L&T Finance

July 27, 2023

National Stock Exchange of India Limited
Exchange Plaza,
Plot No. C/1, G Block,
Bandra - Kurla Complex, Bandra (East),
Mumbai - 400 051.

BSE Limited
Corporate Relations Department,
1st Floor, New Trading Ring,
P. J. Towers, Dalal Street,
Mumbai - 400 001.

Symbol: L&TFH

Security Code No.: 533519

Kind Attn: Head – Listing Department / Dept of Corporate Communications

Sub: Transcript of investor(s) / analyst(s) meet – Q1FY2024 financial performance and strategy update

Dear Sir / Madam,

Pursuant to Regulation 30 read with Para A of Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the investor(s) / analyst(s) meet for Q1FY2024 financial performance and strategy update held on July 20, 2023.

The above information is also available on the website of the Company i.e., www.ltfs.com/investors.

We request you to take the aforesaid on records.

Thanking you,

Yours faithfully,

For **L&T Finance Holdings Limited**

APURVA NEERAJ RATHOD
Digitally signed by APURVA NEERAJ RATHOD
Date: 2023.07.27 15:30:45 +05'30'

Apurva Rathod
Company Secretary and Compliance Officer

Encl: As above

L&T Finance Holdings Ltd.

Q1 FY24 Earnings Call Transcript

July 20, 2023

Management Personnel:

Mr. Dinanath Dubhashi (Managing Director & Chief Executive Officer)

Mr. Sudipta Roy (Chief Operating Officer)

Mr. Sachinn Joshi (Group Chief Financial Officer)

Mr. Karthik Narayanan (Head – Strategy and Investor Relations)

Moderator:

Ladies and gentlemen, good day, and welcome to the L&T Finance Holdings Limited Q1FY24 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 this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

Before we proceed, as a standard disclaimer, no unpublished price-sensitive information will be shared during the call. Only publicly-available documents will be referred to for discussions during interaction in the call.

While all efforts would be made to ensure that no unpublished price-sensitive information will be shared. In case of any inadvertent disclosure, the same would, in any case, form part of the recording of the call. Further, some of the statements made on today's call may be forward-looking in nature. A note to this effect is provided in the Q1 results presentation sent out to all of you earlier.

We have with us today Mr. Dinanath Dubhashi, Managing Director & CEO and other members of the senior management team. 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, a very good morning to all of you. Welcome to the call. You have all seen the results and it goes without saying that we are very enthused with the results. FY23 has been a great year for us, no doubt, and the results that we achieved during FY23 actually gave us the confidence to say that the targets promised for Lakshya 2026, many of them would be achieved earlier, some of them in year 2024 itself. Since then, all of us in L&T Finance have been working relentlessly towards this goal of achieving some of those ratios, especially retailisation, asset quality, ROA much, much earlier. And I'm most happy to say other than the fact, of course, that we've shown good profits, good credit costs, but most happy to say that this quarter is indeed a testimony to that promise, which we had talked about last quarter. We are one quarter down in FY24 and I can say that the performance for this quarter is well in-line with the accelerated timelines.

<u>Announcement about superannuation</u>

But before I talk about the achievement for this quarter and our strengths, etc., I believe it is necessary for me to talk about a very important development regarding the company. A few things changed over the last couple of weeks. And in a way, I would like to say that not much has changed as far as the plans of the company are concerned. I will try and explain what I mean by this statement.

First, let me address what has very clearly changed. As announced on July 1, 2023, and all of you would be knowing well by now, I have personally taken the decision to superannuate from the company and will be superannuating by April end next year, that is April 30, 2024.

Let me talk about this a little bit. Many of you are my friends and well-wishers. I would really like to take a few minutes to explain this. After a lot of thinking and soul searching, I reached a decision sometime back that I would like to follow certain passions of mine, more full time and not just as a hobby, which I have been doing for quite some time. This includes, few of you are aware, is working for the cause of stray dogs. Along also, second thing is my passion for studying history and mythology.

Now I know all these seem truly as a passion and they indeed are. What encouraged me actually to take this decision was the fact that the organization was well on the road to success and was creating sustainable value for all stakeholders. Lakshya 2026 was well and truly launched and assimilated throughout the organization. And most importantly, we had worked in detail on creating a strong management bandwidth and robust succession plans and they have been put in place in the company. That was when I actually felt that now I am confident of passing on the baton and communicated to the Chairman, my desire to move on earlier than what my contract as MD was, which was 2026.

We found a good successor to me, who brings in very complementary skills to our organization. With these building blocks well in place, I believe that the age of 58 years, which I will be in 2024, is as good a milestone as any to finally hang up my professional boots and follow my other passions.

Mr. Sudipta Roy who joins us from ICICI Bank, will take over as MD and CEO from January 24, 2024. And after that also, I will act in an advisory role as an adviser to the Chairman for 1 more quarter, until April 30, 2024. So, it's a very well-planned handover kind of process. This is when I will be signing off completely. Sudipta has already joined the LTF family as the Chief Operating Officer from July 1, 2023, so he has completed just about 3 weeks now. Over the next 2 quarters, I will be overseeing Sudipta's gradual assimilation in the organization. This is how we have planned a very smooth transition over the course of the next 6 to 8 months. I would like to assure you that we have a well thought out date-wise action plan to ensure that the entire process happens as seamlessly as possible.

Now let me explain that why I said that not much has changed. Over the last few quarters, we achieved some really tangible milestones. So much so that we could fast track Lakshya goals, many of them to FY24. This has helped in creating a strong fortress with some really unique strengths, which we call as sustainable differentiators. In addition to these building blocks, some transformational projects have also been launched within the company. These projects other than enhancing the organization's business strengths are also being instrumental in involving people in the projects which challenge and expand their skill set and get the next line ready - next line of management ready. Our target, our plan of making the company a 'leading digitally enabled retail finance company' is well on course, in fact, ahead of course. The company will draw on Sudipta's strengths and he will draw on the strengths of the significant market positions we have achieved in our flagship businesses. Needless to say, the focus is going to be on making LTF, a retail fintech giant. With this, join me in welcoming Sudipta to the LTF family. I will now hand over briefly to Sudipta to introduce himself. Sudipta, go ahead.

Address by the COO

Sudipta Roy:

Thank you, DD, for giving me the opportunity to introduce myself.

Good morning, everybody, on the call. It's an honour and privilege to speak to such an eminent group of analysts/investors, and I will take this opportunity to briefly introduce myself. I have joined L&T Finance from ICICI Bank, where I spent the last 13 years of my career and my last role was as the Group Head, managing diverse businesses like unsecured assets, cards, digital and payment solutions, student ecosystem banking, e-commerce and merchant ecosystem, and last but not the least, connected & API banking. I was also responsible for developing and operationalizing ICICI Bank's digital banking solutions for the millennial banking segment. My team and myself were responsible for growing the bank's unsecured assets business five-fold since 2017 with significant contributions to profitability for the overall organization. This was done with an extreme focus on growing it in a risk-calibrated fashion, which demonstrated an excellent resilience of the portfolio during the difficult COVID period. My team under my guidance launched the education loans and the consumer finance businesses in the bank and later extended education loans into the country's first comprehensive student ecosystem offering, which is called Campus Power.

The ICICI Bank's cards business was nurtured back to significant profitability since the difficult years post the global financial crisis and the Amazon credit card program executed by my team is now hailed as one of the most successful issuance programs in the country and a textbook case of Big Tech and Big Bank cooperation, having issued 4 million cards since inception, making it the largest co-brand program in the country. The personal loans and unsecured business loans was expanded on the back of cutting-edge analytics and has scaled significantly over the last few years. Prior to ICICI Bank, I spent about 5 years in Deutsche Bank, managing product management for the Deutsche Bank's cards business in India and China. And prior to that, I spent about 6 years in Citibank learning the ropes of financial services distribution, cards and lending product management and payments and allied risk modelling as well as digital banking.

My strengths are in cards and retail lending distribution, retail lending technology and allied risk modelling, payments and digital banking and execution of digitization initiatives at scale alongside P&L and general management capabilities, having managed large-scale businesses in ICICI Bank.
I'm incredibly excited to join the capable and committed team of L&T Finance to take forward the retailisation journey as part of the Lakshya 2026 objectives and I'm quite certain that with the initiative and the hard work of the great team at L&T Finance, we should be able to make a substantial contribution to India's retail financial growth story in the coming years, and really demonstrate the strengths and synergies of the stated objective of becoming Fintech@Scale.

Thanks a lot, and back to Mr. Dubhashi.

Q1FY24 Highlights

Dinanath Dubhashi:

Thanks, Sudipta. So, let's now look at the performance for the quarter. It has been more than a year of unveiling our strategic plan – Lakshya 2026, wherein we said we will strive to make LTF a top-class digitally enabled retail finance company moving from ‘product-focused’ approach to ‘customer-focused’ approach by creating a Fintech@Scale. I remember telling you that every decision ever since has been taken keeping in mind these targets of Lakshya 2026. We have continued to improve not only the products we offer, but also the systems and processes we deploy within the company. In fact, every quarter, I have gone - we have gone out of our way to try and put even in the investor presentation, the specific moves that we are doing to become more and more a retail company, more and more a company absolutely entrenched in retail and digital. This investor presentation also, you would see lot of slides are actually dedicated to see how we are farming our large customer database. We have actually given it business wise and I will talk a little bit more about that as we go ahead.

Achieved most of our Lakshya goals in line with accelerated timelines:

Our strategic plan of Lakshya was largely set around, as you all remember, 4 milestones. Let's see how we have reached all the 4 milestones.

1) Now the first milestone was 80% retail. And in fact, we achieved 75% by March, and I had already indicated to you that 80% is obviously easy now, and we will, in fact, try and become 90% by FY24. And in keeping with that promise, we have already gone beyond 80%. In this June itself, we stand at 82% retailisation.
2) The second milestone was about retail growth of more than 25%. You are all aware that we had shown a 35% growth last year and now followed by a 34% growth in this quarter.
3) We had also said that our GS3 and NS3 will be below 3% and 1% each in retail. And as you would see, GS3 has already reached about 3.2%, and NS3 remained steady at 0.7%, which is well below the 1% target.
4) Last but not the least, we had put an ROA target of 2.8% to 3%. We had reached 2.95% in Q4 and in Q1, we have reached 3.08%, which I genuinely believe is a rubicon in the retail world that once you are above the 3% mark, you can look at only improving from there. And as I would explain during the presentation, you will see every component of that ROA bridge is falling well in place.

Without a doubt, I believe, we have delivered on most of our Lakshya goals in line with the accelerated timelines. Here, I would like to point out that our achievement now is in terms of attaining desired percentages. So let me explain. Some people have asked me that now you have achieved Lakshya, is there a new Lakshya in the offing, right? Let me take that straight away. If you see the Lakshya goals that we had put in place, which was 80% retailisation, obviously, there is a new goal of 90% now, which we will achieve very soon. The others, let us take a GS3 ratio or an NS3 ratio of 1% or a profitability ratio of above 3% are more ratios and the challenge and the endeavour of management over the next 3 years, will be continuing with this growth path of 25% - 30% CAGR while keeping this asset quality and these profitability targets intact. So now that we have reached 3%, there is no way that we will fall below that. And these kind of NS3 levels and credit cost levels we have reached, we will keep them sustainable while achieving this growth rate of between 25% - 30%. And that end goal with all the projects, all the aspects, all the business strengths that it involves remains, steadfastly remains our Lakshya 2026. So, these are just 4, I would say, ratio milestones achieved. The route from now on, the path from now on, will be keeping these profitability and asset quality achievements intact while achieving further growth as we go ahead.

Performance highlights for the Quarter

Retail Performance:

If we look at the highlights for this quarter:

- Clearly, profit after tax, if we talk retail is Rs. 533 crores. Retail profit is actually 176% up
- Retail NIMs+Fees remain very, very strong at close to 11.7% or so
- Strong retail quarterly disbursements, Rs. 11,193 crores, which is up 25% from last year
- Book size growth, retail book is now at Rs. 64,200 crores, which is above 34% Asset quality, we already talked about and
- ROA also we have already talked about and
- Retail ROE now is close to 16%

So that's where the retail performance is going.

Consolidated Performance:

If we look at consolidated performance:

- The PAT is up to Rs. 531 crores, which is up 103%
- Capital adequacy remains strong at 25.75%
- We have also declared our highest ever final dividend at Rs. 2 for this financial year

Obviously, as I always said, as the balance sheet becomes more and more retail and wholesale, we keep reducing, we are confident that these kind of ROAs and ROEs start getting converted to overall ROAs and ROEs. I would also like to point out that overall ROA has also crossed 2% and now this acceleration towards convergence to retail ROA will be faster as we keep reducing the wholesale book.

One ratio, which I keep talking about, in addition to retail NIMs+Fees, which remains strong is our opex plus credit cost ratio. I always say that to some extent, these are fungible and opex plus credit cost has already reached around 7.11%. I always guide people towards 7%, that around 7% of opex plus credit cost should be more sustainable even at these kind of growth rates and we are quite sure that we will reach that level soon and stay there and improve from there. I would say that we have performed better, not only than Lakshya but also in line with the ROA tree guidance that I have provided to you and expect to stabilize this kind of trajectory in the future. Now let me talk about how we have achieved some of the strengths. I'll take a few minutes before we open for questions.

Deep pan India franchise

Over the years, we have developed a deep pan-India franchise and our performance quarter-on-quarter bears testimony to the strength of this franchise. We have optimal mix now of physical presence, preferred channel partners, coupled with leveraging our database, and of course, our digital tools for reaching the customer. We, today have a database of about 2.1 crore customers, out of which 1.4 crores are in rural and 70 lakhs are in urban, which helps us in building a superior retail franchise. While we disbursed this quarter itself to 6.9 lakh new customers, our active customer base now stands at 89 lakhs. So out of those 2.1 crores, 89 lakhs are active, the rest have repaid and are in our database. The important thing is share of our cross-sell / upsell in the total disbursements now stands at 34%. Now this is very important to explain. We, of course, we envisage these numbers to slowly increase as we concentrate our efforts on increasing the share of cross-sell and repeat loans, like Pragati loan, Vishwas loan, Kisan Suvidha, 2-wheeler loyalty, consumer loan top-up, housing loan top-up. This is how we have built a strong cross-sell engine with great use of digital and analytics, which shows the strengths that we are building to address the additional needs of our customers. And so, it definitely benefits the customer, gives the customer the advantage of having a loan ready if the customer has been good with us. But it

does a very fundamental thing. Now any retail finance company, especially a retail finance company, who is predominantly in the rural business is normally subject to seasonalities and cyclicalities. That's the rule of life and every company will be subject to that and the strategy of good company, good management should be try and reduce that dependence. I don't think anybody can claim that we are completely protected, totally 100% protected from any seasonality. But the whole idea is quarter-on-quarter, year-on-year, we have to reduce the effect - impact of that seasonality, both on business and on collection.
How to do that in your business? Very clearly, there is 1 big segment. I mean, seasonality or cyclicality comes into account when you are buying a new tractor, or you are buying even a new cow or a new two-wheeler or a new house. It doesn't come into account when you are an existing customer of your company, and you may have any other needs. While we believe we are equipped to handle seasonalities, however this layer of cross-sell / upsell, which we do to our existing customers, reduces the effect of the seasonality and if you see the quarter-on-quarter disbursements of the company that we have shown over the last 8 quarters also, you see this dependence clearly coming down. And our Q1 disbursements being almost in line with Q4 disbursements, you would acknowledge that Q4 is a fantastic quarter for most companies, actually shows that this is working quite well. This is just the beginning. It will be our endeavour to increase this 34% slowly to 40% first, then 50% as we go ahead and of course, it comes with the added advantage that acquisition cost is lower and of course, credit cost is way lower because these are tried and tested customers. On collection side also, it makes a lot of sense. On asset quality side, it makes a lot of sense. On disbursements, it makes a lot of sense, but much more importantly, on the character and the resilience of the company, it makes tremendous amount of sense.

<u>Fintech@Scale</u>

Going ahead explaining our Fintech@Scale. Over the course of the last multiple calls, I have talked about transforming LTF into a Fintech@Scale. Building a Fintech@Scale requires not only a comprehensive strategy, but continuously putting data analytics to excellent use. Our motto at LTF is to never let a good customer go. We want to be there for our customers right from the start of their journey with us to serve their diverse financing or even insurance needs with our differentiated product offerings. Our steadfast focus on data-driven insights, innovations and customer-centric solutions have driven this and will continue to contribute to the success of LTF. I'll specifically talk about our PLANET App now, talking about Fintech@Scale.

1) **PLANET App:**
    - Our D2C app PLANET was launched in March 2022, and frankly, I must admit that it has been built through minute planning and detailing, but the kind of success it has seen was even beyond my expectations. From offering service features like downloading statement of accounts and interest certificates, it has developed into having superior engagement features like providing mandi prices for farmers, insurance, credit scores, features like D2C journey for top-ups, etc. The app has already crossed 44 lakh downloads now in a span of a little more than 1 year. I would like to give a quick recap that app crossed 10 lakhs in Nov'22, 20 lakhs in Jan'23, 30 lakhs in April'23 and 40 lakhs in July'23. So really, it is actually catching speed with enhanced features on the app and focus on marketing this app to our customers. Lots of things are going to be unleashed, lots of efficiencies are going to be unleashed by this app.
    - We have already done Rs. 360 crores of collection from the app and business of more than Rs. 3,000 crores through the app and, of course, catered to 67 lakhs plus service requests through the app.
    - It has genuinely inverted the service pyramid. So, branches just 2 years back, contributed 51% and digital contributed only 14% of our service requests coming in. Now this is completely reversed to branches contributing 9% and digital contributing 77%. So just imagine the pluses which will come from this for cost, but much more important, for quality customer service and hence hopefully, much higher customer retention.
    - One area which remains a complete upside for this app is rural. At this point of time, about 10% of total downloads i.e., from 44 lakhs, around 4.4 lakhs come from rural and this speed is likely to catch up now with our big efforts on marketing this app in rural. I think that has the potential of clearly changing the way that our rural customer behaves and slowly even the way the rural customer repays and once that

happens, the upsides to his credit score, to our cost structures, our credit cost can be immense as it goes ahead.

2) **Developing digital finance:**
Talking other than that, our idea of Fintech@Scale envisages development of digital finance delivery as a customer value proposition. As mentioned earlier, the objective is to touch every part of the customer ecosystem with superior digital infrastructure. We have now been able to build 100% paper-less journeys in Rural Business Finance, in Farmer Finance, in 2-wheeler and in Consumer Loans.

As far as collections is concerned, while our strength definitely lies in our feet-on-street network owing to the nature of the business we are in, we are continuously boosting our digital collection capabilities also. In urban space, our eNach penetration has now reached 97% and 93% of urban collections now happen completely digitally. It looks like a small number, but a number that I'm very proud of is now 14%, 14 percent of rural collections are happening digitally. Now just about 2 years back, this number would be low single digit and it is now developing and I believe, personally, that this is going to accelerate as we go ahead.

Business Updates

As we move on to business updates, allow me to take you through some climatic conditions that are happening and its impact. As you all know, the progression of monsoon remains very uneven across the country with certain areas facing rainfall deficit while others having excessive rainfall and floods. We remain watchful of evolving situation. We have undertaken a detailed assessment of the impact of floods in those districts as well as the impact of short rainfall in those districts. The portfolio quality of our rural loans, both Rural Business Finance and Farmer Finance remains intact. We are actually monitoring almost day-to-day the collections as compared to last year and last month. As a responsible organization and of course, let me assure you that those collections are absolutely fine and all early warning signals are actually, at this point of time, green, they are not being affected too much this month. We will continue to watch closely sometimes the impact comes even next month, but we are watching it extremely closely and quite confident that the retail portfolio will remain very healthy and robust during these difficult times in some of those districts. Now many of you who are not in India, hear a lot of things about lots of floods and lots of rainfall deficit. Let me tell you the on-ground situation. Such issues happen very localized in some districts et al, and it is a good model to monitor only those localized things where things can be bad, not go by narratives, and we are monitoring those very carefully and are fully in control. Like a responsible organization, our primary step is to initiate relief activities. We are making sure that along with our CSR team, we are making field visits, connecting to customers physically, through calls and making sure that any of our customers, if they are facing tremendous difficulties, we are there to help them first through our CSR and only then collect. This is a tried-and-tested template, which has worked excellently during past natural calamities, and we are confident of keeping our portfolio quality intact through any of such problems.

Retail Business

Disbursements:

Now let me deep dive through the key highlights of the quarter. Total disbursements, retail disbursement, as I said, Rs. 11,193 crores, up 34% and the retail mix is now 82%.

- If I take **Rural Business Finance**, some of the highlights I can put now the business is 14+ years of vintage, and it has done its **highest-ever quarterly disbursements** now at Rs. 4,511 crores. Now the good thing is now with income mapping. We started income mapping around 15 months back, as you all know and now with this income mapping, we have a very good idea of various categories of customers and can design our products accordingly. So, times of putting all joint liability groups (JLG) as micro finance are gone, I think, thanks to the efforts of the regulator, thanks to the effort of all the companies, credit bureaus, the income records are now quite dependable, and we can design good products around this. More importantly, our repeat disbursements are close to 61% of total. 32% of the disbursements are to exclusive LTF customers. So, many of these numbers actually show that this business has not remained now as cyclical. I believe the nature of the business has now moved beyond that to much more robust and it is keeping its own strength as a proper legitimate retail finance business, and we are doing extremely well in that.

- In **Farmer Finance**, we have done our **highest ever Q1 disbursements** at Rs. 1,757 crores, and the book now has crossed about Rs. 13,000 crores. In both these businesses actually Rural Business Finance and Farmer Finance, we have launched 1 new product each. In Rural Business Finance, we have launched Rural LAP finally in Madurai District of Tamil Nadu, and Warehouse Receipt Finance in Farmer Finance, we have launched for 14 select commodities across 4 states. Those numbers are this time very, very small. I will be talking about those numbers more next quarter.
- In **Urban Finance**, which comprises of 2-wheeler, Consumer Loans and Home Loans, together, we saw a 21% YoY jump in disbursements, and which resulted in a 35% jump in book size.
  - **Two-wheelers** registered a disbursement of Rs. 1,726 crores, which is up 14% YoY and the book size has now crossed Rs. 9,000 crores, up 23%. More importantly, our prime product within that, which is Sabse Khaas loan and VIP loan have now crossed 30% of the total disbursement, which was 21% last year. Now what happens in this prime product is that the customer gets a better LTV because they are prime customers, and we get much, much lower bounce rates, much lower as in 1/3rd kind of bounce rates and hence, much lower collection costs and credit costs. So again, everything going well in this business.
  - **Consumer Loans**, the business witnessed disbursements of around Rs. 1,200 crores. The book stands at the doorstep of Rs. 6,000 crores. Actually, it is Rs. 5,995 crores, as we go ahead.
  - **Retail Housing** disbursements stood at Rs. 1,300 crores, which is up 39% and the book now crossed Rs. 14,000 crores mark, which is up 27%.
- **SME**, which is our newest business has witnessed a steady uptick. The Q1 disbursements stood at a little above Rs. 600 crores. YoY, of course, it is not comparable because YoY last year same quarter, we had done just Rs. 68 crores. So, it's a huge increase. More importantly, we have crossed total disbursement of Rs. 2,000 crores from inception, and the book is close to Rs. 1,800 crores now. As we go ahead, here also, we have launched new products. We initially started only with unsecured business term loan. We have now launched overdraft and hybrid overdraft products which are seeing extremely good traction as we go ahead.

Collections:

On the collection side, we have witnessed best-in-class collections in Q1FY24 across businesses led by our concentrated on-field efforts definitely, but analytics helping tremendously on prioritization of collections using our collections score card. We have provided detailed product-wise collection efficiencies in our investor presentation as well as for the retail portfolio, we have also shown our stage-wise book in our investor presentation as we had promised, for the last 2 quarters now.

Wholesale Business

On the wholesale business, we now draw much closer to our Lakshya 2026 goal of making LTF a retail finance company. As important as it is to build a retail franchise and grow the retail book, it was equally important to get down the wholesale business quickly, once we decided clearly in Q3FY23, that now we are not looking for 1 big buyer to come and pay value for the book. But you remember that we took sort of onetime write-off, write-down to the book of Rs. 2,700 crores to enable us to sell this book faster. In Q4 last year, we showed a fantastic reduction. We continue with showing excellent reduction year-on-year. The wholesale book continues to reduce quite fast. It has registered a reduction of about Rs. 5,500 crores in Q1 itself and now stands at about Rs. 14,200 crores. We are now very, very confident of crossing the 90% retailisation mark, not only by end of FY24, but sometime before.

Liability Management

On the liability management side, I last time guided that cost of funds may go up by 20 to 30 basis points over the last, next 2 quarters. In fact, in the first quarter, it has increased just about 6 basis points. I think it has; the credit belongs to 2 things. One, the way we have used low-cost priority sector borrowings for that and you would see that CP proportion - this cost has not been reduced by increasing CP proportion even though the changing book now allows us to do more CPs, we have kept it at around 8%. But priority sector borrowing now constitutes around 17% of our total borrowings and this is where we are actually using the strengths of the asset side and the businesses, we are in to borrow. So that's what we have done and I must also say that even the economy is now in our opinion for a long period of stabilization of interest rates.

We are not expecting any big reduction, but we believe that interest rates and, hence, NIMs+Fees should be stabilized around this level now for a fairly long period. That doesn't mean 10-15 basis points here and there will not happen quarter-on-quarter. But in taking a few steps back, looking from a distance, we are looking at a stabilization level, which will allow us to concentrate now on cost efficiencies, on productivity, reducing costs further, reducing credit costs further and hence adding to our profitability.

ESG

The last leg I would like to talk about is ESG. Our journey towards Lakshya, our primary objective, while it was to drive growth, but it was also while embracing the principles of environment, social and governance factors. As far as our commitment to ESG is concerned, I would like to share with you that we continue our vow towards minimizing our ecological footprint. This quarter, we released our first integrated annual report for L&T Finance for year FY23, which has been assured by independent third-party assurance provider. I believe many of you would have gone through it, it's on the website already and we are quite happy to be able to bring it on.

So that's it, I would like to conclude very quickly by saying thank you to all of you for your support and by reiterating the confidence that the company is well on its line for very accelerated achievements of the Lakshya 2026 goals. While the goals are such, in terms of percentages, have already been achieved, well in advance, we aim to keep that kind of asset quality, keep that kind of profitability, further improve productivity and cost efficiencies, further improve our digital footprint, analytics footprint as we go ahead and continue this growth journey of 25% - 30% over the next 2 to 3 years till FY26. What gives us confidence to do that is all the strengths whether it is in our network, whether it is in digital capabilities, but more importantly, in our staff, in our management bandwidth and also in the customer database and the ability to use, utilize and work on that customer database that we have built.

Thank you very much. We can be open for questions.

Moderator:

We will now move on to the Q&A session. We have the first question from the line of Saurabh Kumar from JPMorgan.

Saurabh Kumar:

First of all, congratulations. 2 questions, sir. One is essentially on this net worth of the wholesale finance business. So, it has seen a decline. So, could you explain what's happening there? And on the Rs. 2,700 crores macro that you made for this wholesale? Did you use any of this during this drawdown? So that's the first one.

And the second is just in terms of the profitability of this retail business. So, first quarter is normally weaker for your retail business in terms of both, in terms of at least credit cost. So, would you say that this number can improve going ahead? Or you would want to see the ROA at around 3% now? These are 2 questions.

Dinanath Dubhashi:

The first one is quite technical. If you have any specific calculation, clarifications, you can contact IR, but let me explain it. So, we have 2 companies as of now, ICL (Infra Credit Limited) and L&T Finance. Now ICL is entirely wholesale company, which is continuously reducing because wholesale we are selling. But the entire equity of that ICL obviously is allocated, right? and in L&T Finance, it is allocated proportionately. As we merge, all your confusions will go away. So, 1 item that I didn't talk about in my opening remarks is the merger. So, the merger is going well on plan and we are quite hopeful, as I keep saying in FY24, definitely, we will do it, but we are quite hopeful that we should be able to do it in Q3, by about Q3. After that, Saurabh, all this confusion will go away, simply the allocation of net worth will go proportionate to the book of businesses. But right now, because of having these various entities, this confusion arises. So that's general answer to your question. Detailed calculations, IR can help you.

Saurabh Kumar:

Okay. And for any part of the macro used in particular.

Dinanath Dubhashi:

Yes. So, you know what happens actually. It was not a provision, right? It was a fair valuation of the book as we do asset by asset, and there are so many assets. Every asset is fair valued. At the end of the quarter, as assets are sold. First of all, it is not macro, it is that - you are talking about the Rs. 2,700 crores, right?

Saurabh Kumar:

Yes, the illiquidity discount. Yes, the illiquidity discount.

Dinanath Dubhashi:

To clarify. So macro is in Rural Business Finance (Micro Finance), that is different. This is not macro. This was more like - as we have said, we will fair value the assets which gives the management the confidence that we can sell it quite often. Now as every asset is sold, there are assets which we have fair valued lower, but they are sold sometimes at par also, okay? And some assets that, maybe sold a little bit below the fair value also. So, both these things happen. At the end of the quarter, it is all put again together, and we see where the value is coming to. Okay. So, as I will repeat my answer of last time that by the time the entire book is complete, we don't expect this total discount that we give to the market when we sell, to go beyond this Rs. 2,700 crores at all, right?

There is a very specific reason that I don't give a specific answer at how much we have used, etc. I will tell you that specific reason. That any specific reason like this in public space, spoils the habits of buyers and spoils the expectations of buyers of these assets. So, it is harmful for business to give out any of these numbers. So, we are not trying to hide anything. Please take confidence coming from me that there is no way that the total discount will go anywhere beyond this Rs. 2,700 crores. I believe that should suffice. So, if I say "okay, 'x' amount is remaining", from tomorrow buyers will come and say 'x' amount of discount is remaining, give it to us, right? So that's - it goes beyond that and hence, please understand I'm still running a company. So, I have to take care of that also.

Saurabh Kumar:

Second one was, sir, on this opex.

Dinanath Dubhashi:

I'll come to that. You're right. As I said, this 3%, 3.1% is the minimum kind of ROA now that we will look forward to. Most definitely like any good management or any good company, we will expect quarter-on-quarter improvements from this. Now each quarter, how will it be. Next quarter, suddenly, if huge deluges happen somewhere, what will happen. I don't want to comment on that. I don't want to give such kind of guidance. But the big guidance is yes, we see profitability only improving from here.

Moderator:

The next question is from the line of Mahrukh Adajania from Nuvama.

Mahrukh Adajania:

Congratulations, sir.

Dinanath Dubhashi:

Thank you. Thank you.

Mahrukh Adajania:

So, probably Saurabh already asked this question, but just to delve on it a little more. So, if you see the retail profitability, the retail tree, then margins have kind of remained stable and fees are a little soft sequentially. Now is that seasonal? Or is it because of cross-sell, upsell now we expect fees to taper off a bit only? And then margins will take shape of depending on how our cost and yields evolve?

Dinanath Dubhashi:

So, margins, I said that, again, I don't want to give quarter-on-quarter guidance, but I believe margins falling below further, I mean, 11.5% and down looks unlikely right now. I always guided towards 11% but we are quite confident of maintaining at around 11.5%. So, if you say they have fallen, yes from 11.87% they are fallen to 11.7%. Many times, it is actually just the function of which product and the product mix a little bit here and there. So let us say, 11.5% upwards, is what would I say sustainable levels of NIMs+Fees. As far as fees is concerned, we are being quite conservative in recognizing the fees coming from insurance companies at this point of time. As I had said last time also, our Corporate Agency (CA) license is just about to come, *(subject to necessary approvals and clearances)*. In fact, it was expected on 30th June. It has not come. It should come hopefully by the end of this month and by which after that, we actually believe that this fee can marginally go up from this point of time, okay. We are not really comparable with last year also because last year, don't forget that we had a Mutual Fund, and the entire income of Mutual Fund was in the fees. So, the fees that you see this time, there are no wholesale sourcing fees in this because we are not sourcing any wholesale at this point in time, right?

Second, the insurance cross-sell fees will probably only increase as we get our CA license. So, I don't see any issues coming there and don't see any issues in maintaining NIMs+Fees at very healthy levels. And as I said, credit cost plus operating cost slowly but steadily, more efficiencies will surely come up here also. That gives us the confidence that this 3% is quite sustainable.

Mahrukh Adajania:

Got it, sir. Got it. Sir, just 1 more question on the wholesale tree that credit cost for the wholesale business, I'm not asking about the rundown or the balance of the 27 billion, but just the credit cost shown in the tree also seem to have risen quarter-on-quarter. So usually, if at all, there is a credit cost, it can be drawn down from that 27 billion, right? Or what would be these credit costs in the wholesale tree?

Dinanath Dubhashi:

Okay. credit cost in wholesale tree, first of all, credit costs will not be drawn down from that because it is, as I said, it is fair valued - it is not credit cost. It is fair valued meaning it is our idea of what the market will buy the asset from that. This book is standard, there is no question of any additional credit cost. Now the important part -- I will remind you that when we had to take additional credit cost in Supertech, we took it from P&L. We didn't take it from the Rs. 2,700 crores. That is only a market discount provision.

Now I will explain this Rs. 45 crores. In Ind AS even if it is an NPA. So, we have a Rs. 1,000 crores NPA on our book, even if it is NPA, the interest on the NPA, we have to recognize in revenues and then that's what Ind AS says. What we do is we also - we do unwind the interest and show it as credit cost so that it doesn't come to P&L. Ind AS says actually, that you recognize income and only when you write off or settle that, the whole thing needs to be booked as a loss. We don't see any point in that. So, while we are in accordance with Ind AS by booking the income on top that interest, we also provided some, so that the PAT is not overstated for any quarter.

Mahrukh Adajania:

Got it. Got it. Makes complete sense.

Dinanath Dubhashi:

It is just technical.

Mahrukh Adajania:

Got it, sir. And just in terms of the industry outlook, on personal loans, so much is being said, though RBI's Financial Stability report says nothing, right, or gives no warning signals as such. But in general, there is news that RBI seems to be worried about quality on personal loans. So, any comments you have on this just in terms of if you are seeing any on the ground early warning signals or any such thing?

Dinanath Dubhashi:

Okay. I think it's a good question. So, number one, even RBI has talked at places that it is a little bit worried about the high growth rates in unsecured personal loans and I believe the industry is watching it very closely. There is no doubt that the growth rates have been high. But we have to look a little bit beyond that. A little bit beyond that and look at, first of all, where are the stresses showing? In which category?

But I will come to that also later. First, let me talk about the growth -- now there is 1 big change also happening both not only in rural but also urban. What is the change? Is because of digital and data analytics, more and more new to credit customers are getting access to organized credit from the industry, whether it is banks, whether it is the upper layer NBFCs, whether it is smaller NBFCs or whether it is fintechs. But organized credit, people are finding access to and hence, there is a shift from unorganized credit to organized credit. There is a shift. I won't be able to tell you how much, when will it get over, how fast is the shift because simple answer is I don't know. Unorganized credit is not measured. So, I don't know. But our on-the-ground findings also and also the number of new to credit customers that come asking for credit. We see a big move from unorganized credit to organized credit and hence, it is not necessary that everybody should be scared at the increase in growth rate of organized credit. It is sometimes even it can be good for the industry. The industry will have to be watchful, no doubt, but sometimes it is good for the industry also. Last time also, I had said that the entry of Jio or the entry of Bajaj in Micro Loans, is actually going to help the industry because more and more unorganized credit moving to organized credit is good for all the responsible lenders. Now this is the general answer.

Now very specific. You asked a very specific question. Are you seeing any fault lines developing? Yes, the fault lines are developing. When you are in unsecured credit, 2 places where we see some fault line developing is: first-time borrower of unsecured credit, slight issues and second, less than Rs 50,000 category of unsecured credit, there are increase in credit costs happening, which is something that we are seeing. Thankfully, perhaps because we were new, our unsecured Consumer Loans are every -- each and every loan is more than Rs. 1 lakh, and each and every loan is to old to credit customers. We don't do new to credit customers at all. But at this point of time, I see, or we see our observation is showing some fault line developing in that below Rs 50,000 category, not that these ratios have gone out of control, but those credit costs, credit ratios are slightly deteriorating. These are what are colloquially and popularly known as Buy Now Pay Later (BNPL) loans is where fault lines have started developing, whether they will be permanent, sustainable, I don't want to comment because largely, I'm not in that business (BNPL). So, I don't think I should comment more on that. But that - since you asked the question, that's the first sort of observations that we are having internally.

Moderator:

The next question is from the line of Avinash Singh from Emkay Global.

Avinash Singh:

Yeah. A couple of questions. So first one, sir. First one, if you can just sort of - again, you have explained it but once again I'm going because you - large part of your retail business is kind of all, you say that cyclicality is there. I mean, whether it's a 2-wheeler, farmer or the micro finance. Now currently, you are hovering around somewhere closer to 3% or slightly lower than that in credit cost terms in that retail. Now over the cycle, what kind of a range, I mean, if the current cycle continues like that robust credit quality continues, I mean, how low typically you would expect? What's your range of credit cost expected over 2 years to 3 years kind of a time horizon? And related to that also, your retail geographic concentration, you are primarily at East and South focused. Are you sort of looking to geographically diversify more towards West and North or like you have - I mean you will continue to be focused on, I mean, these kinds of fixed states or 3 each in the East and South. So that's all on retail.

And on wholesale, if you can just tell the kind of the loan, you have sold down in the quarter, I mean, if at all, some colour on the stage, they were? Colour on the kind of wholesale loans, which you sold during the quarter, I mean, what sort of standard loans, whatever kind of at stage 2 or 3

Dinanath Dubhashi:

Okay. For sure. Most of them are Stage 1, there is no Stage 3 at all. One Stage 3 was sold to ARC, which was part of Supertech. So Supertech, we had Rs. 1,500 crores, out of which Rs. 500 crores is sold to ARC, but everything else is standard. So, we have only 1 NPA actually, which is Rs. 1,500 crores Supertech, 1 large NPA, there are some 1 or 2 small ones. But out of this Rs. 1,500 crores, Rs. 500 crores is sold to ARC. The Supertech loan is provided 57% already and as I always said, we expect the rest of the money to come back. So that's answering your last question first.

I will now take your first question. I stopped short of guiding towards across cycle credit cost as such because experience has shown me that credit costs and operating costs, especially collection costs are very fungible in retail business. Frankly, sir, by throwing money, I can reduce NPAs in 1 month drastically, okay. But that's not the sustainable way of doing it and always balancing these 2 in a way that it is sustainable is very important. The way we try and control it actually is try and control asset quality at '0 DPD' level. So, there is one data that we give, our current collection efficiencies in our investor presentation. There is one data that we closely monitor internally, is 0 DPDs across products and at each product level, each state, each branch, 0 DPD is monitored very closely. We, as a company, believe that if it slips beyond 0 DPD, after that, it is either collection cost or credit cost. One of the 2 is going to come and for us, both is same. So -- and that is -- that is why it is very, very important to stop at 0 DPD and very clearly, across products, if you see, we are having the best-in-class 0 DPDs. We are, in fact, this time, we have given it for our flagship products. We have given it in the investor presentation also and this is something that we concentrated a lot on.

After considering everything, I believe that a 7% level of credit cost plus operating costs, is what is sustainable across cycles, across seasonality. Obviously, it will be our endeavour to be below this in good times and not to be too much above this at - in bad times because good and bad times, do come. But when you concentrate on arresting something at 0 DPD, that is the time that these things become sustained. So that would be my answer to your first question.

As far as expansion is concerned. I don't again want to get into North, South, West, etc. We very clearly believe in deciding where to do business based on very deep data analytics. So, let us say the business which is most widely - wide on the ground in terms of 1,600-1,700 what we call meeting centres across the country. What we do is at a district level, sometimes even at a Taluka level, we do detailed analysis by various departments of the credit quality, of the banking habits, post office habits, literacy levels of that area and then get into that area. So, this kind of exercise is on continuously throughout the year and that is where we open new centres as we go ahead. We don't really look at some huge, you know, let us capture north now, something like that. It doesn't make sense. We have gone beyond thinking of India as just 1 monolithic geography or even a particular state as one monolithic geography. A state as a geography comes into picture only as far as politics is concerned, and any political decisions are concerned. But otherwise, environment, geology, crops, occupations are so different every 100 kilometers that we try and monitor where to do business, how to do business according to that. Now that is as far as physical infrastructure is concerned. Now the new magic is digital infrastructure and the digital reach. And as we put more and more products on D2C, it will add as a further advantage to the network that we have, okay? One area where you will see us, to answer your question, definitely, making the entry or slow / cautious entry nonetheless for the next 2 quarters may be Andhra Pradesh and Telangana for our Rural Business Finance. After 2008 -- after 2010, we have been out of these states, but the recent ruling of the Honourable Telangana High Court now doesn't allow any other body to legislate on RBI regulated entities which gives us the confidence to re-enter into these 2 states. We are doing very detailed on-ground surveys of both Andhra Pradesh and Telangana and you will see us making a cautious entry into these 2 states over the next 2 to 3 quarters. Does that answer your question?

Avinash Singh:

Yes, it does.

Moderator:

The next question is from the line of Viral Shah from IIFL Securities.

Viral Shah:

Congratulations on good set of numbers. I have 2 questions. So, one is on the cross-sell piece. Sir, you have mentioned on your PPT that 34% was the cross-sell and disbursement. So, does that mean that 34% of Rs. 11,200 crores of retail disbursements were to existing customers?

Dinanath Dubhashi:

Yes. Yes.

Viral Shah:

Okay. And also, can you share what's the cross-sell franchise? Because you have mentioned that the average disbursement to them was Rs. 79,000 this quarter?

Dinanath Dubhashi:

No, I didn't get your question. Rs. 79,000 for every cross-sell to every cross sold customer. So, every cross sold customer, the average ticket size was Rs. 79,000.

Viral Shah:

Correct. So, what's the quantum of that customer? So basically, you have a lifetime customer franchise of 21 million?

Dinanath Dubhashi:

So, 34% is value. Okay, 41% number of customers, 34% value.

Viral Shah:

Okay. So, 41% of your 21 million customers are - you have identified as cross-sell customers?

Dinanath Dubhashi:

No, no, not like that. We did 6.9 lakhs new customers, 6.9 lakhs customers we did a new disbursement that was 59% of total customers that we did disburse to in the quarter.

Viral Shah:

Okay. Got it.

Dinanath Dubhashi:

So, you just divide 6.9 by 0.59 and you will get total number of customers.

Viral Shah:

Got it. This is helpful, sir. The second question I had was on the provisioning piece.

Dinanath Dubhashi:

In the presentation, we have actually given product wise also. Lot of colour is given. In the presentation, we have given product-wise slides, as to how much for cross-sell, repeat customer share. So, in the Rural Group Finance, repeat customer share is given very clearly and then farm equipment also repeat - Kisan Suvidha is repeat customers. Second question?

Viral Shah:

Sir, the second question was on the provisioning piece. So, while you have given the provisioning on the retail assets, can you give us the sense of the stock of the total provisions on the consolidated book? So, this is not just the Stage 3 provisions, but all your Stage 1, 2 provisions put together

Dinanath Dubhashi:

Last time also I have said that I don't give for wholesale- if you are asking Stage 1, Stage 2 kind of breakup, I had said very clearly that since the wholesale book is in a sort of quick rundown, quarter-on-quarter won't give any trends.

Viral Shah:

I'm not asking for the breakup of it, sir.

Dinanath Dubhashi:

I will just ask Sachinn to answer this question because there is a lot of confusion on this. There is no provision on the wholesale book, it is fair valued.

Sachinn Joshi:

In case of wholesale, we already mentioned, in fact earlier on the call that about Rs. 2,700 crores, fair value of the assets was done in the third quarter and the asset book was stated at an amount which was lower by about Rs. 2,700 crores. As the asset book has been sold, either it has been sold at the value prevailing in the books or some assets at higher levels, some assets at lower level. At the end of each quarter, the fair valuation exercise is undertaken by the valuer once again and what you see as a closing book is the fair value book as on 30th of June. So, in terms of the overall provision, the only asset - the GS3 asset was Supertech which was provided for about 57% overall.

Dinanath Dubhashi:

It is given clearly. So, the Stage 3 - gross stage 3 is Rs. 1,065 crores in wholesale and net Stage 3 is Rs. 469 crores. So, the difference between that is provisions, in wholesale. The rest of the standard book is fair value. So, there is no question of provision.

Viral Shah:

So, this Rs. 14,000 crores of wholesale book, which is there, that is the fair value of it?

Sachinn Joshi:

Rs 14,000 crores is the gross value

Dinanath Dubhashi:

Out of Rs. 14,200 crores, Rs. 1,065 crores is GS3, okay, which provision is given in the presentation.

Viral Shah:

Got it.

Dinanath Dubhashi:

Okay. Answer to your previous question. So, we did 6.91 lakhs of new customers, 4.71 lakhs of repeat customers, making it 11.62 lakhs.

Moderator:

The next question is from the line of Digant Haria from Green Edge Wealth.

Digant Haria:

Sir, one question is that in the last 1.5 years, we have started the cross-selling journey in L&T Finance. Sir, most of the successful companies who have done cross-selling, so say, Bajaj Finance or ICICI bank where Sudipta comes from, they have reported declining operating costs and declining credit cost as well, as the cross-sell franchise improves. So, for us, like when do we reach that stage where this opex plus credit cost does not remain at 7% because the 7% number, it still optically looks very high for any franchise which can actually cross-sell a lot. So that is my question.

Dinanath Dubhashi:

Okay. By when I would not like to say. So, I agree with you. We have to first of all, reach 7% and then go below that, both the companies that you talked about, okay, ICICI is a bank. So, I don't want to comment on that. We are a rural company and don't forget that the costs of reaching in the rural are also higher. So, I would just like to differentiate that, that way and yields are also higher to that, that extent as we go ahead. But very clearly, in a way, you are right. We have reached now close to 7%. We will reach 7% before and after that, obviously, we will start reducing from there. But I didn't think it was very responsible of me to give a guidance of lower than 7% before reaching it. Let us reach 7%, which will be a good achievement and after that, we will certainly go ahead. Also, you cannot forget that we are in the stage where last 2-2.5 years and continuing now, we are making heavy IT investments and that those are also a part of this 7%. There is nothing like, we don't build good big fixed assets, right? because IT investments are all expenses, current expenses and those are also part of these expenses. As we go ahead, those IT investments will start even contributing to productivity and we are very sure that on quarter-on-quarter basis, we will show a good reduction on this ratio, which is currently at 7.2%. Let's come to 7% first and then we will set up a new target as we go ahead.

Digant Haria:

Just let me ask 1 more follow-up on this that. On the cross-sell franchise that we already have, like we've just started, and we already have some part of the loan book, which is made purely out of cross-sell. The ROA numbers there, like what could they be? Like are they better than the overall retail ROA that we see? Or they will still need some scale before that can really happen?

Dinanath Dubhashi:

They will be definitely better. I won't be able to give those numbers Right now, we are not telling those kinds of numbers. But way better. Very simply, acquisition cost is less, clearly, collection cost is less, and credit cost is way less. So, I'll just give you some, you know 1 number, which is my favourite number and from which you can draw your conclusion, okay. In 2-wheelers, the cross-sold part or the part which customers, which are prime enough to do cross-selling, the bounce rates are 1/3rd of a normal 2-wheeler bounce rates, 1/3rd. And if the bounce is less, obviously, the collection cost is way less. And hence, the credit cost is also very less. So, it can be extremely profitable as we go ahead. So, some numbers are already showing up in terms of credit cost and operating costs. More will show up as we go ahead.

Digant Haria:

Maybe I'll ask this question again a quarter or 2 later as well.

Dinanath Dubhashi:

Yes, yes. Quarter-on-quarter, absolutely, I hope it goes like that. But 2 quarters, certainly, it will go.

Moderator:

The next question is from the line of Kunal Shah from Citigroup.

Kunal Shah:

So, I was just saying on the wholesale profitability, okay? So, when we look at it almost like say, Rs. 7-odd crores on the pre-provisioning level. So, you said like there is no revaluation, but what is actually leading to the NIMs getting down from Rs. 200-odd crores to Rs. 75 crores even after recognizing the interest income out there. So, would there be like maybe on the sell downs, there would have been some further knock, which would have been taken and how should we look at it on a steady state? No doubt, the book is declining, but Rs. 7-odd crores at pre-provisioning level seems to be quite low, yeah.

Dinanath Dubhashi:

Okay. I mean, 1 simple thing is there are SRs that we are holding and there is credit cost, not credit cost and on that interest cost is there on that. But I will ask Sachinn to give a detailed answer on this one.

Sachinn Joshi:

Kunal, what's happening is actually, as the book is being sold down, depending on when the actual asset is exiting my balance sheet, the income accordingly is getting booked, right? So Q4, you would have seen that huge amount of sell-down has happened and a lot of it has happened at the fag-end of the quarter. So, which means that income got booked for that quarter, whereas the income for those assets was not there in the first quarter and that's why you see a significant difference in the top line. Apart from that, of course, there is assets which are there, which are not on my balance sheet, but with ARC and there is a cost attached to it, which continues. I think Q1, the differential that you're talking about, takes care of these 2 - the key reasons for that.

Kunal Shah:

And steady state should be how much then on this outstanding book, which is there or maybe even if we run it down by another Rs. 4 - 5-odd thousand crores?

Sachinn Joshi:

No point talking about steady state because as we speak assets are being sold out. So, in the next couple of quarters, that's the reason we ask everyone to just focus on retail P&L. Wholesale is just a transitionary P&L next 2-3 quarters, and this will be absolutely irrelevant.

Dinanath Dubhashi:

Yes. So, I mean if you take all this put together, PAT is Rs. 531 crores. I can make a statement that we don't see it going down from here.

Kunal Shah:

Sure. Okay. And secondly, in terms of the Consumer Loans and SME. So, SME, maybe quarter-on-quarter, the traction was building up. Should we see like Q1 was more of a seasonality or maybe slightly conservative stance out there? And same with the Consumer Loans, okay? So maybe I think traction seems to be even there in terms of the disbursements, it's in a narrow range and these are like the newly launched products. So how should we read this?

Dinanath Dubhashi:

You are - I think both is a little bit right. Seasonality comes in terms of April. SME, that is true because it's still largely a DSA led business. In April, there is no business. So that is why you see Q1 like this in SME. But both these products – I mean, that is just April. 1 month in a year that happens, you will see that catching up in Q2. But I would also say that both these businesses are new and hence, the moment we see something, some processes, a need for change, not necessarily in terms of customer profile or not necessarily in terms of portfolio or something. But even in terms of, let's say, our own processes. If we see a need for improvement, if you see a need for reengineering to remain good in the market. We actually even today are sort of holding back for 10-15 days, launching the new process, going ahead. So it is that period. I wouldn't call it a pilot. But for both these products, it is still a period of innovation, growth, and that is why we are calling these growth products. We are not calling them steady-state products at all. So as long as we remain in that ballpark, we don't get too affected. So, if I have to answer your question more strategically, I don't see anything which is sustainably wrong. It is just some corrections in the processes, etc., that we did in both the products and we will see this - those run rates coming back very soon.

Kunal Shah:

Sure. And lastly, in terms of the networth, so sorry to get back to that. But finally, eventually post rundown of the wholesale, this entire book will get into the retail and retail networth will go up maybe this quarter also almost there was Rs. 500 crores addition from the wholesale, which has happened. So eventually, we could say that okay, almost like Rs. 20,000-odd crores of maybe the retail networth being there?

Dinanath Dubhashi:

Correct.

Kunal Shah:

Okay. So, then what - maybe last time also you highlighted, but then in terms of either the dividend or the utilization of this excess networth, okay? What we would eventually look at given where we are in terms of the overall loan book, at say, Rs. 65,000 crores growing at this pace, yeah?

Dinanath Dubhashi:

You're absolutely right. Now what are things that we will definitely not do, okay? We will definitely not grow irresponsibly just to absorb the networth. We will not do that. I think at 25%-30%, maybe 35% in a particular year are good growth rates that we can achieve and sustain. We will stay at that. We will not do an acquisition just because we have money. If we see some acquisition happening at good prices. Why not? But at the current multiples you are giving in the market, people's expectations are crazy. Companies which are doing pretty badly also, their expectations are crazy. So those 2 things are what we will not do. We will make sure that the growth remains sustainable, number one and everything else possible to manage the networth in the meanwhile, we will do. So, this year, you saw that even despite having issues about holding company, etc., we have given a Rs. 500 crores dividend and yeah, nothing can stop us next year once the merger is done. Till we find the use for the increased networth even having the maximum permissible dividend payout ratio of upto 50%. So that's - that would be the plan. Is it ideal? No, it is not ideal, but that's the truth that wholesale will come down. Retail growth, even at 30%-35% is a great growth, but we will have to manage networth also simultaneously, which we will keep doing by giving out good dividends.

Moderator:

The next question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal:

Good to see that you made that statement when you said while you are superannuating, you've seen the organization in a good play and which is why you have decided to pursue your hobbies as mentioned. Congratulations to you on that. I'm sure it's a very, very fulfilling and satisfying career.

Dinanath Dubhashi:

Thank you so much.

Abhijit Tibrewal:

So just one thing on the last question that you were addressing on the dividend, where you said that till the time you find some suitable opportunity to deploy the capital maybe, you will go ahead with maximum permissible dividend payout ratio, 50%. So, it's fair to assume that, I mean, in the last few quarters, where we were talking about some special dividends that we were trying to work with the regulator at least that has now been rolled out.

Dinanath Dubhashi:

That has been rolled out. The Rs. 2 which we gave, gave meaning, it will be given on 28th of July after the AGM.

Abhijit Tibrewal:

Yes. Got it.

Dinanath Dubhashi:

Yes. That is done.

Abhijit Tibrewal:

Sir, the other 2 questions that I had is, now obviously, you had discussions on cross-selling already. So, thank you for throwing light on that. Sir, the other 2 things that I wanted to understand is the fact that we've been aggressively selling down wholesale. I think I mean one of the things that I kind of wanted to infer from this is the fact that we've been able to do it so fast and so gracefully is because - I mean, except for wholesale real estate, we didn't really have any meaningful stress on the balance sheet and sir, which is where, I kind of wanted to understand that out of these other assets rundown that we've seen, if I look at the last 1 year from almost Rs. 40,000 crores of wholesale down to about Rs. 14,000 crores now. How much in totality has been sold to ARC other than that Rs. 500 crores that you talked about, Supertech.

Dinanath Dubhashi:

Our total SR book is Rs. 6,500 crores. Total, right from inception *(over a period of 10-12 years).*

Abhijit Tibrewal:

Okay. Got it. And this is where I would say we are expecting recoveries to come through over the course of the next.

Dinanath Dubhashi:

I will tell you the SR book is marked-to-market every quarter based on independent rating agencies. So many of the SRs keep getting extinguished as recoveries happen. So, I would say that whatever goes every quarter from mark-to-market as we - as those ARCs mark-to-market, those SRs goes every quarter. Otherwise, what remains should be recovered and we monitor it very, very closely. We don't look at it like, if sold, it is out even though the ARCs are fully in control of the recoveries, and it is a true sale. But my legal team monitors it very closely. I'm happy to say that lot of recoveries have happened and in fact, you will be surprised that the SRs of Real Estate, the recoveries are faster than Infra because naturally, because even if it was a 90+ asset, Real Estate assets are actually there to monetize very quickly. So, if a new developer comes and takes over the asset or the asset gets completed, the Real Estate SRs are actually something which get extinguished much faster than an Infra SR.

Abhijit Tibrewal:

Okay, sir. And sir, then is there a timeline or a duration till which these SRs have to be there on the book or let's say, just giving you an example here by the end of this year, let's say, if you are able to bring down the wholesale book to 5% of the loan mix even then these SRs will continue to sit. Of these Rs. 6,500 crores that you talked about, will continue to sit as SRs.

Dinanath Dubhashi:

Why would Rs. 6,500 crores remain? Because it keeps getting reduced. So technically, the SR can remain for about 8 years on the book, technically. But I would think - I mean, this Rs. 6,500 crores is what I have told you is the net number. The way the repayments are being planned and are happening, we see a big reduction happening in 2024 itself, about a couple of thousand crores coming down in 2024 itself. So that is the kind of speed of reduction of SRs that we have shown in the past, and we will continue to show.

Abhijit Tibrewal:

Got it sir. One last question.

Dinanath Dubhashi:

Rs. 6,500 crores coming down to Rs. 4,500 crores or so by the end of this year itself is what we confidently expect without any big upside.

Abhijit Tibrewal:

Sir, and 1 last question. Out of this total disbursement that you are doing, what proportion of those disbursements are happening in partnerships with your digital fintechs or consumer techs. Any....

Dinanath Dubhashi:

It is Consumer Loans' 40% of total Consumer Loans disbursements, Rs. 465 crores total.

Abhijit Tibrewal:

So, sir, only Consumer Loans is where we have fintech partnerships is what I wanted to understand.

Dinanath Dubhashi:

Yes (e-aggregator not fintech).

Abhijit Tibrewal:

Got it sir. Just 1 last question in the interest of time. Sir, given that you do a lot of industry benchmarking, I'm glad from this quarter onwards for your top 3 products, you've started sharing the 0 DPD numbers vis-a-vis the industry. Sir, just wanted your view on how you look at your MFI business, given that we have a whole host of listed NBFC-MFIs today? So, when you kind of benchmark your MFI business with some of the -- maybe the leaders on the street or someone who is just doing micro finance as a product, how do you look at your MFI business and do you think there are things that we could basically improve from here on in our MFI business when you look at some of the pureplay MFI players.

Dinanath Dubhashi:

Okay. I will stop short of benchmarking within MFIs at all, okay? Because I believe that micro finance as such, is a business which has I mean, which has growth potential, but always be limited because micro finance is what - where your income level, family income level is below Rs. 3 lakhs, right? That is typically micro finance. We tend to, the industry, analysts, everybody tends to wrap everything under that bundle. It is less than Rs. 3 lakhs, and we take now efforts to show how much we have done less than Rs. 3 lakhs - more than Rs. 3 lakhs. We are now actually looking going beyond that also and trying to change the complexion of that business. So, what - I believe what you mean by MFI is joint liability group business. So, within joint liability group, there will be 2 categories. One is micro finance, one is non-micro finance, which is less than Rs. 3 lakhs, more than Rs. 3 lakhs. A large proportion of our business, which is 90% of our business, in joint liability group happens for more than Rs. 3 lakhs. So, it is not micro finance. 90%, okay. Our further attempts are now to see whether beyond a particular income level, are there very different segments even within that. So let us say, Rs. 10 lakhs, just a number, I'm just throwing a number. So, above Rs. 10 lakhs income, there is a segment which exists, which can do business in a completely different way, like a rural Consumer Loan where maybe there will not be monthly meetings. People will - there will be mandates and people will repay through bank mandates maybe that segment exists, and we have to start looking at that.

A segment definitely exists where there are fixed assets in rural, like their own homes, and we can work on that and help people leverage those fixed assets, which is not micro loans. So according to me, the future of a good rural lender lies in looking beyond these given models, okay, this is micro finance. To see that and look at those people as beyond - after removing this veil, of what we have termed this as micro finance customers, right? We have found out from our research that it is no longer true. By definition, by nature, by behaviour, there are very different segments that exist. We believe and we have found out actually, discovered that we largely are playing in the near prime, prime and super prime segments actually in rural India and not in the typical micro finance business. We are there, to about - just about 10% of our disbursements. I believe good trends and good growth in rural lending will happen there and that is where then the question of benchmarking, etc., will come from there as we go ahead.

Moderator:

Ladies and gentlemen, we will take that as the last question for today. I would now like to hand the conference over to Mr. Dinanath Dubhashi for closing comments. Over to you, sir.

Dinanath Dubhashi:

Thank you. I would once again, thank all of you for your unstinting support, your confidence. I remember that when we came with the second plan, the Lakshya 2026 to all of you, we were coming after a very difficult period that the company as well as the stock had gone through and still, many of you supported us, many of you put confidence in our plans. I'm happy today and proud to stand in front of you, having delivered those numbers of those plans, but more importantly, having put in place an engine that will make sure that this kind of growth, this kind of profitability will continue in the future, not only during FY24 but well in future after that as well.

The strategy, Lakshya 2026 remains steadfast. The leadership and support of our Chairman, Mr. S. N. Subrahmanyan remains steadfast. And more importantly, the devotion and the zeal of the management team and all of our field teams to deliver these goals remain steadfast. Thank you very much. God bless you and let your support keep coming. Thank you.

Moderator:

Thank you very much, sir. Ladies and gentlemen, on behalf of L&T Finance Holdings Limited, that concludes this conference. We thank you for joining us, and 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