



L&T Finance Holdings Limited

Conference Call Transcript

May 02, 2019

Moderator

Good morning, ladies and gentlemen. On behalf of L&T Finance Holdings, I welcome all of you to the Annual Investor and Analyst Meet for the financial year 2019. Thank you for gracing us on this occasion.

We have with us here today our Managing Director and CEO, Mr. Dinanath Dubhashi, along with senior members of our management team.

Before we start, as a standard disclaimer, there could be certain forward-looking statements made at today's meet. A note to that effect has been provided in the Q4 FY2019 investor presentation uploaded on the website.

I now request Mr. Dinanath Dubhashi to please come up on stage, Sir.

Dinanath Dubhashi

Good morning, everybody. Thank you for coming here in such large numbers, a hearty welcome to all of you. This Analyst Meet is about presenting our FY19 performance. Perhaps, more importantly, it is about presenting our plan from FY20 onwards. Lots of questions have been asked about what next, and we plan to answer them today. So we will concentrate on talking about the future.

I am reminded of the analyst meet in May 2016, in which we had presented the plan for the next four years (FY16-FY20). The plan revolved around taking RoE from the bottom quartile to the top quartile in a period of four years.

I must thank all of you for the faith that you have put in us that we can achieve this milestone. We neither had the backing of numbers nor the track record of execution, but just your faith. Today, I stand in front of you not only to thank you for the faith but also with the satisfaction that we have delivered on it. We have delivered on the top-quartile RoE one year in advance, though the past three years have not been easy. It started with demonetisation in November 2016, GST, farm-loan waiver, weak monsoon, NBFC liquidity fear, IL&FS, etc. We have had a good three years. The interesting part was that with each of these events, there were lots of doubts on our capability to deliver. We have emerged unscathed, perhaps even stronger, from each of the challenges. What would be the effect on L&T Finance was perhaps looked at most pessimistically by the market. In each of these, it was thought that we will not emerge unharmed. But we did. Not only that, we handled each of those problems well, learned from them and made the business model even stronger.

With that confidence of not only having delivered top-quartile RoE, we demonstrated strong execution capability despite headwinds, leading to negligible impact on our financials. We also strengthened the balance sheet while maintaining profitability.

Today, I stand in front of you with a plan for FY20 and beyond. This is on the back of confidence to deliver numbers, coupled with the track record of our strategy and execution.

This presentation is about FY19 being the first full year of us delivering top-quartile RoE rather than just the Q4 numbers. It is about the quality of the numbers delivered, which has been delivered by focusing on the basics of each component of the RoE tree. We have worked on the strength of our products, NIMs+Fees, cross-selling, productivity, and last but not the least asset quality and ALM.

The FY19 results are all about doing things right. Is the climate easy? No, there will always be questions, what is happening to a certain asset, people will keep coming out with reports about a particular asset etc. There is no denying that as we are in corporate lending business, there will be definitely be some credit

assets which will have a problem. What we are trying to show today is: Do we have the right underwriting skills, monitoring skills and provisioning quality to make sure that these events don't come and hit us?

Today, we will focus on what FY20 and beyond is going to be for us, because so far, it was all about getting that big take-off from 9% RoE to top-quartile RoE. We've reached there, now what? This is such an important question. I have been asked this for many months now and I will explain how we have gone about it, and why we are sure that we can deliver this top-quartile RoE in a sustainable manner year after year.

Slide 4

With that introduction, let me put FY19 in perspective. What I would like to talk about regarding FY19 are two things: One is establishing the top-quartile RoE and explaining how it has by working methodically on each component of the RoE tree.

Second, a topic which is not strategic, but it is talked about: putting the ghost of IL&FS behind us. And I call it a ghost because it literally has been that - it has shifted shapes in reality, in everybody's mind for the past six to seven months. How we dealt with that in the P&L is what we will talk about today.

First, how we have delivered the RoE. Yes, it is the first year of delivery, no doubt. It is all about the basics, by working on strengths of our products. I will take you back to the first principle we defined three years back: we had said we will be in businesses where we have a 'right to win', or we can build a 'right to win', and exit the rest. In these three years, we have clearly built a 'right to win' in many of our products. We have talked about each one of them; we will talk a little more today.

Over the past three years, we have evaluated that some more products, which were part of our offerings in FY16, we perhaps didn't have a complete 'right to win'. And slowly, we either defocused or deprioritised or exited from those products. Very clearly this has got us the pricing power in FY19.

Secondly, perhaps the most important thing in FY19 was to deliver results as everybody's cost of funds went up. More importantly (In Q3 and Q4), there was a clear strategic clarity on fund allocations - which businesses we will grow fast and which ones we will deprioritise. Funds available at acceptable cost were scarce and difficult to raise: strategy on fund allocation helped us to manage liquidity prudently.

We have established it through many graphs and numbers that our ALM is prudent and we have strategically allocated funds so that growth and profitability remain unaffected. You would see from this result that our NIMs in Q4 are actually better than Q3, even after taking a deferral of interest. How did that happen? It has not happened out of profiteering or by charging some 18%-19% interest to people who desperately need money; we don't do that because we clearly believe that whatever is happening in the market today is only temporary. Charging a very high interest rate will just finish the business model; our good customers will go away and bad ones will remain with us. So, we have stayed away from doing that. Our NIMs have been managed through prudent passing on rate increase based on our 'right to win' and our market strength.

Last but not least, clear reduction in GS3, not only this quarter, but also quarter on quarter, along with increasing provision coverage and creation of macro-prudential provisions (a new concept that we introduced this year with the onset of IND-AS). FY19 is about this and I make the proposition that because we worked on each part of the RoE tree, we believe that the top-quartile RoE we have achieved is not a one-time performance; it can be achieved on a steady basis going forward.

Slide 5 – Steady growth in focused businesses

How does it reflect on growth? There have been concerns raised that with 17% growth in loan book, we seem to be slowing down. In arithmetic, it is true, because in the beginning of the year we were at 22-23%, so 17% sure is less than that. But there are two points to be noted. First, 17% is a very healthy number, and secondly, we have to see the quality of the same. When one prioritizes on certain businesses and deprioritizes others for management of liquidity, product strength and profitability; arithmetically it will add to a lower number as compared to a scenario where all businesses are grown.

Most important thing that has happened is that the de-focused book is now negligible. We have been guiding on this and have said that by the end of the year it will be less than Rs.1,000 Cr NPA/GS3 within the defocused book, the provision coverage is 75%, so if required we can write it off.

On other businesses: We have continued a decent growth in Investment management even in this climate and has shown excellent growth in the wealth management business.

Slide 6 – Increase in profitability through focused product strategy

This has been possible because of the strength of the product and a well-defined fund-allocation strategy. We have strategized product-wise growth under 4 categories i.e, decisive growth, calibrated growth, de-prioritise and exit.

Decisive growth

Rural: Maintaining growth while gaining market share. There are lots of questions on how rural will be in the next six months etc. According to us, what is important is that Rural is a great story for the next 5-10 years. What is important is do we have the strength to make sure that wherever we want to gain market share we can gain? Do we have the right data analytics to take advantage of the places where the growth is going to be good? And most importantly, do we have the right digital network to go deeper and lend to new-to-credit customers rather than lending more to over-lent people? This is what we are going to push.

Home Loans: In Housing, you will see a -3% growth and I think we have given in the annexure the whole details of this, my home loans growth within that is 51% and my salaried home loans growth within that is 148%. Clearly, the businesses that we want to grow have been growing aggressively.

IDF: IDF is the large operating book in the infrastructure finance piece that is tax-free, 50% guaranteed by government agencies and it is growing. In fact, many of you would have seen an announcement: we have recently signed a shareholder agreement with Apis Partners. The deal is yet to be closed, so I can't give any more details. Apis Partners will take 25.1% in IDF and they will bring around with them very well reputed sovereign funds. Their first fund was subscribed by most well-known sovereign funds and we expect sovereign fund investments here as well. But most importantly, not only will it make IDF stronger, it will also give the rest of the company access to foreign funds for raising debt. It also shows the confidence that a third party now has in our strategy to grow IDF and its portfolio quality.

So, these are three businesses where decisive growth has happened in FY19.

Calibrated growth - Real estate and Infrastructure

I have been asked why I don't reduce real estate and I would like to again state that we are far from being apologetic about what we do in infra finance and real estate, we are very proud of what we do. We believe these businesses have a future in India. Cycles always happen and it will depend on how one uses L&T prowess, our underwriting skills, our underwriting policy and most importantly our monitoring skills to make sure that our portfolio grows well. That is what we have done in both these businesses. Disproportionate emphasis has been on project monitoring and completion rather than business acquisition. So, large amount of disbursements have happened towards project completion.

De-prioritise

Products like structured corporate finance, loan against shares, DCM etc have been de-prioritised with hardly any disbursements. As far as Loan against property (LAP) is concerned, we have seen that unless and until we are looking at it as a core business, there are several risks - the risk of the property valuation not being proper and several other risks not taken into consideration, thereby leading to mispricing. Hence, we have de-prioritised LAP and completely exited from the Supply Chain business.

Exit

This is to impress upon that we are not shy of exiting businesses which are even L&T businesses (80% of our supply chain book was for L&T suppliers). We realised that as L&T group we are not gaining because if someone can lend at 2-2.5% less than us, there is no value addition that we can do.

Slide 7 – Improving asset quality across businesses

This is something that we are very proud of as we have shown reduction not only in percentage points, but also in absolute amount of GS3. GS3 is way beyond what the February 12 circular talks about and is still compares with banks. Let me remind you, banks even today follow IRAC norms, but we have to follow much tougher norms. Despite that, if you see sequentially (year on year), there is a reduction.

Rural: Let me talk about the quality. Rural portfolio has increased from Rs.7,000 – 8,000 Cr to ~Rs.25,000 Cr in last 3 years, GS3 in absolute amount is less than what it was 3 years back. It has happened because our concentration was not on quick fixes to reduce GS3, but to use data to concentrate on Zero DPD. We have actually being Contrarian in this strategy. Being contrarian, does not mean being a rebel, we are someone who understands what the ground-level situation is. Usual perception is that farmer usually delays payment by 1-2 months, however eventually pays up. We broke that norm and follow policy of Zero DPD. We are not publishing numbers on it currently, but as an example, for tractors our Zero DPD has increased from ~50%, to 80%+. Naturally, when we do that and keep resolving GS3 simultaneously, the GS3 number has reduced as you see in the results.

Housing: Home loans are still relatively new. We are maintaining the portfolio well.

Wholesale: This is a big story: all our NPAs, which are legacy cases, more than Rs.1,000 Cr of assets were resolved. Most importantly, these were resolved within the provisions we have already made, else it would have flown to the P&L. We have said that we will take Rs.400 Cr steady state provision every year and we continue to do the same. So effectively there has been no surprise here. We will continue to make Rs.400 Cr provision per year.

There are questions around incremental assets going bad. I would like to highlight that with existing provision coverage, incremental Rs 400 Cr provisions on wholesale per year, Rs 350 Cr of existing macro-prudential provisions. Combination of these will ensure that we are safe.

Will accidents happen? We will try our best that they don't happen, however some assets will go bad. We have to ensure that we are provided enough and I would today like to state confidently that for the last 3 years, the provisions that we have made are adequate.

Slide 8 – 'Right to Win' instrumental in delivering steady NIMs + Fees

Now that we have talked about our growth strategy, our strength, let us see how the strength manifests. Strength has to be established through pricing power. We follow matrix of NIMs + Fees and has shown steady or even increasing NIMs with good quality of NIMs+Fees that we are maintaining. When we started, large part of fees was underwriting and sell-down fees and there were lots of doubts raised as to whether it is sustainable. Today, a large part of fees is coming from cross-selling of third-party products, which is sustainable.

I am very proud of a particular statistics and we will try our best to maintain it: Our fee income is more than our operating expenses. Burn rate (how much of NIMs is being spent to maintain establishment) for us is Zero. I don't spend one rupee out of my NIMs to maintain my establishment; it all comes from fees and that is the strength we have built.

Slide 9 & 10 – Reflecting the performance in RoE bridge

Coming to the RoE bridge, Rural and Housing continue to deliver well; Wholesale, I will explain in a minute; Investment management, has started to make good money; Wealth, is affected because of change in

regulations by SEBI (even after ~50% increase in AUS, the profit is down, as profit will come through trail rather than upfront income).

Profit for Q4 is Rs.548 Cr and is in line with analyst estimates, not accounting for IL&FS interest deferral. So profit post taking after-tax impact of Rs.84 Cr is Rs.607 Cr. Let me explain impact of Rs.84 Cr and why we believe that IL&FS ghost is behind us.

Let me start with some basics on IL&FS. IL&FS has various levels where institutions have lent. Lending is at IL&FS holdco, IL&FS Financial Services Limited (IFIN), IL&FS Transportation Networks Limited (ITNL), and other companies. And then are the SPVs with each SPV for a specific project.

At each level, there is secured or unsecured loans, bridge loan against equity (mezzanine) etc.

So, how did this story start? It started with a speculation that let's say Y are the liabilities and X is the cash flow, everybody will be given X divided by Y, irrespective of the structure based on which one has lent. We always maintained that it would not happen. Today that is behind us. Now IL&FS, through the Government of India, has filed a resolution plan in front of NCLAT, which is currently sub-judice. It says that SPVs are sacrosanct and subject to certain classifications, SPVs will be paid, and only after that will money flow out.

Hence, depending on which SPV you are, whether loans are secured or unsecured, whether it's in ITNL or IL&FS holdco or bridge loan against equity, your provision will be vastly different. Many times I am at a loss when someone asks me that someone has taken 40%, 30%, 50%, 60%, 10% provision, why have you not taken? Why some other institution has taken higher provisions, will depend upon that particular institution's nature of exposure and counterparty. I am privy to my nature of exposure and counterparty and I can comment on that.

Now let me put the facts.

Slide 46 & 47 – Exposure to IL&FS SPVs

We have taken "Zero" principal provision and have taken interest deferral. Let me explain why? First, the submitted in NCLAT classifies all SPVs into three category based on solvency test for 1 year: Green, Amber and Red.

Green means the secured and unsecured creditors can be serviced over the next one year. Unsecured creditors are usually the promoter's equity in the form of unsecured loans. Promoter equity is usually in the form of equity, unsecured loan and preference shares in SPVs. For Green entity, both secured and unsecured creditors can be fully serviced and hence servicing can go on. So, for Green, there is no issue.

Green projects usually will be those that are towards the end of the concession period and hence the cash flows of the project will be enough to fund promoters' equity as well as secured debt within 1 year. So that is why you will see the amounts are less. We have two projects in this category.

Red means projects are bad, neither secured or unsecured can be serviced completely. I am happy to convey that we have ZERO exposure to Red, which, I believe, is not a matter of chance; it shows our underwriting quality.

Now, let us talk about Amber. This is where the interest deferral comes. For Amber projects, secured creditor will be fully paid however unsecured creditor cannot be paid fully. Hence, as of 30th September, it is conveyed by IL&FS that they just freeze everybody's (lenders) exposure and give them one-year time to complete the sale. However, each one of these accounts has adequate cash to service secured creditors. We can see that because we are controlling the account. However, neither we nor IL&FS can take it out and as of now only operating expenses can be taken out, nothing else.

L&T Finance has challenged this not only in NCLAT, but in the Supreme Court as well. Having said that, what does it definitively mean? Since the plan submitted itself says that secured loans are completely protected, it implies that our principal is completely protected and we don't need a principal provision.

Now what they are saying is that from the 1st of October, the interest is suspended. When the sale happens, say by 30th September 2019, if the price quoted is enough, I may get my entire interest. Currently, it is only suspended. If the price quoted is not enough, I may get anything between zero to full interest. We don't know

what the price is, however we believe that we may still get our full payment. Hence, prudently, even though this is sub-judice, we have decided to defer the entire income on Amber accounts, which is exactly Rs.42 Cr per quarter. Since in the fourth quarter, we are deferring for third and fourth, it is Rs.84 Cr. Till it is resolved, which we today expect to be 30th September 2019, we will take a deferral of Rs.42 Cr per quarter, unless something changes in-between. It is also possible that some accounts may turn from Amber to Green.

But let us take the worst-case scenario and say we will not get paid any interest till 30th of September, the P&L is now protected.

Question on IL&FS

Participant: What is the rating assessment and outlook on these assets; are these operating assets, all of them?

Dinanath Dubhashi: All six of them are operating assets. There is cash coming in but we can't use it because of a court order. To use it is going to be contempt of court. In fact, till 21st of January we have actually received the income, because the first judgment came post January putting the account on standstill retrospectively from 30th September. We have reversed or deferred income even for the one which we have received. Every project is different in its own way. I cannot go into a lot of detailing as the matter is sub-judice.

Participant: These four Amber projects, what is the total value of the debt in that project? And what do we expect on the kind of realizations there?

Dinanath Dubhashi: We will be 35% to 40% percent of total debt, largely. Project to project it may be different.

Participant: Just wanted to understand, since currently we have filed a legal case and it's currently sub-judice, just want to understand any kind of time lines that we could look at in terms of resolution of this? Is it being fast tracked? And also, can they proceed with asset sales while a legal case is going on or do we need to wait for the Supreme Court ruling before the asset sales actually take place?

Dinanath Dubhashi: The answer to the first question is, I don't know when and what the Supreme Court or NCLAT will rule. Unless and until there is a specific stay, the sale process can go on. And we will not stop it, because it is in our interest anyway. Our contention is that when there is cash in Amber project accounts, why payments to Secured lenders are being stopped. That should not impact the sale process. We will not appeal against the sale process if it's not against our interest. We would like the sale process to go ahead and since we are the complainant, that's what we think will happen.

Participant: The second question which I had is, given our experience with IL&FS and the whole SPV structures coming under question, what is our willingness to lend to other infra or real estate SPV structures where it could be the project assigned but the group level?

Dinanath Dubhashi: Excellent question. I think we have agonized over this question a lot. We are clear now that the SPV structure is not under question. That is why I went through this painstaking explanation. The SPV structure was in question initially. Now the SPV structure is being respected and is not in question. The question now is, if promoters bring their money entirely as unsecured debt, whether they will be considered as promoters or a creditor. We will now change our model and not let all the money come in through unsecured debt. We will have some minimum amount of equity, different structures, tighter legal agreements saying that they are always subordinated even in terms of tenure to secured. These changes we have already made. But yes, if SPV structure was under problem and if in future it does come into problem, project finance in this country will have to be completely stopped. Right now though we believe that is not the case.

Participant: Have we re-started LTFH flow of funds to SPV structures, assuming we are comfortable with the legal system, we have restarted it?

Dinanath Dubhashi: Yes, but with changes in the legal agreements and how promoter's contribution comes in.

Participant: Sir, for IL&FS, ITNL and the SPVs, has a forensic assessment of each and every asset and liability been done?

Dinanath Dubhashi: Forensic, why is it needed? Kindly understand that these are SPVs that are largely controlled under TRA. The money is coming in TRA. As we understand, forensics is only at IL&FS's level.

Participant: Is the issue at ITNL level mainly? Or is it linked to ITNL entities?

Dinanath Dubhashi: There is no forensic required at SPV level. Four (of our) SPVs are annuity SPVs. It is government annuity which comes into the account and we withdraw to get our payment. And even for toll projects (2 projects), we can monitor the tolls coming in. So we see no need for a forensic.

Participant: So we are very fairly comfortable on our exposure?

Dinanath Dubhashi: See, the matter is sub-judice. When we say we are comfortable, I want to describe the word comfortable. I will be comfortable only if all money is coming on time. If it does not come from 31st of Jan and still I say I am comfortable, you will say what sort of lender you are. So there is no comfort. But we know what the downside is and we have protected the downside. If I take your Rs.84 Cr and do a reversal, how can I be comfortable? It pains. Of course I am not comfortable and that's why we have approached the Supreme Court.

Participant: Was this debt rated, Amber entities, was there an external rating?

Shiva Rajaraman: All these SPVs were rated 'A' and above earlier. Now because it has got into these problems right now, they have all been downgraded by rating agencies currently because of the lack of payments, because it is in front of NCLAT. Otherwise all our Amber projects were rated 'A' and above. Even right now the amount in the escrow account, as Mr. Dubhashi mentioned, is significantly higher than payments due to lenders.

Dinanath Dubhashi: Rating depends on actual repayment.

Participant: I understand that Sir. I just wanted to know before this default happened was there a rating?

Dinanath Dubhashi: There has been a downgrade because actual payments have not come although money is there in the escrow account.

Participant: And is there any principal due now over last?

Dinanath Dubhashi: In a 25 year concession the principal payable every year is very little. Post January neither principal nor interest has come for Amber entities.

Participant: But we have taken reversal only for the interest portion?

Dinanath Dubhashi: Yes, principal as I said, there is no need for it. When the sale happens definitely entire principal will come.

Participant: Sir, this quarter there would have been a Rs.42 Cr non-recognition and a Rs.42 Cr reversal from 3Q. So from next quarter we would have a Rs.42 Cr impact of non-recognition, but no reversal?

Dinanath Dubhashi: Yes, of course.

Participant: So would there be any possibility that you will need to provide for principal as well?

Dinanath Dubhashi: We don't believe so. I can't give details on that. We are monitoring the process closely. We expect a resolution in the next two quarters, if it doesn't happen by third quarter we will not recognise Rs.42 Cr. My job is to tell you my expectations and convincing you that our governance standards are so high that we have protected the downside. Can I guarantee you that this will not happen, suppose we don't get bids for five years? So that's for you to judge.

Participant: What will be the DSRA?

Dinanath Dubhashi: Normally DSRA will be six to nine months. Thus, for six months in any case, contractually they have to maintain DSRA. Even before this, there was always six months DSRA and now with cash coming in and not flowing out, it will be definitely be more than six months.

Participant: These classifications, they are relying on the Amber classification saying that the secured creditors feel safe. But then another large private bank has an exposure to a tunnel project even that is classified as Amber. But if you look in to the project's individual financials, even that project seems to be taking on more debt, even that project seems like it is also going to have to take a haircut of about 20%. So then what gives us this comfort that our exposures are going to be secured and we might also not have to take a haircut

Dinanath Dubhashi: I don't know whom you are talking about. I will ask you one question: is that tunnel project operational? I don't think so. All our six projects are operational. I hope that answers your question. But as I said in the beginning, who has taken 10%, 20%, I will refuse to answer because I am not privy to the details of the project.

Participant: First question, this Rs.1,600 Cr exposure which you have has come into Amber category, there are four SPVs, one of your colleagues said that they are all A, probably. The coupon seems to be about 10%. So when they were given, were these AAA, AA?

Dinanath Dubhashi: Generally, if you see, good road assets that will be the rate. Good road assets, operating road assets that will be the market rate.

Participant: Can you provide us with a more detailed understanding of each of these projects in this portfolio that are categorized Amber, Red and Green?

Dinanath Dubhashi: Normally projects which are new will more likely be in Amber and projects which are old will more likely be Green. Because promoter's debt, the way it is contracted, will be repayable every one year or three years, and always get rolled over. Initially the project will have unsecured for one year, which is very less, and the entire promoters debt will come and sit there. Hence, in early part of the concession they will all be Amber. Just because the projects are in Amber does not mean they have gone into a loss, please understand this Amber, Green, Red is a definition which somebody has given. It not that we agree with it. But the way the definition is, good projects in the early part of its life are more likely to be in Amber. Good projects at the later part of its life are more likely to be in Green, and bad projects will be in Red.

Participant: All these four Amber projects are what, two, three years operational?

Dinanath Dubhashi: Yes, in initial phases.

Participant: So you mentioned, so until January we were receiving the interest income and we are now deferring the interest income in Q4. So, is it that in Q4 we are not seeing the interest income coming through? And secondly, just taking cues from the previous question, the confidence which LTFH carries with

respect to these SPVs is not reflected by the government and the rating agencies, thereby leading to LTFH moving the Honourable Supreme Court.

Dinanath Dubhashi: Why we moved the Honourable Supreme Court? Very simple, because promoter's debt which is actually Equity is being put as actual repayable debt along with Secured debt. We think that this is not the right justice, that is one of the reason. I wouldn't be able to give more details because it is sub-judice.

Participant: Why didn't you take reversal in Q3?

Dinanath Dubhashi: Simple. Because Q3 I was still receiving the income. Judgment came post January. So I can take that decision only post January to reverse from 1st of October.

Shall we move on to discuss on FY20 and beyond?

Slide 11 – FY20 and beyond.....

Now we talk about the future. This takes me back three years back. I stood here, largely nothing but my confidence to back me, my confidence in our governance, in our management, in our promoter, the strength that we could build in our product and with clear and simple strategy to talk about what we will do till 2020. I think time has come to talk about the latter. This time we have the strength of our achievements behind us, but we also have this question on IL&FS etc.

What should be our strategy for future? We looked at the BFSI world and we said that companies which are recognized as good companies, have something in common. We changed, what we were seeking to achieve is "Purpose" not "Strategy". So, what will be our purpose from now? Purpose doesn't have a time period, not 5 years, not 10 years. Purpose has to be perpetual and hence the first thing we decided was to set the strategy for 2020 and beyond. Big statement, but we are confident of making this statement. Then we said, what should be the purpose? We were very clear it has to be around RoE. To achieve RoE, there are so many other things that you have to do. However, all of those subsume themselves in present and future RoE. We will talk about it in more detail. For example, if you talk about asset quality, asset quality is required not only for today's RoE but for tomorrow's RoE as well and hence we came back to this metric called RoE.

We started looking, how many companies have achieved top-quartile RoE sometime in their life? It was a difficult analysis to do. We put one number like 16% RoE for example (the top quartile varies every year). We saw that there are more than 30 BFSI companies, more than 30 who have achieved this number sometime in their life. Then we said how many companies have achieved it three years continuously - they were between 10 to 15. I am giving approximate numbers because various definitions can change this number.

How many companies have done it for five years continuously? It is less than 10. And how many companies have done it from the time we have listed (FY11 onwards), it is less than 5. I am talking about the entire BFSI space, including banks.

Then we felt that it is a worthy purpose to say that we will join that august list. Of course, it will take a minimum of 8-10 years to join that. We are today standing in front of you and confidently putting that as our purpose and assuring you that year after year our target will be to deliver top quartile RoE. Having reached here, we will do our very best not to go down. Does that mean difficulties will not come? These three years have seen a lot of disruptions and there will be disruptions in the future too.

Some of these problems will touch us, there is no doubt. Many others, there will be a perception in the market that it is touching us, like it has been till now. But we will try and build strengths across the entire RoE tree to make sure that year-on-year the RoE track is maintained at top quartile. I am saying top quartile, rather than getting into specific number like 18%, 17%, as it depends on that year's performance of the sector.

Slide 12 – Delivering sustainable top quartile RoE

How we will do it? These are the six things that we will work on:

1. **Responsible growth:** especially on products where we believe we have the 'right to win' or can build 'right to win'
2. **Stable NIMs+ Fees**
3. **Continuous improvement in productivity:** We are not talking about reducing expenses. There are certain questions on why expenses have gone up – it has gone up because doing more retail will mean more expenses. As long as the contribution is higher, it's great. So, improving productivity continuously is the focus.
4. **Robust portfolio quality and balance sheet strength:** Portfolio quality means underwriting, monitoring; balance sheet strengthening and making adequate provisions.
5. **Retailisation**
6. **Management of ALM and diversification of liabilities:** We have added it last year; however we were always maintaining the same. In Q3 we had this learning that even though our ALM saved us, but no one was getting funding for at least 20 days. As our entire funding was coming from banks and mutual funds, we learnt that we have to look at diversification and look for other sources of funding.

Now, these are six things that we will work on year-on-year. Some of these things will vary, quarter-on-quarter, even year-on-year. We will try to have optimum values of this and minimize the variability of each one of them. We will try to maintain optimum levels and reduce variability of each of these. But it is possible that there will be years that one of this will vary and hence the combination of these six is important. We will try our best, so that even if one or two of these go awry, we will make it up by the remaining four.

So maybe one of these years, productivity will come down, or asset quality will be slightly worse. It will be foolish of me to absolutely guarantee that each one of this will be rock steady quarter-on-quarter till perpetuity, it is not possible. But that's why it is important that we will work on each of these 6 to make sure that overall RoA and RoE will be maintained at top quartile.

What I will do as we go ahead, is take each one these in two parts. One, establish from our track record that till now we have built the right to talk about each one of this. And then a short plan of how we will manage this in the future.

Slide 14 & 15 – Growth in focused businesses & Market leadership

So first is growth. Talking about growth - products where we have said that it is our core products, we have achieved good growth in the last three years. If you see market share, we were not market leaders in most of the products three years back. Today in many of our products we have ranked among the top-5 in terms of numbers and in profitability in many of them we are actually number #1. It is actually difficult to produce that data because competitor's product wise data I wouldn't have, but you will have your own estimates.

Slide 16 – Future growth drivers

What are going to be the future growth drivers? When I talk about the future, trust me I am not talking about till end of monsoon this year. I am talking about the next five years at least, if not 10 and to perpetuity. So, these are fundamentally the drivers on which we will grow.

1. **Industry growth:** We will choose industry where we are confident that there is a secular growth.
2. **Market share:** Increase or maintain market share but not by taking higher risk. Market share can be gained by differential knowledge and data. For example, you can gain market share by going deeper using data and digital, finding customers who are new to credit as many of them are banked but new to credit and have savings accounts but no credit. That is how we will grow market share without taking additional risk. If you lend more to a person who has already borrowed Rs.80,000 – Rs.1 lakh in micro loan, it will increase market share by taking additional risk. We will differentiate between the two.

3. **Adjacencies:** This is a very important component to manage short-term ups and downs. For example, in tractors, we expect new tractor sales growth will be 0 to negative this year and we are calling it out. Does that mean that our tractor finance disbursement will be negative? We will try not to. And how we will do it? By concentrating on adjacencies like old tractors, refinance, top-up of our good customers to tide over industry slump. That is how in medium to long-term we will use adjacencies to grow.
4. **Cross-sell:** Today we have got upwards of 1.5 Cr customer data points. Till now we have not talked too much about it because we were not confident. We know that the company who uses it extremely well was far ahead of us and it still is. But today we believe that in rural India we have got unmatched database and deep database, which can be used tremendously not only to cross-sell to them but to create very credible look alike so that we can do credible lending to new to credit customers. You have two ways of lending to people who don't have a credit record. One is to use data and create lookalikes based on similar profiles with people with credit record. Or second, just lend and then go and pray. So these are the two ways - we have chosen the first.
5. **New products:** We have talked in one or two sentences about them, I will try and explain a little bit more, but would like to keep most of it to myself because it will be competitive data, that I give out.

Slide 17 – Formulate product-wise strategy

So these are the five pillars on which we will achieve growth. This is how we will use it for our three lending businesses.

Rural: Industry growth - we expect to be fantastic for 5-10 years; Market share - we are very confident of growing; Adjacencies - most amenable to adjacencies; Cross-sell and up-sell - most amenable; New products - can come. In tractors, we have a ~15% market share, I don't want to grow it to 25% and have no ambitions of becoming number 1 in tractors. We believe that when there is a competitor who is a captive, trying to grow bigger than him will just bring more risk and we don't want to do it. We are very happy being number #2, which we will maintain and hence the market share increase will be minimal.

Housing: We will use adjacencies to some extent, which we are already doing; however given that we are small on retail housing, the big push will be on industry growth and market share. There is a lot to do in terms of organic growth and that will remain focus for time being. The market share at this point of time is in decimals and we believe we have got the right business model now. We have got our direct sourcing right, we have got our digital right, most of our home loans happen in less than half an hour, and we believe we can use all of this to increase the market share.

Infrastructure: We will focus on Industry growth and market share. We are only looking at doing that much business which we can sell down; we are not looking at increasing the book other than IDF. So that's how the growth will happen.

New segment of SME: We will talk about it in detail when we launch it. However we will not do it the way it is done generally. Normally SME business loans, MSME loans, everything is loan against property. If we do loan against property, we will call it loan against property, and not SME business.

Slide 18 – Strategic approach towards execution

Industry growth

Micro loans: We will look to go deeper in underpenetrated geographies. In our entire rural branches, which some of you have visited, we are working totally paperless. In the next year (though my IT department carries a much tougher target), we will become completely computer-less. We would like to see no computer in our network. Every business will happen on hand-helds. A person with a mobile will be our fully functional branch and we are close to achieve that. And yes, then we will talk about 15,000-16,000 branches.

Two-wheeler: We believe that changes on account of ABS-CBS and BS-VI are going to increase the prices of two wheelers tremendously. We are taking a bet on finance penetration going up sizeably. It has already gone up from mid 30% 3 years back to ~40% now and we believe it will further go up.

IDF: We have given details in the annexure about investment in IDF. As we go ahead we are looking at growth in operating low-risk projects.

Market Share

Rural: Data-based credit assessment is something that we have almost perfected now. We will use end-to-end digital fulfillment to gain market share even more.

Home loans: Concentrate on direct sourcing. Hopefully, by the end of this year, we will just completely stop DSA sourcing. We are already more than two-thirds direct, starting three years back from zero. So, lots of changes are happening under the hood, which are visible in the results.

Real-estate: Focusing on A-category developers and leveraging the relationship for home loans.

Adjacencies: I have already talked about it.

Cross-sell: Two wheeler and home loans: We have a great database. We'll use that to sell more loans and also non-loan products. The fees that we are getting are coming from selling third-party products.

New Product - SME: We have an advantage in this segment. To clarify, this will not be supply-chain financing, which we have already exited. Supply chain is a specific order to a large manufacturer where the payment is coming from a large manufacturer; there is nothing big there to do credit assessment. We use deep database which the L&T Group has developed, where it sources materials worth Rs.50,000 - 60,000 Cr just for two or three ICs. We believe that given the SME database that we have, coupled with our Data Analytics ability, we will be unmatched.

Are the financials of these people available? Yes, they are. But what is available to me is not available to anybody else. This, in addition to the GST database, their financials, and increasing penetration in credit bureau, I think we will have a good product. The proof of concept is being developed; I wouldn't like to talk about which month, however I am reasonably sure it will be FY20. We will bring out an excellent SME product.

We stayed away from SMEs till now because we believed that it was high risk. Lending just against a property is no different from LAP if we don't know how the SME is really doing the business, which could be harmful. But today, we are sure, based on our database and data analytics ability, we can have a great product. We are looking at new engine of growth through this product for future.

Slide 20 – 'NIMs + Fees' – a key RoA driver

NIMs + Fees: To establish our credentials, these are the nos year by year, however 1st 2 are not comparable with last 2 (FY16 and FY17 nos are under IGAAP whereas FY18 and FY19 are according to IndAS). Broadly speaking, we have maintained excellent levels of NIMs+Fees.

Slide 21 – Broad based fee income composition

The fee income has been tremendously broad-based. Retail businesses like Rural and Housing, just three years back they were giving 28% of the fees, whereas today it is 44% and growing. There were lot of apprehensions about maintaining the fee income - moment public sector banks got capital, it was assumed that they will take away business and when they came under Prompt Corrective Action (PCA), it was assumed that we cannot down-sell. We have not only survived but we have done well in both the conditions.

How that has happened - are we down-selling to public sector banks? Hardly, as some of them are constrained being under PCA and hence we down-sell to other institutions. Most importantly, we have

moved away from underwriting and down-selling only as a source of fees. Cross selling is a big source of fees now as even customers pay higher amount of processing fees when you can do the loan fast.

When you do direct sourcing, you pass on very less or zero fees to the intermediary. For example, in housing, net fee was lower earlier as we were sourcing 100% through DSA vs 30% now. It's not just about numbers but the nature of the fees as well. This is why we believe it will be sustainable. So in terms of products, we established sustainability, and in fees this is where we are coming from.

Slide 22 – Strong sell-down engine

These are sell-down volumes. FY19 is less than FY18, which we are highlighting for past two quarters. To clarify, these are not retail portfolio sales; we have done zero retail portfolio sales. Just as a proof of strength that we have raised enough liabilities. This is infra and real estate sell-down which we do as a business model. These are true sales, getting fees. H2 was way below H1, but still we have sold ~Rs.7,600 Cr in FY19 and we believe that FY20 can be a better year.

We have established a robust platform so that at some point of time if for whatever reason, either for economic or unavailability of funds, even if we have to securitise, we are ready. However my instruction to my team is to securitise retail only to manage risk thresholds. For example, if I have reached a particular state concentration in Rural, I will securitise some of that state portfolio. They're all good portfolios, but to maintain risk threshold, we will securitize it. I have not raised even one rupee from securitisation just because I don't have funding sources and we don't intend to as we go ahead.

Slide 23 – NIMs + Fees – key determinants

Let's talk about future. NIMs will be maintained from

1. Right to win
2. Increased use of data for differential pricing. Earlier what we used to do, if we want to give refinance to a good customer, normally because it's an old tractor you will charge higher yield than for a new tractor. Now, when we will be lending only to our good customers with track record and charge higher for old tractor. Hence there is no question that this product won't succeed. Next question is - why would he take it from you? Today, based on our data we have the ability to price differentially, price intelligently and use that to our NIMs
3. ALM

This will enable us to pass on rate hike to customers.

I have talked about where fee income is going to come from

1. Enhanced cross-sell of third party products
2. Sustainability through diversification of fee income
3. Leverage strong customer database
4. We are also looking at starting with Infra Alternate Investment Funds (AIF), another tool to do more business without putting balance sheet.

Slide 25 - Journey of productivity enhancement

To establish our credentials, we have done several things over the past three years which don't happen normally. Some examples are:

1. CXO reduction from 33 to 12;
2. Tooth-to-tail ratio is branch to head office, completely undergoing a transformation;
3. Leveraging call center field force and payment remittance outlays; and most importantly

4. Using data to increase productivity.

We have merged companies, merged branches, and tried to save money wherever possible. We have put all these savings back into technology and the investment made is now bearing fruit.

Slide 26 – Further enhanced use of data analytics

How do we go ahead?

- 1) By the end of FY20, relevant stakeholders will be geo-tagged. As an example, today our entire attendance is marked by geo-tagging where an individual's mobile phone will tell us whether the person is where he is supposed to be. As people need not be at the branch, they will be in dealer location, customer, etc. This is the beginning and soon the computer will plan the route for each sales and collection individual, which can be monitored centrally leading to higher efficiency.
- 2) Call-center efficiency
- 3) Use of robotics. We are already doing it. For example, getting the RC number, registration number. Earlier, it was a never-ending process as employees have to go and get the RC number, which never used to happen especially when you are doing volumes. Today there are robots picking and downloading RC numbers and checking whether our hypothecation is there. Anything which is automatic, daily and repetitive, is done by robots.

Data-based credit assessment, the next big thing we are working on is behavioral score card. We are talking about long-term (5-10 years) – we are working on it to deliver in next one or two years.

Slide 28 - Robust risk management architecture

Credit cost: This is one place where we have not shown the graph to establish our credentials as we all know how the portfolio has improved year on year. We have emphasized mainly on 2 things:

1. Retail businesses - clearly improved zero DPD
2. Wholesale – provided for our legacy book NPAs

Going forward, the focus is on controlling credit cost.

1. **Conservative underwriting:** We have a very conservative underwriting; we will keep making it more conservative, but lending mistakes may still happen. We are in the business of lending, there were some past mistakes, and there will be some mistakes in future. What is important is whether we have learnt from mistakes and have underwriting tools to minimise the mistakes.
2. **Early warning signals:** The second part is, when do you work on early warning signals? When the customer starts defaulting or before the customers starts defaulting? In our organization; RM, risk department, credit department, collection department have to go through hell if it becomes one-day overdue. Assets do become 1 day overdue, however entire emphasis is on being able to pick up those signals and control the cases going into 1 day overdue. We will not be able to control 100% of those, otherwise there wouldn't be any NPAs, however we will work on minimizing those moving into NPAs.

Do we get the signals today? Yes, for retail through data and for wholesale through project monitoring. Clearly, for real estate and infra we have different levels of early warning signals and based on that clearly measurable project monitoring metrics are there. How close is the project monitoring - it can vary from a visit a month to see how the project is going, to appointing our own chartered accountancy firm to take control of the Trust & Retention Account (TRA) completely, it can vary.

There are projects where every payment that the promoter is making out of TRA is controlled by the chartered accountancy firm that we have appointed. There are projects where our engineer is always there hundred percent of the time and there are projects where we visit once a month – it's a clearly laid-out exercise.

3. Adequate provisions: Last but not the least – Provisioning. This is to make sure that if something escapes from the first two goal posts or goalkeepers, the third goalkeeper will make sure that there are no quarterly shocks. And whichever names that you have heard, we can state confidently that we have not given quarterly shocks.

So let me explain the risk management, underwriting in each of the businesses.

Slide 29

In retail business this is how we do it:

- Integrated multidisciplinary expertise: Our credit assessment starts from our economics department. Our group economics department tells us which areas are good to grow based on data. Which districts are good to grow based on sowing, etc.
- Parameterized underwriting
- Differential funding norms: For example, in tractors we not only do 80% or 90% LTV but also do 50% LTV, which is based on the quality of the tractor, the brand, the models and quality of the borrower. Our LTV can vary from 40% to 90% and we believe that's the right way to do business. Our average LTVs are still below the peers.
- Geography selection
- Portfolio governance: Closely monitor how the portfolio is performing
- Robust collection architecture show how we manage our retail businesses.

Slide 30

Most interesting, big topic, real estate. Tremendous importance is given to the selection of developer. We have clearly defined definition for category of developer - whether it is A, B, C, or D. For example, A, one of the main definitions is that the developer should have delivered minimum of 5 million square feet, and then there are other quantitative as well as qualitative criteria. Risk appetite is defined based on developer category, stage of construction, city and product segment – what combination of risk is acceptable or not is clearly defined. So, for example, if we do a funding in NCR, it will be largely only in late stage, it will be in small-ticket size. We will not do early stage funding in NCR, whereas in Bangalore we may do an early stage funding. In Bangalore, we may look at luxury segment.

So if you see how your portfolio looks

- More than 80% is A category
- More than two-thirds is construction funding, mid to late stage
- We don't do structures like private equity, land funding, inventory funding
- More than two-thirds, in less than 1,300 sq. ft., low-ticket sizes where we believe that if the project is completed it can be sold

In underwriting, major emphasis is on project completion. Is real estate a high-risk product? I would agree. Are we the right people to do? Most definitely, yes. Real estate funding is not a spectator sport. If you just give a cheque and hope that it will come back, trust me I think I am throwing caution to the wind, but most of the time it will not come back, whoever the developer may be.

It is important that you make sure that you are monitoring the project – we make sure that we monitor closely such that project is completed and sold. There are times that we have taken over the management of the project, to the vendors' payment, we have appointed our sole selling agents to sell products at 10%, 20%, 25% discount, to make sure that particular sales velocity continues. I don't know whether other financiers did this, but we actually had the confidence of taking some of you to Supertech site, forget anybody else. Of course, all of you will draw your own conclusions based on that, but the most important thing is that we did it.

Slide 31 – Risk guardrails – Infrastructure finance

For Infrastructure and Real estate, we have learnt from the best in the business i.e, L&T. Here, we decide which sectors to choose, how we manage stakeholders' risk, not only the promoter's, but also the SEBs that the power is going to and then the project-level risk. This has kept our current infra portfolio at zero DPD. Whatever issues we had were only in the pre-2012 portfolio. Our portfolio in solar, wind, roads and transmission is at zero DPD and it has not happened by accident. We believe that we are the best in the business.

Slide 32 – Early warning signals – a facilitator to '0 DPD'

We have triggers and flags to manage early warning signals. What is the difference between a trigger and a flag? When a trigger is activated you just act immediately, you don't think. And when a flag is activated, there is a process of thinking. So customer behavior, portfolio trends, operational risk events are triggers, where you immediately get into action. Where you act immediately, it is like a stop-loss. Whereas sectoral outlook and government policies, the think-tank gets together. These are the early warning signals that we have maintained.

Slide 33 – Macro – prudential provisions

Last but not the least, the macro prudential. It is sometimes misunderstood that I am creating this because I am expecting trouble.

Macro prudential is basically being humble, realizing that there will be event risks. Since we are talking about perpetuity, if we just talk about 5-10 years, there will be event risks which cannot be modeled, because under IndAS we have to model everything and take provisions accordingly. And hence taking provision for that when the profitability is good and using that when it is required.

We have created close to Rs.350 Cr this year and we have got our Board approval to create up to 1.25% of the book. At this point in time, there is no defined timeline for creating this. This is capability-based provisioning. When we are capable, we will provide.

Let me talk about my overall provisioning levels. There are a lot of people who ask: if suddenly something happens in microfinance, what will happen? Let me explain a few things. Today, we carry provision of ~Rs.530 Cr. on my Rural portfolio. Further, I have Rs 260 Cr of macro-prudential provisions in Rural plus my opening book in rural is ~Rs.25,000 Cr. At ~4% credit cost (Rs 1,000 Cr), I still make current RoE. That means I have a kitty of Rs.1,260 Cr to provide for any problems in addition to the ~Rs.530 Cr already provided in Rural. Trust me, we're unlikely to have a problem of ~Rs1,800 Cr Good companies which are looking at continuous profitability will provide for it. Similarly, in Wholesale, we believe we are provided fully, plus we are making Rs.400 Cr provisions per year. Will we need more than that? Maybe, who knows. Is it probable? I don't think so. We will be well provided and that's the whole idea.

Slide 35 – Increasing Retailisation

Earlier there were worries that we were largely infra. Interestingly, even today people talk about that sometimes. But naturally when we start with 60% Wholesale, it cannot reduce drastically immediately, we are a company in transition. We believe that infra is our core business, but 60% was large, we will be very happy if we reach between 30% - 35% in each of the businesses. That is true diversification, and we will move there.

Slide 36 – Calibrated approach towards retailisation

How have we done that? Very clearly, a calibrated approach on rural and housing. I have talked about each one of them. We're confident that this move to retailisation because of our product strategies is a sustainable

move. It is not just something that we show only at the end of the quarter. Very clearly the plan is growth in rural and housing and in wholesale doing a lot of business, but at the same time having the discipline of not giving capital to it and selling down. The business is very clear, you can do business as much as it can sell. With that discipline, we keep increasing retailisation.

Slide 38 – Prudent ALM

These are slides updated for the quarter. For the past two years we have maintained positive liquidity gap, implying that we have never funded long-term assets by short-term liabilities. We will never be in a problem whether our repayments can be done or not. In the worst-case scenario, growth may be in question, but never repayment, never survival. Yellow part is our outflows and the blue one is our inflows and you will see that at all times the inflows will be higher than outflows, for one year.

Let's look at interest rate gap. The interest rate gap meaning, how much of your assets are re-priceable. Even if you have the pricing ability, if your assets are not coming up for re-pricing what will you do? Our balance sheet is structured such that our assets which are re-priceable are always more than the new liabilities or re-priceable liabilities. This has actually helped us in past 2 difficult quarters to maintain and increase NIMs.

Slide 39 – Leading to well managed liability cost

We had given clear guidance on the interest cost and we are very proud to say that in the past two quarters when the world went crazy our interest cost has gone up by only 20 basis points. It wouldn't have gone up so much if we hadn't raised retail liabilities towards the end of March, it would have perhaps been 2-3 bp lower, but we will talk about that in a minute.

Most importantly, in the second half when there was a lot of talk about Mutual Funds stopping funding to NBFCs, we actually raised ~Rs.43,000 Cr in market instruments in the second half.

Slide 40 – Maintain prudent ALM & diversify liabilities

So, going ahead there will be two things:

1. Prudent ALM - Maintaining positive gaps upto 1yr as well as for 1 month in '1 in 10' stress scenario. I will explain the stress scenario: If we cut our inflows, take away some of the bank lines and do the stress scenario, even then we will maintain one-month liquidity. So anytime you will see a Rs.3,000 - 5,000 Cr cash and cash equivalents in the balance sheet.
2. Q3 and Q4 have taught us that we cannot remain only dependent on banks and mutual funds, even though we have been able to raise funds.

Because the following things are happening:

- Potential tougher regulatory norms for NBFCs
- Banks and mutual funds have reached NBFC limits
- There are Group limits. Currently, I wonder what banks will do if they cannot lend more to groups like L&T, Tata, Birla, Bajaj, etc. All these groups have NBFCs. We will cross that bridge when it comes.

At this point of time we are preparing through diversification. We are the only NBFC which did two retail issues within the past two months and both were oversubscribed on day one; with 2nd issue 30 bps lower than the 1st. We have also raised more than Rs.1,000 Cr from IFC Washington, which is a World Bank Group, and we're in talks for more. These are very important factors, because IFC Washington will lend only after doing complete due diligence of the portfolio.

So, one can worry about specific assets or trust some institutions due diligence. There are some very positives which have come out of the liquidity crunch - the largest public sector bank wrote a cheque of ~Rs.5,000 Cr to us and did a complete due diligence of our book for that as ~Rs.5,000 Cr is huge amount.

IFC Washington, it is not just any other private equity, it is an international institution of repute. They have done complete due diligence on our book and this is just the beginning, ~Rs.1,100 Cr, we are doing more with them.

Slide 41 – FY20 and beyond

With that let me come to the last slide that I am going to present today and say what we are calling this whole thing. You know I have always coined terms, talked about some of them. I always have this one method, very effective method of giving targets to my team that I normally go on national television and announce that this is what we are going to do this year, or in an analyst meet like this.

Trust me, there is no better motivation for the senior team to then deliver. This time we have done the reverse, 'Assurance' is a theme which is reverberating with each of our teams. In business - product strength, productivity, governance - even a small thing which can go off the radar- and compliance... In every aspect we are looking at no surprises. Internally the target is zero surprise. That's what I am assuring you today.

Yes, there can be one or two surprises here and there, but overall, as I said, we will try and minimize the variability of each of these six things. And definitely reduce, minimize the variability of the combination of these six. Thus giving the assurance of sustainable top-quartile RoE to our shareholders.

Question & Answers

Alok Agarwal: The last six months, I mean, lot of people focused, okay its important, but to me it is a liability side crisis essentially. I am glad that you are focused on RoE, for me wealth creation is a function of RoE plus growth. I mean, as the scale grows bigger from let's say Rs.98,000 Cr to Rs.2 lakh Cr over next three, four years, one of this kind of a crises.... At Rs.98,000 Cr you could manage and growth could slow down, my worry is that Rs.2 lakh Cr if this kind of a crises occurs, liabilities side will be extremely difficult to manage. And, again at that point of time I may not be worried about the asset side, but growth may be seriously compromised. So, my worry is, if I look five years into the future, the way you are looking at, if another crises occurs growth may again be compromised. So what is your take on the liability side? How are you going to manage that over next five years, not just next quarter or two?

Dinanath Dubhashi: Great. If you are talking about the sector as such, I agree. About us, I would like to correct some facts: first, our growth is not compromised. Overall growth, yes, but that's because of the strategy, strategy of de-prioritizing some of the businesses. So, as I said, this 17% is just summation, whereas the good businesses have grown. Having said that, I will answer your question. There are many ways to answer your question, it is an excellent question. I will say that few years back people asked the same question to various companies that what will you do when you make Rs.1 lakh Cr from Rs.50,000 Cr. So, markets do expand, when you are talking about 5 years, 10 years there is a particular trust that you should have on financial services. Five years back we wouldn't have such a large gathering for analysts, 10 years back there will be nobody. So, markets do expand and absorb some of it. Having said that, can we just depend on that hope? We certainly cannot, we have to prepare. There are various ways of preparing. The first is of course there will be a secular growth in bank funding, in mutual fund funding, etc. As I said diversification, directly going to retail is a big one. We have just made a beginning; within the past two months we have raised ~Rs.2,500 Cr which is ~2.5 % of the balance sheet, it is no joke. We have got internal targets as to how much should be retail, I am not going to tell them now. But yes, a substantial part of our balance sheet will be retail. It will be costlier than wholesale, no doubt, but the businesses will build that strength to make money over that. Retail money will always be steadier than the wholesale money.

The second answer is, going international where the crisis will not touch. So long-term money internationally, like IFC Washington, our name was there in raising ECBs and masala bonds, etc. I am not going to deny any one of them. I just don't want to comment on the timing. But yes, obviously we are a leading NBFC, we will be at the forefront in raising money internationally.

Third, there will be tools like AIF, etc. Your balance sheet is not the only way in which you can generate income and grow, and there are other structures.

Last but not least, one big tool which everybody has just looked at already, we have kept it in our pockets till now, which is the securitization of retail. If after all this there is some difficulty, that tool is always there. Absolute top quality retail portfolio, any emergency we can use that either as a tactic or as a strategy. That answers it, right? You were talking outside with me, so I will take that question, that - is becoming a bank a solution? Frankly, I don't know, and at this point of time it is not my decision. Under the current extant laws of the country, either I have to be L&T or I have to be a bank. At this point of time our clear choice is being L&T. Till you are an industrial group you don't get a licence. What cannot happen why to think about it.

Participant: Sir, my first question is with regards to the disbursements. So, okay, your loan book per say would have grown 16%, 17%. And as you have rightly pointed out, the key businesses have grown. But disbursements for the quarter have come down significantly.

Dinanath Dubhashi: Against Q3?

Participant: Exactly. So, my question is, how much was it strategy driven to conserve your cash in the quarter and how much was it market led?

Dinanath Dubhashi: Very good question. I can easily answer the second part of the question. In our core businesses cash will never be a constraint. And that is the difference that even in Q3, forget Q4, Q4 was far easy compared to Q3. Even in Q3 the core business, we were very clear, if there is business to be done, cash will not be a constraint, treasury clearly ensured that. And we said, the non-core businesses that we were not pushing hard will get zero cash. So, it was managing this strategically which helped us. Q4 to Q3 I can answer that simplistically, though the answer is a little more nuanced, Q3 is always the season for rural business and this time Dussera / Navratri and Diwali all came in Q3. So Q3 was a huge growth. So my request will be not to draw conclusions out of Q3, Q4. Yes, you can draw conclusions on year-on-year growth.

Participant: Actually, year-on-year also there has been a drop, especially in your rural business. The follow-on question is, have the momentum returned back? You are already starting May of the next quarter, so what is experience till now?

Dinanath Dubhashi: So, factually no, it has been a huge positive growth in disbursement year-on-year. Now, for the next year, the rate of positive growth will definitely come down. Just mathematically when the book grows from Rs.7,000 Cr to Rs.25,000 Cr (3x), there will be higher growth. From Rs.25,000 Cr it cannot become another 3x to Rs.75,000 in 3 years. Even a 20% book growth from this time will be ~Rs.5,000 Cr. It is huge. This quarter my profit growth was 94%, next year I am not going to guide you to how much, but it will be a fraction of that, that's obvious. In terms of question of slowdown - Just think of a plane, when you go from 9% to 18% what is the profit growth required. And when you remain at top quartile what will be the profit growth required. So take it in that context, our growth rates in top-line and in profit, in some of these businesses are going to be lower than what we showed in FY19. But the easiest way to answer that is that the base is much higher. And profit, we are already at a level where we want to be. So, a plane, for example, the thrust that it has while taking off is much higher than when it is cruising. In fact we are now looking forward to establishing that we are in cruise mode. But as we want to establish cruise mode, we cannot show escape velocity any more.

Participant: On the rural business what is really leading the fee income growth there, because fee income I see has gone up from ~0.7% in FY18 to ~1.7%.

Dinanath Dubhashi: Three factors actually. First is cross-selling, cross-selling of third-party products more than internal products. The second is giving such service to the customer, at such a speed that they are ready to part with more processing fees. And third is giving such volumes to dealers that will we have to part less of finder fee to the dealer. So that's all three acting to increase the fees.

Participant: And on housing finance business?

Dinanath Dubhashi: Very similar. Housing finance business when you do DSAs, the net fee will be very low.

Participant: No, my question on housing finance business is, if the average ticket size on home loans is Rs.40 lakhs, what is the right to win there? If you are targeting salaried customers that even banks are targeting, what is your right to win?

Dinanath Dubhashi: We are still building the Right to Win. The Right to Win is knowing the project so well that one part of the assessment for retail is already done. So, I am only doing individuals's credit assessment with database and IT involved, I take much less time. For example, when I am funding two apartments in a particular building then I have to see whether it is garden-facing, pool-facing, some other construction facing – based on that we do the valuation. It is very subjective, it takes time. When I do lending to a project that I have studied in detail, the value is already in my database. So, that just increases the speed tremendously. ~99 percentile of our home loans are done within 30 minutes and that clearly builds our right to win. Of course, there is HDFC, there is SBI who will do maybe not faster than us but more people will go there. But

yes, we are far away from competing with them. Right now, we do ~Rs.1,000 Cr a quarter, and if we do ~Rs.2,000 Cr a quarter we will be still small but we will be very happy. It is not tractors where we are already at 15%. Here, small changes in right to win will get us big growth. You know, it is exactly opposite to what I answered the previous participant: here the volumes are so low that small improvements can give us big growth.

Participant: Just a macro question on inorganic growth. It seems like the promoter is deciding what is to be acquired for some of the subsidiaries, that's the kind of feedback we get. What are your thoughts on inorganic acquisition?

Dinanath Dubhashi: Good question. You are right that lots of things are up for sale. I have a strategy department which is very busy. But there are two things that are very important. First of all, I am by nature a miser. Very simply, first, the business that comes to us should be within our core area or areas where we believe we should grow. We will not buy it, just because it is cheap. It should be the business that we like. And if it is a business that we like then we will not buy it unless it is cheap. So, why would I pay more than my valuation to anybody unless and until I believe that they are adding tremendous amount of value? There are about three-four companies which I believe are better than me, which are not available for sale. Whatever is available I don't think it is as good as us.

Participant: Correct. So assuming that it does fit into your business and assuming that it is cheap, are you size agnostic, would you be open to acquire a very large...

Dinanath Dubhashi: Let me, without taking the name, answer. If a 10 percent stake in a large company is available, I will not take it, it doesn't make sense. People have tried that before, it doesn't work. That is number one. Number two, if a very large company is available with a very different thinking, then how do we look at this? We are by nature a company that believes in centralised credit, computerised credit and totally human-free interactions. Humans should be interacting only to close the business and close collection. The rest will be done by the computer. There will be companies that believe in hiring lot on the ground. So, the employees of a branch must be local people who know the local markets. It is so different from our DNA. Maybe if we take over a small company like that, we will be able to adjust it. But a big company, we will not be able to adjust. And if we take over that model only to change the model, why to pay value in the first place? At this point of time, unless and until the promoters' expectations about their companies fall drastically, I don't see a chance.

Shweta Daptardar: Sir, thank you for the detailed presentation. Two questions. One, the retail side we are growing clearly, we are adding new products. So how is the synergy or interactions between existing and new businesses in terms of geographic entrenchment or customer profile mapping, so that the end result is the outcome in terms of better efficiencies or cross-selling?

Dinanath Dubhashi: There will be products where the same team can sell, like I talked about adjacencies. Those adjacencies the same team can sell. Like somebody who is funding a new tractor largely can fund the old tractor, can do refinance, etc. But can the same team do rural SME? This doesn't happen. Generally speaking, a completely new product will mean completely different people. Geography, however, can be a synergy, not because of cost saving but because of knowledge and data. So it is natural that for a new product we will perhaps go there. For example, SME I told you, our strength is going to be L&T data, which will be very geography-agnostic to our current ones. But will I go and start an old tractor in a geography where my new tractor is not there? Unlikely.

Shweta Daptardar: So, two wheelers we focus more on the semi-urban side, right. Micro loans could be rural. So then how is the spread and synergies built up there?

Dinanath Dubhashi: There are no synergies and despite that we make good profits. Between two-wheeler and micro loan there is zero synergy, other than the fact that both are looked after by the same Chief Executive.

Shweta Daptardar: So, as we add products like consumer loans and more so on the retail side, then how would the mapping happen? And how would that translate into?

Dinanath Dubhashi: The synergy of people is not a consideration for the mapping. I will not do another product in the same geography just because I have people. The database should show that there is a market there and I can do business usefully there. I don't mind putting in place a separate team.

Sunil Prabhune: One way you would look at synergy which is different from the cookie-cutter answer that you typically get is that if we are looking at a business like consumer loan, the biggest synergy we have - is experience in doing parameterized credit in an STP mode where there is zero deviation, zero exception and the value proposition of 30 seconds of turnaround. That's our biggest synergy.

One more synergy we have is a collection model predicated on the assumption of zero DPD. That is a huge synergy. So will I have to change my credit thinking? Answer is no. Do I have to develop very different analytics muscle? Answer is, no. Do I have to change the way risk framework takes place? Answer is, absolutely no. Do I need to create a collection architecture which is fundamentally different? No. These are the synergies. Will the same person do multiple things? No - if I have a tractor sales person, he is based in a dealership, he can't go chasing after a customer outside of a dealership. I hope this is a useful answer. Thank you.

Participant: So clearly wholesale is 35% percent of our fee income and it remains there. Going forward, so incrementally, now that we are foraying into a little challenging environment, so incrementally which are businesses besides IDF under wholesale which you would be focusing on and maintaining that kind of NIMs?

Dinanath Dubhashi: The first is that our focus will continue to be on the infra- renewable, roads, transmission, operating roads. But within IDF or L&T Infra - operating projects. We believe there is good growth in this. By challenging environment, perhaps you mean the sell-down part. That is number one. So the rule here is that capital is available for IDF i.e. we will grow the book, whereas non-IDF infra we will not grow the book. We will use sell-down machinery to do a lot of business, do underwriting, get the underwriting advisory fees and sell down. Other businesses - like we used to do structured finance, non-infra - we believe that in the corporate world we understand infra, we don't understand non-infra and more importantly, we can't control it. One of the important things is project monitoring. We reached the conclusion that if you give loans against shares, if you give structured finance, the best frequency you can monitor is on quarterly results. Other than daily share price movement and selling, you can't do anything, and we are very proud that we exited the ADAG exposure completely, but trust me, we were sweating. And there are many people who are stuck. So very clearly, that is something that is totally deprioritised, we will not do it. We will concentrate on infra. As far as capital allocation is concerned, it will go to IDF more and L&T Infra. But the business done by both is largely the same, except for IDF where projects are totally operational.

Participant: If you could throw a little more color on pricing power in the two wheeler, tractor and MFI segment.

Sunil Prabhune: Let me try and answer that question, not just in the context of NIMs but in the context of answer which is NIMs and fees. As Mr. Dubhashi mentioned earlier in his presentation, what has moved for us over a period of time is our ability to command not just that particular yield that we are looking for but also a combination of yield and fees. You will agree with me that if I were to charge a yield which is out of line with what is prevailing in the market, I would do so only by assuming extra risk. The only way I can make a sustainable proposition is if I look at maximising my yield plus fees for the acceptable risk profile. So, if you see the major increment that has happened for Rural has been in the area of fees and not necessarily

earnings. But you will agree with me that that also requires pricing power. The methods have been three, which have been outlined already.

- One is that we are leveraging our database far better than what we were before. Roughly speaking, if our product penetration before was at about 1.7x the customers that we have, it is now 2.7x. We are humble enough to acknowledge that 2.7x is not the greatest number that you can get, we can do far better. And our intention will be to do far better going forward.
- Second, our ability to carry out a value proposition which has wide customer appeal allows us to do two things. One, get subvention from manufacturers, which is true both on the tractor and on the two-wheeler sides. And second, it allows us not to play the payout game with the dealers. We can do business with lower payouts that translates into higher net processing fees.
- Third, our value proposition of TAT. My final consumer for certainty of a rapid sanction is willing to part with a higher processing fee.

Participant: I had another question. We have around Rs.19,000 Cr of exposure to the renewable sector. If you could throw some light on what is the nature of the exposure? And is any of it is guaranteed by any Government agencies?

Shiva Rajaraman: Renewable energy, let me divide it into solar and wind separately. In solar you have projects in Gujarat. In the initial round of bids projects were guaranteed by Gujarat government entities, as per the power purchase agreement. We also have projects that are guaranteed partially by India Infrastructure Finance Company Limited (IIFCL) which is a Government-owned company. Then you have government supported projects which come under the National Solar Mission. Here, the off-takers are either NTPC or SECI, which are both owned by the Government of India and have an excellent credit track record. The Union Budget, I don't know whether you are aware, has set aside greater than Rs.440 Cr some years back to support projects which are under National Solar Mission and the amount has never been utilized till date. So these are the focus areas for us. Apart from that, we focus on about five different states, DISCOMs in five different states that are off-takers. Our analysis suggests that these five DISCOMs are good because we have done a demand-supply estimate and we find that curtailment in these states is unlikely, one, because transmission equipment is available, transmission capacity is sufficient. Second, the pricing that we look at in our financial models is the Average Power Purchase Cost (APPC) pricing rather than the pricing as per the power purchase agreement, which means that we size our debt based on a lower tariff rather than the contracted tariff. I think this would give you an idea as to our focus areas.

Participant: My question is on your IDF, you are growing that book. Can you tell us what are the various assets that you have in the IDF? Because that is eventually entirely funded by you.

Dinanath Dubhashi: Various types of assets you mean?

Participant: Yes. I mean, also on NPAs.... So these are all operational assets as you were saying so...

Shiva Rajaraman: I will give a profile. Obviously, we don't get into the names of individual assets. We have around ~Rs.8,000 Cr, ~94 projects in the portfolio. These 94 projects are largely renewable, roads and a small percentage coming from transmission. When I say renewables, it is not one sector, it's solar plus wind. Again, the focus is on National Solar Mission projects for solar and some solar projects in Gujarat which are guaranteed. For wind, again, those five states that I specifically mentioned, those are the focus areas. In wind, we also focus on projects which are guaranteed by IIFCL. In roads, all of our projects are guaranteed 100% by either the National Highway Authority of India or the Jharkhand Government or Madhya Pradesh Road Development Corporation, and all these off-takers have an excellent track record with respect to honouring their guarantees and making payments thereof. The other aspect is that our average number of years of operations of the projects is four years against RBI's regulation of at least one year of satisfactory operations. Regulator has defined the word satisfactory to imply that these projects should not have been restructured in the last one year, they should not be NPAs and they should have had a consistent cash

collection record throughout the period, except for maintenance. I think this will give you an idea of the portfolio.

Dinanath Dubhashi: And on top of it, the further growth equity now is coming from the partner, the 25% stake is partly primary and partly secondary. We will give you all the details once we close the transaction. So it will be partly growth equity and partly profit to be booked by us. And most probably, we will just keep aside the profit and we will increase our provision coverage.

Participant: Can you give us some color on the developer loan book? I mean one is, what's the total size, irrespective of your internal classification, because there are some reports that some developer loans you have classified as retail loans or something like that? Second is, if you can give us some sense on the color of that, because we are also hearing that a lot of developers are no more getting disbursements from a lot of other NBFCs, I mean, CREDAI has written one big letter and all of that. So how are our projects, at what stage, some color? And how are we protected?

Dinanath Dubhashi: First is, are we classifying something wrongly? Second, is our provision coverage enough on many of these things? We are under IndAS, and under IndAS, the classification, etc. is based on what the management believes. So it all comes to whether people trust L&T and this management. Beyond that what can I say? If you believe that L&T management and L&T company can classify something some different way, okay. I am telling you I am proud of my real estate exposure, I am proud of my real estate business. We have a total exposure of ~Rs.15,000 Cr now; another Rs.400 Cr – Rs.500 Cr, why would I put it as retail? If I say Rs.15,000 Cr proudly, I will say Rs.15,500 Cr proudly. So the starting point is that you need to trust us. Since it is a management estimate, I believe what we have provided is enough. If I provide less than what I believe is enough, then my integrity is under question. I hope we are not discussing that.

Participant: It is more to do with the headwinds in the sector.

Dinanath Dubhashi: Exactly. So first of all, classification question is just out of purview. There is no chance that any of us will even think of doing that. Number two, considering the headwinds, provision on something which is not GS3, I can't provide. What do you provide if there is nothing? And that is why we have brought this macro prudential, that yes, we do recognize there are headwinds in the sector. Yes, we have done the best of underwriting, we are doing the best of monitoring, especially when something comes under early warning, the first stage, second stage, third stage. And there we have very clear plans of action. So, first of all, the asset coverage or the cash flow coverage of that project itself is very good. Secondly, It is not that when we give a loan to a developer for a project, we only take that project as security. Supertech, for example, our core way of getting money back is - completing our projects. There are other ways, we hold some other assets as well. Second question is more important. 93% of my projects, exactly 93% are sole funded by me. It is well within my capacity to complete the project. The remaining 7%, it is me and institutions like HDFC. We do not have anything with institutions in trouble or ones with funding constraints - Not one project.

Participant: Sir, a couple of years back, your cost of liability was around 9%, the cost of equity, as I assume, should be around 14% to 16%, so effectively your cost of capital was 9.75%. And you have given loans to IL&FS at 10%, which has become Amber. So at 0.25% margin if you do business, then obviously you will not get good values.

Dinanath Dubhashi: But that is not the whole book.

Participant: But marginally if you are doing business at 0.25% margin, obviously people are not going to give you that. People who get high valuations of 4x, 5x, look at their differential.

Dinanath Dubhashi: You have a very important point. I am not here to teach you or to tell you what is the valuation I should get, that is your business. I am only saying that these are old loans. At that point of time what was the interest cost, the decisions taken at that time.... Right now, as I explained, are we doing the

right business? Because one more thing about valuation, which I know is a sunk cost is sunk cost, we always talk about the future. And history you take it only as an indication of the future. And that is why we are trying to explain how we are concentrating on high sustainable RoA businesses going ahead. Valuation, again, I don't understand; I understand business. And I understand that high NIM products are not necessarily good business. Good NIMs with good fees, manageable expenses and then low credit cost is good business. And what we are talking about is taking small steps, yearly steps.

Moderator: Thank you very much. I think in the interest of time we can take these questions with the Investor Relations team and Mr. Dinanath Dubhashi here outside. Thank you, sir.

Dinanath Dubhashi: To conclude, I am showing this slide again (slide 41) with two purposes:

1. We have to reiterate: this is going to be our strategy going ahead. Assurance, as Sir there rightly said, companies which deliver this RoE year-after-year get the value. Yes, definitely, if not for value but to give that Assurance to shareholders, this is going to be our strategy.
2. At the same time, we also believe that to be truly sustainable, it was not enough to give value only to shareholders, it is equally enough to give value to all the stakeholders - be it customers, be it employees, be it environment, regulators, government, everybody.

We truly believe that every business that we do is an ESG-compliant business. It is Environment, Social, Governance - in each one of these, we would like to again establish our credentials. And year-on-year show sustainability not only on RoE, but on each one of them.

With that in mind, we are launching our first sustainability report. As we speak, this has been reviewed by one of the Big Fours. And like many good companies, we are showcasing our ESG compatibility. The IP address is on your table. In the spirit of sustainability, we have not printed the report. Please be kind enough, download it, go through it, we are very happy to establish, to show and to take the responsibility of maintaining that as we go ahead we will not only deliver sustainable value to the shareholders but to all stakeholders in a truly ESG value added way.

Link for accessing investor presentation and sustainability report – <https://www.ltf.com/investors.html>

Thank you very much for your very, very good questions, deep questions. Hope you have been satisfied with our answers. More importantly, hope that you believe now little more than before that we will be able to deliver this RoE year after year after year, after delivering it this year, after seeing some interesting years last few years.

Thank you very much.

*Since the transcript has been derived from a voice recording tool, necessary corrections have been made to remove anomalies as well as manifest but inconsequential factual discrepancies which would have unintentionally crept in, if any