



**L&T Finance Holdings Limited**  
Q1 FY'20 Earnings Conference Call Transcript  
July 22, 2019

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**Moderator:**

Ladies and gentlemen, good day, and welcome to the L&T Finance Holdings Q1 FY'20 Earnings Conference Call. 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. Good morning everyone, and thank you for joining us today for L&T Finance Holdings' Q1 FY'20 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 Q1 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's performance and the strategies going forward. Over to you, Sir.

**Dinanath Dubhashi**

Thank you, Shiv. Good morning, everybody. You know after a lot of thinking and introspection, looking back on 12 years of my experience in NBFC space, and even before that, I believe that Q1 FY'20 was perhaps the worst quarter that the NBFC sector in general has seen. I must say that after due consideration, after considering all the negative events that happened in the sector, we are really happy with not only the results we have been able to produce but also with the fact that we have strategically as well as tactically handled the issues facing the sector, and more importantly, at the same time, built a robust business model. To put it simply, in 2016, when the sector was perhaps at its peak, we were at 9% ROE and a quarterly profit of about Rs.170 - Rs.180 Cr, and today, when I think everybody talks only negative about the sector, even then our ROE is around 16% this quarter and profit of Rs.550 Cr after taking some onetime hits. I look at these results as a good indicator of robust business model we have built.

The sector has seen severe challenges mainly in these 4 areas:

- 1) Liquidity issues continuing to affect the sector in general;
- 2) Downgrades and solvency challenges for some of the NBFCs, HFCs;
- 3) Demand slowdown across various basic sectors, NBFCs and banks fund basic sectors, and in one way or the other, each of these sectors have seen demand slow down. The slowdown is real. There have been lots of easy explanations put for that, saying that these slowdowns are because of NBFC liquidity. It is far from true. There are just less customers walking into the dealerships. So, we have to look deeper for reasons for the slowdown. It is definitely not because of NBFC liquidity. That's sure.
- 4) Finally, a lot of negativity coming from rumours, WhatsApp, social media, etc. I will, during my talk, express my surprise at a few things that I heard about us in the last 2 days, things that we did during these results showing our positive intent of doing it and the rumours that it has started. I am here today, and my management is here, to answer your questions on all of that. I will utilize my time today

to talk about each of these challenges thrown at us by the environment and how we have dealt with them. Of course, I'll leave it to your judgment whether we have dealt well or badly, but what I am sure about is that we have certainly dealt with them decisively, as we have always done.

So, let us take one by one -

#### 1. Liquidity:

As you all know, liquidity, even though the Government of India has put a lot of liquidity, RBI has put a lot of liquidity in the system, that liquidity flowing into NBFCs has been very limited for many reasons. NBFCs who have been selling retail assets for getting liquidity, perhaps have sold most of their good retail assets. We have stayed away from that completely. Yes, there have been downgrades, there have been some solvency issues. Generally speaking, NBFC spreads, over government paper have only gone up. So, even though the G-sec yields have come down, NBFC yields have not come down. So, how have we dealt with it?

- I must admit in the beginning that our AAA rating and our strong parentage has definitely helped us tremendously
- We have done the basic things right - like in the last 8 quarters, we have maintained positive liquidity in every bucket, up to 1 year
- Even in a stress scenario, as we define it; and also as per the draft RBI guidelines define it, we had positive liquidity in the first one month (30 days)
- In addition to this, we continue to maintain close to Rs.5,000 Cr of high-quality liquid assets. I'm not even counting the undrawn lines or the backup line from L&T, the details have been provided in the presentation. This ~Rs. 5,000 Cr is actual liquid assets held on the balance sheet. So, I can say that as of today, we are completely in line with the RBI's draft guidelines. What it means is that there is no further negative impact on profitability when the guidelines actually come into existence as we are already in line with the guidelines.

Raising of money certainly has not as easy as as it was 9 months back. Large lenders, especially large lenders to NBFCs, now do a lot more due diligence. So, a loan which used to take 15 days to sanction will perhaps now take 2 or 3 months to sanction. But we look at that as a positive because every time you borrow from somebody like IFC/ AIIB or even large tickets from domestic lenders, a good amount of due diligence on the book has been carried out. It gives us assurance about the book, and it's one way to give you guys the assurance about the book. As I said, in my strategy roll-out last quarter, we have started a drive to diversify funding sources about a quarter back. We have also given a slide showing the total amount of long-term funds that we raised, ~Rs.6,500 Cr were the long-term resources that we raised in this quarter. About Rs.3,000 Cr out of that came from new sources like retail NCDs (Rs.1,000 Cr) and \$275 million of ECB. The ECBs are fully hedged, 100% principal, interest and currency and the cost of funds includes the full landed cost of the ECBs.

I may be going into a lot of details, but that's to ensure that there is no further speculation on any of this. More importantly, ~Rs.3,500 Cr has come from the old sources of funding (Bank loans and NCDs). There have been some reports saying that some of NBFCs are going abroad because they are not getting funds internally. So, just to clarify, almost 50:50 split out of what we have raised from the old sources, as well as some new sources, thus showing that we can raise money from both.

Our CP percentage is down to about 13%, even though our ALM supports close to 22%- 23%. We are doing this so that people should be absolutely sure of our liquidity. Even with these diversification measures, there is just 6 bps increase in costs, while margins remain robust. Our NIMs continue to be at

around 5.2%, and NIMs plus fees continue to be around 6.8%, which is in line with our guidance. I believe that clarifies the liquidity issue.

2. Downgrades and solvency challenges for some of the NBFCs, HFCs: Solvency of a few specific accounts, first IL&FS, then certain housing finance companies. I will now clarify both these cases.

As you would know, about three quarters back, we announced that we had about Rs.1,800 Cr exposure to IL&FS road SPVs. All of them were operating; 4 annuity and 2 toll projects. We always maintained that we believe that these SPVs are solvent. NCLAT classified all IL&FS group companies into three categories based on solvency criteria- red, amber and green. Two of our SPVs were already in green though it was a very small amount, less than Rs.200 Cr and about Rs.1,600 Cr were in amber.

NCLAT ordered a moratorium or standstill period for ILFS SPVs, till the companies are actually sold. As you would know, in Q4FY19, we conservatively deferred accrual of interest of about Rs.84 Cr, i.e. Rs.42 Cr per quarter and we had said that until this issue relating to our exposure to ILFS SPVs is solved, we will keep deferring it. I am glad to report that our tremendous efforts to work with the Government of India and IL&FS, has resulted in converting our amber exposures to green. We have taken a little bit of interest cuts on those in line with market, and IL&FS as sponsor has actually restructured their debt, i.e. unsecured loans from promoter and our project SPV exposures have passed the 1-year solvency test, which had originally resulted in this red-amber-green classification. So, now 5 out of my 6 accounts, which is 93% of our exposures, approximately Rs.1,700 Cr out of Rs.1,800 Cr, stands converted to green. What it means is once the loan documentation, etc. is completed, we will start actually receiving money according to the contracted schedule.

Also, to tell you one fact, which is not in the public domain so much, is that, while these 3 companies owe about Rs.300 Cr to all lenders put together, the escrow accounts contain upwards, of some Rs.900 Cr. So, we don't see any difficulty here. And hence we have been able to reverse or rather reinstate this Rs.84 Cr deferral that we had taken in the second half of last financial year.

What I would like to claim here also is that so there is one more exposure to an ILFS road project SPV which is remaining, which is just about Rs.100 Cr, and we are very hopeful that we will be able to convert that also to green. In fact, using these 3 cases, NCLAT has pushed IL&FS to try and convert all their 13 road SPVs from amber to green.

So, according to me, I can claim 2 things confidently

1. Our estimate has come right. I'm not saying always it will come right, but our estimate on the losses that we will eventually take has come right, showing that we have a reasonable amount of confidence in our underwriting and our estimates and our project monitoring
2. The teams involved and there is a very specific team which works on specific assets that needs working. What I can say is this shows their tenacity, their push in making sure that difficult assets are indeed resolved. Just 3 out of total 13 becoming green and all 3 being ours are not coincidence. It's definitely not a coincidence. In fact, I believe with that, IL&FS is definitely behind us.

I would also like to talk about our exposure on a housing finance company. These are basically securities where exposure was taken by our DCM desk. These were AAA at the time of taking exposure and were rated D in June. All of our payments until then were on time. In fact, there was a small amount of about Rs.40 Cr due in 5<sup>th</sup> of June, which was received in total. After that the company has defaulted, not to us but to someone else. We, as a prudential measure and conservatively, are now taking a 50% onetime provision

immediately and believe that this is very conservative and adequate even in the worst case. Lots of measures are being taken by bankers and other lenders. Also, there are some measures being taken for the company to change owners. Under all these conditions, we believe that the final loss will be lower than what we have taken. Even in case it is a little bit higher, we will not hesitate to take it. But I am sure that 50% is more than adequate.

This quarter's profit have to be seen after taking into account both these onetime adjustments, both for IL&FS, which is positive; and this housing finance company, which is obviously has had a negative impact on this quarter's profit.

### 3. Demand slowdown across various basic sectors

Now I come to, according to me, what is the most important issue. It's growth in many of the sectors. These are times that industry after industry is showing de-growth. At these times, we drive our teams to go back to fundamentals. We go by two principles

1. Our 'Right to Win'. We have always said that 'Right to Win' means we will gain more than others when the market is up. And when the market is down, like it is today, we will lose less than others. I can confidently state that every market that we are in, we have maintained or increased market share.
2. 2<sup>nd</sup> principle that in the troika of portfolio quality, margins and growth; growth always comes after taking care of the other two. Our improving asset quality and steady margins indeed shows that we have practiced this principle and I will always drive my team to practice this principle. Growth will eventually come when the market turns. But right now, it is for us to invest in our core businesses more and more in footprint, quality people, most importantly, our analytics strength. We have hence been able to increase market share, and I will go into details of each of the business. We have also used our analytics strength to be able to hedge the market drop by concentrating on refinance as well as old vehicle financing, et cetera.

Let us talk briefly about each of the business, and I will then come back to the overall story

- a) **Tractors:** If you remember, we were the first to call out a possible slowdown in the tractor market. Various reasons: obviously delayed monsoon and lot of inventory push that had happened in Q4 of last year has resulted to this. Yes, there are certain green shoots in terms of, for example, monsoon has caught up even though it has not been uniform. More importantly, kharif crops sowing has caught up. But whether it will lead to a positive growth we doubt especially because the festive season was unprecedentedly positive festive season last year, it is very unlikely that tractor market will show a positive growth at least in this quarter. What we can say is we will maintain or increase our market share, as we always, always believed in doing absolutely precision bombing and we have the tools for it. In this quarter, the overall tractor market was down by 15% vis-à-vis that, our disbursements are down just by 5%, and we have actually marginally increased our market share even in new tractor market
- b) **Two-wheelers:** The overall market is down by 13%. Yes, obviously, general drop in incomes, one; increase in two-wheeler prices both mainly because of technological developments like ABS, CBS et cetera, have led to these drops; also slowdown in scooters is far higher than the slowdown in motorcycles. What we have done has been able to again maintain our market share here. Our disbursements are actually up by 14%. If the market continues like that, this 14% may not continue. But what we will do definitely is maintain or increase our market share.
- c) **Micro loans:** Once again, the industry disbursements have been down. Ours is down more or less in line with the market. I would like to give a little bit color to this. There are markets, especially in East, especially West Bengal, some markets in South, where we believe, and we have called this

before, Odisha, where we believe on our data, on our detailed data analytics, that there is increasing amount of over lending happening. Our rejection rates have reached 53% from close to 45% to 50%. We will be absolutely clear that we will sacrifice growth if need be, but nothing will induce us to lend to our customer who is already over-borrowed. We believe that in this market, there is a lot of scope for financial inclusion, and growth will come eventually from lending to finding new borrowers, new-to-credit borrowers and lending to them.

It is always an interplay between credit cost and OPEX as you go deeper. We believe that with our data analytics and with our IT and digital platform, we believe that we can manage this interplay very well. We will be expanding in North. We will be expanding in Punjab and Haryana. We are setting up a network there. As this will start growing. We have done this before, have expanded in Bihar. We have also gone to Northeast. And as we have slowly reduced dependence on East especially, we have been able to keep up our book growth based on this. So, that largely explains our Micro Loans business model.

- d) **Home loans:** Our home loan continued to grow at 12% and our move to salaried and direct sourcing continues unabated. Our salaried disbursement is up by 49%, and direct sourcing is now close to 75%. So, we are actually very confident that very soon, we will cut off the DSA tap maybe in a year or so. So, we will be 100% direct as we go ahead, a very good model of working closely with builders and being the fastest in the market for sanctions. Using completely digital and data analytics in this business is working well for us.
- e) **Real estate:** You will see that our real estate book is constant over the last one quarter despite Rs.1,200 Cr of disbursements. And what it means is we have got Rs.1,200 Cr of repayments, more or less. The book is largely there about Rs.15,000 Cr. Out of the Rs.1,200 Cr of disbursements, close to 50% has been, as we said, for completing our existing projects and remaining 40% is towards the LRD, which shows that just 10% is for new customers for construction finance. That is around just about Rs.100 Cr-Rs.120 Cr and this has been done extremely selectively.

We will continue like that. As I always said, we are very proud of the strength that we have built in this business. We do believe we have differential strengths like we have in infra or any other business that we have built, and we will use it. Of course, we are being selective at this point of time because according to me, in the whole country, there are about 50 developers even worth doing business. And even within that, we are being extremely selective.

- f) **Infra:** Infra business also continues to do well. Nothing majorly different there. We maintain about 25% incremental market share in our focus sectors. Most importantly, even in these difficult market conditions, we have been able to sell-down, it is below what we used to do before. From about Rs.1,200-Rs.1,300 Cr, it is down to Rs.650 Cr- Rs.700 Cr now. But 650 Cr, down-selling of loans, infra loans, is perhaps Rs.650 Cr more than what anybody else in the market has done. So, which shows our ability to down-sell and the fees that we continue to gain comes from this.
- g) **Defocused:** Now let me clarify one issue, which has apparently caused a lot of confusion over the last two days. And I wonder frankly why, because most of the data is there in the presentation, and we did it actually to reduce confusion. Unfortunately, some circumstances are such that it has caused confusion. We have always worked for strengthening our 'Right to Win' in businesses where we can. In 2016, we acknowledge businesses where we had no 'Right to Win' and we classified them as defocused. We have ramped that down successfully and moved capital from these businesses where we believe that we have 'Right to Win', where ROE is good and the overall ROE has gone up. So, we have done this before.

I would draw your attention, that throughout last 3 quarters, we have concentrated on the rural, housing and select infra sectors where we clearly have a 'Right to Win' and are further strengthening the same. You have to only look at my last 3 presentations to see we have hardly done any business in structured finance, structured corporate finance, DCM and supply chain. In fact, supply chain business, we sold in Q3 FY '19. This quarter, the remaining book of this business is merely being reported as defocused. From the chart on Page 26, you will see that even under this new definition, the SFG or DCM book has actually been running down for the last one year. One year back, the SFG & DCM book was ~Rs.10,600 Cr and today, it's at ~Rs.8,600 Cr. So, it is nothing new.

So, why have we then reported it separately now? Whether we should have or we should not have, jury will always be out. But why have we reported now? Since there have been nil disbursements in these two businesses over the last couple of quarters, it is better to report that separately so that the disbursement growth, book growth, all other ratios, and more importantly, the speed with which we are doing retailization is not seen wrongly. Because if I keep showing this in Wholesale, Wholesale book will come down even more rapidly than what it is actually coming, and you will think that my retailization is happening faster. We want to show the real picture, the pace at which retailization is happening, the real book growth, the real disbursement growth. Everywhere, if we keep showing in Wholesale and these numbers, zero - zero, all sorts of confusing numbers will be seen. So, we believe that just removing any business that we are purposely not doing any business separately helps very clear number analysis and putting things in perspective.

Internally, teams can do both things in a concentrated manner. The teams which are for doing business can do business now in a concentrated manner, and teams which are in charge of running this book down can bring this down efficiently thus rapidly releasing capital for usage in other businesses, where we can generate consistent returns. This has worked before and we have no doubt that it will work again. There is a lot of speculation whether this is a good book, bad book, et cetera. It is nothing like that. It is the overall book. Let me clarify. It has nothing to do with asset quality. Other than this housing finance company, the net Stage 3 of this book is just Rs.166 Cr, which is just 3%, which is no different than actually the overall book. In fact, if you see the infra book, it is a little more than that, right?

So, once again I'm saying, it has nothing to do with asset quality. It has no other meaning in this concept than proper reporting and rapid reallocation of capital. More importantly, it is nothing new, and we have been doing that for the last 3 quarters. In fact, let me state this other than this one time booking, our credit cost has always been in the range of 1.6% to 2%, and we do not expect it to exceed that level in the near future.

Let me also clarify that our steady fees from Wholesale comes from underwriting and advisory and sell-down. Even, in fact, the DCM fees were up in one quarter, down in one quarter. There will be MTM positive in one quarter, negative in one quarter. Now there is more steadiness. The fees come from underwriting, advisory and sell-down, which is intact. As you see this quarter, we have not done any DCM business for the last 3 quarters. And you can see the fees this quarter, it is intact.

There are a couple of more issues that I would like to clarify before I come to the conclusion, and then I will just give my concluding remarks and open it for discussion.

There is apparently a new issue, which is AP, Andhra Pradesh issue. After the Jagan Mohan Reddy government took oath in May 2019, the CM in June announced that renewable tariffs will be renegotiated and then the Government of AP sent letters to some of the projects to reduce tariff to Rs.2.44. By the way, Rs.2.44/unit was the lowest discovered tariff ever in this country under completely different circumstances, with several cost-effective facilities provided through a solar park. So, Rs.2.44 is not comparable when it

does not have benefits including those provide through a solar park. Now let me just tell you before we all get into panic reactions that we have been there before, right? I will quote some general truth from 2017. And let me again tell you, we have been in the forefront of each of these issues. We have been the largest debt financier in solar and wind and renewables right from that time and have been in forefront, like we have been in forefront of resolving IL&FS.

So, let me just give you some facts. In the case of GUVNL versus a particular solar developer, the Supreme Court stated in its judgment in October 2017 that sanctity of PPA entered into between parties by mutual consent cannot be allowed to be breached. Additionally, judgments have held that ERC can't force either a generating company or licensee, to enter into a contract, or re-enter into a contract based on some other tariff. But that didn't stop other state governments from doing and trying the same things in 2018.

In 2018, UP, even AP (In AP also it is not happening for the first time) and Karnataka tried this, and the electricity regulatory authorities in those particular states actually ruled against this. So, all those, I mean many of you who have been following such events know that this is not the first time such issues have cropped up and Court rulings have been in favor of continuing the existing PPA. In March 2019, Karnataka High Court, reiterated the principle of settled contracts in one of the cases in Karnataka.

Now we come to AP. Yes, these letters have been issued to power generating companies. As you would know, in July, APTEL has issued a stay on these letters issued by the discom to at least one of the developers i.e. to Greenko and it is likely that they will issue the stay on others as well. So, as we speak, there is a stay. SECI and Power Ministry of the Government of India have issued very strong letters to the AP government saying that this cannot be allowed. This affects the confidence of investors in the country and this cannot be allowed.

So, we do believe, like we believed in the past, that this is a storm in a teacup, it will settle down. What is the negative in this? There is one negative. Till all this is settled, it is possible that the discom will delay some of the payments. It is already delaying some of these payments to the developers, to the operators, right? That can happen. And hence, at that point of time, your underwriting, your choice of operators is what is most important. Our AP book right now is largely to developers which are owned by funds, foreign funds like GIP, Brookfield, GIC, ADIA. And one simple proof of the pudding is, in spite of AP government delaying payments, our entire book till the last rupee is at 0 DPD and our DSRA has not even been touched. And what this means is that the developers, the operators are actually paying interest and repaying principal as per schedule from their own funds. Now this comes out of knowledge of the sector, and the confidence that these things will be solved. But most importantly, by choice of developers, knowing the strength of developers we can confidently state that we do not expect any surprise here. At this point of time, clearly our whole book in AP is at 0 DPD and even the DSRA is not touched by Re. 1 also. Now I hope that we have answered all the questions.

### **Conclusion**

So, now let me talk a little bit about the future and that would be my conclusion. I will again think that we look at these results positively as these results are reported amongst very negative environment. Gaining market share, a 24% book growth in core businesses, a 6.8% NIMs plus fees, ROA of about 2.1% and ROE of 16% even after taking a onetime charge for housing finance company exposure makes us believe in our business model.

Moreover, our capital adequacy stands at close to 18.5%. And we believe that we have adequate capital to fund our growth for at least 18 months from now, so we are not looking anywhere in near future to come to the market for any equity raise. We believe we have enough capital to fund our growth for the next 18 months or so, which is the same period that we talked out at the time of our QIP.

Our model of staying liquid, strong underwriting, having very strong early warning signals and using analytical ability to the hilt has helped us stay strong in this time. While recent rainfall is showing some silver lining, growth as a whole in various segments stayed muted to negative. Our concentration will be on use of our strong rating and parentage to stay liquid, putting risk management and portfolio quality before growth targets and keep concentrating on building and maintaining business trends, so that we are ready to ride the growth wave when it comes.

Management concentration will be on maintaining positivity in the team which is becoming very difficult. The team also has access to WhatsApp, and every day some imaginary stuff comes up. So, management concentration will be completely on maintaining positivity in the team, making management intent extremely clear to the team in this stormy environment. We will always put portfolio quality and margins first, and growth will be the result. Growth will come, no doubt, but not as a target, but as a result of doing things right and doing the right things always. While we need to be careful and built a ship which will not only see us through this storm, but will in fact emerge stronger on the other side, we also need to maintain our positivity throughout this journey.

I would just conclude by saying we definitely need your support and faith in this journey. Thank you very much.

We can now start the Q&A session.

**Moderator:** Thank you very much. The first question is from the line of Piran Engineer from Motilal Oswal Securities Limited.

**Piran Engineer:** Congrats on the quarter. I just have a couple of questions. So, firstly, on SFG and DCM businesses that we have exited, what factors made us deem these businesses as defocused? Because in the last 3 years, we were doing well, we were one of the largest DCM players. Even in structured finance you have seen some banks exit this market or go slow. So, at this time, what was in the management's mind that made us sort of exit these businesses?

**Dinanath Dubhashi:** I went into this at the beginning, but I will repeat again. So, this is nothing new, right? We have been actually reducing, the disbursement on both these businesses has been practically 0 for the last 2 to 3 quarters. I have been verbalizing this for the last 2 to 3 quarters that our concentration in wholesale is on our core business. So, I will take your question in two parts. Why did we decide to do this three quarters back? Second is why are we reclassifying it this quarter? So, I said this, but let me again repeat.

So, why did we decide to do this three quarters back? One, what are we saying, that we will retailize fast. To retailize, obviously what we will need is to transfer capital from wholesale business to retail business. Now either we can do it proportionately for all the wholesale businesses or we can do it from businesses where we don't have obvious 'Right to Win'. And 'Right to Win' doesn't mean right now banks are down that is why we will, that is opportunistic.

So, we clearly believe that in infra, especially in renewables, roads, transmission, we have very clearly built the Right to Win. We have close to 20-25% incremental market share especially in renewable and hence if we look at not starving these businesses of capital, maintaining our market share, all you have to see is actually see the ROE of the infra business now. Of course, it is 19% now because of that Rs.84 Cr write back but even if you to take that out, the ROE will be close to 14%.



So clearly, that business, where we have Right to Win, is showing consistent ROE and that's the reason why we thought, businesses where DCM for example, profits go up and down. The question will be why we entered in it, we obviously have to try a few things to see whether we can do it. And more importantly all the while can you then exit it without big losses to the P&L and then move capital back? So, this journey, which was started three quarters back, was mainly when this big liquidity issue happened in the third quarter of last year, that is the first time I had actually said that these businesses are getting zero capital because we will use capital and liquidity, not only capital, to make sure that the other businesses grow, right? So, this is a very strategic move we started 3 quarters back and will continue. As far as why we decided to report it separately, I don't know. I mean, as I said, jury will be out always whether we should have done this quarter or not. But we did it for two reasons. One, so that all the ratios, numbers, growth numbers ratios are seen clearly and not affected because of these Zero - Zero disbursements. It was just looking strange in the numbers, so good that it is moved out.

Second, always, when you are trying to run down a business, okay, sorry for coming to Hindi because this explains it very well, behind the truck it is written "*nazar hati durghatna ghati*". So, it is always good that when you are running down the business, a separate specific team looks after it and not a mix of business and the rundown team. So, concentrated effort on running down which we have been doing for the last 3 quarters anyway. And you would see these 2 books came down from about ~Rs.10,600 Cr to ~Rs.8,600 Cr over the last 1 year, so almost ~20% rundown already. Once again, because this question is asked, the NS3 in this entire book which is close to Rs.9,000 Cr is just about Rs.160 Cr. And my overall credit costs are going to be range bound, we don't expect anything coming, so don't read any ghost in this move. This has worked for us before; we believe that this is a way of allocating capital properly and thus maintaining ourselves at top quartile and which we will continue to maintain even in these bad circumstances.

**Piran Engineer:** Okay. But has the RBI been asking NBFCs to cut down on structured finance exposure? Or is it just very specific to us?

**Dinanath Dubhashi:** Not at all, this has nothing to do with RBI.

**Piran Engineer:** Okay. And just one other data point question, what is the average tenure of loans in roads and renewables financing?

**Dinanath Dubhashi:** Yes, let me answer this question in many ways, right? Contractual tenure will generally be 17-18 years. But normally when you do development financing, projects get refinanced after a few years because the promoter looks for a good 100 basis points cut in the interest rate once it becomes operational. And there are many times that we ourselves do arrange for the refinance. After the project has been operational for 2-3 years, it becomes IDfable. So, then we sell-down the asset to an IDF - either ours or some other IDF. So, if you take the tenor till sell-down, 4 - 4.5 years max is what will be the actual tenure at any point of time.

**Piran Engineer:** Understood. And just one last question. The undrawn lines from banks and L&T, is that included in our ALM description, that Rs.8,000 odd Cr?

**Dinanath Dubhashi:** Yes, it is included. As Page number 10 says, Rs.13,000 Cr of liquidity is maintained through the following; Rs.5,000 Cr from cash, FDs and other liquid instruments,

Rs.4,855 to be exact. That is completely liquid instruments held on the balance sheet. Undrawn bank lines, Rs.6,300 Cr.

**Piran Engineer:** Correct. I meant the one on Page 9, the Rs.14,600 Cr of cumulative inflows, that does include Rs.8,000-odd Cr from undrawn lines, right? I just wanted to confirm that.

**Dinanath Dubhashi:** It does.

**Moderator:** The next question is from the line of Saurabh Kumar from JP Morgan.

**Saurabh Kumar:** Sir, three questions from my side. Sir, firstly on the real estate book, what will be the share of LRD and on the construction finance book, if you can share what will be the 0 DPD? The second was essentially on your cost of funds. Are you seeing any reduction in incremental cost of funds? Or is just the elevated credit risk is not like transmitting to you? And thirdly, just on growth. So, quarter-on-quarter, your AUM growth is flat. So, I mean what would you build up for F20?

**Dinanath Dubhashi:** So, we talk about LRD. LRD, at this point of time, is just about 1%, which is hardly anything. About 10% to 12% in commercial, rest is residential. Out of 115 projects that we have, 109 are at 0 DPD. Six projects keep going from 0 to 30 days and keep coming back. So, 109 projects are always 0 DPD. Normally, every project, right from ICICI, IDBI days during project construction there is moratorium. But we see to it that interest is serviced regularly and actually serviced. As you would see Rs.1,200 Cr and now numbers are showing and we will show these numbers every time. Rs.1,200 Cr is actual repayment which has come into the portfolio, approximately Rs.1,200 Cr in this quarter. That is number one. Your question on growth was only for real estate or for everything?

**Saurabh Kumar:** For the entire book. But just on prepayment, this Rs.1,200 Cr is from sales, there is no refinancing in this?

**Dinanath Dubhashi:** Do you know anybody who will do refinance at this point of time, you can refer them to me. Just on a lighter note, mostly it is sale. We also in many cases hold other assets, on the project unrelated assets and in some cases, we actually force the promoter to sell those assets and bring equity. So, it is not only flat sales, apartment sales. But one way or the other your book comes down, so you do Rs.1,200 Cr of business. We have got income out of that. We have got fees out of that and not increased exposure.

Now your second question is, I will use it to give a little bit of our theory on this. I think at this point of time, giving a growth target is perhaps the most dangerous thing. That doesn't mean I'm trying to avoid your question. But very clearly, I don't know when many of these sectors are going to turn around. Much more importantly when I say and when I tell internally more interpret as internally and externally, that you should take care of building our strengths, doing the right things first, making sure that our portfolio quality remains paramount, making sure that my NIMs remain paramount.

When the markets are in downturn, it is the most dangerous time to give a growth target to team. And what I give externally is always seen internally also. History is replete with models which went after a growth target in bad times and have suffered. And also with models which have never gone after a growth target and growth has come. So, we believe that this is the time. At this point of time, we believe that if we keep our strengths, our muscles intact, whenever the growth

happens in the sector - 6 months from now, 9 months from now, like we have shown in the past, we will beat the market again in growing. So, I know I have successfully avoided giving you a number, but genuinely, I believe that we should not target a number at this point of time.

**Saurabh Kumar:** And sir last on your cost of fund?

**Dinanath Dubhashi:** So, cost of funds, yes, it is about 6 basis points up. And we don't believe that it will go anywhere substantially up.

**Saurabh Kumar:** In the wholesale market we are seeing reductions, so...?

**Dinanath Dubhashi:** So, we have done lots of scenario analysis. So, if we go more and more into retail, so it is again same risk return paradigm, like it is on the asset side, it is on the liability side. We believe that if we don't increase retail now, the rates can actually come down by the end of the year to close to 8.4% also. And we go aggressively retail, it can increase by another 6-7 basis points to 8.7%. So, based on our tactics that we do, strategy always is to move on to retail. But based on the tactic, and I am more in favor of, yes, increasing retail slowly and continuously. I have told that about Rs.10,000 Cr we will raise this year from other sources. We stay on that idea right now; we caught the ECB cycle well. Our landed cost will be what?

**Sachinn Joshi:** It's in the range of 8.2% to 8.7%.

**Dinanath Dubhashi:** Okay. So, landed cost of this entire fund of \$275 million is between 8.2% to 8.7%, depending on how it was covered, when it was covered, et cetera. It is between 3 years and 5 years. IFC Washington funds are for 5 years. The remaining banks are for 3 years. Just to make a point, IFC Washington giving their own funds as well as doing syndications is indeed a big deal. And they did detailed due diligence to the extent that we were wondering whether we are doing the right thing. But finally, I believe we have done the right thing. And now there was a news item about AIIB also. This was actually issued by AIIB, not by us. So, it is in principle sanctioned by them. We have to look at the terms and everything before accepting the sanction. That is why we didn't come out with the name. But yes, that hundred million also is as extremely good hit. So, AIIB also shows that.

So, to answer your question, yes, the fundraising will be tactical, no doubt, but also will be strategic to manage our risk return properly. Similarly 13% CP is largely keeping risk return intact because we know that our ALM supports much higher percentage (20-23%). I have got a retail book. I have got ~Rs.2,000 Cr cash coming in every month. Generally, every month, month after month it comes. And in fact, higher at quarter ends. So, there is no need for me to keep CP book at 13%. But we are keeping. So, based on how these things go, it will be between 8.4% to 8.7%. What you can take from us is we will make sure that the margins, the NIMs will remain steady at these levels. We always talk about a narrow range of 6.6% to 6.9% for NIMs plus fees. We will keep it there.

**Moderator:** The next question is from the line of Aditya Jain from Citigroup.

**Aditya Jain:** Really good to see the IL&FS resolution coming through. On the other name, which often comes up, could you comment on the status of Supertech loans, what you are seeing in terms of servicing, constructions and sales progress? And have you seen any change in the view of the NIM?

**Dinanath Dubhashi:** Sure. So, no change in view, either positive or negative. I must be very honest. But the only problem here is there are lots of things happening and we putting it in

public space may actually affect the speed of those things happening or the price at which those things happening. But I will try to be as clear as possible. So, the progress is happening quite well. They have applied for OC for 12 of their towers. We are actually expecting the OC coming in this month itself. There has been some change in authority officials in UP. But we are actually quite sure that it will come either this month or early next month. OC has already been applied for another 5 towers. This is expected in August. What it shows actually is construction is progressing quite decently. Sales actually are happening even better. We are actually in charge of sales. We are in charge of maintaining their accounts also. So, we have appointed one of the big 4 almost as the CFO for these projects. Every account, every check is done by us. I will give you some numbers which actually they have received close to about Rs.50 Cr of cash inflows this quarter. Our disbursement is just about Rs.10 Cr for funding some requirements and we have received prepayments of about Rs.20 Cr. Now Rs.10 Cr and Rs.20 Cr are not great numbers, I realize that but yes, there is small improvement now.

Now the most important thing is that even at prices that the sales are happening today, our receivable cover is 1.77. So, it was at around 2, if you remember. It is 1.77 at prices where sales are happening. Now when do we see fairly large reduction in our exposure? It will come out of sale of 2 of its assets. I will not name those assets on a call. But sale of 2 of its assets. We have actually got the buyer and the seller together. Conversations are happening. But we believe that over the next couple of quarters, exposures can come down sizeably by around 25% or so from today's levels which will then make all the ratios, et cetera, so comfortable that we should be okay in Supertech. Even today, we don't believe any loss given default in Supertech. We continue to be 0 DPD because we keep getting prepayments from them.

**Aditya Jain:**

Then on the defocused business, could you tell us over what period this will run down? And secondly you have already touched upon this, the asset quality of the book if you could just give us a sense of what is the constitution of the DCM book, what sort of loans or investments are there in that and there is an expectation of delinquency there?

**Dinanath Dubhashi:**

Over what time it will come down we don't know. I mean of course if it just has to come down by its maturity than the structured finance book will take 3 to 4 years to come down and DCM book and take 7-8-10 years also to come down. But it won't work like that. Now there is a specific team looking after it. The problem is how to get the money back when there is no event of default. So, in none of these, there is actual event of default, there may be some covenant default etc. and not actual default. Unfortunately, there is nothing obvious by which we can actually go and ask for early repayments but this team will be pushing convincing the promoters to pay, increasing interest rates, we will have our own way of running down.

I can only show you our previous records. Previous record is that we have reduced our previous defocus book of about Rs.8,000 Cr to close to zero in 3 years without any visible damage to the P&L. We believe that that's what would happen. This book if you actually take out this book and I think this answer is very important, during FY19 if you just take out this book, the profit for this book was about Rs.230 Cr and the ROE on this book around 14%. Even this quarter if you take out these Rs. 250 Cr big provisions that we are taking for the housing finance company, this book is equally profitable. So, it is nothing to do with profitability, it has nothing to do with asset quality, it is just that we believe that capital can be better used in many other businesses which have steady returns what was my strategy? And by

the way 3 months back when we put our strategy you can go and refer to that and we had said that this is we didn't use the word defocused, we used the word de-prioritizing. It is on page 6 of the last quarter's presentation and we said we are de-prioritizing structured corporate finance and DCM, so again it is nothing new. It's just that because we have maybe put it in a separate line in the P&L that it is causing lots of speculation. There is really nothing to speculate.

**Aditya Jain:** Could you give us a sense of tenure across these segments?

**Dinanath Dubhashi:** It is on page 52 of the presentation

**Moderator:** The next question is from the line of Umang Shah from Saif Partners.

**Umang Shah:** Just wanted to get a better understanding of the two-wheeler AUM. If you look at HDFC Bank their two-wheeler AUM is growing by 9% whereas we have grown by 55%, so would love to hear commentary from you on why such a divergence and some forward-looking commentary on the growth in the two wheeler AUM going forward.

**Dinanath Dubhashi:** Base effect that's all. It is just base effect. If you would remember last year in the second half was the major growth where we grew our market share from about 6% to 10% whereas we captured market aftermarket, we expanded. We were almost 65% Honda till 1 year back and today we are still dependent on Honda but up to the extent of 40%. We have expanded into Bajaj, we have expanded into TVS, we have expanded into Suzuki. We are doing a lot of Bajaj now, of course Bajaj Finance is first there. But we do a lot of Bajaj and that's the reason why the growth came in the second half last year. This year also if you see disbursement is up by only 14% but book will have that impact and as we come to the second-half if the disbursement continues at the rate that it is today, this growth rate will come substantially down. So, there is no divergence, it is just that we are at a different phase in last year first quarter than what HDFC was. HDFC had a 20% market share last year first half and we had a 6% market share. So, it's just numbers. We are being made to look better than what we actually are because of this base effect.

**Umang Shah:** Have we gained market share at the expense of the players like HDFC Bank or how do we look at this?

**Dinanath Dubhashi:** I don't have details of this. By the way we have not really gained market share this quarter, we have just about maintained. There is another reason for increase in disbursements, so number of two wheelers that we funded were in line with the market but while LTVs have remained the same at around 70%, the prices of two wheelers have shot up. The prices of two wheelers have shot up by close to 20%-22%. So, that also comes into the disbursements. So, these are two things and good you asked this question otherwise again I'm looking way better than what I am. I'm quite good in two wheelers but perhaps the picture is looking more rosy because of these two things. It's not that rosy. We are gaining market share, we are gaining strength but not as dramatically as it is being seen. Another 2 quarters the numbers will become normal.

**Umang Shah:** Do we expect to gain market share going forward or now would it be more like industry growth kind of levels and some commentary on growth going forward?

**Dinanath Dubhashi:** We hope to maintain market share but as I said before in these markets because there is one big shift happening, scooters are going down and motorcycles are going up. We want to understand this shift more in detail. It is not as obvious as earlier what used to happen before that scooters down means and motorcycles up means rural demand picking up. This was the analysis but that used to happen 3-4 years back. But now rural scooters are so much that this analysis will be very simplistic. So, at this point of time really I don't know the details of why this is happening, how this is happening etc. Honda for example losing share tremendously. I don't know whether it is a cause or effect of scooter growth down because Honda has lost market share, seriously lost market share and Honda is Activa. So, we don't know whether it is a cause or effect. We will study more in details.

Right now let me sound more sage and actually say what we are practicing internally that do the right things, go deep, find new customers, try and find new to credit customers whom we can and we have our new models actually construct lookalikes, 40%-50% of our customers can be new to credit customers and we have the ability to construct lookalikes and lend. Keep improving our data analytics, our digital to be the fastest in the market. We used to sanction loans before the test drive was over. Then we started sanctioning loans before he has finished selecting his two wheelers and now the loan sanction is almost instantaneous. We will subject to the Aadhaar Act we will come to a stage where we can sanction loans based on a fingerprint.

Now these are moves that we are spending much more attention to rather than worrying about whether 0.1%-0.2% market share will be gained or what will be the growth in the short-term. Growth will come but genuinely FY20 I want to spend in making my company so strong, both on capabilities, balance sheet, P&L, market presence that when the market turns that is the time to kick start growth. Right now if we can maintain market share maybe marginally increase its already very good.

**Moderator:** The next question is from the line of Karthik Chellappa from Buena Vista Mutual Funds.

**Karthik Chellappa:** My first question is essentially on a point that you just raised, if I were to look at our ticket size for both two wheelers and micro loans, sequentially that has gone up a fair bit. Micro from 31,000 to 33,000 which is about 6.5% and the rise is steeper for two wheelers. So, two-wheeler you just explained that the steep price increases that the OEMs have taken adjusted for the mix have resulted in some degree of ticket size increase. What about the case for micro especially when rural is actually slowing down?

**Dinanath Dubhashi:** Micro I will just explain our philosophy and you can say whether you agree or not that's up to you. Our philosophy doesn't go on our ticket size. We believe and that's why we are a bit of maybe outlier in the industry you can call, we believe that this thing of giving Rs.10,000 or Rs.12,000 in the first cycle and then Rs.17,000 in the second and Rs.25,000 in the third and so on is just basically stupid. There is no theory or there is no logic which supports it. What is important is first to judge that a particular profession of a person how much indebtedness that the person can take. I admit that it is not exact science that exactly this profession, how do you make sure that that lady is exactly doing that, it's not exact science. But generally, our understanding is Rs.75,000 to Rs.80,000 of total indebtedness of the person is what we can take forward the person can take and hence our ticket will always be

that person's total indebtedness if it is less than Rs.80,000, so Rs.80,000 minus their indebtedness at that point of time will be our ticket.

So, this is our philosophy, not based on cycles, not based on first cycle this much, then second cycle it will increase, third cycle, in fact most cases our second cycle may actually reject because what happens is suppose the person is Rs.50,000 indebted and we give Rs.30,000 and then the person somebody else who doesn't have that rule gives that 6 months or 1 down the line gives more loan to that person and at that time of renewal or even much before that based on our early warning signals we come to know that person has already gone beyond Rs.80,000, we actually reject the loan and our renewal rate of our existing book is horrible is at just 25%.

I would like to do more business with my existing people, existing borrowers. It saves a lot of cost for me. Unfortunately I'm not able to do that. I don't know how because the industry sometimes takes the indebtedness of my borrower way beyond that Rs.80,000 because RBI norms says Rs.1 lakh and which is actually increasing now. So, there is nothing to stop people from going up to Rs.1 lakh or Rs.1, 20,000 etc. There are people who actually Rs.1 lakh is joint liability, so then people will give some loan against property or individual loan or something like that. We have tools of seeing the overall indebtedness of the individual and with some amount of accuracy of the family as well, of household and we will not lend beyond the norms that we have put.

We will adjust that with inflation. 18 months back we were talking about Rs.70,000-Rs.75,000, we are now talking about Rs.80,000 but we will stay there. Now as a result of that as we go deeper as we go into new areas and new geographies, we will find less indebted people and the ability for us to lend maybe slightly higher. So, just to tell this Rs.33,000 is incremental during this quarter, this is not the average for the book. So, average book today is just about Rs.20,000- Rs.21,000 outstanding per person.

**Karthik Chellappa:**

One follow-up on that comment that you made at your opening remark specifically on West Bengal and Odisha where your rejection rate has actually gone up, we are getting some kind of mixed signals on these markets because one of your peers which reported last Friday which has a sizable exposure in West Bengal did not allude to any kind of risks and they seem to be growing at a very fast pace to be fair and we are hearing from you that you have actually stepped up your rejection rate there, so could you be able to share some granular data points on what you saw in West Bengal and Odisha apart from the floods or so that way to become very conservative specifically with these two states?

**Dinanath Dubhashi:**

I will answer it without referring to the peer you talked about, very-very respected elder. I think very highly of the gentleman, so we will not get there. I will always explain what we believe. So, I will take you 2 quarters back when we took Rs.150 Cr provision in our Odisha portfolio and we saw something which is perhaps the industry didn't see or didn't acknowledge at that point of time which was the presence of some bad practices in Odisha portfolio and in some areas of West Bengal. This was the practice of having middlemen and when you have middlemen or what we call center ladies you don't know really you have no way other than audits of finding out how much money actually reaches the final borrower.

We have no practice, no sanction, no wish to have a center ladies or middlemen in our business and hence when we saw that at that point of time we have brought our business in those particular areas in Odisha to a grinding halt and because of

that naturally there were some collusion of all these people against us and we actually just provided Rs.150 Cr. I am glad to tell you that slowly recoveries from there also are coming back. So, Odisha, we had called 9 months back. Cyclone Fani, let me go on record on saying we believe that natural disasters do not cause any sizable problem to micro finance portfolios. It can cause delays but people don't default after natural disasters. People default because of two things, political intervention, second is lenders have been aggressive that when somebody can repay only Rs.80,000, they have lent Rs.2 lakh in one way or the other. Today there perhaps maybe talks of cyclone, flood etc. we don't believe that that will affect portfolio. Portfolios will be affected by two things, one over lending, second political intervention or perhaps fear or anticipation of a political intervention

**Karthik Chellappa:** The exposure to the HFCs that we have taken a provision on, what was the yield that we were earning on that?

**Dinanath Dubhashi:** It was a DCM book. so I will tell you it was two parts. One which we had done as a part of our DCM business, we were managing one of the issues so there the yield will be around 9%. The second one was something stupid that the desk did so it was a AAA security hence there were limits in place. This is on 21<sup>st</sup> of September, so this exposure was sold by one of the funds and bought by DCM desk at 11% yield. We have taken adequate steps to ensure this doesn't repeat - When a AAA security is available at 11% lots of internal controls should come forward. They did but the desk ignore those, so we have taken the measures, it won't happen again.

**Karthik Chellappa:** The reason I asked the question is in your presentation you have disclosed an interest accrued of Rs.42 Cr on a principle of Rs.525 Cr which works out to about 8% interest. Does this mean that this DCM instrument was less than a year old when you bought it?

**Dinanath Dubhashi:** Yes it was bought on 21<sup>st</sup> of September.

**Karthik Chellappa:** And on which we have now provided 50% and we are seeing this is more than sufficient.

**Dinanath Dubhashi:** Yes correct.

**Karthik Chellappa:** And it is still a standard asset?

**Dinanath Dubhashi:** Yes it will be standard till, this particular thing is due in September, so we will see after that. I believe very frankly before that there will be there will be lot of restructuring or sale of the company will happen.

**Moderator:** The next question is from the line of Prakhar Agarwal from Edelweiss.

**Prakhar Agarwal:** Couple of questions, one is in terms of red flag that you're probably seeing on LAP portfolio that has made us cautious over last couple of quarters if you could highlight them.

**Dinanath Dubhashi:** It is less of a red flag more of a business model that we are building. So, we believe that this SME, LAP etc. just lending it because of a security is not a good thing to do in the current circumstances. A more detailed analysis of the repayment capability is based on lots of data analytics is required hence we are building it in the SME business that we hope to launch somewhere in this financial year. I still don't want to promise till we get the real algorithm. When we do SME business it



will be largely starting with L&T ecosystem definitely. It will not be supply-chain finance but SMEs within L&T eco-systems, it will be straight through, it will be paperless, it will be completely digital, totally straight through processing. It will be a very different type of SME that we are planning to do. Hopefully we will be all the proof of concept and pilots will be successful at this point of time we don't know but we will like to keep it as an upside. With that working lending with a security when possibility of selling the security at a good price is low, doing it at LTVs which are because now if I do LAP LTVs will not be more than 40%-45% or maybe maximum 50%. At that point of time you are not competitive that's why we are not doing that business, the people were doing it higher LTV.

**Prakhar Agarwal:** If I look at last 2-3 quarters we have essentially not disbursed much into this LAP segment, so what is the possibility that if this continues we will not make this book defocused in next 2-3 quarters?

**Dinanath Dubhashi:** Good question, thanks for asking it. It's not likely, it will more merge into the SME business when we launch. Right now, there is no question of defocus. It is basically we have a team; we keep looking for good business. There is less good business and the way we define now good business is less than 50% LTV at a good margin. Less and less is available as more and more people do what they called retail housing and LAP is a part of that. So, at this point of time it's just that lot of good business is not available. Why it will not be defocused is because it will be part of a focus business that we will launch which will be SME.

**Moderator:** The next question is from the line of Shubranshu Mishra from Bank of Baroda Capital.

**Shubranshu Mishra:** The first question is with regards to you have alluded to the new businesses SME business and consumer loans. If you can give us the architecture of the individual businesses, how they are going to shape up and the targets, the LTVs, the client base, the market size that you're looking at and give us the architecture of these two new businesses?

**Dinanath Dubhashi:** The only thing I can tell you and not that I'm trying to hide anything, I just don't know at this point of time. We are doing a lot of LAB tests. As I said we will be hopefully able to launch in some segments, the Personal loans will be launched initially with our own client base and we have a large client base now, all our businesses put together and the SME loans will be launched in L&T ecosystem. So, these will be the two segments that's perhaps all that we will do in this financial year and may be in the first 2 quarters of the next financials also. We will be very careful in upping the ante or speed in this any new business that we do.

The one thing about the construct; everything else is understudy, there is one of the top-notch consultants working on it, we are working very closely, there is a very specific project team working on it. That's the way we know how to do things, we put in project. Both these will be paperless, there will be straight through, totally data analytics based and especially in SME that is quite tough and we are working on that. We are working – it will be almost Fintech type not exactly Fintech but Fintech type so I am not saying the acquisition will be necessarily online. Perhaps it will not but the processing, the credit everything will be completely paperless and IT and Digital-based. So, that's what we can tell right now largely because everything is in proof of concept stages I feel.

**Shubranshu Mishra:** The budget removed the DRR effect on the public NCDs so that would have any effect on your net worth. What is that effect, if you can quantify that?

**Dinanath Dubhashi:** It won't be anything significant straight off.

**Shubranshu Mishra:** You alluded to around 40% market share in Honda, so which implies that your volume is around 50,000 units on a monthly basis?

**Dinanath Dubhashi:** No, it is not first of all so it's not 40% market share in Honda. It is 40% of my business is Honda.

**Shubranshu Mishra:** What kind of volumes do you finance in Honda on a monthly basis?

**Dinanath Dubhashi:** This quarter we have financed close to 2 lakh; 1,90,000 vehicles which is down, in Q3 it was some 2,80,000 vehicles as I told you. It was unprecedented festive season. We are generally at around 2 lakh vehicles so 40% of that will be Honda.

**Shubranshu Mishra:** Any kind of increase in LTVs that you have?

**Dinanath Dubhashi:** No, not LTV percentage but ticket size in line with price of vehicles.

**Shubranshu Mishra:** Because the feedback that I have got is that a lot of lenders have gone into markets and they are sourcing not to be sourced customer, so I am assuming that we have not done anything like that?

**Dinanath Dubhashi:** It's like this, what does not to be sourced mean? I can first of all say no, we have not done anything of that kind but I will just put this in perspective. What happens is there are times when things are quoted crazily and I am not necessarily defending how is I'm just defending may be some imaginary people. So, number one is when our customers 40%-50% are new to credit. Now that is our model and we believe we have the right digital data analytics techniques to be able to lend to them without having a credit bureau record, non-credit bureau customers; how do you construct lookalikes of them with credit bureau customers. It's a data analytics and analytics science and we believe we are in Gen 4 of that science and we believe that our previous experience of using that for underwriting and more importantly early warning signals has helped us and I always say precision bombing, we go up to pin-code levels for doing this science.

So, there are pin-codes that we blacklist, pin-codes that will bring back so it is well into that. Now when I say 70% LTV mine is in a very narrow range of something like 67% to 72%-73%. There will be lenders who will be at a wide range from 50% also to 80%-90% and there are lenders who are doing at almost 100%. Now is it a bad practice? I don't know. This 90%-100% is being done to everybody; it's a bad practice. If 90%-100% is done to you for example, it is a good practice. I will give to you without hypothecation, so it all depends on the customer profile and how data analytics is able to capture those customer profiles and how you can do very nuanced and micro product design based on that. Now when rumors reach you, they reach at 30,000 feet giving away taking away all this nuances something general that somebody is financing at 90%. We know who is financing at 90% and we also know that large part of that lending is quite okay, no problem.

**Shubranshu Mishra:** One small data point about two-wheeler business mix; what percentage is bikes and what percentage is scooters?

**Dinanath Dubhashi:** More or less it will be sort of 50-50 but I will get back to you with exact numbers.

- Moderator:** The next question is from the line of Girish Achhipalia from Morgan Stanley.
- Girish Achhipalia:** In your opening comments obviously, you mentioned about the sanctity of a renewal contract with reference to what is happening in Andhra Pradesh. I just wanted to understand your exposure on the overall book that pertains to Andhra Pradesh and if you have some sense around what could be the average tariff for your portfolio?
- Dinanath Dubhashi:** Our overall book is Rs.2,500 Cr in Andhra Pradesh entirely, largely owned by foreign funds, which our borrower companies' names may not reflect - Axis Energy, Greenko, Vena Energy etc. Brookfield, GIC, ADIA, GIP - these are the ultimate owners. So, most of our portfolio comprises of loans to these developers which makes us pretty sanguine. Average tariff range will be Rs.3.5 to Rs.4.9, there is one at Rs.4.5 around that level.
- Moderator:** The next question is from the line of Renish Bhuva from ICICI Securities.
- Renish Bhuva:** Just a small clarification on the BSE press release. So, in press release there is a one-line item called net loss on fair value changes which used to be around Rs.100 Cr in Q4 as well as in Q1 FY19 and its zero in this quarter so what that line item pertains to what it explains?
- Sachinn Joshi:** So, the net loss what even till last year it was of first year of transition so the fair valuation there was a big gap between IGAAP and Ind-AS. Since now we have already migrated, now it is all settled down, now the differences will be very minor because every quarter it is just....
- Dinanath Dubhashi:** It is just first year of Ind-AS that's there, first year.
- Renish Bhuva:** So, it was a linked to the portfolio or what it pertains to basically?
- Sachinn Joshi:** These will be investments that we have made which would be part of some of the DCM portfolios and all.
- Renish Bhuva:** Just a follow-up on that, in this quarter P&L of roughly Rs.550 Cr, there are couple of items which one-off kind of the thing like this Rs.100 Cr which is not in this quarter of, obviously it will not be there are going forward also plus Rs.84 Cr of interest recognition, Rs.235 Cr of provision, so what will be the sustainable kind of a PAT run-rate you see going forward adjusting for all these one-off kind of a thing?
- Dinanath Dubhashi:** So, normally speaking at it is quarter to quarter things change, things happen, so it is difficult to see but we try always to maintain our ratios in particular ranges. So, my NIMs plus fees we have always said will be range-bound between 6.6%-6.9%. So, my NIMs plus fees there will always be a try to maintain it at that particular time. Expenses will always be at around 1.7% to 1.9% kind of a thing. In fact, this quarter nobody has said but this quarter the expense ratio is high. Why? It is very simple that I am maintaining my muscles somewhere. I will just give you a very simple thing that in a particular dealership; suppose I was getting 18 tractors from one person and that one person is there. Today if I am getting 12 tractors, I can't keep 0.66 persons. So, it's just very simple, for collection you need to put more money. So, these are few things, these are generally temporary.
- About range of credit cost, we have always maintained it between 1.6% to 2%. I am giving you these ranges which should normally workout to between 2.1% to

2.3%-4% sort of ROA and hence a ROE between 16% to 17%-17.5%. That's what we believe.

**Renish Bhuv:** Whatever ratios you have just shared this is including the rundown in the focus business?

**Dinanath Dubhashi:** Yes, absolutely.

**Renish Bhuv:** Everything including right, there will be no one-off kind of a thing in these ratios?

**Dinanath Dubhashi:** Not that we anticipate anything.

**Renish Bhuv:** You have just mentioned something about the West Bengal unrest from the political standpoint; so if you can just elaborate what you are just trying to highlight? I just missed that part.

**Dinanath Dubhashi:** No, I was not trying to highlight anything. I just find in various un-related issues, the behavior of the state government erratic.

**Renish Bhuv:** I am saying there is nothing specific to micro-finance?

**Dinanath Dubhashi:** No, nothing at all but it's just to be careful no.

**Moderator:** We will take that as the last question. Participants who have questions may reach out to Investors Relations team. I would now like to hand the conference back to the management team for any closing comments.

**Dinanath Dubhashi:**

I think from my opening comments and from the questions we believe that as usual we have clarified most doubts. When L&T Finance being a part of the L&T Group, we make a statement, we like to be totally upfront, totally transparent and I would request you to take it like that. If you have any doubts please contact me, my team, we will be very happy to clarify those doubts. What I would like to end with is on a positive note is this is a company which was reporting less than Rs.200 Cr per quarter when the situation was best for all the NBFCs and when the situation is really bad for the sector, we are reporting Rs.550 Cr after taking a one-time charge. It is a sign of the strength that we have built; it is a sign of the models we have built.

Yes, definitely growth in sectors right now is going to remain modest maybe even de-growth in many of the sectors this year. What we are sure of is we will gain or at least maintain market share in each one of them and finally when this storm is over, when all this negativity is over, we will emerge on the other side stronger and ready to take advantage of that. The management, I can promise my colleagues sitting here and all of you that we on one hand will be extremely-extremely careful and risk aware of everything that we do but we will not get into negative minds. We will make sure that the team is motivated, team is very clear of what is to be done and as always clear management intent drives the team into not only dealing with this storm but emerging on the other side stronger and being able to take care and take advantage when the sector start growing. It has been a pleasure. Thank you very much. Look forward to interacting with each one of you in the near future for making any more clarifications that you want.

Thank you very much.