Q1 FY17 Earnings Conference Call Transcript
July 22, 2016

Moderator

Ladies and gentlemen, Good Day and Welcome to the Q1 FY17 Earnings Conference Call of L&T Finance Holdings Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on a touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shiv Muttoo of CDR India. Thank you and over to you, sir.

Shiv Muttoo

Thank you. Good Evening, and Welcome to L&T Finance Holdings Q1 FY17 Earnings Conference Call. We have with us today on the call, Mr. Y. M. Deosthalee – Chairman and Mr. Dinanath Dubhashi – Managing Director and other members of the senior management team.

We will initiate the call with opening remarks by the management, followed by Q&A. Kindly note that some of the statements made in today's call may be forward-looking in nature and a note to this effect is stated in the presentation sent to you earlier.

I would now like to request Mr. Deosthalee to provide his views on the results for the first quarter. Thank you.

Y. M. Deosthalee

Good evening, Ladies and Gentlemen. Thank you very much for joining the call. I would like to make some opening remarks and focus on what did we said while declaring results for Q4 & FY'16. When we announced our last year's results, we spent a lot of time explaining our strategy going forward. We spoke about businesses or products on which we are going to focus, we spoke about how are we going to achieve this, we talked about the initiatives which we are going to take in this direction, we also articulated the reasons for the strategy and the milestones to be achieved in years to come. The central theme of the entire strategy was profitable business and consistent improvement in return on equity.

I suggest that these results should be seen from this perspective. What I am trying to say is that this is the first quarter since we articulated the strategy. Actually it was towards the end of April and there were several organizational changes which were made. There were also changes in the product mix and the organization had to adjust to some of these changes. Therefore, there was movement of people, there was also some kind of churn in the portfolio, there was also separation. Many things happened during this particular quarter, and in spite of so many activities in parallel going on in the organization, the performance during the quarter has been extremely decent.

Why am I saying this? You will hear from my colleague Dinanath and his team after these opening remarks, what we have done in terms of our focused businesses. So the shift was towards focused businesses which will yield decent ROE going forward, the moving away from de-focused portfolio, improvement in cost to income ratio and creating centers of excellence, these are the important initiatives which we had announced. Of course, there were lots of sub initiatives arising out of these main themes and lot of activities have been going on in the organization, during this period. But it is important to note that even after so much of action in the company we have had a healthy growth in our assets, we had healthy growth in profits and some early signs of improvement in ROE. I am not here suggesting that there is a smart improvement in return in equity in one quarter, it is not expected, but I think the strategy is really showing some early results, that is what I would like to argue.

The other important point is that there is a full organization in place now for managing this revised portfolio. There has been a smart improvement in assets in the asset management and the wealth management businesses. It is heartening to note that the focus on core products which includes equity and some debt products, continues to be high in the asset management business. And therefore the strategy here is to again do profitable business and create value.

So, the organization is geared up to execute the strategy which was outlined. And therefore to begin with, we want to spend some time in this call explaining where we are vis-à-vis implementation of this strategy, and of course thereafter we will talk about the performance during this quarter in terms of disbursement, asset growth, quality of asset and profitability.

So with these few remarks, I will now hand over to Dinanath Dubhashi. I also want to convey to you that today, in the Board meeting, Mr. Dubhashi has been appointed as Managing Director of the company. And congratulating him on his elevation, I now hand over for the further presentation.

Dinanath Dubhashi Thank you, Sir. And good evening to all of you. So, as Mr. Deosthalee absolutely rightly said, this call is less about quarterly results and more about updating the analysts on the strategy that we talked about in in Q4. In fact, we not only talked about the strategy, if you remember the last slide of my presentation, we also talked about what we would like to be measured on. And we are here actually to give you an early score card about the milestones that we have set internally and our progress on those milestones.

I will spend a couple of minutes on just refreshing your memory on the strategy and then talk about the milestones. And then of course the call is about results, so we will talk about results. But really what I would like all of us to concentrate on is how the strategy is playing out.

So if you see even the cover page of our presentation, we are not talking about all the products that we are doing, like we were talking about before. We are talking about what we want to do now, and that is genuinely Transform, Focus and then finally Deliver. So, the transformation is very clearly first in the realization and determination that we will reach top quartile ROE from where we are today. And we are very acutely aware that we are today at the bottom quartile and have a very clear action plan and the strategy to reach the top quartile in the next four years by 2020.

Focus, as the next slide (slide 6), and this we have talked about. We have very decisively moved to three businesses where we believe that we have a right to win or we can create a right to win. And the next slide actually shows that very clearly using the filters that Mr. Deosthalee talked about. We are going to concentrate on the rural business where we believe we are strong, on the housing sector and on the wholesale business. On the wholesale business, I must say, it does not include only infra finance but also structured corporate loans, where we have been growing profitably. So these are the businesses that we would grow on the lending side while continuing to grow on the non-lending part which is wealth management, where we went through a very serious transformation this year and it is on the right path. And asset management, as we have said is on the value creation journey, it is all working out well at this point of time.

The last part of the Troika of Transform, Focus and Deliver is 'Deliver' which is the most important thing. And as we said last time, this strategy is not predicated on any tremendous tailwinds, I mean we welcome tailwinds, we hope that we get tailwinds but it is not predicated on that or on any eureka moment but it is predicated on the entire organization concentrating on single minded execution. The execution will be on cost excellence. In fact that would be some of the first results to be delivered. It will be on tapping synergies and delivering as one LTFS. It sounds actually very simple that a group delivers as one, group synergy is something to be talked about, it sounds very good when one talks about it but it requires very single minded execution to deliver it and we are very confident that we have got the right framework on how to deliver it. We are also building centers of excellence to strengthen our right to win in places where we believe we are strong and building a right to win where we believe that we have the basic characteristics to build. Also more importantly about innovation, the whole world is talking about disruption, however we of course realize the reality of disruption but at this point of time we have defined innovation as not trying to do something which is absolutely out of the world but trying every day and doing something better or next practice than what we were not doing yesterday. And there are various examples, which in detailed meetings or detailed calls we can talk about. .

Various initiatives that we are taking on the short-term more on efficiency side, on medium term - more on freeing up capital to be invested in growth businesses and of course on the long-term i.e. somewhere in FY18 as big growth starts coming from our focused businesses is how the strategy will pan out. We have talked about three measurements, you will measure us on specific initiatives, and we will keep telling the analyst community how we are progressing. We will also keep telling the analysts and investors how we are progressing on cost to income ratio and last but not the least, obviously our focus is on ROE.

So with that, I will just quickly move to the specific initiatives and how we are actually doing on each one of them. So if you come to slide nine, there are about close to 20 initiatives going on in the organization around five major themes. I will first talk about the themes around Centre of Excellence. So on seven core products there are seven Centres of Excellence (COE) projects going on in each of these projects. What do these involve? I can put a common theme as developing a right to win in each of these businesses. What does it mean? It goes around the word 'distinctive', yes we are an NBFC, we are in businesses which are inherently cyclical but very clearly how do we make sure that in a up cycle of the industry we gain more than others and on the down cycle we lose less than others. And there is lot of work happening here on industry understanding, industry expertise, advocacy and more importantly, developing a unique USP of our products, I mean if I start talking about each of the product it will take lot of time, we will take this up based on interest of each one of you.

The other Centre of Excellence set is on functional capabilities. We are all aware that digital and data analytics is extremely, extremely important not only to acquire good businesses, to analyze and assist good businesses to support and carry out that business and do good and efficient collections. And in each one of these areas we are using data abilities quite strongly. We are building it and working with one of the very reputed analytics firm for getting this done. Fee income and sell down - these are extremely important COEs which are being setup. This is very clearly on the infra and wholesale business, as to how to keep increasing business without increasing capital allocated to that business proportionately. So with less capital, how do we keep increasing business, generate fee income, reduce capital allocated and obviously in the meanwhile manage risk. So the general strategy is that yes in wholesale business we will grow our balance sheet in IDF whereas in our non-IDF wholesale business, it will be more churning of the balance sheet for asset management, risk management and generation of fee income. And these are the Centres of Excellence which are getting developed.

Divestment of non-core business, this is another very important one for managing capital. We have identified certain portfolios, we had talked last time, that we are having the network for running it down, having the capability for running it down, but we are also looking at a possibility of divesting this portfolio. A project team was formed, we have already appointed the investment banker and obviously subject to getting the right value, we will be looking at divesting that.

Cost optimization, this is something that we started right in the beginning of the quarter. The newspapers also decided to give selective publicity to this exercise, but it was not only manpower, we did a lot of rationalization of real-estate, rightsizing of the organization, we closed several businesses but it is not as if the businesses which were being closed, people lost jobs from there. We did the entire re-planning and re-mapping of the organization and the best fit of people were put there. And I am very happy to say, and the numbers also indicate that these initiatives have already started paying results. More importantly, it is already giving us confidence as to how much we can invest in our growth businesses. The point never was to cut cost orto reduce cost but to invest cost in the right areas. And as we have seen that trajectory, we are getting the confidence of investing cost in the right areas.

Last but not the least, the project around merger of entities. We had talked last time that we will definitely look at simplifying the structure, getting the right structure. Merging entities – this project is also on and we expect to complete it by the end of the year. So organizationally all these projects are being headed by the middle management level in the organization, this is part of our leadership development initiative and the senior management mentors are monitoring these projects as well. So we are happy to inform that most of these projects are going as to the plan. Few of them are a little behind plan, but we are very-very clear that we will be able to catch up.

The next slide (slide 10) actually puts all these projects in perspective that these projects are not just 'look good' projects or being put there by consultant and we are following it, it's not like that at all. Each of these projects delivers the ROE focus that the organization has. For example, the Centres of Excellence will most definitely aid growth and aid yields. The project on cost optimization obviously will reduce operating expenses. The risk framework that we are putting in place will ultimately reduce credit cost. The re-allocation of capital will utilize leverage in the right businesses and obviously moving to return on equity.

What I am happy to report at this point of time is, while we did not expect obviously immediate results in the first quarter, however, the organization now is totally, totally focused on these projects. And as Mr. Deosthalee said, we went through the throes of re-organization early in the quarter, but these projects have helped to give the organization a sense of purpose, a sense of direction to work towards the ROE goal. And as clarity is there across the organization as to which project is helping which aspect of the ROE tree, it tremendously helps motivation within the organization.

With this now, I will get into some highlights as to the first quarter and you will see very early signs of some of these initiatives working. So, if you come to page 12, the big numbers are our PAT to shareholders, which is up by 21% over the same quarter last year. So these are things which have worked well based on the projects, so there are three things which have worked extremely well, things which can be better but what we had expected for it to happen and things which are perhaps not gone entirely as we had hoped. So there are three categories, first category is the most important, we are very happy that the PAT to shareholders has shown a very-very smart improvement despite various other things happening both in the environment and with the company. The cost to income ratio is down; it is down smartly from 32% to 29%. I will talk about how it will pan out in the future, but most important and what I am most happy about is, while we were concentrating on all these cost reductions etc., we managed to increase the focused business book by 23%. And most of my satisfaction comes from that. Our focused businesses identified did not let its growth impetus to take a backseat to focus on cost cutting etc., there were people obviously engaged in cost rationalization and on the other hand there are people engaged in growth.

So each of the business that we talked about, we are starting with asset management, there are slides subsequent and within appendix, we have given lots of data. Asset management has shown growth, wealth management has shown growth, the AUM of rural business has shown growth, the AUM of housing business has shown growth and AUM of wholesale business has shown growth. So at each place we have been able to show growth. The de-focused business we have been able to run down based on our expectation. What has not gone well but which was expected, obviously I had given very clear guidance about two things that NPA's in rural sector will go up in June over March, indeed they have. Luckily, we have taken some part of the cost in the fourth quarter and while there is an effect on P&L, our planning of taking conservatively some part of the cost in the fourth quarter has indeed helped.

On the wholesale side, we had talked that the credit cost will remain elevated this year. Even though we have managed to keep the assets, which are under stress, the impaired assets ratio has come down. We expect couple of assets, as I have said last time, to move into RSA and hence the credit cost for this year to remain at slightly elevated level. On top of it, we will also take additional provisions using the money that we will generate by sale of some of the non-core assets.

The third category is what things could have been better, what we had not expected. We had expected some more disbursement in tractors to be better than what it is. We definitely expected it to come down but because the scenario just didn't improve in the quarter, the collection did not improve. We have ceded more market share than what we had initially expected.

So this is the overall picture. Three things, which have gone extremely well, PAT to the shareholders showing smart growth, cost to income ratio coming down smartly, growth in focused business going well. Two things, which have gone according to our expectation, which is credit cost in rural and wholesale business and something that needs further improvement, is collection in tractors, and hence recapture of market share in tractors. That is more or less the summary.

The next slide, if you come to slide number 13, you will see this really playing out and there are some numbers I would really like to focus on. Number one, something that we have talked about last time and this time it is really coming out in focus is our ROE on our core businesses. Despite a drop of ROE in wholesale business because of the higher credit cost we have taken close to 14% already. And it comes down to just about 11% because of the de-focused business. As the defocussed businesses run down and definitely as we sell them down as we go ahead, this drag is going to go away. Number one, the drag on profitability will go away, the capital will be available for investment in high returns businesses and that is the transformation that we see more happening towards the end of FY17 and definitely coming to FY18. Business by business, despite the increased credit cost in rural, because of very smart growth in microfinance and good profitability in two wheelers, we have concentrated on two-wheeler profitability, the ROE is up by close to 500 basis points. In housing business, also, there is increase in ROE from 9.6% to 15%, but I would like to remind you that last year there was about Rs.9.5 crore onetime cost of television advertising, so the like-to-like ROE was 12% last year but still there is an increase on 12% to 15% mainly because of two things. One is, our real-estate business really picking up; and second, shift of the housing portfolio more to the self-employed category. Wholesale business, there is a slight drop in ROE, as I said, there the profit before credit cost is doing quite well but as we take additional provisions and voluntary provisions, this quarter itself we have taken close to Rs.40 crore of voluntary provisions in wholesale business. As we take more and more voluntary provisions this year, the credit cost this year will remain elevated, our try will be to making the balance sheet completely protected by increasing our PCR by the end of the year so that the credit cost next year comes to a steady state level.

The other businesses obviously bring down the ROE a little further. However as we have said these businesses are generating value for us, we are building value in these businesses and they also contribute to the fee income. We have also talked about repayment of preference shares last year. At the end of March, we were able to repay about Rs.750 crore of preference shares and hence the drag on ROE because of preference shares has come down drastically. And as you see resultantly, the profit in hands of shareholders has gone up smartly by 21%.

I will talk very briefly about the performance of each business now, very briefly. And if you go to the annexure, very detailed numbers are available for your perusal. Any questions on more numbers, you can definitely contact our investor relations team.

Slide 15- In Rural Business, Microfinance as I said has done very well, the book has almost doubled. We have taken care to go completely digital, today I am very happy to say that each and every process in our microfinance is paperless, we are 100% mobile on microfinance. We are the first company, and I would not like to make statement like only company and etc. because I do not have that clear knowledge, but most definitely the first company to move to 100% Aadhar Card activation. We are actually leading the way there; we believe that the entire sector should move to this to reduce risk of multiple lending in this sector.

Two Wheelers, the major focus has been, while maintaining market share to reduce cost so as to increase profitability. Based on that we actually ceded share from some of the dealers where we believe that the profitability was less. The disbursements are more or less same as last year same quarter, book has grown smartly and we believe that now that the right business model is in place, we will start showing growth from next quarter.

Farm Equipment disbursements are down a lot. Here too, we have ceded market share. We believe that with the advantages, with the understanding of the market, with the USP that we have, we will be able to increase market share whenever we want based on the tie-ups. It is the question of doing early collections in particular areas with portfolios of particular dealers well so that our analytics engine opens up those areas for business and then business starts growing. So why is the decrease in disbursement? Obviously looks like it is bad but it also is a certificate to the self-adjusting analytics engine that we have that as collections get affected the disbursements come down, and as collections will pick up, disbursements will go up.

Slide 16- I think the next slide mostly talks about what I have discussed till now. Very clearly in this business the pre operating profit is up by 136 basis points and the ROA is up by 55 basis points, despite an increased farm credit cost. The way we see, the next slide (slide 17) shows the GNPA trend. No surprises here, we had definitely expected that this quarter has a mix of hardly any Rabi crop coming up as well as large billing in the first quarter the

NPA were definitely expected to go up. As we see the rains are good but obviously the farmer is over borrowed, we do not expect repayments to come in rushing in on expectation on good crop, the crop has to come, hopefully it will be a good crop, all the indications are that the crop will be good. As money comes payments will start coming and situation will slowly start getting better. Our analysis shows that it will take minimum of two crop cycles for the situation to come back to what it was absolutely two, three years back. It also must be mentioned that all this is at 120 days now, so these were similar ratios at 150 days' couple of years back, now this is becoming the new normal, this 9.57% is at 120 days.

Moving ahead on the Housing Business (slide 18) on the home loans and LAP we moved the entire model from around 50:50 split between self-employed and salaried; we have now increased the percentage of self-employed a lot. In fact, DSA based salary loans is something that we have stopped completely. I am happy to report that despite that we were able to maintain the run rate quite well and will be confident of saying that this model has succeeded after this run rate is maintained and increased over the next couple of quarters. Early days, but good signs. Real-estate business has started very well, this disbursement drop of 59% is over stated because there was one big disbursement last year and we have a very good sanction pipeline already for Q2. So this business is doing well, we have an excellent team, a very good risk model to make sure that this business grows profitably in the next few quarters. There was always a talk of Opex in this business. Once again our Opex initiatives are paying well and we have been able to reduce Opex costs smartly. The NIMs have gone up based on the new strategy and the ROA here is also up by about 46 basis points. As I said, some part of it is also because of one-time effect in last quarter first quarter.

Then we move to Wholesale Business (Slide 29). As we said in Infra, we see some good push coming on the Hybrid Annuity (HAM) projects, with this roads model seeing good traction . We are seeing good progress on projects coming for refinance and we see very-very good scope for our IDF to grow. We are expecting excellent growth this year. On the other hand, we also see little bit increase in the receivable cycles of SEBs of certain states and while there are certainly opportunities in green-field solar and refinancing opportunities in renewable power projects, we remain extremely bullish. However, basis on our risk models, we are also taking care of limiting exposure to certain states, and at the same time structuring our facilities so that enough liquidity cushion is provided when we do the cash flow mapping. Clearly, the strategy in infrastructure is going to be mainly growing IDF and generating fee income and using our appraisal skills in the other infra business by doing large underwriting deals, selling down and generating fee income. Structured corporate finance, which if you remember was a part of retail last year and in fact in appendix there is a slide on how businesses were structured last year versus this year, so it is all very clear once you go through appendixes. This is a very-very select business, it is a structuring business, opportunistic business and a lumpy business so we are not too worried about that we have disbursed only Rs 233 crore in the first quarter. This is high yield mezzanine selective deals, we have a good pipeline and I am confident of pushing it up in quarter two. Supply chain continues to be a steady return, steady flow business for us.

On the ratio side (Slide 22), what is important is the pre-operating profit is down only by 18 basis points despite movements of assets and more disbursements in IDF compared to last year first quarter. So to explain to you the IDF business, as you all know, this business will happen at low NIMs but obviously hardly any credit cost and zero tax. So the overall ROE of this business will be actually very-very good and since they are very high quality operating assets there will be no overhang on credit costs even in the future. So that is the overall strategy, everything playing out according to strategy here, the credit costs which look higher by 41 basis points include about Rs.40 crore of voluntary provision. ROE is down, I have explained this before. We believe that these will be more or less the credit cost and ROE numbers throughout this year as we take voluntary provisions and protect our portfolio further.

Going to the next slide, (Slide 23), it shows a continued reduction of impaired assets. We must say that of course we are very happy with this, but since like I have guided last time, there are especially two thermal projects which will become technical RSAs. We were expecting them to become in the first quarter, but most probably they will become in the second quarter. So, this ratio of impaired assets will see an increase in the second quarter. So, that is it for the lending businesses.

On the Investment Management Business (Slide 24), you will see that from Q4 to Q1 there is a very smart increase in AUMs while keeping the ratio of equity assets constant. This business is going on track, we are creating a lot of value in this business, most importantly, our strategy of keeping equity high and hence making the business profitable is working and as you will see in the next slide, (Slide 25) we are on way of making it a good profit this year.

On Wealth Management, (Slide 26) this business we went through a big restructure in the first quarter, we actually used to do this business in private as well as Premier Wealth. We merged the two, we restructured the team, despite that the AUM has gone up. In fact, we did not lose any substantial amount of AUM or any customer and this business is now very-very near to a financial breakeven as well.

So at the end I will conclude very clearly by saying that our strategy of being in the right businesses, using the right structures and through right people, putting the right team in place is under active execution and implementation. We are monitoring the milestones very strictly and we are seeing consistent progress on this. As far as the results are concerned, PAT to shareholders is up by 21%, loans and advances in focused businesses has grown by 23% as against overall growth in our loans and advances growth of 17%. ROE of focused businesses is up at about 14% despite increased credit cost in tractors and increased voluntary credit cost in infra. The drag on ROE, because of the de-emphasized products is certainly there but it will reduce gradually as we write down or substantially as we sell down in the coming quarters. And this divestment of de-emphasized products and merger of entities will certainly lead to optimal use of capital, thus managing the denominator as well. So the team is concentrating very clearly on the numerator of ROE, or ROA rather which is growth, yields and cost cut and as well as the denominator which is capital.

So with that said, I must say that the management continues to remain focused and would like to report that the first quarter has gone the way we had planned. Thank you very much. We are open for questions.

Moderator Thank you very much. We will now begin with the question-and-answer session. Our first question is from the line of Nitin Agarwal from Antique. Please go ahead.

Nitin Agarwal Sir, I have two questions. Firstly, how do you see the business composition changing as you move towards the goal of higher ROE? As I see that the big delta has to come from the wholesale finance business which is also the largest piece in the portfolio but has a lowest ROE, so how do you see this mix changing? The second is, the difference between 150 days and 120 days NPA is very small now and I noticed that while the 150-day NPL has increased significantly on sequential basis, the 120-day NPL has come down. So what explains this?

Dinanath Dubhashi So I will take the first question. So, most definitely the ROE increase will come from the following: Number one, more than the composition of focused businesses, it will go up because removal of the de-focused business. So over the next few quarters, anyway as we do not do those de-focused businesses, the proportion will come down and obviously the management is also pushing for sale of some of these portfolios so that the capital is released immediately. So the biggest delta we believe will come from that. Then as I explained, the proportion of wholesale business will certainly come down, as the investment in wholesale will go mainly in IDF as far as capital is concerned. Whereas in other businesses we will be churning the portfolio and generating fees, thus having a dual impact on the ROE, number one, the fee income coming and hence increasing numerator, at the same time the denominator remaining same as no fresh capital goes. There is of course an added impact of better risk management as we reduce the hold position of each ticket. So these are the things that will increase the contribution, one, the ROE from wholesale business because of fee income and limiting capital, as well as the contribution of that positive delta to the overall ROE. So that is certainly the way wholesale business will be managed. In the other two businesses, we definitely would like to increase the share on a point-to-point basis i.e. the rural business or housing business. However, that will be certainly more gradual, as these are retail run rate business. And for 2020 we have a particular proportion in mind, it will only increase gradually quarterly.

Y. M. Deosthalee There is one point I want to add, see currently the ROE of the wholesale business looks lower or depressed but there is a reason for that, the reason is we are providing more and in the current year we will continue to provide more. Once the provisioning requirements are taken care of, we expect on a steady state basis even ROE in the wholesale business also to be in the range of about 15% - 16%. That is where we have to reach but it will take time, it may take one year more, that means this entire year because we are providing more. Even today this quarter also we have made some extra additional provisions. So you would have seen in the wholesale business the provision coverage ratio has moved up. So that is going to be the strategy in the balance period as well, for the current year. Once we adequately make provisions on a prudent basis, it is not required regularly but prudency demands that we increase our provision. Next year onwards once this is done, the portfolio will generate decent results. What I am trying to say is although the portfolio has performed in the last three years, especially the portfolio of renewable energy generating very decent ROE, the problem is because of the legacy portfolio where we need to make provisions, that is number one. The second important point is, currently IDF is underleveraged and I think the leverage for IDF also has to go up for ROA to improve in the IDF business. Currently, we are at 3.5 times and the scope for IDF improvement is we can go up to 8 times which is not likely to happen by the end of this year but potentially it will go up in the current year.

Dinanath Dubhashi And it is a AAA entity.

Y. M. Deosthalee And that will also be a kicker for ROE improvement as far as the wholesale business is concerned. So considering these two points, from next year onwards we expect the ROE in the wholesale business also to be in the same region of about 15% - 16%.

Dinanath Dubhashi Now this 120, 150 etc., see now 150, 180, before two years that 360, all this is now matter of history and don't matter of provisioning policy anymore, now the only norm which applies is 120. And normally any team and especially retail team will start concentrating on a particular bucket when their measurement criteria, NPA criteria etc. become that. This is what, in fact if you remember and if you have been tracking what I have been saying for the last two years. When the norm was 180 we were questioned that when it becomes 150 what will happen, how much is between 150 and 180. And I had always said that when it comes to that then people start collecting more in that particular bucket. So it is a matter of really team management, team KPIs, team KRAs, so it is a very natural phenomenon. Next year you will see if we go ahead and the RBI goes ahead and sticks to its plan of making 90, you will see that suddenly 90 to 120 has reduced because people will concentrate on that. So that is how teams operate.

Y. M. Deosthalee Ultimately, what is important is what are the losses and not really the NPAs. So arising out of the portfolio how much is actually locked, this is an arithmetical calculation whether it is 150 days, 180 days, 120 days. So ultimate losses depend on when the cash is available with the customer.

Dinanath Dubhashi I mean on tractors for example, at 120 days our loss given default is absolutely minimal. I mean, just to give you one statistic, I am sure somebody will ask about farm. I keep giving this statistic in every analyst call. 36% of our NPAs even at 120 days are partly paid and somebody who has partly paid is definitely not going to default, I mean he is not going to lose his tractor and his livelihood for the rest of the money. So the moment he has money he will pay. So it is a matter of management on the field, I mean especially on tractors, do I go and repossess asset in 120 days, so we don't, we can easily show much lower GNPA number if we go and repossess in 120 days. But business does not happen like that, I mean next year if it is 90 days I will not go and repossess him at 60 or 70. We will provide and then ultimately when the money comes back we will write the provision back.

Moderator Thank you. Our next question is from the line of Shubhranshu Mishra from Anand Rathi Securities. Please go ahead.

Shubhranshu Mishra Sir, I just wanted clarity, you said that the wholesale business you are going to taper down and your other focus would naturally be on the retail side. Although that is going to grow gradually but I want to get a flavor of the microfinance business, how are you going to grow it, what kind of CAGR are you looking at, what kind of guidance you can give? That is question number one. And the second is about farm equipment, given that we are going to get a decent monsoon this time what is your expectation on the farm equipment business? And also, any guidance on the NPAs as regards the rural business?

Dinanath Dubhashi Sure. So first let me clarify, I did not say anything like what you said or what you concluded, so let me again clarify. I said that the retail business, which is B2C, we will keep pushing, the focus is on all three that is why we are calling them focused business. The focus is on rural, on housing, on wholesale, there is no question of more focus on rural and housing over others. Focus is for doing business, balance sheet allocation is the CFO's job, it is not business' job. So the focus will be equally on all three businesses, we will grow, in fact the growth in wholesale business is relatively easier because those are lumpy businesses coming, you can do one deal of Rs.500 crore - Rs.600 crore. For doing a tractor sale of Rs.500 crore is very-very difficult. So the growth in wholesale business will actually be faster. What I talked about was balance sheet allocation strategy, so within wholesale, the balance sheet will be allocated to IDF and the rest of the wholesale business will have to manage its capital friskily by generating fees, under writing and keeping on down sell. It sounds different, right. So that was the first clarification.

Microfinance, we believe that we have very good processes, we have gone and become complete mobile, now it is not just a technological toy that we are talking about there, this eliminates data entry, this eliminates sourcing errors, this eliminates to and fro of documents so that the tag can go up, it eliminates manual errors and hence the risk significantly comes down. Secondly, it allows a lot of analytics to be done and hence supervision costs come down. So one supervisor can now manage more people because he can do more sampling rather 100% checks.

Third is Aadhar, one of the emerging risk is what was happening in Andhra Pradesh long time back is that once again of multiple lending, it is happening in pockets, I mean it's not as if the whole sector is involved but accordingly to good risk management practice it is important to move to KYC which is less amenable to be defrauded. And today Aadhar is certainly that, that you can check on the site etc., it will still take some time to move to a two factor authentication, the cost of equipment etc. has to come down but ultimately we will move to two factor authentication i.e. Aadhar plus finger print or iris, etc., then it will become completely foolproof. But even the Aadhar number is a very-very good tool to reduce operation risk tremendously. Now it is not only enough for us to move because the whole industry has to move and only then, the risk will be minimized. But we have done our bit by moving and done our own operations completely based on Aadhar, we have also done a lot of advocacy for this and I believe that by FY18 MFIN has made it compulsory for all microfinance institutions to move to Aadhar. So with that a lot of the systemic risk is being reduced in microfinance.

Shubhranshu Mishra Sir, my question is still unanswered, in the sense that what would be your guidance or what kind of CAGR do you see in microfinance?

Dinanath Dubhashi We would think, see now there is a higher base, I mean we have achieved run rates of close to Rs.300 crore - Rs.350 crore per month and we should continue on that for this particular year. So CAGR obviously will keep coming down slightly as the base goes up. But our general trajectory will be maintained, so there we see no issues in growth there.

The farm situation, now this is a very interesting question. Sometimes there are perhaps expectations that when it rains it will rain money, it will not rain money, it will rain water. And when it rains water hopefully it will rain uniformly. What are the positive signs that we have seen? The monsoon, other than one particular state has generally progressed well, the sowing is well in most states I guess, generally speaking, there are small pockets here and there but the kharif sowing has gone well. If all goes well the kharif crop will be on time this time, the sowing has happened in the last week of June, first week of July, that means the kharif crop will be absolutely on time; money will come in the third quarter. Normally speaking, that means a lot of money would have flown back to the system. But what has happened is that there have been three bad monsoons and if you see our GNPA ratios as we have been reporting, the first two years the increase was not much, so based on our portfolio quality as well as collection efforts we actually managed to keep two years in control. This year the farmer is genuinely over indebted, we are actually going easy on collections for some time. So while we believe it is a simple guidance, while we believe that GNPA will slowly taper down as we go to second quarter and hopefully also in third quarter, for them to come down sizably will take one kharif, one rabi and perhaps one more kharif crop coming decently well. But we remain confident of our portfolio quality based on some metrics that we measure. Does that answer your question?

Shubhranshu Mishra Yes, sir. Just one more question sir, I just wanted a split between your housing and your LAP in the housing.

Dinanath Dubhashi I think we are not giving that in the presentation, but you can contact our IR department, they will share whatever they can share.

Moderator Thank you. Our next question is from the line of Sameer Dalal from Natwarlal & Sons Stock Brokers. Please go ahead.

Sameer Dalal: My question was, in the wholesale business you mentioned that you are focusing a bit on the renewable side where you are seeing a good growth opportunity. Can you elaborate where in the renewable side you are seeing the growth is in, is it solar, is it wind and what kind of opportunities, any guidance on how you would be doing in that space?

Dinanath Dubhashi So I would request our Chief Executive of IDF Shiva Rajaraman to answer this question.

Shiva Rajaraman In terms of renewable energy, we are principally focusing on wind and solar energy in that order. We also have focus on several smaller areas in renewable energy but they constitute an insignificant portion of our portfolio. So primarily, wind energy followed by solar energy has been our focus in the last few years. This focus on wind energy which was very large in the last one year is expected to come down slightly with a higher focus on solar energy in the next one year. Does that answer your question?

Sameer Dalal: Can you give some guidance on what kind of growth rate, actually that is largest part of your wholesale business, so how would that be growing?

Shiva Rajaraman See, this is the largest part of our wholesale business but we also have stringent criteria on what kind of concentration risk that we can take in any particular sector or group of sectors. So our growth rate partially in this sector would also be determined by the limits that we have placed on ourselves with respect to concentration risk. However, it will be these factors which will show the fastest growth in our portfolio apart from road and transportation areas in the next one year. With respect to exact percentages, we generally do not go into exact numbers; you can contact us separately with respect to exact numbers. But these three areas, wind, solar and roads will be the largest growth segment in the next one year.

Sameer Dalal: Second question is on the housing side, that book has also been growing relatively well. I think somebody had asked the question but I did not get the answer, what is the kind of growth you are expecting to continue that side? Secondly, with the housing finance rates coming down as significantly as they have, do you see, I mean yes there is growth but is it going to come at the cost of profitability? That is the question I think.

Dinanath Dubhashi So I will start from your last point, so most definitely I think if you have been following us, we said very clearly that one business which genuinely does not make money for HFC, in salaried housing loan especially if it is sourced through DSA. Reason is very clear that most of the margin goes in DSA payment for the first year and the DSA then moves the loan in two to three years to somebody else. So her we took a very-very decisive call to just stop on 1st of April that we do not do DSA based salaried home loans any more. It is not that we do not do salaried, it is lower proportion than last year but our salaried concentration is on our own sourced loans both through L&T Realty and also as we do our real-estate funding to projects in general as well as projects which are built by our parent L&T, from there put our people there and sourcing those home loans directly is a profitable way of doing this business. That remains the long-term USP, we will use our parent's strength, we will use what we are doing on real-estate financing, try and convert more and more to retail. That remains the long-term focus, although it will have to build gradually. So we make sure that NIMs remain at acceptable level.

The second focus, today, is moving the entire sourcing model, risk assessment model, portfolio management model to doing more Self-Employed Non-Professional (SENP) business, so SENP home loans as well as LAP. We realized that it is more risky than salaried, but very clearly salaried if we do and don't make any money, there is no question of risk there. So we have to do this and we have to do using very-very good risk model and making sure that the LTVs are low, the analysis and the assessment of the property is done well and hence risk remains in control. So using these two tracks, one is moving right now to more SENP and pushing more on own sourcing using our real-estate funding as well as our parent's strength is where the profitability will come from as far as NIMs are concerned. Second big thing is operating cost, and I think all the analysts were asking us that operating cost in this business are very high and we were always saying that these are the first two, three years of growth, we have taken note of that, we have also reduced some of the branches which were not scaling up doing business more in branches which are likely to scale up faster and you are seeing improvements in expenses as well. These two vectors we are sure that will make this business quite profitable.

Sameer Dalal: So I will just add one last question to this, what is the fee payment on the housing side that happened in the current quarter and has been the run rate, has there been any change because of this change in strategy?

Dinanath Dubhashi I think why don't you get in touch with our IR, I would not even remember this number like this on the call.

Moderator Thank you. Our next question is from the line of Vibha Batra from Fair Connect. Please go ahead.

Vibha Batra I have couple of questions. First ones are on the microfinance book. What are your lending rates in the markets where the likes of SKS are present, are you competitive with relatively lower rate microfinance players? I mean, qualitatively are you closer to them, are you higher?

Dinanath Dubhashi We are definitely in the bottom quartile if you take the overall MFI rate, most definitely. But the exact rates we don't give. But more importantly, just one simple calculation is on a Rs.10,000 loan 1% interest rate makes a difference of Rs.6 per month for MFI. So interest rate is not the criteria which determines competitiveness in microfinance market, it is reliability, turnaround time, trust that the customer has on you, what you are able to build up. If you say that you are able to tell the customer that you will get this loan and then able to disburse that within the promised time and managing the repayments well, managing your collection cycles well when the customer has money, structuring it well, these are the kind of strengths and USPs that a microfinance institution requires. I mean, I think it is more, somebody is saying that I have reduced rates by 25 basis points, what really he means is the installment reducing by Rs.1, it is not relevant at all.

Vibha Batra — But the range in the market is not actually 0.25%, it is from 26% to 20-odd%.

Dinanath Dubhashi — No, I am saying if somebody reduces it, it does not matter. So the range that you gave, as I said we are in the bottom quartile.

Vibha Batra — And would it be okay to assume that even the rural delinquencies that you have given they are at 120 DPD?

Dinanath Dubhashi — Yes, of course. Every GNPA number that we have given is at 120 DPD.

Vibha Batra — Because microfinance institutions are following 90 DPD and so are HFCs.

Dinanath Dubhashi — Sorry, I correct myself, HFCs are at 90, obviously because that is what is required. Microfinance institutions, it is 120, I mean microfinance institutions are not required to follow 90, some of them may be following, just reposing as 120. And most importantly, in microfinance there is hardly anything which is more than 30 also, so hardly anything, it will be in a few lakhs and not in crore.

Vibha Batra — Actually MFI guidelines, borderline MFIs do 90 DPD only.

Dinanath Dubhashi — So we are not an MFI, and very frankly at this point of time in microfinance it is an irrelevant question.

Vibha Batra — Yes. But then to say that…

Dinanath Dubhashi — Our collection efficiency is 99.87% on-time on date collection.

Vibha Batra — And you are mostly on monthly cycles or weekly?

Dinanath Dubhashi — Completely 100% monthly.

Vibha Batra — And since your microfinance delinquencies are low, I think two wheelers also would be lower because industry is doing reasonably well, so it would be reasonable to assume your rural, I mean the tractors delinquencies would be upwards of 16% - 17%?

Dinanath Dubhashi — No, all those guesses please don’t make and you are far off the mark but it is above the average we have given, most certainly.

Vibha Batra — And on your structure, your corporate finance book, what would be, you said you do not give typically yields but tenures and ticket sizes would be in what range?

Dinanath Dubhashi See it is structured and by mere definition, structured you cannot give average, this whole thing is structured. So I think average ticket sizes will be Rs.100 crore to Rs.200 crore and tenures can be anything between three years to five years to six years. But again, I think many granular details you can get from Investor Relations. If you want to build your model you please contact Investor Relations, I cannot answer you to build your models, I will give you industry trends and how we have done on our strategy.

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

Dinanath Dubhashi So thank you very much. I think I would thank all of you for being there. We are very happy to report that the management remains focused on ROE. We have a plan which the entire management and the entire team believes in and we are steadfastly concentrating on executing that plan. It will most certainly take couple of quarters for the numbers to show up, but we are very happy that early signs of the numbers are already being showing up. So this management is very-very enthused with what it has done in last 100 days or so and continues to be concentrating and steadfast on the path of delivering top quartile ROE in the next three to four years. Thank you very much. Good evening.

Moderator Thank you. On behalf of L&T Finance Holdings Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.