L&T Financial Services

October 31, 2022

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 – Q2FY2023 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 Q2FY2023 financial performance and strategy update held on October 21, 2022.

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

We request you to take the aforesaid on records.

Thanking you,

Yours faithfully,

For **L&T Finance Holdings Limited**

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NEERAJ
RATHOD

Digitally signed by APURVA NEERAJ RATHOD
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Apurva Rathod
Company Secretary and Compliance Officer

Encl: As above

L&T Finance Holdings Ltd.

Q2 FY23 Earnings Call Transcript

October 21, 2022

Management Personnel:

Mr. Dinanath Dubhashi (Managing Director & Chief Executive 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 Q2 FY23 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

We have with us today, Mr. Dinanath Dubhashi - Managing Director & CEO and other members of the senior management team. Before we proceed, as a standard disclaimer, some of the statements made on today's call may be forward looking in nature and a note to that effect is provided in the Q2 results presentation sent out to all of you earlier. I would now like to invite Mr. Dinanath Dubhashi to share his thoughts on the company's performance and strategy of the company going forward. Thank you and over to you, sir.

Dinanath Dubhashi:

Thank you. A very good morning, ladies and gentlemen and a warm welcome to everybody who is attending this call. A very special quarter for us, we have done extremely well across all business metrics and also well on our way of achieving the milestones which were outlined by us in our Lakshya 26 strategy. In the annual meet that we held in May'22, I had shared with you our strategic plan of Lakshya 26 and its underlying goals. Post that the market scenario has changed considerably, in fact, I can say even drastically, whether in the country or even globally and even it is happening as we speak. We are witnessing new inflation highs in different parts of the world, tightening monetary policies, geopolitical conflicts, increasing interest rates, everything.

Amidst all these changing micro variables, I mean there are some very positives also like demand growth in India, for example, especially in rural is very good. Amidst all these changes, I can proudly say that L&T Financial Services has emerged out quite strong in terms of not only its quarterly performance, but also the direction it has taken towards Lakshya 26. Lakshya 26 in short is about making LTFS a top class 'digitally enabled' retail finance company. Within this goal, we aim to pivot from a 'product-focused' organization to a 'customer-focused' approach by creating a Fintech @ Scale and I believe we are doing it quite well, starting with changing the organization structure which we spoke about in our last call and that has actually brought a lot of focus on various segments and has worked very well.

The last time we had met at the end of Q1 FY23, I had expressed the confidence that as we traverse on the path of this strategic plan, we will show enhanced performance while continuing to improve our offering to our customers. We demonstrated that in the first quarter and I believe that we have demonstrated it yet again now.

What do we aspire in Lakshya 26? In fact, what do we stand for?

We want to become a top-notch NBFC, catering to rural, urban mass affluent and aspirer segment and to the SME segment. We will do this by using digital and data analytics to the hilt for creating a creditworthy pool of customers who can be retained and cross-sold, up-sold various products with the ultimate goal of delivering top class sustainable ROA. That is the ultimate goal. An effective way to achieve this goal is to become Fintech @ Scale and quite a few slides in our investor presentation are dedicated to this.

The foundation for the same has been laid and nurtured over the past 6 years. LTFH has performed, transformed into a significant player and created a Right to Win in its product offerings. Importantly, this has been achieved on the backbone of digitization and tremendous use of data analytics across the product lifecycle. We have also supplemented it by streamlining on our servicing franchise. With the ensuing database that we have created, we initiated to cross sell loans and created a digitally native product Consumer Loans, and in other products we are using this cross-selling for retaining our existing customers and up-selling to them.

Phase 1:

Digitization for us is not a one-time effort, but a constant effort towards process excellence. This forms actually the Phase 1 of our Fintech @ Scale architecture that deals with product, process and service excellence. As a small indicator, servicing handled through self-help channels. Last time, I had shared that 58% of the total servicing happens through self-help channels, the rest was through branch and call centers. Within a quarter, that has increased to 71%, the rest being through branch. And self-help channel, 71% is quite an industry benchmark frankly. Even the best in the industry are around the same level and we hope to improve even further from here as we go towards them.

Phase 2:
Phase 2 as it slowly unfolds, and we are making small beginning through our apps, we look forward to understanding the customer's needs. It is our firm understanding and a firm belief that the customer does not come to us for availing a loan. The loan is a secondary product. He or she comes to purchase an asset or for a particular need. Any need, asset or any other need, whether tractor, two-wheeler, livestock, home, setting up a small business, anything. We would want to weave L&T Finance loan offerings as a seamless proposition in this asset purchase or business process. This means that understanding the customer need is essential to etch ourselves firmly in their minds and we believe that this will enable us to create a suite of offerings by understanding the needs of the customer and thereby creating what we call Fintech @ Scale. This is expected to be facilitated by a deep digital engagement ecosystem built on self-initiated customer journeys.

We have captured it briefly in our investor presentation, the way we are going, we have captured Phase 1 and Phase 2. Phase 1 is something that, I would say, yes, it is always work in process, but we are there and Phase 2 is something which we are making small beginnings. It is in right now conceptualization stage, where we are making some small beginnings in the form of Apps and using the IT knowledge available in the group, we are developing something quite exciting and we will be, over the next year or so, we will be unfolding that slowly.
Now, allow me to move onto the highlights of the quarter.

- **Disbursements**
  Our strong business momentum, and we had said, we had promised that we will maintain at least 25% CAGR in retail book and we will achieve 80% Retailisation by 2026 and you know that the same time last year, we were around ~43-44%? What have we done this quarter? We have achieved highest ever quarterly retail disbursements, in fact, quarter after quarter we have been achieving new highs and for the first time retail disbursements are above Rs. 10,000 crores now which is 15% Q-on-Q growth and 84% Y-o-Y growth. Accepting that Q2 last year though was not in the middle of pandemic, but still we were recovering from the pandemic, accepting that, but still 15% Q-on-Q growth also we have achieved. This is special as we have been successfully posting highest ever quarterly retail disbursements, quarter after quarter for the last 3-4 quarters. Another significant achievement is our retail book for the first time has crossed Rs. 50,000 crores milestone. It now stands at Rs. 52,000 crores around which is 27% up Y-o-Y and more heartily a 9% Q-on-Q growth which gives us tremendous confidence of achieving the growth targets of Lakshya while keeping the portfolio quality good. We are marching steadily in the direction of Retailisation with now Retail portfolio mix at 58%, as I said up from 47% last year same quarter and 54% last quarter.

- **Margins**
  Margins, in fact, at a time when cost of funds is going up, we have been able to not only maintain, but actually increase our NIMs plus fees to 8.43% from 8.23% last quarter. Now, how has that happened? Certainly, number one, the WAC increase. I have been always sharing that when the cost of funds was low, we kept the CPs low and kept locking into medium and long-term borrowings at that point of time and that is working well. Our quarterly WAC is up by just 6 basis points from last quarter to 7.33%. And another thing which is working well for us is the mix change. So, yes, we have been able to pass on some increases, no doubt, but more importantly as retail products increase which have higher margins, it is working well for the overall margins. As we go ahead, interest cost will certainly increase, there is no doubt. Through our ALM strategy, we believe that our cost will increase less than proportionately than the

market increases in interest rate and by our product mix change and product strengths, we will be able to definitely maintain our NIMs plus fees at very healthy levels.

- **Asset Quality**
  As far as asset quality is concerned, GS3 remains just around 4%, it has reduced slightly from Q1 and quite substantially from last year. NS3 now stands at 1.85% and I would like to point out that our retail NS3 now is once again below 1% at 0.88%. So, that is where we are moving. As you know, our Lakshya goal is below 1% NS3 total and by 2026 most of the books will be retail anyway and this retail NS3 being at 0.88% works extremely well for us. Now, last time I had indicated that by Q2 end, the impact of OTR will be largely over for us. So, now, just mathematics, just dates, other than housing which is a secured product all other products where OTR was, the moratorium was 6 months, so 6 months after billing or actually 3 months after the billing starts, everything either would be collected or will become NPA. That has happened in Q2, accounts are largely either collected fully and closed or collected partly and the customers are paying now well or they have become NPAs and have been fully provided or written-off. So, for us, I can confidently state that the impact of OTR on P&L now is largely over. Accounts which have moved to 90+ buckets are fully provided for. We have used about Rs. 422 crores from our management overlays to provide for this, that is one, but more importantly, as an indicator to show that we believe that it is over, from our P&L we have created Rs. 64 crores of management overlays once again. So, it actually shows that we believe that the impact of OTR is over and credit costs are now firmly trending downwards. As on September 30th, we carry now Rs. 1,096 crores of management overlays over and above GS3 ECL provisions standard asset provisions. As you remember that before COVID we had the strategy of slowly creating and building good management overlays. We will continue with that as we go ahead. So, big message here, large effect of OTR is over and what you will see from next time onwards is a more steady state credit cost sort of trending downwards.

- **Mutual Fund**
  Last update before I get into the details will be on Mutual Fund divestment. As you all would have known and read, we had entered into a definitive agreement to sell our mutual fund in December'21 to HSBC AMC. SEBI has recently given an NOC for the proposed change in control of L&T Investment Management and the merger of schemes. With this, we are on track of closing the transaction in Q3 FY23 itself. As I have always said, capital gains received from the deal will be primarily used for strengthening the balance sheet.

  With all this, with excellent growth, with NIMs plus fees at very healthy and increasing level, credit cost reducing, PAT for the quarter at Rs. 406 crores is up healthy 81% Y-o-Y. A more satisfying number for me is retail which is the future of the company, the ROEs now are again close to touching 14% and on the way upwards hopefully.

With this, now we will deep dive into the numbers and try and give some color to it. As far as retail businesses are concerned, I have mentioned earlier that we have registered highest ever retail disbursements. Before I move to the performance of respective businesses, let me discuss with you the broader macro updates and especially rural outlook. As you already know, the business decisions we take at LTFH are greatly influenced by the inputs of our chief economist's team, in fact many of you receive detailed reports that our Economics team brings out, on all relevant variables that have decisive influence on rural cash flows; variables like rainfall penetration, water reservoir status, existing irrigation cover, sowing status of Kharif and Rabi, Mandi prices, Mandi arrival, rural wages, inflationary trends, etc. There are a lot of variables which go into it. It enables us in two things, it enables us what I call to do pinpoint bombing, so we can actually take pin code wise, district wise decisions on which product, where to grow and also it serves as early warning signals for increasing maybe collection effort somewhere, doing some special collection drives somewhere and that works extremely well for us. The broader movement of macro variables in the rural economy, they have to be talked about. The mood around rural outlook is now quite buoyant and early signs show that demand has already perked up in rural India. FMCG companies, for example have been witnessing good growing demand across the board in Q2, but more importantly as far as rural cash flows are concerned, elevated crop prices, robust Mandi arrivals have definitely contributed to strong rural cash flows headed by higher export demand and wage growth across most of the regions.

Going forward as well, rural cash flow prospects are expected to further brighten on back of several positive cues such as first, elevated crop prices and crop realizations in upcoming quarters especially for the Rabi crop. As you would already know, government has already declared increased MSPs for the Rabi crop. Overall water storage position across most major reservoirs is very good and the soil moisture has improved substantially. Overall area under Kharif has been good and bright prospects are already seen for Rabi sowing and of course there has been increase in the MNREGA wage rates. At the same time, there are some downsides as well. Rainfall has been uneven and especially in some top states like UP, Bihar, Jharkhand, West Bengal, rainfall has been lower than normal which would lead to lower than expected production of key Kharif crops especially in these states. And as I already said, our analytics takes that into account while looking at our disbursement and collection positions. But more importantly, these are states which are reasonably well covered by irrigation and the water reservoir levels are quite good, late rainfall has been good and everywhere across the country, the prospects for Rabi crops are good and early trends of the festival season are actually extremely good. The Pooja holidays were very, very good for some of the commodities we finance like tractors, two-wheelers, etc., and we are expecting a very good Diwali, touchwood. All in all, rural demand is expected to stay buoyant in the second half and definitely perhaps also in H1 FY24 and as far as we are concerned, I am sure that the resilient rural demand in different geographies and our strength presents a good opportunity to grow our retail businesses.

So, let me talk about individual businesses now. First, Rural Business Finance which was previously known as Micro Loans. Micro Loans is actually subsumed in the Rural Business Finance. This business which enables sustainable livelihoods at the grassroot level has shown strong disbursement trend and has recorded its highest ever quarterly disbursement at about Rs. 4,400 crores and the book has now crossed Rs. 15,000 crores. This growth is aided by our focus on strategic initiatives like repeat customer conversion for zero DPD customers, exclusive customers loan, like customers who are exclusive only with L&T Finance and don’t have any other lender, see, the new RBI guidelines and the ensuing reporting has actually enabled us to take all these calls, have all these data, our deepening geo presence, best in class turnaround time and of course completely data-based credit algorithms. As I have always said, we have always been the proponent of database credit algorithms in this business which was traditionally, people form groups or people are judged on the ground. We have moved away from that completely. Some of you have toured with our investor relations department, have seen the app in work, it is WIP, getting better, but it enables us to take very credit based stringent credit decisions as we go ahead and that actually with the growth, it gives us confidence of the credit quality as well.
According to the new RBI guidelines, we have started the digital app which measures income and the early indications are that just about one sixth or so of the loans are actually qualified as microfinance, the family income being less than Rs. 3 lakhs which means that around 85% of our loans or disbursements go to comparatively higher income groups where lending can happen using very advanced credit metrics and most importantly opens up tremendous opportunity for cross selling, more product selling at excellent credit cost. We will use that, also launch new products and sustain the momentum in this business as we go ahead.

As far as Farmer Finance is concerned, which admittedly right now remains as tractors and tractor implements finance, we are slightly late in launching our other agri inputs loans for various reasons, let me not get into that right now. We have a well-diversified footprint in Farmer Finance with a vintage of now more than 17 years and we are among the leading financers in this segment. With around 200 branches, across ~ 21 states, we disbursed little more than Rs. 1,300 crores in this quarter which was 14% higher Y-o-Y and the strategy remains the same, focusing on preferred OEM dealer strategy, enhanced customer service and improved customer retention and of course dominating counter share. As I have always said, market share we believe is derivative. We don’t aim for market share; we choose dealers and aim for counter shares and based on data analytics that moves to this market share. For customer retention we have actually in this quarter disbursed more than 7,500 units for repeat customers during the quarter and almost 97% of our total business was now done through our digital sourcing mode with best-in-class TAT of course of less than a day.

As far as Urban Finance is concerned, if we take all products together that are Two-wheeler, Consumer Loans, Home Loans, LAP, we saw 80% Y-o-Y growth in disbursements resulting in close to 30% increase in this book. Talking about Two-wheelers, we have done our highest ever quarterly disbursements of Rs. ~Rs 1,700 crores up 38% Y-o-Y. Market share has increased to about 12% against 11% last quarter. Two products of ours which are very good products are actually taking increasing share of our disbursements what we call Sabse Khaas loans and second is what we call VIP loans. Sabse Khaas loan is what we target towards cash customers. As you would know two-wheelers is one vehicle segment where the finance penetration is little above 50%. Most other vehicle segments, it is above 80, 85, 90% also. Two-wheeler is about 50% and as you would also remember just about 4 years back it was in the 30s. So, various players I think we have been one of the pioneers, have launched products for converting cash customers to loan customers. Sabse Khaas loan is one of them. VIP loan is ability to target customers who are higher category of credit which have proper income proofs, giving them loan at a better LTV and with much better credit. Very simple, even just the bounce rates of this customer is less than one third of normal customer. So, these two products have worked well and along with deepening geography it is helping our growth rate. We will continue to maintain strong focus on customer value and building preferred dealer OEM relationships and very clearly use this to continue to increase our volumes in two-wheeler segment and maintain our position among the top 3-4 all the time.

As far as Consumer Loans are concerned, we have continued to grow this which is our first digital native product and you have seen the growth of this product. We have now achieved a monthly run rate of Rs. 400 plus crores during this quarter with total disbursements of around Rs. 1,300 crores. We have increased our customer funnel. You would remember that this product was primarily cross selling to our existing customers. Now, out of the new disbursements, just about 50% comes from existing customers and loyalty. The remaining is from new partnership with e-aggregators, prospects, analysing prospects list and going for those customers, Insta loans through our apps. All this is now increasing funnel as we go ahead. So, we are seeing this book growing very well and the book quality holding quite well. From having a book size of just around Rs. 1,100 crores same time last year, now the book size is close to Rs. 4,000 crores. The festive period is further anticipated to bring high demand in Q3 for this and bodes well for the growth of this business as well.

Retail Housing, for a long time I have been talking little defensively about this segment. Though we still remain small, we are now growing quite well within this and also expanding our business just from salaried to SENP, to again slowly increasing LAP. We have an excellent team in place now and this business is now growing quite well. So, we are building, it is witnessing excellent growth momentum. During the last couple of quarters, the focus has been on slowly moving from just salaried to other categories also, thus slowly increasing the profitability of this business. We believe that we are progressing steadily on this path with disbursements now reaching Rs. 1,100 crores in the quarter. You would remember just about 1-1/2 years back, we used to do Rs 300 - Rs. 350 crores odd in a quarter. This is up now almost 20% quarter-on-quarter. We remain focused on enhancing our disbursement volumes through strategic measures like geographic presence, solid DSA partnerships and increasing customer retention. I am sure that with the current focus on increasing disbursements and improving asset quality, this business will grow bigger with time.
SME which is the latest baby, latest product offering whose pilot was launched in Q3 last year, about a year back, is now witnessing a steady uptake in Q2. So, our total disbursements in this quarter reached now about Rs. 200 crores with the volumes for September itself touching around Rs. 90 crores. So, as you would see, the next quarter can be even double of this and we can grow at a similar pace as we go ahead. We are building good value proposition, good digital journeys here. We know we are competing against some very good competitors here, but then the market is quite big and we believe we can make good impact in SME segment as well. We have now opened up more locations. We have operationalized some 17 locations up from just two locations in the pilot.

As far as Wholesale Business is concerned, in line with our Lakshya 26 goals, we have followed a strategy of reducing capital allocation to wholesale lending. This led the wholesale book registering a degrowth of about 14% Y-o-Y. Within that in Infra, we continue to follow an asset light model albeit with reduced capital allocation and focus primarily on excellent customers, only top-class customers. Real estate, we are obviously not doing any new sanctions and focus mainly on project operation and getting our returns. So, I believe, I know it is a little long, but I thought I should give you color not only on the numbers which you can read it from the presentation, but how we are achieving.

As far as Retail collections is concerned, we have witnessed best-in-class collections in Q2 FY23 across retail businesses led by company's concerted efforts, field efforts, analytics led prioritization and use of propensity-based data analytics to channelize our resources. Overall collections are up and collection efficiencies across businesses have trended extremely well and are back to pre-pandemic level and we are now giving all those charts in our presentation. Even in our wholesale businesses, collections are as per plan and the wholesale book has reduced by close to Rs. 6,000 crores Y-o-Y. Higher Real Estate collections were registered during the quarter on account of increase in project resolutions and we got something like Rs. 850 crores as principal repayments and prepayments in the Real Estate segment. That completes more or less the asset side.

Liability side, I have already talked about quite a bit in detail. So yes, interest rate is definitely going up, but we have got an excellent franchise, strategy of locking in with medium and long-term funds, going aggressively for priority sector loans and now the latest baby there is sustainability linked loans. We raised a further ~Rs. 250 crores in this quarter bringing that book to about ~Rs. 450 crores which admittedly is small, but that has great potential. With the strides we are doing in our ESG, we are quite confident of building that good franchise for raising sustainability linked loans.

As far as Asset Quality, I will just summarize by saying asset quality is quite steady with GS3 at 4.02%, NS3 at 1.85%, Retail NS3 at 0.88%. With continuous improvement in collections and with the impact of OTR now largely behind us, credit costs have started showing significantly downward trend from this quarter onwards and we expect this trend of downward moment of credit cost to continue as we go ahead.

In summary, our established business trends with highest quarterly disbursements, with higher NIMs, normalized collections, reducing credit cost bode well for us.

Having spoken about the quarter, let me quickly summarize the four pillars of Lakshya 26. The four pillars were Sustained profit and growth engine, Demonstratable strength in risk management, Fintech @ Scale and Future growth through ESG. I believe the numbers, and the detailed explanation already talk about the first two. Let me talk briefly about the third and the fourth. Fintech @ Scale has helped us to continue on our path to become a customer focused company from a product focused one. A few initiatives that I would talk that we have introduced or I would like to report progress.

The first is Planet App. This is our customer facing app which was soft launched during the last quarter of FY22 and has had a steady pickup. We now have about 7 lakh downloads which is up from 2 lakhs last quarter. While the application initially was limited to onboarding and servicing customers till Q1, we have opened it up now for disbursements of especially consumer loans and we have achieved disbursement of about Rs. 126 crores in Q2 exclusively through the app. It is a small number, but considering that the app is new, it encourages us while servicing more than 7.5 lakh customers through the app. So, we want the customer's headache of calling up call center, branch, etc., to go totally. The application is available both on App Store and Play Store and the company expects to continue scaling it in the coming quarter to make it a full-fledged and re-imagined customer engagement engine.

We launched our WhatsApp channel for customer servicing in Q1 and that is now slowly moving to even business acquisition channel. I had demonstrated it to you who attended our annual meet. That time it was completely servicing bot, now slowly disbursements have started through that for consumer loans and so we have now WhatsApp based disbursements giving immediate credit decisions. While the disbursements remain very small since it is absolutely in pilot right now, we expect that it scales up quarter-on-quarter.

Leveraging data analytics for customer retention being the third initiative, the company continued on its path of actively working towards leveraging its Rs. 7 crores plus database developed over the course of its businesses across years. At present, 47% of company's disbursement in Rural Business Finance and 28% in Farmer Finance are driven by cross-sell offer generated by the company. Our consumer loan book of close to Rs. 4,000 crores is largely driven by loans through our retail loyalty customer base. In addition to this, based on our data analytics the company is also working on identifying and addressing pockets of currently untapped potential of our customer segments and we will be launching additional initiatives and products around the next quarter.

Let me now speak about the fourth pillar which is ESG. I am happy to share that during this quarter, we continued to move steadily on our path of achieving carbon neutrality. We had set a target of 10% reduction in carbon emissions for the whole year. I am happy to record that in the first half itself, we have achieved that already. We have also demonstrated our commitment to human rights by signing the WASH Pledge developed by the World Business Council for Sustainable Development. There are other firsts in this quarter as well as far as our ESG is concerned. We instituted an Inclusion and Diversity program in LTFH which we want to establish as a strong indicator of our commitment towards inclusivity in the organization. Furthermore, we also developed a sustainable loan framework with us now raising Rs. 225 crores in form of sustainability linked loans in this quarter in addition to Rs. 200 crores raised in Q4 of last year. Lastly, I would also like to share with you that our commitments towards sustainable growth was recognized by the industry at large and we received some prestigious awards like the Mahatma Award for our ESG initiative in the quarter under review, second quarter, which we believe is a testimony to our commitment.

With this, I would just like to say that the performance during this quarter with multiple consumer offerings in pipeline, with strategic steps taken on various fronts, we believe we are well in line for our objectives of Lakshya 26, hopefully to achieve them even before 2026, the objectives being 80% retail book, more than 25% CAGR in the retail book, NS3 of less than 1% and ROA between 2.8% to 3% and we are now slowly showing a march towards that. I thank you all for a patient listening. I wish you; I know I will open up with questions, but wishing a very Happy Diwali to all of you, your family, colleagues, everybody. 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 had three questions. First one, while your consumer loan is completely a digital native product, the SME loan product seems to be, the channels for them both seem to be traditional as well as via the digital app and given that both these products are growing rapidly from a very small base, just wanted to get a better understanding of the target segment, ticket size and yields in these segments. That is the first one, second one is on the fee income, while the NIMs have expanded led by the retail growth and the mix change, the fee income has gone down sequentially. Given that the retail disbursements are picking up, is there any further color on the weakness in the fee income and the outlook from here? And thirdly, the question is on the Real Estate. Out of the total loan book of Rs. 9,000 crores plus, post we have this Rs. 2,100 crores of gain from the mutual fund and if I recall correctly Rs. 300 crores of overlay provisions that we carry, what would be the total provision coverage on the Real Estate book? That is all from my end, sir.

Dinanath Dubhashi:

I will answer the first two, we are not giving product wise provision coverages and I think now disclosure norms are continuously being strengthened, so I am not sure I can give numbers which are not there in the investor presentation on the call. So, let me answer the first two which are more descriptive in nature. So, first the route., So, Consumer Loans, the credit algorithms on the entire customer segment really can be digital, can be completely data driven and hence not only credit, but the entire process including documentation, KYC, everything can be digital. And that is why, with that conviction, we kept and it is not as if there was not request from the business to have it physical and all, but we kept that as a conviction. SME on the other hand, we have two segments, one is SEP, i.e., Self-Employed Professionals where we are now targeting, first, to start with chartered accountants and doctors and then there is SENP which are small businesses. So, right now, to be very frank, the SEP, the chartered accountants and doctors is what we believe can be completely digital; it is centralized credit, digital. there is still an aspect of personal discussion in it. So, in a way, even if it is completely, I would say, non-paper, I don't call it totally digital because there is a human intervention of a personal discussion, we have to get lot more confidence in our data base, scale, etc., to let go personal discussions. Some competitors especially I would say the marquee NBFC is quite old in this and I am aware that they do certain segments without personal discussion and hats off to them for the expertise they have built over the years for this. We are pretty new and hence my credit department still sees the need of a personal discussion for SEP. As far as SENP is concerned, while the onboarding is digital, it is completely assisted digital and the documentations required as well as the credit appraisal, factory visit, legal, technical, all these are completely physical at this point of time. So, this business being digital totally is in my belief about a 2-year runway. We will keep making small moves towards that, but not I would say hedonistic or a stupid push for somehow, I want it digital against where the market is. So, we will not be, I would say, just unreasonably wanting to go digital in this, the market is still quite physical in this. One by one items we are getting as far as digital is concerned, like for example, if the customer shares particular codes with us we can access his tax record, GST records, we can access his bank records, many of these things, even if his financial statements are physical, there are softwares as you know very well to convert it to digital and analyze. So, various aspects we will keep digitizing as we go. Like for example, PD, personal discussions, many cases, we do video PD. Now, if I can call it digital, yes, but it is not truly digital, I mean it just replaces somebody going there and doing a PD, so it is more better for TAT, but it is still a PD. Just for claiming digital I can say digital, but it is not truly digital. Geo tag for example, we now, every customer is geo tagged which is a good digital movement in that direction, but to answer you frankly for SME, SENP SME especially to move to totally digital, I see for us and I don't want to speak for the industry, it's a 2-year period. Perhaps what we will move for is lower ticket sizes. What we tried to do is keep it 100% paperless, that scanned at the DSA and we process. So, no paper flows in the company. That is what we tried to do. To answer your ticket size answer, the average ticket size for Consumer Loans is around Rs. 1.4 lakhs for Consumer Loans and for SME it is around Rs. 25 lakhs.

Rikin Shah:

Just on this point, while I am not sure whether you would be able to talk about the yields, but on qualitative basis, would the yields be largely in line of higher or lower than our Retail loan book yield of 15-16%?

Dinanath Dubhashi:

Around that. It is largely in line with that, around that, both the products.

Rikin Shah:

That answers the first question.

Dinanath Dubhashi:

Fee income, fairly simple answer. Some part of the fee also comes from wholesale disbursements, so as wholesale disbursements have reduced significantly, the fee income related to that has also reduced, so that absolute fee income has reduced, number one. Secondly, as we have reduced our liquidity and what it is actually a negative carry, so the cost of funds has also gone down and other income has also gone down, so actually PAT will go up because of that, because that income is negative carry if you understand. So, it is fee and other income, other income includes interest on liquid balances that we carry, so even if that has come down, the interest cost has reduced more than that. I already said, your Real Estate question, I won't be able to answer.

Moderator:

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

Kunal Shah:

Firstly, in terms of the cost, when we are rolling out Retail products and launching many of the products, if you can just explain in terms of the cost of acquisition, how we are faring compared to that of the other players and how would we ensure the retention because may be you might acquire the customers, but most of these segments are very competitive and then we tend to lose it out to say some of the other banks and NBFCs as well, so how do we try to balance both in terms of the cost of acquisition, retention and where do we see the overall opex to assets with the scaled up Retail products?

Dinanath Dubhashi:

Excellent question, I will answer this in two ways, one is cost of opex and second is acquisition cost specifically. So overall opex. If you see overall opex, yes, it is higher than what it used to be maybe 2 years back. Right now, very importantly, is the investments that we are doing in new branches, in digital and in growing. And in our calculation, close to around 4% of cost to income is investment and the rest is steady state cost. This will continue even perhaps, large part of next year, as we grow branches, as we put more people in growing especially SME and Home Loans. SME and Home Loans right now are in growth phase, naturally every product won't be at nice steady state, making a lot of money for the company. This is how every company will have to grow that there are cash cows and then there are stars which will be hopefully tomorrow's cash cows. So, investment is going into these products, a lot of investment is going into IT, digital. Our commitment is by 2026, majority of our products should be IT enabled, I think if I am not mistaken, you travelled with our team everywhere and you saw some of the apps that are working and that will continue, Kunal, that will continue as we go ahead. So, we are not too worried about the overall cost now. This we believe will bring more than its stead in terms of income as we go ahead, but all the time where we launch new products, new businesses, there will be a phase of investment in those products as we go ahead. So, most of the branches that these new businesses happen at the same locations no doubt, but it will also mean investment in people, then the branches will not be enough, you have seen some of the Rural Business / Micro Finance branches, obviously you can't do Home Loans from there. So, those kinds of investments will happen. So, we are in that phase right now. Overall, the plan for the next 3 years shows operating cost trending well as more and more products get into more mature stage. So, that is number one. And number two is acquisition. Generally speaking, we keep our acquisition cost within the range of the processing fee that we earn from the customer, so we try to see that that doesn't become negative. Now, why are we saying try to see is there will be various periods, various seasons where we will invest, that we will maybe reduce the processing fee a little bit, so we will be little bit negative there or in new products that we launch like in Home Loans, SMEs, may be initially we have to part a little bit more for DSAs and as more and more these products we do, two things will happen; as volume grows those fees will come down, number one. Number two, as we slowly have our own channels because any business initially it will be DSA led and then as you get your own sourcing mechanism, the percentage of DSA and own sourcing will change and last but not the least when cross selling and top up kicks in, this third item, proximity based selling, cross selling, top up, etc., will also come. Now, every product moves in this direction, even though Two-wheeler or Tractor doesn't have a DSA, they have dealers. So, only Micro Loans actually is a business where we don't have to pass on the acquisition cost, but in all other businesses we have to pass on acquisition cost. So, it works on these three principles, first try and make the acquisition cost lower than processing fee and use your speed, your servicing to make sure that the customer sees value in paying that processing fee, that is number one, acknowledging that in certain new products that won't be possible, but also consider it as an investment and then as we go ahead, reduce that, pass on and also increase the percentage of own sourcing and then lastly increase the percentage of cross sell and up sell, top ups. So, that is how the business will grow and keep getting more and more profitable. Does that answer your question?

Kunal Shah:

Yes, and if we have to put out a number in terms of opex to assets, particularly on the Retail side, so where do you see it eventually, may be currently it is around about 4.4% and it has been in that range, but may be DSAs also there is lot of competitive pressure given dealer payouts and we're still at the lower end, so do we see that this might inch up closer towards 5% or 4.75% or so, as we try to scale up?

Dinanath Dubhashi:

No, going up is out of question. No. So, this is also perhaps more because of our SME and Housing. Two things will happen in the next 2-3 quarters, as volumes of SME and Housing increase, that portion will move up and with Micro Loans, Farm increasing, it will move down, so that weighted average actually, I see remaining steady for the next let us say, 4 quarters because of this and as then for these other two products also, it will start trending down from there.

Kunal Shah:

And secondly, in terms of core NIMs, even though may be we are highlighting that it is largely because of Retail, but if we look at the core NIMs in Retail that has been down, may be when we look at it including the fee income, it is down almost like say 24 odd basis points and the wholesale is something may be wherein NIMs plus fee has actually gone up by 17 basis points, so how much do we see it sustainable because when we look at around the Retail there is hardly like 10 basis points kind of an improvement in margins and most of it are also fixed rate products, so there wouldn't have entire repricing and there is benefit of deployment of liquidity as well, so where do we see this NIMs plus fee sustaining?

Dinanath Dubhashi:

Kunal, frankly, if you are commenting at 10 basis points, 15 basis points, I won't be able to give you answer because every quarter it can certainly move 10-15 basis points, it will depend so much on product mix and things like that. The statement I made was, so by the way I don't know which number you said it has come down because our retail NIMs have actually gone, just NIMs, core NIMs have gone up both Y-o-Y as well as Q-on-Q, at least the numbers that I see, from 9.85% to 9.95% it has gone up.

Kunal Shah:

Sir, I was referring to NIM plus fee, that is still down from 11.57% to 11.3%.

Dinanath Dubhashi:

We have been conservative in recognizing some cross-selling income at this point of time, some developments in the industry regarding insurance companies etc., we have been very conservative in recognizing that, I will be able to say only that, but NIMs for example, 10-15 basis points here and there, every quarter I may not be able to comment on. What we believe is 2-3 things will work right; Micro Loans growing well, which is a high NIM product, SME and Consumer Loans should grow up from now and then Home Loans growing. But yes, hopefully the higher NIM products are growing more, that is the first aspect of that. The interest cost is increasing, but not increasing like 50 basis points of repo rate etc., increasing less than that and most importantly even the fixed rate products, most of our fixed rate products are 2-year loans, with the duration of just above 1 year. They also cycle down quickly, so the only thing which we will have to consider is competition, that whether competition will allow us to pass on in each and every product or whether we choose to pass on or keep interest rate same and grow volumes. Those calls will be taken strategically. So, frankly with the NIMs that we have, the strong NIMs, 9.5% for example, at 9.5% NIM if I get a choice of increasing volume and sacrificing NIM by 20 basis points or increasing volume less and keeping NIM same, I will take the first choice anytime because the absolute NIMs are so high. So, I will grow volumes more and may be reduce NIMs a little bit. The strategic direction I would like to give is we are confident of maintaining good levels of NIMs plus fees, whether it will trend 5-10 basis points up, down, in the current interest rate scenario I will be not only daring but foolish to predict over the next couple of quarters.

Moderator:

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

Nischint Chawathe:

Just one question is, while everything looks good on the macro and we clearly see collections improving etc., why did you have almost Rs. 500 crores kind of a write-off in the quarter?

Dinanath Dubhashi:

See, it is like this, the entire OTR book, not entire, whatever moves, we have two choices here, that either to show GS3 and 100% provision or to write it off. So, only the GS3 number changes, right because the provision is 100%, the NS3 number will not change. So, let me at least write-off and get the tax advantage, it is a financial decision. Whatever is 100% provided, for business it is neutral and write-off doesn't mean we give up the effort to collect. So, either we keep a 100% provision and collect or we write-off and collect. Business wise, it means the same. It is a financial decision. Very simple, if this Rs. 550 crores, if you wouldn't have written-off the GS3 would have been higher by Rs. 550 crores, the PCR would have been higher because they were 100% provided and NS3 will be the same.

Nischint Chawathe:

The point I was trying to make is that there is almost a Rs. 556 crores kind of a credit cost for the quarter, your overall provisions on the balance sheet have been stable, then this is write-off that has hit the P&L, right?

Dinanath Dubhashi:

No, don't look at it like that. The overall credit cost actually without taking, let us just take a step back and gross up this Rs. 422 crores that we took from the overlays, then it comes to close to Rs. 1,000 crores which you can say that Rs. 1,000 crores is same as last quarter, so what is the big deal, so but this Rs. 1,000 crores includes Rs. 422 crores of roll forward from OTR which is now over. So, it is not going to come next quarter. So, without OTR flow, this Rs. 1,000 crores will be around Rs. 550 crores, around Rs. 570 crores and this OTR flow is not going to be there for next quarter, it is over because everything has flown now simply by dates, 90 plus done, everything means whatever had to flown, flown and finished, so that is the way to look at this. So, whichever way, this pocket, that pocket, the way is very simple, ~Rs. 575 crores is credit cost this quarter which is only going to trend down going ahead. That is the conclusion.

Nischint Chawathe:

So, this is basically onetime OTR thing which is?

Dinanath Dubhashi:

Exactly, that is what we have said, committed.

Nischint Chawathe:

And what would have been the standard asset ECL on balance sheet?

Dinanath Dubhashi:

ECL, that is Stage 1, Stage 2 total plus OTR, we have given that number in the presentation. So, Stage 1 plus Stage 2 plus OTR consol is 2.1%, for Retail, it is 2.4%, Stage 1 plus Stage 2 plus OTR, standard assets.

Moderator:

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

Abhijit Tibrewal:

Sir, first question is around capital gains that you are expecting from the sale of your AMC business. Wanted to understand, though you have given brief commentary in the presentation, I wanted to understand what proportion, firstly what is the capital gains that you are expecting from this transaction and what proportion out of this will be utilized for macro prudential provisions and will the remaining be kind of kept on the balance sheet for growth capital?

Dinanath Dubhashi:

Approximate capital gains, the pricing we have already told, how much it is, the total is about, we have sold it for USD 425 million plus cash and the surplus cash should be another USD 100 million, around that area. Now, it depends on many things. We were initially expecting the transaction to close in October end, so we had taken a cover up to that. We are now revising the cover, so what is the rate of cover, exactly when will be the date, rupee, dollar, at least the rupee dollar is depreciating, so at least we are happy. I don't know what happens to the rest of the world, but we will finalize first of all the amount, this is the consideration in dollars, the exact amount in rupees, I will be happy if somebody can predict the dollar rupee rate especially because we have to renew the cover at the end of this month, otherwise I would have told you the exact rate at what we have covered and all those things, so that's that and exact proportion of that what I will use for various, if I had to disclose it now, I would have disclosed it in the presentation. So, very clearly it is something that the Board will take the decision once the eggs hatch and then we will immediately communicate. Primarily, it will be used for strengthening the balance sheet.

Abhijit Tibrewal:

Sir, second question that I had was that multiple times, during the opening remarks and when few of the participants earlier asked you in precise that the pain from at least unsecured OTR book is now behind, when we kind of look at your ROA tree, the biggest line item which keeps moving or is the most volatile is credit cost, so given that you also suggested to the last participant that credit cost will now start to moderate, what would be a steady state kind of a credit cost for the kind of franchise that we have now from let us say from here onwards?

Dinanath Dubhashi:

Retail credit cost is about 3.5% for this quarter. We expect it to start coming down and go below 3% hopefully by the end of this year itself or around 3%, may be not below, but close to 3% by the end of this year.

Abhijit Tibrewal:

And then from next fiscal year onwards should be more in the range of 2.5% for the full year?

Dinanath Dubhashi:

Let us hope. The business has the capacity of reducing it further, let us hope.

Abhijeet Tibrewal:

Sir, my last question is that while we guide in the Lakshya plan that we would endeavor or target 30% kind of a loan CAGR in Retail, can you also help us think through how should we look at the wholesale book because time and again, there have been various media articles and we have also suggested in some earnings calls that we plan to do something on the Real Estate business and the Infrastructure segment, so how should we think about, what are you trying to do in these two particular Wholesale segments, Real Estate and Infrastructure?

Dinanath Dubhashi:

Real Estate segment, very clearly, we have stopped doing any new sanctions, we are concentrating on two things, one is completion of projects and getting the repayments and various presentations that we have done before shows the progress that we have done over the last 1 year and even this quarter we collected about Rs. 850 crores. Simultaneously, we are also looking at various partners who can come with us with a priority structure for getting into, because even though we are not doing any new sanctions, for completion of projects we have to put out money. So, we are actually looking at partner funds especially who will come hopefully on a portfolio or at least asset by asset, come in with a priority structure, we will not disburse any further, they will disburse priority loan, complete the project, then as the cash flows come, they will take their money first and then we will get our money. So, the structures like that, obviously with our loan remaining current all the time, that is obvious and so that is the structure we are looking at in Real Estate and that we have been very clear.

Infra is, actually we are looking for a partner because we believe that the business has good potential to grow, it doesn't, perhaps putting more capital into it, doesn't fit in our overall ROA promise that we have given and hence we are limiting capital. So, one way, the ideal way is to get a partner into this business, preferably a majority partner for this business and efforts are on there. And has some people come and discussed with us? At various times there will be media reporting, so that can't be helped, we can't control that and that will happen. If that happens, and why I am saying 'if' is that in a rising interest scenario obviously people's interest will vary naturally. If interest rates were steady or coming down, by now there would have been tremendous interest, but as interest rate is going up it is very natural that people will vary to take up a large book especially, so that efforts are on and when we see a fruit, we will obviously come to you. In the meanwhile, as you know, we have a very strong sell down engine and as we become more selective in further underwriting and to start selling down more aggressively, the capital towards this business will reduce. It will reduce capital towards this business while protecting the franchise which hopefully can be sold soon. So, that is the overall strategy and that is why I am not talking about the overall book, etc., because Wholesale book I don't want to give a trend, if it trends down by how much, how fast, we will see in the next 2-3 quarters. I want to only talk about the Retail book, the way it will grow. By the way, we have not promised 30%, we have promised 25%, but we have shown 9% Q-on-Q, so probably this year it may be 30%.

Abhijeet Tibrewal:

And I am squeezing just one last data keeping question, let me know if you already published it in presentation, what is the quantum of the OTR pool that we have at now and if we used to give out a slide where you used to publish the absolute quantum of standard asset provisions on Stage 1 and Stage 2, so if you could please share that with us?

Dinanath Dubhashi:

We just told that Stage 1 and Stage 2 is about 2.1%, absolute quantum is what about Rs. 1,800 crores total, so that comes to around 2.1% Stage 1 plus Stage 2 plus OTR. So, that is the number and I already published it on the call. That is number one. Number two, largely the OTR remaining now is Housing that is about, Housing is around Rs 884 crores, around Rs. 900 crores of Housing. That is the largely one remaining. Large part of it around Rs. 600 crores will open up next year. However, it is fully secured, we have tested security of everything and there we are quite confident that big costs will not come, it will be in steady state credit cost.

Moderator:

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

Dinanath Dubhashi:

Thank you. Thank you once again ladies and gentlemen, excellent questions, I would only like to once again express the confidence that not only the quarter is good in all aspects, growth, margins, cost, credit cost, excellent growth in ROA, NS3 for Retail, reduction in Wholesale, it is all happening according to plan, but various measures we are taking, various tools we are using, launching, various initiatives we are taking, products, digital makes us tremendously confident that we will be able to follow up on this act and improve it quarter and quarter as we go ahead and the Lakshya 26 objectives, I am beginning to get confident that we will be able to actually prepone the achievement of these objectives as we go ahead. So, on that note, thank you for being patient. Thank you for your continuous support. We will of course be available for any investor meets, etc., that you guys arrange. My IR will be available, myself will be available as we go ahead and before we end wish you all a very Happy Diwali. This Diwali is perhaps the first Diwali which comes without any shadow of the pandemic, so wish you all a very happy healthy Diwali. God bless all of you. Thank you.

Moderator:

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

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