

**L&T Finance Holdings Limited**  
**Q2 FY17 Earnings Conference Call Transcript**  
**October 26, 2016**

**Moderator** Ladies and gentlemen, good day and welcome to Q2 FY17 Earnings Conference Call of L&T Finance Holdings Limited. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "\*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Shiv Muttoo of CDR India. Thank you and over to you sir.

**Shiv Muttoo** Thank you, Karuna. Good morning everyone and thank you for joining us today for L&T Finance Holdings Q2 FY17 earnings conference call. We have with us on the call today, Mr. Dinanath Dubhashi - Managing Director and other senior management members.

Before we proceed, as a standard disclaimer some of the statements made on today's call could be forward-looking in nature. A note to that effect is stated in the results document sent out to you earlier. I would now like to request Mr. Dubhashi to kindly provide his thoughts on the company's performance and the strategy going forward.

**Dinanath Dubhashi** Thank you, Shiv and good morning ladies and gentlemen. Thank you for making time. It is a busy results season and we are grateful that all of you are attending our call. So I would like to start the call by talking little bit about our strategy, which we believe will put in perspective the results that we are delivering because management believes that every quarter's result is bought a step closer and and is a milestone in what we are set to achieve by 2020.

So, if you come to Page #5, just to repeat for many of you this will be a repetition, I have been talking about it all the time. We look to transform this company by taking ROE to top quartile. And today I am going to answer the questions which I have heard in various interactions. So there is no mystery there, we are looking at 18% to 20% ROE by the year 2020 and we believe that we will be delivering steady growth in this direction. How are we doing it? Very clearly by doing right businesses, having the right structures, simple structures and having the right people. Very clearly focus on what we believe are our distinctive strengths and distinctive products. We have talked about it enough in the last 2 conference calls, I am not going

to elaborate on it too much. But what I am going to elaborate a little more is what is our delivery, what are we going to do and what is most important to make sure that strategy sticks.

So we had a very clear short-term, medium-term and long term-plan. In the short term it would comprise driving efficiency by cutting costs. While we clearly believe that you cannot increase profitability by just by cutting costs, we believe that cost cuts and building muscle is necessary for being ready for growth. So short term was that, second was unlocking value of certain investments, that was the medium term plan and what we call long term, what we believe will be in FY18 is two things, one is growth, in profitable growth in our focus businesses and also making the organization ready for a long-term sustainable plan for sticking to the path of this strategy. To look at it other way, how do you deliver one strategy? First of all, I always say that a strategy needs to be very simple, which we believe that our strategy is actually disarmingly simple. There are many people who have asked me what is so great in this strategy? And I have answered that, that's exactly the point. There is nothing great in strategy. But I believe that we are distinctive and what is special about us is the way in which we are going about this strategy. So I believe that there are 3 things which are very important, when you set about doing a turnaround or set about going about a strategy.

The first of those 3 things is making management intent clear to everybody, to the leadership layer, to managerial layer, to the execution layer, to the field staff, to analyst, to investment community, to everybody. I believe we have been successful and we will clearly continue to do that. Our intent is increasing ROE, having profitable growth and our only metric that we will measure is shareholder value. That is the management's intent, what it does is there is less need now to give detailed instructions in the organization, whatever level it is. People are getting quite clear as to anything that they have to do whether it helps ROE. What does it mean, does it increase income, does it reduce cost, does it reduce risk or does it reduce capital employed? This clarity of intent of management is now being seen in the way people do their day-to-day activities in the company and that I would see is the first step towards implementation of this strategy.

Second important part, when a strategy is being implemented is the execution engine that you are putting in place. The execution engine we are putting in place is around a few projects and we will talk about some of these projects today. In fact, I have promised you that I will be measured by progress of these projects, cost-to-income ratio and ROE. So, we will talk about progress of these projects and this is what we believe is the execution engine that this company has put in place.

And last but not the least is how we are working to make this transformation sustainable. Making sure that the transformation does not

remain only for a few quarters or till we are heavily pushing it. How it becomes a culture of the organization and how we use this culture, as a competitive advantage, how do we use culture as a tool to make sure that this strategy remains on its route quarter-after-quarter, year-after-year. So these are the 3 steps that we will largely talk about today. Intent of the management, I think it is very clear and it will be clear throughout this call and we will specifically talk about the execution method and the execution engine that we are putting in place and the culture that we are putting in place to make sure that the strategy sticks.

Coming to Page #6, this is the headline slide. All the reportings that I had promised that this management is ready to be measured by headline number ROE and I will talk in details about this ROE; from a 99.8ish number for last quarter as well as the same quarter last year, we have increased to 11.7%. We believe that it is a good step in our progress to 18%-20% ROE by 2020. How it has been achieved, we talked about most important part of this is growth in focused businesses and that is already being seen. In our focused businesses, disbursements have gone up by 28% and asset growth is 24%. We have given Q-on-Q growth, but I think many of our businesses are seasonal, more importantly we need to see either on year-on-year or trailing 12 months but year-on-year growth is very robust in our focused businesses.

Cost-to-income ratio: while it can be easily dismissed that cost cuts do not convert to profitability, I believe that like in the human body cutting fat is very important for even starting to train for becoming a champion. This company also cut fat for being able and ready to start training to be a champion. Right now, we believe that we are in the training stage. But the fat has been cut. And last but not the least, the specific initiatives, many of the short-term initiatives are completed and most of the medium and long-term initiatives are on track and we will talk about it and we will specifically call out the ones where we have even faulted and not been able to complete the way we wanted to complete.

Next slide (#7), the headline number here is PAT to equity shareholders and let me clarify because I saw certain publications talking differently about this. PAT to equity shareholders is PAT after preference dividend. It is not reported PAT that is Rs 248 crore. This Rs 216 crore is after preference dividend and we believe that is what sticks to equity shareholders that what it comes in ROE. That is up 33% from last year. Consolidated PAT is up 15% to Rs 248 crore, cost-to-income ratio is down smartly by 500 basis points. We believe that this trend will continue, though it will be difficult to show 500 basis points every quarter but definitely we believe that from a very bank like cost-to-income ratio, we are moving to a more - hungry NBFC like cost-to-income ratio and we will move there.

Then the figures below that are very important, focused business growth 24% and defocused business book running down by 31%. This is entirely run down. We have not sold anything as of now but that will be happening over the next couple of quarters. On the other side, I have already talked about ROE 9.84% to 11.72%, overall book growing by 18%, arithmetical sum of (+24) and (-31) and gross NPAs and net NPAs fairly steady, in fact little bit less.

With this headline numbers, let us come to what the slide (#8) that I am beginning to describe to analysts who meet me as our Holy Grail. This is the slide that we live by, this is the slide that we study almost on a monthly basis, and everybody really measures themselves, each of my number 2 measure themselves against this slide. Everything that we are doing and stand for can find place in this slide. After this, we will move to the steps we are taking and the culture we are building. So headline number, our focused business ROE has already touched 14.5%, this was little less than 14% in Q1 and it has touched 14.5%, optically it looks like from last year 15% it has come to 14.5% and this needs explanation, actually the steady state is much more than what it looks like. Let me explain: Starting with rural business. In rural business, we have shown excellent growth as well as the very healthy ROE. It has come out of three things. Our rural business consists of microfinance, two wheelers and tractors. Microfinance, we have shown a very healthy growth and this has come on back of many things. I know that the sector is also growing very fast. There are murmurs of over growth, over heating etc. We have taken all steps which are required to control risk. We have gone completely mobile. We follow the MFIN code totally. We have gone 100% Aadhar based- first company in the industry to do so. Our rejection rate from last year little more that 20% has touched 33%. Of all the leads or all the customers that we source, we do only two-thirds of them and last but not the least, we have a very strong analytics supporting it. Analysts or fund managers who have met me, we have talked in great detail as to how we control risk. So, growth here is happening after filtering out all this risk issues.

Two-wheelers, the growth in profitability is coming by the cost cutting measures that we have taken. Growth in two-wheeler has been steady. We believe that this growth will pick up in the festive season, in fact we are already seeing it picking up in this month but the big story here is increase in profitability because of the expense cuts we have done and our having implemented 100% digitisation has started showing results. Close to 80% is straight-through and out of that, around 70% is being done within 5 minutes. So our decision TAT which used to be at 3-4 hours just about a year back, we are down to 5 minutes for majority of our cases.

Lastly tractors, this is where even though the growth is negative, it is less negative than last year and I would like to talk more qualitatively about it.

Definitely wherever we have moved around in the rural areas, we see a definite turning of sentiment, we definitely expect rural demand to go up. We expect the third quarter to be much better in terms of growth in rural. As far as NPAs are concerned, tractor NPAs have come pretty much in control between Q1 and Q2. How Q3 will be, I would not like to guess that, it depends on many factors as I always say Q1 and Q3 large billing is there and it is very important to see when the Kharif money actually comes in. It was supposed to come in by October and November because of the late rains, it looks like it will be delayed by about a month. If it gets delayed beyond that, the NPAs in December may go up from September but that is only seasonal. As I always say and my colleagues from the industry also say we are not too worried about GNPA levels, what is important is what loss sticks to P&L, we are pretty sanguine about that. We believe that the recovery of the sector has started. The reservoir level, ground water levels indicate that we are going to have a bumper Rabi crop and not accounting for some hailstorms and things like that which happen, we should see very clear recovery in the farm sector.

The second success story of this quarter is housing. The profitability and growth of course, our base is small, so growth I would not pay too much attention to, but the profitability. Two very important things about the profitability; retail housing has very clearly shifted especially from DSA based salary to Self-employed Non-Professional (SENP) that is non-salaried and LAP. We are fully aware of the risk factors and what is the news going around in this sector. We are putting in place a very strong and detailed risk framework to take care of this. We have looked at those reports, we have looked at many other reports in details, we have compared and benchmarked our portfolio against that and believe that we are well within the risk parameters that are required to have a good portfolio in this industry but what it has done is one, the momentum of disbursements have remained same. We are not showing growth there but the momentum has remained same despite not doing the easy business and doing more difficult business and which has done wonders to the profitability and most importantly, our developer funding as we had said that from a boutique business, we are now calling it and making it a core business. We have put in place an extremely strong team now. We had acquired a small team last year. We have built that, strengthened that, given it a lot of strength in terms of technology, knowledge, people and have also build excellent bridges with our parent. With all these risk parameters in place, the real estate and the construction funding has also shown very good growth leading to 20% plus ROE for housing business as well.

Then we come to wholesale business, which at this point of time is our largest business. Lots of positives have happened here. We are saying that our growth will be on the following sectors where we see growth. Renewables, especially solar, I mean largely the growth was weak till last

year. It is moving to now to solar, roads, operating projects; Debt Capital Market desk (DCM), our sell down desk; underwriting, we had said that profitability of this business will depend on the amount of fees we are able to generate. All these things are working very well. Large parts of our disbursements are happening to our focus sector. Fees and other income to balance sheet has crossed 0.5% already. So we see that all these things, all these strategies are working. In addition to that, we see another very positive trend that the whole sector and especially the banking sector is moving very steadily from declaring NPAs to trying and resolving NPAs. Now this is slow and steady, do not look at any miracles happening. It will take 2 to 3 years and we are in talks with banks but we are seeing some interest, we are seeing some interest coming, foreign interest coming, in resolving or buying power plants, completing and selling power plants to foreign investors. Of course the government move of releasing 75% of EPC funds, we still have to see the colour of the money but lots of positive moves are happening. What the management believes is over the next 2 to 3 years, many of our impaired assets will move towards resolution, albeit they will be with certain differing amount of haircut depending on industry, asset etc. and we believe that it is our responsibility that over the next 2 to 3 years, we build enough strength in the balance sheet to be able to take those haircuts without any cushion. .

People have talked about what is voluntary provision. Let me clarify, what we call voluntary. It is anything above what regulations say is called voluntary. Is it really voluntary, it may not be because these are perhaps haircuts that we will have to take over the next 2 to 3 years, but the good part is that the boil which troubles the industry of impaired assets is moving towards resolution. Now what the management is doing for that is as we move slowly towards next 2 to 3 years, we will be providing extra and we have taken asset by asset call on how much haircut will be required, how much provisions will be required and we have begun our journey to take that. So if you see our credit cost to book, it has gone beyond 2%, 50% of that is more than what regulations require. This trend we believe will continue for another 3 to 4 quarters. What it means I am calling it out that the credit cost we will maintain at 2 to 3 quarters. Please see the articulation, I am not saying it will be at 2-3%, we will maintain it at 2%. The credit cost will mostly likely be much lower than that but we will take provision to ready us to unhesitatingly take the haircuts to actually resolve the assets once and for all. Why are we doing this? We clearly believe that this is what will happen. Does that mean it is sure? No, it is not sure. Some of the resolutions may happen, some of the resolution may not happen, it may go further, I am not clairvoyant, but what is important is that we prepare for it. What it means in simple ROE tree terms, for the next four quarters we will maintain ROE at around 9% to 11% as credit cost will be at about 2% and after that, we believe that credit cost will come down to very steady state levels for this business which is between 0.6% to 0.8% and thus

take ROE to well above 15%. Even if you take very simply today that if we would have provided on our entire impaired asset book for what is regulatory required, the ROE position is more than 15% and the ROE of focused business would have been 18%. So these numbers are not given for any justification of performance, these numbers are provided to show what is our intrinsic strength and why our strategy of focussing on our core businesses, focussing on what is our strength and generating tremendous amount of fees is capable of generating once this nightmare is over of providing or strengthening the balance sheet for ultimate haircuts which can be taken over the next 2 to 3 years.

We now come down to defocused businesses. As you have seen, it has run down, the capital in these businesses have come down substantially. We had called out that we had appointed an investment banker. The project is at a stage where we have got bids. Management believed that perhaps we will be able to sell the entire portfolio to 1 person. You know me, I always say that I can call my mistakes. I think it was wrong call on my part. We were too diversified for any player to buy the entire book in a diversified way because nobody else is that diversified. So now we have decided to slice and dice the portfolio and sell it product wise or any other DPD cut wise. We are much confident that close to 70% to 80% of this portfolio will be sold before the end of this year and any case it is running down by close to Rs 600 crore per quarter. So we believe that once again this nuisance also will be over very soon and whatever we earn in our focused business will stick to us.

Then, we come to other businesses. There were a lot of questions about what we are doing about these businesses. First of all, we have been also talking about generating value etc. Now generating value will happen when it is to happen, but as management the most important part is we have to make these businesses profitable. So the two large businesses that we have are - mutual fund has generated Rs 12 crore profit this quarter and we will certainly multiply our profit for the year by more than twice this particular year. It is a jewel in the crown. We have grown well, the equity to total assets is remaining same. We are aware that there is tremendous value in this business. We are open to look for minority partners here but as I have always said that this team concentrates on execution and amount of things that we are doing, right now our execution engine is working full time and hence value generating asset, we are in no particular hurry to sell, but the concentration very clearly is to make this business more and more efficient and generate high amount of profits.

The story of the quarter is wealth business. This is a business which lost Rs 23 crore last year. We have turned around, we did many good things to this business, we re-strategized, we concentrated, we asked people to go and we are concentrating on increasing the productivity of each person there. Our assets under service have gone up, number of clients has gone up and

the headline number is that this quarter and in fact for the first entire first half, this business has broken even. Now as you can see, there is no capital in this and as this business generates profitability, it is just a fee income and it is a kicker. So generally, as you go down the ROE tree, I think I have explained each and every business, the trends how we are going, what is the management intent but what you would notice is that businesses which are doing well and generating good ROE continuing to do so, will continue to do so and businesses that are bringing this ROE down from the 20%-23% level to ultimately 11.7% level, management has clarity of intent and direction as to what we are doing with these businesses.

Let us go to the next slide (#9), we talk about each of the initiatives. So why are we calling the risk framework as the first and most important project we are doing. Globally, it is seen that companies as they go through big cataclysmic changes and make no mistake we are going through one; Risk always comes to the forefront. We are acutely aware of this and hence we are putting very strong risk frameworks in place. Half the work has happened, we have put overall guidance lines as to which sector, promoter, by various cuts how much is the maximum exposure we will take. I have said this before that all our losses in the past, our mistake was risk and not credit. Some of those assets we would have done at that time, I mean we did a lot of EPC contracts five years back. While doing credit, nobody would have judged or nobody would have guessed that government is going to stop paying money to EPC contractors. So credit decisions were right but doing too many EPC contracts was wrong, right? We are making sure that those mistakes do not happen again. We are putting a risk tree in place which will make sure that at any point of time the risk that we take in any sector, in any geography is clearly limited to what we want and what is pre-decided. What we are also putting in place is basically a parameterized calculator to price in risk in every sector, so that we take incremental risk which we can manage at the right price and hence it sticks to the ROE ultimately.

Few more things need to be done here, like a very strong early warning signal system. We have early warning signals in some of the sector, but we are setting up very strong early warning signal mechanisms. We have hired one of the best consultants in the world in the risk area for this and we believe that by the end of the year, we will have one of the strongest risk frameworks in the industry.

Second, OPEX optimization, I think we have talked a lot about it in the first two quarters but suffice to say that the culture of cost optimization has come in, it is not a one-time exercise and it is being managed at a very senior most level and this course will continue and you will see that we are actually calling out numbers everywhere.



Divestment of non-core business, I talked about retail one and also for the PE Assets and the Prop Equity. We have 5 assets. We are quite sure that 2-3 of them will be sold this year and the rest next year.

Focus businesses, the growth is very clear, we are building strength, we have been building advocacy, we are industry opinion makers in some of the sectors, we are improving customer efficiency by using technology. Many of our retail businesses, actually all our retail businesses are moving completely digital and basically identified turnaround time as our unique strength and each retail business will move to use technology to improve turnaround time while making sure that right kind of decisions are taken.

Sell down : (Slide #10) now this is what is going to be the turnaround story of wholesale business. Sell down, underwriting and selling down by having a fairly asset light model by generating more fees is what we will look for in wholesale. I am always asked, what is going to be your composition of assets four years down the line, how is the capital going to shift etc. So let me deal with this question upfront. There is a particular order in which capital will be allocated. First it will go to obviously the high ROE retail businesses like tractors, microfinance, two-wheelers etc., then it will go to the high P/B retail businesses like housing. Then within wholesale, it will be given first to IDF, which is a tax free entity and then the remaining capital which is unabsorbed by these businesses will go towards remaining wholesale. So, instead of a target capital distribution, am giving hierarchy of capital allocation because the difference between hierarchy and target is the capacity of the retail business to absorb the capital. Today given the rundown of the retail portfolio, there is a tremendous effort required to increase the retail portfolio and not always that the retail portfolio can grow every quarter the way we want. So wholesale will always catch up and absorb very easily the capital which is available. I guess this is more important. Once again the point is making the management intent clear. In wholesale, our strength is sourcing, appraisal, management of the account, not capital. So capital, obviously, what is available will go to wholesale but we will make profits in wholesale by our fees, by our abilities to source to identify and to sell down. So, I hope that is a very clear answer.

Next merger of entities, we made tremendous progress on this. Right now, the petition is in both the high courts. Certain hearings are over, we have got certain very favourable dispensations from the high court. We believe very strongly that this whole process will be over in this year itself.

And last but not the least, the buzzword digital and data analytics, we do not use it as a buzzword. Very clearly digital and data analytics also, whatever we do will have to link to ROE.

For the record, we have taken all our retail products completely digital and any digital move is backed by tremendous level of analytics. So as an example, we have moved microfinance in record time, 100% digital. We have moved two-wheelers, tractors we were already there and now the next is housing which we will move towards digital. So these are our execution engines working.

Incrementally, I would be ready to invest in digital and data analytics with some hope of future gains only when the ROE crosses 15%-16%. Just to refresh your memory, all these projects that form as components to this strategy, each one of them is being headed by a middle level executive being supervised and mentored by one of my direct reportees and very clearly the middle level executives who are heading these projects know that they are the future of this organization and their future is this organization. So they are very clear and that is why their quarterly milestones are being achieved every quarter and we are quite happy with the way these projects are going.

Now we come to the last and perhaps the most important part of what I am going to speak is culture as a competitive advantage (slide #11) and this is how we believe that biggest change in this company is happening. This company perhaps was looking at employees as an important stakeholder in the success of the company. We believe so, most definitely employees are very important for the company but also employers work for shareholders. Employees do not work for themselves, employees have to work for increasing the value of the shareholder and this happens when the employees truly believe this, they understand the intent of the management, their measurements metrics are based on this and most importantly the rewards are based on this. They see a clear link between shareholder value and their well-being and these cannot be just power points or just Town halls. This has to be demonstrated by real measurable things. So what we are doing with changing the culture is a mix of these things, what is real and, measurable. I would like to talk in little bit detail about both these two. This is, I would think it is very unlike what MD talks in an analyst call but I want to talk to you about the fundamental changes that are happening in the organization, numbers we can always discuss either on this call one-to-one, Karthik is very capable of explaining detailed numbers to you.

So if you come to the next slide, (slide #12) this is the real stuff, this is hard stuff. The leadership player, what I mean by leadership layer is myself and my immediate 11 reportees. This is a 12-member team which is the group executive committee. This is the decision-making table of the group. Our primary responsibility is formulating the strategy and very clearly guiding and being responsible, being held accountable for the implementation. Metrics are very clear: Consol LTFH ROE. This is interesting and I think I have

gone on record saying that however each business or each department does if LTFH ROE target is not achieved, each one of these 12 individuals carries home zero performance pay. Today I am calling it out on an analyst call, we stick by it.

Monetary mechanisms, we have our weekly Excoms, every project has a steering committee and a monthly KPI review happens and that is why I am able to stand in front of you so confidently and say that we will deliver quarter-to-quarter.

And rewards and consequences very clearly, I think consequences at this level is, first of all you think very badly of yourselves if you do not achieve something and that is I think the biggest consequence, but what we are talking about and I also talked about the monetary consequence, but wealth creation, clearly linked to shareholder value by ESOPs, not all of them allocated in one year, but allocated every year over the next four years at the market price of that year. So we had shareholder permission to allot all the ESOPs what people are eligible for in one year i.e. about 5% of the company. But we have decided to allot it every year so that we are pushed and motivated to generate shareholder value year-after-year.

We come to the next level, which is one or two levels beyond my direct reportee. Very clearly the primary responsibility is defining clear mechanics of implementation. Financial KPIs are very clear, aspects like team management etc do not fall find the place in the KPIs, this is the part of the job of people, they get their salary for that but very clear financial KPIs and project deliverables or what these people are measured on are set. How they are reviewed is via department reviews etc. and rewards are very clearly output based. So once again if we do not deliver on numbers, if the shareholders do not get their due, people get nothing.

And last but not the least, most important is the execution level. A lot of people have asked me what ROE means for this execution level. It is very clear that ROE can be split in either increasing income, increasing profitable volumes, reducing cost, reducing risk, reducing capital. I think as low or as on the street that you go in any organization, very clearly one or more of these criteria can be marked, can be called out to measure this. This is where continuous productivity improvement is what we are fighting for and what we are pushing for. So this slide covers the hard measures that we are taking but equally important is what is the employee value proposition that we are putting in place. Once again going the same way, leadership level, this is a decision making table. Twelve of us feel that this is a transformation that we are leading in our life and this is one chance that we have got to create something great and that I believe, motivates me and my immediate colleagues like nothing else. More importantly each of us, our roles have grown and become more complex. In fact, if you would see, our

management slide in the annexure looks different, much fewer people and each of our roles have expanded in the last 6 months and grown more complex and that also obviously motivates people and a very clear LTFH Excom identity.

My next level, quarterly engagement, two days later similar presentation, more detailed one will be made to the top 100 people of the organization. We are doing that every quarter to make sure that, that level is completely engaged with what the management is doing. Cross functional opportunities, if you see across the organization, people who were doing something else 6 months to one year back are doing a different job now. Apart from this we have what is our Star Awards, these are very valued. Out of 10,500, about 50 to 70 people get it every year and this is genuinely like Oscars and people generally vie for it and push for it.

The execution level: the moment this Mumbai town hall is over, each one of my number twos and their juniors will fan-out across the country to spread out this strategy and how we have done it to the basic level of management. So we have about 10,500 people and if you take first level of managers and upwards, we are around 1500 people and each of the 1500 people will be touched every quarter and this would be explained to them.

The next is ASPIRE, this is very important. Across the company, we have banned recruitment at the first level of management. It is our feet on street who through their performance get promoted to this level. This is genuinely, just simply transforming the motivation level in the organization and across levels we are ensuring that as we move to a more and more crisper and output oriented metric, we do not lose the simple quality of care that we have for our employees. There are many anecdotes, but that is more for a one-to-one talk that some time we will have.

Just coming to the conclusion, very clearly the strategy is on course. I would start now with the end. We are changing the whole culture of the organization to a more result and output oriented metrics. The rigor in implementation of strategic initiative continues and has started showing visible outcomes and most importantly very output oriented performance metrics and rewards mechanisms are in place. ROE, yes we are very proud of what we are delivered, very aware that it is just the first quarter but at the same time very confident that we will keep delivering it quarter-by-quarter not accounting for some quarter seasonality. And I think I need to call this out here, that what I talked about the wholesale business that we will take higher credit cost over the next four quarters that this is not an excuse to falter on our promise to deliver overall ROE. The rest of the businesses will stand up and be counted and will make up for this strategy of keeping wholesale ROE at around 10% and make up for our promise of delivering ROE. The loans and advances have started growing smartly. Cost-

to-income ratio - most important thing, we believe that all strategic metrics will continue to maintain their positive trajectory from now onwards.

Thank you ladies and gentlemen. I think, I have spoken a lot. Me and my team are open for any questions that you may have. Thank you.

**Moderator** Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have first question from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

**Kunal Shah** Congratulations sir for brilliant results and even touching +14% ROE in the focused business, that is really great. Sir, firstly again want your view with respect to the preference capital, how are we looking at in terms of the overall strategy, maybe the amount that is locked in the preference capital as of now and once it comes in for the redemption, will we be seeing a similar amount of preference capital or it will be over and out from the balance sheet?

**Dinanath Dubhashi** I will give this answer more as a strategy than as a tactic, okay? This management does not believe in financial cuteness for delivering ROE. So preference capital will be like any other funding in the balance sheet which will be raised as and when required. The mistake we had done was not raising preference capital. The mistake we had done was raising preference capital in anticipation of growth when it was 10 basis points cheaper. However, this growth never happened. So preference capital at 8% cost is not bad. Preference capital at 8% cost which is not used and hence invested in mutual fund is bad. So what we will make sure the way we will fund our balance sheet through debt, preference capital and then ultimately equity at some point of time maybe, though we believe that we have enough equity resources for the next 18 to 24 months will depend on the financing appropriateness at that point of time. So I am not painting preference capital as the villain. Preference capital or any other capital is the villain if you raise it and do not use it and that is what we did. So that would be the real strategic answer to this. So we have not made up our mind when it comes for repayment whether we will repay, if it is being absorbed, if it is generating good ROE, why not? What we repaid was the preference capital that we were not using.

**Kunal Shah** How would the allocation happen sir? That would be largely across various businesses, so maybe what we are looking today in terms of say slide number 8, so I think preference share capital would also be allocated in a similar fashion. So if we consider maybe at the repayment if these are the similar metrics which are continuing, would we want to continue with that or would we want to repay those things?

**Dinanath Dubhashi** See, let me give you some numbers. We have about Rs 1200 crore of preference capital left, the redemption is partly in July next year and over the next 2 years, the whole thing is coming up for redemption. We will see, how we raise, whether we repay the whole thing, whether debt is cheaper at that time or preference capital is cheaper at that time? These calls will be taken when it comes. As far as allocation to businesses is concerned, it is not allocated as preference, it is some type of money which the holding company is raising and investing as equity in the businesses and hence how equity is allocated to our business is important and that is what I gave ample clarification in my speech as what will be the hierarchy of equity allocation. How that equity is raised by the holding company is a matter of strategy at that point of time. So that also I will clarify, okay? How equity will be raised. Number one; the ROE is increasing, so obviously the equity sticking back is more. Number two; we are looking at sell-down of non-core portfolio and sell-down of our PE assets. We are looking at a minority partner in mutual fund. This is how equity will be released, okay. After that, warrant conversion money of about Rs 330 odd crore of Bain Capital is also expected, hopefully what we will call it in may be first quarter of next year. With this, we believe that we have enough equity. Now how we manage the rest of the growth by debt, by preference capital. At this point of time, it will be too early Kunal and it will be a very academic exercise.

**Kunal Shah** What is the take on IDF, how has been the buildup in this particular quarter and what is the book sitting over there and what is the level of ROEs which we are generating in IDF, say if you can share something on that front?

**Dinanath Dubhashi** So we have built to about Rs 3000 crore IDF, we see a very good pipeline there. With the current equity, we can easily double this portfolio. We see that trend happening. We are quite confident that from Rs 3000 crore, we should be able to largely double it by the end of the year.

**Kunal Shah** And just the last question with respect to the sell-downs. The sell-down of the defocused business, the way we have been interacting with the various potential buyers, what is our sense in terms of steady value which would come in from there; so would there be any kind of a hit which we might have to take from some of the defocused portfolio?

**Dinanath Dubhashi** The process is on and, my buyers will be listening to this call, this answer itself will affect the value. So I will pass.

**Kunal Shah** But we are expecting everything to be over by March for sure.

**Dinanath Dubhashi** 70% to 80% will be over.

**Kunal Shah** And in terms of the sell-downs in the wholesale book, how has that been in this particular quarter?

**Dinanath Dubhashi** . I Will request Virender our Chief Executive of Wholesale to address that.

**Virender Pankaj** Sell-down has been robust. As Mr. Dinanath explained earlier, we are talking about increased business volume in wholesale but still not having a very large increase in asset book. So essentially the philosophy is to process more business volumes, do higher down-selling, hence generate higher returns from the business using capital more efficiently than the past. So just to give you directional sense, our volume which we have down-sold are up 100% sequentially. Compared to the last quarter, we would have down-sold about Rs 600 crore, this quarter we down-sold close to Rs 1300 crore. Compared to last year H1, our volumes of down-selling are up by more than 50%. So this is the direction we can expect to continue.

**Kunal Shah** So Rs 1200 crore, something which has been sold down in this quarter.

**Dinanath Dubhashi** This quarter, that is correct.

**Moderator** Thank you. We have next question from the line of Ajitesh Nair from Premji Invest. Please go ahead.

**Ajitesh Nair** I had one question, you mentioned about your expectation of how the credit cost will move on the wholesale side, could you just help us understand a bit on the rural side, currently 4% credit cost is what we are running for the first two quarters approximately and that is largely from the farm business, I am assuming. So when we have discussed in the past, you said a couple of crop cycles will be needed, so by this time next year what will be your estimate of credit cost in the rural business assuming monsoons are okay.

**Dinanath Dubhashi** So, there is one more event which is happening right? So this credit cost always and I think I was even listening to competitors what they have to say. There is this 90 days thing happening. So, next year we will move to 90 days and obviously as we move to 90 days, this credit cost also contains income reversals, which will be reversed again as soon as it is called. So, it will take one more year for this to settle down. So asset quality will definitely improve, but let me call out here that in December as I said, we are not sure, we hope that December will be as good as September but there might be some disturbance because some of the amount will get delayed and things like that. But by March, it will substantially come down and hence if you see like-to-like asset quality or if I say that, if it would have remained 120, I am sure that the credit cost would have been substantially lower next year. But since it is 90, it is difficult to judge, we would believe that at best-at worst, it will remain flat as 90 days, remains 4% with 90 days.

- Ajitesh Nair** But are there signs in the early bucket, you were sharing that one third of your delinquent customers are part paying, right? How is that, anything there to look at, any trends?
- Dinanath Dubhashi** The trend largely remains the same, about 33% to 37% is what we see are partly paid. But if you ask my feeling because I have extensively travelled especially in Marathwada, and Marathwada has been strange, half the monsoon having drought, half the monsoon having floods. So, wherever I have travelled, do I see wealth? I do not see wealth and also as money comes, the farmer will have many other uses to that money rather than repaying only the lender always and we are not monsters to go and get the money when the farmer is hungry. So it will take, as I said, a year or two years for it to come entirely, but the mood in rural India has improved drastically. Like I have farmers telling me that it is okay, this year's crop has been spoiled a little due to rain but Rabi is going to be bumper. So the mood is changing and we are seeing at dealer places in October, the volumes really picking up and volumes will be the pre-cursor to collection. The rural mood is definitely improving across, I mean there are some pockets here and there but otherwise across mood improving. I have seen borewells without a pump spewing water and these kind of scenes can be seen in the rural India now that the water tables are so high that Rabi crop is bumper. So things will look positive as we go ahead.
- Moderator** Thank you. Next question is from the line of Abhishek Sahoo from Citi Group. Please go ahead.
- Abhishek Sahoo** My question was around the voluntary provision that you have taken in the wholesale portfolio. Are there any specific assets that you have identified against which you have taken these provisions and if you could quantify those assets?
- Dinanath Dubhashi** So we have quantified it, we are giving very clear indications on what are the impaired assets numbers, it is there in the investor PPT both for NPAs as well as impaired assets. Obviously, in wholesale provisions are made only asset by asset. So vis-à-vis banks, banks are allowed to carry floating provisions, NBFCs are not allowed to carry floating provisions. So the way we manage this is that the management has done an estimate of what the ultimate haircut will be. So we are well in ahead of what RBI wants. So we are not even discussing that anymore but what the ultimate haircut will be at some point of time and many of these things may not happen and we take these calls almost every month Virender, I and his team sit and monitor how this is changing. So some assets we believe there can be less haircut or no haircut, some development is happening, somebody putting equity, while some get worse. So based on this, this number is decided, but we are not taking it one time for this because the question can be and I am asking the question that if you are very clear that over four quarters you are taking,



why are not taking today. The simple reason is not all of this is crystalized today. We do not know and why too, we are not in the habit of taking huge provisions and then writing it back and that is balance sheet management according to me. So we are very clear that this is something that may happen over the next 2 to 3 years, but we will finish it over the next 4 quarters and in addition to that, any extraordinary gain that we make out of the PE sales also we will provide. So if you are able to make good gains and provide, the NIM may not take 4 quarters, it may take 3 quarters, by which it will come to steady state levels of 0.7 to 0.8. And you do your math, every 10 basis points increase in fees gets us 0.5% increase in ROE and as soon as this credit cost comes from 2% to let us say pessimistically even 1%, the ROE goes up 5% just by that. So that is simple math and hence we are very sure that because the basics in the business are put in place well, we are no longer looking at how to manage NPAs. We are looking, we are calling them out and saying we are dealing with them but most importantly we are saying that how do we build our business strongly and have a very steady state model which will get us 15% to 17% ROE in wholesale business as well steady state.

**Abhishek Sahoo** And in terms of sectors where these assets are concentrated, would it largely be in the EPC segment or there are others as well?

**Dinanath Dubhashi** Largely will be EPC and thermal power.

**Abhishek Sahoo** And just one more question around the employee costs, the increased quarter-on-quarter looks little high even though the Y-o-Y figures have actually declined. So how do we look at this going forward?

**Dinanath Dubhashi** Okay, which page are you referring to?

**Abhishek Sahoo** I am looking at your employee expenses.

**Dinanath Dubhashi** Which business?

**Abhishek Sahoo** I am looking at the overall, the consolidated entity level.

**Dinanath Dubhashi** I will give you a general answer on that. So the first quarter, I will basically explain the management action. We cut 1000 people at the beginning of first quarter. Of the 1000 people, more than 700 were from head office and regional office. So basically these were non-frontline pick. We have added in the second quarter 1300 people all in the branches, all frontline. So obviously this will lead to, we call it investment, it will lead to the increase in some employment cost, the number does not strike me that employee cost has gone up but even if it is true, it is the investment. In the results table the increase has a very mechanical reason, that large amount of our employees were off rolls last year and those were coming in some admin cost below

because they were off rolls and somebody else was paying them. From there, we have moved all our employees on roll. So that small increase is the submission of this effect but having said that, we have added 1300 people which we believe will start producing from the third quarter onwards.

**Moderator** Thank you. We have a next question from the line of Sree Sankar from Prabhudas Lilladher. Please go ahead.

**Sree Sankar** My quick question, you mentioned in your presentation about how the capital will be allocated. It was first mentioned that high ROE retail that is MFI, two wheelers, tractors etc. gets the priority. Could you please repeat that order I could not really catch up?

**Dinanath Dubhashi** Rural business first, housing next, wholesale next.

And within wholesale, IDF first.

**Sree Sankar** You mentioned about your target of 18% to 20% ROE by 2020 and do you also have kept across any kind of number for the AUM at the end of 2020?

**Dinanath Dubhashi** We have our disbursement growth in mind obviously. AUM, yes, not balance sheet. I think you asked a good question, I was confusing it for book size. We have a defocused book going down, focused book increasing, the 18% growth that we have shown this year seems likely to continue between 15% to 18% is what will be this year. After that given our product mix, something like 20% CAGR in AUM is what we are looking.

**Sree Sankar** 20% CAGR and will it also be in the likes of your capital allocation that growth in the AUM?

**Dinanath Dubhashi** I am not getting your question.

**Shree Shankar:** Will it be mostly in the rural, any kind of ratio that you see it across?

**Dinanath Dubhashi** No, that is the whole beauty. The AUM in wholesale will most probably be higher than everyone, the growth in AUM. But it will not stick to the balance sheet and hence no capital is required or less capital is required. So we believe that wholesale growth because it is chunky can actually grow faster than retail.

**Sree Sankar** That's where your sell-down comes into play?

**Dinanath Dubhashi** Precisely and AUM gets profitability, balance sheet does not get profitability, definitely not to an NBFC. Capital is never our strength.

**Moderator** Thank you. The next question is from the line of Nitin Aggrawal from Antique Stock Broking. Please go ahead.

**Nitin Aggrawal:** A few questions like firstly though you mentioned that the credit cost overall will remain elevated but then what is the outlook on total stressed assets in the wholesale business because I think there is slight increase in stressed assets aside GNPA is also there?

**Dinanath Dubhashi** That increase was called out. These are three power exposures that we have talked about. So now all the three have become RSAs We have called out at beginning of the year itself and have actually predicted if you remember that there will be about Rs 300 crore increase in this quarter. So as we go ahead, again as I said I do not give too much attention to this denominator. It is not important because we have called out what we believe is a stressed asset according to all definitions, you call it RSA, you call it SR, you call it NPA whatever you call it. We have called that out. Then there will be certain assets in the book which may or may not become RSA, going ahead. So there is no point calling them out. What we believe is in the numerator. What is the amount of provisions we need to deal with them is important and that is what we are very clearly calling out and we will be strengthening our balance sheet over the next four quarters.

**Nitin Aggrawal** Secondly, the growth in wholesale business is still running healthy, I mean despite the sell-down that we have done during the quarter, so what is the full year growth outlook on this business and how do you see the mix of retail and wholesale loans over the next 2 to 3 years?

**Dinanath Dubhashi** I thought I answered this. So the growth in wholesale AUM or business will continue to be the way, it is this quarter. It has been a good quarter for us. We believe that over the next 4 to 5 quarters, in fact the business pace will actually pick up as capital does not become the constraint for business anymore. We had to sometimes control the business that we do because there is limited capital but now as we built a sell-down desk that does not become a constraint. The actual proportion of capital allocated to various businesses, I do not want to take a guess.

**Nitin Aggrawal** Not the capital sir, I am saying like the loan mix between the rural housing and wholesale.

**Dinanath Dubhashi** It will be largely same no.? There will be small debt equity differences between each but it would be largely same, book and capital. There will be hardly any difference between the two but I will give you a proper answer. I believe in one thing, the moment I say something I have to stick on my actions. So it is important that we get a clear idea of how much the retail book will grow to call out a change in this mix right? And hence I am making

the intent clear that let retail book grow as fast as possible it will get capital, and wholesale will manage within what is required.

**Nitin Aggrawal** So, no basically like we saw a healthy growth this quarter in wholesale, so if you have to continue at this growth then will require capital there and so this essential implies that will sell down more loans in the second quarter.

**Dinanath Dubhashi** Exactly as you have pointed out. Business will continue, the pace will actually increase but what will stick is what is the capital available. We are planning to do about Rs 4,000 crore of downsell. Why this is important to call this out, is that if we falter for whatever reason, retail is not able to grow or maybe not able to absorb the capital. Let me give you a very precise example, let us say in December for example I sell down Rs 1000 crore of non-core portfolio. Suppose it happens, then in the wildest of imagination retail can't absorb that Rs 1000 crore in 15 days, but wholesale can, so wholesale will always build up the slack, absorb the slack rather right? And then slowly as retail keeps absorbing that capital, wholesale will be sold down and the capital will move to retail.

**Nitin Aggrawal** And the other question is on the asset management business, any specific steps that we have taken to improve the profitability in that business because though the benefits on account of operating leverage are expected to kick in but the growth on profitability is very sharp?

**Dinanath Dubhashi** Largely it is 2 things, first I must admit that the market has been good. So in the beginning of the year, the market has picked up, the run rate of profitability obviously holds up. So that has been helpful, there is no doubt but still clear concentration on equity and core assets, core debt, setting clear targets for productivity for people, reduction of branches and merging of many of the branches with LTF branches has been the main reasons at this point of time.

**Nitin Aggrawal** And lastly, like how much composition of developer finance and LAP will we be comfortable within our housing finance business?

**Dinanath Dubhashi** So, we look at not within housing finance business, we look at everything. As I said the first principle of this new strategy is one LTFH and hence any of those percentages are to be set for the entire book. So developer finance for example, we have put a limit of between 5% to 15% of the entire book is what maximum developer finance will do, we may not reach there, we will start selling down much before that but that is the limit we have put for developer finance. Out of retail, I do not see much difference between SENP HL and LAP frankly, if you do LAP well. If you do LAP without taking the care that needs to be taken, then it is different but we will continue to reduce our salaried HL. We believe that out of fresh disbursement, close to 75% to

80% will be LAP plus SENP home loans and the remaining 20% to 25% will be salaried home loans.

**Moderator** Thank you. Next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

**Amit Premchandani** You have explained this capital allocation part, I think almost half a dozen time but still I would request you to help me understand on one hand you are saying that on an incremental basis it will go to rural and then housing and then wholesale, but if I look at disbursement, you have sounded very bullish on the rural economy, but if I look at tractor disbursement, they are sharply down while on the other hand, the wholesale disbursements are sharply up, so while you have said that incremental basis capital will move towards rural and tractor growth has been very high, why is the disbursement number not reflecting that?

**Dinanath Dubhashi** Sir, we have split these 2 questions, I do not want to confuse capital allocation with why disbursement is not reflecting. There are 2 completely different answers. What you are saying is actually confirming my answer that I would wish tremendously that my capital rushes into tractors but it is not easy, it does not happen and hence it is important to put hierarchy, so tomorrow from (-32) tractor moves to (+50), capital will go there and we will not say no, you should not grow tractor. So that answers the capital allocation part. Defining the hierarchy is important than setting a target, why it is not happening is very important. Over the last 2 years, we have ceded market share based on our analytics. So our analytics is a very detailed engine, which sifts through criteria viz., dealer by dealer, based on early default, and other 8-10 criteria,, we actually move out of various dealerships and ceded market share. Our market share had come down from levels of 10, 11 for a particular quarter to even 4-4.5 and now slowly market share is going up. LTFH is very strong, but LTFH is not God that the day we decide to do business, everybody will come running to give us business so that it is a painstaking exercise to move back into those dealers, get their confidence back and slowly increase market share and that is happening, month-on-month market share is going up. Our market share from 4% has already touched about 6% and we are confident that it will go fairly above that in the coming quarters. So this is the year in which we are comparing our all-time high volumes that we reached last year to a year in which we are coming out of drought. We are very confident that we will catch up. Not to worry, we are very strong here; we have moved out in many markets that we are moving in now. It will take some time.

**Amit Premchandani** Another question sir, on the fee income on rural side, it has shot up by 135%, what draw this sudden sharp increase?

**Dinanath Dubhashi** Microfinance growth, microfinance has 1% processing fee, so as microfinance grows which we do not have to share with anyone. In tractor, there is a processing fee which have to be partly shared with dealers etc. In microfinance, we get to keep the whole thing.

**Moderator** Thank you. Next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

**Nischint Chawathe** Just two questions. One was on the outlook for the rural business, now you did kind of give a little bit of a cautious guidance for the next quarter but if I look at your performance for the second quarter, you have actually brought down your NPAs on quarter-on quarter basis, so I was just kind of curious to understand as to while your performance has actually been good, why are you a little cautious or putting in differently what really happened in this quarter that get your collections..

**Dinanath Dubhashi** It is very simple. Billings are largely in first quarter and third quarter. So I told you like 33% or 35% of my NPAs are partly paid right, now they will get one more billing, so there is more to collect.

**Nischint Chawathe** So that will collect with the lag.

**Dinanath Dubhashi** There is much more collection to be done in the first and third quarter and hence you will see cyclically the industry will normally peak in June and December. Even though money comes in, there is a limit as to how much you can collect. Normally I very confidently say that it is going up in December and June, in fact June there is a level, September it comes down, normally December it peaks and then it comes on to its lowest level in March. This is how industry NPAs move. Our NPAs if you study over the last 2 to 3 years, it has moved like that. This time in December, I am being optimistic when I say that it may increase because I am seeing cash flows coming in but I do not want to give guidance by saying it will definitely increase. We are quite confident that the cash flows are coming in, but there is a lot of billing happening also in the third quarter. So it is largely seasonal mechanics, let me put it this way.

**Nischint Chawathe** The second question was on the housing finance business, your retail disbursements are up just around 3 odd percent, so just curious as to how should we read it and then in that case what would be the guidance maybe for next couple of quarters?

**Dinanath Dubhashi** So next couple of quarters I would think largely similar because the quality of disbursement is changing drastically. So we were doing easy business last year, DSA sourced salary to be done at 9.3%, anybody can do it. There is no USP that you have to offer, you have to offer the market interest rate and offer the market commission to DSA and you do business. We are doing

much more difficult business now. We are doing own sourced salaried, we are doing SENP, we are doing LAP and the way I see we have maintained the pace. If you see it was minus (-2%) or something last quarter. It is plus (+2%) or something this quarter. This trend will largely continue for this year to give you the guidance but the quality of disbursement is just going to change.

**Nischint Chawathe** In all possibility in terms of loan growth you might just come down for a while before things really pick up?

**Dinanath Dubhashi** In terms of disbursement growth, it will be around 2% or so. Loan growth may not because they are sticky loans, loan growth will continue to be good.

**Nischint Chawathe** No, but if disbursements kind of take a while to pick up, then in that case ...?

**Dinanath Dubhashi** Mechanically it may happen, but next year onwards we will show smart growth in disbursement naturally because the correction has started from this April. So most definitely, Q1 onwards we will start showing a small growth.

**Nischint Chawathe** And even on the OPEX side, your OPEX is down to flattish, so I would assume that if you are doing more difficult business, possibly your OPEX should have gone up?

**Dinanath Dubhashi** We have cut down a lot of wasteful expenditure, Nischint as you are aware. So OPEX does not get so much cut down by what happens on the ground. OPEX gets cut down by what happens in head office, first hit is in head office. Productive people sit in branches.

**Moderator** Thank you. Next question is from the line of Nidhesh Jain from Investec Capital. Please go ahead.

**Nidhesh Jain** My question is on the microfinance business, we are hearing from sporadic instances happening in the microfinance business, your commentary on the business and your outlook on the business?

**Dinanath Dubhashi** I would request my colleague, Mr. Parvez Mulla I think you are hearing him for the first time. Mr. Mulla is my replacement, he joined as Chief Executive (Retail) from ICICI Bank and I would request him to take this question.

**Parvez Mulla** Just to give you an update on the microfinance business this quarter that the growth that we have shown, almost 50% to 60% growth is on clients. That means we have added new clients there. We are a very rural focused MFI. Our concentration has been on rural. We are not an urban focused MFI. Even on the ticket size you will see that this year we are doing higher tenure loan that is a 2-year loan and almost 70% of our clients are our first

cycle customers. So most of this growth is based on the customers that we have acquired and the repeat business is only 30% there and we put a very robust risk assessment framework across the microfinance vertical. One we have gone digital this year completely. Digital helps us not only to reduce the OPEX that we operate but it also gives us the ability to make sure that 100% of the checks that we are doing, the High-mark checks that we are doing happens for all customers. We have a very high rejection rate which indicates that we are very cautious in terms of the customers that we are acquiring. We are one of the first few institutions which have made sure that 100% Aadhar is compulsory. So no Aadhar, no loan. Also on the geography side, we are distributed, we have capped the geography in particular states and districts. So I think overall basis we are a very process oriented company as far as MFI business is concerned and we put in measures which will ensure that the growth is happening in a qualitative and controlled manner and in the manner in which we wanted it to happen.

**Dinanath Dubhashi** Very good that answers your question? And plus I think most probably from next year we will start taking some countercyclical provision.

**Nidhesh Jain** And so it seems like you are sounding a bit cautious on the sector, is it correct assessment or?

**Dinanath Dubhashi** There are wrong things happening in the sector we are aware of that and we have to take great care while operating, I think Parvez explained all the care that we are taking. Does that mean that we are completely in one particular small area? See, there are some things which are not going to happen. Politically or a state sponsored default that happened in Andhra Pradesh, I do not think it is going to happen anymore. Local issues- over lending, lenders not behaving well, lenders not following MFIN guidelines, all those things will keep happening. Each entity has to take care that we are above all this, we are taking great amount of care to make sure that we do not get caught in this. At some point of time, yes there will be certain losses but we are making enough ROE to absorb some of those losses and as I said we will also take care the next year onwards we will start making some higher standard asset provision for this business while delivering on our ROE promises.

**Moderator** Thank you. We have next question from the line of Praful Kumar from MSD Partners. Please go ahead.

**Praful Kumar** I think great work is showing on the cost-to-income side sir, I think it is very encouraging. Sir I have just couple of questions, can you just comment on the collection efficiencies on the two-wheeler side since we changed the way we do collections there, how it is trending and the outlook there?

**Dinanath Dubhashi** Yes, I will again request Parvez.



**Parvez Mulla** What we have done in the two-wheeler business is most of the last year we were working on the collection side through an agency network for collections. This year, we did a lot of analysis and the early bucket piece we have done call center collection and this has both been aided with an in-house collection as well as outsource collection and we are very happy with the kind of results that we are getting there. The numbers are in high 90s which gives us a very controlled mechanism in terms of the fresh pool which is going into the later buckets. Obviously, we are dealing with the later bucket which has happened because of the agency collection in the past, it will take us some time to clean that up, but we are very happy with the insourcing of the collection mechanism. It has given us advantages both in terms of the cost as well as the collection efficiency.

**Praful Kumar** My second question is on the wholesale book, sir when you put a number to it that you are building this provision for the next 3-4 quarters, is it a correct assumption that you have taken as you call them skeletons or any pipeline which can build over next 2 years in your consideration?

**Dinanath Dubhashi** So, the answer is yes, we have taken what may go wrong also, but we have obviously put a probability to it because we cannot put everything that can go wrong and start dreaming. However, if do not put a probability, then indeed, we will see ghosts if not skeletons.

**Praful Kumar** And in your best assumption today given the back drop that we might have some gains coming through the investment exits, FY18 our credit cost should be closer to an 80 basis point number?

**Dinanath Dubhashi** Second half of FY18.

**Praful Kumar** And Sir lastly can you just elaborate on the risk management framework that you just touched upon since?

**Dinanath Dubhashi** We can do that one to one. We can have a detailed meeting and we will take you through it.

**Moderator** Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to the management for their closing comments. Over to you Sir.

**Dinanath Dubhashi** So thank you everybody and I am aware that there are few more questions. You are welcome to contact Karthik and of course the entire management is available to talk to you. This management believes in talking very openly to analysts and fund managers. We believe that we gain from your knowledge, you see our competition, you see what the sectors are like and we would love to benefit from your knowledge. You are always welcome to contact us and ask more questions but trust me people who have met me know that I

also ask them questions and like to gain knowledge from what you guys study across and we benefit tremendously from it. So thank you very much. We would like to thank you for the early confidence that you have all put in us, truly grateful. On that note, let me wish all of you and your families a very happy Diwali and see you soon. Thank you.

**Moderator**

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