

Press Release

Friday, July 20, 2018, Mumbai

Financial Performance for the quarter ended 30th June, 2018

- **RoE of 18.45% for Q1FY19**
- **PAT of Rs. 538 cr. for Q1FY19 up 71% from Rs. 314 cr. for Q1FY18**

The Board of Directors of L&T Finance Holdings Ltd. (LTFH), at its meeting held today, approved the unaudited financial results for quarter ended 30th June 2018 (Q1FY19).

In line with direction from Ministry of Corporate Affairs, LTFH has adopted Indian Accounting Standards (IND AS) with effect from 1st April 2018. Results of Q1FY19 are prepared and reported in compliance with IND AS requirements. Additionally, for the same quarter of previous year (Q1FY18), figures have been recast to fit IND AS requirements.

Some key changes due to adoption of IND AS for LTFH are:

1. **Expected Credit Losses (ECL):** ECL methodology prescribed in IND AS is based on the principle of providing for expected future losses, rather than incurred losses, which was followed under the previous accounting standard. Since required provisions are assessed using statistical modelling, ECL methodology facilitates granular analysis of portfolio, thereby translating true risk of a portfolio into provisions.

Under the previous accounting standard, an asset was classified as either standard (Not an NPA) or sub-standard (NPA). Under the new accounting standard, assets are classified as Performing Assets (Stage 1), Underperforming Assets (Stage 2) or Non-Performing Assets (Stage 3). In accordance with highest standard of transparency and governance, LTFH has reported its Stage 3 assets to include NPAs (above 90 DPD), Infra assets where regulatory forbearance was available (SDR, S4A, 5:25, etc.) and other standard assets with incipient stress.

In its Infra portfolio, LTFH has taken the entire Expected Credit Loss on its legacy stressed portfolio. LTFH's legacy Infra stressed portfolio now carries provisions of ~Rs. 3,000 cr. against total portfolio of ~Rs. 5,000 cr. Of the Rs. 3,000 cr., LTFH was already carrying nearly Rs. 1,200 cr. of provisions as on 31st March 2018 under the previous accounting standard. The remaining Rs. 1,800 cr. have been adjusted against opening reserves while transitioning to IND AS.

LTFH was taking accelerated provisions in its Infra stressed assets portfolio over last two years. The provisioning requirement on this portfolio is now complete.

In LTFH's retail portfolios, i.e., Rural and Housing, requirement of provisions have been assessed by statistically modelling past performance of its portfolio.

2. **Preference Shares:** Under the previous accounting standard, Preference Shares were included in networth and dividend paid on these shares were appropriated from profits. Under IND AS, Preference Shares are classified as financial liabilities and dividend paid is accounted as finance cost. Even under earlier accounting standard, LTFH was reporting Return on Equity (RoE) after excluding Preference Shares and dividend. Hence there is no impact on RoE of LTFH due to the new standard.
3. **Fair Value of Investments and ESOPs:** All investments have been revalued to their fair value in opening balance sheet and any further change in fair value is taken through P&L statement. Fair Market Value of ESOPs allotted to employees are calculated using Black Scholes method and taken in P&L, resulting in a small increase in manpower cost.
4. **Amortization of Fees:** In line with requirement of IND AS, LTFH is amortizing its processing fees at Effective Interest Rate of the underlying loan. Since LTFH was already following this practice even under the previous accounting standard for a significant portion of its portfolio, the impact is minimal.
5. **Taxation:** IND AS mandates computation of deferred taxes using balance sheet approach as against P&L approach followed under previous accounting standard. Consequently, opening reserves on the transition date have been restated and impact of subsequent periods has been accounted for in P&L statement. This has resulted in slight increase of tax liability for LTFH.

Results highlights:

- **Growth in businesses:** In its focus lending businesses, namely Rural Finance, Housing Finance and Wholesale Finance, LTFH recorded 27% YoY increase in assets in Q1FY19. LTFH used sell-down of wholesale loans as a strategic lever in guiding its portfolio composition to higher "Retailisation". At the end of Q1FY19, Rural and Housing businesses together constituted 46% of total portfolio as against 35% at the end of Q1FY18.

<u>Focus Businesses</u>	Q1FY19	Q1FY18	Book Growth Q1FY19 vs Q1FY18
Rural Finance	19,079	10,824	76%
Housing Finance	20,356	13,743	48%
Wholesale Finance	45,945	42,760	7%
TOTAL	85,380	67,327	27%

LTFH also delivered strong growth in its Investment Management & Wealth Management businesses. Average Assets under Management (AAUM) in Investment Management business increased to Rs. 71,118 cr. in Q1FY19 from Rs. 44,484 cr. in Q1FY18 – a growth of 60%. Assets under Service (AUS) in Wealth Management

business increased to Rs. 18,866 cr. in Q1FY19 from Rs. 17,120 cr. in Q1FY18 – a growth of 10%.

- **Improving asset quality:** LTFH has shown a substantial improvement in its Stage 3 assets, both in absolute and percentage terms. This has been achieved through vigorously monitored early warning signals, concentration on early bucket collections and strong Stage 3 resolution efforts. LTFH's provision coverage has also increased during this time, indicating strength of its portfolio.

(Rs. Cr.)	Q1FY19	Q1FY18
Gross Stage 3	6,480	7,577
Net Stage 3	2,463	3,732
Gross Stage 3 %	7.93%	11.70%
Net Stage 3 %	3.17%	6.13%
Provision Coverage %	61.99%	50.74%

- **Improving Cost to income ratio:** LTFH Cost to Income ratio has reduced to 23.40% in Q1FY19 from 24.07% in Q1FY18. This reduction has been achieved despite substantial investment in digital & data analytics, branch infrastructure and manpower.

Management Commentary:

Commenting on the results and financial performance, Mr. Dinanath Dubhashi, Managing Director & CEO, LTFH, said "We continue on the journey of improving our RoE through continuously enhancing our competitive position, strong NIMs + fees, tight cost controls and improving asset quality. Retailisation of our book, and usage of digital and data analytics remains pivotal to our strategy. We have now provided for the legacy Infra stressed book. For Q1FY19, we have achieved RoE of 18.45% which is within the steady state range. Having reached the steady state range of RoE, our focus will be on maintaining it through responsible growth and minimizing sigma by tightly managing all families of risk. "

About L&T Finance Holdings:

LTFH is a financial holding company offering a focused range of financial products and services across rural, housing and wholesale finance sectors, as well as mutual fund products and wealth management services, through its wholly-owned subsidiaries, viz., L&T Finance Ltd., L&T Housing Finance Ltd., L&T Infrastructure Finance Company Ltd., L&T Investment Management Ltd. and L&T Capital Markets Ltd. LTFH is registered with RBI as a CIC-ND-SI. LTFH is promoted by Larsen & Toubro Ltd. (L&T), one of the leading companies in India, with interests in engineering, construction, electrical & electronics manufacturing & services, IT and financial services.