L&T Finance Holdings Ltd.

Q1 FY23 Earnings Call Transcript

July 20, 2022

Moderator:

Ladies and gentlemen, good day and welcome to the L&T Finance Holdings Q1FY23 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 the 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 and CEO, and other members of the senior Management team. Before we proceed, as a standard disclaimer, some of the statements made on today's calls may be forward looking in nature and a note of that effect is provided in the Q1 results presentation sent out to all of you earlier.

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

Dinanath Dubhashi:

Thank you, ladies and gentlemen, very good morning, and a warm welcome. We have uploaded a presentation, I believe is very self-explanatory, but I will still love to take the opportunity of giving some explanations to you. We will try to be as short as possible, I will talk about this quarter, but more importantly, I will talk about what are the measures we have taken under the Lakshya (Target / Goals) 2026 plan, though quite early now.

It was during the same time last year in the midst of second wave of COVID, actually, that I mentioned to you that our strengths place us quite suitably in the medium to long term growth after the storm is over. And I believe now the storm is well and truly over, I mean there are some COVID cases etc. I have always maintained that COVID doesn't affect business so much but lockdowns do. The way we have vaccinated, the way the country has fought, I think the possibility of new lockdowns is less and because of that, I believe largely business should be back as usual now.

In the last annual investor call and analysts meet held during the month of May'22 we shared with you our strategic plan Lakshya 2026 and the underlying goals. Over the last three months, this truly has been the driving force for us. In short, the goal is to be a top class digitally enabled Retail finance company. Within this goal, we aim to pivot from a product focused company to a customer focused approach, with the aim of creating a Fintech at Scale. And I have explained what a Fintech at Scale means last time. And I will also now, talk about what we are doing in that direction. Our organization structure has already been aligned to this aim now, changed organizational structure. In addition, your feedback after the rollout has been most encouraging. And I thank you for the same and we have tried to incorporate some of your feedback also, as we have gone ahead. I now quickly move on to the highlights of this quarter, the quarter which has just passed:

- We achieved the highest ever quarterly disbursements in Retail, close to Rs. 9000 Cr which is up 10% QoQ. This is special, really special because Q4FY22 was highest ever till then and we have built a 10% growth in disbursement over that also. What is even more special is it is now not driven by just one product; more products are driving this growth.
- Retail portfolio mix rose to 54%, from 45% last year with 19% YoY increase in the Retail book. The QoQ increase in the Retail book is also 6%, which is quite in line with one of our Lakshya 2026 goals of 25%

CAGR in Retail book. So, in the 1st quarter itself, we meeting it on top of a good book growth already last quarter enthuses us quite well.

- As a part of our Fintech @ Scale, cross-sell and use of data is one of the important aspects. 50% of Rural Business Finance and 25% of Farmer Finance disbursements are now driven by cross-sell efforts of the company using this database.
- Consumer loans which is another loyalty cross-sell product, the book has now crossed Rs. 3000 Cr this quarter.
- Coming to NIMs, we actually achieved the highest ever NIMs plus fees at 8.23% on the back of good quarterly Retail disbursements. Interestingly, the quarterly WAC (Weighted Average Cost of funds) is at an all-time low of 7.27% in the phase of tightening liquidity and increasing interest rates. Now, there is no logic and no magic here, very clearly, we have been talking from last one year that we have resisted the temptation of having higher CPs when the interest rates were low. We could have done that and interest costs could have been even lower, but we have locked-in substantial amount of medium to long term funds, which are now coming to our help genuinely.

  As interest rates increase further which looks like definitely, they will, the weighted average costs will surely increase, there is no doubt about that, but we are confident that the increase will be less than proportionate with the market increase. Also, our pricing power will ensure that we continue to have robust margins as we go ahead.
- Asset quality has been pretty stable. Reduction in GS3 from 6.67% last year to 4.08% in Q1FY23, NS3 at 1.87% and PCR at 55%, these are the headline numbers.

Important to point out and I will talk a little bit more about this later, these numbers are now on EAD basis. So, till last quarter, we have been reporting them on principal outstanding basis. Reason, clearly, of course the numerator denominator both were on principal outstanding basis now both are on EAD basis so difference is minimal. But there is a difference, there will be a difference, no need to get confused. We didn't want to change suddenly the method of reporting of this, in the middle of a plan period. Now that the new plan is starting, we are starting with the method of reporting which is fully in line with IndAS.

Many of you had asked us the question that your GS3 number look different in the financial results and in the investor PPT. From now on, it is all going to be absolutely uniform. So, there is no need to get confused, it is just a one-time adjustment. And what we have done is, last year’s numbers also we have adjusted based on this.

OTR:

I would like to give a little more explanation about our OTR book here. OTR book now stands at close to Rs. 2,000 Cr from about Rs. 3,000 Cr just a quarter back. And what is this big reduction of Rs. 1,000 Cr, we need to explain. Naturally, if you consider the timings of OTR especially in assets like Micro Loans, Two-Wheelers, you remember that there was a six-month moratorium given. So, most of the billing actually started somewhere between the 1st Quarter to April etc. Now, when that happens and if collections don't happen and we had done a lot of, some of the collections had actually come in advance. And that reflects in the numbers. But whatever has to roll forward will roll forward either in Q1FY23 or in Q2FY23. And with this, at least on these products, this OTR stuff will be over for once and for all. What will remain after Q2FY23 is largely the HL book, where the moratorium was given up to two years. But this obviously is a very secured book and follows a very different kind of equation.

So, let me just talk about the numbers. The total reduction of Rs. 1,021 Cr include about Rs. 548 Cr that is more than 50% which is closed now. Rs. 205 Cr written-off and Rs. 268 Cr have rolled over to GS3. So, basically written-off + GS3, if you can consider the whole thing as GS3, it adds up to Rs. 473 Cr, on which a credit cost of Rs. 464 Cr have been taken. Now, why this, in the Micro Loans and Two-Wheeler portfolio which was written-off or rolled forward we have taken a 100% provision. Simple logic that while doing the OTR these were already DPD accounts 30 or 60 DPD. Now that they have again become 90 DPD, in effect they are between 150 to 180 days. And we believe it is appropriate that after OTR also if the customer has not repaid, it is good to do 100% provisioning.

A very small part of HL portfolio also rolled forward which is provided not 100% but accordingly, because it is a very well secured portfolio, LTVs of around 75% to 80%. But still, you will see Rs. 464 Cr against Rs. 473 Cr, a large part has been provided. Important part is out of these Rs. 464 Cr, there were some questions coming from analysts, so, I am going into depth. Out of this Rs. 464 Cr, Rs. 213 Cr have been used from the management overlays. So, just for reminder, we had about Rs. 1700 Cr of management overlays at the beginning of the quarter, out of which Rs. 213 Cr have been used and Rs. 251 Cr have actually been used from the P&L making up the total credit cost of Rs. 795 Cr.

So, in a way if you see that out of this Rs. 795 Cr, if we would have used this Rs. 251 Cr, which has hit the P&L, we could have used the management overlays for that itself, the credit costs would have been around Rs. 540 Cr, which we believe can be taken as a sort of steady state credit cost because I said that most of the OTR especially Micro Loans and Two-Wheelers which are more vulnerable OTRs they will be over by Q2FY23. Now within Q2FY23, how much we will take out of management overlays? How much we will hit P&L? etc. our models and Board will decide it, what to take, but largely from Q3FY23 onwards, credit cost will be more on the steady state basis and hopefully continuously reducing as a percentage of the book. So, we will come largely out of, we are ideally already out of the woods, but even this OTR stuff will be over by Q2FY23 and after that we will move to more normalized credit cost.

What gives us the confidence is that against this Rs. 2,000 Cr we continue to carry additional provision of Rs. 1,450 Cr in addition to the GS3 and ECL provisions on standard asset. So, this in our opinion more than takes care of any further OTR loans rolling forward in Q2FY23, because out of this Rs. 2,000 Cr now, almost Rs. 1,000 crores, Rs. 900 to Rs. 1000 crores are HL. So, large part being HL, we believe that we are not only well provided, we should be able to at the end of the year also maybe still carry some overlay provisions, which we always believe that it is important to carry some as we go ahead. As we become more and more Retail it is important to carry some provisions as we go ahead.

So, I hope this clarifies. In our opinion the OTR book has moved well. We have collected good amounts. Whatever has flown forward, doesn't remain hanging, it is provided or written-off. We are just getting this over with and by Q3FY23 we expect return to complete normalcy as far as credit cost is concerned. So, that's very clearly the outlook I would like to give. And at the end of all this, even after this, the total credit cost was 12% less than last year. And with that the profit after tax for the quarter is Rs. 262 crores which is up 47% from last year.

Let me now deep dive into these headline numbers. Let me first talk about what I am most happy about that is Retail disbursements. As I mentioned earlier, we had the highest ever Retail disbursements for the quarter which were up 10% QoQ. Strong business momentum has been backed by tremendous amount of digitalization and leveraging the power of data in addition to our inherent strengths in our top 3 products. Resultantly, the Retail book, grew by 19% YoY and 6% QoQ. And more importantly the Retail mix is now up to almost 54% from 45% last year and 51% last quarter. We very strongly believe and are confident that by FY23 end it will cross a minimum of 60% just organically. Like last time we said that if we are able to sell off a part of our Real-Estate book or something like that, it can increase more precipitously, but just organically the way Real-Estate book we are collecting and the Retail we are growing this will touch a minimum of 60% by FY23 itself. In fact, you know that our Lakshya target in FY26 is a minimum of 80%. So, all is going well, we are not only dependent here on the environment to carry us but we are using new products, we are using data analytics to drive this engine.

Let me talk about the environment for a minute. As two of our large businesses, which is Rural Business Finance, which was erstwhile Micro Loans, and Farmer Finance, these are rural based. Let me provide you some color on the progression of monsoons and its impact on rural incomes. There is a lot of commentary already there, let me give our house view.

1) The southwest monsoon’s revival in July, after a relatively dry June has led to the areas sown under kharif crops exceeding last year’s level already, for the first time now, in the current planting season. Till about a few days back it was negative from last year, it has now moved to positive from last year. On a cumulative basis, the country has now received 353.7 mm rainfall, which is 13% above normal. And it is compared to 5% above normal just a week back. So, it's really catching up. Week ending July 13th was actually the rainiest

week of the season. Now nearly 53% of the country has received normal rainfall. Amongst major agrarian states only Uttar Pradesh is a little worrying which has reported large rainfall deficiency in nearly 29% of the total districts. So, that's a little worrying, but overall, everywhere else rainfall has caught up very nicely.

2) Even more important than rainfall is the reservoir levels. Reservoir levels throughout the country have improved significantly over the previous week and now are up 23% YoY basis. This bodes extremely well for the coming crop season.
3) The third important factor after rainfall and reservoir levels is the acreage. The kharif crop acreage has already surpassed last year's level with paddy being the only concern due to less rainfall in UP, very clear correspondence there. The Mandi arrivals and prices of major Rabi crops have stayed extremely robust. Many states like Maharashtra, AP, Haryana, Telangana are taking further measures and we believe that cash flows in hands of the farmers are going to be extremely good. And we are quite hopeful of a good season in rural India this year.

According to a study by ICAR, and I am just quoting an external agency, farmer incomes across states have now increased between 125% to 270%, in FY21, compared to FY17. It’s a little aged data, but it's directionally good. All this bodes very well for the cash flows and repayment ability of our borrowers, especially in rural India. And this really shows the revival of the rural economy after COVID.

So, now, let me talk business by business:

- **Rural Business Finance**, which was previously known as Micro Loans and I will just explain that. Our strengths in this segment are slowly coming to fore. Subsequent to the master directions issued by the regulator for Micro Loans, microfinance loans, we very swiftly modified and launched our sourcing digital App. In fact, on 1st of April, we were in the market with the digital app. The need for this App, of course, internal needs of changing of processes, making everything paperless was there. But one most important thing was calculation of household income. Now any of you who would be interested in having site visits, etc., you can call / contact our IR. But I would really invite you to come and see the way this app operates. The calculation of income doesn't happen by asking the people what is your income, but it happens by surrogates. You ask how many cows you have etc. and income is captured. Collection is captured there. The geo-tagging of customers, their route maps are on that app. So it's a really state-of-the-art app. Still developing but already a fantastic app, we would love to demonstrate to any one of you.

  The important part is, based on this information gathered in this quarter, it is actually seen and we always sort of knew this, but we didn't have proper data that only about 17% of the new business sourced during the quarter qualifies as microfinance (meaning family income less than three lakhs), which means that remaining 83% is money given to comparatively higher income groups (that is household income more than three lakhs), where lending can happen using very advanced credit metrics, which opens up tremendous opportunities for growth at a very good credit profile and credit costs.

  Putting all this now against a run-rate of say about Rs. 1,000 Cr in the second half of last year we are now stabilizing a run-rate of about Rs. 1,200 Cr per month disbursements. This has been undertaken by geo expansion, while continuing to maintain the same stringent credit conditions for the business which bodes well for sustained profitability, asset quality and book growth.

  We are now looking for new product launches because as 83% of the disbursements are in a better income profile, new product launches both in secured and unsecured category will happen in this segment. The pilot for the same will be initiated by Q3FY23 maximum.

  The book of Rural Business Finance stood at about Rs. 14,400 Cr, up 27% YoY.

- Let me talk about **Farmer Finance**, which is admittedly still predominantly tractor finance, either new or what we call Kisan Suvidha, which is cross-selling to our existing customers. We have maintained our market share here in this segment and continue to be market leaders, albeit the #2 and #3 have seriously reduced the gap, no doubt, but we continue to be market leaders as of end of June. And in any case, I always say market leadership doesn't depend on whether you are #1 or #2, it depends on whether you make market practices. And we genuinely believe that we make market practices.

When I last spoke to you, I had mentioned that we are seeing early signs of recovery in the rural segment. This quarter we have financed our highest ever number of tractors which was close to 33,000 units while continuing to dominate the farm equipment finance business through focus on higher counter shares with preferred dealers. We are now also preparing to pilot launch our warehouse finance business this year, which is in alignment with our Lakshya 2026 goals to move towards a more Consumer focused approach. So, having an excellent farmer database, funding his warehouse finance requirements now will be the next product after new tractor finance and Kisan Suvidha.

- Let me now talk about **Urban finance** and maybe first time we are talking specifically about Urban finance. There are three products: Two-Wheelers, which is an existing product; Consumer loans, which is mainly a loyalty product as of now, though we have now started doing outside business quite well; and Home Loans / LAP. This total business saw growth of about 138% YoY in disbursements and 15% jump quarter-on-quarter.
  1) Talking about **Two-Wheelers,** it saw an 84% jump in YoY in disbursements but that's okay because last quarter, last year, same quarter was COVID quarter. But this is the highest ever Q1 disbursements that is important with over 1.9 lakh units funded during this quarter, where the emphasis has been on deepening our geo presence. We continue to work on focused OEMs and dealer strategy to maintain our market share.
  2) **Consumer loans** is our first digital native product, which is an entirely digital proposition, no touch sourcing, instant decisioning, end-to-end no touch, no documentation nothing and very close to my heart. We started this business on cross-sell to our existing Two-Wheeler customers. Now from Rs. 400 Cr of disbursement in the whole of FY21, just less than two years back, we have registered Rs. 1,000 Cr disbursement in Q1FY23 itself.
     While maintaining and how safe the book is, we have started giving our early bucket, zero bucket collection efficiencies already and on-time collection efficiencies and you can see where these numbers are. This is absolutely boring well for the momentum of this business. We are now also growing this business by offering products through various partnerships, top-ups, cross-sell of products to these set of customers will further enhance the offering to our customers.
  3) **Retail housing**, this is interesting, this is another business which has the full potential of becoming a game changer for us. And I have always said that we have not done great in this business till about nine months back. I am truly excited to see this happening slowly now. During the last couple of quarters, focus was quite clearly on rehashing our approach towards this business and getting our market offerings right. I believe we are progressing steadily on this path with disbursement touching Rs. 936 Cr in Q1 as against Rs. 306 Cr last year, same quarter. The business trajectory is having a steady upswing for the last four quarters.
     During the waves of pandemic, we had concentrated here mainly on salaried. We have now started picking up disbursement on the SENP (Self-Employed Non-Professional) segment, LAP offering, which will now make this product relatively profitable also. And last time, I had explained also that it is not just for profitability that we do this business, our major growth is also happening through unsecured products like Rural Business Finance, Consumer loans. It is important to grow the secured book for various other purposes for regulatory purposes, for credit rating agencies. If you put this whole basket together, the profit growth is going to be quite good. And that is why we have confidently said that RoAs will reach 3% by the end of the plan period.

Before we move further, I would just like to share a small update on our SME business where we have completed our pilot and we will be going for an open market expansion in the next couple of quarters. Pilot was undertaken in just two cities Mumbai and Pune with the aim of delivering a value-added digital proposition. Over the course of the last nine months, we have built a small book, but a strong offering and now we are ready to hit the market running. So, you will see this now, if not so much in Q2FY23 but definitely in Q3FY23, we will start showing the numbers.

On the collection side, our continued focus on analytics and data driven resource allocation techniques over the years ensured that the collection rhythm remained robust across businesses during the quarter. Our collection efficiencies continued to do better than industry peers. And this has been made possible owing to concerted on-field efforts, analytics led prioritization and resource allocation.

Portfolio focus continues towards boosting zero DPD collection and managing early bucket delinquencies. We have actually started reporting now the zero bucket collection efficiencies and we have reported it for the past almost 15 months, product-by-product. This was also your feedback and we have started reporting. And I believe that NPA control is very important no doubt, but much more important is the zero bucket collections. It happens at the minimum cost, mostly hopefully at zero cost and that avoids the headaches for the collection team as it goes ahead.

So, I will not repeat the collection efficiencies in all the products, it is very clearly given in the presentation. But I can only say that all of them - on due date collections are back to pre-COVID levels and in some products actually better than pre-COVID levels. So, we are doing well there, which bodes well and which also gives us the confidence to give you confident statements like Q3FY23 onwards credit cost will be normalized and reducing etc.

- On **Wholesale finance,** in line with Lakshya 2026, let me just remind you, we had said two things:
  1) In the Real-Estate portfolio we have stopped disbursing anything new. We are concentrating on completing projects and repayments and if possible, we will look at some structures where we will be able to sell off a large part of the portfolio. We have not been able to do at least this quarter but early days, but we have been able to get good repayments from projects, closed some projects and get good repayments. So, that part has worked. The inorganic part has not worked, let me say so.
  2) On the Infra side, we also said that we are running our normal capital light model. But we may also look for some partners in this platform. This platform is very valuable. That process is also on. One quarter is too early for anything to happen there. But we will report to you as we go ahead.

  In the meanwhile, Wholesale book disbursements was muted at Rs. 1,522 Cr as we are maintaining capital light model. And the Wholesale book registered a reduction of close to Rs. 6,000 Cr, a degrowth of 13% YoY. In the Real-Estate especially, we continue to stay away from looking at any new projects and continue to concentrate on existing projects and collections with the objective of exposure reduction. We are quite happy that the expert execution of the strategy resulted in a reduction of the RE book by Rs. 2,563 Cr YoY and by Rs. 1,400 Cr QoQ. Now, we have also given at some point of time numbers like Rs. 4,000 Cr that we have collected. So, now, why book has not reduced by that much and only by Rs. 2,500 Cr. Naturally, Rs. 1,400 Cr here and there had to be spent in completing those projects. So, it's a little bit of disbursement for completing those projects and then collection and then this is the net reduction. But it is going well now, i.e., this book is already less than Rs. 10,000 Cr, it’s Rs. 9,800 Cr or something like that.

- On **Investment Management,** last but not the least, market was negative, both debt market and equity market, but still our Q1FY23 AUM has averaged a little bit above Rs. 70,000 Cr now. The transaction is going on well. The integration efforts are going on well. We are waiting for the last regulatory approvals and hoping to conclude that transaction in Q3FY23.

So, that completes comments on business. Liabilities, as I said WAC (Weighted Average Cost) all time low, very clearly based on our ability to raise long term and medium-term funds last year. And the point to highlight is even in Q1FY23, we raised long term funds of close to Rs. 1,100 Cr while keeping the average CP proportion at just around 11%. Now, this holds us in good stead going ahead, as growth happens, we can actually fund it. And growth is majorly happening in Retail which will be shorter term. We can raise shorter term resources, we can increase CP proportions and we are quite sure that our cost of funds hence, will definitely rise no doubt, but rise much lower than the market cost of funds.

NIMs plus fees also will be maintained because of our ability to pass on the increase. This NIMs plus fees may reduce, I think, by the end of Q4FY23. I may guide maybe a maximum up to 8% will be the reduction. We don't see NIMs plus fees falling much lower than 8% by the end of the year, which is 8.23% now.

One more fact is that our ex “IDF”, got the NBFC-ICC license. We were able to transfer some of the assets from L&T Finance to that entity, thus reducing the negative carry. So, you would see now reduction of the liquid cash that we are carrying and hence a good reduction in negative carry which will also reduce the cost of funds as we go ahead.

Asset quality:

GS3 stood at 4.08% and NS3 at 1.87% which is an improvement YoY, fairly steady QoQ. I have already given explanation that these are on EAD basis. So, please don’t try to compare it with the number in the last investor presentation. We have given past numbers. Anybody who wants any other past numbers for any other quarters etc., IR will try and give it to you. Just any clarifications if you need, you can ask on this call or to IR, this is quite clear and from now on, it will be on the EAD basis. Capital adequacy, quite adequate at 23.12%. In fact, quite high, as we grow, we believe that it should trend downwards and hence will be good for RoEs as we go ahead.

So, in summary, PAT, up to Rs. 262 Cr, up 47% YoY on the back of increase in income and reduction in credit cost and we believe that this trend will continue well and will accelerate from Q3FY23 onwards. Hopefully, by FY24 we will be at profitability levels which we have been more used to before the nightmare of COVID and everything started. So, that's where we are moving.

Having spoken about this quarter now, I know I have spoken perhaps a bit too much. I thought 1st quarter of Lakshya, maybe I was also a little bit more excited. But let me give you a brief about the progress of Lakshya 2026 plan. Early days, just first quarter, but still, I would like to talk a little bit more.

If you remember, there were four pillars of the plan:

1) Sustained profit and growth engine:

Now, as a part of creating a sustained profit and growth engine, we have unveiled a new organization structure which is totally customer centric. So, in Retail we have two businesses, which are Rural and two businesses, which are Urban. Rural Business, which is now the Rural Business Finance vertical takes care of small businesses within rural which were erstwhile Micro Loans. This will not be limited to the current product suite, but as I said, we will keep adding new secured and unsecured products to the basket like Rural individual loan. Farmer Finance vertical will now offer not only farm equipment loans, but also warehouse finance and other agri-allied loans.

Coming to Urban, for urban consumers, our present offerings are Two-Wheelers, CL, HL / LAP. In Two-Wheeler, of course, we are in the top 5 but CL and HL / LAP are getting well established, additional volumes are being targeted and geo expansion also being targeted, cross-sell is being targeted. So, this is how we will grow our urban finance.

And then there is urban small businesses, which is SME, where we are babies. Lots of disadvantage of being babies, but a big advantage:

i) The market is large, huge, there is business to be done.
ii) We have learnt from people's mistakes, launching state-of-art digital products to start with. And hopefully, we will make a mark on the market in the couple of years going ahead.

So, these are the four verticals. Out of these four retail lending verticals, three are headed by Chief Executives who are our internal talents. So, three of them, we were able to find people from inside (internal talents). And for urban finance, we have hired a top talent from one of the leading private sector banks in mortgages. So, very clearly the business organization in Retail is now well in place, one level below them, the regional structure, zonal structure is well in place. Four strong Chief Executives, looking after each of these businesses, running almost like separate companies with common functions like HR, finance, audit, risk, etc. So, that's the way the organization has been realigned. In addition to the realignment of the organization, we continue to work on building major strengths across businesses including deepening of geo network and data mining for cross-sell.

2) Demonstrable strengths in risk Management

On the risk side, we continue to build strengths in risk management and our sustained collection performance across products, which is well above industry performance is a testament to this strong portfolio. And we are actually looking at how New Age risk management practices can be more and more adopted.

On the digital side, as we build digital channel for expansion, we are also focusing to upgrade our information security management systems. Our systems are now ISO 27000 compliant and we will continue to build strengths against possible cyber threats.

3) Creating the Fintech @ Scale

Third pillar of Fintech @ Scale, which involves two distinct vectors: i) Expansion of digital channels and ii) Leveraging of customer data for cross-sell.

During the last quarter, 50% of our disbursements in Rural Business Finance, and 25% of disbursement in Farmer Finance were based on cross-sell. The company is actively working towards monetization of its 7 crores plus customer database, including existing, co-borrowers and past borrowers etc. enhance this cross-sell reach.

In terms of digital channel expansion, I will now talk about two initiatives, which I have talked a little bit about three months back, but I will give you the progress.

1) Our Planet app, our customer facing app was soft launched in Q4FY22 and within one quarter has shown 2 Lakh downloads. The application which currently provides onboarding and servicing option for customers is available both on App Store and Play Store. This App, which will provide us with geo agnostic servicing and sourcing channel, is trending quite well.
2) WhatsApp for business that’s the second one. I had unveiled and showed you the WhatsApp bot, which was for servicing. We have now expanded that and the WhatsApp channel is now open to Consumer loans customers for booking loans. People can apply for loans anywhere between Rs. 50,000 to Rs. 5 Lakhs there and we are maintaining a complete end-to-end turnaround time of 15 minutes for that (credit to your account within 15 minutes). So, these two developments.

I would like to talk a little bit on the servicing side. Just one year back, our servicing pyramid was branch heavy with 51% requests coming in branches and which is a disaster. I mean obviously with 1600 microfinance touchpoints more than 200 branches; it is impossible to train and retain service executives to give uniform service. We have now inverted this pyramid and have already become a very digital channel or self-help channel heavy (almost 58% of requests were serviced through the digital channels by June’22 and only 21% now are coming from branches; and we will try and reduce it further). So, both on sales side and servicing side, digital initiatives are working well.

4) Sustainable future growth through ESG

ESG initiatives which is the fourth pillar, within that we have published our first integrated report for FY22, which is in compliance with reporting for all essential indicators under BRSR. It is audited by an external agency and we have published it one year in advance of its applicability.

Our water neutrality status has been assured by independent assurance provider and we have adopted 22 sustainability targets for FY23. We have achieved water neutrality in FY22 and will aim to be water positive in FY23. More importantly, a small sustainability linked loan also has been raised, very small, no doubt, just Rs. 200 Cr where the interest rate is low and will keep reducing as we achieve more ESG targets. And as in FY23, we have taken a target for a higher amount of raising this. So, ESG is great for the planet, great for environment, but we believe it will also be good for business and hence very sustainable in the organization.

So, that's about it. I will just say that the initiatives we have taken in the quarter are just a few early deliveries of the plethora of projects going on, to become a strong Retail finance company. I am sure as quarters go by, we will be able to show you enhanced performance and unveil further projects and consumer offerings that we have in pipeline.

So, as far as financial performance goes, Q1FY23 has been extremely good for disbursement, collection, credit cost and profitability. But we humbly acknowledge that this is just one quarter out of 16 quarters included in the Lakshya 2026 Plan, so “one swallow doesn't make a spring”. But we definitely believe that it signifies a good beginning towards our Lakshya goals of 80% Retail book; 25% CAGR of Retail book; NS3 of less than 1% and RoA between 2.8% to 3%.

Thanks a lot. I realize that I have spoken quite a lot, 45 minutes. I apologize for that. But hopefully I have already answered some of your questions. We are open to 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 Rikin Shah from Credit Suisse. Please go ahead.

Rikin Shah:

I have four questions. Firstly, led by the disbursements, we noticed that NIMs plus fees is at 8.23%. But if we look at the yields in the Retail portfolio, they have come off by 50 basis points and as you scale up your Home Loan / LAP business, how should one think about them directionally. Of course, the fee income has also gone up. So, could you talk a bit more about any incremental fee that you are seeing from the cross-sell opportunities, that's the first one. Second one is on the acquired portfolio. Could you throw some light on the nature of acquisition of the portfolio? What kind of loans have been acquired? And the plans about how big this can get? Thirdly, on the restructured book of the remaining Rs. 2,000 Cr, Rs. 1,000 Cr you did mention are pertaining to Retail home loans. What would be the split between the remaining Rs. 1,000 Cr? And what would be the overall provision coverage on the Rs. 2,000 Cr restructured book? And the last question is relating to the news reports of selling of certain loan accounts of Rs. 1,500 Cr to an ARC. What would be the recoveries and any potential write downs or write backs if at all that would happen? These are the four questions.

Dinanath Dubhashi:

So, retail yields number one, I will answer you strategically as well as tactically. Tactically, some of the reduction that you see is when the OTR book flows to GS3 or is written-off, the income is taken out (derecognized from zero DPD onwards). So, in the quarter that it happens, it goes not from the credit cost line, it goes from the income line. So, as I said, in Q1 and Q2, this all will be over. And after that, things will come back to normal. So, this small reduction, don't read too much into it. In fact, you know, I already said that NIMs may contract a little bit, that is not so much because of HL / LAP, because HL / LAP will grow. But the other products are also growing right. NIMs will mainly contract, because our major product is the Rural Business Finance, in which we charge 24%. Now, even if the cost of funds goes up a little bit, if it goes up by say 50 basis points or 60 basis points, we are not going to increase that 24% to 24.5%. So, very clearly, we believe that 24% is a good, fair rate for those customers, and we will clearly keep it there. So, this was tactical part. Strategic, in our product mix, we will make sure that our NIMs plus fees is maintained at a decent level. I said this year we don't expect it to come down below 8%. And that too, you know, I am also taking into account mutual fund going out in the last quarter. So, some fees will go out from there, even then we are confident around 8%. I mean if it becomes 7.9% don’t hang me, but that’s the indication, it's around that, it will grow.

Also, sometimes tactically, when competition toughens up you do tactically take some reductions – 10 basis points, 25 basis points to maintain your position in some markets. So, it’s a mix of all these things. If I were you, I wouldn’t read, there is no directional reading in that. We will be able to maintain overall Retail yields quite healthy, so that you can take from me.

The second question OTR, okay, OTR what remains as I told you close to Rs. 1,000 Cr is HL / LAP, around 75% of the rest is Micro Loans. And this whole thing what is remaining in Micro Loans will be over in Q2FY23. So, either we will collect a lot or whatever doesn’t get collected will flow and we will either provide it 100% or write it off. As you know, against these Rs. 2,000 Cr, one Rs. 240 Cr is the IL&FS account which is about Rs. 240 Cr which is green even after OTR. So, OTR done but green and that money will come back so that’s not an issue.

So, out of this Rs. 2,000 Cr almost Rs. 1,800 Cr is Retail, Rs. 1,750 Cr is Retail. Out of the Rs. 1,750 Cr, Rs. 1,000 Cr is HL / LAP, Rs. 600 Cr to Rs. 700 Cr is Micro Loans. HL will remain till next year large part of it, but that is secured. So, we expect a large part of that money to be recovered. If it flows, we will start providing the way our model tells. I think first we provide close to 15% and then keep increasing based on various movements in the portfolio. Micro Loans, now whatever becomes 91 DPD, we will provide 100%. So, that's very clear. We carry adequate provisions in that.

So, you talked about OTR provision so, now, I will be technically right. OTR provision will always be only 10%, because RBI asks 10% to be provided, but what we have done is, I have other provisions as management overlays. And as you know Rs. 1,400 Cr (management overlays) are being carried today against almost Rs. 1,750 Cr of Retail (OTR book) out of which close to Rs. 1,000 Cr is HL / LAP (OTR book). So, it is not going to require.

So, if you see, let's say worst case scenario, say a 60%, 70%, 80% of Micro Loans roll forward. We are more than adequately covered. So, we are very sanguine on that. And most importantly, this will be over by Q2FY23. So, after Q3FY23, other than Home Loans no OTR would be remaining, that was the second question.

Small acquired portfolio, we had mentioned last time that we are targeting say around Rs. 1,000 Cr or so in this year, of acquiring portfolios from other good NBFCs or sometimes some Fintechs. We of course go and examine this portfolio, but there is enough overcollateralization that we buy it. Very small transactions have happened till now and there is significant amount of credit enhancement on both these transactions. It is largely done not as a big strategy, but you know that we are also required to use our capital in Retail. So, just as an experiment in the first year, close to Rs. 1,000 Cr, we will do excellent NBFCs, good credit enhancements. And we will see then how it works and how it moves. And it's entirely Retail, of course. It's entirely Retail I will tell you part is Two-Wheelers; part is Personal loans.

ARC is, you know, there are assets which are NPA (Wholesale assets) and in reducing Wholesale portfolio sometimes we do that. This time out of that number you mentioned, some Rs. 1,000 Cr or so, a large part is a completed commercial park. Let me not tell you the city then otherwise I will be just almost accurate in saying this, it is a completed commercial park. There are some difficulties in selling it on a timely basis and getting the money back immediately. But it is completed and a few more moments, it will be done. Well provided, we always provide first, sell it at the carrying cost after the provision. And hence any immediate reduction in value is unlikely. We have sold some in the past also, as these are examined by external credit rating agency, external valuers, it is valued, we keep taking those costs, and it is a part of our credit cost that you see.

Moderator:

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

Rahul:

Just two questions, number one on the provisioning, of course, we did appreciate that you have taken some extra provisioning this quarter. But given that you already are having a large macroprudential provisions, and of course, the credit environment seems to have gotten better with collection efficiency improving across the board, why are we sort of still onboarding or maybe making an additional provision, what exactly is the philosophy? And I did hear your remark to the previous question about the OTR almost getting provided for maybe in the next quarter or so. But just a bit perplexed why do we sort of keep making these extra provisions, when do we normalize --?

Dinanath Dubhashi:

So, technically, we have not made any more provisions. In fact, Rs. 1,700 Cr has reduced to around Rs. 1,400 Cr, right. So, we have actually utilized. I believe what you meant was why this entire Rs. 473 Cr was not taken out of those management overlays, and why P&L was hit at all, right, that is your question? It's a matter of two things: 1) the Board and 2) the Management. One needs to be confident, when we release this. That is meant for the rainy day. We will keep reducing this management overlays as we go ahead, no doubt.

Also, remember always that it is, the way we started making these macroprudential provision, we all tend to forget this, we started making these macroprudential provisions well before COVID hit, as a good practice in business, because as Retail increases, as sort of unsecured loans in the balance sheet increases, it is good to carry a buffer so that we don't hit P&L with shocks anytime. It is, basically can be called countercyclical provisions as well.

Now, it's a call that the Board will take that out of the Rs. 1,700 Cr, whether we can use the whole thing, and the P&L will look fantastic this year itself, naturally, right? I mean, very simple, you do a simple calculation that we have reported Rs. 262 Cr. If you take out, if this Rs. 251 Cr, right, Rs. 251 Cr, would have been taken out of these reserves and not hit the P&L, profit would have gone up by 75% of that Rs. 251 Cr. So, it would have been close to Rs. 450 Cr or Rs. 425 Cr or something like that, technically, right. So, it would have been a fantastic number.

But perhaps that would have led to and I don't know, I am not clairvoyant, but that would have led to complete depletion of these reserves, by the time this year is over, once all the OTR is over and everything. I believe and we all believe; the Board believes that having built this Rs. 1,700 Cr, we should not utilize all of them, and keep some part of it as countercyclical. And once you know, when the P&L actually returns to very healthy levels, not now, say in two or three years, actually start keeping something aside as countercyclical provisions even after that.

So, it's a measure of conservatism and nothing else. So, we have not created anything new, there is no intent of creating anything new. Clearly intent is of course using what we have created. The question is, it is a matter of opinion, whether we should use the entire Rs. 1,700 Cr or use a part of that. At this point of time, we believe that in this year, we will use a part of that because HL even though we don't see anything, any big problem because of the security levels, but in HL, OTR will come next year. But even more importantly there we don't expect much losses, more importantly the book has Micro Loans, the book has Consumer loans, it is good to carry countercyclical reserves always, that's our opinion and a substantial part of this remaining Rs. 1,400 Cr, we will carry forward next year also. The important part to remember is all this will get over in Q2, and Q3 onwards the credit cost that you see are clearly normalized credit cost.

Rahul:

Just one more follow-on with regards to this and plus the capital gains that you will get from the AMC sale to HSBC. What do we intend to do with that gains and have you thought about it? Will that be used for again some provisioning or will it be passed on to the shareholders, how do you plan to use that?

Dinanath Dubhashi:

Above my paygrade, buddy, to answer this, because call will be taken at the Board level. But it will be a mix of all those things, we would believe that we will look at, subject to regulations etc., we will look at passing on some of those gains to shareholders, certainly. Some of them we may keep as reserves for the future, because we are looking at reducing strongly our Real-Estate book. So, maybe for that effort, we will keep some.

So, it will, in some type of macroprudential, not for specific projects, we may keep some. So, really the call will be taken in Q3. I must also say on the positive side, there are some opportunities opening up for acquisitions. With valuations coming to decent level there are opportunities opening up, good portfolios, good companies for acquisition. You know, we have been very conservative, we will not do anything silly, but if a good opportunity comes the capital will also be used for that (acquisitions, if any).

Rahul:

Just one last question, in terms of the normalized levels of loan book, of course, you are paring down the Real-Estate portfolio etc. and so Wholesale is becoming or has always been capital light kind of model, you have followed. When do we start seeing the normalized levels of loan book in the next few quarters? And by when do you intend --?

Dinanath Dubhashi:

Growth in overall books, I think FY24 onwards, you will start seeing a growth in overall book. But, this year, my suggestion is to concentrate on the growth in Retail book, because it is, while the overall book is not growing, the composition is changing tremendously and which will lead to increased profitability, definitely. But whatever we are doing with the Real-Estate book etc., large amount of reduction will happen this year. And growth in overall, I mean, we are expecting Real-Estate book to even come down by 50% from here, during this year, so growth in overall book perhaps from FY24. And now you are seeing that even the old defocused book is down to just about Rs. 400 Cr or less than Rs. 500 Cr. So, all those things are over, and the Retail growth will take over. It's just arithmetic, it's a matter of time.

Rahul:

So, this year RoAs will improve and next year, the growth etc. will improve. So, leverage --

Dinanath Dubhashi:

We definitely believe, yes. And RoAs will keep improving.

Moderator:

Thank you. The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal:

Firstly, on the Rural Business Finance, I think during your opening remarks as well as in the press release, you have shared just about 17% of the disbursements in the quarter qualified for microfinance as per new RBI guidelines. Just wanted to understand, I mean, what was the mix like before these guidelines, basically were we largely present in the customer segments where the household income was greater than three lakhs, I mean what was the mix like before that?

Why I am trying to kind of understand this is, I mean despite having exposure to customers where the household income is greater than three lakhs and like you suggested, better credit quality customers. Despite that, I mean, we have seen significantly high OTRs and credit costs, in the Rural Business Finance.

Dinanath Dubhashi:

OTR happened before the latest Microfinance guidelines came, right. So, we were not measuring household income before that, hence I won't be able to answer your question. That time even individual income was not being measured by anybody. That requirement was not there. It was a declaration taken that individual income is less than or more than Rs. 1.5 lakhs.

Our customers, we believed their individual income was always more than Rs. 1.5 lakhs and that's why you remember we changed the positioning from micro finance to Micro Loans, because we were not sure that our customers' individual income is less than Rs. 1.5 lakhs. So, we didn't want to take any regulatory risk by calling it micro finance and we will not able to prove that these are qualifying assets to RBI. So, we were just safe there.

The family income of three lakhs has started measuring only from 1st April onwards. So, it may not be right to compare how much OTR etc. And after all, again, when the government was allowing OTR as a right to every citizen of the country either way it was not that much of a choice. If somebody asked for OTR largely, unless and until that person is proven to be a defaulter everywhere you had to give OTR.

So, with people asking like that, what total microfinance, OTR we had done was Rs. 900 Cr or so. On a portfolio of close to Rs. 12,000 Cr to Rs. 13,000 Cr even that was not out of line at all with the industry, in fact, much better than the industry.

So, two different, your question had two parts, I have tried to answer it this way. But don't link this three lakhs and more than three lakhs to OTR, because they were not happening at the same time. OTR happened last year, measurement of family income has started from 1st April. That is why, even if you see in our Investor presentation, this differentiation between micro finance and rural business loan we have given only in disbursement, not in book, because we don't have the book data with us.

Abhijit Tibrewal:

Second question I have is, I mean, I think during your opening remarks and a couple of participants in the call, I know you suggested that you expect credit costs to normalize from Q3 onwards. And somewhere I think I mean, I heard that we expect steady state credit costs, what we saw during this quarter, which is about Rs. 500 Cr to Rs. 550 Cr on a quarterly basis. So, --.

Dinanath Dubhashi:

What I said was a little different, I said this OTR will be over by Q2FY23 and hence normalized credit cost will be there from Q3FY23, right. Rs. 550 Cr this year, I just clarified that out of Rs. 795 Cr, Rs. 251 Cr is OTR related and thus normalized credit cost for this quarter is Rs. 550 Cr. That doesn't mean Q3FY23 onwards it will be Rs. 550 Cr, we actually hope that it will be lower, but still, you can model it based on your assumptions, I cannot provide forward projections for Q3FY23 credit cost.

Abhijit Tibrewal:

And lastly, I mean this Retail business that you are building and even under Lakshya, that we kind of plan to take it to 80% by FY26, what is the steady state credit cost that you are expecting from this business?

Dinanath Dubhashi:

Yeah, it will be product wise depending on product mix. You want to work on your models, any help you need you contact IR. I think that it is suffice to say that we are looking at RoAs of 3% in four years, very steadily increasing. So, as Rahul summarized it very beautifully, RoAs will go up this year. Next year onwards growth will also come and RoA will also grow, thus increasing RoEs. So, RoA should reach about 3% by FY26. Steady state credit cost etc. will differ product wise. You will have your own judgment of how each product will grow, but any thoughts you want to reflect, you can talk to our IR. You are welcome.

Abhijit Tibrewal:

And lastly data keeping question what is the Gross Stage 3 and Net Stage 3 in your Real-Estate Wholesale book and in the Infrastructure finance business?

Dinanath Dubhashi:

We have given Wholesale separately right? Overall Retail and overall Wholesale we have given. But, okay to tell you there is no major difference. Real-Estate, one big NPA which we have already told. So, that Rs. 1,300 Cr you remove and you actually see that hardly any NPAs after that. Last year we already said one big NPA in Real-Estate.

Abhijit Tibrewal:

And this media article, which was there about the sale to Phoenix ARC, is it already kind of reflecting in the numbers that you have reported or will it reflect in the next quarter?

Dinanath Dubhashi:

I don’t know about the media article, but I clarified in the question previously, that it is yes, it is reflecting in the numbers. The media article may have some numbers, which I don't remember, but the actual number is Rs. 1,000 Cr something, Rs. 1,052 Cr to be precise.

Moderator:

Thank you. Next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah:

Firstly, in terms of if you can just broadly explain this Rs. 750 Cr of Micro Loans, which are there in restructured, if you can give some flavor in terms of how much are paying, how much are part paying? And how is the behavior currently just to gauge in terms of how much could really slip and what can get into 91 plus DPD? So, maybe that would be helpful in terms of the trend because this time there was something which has flown in, so maybe that would be helpful if we can just give the behavior of that particular portfolio.

Dinanath Dubhashi:

In fact, what I will rather do is that, it has reduced by ~Rs. 300 Cr, from March to June, the OTR. I will give you a breakup of that. Will that give the trend? In March--

Kunal Shah:

Rs. 300 Cr?

Dinanath Dubhashi:

March to June, Micro Loans, OTR has reduced by ~Rs. 300 Cr. Out of which around, I would say 75% was movement to GS3 and 25% was resolved and closed. 75% moved to GS3 out of the Rs. 300 Cr, that we provided for. So, even if the same trend -- we believe that the trend should be better because more collections are happening, but even if the same trend continues that is what I said in my remarks, we are well and properly covered for that through our macro prudential.

Kunal Shah:

Rs. 75 Cr or something which was recovered from March to June, and maybe Rs. 225 Cr or whatever actually slipped into GS3 from Micro Loans.

Dinanath Dubhashi:

But let's say 70% to 75% moved and the rest was recovered --.

Kunal Shah:

So, broadly then and maybe you said whatever would be 91 DPD, we will write it off and provide it entirely so, that would be the stance in Q2FY23.

Dinanath Dubhashi:

Write-off is more a tax related decision, but to provide certainly, 100%, yeah.

Kunal Shah:

And again, in terms of the inorganic opportunity and capital allocation, if you can just highlight that in terms of what is the extent of capital allocation, which we can look towards the inorganic opportunity, something if it is there in the mind and particular areas of your maybe the product segments where we would tend to prioritize it, no doubt that there would be various opportunities across the product segments.

Dinanath Dubhashi:

I can't answer this on the call or anywhere. Opportunities keep coming, we will have a look at it and the Board will take a call, but the most important thing, there is a saying in Marathi "vo paisa aane ke pehle ginna nahi chahiye." (translating to 'don't count your money before it is actually received') So, there is money still to come, still in Q3FY23, there is a SEBI permission which is required. I can't take all these things for granted. So, hopefully, all that is clarified.

Kunal Shah:

But overall, in terms of capital allocation, would there be anything which will be towards the inorganic opportunity given that book would be running down?

Dinanath Dubhashi:

So, book running down? No, I mean very simply Retail book is growing. So, there is no question of book running down. Retail book is growing rapidly, 25% CAGR is what we are planning. I mean you can't say it as running down. So, book is growing continuously. Wholesale is reducing, especially Real-Estate will reduce.

If we are able to sell majority in the Infra platform, if that happens, then yes, then the overall Wholesale book will reduce precipitously. At least, if you own less than 50% then it won't be consolidated. At that point of time, of course, we will have to think of acquisitions more seriously, perhaps. I am using the word 'seriously' not 'aggressively' because we never look at acquisitions aggressively. But it is all still to happen, first mutual fund money has to come. Then we have to reach some level of discussion success, at least in getting a partner in the Infra business.

So, at this point of time, if I go to the Board, they will say, at least show me an opportunity, at least show me the money. Why are you having these kinds of plans? But what I am saying right now is simple small portfolio wise, is what we will do on a very trial basis. We have put up a small budget of about Rs. 1,000 Cr for this year. We may do a little less than that, little more than that, perhaps, but do that portfolio-wise, for which it is not a big opportunity for which I need to be sure of everything, go to the Board etc. So, that will happen. Any large opportunities? Rather than the question of the opportunity, more importantly it is the question of the value. So, too early to answer that question.

Capital allocation, organic capital allocation very clear, increasing to Retail, going to minimum 80%. And if we can reduce Real-Estate more precipitously and get a majority partner in the Infra platform, even more than 80%, so that will be the capital allocation.

Kunal Shah:

And lastly, in terms of fee income, so the sequential jump and the overall jump, which has been there. So, obviously, some would be volume related, wherein there was almost like 10% sequential increases as well in the disbursements, but what would be the other component, because I thought maybe overall, when we look at it in terms of the AMC it would come up a bit. But I think the traction is strong, and do we expect it to sustain over the period, maybe Rs. 200 Cr odd fee and other income in Retail finance --

Dinanath Dubhashi:

Certainly, expected to, it is very much business related. Certainly, expected to sustain. It is also cross-selling related. The protection products that we sell, it protects our portfolio also. So, that's working extremely well. And it will keep coming on, directly linked to business. In fact, we used to get the other income, we used to keep here, the interest earned on surpluses was a part of this. Now, those surpluses are coming down, but in spite of that, this portion has gone up. So, it is directly business related. As I said, if mutual fund transaction happens in Q3, then Q4 the mutual fund part will go out, that's all, but capital will come in. So, it's more arithmetic there. But trend of Retail fees, excellent.

Moderator:

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

Nischint Chawathe:

Just one clarification, this defocused book going down by almost Rs. 1,000 crores odd, this is all recoveries?

Dinanath Dubhashi:

It is a part of that Rs. 1,000 Cr ARC sale bit, but rest is recovery.

Nischint Chawathe:

On the Consumer loans side if you could give some breakup in terms of how much was cross-sell and how much was sourced from digitally or from third party --?

Dinanath Dubhashi:

In the book, most of it will be cross-selling, the book, almost 90%, I mean, I don't have the precise numbers, IR will give you, but in the book, most of it will be cross-sell, but in disbursements, now cross-sell is I believe around 60%. So, as quarterly disbursements go ahead, cross-sell percentage comes down, and other sources of sourcing through various partners which I have been talking about, will increase obviously so, first two years we did only cross-sell that is why the book is majorly cross-sell

Nischint Chawathe:

And how much of this is salaried?

Dinanath Dubhashi:

I don't have that breakup straightaway available. Can we get back to you?

Nischint Chawathe:

Sure. Perfect.

Dinanath Dubhashi:

See in loyalty you know, the loyalty was on Two-Wheelers, mostly. So, it will be the same proportion. So, almost 50% will be non-salaried in that loyalty, but tested customers. This I am just answering out of common sense, okay. I don't have a precise number with me right now. But since it was Two-Wheeler loyalty, it will be following the same pattern, right.

Nischint Chawathe:

Just on this continuing further, now that you have moved here, the NPA to EAD, does it mean that your interest reversals would be lower and your NII probably will be less volatile?

Dinanath Dubhashi:

No, no, it is only for that NPA reporting that, only for those numbers, accounting was always on EAD basis. So, in P&L, nothing changes. It was only representation of these numbers. We had taken a call not to change the numbers suddenly during the plan period, that’s all. So, if you see actually the published accounts were always on EAD basis. It is only in the Investor presentation that we used to put on the principal basis. So, nothing has changed in accounting. So, nothing will change in profit numbers, NII nothing.

Moderator:

Thank you. The next question is from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise:

Just wanted to, coming back to the Consumer finance book, strong improvement in disbursements, some sense on the quality of customer probably which is being onboarded. You said a large part of the existing book is the erstwhile Two-Wheeler customers, but incrementally any sense on what kind of Bureau scores or credit profile are you looking at? And secondly, on SME Finance also, how is the origination progressing in terms of strategy? Those are my two questions.

Dinanath Dubhashi:

So, I will just use the word little more carefully, not erstwhile Two-Wheeler customers. There maybe even existing Two-Wheeler customers, but tested Two-Wheeler customers, that they have a particular MoB, Month on Book with us, no bounces. We look at bounces more than what is called, at the end of the month DPD. So, those criteria are used, and because of that the portfolio quality is excellent.

Now, while we also started sourcing from outside over the last one year, credit matrices, analytics works on many credit matrices, and based on that we give pre-approved offers to various prospects. This portfolio is about, I would say one year old, continuously we work on that to keep improving the credit metrics. Given the way zero DPD collections are trending, on a Rs. 3,000 Cr portfolio, so it's not a small portfolio. And I am not measuring NPAs because often NPAs come later, but even zero DPD is trending which numbers are given in the investor presentation. I would be very happy about the portfolio quality. So, that's your first question.

SME, very clearly our sourcing is on two --, we are in SEP that is self-employed professionals. We are concentrating mainly on Doctors and Chartered Accountants. And then self-employed, non-professionals which are small units in which we are concentrating on people. So, I don't know the exact number, but whose income, whose top-line and bottom-line, have not gone down by more than a particular percentage during COVID. So, these two are the initial, large level filters that we have. And then of course, there is a black box, a credit black box for saying, for actually choosing the credit, very early right now just pilot but the pilot quality very good. We have sourced till now, about Rs. 130 Cr around. We have one account which is more than zero DPD one account, at this point of time. But I will not be very proud about it, I mean Rs. 130 crores is what, nothing right, so nothing more to say on that.

Sameer Bhise:

What rates are these being sourced at, lending rates?

Dinanath Dubhashi:

Around 15% to 16%, something like at this point. SEP is around 13%.

Moderator:

Thank you. The next question is from the line of Shubhranshu Mishra from UBS Group. Please go ahead

Shubhranshu Mishra:

So, the first one is on the Consumer loans that we are targeting. We are saying that we have roughly about 2.5 lakh database, what kind of ticket sizes are we targeting? And again, if it's an urban customer, my thought is that it's a hyper competitive space. So, what kind of Cat-A, Cat-B, Cat-C customer proportion are we planning to put in here, because if it's a Cat-A customer, it's a hyper competitive space and it is a super pampered customer. That's the first question around the Consumer loans.

The second is, there is a particular line that we are getting about the monetization of 7 crores plus customer database, which includes co-borrowers, prospects, etc. So, under the extent regulations can we monetize the database of co-borrower, prospects, etc? I understand we can monetize the customer database, but can we monetize the co-borrowers, prospects etc.

Dinanath Dubhashi:

The meaning of monetize, I hope you understood. Monetize doesn't mean selling the database. Monetize means use the data we have collected for making them offers --. So, there is nothing to stop you from the data you have collected with. And you are not sharing data with anybody. Monetizing meaning, we are not selling it. So, the word should be leveraging not monetizing, I am sorry, for using that.

We are taking that database, which those people have given to us, putting it through our Data Analytics, and making them pre-approved offers. And it is up to them whether to take that offer or not. So, nobody is forcing them to.

So, for example, suppose you are a co-borrower, etc to somebody, we have your database, we will actually send you a link, for downloading our App, or we will send you an SMS for clicking and going on to the App. When you download our App and you log in, then you will be automatically getting a pre-approved offer. That's how it works after taking all stakeholder views into consideration.

Answering your first question, the average ticket size we are not in the BNPL, we are not in the less than Rs. 50,000 category. And you are absolutely right, there are categories either the Rs. 10 lakhs, Rs. 20 lakhs, which is the wealth customers, or the less than 50,000, which is absolutely hyper competitive. We are not there. We are not in BNPL.

We are right now on two things, where we know, the customer end-use, or we know the customer repayment track record. The average tickets are between Rs. 1.5 lakhs to around Rs. 2 lakhs, that's the sweet spot. They are either our customers, and hence we go to them with pre-approved offers. Hence, obviously stand a better chance of conversion than a competition. That if you want you going to somebody or you are going on a website and applying then getting processed then getting the money, we give pre-approved offers, so that's one.

Also increasingly working on being on sites, so educational institutions, we will be on the site. Suppose you tomorrow go and take admission, not you, but your younger brother or whoever takes in Allen or Aakash, either our person will be there, or our software will be there, that the fees which you know they are not cheap anymore, you get funding from us. So, it is competitive. I wouldn't say it is hyper competitive. Good players, there are two or three. I wouldn't take names. And then there are a plethora of Fintechs, and the Fintechs are there one day and not there on another day, depending on the amount of funding they are getting from their funders. So, a reasonably good market, good companies have made good portfolios.

More important here is not so much the issue of demand. More important is how you control credit quality? How are your credit matrices? And how you make sure that your portfolio suddenly doesn't deteriorate? So, a lot of concentration is going there. And we are making sure that that doesn't happen. That's why we are actually calling ourselves Fintech @ Scale that we will do all this but do it in a way that at scale NBFC does. And not only for this, even for SME, there is no dearth of demand, I mean you want to give a SME loan, there will be somebody to take it, right. The important part is, one how your product differentiates from other, the speed with which you give. And more importantly the credit matrices and early bucket collections that you have. Once you get all these right, you will build a good portfolio. So, we are hoping to do all that. Hopefully, you will be you know perhaps having more confidence in our abilities in two or three quarters as we build it.

Moderator:

Thank you very much. I now hand the conference over to Mr. Dinanath Dubhashi, for closing comments.

Dinanath Dubhashi:

Oh no, no closing comment. The only thing I would say that 1st quarter of a really exciting 16 quarter plan, I believe we have made a good progress. We will keep showing better and better results every quarter, counting on your confidence I would say, thank you

Moderator:

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

*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, repetitions in Q&A which would have unintentionally crept in, if any