Aiming for 18-19% RoE by 2020: L&T Finance Holdings' Dubhashi

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L&T Finance Holdings is focusing on improving its return on equity (RoE) to around 18-19% by 2020 from around 10 percent reported in FY16. Dinanath Dubhashi, managing director of the company, said the plan is to remain in businesses that are distinctive and profitable, such as wholesale (including infrastructure), housing and rural financing. Talking about plans to sell de-focused assets, he said L&T Finance Holdings has already started the process and would sell a large part of the portfolio in FY17. Edited excerpts of an interview:

L&T Finance Holdings' managing director Dinanath Dubhashi.

There has been a change in strategy; you have shifted focus to higher and more profitable businesses in rural financing, housing finance and wholesale financing. Could you provide us some guidance on loan growth in the segments going ahead?

This strategy is fairly recent. If you have been following our company, from FY11, since the time we listed, we had an ambition of becoming a bank and with that ambition we were in many businesses. As a result, in many of those businesses, we were not distinctive; we were not among the leaders which led to having low profitability in many of those businesses.

Hence, what we decided somewhere in the beginning of this calendar year, is that we will be in businesses in which we can be distinctive, in which we can have leadership positions, we can be better than others whether the cycle is going up or the cycle is going down.

We will grow in these businesses; we will develop very serious trends in these businesses.

Now, when you do that, obviously, you can't do that in too many businesses.

Hence, using criteria like industry attractiveness, our right to win and our ability to make profits across the cycle, we chose these three businesses.

INTERVIEW

As you rightly said, wholesale, including infrastructure, housing and rural, we believe that these are industries where we either already have a right to win or have a very clear sight as how to develop the right to win. Rest of the businesses, we will be exiting.

In fact we have already stopped doing all those businesses. This strategy will not only lead to profitability but to growth and to excellent growth in our chosen businesses.

The company has an intention to sell down its de-focused businesses, which could be worth around Rs 3,000-4,000 crore we understand. We also understand that you have already hired investment bankers for selling down the book. How much is expected to be sold by FY17 and by when will it be completed?

This is a de-focused portfolio; we are not adding a single rupee to this portfolio. We are not doing any business in this portfolio from 1 April. As a result of which every month this portfolio is running down. It is a good portfolio, as it gets built, it keeps running down. So, this Rs4,400 crore is already as we speak about Rs3,000 crore odd.

As you rightly said, we have already hired an investment banker. We are at a very advanced stage of the process. We have also started getting some quotes for the portfolio. At this point of time, being in the middle of the process, I would not like to make any comments about when exactly we look forward to selling it. However, directionally, certainly in this financial year we should be able to sell a large part of that portfolio.

The market would of course like to know what kind of return on equity would you make or at least the trajectory broadly going ahead?

Without the sell down of the portfolio, the question doesn't arise. We will certainly be selling this down.

We have very clearly stated our goal. The strategy revolves around delivering top quartile return on equity (RoE) by the year 2020. What does top quartile mean?

In today's terms, under the BFSI sector, top quartile means around 18-19%. From today's 10%— last year we were at about 9% odd, in the first quarter also we were very close to 10%—we will be steadily increasing to 18% odd by 2020. We have a very clear strategy to achieve that.

The strategy is around doing the right businesses which we have talked about, having a very simple structure to achieve it so that it is easy to understand and most importantly having the right people to deliver this strategy.

We believe that using this strategy, the growth in RoE will be quite steady year-on-year (YoY) as we grow. We don't give yearly targets on RoE but suffice to say that a steady growth from this 10% to around 18 percent will be achieved. We have taken up this task and this strategy is being implemented in three stages.

First stage is the cost optimisation stage which we have already completed. Our cost to income ratios are substantially down from last year.

Second stage is what we are doing currently, i.e. selling down the non-core portfolio which is a drag on the RoE delivered by our core businesses.

Third and the most important stage which we should not forget because no company grows by cost cutting. Profitability never grows by cost cutting. Cost cutting prepares you for growth but the growth is going to come by profitable growth in our businesses. So, delivering our strategy in all these three aspects which is cost cuts or cost optimisation, cutting of non-core portfolio and most importantly profitable growth in our core businesses is how L&T Finance Holdings will deliver the 18 percent RoE by 2020.

How much capital are you getting in from Bain Capital?

Bain Capital is not coming in for a particular book. Bain Capital has taken up a stake in the entire L&T Finance Holdings. It is in two stages; a year back Bain Capital bought 5 percent from our parent Larsen and Toubro (L&T) and also invested warrants and they have already invested about Rs 300-350 crore odd as subscription to warrants.

As we convert warrants, Bain will infuse an equal amount of capital in the company. So, at the end of the whole process, Bain Capital will own around 10% and L&T's shareholding will be around 65%. This should happen somewhere around the first quarter of the next financial year.