

Financial Services Business

L&T Finance Holdings (LTFH)

L&T Finance Holdings is one of the leading private non-banking financial services companies in India. The businesses are Rural Finance, Housing Finance, Wholesale Finance, Investment Management and Wealth Management.

RURAL FINANCE

LTFH's strength in Rural Finance lies in the use of cutting edge technology and deep analytical skills to increase market penetration, improve portfolio quality and most importantly for timely detection of early warning signals.

- (a) **Farm Equipment Finance:** In FY18, the tractor industry grew by 22% to a record high of 7.11 lacs tractors sold. With expectations of a normal monsoon and other determinants of farmer's cash flows like reservoir storage, extent of irrigated area, area under sowing, minimum support prices staying positive, the industry is expected to record ~10% growth this year.

Continuing on the upward trajectory of gaining market share, LTFH increased market share from 6.8% to 12.5% in the last year. LTFH has shown healthy growth in their disbursements by 107% and loan book by 28% over the previous year.

LTFH has a competitive advantage in terms of differentiated value propositions for preferred OEMs and top dealers, analytics driven target allocation based on the portfolio performance, extensive focus on early bucket collection to maintain portfolio quality and best in class TAT proposition to customers and dealers on decision making and disbursement.

In this segment, the future strategy of LTFH is to create a portfolio with the optimum mix of preferred OEMs and geographies and build on allied businesses e.g. Refinance certified used and implements in order to provide a comprehensive product suite to its customers and roll out a digital proposition to improve service levels further.

- (b) **Two-Wheeler Finance:** During FY18, the two-wheeler industry grew by 15% to 2.06 crore units of two wheelers sold in the market. With increased urbanization and sustained focus on road infrastructure developments, the market is expected to get a boost. The industry is expected to show a growth of ~12% in the coming year, with good performance from both motorcycles and scooters.

Through rigorous execution of the digital proposition on the ground and domain expertise, LTFH has been able to increase its market share from 5.9% to 8.2%.

LTFH's robust digital & data analytics- based architecture gives it the competitive edge



With this clear strategy, LTFH has been able to grow the business by 70% and loan book by 57% through increased penetration in its identified branches.

LTFH has a competitive advantage in this segment in terms of ability to execute strategy on the ground with required scaling-up, effective use and implementation of data analytics along the customer life cycle and best in industry Turnaround Time (TAT) and technology for customer selection and on-boarding.

In this segment, the future strategy of LTFH is to constantly recalibrate its sourcing and collection scorecard to stay ahead of the competition, create a leadership position with a quality portfolio in existing and new geographies and intervene early in collections through the use of analytics to enhance portfolio quality.

- (c) **Micro Loans:** The micro loans industry has seen a change post demonetization with a few players having slowed down on account of high delinquencies, while a few others awarded the SFB license have tended to show lower focus on micro lending. The industry has grown by ~25% over the previous year. The market is expected to sustain the growth levels over the coming year.

LTFH has been able to increase disbursements by 105% and loan book by 113% on the back of increasing penetration in existing geographies, opening new geographies in existing states and new states viz. Bihar, Assam and Tripura.

LTFH has a competitive advantage in terms of risk mitigation through various market and credit checks,

robust early warning systems with triggers in place to maintain delinquencies, extensive use of analytics across the customer life cycle and deep market penetration and a rural presence across geographies.

The future strategy of LTFH is to introduce digital initiatives to ensure best TAT in the industry, retain the customer base with a holistic association approach and constantly strengthen the risk framework.

WHOLESALE FINANCE

LTFH has very clearly established a leadership position in core areas of renewables, road refinance and transmission. LTFH has built a sustainable advantage in terms of the strong underwriting ability and sell-down capabilities.

- (a) **Infrastructure financing:** Being a key driver for the Indian Economy, the infrastructure sector is contributing to India's overall development. India has an investment requirement of worth ₹ 50 lakh crore in infrastructure by 2022 to increase growth in GDP, connect and integrate the country with a network of roads, airports, railways, ports and inland waterways, besides providing power for all.

An efficient down-selling desk, through increase in its sell-down volume by 70% kept the overall infrastructure finance book growth at 11%, whereas disbursement grew by 39% from ~₹ 13,000 crore to ₹ 18,055 crore in FY18. The business vertical saw its fee income grow by 45% during the year. The asset base of the Infrastructure Debt Fund (IDF) increased by about 74% to ~ ₹ 7,000 crore from around ₹ 4,000 crore, a year earlier.

Cutting-edge technology and deep analytical skills help deliver better results in the Rural Finance sector



In FY18, LTFH was awarded 'Best Renewable Energy Financier of the Year 2017' by the Renewable Energy Investment and Finance Forum in both Solar and Wind Sectors for outstanding achievements in financing the renewable energy industry.

LTFH has a competitive advantage in this segment in terms of growing the IDF book with segment-leading profitability and structuring capabilities, a robust down-selling desk with strong relationships with banks, both public and private Financial Institutions, and a vibrant Debt Capital Market desk with structuring strengths in credit bonds.

In this segment, the future strategy is to leverage industry dominance in the renewable and roads sectors to further enhance fee income through efficient underwriting and placement, use existing client and market relationships to cross-sell other products and deepen expertise in social infrastructure segments, hospitality and health care.

- (b) **Structured Corporate Finance:** Bank credit off-take was largely muted in financial year 2017-18 with stiffening of interest rate towards the year-end.

Despite the slow off-take of bank credit and a rising interest rate scenario, LTFH's Structured Corporate Finance business saw a profitable growth in its asset base. The asset book grew by ~20% on a YOY basis while disbursement growth was ~19%.

LTFH has a competitive advantage in this segment in terms of nimbleness to respond to the need for structured solutions and strength in large ticket

underwriting, enabling comprehensive refinancing solutions.

In this segment, the future strategy is to leverage infrastructure financing expertise and relationships to enhance profitability through structured products and develop best-in-class speed of response and commence down-selling.

- (c) **Debt and Capital Market (DCM):** LTFH's DCM business invests in non-convertible debentures issued by companies across multiple sectors and segments, either by way of private placement or public issue.

In FY18, the DCM desk acted as arranger for issuances aggregating to ~₹ 4,700 crore of funds raised. In FY18, the DCM desk also made a mark in new segments – that of municipal bonds and state level undertakings, which are expected to grow significantly going forward. The desk also commenced trading in sovereign securities.

LTFH was ranked number one in India Rupee Loans Mandated Arranger and India Rupee Loans Book-runner in Q1 FY18 Thomson Reuters' League Table and was the only Indian player in the Top 10 of APAC Project Finance Loans Book-runner and Mandated Lead Arranger in Q1 FY18 Bloomberg Global Syndicated Loans League Table, for the quarter ending March '18.

LTFH has a competitive advantage in terms of its ability to act as lead arranger for transactions and large ticket size underwriting capability and wide distribution network across financial markets.

LTFH is a leader in the core areas of renewables, road refinance and transmission.

In this segment, the future strategy is to focus on new market segments and leverage the merchant banking licence to act as arrangers for mandates

HOUSING FINANCE

- (a) **Home Loans & LAP:** During CY17, domestic housing credit grew by 17% to reach ₹ 15.9 lakh crore as on Dec '17. This is largely due to marked recovery in the real estate market, improvement in sales velocity and stabilization of RERA and GST.

Home Loans and LAP registered a 23% growth in YOY disbursements from ₹ 2,979 crore in FY17 to ₹ 3,679 crore in FY18. This was backed by over 100% growth in home loan disbursements in Q4 FY18 on account of better traction in retail conversion of home loans for real estate financed projects

LTFH has a competitive advantage in terms of its digital lending model to provide best-in-class TAT and comprehensive use of analytics for business generation and portfolio risk management.

In this segment, the future strategy is to leverage relationship with real estate developers for sourcing of home loans and continue focus on increasing the share of direct sourcing volumes through the use of analytics and strong focus on early bucket delinquency through dynamic alignment of credit and collection policies.

- (b) **Real Estate Finance:** The Real Estate sector has transitioned towards a more transparent and regulated industry after demonetization, RERA and GST. Government initiatives like 'Housing for All' have

improved demand as well as supply for affordable housing. Supply of commercial real estate has rationalized over the last 5 years, leading to an uptrend in occupancy and rentals.

LTFH has identified a harmonious balance in using the group synergies, lending to 'A' category and 'B' category builders and monitoring the progress, collection and early warning signals of the projects. During the year, LTFH established itself as one of the key lenders in real estate financing with a clear focus on Category A & B developers across 6 cities. The Real Estate Finance business registered significant growth, with a loan disbursement of ₹ 7,107 crore and a loan book of ₹ 10,092 crore in FY 18.

LTFH has a competitive advantage in this segment in terms of strong structuring and underwriting capabilities with a focus on project completion, comprehensive and robust Early Warning Signal (EWS) framework and a comprehensive product suite to address top developers' funding requirements.

In this segment, the future strategy of LTFH is to focus on Category A and B developers with more than 70% of exposure towards Category A developers, continuing focus on implementing an action-plan based on EWS and leveraging the L&T ecosystem for business growth and market intelligence.

MUTUAL FUNDS

The Mutual Fund industry in India witnessed a 26% growth in FY18, taking the Average Assets under Management (AAUM) to ₹ 2,305,212 crore as compared to ₹ 1,829,583 crore AAUM recorded in FY17.

Close project and loan monitoring safeguard our home loans business



Robust fund performances and distributor relationships power our Mutual Funds business



The average AUM of LTFH has increased by 68% and stands at ₹ 65,932 crore in FY18 as against ₹ 39,300 crore in FY17. This has helped us reach a market share of 2.86% in FY18 as compared to 2.15% in FY17. The Mutual Fund business has outperformed the industry growth rate of AAUM, with Equity to AUM reaching to 58%.

LTFH has competitive advantage in this segment in terms of robust performance of the fund's equity schemes and strong distributor relationships.

In this segment, the future strategy of LTFH is to focus on building core assets to achieve the dual purpose of achieving higher profitability and stability in overall AUM, increase SIP book to ensure steady flows and deepen the presence in key counters to gain a higher share of assets

WEALTH MANAGEMENT

Looking at India's strong economic growth outlook and favourable demographics, the Indian Wealth Management market is on a continued path of growth. The focus on tailor-made client-centric products, rising financial literacy and use of technology, is creating huge opportunities for the Indian Wealth Management industry.

FY18 was a very positive year with tremendous growth for the business – profits have grown from ₹ 5 crore in FY17 to ₹ 29 crore in FY18. The Average Assets under Service (AAUS) grew by almost 34% during the year with the FY18 AAUS being more than ₹ 18,000 crore. LTFH's revenue in this business vertical witnessed a rise of 88.22% during the year, for FY18 being at ₹ 93 crore.

LTFH has a competitive advantage in this segment in terms of a robust business model based on the fundamental tenets of client centricity, intellectual property and execution efficiency, a strong and expanding distribution reach with a diversified product range and cutting-edge portfolio analytics for tailored customer-centric advice and new customer acquisition.

In this segment, the future strategy of LTFH is to focus on technology-based solutions to deliver superior analytics and investment advisory to strengthen existing relationships and forge new and meaningful relationships, acquire new clients and increase sales strength across geographies.

**(Source: IBEF Financial Services Report Published in September 2017).*

Significant Initiatives

(a) **Human Resources:** The Human Resources function plays a pivotal role in this transformation journey by ensuring organizational efficiency and promoting the right culture. To sustain growth, LTFH is investing in building its talent pool by developing skills internally

and attracting the best talent in the industry. As on 31st March 2018, LTFH had a total workforce of 15,126 employees across all subsidiaries.

A culture of 'Results not Reasons': After another year of delivering excellent results, LTFH is constantly working towards strengthening its foothold in each business and striving to reach a dominant position. Achieving these results was no mean feat, but LTFH succeeded because of its strong core values and the inculcation of a culture of 'Results not Reasons', which gave razor sharp focus to meet its goals.

Scalability: LTFH continuously evaluates and optimizes the organization structures in line with its business priorities. The Human Resources department worked in tandem with the business to ensure that there were the 'right people' to meet growth ambitions. LTFH had significant growth ambition which called for new geographic expansion as well as growth in existing geographies.

Capability building: Another important agenda was to augment capabilities at the middle and senior management levels. For building the leaders of tomorrow, LTFH continues to give cross-functional exposure through various projects and internal job postings. LTFH invites world class faculty for senior management training sessions to facilitate discussions on business practices and issues. LTFH organizes individual level coaching with experienced business practitioners for leadership development.

Driving Productivity: The ultimate metric for success is continuous improvement in productivity. LTFH takes pride in calling itself a performance driven organization. A rewards and recognition mechanism is implemented across LTFH to keep the morale high and formally appreciate the efforts of a competitive and talented workforce.

(b) **Risk Management:** Risk management forms an integral part of the LTFH's businesses. LTFH has a robust and comprehensive credit assessment and risk management framework to identify, monitor and manage risks inherent in its operations. The Risk Management framework covers various families of risk like credit risk, market risk and operational risk.

Credit Risk: With the objective of growing fearlessly in the segments in which LTFH is operating, target markets are clearly identified and understood with scoping of opportunity given the competitive landscape. Credit underwriting standards, at micro and macro

levels, determine the minimum acceptable level of risk appetite acceptable while building up the business portfolios.

Market Risk: On the market risk front, liquidity, interest rate and concentration risks are the key drivers. On a day-to-day basis, a Treasury Strategy team manages these risks with an oversight from market risk function, under the overall supervision of ALCO and periodic reviews by the Risk Management Committee.

Operational Risk: Operational risk is inherent to processes and systems and a dedicated team monitors operational risks and incidents, including the robustness of various processes, systems and information security related matters. Operational processes have been streamlined with critical processes being centralised to ensure consistency, control and oversight.

LTFH was awarded the 'Golden Peacock Award for Risk Management 2017' for robust risk management processes. This prestigious award is being given annually by the Institute of Directors, New Delhi for over 25 years as recognition of high standards in various domains of corporate governance.

(c) **Digital & Analytics:** LTFH has designed an architecture that enables it to enhance its 'right to win' in focus products by offering a unique proposition to the customers in terms of Turnaround Time (TAT). LTFH wants to inculcate Digital & Analytics (D&A) into the culture of LTFH. In order to achieve the same, LTFH has initiated a project to rewire the complete business operations, where technology will orchestrate processes. The IT architecture has been completely revamped to create a digital workplace. The following initiatives are currently being taken by the Company:

1. **Automation:** All the processes in the customer life cycle are being relooked at and LTFH wants to achieve straight-through processes across all its retail businesses.
2. **Technology Infrastructure:** From using on premise technology infrastructure to cloud- based infrastructure, LTFH intends to leverage the power of cloud computing during peak hours.
3. **Integrated Operations:** LTFH has created a service-oriented architecture by deploying an Enterprise Service Bus which enables it to bend as an when requirement changes and interact with data that could be accessed from anywhere in the world.

4. **Fintech Partnership:** LTFH has started collaborating with fintechs, where innovative services are being consumed as a service rather than developing it in house.
5. **Data Analytics:** LTFH has set up a full-strength data analytics team to enable the Company to take data-based decisions.

(d) **Corporate Social Responsibility:** LTFH aligns its social responsibility theme and commitment with the United Nation's global development agenda of Sustainable Development Goals (SDG). Key initiatives are woven around sustainable livelihoods of rural communities facilitated by two spaces of intervention – Integrated Water Resource Management (IWRM) and financial inclusion / literacy for women empowerment.

The IWRM programme engages with the communities to prepare and implement interventions which address their core needs on water conservation and rejuvenation.

Through financial inclusion and digital financial literacy, LTFH has designed a programme 'Digital Sakhi' which is making efforts to create livelihood opportunities for women by educating them to imbibe nuances of digital financial literacy. The women are equipped with a mobile tablet with preloaded digital financial literacy (DFL) modules to disseminate information on digital payments and other relevant government schemes in the community.

CSR Programme Outcomes:

- **23% increase** in ground water level, **22% increase** in water storage created by water structures, and **17% increase** in household annual incomes due to IWRM project.
- **13.86% increase** in knowledge level, **11.6% increase** in household average monthly savings of the **100** Digital sakhis.
- **60% increase** in the volume of work, **14.08% increase** in overall annual revenues and **13.24% increase** in annual profits of the **1000** women entrepreneurs.
- **100 employee** volunteers clocking **167 hours** contributed towards CSR activities reaching **494 beneficiaries**.
- Access to **healthcare** services and **breast cancer screening** provided to **1,34,296 beneficiaries**.