

L&T Finance Holdings

Q1 FY21 Earnings Call Transcript

July 17, 2020

Moderator:

Ladies and gentlemen, good day and welcome to the L&T Finance Holdings' Q1 FY21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded.

We have with us today Mr. Dinanath Dubhashi - MD & 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 note to that effect is provided in the Q1 Results Presentation sent out to all of you earlier. We would now like to invite Mr. Dinanath Dubhashi to share his thoughts on the company's performance and the strategy of the company going forward. Thank you and over to you, sir.

Dinanath Dubhashi:

Thank you all for joining this results call. I hope and wish and pray that each one of you, your colleagues, your family and friends are safe and continue to remain so. I will take this opportunity to indeed thank the almighty for keeping all of us safe in these strange times. Most importantly, I will be failing my duty without thanking each one of my 20k odd colleagues for being in the field during these difficult times. These results, disbursements, collections, risk monitoring, project monitoring, conducting transactions and even the act of finalising the results; nothing would have been possible without them venturing out of the safety of their homes (while taking due care of course) and doing their very best. I am grateful to them and especially their families for allowing them to do so. I know how tense my family is every time I leave and come to office. And there is no reason to believe that each one of my colleagues will not be facing the same issues at home. So genuinely, each one of them, I am extremely, extremely grateful for whatever you have been able to do during this quarter.

Q1 FY21, has been a quarter that had experiences which all of us would have had for the first time. A pandemic with a constant fear of health of oneself and near and dear ones, many of our fellow citizens losing their livelihoods, locust attacks, cyclones, maybe possibility of a war; in short a quarter which we would like to forget quickly. On the other hand, it's a quarter which taught us some valuable lessons. It taught us grit, it has taught courage, ability to fight against adverse circumstances and most importantly it also taught us that every dark cloud has a silver lining. As the quarter proceeded, it taught us hope. In fact it gave us the belief that in life, we should always have hope for a better future and at the same time build the strengths to face the worst difficulties. I am sorry if I am sounding like a philosopher or like a grandfather giving gyaan, but these are some of the deepest feelings that I have myself experienced over the last 90-odd days or a little more than that.

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Let us come to business now. Performance of the economy and various industries can also be looked in various ways. If we look at the quarter as a whole and compare it with the previous year, there will be gloom and doom. All predictions about the GDP growth are in the -3 to -7% range, Yesterday, somebody actually said minus 8% or 9% - most industries, unemployment statistics are all in the deep negative territory.

But let us just look at it a little differently. I am not saying things are not bad, I will be stupid to say that things are not bad, things are great. No. I am just inviting you to look at the quarter little differently, progressively from April to May to June. I believe there is some cause for hope. The biggest silver lining is emerging from the rural sector. Last time, we had expressed some initial fears that whether there will be harvesting of the rabi crop. The rabi crop was bumper, that we knew. But there were doubts about the monetization of the crop, but by and large the Rabi crop has been harvested, reached the mandi and has got good prices. The monetisation of the crop, albeit a bit late, spells hope for the rural economy and some more important metrics have already started looking up. Monsoon has progressed reasonably well - early days, no doubt, things can change very quickly but as of now reasonably well. Reservoir levels are healthy and Kharif sowing is doing well. Does this mean the end of bad times? Definitely not. But it certainly means that we see some green shoots and can dare to hope for a better tomorrow.

The same paradigm is true for our results of Q1 FY21. If you look at the quarter as a whole, our disbursements are down 76%, book is static, NIMs and fees are down, provisions have increased and most importantly PAT is down by 73% as compared to previous year. If we look at it with this lens, I can finish the call, and we can all go home. It has been certainly in terms of absolute numbers, as compared to last year whole quarter, the numbers are there to see, majorly everything down over last quarter, except for GS3. I will speak about that.

But I submit that instead of this, we need to look at the performance from 2 other lenses

1. Are the performance as well as financial parameters improving month on month from April to May to June and even perhaps July, giving reasons for hope; and
2. While we are hoping for the best and getting ready to take advantage of every opportunity, are we adequately preparing ourselves for the uncertainties of the future

The moratorium period prescribed by the regulator ends in August (as of now) and while we remain in close touch with our borrowers, it is important to fortify ourselves against some deterioration in their repayment behaviour as they come out of the moratorium. Also, we are now entering the phase of temporary local lockdowns as various state governments fight to contain a second outbreak of the dreaded pandemic. All these have the potential of slowing down any recovery considerably. These uncertainties in the environment have to be reckoned with and to be prepared for. So, these are the 2 lenses that I will suggest to look at these results. One is, are performance improving April to May to June? And second, is the company getting ready for any possible uncertainty in the environment, which there are a lot.

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The performance of this quarter looks very different when seen through these lenses. I humbly submit that when we are facing with a totally unprecedented situation, the profit number for a quarter is less important than looking at the performance parameters, to establish whether we have the chops to gain from emerging green shoots in the economy and at the same time are we fortifying our balance sheet for dealing with worse that the environment can throw at us in the coming months? So rest of my comments, I will talk about these 2 lenses.

Let us see how the situation on ground has improved month on month this quarter. When I last interacted with you, it was 18th of May, just 2 months back. I had said that there cannot be a guidance in an unsure environment. The reason was hyper local variations in rules, in laws etc. As we stand today, we're much more in control of the situation and much surer about the recovery pathways, than we were in May, especially with Rural segments being the early torchbearer of some good news. This control will only increase as we move forward and we become surer that we are in an excellent position to gain from these early green shoots. I would like to demonstrate this by calling out certain metrics which clearly indicate an improving situation as well our on-ground strengths. I am not trying to project a message that everything is hunky dory (which it certainly is not) or even trying to be a contrarian when everybody is speaking about doom and gloom. But I will not be doing justice to this interaction, if I don't share my insights into some early good trends.

As the country entered into the Unlock phase, our rural footprint has helped us tremendously as many of our rural branches were in zones classified as green or orange early enough. Majority of Farm and ML branches opened up in late May itself and have now reached more than 95%. Opening up of HL and TW branches have been relatively slower as many of them fall in urban/semi urban areas, but even that is reaching good levels now. Even dealerships of tractors have now opened up almost 100%, while for Two wheelers the trend is good as number of open dealerships have doubled in June vs May, though major cities still remain largely closed. The most positive statistic is even while we followed local rules and employee safety standards, 99% of the on-field workforce started operating in June. And this is not only our workforce, it is also our collection agents etc. In May, the reverse migration has really worked against this. But now, slowly, the workforce is fully there. And that makes us hope that Q2 will be even better performance than Q1. This of course resulted in several other performance trends which I will talk about now.

1) Disbursements

While overall disbursements for the quarter remained only 1/4th of the same period last year, we have seen an excellent pickup in rural disbursements in June

Rural: Our Jun'20 performance in Rural, far exceeded our initial expectations. LTFS financed over 10,000 tractors in June, an increase of over 19% of YoY basis, in the first full month after kickstarting our operations. These numbers are just a few notches below our highest ever disbursement number. In Micro Loans, which is our largest rural business, after observing the collection trends for 1-1.5 months and on the back of strong analytics and credit parameters, we restarted disbursements at the very end of June and this will contribute substantially to disbursements in Q2. In Micro Loans, we follow a very clear collection-led strategy, that collections will have to pick up first, give us confidence that this area, this particular pin code has started well, the behavior is showing very good trends, and then we will start disbursements in that place. And so we have started the disbursements at the end of June. You will see some Rs. 7 Cr number in this quarter, you can take it as almost Nil. We will properly start disbursements in Q2. We believe that we are well placed to further gain in the coming quarters on

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the back of our strong positioning in the rural market as that part of the economy picks up faster. Two wheelers. I think, yes, Q2, hopefully, will be better than Q1. But it is unlikely to be a positive growth over last year because the industry was not doing so well even before COVID.

Infra and Real Estate: In our Infra and Real Estate businesses, we were more circumspect, limiting ourselves to tranche disbursements after tracking closely the progress of our existing projects. We will calibrate these in the coming quarters based on very detailed study of how risk parameters develop in these markets.

So that is the way we will go as we go ahead in the further quarters. Definite guidance I can give you is: Progressively disbursements will only keep looking up as we go ahead.

2) Collections

Let me now talk about collections, where the trends are even more encouraging. First the topic of moratorium. As we went into moratorium 2.0, we went into a very strong customer connect program explaining to clients the advantages of not opting for moratorium.

- **Retail Customers:** This was quite successful and the reduction in number of moratorium cases across products is a testimony to this. For our retail customers, in terms of number of customers, reduced from 79% in March to 44% in June. In terms of amount, this number is even lower at 34%. Even out of these, ~4% clients have paid part instalments. And whoever has paid part installments, we have continued to count them in moratorium. Moreover, in the first 15 days of July, 30% of retail customers, who were in moratorium in June, have already paid their instalment. So, we are seeing a fairly rapid improvement in the moratorium numbers.
- **Infra and Real Estate customers:** About 40% of clients are under moratorium but the good thing is that many of the projects are operating projects. For the under-construction projects, we are monitoring the DSRA / TRA very strongly, each one of them is largely covered till the end of the financial year. So, very ironically, this is one portion where we are completely not worried till the end of financial year. Of course, things will have to improve beyond that. But right now, we are fully protected.

If we take collection statistics, our total debtors have fallen during the quarter by ~Rs. 1,300 Cr and more importantly GS3 by about ~Rs. 100 Cr. While total collections for the quarter are about 45% of last year's level, these has improved to about 70% of last year's level in June, naturally because April was very small. So, Jun'20 collection is 70% of last June, and at 45%, if you take the whole quarter. This excellent collection trend has further improved in July. Just as an indicator, daily average of number of customers paying has gone up from ~1,300 in April to 1.2 lakhs in June and is likely to be much higher than that in July. Actually, the current number is more than 2 lakhs but before giving the final number for July, July has to be over, but it will definitely be more than 1.2 lakhs per day. Another encouraging trend, and this is very close to our heart, is the adoption of digital payments in rural India. While absolute numbers are still low, the trend is very encouraging. Talking about other businesses, generation of renewable energy is up to 355 million units in Jun'20 as compared to 255 million units in Mar'20 as operational green projects have been conferred must run status. Most Discoms have remitted their dues, thanks to the government scheme of helping their liquidity, including Andhra Pradesh which has paid all its dues up to Mar'20. Toll levels of our operational road projects are up to 80% of pre Covid levels in June (surprising statistics for us). Even in Real Estate, the much beaten down sector, 86% of our under-construction projects have resumed activity as on date with large number of projects with full manpower. While sales / collections indeed remain subdued, they have reached 33% of pre Covid levels by June. You can say, 33% is low, but 33% is more than 0, many people think that the sales / collections

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are 0. So, things are slowly improving. We are also encouraged by our strong ability of collecting and monitoring our projects closely and monitor and collect such micro level data. Never waste a good crisis, they say! I think the first month, April, where actual activity was next to nothing, we have rediscovered many of the abilities, rebuilt many of the strengths in terms of monitoring and gathering all the data and that is why initially I said, we feel much more in control of where we are going.

Speaking about GS3: While acknowledging that GS3 would not normally increase in a DPD freeze scenario, we have actually reduced GS3 by close to Rs. 100 Cr in a climate like this. PCR has increased to 69% from 59% last quarter due to 2 reasons:

- a) Increasing the PCR drastically on rural GS3 (based on ECL model): one, of course, as a prudent measure, but, two, also acknowledging the aging of 90 days more of the existing GS3. Leaving out the GS3 which has rolled back, the rest of the GS3 would have aged more by 90 days. And we acknowledge that and hence, we have increased PCR to actually very high levels. We may not need this as we go ahead, but it is prudent at this point of time.
- b) The second reason is as you all know that we sold our wealth business and the profit from that, we used entirely to provide for one of the old defocused assets fully; that's about Rs. 225 Cr. This also explains our results format, the profit comes in exceptional items and that Rs. 225 Cr provision comes in provisions line item. So, some of these old assets are now fully behind us. As we have always promised, these sales will be used to shore up provision coverage, we have kept that.

With this, our NS3 is at 1.7%, the lowest we have ever reached. I would also like to point out especially the Rural performance where NS3 has reached industry best levels of 0.26%. Our Rural NS3 is absolutely negligible at 0.26%. Absolutely great performance, and we also believe that this is necessary to prepare if something goes wrong in the environment as we come out of moratorium.

Even with these positive developments around us, it will be imprudent on our part to be sanguine about the overall macroeconomic challenges. While LTFS will be banking on its strengths to gain the most from the current developing environment, it would be sensible for us to utilize the time in hand to strengthen our balance sheet further. Thus, in addition to the above GS3 provisions, we have made the following provisions during the quarter.

1. Covid-19 provision of Rs. 277 Cr according to RBI guidelines. We provided Rs. 209 Cr in Q4FY20 and Rs. 277 Cr now, which comes to Rs. 486 Cr of total Covid provision, which is 10%, as per RBI guidelines.
2. In addition to that, we have further added to our macro prudential provision. You remember, this is a practice we started at the time when going was good to provide for the bad times. And who knew that the bad times will come. But even in spite of that, right now, instead of utilizing that today, we have further created Rs. 300 Cr (for our Rural portfolio) to prepare for any possible deterioration in the environment and specifically in borrower's repayment behaviour once the moratorium gets over.

These two add up to Rs. 577 Cr for this quarter itself and the PAT for Q1FY21 has to be taken in that perspective.

Thus, we now carry a total of Rs. 1,244 Cr of additional provisions for standard assets. This does not include the normal standard asset provision, which is about Rs. 400 Cr, which is according to our ECL model. Break-up of additional provisions is as below:

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- Rs. 650 Cr of macro prudential provisions
- Rs. 486 Cr of Covid-19 provisions
- Rs. 108 Cr of enhanced provisions on Stage 2 assets

3) Liquidity

Let me now talk a bit about liquidity. The quarter started with a big bang impact on NBFCs, with uncertain collection volumes, one particular mutual fund stopping some schemes and drying up of market liquidity. Even the government schemes, the trickle-down effect on liquidity was fairly limited. We worked on our being AAA and on our franchise and on our parentage. This gives us the inherent strength (at the cost of repetition), to tide over successfully over the situation.

- We continued with the practice of maintaining positive liquidity gaps in all buckets till 1 year, after taking into account the impact of moratorium. As on 30th June, we maintained a liquidity buffer of more than Rs. 16,500 Cr, out of which ~Rs. 9,000 Cr were pure liquid assets (cash, bank balance, liquid mutual funds held on the balance sheet). While this is a prudent measure in the current circumstances, this has indeed led to certain incremental negative carry. I will explain this - Normally, we carry around Rs. 3,500 Cr to Rs. 4,000 Cr cash on our balance sheet anyway given our size of Rs. 1 lakh Cr. The additional Rs. 5,000 Cr - Rs. 5,500 Cr that we carried, had an incremental negative carry of Rs. 84 Cr before tax in this quarter. Now, how will this look going ahead? We believe that as certainty in liquidity increases (over time), and I do not want to say next quarter, the quarter after that, but slowly, we believe that this negative carry will start reducing and trending back to normal as we go ahead. When that will happen? We do not know. First event that we will see is when the moratorium gets over, how the collection behavior changes and we will assess whether this practice needs to change. But right now, enough liquidity is kept for quite a few months of repayments.
- Even in this dried-up liquidity market, LTFH has raised long-term resources of more than Rs. 3,500 Cr in last quarter, highlighting the strength of our liability franchise. Of course, the borrowings were less than the previous quarter, simply because there were hardly any disbursements. Our overall collections in first quarter were higher than disbursements. So, we did not have the need to raise as much as we raised in Q4. But whatever we needed to raise; we could raise properly.
- One particular transaction I would like to highlight is that we received the first tranche of \$ 50 million of the total \$ 100 million ECB loan from Asian Infrastructure Investment Bank (AIIB). This marks AIIB's first loan to a non-banking financial company (NBFC) in India
- Cost of funds, while it has reduced YoY, it saw 6 bps increase over last quarter as we moved towards more long-term funds. Again, guidance to that, while interest rates in the system are coming down, our CPs are already at a very low percentage. So, it is unlikely that we will increase the percentage of long-term funds even more than this and hence, the costs should normally trend same or slightly start coming downwards. Add to that, if the negative carry comes down, depending on how fast it will come down, I think we are well placed at this point on this count.

Let me now talk specifically about the financial performance of this Q1 and try and give some guidance.

Financial Performance

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Even with our best efforts and all the lenses that I talked about; we need to acknowledge the fact that a large majority of this quarter was lost in lockdown and restricted our efforts to deliver the best results. There are a few key points I'd like to highlight which would put our results in the best context

- 1. Disbursements:** Disbursements were at 24% of previous year's volume. We initiated disbursements in Farm, to some extent in Home Loans and Two Wheelers in mid-May and in Micro Loans & Consumer Loans in end June with enhanced risk guardrails. IDF disbursements were undertaken against fixed funding lines and Infra and Real Estate were limited to tranche disbursements. In future quarters we hope to see an improving trend in disbursements, but will also be watchful as ever to make sure that our risk guardrails remain strong. I would also like to point out that in our Mutual Fund also, even though the overall AAUM was down over last quarter, we have shown strong growth in our equity AUMs as well as the high-quality debt AUMs. And where we lost was the credit funds after the development in the mutual fund market, even though in our credit fund, we did not have any of the doubtful assets. But obviously, we lost AUMs as credit funds market, the whole industry lost AUM. But equity and high-quality debt, where it matters, we have actually gained AUM.
- 2. Book Growth:** Book remained largely flat at ~Rs. 99,000 Cr, mainly to the extent of reduction in disbursements and moratorium stopping very fast book rundown. Normally, if the disbursements would have been so low, the book rundown would have been faster. To some extent, the moratorium helped us to keep the same book. The good thing is, even within this, focused book grew by 4% YoY whereas the defocused book reduced by 45% y-o-y.
- 3. Cost of Funds:** I have already talked about the cost of funds, so let me not repeat that except for, again repeating the comment that it is probable that this will trend downwards as we go ahead.
- 4. NIMs+Fee:** The interest income from businesses remained stable on a q-o-q basis. The incremental liquidity on our books, however, created a drag on our interest costs. We maintained an additional liquidity of ~Rs. 6,600 Cr throughout the quarter resulting in an increase in costs by ~Rs. 140 Cr and the net negative carry by about 84 cr. Also, this will trend down. And as we pick up disbursements in high NIM products like Micro Loans we hope to see NIMs trending up.

The fee income also took a hit from 1.17% in Q4FY20 which was already down, to 0.77% in Q1FY21 due to reduction in new disbursements. It would have been close to 0, in fact, if not for Ind AS, since it is more the apportioned portion of the fees that gives us these levels also. Again, as disbursements pick up, we hope that this will pick up also.
- 5. Operating costs:** I think one of the good features of this quarter, just this quarter results, is the operating cost. And you will see that operating cost is majorly down as we tighten our belts. Now it is down by about Rs. 100 Cr, but I do not want you to project like that for the future, because these costs had 2 parts. One is the variable cost, which is dependent on business activity, which are commissions, payments to collection agents, etc. These variable costs are down proportionate to business activity and hopefully rise in the future as business activity goes up. Obviously, the value added by this will be much more than the cost increase. The real meat will come out of the fixed cost reduction measures that we have undertaken, which will bear results even more in the coming quarter
- 6. Credit Cost:** We have spoken a lot about it already. And I would only like to repeat that, while we are confident of our book quality, with a view of preparing for an uncertain macroeconomic environment, we have taken additional provisions of Rs. 577 Cr in this quarter

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All of the above take our net profit to Rs. 148 Cr for this quarter. Just a post-tax adjustment of these incremental provisions of Rs. 577 Cr takes it to Rs. 580 Cr run rate and ROE of 15.25%. The calculation may not be that simple, there will be many adjustments: Rs. 84 crore negative carry, there may be increase in cost as business picks up, there will be increase in fees. Most importantly, our normal provisions, which are down substantially from previous quarters, will again go up as GS3 starts rolling forward. But in all this, one item stands out, which is this Rs. 577 Cr and adjusted for tax, the profit comes to Rs. 580 Cr.

There will be questions as to when this will be reversed, etc. Certainly, the Covid-19 related provisions, which is Rs. 486 Cr, by the end of the year, either they get utilized if some of them become GS3 or they will be reversed at the end of the year. On the macro-prudential provisions, we will take calls as we go ahead. I would just point out that the previous Rs. 350 Cr, even though the situation is bad, we have not used it. We will take calls depending on how situation develops. With that, I will quickly come to the conclusion without taking much of your time now.

Conclusion:

Based on our experience in the market in last weeks of June and early July, we can safely state that the first green shoots of recovery is being seen in the rural economy. The lead indicators for growth like water reservoir levels, employment rate in Rural, Rabi Crop output, Kharif Sowing, Support prices are all moving in the right direction, even mandi prices are higher than MSP; providing us with a ready mix for growth opportunities. We'll continue to build on to our strengths in Rural portfolio to gain maximum market share, though within stringent risk guardrails.

The strength of our collections came to the fore in the last quarter with significant reduction in debtors, significant reduction in GS3, and of course, the strength of our prudential practices came to the fore with increase in PCR and increase in non-GS3 provisions. We believe that while we will continue to build firepower, but we have reasonably good firepower now to meet any challenges as we go ahead.

Here last time I had given you the example of cricket, I do not understand football that much or hockey, but I will give you an example of these 2 games. While games are often believed to be won by the forwards by hitting goals, it is equally true that it is important that you do not let your goals to happen. And hence, in a team, while forwards are extremely important, midfielders as well as defenders are perhaps more important. And it shows that while it is very very important to be optimistic in attitude, optimistic in actions, but at the same time, it is perhaps even more important to prepare your balance sheet for the worst to happen in the environment. In Q1, we have taken a small step towards this objective. I will leave it to you to decide whether the glass is now half full or half empty, I will completely leave it to you. More important is the fact that maybe 3 months back, none of us even had a glass in our hand. Today, at least, I can say that the glass is there. It has some water in it. It is up to you to decide whether it is half full or half empty.

Thank you for a patient listening. I now open the floor to questions

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question-answer session. We take the first question from the line of Dhaval Gada from DSP Investment. Please go ahead.

Dhaval Gada:

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Just a couple of questions. First, you talked about in the month of July, we have seen about 30% of retail customers who are under moratorium pay. I just wanted to understand what was the demand? And how much percentage was it? So some color around bounce rate, initial signs in July? So that is the first question. Second is, what is the moratorium percentage in the Real Estate portfolio? And lastly, on the funding side, on Slide 26, you have given some data around incremental borrowings. I just wanted to understand if there was any support from L&T treasury during the quarter?

Dinanath Dubhashi:

Okay. So I will answer one by one. Maybe the last first, the answer is simple No. It depends on what you mean support. If support is giving cash - No. Support in talking well about us, assuring people that L&T, our parent, is firmly behind us - Yes. It will always remain. We belong to the family and that will always remain so. In support in terms of whether we have borrowed from them during the quarter - No. Okay? That is obvious.

On moratorium in Real Estate, most under construction projects will be under moratorium. And since we do construction finance, almost 80% of our projects will be under construction. All those are under moratorium, but as I said, all of them, each one of them has enough money in the DSRA / TRA accounts to ensure repayment until next March. So, for project finance moratorium has to be seen very differently than monthly installments of retail customers. I hope it answers your question.

As far as July is concerned, I think you are mixing up 2 things when you are asking demand, etc. Collection efficiencies of July is another matter, it is too early to comment about that. Frankly, I do not even know the number that in the first 15 days, against demand, how much we have collected. The data I was trying to give is in June, the customers who were under moratorium, out of that, 30% have paid in July. It has nothing to do with the July demand.

Dhaval:

Understood. And sir, just 1 follow-up on the first question. So just if you can give some color around bounce rate in the first 15 days of July? Are they trending similar to June, better than June, significantly better than June, some color around that?

Dinanath Dubhashi:

Again, I have to admit that I do not know the precise number, but what I know is it is reasonably better than June. Actually, all collection numbers are better than June.

Moderator:

Thank you. We take the next question from the line of Piran Engineer from Motilal Oswal Financial. Please go ahead.

Piran Engineer:

Sir, congrats on the quarter and hope you are safe. So I have 2 questions. One is more on the industry and one is particular to you. So on the latter, the Rs. 225 Cr provision, is that for the large HFC?

Dinanath Dubhashi:

No, it is not for the large HFC. It is for a large conglomerate

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Piran Engineer:

Okay. So on the defocused side, we are done with all the provisioning that is needed to be done?

Dinanath Dubhashi:

I would think so. Situation keeps changing. Some provisioning, we also get a chance to reverse, for some, as situation gets worse, we have to provide. This particular conglomerate, we believe we will end up reversing some in the next 2 quarters. It is just that Rs. 225 Cr was available, so we went ahead and provided. You would have also heard some news about takeover bids, etc. Now, I do not want to comment on that because they are just speculations. But you must have read something in newspapers. So, we believe that we may actually recover some money out of that. Overall I can say, on the defocused book, the PCR is now at 70% overall and which I would think should be reasonable.

Piran Engineer:

Sir, my next questions are on your two wheelers and tractors. So it is kind of similar to Dhaval's question. I just wanted to understand in tractors, what percentage of the borrowers have paid installments? Because some might have paid prior month installments also and therefore, the collection efficiency looks high. So, I just want to understand on a per farmer or per a customer basis?

Dinanath Dubhashi:

Tractors, no, it is actually more complex. Actually, the numbers we have given in the presentation are number of customers.

Piran Engineer:

Okay. So when you say our collection efficiency has reached pre-Covid levels in Farm that means in terms of number of customers who are repaying loans?

Dinanath Dubhashi:

No. Collection efficiency is different. Do not mix both, there is a little confusion over there. When we give morat numbers in that table in the presentation, it is morat numbers. So that is customers, number of customers who are availing morat, which is 18% in June. Let us talk about Farm. Because farm is the most confusing. You know why? Because there is 3 monthly installment, and there is 6 monthly installment. But I would just say, 18% of the customers are in morat. It is the same measurement, which was 75% in April. So we are talking like-to-like.

Collection efficiency is something different. Collection efficiency is how much of your current demand for that month you are collecting. And June was our highest ever demand month, highest ever. I think the number was some Rs. 750 Cr or something. More than Rs. 700 Cr of demand was there, out of which we ended up collecting 87%- 88%. So it is still below 91%-92%, which we had reached at some point of time. But out of Rs. 750 Cr, 88%, it is a good number, I can tell you, and the rest should be collected now.

Piran Engineer:

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But this demand will also be for that 82% of customers, right, excluding the non-moratorium, 82%, the demand of Rs. 750 Cr?

Dinanath Dubhashi:

This is normal billing that we do.

Piran Engineer:

Normal?

Dinanath Dubhashi:

This is billing, yes.

Piran Engineer:

Okay. And sir, just lastly, in your assessment, how much of the two wheeler and tractor demand we have seen in May and especially in June, July is pent-up and how much is likely to sustain?

Dinanath Dubhashi:

This demand is on the sales side. You said demand?

Piran Engineer:

Now this is on sales side.

Dinanath Dubhashi:

Tractor demand seems to be very genuine because there is positivity and money both in rural India. There are always two aspects of demand, right? The first aspect is the want and the need to have a particular asset. Second is the capability and the capacity to buy that asset. When both come together, it becomes demand. For tractors, both these things seem to have come together. And hence, tractor demand overall, I mean yes, there is certainly some pent-up because in April, everything was closed. But I still do not want to take a bet on how FY21 will look vis-à-vis FY20 because almost 1.5 months was lost. Still, month-on-month, we believe tractor demand will keep looking up.

Two wheeler, there is lot of talk about lack of public transport, so wanting to have own transport. Certainly, the need for owning a two wheeler is more. But here, the capability to buy one is not the same as tractors, right? If you take any segment, if you take the urban employed people working in SMEs or the B category or the C category employers or you take self-employed people or you take semi-urban, the capacity to buy a two wheeler is relatively less. Plus progressively, from BS-III to BS-IV, then CBS/ ABS, then BS-IV to BS-VI, insurance costs going up - progressively two wheeler costs have also gone up and that has caused severe amount of disruption in the market. So, yes, while there may be some pent-up demand coming in a month or so, we would expect that even in the post-Covid scenario, we will see a fair bit of demand drop or negative growth, definitely a very fairly high-level negative growth in the two wheeler industry.

What has changed is inventory levels. At some point of time, dealers had 3 - 4 months inventory level. Now inventory levels have fallen, but due to supply chain disturbances of the manufacturers. So two wheeler is a little more complicated. It will be a confluence of all these factors, but we believe that it is not likely to turn positive even on a month-on-month basis the way tractor will turn positive.

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Moderator:

Thank you. We take the next question from the line of Prashanth Sridhar from SBI Mutual Fund. Please go ahead.

Prashanth Sridhar:

I was just trying to understand your Real Estate portfolio better. So 80% would be under construction, which is anyway under morat. Of the balance 20%, how much would be under morat because of this Covid scenario?

Dinanath Dubhashi:

First of all, not one project is under interest payment morat. We do not have interest payment morat for any of our projects. That will actually answer your question. This 80% that we are talking about, actually, it is ~83% that we are talking about is all morats taken together basis RBI moratorium. It is basically the customers who have either interest due or repayment due in this time. Normally, we would be taking those interest and repayments out of money coming in the TRA account or DSRA which people would have maintained. We have been requested by those borrowers to not do that first, for 3 months, and now we are doing it month-on-month. And every month, we are taking a view on the project, project completion, and various other parameters before granting that month's morat. But 1 simple criteria that we use very ironically is that before granting the morat, are we sure on the flows in the TRA account and the escrow accounts, are we sure of the payments that we need till March 21, are we sure of the whole portfolio? I have actually given this number last time that almost 90% of our portfolio comes in that category. The remaining around 10% - 12% of the portfolio, yes, because of genuine delays in the project, there will be DCCO extension, which will be needed and will be done.

So this was the same answer I gave last time that situation has not changed. What has changed, though, is when we were speaking in May, the further addition to the DSRA or the TRA accounts was close to 0, now it has moved to 33% of pre-Covid levels.

Prashanth Sridhar:

Okay. So if I understand, in March'20, when you disclosed 28% of the Real Estate portfolio borrowers were given moratorium, these are the guys that you gave a leeway on that interest payment from the escrow accounts?

Dinanath Dubhashi:

Interest or principal, whatever it was. In March the number was so low because the morat came on 27th. So everybody that had to pay before that had already paid.

Prashanth Sridhar:

Okay. And that figure would be what as of today, that 28%?

Dinanath Dubhashi:

It is 83% something.

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Prashanth Sridhar:

And sir, just 1 more question on the bounce rate. If not an absolute percentages, could you give us some idea on the extent of increase or decrease since March'20 across different asset classes, sort of how has they been trending.

Dinanath Dubhashi:

Sure. Can I come back to you? My team is just getting it. I will answer it on this call.

Replied subsequently - So in farm, for example, in April, bounce rates have gone to around 69%. It has now come to below 50%. For Farm cheque bounce are always around 40%, and then you collect. Two wheelers, in April, it was close to 60%. It has come down below 50%. Home loans, I do not think the trend is that much different. Consumer loans, it has again fallen by about 10% from where it was. Yes. These are the numbers.

Moderator:

Thank you. We take the next question from the line of Viral Shah from Crédit Suisse. Please go ahead

Viral Shah:

Thank you sir. I have four questions. If I could take them one by one.

So I was basically looking at the Covid-19 provisions that you have created based on the RBI's provisioning requirement, which is essentially 5% each spread out in March and the June quarter. So the implied loan book, which comes out of it, which represents the loans, which would have turned NPA, if not for the morat, that seems to have increased 16% quarter-on-quarter from Rs. 4,180 Cr to Rs. 4,860 Cr. Could you help me understand what would be that?

Dinanath Dubhashi:

I think the answer more or less comes from the previous answer that I gave, that the morat came on March 27th, so other than micro finance where whatever payment was made before 27th of March, we took as advanced payment, given that these people were at the bottom of the pyramid, we did not want them to pay the March installment also; but all other people, we took the March installment which was already collected as March installment. Thus, other than micro finance, March moratorium was only limited to people who had to pay in the last 4 days. So naturally, in April, it went up, and we have provided 10% for that entire portion in Q2.

Viral Shah:

Sir, the second question that I had was on the Tier 1. Basically, it has declined 50 basis points quarter-on-quarter, which means that the implied risk-weighted assets have grown 4% quarter-on-quarter. What would that be?

Dinanath Dubhashi:

Can we get back to you on this?

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I will tell you, but my team will answer you more precisely on that. We operate through 4 subsidiaries. So it is normally the weighted average of the Tier 1s of each of the subsidiary. So if in 1 subsidiary, the balance sheet grows and other comes down, that is a derived number. The holding company does not have a Tier 1 ratio of its own. So, it is more a weighted average. But Anuj will give you precise calculations.

Viral Shah:

Okay, definitely. Sir, the third question I had was on the MFI segment. So we saw the number of center meetings actually declining for us, which was the first in the last 3 years. So in which geographies did we pull back or actually close the center meetings and the MFI presence, if you could highlight that, please?

Anuj Mittal:

It is small and will be towards very, very specific locations in some of the eastern states where we have actually reduced.

Dinanath Dubhashi:

We keep doing it, especially in times like these. I will explain our process – it is very data-oriented, absolutely pin code wise. We divide our meeting centers into business meeting centers, collection meeting centers, where we do not do business and only do collections, and then mixed meeting centers where business and collection all have equal weightage. In some meeting centres, as we put them in meeting collection centres and as we keep finishing the collections, and if the situation does not improve, either in terms of risk parameters or in terms of productivity, we go ahead and close those meeting centers.

It would not be any specific geography where lot of meeting centers would have been closed as a strategy. But as I talked about the expense cuts etc., many places, we have tightened the productivity norms and based on that, some meeting centers, some branches would have reduced. And in fact, nobody has asked us the question about people. But even people have reduced by a little more than 1,000 in this quarter. So these are based on the belt-tightening and productivity norms, which is a continuous process. Nothing strategic.

Viral Shah:

Okay. But it would be fair to say that we have exited those specific micro locations?

Dinanath Dubhashi:

For now? Yes

Viral Shah:

I mean we are not disbursing any...

Dinanath Dubhashi:

Yes, of course. We are not disbursing there from some other meeting center, definitely not

Viral Shah:

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Okay. And in terms of the portfolio outstanding for all those meeting centers?

Dinanath Dubhashi:

Those would have been fully collected. Only after that we close.

Viral Shah:

Either fully collected or you would have provided fully and then you would have closed

Dinanath Dubhashi:

Even if we would have provided fully, unless and until it is written off, we would not give up like that. We will always keep doing the analysis as to how much is remaining, whether it is worth it to do that expense and then do the needful. But would not just give up on something easily.

Viral Shah:

Okay. Yes, definitely. Sir, last question, basically, on your AMC business, I see your Average AUM has declined 18% quarter-on-quarter, wherein the broader markets have actually recovered 25% quarter-on-quarter? Like if you could give some insights in terms of inflows, outflows?

Dinanath Dubhashi:

Two numbers I will give you. For this industry, actually, most of the data is available on AMFI site. But I will still give you. The AAUM (average AUM) in Q4 was higher because all the declines and outflows from the industry happened towards the end of March. So, if you actually take the year-end number, the closing AUM was ~Rs. 55,000 Cr in March and now it is ~Rs. 60,000 Cr - if you take the quarter end numbers. And within that also, if you take equity, it has actually grown by 21%. When you say broader market, you mean equity, right? So, equity increase is actually 21%. We even saw 10%-12% increase in high-quality debt. But as you would imagine, in the credit funds, our credit funds have come down to a very, very low number after the aftermath of 1 event in the mutual fund industry where credit funds were closed. So based on that, everybody's credit funds lost AUM. The good thing about our credit funds is that we were able to service that withdrawal without a hiccup, without borrowing etc. We were able to actually sell the investments and were able to service all the exits, which, as you would recall, happened over a period of a week, the whole segment was just wiped out of credit funds.

Viral Shah:

Okay. Could you give if any details in terms of inflows and outflows during the quarter, specifically in the equity segment?

Dinanath Dubhashi:

We can certainly give. As you would imagine, I do not have it by rote on the call. Most certainly, all details can be shared with you by Anuj, yes.

Moderator:

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Thank you. We take the next question from the line of Nischint Chawathe from Kotak Securities. Please go ahead

Nischint Chawathe:

Just two questions. One was when we see the reduction in moratorium, and obviously, there has been a fair amount of improvement in recoveries also. Just trying to understand that on a month-on-month basis when moratorium is going down, how much of it would be because of recoveries? And how much of it would be because of the fact that you may not have extended the moratorium for the next month?

Dinanath Dubhashi:

It is same, no. I do not understand. I mean moratorium not extended and it remaining debtors, that is what you mean?

Nischint Chawathe:

Yes. So that is right. So when you moratorium number is coming down, is it all because of recoveries? Or is it because you have kind of told some customers that from next month onwards, you start paying, I am not extending the moratorium?

Dinanath Dubhashi:

In Retail nothing like that. Okay, I do not want to say nothing would be there, may be, hardly there can be some in retail who would have said I am not paying, but I do not want moratorium also. There will be nobody who would have flown into debtors. It is payment-based.

Nischint Chawathe:

Sure, sir. So the entire reduction in moratorium is payment-based. That is what I was.

Dinanath Dubhashi:

Sorry? If you are not in moratorium, you have paid your installments. It is as simple as that.

Sachinn Joshi:

In fact, where part payment is made...

Dinanath Dubhashi:

Yes. In fact, there are some who have made part payments, but are still shown as moratorium. We have not taken them out of that number.

Nischint Chawathe:

And there would not be any customers where you have kind of told them that from now onwards, you may be a debtor but you start paying now. So that is where the moratorium number comes down. That is not what has happened. That is what I wanted to clarify.

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Dinanath Dubhashi:

The debtors number would not have come down to a number that we have quoted. This time, first time, we have quoted the debtors reduction number.

Nischint Chawathe:

That is right. And the second question pertains to capital issuance in terms of, do you have any plans on that? I think quite a few NBFCs are looking at it. So any thoughts on your side?

Dinanath Dubhashi:

So you have to look at it from 2 points of view, right? One is sources of capital and uses of capital. Uses of capital, first of all, our capital adequacy is at 21%. So immediate need for capital, from that point of view is limited. But also, secondly, growth. Do we see a runaway growth in the overall balance sheet over the next 12 months? No, because we will reduce some of the defocused. The focused will increase slowly because of book rundowns, etc. What we will need capital for, like any other NBFC, is just fortifying yourself at times like this and which is always prudent. Discussions are on right now, on what will be the right way, time, method of raising that capital, and as soon as we have something specific, we will definitely intimate.

Moderator:

Thank you. We take the next question from the line of Karthik Chellappa from Buena Vista Fund. Please go ahead.

Karthik Chellappa:

Just two questions from my side, sir. The first one is, when you look at the collection ratios for July, which has shown improvement for both micro and two wheeler loans, which are the states that are still tracking below that average?

Dinanath Dubhashi:

We will have to get back to you on this. You please contact Anuj, you will get the answer.

Karthik Chellappa:

Sure, sir. The second question is on the micro loan book. There is a good chance that majority of the borrowers may want top-up loans before they can actually start repaying, so that they can get their business up and running. In that context, the strategy to tighten credit standards, like reducing the association norms to 2 for new customer, 3 for a repeat customer and bringing down the state-wise outstanding from Rs. 80,000 to Rs. 70,000, won't this turn out to be counterproductive, especially at the time of small finance banks, I mean, like banks and microfinance are keen to lend more and enhance their customer reach?

Dinanath Dubhashi:

Good question. Who knows Karthik, what is the right answer to this? One thing we can say confidently that all the collection efficiency and the collections and the morat levels that we are showing in microfinance is definitely without any of these things happening right now because we have not disbursed, so there is no question of any doubts whether it is our top-up loans which are coming back, etc.

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You are absolutely right that there will be genuine need of customers, not just for repaying our loans, but for continuation of their livelihood and they will need some loans to tide over that period. Yes, definitely, the products are being developed for that, and we will get on to those products in Q2. These norms are for normal microfinance disbursements. What we do not want certainly is our disbursement being used for repaying our past installments. Definitely, we do not want that and that is why products are being developed to, what you rightly captured, is the need to tide over a temporary problem in their businesses. We are developing products on that, which will see the light of the day in Q2.

Karthik Chellappa:

Okay. Got it. Sir, just 1 more follow-up on the data points that you shared that the cheque bounce rate in two wheelers, the 69% has come down to below 50%. What are the check bounce rates normally in pre-Covid times in two wheelers?

Dinanath Dubhashi:

See, normally, two wheelers will be, what, around 25% - 30% will be the first bounce. That goes to X bucket and X bucket collections are normally between 92% - 95%. So, first the bounce happens. X bucket is, what is collected within that month from the bounces. So if you consider both these together, then the collectible comes down to, what, 5% of 60%, so 2% - 3%, which then moves to the next bucket and hence is collected after that.

Karthik Chellappa:

So compared to the first bounce rate, the current bounce rates are almost double?

Dinanath Dubhashi:

Yes, about 60% higher.

Moderator:

Thank you. Next question is from the line of Alpesh Mehta from Motilal Oswal. Please go ahead.

Alpesh Mehta:

Sir, two questions. First, in the reported numbers, what would be the AUM growth because of the moratorium interest capitalization? Any ballpark number on that?

Dinanath Dubhashi:

Hardly anything because we have taken a stand. At least we have capitalized only at the end of the first 3 months. We are not capitalizing daily, monthly, etc. Only at the end of first moratorium, we capitalized. And after that, we are again on simple interest.

Alpesh Mehta:

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Yes. But there would be the interest component, since you are recording on the P&L, there would be, obviously, on the asset side also, there would be some?

Dinanath Dubhashi:

Yes, absolutely. So there is about Rs. 1,000 Cr, Rs. 600 Cr?

Sachinn Joshi:

Rs. 600 Cr to Rs. 650 Cr.

Dinanath Dubhashi:

Around Rs. 650 Cr.

Alpesh Mehta:

Okay. Secondly, more strategic question. First is on the rural and housing portfolio this contingency provision or a Covid-related provision, in case of rural portfolio, we are already at 3%, whereas in case of the housing portfolio, we are at around 1.7% - 1.8%. So what is your comfort level on that portfolio from a contingency perspective?

Dinanath Dubhashi:

See it depends on the security level, because in housing there is a security, right? You can now argue about the value of that security in post-Covid, etc. which is why the provisioning is there. Rural, most of it will be the microfinance, where there is no security, right? It is unsecured loan. That is why naturally those percentages will be higher from just reflecting the loss given default of that portfolio.

Comfort levels, difficult to answer right now. I would believe that if you would have asked this question to me 3, 4 months back, I would say we are well above my comfort levels already. Today, I will say that I think before answering this question, let me wait for 6 months more. I mean, just see the way the thinking has changed, Alpesh. We provided the first Rs. 350 Cr when ROEs were well above 18%. They were close to 20% - 21% when we provided that and had brought down to 18%. We had provided it saying that we should save for the rainy day, provide when the going is good. From that, the thinking has changed that it is a very bad quarter and even then you have to provide it for just to make sure that you provide for any uncertainties in the environment. Very clearly, that thinking has changed. What is comfort level? What I told my Board, I will tell you. We will take that call as quarters go. But at this point of time, we believe that a good fortification has been made.

Alpesh Mehta:

Let me rephrase this. Then at the portfolio level, we are standing at around 1.4%. Is it possible that we may, by end of the year, in a sense, by the time this entire episode gets closed, we would be somewhere between 2% to 2.5% of the portfolio?

Dinanath Dubhashi:

I do not want to answer that question, Alpesh. I have no idea, because part of it may be reversed also. Especially the Covid-related provisions, which is ~Rs. 480 Cr. By RBI norms, it will be reversed or move into GS3 if the asset becomes GS3. See, the difference between the Rs. 400 Cr, which is not a part of this total Rs. 1,244 Cr, which is Stage-1, Stage-2 ECL by

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formula. The difference is that, that will always remain on Stage-1, Stage-2 as long as the book remains of the same size or if the book increases or decreases, it will change according to that. Rs. 1,244 Cr is largely discretionary. And that can be reversed, can be increased. But probably some of it will also flow to GS3 as some of these assets become GS3.

Alpesh Mehta:

That is true. Okay. Got it.

Dinanath Dubhashi:

At this point of time, we can have all the readiness. As I gave the example, my job is to build a team of great defenders. The opposition's attackers, how strong they are, how can I guess that before the match?

Alpesh Mehta:

And sir, just a last question on the liability side now. We have been seeing, obviously, a sharp reduction in the CP rates over the last 2-3 months. And the good parentage guys like yours are obviously seeing some benefit of it. So would you like to increase the CP proportion because it has a direct impact on your margins now? And you also have a fairly decent proportion of the short-term book as well.

Dinanath Dubhashi:

Okay. Good question. One thing I can assure you that it will not fall further from here. We are reasonably okay. But from ALM side, you see that I am running huge positive ALMs. So there is definite scope. If I go into data analytics and technicality, it will now depend on the way standard deviation of daily liquidity availability changes.

Right now, to arrange long-term funds, depends on so many things; on some mutual fund causing a problem, banks' NBFC limits full, any bad news comes, then the market suddenly starts jumping up and down, equity analysts will also start saying that there is too much CP, etc. So right now, till everybody starts breathing easy and stop jumping at the slightest issue, we will keep 2 things. One is CP levels at these levels - we will not increase them and second is liquidity at this level.

What I can say confidently is that it is unlikely that CP will go below this and unlikely that liquidity will go above this. What does it mean? That at worst, the cost of funds and the liquidity negative carry will remain same. But hopefully, both will trend better. How much better, we will take the call based on data.

Moderator:

Thank you. We take the next question from the line of Aditya Jain from Citigroup. Please go ahead.

Aditya Jain:

Just a couple of clarifications. So the Rs. 225 Cr which is taken on a conglomerate account. So is that 100% of the exposure to that account?

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Dinanath Dubhashi:

Yes. I mean, with this Rs. 225 Cr, it becomes 100%.

Aditya Jain:

Got it. Okay. And then could you talk about the movement in the defocused book? So the net book, we can see is down Rs. 57 Cr quarter-over-quarter. So underlying, what are the additional implications?

Dinanath Dubhashi:

No addition. Why there will be addition in defocused? There will only be deletion.

Aditya Jain:

And on the cost cuts, you alluded to this in the beginning. So a part is variable and some part of the decline of the Rs. 100 Cr is fixed. Could you quantify this a bit further? So how much of this could be fixed sort of cuts which you will sustain?

Dinanath Dubhashi:

See, Q1, the fixed will be less because any steps that you take in Q1 will actually start working from Q2. So Q1, maybe 25% of this will be fixed, 75% will be variable cut. As we go ahead, in Q2, all the steps that we have taken in Q1 will start working. And let us hope that the variable costs keep going up because we are not interested in keeping total expenses down. We are interested in increasing contribution. So Rs. 1 increase in variable cost will hopefully lead to several rupees increase in income.

Aditya Jain:

Got it. Perfect. Just lastly, the infra P&L, which is there in the presentation. So that has a decent additional provisions. Obviously, you have made prudential provisions across segments. But just wanted to understand the infra, I guess, it is doing much better than the other segments, in general, both road and renewable side. So where are we making the prudential provisions within infra?

Dinanath Dubhashi:

Where means which assets?

Aditya Jain:

Which sort of assets?

Dinanath Dubhashi:

We have given so much data, so if we had to give which asset, we would have given already. Now, let me tell you, IBC is suspended for 1 year, right? So good management will always see that for some of the assets to come back, the value to be realized will probably take 365 days more. And we will have to make good for that LGD. Each one of this, all of this, let me assure you, is from our, what we call, legacy infra portfolio.

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There is no increment for the last 3-4 years or at least after we moved to Ind AS to the infra GS3. No gross increment. There has been only reductions. So it is all the old portfolio. We have always been assuring you that we have made adequate provisions. But events like this, like IBC getting postponed, etc. many a times there is an increase in LGD. So we have taken that.

Moderator:

Thank you. We take the last question from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah:

Yes. So three, four questions. Firstly, in terms of this macro-prudential provisioning, I do not know if you answered it earlier, but this is still towards rural and I think on the Real Estate or entire housing segment, we are at 1.7%. And given this kind of a moratorium, would we be comfortable or maybe creation of provision would be pushed to Q2 and Q3?

Dinanath Dubhashi:

I answered that. Whatever was the Covid provision required on this portfolio i.e. Rs. 313 Cr, that is done. That is number one. Number two, that portfolio comes with securities. So if you are talking about retail home loans, it is one of the most secured portfolio. In Real Estate also, there is the project security. As I had explained many times before, there are incremental securities. If the project gets delayed, we get incremental securities. There are various projects which L&T has taken over and working on. So with all these and also most importantly, every account under moratorium having enough cash to service the interest and principal repayments, at least till March'21. We believe that this should be enough. And you know our record here. If we believe that in a particular asset, there is any problem or the LGD increases, we will not hesitate in providing. But I can today only guide you on the trend. So I do not think we will have a sudden increase in NPAs in our Real Estate.

Kunal Shah:

Okay. And secondly, in terms of the rise in the loan book, how much is it on account of maybe the funded interest getting loaded? Because if I look at the disbursements?

Dinanath Dubhashi:

It is Rs. 600 Cr to Rs. 650 Cr.

Kunal Shah:

Okay. So that is the interest component, which is getting loaded on to the loan book?

Dinanath Dubhashi:

Yes.

Kunal Shah:

Okay. And in terms of MFI, maybe Rs. 7-odd Cr of disbursements and even collection efficiency or the moratorium number, that is relatively lower when we compare it with the peers. Okay, everyone is talking about like 65% - 70% odd kind of a collection efficiency. And in fact, the disbursements have also started a bit in June. So are we much more conservative with

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our guardrails and not so confident and that is the reason the disbursement is low? And how to look at the 52% collection efficiency?

Dinanath Dubhashi:

I do not know, Kunal, did you come late on the call? Because I have answered this same question in great detail.

Kunal Shah:

Yes. I came late, yes.

Dinanath Dubhashi:

So do you want me to repeat the answer? It will be boring for everybody. Why don't you contact Anuj and he will answer.

Kunal Shah:

No worries. That is okay. And lastly, in terms of the cost side, so Rs. 100-odd Cr kind of a reduction, of which, if I look at the segment-wise, there is only Rs. 40 Cr, Rs. 45-odd Cr, but I think what I heard was maybe it is more related to the volume. But otherwise, maybe Rs. 50 Cr, Rs. 60-odd Cr is coming outside of the business related. So is it more of an unallocated overhead which are getting reduced and that might not come back soon?

Sachinn Joshi:

You are referring to what, Kunal?

Dinanath Dubhashi:

Expenses?

Kunal Shah:

Yes, yes. Expenses, if I look at it, consolidated, that is down Rs. 100 Cr quarter-on-quarter, okay? But if I look at it in terms of the business.

Dinanath Dubhashi:

I will allow Sachinn to answer this. This is, what, fixed expenses only?

Sachinn Joshi:

This is fixed expense, yes.

Dinanath Dubhashi:

No, what his answer is if you look at each segment and add up, the reduction is about Rs. 50 Cr, whereas total reduction is.

Kunal Shah:

Yes, Rs. 40 Cr, Rs. 45 Cr, yes.

Sachinn Joshi:

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Okay. Defocused, I think we do not give. That is one. And the other entities cost. So what we had given is the main business, 3 lines of businesses that we have.

Dinanath Dubhashi:

Okay, I will explain. Largely big reductions were also there in some head office expenses, which may not have been allocated to business.

Kunal Shah:

Okay. And that might not come back soon now? Because you said maybe in expenses, we should see it going up.

Dinanath Dubhashi:

On the contrary, some more reduction in that will be there in Q2. Because Q1 actions will, as I said, it will be more visible in Q2. But just at the risk of repetition, the variable expenses reductions from businesses will actually instead of seeing a reduction, would increase as business grows.

Moderator:

Thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Dinanath Dubhashi for closing comments.

Dinanath Dubhashi:

Thank you. Not much of the closing comments. I think I have given my conclusion before. I would like to thank all of you. We will continue to count on your support, only expressing the thought that we are all together in this crisis. We are trying our best to use our strengths that we have in businesses trying to catch up.

A lot of questions were there about disbursements, how we will catch up. The important thing is to remember that in all our businesses, maybe with just 1 or 2 exceptions, we are the leaders, we are among the top 3. And when we decide to get into that market, when the situation is better and after micro measurement of risk, we believe that we will be able to quickly regain the market position or dealer positions in those markets. So, the trend of disbursements, we expect to be positive as we go ahead. Collection trends have been improving, we expect that to improve further.

I would once again like you to repose your confidence in us based on that and also repose your confidence in our prudence and our being prepared for the future by making good provisions. So I just request you to look at this quarter's performance through these 2 lenses. Once again, stay safe and God bless all of you. Thank you.

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Moderator:

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