

‘We Need a Banking Licence to Meet our Long-term Goals’

Recent acquisitions give us a wider portfolio and save time to scale up, says L&T Fin’s Deosthalee

Monday Musings

Q&A

Many believe L&T Finance, the non-banking finance arm of the country’s

largest engineering company L&T, is best positioned for a banking licence. In the past few months, the company has acquired Indo Pacific, a housing finance company, Family Credit, an auto and two-wheeler financier, and Fidelity Mutual Fund, to diversify its portfolio. **YM Deosthalee**, chairman of L&T Finance, says that the company saves time by making these acquisitions. In an interview with **Shilpy Sinha**, Deosthalee talks about his plans for the company and why it is important for L&T to get a banking licence. Excerpts:

You have acquired three companies this year. What is the rationale?

We are building a comprehensive long-term financial services business. So, it is important for us to have a broader portfolio. Growth becomes a challenge when you focus on a niche segment. We are building the portfolio on three types of skill sets. Skills to manage assets-related risks, balance sheet risks and project risks. We are building an organisation with people who understand and manage these risks well. Initially, we were mainly financing income-generating businesses. With the acquisition of housing finance business, we will now work with assets, which are emotionally important to the customers. With the acquisition of consumer finance business, we will start work in the area of consumer finance.

The debate on banking guidelines has started again. How soon do you expect application process to start?

We don’t know when the process will

start. The draft guidelines were issued more than a year ago. We see no harm in initiating the process and inviting applications. The actual issuance will in any way take some time and the licences can be issued after necessary amendments to the Banking Regulations Act.

How crucial is it for L&T Finance to get a banking licence?

As I said earlier, we want to build a long-term financial services business. We would like to offer a wide range of products, which the customer needs. In NBFC structure, there are limitations to offer all products. It is from this perspective that a bank is important. It is also helpful in building a balanced liability side of the balance sheet.

Do you believe in growing inorganically?

It is not a question of believing in inorganic growth. What is important is to make a choice based on business needs. For example, we had decided to start the housing finance business. It would have taken a long time of about two years to start organically. With the acquisition, we now have robust systems and processes to grow this business and also some talented people. It was also useful for us in getting the licence quickly. Similarly, we believe scale is important in asset management business. While we had acquired a small asset management company a couple of years ago, we wanted to have a proper mix between debt and equity, wholesale and retail and distribution channels. That is why acquisition of Fidelity Mutual made sense. I think it is important to define the strategy first and then make the choice between organic and inorganic growth.

Is integration a challenge with these acquisitions?

Integration is extremely important in acquisition. We invested long hours in planning and implementing the integration process. In fact, a detailed integration plan was prepared well before

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YM DEOSTHALEE
Chairman, L&T Finance



the bid is submitted. In our business, the most important challenge in acquisition is the human resource challenge. So, it is essential to plan careers and positions for people very meticulously.

L&T is the largest engineering company in the country, but L&T Finance or general insurance is not leveraging the parent to grow?

We have a strong parent and highly respected brand. We certainly leverage the brand in our businesses. However, the credit decisions are taken independently, considering the risk appetite of individual businesses. It is also extremely important that the parent and subsidiary’s relationship is at arms length. While business relationships, contacts and synergies are effectively utilised, business decisions are taken on merit and independently. L&T Finance Holdings has a relatively large board with two whole-time directors, one non-executive director and seven independent directors.

You are in talks to acquire a general insurance company?

Since we do not have a partner in general insurance business, many potential partners have approached us from time to time. In the recent past, three such companies have approached us. How-

ever, nothing has been finalised as yet.

Why will you not get into life insurance?

We are growing our existing businesses rapidly. We have NBFCs in different sectors which are growing. We have recently started the housing finance business. We have to grow the asset management business and stabilise the general insurance business. So, we have a lot on our plate. All these will require capital and management attention. Considering all these aspects, we have decided not to enter the life insurance business at present.

Where do you want to see L&T Finance in the next five years?

As I said earlier, we are building a comprehensive financial services business. Since we have adopted a diversified portfolio strategy, it is also possible for us to make choices from time to time. Considering the penetration of different sectors and our focus on rural and retail markets, it should be possible for us to grow at 25% CAGR in the next 5 years. We would like to build a sustainable long-term business with strong systems, technology and committed people. It will be our endeavour to generate sustainable returns and an admirable institution. We believe growth will follow.