L&T Finance Holdings Limited

Q3 FY '18 Earnings Conference Call Transcript
January 29, 2018

Moderator Ladies and Gentlemen, Good Day and Welcome to L&T Finance Holdings' Q3 FY '18 earnings conference call. I now hand the conference over to Mr. Shiv Muttoo from CDR India. Thank you and over to you, Sir.

Shiv Muttoo Thanks. Good Morning everyone and thank you for joining us today for L&T Finance Holdings' Q3 FY18 Earnings Conference Call. We have with us today Mr. Dinanath Dubhashi – Managing Director and CEO, and other senior members of the management team.

Before we proceed, as a standard disclaimer, some of the statements made on today's call may be forward-looking in nature and a note to that effect is provided in the Q3 results presentation sent out to you earlier. I would now like to invite Mr. Dubhashi to share his thoughts on the Company's performance and the strategy going forward.

Dinanath Dubhashi Thank you, Shiv. Good Morning and Welcome everybody. Welcome to this Analysts Call at the end of seven quarters of successful execution of the strategy that we outlined at the beginning of FY17. The strategy outlined then was meant to take our ROE from what was that time below 10% to a sustainable top quartile ROE. The strategy was quite simple, right businesses, right structure, and right people. The differentiator though that we added to it was a combination of clear management intent and efficient and well-oiled execution engine and setting up a result-oriented culture, so what have we done on these lines now for seven quarters- In line with right business, we have cut our product offering to five core businesses, and we are in the process of establishing a clear competitive strength in each one of these. We have used these seven quarters to grow profitably in these core businesses and emerge as a player to reckon with in each one of them. In line with right structure, we have merged five subsidiaries till now into two, so two more we merged in the third quarter. We have merged many of our branches, rationalized loss-making ones. There were some branches which were single product, we converted each and every branch to multiproduct, and most importantly, capital has now started flowing quite clearly where we get the best risk return equation.

Finally, in line with right people, we have trimmed a top-heavy management structure, optimized middle management plans, empowered middle management through a project architecture, gave them lot of power, gave them budget, gave them clear targets to execute those projects, but most importantly in my opinion, we have clearly demonstrated that accountability starts at the top, so at the end of seven quarters, where do we stand in terms of numbers…. - ROE has continued a steady upward trajectory and is now 15.91% for Q3 FY18 against 12.81% in Q3 FY '17 and 15.15% last quarter. PAT is up 42% to Rs.384 crore for the quarter and this has happened while continuously increasing our accelerated provision and provision coverage and continuously improving the asset quality.

Let me now explain where this profitability is coming from:

Number one, our concentration is on our focused businesses. Our focused lending book is up 26%, with rural business up 48%, the housing book up 49%, and the wholesale book up 14%. The thing to note is even as the overall focus book has grown by 26%, the percentage share of wholesale has come down within that. Just nine months back in March17, this share was 62% and is now down to 56%. Most importantly, this has not happened by restricting business in wholesale, but because of the sell down of majority of the exposure and concentrating on fee income. Number two, the defocused book - The defocused book continues to go down, it is down this quarter 45% and now remains around Rs.1,700 crore. The third factor of increasing profitability is our fee income engine, our fee income engine is chugging along quite well with fee at about 2% of book now quite consistently. Our fee income consists of processing fees, subvention income, cross selling income, advisory, underwriting fees etc., and we believe that now we have also demonstrated the sustainability of the engine. There were some questions about that, but now we have been doing it for four to five quarters and have demonstrated the sustainability. This needs to be put in perspective.

NIMs, Net Interest Margin, no doubt is a very important part of our ROE tree. We are protecting our NIMs through change in our product mix, excellent competitive position that we have acquired in each of the markets and very good treasury management, but according to me what really protects top line is the added comfort in the income line of the fee income. We have been measuring NIMs plus fees as a metric because of that, and in that metric, we are at 7% now vis-a-vis 6.6% last year and we look forward to maintaining this at this level protecting NIMs plus fees as a metric. Last but not the least, on the P&L side, Expenses - Expenses continue to be well in control with cost-to-income ratio at 23%. This has come from rationalization and unification of branches achieving much higher productivity and an important statistic that we have put in the presentation this time that the branch to HO staff ratio moving from 12:1 to 18:1 in the span of seven quarters and of course efficiency gain in business in servicing and in collection, which is coming from our digital and deep data analytics. We are investing quite heavily in technology, right from core systems, digitization and our analytics engine and it must be noted that the reduction in the cost-to-income ratio is after taking this investment into account.

Now, I come to perhaps the most important aspect of this result, and the aspect is that this profitability increase is happening along with putting in place a robust risk framework and secularly improving asset quality. GNPA ratio is now down to 5.5% from 9% around last year, and NNPA ratio is down to 2.87% from 7.38% last year. Provision coverage has continued to improve and is now at 49%. Across businesses if you take in this quarter, we have taken a credit cost of Rs.546 crore out of which as much as Rs.307 crore is accelerated provision. Where is the GNPA performance and the asset quality performance is coming from - , this has been possible on back of excellent collection, performance in rural business. The housing business maintaining its asset quality and continuation of the accelerated provisioning trajectory in the legacy wholesale NPAs. In fact, in rural business our absolute NPA levels have come down and so have the overall debtor levels in the microloans business compared to February 2017, so you would actually see it is not just a percentage increase there, it is the absolute level decrease in gross NPAs, as well as maintaining and in slight reduction of overall debtor level in microloans from where it was in February. In summary, excellent growth in focus businesses, running down of defocused, excellent fee income stream, strict cost control, and improvement in asset quality with accelerated provisioning is leading to an excellent and sustainable trajectory of ROE improvement.

Now, some of our businesses have shown fantastic growth and hence it is important in this call to talk about the quality of this. Let me talk about the business which has shown the maximum growth. The rural business has shown a 164% growth in disbursement and the 48% growth in the loan book. It is the book which is growing fastest and hence let me put where the growth is coming from, let me put this growth in context. The growth is coming on back of a position where we have actually ceded market share due to two continuous bad monsoons. For example, in farm, in tractors, our market share had reduced from 13% to 14% which we had before to about 4% in FY16. We have regained that and we are back to 14%, so just to put this in perspective, a 14% kind of share, we are not new to it, we were there, we had given that share up and now we are regaining that share. Monsoons have been good, no doubt. Kharif crop has been decent and there are expectations of an excellent Rabi crop. This coupled with government scheme for rural India, loan waivers etc. is boosting the rural economy. What is important is to take advantage of this opportunity, both in business and in collections. We believe that we are in an excellent position to take advantage of this opportunity. We have ensured that the quality of business that we do is excellent. In farm and two wheelers, we are managing this by concentrating on the top manufacturers. Example in tractors, the top three manufacturers, which is Mahindra Group, Tafe Group, and John Deere now constitute for more than 75% of our business compared to 40% just a year back. This is what makes us sure that the growth that we are achieving is coming on back of a high-quality business.

We also concentrate on capturing the top dealers and maximizing our counter shares with this top dealers rather than spreading ourselves. Today, we are overall number two in tractors, and in two wheelers, in 30 out of 52 locations that we do business in, we are number one or number two, so you see the market share is being captured here not by opening too many branches, but by concentrating on our fortress locations, concentrating on the top manufacturers, the top dealers, and maximizing our wallet share there, so it is a very counterintuitive strategy. We are not expanding too much geographically. We are expanding where we think is our strength and most importantly ensuring quality by concentrating on top manufacturers. If I talk about microloans now, it is actually an entirely different strategy. Instead of lending more to the same person in the same geography, we are getting into new areas and opening new branches. Almost 26% of our disbursements this quarter is coming from branches open during FY ’18. Instead of having a small share in a person with high indebtedness, we are often asked what is your ticket size -

It is a question which needs to be taken in context, you can have a small ticket size in a borrower whose indebtedness is more than Rs.100,000. What we have done is we choose, in fact we have put our maximum indebtedness criteria to Rs.60,000 against RBI allowed Rs.100,000 and we believe in getting a good share of the total debt that the person has. Our digital and analytics engine allows us now to do individual assessment of each borrower rather than just depending on the joint liability group construct. It also allows us to have individual level early warning signals as against only portfolio level. Strong early warning signals are in place for all these three businesses and early bucket collection efficiency is rising in each of these products. Deep analytics and technology is being used to pinpoint and increase efficiency and productivity. This is being used for both business and collection, this is interesting that the more done thing about analytics is use it for prospection, identification for business, we are actually using large part of our analytics bandwidth to concentrate on collection and that is what we see the secret of improving performance as well as reducing cost.

Talking about the housing business here we have reported 62% growth in disbursement, 49% growth in book. Let us talk about each of these businesses in home loans, we are now concentrating on direct sourcing, we have been maintaining this that the secret of profitability in home loans is concentrating on direct sourcing. It reduces cost of acquisition and we hope that it also improves the longevity of the loan with us by reducing balance transfers to some extent. We are making slow, but steady strides in it. Today, 34% of our sourcing is now direct as against a single digit number a year back. This is coming among other sources from conversion of our construction finance loans to retail. The digital engine for cutting turnaround time drastically is in pilot stage now and will tremendously help us in achieving this. In Loan against Property, we are frankly limiting ourselves largely to LTV of 50% to 55% and ready to play a waiting game. We believe that the risk return and the risk pricing in this sector is going a bit haywire and we are ready to play the waiting game here. We have our strengths and we will wait till the market corrects itself.

There is tremendous opportunity however in construction finance being thrown up on the implementation of RERA with smaller developer projects slowly consolidating. In construction finance, we use our synergy with the group, the technical knowledge that we have developed, the strengths we have developed, the engineering strength that we have developed to put in place very strong risk guard rails, appraisal criteria, and most importantly, early warning signal. By using this early warning signals, we have been able to move out of some exposures already, almost eight out of about 50 exposures that we have exited earlier. We have moved almost entirely to category A developers and pretty sure that we can take advantage of the consolidation happening in this sector. As far as wholesale is concerned, our disbursement growth continues to be robust at 76%, but we have kept our book growth limited to 14% through our sell down engine. While we are extremely strong in this business, we have always made it clear that this business will be ranking after rural and housing in capital allocation hierarchy.

The business has achieved this by developing an excellent sell down engine and of course got the bonus of an excellent fee income stream because of that. Within the overall wholesale, the renewable story has remained intact and our disbursements have been majorly in this area. Any noise which was there over the last couple of quarters about cancellation of PPA's is dying down in state after state. We have an excellent credit assessment model for this sector in place and remain positive on this sector. We are also quite positive about opportunities in operating road refinancing and we have a well-functioning and now well scaled up IDF to take full advantage of the opportunities.

Mutual Funds, while we admittedly have tremendous tailwinds in this business, we have far outperformed the market in terms of average AUM growth, 71% growth in average AUM with close to 50% of this as equity makes us one of the best performing fund houses. All 11 of our equity scheme are in the top two quartiles if you take performance over one year. This asset is accreting value for us quite nicely. We had always taken a call that this is an asset we will keep accreting value and that call is coming right.

In wealth management, our average asset under service is growing at 51%. We are turning in profits quarter after quarter and a clear focus on productivity is making this business profitable and the potential money spinner for the future. In summary, let me say that the strategy we have put in place is being executed efficiently. We are well on our way of achieving our objective. We realize of course that a track record of good performance is just seven quarters old, I realize that fully. In fact, I keep reminding my team of that, but this seven quarters have not been boring. These seven quarters have seen a lots of ups and downs in their environment and have given us enough challenges and opportunities to prepare for the future. The single-minded focus with which we have grown our focus businesses and made them profitable more importantly while taking all steps to secure our future gives us confidence that we can continue on our path of delivering a sustainable growth and return on equity and most importantly can keep your faith in the future as well. Let me end with a good news that India Ratings have rated our NCD as AAA for all our lending entities of the group. Other rating agencies continue to rate us AA plus for the time being with the exception of IDF of course which has rated AAA by all rating agencies. Thank you, Ladies and Gentlemen, we are open for questions.

Moderator Thank you very much. The first question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah Sir, firstly in terms of ROE, so we have already seen it moving towards ~15.9%, now going forward, how do we see the improvement beyond 18%, will it be purely on account of the product mix the shift or will there be any other triggers as well, any structural triggers in driving the ROEs further up because if we bring down maybe the wholesale proportion from 56% to 45%, that can also lead to around about 18% ROEs, but would there be any other triggers as well which would be available in scaling that up?

Dinanath Dubhashi You have answered yourself, by triggers if you mean any big bang like the tax advantage that we got last year etc., then no. We don't have such kind of surprises in store. I have always been maintaining that ROE increase, profitability increase and growth have to be sustainable and gradual without giving any huge positive or negative surprises, we will continue on that, so let me try and answer your question. First most importantly, we believe we are in the right sectors. We are in Rural, Housing, Infra, Financial assets, all these sectors will continue to see good tailwinds. Second, each of these businesses now, we are getting into positions with excellent competitive positions and competitive strengths thus able to take those opportunity. Before talking I am giving you a little bit long-winded answer because ROE is not about financials. It has to have its strength in business and that is where it is coming from. Each of these businesses, we believe we have competitive strength and hence will be able to ride out cycle in terms of competition, in terms of pricing, in terms of market share, and in terms of profitability, so that is the top line.

Then we come to expenses, as over the long term we become more and more digital, we can pinpoint every decision rather than doing carpet bombing, I believe that expenses to book or expense to income ratio should come down further. It is more towards long-term, right now we are doing a lot of investments also. Just think of the investments we are doing and still maintaining this ratio, so we can expect the productivity and the efficiency to go up further, that is number one. Then we talk our collection engine, we believe that it should progressively improve the asset quality and that will also help in improving ROE and of course the fee income. These four basic things of financial performance of a NBFC or any BFSI company are at work. Added to that, as you rightly pointed out, the retailization or shift to rural and housing is actually "icing on the cake." You would see that after seven quarters, this is the first time I have talked about it. I was always talking about the hierarchy of capital allocation. We like to talk about things once we are confident of it. Now we are confident of the growth in rural and housing. Our engines are well working and hence we can confidently say that this shift that you have seen of close to 6 % points over the last seven quarters will continue, so it is all doing the basic things right, which will see the ROE increase from now on and not a big bang.

Kunal Shah The only thing is we is if we look at the business wise ROE in terms of Rural at 27%, Wholesale at 10% percent, and even Housing at 30% to 32%, so have we reached the stable state out there or maybe there also in any of these segments, there is still the scope for improvement within each of these businesses?

Dinanath Dubhashi It is a mix of two things as competition increases, we will have to obviously pass on some of the NIM benefits surely to get better and better competitive positions, that will be one item. Second, you just see the voluntary provisions that we are taking in each of the businesses and that is not going to continue, so, it is for you to calculate. As efficiencies come in the sector, as we try and take more and more competitively strong positions, yes, margins will reduce, how much, we hope by very little, but yes we are ready to go towards quality business by maybe reducing margin slightly, that is one way. Secondly, increasing efficiencies and reducing voluntary provisions will increase profitability. Third is shift of product mix.

Kunal Shah Lastly, if we look at it in terms of the overall ALM in the current interest rate environment, the way we have seen since past six months and we have been shifting the product mix as well, so how are we going about in terms of managing the ALM in terms of what is the proportion of the short-term liability which is there on the books and would that impact margins in any which ways apart from the competitive pricing which would be there in the product segments?

Dinanath Dubhashi Good question, once again I will take a few steps back and explain our thinking. First, I will answer straight away. We do not expect interest rates to go down further. We are hence ALM wise, we are actually moving to more NCDs, more medium-term two to three, four years NCD from CP and this move you will see slowly happening, so this is answering your question straight. Now, cycles whether it is interest rate cycle or business cycles or credit cycles, whichever cycle is the reality of life and as I always say, any good company should be prepared for that. In fact if I my answer is no, NIMs will always be good, you should actually doubt my knowledge or my integrity, so the answer is very clear that cycles are going to be there, how do we plan to fight the cycle. Number one, there is a shift to high NIMs product. Number two competitive positions and good competitive position in each of the businesses, our try and the try of every company should be to be a price maker right than a price taker and after that being humble and realize, and then third is good ALM management, the interest rate call of our group economist has been right each and every time for each and every credit policy till now, which gives us a great advantage of actually planning well and we have started moving to NCDs actually before the market till now and are today risk have been managed really, really well, increase the duration of our liability, we are managing that really well, but after that we have to be humble and realize that when the interest rate cycle turns, NIMs will certainly be under slight pressure and hence last but not the least, the fee income engine has to be strong and consistent, so in each one of these we are prepared. Like good times, bad times will always come. Good companies have to be prepared for that and we are preparing in each of these four things; one, product mix; second, competitive position in each of the product; third, good ALM, but fourth, most importantly according to me is not crying about NIMs, but compensating it by fee.

Moderator Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa Sir, my first question is on our Rural business, if we look at our overall ROE, the biggest delta or improvement in the ROE has actually come from the Rural business from 20% to 27%, if I dissect that further the ROA per se has only gone from let say about 3 % to 3.3% and the balance improvement has actually come from leverage, where do you see a normalized ROA for this business once let us say your upfront investment in branches infrastructure etc. are all done?

Dinanath Dubhashi Let me first, give you a mathematical fact, that ROA also comes down when leverage goes up, , so it is not like ROA is constant and then you have to multiply it by debt equity because ROA has interest costs, so leverage going up, you cannot just take only ROA has increased from 3% to 3.3%, if leverage would have remained same, ROA would have gone up by much more, you would agree with that?

Karthik Chellappa Yes.

Dinanath Dubhashi , Actually ROE according to me is the only ratio which is not depending on leverage because there are two self-cancelling numbers, one is interest cost and second is leverage, so that is number one, but I understand the import of your question and let me explain that, so most importantly from last year to this year, there is a big, big change that is the voluntary provisions we are making in microloan business. Today, we are largely provided in the microloans business totally and do not expect any major substantial provisions more to take care of the post-demonetization accident. That is done and this ROA increase that you see whatever 0.3% or whatever you said is after taking into account huge amount of voluntary provisions taken in microloans and you can take that from now on and in fact we have been maintaining that, do not take this 0.2% to 0.3% in microloans, actually take 1.5% to 2% steady-state losses and from then on we will believe now microloans business profitability will actually go up.

Second thing, big thing which is happening is on the rural portfolio, that is the farm portfolio is showing a secular improvement due to the conditions improving and also we getting our data analytics and collection engine spot on. We are quite confident, in fact last quarter I had said that we will actually see improvement this quarter and that is something which is improving drastically. Third thing which is improving is I think within the next three months, we will be across businesses, across branches almost completely paperless in terms of rural business. We will be totally digital and totally paperless, so each of these three things is moving towards better profitability in Rural. As far as exactly where the ROE, ROA is going to go and where it is going to stabilize, I will not like to give guidance, but I can only say that we have done all things right in rural in terms of good business growth, in terms of good collection, reduction in NPA, increase in early bucket collection efficiency, and most importantly finishing of the provision for microfinance. Let me give you some numbers, one, is credit cost which is today at around 5.8%, 50% of it is voluntary, so you just take that, if it just goes off you recalculate the ROE where it will be.

Karthik Chellappa Sir, in your earlier comments you had mentioned that in Rural not only is the NPL ratio down, but the absolute level of NPL is down year-on-year, has that been pretty much secular across all parts of India or are there still some parts where your collection efficiency is running bit lower than let us say your overall average or your targets?

Dinanath Dubhashi There is something which is down and above the average obviously, but the Sigma is not too much. We are not seeing any particular area which is in absolute bad shape with one exception of course the in microloans the usual suspects remain, Maharashtra, that is Vidarbha not doing too well, some areas of Madhya Pradesh, some areas of Orissa and West Bengal, so there are no new villains in the story, but as far as farm is concerned it is a very secular one, as far as two wheelers is concerned it is a very secular one and even microloans, there are no new villains coming up.

Karthik Chellappa Sir, my last question is on our housing business, now if I were to look at our portfolio which is roughly let us say about Rs.8,200 crore of home loan LAP and Rs.8,900 crore of developer and if I juxtapose that with our effective yield which we are earning right now which is about 13% that would mean that the developer loans are probably towards the 15% to 16% level, so in this segment both on the core mortgage loan book as well as on the developer loan, what sort of competitive pressures would you expect to see in the next 12 to 18 months and how do you hope to continue to grow above market given these pressures?

Dinanath Dubhashi For home loans it is very unlikely that interest rates will go down much from now, I think the large kind of reduction of interest rates have happened, but there we are too small frankly to talk about competitive pressures. We do not go to the market, advertise everywhere and try to compete with HDFC, we understand our limitations, we cannot do that, so we concentrate very clearly on our sourcing engine converting from our APF as well as our construction finance, concentrating on our digital to give us direct sourcing and that is our playground. Our playground is not going in the market and competing with HDFC, we are not suicidal. We will not do that. We will look very clearly to where our advantages lie and try and compete there, and as I told you it is a slow and steady game. We are not going to emerge a spectacular winner in this market. We are going to emerge winner no doubt, but slow and steady, so that is where we are moving. LAP as I said, we are just playing the waiting game, we are not in a hurry to grow. Right now, we believe that loans are being given at very high LTV in the market, at rates which are now coming very close to home loans, we are being very, very selective about this, so we have to compete but there is a limit as where we will compete.

Now, we will talk about the construction finance and this is very important because it is, let me take it up-front, it is 50% of our overall portfolio little bit more than that. Why are we doing that - are we being contrarian? I think yes, we are being contrarian and we are being contrarian on very specific strengths that we have built up. Number one strength is that of our surname. We have information about each and every construction, every developer which perhaps is unmatched, there are some players which are bigger and they also may be having information, but we have information coming from our parent, so that is very important, those synergies are very important. Second, the call that we took to move to A category, now as you rightly pointed out the yields will be in the region of 15% whereas you know the sector is at 20% plus, 18%, 20%, 30% levels, we are not there. We are very happy remaining in the 15% area, we want to get our principal also back along with interest, so we are very, very comfortable being in that area and making our own competitive position in that area, so admittedly though retail home loans we are not yet in a great competitive position in the overall market, in construction finance, we are a force to reckon with now, Rs.8,500 crore, yes we are still not large as some other players, but Rs.8,500 crore is not small. Now, we are a player to reckon with and can very clearly compete in this area. Competition here does not only work by rate size, competition here works by the credit engine that you have put in place, the way you can structure your products to make sure that the project gets completed at the same time we keep getting our cash flows. Competition here is by doing the speed, at the turnaround time with which you can put in place. Competition here comes even from advisory services to the developer, saying that, this is where you are going wrong, this is where you need to change, that is all the value we add. We are pretty sanguine of our competitive position in the construction finance area and also quite sure that our strategy of sacrificing yield and being in A category will pay in the longer term.

Moderator Thank you. The next question is from the line of Renish Bhuva from ICICI Securities. Please go ahead.

Renish Bhuva Sir, small question on our MFI portfolio and this is our one of the largest growing portfolio and also key segment over improving profitability and you also have highlighted that we are growing this book by expanding into new geographies, so could you please highlight which states we are growing in, so we are including more people on ground or we are just adding branches at current point and then we will again look to improve the profitability?

Dinanath Dubhashi First, a correction you used the word Microfinance. Microfinance is a very technical word which is given certain definition by RBI in terms of income etc., so we are in microloans. We not necessarily lend to only the bottom of the pyramid, it can be beyond that. We look at overall family income and just want to take this point. Microfinance largely is a JLG construct where loans are given to those poor women. We also follow JLG but more as a social construct rather than a lending construct. We actually try and we take the lady's husband as the co-borrower and our analytics actually tries and gets data about the family income and the family credit strength and lend accordingly, so that is why we prefer to call it microloans, it is much strictly individual loans, but it is given by doing individual credit assessment within a joint liability product, so that is just to set the record straight.

Renish Bhuva Most of the loans are unsecured, right, in nature?

Dinanath Dubhashi All the loans are unsecured,. Answering your main question, we are in those areas which where we were before, Tamil Nadu, West Bengal, Orissa, Karnataka, Kerala, Madhya Pradesh, Gujarat, Uttar Pradesh were the areas that we were before. Then we launched into Chhattisgarh, then we launched into Assam and Bihar and now latest is Tripura. We are opening branches there. Obviously, the branches are having people, so we are recruiting people. We have a hierarchy, there is another small difference in what we do. We do not open small, small branches in a particular area and then try to make up the hierarchy. We first put the hierarchy in place, so if you are opening in a particular area of Tripura, we will put the state head first and then just recruit everybody and only then open business. You know, because we have found out that when you just start one branch here and there, there is always problem, so get into the new area and get it big, that is what we are doing. What I talked about and where you might have misunderstood that there are no people is that there is no paper, so there is people and there is a person and there is a person with a mobile and that mobile can now do the entire lending, not yet the entire collection but the collection recording happens on the mobile and most importantly as soon as the mobile captures the KYC etc. of that person immediate credit assessment can be done. Otherwise, when you fill up a form, then you have to wait for the form to come to head office and all sort of issues, so that is where digital and deep analytics is actually helping us, so that will not replace people, it will just make people more efficient, so our productivity is multiplied by several percentage points etc.

Renish Bhuva Sir, typically if you take the example of Tripura which you have recently launched, so typically one branch caters to how many area let us say in kilometers wise, let us say 10 to 15 kilometers of area one branch can cover, so what is the typical branch size or customer catchment area you look for when you open a new Centre or a branch?

Sunil Prabhune In very simple terms typical meeting Centre, if you look at our business is largely are rural caters to a radius of about 25 kilometers. To amplify the point that Mr. Dubhashi made, typically it is not a Meeting Centre standing in place alone, typically it is about five to six Meeting Centres in a particular district and that district then becoming what we call as a territory headed by a territory manager who in turn reports to what we call as the state head.

Renish Bhuva One Meeting Centre has how many loan officers and branches?

Dinanath Dubhashi About five to six loan officers and the Meeting Centre head.

Renish Bhuva Every Meeting Centre would have five to six loan officers and couple of more people to…

Dinanath Dubhashi Correct, and if the density goes up, we will just open another Meeting Centre.

Renish Bhuva Loan officer alone looks after all the things, right, from collection to sourcing to everything?

Dinanath Dubhashi As of now, yes, it is a very good question actually. As of now yes, but as we go ahead we believe and we are the first company to actually say that there will be a possibility that for collections we may have to have separate teams in certain areas, but there is one function that the loan officer does not look after and that is where we differ from everybody else and that function is credit, so credit is fully centralized, it is only captured by the loan officer and this is true for all our rural businesses, so the loan officer has complete power to say no even if the Centre algorithm passes the loan, the loan officer can say no at the last minute, but the loan officer has zero power to say yes, so that is the construct.

Renish Bhuva Sir, going forward, though we are very small in terms of overall loan size, do you see the current loan growth to sustain going forward or do you see a margin moderation going forward in this?

Dinanath Dubhashi Answer is very safely, current disbursement growth of 164%, I am sure not, I will be very happy but keeping 164% growth is obviously difficult and a very rash promise, but I can only say that there are tremendous tailwinds in the rural economy. We are I think in one of the best positions now competitively, both in terms of our business engine, digitization, data analytics, and most importantly collection engine, and the manufacturer and dealer relationship to take full advantage of it, so whether excellent growth will continue, sure; whether it will be 164%, probably not.

Moderator Thank you. The next question is from the line of Amit Ganatra from Invesco Asset Management. Please go ahead.

Amit Ganatra One question I have is on your slide number 13 where you have provided details of your robust risk framework, on the early warning signals you have rated 4, so which is the business in which early warning signals framework has already been implemented and which is the business where it is yet to be implemented?

Dinanath Dubhashi We are little tough in these ratings, so it is implemented in all the businesses, in few businesses especially the retail businesses, it is affected, they are in the pilot right now, so let me explain. In all wholesale as well as construction finance businesses they are in place. In retail businesses, the portfolio level early warning signal are in place, the individual levels are also in place in a pilot stage and they are being perfected, so I am pretty positive that we will think confident of rating there 5 also in a quarter or so, perhaps I was just being little tough. They are implemented for everything, few of them are in pilot and still being strengthened.

Amit Ganatra The other question that I have was on the wholesale business, now there was certain level of accumulated provisioning that you wanted to create that is our understanding has been, now where are we in terms of overall provisioning that we wanted to create and how much more is left after this quarter?

Dinanath Dubhashi We had always said that in wholesale business we will require about Rs.2,200 crore, that is in infra business around Rs.2,200 crore odd kind of portfolio provisions, we have now reached around Rs.1,700 crore out of that. As we had always said, this is a journey we will continue. Hopefully, we will try and complete by Q4 or maybe Q1. Now, this is where few changes may be there in the environment with some companies going to NCLT which we had not thought of going. Some temporary provisioning requirements may go up here and there. Number one, is very simple that our overall ROE trajectory will not change because

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of that. The final losses, LGD is we are pretty confident about our estimation, but may be temporarily there may be some more provisions required because of this going to NCLT and 50% provisions required. I must tell you that as NBFCs we have no guidance from RBI to make those 50% provisioning, they have been given only to banks, but we are following that 50% provisioning total, so to answer your question more directionally we are well on track on the estimates that we had given already progressing well.

Amit Ganatra This Rs.1, 700 crore what was this number at the end of previous quarter, your total provisioning?

Dinanath Dubhashi I think it is around Rs.1, 500 crore.

Amit Ganatra Lastly, if I can ask one more question, if I look at your consolidated results as per the SEBI format, your total allowances and write-offs are shown as Rs.492 crore, now there is this slide that you have provided details of your credit cost?

Dinanath Dubhashi That is Rs.546 crore, so the rest of it will be interest reversal, so on NPAs you have to reverse your interest and in the SEBI format, it has to be deducted from the top line.

Amit Ganatra Basically, in SEBI format your NII to that extent gets knocked out?

Dinanath Dubhashi Reduced, correct.

Moderator Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you.

Dinanath Dubhashi Thank you, Ladies and Gentlemen, for your patient listening. Management here can only assure you that at the end of seven quarters all the things that we have put in place for the strategy are progressing well both in terms of P&L as well as in terms of balance sheet, we are going as per plan maybe slightly ahead of plan and remain confident that we will be able to justify the confidence that each one of you have put in us in the time to come as well. Thank you.