Investor/Analyst Conference Call Transcript
January 29, 2013

Shiv Muttoo: Good evening and welcome to L&T Finance Holdings Ltd's Q3 FY13 Conference Call. We have with us on the call Mr. N. Sivaraman – President and Whole Time Director and other members of the senior management team. We will initiate the call with the opening remarks by Mr. Sivaraman followed by an interactive Q&A session. Kindly note that some of the statements made on today's call may be forward looking in nature and a note to that effect is stated in the presentation sent to you earlier. I would now like to request Mr. Sivaraman to provide his views on the Q3 results and on his thoughts going forward.

N. Sivaraman: Thank you all for joining us to listen to our result announcements. I hope you all have got the presentation and have it in front of you. I would cover in some detail the performance for the quarter, including an update on the acquisitions that we have completed up to 31st December.

Slide #4 talks about the industry overview. As far as the macro environment is concerned, it is something which you all have been tracking. There is nothing that we need to really highlight, but the key points are that all of them have had an impact on performance - both positive and to some extent retracting from our overall performance level. The area of concern for us is the lack of liquidity in the market which has had an impact on the overall borrowing costs. We would have ideally liked the call rate, which is perhaps the best indicator of the interest rate environment, (i.e. when the call moves between Repo and Reverse Repo Rate) but unfortunately it is above the Repo Rate for a consistently long period of time indicating that there is a tightness and there is a price to the liquidity that is available today. This definitely has disabled the banks or rather has put the banks on the back foot in terms of how they would like to deal with their lending rates. So that is one area which has been a bit of an expectation mismatch. We did expect over the last quarter that the liquidity should improve but that has really not happened. Given that till the time the budget actually announces some measures, we might see continued tightness on the liquidity side because the government has been very selective in spending and the current account deficit has also been tight, which has resulted in the liquidity shortfall. The positive part of it has been the progress that the government has made on the reform sector, on FDI, Banking Laws and Company Bill changes that have come through. In addition to that is the possibility of taking up some more reform agenda in the budget session around the Insurance Bill and may be a few more related to micro-finance and the Food Subsidy. On the pure action that has happened, it is the Direct Cash Subsidy Credit to the various constituents, it could potentially bring down the overall subsidy level in the longer term.

On the business side – Definitely expanded working capital cycles have continued to keep the corporates under stress; their ability to service the loan has been under stress. The emerging concern will be the low monsoon level as well as the reservoir level being low impacting cultivation and the agricultural output in some of the Southern states. This could potentially have some issues going forward for us both in the business growth side and some impact on our rural portfolio.

On the regulatory side – we have seen considerable action. The Banking Law Amendment Bill has been passed; consequently we can expect RBI to make progress around the banking licenses sooner than later. From our point of view, we would like to look at the final guidelines before we actually respond on this. The modification to the infrastructure definition by RBI clearly opens up opportunities for L&T Infra, not just in terms of size but also helps in diversifying the book across different sectors. The additions have been around fertilizers, pipelines, hotels, educational institutions and hospitals. We have been participating in some of these sectors, both hotels and hospitals for some time now. So it can actually expand our ability or rather enlarge the infra book. SEBI regulations for AMCs related to changes that have been brought about with effective from 1st October on fee structure and the extent of their flexibility around the expense fees will help in improving the profitability and margin of the AMCs. But the recent introduction of the direct plan for all the schemes could have an impact on distributor attention to our business. It is at a very infancy stage, it will have to be seen over a period of time as all the stakeholders settle down to accepting a new way of doing business.

On the Usha Thorat Committee – I would say that at the broader level it should not dramatically change our operating parameters, we continue to maintain 10% plus capital adequacy levels for the simple reason that it is important for credit rating and for a fast-growing entity. Higher capital adequacy is perhaps helpful in managing any changes in the growth environment.

On the NPLs side which is the next big situation, definitely gross NPAs will go up if the 90 days rule does come up. We will continue to work on our philosophy of managing delinquencies over the next three years, which is the kind of time that we have to manage our delinquencies or to adapt to the new regulations. We can perhaps manage a large part of this increased credit costs by recalibrating our provisioning policies. When I say that it is not necessarily to make it less conservative than what we have today but the policy will be designed around potential losses in the portfolio. This will be measured by way of foreclosure losses on potential delinquencies as well as something like loss given default, which is a fairly more accurate way of predicting the losses on the book. We will use some of them to recalibrate our provisioning policies and mitigate the impact of any changes in the provisioning norms or rather NPA recognition norms that may come through along with the guidelines. This is as far as the retail book is concerned.

As far as the Corporate Book – I would not like to comment based on where we are today. Typically the corporates do not pose a big challenge in using the 90 days norms in a stable environment because they have a business to run; they need capital for ongoing business requirements so their servicing levels are definitely good. So I would expect in a stable environment the 90 day norms should not pose as a challenge and should not increase our credit cost substantially.

Moving over to the summary of the financial performance, which is Slide #5. The loan book has shown a very healthy growth both on a year-on-year basis and year-to-date basis. Year-on-year basis it shows a growth of 30%. On a year-to-date basis that is as compared to the loan balances as of 31st March, it has grown by about 20%, which I consider to be a very healthy performance given that credit growth in the current environment is in single digits. The PAT growth for the quarter is about 40% and for the year-to-date it is about 24.3%. I think this has got to be seen in the context of elevated levels of delinquencies that we have seen in our balance sheet and consequent increase in the credit cost. What it tells you at the summary level is that the operating parameters have improved as compared to last year, perhaps to some extent pulled down by the higher credit cost.

At the investment management level, the consolidation of the two AMCs which is L&T Mutual Fund as it existed prior to integration and Fidelity Mutual Fund has seen the overall AUM levels going up to about Rs. 12,000 crore, holding us pretty steady. As compared to the date of our bid for this business, the AUM has not changed dramatically; rather the reduction of AUM is within our predictable level. The PAT before the exceptional items has gone up to Rs. 29 crore which is about Rs. 13 crore more than what we had in the same period last year. We will see some more reasons later on.

The next slide is little bit more on the P&L account. During this period there have been some exceptional items which are listed down in the table. We had sold our stake in Federal Bank, net of MAT provision the profit on that is about Rs. 190 crore. We had some integration related costs which are specific to the transaction like retention bonuses paid to the erstwhile Fidelity employees, investment bankers' fees and the due diligence related costs. So these were about Rs. 14.5 crore. In addition, there have been certain one-off costs which are not recognized by the auditors as exceptional items, which would be about Rs. 4 crore or so. Lastly, as you see from the bottom notes, we have also incurred about Rs. 8.4 crore towards the branding cost for the financial services as a whole and also the mutual fund specifically. While these could get repeated next year but if you really compare it with the previous quarters these are variations that we need to appreciate in understanding the overall performance. So even if I ignore the branding cost, the PAT before exceptional items has actually grown by about 27% for the quarter and for the period up to December it has grown by about 22%. Of course the reported PAT has grown by about 200% plus for the 3rd quarter and about 78% for the nine-month period. As I've said we have provided about Rs. 54 crore as provision for Minimum Alternate Tax. The gain on the sale of the Federal bank shares should have normally been completely tax exempt being a long-term capital gain but because of MAT provisions we have had to provide about Rs. 54 crore, this may be available for set-off against future tax liabilities at the holding company level.

On the balance sheet, we have a consolidated net worth of Rs. 5,415 crore, which is on slide number seven. The table just below that gives you the constituents of the net worth; L&T Finance and L&T Fin Corp have got about Rs. 2,300 crore of net worth. Infra has got about Rs. 2200 crore, the Mutual Fund business between the two AMCs has got about Rs. 48 crore of net worth, housing finance is about Rs. 144 crore. Family credit which has been reported at Rs. 197 crore may undergo a change on completion of the audit. At the moment the audit as part of the transaction closure is underway. It will go up by some amount and this is currently a management estimate that we have put here. That is broadly the distribution of the net worth.

On the availability of resources we have about Rs. 679 crore of resources available with us which to some extent will be set-off by the borrowings that we have and which will have to be serviced over a period of time. But it is important to note that there is sufficient time before the surplus is used for borrowing. In the meantime our objective will be to maintain a certain level of the net worth in the form of preference shares which will help us optimize the return available and at the overall level we can increase the level of gearing even if at the company level we are not able to push the gearing up immediately. We will raise preference capital at the holding company level to optimize returns, which will be used for putting in the requisite capital from time to time. What it will also demonstrate to the investing public is where we have used the capital and if at all we need to raise fresh equity, which will be towards replacing this preferential capital, we will put that in place. So this will help us reduce the dilution level that we may have to do to meet the growth capital requirement.

Moving to slide number nine - the vision for us is to build a comprehensive financial services play, in a very methodical and structured manner and expand the range of products and services that we offer. As you can see, we have got Retail Finance, Corporate Finance and Infrastructure Finance. We have added Housing Finance and Personal Vehicle financing as a starting point for participating in consumption financing segment. We also have the Investment management group, both on the mutual fund side and we are building a small wealth management practice which will grow in time. All of this is with a view to produce a sustainable ROE which is our goal. We definitely look at each of the businesses through the prism of ROE and make sure that they are sustainable and will create value for the group. The overall size is significant with about close to Rs. 32,000 crore of loan assets and investment management business at about Rs. 12,000 crore of AUM.

If you go to slide 11, it demonstrates to you the steps that we have taken to build this comprehensive financial services play. From being a pure asset financier around Construction Equipment and SME financing, we have built each one of the businesses in a very complementary manner and in a manner that will be value adding to the shareholders.

The other point that we have already talked in the past (which is the slide number 10) is about the composition of business around skills. We have got the Asset management skills, we have got the Balance sheet comprehension skills and Project lending skills which has been the primary driver in putting together the portfolio that we have today. We are adding the Consumption financing as an additional skill to be able to service the customer more comprehensively.

The next slide #13 is familiar to you all but suffices to say that we have tried to keep the operating cost low by using Hub and spoke model than a brick and mortar model wherever we need to be present. On the new initiatives, given the spread of the businesses and the customers that we have, we are using a branch structure rather than a product structure to optimize on our delivery cost which you will see is already showing some improvements in L&T Finance and L&T FinCorp in the operating cost levels. We have also built a separate surveillance team which will make sure that the frauds are minimized and not just frauds, but will also ensure that the integrity of the entire end-to-end process of lending gets protected very well. So we are actively using this in addition to the internal audit team that we have. We are planning to introduce some technology innovations by using mobile receipting and will continue to add other things that we can do using technology to optimize the operating cost.

Slide#14 gives us the market scenario and outlook for Retail and corporate Finance. The rural product sales have been flat, the growth that you see in the disbursements have come largely from the small commercial vehicles and car financing that we have been able to achieve. The sharp increase in MSP, minimum support price should help in mitigating any growth deficit that we might suffer in the wake of unanticipated output suffering to some extent. On the Construction Equipment side, the mining related issues and the lack of progress on the infrastructure projects have had an impact. In fact all the OEMs have had a negative to at best flat year, from a manufacturing point of view. The auto and transportation segment has suffered a de growth in the MHCV segment, while the rest of the sales on both cars and the two wheelers have been very much muted. The SUVs have done well and the utility vehicles have done well.

On the Corporate side as we said at the beginning of the presentation, the cash flow deterioration had an impact on their ability to service loans, and we see that continuing at least for another quarter, before we can see any improvement over there. Whatever steps the government has taken has changed the sentiments but on the ground the situation is yet to improve.

The next Slide #15 gives you the shape of Disbursements as well as the Asset side. As you can see from the bottom table detailing the disbursements, we have had an extremely healthy growth on rural products, which is around farm equipment, small commercial vehicles as well as cars. The second area which has shown growth is the capital market products, which is on the back of promoter intent to support their operating entities with additional capital infusion and also their intent to increase their stake in some of these companies. On the book side, Construction Equipment and TEF has shown a negative to minimal growth where as the rural product, SCF and capital market products have shown a very healthy growth on the book size increase. The point I would like to highlight is that 3% growth in disbursements actually translates into 29% growth on the asset side. I think that is very significant for you to note because it is largely a term product.

Slide #16 talks about the summary financials for L&T Finance and L&T Fin Corp, which is the Retail and the Corporate Finance Group. You will see that the operating expenses have been under control. The growth in interest income has been quite robust at about 30%. The contribution before credit costs has shown an improvement of close to 29%. The credit costs have gone up by about 35% on the back of an increase in the NPA level. The increase in the NPAs has largely been contributed by the corporate sector, the number of accounts which is in single digits. Our outlook is that while it might continue to take some more time before we can resolve them, maybe except for one or two accounts, we should be able to get them back on track in a few quarters. So what we are saying is that the provisions may not necessarily be converted to losses but it will take some time before they can really get back to normalcy.

Slide #17 talks about the ratios. The yields on the portfolio have gone up. Basically the efforts that we have taken in the last three quarters to increase the yields are really showing up on the portfolio now. The cost of funds has remained pretty flat over the last two quarters or in fact even last three quarters. We are seeing net interest margin at about 5.87% for Q3 FY13 as compared to 5.86% in Q2FY13. What I wish to highlight to you is that the gearing levels have gone up as compared to the end of the year as well as when compared to Q2. If we factor in the gearing increase the margins have improved by about 20 to 25 basis points which is very heartening. Our operating expenses have remained pretty stable, they increased by 6 basis points but part of it is contributed by the upfront payment we have to make in originating our car loans. The contribution before credit costs has remained pretty steady again. I wanted to highlight that this is steady even after higher levels of gearing which is a good sign. The credit cost has gone up for all the reasons that we have explained. The Return on Equity has got hit mainly because of the increased credit cost. We are maintaining healthy capital adequacy ratios in both the companies which are L&T Finance and L&T FinCorp, while we continue to retain the flexibility to be able to infuse capital in these companies at the holding company level.

Moving onto Slide #18, there is a slide of risk management that was basically a continuation from the previous slide and more for your information. We continue to have conservative credit as well as provisioning policy.

The next slide talks about infra-finance, the key point I want to highlight over here - One is that 34% of our project funding is for operational projects. The second part I want to highlight is that, we are just about getting started with the setting of Infrastructure Debt Fund (IDF). We do believe this is going to provide additional origination potential and that we can achieve a competitive return on equity in this business. It will be complementary to originating projects loans in infra-finance and the operational projects can over a period of time be housed in the IDF and we do see a significant opportunity coming in the IDF for refinance of operational projects. The benefits of IDF are the regulatory benefit of the income being tax exempt and you can potentially use a lower level of capital adequacy which enables you to achieve gearing levels close to around 7 to 8 times. They could potentially, given that the projects are operational, enjoy a better credit rating than the project finance company, so these should be value accretive in a period of time.

On the market scenario and outlook (slide#20) – the opportunities we see will be around renewable energy. On the thermal projects, we might see some more time before they really come back unless the coal situation related issues are fully solved. The power tariff hike by SEBs and also if one or two of them accept some of the restructuring package which the government is offering, we could see improvements in the cash flows of the private sector utilities which are supplying power to the SEBs, but anyway it is going to be a few quarters up from now. Roads, despite all the orders that have been announced under the BOT scheme in the last quarter of last fiscal year and the first quarter of this fiscal year, what we have seen is that not many of them have got converted into action with projects on the ground due to some of the approval related issues and also to some extent the issues around financial closure. But hopefully some of them will come back once the environment improves slightly. Telecom, there is a continuing opportunity both for refinancing and also the expansion of the towers network is something which we will look at.

Now let us look at the financials of L&T Infra Finance (slide#21). The disbursements have really caught up in the third quarter. The large part of the disbursements is towards renewable power and telecom and some extent against transportation. They really contributed to catching up with the negative growth that we had up to the first half. Even though we have a negative growth in disbursement of 2%, which is minimal, we still have a book growth of about 32% which is actually reflective of the nature of this business - where we lend for a longer period of time and the principal attrition is pretty slow. The book growth is about 32% on a year-on-year basis and as compared to the FY12 also it is about 20% growth in the current year, year-to-date growth.

Financial summary on slide#22 – the key point to note is that the contribution before credit cost has actually grown quite robustly to about 45%. The credit cost has, as compared to the previous year, gone up consequent to the increase in NPA level. In addition to that at the beginning of this fiscal year onwards, we started taking some voluntary provisions over and above the regulatory requirement. Most of it was around assets which have got overdue in excess of 120 days. I have explained in the previous presentations also – this is to fulfill two objectives, one is, potential migration that we may have to do over a period of time to the 90 days regime that Usha Thorat Committee has recommended. The second is that it is a kind of a floating provision which would help offset any of the overdue account slipping into NPA. It doesn't have to come in one quarter and it will be smoothening out our provisioning over a period of time. In fact, it has been borne out by the manner in which our provisioning has moved over the last three quarters in the current fiscal year. While the NPLs have gone up in this current quarter, we expect about two of the accounts to really move out of NPL before end of 31st March. Of course these are predicated on certain developments and it is the best guess estimate of the management. We do not expect any further increase or new addition to the NPL accounts in this business. Overall in the company we are carrying roughly about Rs 47 crore of provisions in excess of the regulatory requirement, these are monetary provisions that we have taken.

Moving over to the ratios on slide#23 – The net interest margin shows a reduction, this is more optical effect of averaging than the actual situation on the ground. We had disbursements close to around Rs. 1,000 crore in the last week of December which increases the average without really contributing to the top line. But for that the margins have remained fairly stable. To some extent our effort to diversify towards the Tier-1 developers, i.e. tier-1 kind of companies with high-quality credits, do have a cost in terms of sacrificing the margins but this is the focus that we have been wanting to have with the net worth of close to around Rs. 2,500 crore. We have the ability to be able to provide meaningful loans to these large borrowers. So this will result in reducing both the operating cost and improving the credit quality of the portfolio. So in the medium term this should be value accretive to us and this will be another focus area for us. They can also perhaps provide us with an opportunity for building fee income. Here again the contribution before credit cost has been quite healthy as we said in the quantitative terms. The ROE is about 15.57%, this is actually a reduction coming from a one off increase in the levels of credit cost plus we infused about Rs 150 crore of equity in this Company on the last day of the quarter, so that has to some extent suppressed the ROE levels. But for that our ROE should be in the region of about 16% plus. We continue to maintain healthy capital adequacy levels and this is the level that we will continue for the near term. As you will see that we have also started using the Tier-2 more actively in this entity as well by way of increasing the leverage.

Moving on to Slide #25 which is on Debt Composition, we have added one small dimension to the presentation. We have tried to split it between fixed rate and floating rate borrowings from the banks, so that we can get an idea on the potential improvement in the margin if there is a change in the interest rate environment. Broadly, it has remained pretty stable. Our effort is to replace most of the high cost bank borrowings with 1.5 to 2 years kind of fixed rate borrowings because these are coming in the range of about 9.5% whereas the bank borrowings at the lowest level, (even if you borrow at a base rate plus) will be around 10.25 to 10.5% and it does help us improve overall borrowing cost as far as L&T Finance is concerned. We have also been able to put together institutional participation in the private placement of debentures which is why you see that piece is also growing slowly. As far as the Infra Finance is concerned our effort will be to maintain at least about 50 to 60% of our borrowings in the form of floating rates because all our assets are on a floating rate basis. So it provides us with a natural protection on the interest rate basis. At the same time we do want to maintain about 30% by way of fixed rate borrowings which we will continue to do. It provides us with the comfort on long-term certainty on the interest cost environment.

On the AMC (slide #26), the integration of the two entities is complete. We had a net consideration payout of $108 million which is about 6.5% of the AUM as on the date of the bidding. The average AUM ended at about Rs. 12,000 crore for the quarter 31st December and we are within the top 15 of the AMC's and considering only equity AUM we are within the top 10. The network is available and also the investor base is large, we are working with the distributors to get the net sales going. What we have seen is that except for the first two months when we saw a significant redemption, thereafter it has been in line with the general market trends. Since the new sales are a little subdued, it is not catching up with the drop in AUM, but we do see that in the next quarter or so we should see this distributor line up working for us and building the business and the AUM for us. In the meantime the market improvement has definitely contributed to maintaining the AUM at a steady level.

The financials for this quarter include about one month of revenue from Fidelity acquisition. The loss at Rs. 26.6 crore has exceptional items of about Rs. 14.3 crore and some one-off items which are about Rs. 4 crores, so adjusted for that we are pretty steady as far as the losses are concerned. For the quarter, we would have had about Rs. 8 crore of loss which is in line with what we had in the previous quarter. We continue to maintain our goal of reaching breakeven by the next fiscal year.

On the Investment Management outlook – Clearly the changes that have been brought about in the expense ratios as well as the flexibility around the fungibility of expenses will help us. With our 55 branches we hope to exploit the additional incentive that SEBI has provided to reach beyond the top 15 cities.

Industry Outlook – I think the profit booking will increase with the improvement in the market which would perhaps play out in the next one or two months and thereafter the retail investor should come back to making an investment rather than just looking at redemptions. We see that helping our growth.

Housing Finance – Moving on to Slide #29, while most of the outlook is well known to you, the key strength is that we will leverage the L&T brand as well as the L&T ecosystem to reach out and make origination far more efficient and faster. We will also build the portfolio around an entire complement of products, which is in addition to the pure mortgage loans. We also do loan against property and builder financing. Most of this would help us build the book faster and also help us do origination more easily.

Slide #29 gives the current status of this entity. We have got a credit rating of 'AA', an improvement from the earlier rating of 'BBB' and the current rating is just one notch below the other NBFCs in the group. We have started disbursements; our disbursement for the 3rd quarter was Rs. 31 crore – we do believe that it is just a start and we should see accelerated disbursements coming in the next few quarters**.** There were some legacy loans in the book which were part of the gross NPA at 7.55%. So after having done a review, we have cleaned up and have written-off those loans and brought it down to the extent of accounts which will be more current. The PAT is about Rs. 1.1 crore for this quarter, I think we need to understand that this is not very representative of what the business can produce. The Net worth is at Rs. 144 crore, in fact, I would like to remind you that the consideration we paid was about Rs. 118 crore for this acquisition.

Family Credit on slide#31 – the acquisition has been completed. It has become our company from 31st December, 2012. Currently, it has got about Rs. 1,300 crore of book with 52 branches and more than 600 dealers and 1,000 DST locations, from where we are able to originate. So if I really consolidate this with the current personal vehicle financing book in L&T Finance, the aggregate personal vehicle finance portfolio will be about Rs. 2,000 crore which is a meaningful size for us to really engage with the vehicle manufacturers and dealers as well. In fact, we have already started seeing some traction and we hope to sign the first MoUs with one of the major manufacturers of cars.

We can now move to slide #32 which describes the Financial Performance. The disbursements are catching up. It can only go higher from where it is today, subject to of course the growth in the industry. The Net worth as of 31st December, 2013 was Rs. 197 crore. Again I will tell you that we paid a price of about Rs. 125 crore for this acquisition. At the moment, I can only say that there are sufficient embedded tax credits available in this Company which we have not yet been recognized on the balance sheet and should help further improve the performance of this Company going forward. The gross NPA in this company was about Rs. 143 crore on the day of the transfer. This actually pertains largely to the Legacy portfolio of the Company and as you will see on the net NPA level it is only 0.24%, which only means that most of the losses were well covered even before the change of ownership happened.

I will now invite questions.

Moderator: Participants, we will now begin the question and answer session. The first question is from the line of Paraj Jariwala from Macquarie Securities, please go ahead.

Paraj Jariwala: What are these exceptional items which you are saying in the investment management subsidiary?

N. Sivaraman: These are, as I explained in the beginning, retention payments to the employees of Fidelity. Second, the transaction advisory fees plus we had the merger of the schemes which had a cost. In addition to that, there were certain accounting policy changes which we put in place, in order to be consistent with the existing accounting policies of L&T Mutual Fund and there were also certain technology related expenses.

Paraj Jariwala: So, is it safe to assume that this Rs. 12.3 crore is unlikely to re-occur going forward?

N. Sivaraman: As I said, the total amount is close to Rs. 17 crore, some of them have been categorized as exceptional items and the balance have been taken as part of the operating cost but they are one-off. So you can very safely assume that they are not an ongoing expenditure.

Paraj Jariwala: Sir, you said that revenue for Fidelity is only for one month, right?

N. Sivaraman: Yes, the completion of the transaction happened on November 23rd.

Paraj Jariwala: So even the cost would be also proportionate for one-month, barring all these exceptional items etc.?

N. Sivaraman: That is correct.

Paraj Jariwala: Can you just give us the breakup what are the revenues and recurring expense for Fidelity?

N. Sivaraman: I do not think I can get into those levels of detail at the moment. I think you have to just wait for a quarter. What we are saying is that we would stay with the objective of reaching breakeven by next fiscal year. If you want to kind of approximate, we can talk about certain average level of the management fee income on margins and based on that you can look at that number. The typical fees are about 1.25% on the equity assets and about 30 to 50 basis points on the fixed income group. And if you look back at the half yearly presentation, we have put together the sum of the parts which indicates the various cost structures that existed for Fidelity as well as for L&T Mutual Fund.

Paraj Jariwala: In terms of your disbursements, both for Retail and Corporate and also for Infra the key segments are not seeing any growth in disbursements. Also on the loan growth rate it is okay because disbursements will take time to get reflected into loans, etc., so I think, if this trend continues it will definitely have a significant impact on our loan growth, so what is your thought process on this?

N. Sivaraman: Disbursement doesn't refer to sanctioned loans; this is money which is given to the customer so there is no delay. What you need to really see is the outlook on the potential pipeline that we have, whether they will be robust enough to provide us with the growth.

Independent of that even with the 3% growth in disbursement which is Rs. 11,000 crore of disbursement in L&T Finance and about Rs. 4,000 crore of disbursement for the year-to-date in L&T Infra, still the loan book growth is about 30%. This basically demonstrates that we play for term loans rather than for short-term loans. We will continue to see a healthy growth is what the outlook is. You do not need Rs. 25,000 crore of disbursements to achieve a 30% growth. Even with the book size of Rs. 15,000 crore that we have today, all that we need to see is that there is disbursement of around Rs. 4,000 to 5,000 crore to result in that kind of a growth in book.

Moderator: The next question is from the line of Devam Modi from Equirus Securities, please go ahead**.**

Devam Modi: Wanted to understand on the total provisioning of L&T Finance Holdings which comes to around Rs. 75 crore while the provisioning of L&T Finance and LTIF, if you add the two of them it comes to around Rs. 90 plus crore, so what is the accounting if you just help us through it?

N. Sivaraman: You are looking at the results advertisement and comparing it with this?

Devam Modi: I'm looking at the LTFH consolidated provisioning and the LTIF provisioning in the presentation?

N. Sivaraman: The difference is due to the income reversals.

Devam Modi: The sum of the individual businesses is higher than the consolidated provision?

N. Sivaraman: For the purpose of making you all understand the cost of credit losses, what we do is that income reversals get accounted as part of the credit cost in the presentation, whereas in the P&L account that gets published, there is a reversal from the top-line. In addition to that some of the foreclosure losses or the bad debt write-offs could get distributed under different heads to some extent; otherwise there is a complete alignment on the numbers.

Devam Modi: The additional credit cost would be lying in other expenses?

N. Sivaraman: No, this is basically if it becomes a write-off, it can appear in some other heads that's it. The credit costs that are reflected in the individual statements comprises of foreclosure losses, provisioning and also income reversal on NPL account, 100%.

Devam Modi: That would be appearing in the P&L under which head?

N. Sivaraman: The income reversal will appear as part of the reduction of the interest income.

Management: In the investor presentation we have put everything in credit losses.

Devam Modi: Can you just provide us details of the any restructuring if it has been done in infrastructure or the construction equipment segment?

N. Sivaraman: As far as L&T Finance is concerned, there may be restructuring of maybe less than 0.25% of the book but they are all reflected as NPA in any case so there is no challenge over there. So there is no additional impairment arising from restructured assets. L&T Infra carries about 3% of its book in the form of restructured assets, which is not reflected as NPA. These are part of the overall CDR packages which have been implemented as a consortium.

Moderator: The next question is from the line of Nischal Shah from Reliance Mutual Fund, please go ahead.

Nischal Shah: If you could just throw some light on this L&T Infrastructure restructured asset portfolio, as in which particular sectors are causing this stress and if you could name a few borrowers who are restructured?

N. Sivaraman: Broadly, the concerns are around the construction companies which have got extended working capital cycle for last 4 to 6 quarters. The second has been some of the vendors to public sector companies where the payments are stuck. These are the big constituents of the NPAs; there may be one off accounts which may be restructured for different reasons.

Nischal Shah: Any sector specific stress you are seeing?

N. Sivaraman: That is what I said – the construction companies are the primary stress areas.

Moderator: We have the next question from the line of Nidhesh Jain from Espirito Santo, please go ahead.

Nidhesh Jain: My question is regarding your capital raise through preferential capital what is the timeline and what is the quantum of the issue?

N. Sivaraman: Of course, the quantum will depend on the market appetite but I think as a philosophy we would like to have up to 20% of the Net worth in the form of preference shares, which is how we want to build our portfolio. Just to explain the objective, there are ongoing capital requirements which can be big or small depending on the growth of the individual companies. We do not want to bloat the Net worth at the holding company level to meet with the growth requirements of these companies. So we wish to use preference capital by leveraging the holding company to provide the requisite capital at the entity level. These preference shares on an ongoing basis will get replaced with equity as and when we achieve further growth and there is need for capital. So what we are trying to achieve is that there is a transparent understanding by the investor that the Company is raising capital for what it has already put to use rather than the other way round.

Nidhesh Jain: On both entities L&T Finance and L&T Infra, you are currently operating at 6x leverage, so I am assuming that this preference issue should be in near term in the next one or two quarters?

N. Sivaraman: No, the preference capital will be raised at the holding Company level for providing capital at the operating entities that is why it is tax efficient. As far as the operating companies are concerned we will use Tier-2 as a way of increasing the leverage, you would have seen it in the presentation that we have sent it has been going up consistently.

Nidhesh Jain: On the credit quality there is a sequential uptick in credit quality on your L&T Finance book, which all individual components which are seeing stress?

N. Sivaraman: As I have mentioned it is primarily the corporate segment and the medium-size corporates which are really suffering this cash flow deficit. As we had said, we expected to see peaking of the NPLs by this quarter end but since operating environment is still to improve we might see one more quarter of stress on the portfolio.

Nidhesh Jain: On the infrastructure book you're confident that your NPL will turn around by the quarter end?

N. Sivaraman: The current overdues do indicate that we may not see an addition to the NPL level but there could be a reduction as one or two cases get resolved.

Nidhesh Jain: On the microfinance book you have started lending? Because your disbursements have grown sequentially here on YoY basis.

N. Sivaraman: We have been working on improving the processes and also the controls on the ground, over the previous two quarters. Having achieved a level of comfort on the established processes we have now started accelerating the growth of disbursements in this business. The comfort we can give you is that, over the last one year the new portfolio is running almost with nil delinquencies.

Moderator: We have the next question from the line of Amey Sathe from JM Financial, please go ahead.

Amey Sathe: I think in the last quarter you used to give breakup of L&T FinCorp in your press release but this time that is missing?

N. Sivaraman: We always used to give LTF and L&T FinCorp together.

Amey Sathe: No in the press release you used to give it separately disbursements, loan advances, total income?

N. Sivaraman: Those details can be given but basically we are looking at the Retail and Corporate Finance as one group and that is why we have consolidated it because measuring at the entity level may not be really very relevant as it depends on opportunity and the way we want to use the balance sheet of each of the companies.

Amey Sathe: Those two infra loans that you are referring to what will be the quantum of those loans that will get upgraded?

N. Sivaraman: While there will be a reduction to what extent would also depend on the way the resolution happens, it can happen 100% or it can happen partially. So I think we can just draw comfort that there will be no increase. We do not expect any increase at the entry-level and there will be some reduction as we do the resolution.

Amey Sathe: And are you pursuing any refinancing opportunities in infra finance?

N. Sivaraman: Very much, one of the reasons that the disbursements have grown in the third quarter has been that we have been successful in getting some refinancing opportunities consummated. I think we will continue to look at it as we put in place the IDF. This can only be enhanced further.

Amey Sathe: Which are they sectors where you got those opportunities?

N. Sivaraman: It was around both Telecom and Power.

Amey Sathe: Any reason that banks are selling down their good portfolio?

N. Sivaraman: We're not buying from the banks; we are originating through the owners of the projects.

Moderator: The next question is from the line of Jyothi Kumar from Spark Capital, please go ahead.

Jyothi Kumar: Could you just elaborate about this preference share the way it will be used, I still did not get it in terms of what will be the structure?

N. Sivaraman: In simplistic terms what we will do is we will leverage the holding company balance sheet by using preference shares and raise the resources to be able to provide capital at the operating entity level. At the operating entity level, our preference will be to keep our Tier-1 at about 13 to 14% and about 2 to 3% by way of Tier-2, which is important for these entities to keep their credit rating and also provide the growth flexibility. What we're saying is that, having accumulated up to about Rs. 500 to 1,000 crore of preference shares and actually having used it at the operating entity level we will attempt to replace it by equity if the growth of the underlying entities continues to be at the same level. If the growth does not happen then we will only be replacing the preference shares with additional preference shares. Basically it helps us optimize the capital structure of the holding company and reduce the dilution earnings of the investor level.

Jyothi Kumar: So it is almost like a quasi-debt?

N. Sivaraman: It is debt.

Moderator: As there are no further questions I would like to hand the floor over to the management for closing comments.

N. Sivaraman: Thank you all for being present and also investing efforts in understanding our results better. The presentation is available on the website and the team is available for any further clarification that you might require. On the operating parameters we are sitting on a threshold where there will be further improvements. While it may not be dramatic in terms of percentages but definitely there is further improvement possible as we consolidate some of the support operations for all the retail entities under one roof. That will provide us with a great improvement. While we're looking to see some elevation in the NPA levels at the consolidated levels and consequently the credit cost, but we do believe that it will take about a few quarters to bring it down and bring it under control to improve the overall ratios. With today's announcement on both CRR and SLR rates, the obligation is with the banks to improve the lending rates. Now how much they will do and how much of it will be passed on to us is a question, but I would definitely see some improvement of the borrowing cost for us especially from the banks. So that would further add to the improvement in the margins in the next quarter. With that thank you once again for participating in the call.

Moderator: Thank you. On behalf of L&T Finance Holdings Limited that concludes this conference.