

L&T Finance Holdings

Q3 FY22 Earnings Call Transcript

January 24, 2022

Moderator:

Ladies and gentlemen, good day and welcome to the L&T Finance Holdings Q3 FY2022 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 “*” 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 in today's call may be forward-looking in nature, and a note to that effect is provided in the Q3 results presentation sent out to all of you earlier.

I would now like to invite Mr. Dinanath Dubhashi to share his thoughts on company's performance and the strategy of the company going forward. Thank you and over to you Sir.

Dinanath Dubhashi:

Thank you. Wish you all a very good morning. Thank you for joining the results call and wish you all a very Happy New Year. We continue to learn from the ebbs and flows of the pandemic and with the current wave hopefully being milder than the previous two, hopefully we are nearing the end of the pandemic and look forward to the future with great deal of hope and optimism.

For this call I will divide my commentary into two parts. As usual, I will speak about the first one focusing on the performance of the quarter, but given that we are coming out on the other side of the pandemic and hopefully we see it is becoming more like an epidemic now than a pandemic, it may be important and relevant to talk about our growth plans and profitability plans for the next 4 - 5 years and I would like to give you some glimpses or more than glimpses of what the company hopes to stand for and what it hopes to deliver over the next 4 - 5 years.

Moving on to the highlights of this quarter:

Strong business momentum with focus on rapid and sustainable retailisation

- I would think the main aspect of the quarter was extremely strong business momentum with focus on rapid and sustainable retailisation. Our retail portfolio mix is now 50%, for the first time ever we have just crossed 50% up from 40% just the same period last year.
Rural business now is for the first time the largest lending segment; we always had Infra as our largest lending segment now Rural is the largest lending segment at 38% showcasing almost 12% YoY growth. Now this has happened faster than what we had anticipated; one, yes as anticipated the rural business is doing extremely well, but yes against what we had expected and against our wishes we have seen some prepayments in Infra portfolio also. So, there is of course that component of it, but definitely Rural business, the headline is that it is now the highest, the largest segment.
- We have also seen the highest ever quarterly disbursement in Rural as well as overall Retail highest ever which is 29% YoY up, so Rural was close to Rs 7,000 Cr, just Rural and total Retail was ~Rs 7,600 C in a quarter both these numbers highest ever.

In addition to growth in our existing products, launch of new retail products with an aim to accelerate retailisation and fuel growth has really worked. The new product that we launched about couple of years back - Consumer Loans have now got the momentum of ~Rs 650 Crores a quarter and increasing.

We have also just launched a pilot now finally of our Small and Medium Business Loans (SMB loans), and hopefully over the next year this will start paying dividends as well.

Higher quarterly NIMs + Fees culminating into sustainable margins:

The second highlight other than business momentum was NIMs. Now NIMs plus fees you would have noticed for the first time has been higher than 8% at 8.1% mainly achieved on the back of increased retailisation and increase in disbursements volumes of retail which also leads to higher fee income, and second what has helped is increased proportion of long-term funds raised at extremely good cost which one, reduces our WACC and I will talk a little bit more about it later but also protects us even in a phase which may come in the future of tightening liquidity and slowly increasing interest rates.

Normalisation of collection rhythms:

The third aspect was normalisation of collection rhythms. Collection across businesses have now either stabilized or actually crossed pre-Covid levels. What I would like to highlight is in our Real Estate portfolio and I will talk specific numbers, which are given in the presentation, owing to increase in resolutions, actual repayments and prepayments coming from the escrow mechanism have gone up and have been very robust over the last one year reducing the uncertainties around this portfolio sustention.

Stable Asset quality with adequate provisions:

Coming to asset quality GS3 is at 5.91%, NS3 3.03% with PCR almost at around 50%. There is a marginal increase QoQ in the GS3 number, but it is small and it has to be taken in the context of one particular asset which we talked about last time slipping into GS3 and in last quarter i.e., Q2 only we had said that in Q3 there will be a further Rs 300, 350 Cr which will slip. So total of ~Rs 1,300 Cr of a single asset slipping and despite that GS3 is remaining quite steady.

In Rural business there has been a significant improvement in asset quality with the GS3 at around 4% and most importantly you know that we had created macro-prudential provision and our calculation showed that we may start utilizing them in rural from Q3 onwards, but the collections have been so good in Q3 that we have actually been able to get through Q3 and show these results, with total credit cost just about Rs 700 Cr which is 31% down from last year, without utilizing any substantial macro-prudential provision which still stand at ~Rs 1,700 Cr. We believe that however minimum impact of third wave etc. we are well protected. Our OTR portfolio stands fairly moderate and even that is well protected based on collections and based on the provisions that we are carrying.

Stable Asset quality with adequate provisions:

Headline numbers of course - PBT up 29% YoY, PAT up 12% YoY because of change in tax rates and tax loss.

Strong Balance Sheet:

Balance sheet is quite strong, capital adequacy 24%, and debt equity ratio at 4.2x, making sure that as we move now towards future growth, capital availability is definitely not going to be a constraint as we go ahead.

So clearly, since the beginning of the pandemic or even before that I have mentioned that our focus on first principles will hold us in good stead and that is coming to play in this quarter which are:

- Proven business strengths with basically clear 'Right to Win'
- Strong collection framework which leverages our digital capabilities and helps us stay ahead of the curve
- Strong liability franchise
- Improved asset quality and
- Strong balance sheet.

So, these are the five things which have worked quite well.

I will deep dive a little bit in to numbers which will hopefully answer many of your questions upfront only.

Disbursements:

Let me deep dive into disbursements, 35% QoQ growth with a strong performance in the retail businesses. Retail book grew at around 4% QoQ on the back of highest ever Q3 disbursements supported by strong growth in Two wheeler finance, Micro Loans and Consumer Loans businesses. Total disbursements in Retail as I have said is 29% up at ~Rs 7,600 Cr. Rural is now the largest segment in LTFH, comprising 38%, surpassing the Infra book for the first time.

The business achieved in Q3 comes from one, Farm i.e., Tractors, a relatively strong performance despite the market falling by working on our preferred dealer / OEM strategy helped by analytics which has helped us maintain our market share and Two wheeler also working on our business strategy to building dominating counter shares of our preferred partners and both these industries as you know are down and we have maintained our disbursements and book momentum quite well. And it has actually come from our preferred dealer / OEM strategy what I call precision bombing using deep analytics.

We will take a minute here to provide the perspective. Tractor sales in the country during Q3 were down by around 13%, and Two wheelers were down by around 19%. Uneven rainfall and in fact almost 120 events of heavy rainfalls at the end, delayed harvesting of Kharif crops, losses to standing crops due to unseasonal and extreme rainfall events, and adverse impact of fertiliser shortage on the rabi sowing also, and lower than MSP mandi pricing across markets and across majority of Kharif crops, increased unemployment and slowly spreading Covid in the rural belts has actually caused this slowdown in rural market, and we have been talking about it for the last nine months. We also believe that this slowdown may continue for the next two to three quarters. However, the fundamentals of the rural economy remain strong. This dip is expected over the short-term and our faith in the rural economy continues strongly. But the important part is in this context we have managed to buck the trend as our disbursements in both tractors and two wheelers have been more or less same as last year despite this big drop in volumes in the market. More importantly, LTVs have remained same, here ticket sizes have gone up because the prices have gone up naturally but LTVs have remained same or in fact it is marginally lower than last year. One major reason for this is the way we approach business with clear outcome from analytics which states to operate and which dealers to work with how many resources to allocate to each counter all this come from deep analytics and that really helps us getting market share, we do not fight for market share we go for counter shares where we need and that moves to market share.

If we talk about Micro Loans our disbursements are always collection based. Healthy disbursements driven by normalization of collections and better than industry asset quality has marked our disbursement for this quarter to be almost Rs 3,200 Cr which is in line with pre-Covid levels. We have now very clearly once again crossed the Rs 1,000 Cr Rubicon if I may say so, of disbursements (in a month) and this we believe bodes well for future profitability and asset growth. Most importantly this has happened based on analytics as collection efficiencies have gone up. So, we believe that this increase in disbursements will of course contribute to profitability but we will also make sure and we are making sure while increasing the disbursement that portfolio quality remains strong.

Talking about Consumer Loans, we look at it with great hope, it is our first Digital Native product. Right from beginning it is end-to-end digital. It is even now relatively small but now disbursements have gone to almost Rs 650 Cr in this quarter and this is a big change. If you see that over the entire FY21 the disbursements of this product was about Rs 400 Cr so it is building up very well. I will take a moment to explain what we are doing in this product – it is an entirely digital proposition, entirely no-touch sourcing and instant decisioning. In fact, the whole log in to disbursements takes less than 30 minutes and we believe it is really our USP in the market. This is including documentation and the whole thing is digital. Right now, we are churning this as a cross sell engine to existing customers and we will be very shortly going into open market. The product now as we go to open market will be dedicated to responsible end use especially in the healthcare and education sectors and as we go ahead it is going to be a game changer for us.

Moving to housing, yes, over the last two to three years we have not scaled up much but last year we undertook steady business in the retail home loans where salaried home loan book was up 12% YoY and 6% QoQ. During the last few quarters, focus was very clearly on fine tuning our approach towards business and getting our market offerings right. During the waves of pandemic asset quality was given a clear priority compared to growth, profitability, etc. and as a result a large proportion of our recent disbursements were focused on salaried segment.

In Q3 this is now turning; models are ready, market is ready, early warning signals are ready for us to now start again growing our SENP segment and LAP offerings and sourcing through select market channels, which were quite limited during the preceding quarters. We were making sure that disbursements happens through our internal channels etc. with strong controls in place and now with more business coming through this additional segments, we are quite confident of growing disbursements in this product as we go ahead. I understand it is a very competitive product but given our volumes even doubling, the volumes increasing from Rs 650 Cr to Rs 1,300, 1,500 Cr a quarter is not that much dependent on competition. It is on doing a few things right and we are quite confident of doing them as we go ahead.

In the wholesale segment of Housing i.e. in Real Estate we have continued now to stay away from looking at any new projects for financing with current focus clearly aimed at completing existing projects and that has worked well clearly as I will talk about in the collection when I come to collections.

Infra, in Q3 FY22 disbursements were at Rs 1,758 Cr which were up QoQ no doubt, but they were well below the run rate that we are capable of, because we believe that currently despite the lower cost of capital etc. some of the pricing that we see in the market is not pricing the risk properly, suitably and we believe that this will turn soon. We continue with our focus on the refinancing opportunity for operational projects, working on the road, renewable greenfield projects and with our expertise and turnaround time in this we are sure that disbursements here will definitely pickup. But here the important point is, we will continue with our capital light model - as disbursements pickup our sell down will also pickup. This will make sure that the ROE, fees in this business is very good as we go ahead.

Collections:

Our continued focus on analytics and data driven resource allocation technique over the years has helped us maintain better than industry collection performance throughout especially in our retail products. Same holds true for this quarter as well. Total collections of the focus book stand at ~Rs 13,000 Cr compared to ~Rs 10,700 Cr in the last quarter and ~Rs 11,000 Cr same quarter last year, clearly demonstrating that collection efficiencies have returned and in fact better than pre-Covid level.

Portfolio focus continues towards boosting 0 DPD collections and managing early bucket delinquencies. Just to give numbers, I will not spend too much time these are all numbers given in the investor presentation, Farm collection efficiency is 91.3% clearly well above industry performance, Two wheelers, and these are on time collection efficiencies, Two wheelers at 98.3% and Micro Loans once again going beyond 99% at 99.3%. Consumer loans collection efficiency continues to be at 99.6%. This is of course the relatively small portfolio of about Rs 1,700 Cr but this bodes well as we go ahead in the future. Home loans and LAP collection efficiency is now at 99.3%, on time collection efficiency, which bodes extremely well. The story really in collections is in the Real Estate principal repayments and prepayments. Here when we talk prepayments it is very different in Infra prepayments. I will talk about Infra prepayments as we go ahead, but Real Estate prepayment is the mechanism of escrow where, collections come in as flats are sold. Collections come in; we sweep in collections to repay the loan early. So, this is up 153% vis-à-vis the quarterly average for FY21. And in fact, principal repayments, prepayments in the last 12 months has been precisely Rs 3,148 Cr, so our overall portfolio as you would have noticed has fallen from almost Rs 16,000 Cr to around Rs 11,500 Cr. Yes, couple of assets in that we would have sold to ARC etc. This number I am telling you is actually cash received, Rs 3,148 Cr cash received from accounts which have been resolved and closed accounts which have come as regular repayment and prepayments. This has been because of our continued focus on project monitoring and project completion and we are quite happy with the way it is going.

On Infrastructure Finance, while the portfolio continues to see extremely good operating performance and strong collections, the prepayments is something which has definitely hurt the portfolio size. So, you would have seen that asset size here is rapidly reduced. Yes, it is our strategy to limit capital given to this business but it has reduced even faster than what we would have liked because it affects the overall growth even though retail is growing. While regular repayments are good, we have faced some heavy prepayments which we believe are due to mispricing of risk at industry level. We are now employing certain measures to arrest this. We also have a good

portfolio pipeline over the next two quarters. Hopefully we will do higher disbursements and arrest this trend of portfolio dropping in Infra while growth will come from Retail.

Liability Franchise:

The third aspect liability. Our quarterly WACC is at 7.47%, it is lowest ever. We also maintain strong liquid funds but important part is we have raised substantial long-term funds, resisted the impulse of using very strong CP or very high CP proportion despite very, very low cost of CP. It will help us in two ways. First of all, I must mention that in NCDs we have raised two to three year money and very strong amount, in fact close to ~Rs 25,000 Cr in the last seven quarters at a marginal cost of between 5.25% to 6.25%. So, lot of money has been raised at this rate and what this has done for us is locked in the balance sheet for the next two to three years at good cost and as growth comes now, we can actually increase the CP proportion from currently between 7% - 8% to, even if it is increased to 12%, 13%, the cost of funds can reduce and may have a good trend as we go ahead.

Asset quality:

I have already talked about the numbers and about one specific Real Estate. There is one explanation that I must give. During the quarter the regulator has issued clarification there is a circular which is a much talked about circular. This circular says that the aim of the circular is ensuring uniformity in the implementation of IRAC norms and harmonize the treatment of accounts under NPAs across banks and NBFCs.

It has two parts, one that moving from month end reporting to exact DPD reporting and second which will perhaps affect in the short-term NBFCs more, is the roll back norm, that once something goes to beyond 90 days then the entire interest and principal has to be collected unless it is rolled back. Many NBFCs including us had an accounting that even if one installment is received and the account remains between 0 to 90 etc. it was rolled back. There was nothing illegal in it, there was no specific circular for NBFCs now it has been clarified that NBFCs have to follow this for IRAC norms, for GNPA and we will certainly follow it. There is also clear clarification that we have got, FIDC has also got that it has nothing to do with Ind AS accounting, there is no financial impact, so I will give you some numbers that if you actually take our GNPA by the same i.e. new definition it will be higher by about Rs 845 Cr than our GS3. The important part is our GS3 is so well provided that even if you calculate the IRAC provisions according to the new IRAC norms our GS3 provisions are well in excess of that and hence under the spirit of Ind AS, not only spirit but the letter, the guidelines of Ind AS, there is no financial impact on the P&L as we continue to carry additional provisions. The current provisions under Ind AS are well in excess of the IRAC norms so in the short to medium-term this protects the P&L completely. We will continue to report to the market both the numbers. As the medium-term strategy obviously collection intensity will now shift from the 61 to 90 bucket. Because 61 to 90 when you concentrate, given the type of customers that we have or some people in commercial vehicle industry, some people in construction equipment industry have, a person will pay one installment, two installment and remain current. It is normal and hence it is important now to concentrate on the 31 to 60 bucket. We are moving our entire analytics and collection force now to this bucket I will draw your attention to couple of or three or four years back when the industry successfully moved from 180 DPD to 90 DPD over a three year period very seamless. Any disturbance caused at this point of time is because no time has been given, it is with immediate effect. But we are very happy that our strategy of providing substantially higher than IRAC is working well and hence in the short-term there is no impact and in the medium-term, over the next two to four quarters, we are sure that as we concentrate on the 31 to 60 bucket, both these numbers, GNPA and GS3 will converge as we go ahead. So that is the period that normally any retail NBFC requires and in the highest order of governance we thought that I will explain this and also give both the numbers so that there is no confusion.

Our OTR book and I am taking some time to explain some of these aspects. Our OTR book stands at around Rs 3,000 Cr about Rs 1,200 Cr from OTR 1 and about Rs 1,800 from OTR 2 which corresponds to close to 3.6% of the overall book. Advance collections have been quite strong owing to concerted efforts and data analytics which has resulted in this portfolio performing even better than estimates. I will take a minute now to do a little bit deep dive. For our retail book for the OTR, we have continued to actively engage with our customers while they have been under OTR related moratorium to explain to them the benefits of timely repayments if they have the money because finally, they have to bear the cost of interest for this, dedicated on ground resources have been allocated,

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the specific deliverables are to ensure that the book remains moving even though it is under moratorium under OTR. I will give you a specific illustration on how this is performing. Our total customers under OTR for Micro Loans and I have given the amounts in the investor presentation, at the end of June-21 quarter were close to about 1.9 lakhs. As on 31st December, 21, the contractual repayments of all these accounts had not started they have started in January because they were in June end however over 53% of these customers, 53% of 1.9 lakhs even though their contractual repayments have not started have paid at least one EMI and there are some who have paid actually five EMIs already, and this also includes almost 6% of the above, of the total number which have actually foreclosed the accounts. This actually attests the repayment capacity of our OTR portfolio and how we have concentrated on making sure that when the OTR portfolio CD suddenly opens up it is not a number which becomes unmanageable. We have stayed well in touch with the customers and not only just stayed in touch but actually there are metrics which I have quoted showing that OTR customers are paying. It was a decision that required to have a choice in this period between Opex and credit cost and while these initiatives, specific initiatives on OTR book or specific initiatives Covid related would have led to a marginal increase in opex, continuous engagement with customers have helped us save considerably on credit costs present and future.

Overall, over and above ECL and provisions on GS3 assets, we continue to carry Rs 1,700 Cr to counter, which is about 2.2% of standard book, to counter any OTR related complications if any going ahead.

Sale of Mutual Fund:

One more aspect for this quarter. During the course of the quarter the company entered into a definitive agreement with HSBC Asset Management on December 23, 2021 to sell 100% of equity shares of our mutual fund.

Now there is some confusion though, I think our press release perhaps was not extremely clear as to the total value that we have sold it for and there was some interpretation that we have sold it cheap etc. I would like to clarify that. The consideration is the aggregate of around \$425 million subject to regulatory approval, subject to certain performances, etc. We expect this to be closed sometime fourth quarter of calendar 2022. In addition to this \$425 million which converts to around Rs 3,200 Cr, we are also entitled to surplus cash balance in the company in excess of the regulatory and investment capital required. Now this regulatory capital is in double-digit Cr. Against that cash, cash equivalents, and liquid investments in the book of LTIM today i.e. December 31, 2021 stands at Rs 730 Cr and this is accruing at an average rate of Rs 50 Cr per quarter. So, you do your calculations as to what will be the total consideration. even say at the end of third quarter of calendar year 2022 that where we will reach at the total consideration and you will see that it is very substantially in excess of the \$425 million headline number. So that is the clarification on the mutual fund transaction.

To wind up this section which talks about and I think I have taken a lot of time and I should move now to the future, but just to quickly recap:

- Our fee income has gone up almost 12% YoY, 28% QoQ
- WAC is continuously reducing
- NIMs plus fees now is well above 8% and we believe with increasing retailisation, around this level plus minus a little bit is quite sustainable.
- Reduction of credit cost to Rs 700 Cr now and reducing continuously and
- PBT growth of 29%,
- PAT growth of 12% which is largely due to tax rules change over last year to this year.

Strategy and way forward:

This brings us to the second part now, which talks about what do we want to stand for as we go ahead. Very clearly, yes, headline obviously we will stand for strong growth and strong returns to shareholders, but obviously within that big picture I will talk about something specific. Over the last couple of years as we faced wave-after-wave of the pandemic we have focused on delivering two objectives. Preserving our business strengths and maintaining the health of balance sheet. The main purpose was to emerge safely on the other side of the pandemic, safe and strong. We believe we have done that. Simultaneously we were of course planning and working on a robust plan to ensure future growth and profitability.

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I would now like to lay out glimpses on how we see growth and profitability panning out over the next four to five years. If I have to summarize this over the next four to five years what we intend to become. I can cover it under three major heads

- First, being a retail oriented NBFC providing strong sustainable growth and profitability to our shareholders.
- Second using deep tech across the value chain covering entire spectrum of customer insights including customer need prediction and analysis and this is where growth can come from, prospection, enhancing operational efficiency, credit analysis, and collection efficiency and last but not the least direct to customer (D2C) apps covering the relevant ecosystems that we operate in. So you would see that digital and data analytics now is forming a core part of the strategy as we go ahead and
- Then last but not the least, making this entire journey sustainable through strong ESG oriented measures.

I would specifically now like to talk today and as we go ahead we will put more details on this in the public space, but today what I would like to talk about is where we think growth will come from and how we see profitability trending over the next three, four years.

Growth will come from three major sources, three major metrics.

- One strengthening our product expertise on our existing products, making sure that when markets are down in an existing product, we lose less than the market, when markets are up our growth is way faster than the market and this is without affecting our concentration on good sourcing quality and good portfolio.
- The second metric will be launch of new products to capture adjacencies of where we are and also capturing new markets and
- Third most importantly is now moving more and more towards customer insights and having customer oriented approach, selling even more and more to the customer rather than being product oriented.

I must point out here that already the number of products that we sell to each customer, the average is in excess of 4, to be accurate about 4.1, but the large part of it actually is insurance products that we cross sell to our customers. Now, having done very well here we are now concentrating on selling loan products to our customers more, making sure that it is need based, it is responsible and it does not spoil the credit health of the customer by we giving more loans.

As we look at the macro factors for growth as I have, said the short-term rural demand and we are largely a rural company, we are conscious that the short-term rural demand points towards a decline in the consumption over the next couple of quarters, but this being said this country has been driven for quite some time and will continue to do so by rural growth. Underlying drivers for rural growth remain in place and our belief in the medium to long-term fundamentals in the rural India continues to be strong and hence we will continue to strengthen our rural offerings.

In Farm business that is at this point of time tractor finance, I would like to point out that our market leadership has been based on deep analytics capabilities, the outputs have not only been limited to credit decisioning but also OEM and dealer partnerships and geographies that we should concentrate, double down. In recent times we have taken it a notch up to churn our existing customer base and use it for upselling, which is now consistently contributing to additional volumes. In fact I would think that in Q3, almost 20% of disbursement in tractors in Farm came from existing customers. So as soon as the rural economy bounces back we will not only gain volumes due to ability to maintain / gain our market share but also by delivering a strong punch due to our refinance in existing customers. Moreover planned expansion into new geographies and market share consolidation in a few states where we are not among the Top 3 will deliver additional growth, and lastly, this is the most exciting part we will be leveraging the rural customer data, farmer customer data and channel partnership to launch new business channels, to address additional financing needs of farmers, which currently our offerings are largely limited to tractors. So we are now in maybe the final phases of finalizing this offering to farmers.

In Two wheelers, our growth will be based on again a two-prong strategy. First is, it remains, our main strategy once again analytics based, concentrated, strong targeting of specific counters, maximizing counter share etc. In addition we are concentrating and launching specific products on increasing finance penetration and that has worked extremely well. You know that two wheeler finance penetration was less than 30% just about two, three

years back or maybe three, four years back and today it is well in excess of 50%. I would like to say that, I mean, I cannot claim that everything is due to our efforts, but LTFS has contributed majorly by launching specific products for people who were not borrowing before. Our credit decisioning time which is less than a minute provides us a superior customer proposition. The next wave of increasing finance penetration now is based more and more on converting of cash customers to credit customers by offering customized offerings. The proportion of these customers is continuously increasing quarter-on-quarter. The second, of course the segment remains very small today but we are one of the prime movers around our offerings for the electric vehicle (EV) segment. Two wheeler EVs are clearly an emerging trend. This year it will contribute to less than 2% of the total vehicle sales, but our estimates and market estimates are also that over the next five years it is likely to reach close to 20% as battery costs come down, as fuel prices generally increase. We are working very closely with multiple OEM partners for a seamless financing experience to make EVs more attractive to the customer and I am confident of carrying our success in two wheelers to EVs as well.

Talking about Micro Loans, I have mentioned time and again that Micro Loans disbursement growth is a well-oiled metric based on collection efficiency, market delinquencies, asset quality, etc. The business now has been smoothly able to chalk up monthly disbursements of about Rs 1,000 Cr and we are quite confident that with improving macro environment and our collections being strong over the medium-term itself we will cross a run rate of almost Rs 1,500 Cr per month. These volumes will come from geo-diversification whose first phase is already under execution. And also again having specialized offers for existing customers who are with us for a long time who have behaved well. This will go a long way in adding growth, NIMs, and increasing overall profitability.

When we come to Retail Housing over the course of the last few quarters we have worked in steadying our disbursement and portfolio quality. Close to 90% of the Rs 650 Cr that we have disbursed this quarter is now salaried. This is a stable number and as we go ahead of course the salaried numbers will also inch up but new business volumes will be added through disbursements from SENP and LAP segment and we are quite confident that in maybe a year or two years' time we will double this quarterly rate as we go ahead.

Our Consumer book till now, this is another exciting part, is entirely based on our cross-sell and now the business metrics, business fundamentals, customer propositions have been clearly established. The offering from this product now will not only be limited to the database of our 1.3+ Cr captive customers, but now we are getting into open market, customers targeted mainly towards responsible end-use ecosystems whose potential is very high. The first couple of offerings will be towards education and healthcare ecosystems and we are already working on them and will slowly launch pilot software.

We have to look at all these in the context that I am talking about one after the other products coming over the next five years which will continuously put new injection of growth in the future growth.

In this quarter we actually launched a pilot of our Small and Medium Business Loans (SMB loans) which is aimed at addressing financing needs of one of the largest segments in the country's GDP. We take there are number of players especially two, three good players who have made very good success in this, we have learnt from them, we have studied this market in detail and are very clear about what is our offering, what should be our offering. This business draws strength from our data analytics and digital ability to offer a differentiated customer proposition. Idea is to target growth through simple digital offerings and very simple product offerings which make credit flow easier to the customer, makes documentation easier, taking a loan easier and hence a differentiated product offering from us and a differentiated credit cost also through choosing good customers and data analytics based early warning signals (EWS) which is very, very important. The market is quite big and we are just beginning here and practically sky is the limit for this. Currently our products are aiming at addressing the financing needs of professionals mainly doctors and chartered accountants and specific industries which have shown resilience during successive waves of Covid. Now, this talks about retail and SME.

Speaking specifically of Infrastructure Finance we have been always concentrating and will continue to concentrate on enhancing profitability of this business by maintaining a capital light approach while having our expertise in this. This being said we have lost more assets than what we would have liked in the recent past through the prepayments that I have talked about. Specific plans are being operationalized to reverse this trend

over the next couple of quarters. This includes a strong pipeline of disbursements over the next two quarters. Let us hope that it works out well. We look at this portfolio more for as a profitability contributor than a contributor just to build up growth. We have done that in the past we are not going to do it again, just putting on assets to give growth. Clearly, the profitability either through NIMs or through fees have to be there and that is where we will be pushing in our infrastructure business.

In summary, business growth will be led by established trends in our retail segment which based on the three things that I said, increasing expertise in our current product, going more and more to sell to our existing customers, and launch of new products, we expect a CAGR of close to 25% over the next four to five years. Till now on very specific products and just concentration on our existing products, we have shown from FY16 a CAGR of 20% which includes Covid impacted quarters, and with these additional engines coming for growth, we are quite confident of being able to achieve a 25% CAGR in our retail book as we go ahead.

Something that is just a statement of purpose at this point of time, no specific plan is that our capital adequacy is 24.1% already and the proceeds from the HSBC transaction whenever they come maybe in a year's time or nine to ten months' time will add to this war chest and hence clearly apart from the organic growth as we have discussed earlier we will be looking for opportunities for inorganic growth in the market, obviously if they come at the right valuation compared to our valuation, and we hope that our valuation will be better and that will help us look at these opportunities. This is not a part of any specific plan, but very clearly we want to make this statement that we are there in the market.

As far as profitability is concerned page #43 of the investor deck we have shared with you talks about the next four to five years milestones with clear goals of retailisation, retail growth, ROA and asset quality. We believe that as retailisation continues, NIMs plus fees of around 8%, 8% plus, will become increasingly sustainable as we go ahead. An increase in the retail book will normally mean rise in opex. but by continuing to use data analytics, and our retail credit costs have shown extremely good trends over the last five years; other than the additional NIMs, additional credit cost that we have provided during the pandemic, but if you take out we are quite sure that even with so much retail percentage we will be able to maintain the opex plus credit cost at a level, where with the NIMs of 8% plus, a 2.6% to 3%, a 2.7% to 3% pre-tax ROA which will lead to a 2.25% plus post tax ROA is definitely what we will aim for. Hopefully, reaching 2.5% at the end of the five-year period. So, that is the trajectory of ROA and growth that I would like to clearly lay out and commit at this point of time.

It goes without saying that our last five years retailisation strategy, our digital channels and data analytics, I would like to talk a little bit about them, were primarily focused towards product leadership, better portfolio quality and also towards productivity and efficiency enhancements. . Tremendous use of robotics in operations, lots of things have changed internally and we believe now the engine is strong enough for digital to go to the next level.

With a critical mass having been achieved at each retail product level already, we are also restructuring the organisation, in fact, already restructured to gear for the next level of growth which will now be more customer centric rather than product centric. Our retail we are now concentrating under strong leadership of Micro Loans, Farm that is rural and Urban. So, we already have some urban products like Housing, Consumer Loans, Two wheelers, a large part of, and now these customers will be allocated to specific business leaders to now grow faster and more strongly in each of these three segments.

With this structural change the objectives for digital and data analytics will also undergo a change. The focus will now tend towards assessing customer needs early and being available to the customers 24/7. Not only would it require product flows to be rebuilt and they are being rebuilt across around digital architecture, but it will also need to allow customers to undertake end-to-end journeys on their own and our experiments with CL etc., are doing extremely well there. The offering would largely involve synchronous real-time credit assessment based on submission of basic customer details thus allowing us to enhance efficiencies and limiting the need of our employees to be initiating the journey.

As I said the launch of our Customer Loan has actually been a step towards this direction and it is giving us extremely good confidence. In addition to the finance needs, it will also be imperative to provide for a customer with an ecosystem where his associated queries and needs are addressed and hence ecosystem D2C apps will

be the next big bang of digital and data analytics as we go ahead. Now I am laying down the roadmap for the next five years and the specific launch timetables will obviously be put in front of you.

Last but not the least, offerings will continue to ensure sustainable growth. As a part of our ESG initiative we have taken carbon neutrality targets to be achieved by FY35 and there is a specific year-to-year plan for that and water neutrality thanks to our CSR projects on Jalavaibhav and water conservation, we are already water neutral in FY22 itself. Our ESG score as a part of S&P corporate sustainability assessment currently stands at 55 which is up 20 points from FY20 and is far ahead of the industry score average which stands at 27. So these are the three things.

I believe that I have spoken not only about this quarter but given a good, there was some feedback coming as to where the company is going in the future. I think I have given a good insight into this and I must now apologize for a not slightly but a long commentary. In fact, last time you had given a feedback that my comments are quite long and I am returning that by actually making it longer but I must plead that it was only because I wanted to give a very, very deep insight into what we are going to stand for in the future, what we aim to do in the future.

I hope I have already answered a lot of questions, but always pleasure to speak to you hopes to see you physically sometime soon. I am now open for questions.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Rikin Shah from Credit Suisse. Please go ahead.

Rikin Shah:

Thank you sir for the opportunity and for sharing some early insights into the next five year plan. I had a couple of questions. One was relating to infra. While I understand that the prepayments have been strong, but we used to share the pipeline also was looking strong for the last quarter that went by. While you did mention that the pricing in the market does not seem to reflect the risk, it would be helpful if you could elaborate what exactly is happening and why are you confident that this would correct in the coming quarters? That is number one. Second is on the asset quality side, especially on the overall housing NPA. While we had flagged that the incremental NPA from that one account could be around Rs 300, 350 Cr the addition to the NPA has been around Rs 390 Cr, so has there been any additional slippage that you would like to flag? And lastly as a continuation on the asset quality you did highlight that in the next three to four quarters you do expect both the GNPA and stage three ratio to kind of align together if you could share whether where does this confidence kind of come from, would we expect the rollbacks to be meaningful as your customers pay all the remaining three EMIs and kind of bring down the GNPA as well, this will be very helpful thank you.

Dinanath Dubhashi:

Sure okay. I will try and answer each of the three. So Infra disbursement, I am fully confident, and I am fully conscious of the fact that last time also I have spoken that pipeline was strong. After that, yes we have done about Rs 1,700 Cr of disbursement. It is not as if the disbursements have been negligible. The problem has been that the prepayments have been even higher. So the ~Rs 1,700 Cr was not less, but the prepayments have been even higher. The problem with Infra disbursements, let us talk about the two things – one is disbursements and prepayment. Infra disbursements, there are two things which happen. One is lot of disbursements especially are subject to certain approvals coming from authorities. So if you do a refinance, NHAI has to approve that or even if for new loans especially if you are doing it for under construction project there are various approvals which are needed from the authorities, sometimes when we believe that these approvals will come in December they come in January, they come in February and then the disbursements just get postponed. So the number of disbursements which have got postponed from December to January actually give us hope that our Q4 will be substantially better than Q3 that is number one. Number two is where I have the prepayments. As far as the disbursement is concerned, the number of projects where we have looked at, approved, the team is holding

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approval in hand is actually quite robust and it is more than it ever was in the last six to seven quarters and which again also gives us the hope that Q4 this year or maybe Q1 next year there will be good push in disbursements. As far as prepayments are concerned one thing is competition giving you know, very low rates and the assets moving out. That is one. Second, even international markets for bonds etc. being used and many companies running unhedged borrowings and thus believing that the cost of funds is low, much lower. As you know there is unsteadiness in the exchange rate. Hopefully this trend, it has been seen before also. Over the last, I mean, I have worked for 30 years now and I have seen various phases where people believe that low cost dollar funds come for free when converted to rupee and the cycles show that it is never true and when the exchange volatility comes to hit the truth comes out.

So almost I would say almost 40% to 50% of our prepayments were actually to bonds and maybe one third of the prepayments were to bonds and this is something we believe will actually hopefully go down as we go ahead. Also there are good projects, if they come up for repricing, we will also, now that we are getting access to cheaper funds, partially we will also try and retain them. So as a mix of all this we believe that the rapid fall in the Infra portfolio will be arrested. How much it will increase in one quarter, two quarter I would not be able to say. As I told you, the disbursements are quite lumpy there and it will be arrested.

Your second question I hope your first question is answered. Second question, okay, when I had actually said Rs 350, 360 Cr it was more of approximation and a few Rs 20, 30 Cr here and there are not any indication of any other big assets going bad or something like that. In fact I would tell you that the retail Home Loan portfolio now is completely stabilized and we are in fact seeing the GS3 levels coming down slowly but continuously so that perhaps would answer your second question. I have forgotten the third question.

Rikin Shah:

GNPA..

Dinanath Dubhashi:

Okay. So now how does this happen right so first I hope I am very clear that immediate impact, why immediate, hopefully for the next couple of years the impact on P&L anyway will be zero because we are carrying tons of additional provision. Now let me take you back to FY14, FY15 when RBI said that NPA recognition will start reducing from 180 days to 90 days and it will happen every year and the big question in everybody's mind everybody saw okay with 180 days people's 90 plus is so much which was a multiple of what was 180 plus and it was predicted that NBFC industry is in deep trouble because now NPAs will be so much. What happened, nothing like that happened. Almost every NBFC adjusted over the next three years slowly to the new number of NPAs. So when the collection push was in 150 to 180 it slowly moved to 120 to 150 slowly moved to 90 to 120 and now it was at 60 to 90. So, tremendous efforts are done at 60 to 90. So there are always two components. One which, major attempt to stop something at 60 to 90, big attempts, and if something flows back to 90 collect at least one EMI, two EMIs, etc. to bring it down. So these were the two components. Now what over the next 6, 9, 12 months around that what are the two things which will happen. First the big change will happen is from 60 to 90. The entire collection machinery will move to 30 to 60. Whether it is good for the sector you know, not sector meaning not NBFC, good for the final borrowing segment to happen, I am not discussing that at this point of time. But people will now get used to it. As you know that the circular also talks about educating customers etc. We have all started all that already and I am speaking on behalf of the industry. I am not saying everybody will adjust at a particular time but generally speaking the direction will be moving major collection machinery from 60 to 90 to 30 to 60. It will take time, so things will be arrested at 60 itself. Now what it will do, I mean, is NPA come into 60? No. NPA is remaining at 90 only. But what it will do to bring to 60 is very clearly it will give a good 30 day time between 60 and 90 to the collection team to make sure that asset does not flow to 90. Anytime for the first time because very clearly if it moves even for one day to 90, 90 plus it is going to remain till you collect all three installments and hence the entire try is going to be limiting it at 60. Why are we confident? Because we have done it before without the benefit of analytics. Now we have a strong analytics engine, a strong collection engine, we are sure we will do that. Once it moves beyond 90 now there is another change that we will have to do. If it actually moves

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beyond 90, the focus now is not going to be on collection and stabilizing, the focus is going to be on what is called resolution, prepayment, settlement and closing. So these two things will change. It will change, it will take its time, I mean, we have represented to the regulator that give the industry a year or so. It does not seem to be convincing the regulator at this point of time. Maybe we will get, we do not know but at this point of time we are assuming that these new norms are already in place but we have started working on changing the rhythm on the ground. And the good thing is in the meanwhile it is not affecting our profitability because we have made substantially higher provisions. Does that answer all your three questions, hopefully?

Rikin Shah:

Yes, Sir. Thank you that does answer all the questions and if I may just, a feedback.

Dinanath Dubhashi:

Sorry there is one more thing. A large part of it, large part, almost two thirds of this Rs 845 Cr is in tractor segment. Because, you understand a three monthly or a six monthly installment, this tendency of just going beyond 90 and then coming back will be much higher and tractor segments have that as a three monthly and a six monthly installment. So the major push will have to be in one product which is tractors because two thirds of this difference of Rs 850 Cr is coming from tractors. Sorry to stop you, you are saying something.

Rikin Shah:

Well sir and this is helpful. Just a feedback or a wish list if I may. While our disclosures are pretty detailed, only on the collections while the regular collection efficiencies help us to understand the potential forward flow, but the absence of quarterly disclosure on the stage 2 or the overall collection limits the capability to understand the overall or potential stress loan pool. So if we could do that something similar to peers in terms of disclosing stage two that could be helpful and I look forward to hear about the detailed strategy in the next quarter on the other products and the initiatives that you outlined today. Thank you.

Dinanath Dubhashi:

Thank you so much. Thank you so much I have been getting this feedback. We will work towards it. I will tell you very frankly is that given the Covid atmosphere, I did not want to start a new trend during Covid. As Covid settles down and collection matrices come to a steady level and they are already coming, we will definitely move towards this. But let me give you the numbers especially in rural for example our stage 2 book has fallen from 6.9% in September 2021 now to 6.1% and in overall retail it is down from 6.2% to 5.6% and the provision coverage on the stage 2 book of retail stands at close to 45%.

Rikin Shah:

Okay, thank you, Sir.

Moderator:

Thank you. The next question is from the line of Nishant Shah from Point72 Asset Management. Please go ahead.

Nishant Shah:

Hello, Sir, thanks for the very detailed strategy articulation in the first part. Just one quick question from me on the consumer loans that you talked about. So just help me understand what kind of fluencies are right now like you mentioned you are currently just doing it to internal customers the average ticket size is at about 150k. So what is the nature of these customers like what kind of risk profiles are these what are the yields that we are generating on this and you also talked about like know building an urban lending kind of franchise would that also

be kind of like driven with consumer loans with the new external customer sourcing strategy within this, because rural customers of your current book would be very different from the urban customers that you want to try to get into. So just something if you could talk about it here would be really helpful. Thank you.

Dinanath Dubhashi:

Sure. We will of course talk much more about this as we present the detailed strategy, but I will try and be as clear as possible. We launched consumer loans about two years back and we wanted to be very clear that a few things we do carefully. One is that as we tread into this because consumer loans can mean so many things, right, it can mean consumer durables, it can mean pay now or what is the buy now pay later, it can mean STPL, it can mean so many things. We wanted to go first test water go on our strengths and not have any accidents so very clearly where did we start we had a very good database even our urban database of our home loan customer, two-wheeler customers as we go ahead and our asset management company investors, we could actually use this database to try and see and it was not like just cold calling using them etc. use this, churn this, put it in saying that we can predict needs, we can predict credit behavior of these people. Also concentrated on having a ticket size of our average ticket size is what about 1.5 lakhs. So we are at in that category average ticket size of about 1.5 lakhs. As I said existing customers, completely to existing customers. We have slowly now started going to enter external databases also trying to look at lookalikes with our existing customers. So it is not again external database buy make cold calls we do not make cold calls absolutely not, every call is made because first of all it is useless it is completely cost non-effective every call is being made so by analyzing existing customers and even if the outside database is there looking at finding lookalikes from our existing customers with that database and trying and judge his need as well as ability. Now what this has worked for is that now the portfolio is close to two-year-old and collection efficiencies are at 99.6% it has worked very well clearly of course about the of the portfolio has also worked well but clearly it will have limitations by the way as of now it is entirely urban just to answer your question we have not yet gone to doing this with rural with farmers there are other products for that and I will maybe talk a little bit in details about that but there are other products where we will go we are not going to call up farmer and give him a personal loan not yet at least, but I will talk about what we are going to do with farmers, but urban I mean just marry this with your the other question what are going to be our urban products obviously home loans and I talked about it, obviously this current consumer loans that we are having, obviously two wheelers a large part of two wheeler franchise is urban, semi urban, but more importantly now in urban markets we are looking at extending this expertise we have got in consumer loans to ecosystems to lending to a customer, but where money is paid, while the money is paid for to the final vendor like we are looking at coaching classes both physical as well as online coaching classes as building up a model and there are a few players are there already, but not too many there are a few players. So these are not the education loans for basic education these are education loans for value-added education, it is a great place a good opportunity exists we have done a detailed product market analysis, segmentation analysis and that product will be launched hopefully somewhere early next financial year. The second one is on healthcare, on hospitalization, it is very clear and I am sure you guys are all BFSI analysts you know that the country is extremely underinsured as far as the healthcare is concerned. We are full of people who believe that medical insurance is enough when you reach the cap of 80 D deduction require allowed in income tax and once you reach that you believe that you have enough insurance everybody by now has seen, I have seen myself that, that is not true you are generally speaking underinsured and hospitalization bills and these loans are obviously given to relatives not to the person being hospitalized or not to the student they are not students loan not to the student it is given to the parent for if you are getting to Akash or BYJUs or whatever and these are the two immediate offerings that I am talking about because we have got them fleshed out, there will be more offerings that we will see in the urban market. In the rural market we are right now looking at refinancing on the existing assets, but as we study our farmers more and more we will now tie-up with ecosystems in the rural, the fertilizer ecosystem, the dairy ecosystem, the seeds ecosystem, the post-harvest ecosystem, the warehousing ecosystem we will tie-up with these ecosystems more and more to make sure that our farmer customers and their lookalikes around can be serviced and that is where the farmer finance as separate from tractor finance is going to grow. So that is that is what how much I would like to concentrate and elaborate on that at this point of time. I hope it answers your question.

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Nishant Shah:

Yes Sir. Sir just one thing which got skipped could you talk about the yields..

Dinanath Dubhashi:

Between 12% to 16%.

Nishant Shah:

What would be like the median income for the customers that we have been lending to so far just to get an understanding?

Dinanath Dubhashi:

Can I answer this later maybe Anuj can even explain to you more in detail and we will answer all your questions either during the strategy or if it is a nature of not specific information, but explanations you can contact Anuj and Anuj can give you any explanations that you want.

Nishant Shah:

Absolutely Sir. Thank you so much.

Moderator:

Thank you. The next question is from the line of Aditya Jain from Citigroup. Please go ahead.

Aditya Jain:

Thank you. Sir, I just wanted to ask about the strategy, the five-year strategy that you spoke about which was good to get all those details and I do not know if I missed, but if you could talk about real estate within that and secondly when we look at the target 25% CAGR in retail and let us say I take that 80% target five years down the line then the implied growth for the overall book is sub 15% maybe the 80% is sort of a soft target, but to clarify here if you could talk about the target for the rest of the loans non-retail and also specifically on real estate?

Dinanath Dubhashi:

Extremely good question. Real estate to be very frank at this point of time we are very concentrated on making sure that the portfolio is performing. We are not making any five year prediction for real estate, we do not think that either the market or the status of the builder community or our mind state at this point of time is in that phase we would like to through, there have been lots of feedback about problems in our real estate portfolio, they were always told that it sort of weighs heavy on our valuation all those things. We would first like to demonstrate that other than this one or two assets which are bad and which has been a mistake to lend to them our portfolio is good and we would like to demonstrate that we can deal with those portfolio actually show substantial reduction in the real estate portfolio over the next 12 months max and then rethink about the real estate strategy. I do not think at this point of time we are actually putting forward with any amount of aggression our real estate will be so much and very clearly over the next 12 months the real estate portfolio will be reducing and yes while obviously arithmetically growth will reduce because of that, but all of us were talking about the overhang in the real estate portfolio and not about growth, not too long back, right. So we will first concentrate on taking away this overhead on real estate portfolio and showing that we have good portfolio I believe that a 3200 Crores reduction by actual collections of course it has reduced growth overall growth, but it gives great confidence that almost 25% of the

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portfolio has been collected and reduced in the last one year we will continue that trend for say a year more. Second you are right in saying that 80% odd is a soft target, you are right that we do not know, the whole idea is direction that from 50% retail will increase substantially why because we are quite clear that infra, disbursements, fees we would like to increase, but how much we will give capital, how much we will stay, will depend on so many other things right it will depend on how retail is growing. So to answer your question because you talked about the overall growth we are not going to put so much the overall book growth as a hard target that is why the overall retail growth is a target depending on the profitability of each asset we will see how much infra we will keep, how much we will sell down and that is why it is very purposely we have not actually given the overall asset growth as a target. I believe that infra business can be well run if we put underwriting, disbursement and profitability with fees as a metric rather than book as a metric. It will depend on so many things. It will depend on in the year to come are we able to use our equity through inorganic measures, how the retail growth pans out, how the leverage goes up, if all these things go well we will not be too bothered about not having too much growth in our infrastructure portfolio. If one of these things does not happen for example in organic there are no opportunities then obviously my equity will be quite high and I will keep infrastructure assets on book. So I will use that more as a tactic and retail growth as a strategy does that answer.

Aditya Jain:

Got it Sir. Just a second thing if I may clarify. So just to confirm, on the total stock of provisions on the book and is this 4600 Crores so I am adding up 480 on standard and 2400 on NPA and 1700 which is macro-prudential plus restructure?

Dinanath Dubhashi:

There is a slide which talks provisions on standard and there is a slide, which talks provision on GS3.

Aditya Jain:

Got it, perfect Sir. Thank you.

Moderator:

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

Piran Engineer:

I just had a couple of questions. Firstly, when we talk about growing at 20%, 25%, 30%, but in our traditional rural lending segments of farm and microfinance and two-wheelers we are already among the top three maybe in two-wheeler fifth or sixth classes and now how do we think of growth in these segments. All these three segments also pretty well penetrated from an industry perspective, you also mentioned that two-wheeler financing penetration is well north of 50% now and at the time of the GST it was 70% so is not it fair to say that from a three, four-year perspective we will grow largely in line with the underlying industry and therefore the growth will have to be borne by the new segments rather than the traditional rural landing segment?

Dinanath Dubhashi:

I would think, yes, in a way, but I would like to explain this more, in fact as I think I took a lot of time to explain this actually. So let us talk one-by-one each. Now first you are absolutely right in saying our market shares in especially tractor and two-wheeler these products are very different because they depend on the growth of the underlying industry and our market shares are already strong and it is while we will always try to be marginally better than the industry you are absolutely right in saying that especially these two we are not going to grow substantially

better than the industry. We will do always when the industry is down or up we will do little better than the industry that is our confidence, but it cannot be substantial, so you are right. So first of all let us see the growth potential of these industries by themselves, currently they are negative maybe they will be negative for the next one year or so, but the rural fundamentals are such that we are quite confident that even from existing products just our existing rural products a growth of mid-teens or maybe high teens over the next five years is possible so that is as far as existing products is concerned, now we see what are the other things we are doing not necessarily only new products but using those customers to cross-sell and up-sell to those customers of this customer database is where the second phase of growth will come that is one injection. The third injection is of course new products and new markets. So as we get into consumer loans, as we get into SME, as we get into farmer finance, that is where they come from that the calculations have been done and when obviously a number like 25% CAGR for five years is committed I have done very, very strong homework for this and we are quite confident that this will be built and it will be one on top of each other. So as you are right in a way so one on top of each other existing products growth slightly better than the industry, new markets for existing products, selling more to the customers of existing products and then new products all together this is how and I am including SME also in that, in retail 25% growth just to be clear.

Piran Engineer:

Okay got it. Sir then one classification in consumer loans do we give it to our tractor and MFI customers also or is it predominantly the home loan and other retails?

Dinanath Dubhashi:

It is zero to rural at this point of time. So tractor and MFI no, you are right that is simple. So at this point of time it is a completely urban product.

Piran Engineer:

Okay, so by urban we mean home loan, LAP and two-wheelers?

Dinanath Dubhashi:

Yes, home loan, LAP and two-wheelers and also databases which are external databases used by looking at lookalikes of our database, but entirely urban.

Piran Engineer:

Okay, because just a broad back-of-the-envelope calculation suggests that we have already given to more than 1 lakh customer so I am just trying to think of the potential because we are also targeting prime customers and typically in two-wheelers most customers will not be prime, so the prime customer is anywhere subset of the total base and we have already given to 1 lakh plus so I am just trying to think about potential for scaling up this book from this 1500 Crores level?

Dinanath Dubhashi:

You are right for potential for scaling up this book is certainly there, but it is not unlimited and hence launch of new products and looking for new customers obviously is the second step but that is what this is what we have done is to be taken as the first step in our consumer loans journey where we have got the confidence, got the digital engine right, got the analytics engine right, finally our existing customers forgiving us, obviously in the first six months we did mistakes our digital journey did not work as efficiently as we wanted. So for many reasons it is good to concentrate on existing customers, but that is to be taken as first step. Now it is just a starting point.

Piran Engineer:

Okay, the growth will be more open market.

Dinanath Dubhashi:

Of course this is also an open market and open market the only thing we will stop short in absolute open market is making cold calls and saying you are eligible for 1 lakh loan. We would not do that, it will be more as we go open markets it will be more end use based.

Piran Engineer:

Got it and Sir just one classification our small and medium business loans are unsecured, right?

Dinanath Dubhashi:

Yes they are unsecured business loans at this point of time, only simple term loans at this point of time we will launch OD over the next quarter, etc. Here we are in the same phase as we were in CL two years back we are getting our digital offering right obviously quite a few things go wrong while doing it, sometimes OTPs do not come to the right phone, sometimes the GST data is not read properly, all sorts of things happen, so we are in that phase right now, pilot making sure that everything goes right.

Piran Engineer:

Sorry, Sir, by OD you mean like the flexi loan for some of your competitors?

Dinanath Dubhashi:

Sort of, not flexi loans but it is a limit given in which somebody can draw, repay on everyday basis, but OD will be a secondary product the main product will be term loan.

Piran Engineer:

Got it. That is all from my end Sir. Thank you so much and all the best.

Moderator:

Thank you. Ladies and gentlemen this was the last question for today. With that we conclude today's conference call. On behalf of L&T Finance Holdings Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.