I said we will continue to move Rural plus Housing to 50% but do it without missing a step, without reducing our speed in Wholesale.

Fees – More and more cross-selling, we have specific targets on how many products per customer to be established and more and more cross-selling fees increase in B2C, is what we will try.

Digital and Data Analytics - Did we have Data Analytics before? Most definitely we had Data Analytics even before 2 years but our approach to Data Analytics was that my Data Analytics head used to be an artist. We will do some analysis, we will come with some conclusion and if you can use it, great if you cannot use it too bad. That was the approach. From there now the approach has turned to business giving a very carefully crafted null hypothesis to Data Analytics team and they coming with yes or no answer.

And last but not the least yes, we will continue to improve the balance sheet in specific numbers. Whenever, RBI our regulator comes with a relevant circular for NBFCs, there may be a blip but by the end of the year we will come back to normalcy on this.

That largely ends my presentation. Before I end I want to share with you today, our internal lexicon that we are having. If our dream is to summit Everest that is what

we are trying to do. Where are we today? And we believe, and we very strongly believe that as well as we would have done, we are not even at base camp today and the whole push of FY19 will be to reach base camp of Everest. From there we can have a genuine chance to reach the summit. That is what keeps us humble, that is what keeps us trying hard. In fact, even this word humble, humility, my role model in humility is Virat Kohli, captain of Indian cricket team. It is because he just keeps trying hard to stay relevant. He is the guy who will be our idol to keep trying, keep working hard, to stay relevant in a climate where there are so many good companies who are trying and always trying to be the best. We will continue to do so. Thank you, ladies and gentlemen. Thank you for your patient listening.

**Moderator**

Thank you for the detailed insights into L&T Finance Holdings strategies and financials. I now request Mr. Dinanath Dubhashi – Managing Director and CEO, L&T Finance Holdings to come back to stage, Sir. Proceeding to the question-answer session, I will now invite members of the Group Executive Committee to come to the stage. Mr. Sunil Prabhune – Chief Executive (Rural Finance and Chief Human Resources Officer), Mr. Virender Pankaj - Chief Executive (Wholesale Finance & Group Head, Sell-down), Mr. Srikanth J. R - Chief Executive (Housing Finance & Group Head, Central Operations), Mr. Kailash Kulkarni - Chief Executive (Investment Management and Group Head, Marketing), Mr. Manoj Shenoy - Chief Executive (Wealth Management and Group Head, Corporate Social Responsibility), Mr. Raju Dodti - Chief Executive (Special Situations Group and Group Head, Legal and Compliance), Mr. Sachinn Joshi – Group Chief Financial Officer, Mr. S. Anantharaman - Chief Risk Officer and Head Internal Audit, Mr. Soumendra Nath Lahiri - Chief Investment Officer (Investment Management), Mr. Shiva Rajaraman - Chief Executive L&T Infra Debt Fund and Mr. Abhishek Sharma - Chief Digital Officer.

We will now begin the Q&A session.

**Kenin Jain**

This is Kenin from Emkay. I have two questions. I want to know what is the outlook on the fee income from a five year perspective? And the context here is there are so many companies eyeing the same customer pool; everyone is trying up with product innovation. So, I just want to understand the growth outlook and the absolute occurrence of fee income per se, from a five years' perspective with technology coming as an edge, and people trying to innovate on the product side. So, what is the sense whether this fee income can per se, so I want to have a holistic understanding on that. Second question is across your broader customer segment, is the competitive scenario at the peak or you believe that in next 2 to 4 to 6 years the competitive scenario will inch up far higher, what is the outlook there? Thank you.

**Dinanath Dubhashi**

So, I will answer your first question without talking about specific numbers. Specific numbers can be anything and yes, frankly before starting the year is if you would have ask whether we were confident of doing almost Rs.1,300 crore of fees the answer would have been no. And as the year has gone, we have innovated we have done more and more. Often necessity is the mother of invention. If you say even 2-3 years back, fees is not the word that you would have associated with NBFC. NBFC was always high NIMs business and fees are basically earned by the banks that was the overall equation. Then we have tried and changed that. You will also see the nature how fees have changed, and which actually shows the ever-changing canvas of this right because that is the reality of life. When you open up something other people will come follow you and then you have to move on to something and that is how good companies are differentiating and which links to your second question about competition also but I will come to that. So, let us say how our fees have been achieved. It started almost 100% with Wholesale sell-down fees. On loan sell-down we added DCM. Now, we are ranked as #1 leader in the country, #11 in Asia. So that was added, advisory fee was added. After that the



Retail business, - cross-selling of products. As we go ahead we will have to constantly look for opportunity to diversify the streams of fee income to push them more. For example, let us say cross-selling, cross-selling was always optional that the moment the business shows a threat to the Chief Executive that if you cross sell, the main business will be lost. The trend was to believe it, yes it is real. We just started saying no way, you have to do this and if you lose your original business so be it and you know what the original business actually does not get lost. It does not happen like that, sales people are sales people because they are smart. They can sell something to the customer they can also sell something to the management and lack of cross-selling is one of the things that they like to sell. But that is where management intent has to be very clear and we are quite confident as cross-selling increases, the fee income will get more broad-based, more Retailized and hence more sustainable. Even let us say just wholesale sell-down, we would have been resting on our laurels of saying okay the PSBs are easy market for us for our loans; we would have been seeing reducing trend in sell-down today. The PSB problem is going on for now 6 months and our sell-down has not reduced. However, the proportion of PSBs in our overall sell-down has reduced drastically. If it was 100% almost 2-3 years back, today it is 30%, last year 50% is now 30%. So, to answer your question, I do not know how I can answer more directly than this. As far as numbers are concerned, that guidance I am giving quite clearly that our endeavor will be to keep NIMs plus fees at around 6.7% to 7%. We believe that if we keep good growth maintain NIMs plus fees at 6.7% to 7%, keep our expenses at that around 1.5 and then constantly reduce credit costs that will happen from FY20 once you finish this wholesale provision, ROAs will go up and will sustainably go up and remain there. So that is answering your first question, I hope I have satisfied. We will try and maintain the NIMs plus fees at that level that is #1. As far as competition is concerned, we have to look at competition actually quite philosophically, competition is there, and it will always be increasing because the biggest mistake that any company or any person can do is that he thinks that he or the company is the only smart person in the world. So, I am sure that as this management talks about some nice things, wonderful things there are many other management who have equally intelligent or sometimes even more intelligent people talking and working up on it. So competition will always be a constant. PSBs will be coming in, going out, etc. I some time feel little odd that it is considered that if PSBs come with large capital, we will be wiped out. I mean genuinely is our strength limited only to the extent that if Public Sector Banks will get capital and we cannot compete? So then what have we built? Haven't we built anything then? No, this is not true. We will continue to do business wherever the competition is. It is just that we have to continue to work harder and harder. We have to work harder to remain relevant because people will innovate, people will copy what you do. We are very scared of being the first to do something because we may spend more. Somebody else will come and copy much faster. If somebody innovates, we would just like to do that thing faster, quicker, and cheaper and go ahead of them. This is always a two-way street. This important thing will happen in the Retail industry. That is why we are so confident of Retailization of our portfolio. As competition becomes more and more, as the power of data reduces the costs of distribution, as power of data reduces credit cost more and more across the industry, hopefully at some point of time the cost of credit itself will reduce and the pie will just expand sizeable. While I normally do not talk about this credit penetration in Rural India types of big language, I genuinely believe that 5 years from now the credit penetration in Rural India is going to be at levels which I have not seen today. And it is going to happen because of this huge market expansion because credit will be cheaper. As we reduce our credit cost can lend better, we will reduce interest rates. In seek of more and more markets and as the pie expands, we will all grow. The competition is a reality and we like to believe that it is constant. We do not like to while PSBs is going down we will take advantage of that no doubt but we will not build business models based on this ups and downs. Business models have to build to last and that is what we will do.

**Digant Haria**

This is Digant from Antique. Sir, so you very rightly mentioned in your presentation that in September lot of us said that since PSU banks have got capital, it will be difficult and now everybody is saying since PSU banks and there are two more large private banks added to that list who will not lend very aggressively on the corporate side. So, may be the corporate opportunities may probably be more in FY19 than they were in FY18. So, we also have this entire Retail proportion increasing going slow because of you accelerating on the corporate book. Sir, so I am asking this question because there is one bank who has a great franchise in two wheeler, CVs and all those things, IndusInd Bank. So, their Retail portfolio does excellent every quarter, but their corporate grows even faster than Retail and hence the Retail proportion never goes up.

**Dinanath Dubhashi**

So, if I have in my presentation inadvertently given you the feeling that we do not like corporate business or wholesale business, I am sorry. That is not the purpose at all. We believe that wholesale business can generate high-teens ROEs consistently, taking out the provisions that we are making we are already generating that and it can make it consistently. For us, it is not the matter of industry. There are times that always we like to look at it very simply. Wholesale was earlier 62% of our portfolio, now it is 56%. Wherever is the Industry, can we call ourselves a diversified company if 62% is in one business? We cannot, right? So yes, this industry, etc., we will deal when we come to a steady state. Today, we are not at a steady state. 62% was just too high. The bank you mentioned, excellent bank started with a high Retail proportion and hence they can grow corporate. Yes, definitely we can grow wholesale very well. We are doing so much business, I am not slowing down. But, I am just not giving capital for the simple reason that I believe that no business, if there are the three businesses that we have viz., Rural, Housing and Wholesale, no business should be more than 40%. So it is just risk management and deserving to be called a diversified company is that. With one business (Wholesale) at 65% which it was quite some time back, we were calling ourselves diversified company only for sake of saying, actually it was not. We were a wholesale company and that is, so it is very internal. Our house we have to get in order first. Then worry about the industry. I hope that answers your question.

**Mayuri Yadav**

I am Mayuri Yadav from Equentis Wealth Advisory. Sir, my question is more related to your strategy and vision relating your Real Estate and Housing finance division. So, one is, I would like to understand what is the synergy that you draw from your parent in the Real Estate division per se and second in our Housing loan currently of the total loan book what is the proportion of the affordable Housing segment in that and what is your overall strategy, what is your overall vision for these two segments if you can please explain that.

**Dinanath Dubhashi**

So, I will answer about the Real Estate first. If by group synergies you would have understood that whenever L&T constructs for somebody, house for some developer we automatically fund that, it is not that, okay? We are neither the financier of last resort nor enjoy pull in the Group that business comes automatically. You have to earn it. So, it is not as if it is business waiting to be done. What we mean by synergies? Yes, definitely we get some advantages because of knowing people around but most importantly it is the knowledge synergy. Why are we confident about that business first? First because the deep knowledge of the developer, deep knowledge of the micro market, our deep knowledge of technologies involved in building which work what does not work. A knowledge of how to monitor a project. These are things that we are learnt from L&T. Today L&T as a builder i.e. ECC, I think executes projects faster than anyone else. How to monitor something like escrow accounts, what time should be taken for each slab? If number of workers has reduced what precisely does it mean? This kind of very micro inputs is what we get from the group. So, it is more knowledge synergies than direct business synergies. Business it is there, I mean we try and

work more with them, try and keep convincing them, give us/ take us on joint calls, etc. It will slowly trend-up, but it does not happen that easily. Thus, it is a lot of knowledge to be gained by us from L&T. Any business that we are in, we want to be dominant. In Retail Housing, we are the farthest away from that than any other competitor admittedly. There are biggies in that we are farthest away. But we believe that we have got a proposition. The proposition is building the fastest turnaround time (TAT) like Rural and other businesses we are building the fastest turnaround time. It is still work in progress. We will do that somewhere in FY19. Same thing about using digital, Data Analytics completely digitized trying to take out paper, etc. Admittedly, in this business it is more difficult to take out paper than the Rural businesses, but, we are working on that that is number one. Secondly, it is getting as much conversion from our construction funding as possible. We are moving on that also very well. Thirdly, of course interest rates have to be competitive. We have kept it competitive. We have also found out and I mentioned in our first one year we believed that there can be a space where a higher yield can more than make up for the incremental credit cost that come when you lend to some segments. After one year we have found it is not true. Credit cost come more disproportionately than yield. So, we will always be prime in Housing, we are not taking some easy ways. One of the easy ways to scale up is by using DSAs. But we are not doing that. We are going the other way like one very good NBFC has done before us; that is, moving totally to direct and self-sourced. We are now 50% there, we will move there because of that scale up is little. So clearly, scaling up with direct business converting maximum from sales and differentiating ourselves on turnaround time being the fastest in the market is the vision in that. Your specific question about affordable houses, simply the geography is that we are in. If we are completely Rural in other businesses, and we are completely urban makes us perhaps contrarian there also that by definition we may not be too much in affordable, we will more in the lower income, middle income and upper income. We are not as a choice not doing too much super luxury and affordable also we are not there because we are geographically not there and that business you cannot do without being geographically present. In outskirts of Mumbai there are certain places where my people can get down from the railway station and go down and collect money, there is no way, whereas some other people can do it well, so great. They have their moat we have our moat. We will work on that.

- Mayuri Yadav** Just a follow on, of the current real estate book how much would be the parent contribution in that book?
- Dinanath Dubhashi** Parent contribution in our lending will be zero.
- Mayuri Yadav** Yes, so of the total book what will be to the group companies and projects?
- Dinanath Dubhashi** Zero. Projects owned by group companies will be zero. Projects which are built by L&T will bear around 30 to 40% ECC's project. But project built by, I mean owned by L&T hardly anything. But, what we have started well is post RERA especially in Maharashtra, L&T is sort of entering into JDAs with customers whom we would not have lent normally. That would have been out of our space because we are only in mainly A category and may be in B category but as these projects slow down and L&T takes them over as a JDA, it is our opportunity to lend to these customers whom normally would not satisfy our credit standards but now that the TRA is completely controlled by L&T, the construction is controlled by L&T, marketing, sales, finance everything is controlled by L&T, we can lend to the JDA partner. So, that is a segment which we started off well in FY18. But it depends on how many JDAs are identified and we will try and capture that market completely.
- Bunty Chawla** This is Bunty Chawla from B&K Securities. In your presentation you have said on ROE basis, for example Rural business will remain ROE sustainable at these levels and for Housing it should come down slightly to 24%-25% and for Wholesale

sub-teens level. So, can we say non-lending businesses which were dragging down our ROE should become neutral in FY19 and should positive in FY20, so that our ROE target to improve from current level should continue? Can you share your thoughts on that?

**Dinanath Dubhashi**

So, Wholesale will remain sub-10% for one more year after that Wholesale will start contributing. Housing I did not say that it will come down. I said I hope it comes down, the idea is that it should come down, if I indeed able to increase Retail and Housing. But let us assume that it does, that we are very successful in improving Retail Housing and overall in Housing (including Real estate finance) it comes around 25%, Rural should conservatively remain same or may be go up a little bit. FY19 wholesale will remain below 10%, FY20 onwards going up. And now answering your question directly, most definitely both the businesses, which is Wealth and Mutual Fund, if you would remember two years back they were making losses, we broke even in FY17. Our Mutual Fund of course, we are more than break even as compared to FY17. In FY18 the operating leverages just started kicking in. And we believe we are on a J-curve now nicely coming in FY19. The second aspect that I said is I may start up-streaming dividend in FY19. So, the denominators in both these businesses because now that I making money there is no capital required. So, the denominator in both these businesses will reduce, numerator will go up. So, yes you are right, they will contribute much more to us.

**Participant**

Sir, what are your plans on expanding your geographical presence?

**Sunil Prabhune**

Your question pertaining to geographical expansion, before I answer that question I will take a step back to chart out for you how we have moved from the geographic point of you over last couple of years? Clearly, at this moment we are in the midst of significant geographic expansion, but this was not our starting point. There are businesses of ours like two wheelers where from about 80 branch points, there was a point where we went down to 40 clearly focusing on branch level portfolios not just from the point of view of credit cost that was emanating out of them but also from the point of view productivity we were able to create by generating clearly the critical mass. So, just to help you recall in this journey first we rationalize the branches that we were in before starting our current initiative of expanding these branches. That particular experience and the same were true for farm equipment as well. We reduced our number of branches there again by 30% before starting to move. The principle that we used was that each of our location of presence has to contribute positively to the profitability of the organization and not create a drag on the portfolio. With this principle in mind we articulated that any branch location that we open has to open with minimum of one manager, minimum of 5 front line sales staff, minimum of one dedicated collection associate whether there is a portfolio there to collect or not and most importantly having adequate presence of risk containment unit in that geography. Just interesting aside number of associates involved in risk containment unit have increased 3x in last 2 years. Now, to come to answering the question of our geographical expansion now, it will definitely be one of the biggest drivers of our growth. To give you illustration of micro loans, in micro loans the model that we have chosen is one that taps hitherto unbanked customer rather than over-lending to the same customer more and more. So, in our fourth quarter if you look at our disbursement number, 37% of our disbursement is coming from geographies which we were not present in in the beginning of the last FY. You can expect clearly this particular initiative for us to continue. So to summarize, in farm equipment we will continue to expand by deepening our presence, in two wheelers the same would be as well. In micro loans we definitely do see pockets where there are clearly white spaces. To give you a number, yesterday or day before yesterday Economic Times reported that the penetration of credit when it comes to women borrowers is now at one-fifth and this number was reported as a positive. We believe that number is an indication of tremendous need for credit in Rural India. Given that 38 lacs customers out of our 53 lacs customers

are women, we believe we are very well-positioned to address that particular need. So, going forward in this year we will continue to expand our reach and strengthened our presence.

**Participant** Could you please provide your views on geography expansion?

**Sunil Prabhune** See, if we look at our farm equipment and two-wheeler business our foot print is national. The point that I am trying to bring in as differentiation is that we do not think in terms of zones or regions, we think in terms of points of presence. We do have geo limits vis-à-vis that point of presence is allowed to lend. So, in two wheelers if I talk about my 58-59 locations today's out of them in 20 locations I am either #1 or #2 in that particular location. We will expand, I do not want to put an exact number to it right now and share it but you can clearly see this expansion continuing in a very productive manner.

**Participant** Give a small color to what is Risk Containment Unit and what it does, which will give them the confidence of about it? - DD Sir asked to explain this

**Sunil Prabhune** Sure, our risk containment unit or vigilance unit or anti-fraud unit is something which is prevalent in any of the large distribution based our lending businesses whether it is bank or non-bank. Where we have tried to bring in a difference is put in place a mechanism where the risk containment unit does not work based on the stimulus happening on the ground which is fraud or apprehension of a fraud. The work that they carry out is based on certain analytical triggers which are interwoven within our operations risk framework. If you just do a number comparison we had around 100 of our people involve in risk containment unit about couple of years back that number for this year would cross 400 people. These are individuals, who take proactive measures such that the risks events do not happen on the ground. To make it more tangible, last year we started our presence in the state of Bihar for micro loans. Clearly, the objective was how to ensure that not only our portfolio should remain at 100% collection efficiency which it has remained but also ensure that none of the undesirable practices that sometimes happen in the market place do not corrupt our portfolio. Therefore, even before first loan was disbursed RCU team through its supervisory structure and on-field structure was present and they have ensured that some of the bad market practices including middle men or middle women that plague this industry do not affect our portfolio. We believe along with our collection capability our differential ability in maintaining the risk controls will differentiate us as we continue to do our business.

**Manish Shukhla** Manish from Citi. Did I get the number right that in your micro loan book about half the customers you are the sole lender?

**Dinanath Dubhashi** Yes, correct.

**Manish Shukla** So, that at your book size sounds very counterintuitive right because you are no longer a very marginal player in that business. So, could you explain in terms of either geography or what exactly is happening there which makes it that at your size you are still the sole lender for almost half of your book given that there are so many players in that segment?

**Sunil Prabhune** There is one more relevant number that I shared it before that DD had shared in his presentation that 37% of our business in Q4 came from locations that did not exist for us. If you look at our expansion last year, it took place in 3 states in micro loans which was Bihar, Assam and Tripura. These all states where according to our analysis the penetration was at their lowest and the defaults were also at their lowest. In the month of March, our Bihar disbursements on a monthly basis crossed Rs.100 crore. So, clearly our strategy going forward is to find and lend to a

customer who is not overexposed to credit rather than lending to customer who already is. There is one more number that can be of relevance, our credit rejections on account of over indebtedness even today are close to 50%. Clearly, the two parameters that DD referred to earlier are indebtedness of the customer and the proportion in that indebtedness that we are willing to take. As you would be aware even though we do not look at ourselves as microfinance player because we obviously lend to the income level which is above, the RBI number talks about Rs.100,000, the MFIN number talks about Rs.80,000 where as we have stayed at Rs.60,000 by rule and Rs.70,000 by exception. The thinking process has been that I need to have significant portion in low exposure rather than insignificant portion in high exposure of my customer. And this is one philosophy that we believe has helped us recover quickly from the post demonetization event that happened in micro loans and to get back to collection regular collection efficiencies which are at 99.7 to 99.8 that we experienced in March.

**Manish Shukla** Geographies for those borrowers?

**Dinanath Dubhashi** So, basically you have to just work harder. I can understand what you are asking. So, we have given you answers of absolute specific tactics that we do. In spirit you have to just work harder, go deeper and make sure that your processes are so clear that you do not just price yourself out by spending a lot. If you see, of course we do not give these numbers, but I can share with you that our cost to book will be what around 4% micro loan, which is easily the lowest in the market and that is because we are able to digitize those things try and there is no paper, nothing. We are also getting away from things like this meeting center manager doing a reappraisal etc. We have found out that it does not mean anything. That meeting center manager normally ticks everything anyway. So, the best way is to see what the total indebtedness is, what your share in the total indebtedness is, and then you are fine and after that monitor early warning signals. And people may ask that after you see early warning signals what you will do can you recall the loan most definitely not. Having in personal interview with that person helps us to keep track.

**Sunil Prabhune** One of the consequences of the approach that we have taken to credit is that our renewal rates are as low as 20% to 25% whereas I know there are players in the industry which can boast 70%-80% renewal rates. That is one thing we are okay to live with. If we want to follow our specifications, our credit norms on overall exposures we will have to live with the fact that we will have low renewal rates. We would like to have high renewal rates but if I can get them without having to lower the credit standard.

**Participant** Total fees, total fees is Rs.600 crore Retail because the lending related fees in the segmental break up is only Rs.400 crore between Housing and Rural. So, balance 200 would be ...

**Dinanath Dubhashi** So, Rural is about Rs.250 crore out of that. The rest of it is mutual funds, wealth, Housing, Retail all those sectors.

**Participant** So, distribution alone would be as much as Rs.200 crore, Mutual Fund and wealth.

**Dinanath Dubhashi** Yes.

**Umang Shah** Umang from HSBC, I just have two questions. In your presentation you mentioned that assuming if the RBI circular of approval becomes applicable to you, the provisioning requirement might go up to about Rs.2,700 crore to Rs.3,000 crore. Is it fair to assume that whether the circular becomes applicable or not and in whatever form it becomes applicable, we would still go ahead with these provisions

and ROE trajectory that we are projecting up to FY20 would be inclusive of these numbers?

**Dinanath Dubhashi** Yes, so just to clarify, the RBI circular RBI circular I mentioned was for GNPA numbers. So, as the definition of GNPA changes the absolute amount of GNPA may go up. We seem to have been living with this changing definition for quite some time now, 180 to 150, 150 to 120, 120 to 90 now describing S4A everything as GNPA, fine we will live with it. So, GNPA will increase. Provisioning always the number that we have been quoting has been including all this anyway. A provisioning on NPAs is not only important, provisioning on what is not NPA but asset under watch, impaired or whatever that too is important. I mentioned two things that when I started commenting two years back I admitted that the number that I quoted was much lower than this Rs.2,700 to Rs.3,000. And hands up, I admit that, I just thought that that was the number that time situations have changed. The NCLT has come, there were assets where we believe that there will be bilateral solutions which are now out of the window. So, with that some of the provisions have gone up. Second thing which can happen is that the speed of provisioning may be required to be faster. So, large part of it we may make in FY19 itself. These are the two things that we will change because of this circular or perhaps even without a circular. So, your assumption is right we will continue with these provisioning and yes, the profit trajectory that we are putting and the ROE top quartile by 2020 will be after taking this into account.

**Umang Shah** And my second question was assuming that within a year or two once we reach a 50%-50% kind of a wholesale Retail kind of book mix, where do you think our cost-to-income ratios will kind of stabilize and we are already at about 23%. How low can it go, I mean once the Retail starts kind of picking up really well?

**Dinanath Dubhashi** This is a question which I keep wondering myself always that do we have a number for it to be down. So, there are two things, one is as Retail goes up obviously the cost-to-book can go up but cost-to-income, it has no real connection because Retail income is also high. So, Retail going up is not so much of a factor. Second factor is Company efficiency and where it can go because of efficiency is we will have to see. My targets are always tall. So, there are companies like HDFC, etc., which are at single-digit. So those should be the targets not 23% to 21%. So, the team should carry those targets. Obviously, that is not going to happen in couple of years. What we believe is generally speaking it should trend down definitely.

**Participant** Couple of questions first is in terms of IndAS applicability to us. When do you think that it will come and what is the probable impact have you done anything basis on the same?

**Dinanath Dubhashi** We are awaiting clarification in this regard. We have asked for clarifications from the relevant authorities. We believe it is logical that IndAS implementation, especially regarding ECL, should happen at the same time for NBFCs and banks. The logical reason is that we are talking about the same customers. So, for the same customers, if I provide according to my Expected Credit Losses (ECL), will a bank provide according to RBI norms. How will this work? How will the market compare them? We do not know. Also, do we continue to do a standard asset provision when under ECL I have to start providing from one DPD. Second, if my expected loss of an NPA in farm for example on the 91<sup>st</sup> day is less than 5%, do I continue to provide 10%? Clarity on this too is awaited. However, we will be preparing for it. We believe that the main issue will be ECL and hence we will keep providing quite aggressively, so that when it happens there may not be a big impact on provisions. That is one. Then there are other impacts which are more, I would say more pro forma. So, for example if you would see, if you go through my ROE bridge, we show a profit and then preference dividend and then profit to shareholders. Now, in IndAS the preference dividend has to be taken as interest

expense. So, then there will be now only one line which will be profit to shareholders because the preference dividend will come as interest expense. So, it will be ROE neutral, but the reported PAT will automatically come down by that amount. But the ROE will be neutral because profit to shareholders will remain same. So, there are these small changes. ESOPs, all our ESOPs today are issued at market price so there is no cost under IGAAP. Under IndAS we will have to take the Black Scholes valuation as cost of ESOP even if we issue the ESOP at market price which will have a small impact. So, once INDAS is implemented, we will come back to it. I believe other than ECL, the impact will not be much. And even compared to the industry our speed of provisioning is such that even in ECL there will not be a drastic change. That is what we believe at this point of time. But again clarity on this is awaited.

- Participant** Second is on micro loan portfolio, you said that customer indebtedness is restricted to Rs. 60,000 for your portfolio. Does that include SSG group as well because that data point is not available on a public domain, Sir?
- Sunil Prabhune** See, there are very clearly, and your question is quite valid. These limits are based on the data that exist with our credit bureaus. That is one, very obvious limitation. Let me add to it one more limitation. Any informal lending my customer might have incurred is also not reported to credit bureaus hence it is not part of the decision that we can take. The view that we have taken is that when I lend at the interest rates that I lend at that informal lending my customer has to depend on will get phased out and that is how that problem will get tackled. As to the specific point on SSGs, that is the work of how the data is getting reported that has been the case and we can only hope that it will change.
- Dinanath Dubhashi** And secondly to answer that it is only relative to Rs.1, 00,000 limit. So, SSG is not there in the Rs.100, 000 limit also and in the Rs.60,000 limit also. So, you are anyway safer.
- Ramesh Bhojwani** Sir, Ramesh Bhojwani from Mehta & Vakil, two questions. Couple of questions, Firstly, what is the ticket size of your Housing finance lending?
- Dinanath Dubhashi** HL is around average is Rs. 40 lacs.
- Ramesh Bhojwani** And in you presentation you referred to a special situation group which has been created within the company to take care of the gross NPAs, what is the scenario which you are seeing at to have a special situation group specifically for gross NPAs and secondly what is the progression you are seeing going forward?
- Dinanath Dubhashi** So, why was it created, first of all and it is not for all gross NPAs. It is largely for the Wholesale. It is business and doing more business is often a very heady thing. It is the more glamorous part of business, when you do business when you do disbursement. We have created this for two reasons – one is external one is internal. External reasons that till now we saw that there is no movement in the market and we are talking about Wholesale NPA to look at to come to real resolutions. The industry moved from hiding NPAs and second phase was recognizing NPAs. Third phase was recognizing the total impaired asset, fourth phase was just starting providing for it. We completed all those phases in one year and now the fifth phase is hopefully coming because of the Bankruptcy Act as well as the NCLT and this RBI circular that within 6 months everything has to be go to NCLT that people are now really talking resolution. According to us this is the right time to say that okay concentrated effort. When the world is moving to resolution concentrated efforts to make sure that our portfolio is well-provided, and we are in forefront of these resolution efforts. Even if you have to take haircuts to the extent of provisions or even may be even higher than provisions in some case and in



some case lower than provision. But quickly resolving and releasing capital which can be put to use even at today's level the ROEs are at 15% average and the two other businesses where capital is growing is giving more than 25%. Even simple arithmetic shows that even if you take a haircut and put that capital in Rural and Housing, you are better off and because of that this is the timing that we have put this SSG, so this is external reason. Internal reason I told that at this point of time we believe that the time is right to put completely concentrated efforts and having been a person on the business side on the sales side all my life I know that it is such a heady feeling that sometime collection always it is the most profitable job, but it is not a glamorous job. So, it is always better to have a concentrated team on it.

**Saurabh Kumar**

Saurabh here from JP Morgan. Sir, on your wholesale book the Rs. 2,800-odd crore net impaired assets you have how much extra do you need to provide before you think you get to a comfortable level by FY '20 and just a related question on the IndAS on the fees part is there any impact on the fees as well?

**Dinanath Dubhashi**

So, as far as Expected Credit Losses (ECL) is concerned, the additional provisions that we are making is to ensure that we fall in line with IndAS. Now, this number, as I told you is around Rs. 2,700 crore to Rs. 3,000 crore. This is what I believe we will have to provide. Our total stressed assets by the way which we believe is around Rs.4,500 crore-Rs.5,000 crore. Here also, it is not even everything is stressed, this also includes some standard assets. And for this Rs.5,000 crore of stressed asset book we require about Rs. 3,000 crore of provisioning. That would be the same as ECL because obviously this is ECL which we know that it is to be provided. It takes into account as if the February'12 circular is applicable and hence many of these assets may go to NCLT this year itself. And hence we believe that if we would have had say 2 or 3 years to provide, we may now need to provide the majority of it in FY'19 itself and may be a little bit more in FY20. What we will provide in FY'19 may be around Rs.1,200 crore to Rs.1,500 crore on this in FY'19 and after that deliver the profit growth which is a good step to move to FY20. Does that answer your question? I tried to be very precise for this because I am very deeply aware that I have changed these numbers in 2 years and I do not like to change the numbers,. Rs.2,700 crore to Rs.3,000 crore I am giving the upper limit also because I don't like to increase again and again but I have increased this in 2 years and I put my hands up and say guilty my Lord, the estimation was wrong, but I did not lie, I said the truth. That time that was the truth and now the new number is the truth.

**Virender Pankaj**

Additionally, we have already exited our infra investments at profit which you would be noticing from time to time in our numbers. So, now we are down to two more assets where total investments should be around Rs.500 crore that is what is left and which is on path to monetization.

**Dinanath Dubhashi**

By FY19, that will be done.

**Alpesh Mehta**

This is Alpesh from Motilal. First question, I failed to figure out why our Rural ROE guidance at 25% growth only because if I see its current year ... because the leverage levels have come down, next year obviously credit cost environment is relatively better than what you see this year? That is why ROEs are at 22%?

**Dinanath Dubhashi**

Conservatism is the answer.

**Alpesh Mehta**

Is it not conservative because the leverage levels have come down, next year obviously credit cost environment is relatively better than what you see this year? That is why ROEs are at 22%

**Dinanath Dubhashi**

Yes.

**Alpesh Mehta** So, how conservative are you?

**Dinanath Dubhashi** On a serious note. I will tell you why we are being that because ROE is not the only number. Just by maintaining good growth rate, we can maintain today's ROEs also. And perhaps even increase as you rightly said but there are opportunities. I will give you an example. So, I may refinance product to my best customers at lower interest rates to get higher market share to push growth up and hence I am just allowing this corridor to myself to expand but you know our company very well. So, you know that I am being very conservative as on certain things we may have slipped also. So, it is better that we are conservative.

**Alpesh Mehta** No but DD, it is at 3.3%. I do not think that you would be compromising on the Return on Total Asset (ROTA) for sure?

**Dinanath Dubhashi** Maybe in the early days there might be a little compromise but as we go ahead, it will come back. Yes, RoE will not come down to 25%.

**Alpesh Mehta** And the second question is on the other segment that is still capital lying of round Rs.820 crore in that so what would be the allocation strategy on that front?

**Dinanath Dubhashi** Again similar so I will allow my Rural book fully to grow at 40% this year. Housing also around that and Wholesale will grow at the same 10% to 15% on average.

**Alpesh Mehta** And the sustainable debt-to-equity ratios in the businesses like Rural and Housing because FY17 we were at a higher level FY18 obviously because of capital infusion. So, what would be the sustainable debt?

**Dinanath Dubhashi** First of all why we went to that high level is needs to be clarified. One year back when the debt-equity was say 6, when we wanted to raise capital would anybody give, at that time we did not have the status. We had to take it to those levels to get the credibility in the market for showing almost 2 years performance to raise. Now we are AAA also. Most probably, obviously we will be guided by the rating agencies, I did not mention it one more rating agency has upgraded us to AAA. We are waiting for the third also and hoping that it will happen soon. We will be guided by them as how much we can expand to. Overall, up to say between 6.5 to 7 times think it is safe at AAA.

**Alpesh Mehta** And lastly has the board decided about making contingency provisions for Rural and Housing business because these are the businesses which are currently making more than 25% ROE?

**Dinanath Dubhashi** You mean countercyclical provision?

**Alpesh Mehta** Countercyclical provision.

**Dinanath Dubhashi** Again I will try and answer this. So, we would love to make it even today. What we are doing is just increasing provision coverage today. IndAS means by itself that I will be able to carry floating provision because the IndAS is on portfolio I should be able to carry ECL. We believe that in our Retail portfolio that is Rural and Retail Housing we are completely providing for a given countercyclical provision. In Wholesale I told you that we are not provided enough, we have to provide another at least Rs.1,200 crore to Rs.1,500 crore to reach there.

**Moderator** Thank you Sirs, for the detailed responses and thank you for being with us here today. In case you have any further questions, you may reach out to our Investor Relations team. You can please join us for lunch now. Thank you.