L&T Finance Holdings

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Q4 FY17 & FY'17 Analyst/ Investor Meet

May 05, 2017

Moderator: Vikas Khemani – President & CEO, Edelweiss Securities Limited initiates the proceedings:

Warm welcome to the analyst and investor meeting of L&T Finance Holdings for FY17. We, at Edelweiss, are very proud to host this event and thank you very much for coming in such large numbers, this just shows the kind of interest we have in exploring the investment opportunity in this company. Friends, Jack Welch, once said good business leaders create a vision, articulate the vision, passionately own the vision, and relentlessly drive its completion. I am glad to share that we have one such leader in Dinanath Dubhashi here, who took over the company about a year-and-a-half ago and I remember meeting him about 10-12 months ago and I can tell you after coming out of the meeting, I said, "wow", I have never seen such kind of sharp focus on strategy, execution, plan, and a single-minded focus on achieving RoE and he had a clear strategy how he will achieve and obviously he also had a complete plan of that and I am glad that over last three-four quarters, obviously ably accompanied by his A team, he has been able to achieve that and a lot of it has been reflected into investors faith through share market price performance and also vindicated by kind of presence we have today here. We are very, very enthused about the future of L&T Finance Holdings and its plans going forward, and it is again a great pleasure to be here. Without taking much time, I would like to invite Dinanath to share his vision, his plans and then we will follow it with Q&A with the entire team.

Dinanath Dubhashi Thank you and good morning, Ladies and Gentlemen. I am a cricket follower and I am used to following a target or chasing the target, yesterday Delhi chased 208 when batting second. What Vikas has ensured is I have a target while batting first by setting expectations, saying a lot of things. I hope you mean them, but all of a sudden there is no pressure on me because he has put a lot of pressure in quoting Jack Welch, so I think it is right time for me to go back one year and two days back, May 3, 2016, when I came in front of you. I do not know how many of you were there, the company was just coming out of just coming out of, being at maybe just near issue price, February 2016, we touched 49. All I had to show was the brand name and the powerpoint presentation with our so-called strategy, nothing else. We did not have track record, in fact we had track record which was not good. I did not have metrics to deliver and I think the most important thing for me is that we did not have credibility. I wonder how many of you believed when we said that this is what we will deliver. There are many people who asked me the question, that every quarter he has come and said something or the other, that we will do this, we will focus on this etc., But there was question on delivery.

Today, one year and two days later, we stand here with a delivery of four quarters. Three emotions today with me in my heart, one, confidence of having delivered for four quarters. We promised, I was always told by all well-wishers that I should under promise and over deliver and I believe that when you under promise somewhere first your heart starts believing. You start believing in your under promise, and we took another route. We said, okay, this is what we will promise and we will deliver, and I am sure that if we deliver about 80-90% of that you will forgive us, especially if we aim for something which is extraordinary. Second, other than confidence, it is the consciousness that it is still early days. We have put four-year strategy in front of you, we are going to talk about perpetuity after that and just one year is over, so the management is conscious that, yes, there is a lot of confidence, lot of euphoria but there is consciousness that it is still early days. Last but not the least the emotion in my heart is gratefulness, gratefulness at the credibility that you have given us. The faith that you have given us is helping us a lot especially from the type of questions that are coming in from investors.

People have started asking me what after 2020, and it is actually giving me two comforts, one, just one year back when I used to talk about next quarter nobody used to believe me and today people are ready to believe beyond 2020, I am happy. Second, is that people are acknowledging that, yes, turnaround has been done. I mean I am happy, but I do think that we have to keep our eye on the road. We are still taking off, some of the visuals that you saw before, we are still taking off, but the credibility which comes from saying, yes, turnaround has happened, but what after 2020 is what is very important for me, for the management team because that is what we hold very dear to our heart. That is very important and trust me this management team is not going to lose it again. We will do everything possible to say that this is the metric we will deliver on and deliver on most of them. We are not gods, but definitely we will not do anything which is against integrity and anything, so we may not be always be able to deliver 100%, but we will deliver on most of the metrics that we promised and this credibility is that we have gained. Thus, this is actually the theme that I would like to start.

This, "What After 2020" is something that we will attempt to answer, but even before talking about 2020, it is important to talk about what we did in FY17, what have we done to prepare ourselves for the immediate growth and also what have we done to make sure that this growth is sustainable. I have got a lot of feedback that I talk from the heart, I talk a lot of emotions, I do believe that management is not about that. It is lot about management intent, but today I will talk about numbers because after four quarters, we are sure that now we have the numbers and we will talk about numbers. We will explain the numbers and through that I will try and establish that everything and anything that we have shown is sustainable, and nothing is one time. I will try and address everything, all doubts that I have heard through my presentation. After that, of course, there is Q&A, so with your permission let me start.

(Slide no 4-5): One slide on this, just as a reminder this is what we showed one year back. We said that we will transform from RoE which was steadily between 9% and 10%, we will go to top quartile and we can say today what we mean by top quartile. Frankly, we did not have the confidence to say, we left it to you but yes 18% to 20% RoE by 2020 is what we aimed for and we put in place a proper strategy to achieve. The strategy was clear, we said we will only be in the right businesses and we chose the businesses that you see here. We will have right structures and I suspect that we will talk a lot about it today. We aimed that we will simplify our structures, we will simplify our organizational structures, our regulatory structures everything. In the past we had become incredibly complicated and last but not the least, right people. We will indeed have the best structure, the best structure of the pyramid, we will have most people earning money for the organization and as few as possible paper pushers in head office. This is what we had promised and we said, okay all these are words. There are a few things that you can hold us responsible for. Number one, of course RoE, number two growth because we wanted to dispel any notions that we will achieve RoE by contracting. It indeed looked like that in the first couple of quarters because that is what you have to do, you have to eat frog first. We had to cut expenses, we had to cut unnecessary spending, cost structures but then profitability, growth, and RoE comes only from growth and not growth which we do not know about or from where it is coming, where it is happening, but very conscious and planned growth.

Next is that, everybody was commenting about our cost-to-income ratio. There was a history to it. We wanted to make a bank, we had started thinking we are a bank and we had taken cost-to-income ratio to levels which at that time were high. Now, I see many companies much higher than that, but that time 31% to 32% cost-to-income ratio was certainly high and you will see from the results that we have steadily reduced and we said we will put a proper execution engine in place. This will not happen as an accident, we will put an execution engine in place and we will report on the projects. Now, this is what we have done quarter after quarter after quarter. What I am going to talk about today is which metrics have delivered the results based on the strategy.

There are actually people who have asked me that from where is so much of money coming from? We are in Financial Services and we make money doing Financial Services. What we are talking about and why so much money is just imagine this quarter the RoE is 14.7%, the yearly RoE is 12.3% and there is a slide in the presentation which talks about incremental provisions we have done from operations, forget the exceptional income. We will talk about the exceptional income and all those things, there are lots of questions, but even considering what we have provided through operations, the RoE will be substantially high. So I need to answer where the money is coming from. The money is coming from four very simple things which are difficult to do, but before that this is something I would like to thump the chest and show that this is the trajectory we have established. We expect to continue this trajectory, which before any analyst asks, let me clarify that. That does not mean first quarter RoE will necessarily be more than 14.7%. It is a little bit cyclical, but quarter-to-quarter, there will be a significant delta over this most definitely, that is something that we can certainly promise. This trajectory is established. RoEs, Q4 to Q4 up from 10.79% to 14.7% and yearly the trajectory of 9.78% to 18% maintained in the first step itself at least, and as I would say this 12.31% is after making significant provisions. I would not say these provisions are just out of the blue, I call them accelerated, because at some of time they are going to become regulatory provisions. I am not claiming any great victory out of making those provisions today, they will be needed. Sometime hopefully, if they are not needed, we will write-back, but at this point of time, management believes that they will be needed, but we have been able to make them today. Where has it come from?

(Slide no 6) First principles, growth in focus businesses. Our focus businesses are doing extremely well. The yearly growth in focus business disbursement is 23% which in the current environment you would all admit is very good and for the fourth quarter, this growth is 60%. Actually, the numbers will show you 80%, but there was a Rs 2000 crore disbursement for seven days for the D-Mart IPO, so we have not taken that, making some profit in seven days is a good thing, but we do not take that in the sustainable growth, so it is a 60% growth in disbursement.

Then the second part, which is the small but most significant contribution according to me because what we are showing here is only the numbers contribution. The loss-making portfolio down from 8% to 4% despite we having been able to sell only Rs 330 crore, so this is one project I think what we promised, as I said 90% will be delivered, we had thought that about couple of Rs 1000 crore will be sold, we were not able to sell, but we were able to run it down. We sold about Rs 330 crore, rest we were able to run down and this portfolio now is 4% of the total. Already, the impact is insignificant. It will be more insignificant by the end of the year, but more than the numbers what it has contributed is saving management time. I frankly I do not remember the last time I have taken review of this whereas last one year I used to take a review of this business every month. I think the contribution of that is much more than just the rupee crore that it contributes.

Then the next one is fee income. Now, this is interesting. When fee income is low, we are asked why fee income is low, when fee income is high, we are asked is it sustainable, so let me try and reply to this. We definitely believe that it is sustainable because of the strategy that it is coming from. Let me upfront talk about the strategy. The fee income is largely coming from, one is our loan processing, our ability to do loans faster and hence promoters being ready to part fees to us, but most importantly from two areas, one is underwriting and sell down. The underwriting and sell down desk is a very strong desk that we have set up and second is our Debt Capital Market (DCM) desk. The fees and other income is largely coming from that and both these areas we believe are not only sustainable, but extremely strategically important for us, and why strategically important. Number one, first of all, demonetization reduced interest rates, the system flush was with liquidity, bank reduced rates, these are all short-term phenomenon, but even in a long term will any NBFC be able to compete on NIMs with banks, I do not think so. The times that NBFC used to do a special type of credit, have its own niche and do some better credit than bank, according to me are gone or going fast.

Digital and data analytics will make and with GST, demonetization will make data available to anybody who asks for it and knows how to use it. We have to make that as our advantage rather than NIMs as our advantage because it will be a losing battle and hence instead of NIMs as our friends, we have made fees our friends. What are our abilities? Our abilities are being able to source loans well, assess them well, manage them well and collect them well. We have to hog those abilities. Perhaps this is what people used to do in securitization long back when we were not doing, so this is not necessarily securitization. In Retail, it will take the form of securitization, but in Wholesale it is underwriting and selling them and most fees have come from them. There are two more reasons why it is strategically important; one is risk management. Now that we are ready to grow, we have put in place a very strong risk framework which puts very strict sectoral caps at various levels on our portfolio. Now, these caps may not necessarily match with the demand at that point of time and our ability to source loans. Our ability should not be constrained with our own risk limits, and hence the sell down engine helps in that that we can source as much as we want, we can keep what we want and sell down the rest. Last but not the least, it helps me in capital allocation. Simple, we are building our strengths in all our businesses, but as on date we are strongest in our Infrastructure business under Wholesale. We can actually source as much as we want in Infra, but can we put unlimited capital in that business, definitely not. Infra is making more than 15% RoE, I will explain the 11% that we have shown, but more than 15% RoE on a steady state basis, but Retail businesses are making more than 20%. Capital will always be attracted more towards Retail and less towards Infra, and how do we manage that, we manage that by sell down. So fees is what turns to P&L, but there is a big strategic intent behind it.

Last but not the least, we have talked about a lot, cost, it is the most difficult thing to do, that is why we did it in the first quarter and kept the controls going, so our absolute cost is actually lower than last year after a 10% increment given to staff and after inflation. Cost-to-income ratio is down substantially, the fourth quarter cost-to-income ratio is 23%. Then, this is what has contributed negatively to P&L is we are preparing our balance sheet, strengthening it for future growth.

Our GNPA while it has remained more or less steady, our NNPA has fallen quite drastically by almost 1% and that has happened because provision coverage has gone up from 22% to 42%, and this is other than lot of provisions from standard assets.

Slide no 7: This is really the summary, I can actually end the presentation here. This is what we have been able to do for this one year, which helps us, this slide explains FY17, it explains what are the strengths we have for future and most importantly it explains how we have built the strength of the balance sheet.

Let me move ahead. I have always talked about three things, and last two analyst calls I have talked about them, which is our unique formula, management intent and clarity of management intent. Second is execution engine to match it and third is change of culture. I must today stand here and state proudly that we are one of the very few companies which have not cribbed about demonetization at all. Do we have reasons to crib, most certainly we do. We are in all the businesses which were supposedly affected by demonetization, but we concentrated on delivery, so the culture has moved from reasons to results, management intent is clear. What I will talk today because I have talked lot about it, so I will not repeat, but I will talk today is about the execution engine. The six main projects that we pushed last year; we have done reasonably well in five out of the six. The first one has resulted in growth this year and we are confident that is what will keep pushing growth for the years to come that each of our core products, we continuously keep building strengths. I will not go into the details of it, you can ask questions, but we try to be better than the competition in one of the strengths that we have identified. Across the board actually it is turnaround time that we have identified, but various other businesses there are specific strengths that we build and it is continuously built, there are teams which are working.

The next two are for enabling future growth that as the growth increases, risks will surface and we put I think one of the best consultant in the world to build a very strong risk framework for us. As I had promised, the risk framework has been implemented, it will be tested over the next couple of quarters and once it is strengthened, we can just take off growth. The risk framework I think we keep talking about it, it is primarily based on our risk appetite statement and our risk limits/tree that we put on. Early warning signals and dashboards that we have put, ability to do risk-based pricing of our loans and last but not the least, very strong liability side risk management. These are the four things that we have put in place for this risk framework and the last three are also to show that eyes are still firmly on the turnaround. OPEX optimization, divestment of non-core business and merger of entities, we have been successful and continuing to be our focus. Divestment of non-core business, yes, we have not succeeded too much. We had five PE assets, we were not able to sell even one. We are hopeful of selling couple of them this year. On Retail, we sold in the fourth quarter about Rs 330 crore, but we have been able to run down, we will continue this focus next year. This is our execution engine. This is the method that we have perfected. As we go into the next year, the new list of projects is ready. Project managers have been put and the projects have started. I must say, this is giving maybe advanced information, but I am not giving any numbers. I have seen the busiest April in my last 10 years of working in L&T Finance Holdings. It was normally assumed that April will be holiday. I have seen the busiest April and I see it as a harbingering of good first quarter and definitely good FY18.

Slide no 8: Okay, so we talk about numbers. You have seen all these. I will not go over it in great details, but two big numbers PAT to equity shareholders in Q4 up by 50%, cost-to-income ratio down significantly, book growth doing reasonably well and two businesses that we do not talk about often but I would like to make special mention this time, that is, our asset management business and wealth management business showing absolutely significant growth and matched by a complete turnaround in profitability, so we stand at the end of FY17 with all our businesses contributing to RoE.

Slide no 9: This looks less busy, this is for FY17. I have not talked about the balance sheet ratios because they will be same, but here also PAT to equity shareholders is up by 40%, fee income up 46%, cost-to-income ratio down and RoE on track in line with our promise.

Slide no 10: This is what I talk about as our holy grail, whoever has met me one to one, I have said this is my holy grail. This is what we follow, this shows capital allocation, this shows RoE, lets us go line by line.

Rural, which contains farm, two wheeler and Microfinance, continues to do well for us. We are at very steady state 20-21% RoE, but there are lots of ups and downs in this. Microfinance which was our growth engine in the first three quarters, we have actually slowed down. Q4 disbursements are down by about 10%. This has happened because we first reacted to the situation by stopping disbursement in Maharashtra. We have still not started disbursements in Maharashtra but then we developed a very analytics-based approach to do dynamic target allocation. Now every meeting center gets a target based on the debtors and the collection record of that meeting and this is changed really every month. We are having a more nuanced way of growing or de-growing in a particular area in Microfinance.

Microfinance is now moving from a model where in the name of charity to people, actually it was charity on the people giving Microfinance, it was money for jam, that is what was assumed. It is now moving to a business model. The times for zero credit cost is gone. Like any business with 15-16% NIMs, there will be credit costs of 2-3% standard, it will come all the time. Costs, good companies around 5-6%, inefficient companies at 10-11% operating costs will be standard and after that you have to make money. We are not happy that this problem has happened, we are happy that this problem has happened when rest of our businesses have started making money, so the super profit coming from Microfinance; I mean Microfinance, we are confident we will still make excellent RoEs, but they do not have to be obscene RoEs because all our other businesses are now making good RoEs. We will talk a little bit more about it, the collection efficiencies etc. of Microfinance. Let me give you a general assurance that situation has steadied and has started improving from March onwards. From December to February, the situation rapidly deteriorated in the whole sector and March and April, there is an arrest in the debtors situation. Whether it is improving drastically, certainly not but there is an arrest, it is not worsening further and a large number of our debtors, 44% of debtors in Microfinance have actually started paying partially, so we are actually seeing an improvement happening there. Why I am putting at this time, this time now the growth engines are actually two wheelers and tractors.

One, the industry has improved, but second the steady center of excellence that we have built in these two businesses have really started paying dividends, our market share has really gone up, our strategy has moved to being with the top manufacturers, being with the top dealers and getting maximum wallet share or maximum counter share of those top dealers and that is really working. Overall growth, good growth in rural. One more thing we have done in rural is we have already moved to the 90 DPD norm as far as P&L is concerned, so we will talk about it when we talk about extra provisions, but we have taken 10% provision and we have taken 100% income reversal for 90 to 119 days. We are ready, the first quarter ready, done, dusted, hopefully there will be no incremental NPAs but we will have to take provision only on incremental NPAs.

Coming to housing, we have built a very strong developer funding engine based on our own abilities and synergy with our parent. I had said last time, I had joked that one year back I was feeling like a useless son of a great parent, but today finally I feel proud.

Actually this is where, we had done it in Infra and now we are doing it in Real Estate, yes supposedly risky business. At this point of time, we do not have any losses but like any businesses, we will get some losses but we are better placed than anyone else because which is the builder about whom L&T does not have financial and operating information. As far as Retail housing is concerned, we made a big change in our business model because of that the disbursement is negative, but it is very profitable, the RoEs have gone up because of that. We are not doing loss-making business. We used to do DSA source salaried business, I mean you lose money on day 1, so now we are doing only Direct Source Salaried, and if it is DSA source, it is only self-employed and we are making money. We have also changed our model from lot of people based model to lot of digital models, computer based models and that has reduced to expenses. Wholesale business is what is more important, to explain strengths, growth, new business fantastic. This is the first time I am talking these numbers in public forum.

All our problems, so-called problems, are from the book that we are putting before FY12. This book is around Rs 9000 crore odd today, Rs 3700 out of that, we have declared as impaired. There is an additional Rs 1000 crore or so which is under watch, which are standard assets but under watch. Management has taken very close look at this and if we have to resolve these or sell these, we do not know when, I cannot promise when they will be resolved. Yesterday, the government came up with something we do not know the details, so I do not want to promise what we cannot assure, but what management has done is taken a view on each asset as that when it moves to resolution what kind of haircut we will have to take and we review that list every month. This haircut works out between Rs 1500 crore to around Rs 2000 crore. As we go, this is the haircut that we may have to take and we were in a hurry in FY17 to bridge this gap. We started FY17 with a number of Rs 550 crore. I am glad to say that through the extraordinary provisions that we have made this year, we have crossed Rs 1100 crore, it is Rs 1126 or something, so more than 50%, almost 60% of the journey is over and when I finish today's presentation, you will be convinced that it has happened, this project is over. In FY18, we will close it.

This is what explains the RoEs of our core lending businesses, now you will see that wealth and investment management we have started calling out, investment management profitability has jumped, it has doubled in fact in the fourth quarter and we have recorded Rs 45 crore profit for the whole year and wealth management has turned around for a whole year Rs 24 crore loss to Rs 5 crore profit, so these have started contributing. As we go down, the defocused businesses, capital in defocus business is everything is coming down now drastically. There is an item called exceptional gains, which is Zero and I need to explain that. We have lots of exceptional gains and I will explain what is that when we come to that slide, but I have kept my promise of not taking one rupee of that to RoE, and use that largely to clean up this Infra old assets provision requirement. All the time, analysts were asking us what is this magic you are showing, there is no magic; it is just a transaction we were doing as a part of our strategy of right structures of simpler structures, and it has led to some tax gains which we have entirely used to do these provisions.

Slide no 11: This is the same slide for the full year. I am not going to go through the details here, but you will see that 12.31% has been achieved largely in line. I was always saying that it will be 12 point something and that is what we have done. Frankly speaking with the kind of exceptional provisions we have done this number could be anything, but we have chosen to protect our balance sheet and make those exceptional provisions.

Slide no 12: Now, I keep talking about exceptional provisions so this is the slide that we are going to talk about. I will talk about the exceptional gains in a minute, but before coming to that let us first deal with the first two columns, Rs 226 crore is what was required regulated. You will see an increase in NPA in Wholesale. This has happened because certain restructured assets becoming NPA, so increase in NPA so hence increase in regulatory provisions and we have made all those regulatory provisions, obviously. In addition to that, Rs 186 crore, that is, Rs 118 crore after tax, we have provided from our P&L above the line. This has nothing to do with the exceptional gains, so the RoE of 12.3% you see is after deducting the Rs 186 crore.

Now, we come to the exceptional provisions. Now, what we did according to our strategy of right structures, we started merging our entities, so three entities we started merging because this merger was relatively easier, so other than these three, the following companies were there; IDF, which is a 100% tax-free entity, it does not make sense in merging it today; HFC, which has specific advantages and we are looking at doing advocacy to see that those advantages will it be applicable for NBFC or no. The latest one is of course is the affordable housing, which is applicable only to banks and HFCs and not to NBFCs, and infrastructure finance company largely because only an infrastructure finance company can own an IDF. These are the three companies we decided to keep separate till we finish the advocacy part of it and the other three companies, we merged. L&T Finance Ltd. and L&T Fincorp Ltd. merged with Family Credit Ltd. and this surviving entity has been renamed L&T Finance Ltd.; obviously because that is our flagship name. Other than the other synergies like costs, better capital allocation, management cost, manpower cost, we created goodwill of Rs 3000 odd crore, which results in a tax gain of Rs 1000 odd crore, because you will write off goodwill, tax gain of Rs 1000 odd crore over five years, first year it is Rs 230 crore, it is as simple as that.

Let me assure you that the best tax consultants in the country, Supreme Court judges, Supreme Court lawyers have been consulted on this. We have done all the homework on this, and we are very, very sure that we will be able to claim this. So Rs 230 crore of those gains, so pre-tax it has become Rs 352, this is a post-tax gain and this entire 352 we have used for making exceptional provisions. I hope this is clear. The next slide(Slide no 12- 13) shows, this exceptional is Rs 352 crore plus Rs 186 crore, accelerated provision, the next slide actually shows the explanation of that, the Rs 537 crore. You will see largely there in Infra. The rural Rs 92+4 crore is taking care of this year, FY18, so FY18 problem done with. I have really not tracked competitors where they are on this, but I can confirm that our P&L impact of this 180 days to 150 days to 120 days to 90 days is over, so Rs 126 crore of that the SAP also taken completely 0.4% and then other accelerated provision we have made in Infra and considering the special situation in Microfinance, we have made additional provisions in Microfinance. We have done something truly extraordinary and I am not saying it will be repeated because we will watch the situation that every debtor more than 0 days even 1 day debtor, we have provided 10% because today we do not know how the situation is, so 10% of even 1 rupee outstanding for 1 day, we have provided.

In addition to that, the part of Maharashtra which is a bigger problem, which is Vidarbha, we have taken another 15%, so our Vidarbha debtors we have provided up to 25%. This is what management thinks at this point of time should be fairly adequate to avoid a big shock. A 2 to 3% credit cost will continue next year also in Microfinance, I believe so and our P&L is ready to take that but any big shock is unlikely to come, touchwood, because this is one business where you do not know where it is coming. Today, the situation is looking decent, but we believe in being ready and we have provided and are ready, and Wholesale of course, I have told we have reached Rs 1124 crore, so we will make another Rs 400-500 crore this year both from operations and from this. We believe sometime in the second half, we should be done with it, of course we will tell when we are done, and after that you can calculate the steady state Wholesale profitability.

I have been told that I should also explain the strategy in each business, so I will be short. My colleagues will be here, you can ask more questions. I will try and be short, so Microfinance, the concentration was completely on digitization. We realize that profitability is going to reduce because of higher provisions and hence expenses have to be reduced to the extent possible and we have digitized the whole process, 100% cashless has been done, 100% Aadhar has been done and most importantly we have put this collection analytics in place which helps us manage our growth based on the performance. Two-wheeler, again we have moved to digitization. We are actually out with a promise that within 10 minutes if we do not give answer, we actually refund the processing fee and that is what we have done in two wheelers helping us gain market share. In tractors, the strategy is very clear. You know that till last year, we were almost wedded to one manufacturer, we have actually moved from that to doing business with the market leaders. We believe that our portfolio should reflect largely the market shares, so we concentrate on the top market leaders including Mahindra and push with their top dealers, give the best services to their top dealers and that is how we are able to get our market share. Our market share in the second half has risen to almost 9.5%. We are confident of having double digit market shares in FY18.

As far as housing is concerned, I talked about this strategy on Retail. Here also, automatization and digitization is playing a big role, we have reduced turnaround time, SENP turnaround time is down to around six days which I think is fairly industry standards and we are getting it better. We are also now converting our developer funding mandates or developer funding loans to Right of First Refusal (ROFR) for Retail with them. This is beginning of success. It will take at least three to six months now for this particular conversion to start paying dividends. Wholesale, focus continues to be on operational projects. We are very, very good in renewable, we are very good in roads, we are turning our attention to power transmission. There are many other sectors like education like hospitality, healthcare which will be the sector for future and we are pushing our strengths there and then of course fee income and making provisions is the strategy, so that future growth can be excellent. Investment management, I think this business has turnedaround because of two things, one Industry of course, but we have gained market share continuously, we have grown by close to 50%, equity continues to be a very strong part about 40% of the overall AUM and most importantly here, we have gone for efficiencies.

Cost-to-income ratio is down to 66% for the year and in fact the run rate is much lower, our target is in the 50s for the next year. This business is really on the up move. Before you ask questions, there is no intention to get out of this business. Newspapers have to sell newspapers, we have to do business, there is absolutely no intention. Wealth, it is a business that we were losing money. We have again turned it around. The biggest decisions were taken in this business, we cut cost, we actually removed one part of the business, increased productivity and we again are very confident of excellent profitability next year.

Now, that brings us to what I am going to talk about the future. I am not going to talk any big numbers, any new plan, new strategy primarily because I believe that the strategy we had put in place is a strategy which can survive the test of time. We do it well. We can continue doing it well and most importantly there is no feeling in the management that the turnaround is over and discounted because that can be the worst thing, eyes off the road definitely will cause an accident and the management's eyes remain firmly on the turnaround part. We will not relax till the RoE reaches the top quartile that we have promised and after that I am sure there will be new challenges, so relaxation is definitely not going to happen. Hence I am not going to present some great strategy change because I definitely believe that the strategy that we have is sustainable, but what is required is creating sustainable advantages in each of our products, so that we can dominate and we can make sure that in each of these products, we grow continuously and sustainably, and there are no accidents on the path or at least some accidents will happen but we are strong enough to get up and start running again like the demonetization, so small changes, small tweaks and the thrust of acceleration is what I am going to talk about on the same road.

You will remember that we used to show a passenger carrier in our presentations, impressive one but a passenger carrier, now we believe that we will still fly, but we will fly much faster. We are fighter planes. We have the strength, we have built the engine for that speed, that power. While the focus remains on that trajectory, but it will be with much more confidence, much more power. I am going to show you the same slide. It looks similar, but it is different especially the first line that we are no longer going to talk about 2020, I just hope that unless the environment throws up some new promises, so I do not want to promise a year to you, but I do not think we will wait till 2020. We will deliver top quartile RoE even early. You do not need to believe me, you need to do your math, the numbers are in front of you. We have been very transparent in giving all voluntary provisions, all extraordinary provisions where we have made, you do your math, you can contact Karthik if you have any difficulty, you will reach this conclusion, so why should I even try to pretend otherwise. The second part is even more important that now we are ready to grow fearlessly. Were we afraid first year, I think tentative is the better word. We were very absolutely concentrated on doing things right and not having an accident. It is like when I was learning to drive first, on a plain road I used to drive and I used to sweat because full concentration used to be there. Now, I can drive, many people disagree, but I can drive pretty effortlessly. We were not confident that we have all the risk frameworks in place, now we are very confident we have a risk framework in place. We are very confident that we have a very strong and robust liability side management team in place. We are very confident that we do not have at this point of time in all the businesses, but within three to four months, we will put very strong early warning signals in all our business. We have some sorts, but automatic early warning signals in many businesses, we will put in next three to four months and that project is on right now. We are now sure that when we grow, there is only the market and competition that we have to worry about and not whether, have we got the capacity or not. Today, we are sure of that that our internal structures are either ready or will be ready in the next three to six months. We will whip them to readiness, and we will be ready then, we are ready rather in many businesses to take full advantage of the market and gain market share relentlessly.

Now, let me not even talk about things like market share at the cost of profitability, etc., nothing will be at the cost of profitability. It is market share gaining while remaining profitable, and with profitability, obviously, continuously increasing because we have to go from 12.31% to 18%.

How will this happen? Of course, the focus will remain on RoE, no doubt. Increasing market share in each of our focus products, very clearly. Other than make it tactically giving up for a couple of quarters before of risk but YoY, we will increase market share in each of our focus products along with profitability.

Strong sell down risk. I told you it is important to manage capital, it is important to manage risk. That is where sell down desk is going to help us. Cost reduction from 23% cost-income ratio, I do not think we need to reduce much, but clear control on cost. A particular owner in the organization at the senior-most level sitting on the front two tables, owner of each cost and being answerable for each cost. We do not mind spending now but people will be answerable for each rupee that is spent, and we will invest heavily in Digital and Analytics. I firmly believe that it is the future. It is the competitive advantage… perhaps the only competitive advantage we are going to have in any of our Retail business and tremendous investment will go there.

Last but not the least, the strong risk framework and adequate provision coverage. Overall, provision coverage has increased from 22% to 42%. I can say that it is not trivial the growth that we have achieved in that.

Last but not the least, I always promise metrics, I always promise dates. So what we will do in the first half is we will show continuous increase in market share, we will report completion of implementation of our risk framework and we will further strengthen the sell down desk. By the end of the year, RoE will increase from today. We will build large counter-cyclic provisions, continue to do that, we will build it in real estate portfolio, Power portfolio is excellent, there is no stress. Few early warning signals here and there, we have managed to cure them. But we realize that this is a business which will require higher counter-cyclical provisions we will make them. We will make counter-cyclical provisions in Microfinance if there are not real provisions, but I suspect there will be real provisions. But either way, the cost of doing business in Microfinance we will provide anyway and strengthen cost control and then till 2020 we will be, I know what I am talking and I know who is the benchmark that I am talking about. But yes, we definitely aim to be talked about when we talk about Digital and Analytics. I am fully conscious of who is the giant that we are talking about. I have ultimate-ultimate respect for that company. Right? We will follow and hopefully we will be faster and better at following. So lot of investments will go there and we will establish that as our prime advantage.

The last one is a very-very confident statement is, we will start identifying specific products where we will be the dominant player, and by dominant, we mean #1. The first product that we have identified is Infra where obviously we are already the dominant player and then Tractors. Hopefully, once we achieve that, we will keep looking at other products to become dominant. So you will see that while the focus largely remains same, we have tried and redefined our Transform, Focus, Deliver certainly from a real turnaround story to be keeping our eyes firmly on the turnaround, but now looking at growing fearlessly, building the right structures based on which we can grow fearlessly and hence achieve 18-20% RoE that we have promised with good growth, hopefully earlier than what we have promised.

The last slide of my presentation largely, Summary and Conclusion: First one, yes, we realize it is only the first step. This three will continue to remain. I think the management intent in the organization, outside the organization is very clear. My people are now very clear, what behavior, what gets rewarded and I do not think there is any doubt, there is any uncertainty, it is very clear. We do not believe in managing emotions of our people. We believe in managing their performance. Their emotions are managed by their families. The company does not take that responsibility. Company manages their performance and are very clear about it. People perform, people get rewarded, and extraordinarily rewarded. Forget money, I think people feel just proud to perform. This management intent, this change of culture, and with specific projects where execution will be monitored monthly and once again the top tables here, each person responsible for specific projects is where this execution culture is coming from. The next point is numbers, just reminding you that we have done well in case you forget. We have talked about the key levers and as we go ahead, we will continue to keep our eyes on the RoE, hopefully trying to achieve it earlier and pressing our foot on the accelerator firmly to now grow faster and more fearlessly and this is LTFH 2.0 redefined for all of you. Thank you, Ladies and gentlemen, thank you for the patient listening. We will be open for Question-and-Answers.

Speaker: Thank you so much Mr. Dubhashi for the detailed presentation. Request you to remain seated on the stage for the “Q&A Session.”

Before moving ahead, we would now like to invite the other members of the Group Executive Council to join us on stage. I would like to start off by Mr. Sunil Prabhune -- Chief Executive, Rural and Chief Human Resources Officer; Mr. Virender Pankaj – Chief Executive, Wholesale Finance, Mr. Srikanth JR – Chief Executive, Housing Finance; Mr. Kailash Kulkarni – Chief Executive, Investment Management; Mr. Manoj Shenoy - Chief Executive, Wealth Management; Mr. Sachinn Joshi - Group Chief Financial Officer; Mr. Deepak Punjabi -- Chief Risk Officer; Mr. Raju Dodti -Group Head, Legal Compliance, Corporate Communication and Facilities … unfortunately, he is not around with us today due to unforeseen circumstances; Mr. Muralidharan Rajamani - Group Head, Operations & IT; Mr. Abhishek Sharma – Group Head, Strategy. We now open the floor for Question-and-Answers.

Chetan: I am Chetan here. Great presentation, great expectation laid down. Just two quick questions on this Sir. You talked about a lot in terms of how good or what good happened in last financial year despite of too many macro headwinds or I would call it as air-pocketing the way your presentation is showing about. Could you just take us through some of your targets at the beginning of the year and throughout the year what actually went wrong, how you maneuvered yourself and what do you see in your 2020 expectation which can become as a road block or a headwind or a stormy weather, you are kind of prepared for that, you have given a very nice big picture, analytics with, and number, targets and the goal, your entire team is present here, you are very clear about the focus on a specific sector and a segment, but in terms of the broad picture, what will go right kind of very nicely put up, so what can go wrong and how well prepared you are as a team for that, will give some idea about the things which we should as an investor keep in mind going forward, will be very helpful.

Dinanath Dubhashi: I think I tried to do that but I will be more elaborate and I will actually elaborate what went wrong last year. First, starting with the Philosophy. As a person and as a management team, we believe that first of all, management has to be optimistic all the time and be ready for anything going wrong. If we always think that something is going to go wrong, then we are done with. We have to always believe that things are going to go right, but at the same time, be ready for something to go wrong and certain things which were expected went wrong this year and a few things completely unexpected went wrong and we have been able to deal with both. So what went right we talked. I think I have briefly talked about what went wrong also. I will repeat. One of our big items of our strategy was trying to free up capital because that is the time it was, if you had seen this RoE bridge four quarters back, it was looking horrible, we were making less money, not too much money in our core businesses and we were losing almost all of it in our non-core businesses. So getting out of the non-core businesses in a hurry was a very important project. So what were they? All these retail non-core businesses selling off completely. We were actually led to believe that we will be able to do it quite well. Get out of 5 PE assets, sell most of our Real Estate /offices. At that point of time, I used to say that such a good office does not suit such a bad company we want to move to some far suburb location. All those things I used to say. I meant all of that. Other than many other things that have gone right, these three have definitely gone wrong. In PE assets, we were not able to sell even one out of five for various reasons. When you contact our IR, we can give you. All those are part of our balance sheet, so it is public information, we can tell you. We were hoping to sell this diversified portfolio that we have. Our horror that nobody else was so diversified that they could buy it and run it. Secondly, sometimes too much transparency is also bad. So because of my transparent nature, buyers thought that I am desperate for selling and the quotes which came were completely crazy and hence, we were not able to sell. Real Estate rates in Bandra Kurla and those areas fell to such levels that we would have made whole huge losses and lose it. So what did we do? We had the opportunity of crying saying that this has not happened this was the Plan-1 or keep looking for other avenues to push. We had started building this Fee income push and that has really helped us deal with this. Then we had hope for certain synergies to come from this merger. I must admit that my people and the consultants, etc., came up with even bigger synergies than what I had dreamt of at the beginning. The plan was very clearly to increase synergies, etc., but this gains/efficiencies from merger happened. So certain things which came as good luck but certain things which we had planned, we managed to mitigate those problems which happened. Then demonetization happened, then Microfinance problems happened. These were environmental problems. Once again if demonetization or Microfinance would have happened in first quarter, what would have happened don't know. So when you ask me to crystal gazing next three years no. That is why I am saying, in third and fourth quarter demonetization happened so I am talking like a lion that nothing has happened because I got the first two quarters. If this would have happened in the first quarter then we could have gotten really worse. But I do believe that once the intent is there, once you say that okay, there are specific steps that we are taking to manage this. God is also on your side. But, yes, things did work out well, we had worked out our strengths well and that is exactly what we will keep doing. So what do we do? What will go wrong in the future we will not know I will tell you what I believe. I believe that Infra assets resolution will be very smooth. Am I saying anything new? Everybody is saying that. If I say then what's new about it? One thing I am saying new. One thing I am saying new that demonetization has no impact on our portfolio. In the name of demonetization putting it under the carpet, I do not do. In future, yes, this is definitely we believe will go slow. So what we are doing? We cannot do anything. For the past assets, we are a very small member of the consortium. We are doing three things, making provisions, as and when it gets resolved we have a provision. Second, putting a very strong risk framework in place. So never again this mess. There will be some problem.

We are in lending business, there will be some credit cost, but which should be absorbed in the RoE. Last but not the least, most business that we do now, we are always consortium leaders. So never again that with ten banks, we are the smallest or we cannot do anything. So we will be consortium leaders and hence being able to drive solutions if needed. This is one example. Beyond that how many problems we are going to face God only knows at this point of time everything is looking good. The strategy that the company has that we operate through projects. The projects have and people sitting around you, many of them are project leaders. Every project has a particular target to be delivered every quarter, and in fact, now we are doing almost monthly. If you actually add up all of them… I am letting out some secrets in front of my staffs but that is fine, if you add up all of them, it will add up to around 120-125% of what we are promising. So this is the way we plan. We see that we account for 20% to 25% to go wrong and hence we will delay. Most of the time, we are able deliver 5% to 10% more because so many things do not go wrong, but sometime it can go. If I can foresee all the problems in the future, then I think we are very efficient, we will be fully ready for that, but unfortunately, there is no such situation.

Participant: What about two very specific areas in which you want to be #1, in one, you are already there which is Infra lending, second, you said, tractor is a second space, your market share moved very sharply in the last financial year, so could you just give some little more light on that in terms of what exactly is there in your mind to be #1? so these are the two very clearly articulated but you are already there as a #1, you are master in that business, so there is nothing to talk about very specific, tractor, you showed last year what your number, next, you have already given a target that you want to be in a double digit market share, so apart from these two, is there anything else which is there in top of your mind, if you can share that will be very helpful?

Dinanath Dubhashi: Number one is dependent on two things, right, how the market leader does also. So we will not talk about that. What you please understand that number one is being dominant in the market. If I grow very fast and the market leader grows even faster, I will still not do it and one of the things that I may fail, but I will still be dominant in the market. So just understand number one in that context. What I will do is, invite Sunil here who heads the Rural business to explain what is our strategy and what gives us the confidence that we will be able to continuously and secularly increase market share in this business. Other than the fact that the sector is looking very good. I think we are confident the way kharif cash cycle has become complete now, the rabi crop is decent. There always be La Nina, El Nino being talked about, I never understand that. But yes, what I believe is this business is a seven-year cycle. For seven years means 28 quarters and in 28 quarters, 5-6-quarters normally will be horrible in this business. If you have not built strengths to deal with it, then you are dependent on God's will, right. So fully understand that out of 7-8-years, at least 2-3-years will be bad.

You have to build business models to manage. That is what we have done… strong players do that. So this is a general philosophy. Specific increase in market share, I invite Sunil.

Sunil Prabhune: So like DD, I will turn back to last year to illustrate how our strategy is conceived and how it will play out. Last year for Farm business in many ways was a year of two hauls. First two quarters, you would have seen our market share in 4.5% region and it was deliberately so. In past, you would have seen us being at or near double-digit market share. This market was deliberately ceded in the light of two horrendous monsoons which meant we have four fairly bad crop cycles. The key call for us and perhaps that is what shows our strength as a business was when we saw last year monsoon going in an absolutely satisfactory fashion, we were able to pivot and start getting market share right of the back. A key question we had to face at that time was while we had good monsoon, demonetization definitely delayed conversion of good crop into completion of the cash cycle and the money coming back into the hands of the farmer. That was a very-very key decision. That therefore, we continue with our strategy of gaining market share or do we have a rethink. Our call was very-very clear. We were clearly foreseeing cash cycle getting delayed not cash cycle ending and with rabi crop also expected to be decent we believe the time was there to make absolutely rapid change. So clearly, second half showed us that we can move from 4.5% market share to 9.5%, if you look at our fourth quarter we are already in double digits.

What were some of the key elements of our strategy? Let me amplify one point that DD made. If you look at my loan portfolio, you will see average tenure of around 4-years plus. That means any loan I give is going to see nine crop cycles or more. Given the reality of Indian agriculture, it is impossible for me to have nine consecutive positive satisfactory crop cycles. There are going to be one or two crop cycles at least which are not going to be satisfactory. Therefore, the scoping of the challenges, how do we therefore build our portfolio, that takes care of this one or two crop cycles that are most certainly going to go bad. Therein lies the tenets of our strategy. First and most important, our in-depth analytics shows that when we lend against make and models of certain OEMs, the performance of the portfolio tends to be better when the asset is regular. The analytics also shows that for those particular OEMs in case the asset goes bad, our ability to extract value out of repossession and sell is also far-far higher.

Hence strategy point #1, "How do we structure our portfolio on the lines of what we call as preferred OEMs? Last year saw us make this pivot, again, from about 50% of our portfolio being oriented towards these preferred OEMs to our disbursement being close to 65% towards these preferred OEMs.

Second key tenet, again, our analytic shows that out of 4,000 dealers that we work through top 10% dealers tend to help us create larger as well as better quality portfolio. What is the compelling proposition we create for these top dealers such that I can command absolutely dominant market share with them. Traditionally, dealer management in this business has worked as a combination of TA and payouts. Clearly, that is not going to cut it for us. We have a comprehensive top dealer program which has at its heart fundamental tenet of absolutely superior best-in-class service expressed in terms of TAT, expressed in terms of convenience and ease of doing business in addition to the more conventional measures.

Third…this is the last point I want to make but in my view it is as important as any point possible which is transitioning the credit model for this business away from a largely human, a largely subjective decision to a parameterized decision which can help us ensure that there is a standard that we are creating. Here we are liberally using our learning from our portfolio of two wheelers where when we moved from a manual based underwriting to fully algorithmized underwriting, we are able to see a 30% difference in terms of the portfolio performance. So clearly in farm you will see we moving towards a parameterized algorithm-based credit decision making.

With these very-very strong tenets, I think making sure that we keep gaining market share is something we are very confident about. There is one footnote I want to add. I am sure you notice this in the material that is in front of you which is collections. We have been able to provide a highly creditable 2% drop in rural NPA in fourth quarter on the back of sustained collection efforts, effects of demonetization or not. So going forward we believe it is robust collection ability, that is what gives us the right end ability to grow fearlessly and do more and more business.

Vishal Purohit: Hi, this is Vishal from Prabhudas Liladher. Thanks so much for the lovely presentation and I must appreciate from the team in terms of what you have been articulating in terms of complete transparency in last couple of years which got articulated again here. My question is particularly to you Dinanath. You have shared with us your journey over the last 10-years at L&T. If you were to lay out a strategy for the next 10-years, how different it would be, so if you were to articulate a strategy for next 10-years, is it on line with what L&T which is synonymous with so many things in India or is it something different which needs to be done over the next 10-years, so you create a very different pathway than the present journey?

Dinanath Dubhashi: So while I do think of the next 10-years, I always strategize where I am very uncharacteristically reticent of talking about the next 10-years, it feels like being clairvoyant, like predicting what will happen after the 10 years. Let us talk about the future, but let us talk some basic few things which will not change which my parent believes and we will believe that success is creating shareholder value, very clearly, there is no other definition of success. I believe very firmly that bodies corporate, this I learnt in my first year of MBA after that I have not learned anything, bodies corporate exists for creating shareholder value. So that comes top most. I clearly believe that a strategy which builds shareholder value will automatically build value for all other stakeholders. It does not come the other way around, that you do not build value for other stakeholders and shareholders, there are books written about both, I believe in this. So whatever we do over the next 10 and hopefully then afterwards I do not know how many years I have, I am 50 now, so 10 years definitely after that we will see but leave it I will not go there that will be the tenet. As far as strategy is concerned, I believe in simple strategy. Be simple. The business which you know about quite well in that you build structure to grow fast, to grow better than others, make more money than others. Be so good in them that when it is the downturn, lose less money than us and continuously build internal structure, support structure, risk structure that when you run if you fall, the fall should not be such that bad that you cannot get up and run again I know I am giving you a kind of lecture but actually, any other proper strategy that I put for 10-years will be really meaningless. Anything and every business that we do it will be on these basic tenets. So let me try and put it in business terms. So business is good, we are good in. We have to realize that competition is increasing in each one of them. Every day we have to work for remaining competitive. So at some point of time NIMs, cost of funds, etc., was being talked about. We are still maintaining good NIMs, etc., but clearly what we do in terms of turnaround time, customer service is what hopefully we will continue to do better than others. You asked one more question about "What can go wrong?" There is something which was there that there were supposed to be bank customers and NBFC customers. Why only customers? There used to be something which was to be like bank staff and NBFC staff. Generally it is considered that who does not get job in bank they work in NBFC right. I think those kind of definitions and divides are very quickly going. Let us talk about staff. I think we have some of the best people. Many of them recruited from banks and we do lose people to banks. So I think that kind of divide is gone. Customer divide has definitely gone and fast disappeared. There was this asymmetry of information as the competitive advantage for NBFC. It will disappear in the next two to three years. So customer service, best way of doing business, reducing processes to the minimum possible, we do not do cost cutting, we do not do efficiency of processes, we are actually trying and cutting processes. Why are we doing? Is there a better way of doing it is the second question. First of all, why are we doing this. Continuously doing that will maintain cost efficiencies and hence competitive advantage in those businesses. Basic 10-year strategies will be remaining competitive in the businesses that we have. If we believe at any point of time, that any of the businesses are reaching levels where further growth is not possible, then we will look at adjacencies. That having identified our core businesses, having identified our core strength, we are going now for growth. This growth can be organic, the growth can be inorganic. Last one year I had said that don't talk about inorganic and all I don't have time. Today, I am saying that yes, why not, but it has to be available, the target has to be right and meaningful and it has to be available at the right price. So you know being investment bankers, many of you know that it is not like that at this point in time that meaningful target at the right price does not exist till PEs are buying things at 4x book value, etc., But we will wait, we will be very patient and if it is available, definitely look at.

Vishal Purohit:: Let me just add here. When I said, L&T as a family or the lineage coming in, should we look at the way the company has been progressing in the last couple of years that Virender's business if I were to look at from the next 10-years perspective becomes a slightly lesser than what it is or Sunil and Srikanth's business grow up substantially over the next 10-years and that lineage is whether would you like to continue the wholesale business which is very synonymous with what L&T does as a parent as of now or should we also look at or is there a possibility that the other businesses outgrow Virender's business from 10-years perspective. My question was more on those lines?

Dinanath Dubhashi: Now, I will answer it on those lines. What percentages will be? Once again, I do not know. It depends on. So #1, let us talk about our strengths. At this point of time, our strengths in Infra are already well built vis-à-vis our strengths in other businesses that we are growing and we are building. So growth of disbursement in Infra will actually perhaps be the highest.. But how should capital flow? Capital should flow to businesses which are giving highest RoEs which are actually Rural, Housing and Infra. As far as strengths are concerned, today, it is Infra, Rural and Housing. How do I manage this mismatch? Capital will always flow based on RoE. The difference between capital that can be allocated and the business potential will be made up by the sell down engine. So, growth of business even if Virender's is highest, that means even sell down of wholesale will be the highest and capital will be least. But it is not that capital will reduce anymore because now even wholesale business we are sustainably making 15% plus RoE. So there is no need to reduce capital. So the book will also grow there. It will grow maybe slightly lower on a secular basis. On quarter to quarter it can change. But on a secular basis, it will slightly grow lower than our retail businesses. How much this will change in 5, 10 years, etc.? I do not take such guesses. I always explain how capital will flow. First to Rural, then to Housing, then to Infra. We will have adequate capital we believe for. I will answer that question also. This particular year you can take the guess at RoE, the next step. So that is the accrual in profits. Bain Capital who invested warrants in us 1.5-years back. We are expecting around Rs.350-odd crore inflow for conversion of the warrant investment. These two coupled with some successes in PE sale, some real estate assets sale, like that, we will be having adequate capital for FY'18, etc., for the growth. FY'19 onwards, hopefully RoE will be at those levels, that perhaps capital may not be required.

Nitin Kumar: Nitin here from Antique. I have a question on your defocus book. Now that we have been able to do some sell down in this quarter. But whatever is left is like causing a serious drag on our overall consol RoEs. So as to what sort of like asset quality picture is there for the remaining defocus book because I think that will incrementally need to make more and more provisions over there, this quarter we have made voluntary 45 crore provisions, and how like do you plan to take this up?

Dinanath Dubhashi: So first of all, I do not think it is a large drag now, it is still a drag, any drag is bad, but now it is not that. I just could hope that I would like to sell the entire Rs.2700 crore but it is not happening like that, right. So obviously, NPA as a percentage will keep going up as I keep running down that. But let me tell you that absolute NPAs have actually come down by about Rs.100 crore from Rs.700 crore to Rs.600 crore, so we have actually done very good job in NPA collection. As a percentage, Rs.700 crore upon Rs.4500 crore will be lower than Rs.600 crore upon Rs.2700 crore. So what are we doing about that? We are sure that these NPAs will slowly keep coming down, they will not increase. We will keep increasing provision coverage. So provision coverage on these NPAs is now close to 50%. We will next year take them to about 60-65% so that there is never any big shock coming out of this portfolio. Attempt to sell it and run it down will continue. I wonder whether I will be wanting to sort of sell it to ARC or something like that, because then you do not get any benefit. We are actually more sure of getting it. This is asset book portfolio and we will get some value.Then at absolute level these Rs 2700 Cr will be in worst case scenario Rs 1000 Cr odd by next year. On a book of 70,000 + 1000 Cr drag will be highlighted.

Nitin Kumar: Understand that you are saying larger proportion of sell-down is coming from the wholesale assets. But then if I look at the fee income, the fee income that we are making in the rural business is very similar to what we are making in the wholesale business. So what is driving that? If we look at the RoE tree, the rural business is also giving us healthy fees.

Dinanath Dubhashi: But it could not be sustainable, there may be some particular income coming to the rural business, sustainably higher fee income will always be in wholesale, followed by housing and then followed by rural.

Nitin Kumar: So no major sell downs has happened in the rural business?

Dinanath Dubhashi: Not yet.

Nitin Kumar: Because that is not showing up in the disbursement and the loan growth also. If I see the disbursements that is taking place in the two wheelers as well as in the farm business, that is not gelling with the growth in loans on a sequential basis.

Dinanath Dubhashi: Retail loans, Farm, let us say, it is mathematics. Farm loans average will be about 4-4.5-years, right. So the growth in business has started only this half. Till now when the business was coming down drastically, the book was not coming down drastically. Similarly, because of the 4-4.5-years tenor, the business growth to convert to book growth will take some time, it will happen from FY'18 onwards. In two wheelers, it will happen faster that the business growth will convert faster to book growth. I can confirm that we have not sold anything from either two-wheeler or farm or microfinance this year. We will do it next year. I think the first success in the retail we will get hopefully is in housing actually. The sell-down you are talking about from defocused is different, this will be as the business engine. So now salaried home loans what are we doing. Let me put my strategy. That we are concentrating on direct sourcing. Direct sourcing and who will give direct sourcing? So it will come only from a construction funding and wherever I have done APF. So I give a good proposition to my construction funding clients to give me right of first refusal. There are early successes in that. We have to multiple those successes. Then I have to do the business at lowest cost very efficiently. Even after that with almost negligible cost of acquisition, very low cost of operations, even after that the RoEs will be in high single digit. Let us accept that with the salaried home loan yields that were. So sustainable way of doing that business is booking and keeping on selling it. So salaried home loans, that will be the strategy. So the sell-down engine is a multi-business engine where right now it has started with wholesale. We have just done, had the first success in real estate and immediate success we are looking at now is in salaried home loans and then microfinance. Microfinance why are we doing? Once again, our risk framework, so certain states for us is still doing outstanding. Let me give you the name Tamil Nadu portfolio is absolutely outstanding, okay? It is still growing at the old collection efficiencies. So, my risk frame work tells me or my dynamic target allocation tells me to do more and more business in Tamil Nadu. At the same time, the risk framework tells me that I am reaching my limits on Tamil Nadu exposure. So, what do I do, I sell down the rest. So, it will be now a very continuing sustainable model rather than a sell down done to earn fees. Fees is a result of sell down not as a purpose of sell down. Sell down is way have done a way of doing business. But our ability to book business is much more than what we would like to keep on our books for capital and risk.

Nitin Kumar: And lastly, like you talked about the tax efficiencies that we got on account of merger, there is a small note written that it will be recurring for next five years. So, it will be the similar amount that we are going to see over the next five years?

Dinanath Dubhashi: It is a similar number for the next five years.

Ramesh Bhojwani: The second biggest microfinance company has announced a starting provision of Rs. 335 crore resulting in a net loss. Virtually their entire annual earnings at a net level they have made as a provision. You have made a passing reference that even if one day there is a delay in collection you make a provision as far as microfinance goes. How are you seeing the microfinance scenario if you could expand a bit going forward? And secondly, this agri waiver in U. P. is causing disruption in U. P., M. P. Maharashtra, Karnataka to begin with, you also have a big focus in rural area as far as tractor goes, as far as two-wheeler goes and other things go. So, how do you see this situation coming up when everything is on track, when everything is going fine and also an expected good monsoon, our politicians spoil the whole show.

Dinanath Dubhashi: Sir, I will try and answer the second one first. Either of we are complete very-very efficient or we are complete idiots, do not know which one. But I am genuinely not seeing effect of this U. P. waiver on my portfolio, okay? May be there is something that other people see and I don't see possible but I have toured U. P. myself and I think the way the CM has communicated and the way the waiver has been communicated is exemplar. But on the portfolio, itself I do not see any effect as yet, at least, nothing specific. . I am not saying my U. P. portfolio is smelling of roses. Okay, I do not want to blame something on the farm waver not yet. So, I will talk about myself, initially few eight days - ten days there were rumors of there will be complete loan waiver, there is collateral effects, some microfinance customers believing that you guys have received money and all. But these are largely anecdotal rather than a big wave. It is fun to quote anecdotes, I can also quote, I have visited customers myself and there have given very funny answers. There is something that I believe and it is applicable to my company as much as I believe to the entire lending. If you have not taken enough care in lending while things were going well you have said things like MFIN rule of following two lender approach is for MFI, now I am SFB it is not applicable to me, so I can lend third, fourth, fifth, right? If you have things like because only two are applicable I will keep Rs. 10 outstanding so that nobody can enter. If you have done all these things, if you have done things like let somebody else go with Aadhaar, I will not go with Aadhaar because it is not compulsory. If you have done this, your portfolio will be worse than others. It is simple, right? If you have done business well, hopefully it will be better than others. Does that mean that it is great? No, it is not great. We have also suffered in microfinance. I will tell you Vidarbha. Vidarbha, when I talked in November or December my Vidarbha debtors were about Rs. 160 crore today it is a Rs. 138 crore, so it has come down by Rs. 22 crore, is Rs. 22 crore something great? No, but it has come down. But still it is Rs. 138 crore it is problem, right? Are efficiencies at 99.9% no they are not in 99.9% and I do not think they will ever be again, that dream world is gone, right?

Can microfinance companies work without a collection engine? Can microfinance companies hope that all customers have heard that Dr. Yunus has won Nobel Prize for microfinance and hence, they should come and repay regularly. All those times are gone. We need a collection engine like in any other proper financing business to go and collect. Microfinance today we believe is nothing but a short-term unsecured loan given to reasonably poor people at the bottom of the pyramid and you have to get it back like you get any other loans, right? Models have to shift to that, some people will move faster, some people will move slower. As far as we are concerned, I can tell you one thing, we believe it is under control. Most importantly November to December, December to January, January to February, there were multiplications of Rs. 100 crore, three figure increases in debtors every day, every month. In March to February, February to March it actually reduced marginally but it reduced, April it has increased but very marginally in single-digits increase, right? We believe that the trend is arrested. We will see as it comes, provisions are required we will do. But collections have started, I gave a number 45% of my debtors started paying something. And once they started paying something then money will come.

Ramesh Bhojwani: Sir, one more question, it arises from the same second biggest microfinance holder company's management expression that it would have been better if they were enjoying a status of a small finance bank or a payment bank. Now with your verticals and with the way you have turn around the story and the next three years story looks very good. Are you looking to revisit applying for a bank license or a small finance bank license or a payment bank license?

Dinanath Dubhashi: Payment definitely no, I can tell you payment banks, I am confident will lose money, lose money and lose more money, I am very clear, okay. I am totally focused about ROE, at least I cannot think of a way that I can become a bank raise liabilities and maintain ROEs for the next three years, I do not know. Being able to accept old notes for two more months, three more months, as a tool to make ROE, I do not want to be dependent. So, if I have to become a bank that every time a demonetization happens I will be able to accept old notes for two months more than a NBFC it is not a sustainable business. So, I am happy being a NBFC.

Kenin Jain: I am Kenin from Emkay. (a) What are your views of selling of mutual fund business, (b) also I want to know that how customer view your company, so customer on pan India basis when your product comes to them, what they perceive you, what value proposition, so I want to understand the identity or the view point like we have got a fantastic view point about your management, your company for next three years, five years, I want to understand from a customer perspective.

Dinanath Dubhashi: So, I have not never been the customer of my company, I am not allowed to I am director. But I will try and answer. One year back we were being ignored. No newspaper used to publish anything, not even our results. From there to the first page of leading business daily I am happy. Now what they have printed I cannot comment, I can only confirm. So, what did we do to that, we did not go to the business daily and cry what they have done and why have they done. We communicated with our important constituents. First, communication was to my employees. Early morning call with the employees, telling them good news guys, use your great excuse to meet your biggest customers and tell them that we are there. So, he gives us you a meeting. Go and meet and grow, okay, number one. Number two to distributors this, our most important constituents, immediately a letter went signed by the Chief Execute to each and every distributor absolutely clarifying what is our growth path and there is absolutely no intension to exit this business, no intension at all. And last but not the least each of the large customers met and clarified. What happened was some of thisbig customers and distributors actually started putting pressure on the newspaper saying how can you print this? I do not know whether we got any queries from SEBI or not. Did we? Exchange, nothing. So, nobody really bothered that matter. So, my Twitter handle there are questions are coming that why have not you clarified to stock exchange? Because stock exchange did not ask. So, I do not clarify news paper articles, why should I, but I enjoyed the attention. There a lot of people, a lot of CEO's called up asking what is this news, so you know my way of approaching things, so I asked them in return I asked, "Are you for sale?" to them. So, no truth in this article. As a customer we see what is the proposition we are offering to the customer, we will never be the cheapest, we will be reasonably competitive but never be the cheapest. We will deliver best services. We will be the fastest in the market, as much fast is possible we will do that much. Slowly we will move to proposition where we will start taking guarantees of our turnaround. Two-wheeler we have moved that this turnaround time and processing fees is returned than we will stand for that. Hopefully, customers will start liking that proposal more and more proposition. Today, I think it is mixed because we stand for various things, various ways and these can be other CEO, these can be the last famous words, moment I say that one of the branch will go and screw up somewhere, it will happen in a large network it will happen. I mean, why branch, I took one of the investors to show my two-wheeler system and something which works 99.8% well that 0.2% decided to happen at that day. So, this happens. But generally speaking, this is what we will stand for, turnaround time and service.

Nischint Chawathe: On the fee income side on the wholesale business I know you mentioned about it but still Rs. 150 crore a quarter this is a lot of money

Dinanath Dubhashi: Yes.

Nischint Chawathe: Maybe some granularity on this would really be appreciated.

Dinanath Dubhashi: Virender?

Virender Pankaj: I will just take you through break-up of that money first, so that we get the picture. About Rs. 100 crore of this comes from our core business which is underwriting typically project finance deals. Now, what do we do to an extent I will relate to the customer value proposition also. See, we are number one in renewable energy financing, we are number one in the country in financing of operating road projects, we are number one which happened during last two quarters, now in transmission sector also. Most of these projects in renewable the gestation period is actually from the day you start digging is less than 100 days. Now to a client what matters is that he starts digging sooner, his ROE goes up. See, just as we are focused on our ROE, we are equally focused on our client's ROE. His ROE does not grow up by 25 bps lower interest rate because for five months what interest cost we are talking about. It goes up if he starts the project, start generating one month sooner. It gives him a larger kicker. So, that is why he pays the fee to us. So, Rs. 100 crore was this fee. Approximately, we would have made about Rs. 20 crore to Rs. 25 crore fee roughly speaking from our DCM desk which is in the business which has many products. But essentially, they till now have not been in what is typically bank treasuries DCM desk do that is liquids play on interest rates, No. They focus on structuring solutions underwriting and then placing it in the markets, so obviously this calls for a delta which is different. So, Rs. 20 crore to Rs. 25 crore we would have made in that. Rs. 20 crore to Rs. 25 crore we have made in a new growth engine now for us going forward that is our corporate and structured finance book. Now, this was one segment which going forward, we intent to start leading the deals and replicate the same. At the end of the day client need solutions, we provide the solutions then we go like to minded lenders and we sell down part of it or most of it, in DCM we sell down all of it, so it came from there. So, now, all these competencies were being built over years. It does not happen in a quarter or in a month. So, all we did in Q4 was press the accelerator, once we got the steering, gears, visibility distance for other cars, everything right we press the accelerator which is the part of a car which requires actually the least amount of force and that is what has led to this. Our down selling volumes doubled from last year as you would notice from the details. So, the entire engine is now functioning, ready to accelerate, so we underwrite more, we down-sell more in the process we make more fee. Now each of these areas we will be adding more products, we will be adding more activities and hence, we would look to keep accelerating further. So, that is what the fee is all about.

Sunil Kumar: Sunil from SBI Life. Thank you. Sir, in terms of the growth going ahead you have obviously articulated it beautifully there. I wanted to understand let us say during this particular quarter there is a disbursement growth of around 80%. Now going forward, next couple of years if you are thinking of may be 40% - 50% kind of disbursement growth or let us say 30% - 35% loan growth, which are the top two - three heads wherein you will be spending, you will be investing, are you going to invest more on people next couple of years or more on infrastructure like improving your presence, etc., next couple of years more business development centers, etc., or more on digital initiatives like you spoke briefly about data analytics part also.

Dinanath Dubhashi: We are not going to invest in creating any new structures for people, no new big head office schemes etc., other than couple of things. People increase will be less than proportionate hopefully with business increase and people coming in for doing more business or doing more collection is what necessary, we call it investments it is just a way of doing business. If you talk about investment, it will be largely as I say is digital and data analytics which will be the big investment of FY 2018 and of course, it will have to continue but we have already engaged a consultant. The project has already started and we are looking at basically, if you take the entire life cycle of the customer from identification, prospection, on-boarding, assessment, operations of throughout the lifecycle of the loan and then collections and closing, each and everything we are trying to first work analytics into it to do it more efficiently, using data internal as well as external to take decisions which are today in many areas people-oriented decision subjective decision, I mean which is people-oriented is subjective into data-oriented decisions, right. And then slowly, each of that process once it is analytically cured, digitized or automate it. So, this is how we will go line by line. The digital and data analytics investment is not going to be in great glamorous things like some social media and all that we are doing but big investment is not there. Big investments is going to be mundane actual processing that each manual process that we do today, first of all how can we give it objectivity of data and then how can we automate it. This is how the investment is going to be. Does that answer your question?

Sunil Kumar: Yeah, absolutely. And also one more, these focused businesses like rural wholesale and housing, so these segments will remain the focused businesses, we do not have any plan to enter into a new segment.

Dinanath Dubhashi: Not, right now. There will be adjacencies certainly to this but nothing on the offing.

Sachin Shah: This is Sachin Shah from Emkay PMS. Just wanted to get your sense on your focused businesses what do you see the business outlook in terms of each of these businesses last one year you have got your house in order but from here on, I am sure the kind of the headwinds and the tailwinds that will play out in each of these sectors or in each of these focused businesses that you have that will also have an impact in your growth. So, can you give us some sense on what is the ground reality today in each of these businesses like how you articulated for microfinance, can you give us some sense on each of these focused businesses for the next two quarters?

Dinanath Dubhashi: Sure, I will try and take it and may be the Chief Executives can add if I miss something. See, first of all, let me talk about our philosophy, I always talk about it first that being a NBFC you will first of all always be your playing ground, your war ground will be cyclicals. We have to accept that we will be in businesses which will be doing well sometime not doing well sometimes and that will be our battleground. Once you accept that then why do we call something focused for our core businesses is because we believe that we have the abilities or we should build abilities to gain more than others when the business is going up and lose less than others when the business is going down. So, first of all, cycles are reality I think Sunil articulated the cycles in farm very well. In good times, everyone grows in tractor and you can see history I will not name. Some of the large players have entered and exited the business four times in the last 10 years to my count I might have undercounted by one may be, may be five times but about four. So, in good times getting into a business is easy but holding gold 25.44 in bad times, losing less, we have also, we were in CVs, right? When CV market was doing well we used to do reasonably well, when it was bad, the condition gets pathetic. When the Sundarams and Shrirams of the world will be reasonably okay but our condition gets pathetic. So, now we have decided that we will be only in businesses where bad times will come but still we will be reasonably okay, so this is the philosophy, now talking specifically I think microfinance I have talked basically change in business model. Tractor I think Sunil covered reasonably well, so I will not go there. Let us talk two wheelers, two wheelers have been doing reasonably well, scooters more than motorcycles. As more and more investment goes in rural and rural roads which very clearly is going to go up. This government very clearly wants to win the next elections. And next two years to three years huge investment is going into that sector and especially good two wheelers are going to sell. It is no longer the straight equation that rural means motorcycles. Now, with improving roads and improving scooters, rural also means scooters, let me not name brands but you know brands which are still having a waiting list right in today's period. Our association with these strong OEMs where we hope we will continue and the strategy concentrating on the top dealers, etc., will continue to have our growth. So, what is important in two-wheeler business, controlling operating cost and controlling credit cost. So, majorly concentrating on collections and quality of business and reducing operating cost drastically by not having any manual process. I am nowhere near that, my dream is that when you come into a two-wheeler shop, I should do an iris scan or a finger print and give you a loan and take a few seconds for doing it. That is the dream we will reach there one day. And with analytics and digital, it is actually possible today, I do not have to I have to build those capabilities. But in the cyber world these possibilities exist with right partnerships. People do in consumers durables they do it, so why cannot they do in two-wheelers. So, this is the outlook and philosophy for two wheelers. Growth in each of these businesses, I will not talk about FY 2018 this is too near to talk about. We are very bullish on each of these businesses in FY 2018 but CAGRs of (+20%) I think are reasonably possible over our plan. Then we talk about housing, housing this year has you see a negative disbursement growth in retail housing. It is because of two reasons: one is internal where a particular chunk of business which is DSA-sourced home loans, salaried homes we are simply not doing, it is zero, from April-May it is zero. So, because of that there is a technical reduction but profitability is up, okay. And then after demonetization for three months there were no transactions happening, so there was no benchmark to do valuations. Going aggressive on LAP in those three months would have been stupid. So, even though our LAP portfolio is very well, getting good valuations itself was difficult. Slowly things have started picking-up home demand have started picking-up especially in a lower income and middle income group. Government is doing quite well. Luxury housing is still not doing well. We have to be reasonably sure in areas we do business and we can have good growth. Real Estate, I keep hearing that it is a risky business. I always say that I love risks because if it is not risky business every real estate project if it starts on time, all the monies come to the P&L and it gets over on time then all the work would have been done by number one public sector bank, there was no play for us. There are no plays for us. My strength lies in knowing those customers, knowing those projects, being on site, my technical people being on site, monitoring those projects, having early warning signals and hopefully completing the project well before time or exiting the project well before time and hence I think it will be more than normal growth that we will have in real estate which will help profitability. Coming to Infra, our core businesses, that is Operating Roads, Renewable, Transmission, these businesses we are very bullish. Lots of questions ask about the new tariff, etc., We have done lots of calculations and we are sure that even today there are equity IRRs of 11-13% possible in those businesses which are very good equity IRR for foreign PEs, etc., doing business. The projects have moved to stronger hands and we remain quite bullish on these businesses. Temporarily headwinds keep coming there like certain SEBs suddenly stopping to pay money and things like that. Once again being a leader in the business, helps us to influence some of these behaviors. In shorter-term, I can say that some of these behaviors have actually started improving. Let us say Maharashtra not paying for wind, it is still not regular, but it has actually not as bad as what it was three months back, it has started picking up. Infra, we will have to keep looking at new areas also in the future because there we are the leaders. So we cannot wait for somebody else to discover a new area and get it and hence we are discovering new areas wherein the longer-term ports, etc., till it comes to funding and private sector funding will take time, but the ministry is doing good job but it will take time. But more in a shorter-term, healthcare, hospitality, education are the areas that we have identified. So more or less answering this, overall CAGR 25% in disbursements is possible which will translate to book growth of anything between 15% to 20% depending on how much we keep and how much we spend.

Participant: We did understand the cycles of the Tractors business. But what is the current outlook on the tractors segment overall, can you give some sense please?

Sunil Prabhune: For the fiscalthat is just ended, we saw return of volumes after de-growth in the market for two years. Clearly, there is an expectation that with a decent kharif crop in the previous season, decent rabi crop in the season that is just getting converted into cash and with an expectation of close to normal monsoon, there is definitely expectation that this year should see close to double digit growth in the market. But let us peel that number just a little bit. If you traditionally look at some of the market leader OEMs, their growths have been typically close to 1.8x to 2x that of the market when the times have been good. So what we do expect is that the market will definitely grow by close to double digit and we expect therefore to claim our legitimate child.

Vishal Biraia: Vishal from Antique Stock Broking. Wanted to know your progress on IDF, even with some growth the capital adequacy has gone up significantly, so what are your plans with IDF and how do you see it over many years?

Virender Pankaj Our Infrastructure Debt Fund has grown very well during the year; I think we would have probably doubled our book in the year gone by. This is a segment where we are very clear that we are looking to grow our asset book. When we talk about general lending in wholesale, project finance, we talk about underwriting and down sell. IDF you can visualize it as our hold book. The projects when they become stable, start generating regular cash are derisk to the extent permitted by regulatory guidelines, they move into our IDF. So this is a book that is going to keep growing in future also. Last one year, one big change that has happened is that regulators permitted more sectors to be brought into IDF. So the definition and coverage of IDF has gone up. Now, you must be aware IDF also include renewable assets which are stable. Going forward, we expect more and more sectors to get added to it. Within road refinancing which is the core strength area for us, I am sure you must be tracking the developments relating to TOT projects whereby NHAI is going to monetize the future receivables of its own projects and use that money for construction of new roads. So now this is a very typically right kind of focus for our IDF. So this is going to be another area of interest and growth to us. Lastly, continuing with our philosophy, we actually work very closely with the remaining IDFs in the country. Our team which is the same team which originates and structure solutions is happy to down sell to them also. So not only we generate assets for our own IDF, we do it regularly for all the IDFs in the country. So I think we can expect continued growth there and obviously our idea of being AAA rated it being allowed higher leverage, our leverage even at this level is still half of what it should be. So you can very well forecast the profitability that will happen once we hit the right leverage there.

Vishal Biraia: For IDF, do you see more equity infusion in the next two years FY'18, FY'19 or is the capital adequacy currently is very strong, so…?

Dinanath Dubhashi: We will not put equity for any other reason other than growth. If growth goes to debt-equity of more than 8-9, then we will put capital. So in NBFC business, whatever capital you put for growth is not a matter of strategy, it is a matter of necessity.

Virender Pankaj: Right now we have a very comfortable headroom.

Dinanath Dubhashi: Looks unlikely but if growth capital is needed, we will put it but for no other reason other than that.

Speaker: Thank you very much, ladies and gentlemen. That concludes the proceedings. Thank you very much for all your presence.