THE FINANCIAL EXPRESS

INTERVIEW: DINANATH DUBHASHI, MANAGING DIRECTOR & CEO, L&T FINANCE HOLDINGS

'Focus on increasing fee income, cutting expenses key to rise in RoE'

*L&T Finance Holdings has been working on a turnaround since 2016 and the strategies being implemented by the company towards this end seem to be producing results. **Dinanath Dubhashi**, Managing Director & CEO, L&T Finance Holdings tells **Bhavik Nair** in an interview that the company has simplified its organisational structure by moving away from a top-heavy model. As part of its turnaround strategy, it is focusing on its core businesses of lending (wholesale, retail & rural) and wealth management. Greater importance is also being given to generating fee income, while continuously and systematically paring costs. Excerpts:*

How has your turnaround strategy been progressing?

From 2011 to April 2016, our return on equity (RoE) was largely around 9.5%. Even though we were making profits, we were not creating shareholder value. When we looked at it deeply, we found two main reasons. One is that we were in too many businesses. I don't think diversification is a bad thing, but you should ensure you can win in every business you are in. We were in many businesses that we were not good at. Because of that a large part of the money that we were earning in our dominant businesses was lost in those businesses where we were lagging. Second reason was that we were very top-heavy. The ratio of people in the head office, who actually form the bulk of the cost, to the people in the branches, who generate most of the revenue, had become very lop-sided.

We started the revamp exercise in April last year. The objective was to maximise shareholder value. We formed a very simple strategy—to be in businesses where we have the right to win, to simplify our structure and to have the right people to execute. We set quarterly milestones. We put good hand-picked middle level people in charge of the projects. We gave them quarterly and four-year targets. And this strategy came to life.

You spoke about a rise in RoE. Could you elaborate?

All five businesses are growing well with every one of them being profitable and contributing to the RoE. Within 18 months, our RoE has increased from 9.5% to 15.15%. This has happened in four ways. One is that good businesses are growing very well. Second, we decisively shut the businesses that were non-core. And then, we focussed on increasing our fee income and cutting down our expenses.

Among your five verticals, which has the thinnest margins?

I can answer your question straightforward—the thinnest margin is in retail housing and infrastructure projects. But do we have a way to increase the profitability? Yes. Expense is a very important factor which eats away the margins. We decided two years back to do two important divergences from the

historic way of doing business. The first diversion is that while margins are important, we will concentrate a lot on fees. And this will be an additional income stream. Margins will go up and down but nobody can take away your fees. We underwrite and earn fee, cross-sell and earn fee. Fees form almost 2% of our overall book. The second thing that we worked on is productivity and expenses. We invested a lot in digital and data analytics. This comes from a conviction that the country is going through a phase that will make dependable data available.

In what way has the digital push helped your strategy?

Productivity has gone up substantially. If a person used to sell eight or nine tractors in a month, today that person is able to sell 13 or 14 tractors. Today, I can pinpoint the areas which are doing well instead of drawing generalised conclusions. That kind of precision bombing is now possible. In digital underwriting, historically, if 70% got passed, the rest went to manual underwriting. We have cut down on human intervention. Today, if 70% gets passed, so be it. The remaining 30% gets rejected. Humans will not take day-to-day decisions. They will only work on making the algorithm more efficient. We are talking about all retail loans here. For example, in two-wheelers, as a result of this, we give a guarantee of ten-minute sanctioning of loans.

How is your wholesale lending performing?

In wholesale lending, we are largely in the infrastructure segment. Sectors like renewable energy are doing well and have excellent future potential.

Are you sure? The tariffs have fallen...

Of course. Think of it this way—falling tariffs are a risk or an opportunity? Till tariffs were high, the government had to do policy push. Now that the tariffs are below thermal, it is a commercial transaction. The equity returns have come down in line with improvement of risk profile. We are debt providers and we size our debt so as to take care of all scenarios.

How big is your renewables energy book?

Our overall renewable energy book is about ₹13,000 crore out of which ₹6,000 crore is solar and the rest is wind.

What is the NPA situation in the renewables book?

This book is totally free of NPAs.