

Banking for the Future

With a diversified portfolio of financial services and a strong parentage, the company is among the few NBFCs that are well-positioned to make the most of India's growth story

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L&T Finance Holdings has been a steady performer in the past two years even as most of its peers have struggled during the period. In the last six quarters, the Mumbai-based non-banking financial company (NBFC) has reported an increase in profits in each successive quarter, barring one, while earnings declined in the rest of the industry. With its diversified portfolio of financial services, the company is among the few NBFCs that are well-positioned to make the most of India's growth story.

"We have positioned ourselves as a comprehensive business solutions provider. This has ensured growth in our earnings despite various business cycles," said YM Deosthalee, chairman and managing director of L&T Finance Holdings.

The company is indeed a comprehensive business solutions provider as it provides financing for infrastructure and construction projects, vehicles, housing, loan against shares and it also deals in microfinance. In addition to this, it entered the mutual funds industry by acquiring Fidelity mutual fund

L&T FINANCE HOLDINGS' FINANCIALS

	FY14 (₹ Crore)	YoY % Change
Sales	5,221.2	30.9
Net Profit	596.9	16.3
	FY14 (%)	YoY Change in BPS
NIMs	5.5	-15
RoA	1.5	-2

in 2012.

"In the last one or two years, the infrastructure sector was not doing well. At that time, retail businesses compensated in terms of growth," said Deosthalee, who believes the company's comprehensive portfolio of financial services, management strength, risk management system and strong parentage gives L&T Finance Holdings a competitive edge over its peers.

The company's executives in each segment come with a rich experience in the industry, he said. "All segments are independently managed. In addition to this, the parent L&T's brand gives a high level of confidence to our customers, banks and employees. We also get a better pricing when we borrow funds," he said.

In the current fiscal, the company expects improvement in margins despite no substantial growth in lending. "During the last three years, we have concentrated more on bank borrowing as capital market was

not very conducive. But in the last three months, debt placements to institutions have picked up due to a stable interest rate environment and expectations of reduction in interest rate in another two-three quarters. This has given institutions confidence in investing in fixed-rate securities. We intend to maintain our net interest margin or NIM between 5.75% and 6%," said N Sivaraman, president and whole-time director of the company.

At the end of 2013-14, the company's NIM was 5.5%.

Although Deosthalee says each business segment that the company operates in has the potential to grow, he is most upbeat on rural banking. L&T Finance Holdings intends to focus on technology in underpenetrated rural markets for growth.

"The future of banking is not in opening branches but in technology and innovations," he said, adding, "With our fleet on street branches, we are reaching our customer without physical branches. Our officers go to the customer's place and do operations on tablet. How fast you can reach and serve the customer will eventually be the order of the day, with adequate risk management. Data is transmitted to the nearest branch and post the appraisal, loan is processed within a day."

Over the next couple of years, the company wants its mutual fund to figure among the country's top ten mutual funds. At present, it is the 13th biggest mutual fund in India in terms of assets under management. "Three years from now, we would like to keep our wholesale and retail loan book nearly same. As of today, wholesale is higher. Over a period of time we would be more comfortable if retail is 65%," he said.

Despite the growth potential, Deosthalee believes in not setting a specific benchmark for the future.

"We do not believe in setting targets because then we would be chasing a target. Our target is to achieve sustainable returns over a long period of time. This means we would like to achieve a return on net worth or RoNW of 16-18%. As of now, it is lower because we have made significant investment in asset management business. Hence, it will take one or two years to reach that level," he said.

While the company continues to focus on growing its business across verticals, its efforts are more concentrated on turning into a bank. "Our business model is more like a bank. So we believe we can become a successful bank in future," he said.

YM DEOSTHALEE

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