L&T Finance Holdings Limited

Q3 FY17 Earnings Conference Call Transcript
January 25, 2017

Moderator Ladies and gentlemen, good day, and welcome to Q3 FY 2017 Earnings Conference Call of L&T Finance Holdings. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shiv Muttoo of CDR India. Thank you and over to you sir!

Shiv Muttoo Thank you. Good morning everyone and thank you for joining us today for L&T Finance Holdings Q3 FY 2017 Earnings Conference Call. We have with us on the call today, Mr. Dinanath Dubhashi -- Managing Director and other senior management members.

Before we proceed, as a standard disclaimer some of the statements made on today's call, forward-looking in nature. A note to that effect is provided in the Q3 result's Presentation sent out to you earlier.

I would now like to request Mr. Dubhashi to kindly provide his thoughts on the company's performance and the strategy going forward.

Dinanath Dubhashi Thank you, Shiv. Good morning, ladies and gentlemen. Welcome to our fourth interaction, not counting the demonetization one. We started with our first interaction on 3rd of May, where we laid out the path of this turnaround of this new strategy to you. Then was July, which was just the beginning. Hardly any results were seen clearly. But we were clear, what we were achieving. We had laid out three metrics that we would like to be measured on. October was a time when the first results started coming. I must thank you for you the tremendous support and faith that you gave you based on just one data point in October. Thanks once again.

This call is actually about sharing with you further progress on the strategy. Sharing with you that the strategy is progressing excellently, progressing well and results are in line. Further data points on the metrics that we have put to measure which are ROE, growth in our focused business, cost to income ratio, progress on our specific projects, all those are showing good trends, trending well. We will talk about them in a moment.

But this call actually, is for a more important message. Q3, was a very strange quarter. At the same time, perhaps a quarter that we needed very badly. There are times, ladies and gentlemen, that when you start on a journey and things start working extremely well for you early, you actually start believing, there is a danger of believing that everything that you touch turns to gold. This quarter which we had significant difficulties because of the demonetization event. I am actually happy, in a way I do not know it is strange thing for management to say. But I am happy that it happened so early in our journey of 16 quarters. It is a quarter which tested the mettle. Tested the mettle not only of the strategy, of our resolve to achieve but actually tested the mettle of the whole company.

As I said, very strange quarter. I must share with you that the first 38 days of the quarter were the best we have seen in the last three years, in terms of business, in terms of collection efficiency, everything. And the remaining 52 days were difficult, to say the least. In various businesses farm, housing, microfinance, we faced significant difficulties. We will talk about them in a moment.

But what I would like to share with you is the resolve with which our people fought. There were times where management started wondering what is happening. Every day rules were changing, every day new difficulties were coming. The moment we find a solution, the next day, the regulator or government came up with a new measure for which that solution had to be re-thought. But our people, the 11,000 people out there kept fighting and kept keeping our resolve and our motivation up. This is something which this quarter would really be a watershed quarter so early in our turnaround journey.

The results are as you can see quite excellent actually and I will talk about them, I will talk about how we have achieved them. But I am actually quite touched by what the team has done, not only my immediate team but 11,000 people out there to deliver these results in such difficulties, I remind you, difficulties are not over.Q4 some of the difficulties of demonetization along with other difficulties will continue in Q4. But not only the numbers but behind the numbers whatever resolve I have seen- the ability to stand back, to fall, stand up again, run, fight, and deliver the results that we have seen from the team, gives me great confidence that our secret formula of strategy implementation which is clarity of management intent, our execution engine, and the culture that we have set up is really working, has come to our aid. Intent, is very clear that we will deliver ROE through profitable growth in our core businesses.

Problems will come. Demonetization was a big problem. But we are not fools to believe that this will be the only problem coming till 2020 and afterwards. But problems will be seen as a reason to try harder and not give up. Problems will be not be seen as a reason to tell you that because of this we were not able to deliver. Perhaps, sometimes we will fall short but they will be seen as a reason to try harder and try and deliver whatever are our goals that we have set for ourselves.

Execution engine: Execution engine, the projects that we have put is something which converts all this rhetoric of the Managing Director to actual action. That is what delivers result quarter-on-quarter. The Centers of Excellence (CoEs) that we have put, the risk engine that we are putting, the cost cuts that we are implementing, is actually making sure that results are delivered and whatever I say just does not remain as just talk. Last but not the least, the culture of LTFS 2.0 - that is taking ownership and delivering results and not giving reasons is what came to the fore.

As we go ahead, this is what gives us the confidence, I am sure, I will talk about it. There will be lots of question as to how Q4 will be? How the next year will be? I will of course give you my estimates. But at the end, this quarter has shown us that even to the best laid plans there can be sudden shocks which we cannot say. I remember we had the conference call on some last week of October and who would have guess that within 15 days the world will turn upside down, at least India will turn and it did. The confidence that we have got, the way my people handled these 52 days is what gives me the confidence of being optimistic that whatever happens, whichever difficulties will come, may be a few quarters, one quarter here and there, there may be missing but by 2020 we will reach where we have to reach.

There is one more thing that this event tested. This event tested our ability to predict outcomes. On 17th of November, I came on call and actually predicted, I wonder, whether it was a right thing to do, but predicated how each business will behave by 31st of December. So, let me start today's call by actually coming to where we are vis-à-vis those predictions. I will take you through the status update on what we talked about in 17th of November and will give you the status of where we are.

(Slide #5) So, let us start and I will talk mainly about the businesses which are most affected. So, beyond doubt, the immediate impact was seen in microfinance. Not so much on collections which was the big issue,but more on disbursements. We were at the run rate and we would have easily reached the run rate of Rs. 1,200 crore to Rs. 1,300 of disbursements during this quarter. Now, this is the only business where the entire disbursement is fully in cash. Even if we had wanted to we had nowhere near that amount of cash with us obviously. So, of course October went as planned. On 17th November, we had zero disbursement for November in microfinance and I came and said that we will go 100% cashless. We did that. Our rejections increased tremendously. Our rejections which were around 35% to 40%

went up to around 70% not because of any credit issues but mainly because of lack of operating accounts. Then the Jan-Dhan issue came that people cannot withdraw more than Rs. 10,000 out of Jan-Dhan. So, we had to find operative non-Jan-Dhan accounts. Even after that we were able to disburse about a little more than Rs. 80 crore in November and double that to Rs. 170 crore in December. January will be more than that. I think and hope it will be somewhere in Q1 next year that we will reach the run rate back. Clearly a Rs. 550 crore shortfall over run rate has affected profitability. Clearly, I mean, it is one of our most profitable products.

As far as collection is concerned, it is actually funny. Yes, small impact overall in collection efficiencies. As you know our collection efficiency has always been 99.8% or so. For entire Q3, our collection efficiency as of 31st December was 97.5% and I am happy to report that as we speak the collection efficiency for December has actually increased to 98.11%. Now, these numbers need to be further decoded. In October of course it was 99.8%, even November it was 99.7% and December it fell to 92.6% pan India, which has now improved to about 95% in the last 20 days or so. But if I further decode it, just ex- Vidarbha or what we call MH1. If we just take that out the collection efficiency of December as on date is close to 99% again, it was 97% when we printed as of December 31st. Today it is again close to 99%, which actually shows that the large part of the problem is actually not due to demonetization. We had actually said that the demonetization problem, we do not see as a big problem but is just Rs. 1,300 per installment and we do not see a big issue. It is actually coming to fruition. So, the problem looks like a different problem, demonetization I mean it would be great for me to give that excuse and explain the performance. We do not believe that this business there will be a severe or in fact, any relevant impact due to demonetization. Some other issues start with demonetization as an excuse and there may be some impact there, we are monitoring it closely, let us see how we go ahead with that.

Then we come to two-wheeler business, we have said that the collection efficiency will not be affected. It has not been affected. On the business side the market fell substantially. In fact, from one of the best volumes in October the market fell to one of the worst volumes in November. But our strategy of distinction, our strategy of going almost completely digital, in fact as we speak we are totally digital, concentrating on particular manufacturers dealers, doing the business we want has actually doubled our market share from 4% odd to 8% odd. Once again, just one data point and should not be projected but it is good news that from Q2 4.7% it has increased to 8.3%

(Slide #6)Coming to farm, now this is more complex. Farm disbursements largely, followed the trend of two-wheelers. Once our market share which had reached its lowest in Q2 has now gone up to more than 8%. Once again, I do not want to project what will happen in the future based on two data points. From two data points a straight line can be drawn but I do not think from 4.8% it will go to 8.6% to 12.6% it would not happen that way. So, I do not want to draw a trend line right now. But everything has been good there.

On the collection side, various impacts, first, mandis were closed for about 15 days after, that, so almost entire November was affected. There was other impact because of curb on withdrawal in Jan-Dhan accounts, fall in prices of certain agri commodities. Even the cash cycle is not really complete. Even though the crop has been sold partly, the cash has not found its way to the farmer's hand. There were part payments made, there are promises to pay, there are hundis, all these things are happening. We believe that some of this money will start coming in Q4. Rabi crop once again, I think economists and experts are divided, the sowing area has gone up, but fertilizer and other inputs consumption has gone down. We are waiting and seeing. We do not think it will be a wash out or anything horrible. On last year's low base perhaps it will be positive. But if we take five year average it is not going to be anything great but it is not going to bad.

So simple, we believe that asset quality which went down in December will improve by March certainly but once again calling all that a demonetization impact may be wrong. I had predicated way before the demonetization came that December NPA in tractor will peak. Let me clarify now something about our numbers. So, our NPA number on rural was 8.36% in September. We have reported a 7.96% after taking into account the impact of demonetization. As far as rural is concerned, this impact is close to about Rs. 170 crore. Without that the rural NPA number will be 9.7% which is as predicated higher than 8.36%. We will definitely see a reduction in this number in March.

Now, the important point to say is that even in the balance sheet while we have classified these assets as standard and hence, the number has come down. In the P&L, the entire impact of Rs. 44 crore both provisions as well as income reversal of this Rs. 170 crore has been taken as voluntary credit cost in the P&L. So, our P&L is not going to be impacted if RBI suddenly withdraws this dispensation at all. So, we have prudently taken the entire additional credit cost in the P&L.

(Slide #7)Home loans, yes, I think, the retail home loans, definitely the pick-up has come down. We hope that with various measures it will go up but our disbursements were about Rs. 200 crore less in the quarter. We disbursed close to Rs. 700 crore vis-à-vis the expected run rate of around Rs. 900 crore to Rs. 950 crore. Collection intact we do not see any issues. Real

Real estate we have done actually well, disbursement and the fee income engine is going well and we have not seen any issue in collections as of now. We are being very-very watchful. We definitely believe that the growth in this sector will be more moderated in next year. Wholesale, I had said no impact and genuinely no real impact happening.

So, the point here was not only to update you on the status of demonetization but also just to give a little feeling of sanguinity to us and to you that when we came and talked on 17th November, we were able to predict more or less accurately what would happen. We are quite happy with the results that we have achieved and quite hopeful that in Q4, the situations, the bad news is not over, it is not as if all problems are solved but December has been better then November. And we are hopeful that as we go to January, February, March, things will only improve from there. That is about demonetization.

(Slide #10)Now, let me come to the results of the quarter. So, I come to page 10, these are the key performance metrics that we report. **The big headline numbers are the ROE numbers and we have given last three quarters ROE, and you would see that the delta ROE that we have achieved in FY2017 vis-à-vis FY2016 is actually increasing quarter-to-quarter. 12.81% ROE is the highest that we have achieved from Q4 FY2013. So, for 15 quarters, this is the highest ROE that we have achieved. This translates to 11.46% ROE for nine months vis-à-vis 9.36% for the corresponding nine months last year. So, 11.46% ROE for nine months gives us the confidence that we are on track of achieving our targets, I have not indicated the targets but I have told you that it will be 12% odd given that we have to move from 9.5% to 18% in four years. We look on track of our strategic plan.**

The other parts, the growth, the disbursement in focused businesses have grown by 33%. The assets in focused businesses are grown by 15%. I must say that we saw also substantial prepayments. People will ask me whether there are issues in the real estate sector, have you seen pressure? Actually we have seen large amount of prepayments in this sector. As interest rates come down, banking sector is reducing interest rates, we have actually seen prepayments almost equal to our disbursements in real estate. But the important part here is understanding the strategy we are putting in place. We realize very much that though we have a large balance sheet, balance sheet and cost of money will never be our competitive advantage vis-à-vis banks. Our competitive advantage is our sourcing capability, our asset management capability and our collection engine. Using this, underwriting, booking assets and selling down and sometimes even selling down even without booking is going to be our skill, is going to be our strength and hence, perhaps the more important metric now to follow is not only asset growth but disbursement growth and fee income growth. And if you see Q3 upon last Q3 or even this nine months over last nine months the overall fee and other income growth is 29%, which shows that this particular strategy that we are putting of maximizing fee income and it was in many ways and I will talk about that a little bit later is working well.

Cost-to-income ratio is at 25% now. Here also the delta from last year is continuously increasing. 25% is the lowest ever cost to income ratio that we have achieved. We expect to continue on this trajectory as far as costs are concerned. But we believe that I have told you that our major investments will happen once our ROE crosses 15%. I am going to modify that a little bit. I believe that with demonetization, with GST, with various such measures coming, I think big investments on digitization and data analytics has now become very urgent, we have already made a lot of investments but from Q4 and especially from next year we are really going to step up the investments in digitization and data analytics. Already, a lot of our products are completely digital. I am happy to tell you that in two-wheelers for example, we are going 100% straight through now. So, any asset, any loan which does not go straight through we are simply rejecting.

So, many of those measures are happening. Farm will become almost completely straight through soon, we will move like that to housing loans. We are going to very clearly put turnaround time and decisions taken by computers. Actually, analytics shows us that in retail, decisions taken by engines and computers have turned out to better then decisions taken by people. And we are going to move in that direction, which will see an increase in investments. We will try and report cost and investment separately in future.

(Slide #11) Strategic initiatives are progressing well. Risk framework as I said last time we have engaged Oliver Wyman. Given the growth and the change in direction we are taking, we have always been maintaining that putting a strong risk framework is very important. It is on track. Most of the projects are on track. In fact, I am glad to report that we have got all our approvals for the merger of the entities which will actually ease out many of our operational difficulties, capital allocation will become simpler. We may also get some other fiscal advantages that we will use to make even more incremental provisions.

(Slide #13) Financial performance highlights- So, all going well there. These are the headline numbers where PAT has grown by 28% from Rs. 212 crore to Rs. 271 crore and this is after taking Rs. 214 crore of voluntary provisions. So, this is where I must explain what has caused this large increase impact after taking this kind of voluntary provision. Number one, there are very four, very simple things, which we had put in place and we were hoping that all this work in time for our strategy. Number one, two very simple things, growth in our businesses which are focused and where we are distinctive. As we have already pointed out, good growth is happening there and it is contributing to the profitability. Second which is perhaps more important is 14 products which we have defocused. We were not disbursed even Rs. 1 from April. The book has come down from Rs. 5,200 crore last year to about Rs. 3,200 crore. And hence, the drag on ROE of these businesses is reducing quarter-after-quarter. As we go ahead, the rundown is happening well. Something that we have not been able to do well is the sale of the portfolio but here also, I am glad to report. That we will show the first tranche of sales this quarter in Q4 itself and hopefully it will work in a more accelerated manner which will reduce say over the next six months to nine months the negative impact further of this portfolio.

Then we come to fee income. Now, this is very important, this is just not increase in fee income. As I said, our total fee income is up 29%, but it is actually the whole strategy. It is helping us fight competition in the market because it is helping us underwrite and sell. It is taking our capital allocation, limitation on capital, out of the equation. It is actually changing the battle ground. It is changing battle ground from interest rates to our skills. More importantly, as I said last time that we will concentrate on numerator and I am sick of talking about how many problems are still there in the wholesale balance sheet. The fee income that we are generating and if you see just the wholesale fee income is close to Rs. 73 crore and we are confident of increasing it at this pace even in Q4. And that is giving us the ability to not only increase profits but this incremental voluntary provision. If I take just fee income, it is giving a uptick of close to 2% in the ROE.

Last but not the least, costs, though I always maintain that increase in ROE should not come by cost reduction, well, it helps. So if you take this Q3 to our last Q3. Our revenues are up 13% whereas absolute costs are down by 5%. This kind of good diversions is what is causing this increase in profitability.

(Slide #14) Let us come to the Holy Grail that I talk about -to the ROE Bridge. Let me explain some of the numbers here. Rural business, our PAT has shown sharp growth. ROE is at 22%, PAT growth is 64%. I must call out certain things here in rural business. As far as our disbursements are concerned, the mix of MFI, farm, two-wheeler more or less remains the same. MFI disbursement growth is moderated to 18% because obviously, November, December there was less disbursement but the big thing is we were able to do 100% cash disbursement and we believe that Q4 will be much better then Q3 and by Q1 we will come back to normal growth rates.

Two wheelers, we have achieved all time high disbursements of Rs. 550 crore, market share has increased to 8.1% and collections have remained unaffected. Farm where we have always been maintaining that we have been ceding market share. We have been ceding market share because our analytics show that this is not the time to be aggressive. This quarter we have actually shown that we are able to increase market share when we want to. Brave words, it is just one quarter but it gives me confidence that when we believe that it is good time to do business, in good business, in good manufacturers we can actually increase market share.

Once again, so that there is no confusion, RBI allowed forbearance we have taken this forbearance for the balance sheet but not for the P&L. P&L we have taken very clearly the credit cost which we would have taken if this forbearance would not have been there.

Then we come to housing business, a few things are working for us. Real estate of course, real estate has been showing excellent trajectory. Over the year, the difference that we have made in our model is we were quite B and C category developers centric. We have moved very-very clearly more than 90% of our disbursements are to A and B category. We have expanded our product reach and we are becoming soon quite distinctive and one of the leading players in real estate finance. Our credit processes and early warning signal mechanisms have been tightened substantially. As I said last time we have a different way of doing this business, we believe that asset management, being on the site, early warning signal are the most important part of this business, not so much disbursements or collections, those happen there on demand. But the way we manage projects is what is important.

In HL and LAP, our strategy of slowly changing product mix to Self-Employed Non-Professional (SENP) moving away from DSA sourced salaried loan is working. Profitability has increased there as well. We are now going to focus on retail conversion of real estate projects that we have funded. Very clearly the focus of Q4 and henceforth will be on offering real distinctive turnaround time, real distinctive solutions, selling propositions to the builders where we have funded and I would actually think that we will be pushing for almost like a first right of refusal kind of model. So, that is where the housing business is going. Credit quality remaining more or less intact. We are watching it very-very closely, every project how the sales are moving, how inventory is moving itself.

Then we come to the wholesale business. No surprises, I have told last time that our ROEs will remain between 9% and 11% based on that promise it is at 10.3%. Again, no surprises I will be very clear, we do a goal seek from here. We start with 10% and then see what is the voluntary provision that we can take. So, very clearly there is a number that we have in mind, I have told you very clearly that we will be taking 2% to 2.2% credit cost till September. We have an extra ordinary gain this quarter of Rs. 27 crore from MAT credit as well as due to deferred tax asset that we have created. This entire extraordinary gain has been used for taking that another Rs. 28 crore more for wholesale. So, we are moving in that direction the promised direction. We have taken Rs. 125 crore of voluntary provision in wholesale itself and total voluntary provisions have taken across businesses is about Rs. 212 crore. So, you will see even the voluntary provision number up from Rs. 40 crore in Q1 to Rs. 100 crore in Q2 Rs. 125 crore in Q3 is continuously going up. Another thing of what I must call out in wholesale business is there is a 88% growth in disbursements in our focused sectors of operating roads and renewable energy. Most important number to call out is our sell down, what we underwrite and sell has seen a 6x increase in volumes resulting to almost a 7x increase in fee just out of sell down. If you take the overall fees of the Company, we are moved up by 29%. So, that gives us the confidence and once again reiterating that we have the situation under control. We are clear on what are our NPAs, what are our impaired assets, we are also clear that the other standard assets that we are watching which may slip up into impaired at some point of time or may not. But what is the haircut that we will require over the next two years to three years and we are moving towards that number and we are quite confident that after second quarter of next year we will move to a situation where the wholesale credit cost will be at a normal cost doing business of about 0.6%, 0.7%.

Just as an indicator, no promise of what is the steady state ROE that this business can achieve with the kind of fees that we are generating. Just this quarter, if you take out the voluntary provision. Actually, I do not even call it voluntary any more, they are accelerated because at some of time they are going to be needed but they were not needed this quarter. So, without this accelerated provision, the ROE of wholesale business is at 17%. So, last quarter it was 15.33%. So, we are sticking to our promise of continuously making sure that wholesale business and the much maligned infra business can be done with good ROE. The way to do this business is not concentrate on denominator, not concentrate on how much assets we can put on or balance sheet and put capital behind it, you will never make ROE. The way to make ROE in this business is fees, we are very clear and this business we want to become the best infra investment bank in the country with a $10 billion balance sheet. I believe that it is a distinctive position and we will continue to position our self that way.

Coming down the ROE tree, defocused business I talked to you already. If I wish, I could have told you that the capital put in defocused business is even down to almost zero but it is about Rs. 450 crore but substantially down from Rs. 700 crore in last year. You would also observe that as we have seen some assets there perhaps deteriorating a little bit we have made voluntary provision even in the sell down portfolio. So, we are reducing the possibility of taking any P&L losses or any P&L shocks when we sell down something. So, now, the number even after the sell down is also approaching 13%. So, we see this going well.

We come to other businesses, now this is really a substantial shift. As you would observe there is hardly any idle cash now lying here but more importantly, a big delta coming out of both our mutual fund and wealth business. I will call out wealth first. Last year, full year the wealth business made about Rs. 23 crore loss. Already if you take the indications of the last two quarters, we may end up at around Rs. 5 crore odd profit in the wealth business. This gives us a delta of close to Rs. 28 crore in the wealth business itself other than creating tremendous amount of value because they increase in the business and AAUS that we are showing.

Mutual fund, mutual fund of course showed a profit last year. But this year if you take the run rate we are looking like more than doubling that profit and both these businesses though on ROE terms now because the high net worth included invested in mutual fund is looking quite muted but we are sure that this ROE will keep increasing and the value that we are making in these two businesses always gives us a choice of any minority value realization sometime in future. But we had actually said that in the beginning that we may have to do it this year to increase ROE. I am glad to report that businesses are doing so well that the clock has stopped ticking as far as this is concerned. AUM growth of about 40%, AUS growth of 37% and the profit growth that these businesses are showing, our clock has stopped ticking. We do not need to sell this minority stakes at any value. We are making money in the overall business and the trajectory is quite good.

(Slide #20) Let me now come to the concluding slides and then open up for questions. And this is very important. Q3 once again, to say it has tested organizational resilience. It has shown that the organization culture to deliver growth profitably is proven. We have further achieved traction in all our strategic initiatives and most importantly delivered this profit with substantial accelerated provisioning. The organizational culture of empowerment, taking ownership, is developing very steadily. We are concentrating a lot on talent development, talent management, we are making sure that every person in this organization is very clear with the management intent. We are making sure that every person in the organization knows now that if he cries with a particular excuse, it will be heard, solutions will be given, and then he or she will be asked to deliver the results. Yes, I am fully aware that all the time results may not be delivered but we will at least try and we will try a lot.

Q4, indications, we believe that most metrics will continue to do well. However, note of caution that I do not think that all the problems of demonetization are over. The rural sector is recovering but not yet come back to normal. Real estate we will really have to see that how the budget goes, what kind of measures are announced in the budget and whether the sector picks up. Infra growth, we again expect the budget to push on infra growth, let us see how it goes. Lots of optimism is there but at the same time clearly, the management is aware that issues remain on ground; but the management is also confident that based on the way we have tackled Q3 we will tackle Q4 we will if there are problems we will handle them, we have the culture, we have the management bandwidth and most importantly increasing and strengthening management bandwidth to handle this.

So, that is it. Ladies and gentlemen, let me end with very clearly mentioning again that Q3 once again confirms that we are on track with our strategic plan. We are on track of achieving not only this year's ROE targets but nothing that I have seen and I have seen some worst moments in this quarter but still, nothing that I have seen makes me worried or wondering whether FY 2020 is achievable or not. Particular quarter up or down will happen but I am very confident and strangely Q3 has given me even more confidence, the top quartile ROE by 2020 that we are talking about will be achieved. Thank you. Questions.

Moderator Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. We will take our question from the line of Nitin Agarwal of Antique Stock Broking. Please go ahead.

Nitin Agarwal I have three questions. Firstly, our OPEX has gone down in the rural and the housing business. So, if you can throw some light on that? And secondly, where do we see the cost-to-income ratio to settle as we further realign our business mix?

Dinanath Dubhashi Okay. The reduction in cost is very simple. It is two things, digitization. As we have moved to more and more digital ways, less paper is used, transactions are done faster. As we move to STP less and less deals get refer to a FI agency, etc., so just the process change has really made the difference and second obviously, efficiencies. As we move out of branches which are not efficient, as we move out of branches which are not productive, as we concentrate on dealers which give us good volumes and it will also show on asset quality because we are very clearly moving out from dealers where we are marginal. You put one person and then do two vehicles or two and half vehicles then you will get only reject file which after roaming everywhere it comes to you. So, we are very clear what we will do, we will offer propositions to dealers where we believe that the quality will be good. We will offer propositions to dealers which we will find difficult to refuse. And then concentrate there. So, obviously with that kind of optimization cost will come down. Branch cost come down, people cost come down, all that will slowly move to reduction in cost to income ratio. Same for housing. Housing we were in various locations perhaps where we were not getting enough traction. As we move housing more to digitization again, lot of manual intervention and manual underwriting will come down. We took a very hard look at our processes. We saw that, we have a lot of underwriters but because of the particular sort of the way housing business is, most of the cases get deviated and referred upwards. So, just making that small change increases productivity of people. So, I can give you a big list and maybe I will give you when you come and meet me sometime. But these small-small measures start paying dividends at some point of time, I think we are on that track. We hope to keep showing this kind of reduction quarter-on-quarter, we believe that sometime may be say six months down the line we will be in the low 20% as regards cost-to-income. As I said, I still do not know the measure of how much investment I will put, right. But one thing I will tell you, the same way that I say that as much as possible we will take voluntary provisions for wholesale. Whatever I am allowed, I mean, as much as possible, I will invest in digital and analytics and it will be in serious number of crores and high level of investments will happen there. So, optically maybe the cost to income ratio will increase but I will sort of call out, how much is that and how much normal cost-to-income ratio.

Nitin Agarwal Right, thanks. And secondly, our yield in the wholesale business has declined in this quarter probably, as we are de-risking the loan book and going for more of operating assets. So, if you can comment on this and the outlook on margins in view of sharp reduction in the overall rate environment.

Dinanath Dubhashi So, the first part of your question you have answered, that it is because of moving largely to operating assets. As the proportion of IDF in the overall mix will increase further, margins will come down but it will be made up by lower credit cost and lower tax liabilities. But more importantly, I actually want to de-emphasis and I am de-emphasizing the importance of margins as a measure within my organization. The measure from now on is total income because more and more assets will be booked at or even underwritten at margins perhaps that we cannot afford but banks can afford and we can give the banks the service of sourcing, asset management and collection and down sell it. So, we may keep the asset for some time or may be not keep the assets at all. Virender, some substantial amount we actually sold on, without even booking. How much was it?

Virender Pankaj During this quarter the sell down without assets coming to the book was to the tune of Rs. 600 crore.

Dinanath Dubhashi So, Rs. 600 crore of asset were actually sold down even without taking them on our balance sheet for one day. So, just underwritten and sold on without asset being booked. So, I want to actually change the metric of success because there is no point being capital hungry in this business or putting capital behind that business, we will of course put capital I mean large amount of our capital is there, we will put capital, we will support it by capital but the profit margins will more move towards fee income.

Nitin Agarwal Right. And lastly, our fees in the housing business has gone up sharply. So, do you think this has liked peaked out in the ROE tree this quarter and what sort of fees do we make in the rural business?

Dinanath Dubhashi See, housing business fees going up is very simple, why it has not come in the ROE tree is very funny, because we did a lot of disbursement in the real estate sector. Rs. 1,200 crore of disbursement in the real estate and we faced almost the same amount as pre-payment, okay, different assets of course, not the same asset. So, the book has not gone up but the fees on that Rs. 1,200 crore of disbursement we pocketed. So, in the ROE tree is one thing because the assets did not go up and fees just went up and hence the ROE is at 30%. So, one way of answering it, is 30% sustainable? Most certainly not. I said already that the sustainable level in this business Home loan/LAP plus real estate is more like 19% to 22% that is where we will think of settling down. So, to answer your question in a different way, do we see this kind of growth in disbursement in real estate in the next year? At this point of time, I will be more modest in projecting growth for real estate next year. It certainly would not be this kind of runaway growth that we are showing, the sector at this point of time at least is not in a state where we can predict that kind of growth. But given that RERA is coming, given that budget may give several sops, given that hopefully black money will completely and totally move out of this sector. Decent growth, much moderated but still a decent growth is what we saying.

Nitin Agarwal Right. And on the rural fees, if you can give some color on this income?

Dinanath Dubhashi Rural fees are largely the processing fees that we have and these are processing fee net of what we pay for acquisition. So, that is about 1% or so overall. But a big reduction this time is because of microfinance. So, 1% processing fee on microfinance for which we do not part anything to anybody, you just calculate on Rs. 550 crore, 1%, so Rs. 5.5 crore just went. So, that is the overall reduction in the fees anyway from Rs. 21 crore in Q2 to Rs. 17 crore in Q3. Almost entirely you can say microfinance.

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

Nischint Chawathe Just two questions from my side. One was if you can share the GNPA in the farm equipment segment and the other on the growth in two-wheelers and the developer loan segment. Given the fact that this was a quarter with a lot of uncertainty, would you have ideally not wanting to slow down over there rather than kind of gaining market share and growing so fast? Thank you.

Dinanath Dubhashi Okay. So, as you know I do not call out the farm NPAs separately but the trend of the overall rural portfolio NPAs is largely an indicator of where the farm NPAs are. So, the overall rural segment it talks about in Slide #24, the

NPAs were 8.36% in Q2, I had predicted that they will go up and if you see Q3 without the RBI dispensation let us not confuse our self we have given the number. It would have been 9.74% from 8.36% which actually is more or less in line with what I had expected as far as Q4 is concerned we expected it to come down to perhaps Q2 or perhaps even below that number so, that is the kind of indication that we give. So, now you calculate microfinance is almost zero.

Nischint Chawathe It would be fair to say that almost everything came in from the farm sector.

Dinanath Dubhashi The increase?

Nischint Chawathe Yes.

Dinanath Dubhashi Yes, a little bit will be from two-wheeler. Two-wheeler percentages have not changed, a little bit in line with the book growth but yes, largely from farm which in Q3 it happens here. My billing in Q3 is huge and that is where it happens. So, I had said this in Q2 itself and also on 17th November that let us not put any big reasons for this increase because it happens normally but there is something that need to call out. Between October and till 8th of November, and in fact, from 1st November to 8th November, I have seen the best collection in farm sector in the last three years and perhaps if demonetization would not have happened the level would have been actually what it is with that RBI dispensation. We would have seen a very different picture than what we see normally that December NPAs would have been perhaps below September NPAs. It is possible because that kind of collections were happening in the last week of October and the first week of November and then the rest of November it was almost zero and then December it picked up again.

Nischint Chawathe And on the growth front for two-wheelers and the Real estate business?

Dinanath Dubhashi I will take two-wheeler and then real estate I will come to that. It is a very philosophical discussion whether at the time of difficulties you should stop disbursements, right. I believe that time of difficulties give you the right platform to show your strength and to grow business where you want, right. So, this is the time that when we see that the market is down, we actually, in two-wheelers where we have a lot of analytics on, we chose dealers, areas where the asset quality is good because averages, if I say Nischint that I will stand with my one leg in ice and one leg in fire and say on the average I am all right then I will have a problem. So, analytics gives me the strength of actually saying that where to grow and that is what has happened. We actually saw which dealers and which areas are doing well, have been doing well in the last six months, are doing well even in this quarter and the adversity gave us the ability to go and tell them look this is what we have on table for you - almost zero TAT, best payouts, good interest rates, etc., 100%

stay through and you give us a lion's share of your volumes. And that is what, I know I am sounding very confident but once again I must point out it is one quarter okay, so, fourth quarter if the 8.3% comes down then let us not draw conclusion out of it. In fact, I must point out that if anything we have actually tightened credit and I will explain this. That in Q2, if I do 100 vehicles around 70 vehicles approximately were straight through. Another about 15 vehicles or say 10 vehicles we used to reject. And about 15 vehicles to 20 vehicles, we use to send it to underwriters and the underwriter use to take a view, do FI and everything and decide on a Rs. 40,000 loan. We decided to do away all this and said that those 20% of vehicles anyway are showing worst performance, first we spend a lot on that and anyway show a worst performance than this 70% which is straight through and we have taken a call that we will do only that 70%. So, that 20% which was a maybe is actually now reject we are not doing it. So, we have done away with all processes of FI, underwriting everything.

Nischint Chawathe And within the straight through you would have possibly tighten the screens or?

Dinanath Dubhashi No, at this point of time we have not gone ahead and tightened the screens as such. Screens would not be tightened without data. So, at this point of time we have no data. No, in Q3 we do not have data. In Q4 we will start looking at data coming from Q3 and then we will tighten the screen. But what we are doing is we have moved to stronger manufacturers, we have moved to stronger dealers and we are making sure that a minimum amount of vehicles is done every dealer. So, which makes sure that we are the financer of first or second choice and not after the file goes around the place and then comes to us.

Nischint Chawathe Just one last point in this question, have you seen any support from OEMs in this particular quarter or the segment?

Dinanath Dubhashi Support in the terms of collection or what?

Nischint Chawathe In terms of incentives or whatever.

Dinanath Dubhashi Diwali yes, but it was before demonetization. So, all the Diwali schemes which were the highest volumes after that truthfully, no, I mean not on large big bang schemes we are in continuous discussions and they are putting word to the dealer and all those happens. But if you are talking about for moving inventory they have done major big bang, nothing like this has happened. As far as real estate is concerned, once again the same story and by the way, really our finding is that nobody has reduced disbursement to this sector. If at all, the interest rates are falling like crazy and there are projects that we are staying away because we do not think that the yields anywhere support the risk that we are taking, right, that shows that Rs.

1,200 crore of prepayment actually, right. So, here we have tightened, we have tightened our asset quality check. We have tightened our asset management checks more that we have a very-very closely monitored early warning signals, whichever two, three developers have come in those early warning signals. We have moved to immediately take corrective actions there, immediately go push the developer to sell something and repay us. So, all those things are happening. Now, just one number that I will give you, 95% of our new sanction in residential segment are to Cat-A and Cat-B developers. This would be completely a shift from what we were last year. Last year we were 100% to B and C . Now 95% to A and B and large part of it to A and in commercial segments, by the way, it is not that real estate is entire residential. Commercial real estate is doing extremely well. In fact, in some areas it is selling like hot cakes and 100% of commercial real estate is in the top 6 cities first of all and it is completely to A and B category developers. So, we believe we know what we are doing at this point of time and we are doing it in a very focused way and very tightly.

Nischint Chawathe Sure. And just one last point in this one, what would be the medium ticket size out here?

Dinanath Dubhashi In real estate?

Nischint Chawathe Yes, in this particular segment, developer loans, Yes.

Dinanath Dubhashi About Rs. 150 crore to Rs. 200 crore.

Moderator Thank you. Our next question is from the line of R Sreesankar of Prabhudas Lilladher. Please go ahead.

R Sreesankar Two questions, every point of time, you are continuously mentioning the analytics part of it and underwriting changes, etc., does it mean that you are going more into analytics-based processes rather than human intervention of rather more stream which means that are we going to see any kind of reduction of employees as you use more digital or more technical or whichever way you call it, that is the first part. And also my next question is continuation of it, does it also mean that from the CIBIL score that you are looking for many of these kind what is the kind of changes if you can at least get me through when you say human intervention has probably created more slippages in your side rather than your prices, did I get it correct so, that was the first one. Second is, you also mentioned in the wholesale part, 80% to 85% is effectively incremental lending is from where renewable and infra roads etc., I did not quite catch that when you mentioned it.

Dinanath Dubhashi Okay. Now, I said that renewable on road there is an 88% increase from last year.

R Sreesankar 88% increase, so how were you seeing that on the renewable and the road side especially on the renewable side where a lot more people are becoming a little bit concerned about sustainability of that renewable part in terms of repayments, etc., are you worried or are you comfortable with that portfolio continue to grow their size?

Dinanath Dubhashi Sure, okay. So, I will ask my colleague Virender Pankaj to take the second question. The first question I will answer. So, your question was, are we going to reduce people? Our analytics shows that decisions taken especially in retail, decisions taken without emotions, decisions taken where data, data analytics are better than decisions taken with emotion in business, life everywhere. So, that is what is really working for us. We are moving to very high investments in analytics. Still I believe we are not very good, there are companies which are better than us. We are investing and more and more businesses will move to analytics. We also have a clear vision that anything which can be done by machines will be done by machines. It is survival for us. I always say that there is a particular image about NBFCs that we operate in some underworld kind of credit space which banks cannot do, we do. I want to take that out. Our special understanding of credit, I do not even know what it means, is what qualifies us to compete with banks is completely wrong. What qualifies us to compete with banks is the proposition that we give to our customers. The proposition that we give to our customers is turnaround time, fast service, easy service, good advice this is what we work on. This is what every NBFC works on. There are some really good NBFCs in this space and each one of us has one of these advantages and we push on that. Now, to be better and better and better in these advantages we have to look at different ways, more efficient ways of doing things so, whether it is credit underwriting, whether it is data entry, whether it is checking data, whatever for which we believe that a machine can do better than human brains or human hands or human eyes, we will use machines. Now, what it will mean is less number of people required for this kind of function whether it will mean actual reduction of people or redeployment of people into functions like collections, sales, strategy, etc., it is a matter of calculations. We have not shied away from reducing people as you saw in April, we have not shied away from retraining and redeploying people, we have done both. So, we will see what is required as we move more and more into digital and do accordingly. And whatever is good for business will be done. Does that answer your question?

R Sreesankar Yes.

Dinanath Dubhashi That is number one. As far as wholesale growth, difficulties, etc., is concerned I will allow Virender to say. But most importantly this is my philosophy, if a particular business, let us say renewable is all hunky dory, no risks, no problems, anybody can come and do the business then you know what then anybody will come and do business. We actually enjoy a situation where only we can do business and banks cannot. We believe that kind of understanding of the sector actually works well for us. So, we are very happy that we understand that what are the risks, what are the profitability which DISCOMs are paying, which DISCOMs are not paying, how to manage that better than any bank that is why we can actually down sell loans otherwise, how can I compete with banks. Imagine a situation where you have to only produce, it does not matter which modules you use, it does not matter which technology you use, it does not matter what is your load factor, then you produce, all 100% is picked by SEBs and SEBs pay on the day that it is due. Just imagine this situation, L&T Infra will be out of business, simple. State Bank will take 100% market share. So, we actually hopeful that this situation does not come but I will give now to ask detailed answer to Virender.

R Sreesankar Before you give to Virender, what percentage of your book you will be comfortable say to renewable, today it is 32%, right so, to what extent you will be comfortable with?

Dinanath Dubhashi Once again, but I will say that, the book is only a result. We want in renewables, every asset, every project put in this country to be seen by my people. 100% market share we have not reached there yet but the center of excellence is fighting for 100% market share in assessing projects. Some of those we will reject. Some of those we will underwrite and sell. Book is only a result of what we do not underwrite and what we hold because we need to hold around 25% to 30% of what we do, we will try and reduce this further book is only a result of that. But we are comfortable in this sector, we know how to manage this sector and what you will see is how much we are selling down and earning fees that will be the metric.

Virender Pankaj First of all, wholesale business being lumpy in nature we should not conclude on the basis of a quarter’s number. Having said that our focused areas in infrastructure financing are renewables which for us include solar, wind, small hydro and operating road assets and transmission. So, these are our focused sectors within infrastructure space. Now within these what has been happening as a trend compared to Q1 of this year and now we are doing more solar than wind comparatively speaking because the prices are more competitive, growth is happening and more importantly CAPEX is coming down. Compared to last year 10% reduction has happened in the cost of projects. These are the sectors which continue to do well in terms of growth. Second thing is within renewable there is a lot of diversification that happens. This diversification happens across various states, it also happens particularly in solar there are lots of projects which are supported by Central Government scheme, supported by Solar Energy Corporation of India or a NTPC arm NVVN by way of counterparties. So, the counterparty risk gets distributed to different levels and these deals are structured in a manner and they are designed to take care of DISCOM receivables which are not new. Couple of years back Tamil Nadu receivables for example, went up to 15 months. So, these are the situations which our structuring is prepared to handle and it takes care of it. So, we in our renewable book there is zero SMA, there is zero RSA, there is zero NPA, and this is not a new book, it is fairly seasoned now because for last 4 years we have been doing it. In terms of sell-down – increasingly banking system is warming up and compared to the number of financial institutions and banks, we used to sell-down earlier and this year, that number has gone up. But as I said next quarter for example, you could see a very robust growth happening on operating road assets in our portfolio. So, you will see this kind of situations happening. But these continue to be our focused areas. We are comfortable on risk-reward framework in this sector and we have decent traction now when it comes to sell-down. So, that will continue within these, you could see one quarter more disbursements happening in one sector over other. But we are comfortable with this sector.

R Sreesankar Banks have been reducing rates now SBI has also followed suit, are we going to see any kind of changes in your thought process

Dinanath Dubhashi Okay. This is a sort of dynamic treasury management decisions that the ALCO takes on a monthly basis and the treasury implements. More certainly, as the banks reduce we will obviously prevail on the banks to pass on those rates to us and hence there may be some shift to bank. But the kind of requirements we have we will have to have a good mix of market borrowings, bank borrowings, etc., it has worked with us. Is there is a strategic shift, it will really depend on the kind of reduction that banks pass on in their MCLR but let us actually discuss it a little bit more in perspective. The moment banks reduce their MCLR it is not only the cost of funds reduce, the competition also increases. So, I am in the funding business so, none of this is really greatly positive or greatly negative to me. It gives some advantage for sometime till I can hold interest rate. The big advantage comes once again is from the fees and the sell-down part because this gives us the opportunity as the banks' appetite increases, that after having enjoyed some good yields for some time to sell-down those portfolios at lower interest rate to banks and make money. So, once again, I mean, more and more I am trying to emphasize in wholesale business and what I have been saying for nine months that wholesale business cannot make money while lending keeping it on balance sheet and giving capital it cannot. Leave out the NPAs, provisions, leave out all that, imagine that we had no NPA issues or provisions were just 0.5% to 0.6%. Even after that the ROE of wholesale business could not have been more than 15% if we just stuck to lending and keeping it with us. It just does not make that kind of margin. So, the only way of making sustained ROE of 17% is from pushing the sell-down. So, not only it is good for ROE but it is good for competition and more importantly it gives us 'the distinctive position' which actually uses the skills that we have. Our skill in wholesale business is talent not capital and we have to use the talent. So, that is how I think I would like to answer that question holistically and strategically.

Moderator Thank you. Our next question is from the line of Praful Kumar of MSD Partners. Please go ahead.

Praful Kumar Just wanted some more granularity on the fee I think it is a commendable job you have done on the wholesale side on the sustenance of this moving forward, we have seen it from say 48 basis points going up to 79 basis points in a quarter, you can give some more granularity how much was the sell-down, how is the pipeline looking for this year and next year, and as you said that this is key focus area and how sustainable is it and can it improve from 80 basis points over the next one years, two years to a high end number as well?

Dinanath Dubhashi Okay. Virender, will give you the detailed breakdown. But sustainability is more certainly there.

Virender Pankaj Just to give you flavor, this fee comprises of two parts – one is an underwriting fee which is essentially underwriting of projects and then down-selling it subsequently. So, this is what has gone up significantly during the quarter and this is a part of our strategy. Just it give you a related number, when we began the financial year in Q1, our ratio of the deals where L&T Financial Services was leading to the deals where L&T Financial Services was following was 50-50. In Q3, the disbursements which our team has done, 90% of the disbursements have gone towards deals where L&T Financial Services is the leader and only 10% of the deals where there is a follower. So, that is one big reason why there is an impact which is reflecting in the fees because we are leading the deals now. Earlier, we began by being a follower and this is now increasingly we are taking leadership position so, we get fee out of that. So, clearly, compared to Q1 and Q2 our fee in Q3 will be probably almost equal to what we did in H1. The second component of this fee comes from capital gains in our DCM business which follows the model of underwriting and again 100% down-sell by design to the market participants. Here also, nature of our gains is qualitatively from large players in the DCM market that we play in credit bonds and our gain essentially happened from a relatively closer understanding of the credit matrix which is up, as well as distribution gain. So, not necessarily coming from interest rate movements in the market. So these are the two drivers for fee income and both of them looking at the strategy we are following, we are confident that this would continue and we could even see further improvement from here going forward.

Praful Kumar What will be the broad split between these two in terms of say if Rs. 100 is a fee income may be 60% is due to…

Virender Pankaj 2:1 in the favor of underwriting fee and the balance is capital gains from distribution of DCM desk.

Praful Kumar Sure. And for the form of fee underwriting and down-sell have we changed the structure of the team, in a quarter we are seeing a significant pick-up and the built up so being a 50-50 to a 90-10 how are the market participants reacting to this. What have you changed to ensure that this will sustain and this will go just some flavor on that?

Dinanath Dubhashi Yes, team structure, team strength will continuously increase but what changes, basically obviously as I always say management intent that the more time that the top management gives to this team, more time when top management tells that you are the fulcrum of our strategy over the next five-six years, the team knows that they are being watched and they work more and get more participants. It is just a matter of putting it right. May be till last year this team was a part of the wholesale business. Even now they are, they report to Virender, they continue to and they will continue to but telling them that you are the fulcrum of the organization and you have to sell-down, you have to structure assets, you have to sell-down assets across the organization not only for wholesale, which gives the right amount of attention/ importance to this team and good people perform after that.

Praful Kumar Sure. And DD last question, given the fact that credit cost normalization is something that will start soon say Q1 FY 2018 most of your businesses. Just simple maths suggest that you will hit a 16% ROE next year, is it a fair assumption, aggressive, or conservative?

Dinanath Dubhashi Okay. Let me say credit cost normalization will be more Q3 next year let me be frank. Q1 will not do because, I told you that till Q2 next year we will keep high credit costs in wholesale. By Q2 we should be through. So, yes, Q3, Q4 exit ROE your maths is right.

Moderator Thank you. Our next question is from the line of Kunal Shah of Edelweiss. Please go ahead.

Kunal Shah So, two questions. Most of this has been answered, one thing in terms of there is a slash in the lending rates which has been there in the system. So, I do not know if you have covered that one. But how are we seeing the impact on various of our businesses because of the lending rate cuts which have been and particularly say on the housing and on LAP side. So, in terms of a margins, where do we settling across our various businesses?

Dinanath Dubhashi Yes, I will ask Srikanth to take this. Srikanth heads our housing business.

Srikanth J. R. On the housing and LAP, we have started seeing some pressure definitely on the yields. So far, we have not passed on anything on the book but starting from this quarter we at least intent to pass on may be around 25 basis points or so on the fresh disbursements. But we will hold it over there. We do not see a need to translate this on to the entire book at this point in time. But yes, over a period of another three months or so, this may gradually be translated onto the book as well.

Dinanath Dubhashi: Just to add to that, it is also the function of the overall ROE tree, right. So, what Srikanth is doing is what I explained to you in two-wheelers, he is trying to do exactly that, that to our builders where we are comfortable where we have given fairly large CF loans that is where we will actually primarily give the best rates, give the best TAT and get volumes and productivity out of that. We believe that obviously, it will contract yields but it will increase productivity hence reduce expense ratios and hopefully over time reduce even credit cost. The housing credit costs are quite at an acceptable level but will reduce credit as the best files from the builder come to us. So, I always hesitate on talking about one part of the ROE tree because strategy is all about matching your delta yield to delta expenses and delta credit cost. So, that is what we try and keep doing. Right now, where we are actually getting from is the fee income as you see it is about 1.27% which is coming from our real estate area. Operating expenses are down to 1.21% already from 1.83% last year, right. These two aspects are really pushing the ROE up. Operating expenses, the kind of push that Srikanth is doing for conversion from CF, we will see operating expenses going further down and that would I think more than compensate for the NIM reduction.

Kunal Shah: Okay. So, largely, may be in terms of the expenses in the risk pricing we would probably be doing in terms of or yield calculation. But the only question was with respect to the competitive pressures which are there in each of the segments it is not what we say housing but all across.

Dinanath Dubhashi: It will reduce, simple. Are we expecting the ROEs of 29.92% to continue, we are not. We are not reckoning on our promises to you based on 29.92% in Housing, simple. So whatever 25 basis points, 30 basis points you want to calculate put it in this the ROEs will be down, I am happy with 19-20, we will still be able to deliver on our promise.

Kunal Shah: Okay. Obviously, we have made some say the accelerated provisioning or the voluntary provisioning what you call but apart from that anywhere have we used the RBI dispensation I see it in the rural business wherein we have highlighted in note, but what about overall at the consolidated level?

Dinanath Dubhashi: Maximum is rural business and a little bit in housing. The RBI dispensation has been used in the balance sheet not in the P&L, okay, first so that all confusion is removed. Let me tell you balance sheet – so balance sheet total Rs. 208 crore of GNPA which is Rs. 171 crore in rural which is largely farm and about Rs. 36 crore to Rs. 38 crore in our run-down portfolio. So, if we had not used RBI dispensation our GNPA would have been more by Rs. 208 crore simple, okay. Wholesale, etc., does not matter because it is only for less than Rs. 1 crore. So, Rs. 208 crore total GNPA would have been more, I already gave you in percentage what it would have been, etc. So, in balance sheet we have used it so our NPAs are down by Rs. 208 crore. Now we have provided as if this Rs. 208 crore were NPAs and that number provisioning plus income reversal is Rs. 44 crore. So, out of the Rs. 214 crore of voluntary provision, Rs. 44 crore is this. For the benefit of others, it is not 20% provisioning, it is 10% provisioning. So, Rs. 208 crore converts to about Rs. 20 crore and the rest of it is income reversal.

Moderator We will take the next question from the line of Abhishek Sahoo of Citigroup. Please go ahead.

Abhishek Sahoo My question was on the wholesale business. Sir, you mentioned that there are some standard assets which you are looking at keenly where you might want to accelerate provisions. Would these already be a part of the restructure of the impaired book or are these outside that segment?

Dinanath Dubhashi No, some of them are outside, I had indicated this last time. Our entire impaired book which is GNPA plus RSA plus SRs, we declare so, it is something like Rs. 3,200 crore odd. In addition to that, there are some assets which we have not given the number for but it is not a scary number, it is not few number times this number. It is a particular percentage above this number. Why we are not giving it that also I will tell you because it is not 100% sure that this is a problem portfolio. We are watching it closely. Quarter-to-quarter the situation keeps changing, but this entire portfolio, we are looking at suppose all this go wrong and we have to solve it taking haircuts what may be the haircuts, two to three years down the line, right. Even though I am providing everything by next year, I do not expect this to get solved by next year. But I want to just forget about this issue by next year and then start doing normal business and start showing that the wholesale business can make 16% to 17% ROE. Largely because I am pretty sick of people saying because wholesale portfolio is so high your P/B (price-to-book) is low, wholesale will get P/B (price-to-book) of only so much etc., so, we want to actually demonstrate that this business we are very good and we can make ROEs of upwards of 16%, right because of that we are accelerating the provisions and closing it out. Those are with regard to the standard assets. The provision numbers I will tell you, that if you see we are taking credit cost of about 2.2% and this also I think nobody has asked but let me clarify. As we go, some of the impaired assets may be become GNPA, some of the standard may become impaired all those things will happen. What we are trying is we are trying to take that attention away I mean even our attention I do not mean your attention, from that percentage from that denominator that what is my GNPA ratio is going to be. We are taking provisions, as if we need to provide and take haircuts on this entire amount. So, if anything becomes GNPA, anything becomes impaired what will happen in a particular quarter that the proportion of regulatory provision will increase vis-à-vis voluntary provision. But the overall provisions I am taking is so much and so high that I will be safe as far as P&L is concerned. Does that answer? So, if you are taking 2% to 2.2% every quarter that will largely remain same if the GNPA percentage slightly goes up next quarter. It does not matter right; I will take voluntary provisions to that extent less because I need total provisions of a particular amount, right. My balance sheet does not understand whether it is regulatory or voluntary. And any case I do not even want to call it voluntary, I want to call it accelerated because at some point of time they will become regulatory. So, that is where we are moving. Very simple maths let us do about a 2.2% credit cost till next September which is likely to come down below 1% from third quarter next year simple.

Abhishek Sahoo The other question that I had was around the tax rates so, could you clarify on what drove the lower tax rate this quarter?

Dinanath Dubhashi Okay. A couple of things – we are increasing our IDF portfolio that is number one so, IDF is completely tax free. Second, our mutual fund had made losses for quite a number of years and hence, whatever profit we make in mutual fund for next few years will continue to be tax free. So, more and more profits that mutual funds make obviously, we will have lower tax rate at the consol level. In addition to that Rs. 24 crore we have taken for MAT credit and deferred tax assets. Once again, for some of the subsidiaries in the group, there were losses and we had paid MAT as we see them turning around like wealth subsidiary we have taken the MAT credit and used that to make further provision in the wholesale business. Does that answer your question?

Abhishek Sahoo Yes.

Dinanath Dubhashi So, there is one entity which is tax free then there were a couple of entities which were loss making and till those accumulated losses are there, the increasing profits in those entities will be tax free. So, at consolidated level the tax rate will keep going down.

Moderator Thank you. Our next question is from the line of Aadesh Mehta of Ambit Capital. Please go ahead.

Aadesh Mehta So, Sir, in terms of the recent trends like post December in the month of January we are already 25 days through. So, how are you seeing disbursement trend evolving in the month of January?

Dinanath Dubhashi Across businesses it is quite decent. Let me take business-by-business. Microfinance will be better than December. In the vehicles, the normal Q4 trend is continuing, I do not see there is any issue. In wholesale and real estate, we will be again more or less at our Q3 run rate may be slightly lower. Retail housing is somewhere where we are not yet seeing a big uptick from Q3.

Aadesh Mehta So, barring retail home loans, everything has picked up decently in the month of January.

Dinanath Dubhashi We are not in utopia yet but decently. It all depends on 1st February.

Aadesh Mehta Okay. So, decent means (+15%) disbursement growth, right, if I am not wrong?

Dinanath Dubhashi Okay, that is fine.

Aadesh Mehta No, if we can put a number to that it would be great.

Dinanath Dubhashi 25 days into the quarter, I do not want to. But we do not see any deterioration of trends let us put it from Q3. December has been good in Q3 we see January being better.

Aadesh Mehta Okay, Sir. And Sir, you also mentioned that in farm equipment and two-wheelers you are gaining market share. So, what exactly is causing the market share gain? Like, from whom are you gaining market share? Are you gaining from private banks, or you are gaining from the unorganized, or you are gaining from the PSU Banks? Any more color on this would be great.

Dinanath Dubhashi Very-very difficult to answer from whom I taking, but I will tell you how we are getting, okay. How we are getting is, I actually answered it already, is to concentrate on the dealers that we want. So that is as far as the dealer and the manufacturer is concerned, to concentrate on the manufacturers we want, concentrate on the dealers that they want and offer them a proposition which they will find difficult to refuse. At the customer side, give him turnaround times that he has never experienced. So, do the business that we want, actually tighten credit matrices do not do grey business, do only white business, I mean, white not in white and black economy. White has been good credit vis-à-vis grey credit, vis-à-vis black credit, okay, do only that business. But do that whole heartedly I mean, go and give a proposition which people will find difficult to refuse that is what has worked. But may be brave words, I do not know, what the market share is going to be in Q4.

Aadesh Mehta Yes. So because it could be possible that PSU Banks you were not active this quarter and they could be active going forward. So, will this market share you have almost doubled your market share in a quarter so, what are the sustainable levels you are seeing for this market share?

Dinanath Dubhashi These market shares are what we held one and half years, two years back. So, it is not as if we have moved to market shares which we have never seen. We have been there and done that. We had let market share go because of the portfolio and risk issues and now we are getting back.

Moderator Sir, would you like to add few closing comments?

Dinanath Dubhashi Okay, I will. I think, if people want to hear me more, I think have spoken a lot. But very simple I think, Q3 – very difficult one but I am proud of our organization the way people have supported me, the people have stood by and I am not only talking about my immediate level. **The culture that we are trying to create, the difference that we are trying to create in this organization by very clearly making management intent clear throughout the organization that whatever is good for ROE is good. Whatever is bad for ROE is bad. This kind of intent is becoming very clear in the organization. The culture of results and not giving reasons, not giving excuses is becoming very clear through the organization.** I am happy and quite proud of the way the organization have supported us in Q3. The kind of talent we are building, the kind of culture we are building, the specific investments we are doing in talent. In fact, there are two big resources that the finance company needs one is capital, second is talent. Our fee model, I mean capital is important but with our fee model we are trying to make capital less relevant, because there we will never be able to compete with the banks or with the big boys, right. We are trying to change battle field, to talent, to skills, and we are seeing good early movements there. A note of caution, these are only early movements. Every quarter I say that, let me hope that with ever quarter you and I both get this confidence that this is more and more sustainable. The numbers are all looking good. All the metrics that we have put are working well. **There is one thing that I would like to add to all those metrics is the predictability of results. We want to make sure that we show high earnings, we show excellent growth in earnings but more importantly through all the risk control measures, all the additional provisioning that we doing we bring high level of predictability, high level of stability to our earnings.** I am reminded of the first formula that I learned in my financial management and I am reminded of 25 years back is that yes, what is important is earnings, earnings growth and beta or the sigma of your earnings and we are trying to get a lot of predictability, a lot of minimizing the variability in the way our earnings go, let us see how it happens. So, thanks for all your wishes. Thanks for all your support and we hope to show continuous and steadfast growth on our strategic plan which we had shared with you beginning of May last year. And hope, that there is no event in the fourth quarter that will require analyst call suddenly in the middle of the quarter. Otherwise, see you all in the beginning of May in person when we will have Analyst and Investor Meet. Thank you.

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