Analyst Meeting Transcript
April 23, 2014

Moderator: We have with us the LTFH management team represented by - Mr. Y. M. Deosthalee – Chairman & Managing Director, Mr. N. Sivaraman – President and Whole Time Director, Mr. Suneet Maheshwari – Group Executive Vice President – Corporate Affairs, Mr. Dinanath Dubhashi – Managing Director and Chief Executive L&T Finance, Ms. Ashu Suyash – Chief Executive L&T Investment Management, Mr. G Krishnamurthy – Chief Executive L&T Infrastructure Finance and Mr. Shekhar Damle – Group CFO. I would like the management to start the proceedings with the presentation.

N Sivaraman: Good evening and thank you for joining us. I shall give you a quick overview of the results and then take questions from you.

L&T Finance Holdings today has crossed another milestone in its journey. During the year ending 31st March 2014, not only have we built each of our product lines further, but in addition to this the overall balance sheet has grown to cross Rs 40,000 Crores. The mutual fund business has had a healthy growth of assets during the current year and has moved up to the 13th rank in the investment management business from the earlier rank of 16th.

The loans and advances have consistently grown over the last five years at a CAGR of 39%. The net interest margins have kept pace with the asset growth while the PAT growth has been slightly subdued, primarily on account of the recent impact of credit cost on the company's overall returns.

We have consistently expanded our product range as well as the customer segments to which we cater to, intended towards achieving our vision, which is to build a comprehensive financial service play. We have an extensive coverage of 700 plus points of presence, we are not only present in the major cities of India, but also service our customers in the rural areas where our sales personnel operate out of their home offices, which report into the branches.

Slide 7 represents the range of products that we have which includes those servicing customers from rural areas, mid-market segment and large corporates. The investment management business comprises of the mutual fund business which is based on listed stocks, the wealth management business which is related to distribution and advisory services and also the private equity business which provides an alternate investment opportunity. The entities which provide these services are listed at the bottom. Slide 8 depicts the customer segments that we service - they are well spread out with the wholesale finance business comprising 44% of the total outstanding book, the retail finance business is at 34% of the book and the mid-market finance business is at 22%. While rural products and personal vehicle finance are the significant segments in Retail, loans & leases and loans against shares are the significant segments for the Mid-Market finance business. Project loans both operational and construction constitute a significant share of the Wholesale business.

Slide 9 is a reiteration of our pan India presence covering about 23 states and reaching out to our customers through 700 odd points of presence, 150+ branches, 190+ meetings centers and 60+ Kisan Gaurav Seva Kendras (service centers for rural customers).

We have been able to put in place a strong leadership team comprising of people from the industry, who come with significant experience. We not only have people from respected financial institutions in the country, but also people from the MNC banks, who have joined us. Thus a capable leadership pipeline has been created. More details on the management team are provided as part of the annexure in the presentation.

Moving to slide 12 - We have been innovating to improve the quality of service, the turnaround time and to improve our cost efficiencies. So we have a comprehensive application through which we are able to originate the loan right at the customer's doorstep. This includes not just filling the application form, but also making sure that the KYC and other loan related documents can be scanned and sent across to a centralized operations center for credit underwriting and quick disbursement. In my meetings with some of our stakeholders, be it dealers or the intermediaries of the OEM who actually help us to reach out to their customers, they have been extremely appreciative of our efforts to reach out to customers at their doorstep.

Slide 13 addresses our position on not receiving the bank license. There has been a bit of disappointment that we did not get a banking license. While it's difficult to get into the reasons as to why we did not get one, we continue to maintain our ambition or the desire to become a bank. We stand by our position on the rationale for us to become a bank – it is about expanding the product range, expanding the customer segment and being able to use the capital in a far better manner. So these aspects continue to remain relevant for us to expand and become a bank. As we wait for the regulatory situation to evolve on this, our focus will definitely be to further expand, further grow in terms of geography, further increase the offerings, while keeping the operating cost under control so that we are able to achieve better returns as we wait to become a bank. In addition to this we would definitely continue our efforts to diversify the sources of funding for our businesses with more retail offering being a part of our liability book too.

We now move on to the next section which is the overall performance highlights. With regard to the Industry Outlook - there is nothing that is new, but yes there is a bit of challenge in front of the regulatory and monetary authority as well as the government. There are mixed indications of growth, liquidity, external environment or the current account deficit or currency situation. All of these have been in a sense led and controlled by the inflation trends. Though it is not very clear how it would move going forward, but there is some comfort in the sense that the interest rate environment could be expected to remain stable rather than being volatile. The premise for our outlook for the next year will be on the back of a stable government emerging and improvements in the investment climate.

Even with this backdrop, the growth momentum has continued with the book growing by about 20%, the disbursement growth has been at 13% aided by the focus on the B2C segment - rural products, personal vehicle and housing finance, in addition to operational projects in infrastructure. We also have a good flavor of the tier 1 developers and also tier 1 corporates which are being added to our book with a clear objective to improve the overall quality of the book and make sure that the denominator is sound. With our existing net worth, we can be a meaningful lender to the larger corporates.

The pre-provisioning profitability has been good and definitely it has been in line with the asset growth and the margins have been stable to improving in all segments. The completion of integration of all the acquisitions has resulted in some improvement in the operating cost and more importantly the AMC business has achieved breakeven for the current year. All these positive trends have been impacted by asset quality of our balance sheet, which has been largely impacted by the external environment. In addition to NPAs the other issue that has impacted us is the size of the standard restructured portfolio. As one of the consortium lenders we do have to participate along with other banks and ensure that we provide an adequate opportunity to the borrower to come back to normalcy. So there are provisions against these - be it in the form of non-recognition of interest or sacrifice on interest, the funded interest provisioning along with the mandatory provisioning that RBI requires have all taken a toll on the overall profitability with an increase in the aggregate credit cost.

In terms of financial performance, we have already talked about the asset growth and the disbursement growth. The NIM efficacy has been in line with or better than the growth in loans and advances and the earnings before the credit cost has shown a healthy improvement of 21%. While one cannot run away from the credit cost which definitely has had an impact on the overall performance, it would need to be seen as a reflection of the environment that we are in today. Hopefully with a new government coming in and with stability in the investment sector we should see an improvement coming through towards second half of the financial year. ROE has shown an improvement in the fourth quarter on back of the improvement in the overall book size, improvement in margins, stable operating cost, while being marginally impacted by credit cost which has been stable across the last two quarters. The investment management business has seen a good growth of 63% in the overall assets and compared to ~ Rs 60 Crores loss in the last year we have a breakeven this year.

The PAT before exceptional items (we had profit on sale of Federal Bank’s shares in FY13, reduced to some extent by the integration related cost of the acquisition of Fidelity mutual fund) stands at Rs 597 Cr for this year compared to Rs. 558 Cr last year, which is an improvement of 7%. In the context of the equity investors, the EPS has remained more or less flat due to the difficult environment that we have had. The net worth excluding preference capital has grown to Rs 5,843 Crore. Compared to Q3FY14, you will notice that there is no increase in the net worth in Q4FY14, the primary reason is that most of the incremental profit in Q4FY14 had been provided as dividend for the shareholder which is 0.75 Rupees per share; we have maintained the dividend at the same level as last year.

Moving over to slide 21 - in the rural product segment the demand has been robust with tractors growing at 20% during FY14 after witnessing stagnant to negative growth during FY13. There has been a positive sentiment in the rural areas on the back of a favorable monsoon leading to good Rabi crop and Kharif sowing, also aided by the good minimum support price for the crops. The recent unseasonal rains and hailstorms in some agriculture belts such as Maharashtra, Madhya Pradesh and Punjab may lead to some amount of moderation in growth of agricultural output. While we cannot forecast what will happen with the weather next year, concerns around El-Nino do exist. I would believe that the level of irrigation in the overall system should ensure that the impact on agricultural produce would be minimal. We could also see the government really step in again to address minimum support price to ensure that the liquidity remains buoyant in the rural economy. The micro finance sector continues to remain attractive; we have seen good growth just as is the case with most of the microfinance institutions. The two wheeler sector has seen positive growth, driven by the scooter segment. The overall growth for passenger vehicles has been muted with growth in the car segment being very negative and the commercial vehicle segment had also seen de-growth, construction equipment has also been similar. So it has been a difficult year in terms of the overall manufacturing growth which has also had an impact on the lending growth. The mid-market segment continues to witness stretched working capital cycles and experience weak demand. Most of the rating firms are expecting a turnaround, with both CRISIL and CARE's recent reports talking about the upgrades to downgrades ratio improving. We would continue to remain cautious in our outlook towards this segment.

Slide 22 is a depiction of the opportunity that exists and also our focus area. We had actually planned over the last 18 months or so to focus on the B2C segments and I should say that that has really helped us to maintain our overall disbursement growth both in terms of size and also the quality of the asset. The rural product finance, personal vehicle finance, microfinance have all seen excellent growth and disbursement during the last year. In the personal vehicle finance segment while there may not have been a big jump in manufacturers' growth, we would be able to corner more market share and grow better than the industry due to the very fact that we have a small presence and have opportunity to expand the network and relationship. We have seen opportunities in the loan against shares segment and we have continued to de-grow in construction equipment and commercial vehicle for the second year in succession. Overall it has been a good growth of about 14% in the retail and mid-market segment. The most important point is that the B2C products today constitute 40% of the total book of retail and mid-market segment compared to about 31% at the beginning of the financial year.

The earnings before credit cost have improved by 25% compared to asset growth of 14%. It indicates that the operating parameters have remained quite stable to improving. While the large jump in the operating expenses is noticeable, a lot of this is on account of the integration of FamilyCredit as part of the retail and mid-market segment. So if we adjust for the fact that FamilyCredit was not present for a period of 9 months in FY13, then the overall opex growth has been much lower. If we ignore some of the onetime cost we have incurred on the integration, then we will be more or less in line with the overall asset growth. So this growth in opex is not extra ordinary as has been the case with the credit costs and earnings. As we guided at the time of our third quarter results we should see the credit cost stabilizing at the current levels in terms of what is charged to the P&L account, which is what is reflected in this quarter. Incidentally it is exactly Rs 91 Crores like the previous quarter, but definitely at the ratio level there will be a perceptible difference. The PAT has grown at 14% on the account of the business growth, margin improvement and also stable credit cost. In line with our guidance the gross NPA in this segment have stabilized and is likely to improve. Our overall gross NPLs have gone up by about Rs 11 Crores between the two sequential quarters and the net NPAs remained stable, which means that our provision coverage has actually improved. In addition to the provisions we also have about Rs 40 Crores of assets which are repossessed and pending sale.

Looking at the key ratios, the net interest margin have improved in line with what we have been saying consistently that we will continue to see about 15bps to 20bps improvement in the margins right through every quarter. It is remarkable that despite the very difficult second and third quarter in terms of the borrowing environment, we have been able to see a consistent improvement in margins. This reflects our ability to price and also our ability to source funds. As the interest rates stabilized and improved, we did replace a good amount of the high cost borrowing that we had entered into during the second and third quarter. The opex is at about 2.72% which is aggregation of the two entities i.e. L&T Finance and Family Credit. While we have been able to achieve some level of synergy, I would like to state, without quantifying that there are further synergies to be exploited. The credit cost has remained stable; the outlook is that we should start seeing an improvement in terms of the credit cost as the environment improves. Also with most of the provisioning having got done in the current year, we should also see some relief coming through. I would want to caution you that even if we do not see this exactly reflected on quarter-on-quarter basis, but for the year as a whole we should see an improvement coming through in the credit cost. Marginal improvement in the ROE is not in the satisfactory level but I would leave you with the thought that we should see an improvement of about 50 bps in the return on assets as we exit the year 2015.

The housing finance business has achieved quite some scale. In the 16 operational markets sourcing has continued to remain robust. The higher ticket size flat buyers as well as the metropolitan and urban areas have been our larger segments as of today. The goal is to eventually build the rural and affordable housing segment once we have achieved a certain level of scale and profitability that will allow us to make investments in that sector. The loan book both as a result of our own disbursements plus the acquisition of the Citi portfolio is currently at Rs 1,880 Crores. The slippage on the GNPA is mainly accounted for by the slippages in the Citi book. It is about four months since we began servicing this book, so we still need to make investments and ensure the performance of this book and I think we are confident of achieving it over the current year. The PAT is about Rs. 10 Crores for the year, while for the quarter it is Rs 8 Crores. While this may not be a run rate on an accurate level, but it indicates that this business will start earning decent returns on the net worth earlier than what we had actually anticipated.

Slide 26 is on wholesale finance. I will just highlight two areas - one is about thermal power. Both on the demand as well as from the fuel availability side we are continuing to see issues. Electricity boards have their own issues and the overall economic environment has not promoted consumption, so consequently there is some stress continuing to remain even in the operational projects in the segment. Even some of the newer projects which are coming to operation could also see difficulties in the initial years. The good piece is that we are seeing investment interest in the segment. There are at least about two to three transactions which are being talked about so that shows that there are people who are seeing some light at end of the day in the segment. In the Renewable Energy, while last year it has not seen investment our outlook is that the JNNSM Phase 2 should provide opportunities in the next two years for new investments in the sector. Roads we know the story, our focus is to look at operational projects and ensure that our focus remains that.

Disbursement and loan growth reflects the muted environment and lack of opportunities in the segment definitely. But the book growth has been robust given that the loans are for the longer life, so consequently you see a good growth in the overall loan size. Important point here is that the operational project share has gone up from about 30% at the beginning of the year to 37% clearly reflecting our focus on improving the quality of the balance sheet.

The NIMs have seen a drop in this segment primarily on account of NPAs and also restructured assets on which we do not accrue income. On the operational book we have seen pretty stable margins. The credit cost has shown a larger increase and also the interest cost. So hopefully in the current year while we should see some volatility in the initial quarters, but for the year as a whole we should see stable levels of interest cost, credit cost as well NPA levels.

Moving to the ratios which reflect what we have spoken about so far. Margins have seen a decline in the current year as certain assets have moved in terms of their classification as standard restructured assets. We expect to have stable margins going forward, at the same level as the overall margin for the year. I did mention that credit cost will start seeing some improvement in the second half more positively than in the early period of the year. I will continue to reinforce and emphasize that the first two quarters might see some volatility on the NPA levels as well as restructured assets and credit cost. There is sufficient scope to leverage this entity further and that could be one of our important goals for the next year.

Slide 30-31 is on the investment management business. For us the most gratifying thing has been two aspects - one is that the overall asset growth has been about 63% and second while the overall industry saw a negative growth in the fixed income segment, we have seen strong positive flows to our assets under management. For the first quarter our strategy will be to launch the L&T Emerging Businesses Fund which is already announced and on the way. Our focus will be to get scale on the retail asset class through both fixed income as well as the equity. The risk that we see is in terms of what the election results would be and how the markets will move. For the last almost about 18 months, we have seen that every time the market moves up then there have been outflows from equity segment. People have been cashing out rather than seeing confidence and we hope with the change in government we might see a stable government emerging which should encourage people to stay invested and maybe get attracted to making investment in the equity assets.

While we have already spoken about the financial performance of this business, one of the highlights has been in terms of the OPEX remaining quite stable. Revenues have improved. We are achieving 54 bps of asset management fee with 30% of it coming in from retail assets which I think is a credible number as compared to the industry.

Slide 32 - On the Wealth Management side we have seen good traction on assets as well as the number of clients. As you all know we have also started servicing the mass retail segment from last year onwards. We hope to build this business. For the next year we plan to open an office in Dubai and serve the non-resident clients as well. So this business will continue to see some level of negative outcomes on the net income level, but as we will build scale this should breakeven and start showing some positive contribution to the net profit.

Slide no 32- Focus areas for business segments. Retail thrust will continue. We plan to work more on the SME segment - that is the second important product initiative that we will have. Operational cost improvement will be a goal because we do believe that the only way to really make money in this segment is managing the cost structure rather than trying to fight on yield. Credit quality monitoring will be clearly the focus. We are putting a certain initiative in terms of monitoring zero bucket collection and outsourced collections to some extent to improve the collection efficiency on the ground. Wholesale finance will be around operational assets as well as higher quality credits. The leverage optimization as I mentioned would be another important goal.

Investment management business – increasing the proportion of equity AUM, more importantly in the equity AUM as we are through with one NFO, maybe we look to do a few more to really achieve our goal of improving the overall equity AUM as well as the composition of the retail assets. Cost controls will be the mantra. Thank you and do vote tomorrow. Before that you can ask questions.

Ankit Hakhu: This is Ankit from CRISIL. My question is on the Infra book. You have said that you have been cautious in building exposure by focusing on the operational assets. My question is that when can we see an improvement in your GNPA numbers based on these efforts? How soon can we see this improving?

N. Sivaraman: As I mentioned during my presentation, for the coming year as a whole we do believe the overall NPAs can remain stable-to-improving, but that will be towards the end of the year. In the interim, one or two quarters we might see some volatility. One of the important events has been the change in the regulatory environment applicable to recognizing and managing stressed assets, which was recently issued by RBI. There could be an increase in the restructuring during the current year and we also know that there is a sunset clause for the provision to approach the CDR cell. So these could encourage the banks to look at restructuring more assets, which could cause some stress on the overall credit cost.

Ankit Hakhu: My second question is how much lower would the yields be or the NIMs be because of restructuring? If you could give us the NIMs on the restructured book vis-à-vis the standard book?

G. Krishnamurthy: Restructured assets typically have funding of interest provision for around 12 months to 18 months depending upon the restructuring package adopted. So during this period where interest is funded, whatever income is booked is reversed completely. So in that sense the entire yield gets compensated at the credit cost level as a contra-entry and effectively there will be no addition to the PBT.

Ramesh Kulkarni: This is Ramesh Kulkarni. While speaking on the slide on banking license, you expressed your disgust mildly on not getting a banking license whereas RBI has said that if an applicant is found to be fit and proper, then the banking license will be given. Could you throw some light on how does the RBI intend to go about this in the future? How long will it take for us to be qualified as absolutely fit and proper to get the banking license more so since all your product verticals indicate that you are already running as a bank.

Y. M. Deosthalee: Unfortunately it is very difficult for us to answer this question because we don't have any communication on this subject. But it will be our endeavor to seek clarification and see where we are lacking and we will try to improve on them. So our vision continues to be to build a comprehensive financial services business and bank is an important element in that. So we will pursue the goal. How long is it going to take and what Reserve Bank of India is thinking about it? I don't think we can comment on that. We really don't have any answer on that subject. What we will try to do from time to time is to make sure that the business processes are robust, risk management is strengthened, control costs and make a very robust business model. I think through this process we will have to move ahead towards our ultimate goal.

So, what I must tell you in front of this entire team over here and you would find lots of others over here who are working extremely hard in a very focused manner to pursue our business goals and that is with or without this license. I think we will continue to work on this and build a stable, solid and long-term business that is our goal.

Sunil Tirumalai: Sunil Tirumalai from Credit Suisse. I have a question on the retail and mid-market business segment. While you have spent a lot of time on explaining the credit quality issues and asset quality issues in the wholesale book, we have also seen a 50% rise in the NPA Y-o-Y and corresponding increase in credit cost in the retail and mid-market segment too. What is driving that and what is the outlook on that?

Dinanath Dubhashi: I will draw your attention to two numbers, one is the Y-o-Y increase about which you are right and I will explain it. You will also see that there is stabilization from Q3 to Q4. Coming to the Y-o-Y increase, there are two parts. One is especially the mid-market segment where an unusually high number (in single digits) of exposures each of around Rs 25 to 30 Crores on an average came into problems. This has been similar to what the entire industry, especially the mid-market segments have experienced. We have always been guiding that there would be a few more assets coming under stress and that we would see then peaking out in Q3 – Q4. It does look like it is peaking out; of course we should not comment about the future. The second part was the construction equipment and commercial vehicle portfolio where the entire industry is down. From the disbursement numbers you would have noticed that there has been a 25% to 30% Y-o-Y drop for the last two years. At the same time there has been a near wiping out of the mining industry in at least three if not four states which has aggravated the problem. Here also I would say without giving any future indication that most of the stressed assets have been either repossessed closed early or collections have been done. The recent Supreme Court order on mining in Goa lets us to hope that things will improve from here on in the construction equipment and commercial vehicle segments. So to summarize, the increase that you see from last year specifically comes from these three sectors - mid-market, CV and CE. We believe that the problems here have almost peaked out.

Y. M. Deosthalee: Just to put things in perspective- there are advantages of having a comprehensive or diversified portfolio. The advantages are that you can manage the cycles much better and that is what we have attempted to do. I think you can build long term business through this comprehensive nature because you are then not exposed to particular economic cycle of the industry or sector. But on the other hand there are also some issues with reference to what Dinanath has mentioned. Today some of these sectors - construction equipment and commercial vehicle are inherently going through a bad phase. It is not something which has happened today but actually over the last two years there has been a continuous de-growth. In which case, these results are bound to be there and that has got reflected in the numbers too. Similarly, the infrastructure sector also has been going through pain. But on the other hand there are sectors to which we are increasing our exposure like rural market or consumer loans. Their proportion is going up and that is helping us in managing the overall situation in a much better manner, because about three years ago we were not in some of these areas or our presence was very small. Our large presence was in construction equipment and commercial vehicle. So the decision which we took of diversifying and getting into some of these other areas is helping. Housing loans is a growth engine going forward. Today we are very small. I think we can see significant growth going forward in this particular area in the next two-three years. So this is something which is extremely important for us to understand - what is the logic behind this diversified book for a company like ours. It is a different matter if you are a manufacturer and for supporting the manufacturing if you are starting a financial services business. That is not the case here. Here, what we are trying to do is we are building an independent financial services business which is at arm's length, which has nothing to do with a particular sector. So there are different types of issues here when you build this type of the portfolio. There are lots of pluses but there are some minuses also which come along with that and that is what we are experiencing. But on balance in spite of that we have very stable earnings in this year, which has been a very challenging year for the entire industry.

Sunil Tirumalai: Yes, so you talked about being quite open to growth and compared to some of the other NBFCs what we have observed is your propensity or openness to go for inorganic growth is high. Due to this we wouldn't readily dismiss the kind of news that came out this morning about you being interested in Yes Bank. Even though you might not want to comment specifically on this, could you provide any direction or guidelines in terms of what areas you would buyout or build inorganically. This will also help us get an idea of what kind of capital commitments we would be looking at. Thank you.

Y. M Deosthalee: I would want to first clarify about whatever appeared in the newspaper today. It is completely speculative, so it has to be dismissed totally. The second point is on inorganic growth. We are not here to do inorganic for the sake of doing an inorganic transaction. It must fit into the overall strategy and the transactions which we did in the last two-three years were in sync with that particular strategy. For example, we were not in consumer financing and we definitely wanted to be in that space so as to balance our portfolio product. So that is why these two transactions of housing finance and the two-wheeler company were undertaken and they have given us a platform for consumer financing. Similarly we also wanted to build a stable long term basis of fee based income capability. Asset management business and wealth management fits into that particular category and would supplement the lending activity. This is quite important going forward. So there is a conscious thinking behind all these. So there are lots of proposals which come our way because we have acquired some companies, many people approach us. We are not considering a lot of them. If at all it fits into the overall strategy of the group, if it is going to provide us with a long term opportunity to grow and if it is synergetic to our overall activity we will look at it. Currently there is no proposal on our table for any inorganic transaction but you never know. I think if there is something interesting that appears and which fits into the strategy, we will look at it. At the moment I don't think there is any additional capital requirement which we are contemplating for the current year. So there are no plans for it, but if there is a superb fantastic opportunity that comes to us, we will especially talk to you. But today there is nothing of that.

N. Sivaraman: The key point is that we look at acquisition as a way of accelerating our entry into a particular product/business or it provides us with a meaningful consolidation opportunity. As you would have seen from our presentation I think we have been able to achieve our overall aspiration in each of the acquisitions that we have done so far. Acquisitions also help us to eliminate the learning cost which would be there even if we recruit people from the best of the institutions. We still have challenges in getting them to work together and produce the results on a consistent basis. Acquisition does eliminate to some extent the cost of learning and that is an important aspect. So this is how we look at it and especially in the context of the bank I think it is too premature to speak about an inorganic opportunity when we do not know the Reserve Bank's mind. That is all I would want to say on this.

Y. M Deosthalee: Yes, I urge all of you to look at the acquisitions which we have made in the last three years. What has happened is that we have also created capability of integrating them because many times acquisitions do not succeed because of poor integration. Luckily for us, all three of them have integrated extremely well. All these are people oriented businesses and hence integrating people is an important aspect of this. So in the acquisition of the asset management business, the entire team has within one year's time not only integrated well, but they have made a mark in the mutual fund business. A significant mark has been made. Similar has been the case in the two wheeler business. Yes of course there is a possibility for us to optimize and synergize better and that is what I think we will work on. But all of them have been reasonably well integrated now and that is how the growth journey has begun in all those businesses. It is visible in the results which we have just seen.

Nischint Chawathe: This is Nishchint here from Kotak. First is a book keeping question, I am not sure if you disclose the state of the infrastructure book? You mentioned that you could have asset restructuring in the next year, so could you give any outlook on this?

N Sivaraman: As I mentioned that given the change in the regulatory environment applicable to recognizing and managing stressed asset and also the fact that there is a sunset clause for CDR program or CDR related guidelines, there is a possibility of this going up during the current year. It is difficult to quantify all of these because it is a function of how does the customer behave on the ground in the meantime and also how the system takes that.

Nischint Chawathe: Secondly in the retail business, have you seen stress specifically in the southern parts of the country? That is what some of the other NBFCs have been reporting, so just trying to figure out whether you have seen any kind of trends or not?

Dinanath Dubhashi: Any particular segment you are talking about?

Nischint Chawathe: Not specifically, it is more to do with auto but not specifically.

Dinanath Dubhashi: Ok. If you see farm or auto or two wheelers we have not seen a geographic trend, but in case of CE and CV it is definitely more pronounced in Orissa, Jharkhand, Karnataka and Goa. In the other retail segments typically consumer assets like car, two wheelers, tractors, we don't see a major trend. Maybe a little bit in Tamil Nadu, little more than others but not necessarily entire south. In fact we have one of the better portfolios in the south.

Nischint Chawathe: **O**n the microfinance business, maybe you can talk about the industry as well as for you on how things are currently moving and the way forward, especially in the backdrop of what happened two years back.

Dinanath Dubhashi: Sure, but Nischint as we have discussed before the meeting we shall have a one-to-one meeting to have a detailed discussion on this. But suffice to say #1, the growth and demand in this industry were always there, the issue was the discipline in investment. On the Andhra mishap we have crossed it. The major change has been in discipline. With the exception of one, all the members report the entire book to the MFIN, the credit bureau which gives great comfort to lenders. RBI has come up with norms about maximum number of lenders, maximum amount that a particular borrower can borrow. Without discipline this can remain only on paper, but the industry has been really seriously disciplined and hence with this data being shared we are able to get almost online data on the total behavior of the borrower. MFIN members have also signed a memorandum of understanding. If the borrower is a defaulter with any other company we will not give the loan. So we are actually seeing defaulters coming and repaying the loan as they want to take a loan from someone else. Even in case of the AP portfolio which was written off, money keeps trickling in because of this. As Sivaraman was saying a Crore to couple of Crores of money keeps coming every year, very small no doubt but it is all indicative of increased discipline. This industry is all about discipline, a particular way of lending, a particular way of collection and that has seen the health going up. The second aspect is the risk management parameters in the industry have improved. When we say the industry, it obviously includes the business in our portfolio as well and we have been front runners in this. The reaction of the industry to events like cyclone Phailin and the Saradha scam has been quite good. Within the industry we are not seeing any microfinance company going down or indulging in any activity which the industry as such does not recommend. This obviously has been improving and demand will never be a problem, but new losses are genuinely negligible. The reaction of the industry to the Black Swan or lesser than Black Swan event is pretty cautious, maybe it's still early after the Andhra crisis which was in October 2010, but things have genuinely improved from there.

Y. M Deosthalee: Particularly in this industry the learning is that you need to have very good quality systems and processes which means more surveillance and surprise checks. Then you have people related processes which have to be good in terms of movement of people and people not getting attached with particular community, village, etc. Plus this business is prone to event based risks that we are talking about like the scam in Kolkata, cyclones and now the unseasonal monsoons. Some of these events also have an impact on the business and therefore your ability to quickly react is very important in this business. So how well connected you are with the customer is critical and your systems and processes have to be very robust.

Y.M. Deosthalee: If there are no other questions, we can close the call. Thank you very much and thanks for coming over.