L&T Finance Holdings

Q4 FY20 Earnings Call Transcript

May 18, 2020

Moderator:

Ladies and gentlemen, good day. And welcome to the L&T Finance Holdings Q4 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded.

We have with us today Mr. Dinanath Dubhashi – Managing Director & CEO, and other members of the senior management team. Before we proceed, as a standard disclaimer, some of the statements made on today's call may be forward-looking in nature. And a note to that effect is provided in the Q4 results presentation sent out to all of you earlier. I would now like to invite Mr. Dinanath Dubhashi to share his thoughts on the company's performance and the strategy of the company going forward. Thank you and over to you, sir.

Dinanath Dubhashi:

Thank you for joining this results call. I would like to apologise to you that instead of meeting each other, like we usually do at the end of each financial year, the current social distancing norms require that we communicate over the phone. Let's hope that we get an opportunity of meeting each other shortly. I also hope that each one of you, your colleagues, your family and friends are safe and continue to remain so.

Throughout the last financial year, we witnessed challenging times one after another. These challenges were not only intrinsic to NBFC sector like liquidity or solvency issues but also challenges in the overall business environment like lack of demand across major sectors. The slowdown in manufacturing activity and the moderated growth in services resulted in India's forecasted GDP growth being estimated at around 5% for FY20. The final growth may very well be lower than that. The only green shoots (though early), were seen in rural economy towards the end of Q3 FY20, driven by the healthy water reservoir levels and increased sowing of the Rabi crops. The Q4 FY20 and FY21 growth of Indian economy was expected at that point of time to be guided by rural demand.

Now, all this sounds so distant in the past, because nothing could have prepared all of us for what was to come. The challenges which the industry, country and perhaps even the world is going through, are unprecedented at least for our generation. I appreciate that my generation may be different than many of you, you are all young people. I am almost 54 and at least I have never experienced a crisis like this before which is so all pervasive across the globe. It affects your personal and professional life and can really and truly put fear of the present and the future in the minds of each one of us. While we all suffer from the effects of the lockdown, we are also painfully aware that the post lockdown situation is likely to be even worse for each one of us.

In such a scenario, I can only humbly say that the quarterly financial results of a company seem like a non-event. Also, I can definitely give you very clear picture of the Q4 results but I wonder whether I can truly answer with any measure of accuracy any questions about what the future holds. Any amount of data analytics we do (and we do a lot) to try and predict the future might understandably be inadequate because of the sheer unprecedented nature of this event. Data analytics works if the past is going to be reasonable indicator of future – at this point in time, one wonders. Still I will try and do my best, that I promise.

I humbly put forward to you that LTFH has posted reasonably good results in Q4 FY20 considering that the last fortnight of March, which normally sees extremely heightened activity both for disbursements and collections, was so badly affected.

I believe what made it possible were the inherent strengths that we have built over time, simply going by first principles. If I have to list the 5 pillars which would make any financial institution and definitely an NBFC, strong to face events like this, they will be:

1. ALM, liquidity and a liability franchise
2. Asset quality and collections strength
3. Provisioning policy providing protection for any shocks in future
4. Business strengths
5. Ability to change operating models quickly based on circumstances

I believe that these pillars will always help us handle and survive a crisis of this proportion but also put us in an excellent position to recover quickly and take advantages of opportunities in the post crisis period, as they emerge.

Let me now quickly demonstrate how we have done on these 5 pillars by giving some numbers. I must also add that we took special efforts in this Investor Presentation to be even more detailed in giving you some more details about Q4. So that in these extremely uncertain times, you can actually make up your mind about how each sector is behaving and how we are doing on each of the sectors.

1. ALM, liquidity and a liability franchise

In the days following the announcement of lockdown, the debt market was characterized by a severe drying up of liquidity. The closure of certain debt schemes by a Mutual Fund house accentuated the problem in the debt market. The various TLTROs announced by the regulator helped but helped only partly. In such times, what worked for us are our conservative policies on the topic of ALM and liquidity. While there is no denying that our treasury had to work extra hard to cope with the situation, and it's becoming a practice (First IL&FS, then various other things and now this), we always remained confident of dealing with the situation as a result of our conservative practices. And that's the most important thing, we always remained confident. We had to work extra hard, but there was never a firefighting situation.

- I would like to start this topic by mentioning that LTFH and all its lending subsidiaries have been assigned/reaffirmed AAA rating by CRISIL, India Ratings, ICRA and CARE, notwithstanding multiple downgrades across the sector. At this point, I'd also like to highlight that India Ratings and CRISIL recently reaffirmed our AAA ratings during Mar'20 (post lockdown) and May'20 respectively. So, this has happened after considering the early effects of lockdown.
- As far as ALM is concerned, as per our prudent ALM policy, LTFH maintained positive liquidity gaps in all buckets till 1 year after factoring in the effect of moratorium given to part of our lending portfolio. So, we already had positive gaps and we maintained positive gaps even after factoring the effects of the moratorium. I must here specifically

mention that while there were lot of discussion on this, we never asked for any moratorium from our banks for our borrowings. Given the uncertainties in the market, we also maintained a higher than usual liquidity of Rs. 15,485 Cr on 31st March,2020 including pure liquid assets of ~Rs. 8,500 Cr. Now, on a balance sheet of Rs. 1 lakh Cr, whether Rs. 8,500 Cr maintained in cash and cash equivalents, is it efficient management? I would myself say No. Is it prudent in the current situation? Definitely. And not knowing how April will be, I think it was not only prudent but absolutely necessary to keep this kind of liquidity

- I am also happy to report that LTFH demonstrated its ability to raise long-term funding from broad based sources, garnering more than Rs. 28,000 Cr in FY20, this is our highest ever annual long-term borrowing. The company focused on further diversifying the funding sources and this is nothing new, I have been talking about having positive ALM, about adequate liquidity and about moving to long term for some time already. And we raised more than Rs. 9,400 Cr from new sources which includes Priority Sector Lending, retail NCDs, ECBs, etc. In Q4 itself we were able to raise ~Rs. 7,250 Cr of long-term funds, thus demonstrating our liability franchise.
- And you would have noticed that our CP percentage is now down to 6%, which is, I think, an all-time low for us. I don't think that it is purely efficient to maintain CP so low, especially when we have such a good retail portfolio. But so be it at this point of time. And most importantly, even as we increased the proportion of long-term funds, still the weighted average cost of funds was actually lower in Q4 FY20 than Q3 FY20 by about 10 bps, at 8.43%.

So, while these numbers are already there in the investor presentation, I thought I will just re-emphasize them to establish our liability franchise.

2. Asset quality

It's well known that for an NBFC, especially in one having a substantially retail and rural base, the last 15 days of a quarter and especially of the March quarter are very crucial. We can argue whether it is good or bad, there are lots of projects going on to make it more uniform throughout the quarter, but teams seem to get a completely new energy in this period and both business and collections reach a fervent pace. And this is true across companies. This year, most of that period, the last 15 days of March overlapped with either partial or full lockdown and hence we were not able to make the final sprint on the home stretch. I am glad to report that despite that, our GS3 as well as NS3 ratios have improved sequentially as well as on YoY basis (details in investor presentation). Even if we don't take the DPD freeze into account, it still shows a small reduction over last December which shows that we have done quite well in this matter. In fact, in our Rural business, we have reached NS3 level of sub 1%, 0.89% to be exact, which is very clearly a benchmark in this segment. We believe that our heavy investment in data analytics enabling our early warning signals and our emphasis on a zero DPD book has now given us good results even in this situation.

3. Provisioning policy

Since the adoption of Ind-AS 2 years back, we have been constantly stress testing our ECL (Expected Credit Loss) model to make sure that we are well protected by the level of provisions we take. A close to 60% PCR protects our P&L from future shocks. We also recognize that the current situation is totally unprecedented and hence we need to be prepared for a fairly negative scenario in the post lockdown period. Based on this, we have taken the following additional special provisions:

a) Rs. 209 Cr of Covid-19 provisions equivalent to 5% of the portfolio availing moratorium and which was between 1-90 DPD on 29th February. This is in accordance with RBI guidelines.
b) In addition to this, we have taken Rs. 105 Cr additional provisions on stage 2 assets due to the possibility of higher LGD in the post lockdown period.

Thus, along with this, and you have to take both these together, because I believe that if RBI had not come up with this, our model would have thrown up the overall higher level of provisions required and we would have taken it. So, Rs. 314 Cr total is the important number.

Thus, along with the Rs. 350 Cr macro prudential provisions already made; we carry a total of Rs. 664 Cr of additional non GS3 provisions (corresponding to 0.75% of non GS3 book). These are of course in addition to our normal standard asset provisions and GS3 provisions. If we include the standard asset provisions, the total provisions on non-GS3 book are Rs. 1,061 Cr (1.19% of book).

It is not possible to exactly estimate the impact on the repayment capacity, repayment behavior, ability to collect etc. However, we believe that these additional provisions will make us fairly well-prepared to face a possible negative scenario.

4. Business strengths

The company remained amongst the leading financiers across its focused businesses in FY20, where we not only maintained our market share across businesses but also gained share in Two wheeler and Farm Equipment segment.

- Farm Equipment Finance – We continue to be the 2nd largest market player with an increase in market share to 15% in Q4 FY20. The disbursements grew by 5% on YoY basis and book grew by 15% as compared to a market degrowth of 9%. I must mention here that till the last quarter; we were calling out a 10% growth in the tractor market in FY21. Considering that the first 45 days have seen no sale, it will now be more like a negative growth next year for the industry.
- Two wheeler Finance - We are amongst top 5 Two wheeler financers across the country where we increased market share to 11% in Q4 FY20 on the back of a superior service proposition. The focus here has been on capturing higher counter share on chosen dealers. And this is up to 20th of March; in the period 20th to 31st March, volumes were almost zero, other than the conversion of trade advances.
- Micro Loans - We are the 3rd largest financier. The book however remained flat in the year with focus on increasing share of good customers. The book remained flat as we didn't disburse much in Assam, we were rebalancing some portfolios in other parts of the country. Now, we have launched various schemes for our good customers and our repeat rate from earlier 30s, we have now increased to almost 51% and completely unleveraged new-to-credit customer to 17%. We are quite happy with these numbers. The portfolio in Assam stood at Rs. 534 Cr achieving a Rs. 280 Cr reduction on Y-o-Y basis.
- Infrastructure Finance - We continue to be market leaders in Renewable energy financing. Roads and transmission; these continue to remain the focus areas. Having said that, we certainly held back certain disbursements towards the end of March, we will speak about it in a minute. The market share and the rankings I've mentioned includes both banks and NBFCs.
- Housing Finance – In Home Loans where we are not leaders, we moved ahead in line with our strategy and our share of salaried customers in Home Loans disbursement has also increased from 48% last year to 64% in Q4 FY20. Our LAP disbursements, continue to be steadily coming down, respecting the change in scenario. You will see that even in our Real Estate book, there is hardly any addition for the last four quarters. In fact, there is a slight decline.

On the whole, even given that Q4 was a difficult quarter, because out of 90 days, around 15 days were lost, businesses have done reasonably well, thus indicating the business strengths that we have.

5. Ability to quickly change business model according to the situation.

This really shows the inherent strengths of the organization. There won't be any numbers to quote here, but bear with me. Q4 FY20, and in fact even Q1 FY21, was and is characterized by continuously changing business situations. If you would ask me to comment whether situation on ground is positive or negative, I would call it mixed or even confused on the ground. While the period till March 10th was fairly positive, it became very uncertain with application of partial lockdowns. We had to adjust to the new way of working. Operating with lower on-site manpower, higher load on IT platforms and enhanced IT security, realigning work priorities towards higher risk controls and collections, preparing a BCP for a lockdown situation and most importantly taking care of the health of our people and their families actually became the order of the day. It was a very different working; it was quite unsettling I must say.

After March 25th, it was time to show further ability to change tactics quickly. Operating instructions from various authorities on the ground in our vast network were confusing to say the least. It was important that while we work from home and especially when new business is not happening, the teams don't lose seriousness and focus. Our investments in digital technology and data analytics stood us in a good stead at such a time of crisis.

The usage of data analytics for portfolio management and strong Early Warning Signals, which have always underlined our risk control measures in the retail segment. For the wholesale segment, we have always focused on cashflow based underwriting to strong corporate partners along with continuous project monitoring to manage portfolio quality. In addition to the current risk management framework which focuses on a data driven approach, we've now implemented additional portfolio actions to deal with the current scenario.

a) Impact assessment on business wise portfolios using lots of stringent stress case scenario. On retail as well as on project finance whether it is in Infrastructure Finance or Real Estate, detailed analysis has been done with stringent risk test case scenarios
b) Tightening of LTV grid and reduction of max LTV offered across products under regular schemes to improve portfolio quality, whenever business starts
c) Usage of analytics and bureau information to strengthen collections in adverse scenario
E.g. using analytics and especially bureau information to find alternate contacts of people, People may move across districts or even state boundaries, so finding alternate contacts becomes extremely important. And we are actually very happy about the contact rates that we have been able to get by using this
d) Disproportionate focus on setting up and increasing utilization digital payment framework for collections
Although the collections currently are nothing to frankly write home about, but in rural India, every percentage increase in digital collections indicates a new beginning; perhaps to change habits it requires a crisis. And hopefully, as we go ahead, this will help us tremendously
e) In Infra and Real Estate, monitoring projects remotely with heavy use of technology and reassessment of cash flow positions in construction finance and infrastructure projects based on current market conditions to ensure project completion whenever project construction starts. We keep a very close watch on where construction has started, how many workers are there on the site, using technology. And for this we have to thank our parent, we have used their knowledge a lot in actually monitoring this.

The intent has been to adopt a multipronged approach to mitigate risk and ensure that the asset quality remains stable post lockdown.

Q4 financial performance

Now, after talking about this, let me come to financial performance for Q4. The results of Q4 FY20 need to be viewed, keeping in perspective, the impact of COVID-19 on business activities. While the lockdown had minimal impact on the operating performance of Q4 FY20, the profitability for the quarter was impacted largely due to the incremental provisions taken to strengthen the balance sheet against the after effect of the pandemic. And I would humbly put that at this point of time the balance sheet, though frankly, for a financial institution, it always is, but especially at this point of time, the strength of balance sheet is disproportionately more important than quarterly profits. And that's what we have tried and done. Impact on operating parameters is as given below:

- **Disbursements:** Substantial pre-planned disbursements in Infrastructure Finance were paused due to lockdown related difficulties and increasing risk perception. The retail disbursements were completely stopped in the end of March 2020 due to point of sale being closed during lockdown. Excluding Covid-19 impact, disbursement was broadly in line with expected run rate.
- **Book Growth:** The book remained largely flat. The impact of Covid-19 on book was mainly to the extent of reduction in disbursements post lockdown in March 2020. The focused book grew by 5% whereas the reduction in defocused book was 50% on YoY basis. We had promised that the defocused book will reduce to about Rs. 5,000 Cr and despite problems we have been able to achieve that. It will hopefully further reduce as quarters go by in FY21.
- **Cost of Funds:** The Weighted Average Cost of Funds improved significantly to 8.43% in Q4 FY20 vs.8.53% in Q4 FY19 and 8.54% in Q3 FY20, despite YoY reduction in share of Commercial Papers (CP), increase in long-term borrowings, and maintaining enhanced liquidity in Q4 FY20.
- **NIMs+Fee:** Despite lower fees due to lower disbursement, NIMs + Fees for Q4 FY20 remained in our guidance range of 6.5-7% at 6.87%.
- **Credit Cost:** As I have said before, GS3 improved sequentially as well as YOY from 5.94% in Q3 FY20 and 5.90% in Q4 FY19 to 5.36% in Q4 FY20. NS3 has also improved on the same lines and our PCR is now close to 60%. In line with RBI moratorium guidelines, LTFH created additional Covid-19 provisions of Rs. 209 Cr, corresponding to 5% of 1-90 DPD book availing moratorium in March'20. The company also created enhanced ECL provisions of Rs. 105 Cr on stage 2 assets, considering possible emerging stress in the economy after the lockdown is over.

Largely, these additional provisions of Rs. 314 Cr alone can explain the variance over our normal financial performance run rate.

I would like to conclude with a few of my free-flowing thoughts, and it's perhaps a little long for a typical conclusion, but bear with me. I believe you will have lots of questions about the future, and hence, I would like to humbly raise my hands and say, this is so unprecedented that who can truly predict, It is difficult to predict, but I will try and do my best to explain it.

Who knows what FY21 is going to be like, nearly one-eighth of the year is already gone in periods of full or partial lockdown, having its own effect on business and collections; perhaps even on the inherent credit quality and credit behavior of various sections of the society. This we will have to wait and see as it comes, at this point of time we don't know. We will be able to model the effect on business, effect on collections, etc. but are there going to be inherent changes in credit behavior of society? We will have to see. Disbursements have been negligible in the first 45 days in the quarter, as you know that vehicles sales have been actually zero in April, which is natural, as most points of sales of the underlying assets were shut. Similarly, project progress for Infrastructure Finance and Real Estate assets have been next to nothing.

There are indeed some green shoots with a few areas opening up throughout the country. Also, NBFCs being classified as essential services even in red zones, is of tremendous help. We are sitting right now in the head office and talking to you and likewise, many of our meeting centers and branches have been opened and we really thank the government for recognizing NBFCs as a part of essential services.

Dealerships are slowly opening up, and project construction is also starting slowly in some places. Lest I sound too sanguine already, I must also state that management of people on ground goes beyond the red, orange, green classification. There are a lot of people who asked me how many of your customers are in red, orange, green. We have the answers, and some of them we can share too. But that will be a very simplistic view.

The actual ability to operate on ground varies based on local rules at a hyperlocal level and subject to change on a day to day basis. And this is something that we need to take into account.

I must, however, share that things today on 18th of May are definitely better than what they were on 18th of April, there is no doubt about that. And that gives us hope that 18th of June will be even better and so on and so forth. Another positive is the bumper Rabi crop, we had predicted that early on. There are of course some difficulties in harvesting and selling the produce in some areas. We continue to watch this very carefully.

One thing we are positive, that though we don't know when the recovery will come, we can say that when the recovery comes, we have no doubt that it will be once again be led by rural India. While the overall Farm Equipment and Two wheeler sales growth for FY21 will definitely be negative, because nothing can make up for the last two months, still, we believe that the recovery will come definitely from rural India, and our established franchise in rural India makes us very hopeful and very positive about it.

The Infra sector seems to be getting back on its track with

- Renewable receipts continuing to be good, it has always been good because MNRE wrote a specific letter on "must-run" status of renewable energy generation facilities
- Toll receipts back to 35% to 40% of pre-lockdown levels, this recovery was faster than what we had expected and
- The potential improvement expected in cash flows due to the government liquidity package to the SEBs

The Real Estate sector, it was having problems even before COVID. We have done a very extensive exercise of analyzing with a heavily stressed scenario, and it continues to indicate a decent health for majority of our projects. We continue to work very closely with our parent to try and see what proactive solutions we can find. And as you would have seen in the last year, we have found proactive solutions, like some projects changing hands, couple of projects being taken up by the parent, some additional collateral being sold to bring more equity into the project – we have done that.

Large part of our portfolio should be okay even under the heavily stressed scenario. And by this we mean we have assumed zero sales till September, etc. That is the kind of heavy stress testing we have done. And I would say that most of our portfolio looks okay, we may have to use the DCCO extension option very sparingly for cases where genuine delays beyond the promoters' control are there.

Things in the very short-term, especially in Q1 definitely look quite bad. Half the quarter is already gone and even if many areas open up now, we will definitely be very cautious, and any new sanctions and disbursement will be under much stricter risk controls. Collections are slowly picking up, but will take time to get back to normal levels. I am happy to say that they are picking up on a day to day basis.

There will also be the added cost of maintaining high level of liquidity, which will be higher in Q1 FY21 than Q4 FY20, because in Q4 we started maintaining high level of liquidity only in the middle of March, whereas during Q1 FY21 it will be throughout the quarter. And we will also be taking the remaining additional provisions of 5% of 1 to 90 DPD outstanding availing the moratorium in Q1 of FY21. This probably will be true not only about us, but about the entire industry.

How the economy will look Q2 onwards will depend on many factors. And I would not like to take a guess here. A lot will depend on demand pick up, credit culture and repayment capacities, and willingness behavior. Many experts have already written-off not only the Indian economy but even the world economy, even in the medium or long-term. I will only say that the situation is so unprecedented that we cannot be sure that the future is only bleak. Human endeavor and motivation have surprised the world before. And hopefully, it will do so again.

But as company management, we cannot let ourselves be affected by the financial results of a couple of quarters. We need to be humble enough to acknowledge that it is almost impossible to predict how the economy will do even in as near a term as the second half of FY21. So what is important is how we prepare the company completely for either situations. We need to be careful and build all fortifications in terms of stronger risk controls, ample liquidity, good capital adequacy, and adequate provisioning levels if the situation worsens. At the same time, it is necessary that we do not go into a shell and miss any opportunities.

We will have to conserve our core strength intact to grab any opportunities that the build-up phase of the economy as it comes out of this bad spot throughout. A good crisis, I always say this to my team, a good crisis should never be wasted. A good crisis also gives us an opportunity to have a completely fresh look at our processes, our cost structures and draw every ounce of efficiency from them. Reduction of costs while conserving our core strengths will be order of the day in FY21.

And please spare me if any one of you is not interested in cricket, I am very much. Many a times, I take life lessons out of it. I will just give one example and end my opening remarks. Our endeavor will be to be like a good batsman who is perfectly balanced on his feet at the crease - well positioned to go back and play a backward defensive short or even duck under the ball, if it is a fearsome bouncer; and at the same time, always ready and capable of going on the front foot and hitting the ball for a boundary, if it's a juicy half volley. Also like in cricket, a good batsman realizes when the ball is swinging wildly, and concentrates on keeping his wicket intact – and I believe Q4 FY20 and Q1 FY21 are those periods, realizing that at some point of time the ball is going to stop swinging and knowing very well that he has built the capacity to start scoring freely once the conditions become little more suitable. Life too is a bit like that.

Thank you for your patient listening. We can now open the line for the Q&A session.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa:

Thank you for the opportunity and the detailed opening remarks sir. Two questions from my side. First is, the comments that you made on microfinance that you are going to be focusing on good customers that is 51% of your book, and new-to-credit unleveraged customers will be 17%. So, the balance 32%, can you talk us through. Apart from Assam, because you have spoken about it at length in the last quarter, what are all the other pressure points that you see in the book for you to be cautious on the balance cases?

Dinanath Dubhashi:

Okay. If I understood your question correctly, you are talking about geography areas?

Karthik Chellappa:

Yes, geographical areas and any other colour on the activity or is it just migrants or those kind of things.

Dinanath Dubhashi:

Okay. So first of all, just to clarify, I don't mean that the rest is bad. I will first clarify that. It is just what are we concentrating on growing. And I will explain both these things. When you concentrate on completely new-to-credit customers, naturally your expenses go up a little bit. It is costly to go deeper and concentrate on new-to-credit customers, though it is very good for your portfolio. You balance also that by the lower expense on your own good customers. You have to take certain proactive actions for such customer to make sure that at the time of our renewal, they are not over leveraged. So those are the focal areas. It does not mean the rest is bad. We will try and increase these percentages (existing good customers and new to credit) continuously, but that doesn't mean that the rest is bad. The rest would be people with more than one relationship, not only ours, but the leveraging is less than what we put as limit. We had increased the limit (of total indebtedness) to almost Rs. 80,000 - 85,000, we are bringing it back to around Rs. 70,000. With that, and with our very strict sticking to that kind of limit of 70,000, we believe we should be okay.

Now, answering your specific question, we go beyond pressure points. We also have our own internal risk controls as to what each state or each district based on the colour coding (referring to classification as per internal portfolio strategy and not as defined by the Ministry of Home Affairs), how much part of the portfolio we would like to be. And hence continuously, and I am not talking about Assam here, everywhere else we continuously keep rebalancing the portfolio to make sure that what we classify as green is increasing, what we classify as amber remains the same while what we classify as red, the percentage comes down. It would be great sometimes to have a personal chat with you, either myself, Sunil or Anuj and take you more through this. It is very fascinating; it will take a lot of time on a public call like this. We have always been very transparent on what we do, and you are welcome to have a detailed discussion.

Karthik Chellappa:

But at this point, you don't see the need to highlight any specific geographies as such, apart from, let's say, Assam?

Dinanath Dubhashi:

We wouldn't know, because everything is under moratorium till May end. We can talk about very early trends, etc., which are okay. By the way I hope that everybody noticed that (*) in our presentation where we talk about moratorium (slide 12), that for March even though 100% moratorium was given, since the moratorium happened on 27th of March, almost 99% of our collection was done. We have gone by the spirit of the moratorium, and adjusted that payment against as our advance collection for June. So actually, our June collection is almost done. What we are doing now is wherever Micro Loans customers are willing to pay, and we are contacting them, and if they are willing to pay, actually collecting advances. But, too early to talk about trends. We do a lot of data analytics, but it is too early to talk about trends.

I will tell you one particular factor that we took special care of is, that people don't go missing. And that is where we launched this project of finding various alternate contact numbers, addresses etc., used bureau tremendously for that. And we have been quite happy with the results. Right now, we are actually quite happy in remaining in touch with people. And that result, is a very high percentage, very close to 100% where we can contact our customers. So at least I can confirm that we will not have any sizable problem of customers going missing completely, on which there was some talk at some point of time. I am sorry I can't give you early trends because they are really very early, hopefully in Q1 FY21 call I will be able to tell you this very confidently.

Karthik Chellappa:

Okay, great. And sir my second question is essentially on the merger of the Housing Finance and Infrastructure business into the L&T Finance fold. I am just curious to hear from you, what has changed fundamentally for the company to actually forego the successive status and the other benefits that come with even infrastructure financing, to fold it into the company? And tangibly, what benefits do you see and over what period of time will that accrue?

Dinanath Dubhashi:

Sure. Nothing has changed fundamentally, that is the main point. In fact, from FY16 when the new management took over, in our first presentation we said that we will go for absolute simplification of the structure. If you take out my first presentation, I believe it was May 2nd or something in 2016, that presentation talked about, of course, Q4 of FY16 but also the new strategy. This finds an important place there. Till now we did merge some companies but yes, we were studying a lot whether we should go with the rest of the merger, for the reasons that you have said, that Housing Finance has a particular advantage, Infrastructure Finance has a particular advantage. When we started the companies, there were very good reasons for keeping these companies as separate companies. There is no doubt about that. And I will be the first one to admit that. And nothing has changed, but that finally, we got the complete conviction that we should go ahead with this. And the main conviction came after the IL&FS debacle. And if I may say so, the increased level of suspicion of everybody looking at various NBFCs, NBFC structures, CICs, etc. We always have been very transparent, and we would like to actually first say that transparency and clarity comes before anything else. Business strengths should come from business strengths, and not from regulatory forbearances.

And finally, we got the conviction and the calculations right as to see what will come from it. What will come from it is simplicity. And hopefully you guys will look at us a little more kindly when you give us the multiples as we go ahead, because of the simplicity. As to everything else that you have to judge, but just because of simplicity. That is number one. As rating agencies look, as lending institutions look at us, the simplicity and the transparency will be very obvious.

Also, it will reduce duplications of cost, duplications of regulatory compliances, etc. I mean, just as an example, maintaining positive ALMs in every bucket is one thing, maintaining positive ALM in every bucket of every subsidiary that we have is another thing altogether, especially in an infrastructure company where primarily you lend long term. And for the regulators they are right, they say every company is a separate company and you have to maintain. Just the cost of that is inefficient. I can tell you that this Rs. 8,500 Cr that I have kept could have been maybe Rs. 5,000 Cr, for giving me the equal amount of protection if it was one company. I have to maintain additional cash balances in every company just to maintain positive ALMs, positive gaps in every company, in every time bucket. Just merging this, that advantage itself will still be quite a bit. Then of course, there will be efficiencies of board, efficiencies of board processes, internal processes, etc.

So, to answer your question very differently, actually what has changed is our, I would say, guts to say, 'okay, there will be some short-term loss, let us take it. And long-term, it will add a lot to simplicity, to trust, to transparency, and most importantly efficiencies in managing that business.'

Karthik Chellappa:

Thank you very much for the detailed explanation, sir. Wish you and the team a safe health. And all the very best. I will come back in the queue for more questions. Thank you very much.

Moderator:

Thank you. The next question is from the line of Piran Engineer from Motilal Oswal. Please go ahead.

Piran Engineer:

Congrats on the quarter. I just have a couple of questions. What explains the strong improvement in asset quality in the Infrastructure Finance book on a Q-o-Q basis?

Dinanath Dubhashi:

Okay. You will you have to see the NS3 improvement actually, the GS3 improvement will always be a mix. One of the things that I was just referring to Kartik's question, is that you have to maintain ratios across companies. So, we also needed to reduce the NS3 or the GS3 ratio in that particular company (Infrastructure Finance). I must confirm that all these NPAs are FY12 and behind, there are no new NPA there, but we wanted to reduce it. The reduction is a mix of ARC sales, of write-offs and of a couple of resolutions. So, it is a mix, and hence I would invite you to actually see the NS3 reductions. The NS3 reduction along with the PCR going up is a sign that the portfolio quality has actually improved. But does this mean that we have resolved Rs. 1,000 Cr, no we have not resolved. It is a mix of sale to ARC, some write-offs and some resolutions, I can put it that way. But very clearly, the actual NS3 has improved, which is important. There is a Rs. 400 Cr or so reduction in NS3, which would largely actually correspond to the resolutions, frankly, and the increase in PCR - I would point that more as improvement in asset quality than the Rs. 1,000 Cr reduction in GS3.

Piran Engineer:

Okay, understood. And sir, within your defocused book, how much of that is structured finance? And do you see risk in that book now, given the COVID-19 situation?

Dinanath Dubhashi:

No, nothing new. The two large exposures are covered to a large extent now. One is a housing finance company. And another is, I would say, a measure in power generation whose promoter is now in London. You would also see that we have closed our wealth transaction in Q1 FY21 and we will use that also to create additional provisions in Q1 FY21. So we should be okay there. So, DCM book and the SFG book will not give us shocks. That doesn't mean provisions are not required, but we will have some good extraordinary profits in Q1 FY21 to take care of it.

Piran Engineer:

Okay. And sir, if I just heard you right, if a client made a payment in March, EMI, that will be treated as an advance for the June EMI?

Dinanath Dubhashi:

For Micro Loans only.

Piran Engineer:

Only for Micro Loans?

Dinanath Dubhashi:

Yes, because it is 100% moratorium, everywhere else the moratoriums are not 100%, so it is March EMI.

Piran Engineer:

But what if a client made a March EMI payment in beginning of March and then took a moratorium?

Dinanath Dubhashi:

Then we will not give them moratorium, other than Micro Loans.

Piran Engineer:

No, let's say, in tractors he opts for moratorium in April and May, and he has paid the March EMI, that comes as a collection, right?

Dinanath Dubhashi:

Yes. And then he will get moratorium only for April and May, not for March.

Moderator:

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

Kunal Shah:

So, two questions from my end. Firstly, in terms of the focus and the defocus business, does it change any way in which we were looking at a few of the segments given this kind of a situation? Or maybe our focus across all these product segments will be equally there in the near and the medium-term? So, any change in focus and defocus at least for the medium-term?

Dinanath Dubhashi:

Not strategically. So first, answer is clear No, there should not be any misunderstanding in it. No, there is no change in focus. Then of course, as we read the risk in the economy, certain credit screens will be obviously tightened in many of the segments, actually in all the segments but at various levels. And which may make doing business more or less difficult, and hence tactically you may see certain different speeds of doing business at various places. But strategically, the focus segments remain the same. Does that answer your question?

Kunal Shah:

Yes. So, maybe the way during the structured credit we got it into defocus, but there are no initial indicators which suggest any of the areas wherein we should grow slow or.

Dinanath Dubhashi:

No, not at all. There is just one thing which I think may be relevant to you, is the launch of unsecured business loans we have postponed to next year. But it is just the postponement.

Kunal Shah:

Yes, it is there in the presentation. And secondly in terms of fee income, how do we see the impact on the fee income side? So we had seen a substantial reduction, so if you can give some colour in terms of how much is related to business origination and with slowdown, we will see some significant impact on the fee income trend.

Dinanath Dubhashi:

It will be a significant impact for Q1 FY21, because Q1, for the first half of Q1 at least disbursements are next to nothing. I would have liked to be very clear and say nil, but they are not nil, they are in hundreds (of crores), not in thousands, that they should be. And it will have an impact on the fees. Our fees are mainly processing fees and cross-selling fees which are mainly insurance etc. which also to a large extent depend on disbursement. They are cross-sold at a time of disbursing a particular loan, advisory fees, also form part of fee income. So to the extent of disbursement getting affected, they will be affected. And hence, I would advise you to take a much lower percentage of fees in Q1 at least. And Q2, we will see hopefully business will come back to normal. There is some part which will come through amortization of fees under Ind AS.

Kunal Shah:

Yes, that will be there, amortization would be there.

Dinanath Dubhashi:

And then, of course, mutual fund is there. So mutual fund fees will continue to come.

Kunal Shah:

True. And lastly, in terms of the data point, the moratorium you have shared, okay, that says of March, but how is the trend if you have to look at it on 30th of April? No doubt you shared it in the previous question, but what would it be in terms of the number if I have to look at this as March, what would ideally be across the business segments in April?

Dinanath Dubhashi:

So, the only number which has remained same is Micro Loans, because it is 100%, so that has remained same in April.

Kunal Shah:

But other areas how it would have moved?

Dinanath Dubhashi:

I will answer your question to the best of my abilities. We don't want to give you specific numbers at this point of time as we are still into it. And obviously, you will have precise numbers at the end of Q1 FY21. But yes, there is a small increase across segments every month. But the good thing is, somebody taking moratorium in April will be only getting two months and somebody taking it in May will only get one month. Another thing that has come across is that it is not necessarily that somebody who has taken moratorium in March has taken moratorium in April, some people have come and paid in April, it is both ways. And that is more why I am not answering and not that I am not giving information. So some people who had taken moratorium in March and April are paying in May. It's multiple things. But on the whole, yes, you are right, April is slightly higher than March and May is slightly higher than April. But it is not very drastic, I mean, weighted average is 36% in March, from 36% it would have gone up by a few percentage points. It wouldn't be like doubling or something like that.

Kunal Shah:

No, just two segments, because Farm equipment and Two wheeler, the sense which we are getting from the market is much on the higher side in these two segments. So it seems we are much lower compared to the industry. So just want to get this sense in these two particular pockets on the moratorium.

Dinanath Dubhashi:

So, in fact, I will give you a number which will actually be perhaps more useful, right? We started collections, actual on ground collection, the bounce rates certainly have gone up from February to March to April. As I said, it's a mix of a lot of things. I can tell you, we started collections around 20th of April. In the beginning of April, in our entire customer base, we were doing 20-25 collections per day, we are already to about 20,000 a day, on field collections. How that translates to ultimate collections, we will have to wait and see. Already Farm we are up to 33% of collections and in Two wheelers, we are touching close to 50% of collections, actually on-ground collections. So which is very different than what is the moratorium. The two segments you talked about, I can confirm that moratorium percentage have not changed drastically, they are going up certainly, but not drastically.

Moderator:

Thank you. Next question is from the line of Aditya from Citigroup. Please go ahead.

L&T Financial Services

Aditya Jain:

Sir, thank you. A few quick questions. You mentioned that the option to use a DCCO extension could be exercised for some projects. Just curious, as of the current situation, how many projects have been given, let's say, even the one-year DCCO extension and not the second year?

Dinanath Dubhashi:

No, we have not given DCCO extension at this point of time. We expect that out of our total portfolio, not more than 10% of projects will have to be given extension. But right now we have not done.

Aditya Jain:

Got it. That helps. And then the Rs. 209 Cr, which is 5% of the moratorium loan, from what I understand, it will be loans under moratorium as on March, so the remaining 5% will be a different number than Rs. 209 Cr, depending on how the moratorium works?

Dinanath Dubhashi:

It can be, yes. But as I said, it may not be a drastically different number. So, instead of Rs. 209 Cr can it be Rs. 240 Cr? Yes. Will it be Rs. 300 Cr? No. So, I mean, it is still 12 days to go in May, so that is at best what I can say. If you ask my estimate, it would be around Rs. 240 Cr to Rs. 260 Cr, which actually to some extent answers Kunal's question also.

Aditya Jain:

Yes, it gives some indication that you are not expecting moratorium…

Dinanath Dubhashi:

Yes, Rs. 240 Cr to Rs. 260 Cr, it would be around that.

Aditya Jain:

Got it. And then lastly, I hope I didn't miss this, my connection was a little poor. Did you mention the branches and AUM in orange and green zones?

Dinanath Dubhashi:

We have not given that information earlier, but almost 76% of our portfolio will be in orange and green. 95% of our Micro Loan meeting centers are already open, and almost more than 50% of our branches are already open. But we have come to a state where branches don't matter. I mean, we have always been proudly stating that each person with a mobile device is a branch. So physical branches don't matter. But I can confirm that if you take our percentage in the red zones, it is way less than India's population, because we are a rural company and mostly urban areas are in red zones.

Moderator:

Thank you. The next question is from the line of Subrat Dwivedi from SBI Life Insurance. Please go ahead.

Subrat Dwivedi:

This relates to the Real Estate portfolio where you have indicated that only around 28% of borrowers by count have been granted moratorium. This seems slightly on the lower side, given that sales would be hardly anything during the lockdown period. So, is it because already a large portion of the book was under moratorium, and this would be on the part where moratorium was not there?

Dinanath Dubhashi:

No, it is not because of that. It is because of prepayments. So a lot of our portfolio, since we put a very strong sweep in mechanism, there are lots of prepayments. And hence in March we took a call that people who have done prepayments already, we will not give moratorium. And hence in March, it is less. But yes, this is one segment where moratorium would increase substantially in April and May. And quite substantial actually, it will reach maybe even 80% of the portfolio, which will be given moratorium for the remaining two months.

Subrat Zaveri:

Okay. And if I may then, how much of the portfolio was already under the moratorium before all this COVID-19 situation?

Dinanath Dubhashi:

No, this moratorium is very different than the moratorium that you are talking about. By definition, Project Finance is always under moratorium. So let us not talk about those two situations. When a project is under construction, this moratorium is something which is required, what you get is only interest during the project construction period. In fact, I was told at that time that even interest should be capitalized during the construction. But now we make sure that interest comes in for every project regularly. Principal repayment starts after the project construction, within which Real Estate is conceptually a better segment, because there during construction you start getting inflows, and out of the inflows we start sweeping in. And we have given these numbers earlier that in around 92 projects out of our total 114, the prepayments had already started. I can confirm that there is no interest moratorium on any of our projects till now. I mean, this moratorium of three months will be for interest and principal both, but till now there was no interest moratorium. So, when we say moratorium, there is a regular moratorium and there is an RBI moratorium, these are two different moratoriums. I give you a number, that after stress testing, assuming that construction doesn't start for another two to three months, and zero sales till September, and very slow sales after that, close to 90% of our portfolio doesn't need a DCCO extension. I am making that statement very confidently. That doesn't mean that you don't need other actions. So, the other actions that we are undertaking is also equally important. Does that mean that for all of our portfolio, 90% of portfolio things, sales will happen and money will easily come back? Certainly not, we are not living in a fool's paradise. We have additional portfolio collaterals which we are in the process of selling, that the sale was going to happen in two months, will it take six months, yes, perhaps. But there are some which are already done. For some projects, we are making sure that they change hands, either to our parent or some other strong developer. We are doing a very proactive management of the portfolio which puts us in this decent situation. If we would have played a spectator sport of just writing a cheque and sitting on it, yes, we would have been in difficulty, because obviously the sector is in difficulty.

Moderator:

Thank you. The next question is from the line of Abhijit S. from Goldman Sachs. Please go ahead.

Abhijit S.:

Sir, a question on merger. If I recall correctly, last time you had a merger there were like significant tax benefits which we utilized to create provisions. Are we sort of looking forward to a similar situation today? And if possible, could you sort of just quantify the benefit?

Dinanath Dubhashi:

Simple answer - No, under Ind AS it is not allowed

Abhijit S.:

Okay. And second question is, there seems to be a net worth reallocation towards the Infrastructure business this quarter, the Rural and Housing business have seen probably a decline quarter-on-quarter, which is a surprise given that the disbursement slowdown is more severe in the Infra business. So how do you think about that?

Dinanath Dubhashi:

Another reason for the merger is that for that particular entity we actually did equity infusion. So, these are actually answering the questions on why merger. Is it logical that we should put equity in Infra business at this point of time? No, but unfortunately having different companies, you have to maintain ratios of each company. And that is the precise reason why we have decided to merge.

Moderator:

Thank you. The next question is from the line of Nischint Chawathe from Kotak. Please go ahead.

Nischint Chawathe:

Sir, two questions. So what really happens to IDF now, do you sell it off or what?

Dinanath Dubhashi:

As we have said, obviously, we are looking at various options. Why was it said that only infrastructure finance companies (IFC) can sponsor an IDF? It was because it was a new baby, it was a new animal. And at that point of time it was thought that only people with experience in infrastructure finance will be allowed to sponsor an IDF, which was right. Now IDF itself has a history of number of years, our IDF has a history of number of years. And hence, our first choice will be to go back to the regulator, explain to them that how it is regulatorily better that we have one NBFC, and by the way, they are very happy with it that we are reducing the CIC structure, I mean, still the CIC will be there because we have some other companies, but reducing the number of NBFCs, and asking for their forbearance or permission that subject to maintaining certain infrastructure ratio in our overall book, can we get the permission for continuing with the IDF, that would be our first choice. And then of course, if we don't do that, then there will be several other choices, including merger, sales, etc. But after being so transparent in the presentation, if we have said we are actually examining various options, we actually are. So, at this point of time, the regulator has many other important things to do. So, once all this lockdown, etc., is over, we will strongly present to the regulator that even in the merged form we are a good sponsor of IDF.

Nischint Chawathe:

Sure. The other thing is, how much of security receipts do you have? I think you have shared it in the past.

Dinanath Dubhashi:

Can I get back to you? I don't remember the precise number.

Nischint Chawathe:

Sure, no problem. And just one last thing now was, if I look at the Housing slide, the credit cost for COVID-19 provision is almost Rs. 133 Cr, I guess out of total Rs. 209 Cr. So, large part of the provision actually is sitting on the Housing business. Maybe intuitively I would have thought it should be in the rural business, etc. But I think we discussed that part of the business. But just curious, why is the number so high over here? And is it like across Housing or LAP or Real Estate, where is it that this comes?

Dinanath Dubhashi:

No, it is quite simple. Actually, you should look at the Rs. 314 Cr together. What we did was, we looked at the whole book, there is a LAP, there is a SENP, there is Real Estate. We sort of modelled what additional amounts of provision we will have to take. And we found out that 5% of total which was between 1 to 90 is actually higher than that provision, so we have taken only that. In rural we saw what was 5% of 1 to 90, mainly because Micro Loans is almost 100% collection efficiency. That amount was low at Rs. 57 Cr. And because of that, in rural we took another Rs. 105 Cr. So Rural, for example, that amount would have been Rs. 165 Cr. We would not have taken the Rs. 105 Cr additional. You get what I am saying? So, it was higher of the two.

Nischint Chawathe:

Understood. And then if I have to think about it, I mean, between this 133, one may institutively assume that Home Loans would be lower?

Dinanath Dubhashi:

Yes, of course, salaried Home Loans will be the least, then LAP, Real Estate together. Because that is why I was trying to explain, you will ask, 'Real Estate you were just saying that you get pre-payments, then how it is 1 to 60, 1 to 90?' And that question will be right, and that is why I am clarifying that it is the, higher of our LGD calculation and 5% of 1 to 90 with moratorium.

Moderator:

Thank you. The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora:

Sir, on slide 15, where we had disclosed ALM, this is currently not adjusted for moratorium, right?

Dinanath Dubhashi:

It is adjusted for moratorium.

Rohan Mandora:

It is? The inflows are adjusted for the moratorium amount?

Dinanath Dubhashi:

Yes.

Rohan Mandora:

Okay. Because April moratorium would be higher than March, so that adjustment would need to be done further.

Dinanath Dubhashi:

Yes, it is adjusted for moratorium as of 31st of March, this is structural liquidity. I wouldn't know what is April moratorium at that point of time.

Rohan Mandora:

Sure. And just if we look at the data cumulative up till first month, it is Rs. ~12,000 Cr, and for first to second month it is around Rs. 15,900 Cr. So, the collections, incremental inflow in the second month is around Rs. 3,800 Cr vis-à-vis Rs. 12,000-odd Cr for the first month.

Dinanath Dubhashi:

No, it is also Rs. 8,500 Cr of cash on your balance sheet, it also depends on the tenor of the FDs that I have kept. Mainly that will be the answer.

Rohan Mandora:

Sure, got it. And we have been creating these macro prudential provisions for previous few quarters. So if you could share what is the cumulative amount on the balance sheet as of now, which is not allocated against any of the NPAs or any other assets?

Dinanath Dubhashi:

Rs. 350 Cr, we have given it already.

Rohan Mandora:

So Rs. 350 Cr in outstanding amount?

Dinanath Dubhashi:

Yes.

Rohan Mandora:

Cumulative?

Dinanath Dubhashi:

Yes. So in fact, slide 21 explains everything very clearly.

Rohan Mandora:

Okay, sure. Got it. And lastly, like if you look in last year, we had done some tightening of the credit norms, and obviously the disbursement growth was lesser. And if we are going into FY21, any further phased tightening of the norms, I mean, any specific product segments that we are expecting?

Dinanath Dubhashi:

Everywhere, across the boards LTVs will be lower, credit norms will be tighter across the board, at least till we get an idea of how the economy and the segment is behaving. We will be safer than more aggressive across the board. That is across the board idea. After that you know that we never take these broad calls. So, for every product our data analytics will show which product, which particular HP of tractor in which region is better. So, that detailed analysis we will do. But average simple answer if I have to give, everywhere LTVs will be lower.

Rohan Mandora:

And in your opening comments you had made a comment that given the environment which we are in, it becomes difficult to use that as a prediction for the future, and with the volatility that is going to be expected for the next two to three quarters in terms of the data flow, so what kind of credit mechanisms or filters or tunings we would use? Because most of our credit underwriting on the rural business is based on data analytics. So, how confident we will we be on the output of that predictive model?

Dinanath Dubhashi:

So that is why I gave this cricket answer. So, I will once again give that answer, what a bowler tries to do, intimidate the batsman by putting two, three bouncers, and after that when batsman goes on the back foot then the bowler puts a yorker. And hence a good batsman keeps balanced on every ball. So, to answer the same in business, we will have to wait and watch and be very, very, I would say, light on your feet to adjust almost on a weekly basis. So once if you decide something, so now this decision holds for another three months or six months, it will not be humble at all. Important thing is to be very humble, to understand, as you rightly said that any model that we make can go wrong and to correct it as soon as possible. So, that's what actually I have kept my data analytics and risk teams busy with, business teams can be busy going on the ground, these teams have to be busy actually working, reworking the model. So very frankly, is Rs. 105 Cr for example additional, 105 plus 57 going to be enough in Rural? I don't know. But we think at this point of time it will be. But if situation gets worse we may increase that at that point of time. We may further strengthen our credit, so I don't want to sound like I know all the answers, I only want to sound like that we will not predecide anything, we will not become arrogant and that everything is right. We will just remain humble to even acknowledge that you are getting data and information almost on a daily basis. And we will like to change based on that. And a digital way of giving this decision down to the ground makes it easier, because since now every decision is on a black box, the moment you change the black box, automatic decision starts getting changed. So you don't have to retrain the team and things like that. So we can actually change quite dynamically. I hope that answers your question here?

Moderator:

Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. Dinanath Dubhashi for closing comments.

Dinanath Dubhashi:

Okay. I have to say only that we to hope for the best, and be ready for the worst. So, have all the fortifications ready to prepare for the worst of attacks from the economy. And at the same time be ready to grab every opportunity, which comes up. I am an avid reader of Gita, and I always thought that all the gyan in the world is in the Gita. But till the last Cricket World Cup, when Mr. Kane Williamson, captain of New Zealand after losing the World Cup said something which was as profound as Lord Krishna. He said that it could have been this and it could have been that, but "this is it". And I think it is very profound words. And that is what we have to say that it could have been this, it could have been that. But every day, this is it and we have to make sure that we adjust to that as fast as possible. The only thing that I can assure you is, we will make sure that the company, the team, the management team is working extra hard, super hard at work, besides cleaning our utensils and bathrooms at home, also at work. And making sure that we make the best out of this situation. Thank you very much. Thank you very much for your patience. We really hope and wish that we continue to have your support. And you keep thinking good of us. Thank you and all the best. Stay healthy, stay safe.

Moderator:

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