

L&T Finance Holdings

Q4 FY21 Earnings Call Transcript

April 30, 2021

Moderator:

Ladies and gentlemen, good day and welcome to the L&T Finance Holdings Q4 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. Should you need assistance during the call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

We have with us today Mr. Dinanath Dubhashi – Managing Director & 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 Q4 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 strategy of the company going forward. Thank you and over to you, sir.

Dinanath Dubhashi:

Thank you. A very good morning to all of you are and a warm welcome to all of you who have joined this call. I hope all of you are safe and in sound health. It's a strange feeling to speak on 30th of April, about 31st March results. Normally it's a short period, but as you all know, the country has gone through very tough times in the last 30 days. So, some of the things that I may talk seems like long time back, but we have to remember that it was just 30 days back. And it is the results of Q4 that I am going to talk about.

It is very easy to get lost in despair or pessimism when we suddenly consider the last 15 days. And we will of course discuss that, what we think about that. Because many of us, including me, have relatives who are in hospitals, looking for hospitals. And the situation is grim, no doubt. But talking professionally, just as a Chief Executive of a company, I think we should not forget that just a quarter back we were talking about return to growth, we were talking about green shoots of the economy, we were talking about return to normalcy. And we should not forget that that is the normal. We will have bad times, we will have very grim times, not just bad times, and I am not pooh-pooing the bad times that we are going through today. But my appeal, and what I will also try to concentrate is the strengths that we have built throughout last year, and last year was by no means easy. But the strengths we have built throughout last year, which will help us grow once this mess is over or subsided at least in the medium to long term. And more importantly, will helps us tremendously to deal with this short-term issue that the country is going through, all of us are going through.

Talking about last year, I've heard that last year was unprecedented, last year was tough, last year was black swan. All these words I have heard, and there is no doubt that all these are correct. But perhaps what is important to see is the wild swings that last year's environment had from quarter-to-quarter. You actually take any economic parameter, you take just fear of pandemic, you take growth, you take interest rates, you take liquidity, or you take inflation. Let me just give you an

April 30, 2021

example. If you just see economy was in deep recession in the first quarter last year to partial recovery, to return on growth in Q3, the budget - everybody talking growth, growth after the budget, and then again growth worries returning this quarter.

Interest rates, very high interest rates in the first quarter, coming down to absolute bottoming out in Q3 and Q4. And once again now yields firming up. You take any aspect of economy; it will be the same. I mean, just a fear of pandemic, first quarter everybody being very afraid, nationwide lockdown, to then second quarter slow opening up. Third and fourth quarter everybody actually forgetting about pandemic, and I think many of us are guilty of personally forgetting about pandemic, started going out, enjoying and once again deep fear coming up. That makes the last year's trend. Normally, with my white hair I know that the cycles are a reality of life, but normally they happen over three to five years. But this time I have seen the whole three-to-five-year cycle in just one year.

What it brings to this call, and what I would like to submit is that when we have seen such a year where things go up and down every quarter, what we need to concentrate on is "doing things right, doing the basics right". And when we do the basics right, we survive as a people, as a company, as a country, we survive through bad times, and it gives us the strength to double down on good times and what is working well. And over the next half an hour I would like to submit that L&T Finance Holdings has tried to do that.

Let us talk about the evidence of that in our profitability parameters.

- Our earning before credit cost (EBCC) has actually increased quarter-on-quarter from about Rs. 1,000 Cr in Q1 to close to Rs. 1,500 Cr in Q2, it has continued to increase quarter-on-quarter, and now even compared to year-on-year it is up 24% from last year Q4. And this is before any credit cost or anything like that, this is profit from pure operations. And that is increasing quarter-on-quarter and up 24% from last year. I mean, sometimes these things are just lost.
- Our PBT has increased continuously quarter-on-quarter and actually almost doubled from last year to Rs. 828 Cr this quarter.
- Our PAT before exceptional items, and I will try and answer your questions on exceptional items. Our PAT before exceptional items is Rs. 428 Cr in Q4, up by around 135% on QoQ basis from Q3, and even up on a YoY basis.

So, you can see at that at the end of Q4, majority of the profitability metrics, which is EBCC, PBT and PAT before exceptional items, have undergone continuous quarter-to-quarter increase, and we have tried to capture that in our investor presentation.

Now, I am not quoting these numbers as the be all end. The reason why I am quoting this number is I want to actually explain where these numbers have come from, they have come from the business strength, and various strengths that we have built. And I would like to put these strengths in five buckets.

- 1) First is the **business strengths** that we have built, and which will last us in good stead for time to come.
- 2) Second, the **collection strengths** we have built, which has improved a lot of our parameters, and those strengths will definitely come to great use in the first quarter, second quarter when this pandemic related issues are going on.
- 3) The third is a **liability franchise** we have built, and I definitely believe that a NBFC especially is differentiated by the liability franchise more than the asset side.

April 30, 2021

- 4) Fourth, the **asset quality and provisioning** regime that we have had, and which has helped us from shocks, I had actually said in the first quarter that we would like a gradually increasing performance, and to do that we used our macroprudential provisioning policy and we have used it to good stead and also have a positive surprise there, we are ourselves surprised, due to our performance in fourth quarter, and I will elaborate on that.
- 5) And last is the **balance sheet strength** that we have built.

I will elaborate on each one of them.

1) **Business strengths**

The company definitely remained one of the leading financiers in its focused businesses, especially in Rural and Infrastructure Finance. We not only maintained our market share across businesses, but also gained share in Two-wheelers and Farm Equipment business. In our retail businesses our digital and data analytics capacities have helped us tremendously. It points us in the right direction, points us to dealerships where the portfolio has been good, will be good. And then we can concentrate on increasing counter shares at those dealerships rather than spreading our resources. And very clearly that has been the clear formulation of our gain in market share and dominance.

- Farm Equipment, we are No.1 and the market share is close to 15%. The yearly disbursements have grown by 17% and the book by 22%
- If we come to Two- wheelers, we are among the Top 3 financiers in the country, and the numbers have changed, but we are in Top 3, with a market share now close to 11%. You remember, just four years back this was in mid-single digits. The focus, again, has been analytics-based capturing higher counter shares and a YoY increase in book has been 8%.
- Micro Loans, you would know that in the initial period of the year we have been very careful, we concentrated Q2, mainly Q1 of course there was no disbursement, Q2 concentrated on existing customers and slowly increasing new customer underwriting. Till now we have reached, in fact in Q4, close to 50% of our underwriting has been with new customers. And that is really now increasing the momentum of Micro Loans disbursement.
- Infrastructure Finance, we depend on our churn model. And as you would have noticed, our sell down capabilities have actually remained very steady through this difficult year also.
- Housing, our success definitely has been limited. In Real Estate we have not done any new underwriting this year. And in Home Loans we have concentrated mainly on salaried customers, volumes have been low, but I can say that the salaried customers now are 92% of total disbursements.

So, through the year, in line with our strategy, we have grown the retail portfolio and churned the Infra portfolio, leading now, for the first time, the percentage of retail, which is only Rural plus Retail Housing of more than 43% now. As you would know, five years back we started with close to 23%, 24% on this ratio. Slowly but steadily, through difficult times we have been increasing it. We have also resisted the temptation of showing big growth in overall book by putting capital behind Infra and wholesale businesses, our strategy is steadfast. And that will help us in time to come.

2) **Collection strengths**

April 30, 2021

For any successful lending business, obviously, strong collections is a must. Of course, on-field efforts are important, but once again, analytics led prioritization and resource allocation has helped us tremendously. We have remained steadfast on this. We have not changed this despite changes in quarter-to-quarter situations. In fact, I am glad to say that in a year like FY21 our overall collections in Rs crores has been 33% higher than FY20, despite very low collections in Q1, one of the reason why perhaps book has not grown as much. But I would think it's a good problem to have. It's a problem of plenty at this point of time.

Higher collections in Rural were backed by very strong data analytics and we have completely focused on on-due date collections there. And I am glad to say that in Farm Equipment, we have reached regular collection efficiency of 91.5% in March, which is very clearly head and shoulders above the industry.

The agri sector has been relatively resilient to COVID and the collection efficiencies have been helped by favorable macro environment and healthy farm cash flows. And it also augurs well in the future. Our regular collection efficiency in Two-wheeler has now reached 98.4% in March, which is at pre-COVID levels, very clearly.

On Micro Loans, I had talked over the last two quarters, Q2 and Q3 that it is not so much the issue of collection efficiency; collection efficiency was improving, it was the issue of lack of cadence. That problem seems to have reduced drastically in Q4. And collection efficiencies have now steadied at about 99%, 99.1%. I must say that these look like new normal to us. We believe that the 99.6%, 99.7% collection efficiencies are at least far away from now. And we should be ready for the profitability which comes out of a 99%, 99.1% collection efficiency and we are ready for that.

Amongst Infra projects I would say that collection from Transmission and Renewable projects continued to be in line with pre-COVID level. There is nothing new to report here. But I must say that the must-run status on Renewables, the liquidity package for state electricity boards have worked well. Annuity roads continue to receive timely payments, and collection from toll roads are up actually 13% YoY in March 2021. And even if you see the distribution, the lowest end and worst performing toll road will be about 86%, 87% of pre-COVID, and the best performing toll road will be about 145% of recovery. So, it's not just the average which is 113%. Generally speaking, toll roads have done well in our portfolio.

The escrow collections on Real Estate projects, financed by us, are up 21% YoY during Q4. And various government measures, attractive schemes given by developers is looking like helping the industry, sales had picked up in Q3, Q4. I would think April, yes, obviously, registrations, etc. are closed, but too early to say at this point of time. Our sales, as in sales of our portfolio projects are 102% as compared to previous year levels. I must say that previous year was not great, so 102% of previous year is no cause to celebrate majorly, but okay, it is a cause to become slightly sanguine about it.

3) ALM and Liquidity

You know that Q1 saw tremendously tight liquidity and we were able to raise funds across tenors, during that time also and in easy times also, which is Q3 and Q4. So, we actually raised close to Rs. 16,000 Cr of long-term resources during this time, and quite uniformly throughout all the four quarters. The strength of the liability franchise is to see that were we are able to raise required funds and maintain liquidity in the bad situations and aggressively work on cost reduction in good times. And I must say that these cost reductions have not been achieved by

April 30, 2021

increasing CP levels, etc. It has been achieved by raising good long-term resources, in fact locking into good low-cost long-term resources. We have been able to raise close to Rs. 3,500 Cr of PSL throughout the year at extremely low cost. The government extended this scheme at least till September, it bodes well for us.

Our AAA rating has been reconfirmed as late as this month, after the mergers have gone through by all rating agencies.

4) Asset Quality and Provisioning

As far as asset quality is concerned, here the headline number is NS3 which is actually down to 1.57%, our lowest ever level, and with a good level of GS3 at 4.97% and PCR of 69%. Why I quote NS3, is obviously we have done some aggressive write-offs even in the fourth quarter, close to Rs. 700 Cr have been written-off in the fourth quarter. All the write-offs happen at later buckets with assets which are 100% provided. And hence, very clearly, it is an interplay between GS3 and PCR. So, even after that, a good level of PCR and a low NS3 is a clear indication of good collection performance.

Talking beyond this NS3 etc., important point is, how are we managing our Stage-1, Stage-2. FY21 definitely saw a marked improvement in asset quality, no doubt. But if I would think a highlight of our strategy, is that we have tried to create cushions, create reserves that we can build, we can depend on by creating additional provisions either in the form of COVID provisions or overlay provisions or macro prudential provisions. We built close to Rs. 1,750 Cr till September. We didn't build anything new in December, as you know we utilized some about Rs. 18 Cr. And we were thinking, that this Rs. 1,750 Cr we will need to utilize in Q4. Why Q4? Is because obviously the moratorium was over in August, and most of the stress would have actually come in Q4, that was the initial thinking.

But the positive surprise that we had is that our collections, based on all the efforts and strategies, were so good in Q4 actually, that we were able to show these kind of NS3, GS3 numbers also. We had to utilize only Rs. 706 Cr in Q4, we had not planned for this, we had believed that we will be required to use most of these ~Rs. 1,700 Cr, but we used only ~Rs. 700 Cr and today we are in a reasonably good situation that we are carrying Rs. 1,033 Cr on Stage-1, Stage-2 provisions, whether it is macro prudential or overlay provisions to the next year.

Lots of questions about whether that will be enough to handle COVID 2 etc., the true answer is, I don't know, I haven't the faintest idea on what will happen according to COVID 2 etc., I don't know. We will always try our best, like we have tried last year. But the important fact is, whatever the impact of COVID 2 is, we are cushioned to the extent of ~Rs. 1,000 Cr. Rs. 1,000 Cr is not a small number by any means, and that's what I would like to speak about. And that I would think is the more important message to carry.

5) Balance Sheet strength

We raised ~Rs. 3,000 Cr in the fourth quarter. Capital adequacy currently stands at close to 24% with a Tier-1 of close to 19%, leverage is below 5x, now at 4.72x. We believe that this prepares us, to take care of growth opportunities, organic, inorganic, whatever comes in the medium to long-term. And more importantly, absorb temporary instability in the short term.

April 30, 2021

If I talk specifically numbers and clarify some numbers which all of you are asking. Throughout FY21, we tried that we keep our benchmarks, we keep our numbers steady and improving over the quarters. Obviously, sometimes the realities of business takeover, but that's our attempt to guide you properly and deliver according to that.

One of the good things that worked was our fee income, NIM ofcourse, I will talk about, but mainly fee. Our fee income has increased 46% YoY in the fourth quarter. Increase in fee income has been despite actually lower disbursements in many of the businesses. We would put it mainly, there are a few factors, but mainly to our cross-selling engine and extremely data analytics led cross-selling engine. And I am proud to just quote one number, in my Rural business today, my customer attachment ratio, i.e. how many products that I sell to one customer is today at 4.1. And the upside of this is that today most of the products that I sell, other than the main loan product, are actually protection products. There is so much more potential and that will be the future to even cross sell other loan products to the customer, we have not yet used it that much, only to a small extent. And that is really the secret of fee income coming. Our NIMs+Fees, facilitated by low cost of borrowing, and our ability perhaps not to pass on the entire increase to the customers, ability to maintain a lower liquidity buffer throughout Q4, we have again increased it now, but throughout Q4 definitely worked and the NIMs+Fees was at 8.17%.

I must be also very clear that there are some one-time incomes in this. If we normalize them for that, two of them I will clarify. As you know, we had refunded the interest on interest for less than Rs 2 Cr customers even before the fourth quarter, and we had actually not recognized that as income, because we had refunded that, even though it was going to come back from the government. It has come back from the government before the end of March, and hence we are recognizing that. So, that number of about Rs. 83 Cr is a plus in Q4. So, very clear, it is not come from heaven, it was not recognized in the second and third quarter and now recognized together in Q4. This is operating income, it is not non-operating, it is very much operating income because it was normal income earned, but it has come as a lumpsum in the Q4 and hence I am normalizing it.

On the other hand, in Q4 the honourable Supreme Court also gave a judgement that this interest on interest on more than Rs 2 Cr loans also to be given, and there is no clarity whether government is going to reimburse, and hence we are not counting it. So, we have made a provision for the same which is Rs. 45 Cr. So, Rs. 83 Cr minus Rs. 45 Cr, it is a net impact of about Rs. 38 Cr that has come. There is another about similar amount which has come out of interest on tax refund. We have got some tax refund and the interest on the tax refund. And normalizing from all this, it is not non-operational but still normalizing for all this, the NIMs plus fees will be at about 7.68% instead of 8.17%.

Many of you asked for guidance, I have always been guiding that our NIMs+Fees based on cycles will be between 6.5% to 7%. We believe that going ahead, at least for two to three more quarters, I can guide you closer to 7%, because interest rates have also bottomed out, we are also locking in more and more long-term funds as we go ahead as a good ALM and treasury management. As we also look for growth, some of the NIMs will have to be passed on more. So, with that, we believe that this 7.68% is a good starting point that we have, and we believe also that it will be conservative to guide all of you more towards 7% than this very high number.

I have talked about the other earnings before credit cost, etc. before.

Our expenses, yes, some of you have pointed out our expenses, I would also like to put these expenses in context. Expenses should be seen as into two, one is, expenses which are non-value added and expenses which are value added.

April 30, 2021

Every expense which is done to source more business or to do more collections is a good expense. So, the way you have to see is what is the delta of NIMs+Fees and the delta of expenses. What did I say about strategy – that to protect where things are not working well and double down where it is working well. Things tremendously worked well in Rural business, so we pushed completely the pedal of Rural business, both on business and collections, obviously it means expenses. And if you see that we have increased much more than the delta expense in income and also carried forward ~Rs. 1,000 Cr of macro prudential because of better collections, I believe it is well worth to spend those expenses.

I have talked about EBCC, I have talked about GS3, NS3 before so I will not repeat.

Now, I will talk about explanation of exceptional items. So, we have talked about Rs. 161 Cr of exceptional items, let me explain what they are.

- As you know our IDF, which was set in FY14, was a tax-free entity from FY14 onwards. But the actual, and that is according to Government of India notification. We had even had tax assessments and the assessment was closed at nil tax. We actually got a notification saying that we are tax free from FY18 onwards. And right now, there is a notice / demand raised by the tax department of this amount, of about Rs. 73 Cr in Q4, for FY15, FY16, FY17. Obviously, we have made a representation that we are an IDF, and we are not supposed to pay this. But in discussion with our auditors, we have conservatively decided to take this provision. So, this is Rs. 73 Cr, and it is most certainly one-time. And hopefully we will even win the appeal. So, it has a upside. The second one is a one-time merger cost which is stamp duty that is Rs. 88 Cr, which we had already said that merger will cost. We believe that given the advantage that we will get in ALM management, liquidity management, when we don't have to manage three platforms separately, just our utilization of capital, more efficient utilization of capital when we don't have to maintain good ratios in three entities, will more than pay for this in the medium to long-term.

Now these strengths that we have built, and I am now coming to the conclusion, prepares us in a two-fold way, these five strengths we have built, the numbers we have built, etc.

One, looking at optimistic side of it. We all agree, and we were all agreeing till three months' back that all the factors, tailwinds, budget, everything point towards good growth atmosphere across sectors and especially in our sectors in the country in the medium to long-term. We believe that each of the strengths that we have built, market strengths, collection strengths, ALM, liquidity management, asset quality, and last but not the least, good capital adequacy, will help us take full advantage of this. But more importantly, in the short term, we definitely believe, I mean, we should not get carried away with pessimism, at the same time, we should not get carried away with optimism. I am fully aware that in April itself situation has turned pretty bad in the country, it will probably turn worse in May, because April I must say that the first 15 days of April was actually business as usual and much better than normal April also, forget last year's April. And then situation has turned quite bad.

But let us even look at this this wave, take out the emotions out of it and look at it very practically. There are a few things which show that in this wave the handling of the country is better. One, there is no nationwide lockdown, the probability of that is very low. Moratorium like event, probability of that is very low, I mean, I am not crystal ball gazing, I am only looking at probabilities. And a huge liquidity crisis, last year there was all this liquidity, at the same time some mutual funds closing down schemes and all those things happened. But a huge liquidity crisis, probability is very low. So, these three things I can

April 30, 2021

say I can tick that look better. I would think economically perhaps there are lots of measures done, the budget has been pushed for things. In terms of rural well-being, monsoon, the reservoir levels are much better. So, these are all positives.

But there is one thing which is negative, that the severity, mortality, situation of cure and care, and hence the fear is much, much higher than last time. It leads to two things, it leads to customers, obviously, their livelihood getting affected, and hence their ability to pay gets affected temporarily. And more importantly, they are holding cash also in fear. So, both these things can work negative temporarily. And secondly, every day, as a CEO, I have to exercise choice between business continuity and safety of my people. And we do it in a very measured way, not putting our people at an unmanageable risk. So, these two things are very clearly pointing towards difficulties in the short term.

I can't measure and give you numbers as to where I see business in the first quarter, or where I see collections in the first quarter. It is frankly too early to do that. And as I said, the first 15 days of April have been very different than the next 15 days of April. It will depend on many factors. I only submit that we believe that we are much better prepared in intrinsic strength as well as financial strength to handle this crisis and handle business continuity than perhaps we were in last year first quarter where it came as a big shock. So, that's as far as the short term is concerned.

Now what are these opportunities that I am talking about in the future? We believe that the digital and data analytics engine that we have built is going to be the bulwark of our growth over the next three to five years, which is what I call medium to long-term. And I will try and talk about our existing products. Yes, primarily our retail is rural related. And if you see all indicators, whether it is sowing under rabi, which was 3% higher with better sowing in pulses, oil seeds and wheat, which are the main crops, water reservoir level storage was 23% above normal, rainfall prediction is at 98% of long-term average, which is considered to be very normal rainfall, tractor market is at now 9 lakh vehicles this year and expected to grow at a 7% to 8% CAGR over the next five years.

Two-wheeler market, yes, it was definitely suppressed over the last two years for various reasons, but we expect over the next five years an 8% to 10% growth. The finance penetration has improved substantially, other normal phenomenon in the market and obviously due to also some of the specific schemes launched by us and other financials from about 30%, 35% to 50%, 55% over the last three, four years. And we believe that over the next five years, it has the potential to increase by another 15 to 20 percentage points.

Introduction of electric vehicles is another good potential and a good growth potential as we go ahead. I am not talking about the number of electric vehicles today, but very clearly, I am a great believer, and the company is a great believer in the potential of this. We are taking baby steps in tying up with two or three manufacturers. And I am happy to say that in this quarter itself we have financed our first electric vehicle. But of course, very, very small numbers. I am talking about Two-wheelers; we are not in car finance. So, we are under very, very small numbers, but this has potential to grow.

Microfinance, very clearly, keeping aside the recent trouble, keeping aside troubles in the next maybe a few months, I am not talking about that, very clearly the industry has grown at a good CAGR, the number of women borrowers are quite large and with good potential to grow further. Only thing is, you need to have the infrastructure to penetrate deeper, to find new borrowers, and not keep lending to the same borrowers, and hence do over lending. And that, we believe we have that due to our digital and data analytics capacity.

April 30, 2021

The CSR programs we run, especially our flagship program of Digital Sakhi, tie-up extremely hand in hand with this. And we believe today that any product or even new products in rural sector, the farm sector doesn't consist of only these three products, we are looking at, as I have said in the last time also, we are working on many proof of concepts and soon it will be pilots on many products in the farm ecosystem. We believe good growth potential over the next three to five years.

Housing segment, definitely growing. I must admit, we have not been able to take a big advantage of that. We have recently made a leadership change, as some of you would have noticed. And now we have the retail Rural Finance and Retail Housing reporting to the same individual, so entire retail reporting to the same individual. And we believe that the best practices of retail and the growth of Rural and the growth that Rural saw over the last three to five years now we will see the same coming in Housing. I am not talking immediately, but over the next four to five years we will become a good player in Housing also.

On the wholesale side, on Infra, the potential is, we don't want to talk about book growth potential because that is not the strategy. But very clearly, our strengths in underwriting, our strengths and understanding our sectors and down selling will help us grow our underwriting and disbursement in Infra as well.

So, if you put all these together, that existing retail products, good growth. New products in consumption, right now we have taken baby steps in consumer loans, consumer loans we have done only as a cross-sell right now to our existing customers. We are now looking at other areas of consumption. So, the common factor will be, it is not consumer loans with money given in the hands of the customer, but tying up with various areas of consumption, whether it is education, travel, hospitalization, all those things, and tying up with this and doing, through deep data, utilizing this for increasing our consumer loans wallet.

Putting all these together, notwithstanding any short-term issues, we believe that our retail portfolio over the next five years should have an excellent growth, perhaps a CAGR of 20% plus. At the same time, our wholesale portfolio, despite good income and good fees, we can keep the growth CAGR at below 5%. And which will lead to not only an overall CAGR of high teens, but the retail to wholesale proportion completely changing, becoming reverse, from 43% to more than 60% over the next five years.

So just to summarize, we have built good strengths which will help us deal with the short-term issues which are undeniable, and frankly, at this point of time, unmeasurable. And more importantly, help us grow the way I have outlined over the next three to five years. Thank you for your patient listening. I am open to answer any questions that you may have. Thank you.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Aarav Sanghai from VT Capital. Please go ahead.

Aarav Sanghai:

Sir, I had a few questions, my first question being on asset quality. So, needed a clarification, you said the write-offs were Rs. 700 Cr, but somehow, I see that we have made Rs. 600 Cr of provision on our P&L and we have also utilized Rs. 700 Cr of standard provisions which we made. So, somehow my write-offs calculation comes to Rs. 1,300 Cr. So, if you could clarify around that bit, and where is that major write-off coming from, is it from the defocused book or the microfinance? That is the first question.

April 30, 2021

Dinanath Dubhashi:

This quarter you are talking about? It is entirely from Micro Finance and Two- wheelers. Over the years, we have also done it from defocused book. The write-offs over the year are around ~Rs. 1,700 Cr, Rs. 1,734 Cr. Out of which about, I would say, defocused book will be about Rs. 400 Cr, and the rest will be majority rural. About your detailed questions, number of questions, I would request that you contact Anuj, he will definitely clear each of your detailed doubts and questions.

Aarav Sanghai:

Okay. Sir, my second question is again on the disbursement front.

Dinanath Dubhashi:

Excuse me, I would like you to ask more directional strategic questions to me. I will be in a position to answer them better, detailed questions we will be very, very open, transparent and answer all your questions, you can get in touch with my Investor Relations team.

Aarav Sanghai:

Sure, sir. I will ask strategic questions only. So, I just wanted to understand on the disbursement front as well. So, last quarter we have disbursed quite a healthy amount to Microfinance customers. So, now seeing the commentary that you gave, and obviously the situation is evolving right now, do you think that the kind of disbursements that we did, there might be some kind of incremental stress on Microfinance? Because on ground situation we are hearing is that these customers are again suffering, and maybe this time they will suffer more than the last year.

And last question, again on the strategic front. So, as you mentioned that our aim is to grow the retail portfolio, and like that is a very heartening thing to hear. But the point is that we were also focused a lot on Infra disbursements where we thought that the kind of infra push that the government is giving right now, it will be a good opportunity to capitalize on it. So, will this strategy remain around giving a lot of disbursement in Infra and selling it down and not take it on book?

Dinanath Dubhashi:

Yes. So, the second question is very easy to answer, you have given the answer yourself, very clearly. See, the Infra, the way the yields are, the money and the ROE can be made over the long-term, of course, there is no strategy quarter-to-quarter. So, sometimes you will see the book going up, sometime coming down, because the disbursement and sell down doesn't happen in the same quarter. You would have seen my disbursement have suddenly dropped to about Rs. 1,000 Cr in Q4, right? Because each of these disbursements are bulky. Sometimes if they happen, instead of 31st March they happen on 3rd of April, it will go to the next quarter. So, quarter-to-quarter let us not read too much. But your strategic direction is 100% correct, what you talked about, that Infra we remain very bullish, we remain very bullish in underwriting and disbursement. We will not give it too much capital as a strategy over a long-term, let me put it this way, but I will not starve the business of capital over short-term. There will be times when couple of quarters we will have to build book and then sell down. I was talking about three to five years, general direction. Directional we would like to, and I am sure all of you will like our retail book to go up, right. And that is what we are trying to do. Does that answer your second question?

Aarav Sanghai:

Right. Yes, understood. And sir, on the Microfinance.

Dinanath Dubhashi:

April 30, 2021

Now, over the long-term, right, let us talk about last year, right. Last year in June 2020, that is after the Moratorium 1 was over. Moratorium 1 was 100% to Micro Loans industry, because the industry had said that. But June 2020, my Micro Loans on time collection efficiency was at 54%. The industry was even lower, because your question I have to answer by giving past numbers, right, because otherwise it's only a feeling, and it is your feeling and your opinion versus my opinion. So, I am trying to answer it by giving past numbers. So, this is the trend, okay. In June 2020 it was 54%, in September 2020 it was 90%, in December 2020 it was 98%, in March 2021 it is 99.1%. So, it shows that if you lend well, and what do you mean well? It's not like, okay if I will lend in this year then it is good. If you lend in good states, if you lend to good people, and how do you see good people? That if your analytics is able to actually (in a black box) can implement a policy properly, that what is the total indebtedness of that person and try and see what is the indebtedness of the family, try and see the track record of the person, all this data is available. If you use that, you respect that, you do state wise good disbursement.

And I will just give you some very, very simple analysis. If you see where our disbursements have increased, it is clearly where the collection efficiency is higher. Our disbursements have increased in northern states, more Punjab, Haryana, Bihar. We have gone slow on Assam definitely, we have gone slow on West Bengal, we have gone slow on Tamil Nadu, and by coincidence these are all election-led states. But the point is, these are not strategic decisions that we take, because we can go wrong. These are all things which are thrown up by early data analytics, by early signals coming from data. And that gives us the confidence. Now you asked - who can do crystal ball gaze, but that gives us the confidence. So, why did we disburse Rs. 3,000 Cr in Q4? We didn't disburse because suddenly there was a big demand, demand was always there. It is because our engine approved more cases, and the percentage of approvals went up. And it is because we saw positive things happening. I was telling you, new cases to old cases, right? In Q2 for example, my repeat customers were close to 4 lakh customers and new customers were 16,000. In Q3, my repeat customers were 4 lakh, new customers were 80,000. In Q4, I disbursed totally to about 7.5 lacs customers, which was almost 50:50 repeat and new. What does it show? It shows that we are getting into new customers. Sorry, did I say Cr? These are actually number of customers, sorry. My mistake, it was slip of tongue. These are number of customers.

So, 7.5 lakh customers we lent to, out of which it was 50:50 to new and old. Which shows that we are trying and improving the quality, we are trying and getting into new customers, we are trying and getting into relatively unbanked customers. And we hope that this will stand us in good stead as the year progresses. I don't know what will happen in Q1. And that is why I also gave you the figures over the last four quarters. Secondly, don't forget that we are carrying huge amount of provisions. And if some of these roll forward to more than 90, these provisions can be used. So, the impact on P&L will be of a short-term disturbance, will be less to that extent, let me put it this way. That is the best I can answer your question based on our strategy, our confidence in our database, the care that we take. And considering that currently the scenario is quite different. I mean, I can just give you a number even before you ask of the collection efficiencies, so March collection efficiency, as I said in Micro Loans is 99.1%, till 26th of April we are at 98.3%. Again, I don't know how May will be, and April, we owe this collection efficiency to early collections till 15th of April, our Micro Loans collection largely happens till the 15th of the month. So, I know you will ask how the collections have been during the April, you will see that up to 26th of April we are within 0.8% of last month's numbers, of March numbers. But will that be an indicator for May, I don't know.

So, I want to convey a confidence in our models. At the same time convey the uncertainty in the atmosphere. Does that answer your question? Long answer I am sorry, but I thought I should clarify and give as many numbers as I can.

April 30, 2021

Moderator:

Thank you. The next question is from the line of Rikin Shah from Credit Suisse. Please go ahead.

Rikin Shah:

Just had one question on the growth outlook that you have painted out. What we have seen is that the disbursement has been pretty strong for us in the rural business, but that has not converted into overall growth. And of course, we know that the Infra business is a high churn business model, the housing disbursements have been weak. And in the past, the defocused book was growing. Now while you have pointed out that we do expect 20% CAGR retail book growth over the longer term, but if I kind of compare it with your expectation on the tractor growth of 7% CAGR, Two-wheeler of 8% to 10% CAGR, that 20% CAGR looks reasonably high. So, just wanted to understand how do you intend to achieve that?

Dinanath Dubhashi:

Good question and thank you for asking it. The growth I talked about. So, there are two ways, I also said we are launching new products, right? And a fairly good part of the growth will come from and I am talking about five years, will come from new products. We are also planning, obviously, to do much better in-home loans where we are scratching the surface, it will come from there. And last but not the least, simple arithmetic. It is the same reason. This time why book growth is not as much as my disbursement growth, it is because of run down, because I did hardly any disbursement, I mean, very low disbursement in the first half of the year. So, the difference in your calculations is the industry growth I am talking about disbursements and the book growth will always be different. In a growth year if you grow disbursement, so if the industry is growing by 7%, I hope that in my position reasonably I should be able to grow disbursement by 10%, 11%. And if we just do the calculation on a five-year tenor product, say for Farm, a 10%, 11% disbursement if you maintain it nicely and steadily, the CAGR on book can be in high teens also, even in Farm. So, just arithmetic. So, one is disbursement, second is book, that's why.

Rikin Shah:

And could we just kindly talk about a bit more about the new products that you are looking to launch in the rural business and what kind of growth expectation is built into the 20% outlook number that you mentioned?

Dinanath Dubhashi:

Too early to detail, that is why I talked five years, it is very directional. Our calculations, actually if everything works, it can be higher than that, but we know that everything will not work, right. And that is why we have taken some probabilities. But I have talked about the product that we believe, first, the big plus will be rural. Right now, we do only tractors or only two-wheelers in rural which is, according to our consultants and our research, is just about 10% to 15% of the entire rural lending potential, and I am not talking about the potential, which is priority sector and done by nationalized bank, no crop loans, etc., or Kisan credit card, I am not talking about that. I am talking about the way you can fund various other needs of the farm business, large dairy plants, fertilizers, irrigation equipment, other farm equipment, seeds, the other inputs which goes into farm like pesticides, insecticides, everything. Like all this, the kisan credit card product is never enough. And when you can identify good borrowers, one, and the good channels through which we will fund, so this money will not be given to the farmer. So, this is only concept, and it maybe should not be mistaken that we have this product ready, and we can launch now, it will take a better part of this year to launch actually, I must be frank. But we believe that we have the strengths, and we can go there. I already talked about consumption loan. We have also a good prototype ready for getting into SME loans. We are looking at the right time for launching the pilots. I know SME is in problem, but within that also there are pockets where good business can be done. And we are identifying those and maybe early part of this year, that is maybe Q2 or early

April 30, 2021

Q3 we will do our pilots in SME also. So, lots of retail or retail-like products is what we are planning. I am definitely not claiming that everything will be a success, but if a few of these are reasonable success, we are sure that a 20% kind of CAGR over five years can be maintained.

Rikin Shah:

Okay. And just as a follow-up, sir, on the housing side, would like to understand your assessment of what was the reason why we were not able to capture the market rebound that we overall saw, despite of the yields on the product not too inferior to some of the larger private sector banks. And also, I did note that you do intend to start disbursing some developer loans in FY22, but in terms of the quantum of it what kind of growth acceleration do we expect even in the developer?

Dinanath Dubhashi:

The second question I will answer first, easier to answer. That's the statement of intent. I don't think we will disburse anything great in Q1. We are watching the situation, the statement of intent came out of seeing the turnaround in the market, the way retail sales were picking up in our portfolio as well as in A and A+ developers, inventory was going down. So, early indicators that we need not be as dogmatic as no underwriting for the whole year. So, it was a statement of intent that we will look at doing underwriting this year. I don't want to put a number; I don't want to put a budget for my people. If we think that it's a good project to underwrite, we will underwrite, we will not stay away completely, like we stayed in FY20. That is the point, right.

What was wrong? Let me be very frank, I don't think we executed properly. Every strategy has to be executed. The strength of our other retail product or even Infra, has been execution. Housing, I must admit and stand in front of you saying that we don't think we have executed properly. And we will definitely try and execute it.

Moderator:

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

Nischint Chawathe:

Just two questions from my side. Just looking at the overall picture you are talking about a mid-teen overall growth, maybe mid to high-teen overall growth. You recently raised capital as well. So, how should we really think about the ROEs evolving over the next two to three years?

Dinanath Dubhashi:

Okay. Very, very good question. Right now, as you see, the leverage has come down to below 5. We will be concentrating very clearly on ROA at least for 2021, because it is not that we can certainly take the leverage up in 2021 and because of ROE we will go to mid-teens, it won't happen. So, calendar year 2021, FY22 I mean. It will probably start, hopefully, and our entire try will be that this growth, and hence the increase in leverage will start coming back by FY23. I mean, FY22 vs FY21 there will definitely be increase in leverage, definitely an increase in ROE, there is no question about it. But it will not go to the mid-teens level, at least in FY22. We are hoping that FY23 onwards we go clearly in that direction. There is one more thing, obviously, and I must say before I answer this, that there is nothing on the plate right now. But good portfolios are definitely there for sale also, sale meaning purchase for us. And in our eyes, now that we are very clear which are the areas where we want to grow, we will be open to that also if they are available at a good price and try and increase the speed of

April 30, 2021

increasing leverage. But I agree with you clearly that it is not going to happen in a hurry, that FY22, we will recover the ROA. But the ROA to ROE conversion is not going to be suddenly 6x, 6.5x, it's not going to happen. Which is also good, ROE is one thing, but in times like this it is good to keep leverage low.

Nischint Chawathe:

Sure. Now post-merger of the group companies, I guess, what we will see is the two group companies, or probably maybe I don't know, wholesale, retail together and defocused, is that the way the representation would be?

Dinanath Dubhashi:

Next year onwards?

Nischint Chawathe:

I mean, after the merger of companies.

Dinanath Dubhashi:

Merger of companies and presentation is very different topics. We have never presented company-wise anyway, we have always treated it. I understand your question is it is Rural, Housing, Infra or Wholesale, Retail, how we will show, is that you are asking?

Nischint Chawathe:

That is right

Dinanath Dubhashi:

Give us some to think, please.

Nischint Chawathe:

No problem. The other thing is, post-merger of these group companies, what is possibly there on the cards in terms of, I know we will be looking at new portfolios, but will you look at new companies as well? And any comment, if you could give, any thought process about the other group companies or anything in the current businesses that you can monetize?

Dinanath Dubhashi:

The questions are from both side, okay. Monetize, etc., is a very dangerous thing to answer on a call here. I have always said that you have heard rumors, when the rumors become news, you will be the first to know. So, what else can I say on a call, I wouldn't be able to say that it is not right to say that. So, let me put it that way.

Nischint Chawathe:

But directionally you are okay to be in the lending plus other businesses?

Dinanath Dubhashi:

Somehow you are not clear, I am not getting it.

Nischint Chawathe:

Directionally you are okay to being in lending plus other businesses? Because what you have done is you have consolidated our lending together.

April 30, 2021

Dinanath Dubhashi:

So, am I okay to acquire lending businesses you are saying?

Nischint Chawathe:

Or being in lending plus other businesses as well.

Dinanath Dubhashi:

Okay, you mean mutual fund? We are very clear, mutual fund is our very, very core business, there is no question about it. And we have a very clear plan on growing the mutual fund and all this. So, that's what I was talking about, rumors, etc. If anything is news, either on buying or selling side, we will let you know very transparently. Your other question was acquisition of companies, I have generally seen that companies are more costly to acquire than portfolios. But if a proposition comes which is mouthwatering, we will certainly consider, why not. Now we have equity, we have the strength, so we will spend it well. I am actually not a Marwadi, but I behave like one. So, we will be very, very careful while investing.

Moderator:

Thank you. The next question is from Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah:

So, two questions from my side. Firstly, in terms of the net worth allocation or the new equity allocation, you highlighted the focus would be more on ROA. So, incrementally if we have to look at it within the businesses and say the newer products which we are planning to launch, how the entire equity allocation would happen? And which would be the key focus segments? Because there has been some volatility around Housing, Infra, so how should we look at the net worth allocation?

Dinanath Dubhashi:

I believe your question is very strategic and directional, so I will answer it like that. As I said, product-by-product perhaps too early, I mean, within retail and wholesale, product-by-product too early. I would say that five years down the line, the number that I believe we can confidently achieve, and hopefully we will try to do more and earlier, confidently achieve is 60% retail, and retail means retail, rural plus, you know, any new retail product that we launch or retail housing, minimum 60% which is today exactly 43 point some percent, is what we are planning to do. We believe this number is achievable, we will definitely try and do more. The strategy to achieve that over the longer term is what are we 100% sure of, is the growth in our existing products, one. What are we hopeful of and working very hard on it is trying many new products and hoping that 50% of that we will be able to execute well and do well even if 50% is a success of the new sub products that we launch, we will have good growth. So, that is we are hoping for. And what we will be continuously looking for, and I am actually putting a specific team for that, is looking for opportunities in the market for acquisitions, acquisitions will only be in retail in our chosen products, either existing products or new products. About the new products, how much I can say today I have already said, so I don't want to go into further details. So, you know if you are asking how much will be Farm, how much will be Micro Loans, over five years, I mean, we have a plan, but life is different than plan, we will achieve that plan directionally, in between that there will be some changes as we go ahead. Does that answer your question?

April 30, 2021

Yeah, portfolio acquisitions I talked about. And quarter-on-quarter this may definitely change, I mean, next quarter maybe my Infra book will suddenly grow, and you will come and ask, but that is not strategic, strategic is, okay Infra book we will grow maybe for two quarters and all of a sudden you will see a sale happening, like it happened in Q4. But strategically, three to five years, this is directional.

Kunal Shah:

So, fair to assume 60% net worth in retail and 40% in wholesale?

Dinanath Dubhashi:

Yes, sure. Over five years. Right now, it is exactly opposite.

Kunal Shah:

And similarly, so when we look at it in terms of the evolution, Farm and Two-wheeler has done much better for us, and now we are in this position. So, definitely you have been highlighting and from mid digits we are now to 11% and 15% odd in this segment. So, where do we think we are, and should we expect the pace to slow down given this base and the market share which we are having?

Dinanath Dubhashi:

Okay, we will try and outperform the market by a small percentage. If you are saying that this market share, we will be able to outperform the market by 50% or 100%, obviously, that is not going to happen. But can we continuously outperform the market by 1% or 1.5%, we are confident. But obviously, it will all be data led. Right now, sometimes people think that this is a cliché, but it is not cliché, we report market share, we don't go for market share, we don't plan for market share. What we plan for is counter share. And from the moment we choose a dealer, our ambition for counter share is always 100%. In some cases, we reach that also, so that dealer is chosen on the portfolio, their various practices, etc. And then we launch specific schemes for the dealer, specific attractive schemes, various LTVs are different, product wise, dealer wise, it's a complicated engine. And I think you know it well; you have spent good time with our retail team or our digital team. So, it's a complicated box which finally comes to a number 11% or 15%, which I so simplistically report. But what we try to do is data analytics pointing towards a particular area, dealer, etc., model actually, and then maximizing our share in that. And that is something which has worked for us, Kunal, so we will continue it.

Kunal Shah:

True. And one last question in terms of this merger. So, how much would be say more regulatory driven and maybe the aspirations for the banking license? Because otherwise losing out HFC status, that has some cost attached to it, and definitely it is a prime license, as well as IFC. So, then how should we actually look at this, maybe it's more to do with the banking aspiration and giving out some cost in the interim, that's how we are looking at it?

Dinanath Dubhashi:

Banking, it can be very, very vague. And it has nothing to do that much directly with banking aspirations, because banking aspirations at that point of time we would have merged, right, what was the rush, if at all that happens and when that happens. So, I don't want to talk about it. Regulatory push in a way, certainly. I think regulator is looking into having simpler reporting, very clear and transparent reporting. When regulator comes here, obviously, he sees and inspection goes on for three, four months now where you see customers common to two companies, they will see whether money has moved from here to there. Regulator has turned extremely, extremely watchful and rightly so. We believe that having one company will

April 30, 2021

take away any such doubts, speculations, anything that these people have three companies, take the customer for a ride, etc.

So, in that way, it is regulatory driven, it is not like for banking. It is an aspiration to not only be transparent but taking out any whispers from the market to have one company, so how will we do it if we have to, but anyways we never meant to do it. So, that's the thing. And also, numbers wise, right, yes, we are talking about the Housing license, the Infra license, these are important things, no doubt. But very simply, we have done savings potential from ALM, liquidity management, ability to borrow more strongly in the market. And I will give you an example, because the Infra company itself, when you see the Infra NPA ratio, right, the ratio for the business will be different, within the company it is different sometimes. And to manage that NNPA to net worth ratio you have to unnecessarily put equity in that company, even though we are not growing book there. So, all these things go away when you merge.

Now, in the medium term, it will lead to much more efficient, you know, like the question you asked whether it will be 60:40. Today, I can confidently answer, yes, it will be 60:40. Till now it would have been a more nuanced answer, how to maintain ratio for every company, what is it, and only then the capital allocation will be decided. It is not only according to asset size and portfolio size. Now, in one company all that becomes very clear, that according to book, capital, maintain one ALM, maintain strong ALMs, according to that borrowing. Simply CPs, right, CPs you see company-wide, L&T Finance has a lot of short-term, but we have to still artificially keep CPs low based on various regulators and all these things. And whereas L&T Housing and L&T Infrastructure Finance has long-term assets, so you anyway can't raise CPs.

Now when you say 8%, 9%, 10%, whatever of the book, we can raise CPs, it actually means 10% of the book we can raise CP, and not have to vary it company wise. So, these are many, many ways in which we will benefit also, there is no question there are short-term costs, but it's a strategic call we have taken which everything cannot be measured in Rs Cr. I believe governance wise and transparency wise, it was a good call. I mean, I would have challenged anybody, take the published balance sheets of my three companies and try and put it together to find my consolidated numbers, it would not have been possible. Now, it is easy, transparent, and I believe, high governance.

Moderator:

Thank you. The next question is from the line of Shagun Verma (Rahul Jain) from Goldman Sachs. Please go ahead.

Rahul Jain:

This is Rahul here. I have got a couple of questions. Number one, to start with, sir, last three years the balance sheet has taken a lot of headwinds, the portfolio deterioration, the market headwinds, etc. Now, when you look at the next three years, as you are embarking on another round of, let's say, transformation of the balance sheet which is moving more towards retail, as we just talked about in the previous question, any specific stress that you are vary of, you need to settle down in the portfolios or its going to be completely market driven, there is nothing that is left on the portfolio? I mean, can you give some colour around the stress that could be still left in the portfolios?

Dinanath Dubhashi:

Okay. So, first of all, one clarification, there is no re-embarkation on retaliation strategy. Retaliation has always been the strategy. Because of last year, the first six months, hardly any disbursements, etc., it might have slowed down, but just

April 30, 2021

giving the numbers, from five years we have changed it from 23% to 43% in five years. So, it has always been the strategy, so it is a 20-percentage point increase. And over the next five years, I am actually talking about a 17-percentage point increase. So, it is not something that we have not done before. So, just to put that in perspective, whatever we did in those five years, we are increasing that, perhaps at these level it is a little more difficult, but we will do. So, that is the first point.

As far as stress is concerned, look, I mean, none of the portfolio is something different in character than what it was for the last one, one and a half, two years, right. But what we have today is a Rs. 1,000 Cr of overlay, which we didn't have at the beginning of last year or the beginning of the year before that. And why I am hesitating to answer that question, who has seen what will come in next three months, we don't know what is happening, genuinely don't.

Rahul Jain:

That is true for the whole industry.

Dinanath Dubhashi:

It will be for the whole industry, whole country. Actually, sometimes I feel like a mercenary when I talk about financials and rupees. What the country is going through right now is much bigger than that. But yes, it is my job to talk about financials and rupees. So, the only thing I will say now is, we will be very watchful, we have not let the portfolio go haywire in a very difficult year, we will not let it go going ahead also. But one advantage that we have today is Rs. 1,000 Cr kitty that we are carrying into this year. And plus, the 69% PCR. So, that is how I would like to answer your question. You may take it as hesitation, but I think I am being honest. What will happen in May, we don't know, seriously. But only to put confidence that we will be well prepared.

Rahul Jain:

Makes sense. Good to know. And in this if I were to just extend this to the provision policy going forward. I agree, of course, it's a great strategy to carry some extra buffer on the balance sheet because every second year there is some sort of mini crisis, we all are witnessing. Do you think Rs. 1,000 Cr is sufficient getting into the second wave? Or do you think as a strategy we should keep building something more for the future contingencies?

Dinanath Dubhashi:

It's a good question. The simple answer, I will give you a simple answer and a bit complicated answer. Simple answer is, I don't know whether it is enough. But what is what is important is, whatever it comes it will be less than Rs. 1,000 Cr, because of the cushion I am carrying. So, that's a very simplistic answer. I will now give you a technical answer. This Rs. 1,000 Cr is what, this Rs. 1,000 Cr we have not created saying Rs. 1,000 Cr feels like a good number. It is not that, there's a ECL model which shows, based on various characteristics, that how current behavior of Stage-1, Stage-2 is, and what are the chances of some of those assets moving to Stage-3. That is how we built Rs. 1,700 Cr. That is how we utilized Rs. 700 Cr when some of them went to Stage-3. Why we didn't utilize Rs. 1,700 Cr and only Rs. 700 Cr? Because less assets actually rolled forward to Stage-3 and remained standard, right? Whether we will create more, whether we will utilize this in the first quarter itself, will depend on how this portfolio goes on in first quarter. So, if I have to answer quarter-to-quarter, because today I cannot say that we will utilize some from this Rs. 1,000 Cr or we will create more, it will depend on how the portfolio goes in May and June. That's a very technical answer. But a simplistic answer, I am an MBA, not a CA, so I will give a simplistic answer. Whatever stress will be there, for that Rs. 1,000 Cr cushion is already there. That's the answer.

April 30, 2021

Rahul Jain:

Makes sense. Sir, just one more question. Retail housing, now it's coming under Sunil Prabhune. So, you have created a nice 'Right to Win' for yourself in the rural portfolio, so what do you think is going to be right to win in the retail housing? I mean, I know there's a leadership change, but any initial thoughts. Because this segment is already quite crowded so to say, and the pricing is always under pressure here. So, what is the right to win that we should think for all of these?

Dinanath Dubhashi:

Two things I will answer. I agree with you, very clearly. Our right to wins were, actually we have put it very clearly that we will use our real-estate contacts, L&T's real-estate contacts, the deep ecosystem that we have within L&T to source assets and use direct sourcing. And we have moved to quite a bit of direct sourcing, use less DSAs etc. for our right to win. What we lacked is execution. What I believe under the new leadership we will bring is an execution rigor to that. And secondly, I know the space is crowded, but what are the numbers we are talking about? Today we do Rs. 150 Cr a month, if we do Rs. 1,500 Cr, which is nothing, or Rs. 500 Cr, Rs. 600 Cr monthly to start with, which is nothing compared to the market, we will still scale up quite well, right, to start with. Having said that, I believe that if there is a need to change strategy, to form an even sharper right to win, we will certainly form it within the next six months and come back. But right now, with the strengths we have, I believe just a good execution rigor will get us higher volumes going ahead, I am not talking Q1. Q1 we will wait and watch.

Rahul Jain:

Got it. Sir, if I may ask one more question, if you allow, please, and this is a more qualitative question. So, you have seen the first wave, it was of course quite tough, everything was shut down. But as you in the initial part elaborated how things are different and for better, how fast you think things can come back should we start seeing drop in cases, what has been the customer feedback? Right now, of course, people are more scared, fear has definitely set in, but any feedback that you have from the customers initially as to how are they thinking from the field, whether it is going to take a lot longer even if things normalize or things can recover fairly quickly, any ground level feedback that you can share with us, particularly on the rural side, micro side?

Dinanath Dubhashi:

Correct me if I am wrong, making public statements about COVID is a punishable crime, right, in the country right now? I thought so.

Rahul:

No, no, I am not asking you to make COVID related statement.

Dinanath Dubhashi:

I am joking, I will try and share whatever I have. So, first of all, I must express my inability to make any predictions, I am too small a person to make predictions, but I will share some of this. So, as I said, first of all, I didn't say it is better, I said it is better on these three big criteria, which is lockdowns, moratorium, and that is possibly better, we don't know, and liquidity, these are the three things which affect, which are crippling, right, for a NBFC, absolutely crippling, these things. So, we are not crippled like we were in Q1 last year, it was crippling, nothing was happening. Even I was sitting at home, now I come to office every day. So, I would think that situation is more like perhaps what was in May, June last time, that we are in office, our team is working, etc.

April 30, 2021

On the other hand, I will just share a number. Over the whole last year, we had about 1,000 cases of COVID in our team, in first month in April we have 500 cases. So, if that is about my team, I am sure it will be same about industry, about customers, etc. So, I believe that kind of force with which this time pandemic has come is more, which is there in the public numbers also, if you believe the public numbers. Reversal of trend, you are seeing it in some places, hopefully in the city that we stay also you are seeing it. But not overall, definitely not overall, we are still not seeing reversals. I believe Q1 definitely is going to be very, very difficult, and definitely not comparable to last year Q1, because till May everything was anyways closed. It is not the same right now, business continuity is a possibility, and we are pushing it, business continuity is a possibility, center has clearly ruled out any nationwide lockdown, etc., etc.

I am a proud Indian, that in about my company. I believe, yes, we have been caught unawares, and this is not talking about any government, central or state or anything like that, just my view as an Indian. I think we have been caught unawares, like many other economists, and I think we are fighting back. Each one of us should do, each one of our companies should do something to fight back, and each one of us personally should do the fighting back. That is the fighting spirit. Since you asked a very general question, I am taking the liberty to answer as a proud Indian. And we will fight back, we will win over this. And I am talking as an Indian, I am not talking as a company.

Moderator:

Thank you very much. We will take that as the last question. I would now like to hand the conference back to Mr. Dinanath Dubhashi for closing comments.

Dinanath Dubhashi:

Okay. I have nothing much to add actually. I will just summarize talking about the company. We have come through a difficult year, we have built some strengths, which I believe make us ready to face the difficulties which are just unfolding in the first quarter. But at the same time, over a medium to long-term, we are very hopeful, we have direction which we always had, we are doubling down on that direction and to go ahead.

As I said, the last conclusion I will have to do is, often life puts you at crossroads of choices. The choice is always between business continuity and protecting your people, I mean, each one of us takes risk, all of us people, I myself come to office every day. We try our best to manage that choice to the best extent possible. To this community I promise that this company will do its best for business continuity, financial numbers will certainly be maintained over the medium-term, I am not able to predict for Q1 etc., but we will do our best to maintain business continuity and keep the strengths of the company.

I request all of you to stay safe. Just take care of yourself, your family, people around you. And any place where you believe that personally me or my company could be of any help to you, don't hesitate to contact, we will do our best to help. Thank you.

Moderator:

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

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