

**L&T Finance Holdings Limited**  
**Q3 FY19 Earnings Conference Call Transcript**  
**January 22, 2019**

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**Moderator:** Ladies and gentlemen, good day and welcome to the L&T Finance Holdings Q3 FY19 Earnings Conference Call. As a reminder, all participants' lines will be in the listen only mode. Please note that this conference is being recorded. I now hand the conference over to Mr. Shiv Muttoo from CDR India. Thank you and over to you, Sir.

**Shiv Muttoo:** Thank you Lizzan. Good afternoon everyone and thank you for joining us today for L&T Finance Holdings Q3 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 today's call may be forward looking in nature and a note to that effect is provided in the Q3 results presentation sent out to all of you earlier. I would now like to invite Mr. Dinanath Dubhashi to share his thoughts on the company performance and the strategies going forward. Over to you, sir.

**Dinanath Dubhashi:** Thank you Shiv. Welcome all of you to the Analyst Call for our Q3 FY19 Results. Let me start by expressing our happiness at posting good results in a quarter in which there were some serious difficulties faced by the sector, so let me just start by stating the headline numbers for Q3 FY19, we have recorded a profit after tax of Rs. 580 crore which is a growth of 81% on the restated Ind AS numbers of Q3 FY18. We have also continued to deliver a top quartile ROE at 18.34% I mean we believe it will be top quartile nobody else has yet declared results, but indicative top quartile.

In our belief, excellent performance for any NBFC comes from sticking to the basics and managing the quartet of growth, NIMs plus fees, operating cost, and credit quality and hence credit cost efficiently, steadily and quarter on quarter. We owe our performance to this. Between Q3 FY18 and Q3 FY19, our assets book has grown by 22% and ended up at around Rs.95,000 crore. The growth of individual businesses and within this growth indicates that we have continued on our journey of retailization. The proportion of rural plus housing in our portfolio has now touched 50% which we believe is an excellent milestone. Even within overall wholesale, IDF which is a steady high ROE business now contributes more than 8% of the overall LTFH portfolio. We expect this trend of retailization without negatively affecting the wholesale business to continue. Our non-lending businesses have also grown well with a 15% growth in AUM of mutual funds and a 34% growth in the asset under service AUS of wealth management.

During the call I will give some more color to the growth of individual businesses. This quarter, Q3 FY19, growth overall was largely expected to be moderated across the NBFC sector due to liquidity constraints in the sector. Indeed, the liquidity scenario went through fairly rapid changes during the quarter. In our

presentation, we have tried to actually capture a timeline because it was a very interesting quarter. In the first 10 to 15 days of the quarter, money was not available across the board to anybody and during our last earnings call we had actually said that and pointed that it was more a crisis of confidence than any real crisis of liquidity perhaps. Then there came a two months period till about 10<sup>th</sup> of December where money was available, availability was slowing opening up, but it was selectively available to highly rated NBFCs with strong parentage - we were one of them, albeit at a higher cost definitely and in smaller ticket sizes. So, what it means is when we used to have a NCD issue in the previous quarter we would raise Rs.500 to Rs.1,000 crore in one issue now we had actually come down to ticket sizes of Rs.50- Rs.100 crore.

So, it was much more difficult to raise in that period and then finally from 10th of December liquidity genuinely has started easing up. Throughout these ups and downs what we did internally is we managed through clarity of intent and clear communication to various teams within the organization. This has led to a well-planned and calibrated growth in our various businesses. Each business team remained focused on what they needed to do, and all uncertainty was avoided. The waterfall of fund utilization was made clear right at the beginning of the quarter. The Rural and Retail housing businesses first got all the funds that they needed for growth, then funds were made available for selective deals in Real Estate and core infra obviously based on strict risk guidelines and finally opportunistic businesses like structure finance and DCM obviously got the last priority.

As a result, even during the quarter of relatively tighter liquidity and not only tight liquidity, continuously changing liquidity scenario we were able to manage excellent growth in all our core businesses. You would observe that we have been able to maintain our NIMs on a sequential basis despite 17 basis points increase in Weighted Average Cost of funds (WAC). We had guided during the last call that increase in cost of funds will be about 20 to 25 basis points in Q3 as against that we were able to maintain a 17 basis points increase. Due to the positive interest rate gap that we maintain, increase in proportion of Rural business which is a high yield business and cost increase passed on in Wholesale and Housing business we were able to maintain our NIMs at 5.01% even as compared to Q2FY19.

Towards the end of Q3 and in Q4, cost of bank funding has risen as some banks have hiked interest rates while the cost of CPs has reduced. We expect all this to play out in Q4 and we expect a maximum of 5 to 10 basis points increase in our weighted average cost in Q4 and once again we are confident of maintaining our NIMs. Fees has always been a very important part of our P&L. Our endeavor always has been that fees should totally pay for our operating expenses. This quarter where there has been a sharp drop in Wholesale fees due to low disbursement and lower sell-down, the Rural and Housing businesses have adequately made up for this shortfall, of course our Mutual fund and Wealth businesses obviously contribute to fees basically as they are fee based business.

Overall our NIMs plus fees have increased smartly Y-o-Y and has been fairly steady quarter-on-quarter. What I am doing is actually explaining how the ROE was maintained during the quarter. Last but not the least, so we talked about growth, we talked about NIMs plus fees, now our asset quality too continuous to be steadily improve. We have shown substantial reduction in Stage Three assets both in absolute and percentage terms. Our GS3 stands at 6.7% at end of December 2018 vis-à-vis 10.4% last year and 7.1% last quarter. Similarly, NS3 stands at 2.6% on December 31 vis-à-vis 4.7% last year and 2.8% last quarter.

How we did this, two pronged- based on our estimates of likely haircuts we have adequately provided for our legacy Wholesale portfolio at the beginning of the year

as you all know and we continue to provide about Rs.400 crore a year on Wholesale further strengthening our readiness to take requisite haircuts and resolve these assets. As far as rest of the portfolio that is Rural and Housing is concerned we owe the steady improvement in asset quality to our conviction that a disease is cured by attacking the root cause and not just the symptoms. Data led dynamic business sourcing and credit algorithm, rigorously monitored EWS i.e. Early Warning Signals, concentration on zero bucket/ on early bucket collection backed by a very strong data analytic engine has led to this steady improvement in asset quality. It is always difficult for credit teams or for collection teams to accept that the improvement is happening not only by their efforts but actually by help coming from data analytics and that change in organization is what we believe is more permanent that is going to help us continuously in the future.

Our provision coverage also increased to 62.5% from 57.1% last year. I must point that in addition to these provisions mentioned above, we have also set aside another Rs.85 crore as Macro-prudential provision in Q3 FY19 taking the overall Macro-prudential provisions to about Rs.270 crore. These provisions are against completely unanticipated future event risks and completely over and above expected credit losses and standard asset provisions. Overall, a combination of carefully directed growth, well managed liquidity, passing on cost increases to customers and continuously improving asset quality has helped us deliver this performance for Q3 FY19.

Let me now elaborate a little bit about the liquidity management framework. We had talked about it last time, it continues to be important it will be important for us till perpetuity, but I think for a couple of quarters, I should talk about it because it is important to highlight it. As you would have seen from our investor presentation, we continue to maintain positive gaps in every bucket up to one year. So, all this talk of whether RBI from minus 15% gap will reduce it and make it zero, we welcome it because it is a good thing to do and we anyway maintain positive gaps. Our Interest rate gaps are also positive as on December 31, indicating that we are well placed to pass on any cost increase to our customers and this, we always show this interest rate gap as on a particular date and it is always wondered whether it is only conceptual. So, what we are doing this time is disclosing that, in fact during Q3 itself, assets of about Rs. 35,600 crore were re-priced versus liabilities of Rs.21,800 crore which were re-priced. This proves that this positive interest rate gap is not just academic, but also works in practice. During the quarter we raised fresh funds totaling to about Rs.30,000 crore, little less than that some Rs.29,000 odd crore and about Rs.17,000 crore of this were NCDs and CPs and about Rs.13,000 crore were raised from banks.

Thus, with a demonstrated performance in liability raising, liquidity management and adequate liquidity on balance sheet as of the beginning of Q4 we believe that in Q4 we will not be constrained by any liquidity pressure, not only in Q4 but in the coming quarters. We must also mention that as a measure of further diversification of our source base, we will be looking at raising liabilities from retail, HNI as well as international sources.

Let me now talk about each of the three lending businesses and some specifics regarding them so that we get the color of the growth.

In our farm equipment business within Rural - our data analytics-based model of target allocation and the digital process are helping tremendously in turnaround time helped us record a 20% disbursement growth and a 33% book growth. Our market share is now 14% making us a clear number two in the market.

Our targeted disbursement analytics, strong credit screening and collection analytics have helped in improving asset quality across buckets. So, not only business has grown, assets quality also has improved. As we go ahead in the election year now - normally election year can be positive for the tractor market while the deficient rainfall in certain large states like Maharashtra, Gujarat, Telangana can be a dampener. So, there are two opposite forces which we may act on the market, however, we are confident that our analytics-based model gives us the right tool kit to handle this situation in a granular manner.

So, as rainfall has sometimes been good, bad across the country and different, we now have the right tool kit to manage this in a granular fashion. As far as two wheelers are concerned FY19 was clearly a year of scale up for this business. Our overall market share has now increased to 11%, if you would remember that a couple of years back just it was 4%-5% and we are now at number one position in disbursements in 39 locations and number two in 15 locations. This is across players including banks. We had crossed our highest ever disbursements of over 1 lakh two-wheelers per month in the festive month of October and November. This business has now come up for the first one or two installment repayment and we are glad to report that our net non-starters are at a record low showing that the business that happened and this record business which happened, has happened at an excellent quality and as we kept upgrading our credit algorithm. Both early bucket and GS3 are trending well. This sector is also going to see some headwinds in the future with ABS implementation and BS6 norms which will increase the cost of a vehicle fairly substantially, but on the other hand if we look at the positives - as the cost of the vehicle goes up substantially, we believe that the finance penetration in the sector will also go up and which will be a good opportunity for us.

We come to the third business within rural. The growth in micro loans for us is a function of how fast we expand our branch network, how we expand our footprint on the ground in new areas rather than lending more to the same person or in the same area, we do not do that. You would notice for the last three quarters micro loans disbursements are consolidating around Rs. 2,700 to Rs.2,800 crore level. Here too, the early buckets and GS3 are trending well. While this business delivers excellent ROE after considering the normalized credit cost, normally the credit cost in this business comes as the event risk. Some examples, the situation arising out of the Kerala deluge is now behind us with collections back to normal. I would like to talk about a specific event; there was some talk in the market about this, that we had in Odisha. Certain bad practices were being followed in some districts of Western Odisha where ringleaders or local strong men or perhaps more common strong women were acting as go between for the borrowers.

When we noticed this during our routine audits, we immediately stopped disbursement in those areas. These had some backlash from these ringleaders leading to delays /defaults to some extent. We are glad to report that in Q3 we have fully provided Rs. 81 crore for entire debtors greater than 60 days in those areas and up to 60% of the portfolio between 31 to 60 days in that area. So, 60% of Rs.72 crore and Rs.81 crore 100% have been provided and it is all in those numbers that we have been reporting. So, with that we believe that we are dealing with the Odisha situation and but at the same time in the P&L we have taken care of it which totally we believe is adequate.

Overall with good disbursement and good book growth, Rural business has also shown a Y-o-Y as well as quarter-on-quarter improvement in asset quality with net stage 3 now standing at 1.33%. We expect this to continue as Rural becomes a more and more important part of our portfolio, though growth rates admittedly will be more moderated than FY19 which was largely base effect at play.

Let us come to Housing. As far as Housing is concerned, we grew our disbursements in retail home loans by 56% and de-grew loan against property by 50% in line with our risk perception. As we further build our proposition of direct sourcing and digital process flow leading to industry best turnaround time, we expect the growth in retail housing to continue. Direct sourcing remains at a very healthy level of 65% for Q3 for Home Loans. We expect this trend of growth in the home loan business through direct sourcing to continue in future as well. While the Real Estate sector in general is experiencing high risk perception due to lower demand and also with certain HFCs, NBFCs stopping the flow of funds, there are certain statistics which deserve highlighting.

In the residential market, overall unsold stock has reduced by 16% over the last three years while for the top 20 developers this decline is 20%, this is unsold stock, so the decline is good. Top 20 developers now have 43% share of under construction flats apartments sales, up from about 17% three years back. Hence our emphasis on concentrating on 'A' category developers and mid to low ticket sizes of apartment is keeping our portfolio healthy. Our concentration is largely on construction funding and in which each of the projects we are either core lenders or if we are joined in a few projects it is only with HDFC, we have no dependence on any of the NBFCs or HFCs which may have stopped disbursing to some of the projects.

So, our projects are safe from that point of view. Our credit criteria and method for monitoring early warning comes from our Group pedigree and places us in a unique position to understand and manage risk in the sector. In Q3 we undertook real estate disbursements in a very selective manner by tightening our credit norms further and disbursement showed a decline both Y-o-Y and Q-o-Q. This being said, Real Estate businesses is our core business in which we enjoy clear differential strength. It also works as a great sourcing engine for our retail home loan products. We will continue with our strategy of growing this business by being very selective in choice of borrower and projects and then using our proprietary monitoring tools for monitoring early warnings.

Asset quality in housing business stayed steady with GS3 at about 0.95% and NS3 0.69%. Last quarter we had talked about our exposure to three projects of Supertech totaling about Rs.800 crore. Our endeavor is always to get this project completed and sold in time that is the only way you get repayment from real estate sector - you need to complete the project. We are happy to report that the construction has progressed well; we have also appointed a special sales agent and the trajectory of sales after that has increased. Our inspectors as well as the audit firm we have appointed is monitoring the site progress and the escrow account very closely. While we continue to monitor progress, we are also pushing the promoter for certain asset monetizations, the proceeds of which can be brought as equity into the project. The repayments for projects from the cash flows continues to be good, continues to be current. In fact as of now Rs.50 crore has been received as pre-payment due to our cash sweep mechanism as sales happened.

So, Supertech pre-payment – current. In fact Rs.50 crore swept in from our escrow account according to our sweep in formula.

In our Wholesale business now, we have fully concentrated on our core infra business - largely on renewable and roads, with disbursement in core infra, which is putting the L&T infra as well as IDF together, growing by about 17% in Q3 FY19. Other opportunistic businesses like structured corporate finance and DCM have reduced drastically during Q3. Sell-down while at a decent level of about Rs. 1,600 crore were down compared to the previous quarter as a direct consequence of

liquidity pressure in the sector. Lower disbursement and lower sell-down due to tight liquidity conditions led to a fall in fees of the wholesale business and hence a fall in the ROE of that business. As we go ahead, our core strategy of maintaining number one position in our areas of strength in our infra business will continue along with our efforts to further strengthen our sell-down engine. We have taken full provision in our legacy portfolio at the end of quarter one and will continue to take further steady state provisions of about Rs.400 crore per year in order to build robust and a well provided balance sheet. The net stage three of the wholesale business including the old portfolio the legacy portfolio now stands at 4.24%. We are also glad to report that during the quarter we closed the sale of our supply chain business to Centrum totaling about Rs. 650 crore and more importantly 44 employees were transferred and rebadged to Centrum.

At this point of time, it is important to clear the air on our exposure to some of our IL&FS project SPVs. The issue is much confused, muddled around and we have tried to give some clarity in our investor presentation, and I think in my commentary as well as if there are any questions we will try and clear the air. As we informed in our last analyst call, our overall exposure of about Rs. 1,800 crore is to four annuity road projects and two toll road project SPVs of ITNL. All these projects now are operating projects. You will remember that last quarter we had said that five are operational, while one is under construction about to become operating. We are glad to report that all six are now operating projects. We reconfirm that we do not have any exposure to IL&FS limited, IL&FS Transportation Networks Limited (ITNL) and IL&FS Financial Services Limited (IFIN).

Regarding these six SPV exposures that we have, I would like to state today that there are two separate issues and when we see across the press the issue seemed to be mixed. The two separate issues are one the moratorium if any on regular repayment granted by National Company Law Appellate Tribunal (NCLAT) and two any haircut required. So, first is the issue of timing, second is the issue of loss given default and it is very important that the analyst community separate these two. As far as the NCLAT order is concerned, so this is not National Company Law Tribunal (NCLT) order, NCLT had actually thrown out because NCLT deals only with the company not with a group. NCLAT gave an order on 15<sup>th</sup> of October on the subject of moratorium. As far as this order is concerned as per our plain reading of the order and on basis of the legal opinion that we have obtained from no less than the retired Chief Justice of India, normal servicing of the loan by SPVs is not an issue. NCLAT indeed stays any punitive action by lender such as enforcement of security, acceleration of loan, premature or other withdrawal, suspension of loans and exercising the right of set off, lien. It does not stop normal repayment, this is our opinion and also legal opinion, we have obtained from retired Chief Justice of India. We also believe that by stopping normal repayment, the loans do not get reduced in fact uncertainty creeps in, value depletes and no one benefits by that.

Just to clarify, the order reads premature withdrawal - just these four words have been played mischief with. It says premature withdrawals and other withdrawals, common sense is that if the court meant regular repayments, they would have clearly spelt it out as regular withdrawals and premature withdrawals; nobody says premature withdrawals and other withdrawals if they want to say regular withdrawals that is what our belief is, that is what our interpretation is. We also confirm that throughout quarter three of FY19, loan servicing of all SPVs financed by us has been regular.

I will come to quarter four and you would see that all this we have mentioned in the investor presentation there is a development of yesterday also, which I will talk. In one SPV, a payment has been made as late as 15th of January 2019 by the SPV actually through a letter instructing the escrow bank to make the payment. Please

mark my word, one SPV instructed the escrow bank to make the payment, we have received the payment on 15th of Jan. In two SPVs, no communication has been received either by us or to our knowledge by escrow banks. Whereas in three SPVs, the SPVs have written letters now around 11<sup>th</sup> or 12<sup>th</sup> of Jan saying now stopping normal servicing quoting the NCLAT moratorium order. In fact, as you would all know, one of them actually did not make the normal debt servicing yesterday January 21<sup>st</sup> 2019 and I would like to state that this happens to be first ever non-payment from any of the SPVs to us on time.

So, every payment till now has happened on the date of repayment, forget delay this is first ever. Now obviously IL&FS management is interpreting this order differently, one SPV has also interpreted it little differently from the looks of it, but very simple, the next hearing of NCLAT is on January 28<sup>th</sup>. I think there was some misquoting somewhere saying it was January 20<sup>th</sup> it was not Jan 20<sup>th</sup> it is on January 28<sup>th</sup> and we hope that clarity on this issue will emerge. Clarity will be good for all parties involved including IL&FS and we will obviously do everything. We along with other lenders have already appointed appropriate senior counsel to represent us and to seek clarity. So, it is just six days away we will know.

Now issue two - probability of an actual haircut. Despite what is the outcome of NCLAT on 28<sup>th</sup> or later if there is a postponement, we believe that expected credit loss and loss given default of our exposure is expected to be Nil because of- one all projects are being operational, two adequate cash flows of projects which are all charged to us, three, debt service coverage ratios being satisfactory and four, the SPVs by nature by law being bankruptcy remote and solvent and hence in a position to repay their debt.

Given this, we believe that under Ind AS accounting standard, the loss given default and hence the expected credit losses and hence the provisions taken are nil. I believe that I have clarified all aspects regarding our results and will also try to clear some frequently asked questions. I thank all of you for your patient listening and open to questions.

**Moderator:** First question is from the line of Vishal Biraia from Aviva Life Insurance. Please go ahead.

**Vishal Biraia:** Sir, just in case the NCLAT ruling on 28<sup>th</sup> is otherwise and it says that the interpretation by IL&FS it should not be, but in case it says it is correct so then can this be applicable to all can all the SPVs take recourse to such kind of an order and has ought to such kind of practices?

**Dinanath Dubhashi:** First of all let me start by saying that if it goes against I will not like to reveal my entire legal strategy on a call, but obviously we are not going to accept it and keep quiet. There is always the Indian judiciary system always and higher courts to appeal. So, there are courts above NCLAT and we will appeal obviously, that our interpretation is very clear and we will go and appeal. So, whether it will apply to all other SPVs, etc., is very academic at this point of time. I believe, even that will be clarified at NCLAT. So, it is sub-judice even very legally saying without prejudice, etc., I do not want to give my mind because it is sub-judice.

**Vishal Biraia:** One specific question on IDF, could you give us data on the exposure of IDF to various rating bucket as to what is the exposure to A, what is the exposure to triple B, what is the exposure to double AA and all so that will be slightly helpful for us?

**Dinanath Dubhashi:** So, we don't give all this data at this point of time. Our average will be A, also large part of it guaranteed by the Government of India. So, 50% of the overall portfolio by its very nature will be guaranteed by the NHAI. Hope that answers your question.

- Moderator:** The next question is from the line of Anitha Rangan from HSBC Asset Management. Please go ahead.
- Anitha Rangan:** I have a couple of questions, can you share with us what are the names of the projects in the SPVs that you have exposure, will you be able to share and also we wanted to know like now you are saying three SPVs have written letters and any idea why only three SPVs and what about the other three SPVs?
- Dinanath Dubhashi:** The answer to your first question answer is no, our presentation is one of the most transparent one and any information not there in the presentation means you can assume that we do not want to give, whereas when we say that one company has not paid on 21<sup>st</sup>, that I think the world knows which one. So, that is name is clearly known....
- Anitha Rangan:** Three SPVs have written letter why only three SPVs and why not the others?
- Dinanath Dubhashi:** We do not know frankly and it just adds to the confusion, but we are happy that at least one there was no problem we will see what happens to the others.
- Dinanath Dubhashi:** There is one clarity that I can give you that till 28<sup>th</sup> there is no other payment due. So, 28<sup>th</sup> we hope to get clarity there is no other repayment due till due date. So, that should put you at some rest.
- Anitha Rangan:** And on the Real Estate finance I mean what kind of trends are you seeing in the market and particularly your book like is there any kind of delays or you know some challenges because once the industry has gone through reasonable amount of liquidity challenge so has that impacted the Real Estate segment so far?
- Dinanath Dubhashi:** I think yes, the general answer will be yes, but I would like to qualify this answer. If the builder is not top 20 or top 30 builder largely, they are having problem because of tremendous lack of liquidity number one. Number two is if the builder and the project especially is in large ticket luxury or super luxury, sales are very slow especially under construction there are hardly any sales, if it's completed property some sales are happening but the sales are very slow. Third trend is, you are right that some financiers have almost stopped lending which obviously will bring problems to some of the segments. Now, what are the mitigants that our portfolio has to this, our lending largely in fact in Q3, 81% of the portfolio I think more than 90% of the disbursements were to A category builders. So, these are builders who are relatively better is number one. Number two, our projects and large part of our portfolio is in the low and middle-income, they are middle-size and middle-ticket size as I told you how do I define this middle ticket size in the Mumbai Metropolitan Region (MMR) in Mumbai, it will be sort of less than Rs.2 crore and in other cities it will be less than Rs.1 crore, Rs.60 lakh to Rs. 80 lakh kind of ticket sizes. Our majority of the portfolio is in these ticket sizes and we are seeing good traction there. Last but not the least, as I said 93% of our projects, we are sole lenders and the remaining 7% we are with HDFC and hence, this trend because of somebody else not lending our portfolio coming under trouble is what we do not have. So, these are just talking about our mitigants to industry trends. After that comes our early warning signals and measures that we take - our engineer on site monitoring, those are actually our proprietary mitigants for controlling our portfolio. So, as of now, the portfolio is under good shape and no issue.
- Anitha Rangan:** Just one more question when you said top 20, 30 developers are okay but the luxury and super luxury is very slow would not the top 20, 30 only be the ones, who are actually in the luxury and super luxury?



**Dinanath Dubhashi:** Those projects you will need to avoid and first of all it is not true it is not like that very small builders also do some luxury projects, but if you draw a matrix of A, B, C, D class builders and their projects the sweet spot will be A and sort of B plus A and low and middle income, so that will really be the sweet spot and within that also for funding, actual construction funding will be the sweet spot and if you see that is more or less about 70%-75% of our portfolio. If you have not done too much land funding or too much early stage funding, you are mostly in construction funding, you are in control of the project, then you can make sure you can take charge of the escrow, complete the project, sell it and get your money. The whole point is that when you fund, you fund at a very good cash cover, receivable cover of about between 1.75 to 2.5 when you do it at that receivable cover if you complete the project you can make sure that even by taking a large discount, you can get it sold and get your money back. It is very active management that one has to do, as lending to real estate is not a spectator's sport; you have to be totally involved in the project.

**Moderator:** The next question is from the line of Amit Ganatra from Invesco Asset Management. Please go ahead.

**Amit Ganatra:** Firstly, the operating expenses are going up not only year-on-year, but quarter-on-quarter and specifically in wholesale business also they have gone up sharply whereas the loan growth there is not there so any specific explanation for that, that is the first question.

**Dinanath Dubhashi:** So year-on-year you just ignore a little bit because last year is all this Ind AS related, but quarter-on-quarter you are right you know wholesale business always it will be a percentage overall expense itself is so low that some expense is being allocated to wholesale, etc., it can change a lot, but having said that overall expenses has definitely gone up quarter-by-quarter. It is entirely our investment in branches, networks, investment in digital IT, it is all good expense it is not wasteful expense that is one. Second, when you have portfolio composition changing to retail, it is going to come at a cost so at the end you will have to see whether the ROA is sticking to us because as retail goes the total expenses as well as expenses to book will go up naturally.

**Amit Ganatra:** So, in that sense is it that there are some expenses which have to be attributed to all three business and that is why wholesale gets its shares?

**Dinanath Dubhashi:** Obviously, in any mega-corp there will be allocations.

**Amit Ganatra:** The second question is that you spoke about the capability to ensure that the projects gets completed, so internally I am sure you must have done reassessment in terms of how many projects are still under constructions and what stage they are in because see this question is more because the refinance market is completely dried down is what we understand. Now under those circumstances basically what is your assessment of your portfolio in terms of your ability to get these projects completed and then even after taking some discounts you can get your money back.

**Dinanath Dubhashi:** See, largely the portfolio will be under construction because if it was complete, it would have been sold and got out. So, naturally that is why it is construction finance, but obviously there has been some which would have been complete. But few, so let us say the route of exit which everybody talked about in real estate was refinance - that is dried up, but that is not the only route. So, first of all the actual route of exit and I will talk about refinance also a little bit, but the actual route of exit is some other asset sales, because 'A' category builder will always land parcels, land inventory. We have to push him, force him we have to have control of the

SPV, we have to have legal covenants to make him sell land make him sell his other project and bring more equity if the project is coming under some liquidity constraints.

Second make sure that you provide him enough construction finance, control it well to see that he does not take that money somewhere else because here everything you have to control. So, to complete the project you do not give money to the developer you give directly to vendors, directly to labour contractors, directly to cement suppliers and you get in control that is why you get that kind of interest rates. You don't get it for free. So, when do this you make sure that the projects get complete and then you really twist his arm to sell at a rate that it can be sold and as I said generally speaking, our receivable cover is such that even if you take 25% to 30% discount, we should cover our repayments. So, that is the route which is a good route. Lastly, there are intelligent foreign private equity firms who come and who want to buy certain part of the project, who want to buy certain inventory of the project and it will always be a negotiation between us and between them as to what kind of inventory you part because naturally it will always a matter of negotiation as to what we part and what asset cover we part and these calculations and discussions will always go on, but I would not make a general statement that refinance is closed it is very true because there will always be players who will be interested in certain types of assets.

The refinance as everybody thought was happening I mean you are calling it refinance if you are a little less polite you will call it ever-greening that should not have ever happened and now definitely is not happening. Real refinance coming out of private equity is definitely happening obviously lesser than before and the project exits will be in the way that we are talking. Obviously, from quarter-to-quarter I would not be able to make bombastic announcement like we have exited from two projects, two and half projects, etc., because real estate projects take time to complete. What is important is having milestones, having clear monthly milestones, having a team monitoring those monthly milestones and yes, holding that team to task.

**Amit Ganatra:** One last question is that internally I mean you have created some contingent provisions for your housing business some contingent provision has been created for even rural business and pre-provisioning profit number is very large for you even on a quarterly basis. So, why is it I mean is not there any thought process in terms of using one quarters profit and just building a contingent provision even on the wholesale business side because then that put asides this question this particular asset completely to rest.

**Dinanath Dubhashi** Which particular asset?

**Amit Ganatra:** Basically, I would assume that IL&FS would be part of your wholesale business.

**Dinanath Dubhashi:** And why would it put it as rest because unless and until I provide Rs.1,800 crore if I provide Rs.400 crore you will ask why Rs.400 crore.

**Amit Ganatra:** Some kind of provisioning cover not for that particular asset I am just saying that there is a contingent provision that you have created in the other businesses, there also there is no identification today per se it is just that for any future anticipated events if there is a requirement then that can be used?

**Dinanath Dubhashi:** So, the businesses for which you make this kind of provision are businesses which are susceptible to large event risk. So, when we say we provide it in rural actually we provide it for micro loans. In housing when we provide, we largely provide it for real estate. So where we see large event risks happening that some big problem in

the sector is where these contingency provisions are made, they are not for a particular asset going bad. Secondly, they are made based on as we have clearly said based on capacity of that particular quarters profit of that particular business to make those provisions, but most importantly the first explanation that it is not made by nature, for a particular project. If I make a provision for IL&FS it will come in my GS3 provision because then it is a specific provision for IL&FS. So, that is why we are not calling it countercyclical, we are not calling it contingent, we are calling it macro-prudential it is macro, it is not micro, it is not asset based and it is prudential. So, that we have to understand the concept behind it.

**Amit Ganatra:** Is the bucketing very clearly defined in the sense that housing can be used only for housing rural can be used only for rural?

**Dinanath Dubhashi:** Yes, largely surely.

**Amit Ganatra:** So, for example suppose in rural there is no challenge in future, but housing has a larger challenge then can the rural contingent provision be used for housing or it cannot be used?

**Dinanath Dubhashi:** Very frankly, I have not thought about this question, but I consider myself as of high integrity. I do not think I will do it, but I have not thought about it. I will think about it now that you are pointing it out.

**Amit Ganatra:** No because there is some sort of buffer that is being created in the...

**Dinanath Dubhashi:** I understand but I only said that I have not thought about that I can do from here to there, it if that question has not arisen until now and as I said normally speaking I would not do it as I consider myself a man of high integrity.

**Amit Ganatra:** And internally is there a thought process that how much this contingent provision needs to be created?

**Dinanath Dubhashi:** So, banks, RBI has allowed banks to provide up to 1.25% of risk weighted assets, we have our Board approval to provide anything up to 1.25% of risk weighted assets. There is no time horizon on which that will be done. So, it is very clearly a capacity-based provision, it is basically providing for the rainy day you know it is actually ironical that person in rural business should say that because normally a rainy day will be good for us, but just in a way of speaking providing for the rainy day.

**Moderator:** The next question that is from the line of Abhishek Saraf from Deutsche Bank. Please go ahead.

**Abhishek Saraf:** Just a few things first of all on sell-down volume so obviously this quarter we have seen sharp dip of around 25% QoQ, so you attribute this to primarily the uniqueness of this quarter that disbursements were low and when do you expect this to actually come back to the normalized state because that obviously is having some impact on your fee income albeit it has been kind of compensated by a higher fees in the other business but still it is a key driver of the fee income so just your thoughts on that and secondly, Sir this thing GS3 if I see, Sir GS3 ratio has been coming down but so has been the absolute level so have we taken some write-off or why the absolute levels have actually come down in GS3 assets as such?

**Dinanath Dubhashi:** So, firstly on fees so you know when we started this business long back sell-down about two and half years back that is the time the customers were largely public

sector banks and who used to value our appraisals, our appraising ability and used to take the assets in wholesale. As public sector bank got their problems, the team moved their concentration to more to private banks and from private banks it also added PFC/REC, it added other NBFCs and in Q2 the percentage of sale to other NBFCs was fairly large. We are recognized as the leader in infra and people see great amount of value in buying our assets. Now obviously in Q3 the sell-down to just if you say "other NBFCs" was hardly anything some IDFs bought from us PFC/REC bought from us, mostly infra debt funds bought from us the general NBFC buying from us naturally dried up in Q3.

We believe that market still exists and it will be subject to when these NBFCs get back to normal liquidity and normal business rhythm so that will be my answer. The team is committed that if any source dries up, we will keep looking for other sources and also, we are one company so as we did this time the other businesses will chip in to make sure that our fee income does not go down. Also, I will just give another color to it Rs.1,600 crore definitely was 25% down, but it was Rs.1,600 crore in this quarter and just I would like to point out the positive part of it and Rs.1,600 crore was a large amount to be sold down in Q3 so just pointing it out.

**Abhishek Saraf:** So, basically you are saying that it is more of a demand side thing?

**Dinanath Dubhashi:** Naturally, our sale of supply chain business happened only on 31<sup>st</sup> of December. So, whatever you do is not just the function, any transaction takes two parties, so it is not just the function of our strength.

**Abhishek Saraf:** Just on the second question GS3 thing have you seen any?

**Dinanath Dubhashi:** So, every quarter there will be some write-offs here and there, but never the write-offs will be a main function of bringing down GS3. GS3 has come down by solving GS3 and by basically bringing up your zero DPD and early collections. So, as I said directionally, you can take that the entire asset improvement is because of early collection, zero DPD concentration, we still do not give these numbers but we will start giving after a few quarters how zero DPDs has moved, how x bucket have moved why we are not giving now obviously I need to get confidence that these are sustainable, robust, etc., and then I will start giving these numbers, but right now as I said I am a man of integrity. Take it from me that 85% to 90% of the reason, directional reason, is - good business happening, good collections early and yes, obviously when we conclude as a Board policy when we conclude and the Board approves that certain assets or certain portfolios are non-recoverable, they are already 100% provided some of that is written off, but I will just tell you a mathematical thing, when you write-off something which is 100% provided, your PCR will normally come down naturally, so if your PCR is remaining same you can take it as a trend that no such big things are happening. Does the math make sense to you?

**Abhishek Saraf:** Yes.

**Moderator:** The next question is from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

**Kunal Shah:** Sir firstly in terms of this entire real estate again we had done Rs.1,400 odd crore, normal run rates has always been Rs.1,500 to Rs.2,000 odd crore per quarter, so how much of this is to say the existing projects and how much are the new commitments and what is our view in terms of signing of the new commitments on the real estate financing space?

**Dinanath Dubhashi:** I think around 25% to 30% of that will be for completion of an existing project.

**Kunal Shah:** Last quarter more than close to 50% would have been.

**Dinanath Dubhashi:** So, 50% will be for completion of existing projects, 50% will be new directionally as I said we are very non-apologetic about our real estate business. We believe it is a great opportunity for people who understand this business to fund, you just have to be very careful. It is a business where your mindset should not be of the normal lender. A normal lender believes that once we lend, this job is over. In real estate business, lending is one important job, but your actual job starts after that because your collections will only come when the building is built and more importantly when it is sold and you have to be staying in control of each one of that part. So just as a number, I have given you this piece of data that my monitoring team is actually more numerous than my business team.

**Kunal Shah:** And on the locational preference, is it more tilting towards outside of Mumbai and NCR on the incremental basis?

**Dinanath Dubhashi:** We had given this last time I think we are around 40% in west and the rest more or less equal in north and south.

**Kunal Shah:** No, on incremental basis, is the tilt shifting more outside of west may be not particularly Mumbai, but into the other regions.

**Dinanath Dubhashi:** Bangalore is the place that we like, Bangalore is doing well.

**Srikanth JR:** Q3 largely it was west and south with Pune starting to contribute more importantly.

**Kunal Shah:** Secondly, when we look at it in terms of the liquid assets outside of undrawn bank lines or even in terms of the backup lines which is there from L&T in fact our most of the NBFCs have been keeping maybe the larger part as liquid assets on the balance sheet maybe 10%, 15% and in fact if we see on a quarter-on-quarter basis from Rs.6,000 in fact it is Rs.4,000 odd crore so what are your views in that so are you very comfortable with the environment and that is the reason we are seeing this kind of disbursement and maybe like even say we do not need a 10%, but we are comfortable even with this sort of liquidity.

**Dinanath Dubhashi:** So, I will take you to my Slide #7 whatever we do Kunal we do it with a framework. So, it is not like we decide 5%, 10%, 15% somebody is keeping 10% so we will keep 11% we do not do that. The framework is very clear that every month we see that what is our next one-month gap under a stress environment. So, the normal gap you see on the previous page, which have normal liquidity gaps than we project in a stress scenario. The stress scenario as projected by one of the world's leading risk consultant which is Oliver Wyman, says that you take a 15% haircut in your collection and you take a 40% haircut in your committed bank lines that is the '1 in 10' stress scenario and after that you see your one month gap and if that one month gap is negative which many cases it can become negative you keep that as negative then you keep cash even for your one month repayment for your one month stress gap do you get that is our framework.

Now this Rs.4,000 crore let us see in that context. So, on December my stress gap is positive Rs.6,200 crore so according to our framework we do not need to maintain any cash actually do you get what I am saying. The stress gap that is if my repayments over the next one month fall short by 15%, 15% is a very big problem, I will have much bigger problems than a gap if 15% of my repayment do not come. So, you take that and you say okay, whichever banks have given us committed line 40% of them some will say today is not my mood and will not give money and when that happens, I still have a Rs.6,000 crore positive gap. So, actually I do not need to maintain anything but I have Rs.4,000 crore let me put it

this way and that was Rs.6,000 crore that is Rs.4,000 crore and if situation improves like that I can already guide you that it will be lower, I do not know how much lower it will be lower in March because at the end of it, once this liquidity is back to normal, you will ask me why are you keeping this negative carry.

**Kunal Shah:** No not really but I am saying maybe in terms of this current environment of liquidity should it move beyond one-month gap or no?

**Dinanath Dubhashi:** I have only my third quarter performance to show. It will not be worse than third quarter number no?

**Kunal Shah:** And lastly in terms of two data points, so firstly the break-up between home loan and LAP on the outstanding book within home loan and LAP.

**Srikanth JR:** We have given in investor presentation on page no. 36. Home loan will be roughly 57% to 58% of the loan.

**Kunal Shah:** And when you look at it in terms of this sell-down income so within this fee and other income which is there how much would be sell-down and maybe in terms of the experience of the sell-down even on the wholesale side are we seeing any pressure on spreads or it is not there it is largely on the retail since many of the NBFCs are there so that is happening at a lower spread.

**Dinanath Dubhashi:** So, let me clarify something that sell-down happens only in wholesale business that is substantially down and after that our fees and other income is at the same rate. I should also clarify that actually some part of it is also this interest earned on this Rs.4,000 crore liquidity that we keep so it is fees and other income.

**Kunal Shah:** Our sell-down is entirely corporate, but the only thing is maybe in terms of what experience has been there on the retail portfolio in terms of pressure on spreads, is it something which is there on the wholesale as well or it is not there maybe we are doing it for the most....

**Dinanath Dubhashi:** So, this pressure on spread on retail I do not know where it has come from there is no pressure on spread in fact, we have taken some price increases, towards the end of quarter you will see the effect in Q4 that is number one. So, just to clarify on wholesale we have taken almost 100 basis points increase.

**Virender Pankaj:** Yes 75 this year increased and our yields are up by 55 bps.

**Dinanath Dubhashi:** So, 75 basis points in PLR increases we have taken and you would see our yields are smartly up. Even in housing we have taken because one thing which was not there in Q3 was competitive pressure. Something should be good.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.

**Dinanath Dubhashi:** Thank you for all for your questions. In conclusion let me say that we believe that our good performance comes out of doing the basic things right and always doing the right things. This makes performance robust and more importantly sustainable; hope to continue delivering similar results in the future. Thank you.