L&T Finance Holdings

Q3 FY21 Earnings Call Transcript

January 18, 2021

Moderator:

Ladies and gentlemen, good day and welcome to the L&T Finance Holdings' Q3 FY21 Earnings Conference Call. As a reminder, all participant 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 call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

We have with us today Mr. Dinanath Dubhashi – Managing Director and CEO, and other members of the senior 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 all of you earlier. I would now like to invite Mr. Dinanath Dubhashi to share his thoughts on the company's performance and the strategy of the company going forward. Thank you, and over to you, Sir.

Dinanath Dubhashi:

Thank you. A very good morning and a warm welcome to all of you who have joined this call this morning. Greetings for the New Year to all of you and I hope, sincerely hope, that this year will be vastly different from the year gone by. As professionals, we continue to learn from the difficult times and definitely look forward to the opportunities that the future holds.

The week gone by, and especially the weekend, hopefully marks the beginning of the end of the COVID disease for the nation. The progress of the country, as it dealt with the uncertainty of the pandemic, ranged from the strictest of lockdowns in the first quarter of this financial year to the concerted efforts made towards delivering the vaccine to its citizens in the last quarter. Of all the stakeholders who deserve our gratitude, the biggest gratitude goes out to the frontline workers who have showed resolute in this adversity. Indeed, the healthcare workers were supported by continuous improvement in the healthcare infrastructure as the nation navigated its way through the pandemic.

Taking parallels to our business, our frontline staff across businesses have faced and are still facing severe difficulties and have been improving business metrics even when the situation around them looked grim to begin with. The resolve of these individuals has been supported by improvement in the macro economy, mostly in the rural agri belt, and also by data analytics and the digital capabilities that we have continuously strengthened. So, I drew this parallel because the frontline staff really put in their life at risk and then the infrastructure, the central infrastructure, aiding them through various means like data analytics. And then finally, some destiny, some higher force coming to the aid by the recovery that we have seen in the agri sector. Together, these have resulted in incrementally better QoQ profits for us.

In my last communication with you I had dwelled upon 2 major lessons arising out of the pandemic:

1. First, as an organization we have worked on staying prepared by investing in our strengths, doing the right things irrespective of how the environment is and doing the basics right, and most importantly, doing this well before the pandemic. Of course, we didn't know that the pandemic is coming, but doing the fundamentals right and staying prepared have genuinely helped us tremendously.

2. I had also mentioned that we have chosen our sectors of concentration well, and with the rural economy leading the recovery and with the visibility of green shoots, we are being helped by our strengthening position to get out of any problems that were there during the lockdown.

So clearly, two things; preparation before and then choosing our sectors well. Rural, to a large extent infrastructure, and now some green shoots even in real estate, of course, that is good that we are aided by maybe, as I said, divine factors. But the strengths we have shown in all these sectors are coming to our aid.

I take pleasure in presenting to you the Q3 performance of the company for the financial year FY21. One of the imperatives, as we ended Q2, was to have high focus on collection efforts. In most businesses, the collection efficiencies have moved up to pre-Covid levels signaling the return of normalcy, just the beginning of normalcy. The disbursements, across business segments, have been higher on QoQ level. To just give you a flavor, LTFS had its highest quarterly disbursements since Q1FY20 in Q3FY21, which were up 51% on QoQ level.

The significant uptick in disbursements has been seen despite increased prudence in the credit norms during the lockdown, and we are continuing with them. Sustained benefits of cost reduction efforts initiated in Q1 and a favourable cost of borrowing have helped us in improving the company’s overall profitability. The headline PAT for Q3FY20 is Rs. 291 Cr which is a 10% QoQ growth. In Q3, we fine-tuned our approach based on market dynamics while building additional momentum on both sides of our balance sheet, on the asset side in terms of disbursements, collections, fee income and on the liability side in terms of reducing the cost of borrowing and incremental liquidity that we held on our books since the pandemic started. So very simple, it is the question of not only better liquidity but more reliable and predictable liquidity. The balance sheet strength has been supported with, we carrying continued additional provisions of Rs. 1,739 Cr, which have remained on similar levels as previous quarter.

Let me now share a few details about all this. First, assets, in which let us talk about the rural segment first.

Assets:

1) Rural

Today, everybody is talking about it because every time when the economy comes under pressure rural is the one sector which shows the glimpse of hope and saves the country. The rural economy today is far more resilient owing to structural changes, which have driven long-term growth. Initiatives like Direct Benefit Transfer, PM Kisan Yojana, PM Aawas Yojana, Ayushman Bharat, increase in MSP, crop procurement and improved rural infrastructure have ensured better cash flow in rural India.

Since the unlocking, the sector is paving the way of recovery and continues to do so. On the disbursement side, the pickup in disbursements, on month-on-month basis, has been quite rapid. If you see the disbursement growth QoQ, we were 49% above the last quarter.

So, I would like to also talk about some seasonal factors, along with the structural factors that I talked about. The rabi sowing in this country is 3% higher YoY, as of 8th of January, with live storage in 128 water reservoirs is about 120% of storage of the average of last 10 years. The current reservoir levels indicate a good rabi crop in addition to the increase in rabi sowing. And that expectation leads to our expectation of positive rural sentiment to continue in the remainder of FY21 and a little ahead. So that's the case I am making. Structural changes in the rural, you know of many other seasonal changes like three years good monsoon, etc., but good MSP and crop procurement prices for kharif, 3% above last year sowing area for rabi and reservoir levels which are 120% of last 10-year average gives a good expectation of a good rabi crop and continuation of positive rural sentiment.

The domestic sales of Farm Equipment, across the industry has been estimated to grow by around 18% to 20% in FY21. The two-wheeler sales have also shown a positive YoY growth, in fact what should be highlighted is that even within two-wheelers, the revival of motorcycles was faster than scooters showing a strong rural demand.

Over the period of the last few quarters, I have guided you on how we have been focusing more on increasing our counter share with selected dealers / OEM partners instead of taking a broad-based effort towards increasing market share. The quarter gone by has led to the validation of this strategy whereby we maintained our market share, which was a result of the strategy of counter share in Farm and Two-wheeler segments. To add to that perspective, LTFS was the No. 1 Farm Equipment financier during H1FY21, amongst the top-5 Two-wheeler financiers and amongst the top-3 Micro Loans players during the same period. We have retained a cautious outlook on our Micro Loans disbursements which is though up by 53% on QoQ basis, we are yet to catch up with last year's level.

In collections, we have enhanced our on-field efforts to supplement our analytics backed call centers to ensure collection efficiencies quickly move towards pre-Covid levels. Robust farm cash-flows, riding on robust kharif harvesting season, all-time high wheat procurement and higher rabi acreage have supported collections favorably. Just to give some numbers, in Farm, we have achieved our highest ever monthly collection efficiency at 91.8% in December 2020. The Two-wheeler collections efficiency, pegged at 98% in Dec-20, has recovered close to pre-Covid levels. In Micro Loans, our collection efficiency for Dec-20 was 98.3% and definitely we are still behind the pre-Covid levels of around 99.5% but recovered rapidly. Effective tracking of payment behavior of customers and intensive on-ground collection efforts are pushing us towards the pre-Covid levels.

2) Infrastructure

Amongst our business sector, Rural was not the only silver lining in the previous quarter. The Infrastructure Finance business showed a strong disbursement momentum, majorly amongst renewables and roads segments, where LTFH is one of the leading players. Our disbursements for the quarter, guided very well by our risk guardrails, was more than Rs. 4,600 Cr, about 1.6 times growth on QoQ basis. The continued focus of government on Infrastructure has ensured that the sector has delivered steady performance.

The overall energy consumption turned positive in Q3FY21, with renewables, both wind and solar, driving the sectoral growth. In terms of cashflows, operational projects are being paid on time and most of the discoms have also remitted payments and have been instructed to maintain ‘must-run’ status for renewable energy. The liquidity in the sector has been well supported by package for discoms announced under Atmanirbhar Bharat, where a total of Rs. 1,18,000 Cr has been sanctioned and Rs. 31,000 Cr has been disbursed which is increasing the liquidity in hands of the discoms and helps also reasonably on-time payments to the gencos.

For roads, annuity projects are receiving timely payments from NHAI and toll-collections, for the portfolio financed by us, have surpassed pre-Covid levels. The toll collections during Q3FY21, for our road portfolio, reached a level of 108% on YoY basis.

Also, as a part of our prudent practices, we maintain a strong sell-down desk which allows us to generate more fee income while proportionately reducing the need for allocating higher capital. Our sell down volumes for the quarter was Rs. 889 Cr, which was 62% up from last year. Though from last quarter where we saw some record volumes, it was lower.

3) Housing & Real Estate

Our pickup in disbursements have been slowest in this segment. We continued to be selective in our Real Estate disbursements with focus on completion of existing projects. In fact, we have not underwritten any new project. Our focus on Category A developers in our portfolio, resumed construction activity, government measures and attractive schemes by developers, has helped our funded projects sales rebound faster than the industry. The sales in our portfolio, during July to November of this financial year have been 102% of last financial year. This is an important number; this I am talking about only our portfolio. July to November number has been 102% sales of last financial year, same year. The corresponding figure for the industry is 82%. The buyer preference continued to be toward projects by reputed developers and with visible construction progress.

The uptick in housing demand has also been driven by interventions like lower interest rates, lower stamp duties and rationalization of Risk weights for home loans. While these have pumped up the demand for retail housing segment, the negative impact of Covid-19 on MSMEs is likely to increase the risk aversion towards the LAP and the SENP segment, resulting in players being more cautious to lend to these segments.

Our retail segment has shown a month-on-month improvement in both disbursements and collection volumes where focus has been towards sourcing of salaried segments and on direct sourcing. Disbursements to salaried segment have now reached 93% of Q3FY20 levels and constituted 94% of Q3FY21 total Home Loan disbursements. So out of the total home loan disbursement for Q3 FY 2021, 94% were to the salaried segment. LAP disbursements have been primarily towards the government backed ECLGS scheme.

In retail segment, incremental collection efforts are being undertaken to ensure that our portfolio quality remains enhanced. For Real Estate, we are working with developers to ensure timely project completions, which will ultimately result in higher escrow collections. This should be seen along with the fact that there has been a marked improvement in escrow collections in Q3FY21, which stood at 120% of the same quarter last year. The YTD 9MFY21 collections are already at 78% of the corresponding prior financial year levels. So, whilst Q3 is 120% of last Q3, even considering the first nine months, out of which you will accept that the first six months were largely very bad, it has been 78% of corresponding prior FY nine months. The increase in escrow collections, when seen alongside sales in our Real Estate portfolio may be indicative of buyer preference for projects by reputed developers with visible construction progress. With the inherent strengths we have, we remain committed to the housing segment.

Now coming to the liability side.

Liabilities:

Proceeding towards the liability side, AAA rated LTFS saw an easing liquidity as well as reduction of cost of funds. As of Dec-20, we maintained a liquidity of Rs. 16,442 Cr in our books of which Rs. 7,957 Cr were in the form of liquid assets. Obviously, we are all in line with or even better than the RBI LCR norms, etc.

In light of the moratorium and the stretched market liquidity conditions prevailing during Q1, we had taken a conscious call to de-risk ourselves and keep additional liquidity on our books, as always, but in Q1 it was much more. From July onwards, the average numbers have been strategically moderated. The negative carry on account of this was Rs. 24 Cr in Q3FY21, as against Rs. 64 Cr in Q2FY21 and Rs. 84Cr in Q1FY21. So, this is one of the main reasons why our cost of funds has reduced so much naturally, and this also is analytics backed, we have managed it well.

The focus in Q3FY21 was to take advantage of the reduction in market interest rates and lock in long term funds at good cost. The incremental borrowing in long term funds, during the period, was Rs. 4,248 Cr. This includes drawing the second tranche of USD 50 million from Asian Infrastructure Investment Bank and priority sector loans of Rs. 1,100 Cr.

Now this, along with prudent use of CPs, we have been able to lock-in also three to five-year funds at a very good cost. In addition to long term funds, LTFH utilized the ability of its balance sheet to support a small incremental proportion of CPs during the quarter. The resultant liability mix during the quarter has shown a sharp reduction of 50 bps QoQ, which now stands at 7.82%.

Asset Quality:

The strength of our balance sheet. On the asset quality side, the strength of our balance sheet can be assessed by its asset quality. Our GS3 has improved YoY basis, from 5.94% to 5.12% on YoY basis. NS3 has also improved on similar lines from 2.67% in Q3FY20 to 1.92% in Q3FY21. This has been undertaken while improving the PCR from last year from 57% to 64%, which is in line with our prudent provisioning measures, which we continue to maintain as a part of the long-term strategy.

As envisaged during the end of Q2, and I have spoken about it, NS3 has sequentially increased by 25bps on a quarterly basis. It can be attributed to the fact that some accounts under moratorium, till end of August, would have been 90+ only by Q3FY21. The collection efficiencies across the micro loans, in Q2 that effect couldn't have been seen, so in Q3, but you will agree that it is fairly limited. The collection efficiencies across micro loans industry, even though they have shown a fast bounce back, lots of people are asking, why haven't we used more of our Stage-1, Stage-2 provisions, and here is the answer to that for GS3. Because one of the feedbacks coming was why haven't you used lots of Stage-1, Stage-2 provisions in Q3. Very clearly, as you see from our presentation, we have used a little but not much. We have not created any new additional Stage-1, Stage-2 provisions, but used only to a small extent. The answer is why, and that I am about to answer now. The collection efficiencies across the micro loans industry, even though they have shown a very fast bounce back, were still in the range of 85% to 90% levels during November-20. The efficiencies for LTFH are far better than the market reaching levels of 98.3% during December -20. While the overall collection efficiencies have improved on QoQ basis, the repayment behavior at the bottom of the pyramid continues to be erratic.

I would like to highlight this like I have highlighted before. Micro loans is a cadence business and though the collection efficiencies have significantly improved, we need to remember and prepare ourselves for the following:

1. The fact that 98.3% is not 99.5% or 99%+, that we always had which we maintained in pre-Covid levels. To give you a perspective, ~1% dip in our portfolio is ~Rs. 120 Cr of debtors, just a perspective. That doesn't mean that quarterly NPAs will go up by Rs. 120 Cr by three, because we collect some also. But it means Rs. 120 Cr of increase in the flow to

debtors when the collection efficiency is less by just 1%. And that number needs to be remembered, tough 98.3% looks extremely high and extremely good.

2. The erratic nature and lower predictability of re-payment frequency we have observed in the field. Now I will again explain it, like last time, in micro loans if a person pays in a month, that person pays next month also. And if the collection efficiency is improving, that means some more people are paying. This year, since the moratorium or even during the moratorium and even after the moratorium is over, the behavior we have seen is people who pay in a month, a few out of that, few, small percentage, 3%, 4%, 5%, don't pay the next month, while many more pay. So, the collection efficiency goes up. But every month, there are a significant number of people, between 3% - 5%, which paid last month but don't pay this month, and which is very different, very new in the micro finance industry.
3. The upcoming elections and the increase in political intrusion in the business, most recently in Assam and
4. One-time restructuring offered to the micro loan customer by many other micro loan players, which will further spoil repayment behavior

Just to emphasize, we have offered nil, 0.0% OTR to Micro Loans customers, and I will talk more about it.

While we continue to remain steadfast in our focus towards collections, we cannot remain insulated to these developments. This is one of the reasons why we are maintaining high provisions on Stage 1, Stage 2 assets. And we will continue to remain for some time till the situation becomes clearer. We will see whether it happens in Q4 or Q1. But yes, we are moving in that direction certainly.

The resolution framework offered by RBI on One-time restructuring for Covid-19 related stress, was another test of our asset quality. I am saying something very important. While market players have gone forward and done a fairly high amount of OTRs, we have undertaken no OTR, zero, in our entire rural portfolio, any business in rural portfolio and even the Real Estate portfolio. The maximum potential restructuring in our portfolio which were invoked till December 31, so now we know the maximum amount, not all of this has been restructured already, but we know the maximum which can be restructured is Rs. 1,438 Cr, corresponding to 1.4% of our book. Of these, assets worth Rs. 213 Cr have been restructured in Q3FY21 and the balance may be restructured in Q4FY21 or Q1FY22.

Just to give you the breakup, very clearly; Rural OTR - 0; Real Estate OTR - 0; Home Loans plus LAP, we have done about Rs. 340 Cr; Infra, there are three projects with about Rs. 440 Cr; and Corporate exposures, about three projects with Rs. 650 Cr. As you will expect, overall, about Rs. 1,400 Cr, which is absolutely just about 1.4% of the total book. And this is only invoked. As I said, only Rs. 213 crores have been restructured, and the 10% provision has been taken as corresponding.

In my last communication, I had also mentioned that we are selectively using DCCO extensions for our Real Estate portfolio. With clarities emerging post-Covid, we have undertaken DCCO extensions for only 3 projects out of 105 projects in our portfolio, corresponding to an asset size of Rs. 1,162 Cr. This is in line with my earlier approach, earlier guidance that DCCO shifts will not constitute more than single-digit percentage of our portfolio. So, it is well within that guidance.

The validation of our balance sheet has been displayed through our AAA ratings by all 4 rating agencies – which have been reaffirmed: CRISIL, ICRA, CARE and India Ratings as a part of their annual surveillance exercises during this financial year.

Coming to the financial performance. Last time we interacted post the Q2 results, I had mentioned about the trend month-on-month, quarter-on-quarter, in some cases year-to-year improvements across businesses. The trend, as I last spoke, has continued in this quarter as well.

Financial Performance:

1) Disbursements

The pickup in disbursements, on a QoQ basis, may have been positively impacted by festive uptick. We agree to that. The disbursements in Q3FY21 were higher by 51% on QoQ basis and 13% YoY basis and were the highest since Q1FY20. The volumes crossed pre-Covid levels owing to strong pickup in Rural and Infra. Amongst the Rural segment, Farm business had an uptick of 43% on QoQ basis and Two-wheeler showed an uptick of 50% on QoQ basis; and both these businesses 13% and 10%, respectively on YoY basis. The growth story also extended to our Micro Loans disbursements where the disbursements showed an uptick of 53% QoQ basis. The QoQ uptick has not translated into YoY owing to our focus on existing customers and also increase in credit rejections. Why existing customers is largely, we believe, that even data on new customers because of moratorium till August, our engines need much more data to go into new customers. We are looking into it.

Our Infra disbursements are highlighted by an impetus towards sell-down and pre-payments to create lending opportunities within the capital allocated. We further underscored the point by disbursing Rs. 4,641 Cr, which is up 60% on QoQ basis and 124% YoY. The disbursements were characterized by sell-down volumes of about close to Rs. 5,000 Cr in Q2 and Q3 total together, which is 3 times the cumulative sell-down in the preceding 3 quarters.

The Real Estate disbursements remained approximately on same levels as Q2, but of course, sharply down from Q3FY20, owing to our focus on completion of existing projects

2) Book Growth

As far as book growth is concerned, book remained mostly flat during the quarter, despite higher disbursements due to a good problem, I mean, due to increase in collection volumes. Within the pie, our focused book increased 3% on YoY basis and 2% QoQ whereas there is a sharp reduction of 34% YoY in the defocused book.

The Farm Equipment book has grown sharply, by 18% on YoY owing to continued positive growth and was ably supported by 9% increase in Two-wheeler book. In both these businesses we have maintained our market share in festive season and employed analytics to increase counter share. The book increase has been moderate in our Infra business – 4% YoY and Home loans – 3% YoY. Our focus on salaried segment can be highlighted, that within the Home Loans portfolio, our salaried book has grown by 15% YoY albeit these are very small numbers.

Our collection driven disbursement outlook has resulted in 8% YoY reduction in our Micro Loans book. The LAP book also reduced 9% YoY. More importantly, our focus on completions of existing projects and no new underwriting have resulted in a 2% YoY reduction in Real Estate. These have been conscious calls; we would like to suggest that the book has moved in the desired direction.

The AUM in our Investment Management business increased by close to Rs. 8,000 Cr on QoQ basis, chiefly contributed by increase in AUM in fixed income class by about Rs. 3,700 Cr, up 20% QoQ

3) Cost of Funds

As far as cost of funds is concerned, current market situation was ideal for working towards our objective of reduction in cost of funds. The Weighted Average Cost of Funds improved significantly to 7.82% versus 8.54% last year and 8.32% last quarter. The lower average liquids assets on the balance sheet, on a QoQ basis, have also led to a reduction in costs on account of the same.

We also used the current liquidity regime to judiciously lock-in for medium to long term funds at lower cost. We believe that is the prudent and cautious approach at this point of time. We don't know when interest rates will start rising, but we believe that they are certainly close to bottoming out, and it is prudent to lock-in to medium to long-term funds. During the quarter we have undertaken incremental long-term borrowings of Rs. 4,248 Cr, of which Rs. 1,100 Cr have been PSL loans raised at lower rates.

4) NIMs+Fee

NIMs+Fee for the quarter was 7.39%, a big increase from 6.49% of last year. The fee and other income for the quarter increased by ~Rs. 38 Cr owing to strong revival in Rural & Infra disbursements and enhanced cross-selling of products. The fee in Rural was highest since FY17. The improvement in NIMs+Fee is also because of the reduction in cost of borrowing, some prepayments in high-cost borrowings which our treasury team has undertaken and renegotiation of interest rates.

The lower cost of borrowing has helped NIMs + Fee being higher in the current quarter and this will depend on market situation going forward

5) Operating cost

As far as operating cost is concerned, with the return to normalcy, our operating costs remained in line with those of last year. This represents an increase of about Rs. 37 Cr on QoQ basis, primarily led by collection costs. And it is directly proportional to business activity and has risen in this quarter as business activity including collections went up. Even though collection efficiencies have come to pre-COVID levels, in some cases above pre-COVID levels, the cheque bounces have not yet come to pre-Covid levels. They have improved but not yet come, which increases the cost of collections. And this is something we are paying maximum attention to, but that is leading to small increase in cost of collection, but it's all for the good - it is increasing collection efficiency, keeping credit cost in control. I would like to highlight, of course, that the increase in operating expense, proportionately, is lower than the increase in NIMs+Fee, which shows that the expenses are value adding.

6) Credit Cost:

As far as credit cost is concerned, we are confident of our book quality and remain confident of collection abilities. However, we must prudently prepare ourselves for the irregular repayment behaviour in certain cases, arising out of challenges thrown by the pandemic. While we continue to maintain a PCR at 64%, our additional provisions remained at similar levels, for Stage-1 and Stage-2, at Rs. 1,739 Cr, as in the previous quarter.

Of this, Rs. 1,100 Cr are macro prudential provisions, Rs. 483 Cr correspond to Covid-19 provisions which were mandated by RBI in March and in June and the balance Rs. 157 Cr correspond to enhanced provisions that we have taken on Stage 1 and 2 assets.

The total credit cost for the quarter was Rs. 1,024 Cr of which Rs. 144 Cr is attributable to markdown of a specific HFC asset in Defocused book. As you would all know and guess, that this is coming to closer to resolution now hopefully, and hence we have taken our best conservative estimate of the provisions and Rs. 144 Cr additional have been provided there. We believe that with that we are close to or we are at the resolution value. Barring that, the credit costs remained on comparable levels of Q2FY21. The credit cost for focused and defocused business, on an annualized basis is 2.21% YTD FY21 which remains on similar levels of 2.24% for entire FY20.

Conclusion

Just to conclude, in my introductory remarks, I mentioned that a professional looks forward to what opportunities the future holds for each one of us. And as I say that, there have been spots of recovery in almost all sectors that we are involved in – rural, infra, housing to some extent even in asset management.

Based on our experience, the developments in the markets in last few months, and with incremental development across months, I can only say that as far as LTFH is concerned we are close to normalcy. We are taking advantage of the recovery in rural and infra sectors and we would be making the most of our market strength and market presence.

More importantly, with additional provisions we have built additional resilience to our balance sheet. As the provisions stand today, I could say that we are largely past any concerns arising out of the moratorium and are firmly looking ahead for business as usual.

To make maximum out of the post-Covid scenario, we have identified the need for raising additional capital. The Board at their meeting dated November 9, 2020 approved a rights issue of fully paid-up equity shares of the Company for an amount not exceeding Rs. 3,000 Cr to the eligible equity shareholders of the Company as on the record date. A meeting of the Board is proposed to be held later today to discuss terms of the rights issue.

I would request you not to ask questions about the terms, timings of the rights issue. You will know by today evening. Any case, given the rights issue, and you would have guessed that I am actually reading out of a script, given the rights issue, the restrictions imposed by the regulations, there are very limited comments that I will be able to make on a forward-looking basis. You all are market experts; you will understand that. And request you to kindly appreciate that and understand this while I respond to your questions. I will try to do justice, but there are lawyers who have a gun to my head, please understand that.

Thank you for the patient listening. I now open the floor for questions

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the questions-and-answer session. The first question is from the line of Rikin Shah from Credit Suisse. Please go ahead.

Rikin Shah:

I had a couple of questions. The first one was around the write-offs. It does seem that the write-offs in this quarter was meaningfully higher. So, if you could elaborate a bit more on the businesses where the write-offs were done and how do they compare directionally versus our usual run rate of the write-offs?

Second one was on the collection efficiency for Micro Loans, where the 98.3% number, is that comparable with the 90% number that was mentioned in the 2Q because it does seem that the definition of collection efficiency has changed? If it is changed, what could be the comparable number?

And the third and the last question will be on the Infra book pipeline. How does the pipeline look like given the strong disbursement that we have seen in the last two quarters? What should the expectations be in the coming quarters? Thank you.

Dinanath Dubhashi:

Okay. I will take one by one, okay. The write-offs, so number one, okay. - In my retail book, normally, I will tell you the normal policy, retail book we write-off something which goes in very, very high DPD, each one of them. So, the most important thing about our write-off is, normally speaking, normally, almost in 100% of the cases, we write-off loans which are only 100% provided, okay? And hence, you will see that the PCR is always a good indicator. That if you do a lot of write-off, the PCR will come down drastically, naturally, because 100% assets go out. So that's the first indicator.

Second is, because I don't want to put business-wise numbers there, then I will have to include in my letter of offer and all those things, we are too close to the rights issue, but I will give some indications. Generally, for retail we really wait for a very high DPD for it to write-off, where we genuinely believe that chances of collection there are low. And even if there some collections happen; we will take it as income. So that's it. This time, it is a little higher not because of retail, because one asset if you remember, I think it was in the first quarter, we had provided 100%, it's a large corporate asset of a large conglomerate, we have written that off. So that was a large number. So, it is one asset, big asset, written that off, and hence it doesn't show any trend. That's what I wanted to tell you, okay? So that is your first question.

Collection efficiency. Collection efficiency definition will naturally be different when a quarter has moratorium and the quarter doesn't have moratorium. When a quarter in which there is no moratorium, because in moratorium there is no billing, right, of the moratorium, so, normally on-time collection efficiency definition is very simple. That in the denominator is 0DPD billing, in the numerator is 0DPD collection. That is the simple definition. During moratorium, those definitions had to be tweaked for moratorium. We have come back to normal definitions. The number we are giving this time should not be compared with the numbers we gave last time; it should be compared with the number we gave last year. So that is why I came out and said that 98.3% is actually not 99.5% and above, which was there last year. So that's the number to be compared with.

The big question is, how to report write-off, I mean how to report collection efficiency during moratorium. Now that we are in a non-moratorium period, the definitions have to come back to normal, right? So very simple. And there is no comparison, I was taking the same definition, I cannot do that because two months this quarter we are not under moratorium. I have to get back to normal definition. I hope that answers your question? So, if you compared it with Q3 last year, it is exactly the same definition. And we are about 1.5% short of last year. I don't remember the exact number for last year, but it should be around that. And anyway, you then check precise calculations with Anuj.

Infra book pipeline, very simple answer, I won't be able to answer at all. As I indicated and I tried to indicate, see, all these businesses you have to look at the strengths and I can highlight the strengths and I can highlight what we have done in Q2, Q3, etc. It is up to you to see what the expectations for Q3, Q4 will be. Such short-term projections like pipeline, etc., my lawyers will kill me.

Moderator:

Thank you. The next question is from the line of Jignesh Shial from Emkay Global. Please go ahead.

Jignesh Shial:

Sir, definitely a good set of numbers. I have a couple of questions. I understand, the first question was on the Infra book itself. I understand that you can't give more granularity about the book. But earlier we have stated that our overall YoY growth in the infra book yearly would be roughly around 15%, and the rest we will be selling down and all. Are we changing that strategy? Or we are still intact with the same strategy?

Dinanath Dubhashi:

For sure, strategic question I can answer because this is very long term. There is no change in strategy. As you would know, five years back when the new management took over, the book was very Infra heavy. We have continuously increased the proportion of Rural, and that strategy continues. Infra strategy will be sell-down-led disbursements. We will have strength in business, strength in disbursements, generate fees and sell-down as much as possible. You will remember that Q2, the sell-down was excellent and hence Q3 we have been able to do good disbursements, naturally.

Having said that, QoQ, see, also you have to manage things QoQ, right? So very simply, I will just speak my mind here, Rural, as much as the disbursements have grown, we have a sweet problem in Rural i.e., at this point of time even now the collections are higher than disbursements. Very small number now, ~Rs. 100 Cr, Rs. 200 Cr, but collections are still higher than disbursements. And hence, at this point of time, instead of wasting capital you can allow Infra business to grow for a couple of quarters, rather than managing the tight management quarterly, you can maybe allow them a little bit of elbow room, right? And that is what we are doing. You can call it more as a tactic while strategy remains the same. Does that answer your question?

Jignesh Shial:

Yes. But in that book our focus will still be on the same segments as Roads and Renewables and all or are we changing this time, sir?

Dinanath Dubhashi:

Road refinance, yes, within new construction, from HAMs, good HAM projects, Renewables, and Transmission.

Jignesh Shial:

Okay. Understood. Yes. Understood. Secondly, now since we are discussing Rural, last time around also we discussed or I had a similar question and you explained, there has been definitely improvement on the NIM+Fees, whereby you indicated that sort of cross-sell has also been happening on the Rural side. You mentioned about some insurance scheme and all that you have been selling. Can you elaborate a little bit further, are we seeing an improvement on the cross-sell specifically in the rural portfolio side? And if some glimpse over the products that we are selling and all, if you can just elaborate on that?

Dinanath Dubhashi:

Yes. Largely, it remains same. Our cross-sell largely, largely is on services. There are some loans that we cross-sell by doing data analytics in our consumer loans category. We look at our Two-wheeler customer base, some other customer bases, etc., and look at it and cross-sell, but that is very limited. Mostly, it is cross-sell of insurance products, whether it is health, whether it is hospital cash, whether it is credit protection, all these products we sell. Most of our cross-sell is at the beginning of the loan, at the initial time of the loan, so that would remain same. And hence, you will see Rural fees will largely be in line with Rural disbursements. So, to answer your question, there is nothing drastically different we have done in Q3 than we have done in Q1 and Q2, or at least Q2. Q1, we hardly did anything anyway.

Jignesh Shial:
Okay. Understood. Thirdly, we are seeing in the last couple of months the macro data indicates that the demand for housing had seen a sharp surge, specifically October, November, and December, especially the macros is quite visible out here. What's the outlook that you are seeing, one, on the housing finance side itself, and that is the retail funding side?

As well as, are you seeing an improvement happening on the developer finance segment side as well? Though we have been consolidating since quite some time, a couple of quarters and all or even longer period, but what's the outlook on the housing as well as on the developer finance side from your side?

Dinanath Dubhashi:

So, I will not call it outlook, I will call the trend which we have seen in the past, okay, because the outlook word is allergy at this point of time, it takes one month at least. So, I will talk about past and you are intelligent enough, you project the way you want, okay? So, let me say, so first of all, any change in housing, obviously, will have the effect on the developer funding side, naturally, because housing is the basic thing. So, lots of things have happened. Interest rates at lowest ever prices. House prices have actually fallen for the first time, right? Various schemes by developers. In big markets like Mumbai, the stamp duty reduction, right? So, what this has led to, and these are numbers. By the way, about the industry numbers that we have put in our presentation, this time we are super confident because it had to be put in the letter of offer, there are all numbers made and certified by CRISIL. So, we are okay, generally.

With this, the sales, and I will not say specific numbers. See, housing as a, Real Estate, as an investment tool, as an investment class was prevalent two years back. It went totally out. And even now, we don't see it coming back so soon, as an investment tool. But demand, original demand, staying demand has definitely picked up in the last quarter, I must say, and maybe a little before that. And this generally has had positive impact on the industry as such, and especially our portfolio, which indicates, I mean we have before this also given some cuts of our portfolio. And our portfolio, there are numbers we have put in our presentation talking about sales increase of our portfolio and today also I spoke about them, the escrow collections increase of our portfolio. These are all numbers showing very positive impact on good projects, good developers, certain type of products. And that moving on to our portfolio, we are quite happy. It shows that we have chosen well.

Jignesh Shial:
Okay. Understood. But do you think that developer financiers in general, not specific for your book I am saying, is likely to see a better trend? Real Estate, in general, in India do you feel this is out of woods now? Or you still feel there will be a couple of quarters of pain might come up and then probably we can see a little bit? Because last time, I guess, we discussed that by 2023 or 2022-2023, the current inventory seems to be getting exhausted. So, do you think that trend would be even seeing a further improvement and all?

Dinanath Dubhashi:

Again, I don't want to comment on that. But two things I will say, that do I think it is completely out of woods? Definitely not. Reason is still large format products, four bedrooms, five bedrooms, luxury housing has not picked up, okay? And developers where they have no capacity, very small developers, C, D, E category developers, who have single projects, etc., they are down and out. So, there is a lot of consolidation, etc., happening in the industry. That will take some time. So, because of these two segments, definitely not out of the woods. And even though there has been a pickup in Q3, and the pickup in Q3 has surprised even me. So, I don't think in Q2 I would have given you a guidance of Q3 so fast pickup, at least small dwelling sales. That has happened. But it is just one quarter, and we are all very experienced, me in old days, you in young age are already too experienced to call out of the woods in one quarter.

Jignesh Shial:
Understood. And just one data-keeping point. You said DCCO restructuring, can you give me the number again and the projects in real-estate?

Dinanath Dubhashi:
Three projects, Rs. 1,162 Cr, ~7% of our book. I had guided last time that it will be in single digits.

Jignesh Shial:
Understood. And your total OTR restructure is Rs. 1,438 Cr, which excludes Rural and Real Estate completely, correct?

Dinanath Dubhashi:
Completely, absolutely.

Moderator:
Thank you. The next question is from the line of Umang Shah from HSBC Securities. Please go ahead.

Umang Shah:
Sir, I have a couple of questions. One was again from a strategy standpoint, that, let's say, again from a medium-term perspective, how should one read the macro prudential provisioning policy of the company? So, we already have about 1.9% additional provisions that we are already carrying, is there any particular threshold that the management has in mind, which one should see as a threshold and probably up to that extent the company can absorb provisions and beyond that once again you start making provisions. Just wanted to understand the thought process, how should one look at this?

Dinanath Dubhashi:

Okay. Generally speaking, very generally speaking, why are macro prudential provisions made is there are certain businesses which by nature are cyclical, right? Let us talk micro finance. I won't speak specific numbers because then my auditors will have to start auditing those numbers. But very simple, micro finance sees a problem of some kind every four to five years, right? So, companies have choice, whether to show very high ROEs from that profit for four years and then a very low ROE in the fifth year, right? I mean, fourth, fifth year or something, don't take it exactly fourth, fifth year, around that time. We have taken a choice since we started making macro prudential. I mean, we had not foreseen Covid-19 coming and that made us provide much more actually than that. That we will keep taking macro prudential provisions and slowly building up for the time when a problem happens. Problem of these proportions and hence, huge macro prudential provisions in Q1 and

Q2, naturally that is not something which is a normal occurrence. Even though I will not be able to talk about future, I can only say that any normal occurrences like storm, floods, earthquakes, elections won't cause the problem that last six months caused, right?

So, the kind of Stage-1, Stage-2 that we did in the last two quarters has been extraordinary. You can judge the direction from the fact that in Q1 and Q2 where we made huge provisions, in Stage-1, Stage-2, some of it were compulsory, the Covid-19 provisions which the RBI said, right? Then on top of it, there were macro prudential. And on top of it, we made some overlay provisions, okay? You will see that in Q3 we have not made anything extra. Not Rs. 1 we have created more on that, all our provisions in Q3 have gone towards Stage-3. So now you can judge the direction, okay? When we will reverse, etc.? I can only say it will depend on normalcy coming back and the speed of normalcy coming back. I mean, I have an idea but I can't give it right now on the call.

Umang Shah:
No, I can understand. I think this is also good enough. And just a related question on restructured loans, about Rs. 14 billion-odd, which you mentioned, of which the resolution has been implemented on just about Rs. 2 billion. On the balance book also we have taken provisions as per the company ECL policy, right? So, fair to assume that as and when the implementation will happen, there would be a provision release from these loans or we will kind of proactively keep on carrying higher provisions?

Dinanath Dubhashi:
I wouldn't say if there's the provision release or not. I can confirm that balance we have taken provisions according to the company's ECL policy. But that from ECL to 10%, we have moved only the Rs. 231 Cr. got it? And rest, we will move as and when the restructuring happens. And by the way on corporate let me just give one more clarification. A good part of the corporate and Infra loans that we have restructured, a good part is where we are a small member of the consortium. So there has been no choice in restructuring. Below 25%, you have to be led by the consortium.

Umang Shah:
And as you already mentioned in your opening remarks, this Rs. 14 billion is the outside number. So, I mean, this number will not go up. If at all, the implementation doesn't take place, it will only reduce?

Dinanath Dubhashi:
It cannot go up because last day of invocation was 31st December.

Umang Shah:
Fair point. Sir, another question was related to liability repricing. Now, again, I can understand you cannot really give an outlook, but just from a liability book perspective is it fair to assume that a large part of the borrowings which were bank borrowings and other borrowings which were supposed to get repriced would already have gotten repriced by now?

And to that extent, and let's say if rates kind of stabilize from here on, the repricing benefits coming into the quarters might be minimal or how should one look at it? And also, if you could just give a flavor that our CP borrowings have once again crossed double-digit number after a very long time. Would we have some sort of a capping on the CP borrowings? Just some colour on that.

Dinanath Dubhashi:

Okay. So, I will talk again of the past, yes. So, one, I can confirm that a large part of the benefit, and that's why the benefit also I split into saving of liquidity drag or negative drag because of the excess liquidity and the cost of borrowings as well, both these things. As you see, the excess liquidity, now the quarterly cost is only ~Rs. 24 Cr, right? It has come down from October to December also, as well as reduction in interest rates. Both these things, I will not talk about the future, I will put the English very carefully. A large part of the benefit would have flowed in in Q3, right? A big change, a big step change would have happened in Q3, okay? Does that satisfy you?

Umang Shah:

Yes

Dinanath Dubhashi:

And also, we have specifically mentioned the amount of long-term money we raised. A lot of negotiations as well as prepayments have happened to high-cost borrowings, renegotiations have happened, new raise has happened. And most importantly, I mean, we must be a very, very large PSL borrower in the system today. And we have used our PSL like lending to a very, very good extent to raise really cheap PSL funds. I mean, just to put it in context, I believe that for a long, long time, we were not below 8% ever, right? So, a big benefit has accrued already.

Umang Shah:

Okay. Fair point. And sir, on commercial paper?

Dinanath Dubhashi:

Yes. So, CP, as I said, our cash flows allow us much more than this. But as you said, crossed double-digit, meaning it is 11%. So, you sounded like a reporter actually, I am sorry. So, from 9% to 11%, yes, of course, we crossed double-digit. But no, largely, we have not put a cap as such. But largely, as I said, I mean, what we have done very prudently is actually locked into longer-term funds cheap at this point of time. We believe that we are closer to the bottoming out of interest rate cycle.

Umang Shah:

Okay. Perfect. That's great. And just last two data points which I wanted to confirm. If you could share the sanctions and the disbursements number under the ECLGS scheme?

Dinanath Dubhashi:

I mean, very frankly, disbursement is hardly anything there. It is in some small double-digit. Please take it from Anuj, I don’t remember the number, but nothing to talk about. I mean, we have been outstanding failure in this, very less.

Umang Shah:

Okay. No problem. And just to reconfirm, the NPAs which have been reported do not include the impact of Supreme Court standstill, right? So, the gross Stage-3 for us is...

Dinanath Dubhashi:

So, we don't report NPA, we just report GS3, which has nothing to do with Supreme Court. So, everything which is GS3 is there.

Moderator:
Thank you. The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah:
Sir, a few questions. Firstly, in terms of the restructuring, if you can just give the texture of the restructuring in terms of mild, moderate, severe; no doubt it's 1.4% odd. But what could be the nature of this kind of a restructuring on the corporate side and even on the infra?

Dinanath Dubhashi:
I don't know what you call mild, I mean, we are not talking about Covid, we are talking about restructuring.

Kunal Shah:
No, this entire thing, Kamat Committee also they highlighted, okay, this is how it's going to pan out. So that's the reason maybe just wanted to understand as to how severe could this be and what is the kind of a stress in these accounts which have got restructured?

Dinanath Dubhashi:
So, as I told you, retail, yes, retail is just about Rs. 300 Cr, which is Housing and LAP. So, I don't think there is any abnormal stress. As I had last time told, SME, there is a problem, slowest market to recover. And I have said that whatever restructure we will have in SME, and it's a small amount, ~Rs. 340 Cr. So, I don't know whether to call it mild, severe, etc. At this point, we have done the restructuring the way we think, hope that the business comes back. Of the others, I would say, a fairly large part...

Kunal Shah:
Just in this, between Home loan and LAP as well, maybe the home loan would be relatively smaller size within this and would it be fair to assume that Rs. 3,600 Cr, Rs. 3,700 Cr of LAP, largely, the number would be from that pool?

Dinanath Dubhashi:
We believe that within Rs. 340 Cr that number itself is so small that what to talk about trends and all that. I don't think that it is very meaningful at this point of time. And please understand, Kunal, I mean, anything we put we will have to then, I say, we will have to put it in the letter of offer, and it is complicated from here on. Any breakup more than...

Kunal Shah:
No, I am just trying to understand, is it like 5%, 10% of the net pool or no? That was the broader understanding which I was trying to gauge…

Dinanath Dubhashi:
I mean, this is not going anywhere in one month. After the rights issue, you can always discuss and get whatever clarifications you want.

Kunal Shah:
Sure. Okay.

Dinanath Dubhashi:

Please understand, that's why I said in the beginning that I will be very restricted in what I...

Kunal Shah:

Yes, yes. No worries, yes.

Dinanath Dubhashi:

There is another thing that corporate ones, as I said, quite a few of the corporate ones are led by the consortium leaders. So, we are just joining it.

Kunal Shah:

Okay. And we said like we have made the provisioning as per our ECL except for that pool of Rs. 213 Cr which is already restructured?

Dinanath Dubhashi:

Correct.

Kunal Shah:

So, there we would have made 10%?

Dinanath Dubhashi:

There, it will be 10%. Yes, that is correct. It would be ~Rs 213 Cr, sorry I don't remember the numbers, something like that.

Kunal Shah:

Yes, that's okay. And secondly, again, coming back to Rural. So last time on MFI it was almost 9%. And maybe out of the current provisioning, what we look at in terms of the focused business, maybe significant proportion would again be attributed to the Rural side. So maybe that's further inching up. You highlighted a few things in terms of the behavior being slightly erratic for these MFI customers and collection efficiency is also quite strong. So maybe what is the proportion of this erratic customer that is maybe concerning us? Because maybe if I have to include another 2%, 3% of further creation of the specific buffer, then it seems like almost 11% odd of the MFI is being provided for, okay, which is, say, almost like 98% kind of a collection efficiency. So, is it like the behavior is erratic to the extent of almost like 10%, 15% of the pool or how is it?

Dinanath Dubhashi:

So, two things I would like to clarify. Number one, we have not made any Stage-1, Stage-2 provisions this quarter, so I don't know why you saw it inching up. It has definitely not inched up at all in Stage-1, Stage-2 because we have made zero additional Stage-1, Stage-2 provision in Q3, yes? In fact, a small number we have used, okay? So that is the first comment. Second, the erratic behavior comment I made was about the whole industry and the trend in the industry. It's not about our portfolio at all. And definitely, it is not 10%, 11%, etc. Those people not paying, it's a much smaller number. I don't want to talk about a specific number, but it is much smaller number.

The spirit behind this you understand, the spirit behind this is if you have created a provision, wait till you become very sure that a trend is setting up before you start reversing a substantial portion of them, right? The very fact that we have not created anything additional should be an indicator to you that how we are looking at the progress of the performance. That last three quarters we created heavy provisions in Stage-1, Stage-2, Stage-3. This quarter, we have come to not providing anything new. So that's the trend that you should look at.

Kunal Shah:

No, the only thing I was looking at maybe outside of Stage-1, Stage-2, if I have to look at total provisioning, okay, including the specific Stage-3 as well...

Dinanath Dubhashi:

But that is the ECL model, that is not thinking, that's the ECL model.

Kunal Shah:

That's the only, the ECL one?

Dinanath Dubhashi:

So ECL model, we strengthened, we keep strengthening. That's okay. That's not a problem.

Moderator:

Thank you. The next question is from the line of Prashanth Sridhar from SBI Mutual Fund. Please go ahead.

Prashanth Sridhar:

Most of my doubts have been answered, just two things. If you could give us some split or idea about the disbursements on the infrastructure side, whether they are to existing or new projects?

Dinanath Dubhashi:

Can you contact Anuj? He will give as many details as we can. Because I don't have a readymade answer, I am not prepared for that.

Prashanth Sridhar:

No problem. And the other one was just a sort of bookkeeping clarity. The disbursement amounts that you guys give, those are gross disbursement or are they net of something?

Dinanath Dubhashi:

No, no, they are gross disbursements.

Prashanth Sridhar:

Okay. The reason I asked is because you have given the collection figure for the quarterly amount, right? So, closing minus collection plus opening would give disbursements.

Dinanath Dubhashi:

No, collections also will be gross, including interest. Collections actually will be gross of interest that is why it will not add up.

Moderator:

Thank you. The next question is from the line of Nidhesh Jain from Investec Capital. Please go ahead.

Nidhesh Jain:

Sir, on Micro Loans if you can share some more data in terms of non-paying customer or one DPD that still can give us more clarity how we are faring versus industry, because other companies will likely start disclosing non-paying customers soon of last six, seven months or one DPD that we have currently versus last year. Because the zero DPD collection will be very, I will say it will not be comparable because probably we will have reasonably large size one DPD book today. So maybe say three months of last year, may not be comparable?

Dinanath Dubhashi:

Okay. I don't know how to answer this question. I can only say that naturally the Stage-1, Stage-2 provisions that we do are on Stage-1, Stage-2, right? So, Stage-1, Stage-2 is anything which is not zero DPD. So, I don't know, I mean, we don't want to give this number. It is not in public space. I can only claim that I think it is, yes, substantially better than the industry. I think that's the only thing I can say.

Moderator:

Thank you. We take the last question from the line of Karthik Chellappa from Buena Vista Fund. Please go ahead.

Karthik Chellappa:

Just two to three questions, sir. Firstly, on the point on the collection efficiency for Micro Loans which reached about 98.3%, there is an interesting comment in the presentation which says through rollout of contests and incentive structures. So, what are the nature of these incentives and contests that you had run, which helped you to reach a 98%+ collection efficiency? And related to that, does the Assam Bill or Assam Bill like regulation change the way you look at a specific state for doing business or the way to conduct business?

Dinanath Dubhashi:

Okay. So, the first one I can answer because it doesn't affect any of this thing. So, first of all, just to confirm there is no confusion. All incentives, contests, etc., are for our people, it is not for customers, okay? So that is the first thing, that is basically to generate excitement. So first, retail is about generating excitement, the more drama you do the better it is. There is a large pool, we have ~22,000 people, out of which what 16,000, 17,000 are in Micro Loans, and field force is around 15,000. And you have to keep them excited because the direct connection with management will be through so many levels. I can only say that I am using, my phone is iPhone 10 and there are several people in my Rural field which are now got iPhone 12 from the company. Does that answer your question? It was a lighter vein, but it's true. Both is true, I am using the iPhone 10 and there are people who have got iPhone 12.

Karthik Chellappa:

Okay. It at least gives the degree of incentives that you are offering.

Dinanath Dubhashi:

Okay, I am now getting it. It's not in terms of as a percentage of collection or those sorts of things which will lead to issues in the field, okay? It's fun. It's like, I will tell you one of the things, we have something called Wall of Fame, that every month we declare that you crossed these thresholds you will be declared as winners on Wall of Fame. And no less person than the

Chief Executive of that particular business holds this virtual conference right now, and those people are made to look like absolute heroes on a monthly basis. And then we have 1 Star, 2 Star, like people who have been on Wall of Fame two continuous months, three continuous months, four continuous months. It is basically creating excitement.

Let us not forget that when we sit here on the table and crunch numbers, there are people there going through toil, going through severe disappointments on a daily basis, okay? Just take the Micro Loans team. Debtors and even not collecting from 1.7% of people on a monthly basis is an experience that they have never had. And at some point, of time, not collecting from 30%, 40% during the Covid, it's a very different Micro Loans business or any other business than what all these young people have seen. See what will be their age, hardly between 25 years to 30 years almost, right? So, they have to be kept excited. So, it was largely that. Where it comes and ends at us is the additional cost which we have to bear, which is very small. And management has to see that the benefit of that is way higher than the cost incurred. Does that answer?

Karthik Chellappa:
Got it. Yes, somewhat, sir. Any comment that you can offer on the Assam Bill like situation or what you can say?

Dinanath Dubhashi:
Yes. So, Assam Bill like situation, I can say, should be avoided. We had not thought that it should become anything like that. But I can only say we are very well prepared. We saw this, and this is the good part about analytics. Analytics can sense that something is going wrong though we don't know what is going wrong. Of course, Covid, etc., analytics failed badly. But otherwise, some rumblings on the field analytics can feel, right? And our Assam portfolio today is almost 50% of what it was two years back, right? In fact, the entire Assam portfolio is about ~Rs. 400 Cr. Out of which zero DPD is close to 50% of that at this point of time. And anything which is above zero DPD, we are largely provided and ready.

So that is the whole idea that will issues like Assam or any other issues happen, this industry is supposed to be like that, and that is why you make super normal profits when it doesn't happen in this industry. It is an extremely profitable business. But the important part is, does the company be ready in terms of trying to predict something wrong happening, and most importantly, making provisions on it when it happens, right? We today have examples of when Andhra happened 10 years back, we had a shock. I mean, those numbers were very small compared to today, but that was a shock. But after that, Orissa happened, after that one or two things here and there have happened and we haven't even noticed it. We haven't even noticed it in our P&L because we have been ready very early because of the analytical abilities we have and the provisioning we have done, and Assam is no different.

Karthik Chellappa:
Great. Sir, and my last question is, if we were to look at the disbursements both in Farm Equipment and Two-wheelers, which have been very strong QoQ, the associated commentary is we have maintained market share in both these segments, whereas the commentary in the second quarter was we had become number one in Farm Equipment and we were among the top three in August and September. Does this mean that in the third quarter the rest of the industry, whether it is NBFCs or banks were also equally strong in their disbursement growth for these segments which is why we have not been able to gain share despite….

Dinanath Dubhashi:
No, no, it doesn't mean anything like that. It only means that because of the rights issue the denominator, which is industry data, has to be out and has to be certified by an independent agency, only then I can declare market shares for Q3. So up to

Q2, it is certified by the independent agency working for us. So now Q3, while we know very well the numerator, we have a very good idea of the denominator, we can't put it in public domain when the right issue is on. That's all it means. The industry data is not out, it's as simple as that.

Karthik Chellappa:

Thank you very much sir and all the best to you and the team for the rights issue and the coming quarters

Moderator:

Thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to Mr. Dinanath Dubhashi for closing comments. Over to you, sir.

Dinanath Dubhashi:

Yes, my only closing comment will be a big thank you for being with us over this whole problem, last nine months through whole difficulties, supporting the company, having faith in us. Crystal ball gazing is a very difficult game, I always said that over the last nine months. We have managed to predict some things before this, made provisions in our P&L. We may have been wrong a few times; I have no issue saying that because crystal ball gazing is always a difficult game.

But one thing that this company has done and will continue to do is all the time doing the right things first and then doing things right. So, we try and see what a situation can be a worst-case situation and try and be ready for that. We also believe that all capabilities that we have built, like analytics, digital, our strength in market has stood us in great strength during these nine months because of which in almost, not only in PAT but various parameters which lead to the final number, we have shown a positive trend over the last three quarters.

I thank you all for your support and your good wishes and only pray that, that will continue. Like any other corporate citizen coming out of this, we will need a lot of your support and good wishes. So very humbly praying for the same from you and from the Almighty. Thank you.

Moderator:

Thank you. On behalf of L&T Finance Holdings, that concludes this conference. Thank you all for joining. You may now disconnect your lines.

*Since the transcript has been derived from a voice recording tool, necessary corrections have been made to remove anomalies as well as manifest but inconsequential factual discrepancies which would have unintentionally crept in, if any