

L&T Finance Holdings Ltd
Investor/Analyst Conference Call
April 25, 2013

Moderator We would like to welcome all of you to L&T Finance Holdings' Analyst Meet to discuss fiscal year 2013 results that were announced earlier today. Without any further delay we would like to introduce the management team on the dais led by Mr. Deosthalee – Chairman and Managing Director, Mr. N. Sivaraman – President and Whole Time Director of the company, Mr. Suneet Maheshwari – MD and CEO of L&T Infra and Ms. Ashu Suyash – CEO of L&T Mutual Fund. We would like to start the proceedings now, over to Mr. Deosthalee.

Y M Deosthalee Good afternoon. We have just announced our results for the year 2012-13. Just to put the results in proper perspective, all of you are aware of what is happening in the Indian economy. We have seen lot of issues in the fiscal which has just ended. The economy has definitely slowed down and we are witnessing GDP growth at around 5% levels and there is a big drop from around 8.0%-8.5% over the previous few years. We are facing twin deficit with the government grappling with the problems of fiscal deficit as well as current account deficit. On the fiscal deficit front, there is a reasonable hope that the numbers will be better than what we had originally envisaged but we have to yet see the final numbers. As far as current account deficit is concerned the government is also equally perturbed and disturbed because of the numbers, but again with respect to the final numbers for the March quarter, the Finance Minister expects them to be better than the earlier quarter. But anyway there is a problem.

Sectorally, if you look at the infrastructure sector which is supposed to fuel growth and which is the barometer of investment climate in the economy, we have seen considerable slowdown across various sectors of infrastructure, be it power, roads, telecom and other areas like water supply schemes. There are only a few sectors where we see a reasonably good growth. One is the renewable energy sector, of course these are small projects and they simply cannot substitute thermal power or the other energy sources. But yes, there is some activity over there. There is some state-led development and you will find metro projects in various states.

There are some other smaller infrastructure projects which states are promoting. There is some activity in the transmission area and a few developmental projects which are being promoted by the state either in power generation or distribution. In social infrastructure there is reasonably good activity, which is in hospitals and that is included in the definition of infrastructure now. If you take other areas, capital good sectors such as steel, cement, etc - very limited level of activity exists and in any case we are not in that business in a big way.

However the fact is that the small and medium enterprises who are our customers are today suffering because of working capital related problems as well as lower level of activity. So there is a twin problem here as far as the small and medium enterprises are concerned and that is our market segment.

And if you consider other areas like retail or automobile, retail is one area where at least in the beginning of the year there was reasonably good growth but across segments of automobile we have seen slowdown in the latter part of the year. In the two-wheeler sector, we have seen some signs of slowdown towards the end of the year.

In any case construction equipment industry which is related to infrastructure as well as overall activity in the country has witnessed almost 15% to 20% de-growth in this year, same is the case with the commercial vehicle segment. Of course there are some pockets in this area which have seen growth like the small commercial vehicle. However, overall the growth was very poor.

The only area where growth was reasonably good for the full year was the rural sector and unfortunately even in that segment towards the end of the year we have seen some signs of threat because of the drought situation in the country and also overall farming activity, but that is an area which has done well and we have also seen good growth in that particular segment.

These results have to be seen in the context of this macro environment plus of course the interest rate continuing to be at an elevated level. Although the Reserve Bank of India has cut the repo rate as well as the CRR, still the liquidity continued to be tight for quite some time during the year and as a result of this transmission was impacted and therefore you continue to have higher level of interest rate. All these are important because all our businesses get impacted because of this kind of macro situation. So, in this backdrop I must say the company has performed well and I would encourage you to look at it in this context. It is important for us to look at our businesses in two parts –

- Lending businesses including two acquisitions during the year

- Investment management business consisting of Mutual Fund and Wealth Management

If you segregate them what we see now is that the Loans and Advances for the year ended 31st March, 2013 grew by almost 30% over the last year and the number at the end of the year is about Rs. 33,000 Cr. which shows a very healthy growth and as compared to the December quarter also it shows about 7% growth in terms of overall assets. The other important thing is the profitability. If you consider the standard loan lending activities it also has seen more than 29% growth in profits, excluding the exceptional item. This year we had an exceptional gain on sale of Federal Bank shares in the third quarter.

There are some other highlights which are also important. One is the overall non-performing assets – it stood at around 2.03% as compared to 2.29% in December. There has been a small drop vis-à-vis that. Same is the case with Net Non-performing assets – as compared to 1.56% as on December, it is at 1.26%. There is a small drop in both gross and net non-performing assets as compared to December. Mr. Sivaraman will cover in detail about how individual businesses are performing but given this environment and considering the fact that we have a mixed portfolio of infrastructure assets, corporate assets and retail assets, I would argue that this is an extremely commendable show, given the fact there is a stress across the environment.

There are 3-4 other events which are important during this period. One is that we made a beginning in the wealth management business. It is very complementary to the asset management business and I am very happy to say that in the first year or first few months of our operations we have garnered more than Rs. 2,000 Cr. of assets. Apart from the asset management business there will be another activity which will see growth in the fee income in the years to come. We also made a very successful preference capital issue which is very important to note for all of you because we met our capital requirement through this efficient route of issuing preference capital. We raised about Rs. 750 Cr. and there was a good response to this issue. It was over-subscribed and unfortunately we had to refund some of the funds invested because there was an overwhelming response to this preference capital issue.

One technical clarification on L&T Investment Management is that when we acquired Fidelity's asset management business it was under the umbrella of L&T Finance. We have received SEBI's approval now and is now a direct subsidiary of L&T Finance Holdings now.

And I am also happy to say that the integration of the three acquisitions which we made, the investment management business, housing finance

and the FamilyCredit consumer financing business has been completed very smoothly. We have done a reasonably good job without much of a stress in any of the entities and it is very important for you to note that all of them are now operating entities.

The last point which I want to mention is that this quarter, we have also included the numbers of FamilyCredit, the consumer financing business and the housing finance business. Housing finance is reasonably small because it is just the beginning but the FamilyCredit business is not that small. So when you look at the asset numbers and the profit numbers for the last quarter, it includes the profit from FamilyCredit. These are some of the few observations which I wanted to make in the beginning. Now I hand over to Mr. Sivaraman for a detailed presentation. Thank you.

N. Sivaraman

Hi, good evening. We begin with Slide 4 which you may have seen in different shapes and forms. As we have completed the acquisition of three more entities and started another line of activity during the current year, we thought it will be worthwhile putting them in a certain segmented way so that one understands what each entity does or where they belong in terms of our business strategy and focus. So in future as well, as we report our performance, our effort will be to reduce your confusion by reporting performance across these segments which are retail lending, wholesale lending and investment management. This slide gives you what are the segments that we focusing on, how the business is organized internally and which are the entities which participate in each one of these businesses. In retail lending, there are not many new items and it is just grouping and re-organization. One set is B2B i.e. business to business where we support clients who buy assets or use our loans for the purpose of doing their business or earning commercial income. The second set of retail businesses is B2C i.e. business to consumers, where we help individuals to generate income in a small way. For example we lend to the farmers for using tractors for their own cultivation or hiring or to other individual customers such as vehicle financing or microfinance, which are for smaller clients. These activities will be conducted through three entities, which is L&T Finance, FamilyCredit and L&T Housing Finance. Housing Finance would do the mortgage based lending and also the developer financing. In the case of developer financing, depending on the size of loan that we provide it may be held in L&T Finance as well. That will be the only distinction that will come through in terms of the balance sheet of each one of these companies. The distribution business has been consolidated and put under entity called L&T Access, through which we will tap both the captive customers and third-party customers. Currently L&T Access will focus around our own products for distribution while building capabilities to distribute third party products as well, that's the way we will build it.

The other classification is as per the RBI terminology where an asset finance company is one engaged in financing productive assets and productive movable assets such as commercial vehicle, construction equipment, small commercial vehicles, tractors, etc which is what L&T Finance will be. FamilyCredit will be a loan company. L&T Housing Finance, of course is an HFC regulated by National Housing Bank and L&T Access will be a distribution company.

Coming to the Wholesale Lending, we have L&T Infrastructure Finance as the primary infrastructure finance company, which will continue to focus around the infrastructure segment, both to provide project loans as well as to individual corporates who are engaged in the infrastructure segment. Over the last 6-7 years we have built excellent appraisal capabilities along with advisory service capabilities in terms of syndication. As you will see some part of the fee income in the subsequent slides for infra has come from certain advisory services around infrastructure related M&As that have happened. We want to now exploit these capabilities by participating in the non-infra corporate segment for large ticket lending. These are skills which are hard to build in one institution, which we have built over the last six years. We do believe that we rank amongst the best of the institutions with appraisal capabilities and we would definitely like to use this to add on to the products and services that we can offer to client segments which are beyond infrastructure. This is the initiative which we plan to start in the current year and we have some traction getting through with that. One can always debate or question us - are we building to become a bank. In a sense it will help becoming a bank and definitely build our portfolio to be able to exploit the banking opportunity in a very productive and synergistic way. But more importantly that is a segment which we are not servicing and we believe we have the ability to service them in a very competitive manner. While initially RoE could be slightly lower, i.e. we may not be able to achieve targets of 18% to 20% in the first two years. As we build traction, as we build long tenure loans, the balance sheet would grow and the operating cost ratios will look far more attractive than what it would be at the beginning. We don't expect a significant dilution in the ROE to begin with. Very clearly it will be contributing and building for a long term business potential. L&T Fincorp which used to be part of the retail and the mid-sector group as a loan company has moved under the wholesale lending platform to build business in a very focused manner.

We are working on building the infra PE fund. I think in a matter of months, we should be able to see infusion and consummation of this effort. The fourth piece that we putting together around the infra segment is the Infra Debt Fund. We are all familiar about the guidelines which the government and the RBI have announced in building the Infra Debt Fund. As an IFC, L&T Infrastructure Finance would be a sponsor for this business. It is required to hold not more than 49% and we would definitely get third party investors

to support this. We will of course present a few more details about this in the subsequent slides. The idea is to support projects, corporates and operational projects in a very-very competitive manner.

The investment management business includes the mutual fund business which all of you are aware of. The wealth management initiative that we have started will come under the investment management activities. We have incorporated a separate entity called L&T Capital Markets to provide services to wealthy clients. As Mr. Deosthalee mentioned we already have an AUM of close to Rs. 2,000 Cr. We have to build it. There are of course big players and really large service providers in this segment. We are not going to compete with them but we will look to build our own niche area to build it in a manner that is profitable.

One of the aspects which was burdening the various operating entities were the properties and some of the other common service activities which have so far been adjusted for reporting purposes with a view to make you all understand the returns and performance of individual entities. We have now put together all the properties owned by the various group companies under one umbrella which is L&T Unnati Finance. Of course it might undergo a change of name as we go along but we have put all the properties under our own umbrella and making sure that the balance sheet of NBFCs focus around lending related activities while the infrastructure or network building will be the responsibility of Unnati Finance and you can clearly see the performance of the NBFCs without getting colored. It also provides for more efficient use of capital. When these entities lease out the property and space from L&T Unnati Finance, we can do a receivable discounting and we can raise debt almost on a perpetual basis. What this means is that even as the property get depreciated, the rental discounting can create value in terms of overall leverage going up within the group and making the use of capital more efficient and ROE positive.

Moving to the next slide, i.e. slide # 5 - This is a slide which we keep emphasizing on even though on a relative basis our ROE is slightly lower than most other players in the segment. The basic communication is that we are definitely focused on it. The way we are trying to reorganize our business, the goal is to achieve a higher level of ROE than what we are today.

At the aggregate level we have about Rs. 17,000 Cr. in the retail and mid-corporate segments. Wholesale lending which today is largely around the infrastructure segment is a little over Rs. 16,000 Cr. Investment management business has about Rs. 11,000 odd Cr. of AUM. Private wealth management has AUM of about Rs. 2,000 Cr. We will also see as we go

through the individual company performance, how we will reach the optimal levels of ROE.

I am skipping slide # 6 because you are well aware about its contents. The idea is that we are not as diversified as one talks about. We have built our business around skills when it comes to lending - Asset backed skills or the balance sheet based skills or the infrastructure project related skills. These are the skills which are going to help us build value, build business and even look at other adjacencies as we grow.

The next slide, slide # 7 is on the milestones achieved. For 2013, there are two which are listed here - one is the start of the private wealth management business and the second is that we did a preference share issue to optimize our capital structure. The third piece which will soon appear as we reach the first quarter or the second quarter of the current year would be the initiative towards building the IDF (infrastructure debt fund). It has been a calibrated and good growth. The slide may look too crowded and too soon but it has actually been done with deliberate strategies over a period of time.

Slide # 9 is on the macro environment - I do not know whether these are good statements or negative statements, but we cannot present a different picture before we start presenting the numbers. We are quite happy with what we have been able to report as our performance in the current circumstances. This slide is to provide a context to it with respect to the economy and make sure that we position both what we have done in the last year and also what we could potentially do in the next year. These are important to be understood.

The point of focus for me will be around the fiscal deficit and the quality of the fiscal deficit. There are concerns that one hears around this and we also feel is that it has been managed to a large extent by deferring both productive expenditure and also delaying or deferring potential payments. This is a matter of concern. Fair enough that today the finance minister is confident to say that our fiscal deficit will be better than what he indicated in the budget, is good to hear. Let us make sure that the rating agencies do believe that and they do believe that going forward growth and consequently the fiscal deficit based on that growth is going to be valuable to us and I am sure that is what we are working on. To some extent these are being aided by fall in the commodity prices over the last 3 weeks. Things have changed dramatically from where they were. It should help both the current account deficit and consequently the liquidity and the interest rate environment and also the inflation which in turn should have an impact on the interest rate going forward, both the regulatory as well as what one can borrow at. And it is a point of deliberation as the regulatory

rates have not become the benchmark for the current lending, very clearly due to the liquidity deficit that exist in the economy.

The non food credit growth has been 14% odd which is lower than what RBI had targeted right through for the fiscal year. In this context when you hear a 30% growth in the loan book with no big blips in the NPLs, I think we need to feel comforted and satisfied about what we have been able to produce. While the environment definitely looks more optimistic than what it used to be 6 to 8 months back, that we would caution that we are not yet fully out of the woods when it comes to the performance of the various corporates. We continue to see slips on their liquidity even if most of them are well intended. There is a stress on their system or their cash flows with working capital cycles being longer. So I will continue to maintain my assessment of the next two quarters in a cautious way as far as the delinquencies are concerned. The delinquencies might increase in the next two quarters. I would guess that seems to be panning out in terms of the absolute cost which hit the P&L account as credit cost. That is what it looks like today, but we will wait and watch.

The banking guidelines have been announced, there are no surprises. The only surprise is that eligibility related criteria have been far more liberalized. So hopefully we should start seeing the process starting pretty soon. We are awaiting the responses to various clarifications which many constituents have asked. I hope it provides more clarity and definitive measures to process for the banking license.

Moving to Slide # 10 – There has been a 30% growth in the loan book and it is very good considering that the disbursement growth was only 6%. Now what it indicates to you is very clear - the focus that we have on long tenure project loans when it comes to the infrastructure segment. That is why the overall share of project related loans have gone up in our balance sheet and even in L&T Finance we are trying to look at good corporates with whom we can take slightly longer term bets, than some of the commercial vehicle operators or others who are undergoing stress. Simultaneously, even in the fleet operators or small fleet operators we have looked at the past track record and given them slightly longer term loans to make them be able to repay without much stress. Consequently the growth in the loan book has been pretty robust as compared to the disbursement growth.

The growth in profit after taxes for the NBFCs and the distribution entities together is about 30% for the year as a whole. For the quarter the growth is 46%. It has been helped to some extent by certain permanent improvement in the tax rate, i.e. the tax that we will be subject to. We will explain that as we go along in the next few slides. The NIM has improved, of course partially contributed by the consolidation of the FamilyCredit

results. Even without that I can say that the NIMs have improved as compared to the third quarter by about 10 to 15 basis points. The gross NPA as a percentage has come down. Yes, absolute amounts have gone up. We will see it in the respective entities individually. ROEs have gone up to about 18% for the fourth quarter. For the year as a whole it is about 16%. While part of the contribution comes from certain tax credits that have come through or certain changes in the way our expenses have been provided for. But we are definitely closer to reaching our goal of 18% to 20% sustainable ROEs in this business.

AUMs in investment management business have been very stable despite the equity markets not helping in both exciting the retail investors to invest in equity and with absolute value of the various funds being managed going down as a result of drop in the market level. So suffice to say that as you will see in the latest slide of the Investment Management business later, the composition of the AUM has undergone a change on a more sustainable basis.

Slide # 11 gives the PAT on a consolidated basis, which was Rs.174 Cr. before exceptional items for the fourth quarter, a growth of about 24%. After accounting for all the exceptional items it has gone up by about 22%. The PAT before exceptional item for the year as a whole has improved by 23%. This has been achieved with an improvement in margin, control over expenses and to some extent offset by the higher credit cost both in the quarter and for the year as a whole. We have also incurred roughly about Rs. 15 Cr. towards brand building during the current year, which we believe is an important investment that we have made for the year. I am highlighting this as it is going to be a repetitive cost besides the amount and the extent could vary from year to year. But definitely in the previous year this expenditure did not exist. So it was just to context the growth in profitability for the current year. In addition to that we also incurred interest cost at the holding company level for the borrowings we have done to fund the acquisition related payouts. But we need to understand that these businesses are yet to produce returns. So to some extent it depresses the overall PAT for the group.

We have proposed a maiden dividend of Rs. 0.75. We looked at Rs. 0.75 from one context which is that we listed the company in August 2011, but did not pay dividend last year. The objective was to conserve capital for growth last year. This year we propose a payment of Rs. 0.75. The overall payout ratio, on consolidated basis of profits is about 27% (of profits before exceptional items), which is relatively higher as compared to other comparable NBFCs.

Moving over to Slide # 12 - The Networth of the company is about Rs. 5,500 Cr. This does not include the preference capital that we have raised. The

company has also got liquid resources at its command, about Rs. 1,260 Cr. The Rs. 300 Cr. refund of preference share application money has already happened in the first week of April. We do have some borrowings to be paid out, but this slide basically indicates to you that we have sufficient financial flexibility to meet the capital requirements of the underlying subsidiaries. Our philosophy has been to manage the capital at the subsidiary entities at just about regulatory requirement plus some comfort zone. So this ensures that the capital usage is efficient and we do not over-capitalize individual entities and impact their operational ratios in any manner. It also provides comfort that in a difficult environment if we face certain liquidity deficit in the market, then we are able to provide the required support from the holding company. We would like to optimize the liquid resources at the holding company level while taking into account the requirements of the operating entities as well.

Slide # 13 talks about optimizing the capital structure. This was an important initiative we started sometime in the third quarter of last year and it is in fact based on some of the feedback that we received when we went around to meet investors. The question was when we would come back to raise capital. It did set us thinking and we decided that there is some opportunity as a holding company which perhaps was not available to other NBFCs which are all operating entities. On a tax optimized basis we can raise leverage at the holding company level and provide for capital requirements of the operating entities. Second important point is that we can actually demonstrate to the investors that we have already deployed the capital when we raise equity. The strategy on a long-term basis will be to maintain about 20% to 25% of the consolidated networth in the form of leverage. The form of leverage can vary - preference or other borrowings depending on the regulation, tax laws and other opportunities available in the market. Our objective will be to build this leverage at the overall holding company level and use this to help us improve the ROE for the shareholders and definitely minimize the dilution on earnings as and when we go to the market to raise equity to meet with our growth requirements. I think this is a strategy which is perhaps unique to this kind of a structure. It cannot be a very valuable strategy for an operating entity, given that preference share cost is not tax deductible. That is one advantage we have over here and under the CIC guidelines of RBI the capital adequacy requirement is 30%. We are not going that far but definitely to begin with we will maintain a 20% to 25% sustainable leverage in the holding company. The Rs. 750 Cr. Issue with 8.75% coupon was well received, very well subscribed by diverse segments. It shows the pedigree of LTFH and also the independent standing that this company has got. We have been able to raise this capital from a diverse set of investors with conviction and I have to say that we were able to close the issue in one day each time. I think at a coupon of 8.75% vis-à-vis the cost of equity it is going to be earning accretive to the equity shareholders.

Moving to slide # 15 - I will not delve too much on this. Suffice to say that most of the segments have undergone de-growth or extremely low level of growth. No major announcement of investments has happened. Even some of the existing investment projects under construction or announced investments have been deferred for a better regaenvironment to prevail in the country. It has impacted the corporates, their cash flows and working capital cycles. It has had its own impact on the overall loan book of most financial services players and we have not been an exception to it. Growth in the construction equipment segment has been slow. In fact there is a negative off-take as far as this business is concerned even from the manufacturers end. The rural products have seen a mixed trend. The northern markets have seen growth whereas the southern markets have seen de-growth. The concern we have is on the continued servicing of loans by this segment in the next few quarters given the drought situation in some parts of the country. Hopefully the monsoon in the current year will be good. We must start seeing pressure from this segment lifting and should see growth coming.

We are positive on the margin front going forward on account of the acquisition and consolidation of FamilyCredit as part of the retail group and the interest rate reduction that we have seen over the last two quarters. In my view, the environment is right for further reduction because of the positive outlook for inflation and current account deficit. I am expecting that the rate should soften from here onwards. We need to wait for some time to see the exact quantum of improvement in rates. I think there is scope to improve the margin between 25 to 50 basis points at least from where we are today.

We will be cautious on the disbursement growth. The long tenure loans should help us achieve growth in the balance sheet even if the disbursements do not grow.

Slide # 16 is on the infrastructure sector where we have seen some positive moves over the last few days. The power sector received a fillip with the cabinet committee on investment looking to clear about 28-odd projects. On the renewable energy segment, the focus around generation based incentive and most of the states picking it up as alternate energy source are definitely positives for us. Along with these, the restructuring option which some of the electricity board have exercised should really build credibility in this segment and provide us with lending opportunities. We have been pioneers in funding renewable energy projects and consequently, we stand a good chance for getting a slightly disproportionate share of sanctions from this segment.

On road sector we expect some of the awarded projects to come to financial closure and disbursement, hopefully in the second half. With all

the efforts that the government is taking in making certain policy decisions or even executive decisions should help us see some traction coming through. In the other sectors we'll continue to be cautious. I think it will take about two to three quarters before we see clarity. Unless infrastructure sector funding picks up the demand for related segments such as steel, cement, etc will continue to be lower. On the oil sector, while the pipelines have been classified as infrastructure, how soon oil companies will start investing in this segment is to be seen. So we would like to be little cautious in the rest of the segments.

From an overall growth perspective, when you see the details of infra segment there is no major growth in disbursements that we have achieved. But very definitely given the tenure for which we give the loans, the book growth continues to be robust. We will also see opportunities on the refinancing side coming up, to enable us to build our position and grow the balance sheet. On the margins in this business, the basis mismatch is very limited. The asset side and liability side tends to be floating. So margins should be stable to marginally reducing. The reason for that is not because of interest and cost of money but more because there is a client segment that we can focus on. What I wish to tell you is that today with Rs. 2,300 odd Cr. of networth that we have in the infrastructure business we can easily support close to Rs. 500 Cr. of lending. It basically changes the segment that we can address. We are not going to ignore the segment that we have been looking at with our networth and our access. We are just moving into supporting the tier-1 developers too, where the loan ticket sizes will be larger and the operating cost economics will kick in. In addition to that the quality of the book is going to be far different. All this will contribute to the ROE plus the scope of fee income, they are the ones who keep on looking at newer projects and larger ticket loans. That is the way we will grow. When we talk about margins going slightly down, it is not going to be so much ROE dilutive. May be you will see a quarter blip or a two-quarter blip but then it will catch up soon.

Moving to slide # 17, you can see the divergence on the disbursement growth in the retail and corporate finance. In the current year this will get renamed as the "Retail and SME sector" or "Retail and Mid-Corporate sector". The growth has been from the rural product segment and the capital market products (CMP). Through CMP, we have been able to support some of the best promoters in the country to meet with their own requirements to invest in their companies to support cash flows or where they wanted to increase their shareholding in some of these companies. This product is not something which is strategic but more opportunistic and tactical. We have made some good margins and volume of business as well in this.

Slide # 18 gives the summary financials of the Retail and Corporate segment. The book has grown by about 23% without the disbursement having grown significantly. Here you will see that most of the percentages on a quarter on quarter basis have been pretty stable, rather it is in line with the way the asset growth has happened. The opex has gone up by 23.7%. This is more an optical one because it also includes the operating costs for FamilyCredit, which is typically a very retail business. Consequently the operating costs are higher, which is also a reason why you will find that the margins – interest income growth as well as the margin growth have been far better. It comes hand in hand.

The credit costs have gone up by about 105% on a quarter on quarter basis. While it has remained stable right through the last two quarters, but on a year on year basis the increase has been substantial. We expect credit costs to remain stable in the ensuing quarters. This has been due to the increase in NPA level as given in the bottom table. As compared to Q3 the NPAs have gone up by about Rs. 101 Cr. and if you look at FY12 to FY13 the increase has been about Rs. 170 Cr. Of this about Rs. 100 Cr. is contributed by FamilyCredit. With regards to the Andhra MFI book, net exposure is zero today, while we continue to collect about Rs. 10 to 12 lakhs per month. From next year onwards it will be a contributor to the PAT in one sense. We have also given our provisioning norms both in the existing entity and the acquired entity which is FamilyCredit. The provisions are far in excess of the regulatory requirements to the extent of Rs.117 Cr.

Moving over to slide # 19 - On the ratios quarter on quarter, the net interest margins have improved. The cost of funds has gone up primarily because of the addition of FamilyCredit, but on an absolute basis the rates have come down. Without FamilyCredit, the yields have remained stable and the cost of funds have come down by about 10-15 basis points resulting in the NIMs improving. If I exclude FamilyCredit the margins would still have grown by about 10 basis points. Fee income has been pretty stable and the marginal increase in fee income has been contributed to some extent by the FamilyCredit acquisition. Operating cost is about 2.62% including FamilyCredit. Without FamilyCredit, opex for the quarter was about 1.88%. We have reversed some of the cost provisions we had carried in the fourth quarter, so you will have to look at the full year cost as the more sustainable one for the next year just to start as the base. We continue to work on improving our efficiency. I believe that the putting together all the retail entities should result in more scale economics or efficiencies coming through. We should continue to see the operating cost slowly coming down over a period of time. Credit costs when compared from Q3 to Q4 have been at similar levels, even though based on certain outlook we have taken some aggressive provisions in the last quarter. Going forward, credit cost as a percentage of assets should see stable levels with improving credit costs.

What we would like to see going forward will be - one the margins improving from where it is today, operating expenses remaining stable to improving and credit cost also remaining stable to improving in the near term. Gearing has come down slightly at 5.66 which has been primarily contributed by transfer of some assets that have happened from L&T Finance. We have transferred the real estate piece from L&T Finance into a separate company called L&T Unnati Finance. The L&T Investment Management business has been moved to the holding company as a way of cleaning the ownership structure. All these have resulted in reduction on the borrowing levels, consequently the gearing levels are lower. There is potential for this gearing level to go from 5.66 to around 6.2 in a very gradual manner. All of this should contribute to ROE improvement going forward. The capital adequacy levels are comfortable. We think that given the cash and liquidity available at the holding company, we can meet with the requirements of capital for these entities in the current year.

Slide # 20 is on the housing finance business. It is too small for us to really get into too many details, but suffice to say that the rating of AA is in place. It is a notch lower than the other entities. The simple reason being, that we need to demonstrate performance in this entity in the next few quarters. The disbursement levels have grown from Rs. 20 Cr. in Q2 to Rs. 31 Cr. in Q3, where we operated for about 1.5 months and in Q4 we are already at Rs. 140 Cr. We have done the first builder loan and I think the balance sheet of all the entities will be leveraged very effectively to support quality developers with large ticket developer loans, which should help in origination levels improving. We see an accelerated growth in the disbursements in future. For the current quarter the loss of Rs 0.9 Cr. is after providing for Rs 3.8 Cr. of integration cost.

Slide # 21- 23 detail the performance of the infrastructure business. The share of project loans is around 60%. It is slightly less than what we had in the third quarter. We have seen traction towards some of the Tier-1 developers where we have made some large disbursements. From a quality perspective, the book is definitely much better aligned compared to the third quarter. The disbursements have been in the existing thermal power projects where we had already sanctioned loans, in new renewable power projects and some of the corporates engaged in power sector. Transportation has contributed to the overall disbursement growth. Here, I would like to say that for clearer comparison we really need to become large enough such that each of the quarters is as large as one full year. Otherwise there will be volatilities in disbursements from quarter-to-quarter. To some extent even when I used to handle Investor Relations at L&T, it used to be a challenge to explain the quarter-to-quarter performance. May be for some time I will have a similar issue here too. But very clearly, year-on-year will be a good indicator of the trend in disbursement and book growth. We need to look at it on that basis.

Also from a concentration risk point of view we are well diversified. Our top 10 borrowers contribute to 18% of the total outstanding. Our top 10 groups also contribute only about 27% of the total outstanding. Most of the line items have been pretty much in line with the way the asset size has grown. There are two divergence factors, one is the fee income. As I mentioned to you we have been able to put some large ticket syndications in place. In addition to that we also closed one M&A advisory deal successfully. These have contributed to the fee income growth. This puts us on a platform from which we can definitely make some more right pitches and get more mandates for ourselves.

Credit cost has continued to be a bit of a challenge for us given the NPL level. The absolute NPLs have come down, but credit costs have shown an increase. This is as a result of our philosophy of making provisions of 3% to 8% against the stressed assets, which are basically overdue assets beyond four months and in addition to that wherever we have participated and restructured debt along with other banks, we also take a 2.75% provision in line with RBI guidelines applicable to restructured assets. Our conservative provisioning norms did help us in evening out the cost of credit including where we have to make sacrifices for the CDR that we have participated in.

On ratios, the point of improvement has been in the fee income. The credit costs have continued to be a matter of concern but this has been made up by lower interest costs that we have been able to achieve over the last two quarters combined with increased leverage. This has resulted in improved RoE. Our strategy has been to achieve a 15% RoE from loan book and fee income contributing to additional RoE of 2%. I think we should be getting there in a more stable and sustainable manner very soon.

We now move to slide # 24 which is on the infrastructure debt fund. This is one of the regulatory initiatives or the government's own development initiative to help operational projects get competitive pricing on loans. As an NBFC, IDF provides us with a great opportunity to lend at a very competitive price, as competitive as a bank. The advantages of IDF – one is definitely that the income is completely tax-exempt. We can pass on the tax benefit to the client. The second important aspect is that since we have a large infrastructure loan origination and monitoring organization within ourselves, the origination and account monitoring can be done in a synergized manner, which brings down the operating cost levels to just about minimal. This definitely is a great opportunity for us to build our loan book and value. We do see a lot of opportunities and our ability to participate in some of the operational projects in a value accretive manner. We should be doing this in a very aggressive manner going forward. We have made our application to RBI and the entity has been capitalized. Once we get the RBI approval then we are going to move forward and get assets. The fact is that since we have a balance sheet of our own, there are assets

which can actually migrate into the IDF to give it a kick-start and build this business from there.

Slide # 25 is on the risk management practices followed. This is something which you are all familiar with. I will not get into detailing these. The restructured assets as a part of the total book are about 3.66% in infrastructure segment. As far as the retail and corporate finance which is LTF and related companies, restructuring does get done but they are anyways considered as part of the NPA. There is nothing beyond the NPA ratio that you need to look at for any impaired assets in the balance sheet.

Slide # 26 details the debt composition which continues to be around 60% from banks. We look forward to some rate reduction coming through in the next two quarters to help us improve the margins. We have also been consciously working to replace most of the floating rate loans with the fixed rate loans using the opportunity of raising 2 to 3 years paper. L&T Infra will continue to be largely supported by banks with long term fixed rate loans to stabilize the overall interest rate profile in this company.

Moving over to slide # 27- 29 which are on the Investment Management business - the highlight of this quarter is the stability in the AUM and if you see the proportion of FMP has moved up from 7% to 10% in this year. When you observe about Rs 15.6 Cr. of loss for the quarter, it needs to be understood that it is after accounting for some spends i.e. upfront fees and brand building that we have incurred. So it definitely looks that we are pretty close to breakeven. Why are we confident on this? When you look at the simple sum of the two entities which is L&T Mutual Fund and Fidelity Mutual Fund and look at the run-rate today, it definitely looks we should reach breakeven sooner than later. With the management fee level of 0.7% of AUM, what we would need to breakeven on a steady state basis is an increase of about Rs 6,000 to 8,000 Cr. of AUM, which is not far away from where we are today.

We continue to focus on fixed income for the retail investors given the lack of interest in the equity markets and we are in a very synergistic manner working along with each one of the businesses to design and offer products to our clients. One of the recent FMPs was definitely offered on that basis to make it interesting for the investors, which did help us mobilize that kind of money and we will continue to work on that. Hence fixed income would be an important initiative that we will work on for the current year. With the empanelment having been completed with most of the key distributors, we should start seeing some equity growth coming in. Even if it does not result in big positive flows, at least it will minimize the negative flows that happen in the current situation.

Without spending too much time on the Wealth Management business, it will suffice to say that the team is in place and we have close to around Rs. 2,400 Cr. of assets under management as we speak today with a client base of ~ 650. We believe that given our credibility and also the reach that we have both within India and in the Middle East this is one piece which will soon start making a difference to the PAT. It will take a year or two but definitely it will be a material contributor to the PAT in the near-term.

With that I will conclude my presentation. We will be happy to take any further questions.

Manoj Anilchandani Our company and group is known to be a value and ethics driven group, well-positioned in very strategic areas to capture the growth opportunities in the economy and financial sectors. Now we're talking about 30 applications coming in for the new private banks, we will be one of them, it is an aspiration and definitely we may get it. So how do you see the scenario playing out in this because we are policy driven as far as commissions or payments are concerned and we have seen in the last three or four years that there have been a lot of issues in allocation of licenses. So how do we see this rolling out and we're also strategically placed to capture growth? We are not going to leave out if others come in forefront.

Y M Deosthalee I can only say that we are building a comprehensive business, we are building a diversified portfolio and we have aspirations. Now how the Reserve Bank of India is going to evaluate, it is difficult for me to comment on that very clearly. But if you look at the portfolio which we have today - infrastructure financing, corporate, SME and retail business, in all these it is possible to seamlessly migrate to a bank. Now it is speculative on my part to say how RBI is going to look at it, evaluate it etc. But yes, in all the businesses, you are right, the parent company L&T for the last 70 to 75 years and the 15 years of the history of this business and particularly in the last seven years where we have started growing in this business significantly, we have given a lot of importance to governance, processes, systems, ensuring that we follow the same value culture in these businesses. So this is important to the country, also to the decision-makers. Yes, certainly we will work towards that. We will apply that much I can tell you, how and when the decision is going to be taken; it is very difficult for me to comment.

Manoj Anilchandani I would ask Mr. Sivaraman if getting the license was your KRA, given by Mr. Deosthalee how will you handle it?

N. Sivaraman It is most important to put the best foot forward. It is not something that we need to accomplish at any cost, we need to justify that we deserve one and make sure that we provide all the support required around our

capabilities, about the quality of business, our own standards, our other eligibility criteria and make the best effort. That is what we will do. The business plan or the risk management model, the processes, how will we service customers, these are the ones which are important to the RBI. I would think that is all we can do.

Participant The final point, on the day you took over this company after leaving L&T you shared the vision about the market cap of Rs. 50,000 cr for this...

Y M Deosthalee I'm sorry to interrupt you I do not remember of any number.

Participant Can you share your vision now because we are well-positioned for much higher?

Y M Deosthalee Actually it is not possible for us to have a vision on the market cap because I am not really here to talk about the share price and the market cap because that will depend on many factors, that is a result if at all. I think it is our responsibility to build a valuable business, to build a long-term business which will provide sustainable returns and which we will be able to grow in a steady manner. This is something which we are going to build and the strategy which we are following is from that context - building a comprehensive portfolio. This would provide us with an opportunity to grow in various business cycles, economic cycles and to some extent helps us to de-risk. It also helps us to not compromise in terms of yields, margins, etc. and it provides the platform for the long-term. I would not say perpetual but it is almost a perpetual business because financial services is really a very long-term business, if you have a solid foundation. That is what our vision is: to provide sustainable long-term business. And you mentioned about KRA, I would not like to give a KRA such as give me a license. I would rather say - build a business which will create long-term sustainable value for all the stakeholders, a business which has all the elements, pieces and that is something which we are attempting to do. Bank is an extremely important element in that strategy and if it is going to enable us to achieve these objectives which are there, of course we will work towards that.

Mukaram Bhagat What will be the impact on your balance sheet and organization in case you get a banking license? When you migrate obviously there is reserve ratio requirement in priority sector lending, asset liability mismatch issues depending on the size of your infrastructure book and so on. How do you see that, would it have some sort of disruptive impact in the short run at least as you reorient and also on your organizational structure?

Y M Deosthalee First point, it is too premature to comment on what will be the impact. The reason for that is the stage at which we are currently, we are only asking questions on the guidelines which have been announced and we have sent

a few questions to Reserve Bank of India and we're awaiting clarification. So the impact will be clear once we get some of those clarifications. It is very difficult because it will depend on many factors and we have to see how the Reserve Bank of India is going to respond. For example what is the timeline which they are going to give for migration, whether it is going to be immediate or after some time? Secondly, whether they are saying that all the businesses have to necessarily be part of the new bank or some part of the business can remain in the NBFC form considering the liability profile of some of the business. There are several issues involved in this. So it is a very complex subject, currently what we are doing is we are working on a plan but it is an iterative kind of a process. We expect clarification on many of these issues to come in a few days from now and after that there will be some clarity to this subject. As far as the organization and management is concerned, it is rather early because while you can make some preparations you cannot build an organization without getting a license. You can make some initial beginning but there is no guarantee that someone is going to give us a license, but some preparatory steps have been taken and we will continue to work on that. So maybe a few months down the line there will be a lot of clarity on this subject. It is suffice to say that all these points which you have made are certainly very important points and we're working on that.

N. Sivaraman

Day one transfer of the entire balance sheet will be disruptive, we are fully conscious about it. I think we will have to work with the market to manage the balance sheet transition as well as with the regulator to make sure that you get the right kind of time available because I would guess that even the regulator does not want to disrupt or destabilize an existing organization or the market. Just to give you an example if all the NBFCs opt to become a bank, the demand on CRR and SLR and priority sector will be around Rs. 2.5 lakh Cr., it is not available today in the market! I think it is a calibrated process that we need to follow, there are options available and we will definitely work on that.

Y M Deosthalee

At the same time it is not that issues cannot be resolved; it is not a problem which cannot be solved that much I can tell you. There are solutions available. However we will work on those solutions after we get some of the clarifications.

Mukaram Bhagat

I think in the past, certain time has been given to meet with the requirements of the priority sector. Obviously there is a transition format, so we are managing the transition eventually. But also these kinds of expectations are quite heavy on social sector obligations in terms of branches in rural areas. So there is some sort of anxiety for investors, for this transition period.

- N. Sivaraman** It used to be an obligation when there was an interest rate ceiling. Today if you really look at it, it is an opportunity.
- Mukaram Bhagat** What about the bank obligations?
- Y M Deosthalee** It is not that it is not an issue, it is an issue. However, there are solutions possible and it will also depend upon your business model and how you are going to address this issue. There are possibilities or there are various options available to you. One can work around this. We do not think that is an insurmountable problem. If on the first day if they say that you have to meet with SLR CRR for the whole system, then that is going to be a challenge.
- Parag Jariwala** If you see your disbursement growth, it continues to remain below 10%. This has been the trend from past one or two or three quarters. So overall I understand that we try to get disbursement from the sectors where the repayment rates are lower but ultimately it will somehow come down into our growth numbers, maybe not now but then after two or three or four quarters from now.
- N. Sivaraman** If one believes that India will not go back to 8 to 10% growth rate and will continue to struggle at 4.5 -5%, maybe your statement is true. But then is there a need to build capacity. There is clearly a need. Is the consumption growing? It is growing. So that definitely provides an opportunity for disbursement growth as well. So what we have said is that in the infrastructure segment we have tried to focus more on projects or assets as an opportunity rather than supporting the developers. So clearly if you have seen over the last 3 to 4 years that we have disclosed, the average loan life has moved from about 2.5 to 3 years to 5.5 to 6 years today. Similarly in L&T Finance it has moved up from about 1.5 years to around 2.8 to 3 years kind of timeframe on an average. I think for us it is a question of balancing between using the network and using our capacity available. Second we do not end up originating again and again to keep the balance sheet growing. The origination cost gets amortized over a longer period of time and that is going to be value-accretive in the next few years. Last but not the least definitely there are going to be disbursement growth opportunities coming our way soon when the economic situation changes.
- Y M Deosthalee** It is a very right concern which you have expressed. However, you have to understand the steps which we have taken. There are two acquisitions which we completed, one is in the consumer financing space and the other one is in the housing finance space. As far as housing finance is concerned currently it is a very small base and we believe that in the years to come that business is going to provide growth. So the disbursement certainly will happen in that particular area. Same is the case in the consumer financing, two wheeler business, etc. I am not suggesting the other businesses will

not grow but what I'm saying is that we now have many opportunities to grow apart from what he mentioned about the longer tenure project funding, etc. These are also important, so we believe that if the economy grows at around 6% we will have a decent disbursement growth in the next year. Whether it will be in the first quarter of the second quarter I'm not saying, but I think overall we will have a very decent growth in the current year.

- Parag Jariwala** Just one data point, what is our exposure to gas based power projects?
- N. Sivaraman** We have a very small exposure to that and it should get resolved soon with gas availability slowly improving.
- Parag Jariwala** Our total investment in the investment management business would be roughly around Rs. 650 Cr.?
- N. Sivaraman** Slightly more than that because we have acquired DBS Chola mandalam, followed by Fidelity, so it will be more than that.
- Parag Jariwala** So roughly around?
- N. Sivaraman** Rs. 750 -800 Cr.
- Parag Jariwala** So roughly around 12 to 15% of our net worth is invested in the investment management business and which is actually not a great earning. It is actually pulling down our consolidated ROEs, is it the right way of thinking?
- N. Sivaraman** Of course you are right.
- Parag Jariwala** And when you're expecting it to break even?
- N. Sivaraman** As I said in the presentation we are seeing breakeven happening in the current year. We do not see more investment going back into the business in the current year. There after even if I assume say 0.5 or 0.6% kind of the fee on the AUM, I think it is a question of achieving around Rs. 30,000 to 40,000 Cr. of AUM to achieve desirable levels of ROE.
- Y M Deosthalee** I just wanted to add one thing; you rightly use the word investment. So we have made these investments and when we made the investment we were aware of the fact that in the first year of the operation it is going to have a loss situation. However, it is important for you to know that in the quarterly numbers which we have shown you, the run rate for the income is around Rs. 6 to 7 Cr. per month which is much higher than what was there in the earlier quarters. Secondly if you look at the numbers for this business there are two one-time kind of expenses – cost of raising FMPs and brand building. If it breaks even in the current year, we believe that it

is going to steadily produce returns after that because once you are on that trajectory I think this business does not require capital thereafter and it will provide steady returns.

Chetan Shah

In your opening remarks in the presentation you talked about the existing poor macro situation on the ground in context to India and in an answer to my previous colleague you talked about your expectation of how things might go well and we will go back to 6 to 8% of growth trajectories. Could you give us some color or sense of the current situation on the ground as you are far more connected to the SMEs and the actual people who are doing the business on a day-to-day basis? What do you think is happening as of now, and what is your sense of situation in economy next 3 to 4 quarters going forward. We get to only read or see about these issues in the media or hear from few economists who make comments. If you can share your views, that will be super useful for us.

Y M Deosthalee

Clearly last year, you have seen that the growth was really low, with almost 5% or so and it is across sectors. So when there is a lower level of growth, SMEs get impacted and they get impacted largely because of the working capital issues and what we have seen in terms of stress in corporate sectors is also largely on account of working capital issues.

Now let us divide it into two parts, the first part is whether the growth is going to come back immediately and whether the situation in terms of stress is going to continue. It is our belief that the growth is not likely to be very high, but we expect that around 6% kind of a growth should be possible in the year 2013-14 and why are we saying this? We are saying this because there are some sectors where minor solutions are being found out, number one. Second thing, what is projected is a good monsoon and if that materializes, then the consumption oriented growth and the rural growth will be okay towards the second half of the year. Particularly after August or so, there should be steady growth, which means that there will be some activity in rural market not only for equipment financing but home financing and consumer financing also. Third, whatever little activity we are seeing, we are sensing a sense of urgency. There is no doubt at all on the part of government as they definitely want to start something in the infrastructure sector. The cabinet committee has cleared number of projects which had been stalled and I think they are claiming that many more projects are going to be cleared soon. There is one sector which needs to kick-start and if that happens, then I think the cycle will revive to some extent that is power. We need to see some activity in both power transmission as well as power distribution. So, in both these areas some steps are being taken and therefore may be September onwards is the real play period where we can see some level of activity and therefore there is a reasonable confidence that things will improve.

The other important point is, at least there is some possibility of interest rates coming down. However there is also another important element in this and that is the liquidity situation which needs to be reasonably comfortable. So if Reserve Bank of India definitely wants to promote growth, if there is a meeting of minds over there and they reduce rates, then there is a need for reducing CRR as well. The reduction in Repo rates has not been passed on by banks because the deposit growth has also not been there as far as the banks are concerned, and therefore they are not willing to bring down the deposit rates. This is impacting the lending rate and the liquidity situation in the market. In fact it was really tight over the last few months. We also have to see interest rate movement, which is why I'm saying we expect the pickup to happen post monsoon. It should be from August onwards and therefore we are not saying that growth will be 7%, maybe a percentage point higher than what we have seen in the current year. SME sector, therefore, will continue to have some more stress and it is not likely again in the next two months that things will definitely and substantially improve. There will be continued stress, but in some sectors it is felt that we have seen the peak of problems. There are some areas still, there are problems for corporates particularly construction industry is one such industry which is badly affected. Even medium-sized construction companies are going through problems relating to working capital and as a result of which many of them have gone through the CDR mechanism and that is not still over. A few more months of stress is going to continue.

To summarize, what I'm saying is on the ground we do not see a very robust kind of situation. There is a slow improvement and we will be able to witness it probably post monsoons and not in the next few months. However, as far as our company is concerned, we still believe that in this environment we have grown reasonably well in 2012-13 and there is no reason why we should not grow in 2013-14, given this environment, given the portfolio mix which we have and the new businesses which we have acquired. I think we will continue to have a reasonably good growth in the year 2013-14 as well.

Devam Modi

This is Devam from Equirus Securities. Sir, I just wanted to ask a question on the power exposure that you have. You have exposure of Rs.2,000 Cr. and Rs. 3,000 Cr. in thermal and renewable power respectively. If you could help me with how many megawatts does this amount to and how many projects does it mean for both the categories?

Suneet Maheshwari

I don't think we can give you that number off-hand because thermal is a mix of sizes and different configurations. In renewable also there is a mix of hydel, wind and solar. So the configurations work out differently. But we can maybe get you that number off-line later to give you a broad sense.

Y M Deosthalee It is important for you to know that how many are operational projects and how many are actually under construction.

Suneet Maheshwari In the overall power portfolio about 30% of our projects would be operational and another 30% would be under some stage of being implemented. That would be broad number.

Devam Modi Even in the renewable segment?

Management I talked about the entire power portfolio, renewable the percentage is probably more in operations and fewer in construction. In thermal there are fewer in operation as of now and more in construction.

Devam Modi Sir, if you could help us with the indicative yields for the various products of L&T Finance, just what sort of a range would it be?

N. Sivaraman You have seen the average yield. We actually do bottoms up pricing which means that there is an ROE goal which gets added with the tax cost, then the costs around the delivery and monitoring. That is how it is built. A consequence of that is the NIM goal that we have. Even in the same product like CV we can have a 9.5% loan for the fleet operator for the large-sized loan, whereas for the single user it can be around 14% to 14.5%. It is also a function of interest rate environment at that point of time. We continuously calibrate based on the customer segment as well as the potential risk in that segment and the cost of delivery of the credit. All of these do get factored in. So it is not appropriate to say this is the yield for this product.

Nischint Chawathe This is Nischint Chawathe here from Kotak Securities. If you could share some details about how the performance of L&T Finance would be for the 4th quarter excluding FamilyCredit?

N. Sivaraman There will be two aspects that you can look at. One is the margins would have been around 5.9-5.95 kind of level. The OPEX would be about 1.88% and credit cost would be around 1.2%. That is the range it would have been.

Nischint Chawathe In terms of ROE?

N. Sivaraman ROE will be in the 16% range.

Nischint Chawathe And in terms of L&T Infra Finance, there has been a large increase in the exposure to the transportation sector, if you could throw some color on that?

Suneet Maheshwari We have been looking at financing some of the operating projects that would be coming in post-construction stage and you got to discount those projects. There are a few projects at this time, which are coming to the market and especially in the road sector. They may have locked in to an interest cost, which was probably higher sometime back and once they come into an operating phase, there are some risks that have fallen off and with the interest rates a little lower now than what they were, let's say, a year or so back. There is an opportunity where some of these projects are refinancing by bringing down the interest cost. We have grabbed some of that opportunity in the market space.

Nischint Chawathe And just a final question on tax rate, you said you will just discuss it later?

N. Sivaraman For L&T Infrastructure, we have taken advantage of section 7D of the income tax act, given that it has become a public financial institution which runs the tax rate at about 26% or 27% on an average. This is a sustainable rate. It only depends on the share of projects that we have financed under both infrastructure as well as industrial undertaking definition.

As regards L&T Finance or retail business, we will effectively start using the tax rebate available in FamilyCredit. We had talked about it at the time of announcing the acquisition. The lowest number will be around Rs. 140 Cr. to 150 Cr. In addition to that there are one or two other provisions that would be available which can add up to another Rs. 130 Cr. to Rs.140 Cr. There is a good amount available before income in FamilyCredit will get taxable. We are also realigning our business, both from a point of view of fulfilling the AFC condition and also the best entity to do this business. By that time the tax credits are fully utilized, I hope the environment will create a more stable credit cost as well as margin.

Umang Shah This is Umang Shah from CIMB, I had a couple of questions regarding your CV portfolio - one is if you could throw some light as to what exactly is the profile of customers that you provide finance to?

N. Sivaraman There are three types of customers - one is of course the fleet operators, whom we finance as a way of stabilizing the portfolio quality and minimizing the operating cost. The second is the first-time users whom we support. Then there are also small fleet operators who own 3 to 5 assets. But the emphasis on anyone segment will depend upon the environment as well as the geography, so this is what we keep changing. So currently, suffice to say that we will have fleet operators at about 17% to 20% of our book.

Umang Shah Sir, you also mentioned that in your L&T Finance book the average tenure of the loan has increased. So specifically for CV loan, how have the tenures moved, maybe two years back and now, how it has moved?

N. Sivaraman Well, I have not done an analysis at a product level but when we support the fleet operators, then definitely loans are five or six years whereas, when we do a first time users it will be around three years. It depends on the product mix at a point of time.

Umang Shah Similarly, on a broader basis what kinds of shift are you seeing in terms of the loan-to-value ratio and how have the collection efficiencies behaved, maybe a year back and now?

N. Sivaraman We have taken the call on credit as early as March 2012 and prior to that, because we were seeing the stress coming through in the environment. As a result of which the growth in the CV segment for previous year as well the last year has been pretty low. It has been a conscious decision. The focus is around both yields and margins and also the quality of the book. I think in an opportunistic manner we will continue to adjust the portfolio between first-time users and the fleet operators, but I can't say in what shape it will grow in future at the moment, because it depends on the environment at a point of time.

Umang Shah I just want to understand whether the loan-to-value ratios have gone up over past 1-1.5 years?

N. Sivaraman Generally it has come down, especially when you are supporting the small operators. The reasons are two, one is the transportation model is moving towards the multi-axle vehicles and the LCVs rather than the typical MHCVs. That is definitely changing. We have been very conscious about this for the last one and half years or so and then building our portfolio towards the fleet operators because they are the ones who can afford multi-axle vehicles. Consequently when we are supporting small operators our LTV is 65% to 70% and not more than that definitely. We only finance the chassis, we don't finance the body.

Umang Shah Typically, what would be an average yield for a first-time user or a SRTTO kind of customer?

N. Sivaraman It is the function of geography, the function of the type of asset, so it will range of 13.5% to 14.5%. It depends on the kind of client and the interest rate at a given point of time.

Umang Shah Are we seeing any stress building up in these segments, fleet or FTO/SRTTO, any kind of stress on asset quality?

N. Sivaraman Definitely, they are the ones who are squeezed because of the operating cost environment, the capital cost as well as the inflation in terms of their living cost. That is definitely there, plus they are also caught between the service providers on the one hand and also fleet operators who really take

the assets on hire from them. Yes, there is stress definitely, but we are being proactive in foreclosures to handle the delinquency situation.