

Investor/Analyst Conference Call Transcript

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Good morning and welcome to L&T Finance Holdings Q3 and 9M FY 14 Earnings conference call. We have with us on the call today Mr. N. Sivaraman – President and Whole-time Director and other members of the Senior Management Team. We will initiate the call with opening remarks by Mr. Sivaraman followed by an interactive Q&A session.

Kindly note that some of the statements made in 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 results for the quarter ended December, 2013 and his thoughts on the strategy going forward. Thanks.

N Sivaraman

Good morning, thanks for joining us on the call today. Welcome to the Q3 results presentation. I hope all of you have got a copy of the presentation. I will try and quickly run through this presentation to give you an overview of how the performance has been in the last quarter. After the quick overview I will request my colleagues Mr. Dinanath Dubhashi who is the Managing Director and Chief Executive of Retail Platform, Mr. G. Krishnamurthy who is responsible for the Corporate Business Group under the Wholesale Platform and Ms. Ashu Suyash, the Chief Executive of L&T Investment Management to brief you about their respective businesses. Then we will open the floor for question and answer.

“Industry Overview” which is Slide no. 4 - there are a few positives, be it on the inflation front or the monetary situation, the monsoons and their impact on the rural segments. There has been some positive development in the power sector, the CCI clearance for many projects and also a slightly more active Environment Ministry does help in expediting project clearances and their implementation.

On the challenges side with respect to fiscal deficit – our fear is about the reduction in government expenditure which could have an impact on both consumption and new capital expenditure. In addition to that it can also put stress on liquidity because the government balances will be tight. Inflation and current negative sentiments around growth should keep the policy rates steady at best. The liquidity situation could continue to remain tight given the need for government to take out resources from the market as well as slowdown in capital flows from the international markets to India. Given that this is going to be an election year it also implies that there will be no major policy action or investment decision that the government will take. One of the recent developments in the power sector is a matter of concern, given that the coal allocations made in the past to various projects has come under question. We have to see how this gets resolved because this could have an impact on some of the operational as well as under construction projects.

Moving over to Slide #6, which describes the strategy we have adopted over the last two years. In the Retail Finance business, our shift has been towards the B2C segments i.e. Rural Products, Personal Vehicle Finance as well as Housing Finance on which we

will focus. This has really been well-orchestrated, aided by some of the acquisitions that we have completed in these segments. We continue to remain cautious about lending to the B2B segment. It has reflected very well, given that we have been very cautious and our disbursements into these sectors have de-grown for the last two years by about 30% to 40% year-on-year.

In the Wholesale Finance business, our focus has been on credit quality rather than aggressive growth in assets. We have focused on adding operational infrastructure assets and non-infra assets. Even in the infrastructure segment we have tried to focus on higher quality assets to improve our balance sheet quality. The good piece is that our IDF is ready to start operations and we are waiting for some of the last approvals to come through. This will enable us to further build a fairly good portion of operational assets. Existing operational assets on our balance sheet can be transferred into it, in addition to being able to competitively service new operational assets.

Investment Management Business - the acquisition of Fidelity Mutual Fund's India operations has helped us achieve scale and reach the level of asset mix which is desirable for us. The tight cost controls and improving earnings have helped us achieve financial breakeven, which has been one of our primary targets for the current year.

So clearly the acquisitions that we made in the B2C segment are with a focus to servicing this segment, given the environment that existed. In addition to that building scale and reach in the mutual fund business has helped us in the right way.

Moving to Slide #7 – “Highlights- Q3FY14”: The loan assets have seen a healthy growth. It has been decelerating over the last three quarters given our cautious approach to lending. The NIMs for the Retail Finance business has seen improvement and this has been the case for last 4 to 6 quarters. The Wholesale Finance business has seen a marginal dip in the margin, primarily because of non-accrual of income in restructured assets as well as rise in NPAs. In addition, with a view to improve our quality we have been focusing on the operational assets and higher quality borrowers. This obviously comes with slightly lower margins, but I think in the longer term it will help us to do well on the ROE front.

Asset quality stress continues - there were slippages in Commercial Vehicle, Construction Equipment and Corporate segments. Consequently the credit costs have been higher. It has been higher at the aggregate level by about 50% as compared to the same period last year. The TTM ratios on most parameters have remained healthy reflecting that the operational performance of the group has been quite healthy. The improvement in the financials of the AMC continues. As I mentioned it has achieved breakeven and the asset growth has also been quite healthy over the last year i.e. post acquisition.

At the summary level, as I mentioned loans and advances have grown by 21%. The disbursements have seen a 15% growth largely driven by the B2C segment. The NIMs have been stable. The contribution before credit cost has been improving. The drop in contribution before credit costs in Q3FY14 as compared to Q2FY14 is primarily on account of the gains in Q2FY14 on transfer of seed assets to the private equity fund and a small drop in margins in the Wholesale segment in Q3FY14. The gross NPAs have remained

stable; the ROE has seen a dip on the back of the increased credit costs.

On the Asset Management front clearly it shows a 40% growth in the average assets under management as compared to the same period of the previous year. The business has achieved a run rate based breakeven and hopefully for the year as a whole we will end up showing a breakeven position.

On the consolidated financial performance – the PAT before exceptional items has seen a drop of 7% on the back of higher credit costs, helped also by the improvement in the financial performance of the Asset Management business. For the nine-month period, we have seen an increase of 7% on profit as compared to the same period last year, i.e. against Rs. 383 Cr. For 9MFY13 we have a profit of Rs. 410 Cr for 9MFY14. The net worth has continued to increase and we believe that our company has sufficient capital adequacy at the moment that can provide some more leverage for growth.

With this I will hand over the presentation to Mr. Dinanath Dubhashi to take you through the performance of the Retail and Mid-Market business

Dinanath Dubhashi: Good morning. I will first take you through the industry scenario of various sectors that we are in. In the Rural Products segment, the demand continues to be robust. In the first three quarters the total tractor industry growth was 23% and we do expect certain level of moderation in Q4FY14 and expect the overall growth to be somewhere in the high teens. The factor which perhaps would lead to some moderation in growth is the delay in some of the Rabi crops, especially soya bean and also cotton in certain areas. In the next quarter we expect the growth to be more moderated at around 10%. The second good news is in the two wheeler sector where though the overall growth is more moderate, the scooter segment has seen a very robust growth on back of new model launches as well as growth in rural and urban demand. Motorcycle growth has been much more moderate. However as far as sector growth is concerned there ends the good news. Car growth has been negative, small commercial vehicles and light commercial vehicles were the latest segments to join the negative growth bandwagon. Construction equipment and commercial vehicles of course continue to be heavily negative for the last two years; this is the second consecutive year. The factors influencing this are the slowdown in the mining and construction. Especially in the mining space we do not see any immediate pickup and the problem of surplus inventory in the hands of contractors as well as some of the finance companies and dealers exists. Hence any pickup in demand will take substantial time. As far as Mid-Market Corporates are concerned, the situation continues to be not so good and hence we are being selective and doing deals which are well structured and satisfy our credit and return norms.

Micro-finance is another sector which has recovered from all the problems that it faced two years back. It recovered very strongly on the back of good cooperation between the microfinance companies and the advent of two strong credit bureaus which give a lot of strength to this sector. Similar to the advent of CIBIL in the two wheeler lending sector a few years back, Highmark and Equifax are now having the same kind of effect in the microfinance sector. Sector continues to be somewhat susceptible to events like cyclone Phailin or Saradha scam and hence the success of any company depends

on its ability to respond to these small changes. As Mr. Sivaraman said our strategy over the last one year or 1.5 years has more or less been in line with our expectations of these sectoral trends. We have concentrated largely on B2C, de-grown in B2B by actually giving up market share in B2B segment.

In fact if you come to the next slide, Slide #12 which gives the trend in disbursements and the book. You would notice that both industry growth as well as our strategy of moving to B2C from B2B is reflected in the numbers. If you consider the composition of disbursements, we were almost 50-50 with respect to B2C-B2B about 1.5 years back. In contrast B2B is now down to just about 20% of the overall Retail segment and B2C is now about 80% of the disbursement.

As far as growth is concerned, in tractors we have continued to grow in a very robust manner. In fact we have grown upwards of 60% in the Q3 vis-à-vis industry growth of about mid-20s and gained market share. We have crossed 9% market share for the first time ever and are pretty strong in some of the states. We do see some issues coming in central India and in some parts of southern India. We are careful there, but we have also started operating in states of Bihar and Uttar Pradesh and that is really padding our growth. The other sector which has kept our growth growing is two wheelers. As you know we took over Family Credit at the beginning of this calendar year. We have doubled the volumes of two wheelers. Small commercial vehicles have also grown based on some of the good manufacturer tie-ups that we have had. In the construction equipment and commercial vehicle segments we have actually given up market share and do deals selectively at the yields that we desire.

The Mid-Market Loans have seen a disbursement growth of -7% while Capital Market Products has had a 28% growth. This growth is to be taken in context of our strategy of being very selective and doing only secured deals for credit worthy corporates, strong promoters and deals with excellent structures. Each of these deals will be sizeable, with average ticket size being between Rs. 75 Cr to Rs. 100 Cr. Hence one or two deals happening or not happening in a quarter can change these percentages. We expect more or less steady growth of 8% to 10% in this segment. The bottom part of the slides shows the loans and advances which more or less reflects the disbursement trends.

Coming to the financials on slide # 13 – you see that interest costs have gone up compared to the 2nd quarter. As you are aware, in light of the tight liquidity in Q2 we had made additional borrowings to maintain liquidity and also moved towards higher proportion of bank funding. The impact of these measures was reflected to some extent in the increase interest cost in Q2, but the full effect is seen in Q3. I am glad to say that because of our push for yields as well as the change in the product mix the interest income growth has been higher than the interest cost growth. Hence we have been able to see improvement in NIMs. In operating expenses you see a growth largely because of two factors - one Family Credit which is a high yield - high expense business coming in to the fold which was not there last year and secondly, onetime expenses that we had in the 3rd Quarter for merging the marketing and collection teams of these two companies. You see a good growth in contribution before credit cost in Q3. This is reiterating what Mr. Sivaraman was saying that other than the credit cost, all other parameters are showing positive trend in this segment of our business.

Credit cost continues to be a worry. We had indicated in Q2 that Q3 will perhaps see the worst of the credit cost effect. That seems to be coming true and especially in the construction equipment and commercial vehicle segments, the gross NPAs have gone up from Q2. In the retail segment, i.e. B2C it is just the seasonal effect. Normally in Q3 before the Rabi crop arrives, rural NPAs go up and then by March they come down. In the corporate business we have a good visibility now on the GNPA trends.

This performance is reflected in our ratios on the next slide # 14. Net Interest Margin has improved, operating expense ratio has definitely gone up by about 20 basis points from the last quarter. I did explain that the main increase has been in the credit cost, but in spite of that the contribution before credit cost is fine. We expect Q4 credit costs for this business to be better and hence the ROAs would improve. The gross NPA ratios again reflect the same; we have had an increase of about 10 basis points from Q2. The substantial increase that you see from last year is mainly on the back of increased Mid-Market and CE and CV NPAs. So more or less what we have talked about in the last analyst call a quarter back is playing out. The concentration of the management is definitely going to be on three factors - one, continuing growth in the B2C sector, it is playing out well for the company in terms of growth and NIMs. Second would be concentrating on NPAs and as I said though CE and CV continue to be bad we have definite visibility on the B2C as well as the mid-market corporate segment and third would of course be operational cost control which has always been the focus.

With this I move onto Housing Finance – this is a business we entered into in last November by acquiring Indo Pacific Housing Finance. We have an ambitious plan for the organic growth and are happy that it is going on as per plan. We are operational in 15 cities and as we had mentioned in our previous interactions, the concentration in the initial days is going to be on loan against property and home loan for the self-employed. Lending to self-employed is a natural strength for this group. The entire retail business is based on the self-employed segment. We believe that in the initial years, before we build a significant book size, though we will continue to do a salaried it will have to be limited. Hence the self-employed sector which has been our strength will give us the required margins. One additional input that we need to give is that we took over the housing portfolio of Citi Financial on 30th November. This portfolio is about Rs.700 Cr and we took over the portfolio at an appropriate discount. The reason for takeover of this portfolio was that it gives us a good meaningful size. In the current year the organic book has grown to around Rs.900 Cr. Along with this takeover we have been able to increase the book straight away to about Rs.1, 600 Cr. Our debt to equity ratio has almost doubled and this has helped us to use the existing capital in the housing finance company efficiently. It of course widens the reach customers now to 68 cities across 16 states and it also absorbs overheads more efficiently. We have not added any people for this additional business.

The next slide gives the numbers of the housing finance company. At this point of time the things to note are - our disbursements have reached a good pace of just above Rs.100 Cr every month. We intend to take this to about Rs.150 Cr to Rs.175 Cr a month. Steady-state retail flows are coming into this company. The GNPA's have gone up slightly on back of couple of loans which have gone above 90 days, but what I would like to state here is things are going more or less according to the plan.

With that I hand over to Mr. G Krishnamurthy for taking you through the performance of the Wholesale Finance business

G. Krishnamurthy

Thank you Mr. Dubhashi. I would like to start with Slide #17 – “Market Scenario and Outlook”. Currently a substantial part of the Wholesale Finance book is focused on infrastructure segment and therefore the discussion will focus on infrastructure sectors and their performance. At an overall level there has been no significant improvement in the investment climate and there have been no major CAPEX announcements across infrastructure sectors. As was mentioned earlier in the presentation, the move to de-allocate coal blocks could be a substantial challenge to the entire sector and affect investor’s sentiments.

There have been some positive developments in the Thermal Power sector. There have been PPAs signed to extent of 7,000 MW by some of the states like Tamil Nadu, UP, and Rajasthan after a substantial delay of course. The integration of the southern grid should ensure that there is a greater demand available for some of the new power generators, given that the southern grid has the maximum deficit. However, what we see is that there is a trend for decreasing tariffs for consumers ahead of general elections and this could impair the financials of Discoms and their ability to purchase additional power.

As far as the Renewable sector and Road sector are concerned, there are no substantial changes or improvements. In fact as far as the road sector is concerned there are further setbacks with select road stretches showing negative traffic growth rates. Pressure on the working capital cycles of EPC contractors are likely to increase. There has been over accretion to order books, further delays are expected in realization of receivables and settlement of disputed claims from government agencies.

We will move on to Slide #18 - this quarter there have been very limited opportunities in the infra space. We have been cautious in our credit selections and as a result we see that disbursements have shown a sharp deceleration of 42% compared to Q3FY13. Disbursements during this quarter have been mainly from approvals which were made earlier for operational and under construction projects. So our composition of projects has increased to 63% of the portfolio in this quarter. Major disbursements in this quarter include our LRD structure for the IT SEZ and disbursements for operational power projects. Because of these lower disbursements, the year-on-year on the growth rate of asset book has declined to 24% vis-à-vis 31% reported in last quarter. In Q4FY14 we expect IDF-NBFC to start operations and start booking assets. This would help us provide larger financing solutions to lower risk operational PPP projects at competitive rates and we can expect the impact of this in Q4 financials.

We move on to Slide #19. You will notice that the NIM growth has been subdued at 16% on a year-on-year basis. This is due to two main factors - one is that we have been steadily increasing the percentage of operational projects in the portfolio and these assets have a lower risk and lower yields. Secondly there has been increase in assets which fall into NPA restructured assets category and there has been non-accrual of interest income on these assets. Fee income has shown a large fall this quarter. Essentially there are very few syndication deals available in the market, also some of the ongoing closure deals have had stretched timelines and this will

reflect in Q4 fee income. When we compare the financials vis-à-vis Q2 - we had gains from transfer of seed assets in Q2 and in Q3 we have lower NIMs and lower fee income. Both of these have combined to result in lower contribution before credit cost when compared to Q2. Credit cost for the quarter is at Rs.65 crores as a result of restructuring of a couple of assets and additional provisions made for overdue assets. We continue to maintain a conservative policing policy and we carry about Rs.143 crores of provisions in addition to regulatory requirements. The gross NPAs have moved up marginally this quarter essentially because of additional slippages, offsetting recoveries from existing clients.

Moving on to Slide #20 – The movement of the ratios broadly reflects the trends discussed earlier, essentially reduction in yields due to non-accrual of income from the restructured NPA assets and increase in credit cost. We expect to see similar levels of credit cost for one more quarter, after which we are expecting that there could be a gradual improvement. The gearing has marginally come down over the last quarter to 4.85 because we injected additional Tier-1 capital in L&T FinCorp. Essentially that was a strategy designed to ensure that we are able to do larger ticket sizes in the non-infrastructure space going forward.

Thank you, with this I hand it over to Ms. Ashu for the Investment Management section.

Ashu Suyash

Thank you Mr. Krishnamurthy, good morning to you all. I'm on Slide #21 and I will take you through the Asset Management business. The Asset Management business has grown quite well. If you look at year-on-year growth, we closed December quarter with average assets under management of Rs.17, 000 crores which is up 40% versus Rs. 12,064 crores at December end last year. This growth has come due to a good asset mix, though a large part has come from fixed income which pretty much mirrors what has happened in the industry. Growth in assets have also resulted in better operating revenue. As you can see our operating revenue is Rs. 64.7 crores versus Rs.14 crores for similar nine-month period of last year. Even if one looks at the growth of Q3 versus Q2 this year, operating revenue is up to Rs. 22.5 crores versus Rs. 21.2 crores. The main driver which is much like the industry is where net flows are coming into fixed income, predominantly at the lower end of the duration segment which is money market funds and FMPs. We continue to concentrate on the Retail segment as well. We launched a unique investor education campaign across India and across all media channels as well. At the same time while we concentrate on building up the Retail base we continue to be focused on the P&L and on cost and this has helped us achieve a breakeven on a run rate basis. Our profit after tax before amortization is Rs.1.3 crores for the quarter. For the nine-month period we had a loss of just Rs.40 lakh and we hope to cover that up in the next quarter. We received an order for amalgamation and that was affected during the quarter as well. From an overall perspective we continue to be ranked 13th in the industry. We have 25 funds with investor base of over eight lakh and a branch network across 56 cities. This contributes well to our growth as we are well balanced both in the large cities which is the top 15 and beyond the top 15 cities as well.

Moving to Slide #22 – industry during the quarter grew 8% to Rs. 8, 76,000 crores from Rs. 8, 08,000 crores, during the same quarter our business grew 13%. The key challenge faced is continued outflow in equities. Having said that, market movement has been positive and that ensures that at least from a revenue perspective it remains

positive. For the rest of the year we are looking at new product launches as we have seen a couple of NFOs come to the market and they are doing well. We expect to also focus on accrual product and FMPs as this tends to be the quarter where investors look for double indexation products. At the same time we will keep a keen eye on cost and grow the annuity business in SIP.

I would like to now move to Slide #23, and take a minute to cover Wealth Management. As you are aware that the high net worth population growth is expected to be good at 20% CAGR. We see this as an attractive segment. As you would recall L&T Finance Holdings got into this business in 2012 and L&T Capital Market was set up last year. The business is in the build out mode and we are in the process of getting on board seasoned research professionals and private bankers. The focus is asset growth and we are pleased to report that we crossed Rs.5, 000 crores in assets with our client base crossing 1,600 customers. With this we close the business session and would like to open up to question and answers.

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| Moderator | Thank you very much ma'am. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Parag Jariwala of Macquarie Securities. Please go ahead. |
| Parag Jariwala | Can you let us know how much you have restructured so far in Infra book? |
| G. Krishnamurthy | Our total restructured assets are 6.01% for Wholesale finance. |
| Parag Jariwala | And I think last quarter it was 5.2%? |
| G. Krishnamurthy | That is right. |
| Parag Jariwala | Can you give us a break up in terms of sectors for this? |
| G. Krishnamurthy | The restructured assets relate largely to corporate loans rather than the project finance part of the business and they are more towards the EPC contracting space. This is the broad trend. |
| Parag Jariwala | No, in terms of maybe say power accounts 30%- 40% or whatever, if you can? |
| G. Krishnamurthy | No, it is not that way. It is not at a project level, we don't have restructurings significantly at a project level. The broader trend is at the corporate finance level. |
| Suresh Ganapathy | Just a clarification on the revised guidelines on restructured assets, would it reduce your overall restructured portfolio because of the CCO now not being accounted? Can you throw some color on that? |
| G. Krishnamurthy | This is something we need to study. It is something which has come yesterday evening. We will get back on this, but as you are aware that we follow very prudential policies both at provisioning level and recognition level. So we will get back to you on this after further studying it. |
| Suresh Ganapathy | So again in this 6%, how much is provided? |
| G. Krishnamurthy | We follow the provisioning policy as per RBI, where we provide against principal and future sacrifices and we also reverse the |

interest which has already been accrued till the period of funding. So on this we will be broadly similar to provisioning for an NPA in terms of provisioning percentage as such.

- Suresh Ganapathy** So for instance, for the restructured category banks provide 5%. Are you saying that for your restructured assets you would provide similar to NPLs, i.e. you have provided 10% on that?
- G. Krishnamurthy** No, we exactly follow the banking norms. This means we provide 5% on principal directly. In addition there is a NPV of sacrifices which in effect is additional principal provisions. Then there are interest reversals. So this is as per the banking norms and what we follow is exactly in line with the banking norms.
- Parag Jariwala** Last quarter you said that you have a reasonable exposure to corporates which are into CDR pipelines, so same thing remains even after restructuring in Q3?
- G. Krishnamurthy** What we discussed last time has resulted in increased restructuring from 5.23% to 6%, but we still see an overall trend that CDR references are not coming down and therefore there could be additions in the coming quarters also. We are not ruling out the possibility.
- Parag Jariwala** Can you quantify, meaning your exposures to corporates which are in CDR?
- G. Krishnamurthy** At this stage it will be difficult for us to quantify any specific numbers but yes, we can say at a broader level that there could be addition to the restructuring portfolio over the coming quarters depending upon the pace of increases/reduction in CDR references.
- Parag Jariwala** You said that you have given up market share in CV and CE portfolio, so largely if you see other companies quarterly trend, they have seen some very high level of delinquencies in this space So anything which can come with a lag here?
- Dinanath Dubhashi** Actually we started reducing this portfolio and especially giving up market share two and a half years back, so we believe that most of the sorrow in this particular portfolio has already played out.
- Parag Jariwala** What could be our LTV on these loans?
- Dinanath Dubhashi** So in CV it wouldn't be more like 60% to 65%. Construction equipment - retail will be around the 65% to 70%. Sometimes if you do construction equipments for large contractors it may be around 90% but that is reducing more and more. There are no large contractors actually buying construction equipments. So to answer your question very broadly, it will be around 60% to 70%.
- Moderator** Our next question is from Umang Shah of CIMB. Please go ahead.
- Umang Shah** On the home loan portfolio could you just help us as to what are the rates on individual home loans and loan against property?
- Dinanath Dubhashi** It is really a matter of the product mix that you want to follow, so if you have to be in the salaried class which we are to certain extent of our portfolio, we do it mainly by having worksite campaigns with large companies. In this case you will have to match the market rate which will be in the range of 10.25% to 10.50%. For a new company,

especially for any NBFC it will be difficult to make money at those rates and hence you have to be in home loan portfolio of self-employed, where rates can be anything from 11% to 12%. In Loan against property, good credit comes at around 12% to 13.5%.

- Umang Shah** What would be the ticket sizes in each of these categories?
- Dinanath Dubhashi** Given that we are right now in the larger markets only, our average is around Rs. 60 lakhs to Rs. 65 lakhs and coming down steadily.
- Umang Shah** Would home loans be a combination of self-employed as well as salaried?
- Dinanath Dubhashi** That is correct.
- Umang Shah** And for loan against property our average ticket size would be?
- Dinanath Dubhashi** It would be similar, little larger than that but that is only the average. The spread will be larger.
- Umang Shah** The other thing was obviously during your opening remarks you mentioned that on the housing finance side the ambitions are big. Could you just broadly outline as to what is the strategy as the market is fairly competitive? So what is your expansion strategy and what would be the logic to buy out the Citi portfolio. Are there any PSL benefits or maybe is it just to acquire size and what kind of margins the portfolio would have - broadly not in terms of numbers but the margins on that portfolio and the asset quality parameters. Is it similar to what your book standards would be?
- Dinanath Dubhashi** So I will answer the second question first. In fact I answered it during my opening remarks but I will repeat. So the logic for buying was simple, it first of all gives size straight away - more or less doubles the portfolio from about Rs.900 crores to about Rs.1,600 crores. Most importantly no further equity was needed, we already have equity of about Rs. 300 crores in this business and hence the debt-equity ratio and the leverage straight away goes up from close to 3 to close to 5 which is value accruing.
- We can use our overheads efficiently as we are building a housing team which can be used straight away for servicing a larger portfolio. So this was very clearly the logic. As far as the acquisition is concerned, this was fairly small – no team or company was acquired, only the portfolio was acquired. So as far as the margins etc. are concerned this portfolio was more LAP than home loan, there are some home loans but more LAP and hence it has increased the margins of the overall portfolio. As far as quality is concerned, yes it was a mix of assets across the buckets but as I said we have taken it at an appropriate discount and that discount accounts for the asset quality.
- Umang Shah** Just one question related to this, so would it be fair to assume that the increase in NPLs in this quarter that we are seeing in the housing finance book would predominantly be coming from the portfolio buyout?
- Dinanath Dubhashi** No, it doesn't because when you buyout a portfolio you get first three months for the NPAs to be accounted. So as I said there have been a couple of NPA cases being added in our organic portfolio.

Umang Shah	And would you also like to share what was the consideration rate?
N. Sivaraman	That is part of the portfolio purchase.
Umang Shah	Just the other question regarding the strategy?
Dinanath Dubhashi	We have two strengths - one is our Rural and semi-urban network. Clearly the housing finance after consolidating in the initial markets will grow by leveraging the network that the group already has. The second strength is the strength that the group has in the construction space. As you know L&T ECC building division works with all the large builders which gives both important contacts as well as information. So these are the two strengths that we will leverage for the growth in asset.
Umang Shah	Just one last question on the Wholesale Finance piece. What kind of growth are we anticipating in this year and the coming financial year? Given the fact that it would be more of refinancing and that we would want to be competitive, and with IDF coming in obviously we would see some transfer of assets from the balance sheet to the IDF. So for the Wholesale balance sheet what kind of growth are we looking at?
G. Krishnamurthy	We are not really targeting growth as a measure in the current environment. We are focused on the quality and low yield assets, but what I would like to point out is that IDF is part of Wholesale Finance and even if there are transfer of assets than it will continue to be part of Wholesale Finance platform assets as such. In fact because we are commencing IDF business, there could be some lumpy deals where we pick up assets of operational projects this quarter and next quarter. But at an overall level there will not be a reduction in Wholesale Finance book because IDF is also part of the Wholesale Finance.
Moderator	Our next question is from Amey Sathe of JM Financial. Please go ahead.
Amey Sathe	Two questions, one is if you can give us some sense on geographical stress if any i.e. there is any particular geography having more stress, especially in retail segment.
Dinanath Dubhashi	The stress in construction equipment and commercial vehicle segments is quite well spread, barring the states affected by the mining ban i.e. states of Orissa, Karnataka and Goa. As far as tractors are concerned, the delay in sowing of certain crops like soya would have resulted in stress in certain parts which are normally very good like Central India. They have been affected, but we believe it is only temporary.
Amey Sathe	And anything on the car and UV portfolio?
Dinanath Dubhashi	No, nothing specific geographically.
Amey Sathe	The second question is on the disbursement side. So we acquired a portfolio of Rs.700 crores, so is that a part of our total disbursement?
Dinanath Dubhashi	No, total disbursement is just Rs. 334 crores which we have mentioned in the presentation.
Amey Sathe	On the Infra side is there any pipeline with respect to restructuring going ahead?

- G. Krishnamurthy** I think we have just discussed that. There could be additional restructuring depending upon the environment.
- Amey Sathe** And do you worry that being an election year some of the stress, especially in the electricity boards would happen due to lack of tariff hike, thereby impacting the power segment?
- G. Krishnamurthy** We have fairly accounted that in our projections and also at a portfolio level since our portfolio is more project focused as of now in thermal power and in under construction projects. We don't see immediate impact but these are things which are more long-term in nature. Over the next few years if there is no consistent increase in tariff that could affect us as at a portfolio level. But the worry if at all any is more at sector level and outlook level than at a portfolio level.
- Moderator** Our next question is from Nischint Chawathe of Kotak Securities. Please go ahead.
- Nischint Chawathe** Two questions on the infra side, just trying to understand what could be the reason for a sharp decline in the yield on assets. I did kind of listen to the explanation that you gave in the opening comments but I'm still little curious to understand as to the swing because it is almost 50 basis points swing and just kind of trying to understand what is the rate at which new loans are given, etc.?
- G. Krishnamurthy** There are been two major reasons, one is if you see our Operational Asset portfolio over the last couple of quarters it has gone up from 28% to 33% which is pretty significant at a portfolio level. We have also been booking more non-infra assets in our L&T FinCorp balance sheet where costs are higher compared to L&T Infra as it is not a PFI. So given that at a portfolio level the composition of assets is changing and that is one major reason for our decline in NIM. Additionally, what also happens is where assets are restructured or NPA assets have also increased. For these assets we do not book income, interest is not accrued and therefore there is no NIM vis-à-vis these assets, so to the extent that these assets have increased there is going to be a drop in NIM.
- Nischint Chawathe** The interest reversal I believe in the presentation is reported in the credit cost line?
- G. Krishnamurthy** You are right but that is when NPA happens but subsequently once the asset has already become an NPA income is not accrued.
- Nischint Chawathe** So from a guidance or trajectory on yields how should we look at this, there has been a 50 basis points QoQ decline, so how do we kind of look at this going forward because I understand the shift in portfolio is something that you have been highlighting for some time now but is that trend going to be on these lines, if you would give some sense on that?
- N. Sivaraman** The drop on a QoQ basis is about 15 bps and as compared to the previous year it is about 50 bps, in spite of that from here onwards so long as the restructured or the NPA book does not increase, I think we'll remain stable at this level. Some of this may reverse may be towards the end of next year or early part of the following year.
- Nischint Chawathe** The yield on the loans I think last quarter was 12.8 which is now going down to 12.28?

- N. Sivaraman** 12.4, it has gone down to 12.28.
- Nischint Chawathe** The other sense if you could kind of give us some color. I believe you said that you are not really looking at growth in this business. Could you give some sense on this too? If I look at the trend in disbursement there was a fairly sharp decline in disbursement this quarter and you are broadly saying that on nine months basis disbursements are now flattish and as compared to that if you see the trajectory in loan growth, loan growth has been strong because of the impact of the sanctioned book. So how do you see growth for the next year? Should we expect kind of a flattish trend?
- N. Sivaraman** We are not refusing to grow, it is the function of opportunity and whether it is economically beneficial for us to really book the asset.
- G. Krishnamurthy** All we have said is that we are not targeting growth so that does not mean that growth will not happen. This business is very lumpy - suppose we do a road sector refinancing for a project there could be a lumpy underwriting of Rs. 500 crores to Rs. 600 crores. So that could change a particular quarter's numbers in a big way. But then subsequently there could be a sell down over the next couple of quarters where this asset will run down. So in this business we always should look at TTM as a better measure. We should not look at disbursements on a quarterly basis. One or two deals may make a significant difference to the growth trend, as far as disbursement goes.
- Nischint Chawathe** Just moving onto L&T Finance, what could be the outlook for provisions in this business? I do understand the environment for some of these products is fairly volatile but at the same time it has also happened that you have been kind of one of the early persons to recognize the pain. So what would be the outlook for provisions, are we kind of maxed out or do we still expect pain for the next one or two quarters. How do we see that?
- Dinanath Dubhashi** As far as the overall climate is concerned, we do not see any improvement frankly and that is a given in both CE & CV as well as in the corporate segment. But now let's look at the strategy we have been following over the last two years. So we have been extremely cautious in CE/CV over the last two years. These loans are between 3 to 5 years. So obviously cautious approach over the last two years would mean mathematically and arithmetically that we are somewhere near the peak of the pain in our portfolio as far as CE and CV is concerned. Same on the mid-market loans again, over the same period from FY13 onwards we have been extremely cautious in lending. We have stopped giving unsecured loans altogether. We have been giving our loans for identified purposes and with cash flows or securities completely tied-in which is giving us a visibility on the corporate portfolio as well. As far as the B2C is concerned we believe that the seasonality in performance will continue which comes with having a high proportion of agricultural portfolio. After all there are two crops in the year for most of the country and it will always be seasonal. Hence as I have said, in Retail that is B2C especially in farm, we see a drop in GNPA definitely in Q4. Corporate we do not see any further increase in NPA in Q4 and same is true for CE and CV as well.
- Nischint Chawathe** In terms of costs going up during the quarter you mentioned two divisions were merged during the quarter but I'm still trying to understand why the cost went up and again in terms of guidance for the cost ratio?

Dinanath Dubhashi	Q4 will be more or less equal to Q2 in the cost ratio very clearly. Q3 there are merger-related expenses which have happened - when you have to let some people go and you have campaigns so that people understand the overall new structure, these are some of the one-time expenses which happened in Q3.
Nischint Chawathe	Finally, on the Citi portfolio, what could be the gross yield on this portfolio?
N. Sivaraman	It is around 13% to 13.25%.
Nischint Chawathe Citi?	I believe this is just a portfolio buyout, continues to get serviced by Citi?
Dinanath Dubhashi	No, it is actually a complete takeover of portfolio, so there is no service by Citi. We have taken over the portfolio completely in all risk and rewards.
Nischint Chawathe	Okay and so this is just again portfolio buyout not that there is any employee is getting transferred and all?
Dinanath Dubhashi	Not even a single employee getting transferred. As I said since we have built up the team over the last one year we are using it more efficiently.
Moderator	Next question is from Devam Modi of Equirus securities. Please go ahead.
Devam Modi	If you could quantify the loss of interest income that has happened on account of non-accruals that are due to the restructured assets?
G. Krishnamurthy	I'm afraid I do not think we give data at that granularity. I think the impact finally is largely seen in the reduction of yields, you can see the impact directly in the financials.
Devam Modi	On the Retail side if you can throw more color on the growth that we are having in microfinance and capital market and particularly in terms of geographies and the products over there?
Dinanath Dubhashi	So microfinance you must understand it is on a very small base. We have reached steady state disbursement of about Rs. 60 crores to Rs. 70 crores. Last year we were less than half this number. The demand continues and certain events such as the cyclone or the Saradha scam in East India can reduce the local demand for those particular months. As fallout, we reduced disbursements in these areas. We are capable of responding to such events and we do not see any reason why this kind of business growth should not continue. The percentage growth will come down obviously as the base goes up, but we remain pretty positive about that business. For Capital Market as I said this growth should not be taken as any trend, the Q4 growth can be much higher than this; can be much lower than this. This is an opportunistic business; it is classified as capital market because it is loan against equity. This is purely promoter lending and almost all of it is to blue-chip promoters and hence it is very lumpy. Tickets can go up from Rs. 50 crores to Rs. 300 crores-Rs. 350 crores and hence one deal happening or not happening can change the growth ratio. So my request is do not look at that 28% as a trend but yes, I must say that there continues to be demand for this product with blue-chip promoters and touch wood it continues to be a safe bet.

Devam Modi	On the asset quality front we understand that there may be more pain to follow on the Infra side but on the overall including the Infra and Retail book, can we expect an improvement of asset quality going ahead or is the worse yet to come?
N. Sivaraman	I think both of them have spoken on this as part of their conversation, Retail and Mid-Market will definitely see a reduction. As far as the Infra book is concerned it will be a combination of some of the assets which are under restructuring process may move to restructured standard assets. So that would mean a marginal reduction in NPA. Since the environment is as volatile as it can be, it is very difficult to kind of put a number and say that we will bring it down or we will see an increase. I think all that we can say is that the credit debited to the P&L account will remain flat-to-reducing over the next few quarters.
Devam Modi	Does that mean the credit cost will remain flat-to-reducing?
N. Sivaraman	Flat-to-reducing over the next few quarters.
Devam Modi	Could we provide any sort of target cost-to-income ratio that you will be intending to reach over the coming quarters and like how many quarters would it take to do so?
N. Sivaraman	We are still building up all leverages on the balance sheet, so it is not appropriate to look at cost as a function of income. So we typically measure it as a percentage of assets. On the Infra piece given that it is large ticket lending there may not be any significant movement on the cost-to-assets whereas in Retail and Mid-Market as we said first it will immediately move back to the cost levels of Q2 and thereafter as the integration benefits are realized you can continue to see some reduction. As we build capacity, process and efficiencies synergies will happen.
Devam Modi	Just a bookkeeping question what are the cash balances at LTFH, L&T Finance and L&T Infra levels?
N. Sivaraman	These are business requirements. I cannot get into those specific at this point of time.
Moderator	Our next question is a follow-up from Umang Shah of CIMB. Please go ahead.
Umang Shah	Just one question related to the Citi portfolio buyout, is this a part of their existing loan against property portfolio or it is their complete portfolio which we have bought out?
Dinanath Dubhashi	Almost complete what was remaining. Certain loans we selectively did not take where there were problems with documentation, etc., otherwise almost complete.
Umang Shah	So is it fair to assume that probably they are out of this business and we have taken over this portfolio?
Dinanath Dubhashi	That is correct.
Moderator	Ladies and gentlemen that was our last question. I now hand the floor back to the management for closing comments.

Management

Thank you very much for participation and also taking interest to understand our results quite well. We look forward to meeting you again next quarter. Thank you.

Moderator

Thank you ladies and gentlemen. On behalf of L&T Finance Holdings Limited that concludes this conference call. Thank you for joining us. You may now disconnect