

'If Market Grows at 10%, L&T Fin will Grow at 20%'

L&T Finance, which was left behind in the bull run of NBFCs till last year, has moved up the ladder with the changes brought in by new CEO

Dinanath Dubashi. The organisation has cut down costs and exited many businesses where it was losing money. In an interview with **Shilpy Sinha**, Dubashi talks about correcting past mistakes and the company's growth plans. Edited excerpts:

L&T Finance was one of the worst performing NBFCs till last year. How did the turnaround happen?

There were 3-4 things that we focused on. First, the cost from very heavy structure, which was taking away our nimbleness. As an NBFC, we had to be nimble and fast.

Second, we had too many businesses. There were businesses that had no hope of scaling up and we were losing money. We were in construction equipment, cars, where others could do better than us. We were in businesses like tractor and infra, where we did well. My plan was to get the right business with right structure and reduce complexities. I stuck my neck out to say that we will achieve top quartile RoE by 2020.

We are an L&T company and we were supposed to be the best. I will say forget best, we were one of the worst NBFCs in the country. On every metric, whether RoE, shareholder return, profitability; we were in the bottom quartile of NBFCs. We started implementing the strategy from April 2016.

Since then, four things that have contributed to P&L – growth in focused business, completely stopping de-focused business, high fee income and very strict cost control. We focused on strengthening the balance sheet, putting in place a strong risk management, and hence we've been able to grow fearlessly.

How did you control costs?

From 33% cost-to-income ratio, we have moved to 23%. We right-sized people at head office and increased

people at branches, thus improving productivity. In many places, we had branches just 100 meters apart. We merged 40-50 branches without reducing locations.

You've grown your disbursements by 30-40%. Is that sustainable?

Till FY2015-16, we were not good at so many things, and hence, we had slow growth. In FY17, we concentrated on five products. We've said we'll outperform the market. If the market is growing at 10%, we'll grow at 20%. We'll do better than competition. In the past year, we spent a lot of time in strengthening our balance sheet by making a lot of provisions, putting systems and processes in place and investing in digital and analytics. It helps us take better decisions, quicker. It has given us confidence that we can grow without accidents happening. I am calling it growing fearlessly. Today, after having worked on these projects for four quarters, I am confident, we'll grow at a healthy pace.

What checks and balances have you put in place to ensure accidents don't happen?

As a CEO, I have to be very careful. I can't do anything that is temporary. I went to a risk consultant. We are in lending business, so we have to take some risk. We have put a risk dashboard for every level. We have put an early-warning signal in every product.

We have put strong liability-side buffer. If by September, a black swan event happens and liquidity dries up in the system, like it had happened

SELF-ASSESSMENT



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to be our strength. We completely moved focus from keeping loans in our balance sheet to underwriting, processing, managing those loans and selling it to the banks. We changed the metric from NIM to NIM plus fee income. We have to see how we can be better than competition.

Which are the businesses where you have burnt your fingers?

Our Infra book is about ₹32,000 crore, out of this legacy portfolio booked before 2012 is around ₹9,000 crore, of which ₹3,500 crore is impaired. We are taking provisions in this portfolio. Thus we have come to a stage where there is no sizeable risk in the balance sheet. Infra financing continues to be our strength, which we will continue to grow substantially.

Businesses, which we stopped doing after taking large hit, are commercial vehicles, construction equipment and cars. When we started running down this portfolio it was ₹5,500 crore, and today it is ₹2,500 crore.

CORRECTIVE STEPS

We focused on making our balance sheet strong, putting in place a strong risk management and hence we've been able to grow

twice in the past 10 years for two days each, we're building a 30-day liquidity buffer. We believe there is low probability of accidents happening.

What are the strengths that you want to focus on?

In lending, we are focusing on housing and infra, and in non-lending, mutual fund and wealth management. We have put a few filters: industry attractiveness – is it growing fast; do we have a selling proposition; and over the full cycle, whether we will be making money.

After demonetisation, interest rates came down. We had realised that net interest margin is not going

Are you looking to list any of your businesses?

My strategy is clear about creating shareholder value for L&T Finance shareholders. For growth, I need capital. A lot of capital will come from internal accruals. Over the next 3-4 years, we will need certain capital if the balance sheet is growing at 20% and generating an RoE of 18%.

How is L&T helping in the restructuring?

They are 65% of our shareholding and they sit on our board and they have to approve the plan. L&T brand name helps in getting employees. Group synergies help in raising funds. I have a credit rating of AA but I raise funds at almost AAA because of L&T. We get appointments easily and actual client referrals.

Are you looking to apply for a universal bank license?

Under the current set of rules, we don't want to apply.