

L&T Finance Holdings

Q2 FY22 Earnings Call Transcript

October 21, 2021

Moderator:

Ladies and gentlemen, good day and welcome to the L&T Finance Holdings Q2 FY22 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 conference 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 Q2 results presentation sent out to all of you earlier.

I would 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:

A very good morning to everybody, thank you for joining the results call.

Last 18 months, since the start of Covid 1.0, has been a very difficult and strange business environment to say the least. We had periods of extremely depressed and difficult business climate in the first two quarters last year, large part of the first two quarters of this year and interspersed with periods of excellent rebound in Q3 and Q4 of last year.

What we have tried to do at L&T Financial Services is through the months of Covid kept our focus on building a sustainable business model, which ensured that we deliver towards our long-term goals as well as counter, for any short-term hiccups. I would like to put the Q2 results in that context. I would like to appeal to you to see it as a part of the journey and I would like to explain the journey to you.

For this, we have depended on five first principles. At the cost of repetition, because I have repeated this over the last couple of calls, let me mention them again. We have also mentioned in Q2 presentation, how we have demonstrated these five strengths and how these five strengths have come to our help and how they will help us in the quarters going ahead.

1. **Proven Business Strengths:** Focus on maintaining and retaining our leadership positions in businesses where we have a clear ‘Right to Win’, and are either market leaders or are moving in that direction. And concentrating on channel partnerships in the segments we operate. So, these trends, using lots of digital and data analytics, is actually helping us maintain market share and show growth in most of our areas especially retail areas.

Now what we have done over the last 18 months is stayed away from all temptation to cut costs in these areas. And a large part of the cost increase that you are seeing, and I will try and explain it a little bit more, has been more investments, in both in business as well as our collection network. And very clearly, we believe that these investments are already paying us back in terms of improved collections and improved business.

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2. **Strong Collection Framework** and I will quote collection efficiency numbers to show that leveraging our digital capabilities, especially data analytics capabilities, has helped us clearly stay ahead of the curve in this.
3. A **Well-Established Liability franchise** quarter-on-quarter we are showing not only a reduction in cost, but also preparing for any increases in yields in the future.
4. **Improved Asset Quality** and more importantly adequate buffers to deal with disruption. And I would say that we had a large asset slipping into GS3. But the effect of that on the P&L was minimum due to this strategy of ours to create macro-prudential provisions and keep. This provisioning policy has really strengthened our ability to deal with any such shocks, I mean the shock should be minimal, but it has helped certainly.
5. A **Strong Balance Sheet** through a very high capital adequacy at this point of time.

So, after talking about these five strengths, and I will talk more in detail about them what happened in this quarter. But if I have to put the headline of Q2, before we start, I think two large headlines we can make:

- With the existing asset quality, and the additional provisions we are carrying in our book, we believe, and I can definitely make this statement that the ill effects of Covid 2.0 are indeed behind us. I am not going to take guess on Covid 3.0 etc., but given the way that vaccinations etc., are going in the country, as a whole, in our company, especially, we believe that the impact, if at all it happens will be minimum. But more importantly, let me say that **the ill effects of Covid 2.0, both in terms of business, as well as in terms of credit costs are definitely behind us.**
- In addition to this **over the last 18 months, we have delivered a very stable growth in rural book and which we believe will only further increase in the coming quarters.** Our retailisation percentage has reached 47%. And this increase in the rural book with proper reasons will definitely have a positive impact on the overall profitability. So, I would put these as two headline positives.

Couple of things perhaps have not gone as well as they ought to be like Infra disbursements definitely need to pick up. Yes, we want to have asset-light model for Infra definitely. But yes, the first two quarters the disbursement momentum has been lower than what we thought. And we have plans to change it in the next couple of quarters. And as I said, one slippage, large slippage in Real Estate account. I will also talk more about it, but on that account, I would also say that the last 2-2.5 years of bad situation in Real Estate, we have managed our book reasonably well. And yes, unfortunately, after some progress in the projects of this particular borrower, this quarter finally it has slipped into GS3, we have recognized it, taken provision and we are sort of moving ahead. I will again talk in detail about it. So, these would be the headlines and I believe that the two positive headlines will have a very good positive impact in the quarters to come.

So, now deep diving into various key business metrics,

Disbursements: disbursements volume for the quarter have witnessed both year-on-year and quarter-on-quarter increase in our Retail segment, especially in the Rural segment. Infra disbursements as I said were muted on account of various market challenges both in some delays in signing of PPA and lower awards and also at least temporarily, some risk return paradigms changing in the market. And we are staying, for the temporarily away from deals where we believe that the yields are not commensurate with the risks of the project. If we talk product wise:

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- **Tractors:** Definitely the impact of the pandemic is being felt in the tractor sales. The industry, there is an 11% decline YoY. But despite this, L&T Finance has achieved its highest ever Q2 disbursements and maintained its market share at about 15%.

The reasons are in fact two to three reasons. One, analytics has helped us in very proper resource allocation, which has actually helped us in increasing counter shares with our top dealers, top dealers in terms of volumes, top dealers in terms of asset quality. Now, this analytics-based approach helps us in increasing sales, disbursements, at the same time maintaining excellent asset quality, which actually is for everybody to see. I mean you would see some other players in the market having a very different kind of asset quantity than what we are showing in our Farm portfolio.

Now another reason and this trend you will see actually across and will help us in the future is a very analytics-based approach on cross selling to our existing customers. And we clearly have this internal motto saying if a customer is good, on-time paying and has paid us for some time, we should never allow that customer to go away from us. And hence there is a big organisation-wide focus on doing refinance, of giving additional loan to the same customer. And today and this is something you will recall, we started doing this about two-three years back and today in tractors, almost 1/4th of our disbursements in this quarter come from financing and refinancing our existing customers. And this is cheaper, we don't have to pass with any incentives and of course, it is given to only chosen customers, asset quality is substantially superior to a normal tractor portfolio. So, this definitely bodes well as we go ahead.

- **Two-wheeler:** Two-Wheeler also the industry registered decline of about 12% in sales in Q2, on account of increase in cost of ownership, rising fuel prices and few more reasons. However, here also we were able to achieve our highest ever Q2 disbursement at about Rs. 1,244 crores which is about a 13% increase to last year same quarter while maintaining market share at 11% which are great positives. Now I must say that there is an element of increase in asset prices also in this. So, definitely there is no question that we were helped in the rupee terms in the disbursement growth, no doubt. But the important part is very similar to tractors, we are using the same kind of tactics, concentrating on the best dealers using analytics to maintain market share.

So, these are two products, where we believe that we have been able to maintain in spite of a strong competition, our market share, and more importantly, our asset quality at every bucket, cheque bounces, zero DPD, x--bucket, and especially NPA are actually trending much better and at almost across the board are already at pre-Covid levels. So, that is doing extremely well.

One very small achievement in two-wheelers, it's small but encouraging beginning is this quarter, we have made our beginning in EV financing and funded about 400 e-Scooters. And we believe and hope that definitely in the longer term this industry is going to do well. But we hope that even in the medium term, this momentum will continue. And we are having very interesting tie-ups with some of the manufacturers where we will be a part of their end-to-end process of disbursement. So, that again bodes well. What I am trying to do, is try and match the Q2 performance with how things look going forward.

- **Micro loans:** Here our disbursements have always been collection based so as collections improve, disbursements improve. So, business volumes in September actually normalised to about Rs. 918 crores. So, our normal rate pre-Covid was between Rs. 1,000 and Rs. 1,200 crores (monthly) and now it is rapidly moving in that direction, with our overall disbursement picking up across the country. And in this quarter, we had disbursements of around Rs. 2,100 crores which is an increase 56% YoY and a big increase over the 1st Quarter which was only ~Rs. 800 crores.

But the important part is I am not so much comparing last year or 1st Quarter but more importantly, even in this quarter, the whole quarter's disbursement was Rs. 2,100 crores whereas the September rate had

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already gone beyond Rs. 900 crores. Even if we maintain this in the coming months to Rs. 900 to Rs. 1100 crores, you will see that this bodes well for the Micro Loans disbursements, book and definitely being one of the most profitable products, it bodes well for the overall profitability.

I would also like to add that we have added another state this quarter - we have launched Micro Loans business in Rajasthan which we believe will provide a further fillip to disbursement volumes and also aid in geographically further de-risking the portfolio.

- **Consumer loans:** I would like to give a special mention to consumer loans though it is a very small portfolio at this point of time. Fresh portfolio and let me remind you that at this point of time we are largely concentrating on cross selling loyalty, but we have also started some limited sales to other databases by taking it through all our credit engines. Here the future is exciting and I will talk more about it later. But disbursements this quarter have now reached a rate of almost Rs. 500 crores and very clearly while these numbers still small compared to the other products, but these are obviously reaching higher trajectories quarter-on-quarter as a portfolio, albeit new portfolio but staying in very good shape.
- **Home loans:** Let's talk about Home Loans. Another small product at this point of time. Right now, our strategy is very clear; that overall market HL / LAP is expected to grow in around single digits. Demand for housing especially middle income, lower income is really picking up. And right now, we are concentrating mainly on salaried segment. Yes, it is not immensely profitable at this point of time, but for the volumes that we are doing, it helps us definitely maintain portfolio quality, bring the COVID impact on the portfolio absolutely in control and more importantly maintain the channel in good shape. And as we slowly restart our SENP and LAP businesses properly these volumes will also go up, but at this point of time, we are on the maintenance trajectory here. We are clearly witnessing increased traction and you will see; you are seeing already quarter-on-quarter disbursements going up. Salaried segment remains 93% of our total disbursements and definitely credit quality is improving rapidly.
- **Infra:** Disbursements have remained flat quarter-on-quarter at a much lower level than what we would like to do. Yes, the positive impact of this is higher NIMs+fees, higher retailisation no doubt and we want to achieve much higher retailisation but over a medium to long term period. I must assure you that this Rs 1200-1300 Cr disbursement in Infra is not strategy. It is a temporary market condition which has come in play. But we have a robust deal pipeline in place and we believe that we should pick up these disbursements in Q3 and Q4 which will aid, I mean if you see a lot has been written already about the overall fall in the book, there is no denying that certainly, but you will see that largely Infra and obviously Real Estate is responsible for that. The retail portfolios are actually showing a growth both year-on-year and actually Rural has shown almost a 3% growth quarter-on-quarter. That's very clearly the reason and also the Defocused book running down continuously. So, overall AUM yes showing a headline negative number needs to be taken in context based on this - that the profitable AUM is actually growing, not only growing in percentage, but actually growing also absolute numbers YoY as well as QoQ growth.
- **Real estate:** Not much new to say except that we are concentrating very heavily on project completions, project progress, specific teams working on each project. And also, would like to say that we actually underwrote for the first time after six quarters a very premier name and a very small amount, just to signal that we are not out of the market. We will remain extremely selective for any new underwriting that we do. But one thing we will make sure that our projects get completed. So, that's as far as disbursements is concerned.

Summarizing, while Infra disbursements remain bulky and hence can vary quarter-on-quarter, retail disbursements are showing an excellent momentum. In the coming quarters we will continue to build on our strengths in Farm and Two-Wheeler especially. Micro Loans has seen increase in disbursement rate coming back to normal by September. And even if we just maintain these for the next six months, it will show a substantial

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increase over the first two quarters very clearly. And Consumer Loans going from strength to strength, this clearly bodes well both for book growth as well as profitability. So, with that, I will move to collections.

Collections: Analytics and very detailed analytics, form the cornerstone of our collection engine. We have concentrated on every bucket, but not only that, increasingly, we are concentrating our analytics on geo marking, on prioritization of resources and prioritization of collection and buckets. This has started paying dividends to us and we believe that our collection efficiencies in the zero bucket as well as resolutions in the remaining buckets is actually one of the best in each of the segments and definitely coming back to normalized collections, close to pre-Covid levels across the Retail businesses.

- **Farm:** I will quote some numbers, collection efficiency in Q2 in Farm, we have maintained that around 90% CD collection efficiency. Our focus very clearly remains on data driven resource allocation here and very clearly far superior than industry collection efficiency.
- **Two-wheeler:** Two-wheelers, increased manpower allocation for collection, and also increased collection taken through digital and call center modes has actually helped us increase our digital collections to almost 60% now. Regular collection efficiency has normalised to 98% in September, and bounce rates, have improved actually quarter-on-quarter after Covid has started. So, bounce rates have also come well in control.
- **Micro loans:** Though the sector as a whole continues to see asset quality pressure, we have been able to improve our collection efficiency drastically through identification of various priority pools. Our regular collection efficiency has returned back to 99% levels. But more importantly, even higher bucket resolutions have improved. Our focus remains on boosting the '0 DPD' collections and managing early bucket delinquency in this market in Micro Loans and that is very clearly helping us. And you would see that this quarter, we have not created any more macro-prudential provisions which actually signals that we are believing that things are coming back to normal.
- **Retail Housing:** Retail housing collection volumes had improved across geographies, on account of again higher resource location and focus on initial buckets. You would see on-time collection efficiency of Retail housing is back to 99%.
- **Real estate:** In the Real Estate segment, our continuous support to developers in construction progress and improved sales in various projects and we have actually given these numbers in the investor PPT. We have seen an increase in escrow collections which are now on an average at about 91% of pre-Covid levels which is during this quarter.
- **Infra:** Of course, collection has not been a problem. In fact, in Q1, we had seen lots of prepayments actually and the book had fallen drastically. So, here collection continues to be at an excellent level, across portfolios, across industries, it remains at an excellent level.

So, overall, I would say that collections has helped us tremendously, in collection efficiency, it has helped us to keep OTRs in control. So, I must also share this, this comes sometimes later in matter but it is an important part to share, that the way we project the need for taking early provisions is by actually modeling how collection is going, how much OTR may happen, how many customers would have asked for OTR and we have actually projected how the situation will look maybe 18 months, two years from last March or from when the Covid 2.0 happened.

And I must say that we are quite happy with the results. So, you would see especially in Rural, the overall credit costs way below what we took in Q1. So, the way we do is, when we project that over six quarters something will happen 1/6th of that provisions we would have taken in Q1. And now with vastly improved projections, obviously, for the remaining five quarters we will take much lower provisions. And the result of that we have seen is we didn't have to create any more macro-prudential provision. And in fact, we believe that from the next quarter onwards we will start utilizing the macro-prudential provisions. This is actually the proof of the pudding that when you see, like you saw in Q4 of last year the overall credit cost came down plus macro-prudential provisions also were

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utilized. So, this strategy has worked, that when situation starts going bad create, don't worry about that quarter's P&L, create provision so that when situation starts improving, you show a twofold increase - one is overall provisions reducing and secondly, utilisation of macro-prudential provision. So, that actually indicates that as we stand with our additional provisions today, we stand on a very strong wicket.

Liabilities: But before coming to that let me talk about liabilities. A lot of talk about, hardening of yields most definitely we believe that liquidity will continue to be quite good, but yields will slowly start hardening in the market. We have taken advantage of the very strong liability franchise that we have built and a good liquidity scenario to actually lock-in excellent medium term to long term finance at very low interest rates. So, our quarterly WAC stood at, 7.53% which is the lowest ever, down 11 bps quarter-on-quarter and almost 80 bps year-on-year. But more importantly even in this quarter we have raised medium to long term funds of close to Rs. 5,000 crores at sub 6% levels. And what we are trying to do is at the time of liquidity shocks it helps us, we have raised liquidity and kept. but now as yields start hardening will our cost of funds go up, yes most certainly it will inch up, but because of good asset liability management, because of now locking into good medium to long term funds, we have good window of the next two to three years where we have locked in some long-term funds. Priority sector window being extended by RBI bodes well for us, we have raised in fact, market leading amounts of priority sector funds and we hope to continue to do that.

There was an event in the NBFC market. Luckily, I think that was already discounted and didn't cause any hiccups. But we had also maintained, it was at the time of the quarter end around that that this news started coming and we have maintained higher liquidity just to protect if something happens. Luckily that didn't happen. So, this is another part as you will see as on 30th September, we have about Rs. 13,000 crores of liquidity. I must qualify it has three components. One is the normal liquidity that we will maintain for business. Second is at two of our companies we are today maintaining, as of 30th September maintain liquidity for specific purposes. At the holding company level, we have gone to the market, gone to the preferential holders to ask for early prepayments of our preference shares which were at a high rate. And save one, all the ISINs, we have got the permission of the shareholders and all that will be repaid during this quarter. Not only the cost of funds will go down but the negative carry will also go down because of that. And secondly, there is a liquidity to the tune of almost Rs. 3,000 crores on our ex-IDF balance sheet. We are awaiting RBI license there to operate as normal NBFC, we hope to get it this quarter and the moment that comes, that liquidity will also go down. So, most certainly another upside in the NIMs+fees is the reduction of this negative carry because of a fairly large amount of liquidity being carried. So, that will certainly trend down. And hence NIMs +fees should trend up. So that is very clearly where it is going.

Asset Quality: Very clearly significant improvements in collection efficiencies over the quarters have helped us, actually manage not only NPAs but also debtors. Now, remember that we gave answer to a question last time that is on Stage-II on our retail business, Stage-II in June, I had answered that it stands at 7.8% that has now improved to 6.2%. And we are seeing this good trend happening across our retail businesses. Incremental focus on collections as I said have also ensured that OTR remains quite limited and in the entire OTR 2.0 we have done around Rs. 1,800 crores of OTR across products.

There is one thing that I would like to mention, and also shows our collection efforts, even though OTR happens, we go and still continue to request the customer that please look here because after all you are going to pay the interest. So, a good thing that in OTR 1.0 we had done almost Rs. 1,350 crores of OTR which now already stands reduced to about Rs. 1,200 crores. So, ~Rs. 150 crores of OTR 1.0 actually got repaid in Q2. Now, you will ask, is this something that is sustainable quarter-on-quarter, too early to say that, but it just shows that we continue to meet the customer and keep pushing them to also try and repay. So, we believe now, as overall percentage, OTR stays well in control.

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Our GS3 in actual numbers, in absolute numbers is close to Rs. 4,800 crores which is at 5.74%. And NS3 stands at about 2.81%. GS3 at similar levels as Q1 whereas NS3 has seen a rise, this obviously requires an explanation. So, one large NCR based Real Estate account which was in the news two years back and we had continued on our project progress, albeit slowly over the last couple of years, with various events happening, the capability of the builder to service our interest is vastly affected. And hence we have chosen to classify this as GS3, close to Rs. 950 crores of that has been recognized this quarter. And another Rs. 350 crores will be recognized next quarter of this particular asset.

Two good things are that:

- Based on the macro-prudential that we have built in real estate. And also, the progress status of rest of the real estate portfolio we believe that this particular asset though large, coming into GS3, the impact on P&L will be minimal because we are already carrying a very good macro-prudential.
- Good retail collections have helped us maintain our GS3 at a steady level. We have also, I must be very frank and it has been put very transparently in the investor presentation also that we have also written off, some of the old 100% provided assets. And overall impact in the GS3 number is at 5.74%. A lot of people ask why the NS3 number is up, naturally whatever we have recovered or whatever we have written off, was close to 100% provided. And as a new asset comes into GS3, the provision number on that will be much lower. And hence the average PCR has naturally fallen.

But the important part, in addition to PCR, and this is the more important part, in addition to the PCR i.e. the GS3 provisions, we are carrying close to Rs. 1,750 crores which is about 2.22% of standard book as macro-prudential, OTR, additional overlay. So, ~Rs. 1,750 crores of additional provision is being carried, which we believe is quite enough to deal with any residual impact of this Covid as we go ahead. And based on all this explanation, we can confidently say now, that as far as P&L is concerned, Covid 2.0 is definitely behind us.

Even GS3, we believe that taking into account that Rs. 350 crores additional, which will come in Q3, still GS3 levels will remain well in control. We don't think they will increase substantially as a percentage, but that's our estimate as we go ahead. So, overall, we believe that our strategy of providing on standard book and macro-prudential provision has genuinely helped us. And this 2.22% is in addition to the normal standard asset provision of 0.35 to 0.4% that isn't included that because that is anyway always going to remain on the standard assets. This is actually usable provision. So, we believe because of that, both asset quality as well as credit costs will trend positively for us.

Balance Sheet: Yes, capital adequacy stands at 25.16%, up from 21% a year ago. Tier-1 stands at ~20%, D/E at 4.4x. Now, this can be seen both ways, just one year back during Covid this looked absolutely great, because it makes the balance sheet very strong. Just when everybody is talking euphoria, this looks like a low multiplier from RoA to RoE. These are two sides of the same coin.

We believe that having a good capital adequacy prepares us now for the growth to come. Definitely organic growth opportunities, but possibly any portfolio buyout or inorganic growth opportunities that may come over the next couple of years, we are well prepared to take advantage of that, without having to raise any further equity now.

It is also worth mentioning that we had one of the credit agencies, credit rating agency ICRA had our outlook as negative for perhaps industry reasons. All our surveillances are done. All rating agencies have reconfirmed our rating to 'AAA' And ICRA has upgraded its outlook from negative to stable, which actually is a good indicator that even the rating agencies now are seeing that things are coming back to normal.

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Mutual Fund: Our mutual fund business has actually registered the highest quarterly gross inflows in the important equity and hybrid segments. Our AUM now has crossed Rs. 80,000 crores, showing good growth. We are garnering good flows in this quarter across categories. We expect this AUM growth to continue. We have recently beefed-up manpower, recently beefed-up our branch network and certainly hope that we will continue our march towards the one lakh crore mark in mutual fund also and thus, strengthening one more retail business that we have.

Sustainability: I will just briefly speak about sustainability. As an organisation we focus on ensuring sustainable growth for all stakeholders. Our journey on the ESG parameters we have shown our commitment towards the following.

Undertaking environmentally responsible businesses while we have helped avoid 7 lakh+ tons of CO₂ emissions through renewable financing. Nurturing stakeholder initiatives where almost seven lakh community members have been benefited through our CSR Initiatives. And 98% of our employees are now vaccinated, 99% actually, first vaccination; and 97% of eligible population with the second vaccination. And we are talking about more than 23,000 employees and a lot of Employee Care initiatives launched. And obviously ensuring robust governance by clearly working on institutionalizing deployment of the ESG framework. Efforts have been recognized by global indices like FTSE4 good, MSCI and we have been maintaining our 'A' rating continuously.

So, summarizing the numbers very quickly, overall disbursements are now up 40% QoQ, majorly led by a retail disbursement which are up 54% QoQ. Collections have actually come on par with last year's numbers, and very clearly collection efficiencies are back to pre-Covid level. Rural book is up 3% QoQ. And I must mention that even in worst times in the pandemic we never had a YoY negative growth in our rural book. Whereas overall AUM did have negative growth this year, but rural was always positive. And this uptrend is now only expected to strengthen further.

Absolute NIMs+fees stands at 7.58%, this is definitely higher than always what we have been indicating at between 6.5% to 7% but we have consistently maintained it now at around 7.5%. Definitely the cost of borrowings reduction is responsible for this. But also increasing retailisation, increasing concentration on cross selling and fees, has also been responsible for this. And we believe that with further increase in the retailisation and I am not talking quarter-on-quarter, I mean next quarter if I suddenly do, Rs. 4,000 to Rs. 5,000 crores of Infra disbursements, this number may be down on quarter-on-quarter but as a trend we believe that certainly, we can indicate that between 7.25% to 7.6% NIMs +fees are now more sustainable as we go ahead.

Total OTR book, I talked just about overall OTR 1.0 and 2.0 now at about 3.5% of the book. GS3 well in control. Credit cost on the reduction, this quarters credit cost was Rs. 778 crores compared to Rs. 900 crores in Q1. And this trend we believe will improve as assets improve and also as we start utilizing slowly, as we get more confident the macro-prudential provisions.

And which leads to both PBT and PAT having an excellent growth on a sequential basis. I must admit that our PAT is almost 15% down on YoY basis. There is one more item that I may like to emphasize, that very simply tax in last year 2nd Quarter was based on the goodwill benefit that we had, whereas now it is more without the goodwill benefit. So, there is an impact of additional tax as well, in this PAT, YoY drop. So, QoQ it is more comparable and it is 26% up as we go ahead. So, we believe now that corner has been turned and we should be able to do better, even in the medium term over the next couple of quarters.

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Long Term Strategy

I will talk a little bit about some long-term trends and I must say that hopefully before the end of the year, we will be coming up with a detailed long-term plan, along with the group's Lakshya Plan we should be able to come and approach you with a detailed long-term plan. So, I don't want to talk before all those things have gone through the organizational processes. But I would like to give some indications on where we are seeing the excitement coming over the next four to five years.

So, with a strong balance sheet, well established liability franchise and data analytics driven collection, adequate provisions and established business strength we believe we have showcased our ability to deal with extremely tough conditions and also to take advantages of any upswing in demand. We firmly believe now that Covid 2.0 is behind us. We use this to play it on our strength and definitely undertake lending of our choice. So, with Covid 2.0 behind us, we believe that credit cost will trend down and growth in Retail will go up.

While the many strengths in data analytics that we have established, I would like to talk about one strength that this pandemic and especially our way of working has given us, is proximity to our customers. We now have a rich understanding of our retail customers, how they behave, both in borrowing and collection. Their needs, the gaps that exists in our current offerings and the way we can fulfill those gaps. And when I say customers, I mean over 1.1 crore of retail customers of LTFS with whom we have existing relationships.

During our journey in the last couple of quarters we have continuously worked on increasing our wallet share. Our association with the customers which was a mere 1.2 products per customer in FY16 has now increased to 4.1, showcasing our abilities to identify needs and cross-sell right financial products.

In addition, I mean some of the good things we can talk about is our **1st Digitally Native** product which is Consumer Loans, which is entirely fed at this point of time, with our in-house customer data, is scaling up extremely well, in volumes as well as portfolio quality which is far better than the market. Of course, it is new.

We will be soon launching, perhaps late this year or early next year, the Open Market version of this product, targeted towards responsible end use. So, it will not be Consumer Loans which we will be giving cash in hand of the consumers when we go Open Market. But we will be targeting responsible end-use as we go ahead.

I had earlier mentioned that by FY26, which is five years from now, our Retail businesses, we are hoping that will go to almost 60% of the portfolio. We are actually believing that with launch of new retail businesses we may even look at crossing the 70% mark by FY26, quite comfortably, with Retail balance sheet being concentrated on and wholesale being asset-light model, this is the journey that we will have.

Based on current plans in the pipeline, I talked about the expansion of the Consumer Loans business and keeping whole thing very digitally native, Farmer Finance we are building on adjacencies on our leadership in farm equipment business. And more importantly SME, where we will definitely launch business loans, in fact we will be underwriting the first loan in this quarter, actually hopefully tomorrow, we will be launching our SME product. So, with all this we are very gung-ho, about the organic opportunities in businesses which are more of retail nature, going the next four to five years. And we see excellent growth coming from there.

With these opportunities, with end-to-end digitization, with data analytics, we are also increasing higher percentage of our retail business where customers can undertake complete end-to-end journeys, which will not only help us in increasing volumes, but also hopefully increase customer satisfaction and reduce expenses to some extent. So, what we are trying to do actually is, launch more and more retail digitally native products and at

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the same time, digitize and make data as the bedrock of existing products. And over the next five years this journey looks very exciting. I am not talking about any opportunities of inorganic growth at this point of time, because that you can't strategize in, but we will certainly look at it as and when it comes, but those opportunities have to be there.

Definitely, as I said we will be shortly presenting you, a detailed plan, but what I can definitely say is, with the current strengths we have built, both balance sheet and business strengths, we are certainly taking very strong steps of moving towards the goal that we are calling already in the organization is '**FinTech@Scale**', so that's what we are trying to move over the next five years.

Thank you very much for your patient listening. I think I took more time than normal, because I wanted to put the results in context. I now open the floor for any questions. Thank you.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah:

So, firstly with respect to this entire housing finance, so NCR based account, earlier it was Rs. 800 odd crores now it's almost Rs. 1,300 as you have highlighted, Rs. 950 crores recognized this quarter and Rs. 350 crores to be recognized in the 3rd Quarter. So, was that like more funding which was extended to them for maybe based on the stage of construction or maybe for the construction thing and that is why this exposure has gone up. And in terms of like when we look at the analytics across this real estate space, was it providing a lot of comfort for that particular stance. And do we see any risk in any of the other portfolio within the real state?

Dinanath Dubhashi:

So, yes definitely, the increase over that Rs. 900 that you are talking about. You remember that was two years back or almost two and half years back, right. So, there are two items, one obviously as you rightly said construction going up. And definitely the progress has been slow, Kunal, slower than what we expected. And that has increased the exposure. And to some extent by some projects for interest during construction as well. So, with both these the exposure is now at around Rs. 1,300 crores.

I must also say here and ask for all your forgiveness, very modestly that I had mentioned at that point of time that we are very confident on actually reducing that exposure. Unfortunately, COVID happened, that reduction was mainly based on monetization plans of some other collaterals that we are holding. We are still holding those. Those monetization plans are still in the pipe. But I must admit that COVID has put the calendar completely out of sync, for those monetization plans. Especially for this name, right, because now that name is also has some Supreme Court judgment etc. So, it will take some more time.

By the way we will continue to work on the resolution here. Our try is that we will not increase our exposure but will work with some other agencies for structures like priority funding etc. this is of course, it is only trying so that the projects are completed. Because the good and bad thing about this sector, is till the project is completed, it is worth nothing. And moment it is completed, you can recover a large part of your exposure. So, that is answering, I believe first one, first half of your question I have answered, satisfactory.

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Then I will move to the second half. So, we have looked at our overall portfolio. Risk profile of the portfolio has certainly improved drastically over the last two quarters there is no question about that. Large part of our portfolio, close to 90% is in lower income and middle-income kind of portfolio. And I am talking overall portfolio, there will be some assets here and there, but the escrow collections, as well as the sales momentum is picking up excellently well. As I say, we are working very closely with our parent, to bring in the parent wherever possible, not necessarily for JDA but even for marketing arrangements, for getting in some engineers properly on the site. Very close monitoring that we are doing, on making sure that projects get completed.

Of course, when you take the overall portfolio, there will be some categories which are green and everything going very well, completed inventory, almost completed inventory etc. There will be some parts which will be amber where we, there will be some very specific things to be done to complete the project. One thing I can say confidently is that, is there any part which is red hot, any other account which might go bad over the next six to nine months, I can confidently say that there is no such thing in the portfolio as we speak.

So, to answer your question, if you say, is it risk free, of course no real estate thing will be risk free. But we have got the progress of the rest of the portfolio under control. And I can confidently say that we don't see any other names slipping for the next six to nine months at least. And hopefully by then things will improve much better. Does that satisfactorily answer your question Kunal?

Kunal Shah:

Yes, and just in terms of the provisioning on this account, so when we look at the additional provisioning, so there would be some component of OTR but otherwise its Rs. 384 odd crores which is there. And so should we say that maybe that was broadly covering this account and that's where you are confident that there will be no further requirement for higher provisioning, particularly with respect to housing finance, because now we have for NS3 of 4.7%, plus some of the restructuring out there. And against that we have 1.8% of excess provisioning.

Dinanath Dubhashi:

Very good question. I will have to talk about trends, so right now according to the Ind AS, the way we have taken provision on this, much in addition of IRAC and you can do the math. Housing finance, you know how much provision is in there in retail, you can do the math. Right now, it is based on the current valuations as we see, as well as the projected cash flows. And we have beaten down the projected cash flows. We have given the right amount of discounting to it and taken this provision.

What we have also seen, is the additional 350 coming one, as well as any further deterioration of the cash flow. We believe that the macro-prudential that we have on the balance sheet should be largely enough. And given my previous statement that we don't see very high probability of something else slipping into GS3 from real estate, we believe that the macro-prudential that we are carrying should be largely enough, okay and that's a statement I am making with reasonable amount of confidence. But if at all something little is required more from the P&L, I would believe it will be fairly limited. And no large shocks to the P&L coming, I think that much statement I can make confidently.

It's a forward-looking statement, so I don't want to promise something saying 100%, but we believe that what we have squirreled up in the balance sheet now is largely enough, both in terms of PCR plus the macro-prudential.

Moderator:

Thank you. The next question is from the line of Saurabh from JP Morgan. Please go ahead.

Saurabh Kumar:

So, firstly good to see on your comments that COVID 2.0 is behind. Basically, one is, what will be the Stage-II including wholesale which you commented on the retail Stage-II but just at an overall company level what will be Stage-II? And secondly, basically as your rural grows, could you just comment on how the operating leverage and NIMs should trend, so can we expect the PPOP growth to start outpacing loan growth for you. So, that would be second question.

And the third if you have time, is basically on the net worth, your net worth is now Rs. 20,000 so you touched upon the ROE piece of it, but at least any target on what you want to deliver as an ROA. Thank you.

Dinanath Dubhashi:

You will have to repeat your second question, between the OTR, I mean between the Stage-II and the net worth part.

Saurabh Kumar:

Yes, basically the operating leverage. So, what I was trying to is now that your retail book will be growing faster so how should we think about your, both your NIMs and your operating cost, because I am guessing there is a level of cost which is fixed cost, which is baked into that business, which is not coming down as your AUM has come down. So, if you start growing your AUM, can we start expecting some PPOP margin expansion or will that be too optimistic.

Dinanath Dubhashi:

I will answer all your questions.

#1 So, first of all, we have started giving the Stage-II retail numbers as we have established a trend in that. On wholesale it is more one asset going here and there and hence at this point of time, we are not giving a quarter-on-quarter number. We will soon start giving it. Let me tell you that it is not too far away from the retail, the overall number is not too far away from the retail numbers. So, it's not like something which will shock you. But at this point of time, we have started giving the retail number, we are confident about that trend. Wholesale since you know one asset like this shifts quarter-on-quarter we will wait for a couple of more quarters for giving that number. that is #1.

#3 Net worth, excellent question, you see the net worth, first of all why we increased, we always put, I always say one thing that NBFC always I mean has multiple targets, multiple metrics to deliver. Always, the management has to be clear at the ranking of those. I always put safety first, so in those targets the first one will be liquidity, because any other issue will put the company in a problem in a few months. Liquidity can put us in problem today evening, right. So, always liquidity comes first for me. Second, then comes what we call capital adequacy, the company which makes long term safety of the company correct. Third is asset quality. Fourth is profitability and fifth is growth. So, this is how myself, my team is trained. So obviously we don't say that growth is not important, no doubt. But when decisions have to be taken, and there are two different metrics, pulling that decision in two different directions, this is how we will take.

And that's the background of this kind of net worth. Clearly this kind of net worth has come because last year, as I said, things were in a mess in the climate, in the environment, we didn't know how COVID will go. Nobody's judgment could be depended on. And I had said at that point also very clearly, we got the ultimatum from rating agencies that you want to maintain your rating, you have to raise equity. So, at that point of time the decision was very clear that we need to maintain liquidity, for that we need to maintain our 'AAA' rating. And we need to maintain very good capital adequacy as we go ahead and hence the equity was raised. So, that is the reason.

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Today it sounds very different because COVID is behind us, the whole world is now saying, okay, it looks like COVID 3.0 will not be crippling definitely. And all of a sudden there is liquidity now and this equity is we are talking in terms of leverage, both operating and financial.

How do we go ahead? So, very clearly, the way out of that, as you rightly said is growth, and good growth is definitely going to be the way out, because most good NBFC seeing growth on the horizon should look at things like returning capital etc. right that will be stupid. So, very clearly, growth is going to be within the other parameters maintaining good profitability etc., growth is going to be the underlying emotion for the next four to five years. Hence for example I am not, am I concerned about the fall in AUM overall and Infra, most definitely I am concerned. But am I sweating, no I am not sweating, because the profitable AUM growth is retail growth, the rural growth especially, and that's happening, right?

I explained to you, how it will accelerate as we go ahead, because of which products it will accelerate. You will see unprecedented new product launches coming from us over the next one year. I mean we have not launched any new products in the last five years, right to talk about, other than consumer loans, but you will see real unprecedented adjacencies being launched, completely new products being launched, while taking care that risk parameters stay in control, and while taking care that any product that we launch, we should be very clear about the logic of that product. We should be very clear and confident about being able to build a right to win in that product. We will very clearly launch that.

Third thing is our focus on the customer now rather than focus on product. So, increasingly as we build our databases and have now excellent capability of drawing all juice out of that database, we believe that our retail growth will now definitely accelerate more than even what we have done in the last two years. Precise numbers, etc. give me a quarter, I am going to come with good, detailed plans on the retail growth numbers. But I thought that it is important to state that where we are very clear that while keeping the other things in control, it is no longer sufficient to say that we are coming out of COVID, our balance sheet is well protected, we are happy, it is no longer sufficient to do that, we have to go for growth, while keeping the other parameters in control and that's where we are going to go. And quarter-on-quarter notwithstanding, over the long term this growth in balance sheet is going to come from retail, in our strength areas and hence the risk will be granular as we go ahead. So, this is answering your question on network, I believe.

#2As far as NIMs + fees are concerned, retailisation, hopefully will maintain. So, NIMs + fees are going to as I said stay very healthy, whether they will go up from 7.5% even maintaining at 7.5% is very good. I am not going to talk about interest rates going up and down, that is one thing. In short term they will go up mainly because of our liquidity premium coming down, or the liquidity negative carry coming down. We are not going to maintain this kind of liquidity, one. Secondly also as I said, cost of funds of course is good. But over more long term or medium term it will go up by two factors, one is retailisation, certainly. Short term, there is one more thing Micro Loans clearly is going to be much higher in H2 than in H1. H2 and H1 together we did Rs. 3,000 crores less than Rs. 3,000 crores disbursements in Micro Loans. We will easily do double of that in H2, very easily, at the current run rate of Rs. 900 to Rs. 1000 crores, and you just do the math right.

So, with that in short term NIMs + fees will be healthy, but I am right now wanting you to give the long-term trends, as we increase retailisation and as we increase customer focus and thus increasing cross selling enhanced fees, we believe the NIMs + fees will trend very well. Now on your other point, certainly expense as the total AUM will definitely go up, as we do retailisation, naturally. But we will try and see that on the retail portfolios we maintain PPOPs at good level, even maintaining current PPOPs. Let us just say worst case scenario we maintain current PPOPs on our rural portfolio, right, even as the portfolio mix changes, overall PPOp will definitely trend up just because of the, and this is on, without taking the effect of digitization and all into account. I am just saying

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maintaining current PPOP on the rural portfolio, As the weightage of rural increases, overall PPOP will trend up. So, without giving very precise numbers I have tried to answer your question.

Does that satisfy you Saurabh?

Saurabh Kumar:

Very comprehensive, thank you

Moderator:

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

Rahul Jain:

Just a couple of questions. One on this particular account that you talked about, what exactly transpired, is it more of a function of the Supreme Court verdict which is why the entire exposure needs to be downgraded or you could see that coming let's say a quarter or two back, given second wave, etc. and that perhaps you know further crippled PP servicing capability of this company. Was it like more even driven or the weakness was inherent?

Dinanath Dubhashi:

Mix of both, very clearly. Were the projects going to our satisfaction? No, there was some progress in the project. If there was no progress, we would have classified it sometime back, but definitely not to our satisfaction. This Supreme Court verdict plus some ED etc. has impacted, so by the way the Supreme Court, let me clarify, those two buildings - we have nothing to do with them. We have no exposure. They are not, forget funding those projects, we don't even have them as additional collateral or anything like that. We are away from that, okay. But obviously it will have impact on the, because it will involve some cost. It will have some impact on the ability of the builder to service our interest also. And we were definitely, beyond a particular stage, we were not interested in increasing our exposure, only by doing interest during construction, right. There is a particular limit, of course those projects are still on and we can very well do the interest during construction. But always the management has to judge whether it is all going in the right direction.

And we believe with the promoters more limited ability, to find money, to service our interest, it was better for the stakeholders to recognize it at this point of time, provide, and then work for turning this project around. And that's what we will certainly do.

Rahul Jain:

And just to understand the resolution process particularly of this account given the size that is involved, it is pretty large. What options do we have on the table, even including what can be done with the parent company?

Dinanath Dubhashi:

Parent company very little can be done. Two stage, we have certain assets, as additional collateral. So, over the years as we saw things going bad, certain assets are, so even today as we stand, the security cover is more than one times. It should be and when we started it was two times etc. but even now it is more than one time at beaten down asset prices. Those collaterals have to be sold, have to be monetized. It is a slow process at this point of time, but they will be monetized at some time. And that will reduce the exposures, one.

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Two, and that is our first option, is not to increase our exposure, but to get funds, private equity funds, to do what they call priority funding. So, they do the funding and they have the first right after that on once the project is completed, to take it out also.

We believe that something like Rs. 100 to Rs. 150 crores more, may be needed overall to complete all the projects. And we are right now in discussion with some similar entities, private equity entities to bring in priority funding, to make sure that these projects are completed.

So, it's a two stage or rather a two-pronged resolution approach, difficult route, but there is a route very certainly. So, I am not saying over the next three to six months we will come and declare that this is solved, it's a difficult route. But at the same time, we didn't want any overhang of this being in Stage-II and hence you know there is a NPA threat and all those things. Now we can do everything, go legal, put all sorts of pressure, our hands are free now, once having recognized the asset as GS3. So, in very ironic way, recognizing it as GS3 actually makes the recovery process more strong.

Moderator:

We will move to the next question which is from the line of Nischint Chawathe from Kotak Securities Limited. Please go ahead.

Nischint Chawathe:

Just going back to the most discussed exposure, out of the Rs. 1,300 odd crores of exposure, how much do you think in terms of an absolute quantum is sufficient provision? I believe you will have around 20% or 25% direct provision and then the balance is something that we are kind of accruing from the additional provisions.

Dinanath Dubhashi:

I answered that question already, at this point of time we believe based on the cash flows that we have heavily discounted that the provisions we have made is adequate, including the additional Rs. 350 crores which will, GS3 which will come in Q3. But we also believe that even if few things go wrong, we have a scope within our macro-prudential, to make another 10% to 15% of provisions. The chances of things going beyond that are limited, but if it happens the impact on the P&L within that quarter or year will be very limited.

And also, we are reasonably sure we will be using macro-prudential if this happens. We are reasonably sure that the rest of the portfolio, the chance of anything, first of all we don't have any such huge exposures. But the chances of slipping into GS3 are fairly limited. So, on the balance, Nischint, we believe what we should be concerned with, that will any quarter see a huge hit to the P&L, those chances are absolutely minimum.

Nischint Chawathe:

Sure. And out of the Rs. 1,700 crores of additional provisions, how much would be accounted to OTR?

Dinanath Dubhashi:

Around Rs. 490 crores.

Nischint Chawathe:

So, the way this breaks up is that I think Rs. 1,100, Rs. 1,200 crores is for the macroprudential...

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Dinanath Dubhashi:

Macro and everything else is around 1,250 and Rs. 500 crores for OTR, Yes. Right and the macro, Nischint the beauty of macro, is that it can be used various ways, right. That is why we have kept it as macro. So, if a larger part than we think of OTR, the OTR provisions are build based on what we believe based on our models, can be the performance. Because OTR, let's take one thing for granted, right that it will be very naïve to say that OTR portfolio will behave like a standard portfolio even though it is a standard portfolio today, right. So, we always model the way we believe, OTR portfolio will behave based on their current repayment position. We believe that this provision is enough similarly as I said that we believe that the real estate provision is enough, but we hold this Rs. 1,256 crores of macro-prudential which can serve as a dry powder for any of this thing going wrong.

Nischint Chawathe:

So, it's not necessarily only carved out for microfinance, it could be for microfinance --

Dinanath Dubhashi:

It is a mix; it is Micro Loans and real estate.

Nischint Chawathe:

Just one quantitative clarification from now on the tax rate should be full tax rate across business, is that correct?

Dinanath Dubhashi:

That is correct.

Nischint Chawathe:

And I think if you could give the PBT numbers for the investment management business, because I believe taxation is making a little bit of a difference on the PAT decline.

Dinanath Dubhashi:

Can I give it on the call after a few minutes?

PBT - Q2 last year 58, Q2 this year 64, Q1 this year 59.

Nischint Chawathe:

This is a slightly qualitative one, your collections on the rural side have been fairly strong. But if you look at some of the recent comments from FMCG companies about demand not being so strong in rural India etc. how do we really corroborate that and I guess the outlook...

Dinanath Dubhashi:

Excellent question, thank you for asking this. And this is very important question, okay. So, let us see the reason behind this sentiment. And by the way I agree with this sentiment. Now demand not being strong and demand being weak are two different things. So, let me just say, two things have happened, one is the impact of COVID which definitely is there. Second is rainfall, this times rainfall overall it might have ended on the absolute number in the 90s of long time average. But that doesn't tell the story. The problem is twofold that geographically it is very unevenly distributed and also time wise it is very unevenly distributed that there were two months of deficient rainfall and then two months of excess rainfall, which, right now floods.

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So, we don't think that rural demand will go down and scrape the bottom of the barrel. But at the same time the euphoria that was being expected after the COVID 2.0 wave that everybody had thought that rural demand will go completely crazy, that's definitely not going to happen. Our view is actually quite moderate. And hence we are not looking, you know I made my initial comments we are not looking at increasing our Farm and Two-wheeler disbursements drastically based on some idea of huge growth in industry, no. Right now, also we have shown growth in a falling number at the industry level and it comes from our strength of maintaining our market share, doing refinance, repeat business with our existing customers that is what is maintaining our business in Farm and Two-wheelers.

So, to be once again clear and that's why I thank you for asking this question, Farm and Two-wheelers, there is always a tremendous amount of seasonality seen during the festive season, clearly. This time also there is going to be seasonality. Q3 numbers will be definitely better than Q2 numbers. But the difference and the upswing, the way we had seen last year, it will definitely not happen. Last year Q3 over Q2 was a huge growth. We are not going to see that, that seasonality will be fairly moderated in Q3.

Nischint Chawathe:

And probably the 4th Quarter is what could be maybe an interesting quarter to watch based on the winter crop etc.

Dinanath Dubhashi:

You are absolutely right. Let's see how sowing of Rabi goes, often floods at this time bode well for Rabi. But we will have to wait for a couple of months to see that.

Nischint Chawathe:

So, we can just broadly say that look the single most factor for this could probably be more in terms of the rainfall unequal distribution than any kind of destruction that happens because of COVID.

Dinanath Dubhashi:

Oh surely, COVID, yes, I mean COVID, again this 3.0 is a, I don't know the answer. Though I believe personally that even if it happens the effect on business, crops etc., will be limited, but certainly, rainfall is a factor, also reservoir levels are lower than last year. These two are very clearly factors where we believe that seasonality will be more moderated and as you rightly said, let's hope that the Rabi crop does well.

There is one more thing which is important. After a long time, Mandi prices are actually below MSPs, in most markets. And that is something, okay bids well for inflation, but for the farmer wealth, it's another little bit worrying factor.

Nischint Chawathe:

Thank you very much for the colour

Dinanath Dubhashi:

On your MF PBT nos., just to give your answer the number is Rs. 64 crores.

Nischint Chawathe:

Just YoY, I wanted to get a sense.

Dinanath Dubhashi:

Q2 last year 58, Q2 this year 64, Q1 this year 59.

Moderator:

Thank you. The next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer:

To confirm the Rs. 800 crore incremental OTR is again in retail, right.

Dinanath Dubhashi:

Yes, this time wholesale was not allowed only in OTR 2.0.

Piran Engineer:

And so, then what would be the overall mix of this Rs. 1,800 crore in terms of the three, four different retail products that we do? And is it part of the 6.2% Stage-II? And also, is this Rs. 1,800 crores part of the Stage-II loan 6.2%?

Dinanath Dubhashi:

No, it is not. Okay, so I will give you the Rs. 1,800 crores breakup. Micro loans is Rs. 900 crores, Two-wheelers is Rs. 270 crores, HL LAP Rs. 600 crores broadly.

Piran Engineer:

The next question, in Supertech we have a Rs. 1,300 exposure on a loan book of Rs. 13,000 crores. Now I mean 10% exposure in one account isn't that too risky and are there any other builder accounts where the concentration risk is so high. And secondly have we done interest reversal on this account this quarter?

Dinanath Dubhashi:

Yes, of course if it is NPA, it is definitely interest reversal has been done. 10% on one account too risky, absolutely yes. Let's stay with the details that we have given at this point of time. So, yes, 10% of the overall portfolio, is risky, yes. It has a history with which we can happen, will we ever do it such a thing again, no. By the way when Supertech was at around Rs. 1,000 crores the overall portfolio was Rs. 17,000 crores. So, it didn't start as 10%, the portfolio has gone down, and Supertech has gone up. Should we ever repeat anything like that, definitely not. Is there any account, anywhere close to this amount, no.

Piran Engineer:

So, this is by far the largest account.

Dinanath Dubhashi:

Definitely.

Piran Engineer:

And could you quantify the interest reversal this quarter in the housing business?

Dinanath Dubhashi:

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Not immediately, readily right now, you can contact IR for any details.

Piran Engineer:

And just lastly on your consumer loan business, can you just give some more details as to who is your target customer - salaried, self-employed, the yields in this business, average ticket size, tenure etc. could you just remind us about this.

Dinanath Dubhashi:

We will start sharing this detail from next time onwards. I will just give you more qualitative one. Right now, the portfolio is very small, so I will give you what we are doing currently, what we are going to do in the future, fine. Currently, 95% of this portfolio or perhaps more are our existing customers and existing customers only. Every month we put all our assets, all our customers not only lending customers, your non-lending customers through data analytics and throw up two things, customers who maybe needing the loan and also customers who are largely, I think ever zero, right and without even cheque bounce in some period, in six months, over the last six months, no cheque bounce, ever zero these kinds of customers we choose and offer them this product. Normal ticket sizes are about 1.3 lakhs, that is the average ticket size as of now, average tenure will be about two years. Interest rates are between 13% to 14%, around 13% to 15%. So, that's current, obviously that's only we are wetting our toes right now in this business. But we have excellent plans as we go ahead.

Moderator:

Thank you. Ladies and gentleman, this was the last question for today. I would like to hand the conference over to Mr. Dinanath Dubhashi for closing comments.

Dinanath Dubhashi:

I mean we have had very detailed discussions. Once again I would like to say that, yes on the headline it looks like a 15% drop, on the headline that one asset looks like, and it is, a big increase in GS3. But there is another way of looking at it, is that that overhang is gone now, behind us. We definitely believe that the overhang of COVID 2.0 is behind us, because of the strategies that we have implemented, and our AUM, especially the rural AUM, because of the reasons that we outlined, are trending up very well, and thus giving good trends on various aspects of the ROE bridge, and we definitely believe that financial performance will start trending up from this point of time.

I don't want to repeat everything else that I have said, but we are at a time of the year where the call cannot be over without wishing you a very happy festive season. All of you stay safe. Let us hope that this nightmare of COVID is behind all of us, I mean not only our company, the country as a whole and let's welcome the Diwali as a time of hope and happiness and light. Wishing, all of you a very Happy Diwali and a Happy New Year. Thank you.

Moderator:

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

*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