STRATEGY SHIFT

We chose to rebalance our loan portfolio and shift focus to less risky segments, says N Sivaraman, President, L&T Finance Holdings p6

‘We shifted focus to less risky strategies’

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THE BL INTERVIEW

L&T Finance Holdings (LTFH) has businesses spanning corporate, retail and infrastructure lending. During the March quarter, the company saw a healthy improvement in earnings, and its strategy of focusing on the B2C (Business to Consumer) business on the retail side and roads and renewable energy projects on the corporate side appears to be working well.

We spoke to N Sivaraman, President and Whole-time Director, of L&T Finance Holdings to understand the company's strategy and the way forward. Excerpts:

You have rebalanced your portfolio significantly in the last couple of years. What was the need?

Given the risks in the environment we chose to rebalance our loan portfolio and shift our focus to less risky segments. In the retail segment for instance, we have shifted focus to tractors, two-wheelers and microfinance — B2C segments, and reduced exposure to the ailing commercial vehicle and construction equipment segment (CV/CE). B2C segments now constitute more than half the retail loan portfolio.

In the wholesale segment, we increased our exposure to operational projects substantially as they carry lesser risk. Roads and renewable projects which are mostly operational constitute 48 per cent of corporate loans.

This rebalancing has given us consistent growth and has also resulted in significant reduction of stress in the balance sheet.

What has been the impact of the RBI's new regulatory norms on bad loans and provisioning?

On the retail side we have been maintaining provisioning of standard assets at 0.25 per cent of total outstanding.

We have enhanced this to 0.3 per cent as of March 2015 (0.3 per cent by March 2016 and 0.4 per cent by March 2018 as per RBI norms). On NPA recognition norms wherein borrowers who defaulted in their payments for 150 days or more have to be classified as NPAs by the end of March 2016, we have accounted for reversal of income on such loans.

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Along with some acceleration of provisions against other NPAs, total impact has been an additional ₹45 crore of provision in the retail segment in the quarter ending March 31, 2015. In 2015-16, thus, there will be impact only on the incremental NPAs.

In the wholesale segment, we are already following a policy of not recognising income against the 120-day bucket.

While we are concerned about one or two restructured accounts which could slip into NPA in the current fiscal, we have enhanced provisions for these accounts to 10 per cent. In the aggregate, we have done about ₹96 crore of accelerated provisions in the FY15 fiscal.

What is your outlook on the economy?

[The] Sentiment continues to be positive. Hopes of a recovery in the economy have been pushed forward by two quarters.

Government actions are in the right direction, but I cannot see any ground level change right now. Release of orders by NHAI, resumption of construction of power plants, and also orders that can be released for renewal energy segment will have impact in the next two quarters. If the mining issues are sorted out for iron ore, bauxite as well as coal, then the CV/CE segment will also pick up in the second half. We need to give the Government more time to get the efforts through.

Will you rebalance your portfolio again towards power projects or the CV/CE segment?

We will wait for a consistent turnaround. In the CV/CE segment till such time the bulk commodities like coal and iron ore are available for freight we don't see a meaningful recovery. We are happy to miss two quarters of growth.

On the corporate side, we will do new originations around specific assets, where there are visible cash flows. Furthermore, we will focus on quality of balance sheet rather grow our loan portfolio aggressively. We always have the skills to get back to funding thermal power plants.