Shiv Muttoo: Good evening and welcome to L&T Finance Holdings' Q2FY16 earnings conference call. We have with us on the call today, Mr. Y. M. Deosthalee - Chairman and Managing Director, Mr. N. Sivaraman - President and Whole-time Director along with other senior members of the management team. Kindly note that some of the statements made on 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. Deosthalee to start the call with his comments.

Y. M. Deosthalee: Good evening and thank you for joining us on the call. Let me make a few broad statements and thereafter I will handover to Mr. Sivaraman for detailed comments and also to the Chief Executives for their respective businesses. This has been a very satisfactory quarter for the company. We had a healthy growth in disbursements as well as loans and advances. Disbursements grew by 18% and the loans and advances grew by 19%. So as of September end, the total loans and advances are at Rs 50,986 crore. The growth was primarily from our focus sectors. We had outlined our strategy a few months back of focusing on B2C businesses in the Retail segment and within B2C businesses, the main thrust areas were 2 Wheelers, Housing Finance, Microfinance, and SME Finance. Tractor is also an extremely important business for us but that is one business in which the industry is de-growing in the current year and therefore there is de-growth for us too. In the Wholesale business, the thrust on renewable energy and operational assets continues and that has provided us growth in this quarter as well.

The total business coming from the operational projects is 58% of our total wholesale business portfolio and the thrust on renewable energy is very clear. Out of our total wholesale loan book 27% is from renewable energy and 21% is from roads. These are the areas in which we see opportunities. Similarly in the case of retail business a substantial part of growth has come from the B2C businesses such as 2 wheelers, Microfinance and Housing along with Supply Chain Finance. Our base in the Housing business is still relatively low and hence there is a tremendous potential for us to grow in this business. Therefore, it is important for us to note that the strategy outlined in terms of focusing on B2C in retail business and operating projects in the wholesale business with renewables and roads as key sectors is proving to be right. This will provide us growth going forward in the remaining part of the current year as well as in the foreseeable future.

The quality of assets and the balance sheet continues to be stable while the overall non-performing assets have not really come down, but in terms of percentage of assets on 150 day basis, it is quite stable. If you look at the recognition on the basis of 180 days then there is a drop as compared to the previous year. We monitor asset quality in terms of the overall stressed assets especially in the wholesale business, which means we look at the non-performing assets, restructured assets and assets sold to asset reconstruction companies and arrive at a total percentage. It is important for us to note that for the last six quarters or so, this percentage is continuously declining and that is something which is very important for us. We believe that this trend will continue. While there is possibility sometime in the near future that internally there could be a change from one bucket to another bucket, but overall as a total it is expected to decline over the next few quarters. There are no fresh additions that are taking place but only an internal change within buckets.

On the liability side, we are continuously focusing on reducing the cost and diversifying the liability sources. So today, a significant portion of our debt is from the market because we also have a combination of short-term and long-term assets. It gives us an opportunity to use the CP markets for the short-term assets and also to look at short-term bonds as well as long-term bonds from the market. So today, almost about 65% of our loan book on a combined basis is from the bond market and about 35% from the bank. This gives us also a flexibility to raise money from time-to-time and it enables us to reduce the cost of borrowing on a continuous basis. So for example, in the last year in the first-half our weighted average cost of borrowing was 9.83%. There has been a 60 basis points reduction over the last year and it is currently around 9.28%.

In the Investment Management business, the healthy growth in equity assets continues and the average assets under management as of September end is at Rs 24,280 crore and represents a 17% increase in the overall book. But the more important thing is that the equity AUM has grown by 53% year-on-year to reach Rs 9,817 crore. In spite of the market volatility we are continuing to see stable growth in equity assets in the last six months or so. All this has resulted in decent growth in profits.

So for the quarter ended September, the profits have grown by 19%. I am also happy to tell you that our Net Interest Margins continue to be stable. In fact in this Quarter it has slightly gone up but they are more or less stable in last four quarters or so.

Now with these opening remarks, I hand over to Mr. Sivaraman and then thereafter the respective businesses will talk about Retail and Wholesale Lending and Investment Management businesses. Thank you very much.

N. Sivaraman: Thank you, Mr. Deosthalee. I think Mr. Deosthalee has given a wonderful overview. The key points have been covered but let me just anchor these points with reference to the value creation steps that we are taking for the shareholders.

Clearly, one is the balance between improvement in RoE and sustaining it at a certain level and ensuring that the business growth continues to remain healthy over the next few years. The portfolio that we have built has enabled us to maintain growth even though there are segments which are not growing either because the size of the market is not growing or where we see that the credit is not appropriate or pricing is not available in a remunerative sense; but still we have been able to grow the book by about 19% to 20% as compared to the previous year same quarter.

Second important thing which actually drives the ROE up are our margins, fee income, operating expenses, credit cost and leverage. Some of the actions that we have taken over the last about 18 months to 24 months have been focused around improving each one of these parameters or at least definitely contain any further slippages in the ratio of these costs to the assets so that the ROE starts improving and moves towards our target levels.

As Mr. Deosthalee mentioned we have been able to sustainably improve NIMs over the previous 6-8 quarters by using a liability structure which is focused more around the capital markets than from the banks. This has resulted in the margins for the retail business moving up from about sub 6% to around 8% as we reported in the last quarter. The Wholesale business despite moving towards less risker asset classes as well as increasing leverage has been able to maintain the margins at a certain level.

The wholesale business has built a good underwriting and syndication team which provides advisory to our clients and has been able to pick-up a decent set of mandates for advisory even in a weak market like today. Consequently we have reported a healthy fee income. We are working on improving the cross sell opportunities within the businesses. We have made a decent start but we still have a long way to go. Hopefully some of this will deliver results in the next few years.

Coming to the operating expenses, we have taken initiatives to reduce layers as well as increase the span of control for our supervisory staff which in a period of few quarters will start showing up with respect to the manpower cost. Additionally there are some initiatives that we have put in place for delivery of service to clients and also managing the internal process using information technology. These should also give us the benefit of better customer satisfaction as well as improved productivity on the ground, resulting in operating costs coming down.

In order to enable us to improve the leverage, what we have done is that we have changed the portfolio mix over the last 3 to 4 years moving from B2B business in the retail segment to the B2C segment. Even in the wholesale segment we have moved into the operational projects very emphatically. In addition to focusing on the road projects which are operational we have also focused on renewable energy projects which are short gestation, less risky and have firm commitments on the ground on all the aspects. We have also increased the provision coverage over the last about 18 months from below 20%-25% to around 40% as we speak today. What it has done is that even as we have increased leverage we have been able to maintain the ratings. The provision coverage ratio that we have built also provides us scope for improving the leverage over a period of time.

Moving to the Slide #4 - reflecting on what I said about the disbursements, they have been steady even in the weak market while most others have not seen significant credit growth. We have seen a credit growth of 19% driven by disbursements in our chosen segments.

The next slide (Slide #5) continues to demonstrate our strategy of moving into B2C assets in the retail book. From 57% as we ended the last year, today we are at 61% of B2C assets. Even in the B2B segment if you look at the riskier segment of CE / CV it has actually declined from 40% in FY10 and 8% as we closed last year to around 6%. There is definitely a sentiment that the CE/CV segment is picking up. We will have to wait it out rather than rushing into funding this because we also see that this business becomes uneconomical in either cycle given the way the pricing and credit costs move at different points in the cycles.

Moving to slide #6 on the Wholesale business - as Mr. Deosthalee mentioned, our total project financing today is 77% and the operational projects have moved to 58% of the total book. This gives comfort in terms of our asset quality, it gives us comfort in terms of maintaining our operating expenses at a lower level and more importantly enables us to leverage higher. Slide #7 reflects the composition of the book as far as the wholesale business is concerned. We are focusing on short gestation renewable projects which continue to increase. We are focused on operational road projects, lease rental discounting and also power transmission. If I look at the total book of Rs 25,000 crore, roughly 70% comes from our chosen segments. The corporate segment which has been weak for us over the few years has been dropping in terms of both size as well as the percentage composition in the overall book.

The next slide (Slide #8) talks about asset quality. Key point that we will see is even with change in the recognition norms to 150 days, we still see the NPAs to be stable. Though there is a small increase but they are not really material in the context of environment. We are seeing a very stable number both in terms of the overall absolute values as well as in percentage terms. The circle at the top indicates the provision coverage, as we said we are consistently increasing the provision coverage not so much because we see losses but this definitely enables us to improve the leverage on the ground.

Effective liability management (Slide #9) – a substantial shift that we have been able to achieve from September 2013 when the market went into a situation where only banks had liquidity. At that point of time we had close to around 60% of the total borrowings coming in from banks whereas what we are looking at today is that the bank loans are at about 21%. The capital market products give us about 39% and the short-term CP market give us about 19%. So clearly it is a very-very well intended and executed shift in terms of borrowing as we would have seen over the last six to eight quarters. We have consistently seen anywhere between 15 basis points to 20 basis points improvement in the borrowing cost while the yields have remained more or less stable resulting in margin expansion right through.

The investment management business (Slide #10) has seen what we would call as productive assets - 40% by way of equity and about the 25% from other duration based income product. As we will see in the later slides this is resulting in a very-very healthy fee income which is comparable to some of the best in the country today. When scale comes in, we are going to see this segment contributing significantly to the value of the overall business.

Moving to slide #11 is on the NIM expansion that we talked about. Even adjusting for some of the cumulated income we have received in some of the quarters like in Q2 of last year as well as in Q2 of this year the margins have remained flat to marginal improvement on a consolidated basis. As I mentioned over here, there is Housing which is relatively low margin product, there are operational projects which also are low margin product. Both of them have been increasing in terms of the overall share. Despite that and the leverage also going up over the last six quarters, the margins have remained flat and are an indication of the product strategy as well as the borrowing strategy having played out hand in hand. The PAT growth is about 19% with the NBFC profits growing by about 11%. But I think given the environment this should be a healthy number. It also indicates to you that the rest of the businesses which have been in the initial stages of development and which have been causing a loss in the consolidated P&L have slowly started turning around or have begun reducing the losses.

Slide # 13 talks about the summary financial performance. As Mr. Deosthalee mentioned we have crossed the Rs 50,000 crore threshold as far as the loans and advances are concerned, reflecting a 19% growth in overall book size. NIMs have grown by 16%, the primary reason for the decrease in growth relative to the loan book is the leverage increase and the fact that the operational projects and housing loans have become a larger proportion of the total book. Last but not the least, on a comparative basis the non-yielding assets in the form of restructured and NPAs have also contributed to the reduction in the NIM growth. This also indicates that once the situation turns around or these become a smaller portion of the overall book size the NIM improvement will be comparable or even better than the loans and advances.

Credit cost - while they have gone up 33% y-o-y, but as we have guided at the start of the year they have remained flat on a q-o-q basis. We do believe that these will be a little sticky for the next quarter or two before they start coming down, more so in the case of the wholesale segment and farm segment which would see an improvement towards the fourth quarter rather than in the third quarter.

Gross NPAs have remained flat. RoE on a y-o-y basis has shown improvement of 58 bps and on a q-o-q basis it has increased by almost about a percentage and half. As I mentioned some of the steps that we have put in place as well as the good asset management put on the ground has helped us improve the RoE from the lending business. Investment management from being just at break even has started contributing to the PAT. It was contributed by the change in the asset mix over the last six to eight quarters. On the consolidated level our PAT growth is 19% and the return on equity is at 9.84%. It is primarily lower because of the preference shares which have not yet been put to use at the business level. I think it is a question of another quarter or two before these the preference shares get to earn returns from the businesses as we deploy capital in these businesses. So this will pick-up by the third quarter and fourth quarter. The EPS shows a growth of 6% and the book value has shown an improvement year-on-year. So that is broadly the consolidated numbers. I will now invite Dinanath to take over the presentation and talk to you about retail finance.

Dinanath Dubhashi: Thank you, sir. Thank you all and good evening. I will just take you back to couple of quarters back when we clearly outlined our focus segments i.e. our core segments. Within the retail and mid-market business we had said that the focus segments would be based on profitability, scalability and our ability to develop steady and consumer oriented business i.e. our ability to offer something different or provide a specific advantage to the consumer. We have identified four B2C segments and one B2B which is SME Finance as the core business. Slide # 16 talks about these five businesses and the mid-market business which we said is an excellent opportunistic business where we can take opportunities of offering structured products as we go ahead and grow both book and profitability.

So rural products which is mainly tractors; personal vehicles, mainly two-wheelers as far as we are concerned, car continues to be a very small business for us; microfinance and housing finance. With the exception of tractors all the businesses have shown excellent growth both in the first-half as well as this quarter irrespective of how the industry is growing. Just as an example the two-wheeler industry overall is flat, but with our strategy of manufacturer tie-up as well as dealer isolation and penetration we have been able to grow by about 21% showing a very smart increase in market share.

Microfinance, of course the industry continues to grow. We have a model by which we have been able to show growth which is even more rapid than the industry and at the same time keep risks and processes well in control. We have grown by more than 100% both in the quarter as well as in the half year. Housing finance - we have a fairly small base. As we end this quarter we are a little more than about Rs 5,000 crore now but the growth continues. We have got a good momentum now with the retail momentum being close to Rs 300 crore per month in terms of disbursements.

SME finance - we have been in this business for quite long but till just about one year back the business was largely L&T dependent. Over the last one year we have very resolutely diversified this business while the L&T business has sort of remained steady. From a percentage of around 85% to 90% of L&T dependency the overall business has increased rapidly and as we speak the L&T dependent business has come down to close to 50% now. All these businesses have grown very well. Mid-market shows a 10% drop this quarter, but frankly it is just few transactions here and there. If you take for the entire first-half we see more than 30% growth in this business as well.

Talking about tractors – there has been a big change from the last investor conference call. I think all of you monitor this industry pretty strongly and you are well aware that just about a quarter back when the June rainfall happened nobody had predicted that there will be a rainfall deficit of 12%.

The rainfall has been fairly negative even over a long-term average and the Kharif crop is also fairly short of assumptions. So even though the Kharif sowing was just 1.2% above last year, the crop in various areas has actually shown much lower yields than what was predicated. Hence the farmer will be seeing a third continuous cash negative cycle i.e. the last Kharif and the last Rabi because of unseasonal rain and current Kharif crop. However what gives us confidence is our business model which has made it sustainable over the cycle. While we are also ceding volumes based on market fall, we are quite confident that we are ceding volume where we want to cede and not the other way round where the market is being taken away from us.

The next slide (Slide #17) is more or less reflective of what I have talked about. So rural product finance we are negative by about 17% on disbursements though the book has grown a little bit, but that is just a function of book. This has happened because as I explained last time, we have calibrated our growth based on how we have rated all the regions we operate in based on the risk category. So we have divided all our operating regions based on the long-term rainfall average, reservoir levels and our portfolio performance into five categories. We have very resolutely guided the teams, changed budgets, moved the team allocation between sales and collection, away from high and very high risk places to moderate, low and very low risk areas. So to give you an indication, over the last four quarters, the disbursement of low and very low risk over the overall disbursement proportion has increased by close to 7% from about 70% to about 77% of our total disbursements.

We continue to do business in high and very high risk areas but this will be at much lower LTVs, much higher interest rates and also very clearly where we have tie-ups with manufacturers and where manufacturers share collection efforts as well as losses with us. So this is what gives us confidence even though overall there is a negative growth which is more or less in keeping with the market.

We have moderated our disbursement based on our unique model so that the portfolio quality and yields remain in control. We have not vacated dealer counters and we have not vacated territory for other manufacturers. I will not talk about competition but definitely a lot of competition which was aggressive for the last two to three years has actually vacated the market, other than two or three whom we consider to be very strong and respectable players in this market along with us. We are clearly following a different strategy, definitely not vacating the market and we are confident that as soon as the market turns we will be able to use this strength to grow again. At the same time we will make sure that portfolio does not go too bad in this intervening period. So that is about tractor growth.

In terms of growth in the other areas it is there on the slide - we are doing pretty well and in fact if you actually take out CE / CV which is an area that we are purposely de-emphasizing, the growth in disbursement is close to 31% and the growth in book is 21%. This shows that the strategy of focus on specific segments and concentrating on those segments is working and even in this situation the overall loan book growth is 20% plus.

I will also talk a little bit about the outlook of growth for the second-half. We do not see growth in any of these segments being any different than what it has been in H1. In farm there was a feeling that the festive season will see a fairly good growth. Most manufacturers were very positive about it but the early indications coming from Navratri and Dussehra have not been good. It continues to be minus 25% to minus 30%. Diwali is still there but definitely just one festival would not take the overall year up. So even though the overall industry is more sanguine about this year I would expect minus 20 sort of range to continue for the industry. We would be definitely a little better than industry but our portfolio mix vis-à-vis the industry will improve.

There is one more change that we have done in tractors - the percentage of used tractors that we are doing at very good rates as well as good LTVs is increasing. From about 7% of our total disbursements for used Tractors last year it has reached quite close to 20% now. So this is the mix of strategies that we are following in this market. We believe that we have significant strength in this market and we believe that we have enough strength to tide over this difficult period and also grow very rapidly and strongly when the period turns.

As far as two-wheelers, microfinance and housing finance are concerned definitely the growth continues extremely well. The SME business which we have built well over the last one year is starting to show good growth which gives us the confidence that the growth that we have shown in the first-half is likely to continue in the second-half as well. So I do not see a big fall or a big rise in the growth trend that we have shown in the first-half. Other than CE / CV it is around 20% and it should continue.

If we come to the numbers in the P&L there is one small change over the first slide. In the P&L and the ratio analysis we are presenting the Housing Finance Company separately because of two reasons - one is that the Housing Finance Company obviously operates at completely different leverage levels and hence the weighted average of that won’t give you the correct idea of how each business is doing and also until last year we have been giving it separately, so it also serves the purpose of continuity.

So if you take out Housing Finance Company the overall book has grown by close to about 4% after taking in to account the de-growth in tractors and CE / CV. Vis-à-vis that the interest income has grown by around 6%. Interest expense has also fallen by around 6% whereas leverage levels have more or less remained same which shows the excellent treasury strategy which Mr. Sivaraman and Mr. Deosthalee talked about. At the same time the push of the portfolio towards more B2C as well as the resilience of the marketing team of not having to pass on the entire benefit of the interest cost to the customers has also helped. We are reaping the benefits of the nature of the B2C customer or B2C portfolio which is largely fixed rate. Other than Housing there is no big danger of any big prepayments coming up in the B2C business and hence, a lower interest rate regime is a good period coming for us. Hence you see NIMs going up by about 19% which is much higher than the portfolio growth.

If you even take the earnings before credit costs which is what remains in our hand after the portfolio shift and the relative increase in NIM and increasing expenses based on the portfolio shift to B2C, earnings before interest cost has increase by about 23%. There is an item in the Q2 which is sort of one-time, a big income coming in. The book growth also needs to be qualified that there were about close to Rs 800 crore to Rs 900 crore of prepayments in the mid-market book out of which about Rs 300 crore got prepaid at an excellent rates - it was equity linked deal and we have actually chosen to highlight that one-time income. It is about close to Rs 20 crores of one-time income coming from that, but even accounting for that it has been an excellent growth in earnings before credit cost.

Before coming to credit cost I will draw your attention to the gross NPAs. So as a diversion to some of the market results you have seen the gross NPAs on a year-on-year basis for the current quarter have actually dropped from Rs 1,171 crore. They have actually reduced to Rs 1,001 crore now, but with that why the credit cost has increased? I would get into a little bit of details for this. So few changes in the composition of NPAs here, obviously no prizes for guessing that the overall NPAs in farm have gone up sizably from last year. We had guided that there will be a drop in farm NPA from Q1 to Q2 and certainly there has been a drop, but the drop is not as much as what it is every year. So certainly there has been a fairly substantial drop but frankly we were expecting a much higher drop.

Overall gross NPA has fallen from 5.74% to 4.82%, the Farm NPA within that has actually risen and if the credit cost is at around 2.7% for the half year, farm alone is 0.9%. So it shows that large part of the credit cost increase is in farm. In fact the NPAs in almost every other business are actually well in control and in fact come down. Now, of course farm is a worry for everyone but it also shows that most of this is because of a situation that we are seeing in farm and once the situation comes in control this credit cost will actually come down. What gives us the confidence? Last time I spoke about how many of our customers have actually paid part EMIs and hence I am pretty positive about their intentions. That kind of ratio still continues. Close to 30%-35% of my NPA customers have less than one EMI outstanding which gives me the confidence that the intention is there. Secondly, if I see regionally, I see certain concentration in the increase of NPAs. Areas like Maharashtra and Karnataka which have fairly large portfolios have seen NPAs going up whereas areas like Madhya Pradesh and Rajasthan which are also very large portfolios have actually seen NPAs coming down. This also shows that our problem is pretty localized and very clear management action on these particular areas will get the farm NPAs down. Having said that, I must guide you that while we are very confident to get farm NPAs totally in control by end of March, the third quarter will be a combination of not enough money coming in in the market because of Kharif, the Rabi money not yet coming in in the third quarter and the large billing cycle coming in the third quarter. So we will definitely see a sort of peaking of farm NPAs in December before it comes back into control in

March. Whatever we have seen till now I would not say sanguine but it makes us quite optimistic that the problem in farm is not at all of portfolio quality but it is of the current situation and that too very localized and as the current situation improves we will be able to get it back in control.

How does all this reflect in terms of ratios? We will come to the next slide, slide number 19. We will see that the net interest margins have smartly improved. We had guided on this and it has actually improved even better than what we had guided based on the portfolio mix. An excellent job by treasury and also let us say about 40 basis points impact is because of the one-time income coming. The earnings before credit cost are at 5.48% and even if you take out that one time impact is at around similar levels as Q1. Now this makes us very confident of the model that we are having. We are able to and are quite confident that we will be able to maintain these kind of earnings before credit cost or even improve it slightly taking advantage of the falling interest rates and the fixed rate book and the improving product mix as we go ahead in the second-half.

How will credit cost look? So as we say, in the first-half the credit cost is at around 2.7% out of which 90 basis points is farm. If we take a delta over last year on how farm credit cost is, the delta is close to 50 basis points. So I am not talking about just credit cost of farm. I am talking about the impact that farm has had on the overall credit cost. It is a 50 basis points delta on the entire 2.7% and as we get this slowly in control over the next two to three quarters this will come down pretty well back to around 2.1%-2.2% including any early impact that we may take on the 150 to 120 recognition which will come next year.

The increase from last year also has about 12 basis points to 15 basis points impact of the reversal of 150 to 180 DPD which was obviously not there last year. But I can only say that the way we have been able to reduce the overall GNPA level as well as the percentage makes us pretty sure that we will be able to show a fairly steady decrease in credit cost as we go ahead in the next few quarters. Even just a 50 basis points reduction this year in the credit cost we will be able to take the ROA closer to about 2% which at a gearing of around 6x will take our ROE at the 13.5 to 14% level without Housing. So that is more or less the guidance, it can go a little bit here and there based on the way the farm portfolio behaves but that is where we would like to guide.

As far as Housing Finance Company is concerned – I would say that things are going pretty much as planned. The growth that we have planned in network and in terms of monthly business booking is going well. I would like to remind you that in Q1 we had a one-time advertising expense when we went with a TV campaign. Q2 is more or less representative and you would see that most of your questions as far as credit cost or expenses will see a definite positive direction based on where our guidance was in both these ratios. We have also been able to drive the leverage of this company to maximum. Of course we will be bringing in equity as and when required to keep the leverage to more or less at this level and support the growth. So if you see this quarter the RoE is about 12% and as we continue on this journey we will also increase the construction finance portfolio to our desired levels. We will see this company also profiting and contributing well.

So if you take the entire Retail together we will be able to show a good 1.5% to 2% RoE increase over the last year and that is something that at this point of time we seem to be moving towards.

I now hand over to Mr. Krishnamurthy, my colleague, for taking you through the Wholesale finance business.

G. Krishnamurthy: Thank you very much, Mr. Dubhashi and good evening everybody. Firstly I would like to share good news - today CBDT has approved tax exempt status for IDFs in financing PPP projects as well as non-PPP projects with or without concessionaire authority. What this means realistically is that now IDFs will be able to not only finance roads but finance other sectors as well and particularly renewables where we have healthy franchise. Moving forward this will enable us to leverage IDF's balance sheet quicker than expected. It will also improve our competitiveness in the re-finance market so that we are able to get a better market share. So these are two key outcomes of this announcement which has happened today.

When we look across multiple sectors, there is not much movement on the ground, not much to really report in terms of dramatic changes but a lot of small positive changes are happening across sectors. For example, in roads we really see improved traffic across multiple stretches. If this sustains for the next couple of quarters what it means is it will improve valuations. It will improve deal flow for M&A, it will improve liquidity of some of our EPC and road contracting sector which is one of key reasons for stress for us. So we do expect if these continues there could be positive news in the stressed portfolio over the next couple of quarters.

In renewable energy, solar continues to grow very strongly but we are turning more cautious to the extent that some of the bidding is seen to be fairly aggressive and therefore we are very-very focused on selectivity and sustainability of business models. In wind, yes, we see increasing risk in green field financing, but wind refinancing continues to be a very large opportunity for us.

One new segment which has really opened up is transmission as we will see in the next slide. We are doing more and more deals across transmission and that is very low risk and large deal sizes which is an interesting opportunity for us.

Thermal power - the good news is that we have the second round of FRP being formally discussed this quarter while it was not on the agenda of the government earlier. So hopefully we will see positive outcomes over the next few months on FRP. Although it does not have a direct impact on us it will improve the overall stress level portfolio of the banking system. Having said that, we continue to see very weak electricity demand and we do not see energy demand really going up. Our PLFs are at a very low rate historically and fixed cost capping which is happening in some of the newer bids means that the objectives of the coal auction process may not be entirely obtained.

Moving on to the next slide (Slide #23), in a way disbursements is a continuing story. In that sense our only new addition is that the power corporate T&D has grown at a very healthy rate of 30% and that as I said is primarily as a result of increase in transmission financing which has happened. Renewable disbursements are being steady at about 15%. On a year-on-year basis gross disbursements have been up by 1%. But the most interesting part here is that net disbursement which is net of sell-downs is Rs 2,400 crore. When we refinance the project we have a hold position of 30% to 50% and we sell-down the balance to our banking partners. So if we see therefore for H1 we had total sell downs of almost Rs 1,381 crore and we had prepayments of Rs 1,280 crore i.e. almost Rs 2,600 crore of sell downs and prepayments and repayments are additional. Essentially, we saw very healthy churn of our book. About 12% of our book got churned in H1 due to prepayments and sell-downs which we feel is something which is very good for us from an ALM perspective as well as enabling a better churn and increase fee for us.

Looking at the composition of loans and advances – renewable power continues to be strong but continues to be maintained at 27% which also shows that we have other variables to diversify our disbursements. Particularly in the road sector which has been very healthy in Q2 we had Rs 729 crore vis-à-vis Rs 40 crore last year as well as increase in transmission. So we have other sectors which are also coming up on the radar in terms of increasing the book size. And the other notable feature is a sharp increase in operating projects to 58% from 52%, a 6% hike in a single quarter is more as a result of all the greenfield projects which we financed in renewable getting to operational mode. This shows the import of our strategy to finance short gestation projects which turn into operating projects pretty quickly and within a year or so their risk weight comes down to 50% which dramatically improves risk-return yield for us. So therefore a sharp increase will have a consequent impact on our overall ability to increase the leverage over a period of time. So at the overall asset level we grew by healthy 26% on a year-on-year basis and reached Rs 24,799 crore.

Moving on to the next slide (Slide #24) on the summary financials – interest income grew by 25% against a book growth of 26%. This is against backdrop of multiple things - increase in the set of operating projects which actually obtain finer yields. We also decreased our PLR by 25 bps on September 15th so, that effect also has been incorporated here. As Mr. Dubhashi already mentioned interest expense has come down substantially in terms of overall cost while we have increased the leverage substantially from 5.64 to 6.59, so almost by 100 bps. There has been a smart increase in leverage which means that while interest expense has increased it also has got a very positive impact on ROE.

Third aspect is fee incomes that have been very-very healthy on the back of our underwriting of road projects, renewable projects and transmission projects. It has grown by 98% on a half yearly basis and if you look at Q2 itself we had Rs 21 crore of fee income and Rs 23 crore of other income. Other income primarily comprises of our DCM desk, Bond Desk where we have interest on some of the bond instruments we hold as well as capital gains on the bond instruments which we have sold during the period. So fee income and other income continue to strongly support our improvement and performance.

Operating expenses have been well under control. This is also partly because we have been receiving repayment from some of the ARC assets and these go towards repayment of the management expenses which are paid. So together with this the operating expenses have been contained and are 8% higher on a year-on-year basis for the half year. The earnings before credit cost have therefore grown pretty healthy at 28% much above the growth rate of the assets.

Credit cost will continue be sticky as we have been talking for some time. In Q2 itself out of the Rs 95 crore of credit cost we had Rs 30 crore towards amortization losses on ARC assets and this will continue till Q2 of next year. Additionally we had Rs 16 crore of funded interest on loan provisions towards our restructured asset book. So PAT while on a year-on-year basis has grown by 6%, on a sequential quarter basis it has grown by Rs 12 crore which is about 13% to 14%.

Looking at overall asset quality as rightly pointed by Mr. Deosthalee, the overall asset quality is softening and if we look at the net impaired assets it has been declining over the last few quarters. We will continue to face pressure on assets in mining and steel sector but hopefully with the turnaround happening there should not be a too much of slippages in the next couple of quarters.

Regarding restructured assets, the movement from restructured assets to NPAs has been much slower than anticipated. This is primarily because banking system has aggressively resorted to SDRs in couple of cases. We do see the prospects of management change in these cases resulting in faster resolution in next few quarters. So this has resulted in a slower pace of shift of assets from restructured to non-performing.

Moving on to the next slide (Slide #25) on key ratios - over the last couple of quarters and compared to H2 of last year we have been able to hold-up the price line. While costs have softened and therefore improved our spreads as such, the NIMs have come down primarily because as noted our gearing has gone up by 100 bps. So, it is purely a function of additional interest cost and additional borrowing. Fee income as you see has been very healthy particularly in Q2 where between fee and other income we had 64 bps. This is actually a substantial increase compared to the last few quarters. Operating expenses have been well under control at 47 bps for H1 and therefore earnings before credit cost, particularly if you look between Q1 to Q2 have improved by about 17 bps.

Credit cost is at 1.6% for half year but if we look at Q2 it is 1.58% and we see a slow and steady improvement in this as we improve our balance sheet size as such. However, some part of this particularly about 51 bps which leads to amortization of ARC sale losses will continue to be sticky till quarter two of next year. So RoE has improved from 11.05% to 11.9% on a sequential quarter basis because of improvement in fee income and improvement in credit cost. We see this very-very slow and steady improvement also going forward in H2.

We also see some possibilities; in fact, I would say stronger possibilities of capital gains in some of our prop book equity. As and when we manage to divest these assets, we could have some bump-up in terms of capital gains which we can look forward to in H2. At the CRAR level we have very healthy ratios across all the three entities and wholesale platform, more because we raised perpetual bonds and Tier-II bonds across all the entities in time and therefore our ability to add more assets and increase leverage improves because of this.

With that I would like to hand over to my colleague, Mr. Kailash Kulkarni.

Kailash Kulkarni: Thank you and good evening everyone. On the Asset Management or Investment Management side, the industry has continued to be pretty robust. We have seen the industry cross Rs 13 lakh crore in the second quarter of the year. The growth has been driven both in terms of flows on the liquid and ultra-liquid side as well as robust flows on the equity side. Our focus has been on what we define as core assets. Core assets are those assets which are revenue earning assets, which exclude liquid funds and FMP and if we look at it today about 65% of our total assets under management comes from the core assets. We have a diversified investor base of 8 lakh accounts spread across 500 districts in the country thanks to our coverage from about 58 branches that we have. The industry this quarter grew by 7%. We grew by 9% and hence we have been able to gain a little bit of market share. Our continued focus will be on core assets and core assets like I said, contributes to the revenue. If you look at the operating revenue for Q2 FY16, it has grown by 25% Y-on-Y and we have delivered a profit of Rs 4.6 crore before amortization. The net margins have also shown a little bit of increase on account of the focus on the core assets. We believe that despite the markets being pretty volatile and equity markets have not given returns over the last six months, the flows continue to be strong and we have continued to be so in this quarter also.

On the Wealth Management side, we have been consistently building up our AUS and today we have about Rs 7,900 crore of Assets Under Service which we have grown by Rs 7,143 crore at the end of Q1. The one change that has been there on the Wealth side is that on account of the changes in the mutual fund commission rules which have been there across, now the commission is on a deferred basis which will come year-on-year. So to that extent the revenue has been a tad less than what had been budgeted. But nevertheless as it is something which will keep on coming over the next few years we are well on the path to what we had budgeted in the wealth piece.

With that I will hand over the call to Mr. Sivaraman again.

N. Sivaraman: Yes, the next slide talks about our compliance with the RBI norms which we have already explained to you and we will progressively look to comply with it in a manner that it is evens out and normalizes the performance over multiple quarters.

The next slide talks about the strategy. You would have heard from each one of the business heads as what is being focused on, this is the just reiteration of that in terms of which product group that we will focus as of the medium-term as well as in terms of how will we see the profitability growing.

With that I close the presentation and request you to open it for question-and-answer.

Moderator Thank you very much sir. We will now begin the question-and-answer session. First question is from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.

Nishchint Chawathe:Just wanted to understand the growth strategy on the infrastructure business. I think as you rightly highlighted there is some stress building on or there is some element of aggression in the way bidding is done for renewable projects and I guess this has been a high growth area for us so and I think you also mentioned that this was the main high growth area for us. But how would you still look at the overall space, would you want to slow down at some point of time or was it like too early for us to?

G. Krishnamurthy: The existing installed base of renewables between wind and solar is about 30,000 megs to 35,000 megs or so. So we are therefore looking at two aspects - how much we do from re-fi and how much we do in green field. So the proportion of green field to re-fi has been coming down and as rightly said last one year we have reduced our green field exposure in multiple geographies. In fact we are open for business in green field wind in a couple of states only, while most of the states we wait for the PPA risk to go off before we start taking risks.

Similarly even in solar two things are there - one is there is a good base for refinance particularly in a regime where interest rates are softening and we are pretty competitive on our rates vis-à-vis some of our banking partners also. Also it is not that entire solar sector is no-go for green field. There are select opportunities particularly when the sector is growing at such a large pace of +40% on a year-on-year basis. Today as we speak a single bid is there for 7,000 megawatt. Even if we have few more 7,000-10,000 megawatts for solar it means opportunity of Rs 50,000 crore to Rs 60,000 crore. So we would be targeting a very small portion of that as such and still we will be able to deliver our numbers. So we do not see a problem as such in terms of our ability to deliver consistent growth in terms of what we have been doing so far.

N. Sivaraman: I think GK also the benefit of IDF eligibility for some of these assets with appropriate tax exemption will make us competitive enough to look at re-fi as a very aggressive business I suppose.

G. Krishnamurthy: Absolutely.

Nishchint Chawathe: Any chance of margin dilution or is it because of the IDF and borrowing cost coming down it would not have an impact?

G. Krishnamurthy: Yes, because of IDF we will be able to maintain margins. In fact that is a good news. Typically I would expect a fair degree of competition particularly in Q4 on refinancing and with the banking system would be really aggressive on some of these. But we believe we are equally competitive along with our IDF solution to cope with this.

N. Sivaraman: Okay. If you look at it in terms of the resultant leverage potential vis-à-vis the margin we will take, I think it makes good sense for us to be there in this segment.

Nishchint Chawathe :Any number if you could kind of guess as to one year down, how much assets would be there in the IDF?

G. Krishnamurthy: Well I think we should be able to leverage IDF based on current capital by Q2 of next year. But having said, we may also like to infuse additional capital - that is something which is developing story. We need to see how much of capital is required so that we have larger ticket sizes. So that is something which will be working and maybe we will talk about number next time over. Today, it will be a bit premature to talk about actual numbers.

N. Sivaraman: Nishchint, it will be good to look at the overall business growth for the wholesale platform and opportunistically where ever we can use IDF as a vehicle to finance them we will do it to the maximum extent possible. It is a question of reallocation of capital from one balance sheet in the wholesale set of companies to another balance sheet. That is the way it will be balanced.

Nishchint Chawathe: Sure. Do you have a minority partner now in the IDF?

G. Krishnamurthy: No.

Moderator: Thank you. Next question is from the line of Siji Phillip from HDFC. Please go ahead.

Siji Phillip: Just regarding slide #18 where you have mentioned the GNPAs for the retail finance business. You have mentioned GNPAs at 150 DPD for retail finance but you have not mentioned the net NPA figure?

Dinanath Dubhashi: Okay. So the relevant numbers would be Rs 882 Cr for Q2FY15 translating to 4.39% versus Rs 612 Cr in Q2Y16 translating to 3.00% NNPA ratio at 150 days.

Siji Phillip: Sir, regarding the asset quality in your wholesale book, now the net impaired asset is nearly 7%. What will be your outlook like for next 1 year?

G. Krishnamurthy: Yes, we do expect this to stabilize and gradually to start declining as we grow our assets. We do not see incremental slippages, to a large extent in fact slippages have already come down. You will notice in Q2 that there is only one asset which has moved from RSA to NPA and there will be no slippages. So subject to turn around in the economy as whole we expect this to stabilize and to start declining further.

Siji Phillip: So where would the major stress be, in which sectors? I mean could you specify the sector by the major stress?

G. Krishnamurthy: So what we have disclosed historically is that our restructured book is predominantly to EPC contractors, where we have funded operating road BOT companies and where we have supported them for their BOT expansion. So as liquidity in this sector improves, as the work order of this sector improves and claims start getting paid off to these people the valuation of the underlying BOT projects will improve. All these are possible triggers for us for improving our asset quality.

Siji Phillip: Yes. What will be the percentage I mean for the EPC stressed asset?

G. Krishnamurthy: Substantial part of our restructured assets is from EPC only.

Siji Phillip: Okay, a majority will be EPC?

G. Krishnamurthy: Yes, correct.

Moderator: Thank you. Next question is from the line of Nitin Kumar from Prabhudas Lilladher. Please go ahead.

Nitin Kumar: Sir, you mentioned that in this quarter we had only one account that slipped from restructure to the NPL category?

G. Krishnamurthy: That is right.

Nitin Kumar: Okay. And how many more accounts we see as vulnerable which can potentially slip?

G. Krishnamurthy: We do see the slippage rates between RSA and NPA to slow down as I said because of SDRs which are being done by the banking system and hopefully which will lead to management change within the next 18 months and faster resolution of these cases. Having said this, we would look at the overall impaired assets as an indicator of the asset quality. Inter segment movement are something which are technical in nature and what we need to see is how fast and how quickly we are able to take assets out of this bucket of overall impaired assets and get them to standard faster. So that would be the focus.

Nitin Kumar: Okay. On the total under construction projects how much belongs to the renewable energy space because I see that there is a sharp rise in the share of operating projects which may have come due to assets moving from under construction to operational instead of new disbursements.

G. Krishnamurthy: Out of the total under construction book we have about Rs 1,000 crore which is in renewable. So that is the number which you can look at as an indicator of how much more can shift into operation.

Nitin Kumar: Right. And sir one thing on Slide #23 if I look at disbursements in power thermal category it is Rs 52 crore. But if I look at the growth in loan portfolio it is like around Rs 170 crore. So was there some reclassification or something else which explains this?

G. Krishnamurthy: There could be funded interest which got added out there where in case of restructured asset the interest is being funded and that gets added to the outstanding.

Nitin Kumar: Okay. And lastly like we have been seeing a very strong growth on the Housing Finance company side and we have infused equity capital also but our Tier-I still remains like close to 9.5 there. So what sort of equity infusion we are going to see there in the next one year?

Dinanath Dubhashi: So it will depend on the growth. Suffice to say that the debt-equity at any quarter end will be in the range of 9.5 to 10.5. As the growth happens we will put equity.

N. Sivaraman: The question is around why are we not using the full leverage potential based on a lower Tier-I ratio that NHB is insisting. It is young company at the moment in order to make sure that the rating agencies look at us for a AA plus rating and it is well-accepted by the current set of investors into various instruments and this company issues. You need to maintain a balance between what is permissible Tier-I ratio versus what we will maintain.

Moderator: Thank you. Our next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: I just wanted to understand the sustainability of this net interest margin in the retail finance business. Sir this quarter we have done 8.6% and there is 40 basis points impact because of this high yielding loan. So, if I net that out you still are at about 8.2 maybe for this quarter and going ahead as you said I mean for Q3 you do expect some level of NPL increase in the Farm business so that should probably reduce it and then obviously you will transition progressively to 120 odd. So it fair to say that your net interest margin on the retail business the new normal should be around 8.2%?

Dinanath Dubhashi: See it will depend on obviously how different businesses grow but if the general percentage of the shift to B2C and B2B continues and for some time it will likely to continue that way. Of course if we are challenged for growth, then we might have to pass on something to the consumers and anyway we will. Some of it but we will also be benefited by the interest rate cycle coming down and large part of the loan being fixed rate loan. So to answer in short, yes, around 8% may be the new normal at least for some time to come.

N. Sivaraman: May be Dinanath you can give guidance around the earnings before credit cost which is a good representation of NIM adjusted for the cost depending on the portfolio that you have.

Dinanath Dubhashi: Absolutely, so this is as I said during my presentation has been around 5.22% in Q1 and if we adjust for onetime it is around the same level in Q2 as well. We do not expect any substantial deterioration in that. In fact it might impact in the third quarter, it might go up slightly but more or less it remains there.

N. Sivaraman: As I mentioned in the opening remarks there are some productivity as well as cost improvement initiatives which are being put in the retail segment where technology is an important tool. Some of this could reflect in the way the earnings before credit cost as the percentage of assets will move in the future.

Saurabh Kumar: So sir, your loans and advances have grown at 13% and your operating expenses have grown at 14%. So can we at least expect that this level of growth start tapering down? Is that a correct understanding?

Dinanath Dubhashi: Yes, I will see expenses coming down based on technological advances after a particular period of investment. So we have seen that period right now and that is also expected to continue because we are in retail business B2C business. Technology always has to be cutting edge for us to be ahead. As Mr. Sivaraman said technology will make man power more and more productive, it will increase the span of control that we can have. But at the same time over the short-term there will be a cost of technology as well. So I would not like to guide specifically on expenses. Yes, definitely what we are saying is that if our NIMs taper a little bit definitely our expenses will reduce to take care of that and we will be able to maintain or even slightly increase the earnings before credit cost.

Saurabh Kumar: Okay, sir, that is very clear. And one final question on the Housing Finance business so, we are at a ROA of about 1.7? So I am just trying to understand if you have to get to an 18% ROE here what needs to change? For that I mean one is your leverage obviously that you can probably get some, but what is the other delta you can have here?

Dinanath Dubhashi: Sure, so various deltas. The biggest delta actually will come from the operating expenses. So operating expense even in Q2 if you see we are at 2.1 in Housing business. Definitely this business when it operate at a scale i.e. when we have scaled up decently, even at a book size of double or 2.5 times of what we are today which can be available within two years and two and half years, this ratio can be around 1.3 to 1.4 quite easily. If I have 39 branches today really the branches which I can say are hugely contributing will be in single digits. The rest of the branches are contributing small business and we have to remember that were just 2.5 year old in this business. As we set-up business these are investment costs. So the big delta which certainly will come is from operating expense. It will come out of gearing and also today we have acquired a very-very strong construction finance specialist team which has joined us about six months back and as they set their processes in this business in the overall company, the proportion of construction finance will go up. We are at a very low percentage of construction finance, so as that goes up we will even get the NIMs up. So a mix of all these three will see the Housing Finance Company getting into the high-teen within three years' period.

Moderator: Thank you. Our next question is from the line of Sunil Kumar from Birla Sunlife. Please go ahead.

Sunil Kumar: You mentioned from that from restructured category to gross NPAs the moment was lower than anticipated because of some SDRs done by the banking system. Could you add a little more on this? So which are the segments wherein the SDRs have been done by the banking system?

G. Krishnamurthy: Yes, we do not go to a sector level but broadly our exposure in restructured assets is to contractors whether they are for roads, whether they are for other sectors, buildings, irrigations, etc. So it was this sector where a couple of cases we have seen the banking system, where we are part of the consortium, banking systems have done SDR and are looking to sell off the assets or bringing a new management to ensure faster resolution. So it is in this sector that we see a couple of cases where this transition is happening.

Sunil Kumar: Okay. And also on this Construction Finance, could you highlight some more on this in Construction Finance what sort of businesses? You just mentioned that you acquired a new team and the new team and there is a new set-up there.

Dinanath Dubhashi: Exactly, so this is funding of developers, residential developers within the Housing Finance business.

Sunil Kumar: Okay. It is within the Housing Finance, okay, sure.

Dinanath Dubhashi: If you see the overall competition you will see a fair and fairly large percentage of construction funding. We are relatively much-much lower percentage in that at this point of time.

Moderator: Thank you very much. Ladies and gentlemen, that was our last question. I now hand the floor over to Mr. Deosthalee to make the closing comments. Over to you sir.

Y. M. Deosthalee: Thank you very much. To summarize I would like to say that all the businesses, the lending entities, the investment management business all of us are focusing on sustainable improvement in the return on equity and I think that is the focus of the entire organization. So the steps which have been initiated in terms of change in the product strategy, the effective liability management, various initiatives within the organization for cost improvement through technology and other process improvements. Similarly managing the stressed portfolio account-by-account effectively and last but not the least a very effective tool of infrastructure debt fund for transferring or refinancing the existing infrastructure assets this is going to help tremendously and the today's clarification about availability of tax benefit for projects which are not through tripartite parted agreement, other projects also are eligible for tax advantage I think that is going to help us because we have an operational IDF. I think all these benefits, all these points which I mentioned are towards sustainable improvement in RoE and that is the focus of the organization today and we have seen some small improvements in this quarter. We believe over a period of next few quarters we will see much more improvement in all the areas. I think the idea is to make sure that the entity ultimately goes towards high teen RoE. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of L&T Finance Holdings Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.