

L&T Finance Holdings Limited
Q2-FY19 Earnings Conference Call Transcript
October 25, 2018

Moderator Good day, ladies and gentlemen and welcome to the Q2 FY19 Earnings Conference Call of L&T Finance Holdings Limited. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. I now hand the conference over to Mr. Shiv Muttoo from CDR India. Thank you and over to you Sir.

Shiv Muttoo Thank you, Margaret. Good morning everyone and thank you for joining us today for L&T Finance Holdings Q2 FY19 earnings conference call. We have with us today Mr. Dinanath Dubhashi – Managing Director and CEO and other members of the senior management team.

Before we proceed, as a standard disclaimer, some of the statements made on this call may be forward looking in nature and a note to that effect is provided in the Q2 results presentation sent out to you earlier. I would now like to invite Mr. Dinanath Dubhashi to share his thoughts on the Company's performance and the strategies going forward. Over to you Sir.

Dinanath Dubhashi: Thank you, Shiv. Dear all, thank you and welcome to the Investor and Analyst Call for the Q2 Results. Let me start, first of all, by expressing our happiness at posting good results in a time of widespread turmoil, news, rumours in the NBFC sector and also expressing our confidence that we will continue to do so in the times to come. Over the last 10 quarters, we have tried to build a resilient business model. We have shown steadily improving performance, quarter after quarter, for the last ten quarters. We have stuck to our business basics of choosing the right product mix, improving competitive advantages in each one of them, thus increasing market share also slowly, thereby improving our NIMs, NIMs plus fees, keeping costs under tight control and most importantly continuously improving asset quality and thus reducing our credit costs.

In addition to this, we have also completed the provision requirement on our legacy infra-portfolio, increased provision coverage on overall GS3 substantially, continuously from last year last quarter based on our ECL models and in addition to that, started building a macro-prudential provision to buttress counter cyclicity. With all these levers falling in place, we have delivered 18% RoE in Q1 of FY19 and have followed it up by another 18% RoE performance in Q2 FY19 as well. I hope that you will all agree that along with the good performance, we have also set a standard with the transparency with which we communicate our results. There is a lot of talk right now about various difficulties for the NBFC sector over the last few months and more particularly over the last month. While I always believe that rumours can't be fought with news, it is important that every company sets a standard for the transparency with which it communicates. While we acknowledge that many of these issues are real, we firmly believe that LTFH, through the strength of its business model, strong risk management framework and its Group

pedigree, will continue on its journey of posting excellent results despite these issues in the market.

Over our journey of the last 10 quarters, we have faced at least one strong headwind almost every quarter. In fact, we have put it all out in our presentation just to say that it is not the first time that we are facing difficulty. Across this 10 quarters journey, where we have continuously improved our performance, we have faced some headwind or the other. Each of these headwinds was met by us with two-pronged response- one, immediate actions taken to minimize any negative results of the headwind and two, more importantly, using the learning to further strengthen our business model. The presentation we have uploaded lists some of the more important headwinds that we have faced over the last two years or so. Demonetization, Farm loans waiver, RERA, GST implementation, accelerated crystallization of losses due to IBC and NCLT and last but not the least, the implementation of Ind AS were by no means lesser events, than what everybody is talking about today. We are proud to state that we emerged out of each of these events with better performance and more importantly with learnings to further strengthen our way of doing business. We hope that we have established now a track record of not taking any headwind lying down helplessly but taking it in our stride and continuing our performance record.

Let me now deal with some of the headwinds that the overall sector has faced during Q2 FY19, maybe facing even now and our position or response to the same. Two of these were systemic issues, namely Kerala deluge (Micro Loans) and the prevailing liquidity conditions in the market. Two others, i.e. IL&FS default and rumours, news, etc. of default on certain instruments of Supertech are about specific companies. I would not normally comment on specific company's exposures etc., but I think that in today's scenario where rumours and speculation seem to get much more air waves than actual facts, it is extremely important that we transparently communicate the details of our exposures to these and more importantly give you the confidence that these will not affect our profitability journey.

Let me now deal with each one of these. Number 1- Kerala deluge (Micro Loans). We have a total exposure of about Rs.800 Cr in Kerala and about Rs.550 Cr in the districts which were affected by the flood. While the situation on the ground was extremely tough, we resisted two responses which perhaps some of our peers gave into- one, declaring a collection holiday for August and even September, second, giving emergency personal loans to take care of their outstanding payments. We believe that such responses cause long-term damage to payment culture and we will never take this route. Instead, there were no collection holidays, there were no emergency loans. What we did instead immediately after 8th of August was - we made sure that we reach out first to our staff and then to our customers making sure that they are safe. We reached our customers in worst affected areas through our call centers to check their well-being. We made sure through our CSR effort that relief material was reached to our worst affected customers directly through our staff and then once we were sure that situation was getting little back to normal, collection efforts continued albeit in a very humanitarian manner. As a result, collection efficiency for September, for August you know that our collections are 1st to 10th, this deluge happened on 8th night, so August was largely okay. The standard was September and the collection efficiency for September crossed 92% and that of October has crossed 98%. More importantly, 79% of the customer who missed payments in September have already paid at least one EMI in October. Today, we can confidently state that we will not have any material losses in our Kerala portfolio.

Let us come now to the IL&FS default issue. This topic has been discussed extensively in the media initially with lots of confusion, lots of misunderstandings

about IL&FS group. I would like to make few things very clear. **I would like to state clearly that LTFH or any of its companies has NIL exposure to the entities which have defaulted i.e. IL&FS - the Core Investment Company (CIC), the holding company and IL&FS Financial Services Limited (IFIN) - the NBFC. We also have NIL exposure to IL&FS Transportation Networks Limited (ITNL) which is the infrastructure development company of IL&FS group. Our entire exposure of Rs.1,800 Cr is to road SPVs.** Out of this, Rs.1,700 Cr is to operating projects and just about Rs.100 Cr is to a project which is already complete and has applied for Commercial Operations Date (COD). We expect very soon operationalization after getting the COD. The overall exposure is over 4 annuity and 2 toll projects where there is a toll record of 3 and 10 years respectively. The actual traffic as well as more importantly the current topic of discussion, the O&M expenses meet projections and in future too, very conservative traffic growth projections have been considered. There is no further equity which is expected from IL&FS, in fact through direct guarantees to IDF and through termination payments guarantees in the concession agreement more than 80% of the exposure is guaranteed by the Government. **Each of these projects is completely ring-fenced and secured through watertight escrow accounts on which we have a lien.**

Last but not the least these projects already have Debt Service Reserve Account (DSRA) and other reserves like major repairs etc. amounting to ~ Rs. 450 Cr which are in our control. **Just to state all our debt servicing is completely current and hence we can categorically state that we will not suffer any loss from any of these exposures.** Also, all these projects are actually equity positive and hence likely to be sold first once the process begins of selling off the projects. This will likely result in actually refinancing of the debt and perhaps in the normal optimistic win some fee-earning opportunities for us, but that is the future. Right now, let me again categorically state that because of the way we have firmly controlled these projects, the stage of these projects, **we are not only current, we do not expect a single rupee of loss from these projects**

Let us talk about Supertech. Supertech downgrade to D. I would not call it a Supertech default because according to our information actually there is no default, but that's according to our information. What we know is that certain instruments have been downgraded to D by the rating agencies. But why Supertech? Many names of developers have been doing the rounds regarding them being in trouble. I have with me a few names in this context and we do not have any exposure to most of these names.

Construction funding is an important and core business for us as we have the advantage of differential knowledge of various developers, projects, micro markets and more importantly the monitoring mechanisms due to L&T Group synergy. Our business model focuses mainly on category A developers and also low and mid-level projects which we believe has less cyclical demand. We lend primarily construction finance at project level at mid and late stage. Normally speaking, we are the sole lender to projects and thus have full control on project cash flow, security and most importantly, our ability to push the developer to take corrective action if things are going bad. We also carry out independent technical evaluation to make sure that the status of various statutory operations of the projects and more accurately assess the project cost. This is ably supported by strong site level monitoring and early warning signal mechanisms.

Now specifically talking about Supertech, we have a construction finance exposure of about Rs. 800 Cr to 3 residential projects of Supertech which are on an average about 75% sold already. Each of these numbers is important. Our receivables cover from this project is 1.98 times and the security cover is 2 times for this exposure. The ticket size of a flat for this project falls in the Rs.40 to Rs.60

lakhs category which is the mid segment in terms of affordability. Actual status of sales- about Rs.37 Cr of retail sales are happening in these projects every month. We can categorically state that these projects are ahead of projections as far as sales and collections are concerned, categorically stating that each of these projects is ahead of projections, our projections in terms of sales and collections and at par with our projections with respect to construction progress. All payments to us are current and in fact through our escrow and cash sweep mechanism, there is Rs.42 Cr of pre-payment in this project. **We are once again confident that the LGD, the loss given default of these projects will be NIL.**

Last but not the least, let us come to the second systemic issue which is the liquidity issue facing the entire NBFC sector. Whatever the issue is, the current scenario throws up two concerns regarding the ALM of any NBFC, liquidity gap and interest rate gaps. I would like to state that we are more than comfortably positioned regarding both of these. There is a general perception that NBFCs have used short-term money to fund long-term assets resulting in negative liquidity gaps in the shorter term buckets. So we in our presentation have actually given a graph of the statement that we file with the regulator on a monthly basis. So this is the statement being filed with the regulator.

Our structural liquidity as we report to the regulator on a monthly basis shows a positive gap in every bucket till one year. This varies from positive 167% which is Rs.10,320 Cr in a one month bucket to positive 58% which is ~Rs.18,500 Cr in the one year bucket. In addition to this, we also do extreme stress analysis scenario which our risk consultant had called 'one in ten' scenario. And how do we stress it out? The scenario is - we assume that 40% of our unused bank lines will get cancelled and only 85% of the collections that we expect in those buckets will come in. This is the extreme stress scenario. When we take even that scenario, our one month gap is positive ~Rs.6,200 Cr – under a stress scenario. What it means in very clear words is, our inflows from loan repayment in less than one year bucket and any bucket which is lower than one year far exceed our repayment obligations over the same period. I was asked lot of questions about rollover of CPs and how much CP you expect to rollover, etc., so let me be very technical here. The gaps which are calculated are actually calculated assuming zero rollover because this is the gap between the expected inflow and the expected outflow so there is no question of rollover. So what it means is even assuming that any of the loan which is maturing within one year doesn't get rolled over, we still are positive.

One more strong measure of our liquidity, in addition to the gaps that I have talked, there are two to three measures of liquidity that I am going to talk about because there are lots of questions coming and different question come in different ways, I thought I will answer each one of them, so this is gap which is structural liquidity. One more strong measure is the cash that we are carrying on the balance sheet. So as on 30th of September, we carried Rs.6,166 Cr of liquid assets in terms of cash, FDs and other liquid investments. Now, you can't argue with cash. This is approximately close to 7% of our balance sheet. No normal business unit or NBFC will carry this kind of thing, but it just shows the extent we will go through to make sure that we are liquid not only to honor our debt obligations but to make sure that in our focus products, our core products, the growth continues unabated. In addition to this cash, we had undrawn bank lines of Rs.4,200 Cr around plus a backup liquidity line which till now we have not used of Rs.2,000 Cr from our parent L&T. Also, of course, nothing speaks louder than demonstrated performance of raising additional funds. From 21st of September 2018, why 21st of September? This was the supposed date of market turmoil, LTFH has raised a total of close to Rs.18,500 Cr at an average cost of 8.56%. That is as far as liquidity is concerned.

Then there are questions regarding NIM contraction and interest rate cost and things like that. So let me talk about the interest rate gap. As far as interest rate

gap is concerned, our repriceable assets within one year exceed our repriceable liabilities by Rs.13,500 Cr thus placing us in an extremely comfortable scenario. So very clear - we have assets which are variable rate and fixed rate, we have liabilities which are variable rate and fixed rate, also liabilities which have to be raised again and hence repriced. If you take the difference between that, especially because of the fixed rate liabilities of more than 50% that we have raised over the last 4 years makes this possible, so very simply, assets that I can reprice are ~Rs.13,500 Cr more than liabilities which may get repriced and that is called positive interest rate gap. This is made possible because of 50% of our liabilities at a fixed rate for a period of 4 years that we have raised over the last 1 year or so. This has made sure that over the last 6 months, our total liability cost has increased marginally from 8.23% to around 8.33%. It is important to note more importantly that the comfortable position on liquidity and interest rate is not by accident but as a result of the rigorous ALM risk management framework that we follow.

Our current liquidity position and the demonstrated ability to raise funds albeit at a little higher rate than what we are used to, naturally, in the current situation makes us quite confident that our growth in the Rural and Housing segments will not face any funds constraint in Q3. In case the tightness in the market continues which actually is getting slowly relaxed for good companies, at worst we will moderate little bit our Wholesale growth to some extent. I hope that I have adequately dealt with all the headwinds which are relevant to our performance. The management is confident that like we have done before, we will continue to deliver excellent results through these difficult times also.

Now let me come to our performance of Q2 FY19. For the quarter Q2 FY19, we have recorded a profit after tax of Rs.560 Cr which is a growth of 66% over the last year. We achieved our target top quartile RoE in Q1 and we have continued that with RoE of 18.47% for Q2. As I have said in the beginning of the call, we believe that excellent performance comes from sticking to the basics and managing the quartet of growth, NIMs plus fees, operating cost and credit quality and hence credit cost is efficient and steady quarter after quarter. Between Q2 FY18 and Q2 FY19, our focus book has increased by 26% around to Rs. 90,000 Cr. The defocus book is now down to just about Rs.1000 Cr which is about 1% of the overall portfolio.

Rural plus Housing now contribute to 47% of the portfolio versus 38% last year. In fact even out of the Wholesale book, IDF which is a steady high RoE business, now contributes 9% whereas rest of the Wholesale book contributes 43% down from 52% last year. As you are also aware, we have finalized a slump sale of Rs.700 Cr of supply chain portfolio to Centrum, thus further concentrating on our core. We believe that this steadily increasing Retailization will further increase both profitability and granularity of our portfolio thus adding robustness to our performance.

Our NIMs plus fees is a metric that we monitor very closely. NIMs plus fees for Q2 FY19 is at 6.86%, up from 5.74% last year and 6.58% last quarter aided by competitive cost of funds, pricing power in the market, positive interest rate gap and more importantly increasingly granular and steady fee income. We are quite confident of maintaining this metric in this range, even though we expect the weighted average cost of funds may increase above 20 to 25 basis points in Q3.

On our expenses side, our cost to income ratio remains steady in the range of 23% to 24% on the back of continuing cost control initiatives and increased automation. You would observe that we have invested quite heavily in our retail network. The retail growth is coming on back of investments going in our Rural network and

despite that, the cost to income has remained steady. Again, that is something that we can do very well, good cost control and continuous digitization, depending on data and hence increasing productivity. That is where it really comes from.

Last but not the least; our asset quality continues to steadily improve. LTFH has shown substantial reduction in stage 3 assets, both in absolute and percentage terms. Our GS3, which is gross stage 3 now stands at 7.1% as against 10.95% last year and even 7.93% last quarter, so it is a reduction year on year as well as quarter on quarter. Net stage 3 stands at 2.79% vis-à-vis 5.4% last year and 3.17% last quarter. How this has been achieved? - Through vigorously monitoring the Early Warning Signals, tremendous concentration on early bucket collections. We believe that if you collect early bucket, in fact if you collect zero DPD not only obviously NPAs will be controlled but your expenses will remain in control. So vigorously monitored Early Warning Signals (EWS), good credit of course, concentration on early bucket and strong stage 3 resolution efforts. When we recognized our Wholesale legacy stress completely last quarter we also said that this is it and from now it will only reduce. I am glad that in the first quarter itself, we have demonstrated the reduction in the Wholesale legacy stress as well.

Our provision coverage has also increased to 62.5% from 53.6% last year indicating the strength of our balance sheet and perhaps even the conservativeness of our ECL models. So between last quarter and this quarter it has gone up slightly but from last year to this year it has gone up by close to 9% points. In addition to these provisions mentioned above included in GS3 provision coverage, we have set aside another Rs.110 Cr in this quarter, Rs.60 Cr in Rural and Rs.50 Cr in Housing especially for construction funding- as macro-prudential provisions in this quarter, taking the overall macro-prudential provisions in our balance sheet to Rs. 200 Cr. We had said last time that even though we are quite confident of our ECL models, we are also humble enough to recognize that there are unanticipated future event risks which perhaps cannot be modeled, something like the Kerala deluge happening and these are overall about the expected credit losses and standard asset provisions and hence we have made this macro-prudential provision. What is important in Q2 is when there was actually an event like Kerala deluge, we don't expect any major losses coming from Micro Loans.

In conclusion, our core strategy remains relevant and our execution engine remains robust and I hope that the performance we exhibited in Q2 proves that. We have just completed 10 consecutive quarters of delivering on our commitments. We will continue to work on the basic pillars of performance that is growth, NIMs plus fees, operating efficiencies and asset quality and we are confident that we should be able to deliver credible performance in the quarters ahead also. Thank you, ladies and gentlemen. We will be open to questions now.

Moderator: Thank you very much. We will now begin the Q&A session. The first question is from the line of Kunal Shah from Edelweiss.

Kunal Shah: The first question is with respect to the real estate exposure, so even though you have been highlighting, say it is towards the A and better rated corporates, just want to get the sense have you seen any kind of a downgrade not with our specific project but at the group level, have there been instances of the downgrades in our portfolio and if it is then what would be the quantum of the same?

Dinanath Dubhashi: Let me talk about the one that we are talking about, Supertech, right. The question that we would ask is that was it picked up in our EWS mechanism. It is the test of the EWS mechanism, right? So the EWS mechanism is the Early Warning Signal mechanism, it is on two levels, one is projects and one is general corporate. General corporate - you don't have early warning, that is what you get the news

about. So each of these projects had an Early Warning Signal, mechanism, which was not triggered because this project as I said, everything, every parameter, our repayments, the progress, sales, construction, everything is happening on time or, for some of these, parameters are ahead of time. So that gives us the confidence that these projects are good but we started monitoring this even more closely. In fact, we have put our own auditors and our own engineers on the site when we started hearing of the corporate level downgrades. Not only now but even before that. So the feeling I am giving you is of course, to give you a straight answer, no other exposure of ours, we have heard anything like that, but what I want to communicate is our response - when we hear something like that on corporate level is - immediately increased lens, our people permanently being there. Normally our people are not there permanently on the site, they go at a particular frequency, but once this happens, then we have permanently stationed people on the site. So we use corporate level news to actually strengthen our monitoring mechanism. So I know I have answered more than what you asked but I thought you gave me a good opportunity to clarify this.

Kunal Shah: And the other thing was may be some qualitative disclosure as to if we were to look at it, you have highlighted this particular project, wherein ticket size is quite low, but when we overall look at it in terms of the ticket size, so how much would be say the premium and how much would be the mass category developers in the overall book and any kind of a geographical split if you can give between say what would be there in NCR, Mumbai and the other locations?

Dinanath Dubhashi: Let me answer the first question. So there are segments that we are not very positive on and one is the super luxury and more importantly and may be even contrarian, we are not very positive about the absolute affordable segment as well. Both these segments, we do for very well-known developers only. So large part of our exposure and I am not giving specific numbers here because these are not public figures but large part of the exposure is the 700 to 1,300 sq. ft. category which makes it very low and mid-level affordability. The ticket size of course varies based on whether it is Mumbai or whether it is in Pune or in Bangalore or whether it is in NCR, whether it is in Noida or Gurgaon etc. but largely we have continuously concentrated on the 700 to 1,300 sq. ft. kind of range which makes it relatively less cyclic.

Kunal Shah: Okay and Geographically?

Dinanath Dubhashi: Geographically we are in 5 to 6 cities. We are not majorly spread, in fact our experience of going to state capitals other than these 6 cities has not been good actually. When we started, we did some in Bhopal, Indore, etc. and luckily those exposures were small and we were able to somehow exit or even write them off at that point of time, that is our experience now because it is not only the market, it is our ability to monitor also, our entire emphasis. So credit is very important but as I have always said and specifically Kunal, our job actually starts after doing the credit and lending the money and it is a very engineer's way of monitoring that we believe that our job starts after that and we like to monitor and keep a very close monitoring on the site and that is why we have taken this call that we will be only where we can be present in numbers and these are the 6 cities, the Mumbai, Delhi, Pune, Bangalore, Chennai, these kind of markets largely speaking.

Kunal Shah: And one last question in terms of the overall RoE outlook in the current operating environment and those may be because of keeping much higher liquidity on balance sheet and even CPs at 18%, we would also be replacing it with our other borrowing and there could be some moderation in growth as well as margins, so then what is the RoE outlook going forward for the near-term, obviously you give the medium-term target, but in the near-term, are we seeing any kind of risk?

Dinanath Dubhashi: So in Q3, we will remain top quartile and it is important for me to clarify how. So number one, let's talk growth. So growth I said that we already have enough money in the bank to make sure that the Rural & Housing growth continues at the same rate. We will not let go of the opportunity. We also are confident today and slowly we are getting more confident that we will have enough money to do the good Wholesale disbursements, but again if we fall little bit short in Wholesale, it will only accelerate our retailization. Little bit shortage in Wholesale fees can be there if that happens. That is number one.

Number two, the positive interest rate gap- make sure that I told you what is the cost increase that I expect and I expect to be very accurate on this, my treasury has done detailed calculation and we expect our average cost from 8.33, the weighted average cost to go to little about 8.53 or something. I said 20 to 25 basis points. That will be our weighted average cost. We do take our execution extremely seriously, but around that will be the cost and most definitely the yield increase will be at least that or more than that. So we don't expect our NIMs and NIMs plus fees overall to contract sizeably. We always say what is the model, the model for top quartile around 18% RoE is what - NIMs plus fees remaining between 6.5% to 7%. expenses plus credit cost remaining at around 3% to 3.1% thus bringing my pre-tax RoA to about 3.5-ish, post-tax ROA to about 2.6%-2.7% and hence RoE of between 17.5% to 18.5% kind of range. That is the model. We don't think in the near-term, whatever happens, we will go beyond the boundaries of the model and then most importantly, always remember a good crisis, in crisis times, the companies which can execute very well take measures so I talked about these things, we will obviously tighten our productivity, our cost controls even more and try and save on that as well. So I can confidently state that having reached steady state top quartile RoE, we are not about to budge from there.

Moderator: Thank you. The next question is from the line of Dhimant Kothari from Invesco Mutual Fund. Please go ahead.

Dhimant Kothari: So this counter-cyclical provision what you have provided is taken through P&L?

Dinanath Dubhashi: Yes, of course that is taken through P&L. They are taken through P&L, we have included them in the credit cost and mentioned below how much within that is counter-cyclical provision. I will just explain what is counter-cyclical provision. Counter-cyclical provision is not what we need. Counter-cyclical provision is what we can make. Provision - what we need comes in PCR. So PCR, there are all the provisions that we need according to our ECL model and counter-cyclical provision is over and above what we can afford in that quarter to make hay while the sun shines and save it for the wind. So that is exactly Rs.110 Cr that we have made in this quarter completely through P&L. So this Rs.560 Cr is after making that.

Dhimant Kothari: I wanted to clarify on slide 26 of the presentation, there is something like segmental RoE, so you have Rs.1,050 Cr of negative net worth there which was like negative Rs.71 Cr in 1Q, so why is the Q-on-Q delta there?

Dinanath Dubhashi: This is largely the balancing number, so Rs.12,300 Cr is our total net worth and then how much net worth we are putting in each business comes and this is the balancing net worth, just a balancing number. So this genuinely has absolutely no meaning. It is just a balancing figure.

Dhimant Kothari: So that is just the balancing number, it is nothing.

Dinanath Dubhashi: Exactly, do not read any meaning into it. It is the attempt to divide the Rs.560 Cr and Rs.12,300 Cr as accurately as possible within these businesses.

- Dhimant Kothari:** Just wanted to understand there are no direct balance sheet write-offs?
- Dinanath Dubhashi:** No, we don't have a balance sheet in LTFH to write off anything. The only thing that LTFH does is invest in its subsidiaries.
- Moderator:** Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.
- Karthik Chellapa:** The first one, Sir is on slide 14 where you talk about your liquidity position. If I were to look at that amount of Rs.14,427 Cr which you have raised, how much of that would be from ICDs and on what terms would they be and what was the necessity for us to invoke something like ICDs when our liquidity position even otherwise feels quite comfortable?
- Dinanath Dubhashi:** The ICD is Rs.1,500 Cr. It is from the group. It is at 8.5%. So it is just Rs.1,500 Cr out of whole thing. The necessity is to give you guys the confidence that we can raise it anytime and keep it on our book. It is Rs.1,500 Cr raised, 8.5% paid and just the FD interest received and any negative carry for that is already in the results. So it is our way of showing that we can carry that much negative carry and still give good results and we will not sacrifice liquidity for anything.
- Karthik Chellapa:** That is very clear and my second question is Sir on slide 34. In your opening remarks, you have clearly articulated that if there were to be crunch also you would clearly prioritize Retail over Wholesale but given the state of the market today where some of the lesser known NBFCs may be feeling some pressure, if I were to look at let us say of 6 verticals of Retail in which areas do you expect let us say your pricing power or positioning to improve and in which do you expect them to remain more or less the same?
- Dinanath Dubhashi:** We expect the pricing power to be there everywhere generally speaking, but we will not probably take a price increase in the rural area. You can take the advantage of pricing power, you can take the advantage of season in two ways. One by increasing pricing and second by just doing more volumes and we will take full advantage of the season by increasing volumes even further. We need not look at NIMs of that particular product, frankly those NIMs are so good that 20 basis points reduction does not matter but if the proportion of rural increases overall in my portfolio, just imagine the kind of NIM addition that I will get over.
- Karthik Chellapa:** So on an overall basis, you won't be contemplating any price increase, but you would rather grow for market share?
- Dinanath Dubhashi:** In Rural definitely, but in Housing and Wholesale, we have already taken price increase. So Wholesale, our total PLR increase over the last one to two months is about 1%. In home loans, we have taken close to 45 to 50 basis points. In LAP, we have taken close to 1% around and in construction funding, average is little more than 1%. So all other products we have taken the increase and Rural we are trying increasing volumes.
- Moderator:** Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.
- Saurabh Kumar:** Sir, my question is on Micro Loans, so that's grown at 115% so that's growing faster than the industry, so I just wanted to know how much will be volume and how much will be ticket price of this 115%?

- Dinanath Dubhashi:** The answer is not in ticket price or anything like that. The answer is simply in the base effect. So last year 2nd quarter was just coming out of demonetization, so it is very simple number I will show you. You just see the disbursement growth between Q1 and Q2. It is almost flat at Rs.2,700 Cr, right. So this is where we have reached now and we will consolidate here for couple of more quarters, Rs.2,700 Cr to about Rs.2,800 Cr, Rs.3,000 Cr level. We will consolidate for the next 3 to 4 quarters till we once again are confident that we have gathered enough operational strengths, even additional strengths to control the operational risks because this business genuinely the bigger risk is operational risk, than credit risk, especially the way we do it through data and things like that. Once we are confident, we will take the next step. So very frankly to tell you next quarter if you see this growth, it will be much more moderated because of a higher base. So this is just math and not any ticket size etc. So if we simply answer over last year to this year, it is just the more number of customers we are doing. Also from new branches that we have opened in the last one year, just new meeting centers - the disbursement is Rs.800 Cr out of this Rs.2,700 Cr, new meeting centers from last year and which is almost 29% of the disbursement so actually you will see that from Rs.1,600 Cr to Rs.2,700 Cr, whatever is the increase, Rs.800 Cr of that is coming from new meeting centers and this is the very important data. So it is not lending more or over lending in the same area, leave out to the same customers. We have simply gone to new geographies and out of this Rs.2,700 Cr, Rs.800 Cr is coming from there.
- Saurabh Kumar:** And Sir, just going back to the IL&FS and Supertech, so can you just tell us when were these loans sanctioned by L&T?
- Virender Pankaj:** Our IL&FS SPVs, ITNL SPV loans have been with us for fairly long time. Dinanath already mentioned about our toll project history. Let me add the annuity project operating history. The three projects have operating history of 4 year, 6 year and 14 years, so we refinanced these projects when they were operational and we were very confident about the cash flows and we structured them. So in our books some of these would be residing as old as 3 years, 4 years that is the time duration.
- Dinanath Dubhashi:** But each one of them has histories of at least 3 years going up to 14 years.
- Virender Pankaj:** All these projects that are operational are cash positive and have been releasing cash to the group over this period after meeting all their debt covenants. So value positive as well as cash positive. That is the reason for our confidence about them.
- Dinanath Dubhashi:** Supertech largely, the initial sanctions would be in 2017 and then one has happened in middle of 2017. So 2017 beginning would be largely the sanctions in Supertech.
- Moderator:** Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.
- Nischint Chawathe:** Couple of questions from my side. First is what is the coverage on stage 1 and stage 2 loans?
- Dinanath Dubhashi:** Stage 1 is around 0.57 which was last time, and stage 2 is around 6.4. So that remains same. Quarter to quarter it will not change.
- Nischint Chawathe:** Sure, the other thing was on the defocussed loan book, how much is the size right now?

- Dinanath Dubhashi:** Rs.1,100 Cr and it went down and whatever is remaining out of, in supply chain after the sale to Centrum also we have added here. So the small reduction that you see from last quarter to this quarter is the large reduction and then about Rs.200 Cr or so of supply chain remainder that we have added. So the original defocussed has come down more sizeably than what you actually see.
- Nischint Chawathe:** On these two exposures about IL&FS and Supertech, what would be your yield like?
- Dinanath Dubhashi:** Around 14% to 15% for Supertech
- Virender Pankaj:** For IL&FS they will range, because the NHA1 annuities typically they go for a very competitive pricing, so yield will range from 9.5% to 11.5% depending on the project and when that was contracted. Our IDF exposures, I must share that we match them with liabilities because these are long term exposures, so whenever we contract exposure, we also contract the liabilities accordingly.
- Nischint Chawathe:** The other thing was a little bit more qualitative, in terms of trying to understand as to what is the outlook on the Rural business and on the Renewable verticals. On the Rural side, I guess you did mention about the way you bring about the microfinance business, but the outlook on the other two segments, anything that you are seeing on the festive season specifically the tractors and how should we think about the business?
- Dinanath Dubhashi:** I will ask Sunil to take this.
- Sunil Prabhune:** Let me start by speaking about the two-wheeler business. We clearly are seeing significant tailwinds in this business drive us forward. The festive season which is by far our biggest quarter of the year, has started in the right note and we do expect this to be on the lines that we expected. As Dinanath earlier articulated, clearly we are looking to enjoy a positive competitive position in the market place, not so much by taking advantage of the pricing power but by gaining volumes at already comfortable NIMs position. On the Farm side, you will recall that last year L&T Financial Services had taken a contrarian call. We called out that the market is likely to grow far more than 10%, 11%, 12% growth rates that were being called out. This year again I would say that our call is contrarian call in this. When there is an expectation of a far higher growth rate, we believe this year is likely to be a moderate growth rate at the best in the low teens, 10% to low teens area and like we have done in the previous year, we do expect to take more than our proportionate share. We are already 14% of farm equipment market. We expect to continue to strengthen that position.
- Nischint Chawathe:** And the reduction in GNPL that happened in which segment this quarter if we had to look at it on a Q-o-Q basis?
- Sunil Prabhune:** The stage 3 reduction has been across, as we articulated before, our focus has been extremely high on increase in zero DPD proportion of our book and extremely high focus on early collection. So clearly as there are resolutions taking place in higher buckets and the flow forwards from the lower buckets are very hard controlled, we are seeing some positive results.
- Dinanath Dubhashi:** So if you are talking last year to this year, it is absolutely across. If you are talking last quarter to this quarter, farm will be slightly up in September that also it is almost flat compared to Q1 Farm which actually should be high because now as I explained last time because of the 90 DPD scenario, the NPA collection bulges will be September and March. We have actually avoided it, so Farm, there is no big reduction, it is almost flat despite September being the bulge month and the other

two there is a reduction but if you take from last year, there is a substantial reduction in every business and most importantly, the quality of collections is way much better, I mean early buckets are really good.

Nischint Chawathe: Just one last question and any outlook that you would have in the Renewables business?

Virender Pankaj: Our renewable business as it stands right now is heavily loaded in favor of operating renewable assets. Our ratio in case of wind is 8:1. Operating under construction and solar it is 4:1. That is our current portfolio. However, sectoral tailwinds, there is no change, they are continuing in terms of new capacity addition. The module prices continue to be soft. So to a great extent the reduction in module prices has been able to neutralize the rupee depreciation and the issues related to safeguard duty have also been settled now with a clear opinion that these will be pass-through expenses but a good part of the safeguard duty also is right now reflected in lowering of annual prices. So safeguard duty as well as rupee, a good chunk is already observed in the lower cost of solar project. In near-term, in solar capacity additions, there could be a bit of a slow down because now government is bidding out larger projects and also giving longer time period to developers to execute them and a few bids have been cancelled as you would have followed in the media. So in very near-term there could be little bit of relatively slower than last year capacity addition, but eventually 24 months down the line, they will still be there. Sector is seeing significant amount of M&A activity, so consolidation is happening away from smaller players and into larger players who have access to low cost equity. These typically would be Sovereign Funds and large utilities from abroad who are increasing their portfolios in India right now and due to the risk in sector significantly under control, it is attracting players which have a lower threshold on return on equity. That is the situation. In terms of downselling, of course our fresh underwriting to an extent is guided by the downsell velocity, so due to financial market condition if there is a slowdown in off-take, to that extent there could be some slowdown in fresh underwriting but in terms of opportunities, it continues as effective as ever.

Moderator: Thank you. The next question is from the line of Anita Rangan from HSBC Asset Management. Please go ahead.

Anita Rangan: I have two questions, first is on IL&FS. Now since you have loans/debt in the SPVs, given that you know there could be like several scenarios in the holding company and the IL&FS Financial Services, if they go to NCLT will SPVs also go alongside to the NCLT and how does that get resolved? Are the SPVs completely ring fenced from whatever happens in the holding company? That is my first question.

Dinanath Dubhashi: I will give you a very simple answer and then I will ask Raju, our legal counsel to answer this and he is the NCLT expert. He is in charge of resolving all the problems in the infra sector. So the simple answer is no. They are totally and completely ring-fenced. What is more important is - do we expect anything more from IL&FS in terms of equity? There also the answer is no. The entire equity is in. We don't expect anything. On the contrary if all our projects are equity positive and if the NCLT process or whichever process, even before NCLT, the new management sells these projects these projects can actually generate equity to be streamed upwards and help some of the lenders to the holding company, but to answer your question simply, I am not affected at all. Raju, you want to detail it?

Raju Dodti: These SPVs, as the name suggests, are supposed to be Special Purpose Vehicles, completely ring fenced and they are bankruptcy removed. So unless and until there is a specific payment default in these SPVs, there is no way that any

other lender other than these SPVs lenders will have right to take them to NCLT. Having said that even IL&FS, given that it is a financial services provider, can't be taken to NCLT under IBC, they have to be taken under the company law provisions.

Anita Rangan: And my second question is on the Supertech, you know 75% of the flats here are sold, I am just trying to understand, why is that entity in distress because 75% is like, if you are telling like an average ticket size, it was like Rs.40 lakhs, there are almost like 2000 flats and 75% is a big number there?

Dinanath Dubhashi: Why is the entity in distress? Let me first define that whether Supertech is in distress etc., we don't want to comment, it is a question mark. We have met the promoter and otherwise there are some delays to some public sector banks and we don't even want to comment about that, leave it, but simple - these are only three projects and that these three projects are doing well and maybe the other projects are not. If at all it is true, it is a certificate to our choosing and our credit mechanism rather than anything else. So our comment right now is that these three projects, it is 75% flats sold and all the other things that we have said about these three projects.

Anita Rangan: So your Rs.800 Cr exposure will then be the value of the remaining 25% unsold flats?

Dinanath Dubhashi: No, how is that connected.

Anita Rangan: So how will you recover your money then?

Dinanath Dubhashi: When have you last bought a flat and paid 100%?

Anita Rangan: Not 100%, I am saying how is the payment like structured because your Rs.800 Cr is the project specific exposure, so I mean how is the recovery I am trying to understand for this?

Dinanath Dubhashi: You are confusing 75% sold with 75% of receivables received. So flats are in construction and the payments come in construction phases. So 75% sold does not mean 75% received because we have 2 times covered receivable. If 75% would have been received, we would have been prepaid out long back. So these are under construction projects, obviously they don't get paid 100% but what is important is what we said is, both sales velocity as well as collection velocity on the sold receivables is more than what is in our base case projections.

Moderator: Thank you. The next question is from the line of Alpesh Mehta from Motilal Oswal Securities. Please go ahead.

Alpesh Mehta: First question since you have disclosed the LAP portfolio in this quarter, if you can throw some light about what would be the average ticket size and the major markets that you are present in two quarters?

Dinanath Dubhashi: The markets will be the same as where we are in HL, they are not different markets, but what is important to see and why we actually disclosed is putting both this together was giving the picture that our home loans is largely flat. Now the main point that we want to make is how the picture in home loans is changing and that is the positive point and we don't want it to get lost in LAP and things like that. So home loans has grown. We were always telling that how the character or the quality of our home loan portfolio is changing. So in this quarter also, we have sourced almost 65% direct in home loans, 64% direct vis-à-vis last year was less

than 30%, we have now sourced 65% direct. Our salaried ratio last year was 25%. It has now gone above 50% salaried, out of that home loan, so both direct as well as more percentage of salaried is making our overall home loan portfolio stronger and now we are getting one thing which perhaps we were lacking in home loans, that is growth. We were trying and sort of making the quality of home loan sourcing better, now we are even showing a good 50% growth. Having said that, both Rs.388 Cr and Rs.600 Cr in a quarter are small numbers, we acknowledge that and we need to take it first to Rs.1,000 Cr a quarter and then more. So that is what is acknowledged. LAP as you would see, there is no point me giving the analysis and it is of Rs.340 Cr number. Suffice to say that whatever LAP we do, we are being extremely choosy. That is why it is down to Rs.340 Cr, maximum LTV that we keep is just about 50% to 55% and it is clearly the indication of our analysis of two things, one is unreliability of the valuations that we are getting and second, our analysis of the overall SME health at this point of liquidity difficulty and that is where we have really toned down and then even today some of the competition we see giving at 75 to 80% LTV. If that business is not being done at good risk return paradigm, we don't want to do it. So that would be my answer for LAP.

Alpesh Mehta: This quarter is Rs.340 Cr, I understand but I was just looking for the answer of Rs.4,300 Cr, the overall outstanding exposures. Is it possible to disclose about the major cities or the kind of customers that do we have in this portfolio?

Dinanath Dubhashi: I will disclose something which we can disclose.

Srikanth JR: Residential, self-occupied residential is bulk of the portfolio, they will be forming at least 65% of outstanding. The large Tier 1 cities like Mumbai, NCR, Pune and Bangalore so that accounts for more than 75% of the exposure. We are present in 24 locations but as far as LAP is concerned, the bulk of the exposure comes from these top 5 to 6 cities.

Dinanath Dubhashi: And most importantly it being the self-occupied residential largely, we are pretty confident and also the zero DPDs and early bucket trends there in our LAP portfolio, we don't see any deterioration or any chance of suddenly our NPA ratios going up there etc., all those things, we don't see anything. You know that we take our early warning signals very seriously. We don't see any chance in any of the parameters of our overall Housing portfolio going bad suddenly.

Alpesh Mehta: The second question considering there have been lot of talks about the real estate financing exposure of most of the NBFCs and the NHB or the regulators are approaching this now, there have been continuous chatter related to this and if you can throw some more light on, you mentioned that it is for the top 5 to 6 cities. So what percentage each city contributes to this portfolio that would be useful and the number of developers or the projects that we would have financed into this portfolio. I am just trying to look at, what would be the maximum ticket size to a particular group or a project?

Dinanath Dubhashi: Largely, I would say Mumbai and Delhi will be around 50% odd of the portfolio, the remaining cities will be having another 50%. Yes, geography is important, there is no doubt. The kind of feeling we want you to get is for us, it is not like we decide that we have to do 30% in Mumbai and then get onto Mumbai, it is more bottom up, it is based on the developer, it is more importantly based on the micro market and the project. So we have chosen the project based on our information coming from L&T, etc., again rechecked with L&T, we have chosen the project, funded it and then it results into a particular portfolio-geographical combination. It is not the other way around so that is very important. Totally, this project will be having little close to about 100 projects totally and client list will be about 60 to 65. So that is the kind of data that we can divulge it as per this point of time. Suffice to say that each of

these projects, we are monitoring very carefully, we have proper early warning signals and whatever comes in early warning signals, we deal with it appropriately. Sorry, there is one more thing that I will tell. You know this RBI inspection, NHB inspection is being mentioned in news as if they have never inspected us, so each regulator inspects us every year. We are a very large NBFC, they inspect us every year and I don't think we have committed any big crimes since the last inspection. So I find it funny that now NHB inspection will be there, there is no meaning because NHB inspection or RBI inspection was there very regularly every year.

Alpesh Mehta: Just last two questions, on the home loan segment do we have any 20:80 kind of schemes or 10:90 kind of schemes into this portfolio?

Srikanth JR: We do have. On some of the projects, we will have these schemes.

Alpesh Mehta: And is there any exposure to the Supertech related to these schemes?

Srikanth JR: We have home loans for the project, but not schemes.

Alpesh Mehta: You would have the home loans but not the schemes like 20:80 or 10:90 into these three projects?

Srikanth JR: No.

Alpesh Mehta: And lastly what is our internal definition for category A and B kind of developers because the definitions are all over the place so it is difficult to find out from a company to company, so how do you define...

Srikanth JR: It's derived significantly from the experience of the developer, how long he has been in the business, the kind of square foot he has already delivered, number of ongoing projects, track record with lenders, these are the more tangible aspects. Then of course, we look at financials, ratings, quality, etc. To give you an example, in terms of square foot delivery we look at something above 5 million sq. ft. to be of category A developer. In Noida, it is actually close to 7 to 8 million sq. ft. Noida is the only area where we have looked at a slightly higher square feet delivery to categorize as category A. Most of the other cities it's around 5 million square feet. Category B will be in the range of 2.5 million sq. ft. and similar level of ongoing projects. That is the broad benchmark as far as the categorization is concerned.

Alpesh Mehta: And any weightage to some of the negative media attention to some of these developers while taking an exposure?

Srikanth JR: Yes, of course. That comes under what I said is soft factors. We would take that into account and then accordingly see whether it fits into category A or B.

Dinanath Dubhashi: And why media, I mean we do of course CIBIL checks and all credit bureau checks, bank reference checks, all those is done.

Alpesh Mehta: Because there are few developers who have been flagged off of late and there have been some negative media attentions and...

Dinanath Dubhashi: Sure. After they have been flagged off, we have not taken any exposure into them.

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

Subrat Dwivedi: Sir, on the IL&FS part, just wanted to check if there have been any rating downgrades of these SPVs?

Dinanath Dubhashi: No.

Subrat Dwivedi: And all these would be secured lending?

Dinanath Dubhashi: Yes.

Subrat Dwivedi: Sir, on the ALM part, in the inflows, what all would be included?

Dinanath Dubhashi: Asset maturities.

Subrat Dwivedi: Will that include un-utilized bank lines and investments or that is only the asset inflows?

Ravindra Gersappa: So far as the format is concerned, it is specified by the Reserve Bank of India and this has been there for quite some time. Basis this, ALM statements have been prepared. Asset repayments of all the liquidity which we are carrying as well as all the unutilized bank lines, all that will get in the base ALM.

Dinanath Dubhashi: In the base ALM and that is why I clarified that in stress scenario we actually assume that 40% of the bank lines will get cancelled and then calculate that.

Subrat Dwivedi: Sir, one last question. So let us say for the Supertech project, you would be the sole lenders for these three projects?

Dinanath Dubhashi: Yes.

Subrat Dwivedi: And would the retail client who buys this project would necessarily have to take a home loan from you or he can have?

Dinanath Dubhashi: It is always our try but if life was so simple then it would have been fantastic, so it is not that. About 35% will be our conversion, 35% of overall homes sold is getting financed through us.

Moderator: Thank you. The next question is from the line of Umang Shah from HSBC. Please go ahead.

Umang Shah: Sir I just need two data points, one is of our real estate exposure if you could just break it down between the construction finance, LRD and balance sheet funding if at all?

Srikanth JR: Construction finance will be close to 80%, very little LRD exposure, we had some construction finance on commercial office space, what I mentioned in terms of close to 80%, that is on the residential space. We will have around 10% in terms of office space construction finance and the balance will be early stage pre-approval financing.

Umang Shah: 80, 10 and the rest, so I am assuming that there will be no overlap in terms of the customers whom we fund broadly across segments?

Dinanath Dubhashi: If you are asking that if the early stage is refinanced by us to get into late stage then definitely not, we don't refinance our loans ever

- Umang Shah:** And Sir basically within the construction finance, what proportion of the assets would be like Supertech where you have sole charge on the project?
- Dinanath Dubhashi:** It is 93%-94% of our projects, we are sole and wherever we are joint also it is with companies like HDFC and all. Again, trying to read the import of your question, we don't see any project where some other Housing Finance Companies will have funds crunch and hence not fund the project and hence the project will go down.
- Umang Shah:** I was just coming more from the perspective that let us say if given that there is a bigger perception today that there could be some liquidity crunch for some real estate developer but then to that extent if we are adequately collateralized then at least in 93% of the assets we should be pretty much comfortable to recover our dues, right?
- Dinanath Dubhashi:** Absolutely. The recovery of dues come from project completion unless you can find some other owner for that project, but normally you try and complete the project and your ability to – one, complete the project and secondly, more importantly, arm twist the developer to sell inventory at even taking a price cut is very high when you are sole or even if in few cases that you are partnering with somebody that somebody is also equally or even more stronger than you. So you are not with some small NBFC, if you are with HDFC, you are better.
- Umang Shah:** Understood, sure. Sir on macro-prudential provision, do we have any target in mind or it is just a number where, as and when we feel we would create provisions?
- Dinanath Dubhashi:** It is a very good question. At this point of time, it is just the beginning. We have just created Rs.200 Cr and right now it is more ability based and we have prepared a paper also and presented to various forums that this is the ability based provision and not a need based provision. Need based provision, the moment management thinks that it is need based, it becomes GS3 provision under Ind AS. So you can't say it is need based and it is extra. Both things don't go together. So whatever is need based is in provision coverage in GS3 and this is what we don't think is needed but we are just keeping and when we talk counter-cyclicality by the very definition, and unexpected losses by definition, there cannot be a target.
- Umang Shah:** And Sir just last small clarification, there seems to be some kind of restatement across the P&L and balance sheet items, so is there any reason apart from Ind AS or?
- Dinanath Dubhashi:** Only Ind AS but the restatement is for last year, right?
- Umang Shah:** But I think there is some restatement in disbursement numbers for the base quarter as well as 1Q FY19 numbers, so I think structured corporate finance DCM, so maybe there could be some reclassification I guess?
- Dinanath Dubhashi:** Possibly some reclassification but restatement especially in P&L and Net worth is only Ind AS.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for their closing comments.
- Dinanath Dubhashi:** Thank you everybody, thank you for your excellent questions and **I hope that we have clarified your doubts on liquidity as well as the couple of exposures which everybody is talking about and we thought that we will be completely transparent and assure you that we are controlling those exposures in such a way that we will not have any loss, mark my words, NIL losses from both of**

these exposures. Coming back to the earnings which I would like to think as the hero of the call, we have stuck to our basics, managed the quartet of growth, margins that is NIMs plus fees, expenses and credit cost and continuing to perform quarter on quarter. Whatever are the headwinds, the headwinds happen a quarter, two quarters, every quarter, I believe that headwinds will affect generally the sector, but this is important, this is an opportunity also in a way for companies like us with strong performance and the strong parentage and pedigree to show differential performance and that is what we will do in the quarters going on. We will always show differential performance and show that we are different and the good NBFC, top quartile NBFC. Thank you.

Moderator:

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