

Shiv Muttoo: Good evening and welcome to this call hosted by L&T Finance Holdings to discuss the “Preferential Issue of Equity Shares and Warrants to Bain Capital”. We have with us on the call today Mr. Y M Deosthalee – Chairman and Managing Director and Mr. N. Sivaraman – President and Whole-time Director and other members of the senior management team. We will initiate the call with opening remarks from the management, followed by an interactive Q&A session.

Y M Deosthalee: Good Evening. Thank you very much for joining us on this call. This call is with reference to primary issue of shares and warrants being made to Bain Capital of up to 5.27% of the capital of the company at an average price of Rs.74/share, considering all the warrants get converted. Bain has now an indirect and direct exposure collectively of little over 10% in LTFH. In our view, this is a landmark transaction for us. There are three important reasons for that -- #1, we have the backing of an important financial investor i.e. Bain Capital who has chosen us for their first ever BFSI investment in India and we see this as an important validation of our business model. The second reason is the transaction is at a premium to the market price and structured so that we have the funds on hand when we need them over the next 18-months period. The third reason is it positions LTFH to invest into the eventual economic recovery without being distracted by capital raising concerns since we will not need any more capital till March 2017.

The transaction details are in the press release already sent to you. This call is only for this particular deal. Since we are towards the end of the quarter it will not be appropriate for us to deal with any issues with reference to the quarterly performance of the company because the results are just less than a month away. These are some of the comments I wanted to make in the beginning.

We will be more than happy to answer questions. I have with me Mr. Sivaraman and all the other senior management members of the group. So thank you very much once again and we will be happy to answer questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Hunsini Amritha from Business Standard. Please go ahead.

Hunsini Amritha: I would like to understand the background for the fund raise. Is there any particular project that you have where you would want to utilize this capital towards or any particular business segment that this capital is going to be used for? What sort of plans do you have for the entire money that is being raised?

Y M Deosthalee: As we said earlier, this money is going to be available to us over a period of 18-months. It is not that the entire money is going to come upfront. The second thing is that we are a growing company and there are prospects for growth in many of the sectors in which we operate. The money will be available for future growth in all our businesses. As you know, we have

Retail as well as Wholesale business. And we believe that 6-months down the line there will be some recovery in the Indian economy and we would like to make sure that we do not miss this opportunity because of lack of capital.

So, what we have tried to do is that we have addressed our capital raising issue with this particular transaction. And as I said in the beginning, with this we have capital available till March 2017. This is not for any individual project. This is for overall growth of the lending business.

Hunsini Amritha: There has earlier been an attempt to apply for banking license. Would you want to re-apply once again?

Y M Deosthalee: We are not aware of Reserve Bank of India asking for universal banking licenses at the moment. As and when the window is open, we will seriously consider it.

Moderator: Thank you. The next question is from the line of Pritesh Bumb from Prabhudas Lilladher. Please go ahead.

Pritesh Bumb: What will be our Tier-1 ratio after this capital raise for the holding company? I think this is raised at the holding company, right?

Y M Deosthalee: This capital is being raised at the holding company level.

N. Sivaraman: Capital is raised at the holding company level to be able to provide for Tier-1 requirements of the operating entities which is L&T Finance, L&T Infrastructure Finance, L&T Housing Finance, L&T FinCorp, FamilyCredit and L&T Infrastructure Debt Fund which are the operating entities on the ground. Tier-1 comfort at the holding company level is very high because it is very marginally leveraged as compared to the overall net worth. So we have to look at the lending entities' Tier-1 capital.

Depending on the way you look at each one of the business, we are operating anywhere between about 14.5-15% kind of Tier-1 adequacy at various entities. So as we achieve some growth in the current year some of these will get consumed. Our target is to operate the entities at about 12.5-13% of Tier-1 equity taking the constraints around rating in account. What the rating agency will expect us is to maintain certain ratios on Tier-1, leverage as well as the net worth to net NPA ratio. So we believe as we achieve growth during the current year and next year we would need capital.

When Mr. Deosthalee mentioned that we may not need capital till March 2017, it is assuming a 25-30% kind of balance sheet growth between this year and next year overall. So that is a number that we are looking at. So, this would basically kind of ensure that our Tier-1 is maintained at a target level of 12.5-13% at the operating entity level. The holding company has got certain liquidity plus this will provide additional liquidity over the next 18-24 months. So if we have to convert this into a number at the consolidated

lending entities, we should be in the region of about 16.5-17% Tier-1 capital at the moment.

Y M Deosthalee: One more point I just want to reiterate that is this capital is not being raised immediately. Only some part of it will come now and the balance will come over a period of 18 months. As and when the entities require capital we will decide to call for capital i.e. we have a right to convert or ask Bain Capital to convert the warrants into equity capital depending on the requirement of capital for step down subsidiaries.

Moderator: Thank you. The next question is from the line of Namesh Chhangani from Ambit Investments. Please go ahead.

Namesh Chhangani: Sir, my question pertains to the redeemable preference capital which you already have. So how much of this capital will have to be repaid in next 18-months? When we will be receiving the equity which we have recently raised on Bain Capital?

N. Sivaraman: In the next fiscal year we will have about Rs.500 crore which is the first tranche of preference shares that we raised will be due for redemption.

Namesh Chhangani: That was Rs.750 crores if I am not wrong?

N. Sivaraman: Yes, but some of it was for 5-years, so about Rs.500 crores will be redeemed. But I think we will have to look at the capital structure in the overall context of how you fund Tier-1 at the operating entity level. At the holding company level, we will balance between leverage and pure equity as we look at the ROE and business over a period of time. So there is always a possibility of reissuing those preference shares where the business growth has been strong. If the business growth is not strong, we might allow this equity to be used for redemption of the preference shares and substitute it with preference shares whenever there is a capital requirement.

Namesh Chhangani: Preference share would remain as one of our source of funding?

Y M Deosthalee: Yes, but redemption will depend as Mr. Sivaraman said, on the growth prospects by the company.

Moderator: Thank you. The next question is from the line of Chetan Vaidya from JHP Securities. Please go ahead.

Chetan Vaidya: Was there an option for the company to raise money by way of bank borrowings instead of selling of stake to Bain Capital?

Y M Deosthalee: Bank borrowing is part of the leverage of the company. This is an equity capital for maintaining the leverage at an appropriate level in the step down subsidiary. It is necessary for us to have Tier-1 capital in those companies. So, depending on the requirements of individual companies, we have to put

in equity and that is the reason. This is equity capital and this cannot be compared with bank borrowings.

- N. Sivaraman:** For the purpose of providing Tier-1 equity to the operating entities, we need to really look at long-term sources, right. Equity is definitely one. In addition to that we have used preference capital as a long-term source. Debentures or borrowing at the holding company level can be another source. But let us remember that the only income at the holding company level is in the form of dividends which are 100% tax exempt. So the ability to use the tax set off of a borrowing cost is not available at the holding company level so freely, which is the reason why we have chosen the capital structure for the holding company as a combination of equity and preference shares. We do raise borrowings from time-to-time but they are more like ways and means to manage some short-term needs at the operating entity level. Otherwise, normally we avoid the pure debt at the holding company level.
- Y M Deosthalee:** It is very uneconomical to have a large debt at the holding company level.
- Chetan Vaidya:** Can you briefly touch upon the areas of lending that this money will be used for?
- Y M Deosthalee:** We have Retail and Wholesale business. Depending on the growth in individual businesses, we will capitalize from time-to-time and it all depends on how growth pans out in these entities. As we have said in the beginning in Retail we are focusing on four main areas like the Tractor Financing, Micro Finance, Housing and Two Wheeler Financing and in case of Wholesale, we are working on renewable energy and funding operational assets. So depending on the growth in all these segments, from time to time we will capitalize the step down subsidiaries.
- Chetan Vaidya:** Any plans to have a tie up with any kind of payment bank?
- Y M Deosthalee:** We did not apply for the payment bank as you know. But if there is a good opportunity for us to work with someone we will explore.
- Moderator:** Thank you. The next question is from the line of Rajeev Pathak from Geecee Investments. Please go ahead.
- Rajeev Pathak:** Is there any board seat or anything that has been offered to Bain Capital?
- N. Sivaraman:** They will have one board member.
- Y M Deosthalee:** As I said in the beginning, they will have indirect and direct exposure to L&T Finance Holdings of about 10% and that gives them one seat on the board.
- Rajeev Pathak:** On the holding company?
- Y M Deosthalee:** Yes, holding company and on some of the major subsidiaries.

- Moderator:** Thank you. The next question is from the line of Anish Tawakley from Barclays. Please go ahead
- Anish Tawakley:** Is there any lock-in on how long Bain has to hold the shares?
- Y M Deosthalee:** There is no lock-in, but it suffices to say that they are long-term investors.
- Moderator:** Thank you. As there are no further questions, I would now like to hand over the conference call back to the management for their closing comments.
- Y M Deosthalee:** This was specifically for the purpose of this transaction which we have clarified at the start of the call. We have also given a press release. There is nothing much to add beyond this. Thank you very much once again for joining the call.
- Moderator:** Thank you very much, sir. Ladies and Gentlemen, with this we conclude today's conference call. Thank you for joining us. You may now disconnect your lines.