L&T Finance Holdings Limited

Analyst Conference Call Transcript
October 22, 2014

Moderator: Good afternoon and welcome to L&T Finance Holdings' Q2FY15 earnings conference call. We have with us on the call today Mr. N. Sivaraman – President & Whole-time Director and other members of the senior management team. We will initiate the call with opening remarks by Mr. Sivaraman followed by an interactive Q&A session.

Kindly note that the statements made in today's call may be forward looking in nature and a note to that effect is stated in the presentation sent to you earlier. I would now like to request Mr. Sivaraman to provide his views on the results for the second quarter. Thank you.

N. Sivaraman: Good afternoon and wish you all a Happy Diwali. Thanks for joining us on this occasion.

Starting with the outlook - the macro parameters and some of the government actions do point to a positive sentiment in terms of what we can look forward to in the future. One can debate whether the government's action on the coal allocation issue is full of positives or if it comes with its set of challenges. But the important point is that a decision has been taken and we are seeing some forward movement. Similarly the deregulation of diesel prices or fixing of gas prices - each of these decisions do indicate that there is going to be far more decisive action as we move forward in the next 3 - 4 quarters.

Having said that, the situation on the ground is yet to reflect a significant impact and at best I would say that the overdue positions are improving. This does not mean that the NPA situation has been fully resolved. There are challenges for existing players in the infrastructure segment and for corporates who are yet to overcome their cash flow difficulties. Similarly in the case of commercial vehicle business and construction equipment business - there is not much growth in the freight volumes and construction activity continues to remain very sluggish and slow on the ground. I am providing this context both from the perspective of giving an outlook for the future as well as to explain our performance for the quarter.

Moving onto the highlights on slide 3 - The loan assets have registered a healthy growth on a year-on-year basis to about Rs 43,000 crores on the back of disbursement growth of 24% primarily on account of operating projects in the infrastructure segment and microfinance, rural products, personal vehicle and housing finance in the retail platform. This growth in disbursements is despite the slackness in disbursements in some of the B2B segments in the retail platform.

Profits have grown quite healthily by about 16% year-on-year primarily on account of strong operating performance both in the NIMs as well as in operating costs. While the NIMs have gone up, the operating costs have also marginally gone up in the retail segment. But the margin net of operating costs or the delta gain as a result of getting into certain portfolios has been very positive. We have used some of this strong operating performance to increase the provision coverage on our NPAs by about 7% at the consolidated level. This means that we have been able to provide close to around Rs 60-65 crores additionally in the quarter to improve the provision coverage ratio. So the 16% growth is to be seen in the context of what we have been doing to improve the asset quality on the balance sheet.

As I mentioned in the beginning, the asset quality is definitely showing an improvement – while not so much on the NPA front but definitely on the overdue front. In the retail segment we could manage the NPAs a little more easily by either repossessing & foreclosing the account or by encouraging customers to start paying up.

Moving on to slide 4 on the summary financial performance of key operating entities - the loans and advances have grown by 21% year-on-year whereas NIMs have gone up by about 27%. While NIMs have largely gone up, there are some one-off items like a fairly significant overdue interest collection during the quarter and also certain interest rate rebate that we got from banks on a retrospective basis. Both of these have contributed to an improvement of ~25 bps or so. Without these the NIMs have actually gone up from 5.53% in the first quarter to around 5.80%. The reported NIM is 6.05%. Earnings before credit cost have grown 20% in line with the book growth.

The increase in credit cost has been on account of increase in provision coverage for certain accounts and the normal provisioning. The provision has gone up by about Rs 24 crores or so as compared to the first quarter. While we had guided a stable to reducing credit cost in the early part of the year, we have attempted to improve the balance sheet quality by providing additional provisions and improving the provision coverage ratio. The gross NPAs have shown a reduction. There have been actual rollbacks in the retail segment, while in the wholesale segment we have transferred certain identified assets to an ARC for better management of the recovery process.

On the investment management business, we continue to see an impressive performance. The key highlight during the last two quarters has been the increase in the equity AUM. The share of average equity AUM has gone up to ~32% from 25% at the start of this fiscal. This has been on the back of NFOs that we have been able to successfully complete as well as continued positive net sales for our existing schemes.

On the PAT numbers which are on slide 5 of the presentation - PAT before exceptional item has grown by about 16% both on a half year-to-half year basis as well as the quarter-to-quarter basis. The composition of this is indicated in the lines just below that. The retail and mid-market finance business has reported an 18% growth in PAT. This is on the back of some of the strategies we have adopted i.e. maintaining a cautious approach to mid-market lending as well as to commercial vehicles / construction equipment segments and supported by improved operating performance on the ground. Wholesale finance has seen a drop. This is on account of two items - one is that last year we had Rs 22 crores of capital gains arising out of transfer of assets into our PE fund. In addition to that as I mentioned earlier, we have also increased provision coverage on selective accounts. This has resulted in a marginal de-growth in profits on a year-on-year basis.

The other important point I would like to highlight is about the other entities which have been a drag in the past. They have actually started improving and today we are almost at a breakeven level in respect of other entities. They do contribute to the overall profitability of the company. The PAT including the exceptional items was Rs 468 crores for the half year as compared to Rs 301 crores for the previous half year. The net worth distribution has been almost equal between the retail segment and the wholesale segment. Both the segments are well capitalized and have scope for additional leverage through tier 2. So there is potential for further improvement in the ROE coming through by way of increasing the leverage. During the current quarter, we have placed ~Rs 100 crores of preference capital in line with our strategy to use the leverage at the holding company level as well so that the overall consolidated ROEs go up. I will now hand over to Mr. Dinanath Dubhashi to take you through the performance of the retail and mid-market segment.

Dinanath Dubhashi: Good afternoon everybody and wish you a very happy Diwali. I will start by briefly going through the outlook on some of the key segments.

Starting with tractors where there are a lot of questions on growth for this year in view of the drought or bad monsoon. As you would know the monsoons did not turn out to be as bad as we had expected it to be at the start of the monsoons. Most parts of the country have received decent monsoon other than some parts of Andhra Pradesh, Punjab, Haryana and Northeast. In fact southern Karnataka received excess monsoon and most other areas were well on target. Most of the reservoir levels are good which is helpful for the Rabi crop. Punjab and Haryana had a shortfall, but they are completely irrigated areas. So this reduces the question to only Andhra Pradesh. So overall the monsoon situation is not great, but quite decent, much better than expected at the beginning of the year. Tractor market is just about flat in the first half and is expected to continue to be flat in the second half also. Even with this tractor volumes would be close to 6,25,000 tractors. We have expanded our market share by around 2% on the back of our strategy of having strong tie-ups with manufacturers.

In personal vehicles, the two-wheeler segment has grown pretty well. In fact till last year the growth was driven mainly by scooters. This year the growth has been pretty broad based in two-wheelers at about 16%. Car segment has also seen some growth and there are some signs of a turnaround. However, this segment is currently inundated with lots of discounts and bad financing practices in the market. We are not seeing a big growth in the car segment but are quite bullish on the two-wheeler segment. Here again our strategy of tying up with some of the strong manufacturers has worked.

As far as microfinance is concerned, up to last year we were on a consolidation phase. We were putting in place robust systems. Now we are confident of growing rapidly which is reflected in the numbers. We now have a run rate of close to Rs 100 crores of disbursal in a month.

Moving on to construction equipment and commercial vehicle segment - as Mr. Sivaraman said, though commercial vehicles may be showing some very early signs of picking up, we are going to be very cautious in this segment for now. In the mid-market (i.e. mid-corporate) segment, we do not see a big revival on the ground yet and are concentrating on doing very tightly structured deals at good yields and controlled risks.

The next slide is on how all this translates into disbursements - the B2C and B2B segments have actually behaved in an exactly opposite fashion. Our B2C segments which are mainly rural products, personal vehicle and microfinance have grown by 18%. In the mid-corporate segment i.e. retail B2B products and SME, we have gone relatively cautious and hence our net growth in disbursements is actually around 19% lower compared to last year. This has resulted in the product mix which has shifted pretty substantially to B2C products as you would see in the table in the second part of the slide. Rural product finance loan book has grown by 45%, personal vehicles by 14%, microfinance by 75% whereas construction equipment and commercial vehicle book has actually had a substantial de-growth.

Moving to slide 9 which will explain the profitability - as against book growth of around 10%, the interest income has grown by 18% and interest expense has grown by 11% resulting in a NIM growth of 28%. This also reflects good treasury strategy in reducing interest costs. Also as Mr. Sivaraman pointed out we have had a one-off incident of a bank revising its rates with retrospective effect which has translated into higher margins. Upward movement in interest income is mainly an outcome of our strategy to hold rates and move more towards B2C products which are relatively high yielding products.

Fee income of course has been more or less in line with interest income. Operating expenses you will see an uptick. This is more than the book growth but in line with the change in product mix. As we move more towards microfinance or two-wheelers or tractors the expenses obviously will go up. These are high manpower businesses. But the delta of NIM is much higher than the delta of expenses. Hence, the earnings before credit costs have grown by 29%. The credit cost as Mr. Sivaraman pointed out earlier has grown by 41% mainly based on two factors – one in construction equipment and commercial vehicles, though the NPAs have come down, we continue to make provisions based on the asset valuation as per our policy. Second reason is that in the mid-market loans we have increased our provision coverage substantially. With these, the overall PAT growth over last H1 comes to about 18%. The absolute gross NPAs have actually come down from Rs 770 crores in June 2014 to Rs 714 crores in September 2014, entirely due to collections or foreclosures. We carry provisions of about Rs 91 crores in excess to what RBI requires. In addition to that we are holding around Rs 36 crores of repossessed stock.

Moving to slide 10 on the key operating ratios - we have NIMs of 7.74% in Q2 as against 6.59% in Q1. We would like to state that some part of it is one time. One is the interest cost saving which we talked about and the other is the huge collection drive which resulted in a fairly substantial amount of overdue charges, much higher than what is the usual trend. At this point we are not able to indicate whether this is sustainable or not. The sustainable part of the NIM change has been due to the shift in the product mix and we believe that it would settle down at close to 7.00%-7.25%. The operating expenses are at about 3.06%, up from 2.76% reflecting the product mix change. But of course as you will see the NIM increase is much more than the increase in operating expenses. Earnings before credit costs are at 4.84% vis-à-vis 4.13% last quarter. Credit cost is at 2.31% on back of some aggressive provisions that we have made. All of these results in a return on equity of around 11.37% which is an upward trend compared to both last year and last quarter.

Next slide is on housing finance - this is a company we took over about 2 years back and things are going according to plan. We have expanded into 29 operational markets by adding 9 branches in this quarter. We are now serving customers in 68 cities. The loan book is close to Rs 2,500 crores now with disbursements of close to Rs 500 crores in every quarter. Here also the GNPA had peaked in the last quarter based on two reasons - one we took over a portfolio of City Financial and we took some time to stabilize the acquired portfolio and secondly a few handful large ticket loans which we had done in the initial part of the lifecycle of the company were under stress. Slowly these are being rolled back and bought under control resulting in a downward trend in the GNPA.

It would suffice here if I can summarize – in retail segment major growth was in B2C products resulting in an increase in NIMs. In spite of higher provision coverage ratio the PAT growth is around 18% and in housing finance things are going well according to plan. With this, I hand over to my colleague Mr. Krishnamurthy to take us through the wholesale finance business.

G. Krishnamurthy: Thank you Dinanath and happy Diwali to everybody. I will first start with the market scenario for wholesale finance. Regarding thermal power, there have been a number of announcements in the last few days. The government initiative of getting an ordinance to sort out the issues arising as a result of coal block de-allocation is a welcome step. Having said that, regarding existing operational plants as well as plants which are subsisting on linkages from Coal India - the coal position is fairly thin on the ground and supply issues do exist. On top of it, the number of Case 1 bids for new PPAs is still pretty low vis-à-vis the projects which are coming up on the ground. So this sector will continue to face stress for the next couple of years on the ground and it will require some degree of extended financing. May be the 5:25 scheme which has been announced by the government will facilitate further improvement of the sector. So our outlook on thermal power sector is that we do not expect new projects to come up for some time moving forward and any new disbursements will be to existing projects which are under construction.

In renewable energy, we have continued to see a lot of traction, particularly because of JNNSM where a number of projects are coming up both in open category as well as in DCR category. We continue to be one of the largest financiers for solar projects in the country. So we do expect solar as well as wind to continue to give us good traction moving forward. This has been facilitated by the ED which has been restored and the JNNSM guidelines which have moved towards the VGF funding that ensures that all subsidies are upfront and tariffs are closer to market tariffs over the life of the project.

Moving to road sector – with regard to new projects or stalled projects there has not been much movement. However, there are a number of initiatives that are already underway, for example revising the concession agreement in terms of indexation of total project cost. Our focus continues to be to work along with our Infrastructure Debt Fund in refinancing existing operational road projects, particularly annuity projects and to a lesser extent toll road projects.

Regarding other sectors, this is one more segment where we have been finding newer avenues for funding. Particularly in the very low risk, low yield lease and discounting models where we are financing SPVs with tight cash flow structures and that has seen some traction over the last couple of quarters. We have also seen a good appetite for project finance bonds with 5 to 10 year tenors. We are acting as originators for some of these bonds and churning these bonds and selling them down. Non-infra sectors continued to be under stress due to softening steel prices, mining lease related issues continue to persist and the coal block de-allocation could cause some stress in this sector.

Moving onto the next slide i.e. slide13, the disbursements have shown a very healthy growth. We have disbursed Rs 5,173 crores in H1FY15 which translates to a 35% growth in TTM vis-à-vis FY14. We are focusing mainly on two areas - one is renewable power, mainly solar and wind and secondly the others segment which is anchored around lease rental discounting and project finance bonds. So these are the areas which are helping us improve our disbursement volumes. On the assets side, the larger increase on assets has been in renewable power and others sector which have helped us grow 24% year-on-year. Although disbursements have seen a very large growth, asset growth has been slightly lesser at only 24% because there has been a fair degree of prepayments due to infrastructure companies raising money from private equity funds, QIPs etc. We continue to retain focus on operating assets; their percentage has increased to 43% vis-à-vis 33% one year ago.

Slide 14 is on the summary financials - our gross loans and advances have grown by 24% year-on-year and are currently at Rs 19,660 crores. However, the average assets have grown by about 20% due to lumpiness in wholesale business disbursements. The interest income has grown by 18%, which is marginally lower than the asset growth rate due to increase in impaired assets which do not contribute to the interest income. Interest expense has gone up by 20% compared to overall growth of 26% in borrowings. Our interest cost has been more or less maintained at the same rate resulting in NIM growth of 14%. Fee income level has been pretty healthy vis-à-vis H1 of last year. We have Rs 16 crores compared to

Rs 8 crores. However, last year was a slightly lean period and some of the larger ticket transactions got shifted to second half. For the whole of last year we had Rs 33 crores of fee income. So in that sense, we are not way ahead. We do expect to continue to maintain a good performance in fee income. Other income last year was Rs 50 crores which was a one-time income from sale of our equity assets, ~Rs 22 crores which is not there in this half year. Therefore other income is only Rs 8 crores.

Operating expenses have been controlled and continue to be at the same number of Rs 52 crores. Due to the impact of one time other income not being there, the earnings before credit cost has grown by only 4%. Credit costs have shown an increase of 15% essentially because we have started providing more to increase the coverage. We have increased provision coverage ratio from 16% last quarter to 23% this quarter. PAT at the overall level is at Rs 178 crores, a 4% decline from Rs 185 crores in the last year.

The next slide is on the key ratios – TTM vis-à-vis FY14 gives a more realistic representation of the movement. NIMs have come down in TTM to 4.26% vis-à-vis 4.40%. This has been because of increasing debt-equity as well as increase in focus on operational projects. We expect a marginal reduction in NIMs and we will continue to be between 4.00% - 4.25% moving forward. Fee income, we have registered 0.2% for TTM and we will continue to maintain the momentum on fee income. We expect more underwriting proposals to happen in Q4 particularly as credit markets open up. Operating expenses continued to be under control at absolute levels and therefore the proportions have come down with an increase in the denominator. The earnings before credit cost in TTM are at 4.30%, a marginal reduction vis-à-vis 4.40% in FY14, again relatable to the other income reduction.

Credit cost this quarter was at 1.31% with the focus being on increasing our provision coverage ratio and therefore the increase in credit costs compared to last quarter. Gearing has increased to 5.64 and it will continue to increase as we move forward this year. The GNPA number as well as the GNPA% deserves attention. The GNPA number has come down vis-à-vis last quarter, from Rs 609 crores to Rs 474 crores this quarter, primarily because we sold some assets to ARCs. There is a loss of Rs 90 crores on sale of these assets which will be amortized over an 8 quarter period. Consequently, the GNPA as well as NNPA have declined with the NNPA being 1.97%. At the CRAR level, we continue to maintain a healthy ratio of 16.65%. With this, I hand over to my colleague Ms. Ashu Suyash to take you through the investment management business.

Ashu Suyash: Thanks and a very happy Diwali to all of you. I am starting with the outlook and strategy for investment management.

The industry has seen a comeback on equity assets on the back of buoyant markets both with improved gross and net sales as well as positive market movement. However, fixed income has not seen growth. In fact, there have been net outflows on account of the recent budget announcements on capital gains and dividend distribution tax. On an overall basis the industry has grown to Rs 10,59,738 crores from Rs 9,87,078 crores in the last quarter. So from our perspective, given buoyant markets and their positive outlook on equities, we will continue to focus on building our equity book. We are working on making our fixed income funds' range more appealing to investors who would like to stay invested for more than 3 years. We have launched a National Investor Education drive with Zee Business and continue to control costs. As known in this business, significant market corrections and any regulatory announcements could be seen as key risks.

Moving to slide 17 - the business has done well and we have grown very well on a year-on-year basis. Our average assets are at Rs 20,673 crores versus Rs 15,079 crores in the half year last year. This has flown through with operating revenue going up 31%. Even quarter-on-quarter when you look at Q2 versus Q1, operating revenue has grown to Rs 31.3 crores versus Rs 24.1 crores. This is largely on account of an improved equity mix where now 32% of our assets are equity versus 27% in the previous quarter. Operating expenses has grown; this is largely on account of costs relating to acquiring new equity assets. I am happy to share that the growth in equity assets has come from the launch of the L&T Business Cycles Fund that has collected over Rs 500 crores. In fact we were the only fund house which has continued to look at open-ended funds rather than closed-ended funds. We also see net positive sales in our existing schemes as well. The improvement in product mix has also meant that quarter-on-quarter our average yield has improved to 59 basis versus 47 basis the previous quarter.

Moving onto wealth management on slide 18 - the business continues to grow well. Happy to share that the L&T Wealth Management business has been voted amongst the top 5 best private banks in the 1 million - 5 million category by Asia Money Private Banking Poll 2014. As you can see from the numbers, we have grown very well. Year-on-year growth is nearly 70% with Q2 average assets being at over Rs 6,100 crores while at the same time last year we were Rs 3,500 crores. Our client base has doubled. Going forward, we will continue to focus on offering customized investment solutions to our clients and grow our recently launched real estate advisory business. At the same time, we will continue to focus on costs and grow our book more towards equity and equity related products. Thank you and with that I hand back the call to Mr. Sivaraman.

N. Sivaraman: I shall quickly summarize what we have heard as far as the half year performance is concerned and also our outlook for the future. The key aspect is the change that we have managed to achieve in the product composition in both retail segment as well as in the wholesale segment. This has resulted in the share of operational projects going up to about 43% and similarly in retail segment the B2C segment is contributing close to 45% of the total business. Margins have continued to improve while operating cost has remained steady. We have attempted to improve the quality of the book by increasing the provision coverage across both the businesses. The margin improvement is also a result of some of the treasury initiatives that we have put in place. At the consolidated level we had almost about 50% of the borrowings coming from the banks as of March 2014 which has now reduced to about 36%. The cost reduction on the borrowing side has been effected mainly by migrating from the bank loans to the bonds. The bonds have gone up from 30% to 39%. The short-term borrowings have increased to 25% from 20% six months back as a result of the current yields in the market and the stability that we see on the liquidity side. As we look into the future, we see far more benign interest rate environment. So it should result in some level of improvement in the margins in both the businesses before it starts stabilizing. All in all we believe that given the current market environment we should be able to maintain the consolidated margins in the region of about 6% or so without major challenges.

The asset quality has improved. While the Wholesale NPAs could take some time to correct because these are all going to be dependent on concerted action by both the borrower and the banks. However in retail we are hopeful of seeing a continued reduction both by way of our actions and also due to the economic situation improving. For us this translates to a small uptick in the ROE for the current quarter. With the credit costs really coming under control in the next few quarters, we do believe that we should be in a position to achieve our target ROE levels sooner than later. While I would not like to place a timeframe for that, but definitely the indicators in terms of the operating parameters and the economy stabilizing with credit costs also coming down will be the right trajectory to achieve our ROE goal. With that, I hand you back to the moderator for any questions that you will have on this.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Parag Jariwala of Macquarie Securities. Please go ahead.

Parag Jariwala: Your presentation has stated that you sold around three assets worth around Rs 200 odd crores. So if I kind of adjust this in the consolidated gross NPLs, the reduction is mainly due to sell-down right? Otherwise the gross NPA is flat in absolute terms.

N. Sivaraman: In the wholesale segment, the reduction is primarily on account of the ARC sale, we have partially booked the losses upfront as we sold the account and the balance will be amortized over the next 7 quarters in line with the RBI guidelines. So to that extent there are no surprises. In the retail segment, there is an actual physical reduction in the NPLs by about Rs 70 odd crores compared to the previous quarter. As I mentioned we may see this going up marginally in December as the agriculture book might see deterioration. Typically, it is a seasonal phenomenon and we should be able to get it back under control by March.

Parag Jariwala: And sir what was the point about interest reversal and overdue charges on account of recoveries? Your NIMs in the retail book has seen a very sharp jump.

N. Sivaraman: Yes. We said that interest overdue on collection is in excess of what we have been seeing in the past. We are not saying it is sustainable or not sustainable, but it is a function of the overdue and how customers pay us. So that plus the one-time reversal of interest have contributed about 35-40 bps to the improvement in margins. If you really adjust that, the margins would still be around 7.20% reflecting the way the business is evolving. There might be a marginal drop to about 7.00% - 7.10%. In fact the margin uptick has been little more than what we had guided in the past. While we expected to achieve 6.75% - 7.00% margins by the fourth quarter, it has come about two quarters ahead of time, thanks to efforts on the borrowing side as well as in terms of the change in product mix.

Parag Jariwala: In terms of your restructured book, it has fallen from 6.3% to 5.5%. So what would be the change in absolute amount because if I back calculate, absolute reduction is not much?

N. Sivaraman: We are not saying that there is an improvement in the restructured book. It is just that the overall stressed asset book is stable.

Moderator: Thank you. Our next question is from Geetika Gupta of Kotak. Please go ahead.

Geetika Gupta: Once again on the sale of assets - you have a loss of close to Rs 100 crores on the sale of assets. Correct? You will be amortizing it over the next 8 quarters. So that comes to close to Rs 12.5 crores of amortization every quarter. So this will be routed through the income statement as a part of the provisioning right?

N. Sivaraman: That is correct.

Geetika Gupta: So the increase in provisioning between first quarter and this quarter which is close to Rs 10 crores is because of the amortization that you have done on the sale of assets.

N. Sivaraman: Our credit provisions cover three segments - the typical NPA provisions, provision against the restructured assets and provisions against overdue assets, which is a voluntary provision we make for identified assets which are overdue for more than 120 days. So what we have seen is an improvement in the assets which are overdue which in turn has led to a reversal of provisions. So to that extent the increase in provisions is not just related to recognition of loss on the assets sold. We have definitely made some discretionary provisions against specific accounts which we believe could be required higher provisioning.

Geetika Gupta: What is your thought process on the provisioning coverage ratio in both the businesses?

N. Sivaraman: In retail, currently we are at about 45% if I factor in the assets which are repossessed and yet to be sold. These are not adjusted in the gross NPA or net NPA levels. So if we factor the value of these assets to the overall provision, the provision coverage goes to 45%. Given the nature of our business, we believe 50% should be fairly good. In fact our past losses have been lower than this. Additionally it would also help provide for any changes in the policy of RBI. As far as the wholesale book is concerned, given that they are secured by significant assets or cash flows, we would target about 30%-35% as a provision coverage ratio. That is what we would like to provide.

An additional point I would want to make in the context of the retail book - we are definitely seeing a reduction in the NPA levels by end of the fiscal year. So the provision coverage will be achieved by two processes - one is by the reduction in the NPA itself and second will be the additional provision that we will make through the P&L account. Similarly as far as the wholesale book is concerned, again there will be a provision release as the quality of the overdue assets improve, which will also enable us to provide for some of the covers that we require in the future. Having said that, I think directionally we would like to put the coverage at around 30%-35% for wholesale and about 50% including the value of the repossessed assets for retail.

Geetika Gupta: In the Wholesale business, the growth has been very strong this quarter because your quarterly run rate of disbursements was very high as compared to the past. So how are you seeing the incremental demand and where should we see the growth for the full year?

G. Krishnamurthy: The growth will continue to be good mainly in the renewable power segment. In renewable power what happens is that there was a tariff cliff in Q4. So typically if projects do not get completed in March 31st then they go on to the next tariff regime which is generally a lower tariff. Due to this the disbursement momentum is in Q2 and Q3 and in Q4 our renewables disbursements usually tempers down. On the other hand we are in a market expansion phase in road refinancing because of our IDF and our ability to be very competitive in financing good projects. So that will continue to be a strong growth area. These are two areas where there will be complementary movements in Q3 and Q4. So we should have good momentum. We should continue to see a 20%-25% range of growth which we have achieved.

Moderator: Thank you. Our next question is from Ishank Kumar of UBS. Please go ahead.

Ishank Kumar: On the consolidated ROEs - any guidance there because last year consolidated ROE was close to 11%?

N. Sivaraman: Ultimately consolidated RoE is a sum of three components. First is the lending businesses RoE, second is the investment management and the third piece will be the rest of the other companies which are either in early stage or those managing infrastructure for the group. As you would have seen in the presentation also, the losses contributed by rest of the activities which are in the initial development stage have actually come down. In fact if you look at the quarter it is almost at breakeven. So the drag that we had on that part will go away. The second piece is that the investment management business has broken even. While the performance currently looks little subdued on the back of significant distribution costs we have incurred in getting the equity assets, I do see this contributing to overall profitability of the business in the next two years. So I think we will be able to achieve our overall goal of this business adding to about a percentage or two to the total ROE of the company in about 3-4 years. The lending businesses, we have clearly discussed that we are seeing an upward trajectory on the back of stable margins, stable to improving operating cost and reducing credit cost. We should in a matter of few quarters be reaching our target ROE numbers. So if I put all of these together, we will see consistent improvement in the ROE on the consolidated level from where we are today at around 10%-11% to the target goal of achieving 18% ROE at the consolidated level. This is going to take a few of the businesses like investment management or wealth management to really start putting in their full return on the back of it. So it will take around 2-3 years for us to reach 18% levels. But the operating performance of each of the businesses has been improving consistently quarter after quarter.

Ishank Kumar: Okay, on consolidated asset growth level, we are targeting around 20-25% growth this year, right?

N. Sivaraman: Yes, I think you heard both the business heads talking about it. Clearly we do see that. I would be little more conservative. 15%-20% kind of growth for the current year definitely looks to be feasible. I do not want to put a number on the next year because it depends on how the next two quarters really pan on the ground due to various initiatives the government has started taking.

Ishank Kumar: Any guidance for the home loan segment?

N. Sivaraman: Well, our desire is to make it a meaningful subsidiary in a period of 3 years or so. We should target closer to Rs 10,000 crores in that kind of a timeframe for us to be material. In terms of how it will pan out on the ground, it is currently too small in overall context. So the growth numbers can be 30%-50% on year-on-year basis for the next 2-3 years. We would take some time to really get to give you meaningful guidance on that. But I think high double digit growth is definitely what our goal will be because we want to make the capital invested to be utilized well and the operating cost adjustment can happen only with long tenure loan book.

Moderator: Thank you. I now hand over to Mr. Sivaraman for the closing comments.

N. Sivaraman: Thanks for participating in this call and also for the fairly insightful questions. Please feel free to write to us in case any aspect that you would like to get more clarity on if it has not been done on the call. Of course you have got all the email addresses from our side. Feel free. Thanks a lot. Have a happy Diwali.

Moderator: Thank you. Ladies and gentlemen, on behalf of L&T Finance Holdings that concludes this conference. Thank you for joining us.