

6th May, 2019

BSE Limited

1st Floor, New Trading Wing,
Rotunda Bldg, P.J. Towers,
Dalal Street, Fort,
Mumbai- 400 001

National Stock Exchange of India Ltd.,

Exchange Plaza, 5th Floor,
Plot No. C/1, G. Block,
Bandra-Kurla Complex,
Mumbai – 400 051.

Dear Sir / Madam,

**Ref: BSE SCRIP CODE – 500302, 912459
NSE SYMBOL - PEL**

**Sub: SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015-
Transcript of Conference Call with Investors/Analysts**

Further to our letter dated 22nd April, 2019 whereby we had given the advance intimation of Conference Call with Investors/Analysts, enclosed please find the transcript of the Earnings Conference Call held on 26th April, 2019 to discuss the Q4 & FY2019 Results of the Company.

Pursuant to Regulation 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the conference call is also hosted on the website of the Company.

Kindly take the above on record.

Thanking you,

Yours truly,
For **Piramal Enterprises Limited**



Bipin Singh
Vice President - Company Secretarial

Encl: a/a

Piramal Enterprises Limited

CIN : L24110MH1947PLC005719

Registered Office: Piramal Ananta, Agastya Corporate Park, Opp Fire Brigade, Kamani Junction, LBS Marg, Kurla (West), Mumbai 400 070 India
Secretarial Dept : Ground Floor, B Block, Agastya Corporate Park, Opp. Fire Brigade, Kamani Junction, LBS Marg, Kurla (West), Mumbai, Maharashtra 400070, India
T +91 22 3802 3084/3083/3103 F +91 22 3802 3084

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“Piramal Enterprises Limited Q4 and FY 2019 Earnings Conference Call”

April 26, 2019



**MANAGEMENT: MR. AJAY PIRAMAL – CHAIRMAN, PIRAMAL
ENTERPRISES LIMITED
MR. VIJAY SHAH – EXECUTIVE DIRECTOR, PIRAMAL
ENTERPRISES LIMITED
MS. NANDINI PIRAMAL – EXECUTIVE DIRECTOR,
PIRAMAL ENTERPRISES LIMITED
MR. KHUSHRU JIJINA –MANAGING DIRECTOR,
PIRAMAL FINANCE AND PIRAMAL HOUSING FINANCE
MR. HITESH DHADDHA – CHIEF INVESTOR RELATIONS
OFFICER, PIRAMAL ENTERPRISES LIMITED**

Moderator: Good day, ladies and gentlemen. And welcome to Piramal Enterprises Limited Q4 and FY 2019 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Hitesh Dhaddha – Chief Investor Relations Officer from Piramal Enterprises Limited. Thank you and over to you, Sir.

Hitesh Dhaddha: Thank you. Good evening, everyone. I am pleased to welcome you all to this conference call to discuss Q4 and full year FY19 results. Our results material have been uploaded on our website, and you may like to download them and refer it during our discussion today. The discussion today may include some forward-looking statements, and these must be viewed in conjunction with the risks that our businesses face.

On the call today, we have with us our Chairman, Mr. Ajay Piramal; Mr. Vijay Shah, our Executive Director; and Mr. Khushru Jijina, Managing Director of Financial Services Business. With that, I would like to hand it over to our Chairman and would request him to share his initial thoughts. Over to you, Sir.

Ajay Piramal: Thank you for taking part in our conference call. I want to begin by giving you an overview of the environment. Since September, we have seen that the macro environment has weakened. Financial services were hit by the IL&FS downgrade in September, which affected the NBFC sector the most. And it affected us in two ways: liquidity drying up, as well as that there was a mismatch in the ALMs of various companies. During this period the RBI and the government intervened to avert a major crisis, with the liquidity situation and borrowing costs easing from January 2019 onwards. However, since January, some other adverse events and negative news continued to affect the macro climate. This was a time when we heard of Essel, the ADAG Group, Jet, ILFS SPVs, and DHFL.

As such, NBFCs have limited exposure to these names as compared to banks and other financial institutions, but were still affected. This weakened macro sentiment has resulted in banks and mutual funds reducing exposure to the NBFC sector, and rating agencies turning overcautious. Consequences of this have been that by and large, funds have dried up for the NBFC sector and very few NBFCs have been able to grow their loan book. In contrast, most NBFCs have resorted to portfolio sell-downs to meet their obligations.

It is in light of all these that I would like you to look at the results that we have posted.

We have always been saying that those NBFCs which have a high capitalization, have high promoter stake, have strong governance, conservative internal processes and systems and have

deep sectoral understanding would be the ones that would prosper. And this is what you would see in our results.

In spite of the above environment, our loan book has grown by 34% during this year. Income from Financial Services grew by 39% in the second half of FY19. We have also performed better than industry due to our focus on several of the key strategic priorities. During this period, we have also been able to raise significant funding from long-term sources, both within the country and globally. We believe that the NBFCs have a key role to play in the industry, and for this, we have now outlined some of our strategic priorities.

The first strategic priority is to further diversify our borrowing mix. In the last two quarters, we have reduced our CP borrowings and shifted funding mix to more long-term sources of funds. We raised, during this period, Rs. 16,500 crores via NCDs and bank loans. We have raised Rs. 1,500 crores of 10-year money at 9.5% during the quarter. Our CP borrowings, which were Rs. 18,000 crores at the end of September, have now come down to Rs. 8,900 crores. The number of banks now lending to us are much larger. Also, insurance and pension funds contribute nearly 10% of our borrowings.

High quality equity and credit from reputed global and domestic institutions like IFC, SBI, LIC, Goldman and Credit Suisse – are some of our partners. Each of them has conducted a detailed due diligence of our portfolio to their satisfaction prior to approval.

We also have several more proposals lined up. We have tied up nearly Rs. 1,500 crores in long-term funds from PSU institutions. We are raising Tier-2 capital of Rs. 1,000 crores in the next quarter. Our maiden ECB issuance should take place in the first quarter of the current year. We are also looking at raising dollar bonds after our ECB issue.

Our other strategic priority is to increase our loan book diversification. We have, as we said at the beginning of the year, been diversifying our loan book to reduce the overall risk profile. The diversification is from real-estate into other corporates as well as to retail lending. Our wholesale RE exposure was reduced from 83% in March 2015 to 63% today. Housing Finance now forms 9% of the overall book, and this was started only 18 months ago. Going forward, housing finance and corporate lending will remain as the key drivers of growth.

We have also had a strategic priority of reducing client concentration. And we have limited our single-borrower exposure. With consolidation in the real estate sector, lenders like us will inevitably have to participate in large transactions, and we plan to co-invest with like-minded partners, such as pension funds and foreign banks on large deals. Today, our largest exposure just forms 7% of our overall loan book and all the others are much below 5%.

We continue to maintain a healthy asset quality. On the last call, we had talked about sensitivity analysis conducted on our real-estate portfolio, testing it against hypothetical worst case

scenarios. We tested our portfolio on four factors: cash cover, construction status of projects, selling prices and financial closure. And we found that for a small number of our deals, 18 to be precise, that we may face challenges in the hypothetical worst case scenario, where some proactive measures need to be taken.

I am happy to report that we have made significant progress in addressing a majority of these cases. Out of these, two deals that were already declared as NPA have now been resolved. And we have been able to recover our money, which is Rs. 110 crores from this. We continue to maintain a healthy asset quality and our gross NPA ratio remains below 1%. In line with our conservative philosophy, we maintain provisions of nearly 1.9% of our total loan book.

We continue on our focus on delivering robust returns. We aim to deliver 18% to 20% ROE in future, by generating additional fee income.

I will now come to the Pharma business. The reason why we exited the domestic generics business in 2010 was that we saw that there was a likelihood of profitability in the domestic Pharma business coming under strain. Post that, since 2010, there are a few key trends which are shaping the market. As I said, the domestic branded generic business has slowed down due to pricing controls. The U.S. oral-dosage generics is coming under pricing pressure due to buyers' consolidation. There are also regulatory concerns, which Indian companies have faced with the U.S. FDA. And the Indian consumer spending has increased.

Our strategy has been in line with these. We have, first of all, created a differentiated business model for sustained growth. We have expanded our presence in specialized areas, including complex generics and in providing products and services for Global Pharma.

We have maintained a strong focus on quality and compliance. We cleared 33 U.S. FDA inspections, 143 other regulatory inspections, and 989 customer audits since 2011. And I am happy to say that we have not had any closures because of this. We have also leveraged the integrated business model in the services business and have seen a significant increase in the order book. And we continue to improve profitability and the return profile.

Our Global Pharma EBITDA has crossed Rs. 1,000 crores in the current year and our EBITDA margin has improved to 23% in this year.

Post Abbott, we also saw a need to be present in the new age businesses, and we saw that the U.S. will continue to maintain its global status on innovation. Hence we invested in DRG, which is a confluence of data and the increasing spend on health care. This investment was made when the U.S. dollar to the rupee was 52. We have now been investing in this business and now are seeing early signs of success with a revenue growth of 10%.

To conclude, our company will continue to deliver on our shared strategic priorities, both for the Financial Services and Pharma business.

Hitesh Dhaddha: Operator, we can go for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: Firstly, in terms of the weakness which you highlighted, which is there in the real-estate segment. And when we look at the weakness which is there in the real-estate market, and we highlighted that, hypothetically, in the worst case scenario, there could be 18 deals which could face challenges. What would be the quantum of the book, if you can just quantify that in terms of the overall exposure? And would 1.9% of the provisioning – so maybe what is the percentage of our coverage, besides Stage II and Stage III that we are carrying this?

Khushru Jijina: Yes. So let me answer this question. First, let me answer your point on those 18 deals. And as we had said in the last call, that we tested all our deals on four hypothetical scenarios. So I am just repeating it for the benefit of everybody. I think one was on the cash cover, so in other words, how do all of our deals stack up on the cash cover today vis-à-vis when they were approved by the IC.

Second, which are the projects that are significantly delayed in construction, either for want of approval, etc. Third, will there be equity value left in any of our projects, if all our projects today, the prices crashed by 20% today itself.

And third, we wanted to test all the projects to see whether if, as on date, with the balance amount of construction funding available from us, and with the assumption of sales going forward of the developer for those projects, if only 30% of the sales happened compared to the assumption, will we be able to complete the project?

Now all four together cannot happen, but we tested it in all four. And hypothetically, and in fact we shared with you, we came up with 18 deals, which amounted to Rs. 2,300 crores. So please mind it, this is not some stage two, stage three. Stage three, obviously, is included in that which was anyway the two deals which we resolved.

Now I am getting into more granular details of this. So in fact, as Mr. Piramal mentioned, we have been able to resolve all the 18 ones in the last 3 months, and let me give you some more granular details on that. So out of the 18 deals, what did we do? In the 8 deals, which were not NPA or stressed deals, but we believed that, that can be stressed if we don't take action, we have already moved the projects. We actually got the stress developer to sell the projects on to a JDA with a stronger developer. So that's what we did for 8 deals out of the 18 deals. In three deals we asked for additional security, so that our cash cover and security cover goes up. Alternatively,

there were certain projects among the three deals where additional security was given, we worked along with the developer to monetize those. So automatically cash came into the system as equity, so if you understand what I mean. So obviously the projects become healthier. In another two deals, where we got the promoter to infuse equity from his own sources. And in two more deals we actually got ourselves refinanced. And in two deals we actually initiated legal action, which is where we come to the point of our NPA, which is a further two NPAs what we did. So those two deals were actually, one was in Noida. If you recollect, there was a deal of 3C which was in Noida, Sector 79, which was an NPA.

Moderator: The next question is from the line of Vinod Jain from Quest Investment Advisors. Please go ahead.

Vinod Jain: Good evening, Sir. At the outset, congratulations on the good set of numbers. My first question is, what is the reason for the sequential drop in quarterly profit?

Vivek Valsaraj: So quarter three for us, there is a significant contribution that comes from our DRG business, which has a very high quantum of billing in quarter three. That is the reason the overall profits of quarter three versus quarter four, sequentially you will see profits to be lower as compared to quarter three.

Vinod Jain: My second question is on the wider perspective. We are increasingly having transportation problems in our cities. In this context, we are seeing the concept of transit-oriented urban development or transit-oriented development being talked as a solution for the urban condition. What would be the Piramal view on this concept?

Ajay Piramal: I think let's restrict to the performance of quarter and the year. These are more generic questions which we should take outside.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from BOB Capital Markets. Please go ahead.

Shubhranshu Mishra: My first question is the Rs. 2,100 crores of exposure of our loan book to the hospitality sector. I just wanted to understand how much of it is under construction and how much of it is operational at the moment? And how many projects in total have we went out to?

Khushru Jijina: So they are all stable, operational projects – more in the form of LRD, against the room rent. And how many projects – I think there are around three or four.

Shubhranshu Mishra: Three or four, so these are large ticket sizes in that case?

Khushru Jijina: Yes. But then there were the most, I would say, the best performing hotels, for example, the Westin in Gurgaon, the Marriott in Bangalore. So these are the type of hotels.

Shubhramshu Mishra: Right. My second question is with regards to the Healthcare Analytics business. We have had a currency depreciation of almost 8.5% in this particular fiscal year-end. We have only seen a 10% growth in the revenue. So 1.5% is the only growth rate? And how do we look at the market growth and margin expansion in that particular business?

Ajay Piramal: Sorry, you say it again what the question is? Just repeat the last part of the question, please.

Shubhramshu Mishra: So, how do we look at the underlying market growth in this Healthcare Analytics business? And the scope for margin expansion going margin forward, or the strategy for margins?

Ajay Piramal: We expect that the dollar growth should be in the region of, between 5% to 7%, and the margins will go up in the current year.

Shubhramshu Mishra: So what is the strategy for the margin expansion? Sir, are we going to have more offshore business or delivery business, how do we look at margin expansion?

Ajay Piramal: So we are increasing our offshore exposure, so the number of people that we have now got in India is increasing. And we are also changing the product mix to see that our margin goes up. So in the current year, I expect the margins to be higher than what they were in the last year.

Shubhramshu Mishra: Any number that you would guide to, Sir, in FY20?

Ajay Piramal: It could be about 22%.

Moderator: Thank you. The next question is from the line of Alpesh Mehta from Motilal Oswal Securities. Please go ahead.

Alpesh Mehta: So the first question is on the gross NPA side. We have seen sequentially it is going up from 50 basis points to around 90 basis points. So can you just throw some light on the movement and the kind of accounts that slipped during the quarter?

Khushru Jijina: Yes. But before I answer that, I need to, again, repeat what we have been saying along. That, at the end of the day, NPA is what is recognized after the 90 days, but we have continuously shown the ability to turn it around. And let me then go into the granular details of your question. So for example, if you see in December 2018, we had two accounts among the NPAs – one was 3C, which was Lotus Green, and another was Nirmal Lifestyle. Today, and as we had said on the December call, we have actually cured both of them. Because both the projects were sold off to another developer.

In the current quarter, why did it go up? Because the other project of Lotus Green, which is Delhi one in Noida, which has gone in NCLT. But let me say this once again, that even this

project having gone in the NPA, it will be cured. At the end of the day, we are already working along with many people to cure it. So this is not going to be a loss.

The other decision which we took was on Jain Heights and one more account, which was a non-real estate one, which was in Emerging Corporate Lending, a loan of Rs. 61 crores to SK Group, which we have taken as NPA. What has really happened? And frankly this should also be looked upon the way we have always been saying that we believe that if it is 90 days, we would cure it, we would not like to ever green it. So what do I mean by that? Frankly, the overdue in SK Group was hardly Rs. 1 crore or Rs. 2 crore. But we decided that, when we look at EWS and our processes, we believe that this account has to be cured holistically and not just for quarter-on-quarter. So while we speak on SK group, I can tell you, before June we will have a solution, because the entire commercial building which is mortgaged to us, is actually getting sold. As we speak, it is getting sold. So not only it will get out of NPA, our entire loan will come out.

Coming to Jain Heights, it was one of the smaller accounts of Bangalore, and we realized that rather than spending too much time on it, why not take over the project and cure it. And that is why we took the whole thing as an NPA. And as we speak, all the three projects, we have segregated it and we have a different action plan for that, and we keep on reporting on that, and you will see the progress, quarter-on-quarter on that also. So really, while it has gone up because of the three additions, I can assure you one thing that all three are actually, as we speak, getting cured. So that is the reason why, in this quarter, you see the three additions, that's why it has gone to 0.9 percent.

- Alpesh Mehta:** So what would be the quantum of these three accounts? And that Rs. 110 crores got upgraded or recovered in this quarter or those were the account which got recovered in...?
- Khushru Jijina:** Yes, it got recovered in this quarter itself.
- Alpesh Mehta:** Okay. And what would be the quantum of these three accounts which slipped into the quarter?
- Khushru Jijina:** So these three accounts, Rs. 382 crores.
- Alpesh Mehta:** So there are no write-offs, per se, during the quarter?
- Khushru Jijina:** No. Repeating for the sake of repetition, these are being cured as we speak.
- Alpesh Mehta:** Sure. The second question is on the margin side. I believe the table that we report is on the cumulative numbers, right? So the yield and the cost data that we have reported are for the full financial year, not for the quarter?
- Hitesh Dhadha:** For the full year.

Alpesh Mehta: Yes. So if I look at the numbers for the nine months versus the full year, it looks like, on a sequential basis, there has been quite a bit of pressure on the margins, largely because of the rise in the cost of funds. And the cost of funds for the quarter, based on the valuation, works out to be roughly 10%. Is my understanding correct over here?

Khushru Jijina: You are absolutely right. So in fact, as Mr. Piramal mentioned, our singular focus on raising long-term funds has been there. So that is one of the reasons where in the last quarter, slightly the cost went up. The other reason was also because, in the month of March, along with our... I will just talk about our strategic partnership, also, which we have been talking about. So we are now entered into strategic partnership with foreign funds. So we, in fact, took some money from the foreign funds also, which we are now in the stage of repayment, already they have started in April, May, etc. And you will see this 10% actually starting to go down from April, May, June itself. So these are the two reasons.

The other thing I must say that, while the costs have increased, while your point is right of 10%, but you will start seeing things going down. Because, as I said, that there are certain loans March which we took to island ourselves because liquidity is much more important than even the rates today. Having said that, now we are in the process of starting to pay that so you will see the rates going down.

The other thing is that on the asset side we have started to see that the risk-adjusted returns are coming back. So definitely, while you see it in the quarter as an aberration, because of the high cost of funds the NIMs have gone down – I can confirm to you that the NIMs of the nine months, which was there of 6.5% to 6.6% will be back in this quarter itself.

Alpesh Mehta: And your confidence is despite the shift in the portfolio mix, because we are moving towards more of retail portfolio. So wouldn't that put a pressure on margins?

Khushru Jijina: No, I will tell you why. Because, I think, if you really study the portfolio, what has really happened is that we have explained this, I think, in the last two quarters. That, basically, because of lot of competition in the NBFC space there was lot of under-cutting in the rates, so the risk-adjusted returns were not there. So today, we have actually on the asset side – and you will see it in this quarter itself – the new assets which we are building, the lending which we are doing, are having the correct risk adjusted returns. So that more than offsets the retail growth which we are doing, if I am making sense to you.

Alpesh Mehta: And any target on this retail proportion by end of next year? Currently, we are at around 9%, so what would be the share, any ballpark number that you can give?

Khushru Jijina: So I think you have already made that statement last time itself, that around 15% to 18% of our book would be retail – on an organic basis.

- Alpesh Mehta:** Sure. And another question is, at the end of last year there were certain loans which were sitting on the standalone balance sheet, which were supposed to be transferred to the HFC business. Has that entire thing played out?
- Khushru Jijina:** Yes. So out of the Rs. 10,000 crores, more than half were actually transferred. And the balance as per our guidance, which we have already given to the Reserve Bank, will get over it by this year. But, just to tell you, Rs. 1,500 crores out of the Rs. 5,000 crores which is pending is getting out in this quarter.
- Alpesh Mehta:** Also Rs. 5,000 crores is still pending on the standalone balance sheet?
- Khushru Jijina:** Yes. But that so as per the guidance we have already given to the Reserve Bank. So it's not some deviation we are doing.
- Alpesh Mehta:** Perfect. And one more question just from a regulatory perspective. I believe 20% maximum exposure that is allowed for any specific developer would be 20% of the net owned funds, right? So, our net owned funds are at around Rs. 11,000 crores on the HFC side. So the maximum exposure that we can have in that balance sheet would be around Rs. 2,200 crores, Rs. 2,300 crores. Whereas our largest developer is around Rs. 3,500 crores. So the balance will be sitting on the standalone balance sheet?
- Khushru Jijina:** So let me address that. So in fact, last time when we spoke of Lodha, we were at Rs. 4,400 crores. I am happy to report that today we are already at Rs. 3,800 crores. I would also be happy to tell you that we have already got two sanctions for down-selling, and we will be down-selling in these next two months itself Rs. 1,000 crores. So in fact, in June itself, we will be down to anywhere between Rs. 2,600 crores to Rs. 2,800 crores. So we are well on our path to be below 20%, as per the commitment given to Reserve Bank.
- Alpesh Mehta:** And as of now the additional exposure now is just sitting on the standalone balance sheet, right?
- Khushru Jijina:** Exactly. But I am sure you are happy to note that we are accelerating it, in fact.
- Alpesh Mehta:** Agreed. And if I may squeeze in one more question. There has some rating action towards your largest exposures. So any comment on that? And any comment on the London properties sale that those guys were doing?
- Khushru Jijina:** So I think, again, I think we have said this before and we will say this again. I think first and foremost, I think, if you look at our loan, I think we have said this. Last time, also, we shared with you that our loans have been prepaid one year in advance. I think the quality of the portfolio speaks. The fact that we are getting prepaid by them. Also, I just now shared with you that anywhere between Rs. 1,000 crores to Rs. 1,200 crores of down-selling is happening the next two months, should speak about our underwriting and the quality of that portfolio. Otherwise,

why would anybody take it? I think the actions should speak for itself, rather than we explaining. Coming to your point on the Lodha or on the London assets, from what we understand, not only they have a Plan A, which I think the first tranche is coming by the month of April, they have reconfirmed that. But they actually have a Plan B also in place, which is, they have another bank to take over that long-term exposure in London. The third point is, which actually has to come from Lodha, but again, we forget that they have a substantial commercial portfolio, which unfortunately nobody talks about it, everybody thinks of Lodha as a residential play. So they have a large portfolio of commercial leased out, which, I think, this year, you will see a lot action maybe in terms of sales to investors, etc, bringing in liquidity to bring down their debt equity ratio.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: This is Pritesh. A couple of questions on the financial business side. First, if you could give a 3-year outlook as to how this business should shape up for you considering I know the changes which we are seeing in the last one year. So on the borrowing mix side, on the portfolio side and opportunities for growth, if you could spell out some thought process there. And since the whole business is housed under a conglomerate, so internally, what kind of debt-to-equity, is generally the group comfortable with?

Ajay Piramal: So we think that consolidation is taking place in the NBFC sector, and only the strong NBFCs will survive. We believe that NBFCs have a very critical role to play in the economy. If you look at it, one of the reasons why the GDP growth rate in the last quarter has slowed down is because NBFCs did not lend enough. Today, NBFCs are a significant player. And we believe that in this space, we will be able to have a larger share over time. And therefore, we are confident that we will continue to grow in this space, both in the wholesale as well as retail. Our retail portfolio will increase. The reason why we went into housing finance was our first exposure to retail. Once we have understood this space, we will expand further into other areas of consumer lending as well. Therefore, in the long term, you will find that our exposure to consumer, through housing finance and other areas, will increase significantly. As our real estate exposure will come down in wholesale, our exposure to other corporates will also increase in the wholesale space. That's one. The debt-to-equity ratio, we will be conservative. It will be anywhere between 3.5x to 4x in the long term as a maximum.

Pritesh Chheda: Okay. Then on the other part of the group, we have about three, four businesses. A couple of them, one, obviously, we have investment, and the other is a healthcare, which at the face of it, at the group when we look the numbers look ROE dilutive. So any thought process there? And any thought process on unlocking the value at the group via demerger?

Ajay Piramal: So besides the financial services, we have the investment in the Shriram Group, and we also have presence in the Pharma space. In the Pharma space, you will see that our growth rate has

been good. We follow a differentiated model. We grew Global Pharma by 12% last year. We will continue to grow there. The profitability is going up. It is now at a 23% EBITDA margin. On this path, we will continue to do so. As far as the Shriram investment is concerned, we are looking at options how we can maximize value for both Piramal and Shriram. So one of the steps that we have initiated is that if we can merge all the Shriram entities into one, the lending entities, the insurance entities as well as the holding company, Shriram Capital. So that is under consideration. We are also exploring if there are ways in which we can create value by exiting the Shriram Group. If we find the right value, it is possible that we will exit. I think with all this, you will see that the profitability of the overall group will increase. When will we do so, whether we will do the splitting of the business, as I said earlier, in the midterm, we will look at that.

Pritesh Chheda: And on the Healthcare Insights investment of ours?

Ajay Piramal: So the healthcare, we are seeing how we will improve the profitability, the performance. As I said that in my last call as well, it's not what we expected, but I see that now there's improvement in the margins. Going forward in this year, you will find that there has been improvement in the operating margins.

Pritesh Chheda: Just two more questions on the financial side. So we are at about Rs. 56,000-odd crore book size. A 3-year vision for the group would be what number?

Ajay Piramal: We are not giving those numbers yet.

Pritesh Chheda: And what is the provision coverage ratio right now?

Ajay Piramal: 224%.

Moderator: Thank you. The next question is from the line of Ronak Raichura from Asian Markets Securities. Please go ahead.

Ronak Raichura: Sir, my question is all relating to the ICRA downgrade that has recently happened. Now in the con call, you just mentioned that your cost of funds are actually likely to get reduced over in the next quarter or a couple of quarters. But wouldn't the downgrade actually increase your cost? That is one. And what steps are you taking – the Chairman did mention about a possible exit from the Shriram Group as one of the ways – but are we taking any other steps to reduce our debt levels?

Ajay Piramal: So first of all, let me just talk on debt levels. Today, also, our debt-to-equity ratio is fairly good. Overall, we have got our debt-to-equity ratio as a company is in the 2.5x range. Even as far as Financial Services is concerned, we have one of the best balance sheets, and our debt is at a level of 4:1.

- Khushru Jijina:** 3.9x.
- Ajay Piramal:** 3.9x actually.
- Khushru Jijina:** Which will go down in two months.
- Ajay Piramal:** Yes. As we are now raising the Tier-2 capital of Rs. 1,000 crores to Rs. 1,500 crores. So the debt-to-equity will go down. So that's one. As far as ICRA is concerned, the rating still continues to remain at AA+. From a stable rating, they have said, negative. And the negative outlook is more because of the industry that we are in, because of stress you find generally in the NBFC space as well as in the real estate.
- If you look at the detailed ICRA comments on us, I think they have complimented us on many other things. To the extent if I was to readout, the Promoter Group's expertise in real estate segment, the company's risk management and monitoring processes, which enhances ability to proactively manage a portfolio. They also noted our ability to maintain our capitalization profile, which following a measured growth strategy would remain critical from a credit perspective.
- So all in all, if you read the overall ICRA report, I think it is negative because of the sector that we are in, but not negative for the company. So therefore, we feel that the cost of funds will come down. Not only will the cost of funds come down, but as Khushru mentioned earlier, we are already seeing that the NIMs have gone up. The rate of interest that we are now charging to our borrowers has gone up, and you will see that effect in the first quarter of the current year itself.
- Khushru Jijina:** So just to add to what Mr. Piramal said, the proof of the pudding is always in the eating. I can confirm to you that even post the ICRA rating outlook revision, we continue to borrow at the same low rate. So there has been absolutely no impact. I am repeating, absolutely no impact in our borrowing program, and the cost of funds as we speak.
- Moderator:** Thank you. The next question is from the line of Aditya Jain from Citigroup. Please go ahead.
- Aditya Jain:** A couple of things. So one, could you share thoughts on progress on creating lines of fee income, which you have talked about in the past as something which will help ROE in the future?
- Khushru Jijina:** Yes, sure. So in fact, there are various lines of fee income. One, if you recollect, we had said that it is, again, tied up to one more strategy which we have spoken, that we will not have large single borrower exposure on our books in the future, and we have spoken about strategic partnership. So in fact, we are happy to tell you that we now already have two strategic partnership with foreign funds, and you will see us doing this co-investment going forward from this quarter itself and that will generate fee income.

Second, I think we spoke about active down-selling. We now have a team in place. In fact, I am happy to report that in this last quarter, we successfully down-sold Rs. 1,300 crores of our assets. So again, we generated fee income there.

The third, on the Corporate Finance Group side, we had mentioned that we will form an AIF or a joint venture with a pension fund. Again, I think while I cannot divulge the name, we are in advanced stage to finalize an AIF structure, where we can again get a lot of fee income.

And the last is the asset aggregation platform, which in the next 15 days, we will announce with a pension fund, which is almost ready. So I think these are the various streams through which we will be generating fee income. So all what we have been saying in the last six months, I am happy to say that we are almost there.

Aditya Jain: Got it. Then a couple of data points. So could you share the amount of total debt at the nonfinancial services? And then within nonfinancial services at DRG, healthcare and corporate level?

Vivek Valsaraj: So the overall debt in the Pharma is about Rs. 4,500 crores. In the DRG business, that's close to about Rs. 4,000 crores in DRG as well. So talking about Rs. 8,500 crores in the non-FS segment.

Aditya Jain: Got it. And then Allergan's contribution to the consol pack, which comes as associate income. In FY18, I believe it was Rs. 49.86 crores. Could you share the amount in FY19?

Vivek Valsaraj: That has grown by about 20%.

Aditya Jain: Got it. And then in 4Q, so if we look at the ROE trend year-to-date for three quarters and then for full year FY19, there has been a move down. And so one, as you alluded to, there was a change in NIM, which can change going forward, based on the price increases that you have taken. Secondly, is there also a movement in provisions in this? As in what provision's higher in 4Q and if you could quantify the amount over there?

Hitesh Dhaddha: So ROE movement is also happening because of the mix change. And as Chairman and Mr. Jijina explained that there are certain initiatives – that you yourself asked – on the fee income side that we are working on. And that will sort of bridge the gap of ROE change that is happening because of mix change. You will see that a year back, our housing finance book was kind of 1%. Today, it's nearly 10% of our total book. Even within real estate and the other corporate lending book, we are going more granular and we are sort of diversifying, and going towards lesser risk profile. So from that perspective, obviously to an extent there was a little bit change in the ROE, but that gap will be bridged through the additional fee income that we will create.

- Aditya Jain:** Okay. And lastly, so in the segmental disclosure that come in the exchange filing. I don't know how significant you would see they are, but in the financial segment within both the standalone and the consol, declined sequentially. So what is that attributable to?
- Vivek Valsaraj:** So that's basically the movement of the loan book, which has happened from the standalone to the Piramal Capital & Housing Finance entity.
- Aditya Jain:** So the moment of loans from standalone to the housing finance entity caused the decline at the standalone entity?
- Vivek Valsaraj:** That's right.
- Moderator:** Thank you. The next question is from the line of Praful Kumar from Pinpoint Asset Management. Please go ahead.
- Praful Kumar:** Sir, can you comment about any inorganic acquisitions that you are looking at and over time, how they play out for the firm? Do you need more capital upfront for you to do this acquisition that you are planning?
- Ajay Piramal:** So first of all, we are not planning any acquisition. As and when we will have an acquisition, I think, we have the ability to raise both capital, as well as to have more credit lines. So it will depend on what the acquisition is, what the amount is.
- Praful Kumar:** Sure. And secondly, Sir, I think you have done a great job in segregating within accounts and working on those. Just one question, any exits where are all realty company has taken over the projects? Is there an instance where that has happened? And how many projects are such?
- Khushru Jijina:** No. We can confirm that not a single account has been transferred to Piramal Realty.
- Moderator:** Thank you. The next question is from the line of Gopi Nath from PNR Investments. Please go ahead.
- Gopi Nath:** My question is regarding the exceptional items that we saw towards this quarter. Can you throw some light on this, please?
- Vivek Valsaraj:** Yes. So this exceptional is basically related to a redundancy at our overseas subsidiary. About 77 positions were made redundant as far as the cost rationalization exercise.
- Moderator:** Thank you. The next question is from the line of Manan Patel from Equirus Portfolio Managers. Please go ahead.
- Manan Patel:** Congratulations for the good numbers. So my first question is related to the loan book. So basically if we look at last two quarters, our growth quarter-on-quarter has come down

significantly. I understand that the macro environment as such. But is that a conscious call that you have taken or has the base effect also kicked in for us?

Ajay Piramal:

We consciously said that the last quarter, because of general stress in the whole environment, we must be conservative. We are back onto the growth track, and you will see that in the first quarter of this year, we will show a much better growth rate. So it's just that we were being over conservative. Because I think, what was important in the last six months was to ensure that liquidity is there. If you are a long-term player, it's better to be liquid and not have any stress there. That's the reason.

Khushru Jijina:

Just to add to what Mr. Piramal said. I think we have been saying this in the last six months that liquidity is the key, and we have been going all out to get long-term funds. Having said that, if you really dissect our growth, what have we done? It's not that we are not disbursed. We are among the few NBFCs who have kept our commitment. So if you really look at the disbursement numbers, it was Rs. 6,200 crores in the December quarter. It was Rs. 5,000 crores in this last quarter. But it was also funded by down selling and repayment. In fact, you should be happy that not only we were able to create extra liquidity in our balance sheet through long-term loans, we were able to disburse through also churning the portfolio. So all the concerns have actually got answered in this last six months. Whether it is the churning of portfolio, whether we are continuing to disburse and whether be able to create long-term liquidity. We have been able to do all the three.

Manan Patel:

Understood, Sir. That's helpful. And my second question is regarding we have not mentioned there used to be a page on OTC. It is not there in this presentation. So I just wanted to know what the numbers of OTC business are in this quarter and year.

Hitesh Dhaddha:

The numbers were mentioned in the slide. If you look on Page #40, we have mentioned the top line for OTC was Rs. 334 crores for the full year and Rs. 89 crores for the quarter.

Manan Patel:

Does that include the JV that we have?

Hitesh Dhaddha:

The JV numbers gets reported as part of the net profit. So it's a direct addition to the net profit.

Manan Patel:

So until last year, we used to mention that this is Consumer Products and this is Allergan JV revenue. So I just wanted to know that.

Hitesh Dhaddha:

So you can reach out to us separately, we will get back to you on this.

Moderator:

Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

- Pritesh Chheda:** Actually, I missed the non-financial service debt, which you called out. And you split it up in healthcare and pharma, what was the number?
- Vivek Valsaraj:** It's about Rs. 8,500 crores, Rs. 4,500 crores in Pharma and the remaining in DRG.
- Moderator:** Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.
- Dhwanil Desai:** Three questions. So first one is in absolute terms, our NPA numbers have gone up. And I understand that you are provisioning significantly more than the NPA. So to that extent, on P&L, we have provided for that. But we have an early warning system, which helps you identify accounts in advance where there can be a possibility of stress. So are you seeing more stress coming our way going forward? Or do you think that we have kind of peaked out on that? That is my first question.
- Khushru Jijina:** So first to give you the answer, it has actually peaked out. Let me just go a little more granular. As I already mentioned, just now somebody else also asked this question. So in fact, this NPA has also gone up, not because of lack in our early warning signal. As I mentioned to you that one of the major additions in this early warning signal was a project from 3C, which contributed Rs. 233 crores. Now that project, as we speak, we are curing it, but we had to provide because one of the creditors took the company to NCLT. And that is why we immediately recognized this as an NPA. It was not NPA on our books. But we recognized it because of the NCLT issue, and that is why we are pretty confident that this will get covered.
- The other addition, which came was also, as I mentioned to you, that actually these 18 accounts we just spoke, one of the things which we discovered that when you work, in fact it's exactly opposite of what a lot of times, a lot of investors have asked me – that why don't you work with small developers and do more granular. It is actually the opposite. It is when you work with smaller developers, then you do a small loan of Rs. 50 crores, Rs. 60 crores, that is where the pain sometimes can be more. And that is why whether it was SK Group or Jain Heights, we decided that rather than looking at it only for 6 months, why not solve it holistically. Take over the assets, recognize it as NPA and then solve it. Because as we speak, we are actually solving both. So that has been the reason why we actually added it in our NPA. Because it a change in the strategy and not that we did not know, or it was not caught as part of the early warning signal. So to answer your question, actually it has peaked out.
- Dhwanil Desai:** Okay. Okay. Yes. My second question is regarding as Chairman remarked, we are expecting the 18% to 20% ROE in the Financial Services business. And you used to go with 25% kind of a number earlier. So this change in ROE expectation, is it because of the profile of the book is changing? Or is there more to read into that?

- Ajay Piramal:** No. it's really the profile of the book that is changing. And therefore, as we are going more diversified and we are spreading out the risk, this is what will be the long-term profile, maintain this 20% range.
- Hitesh Dhaddha:** And to add, as Chairman had mentioned earlier also that we would like to maintain leverage at conservative levels. So that is also one of the factors.
- Dhwanil Desai:** Understood. Yes. And my last question is in the environment that we are operating in, I am sure there are a lot opportunities there, the portfolios are available for sale and probably at a good price valuation also. And those opportunities may be coming our way. So in terms of framework, what are the things that we may be looking for, for accepting or rejecting such deals? Are we open to such opportunities?
- Ajay Piramal:** So you're right that we are now seeing a lot of portfolios and businesses coming up because of stress in the system. We are very clear that we are looking at it, and if we find that the quality of assets are good, the team is good, they have solid systems and processes, and it is at a reasonable value. If all these conditions are satisfied, only then would we look at it. So generally we are supposed to be aggressive in doing acquisitions, but let me say, in the financial services space, we are conservative and will continue to remain that.
- Dhwanil Desai:** Right. Because I think earlier, you had only mentioned that the culture plays a very important role in financial service.
- Ajay Piramal:** You are right. Team, systems, processes, that's the thing.
- Dhwanil Desai:** Okay. But we are still open to that, right? I mean it sounds that you...
- Ajay Piramal:** If it satisfies all these criteria. There won't be that many such assets, but if it does then, yes. And valuations have now become much more reasonable in the last three months than what they were earlier, that you will agree.
- Moderator:** Thank you. The next question is from the line of Utsav Srivastava from Trinetra Investment. Please go ahead.
- Utsav Srivastava:** My question is regarding the DHFL acquisition. Could you just walk me through as to what the rationale is and where we are at the process of the acquisition right now?
- Ajay Piramal:** So first of all, don't believe everything that comes in the press. That's the first thing. The second is that we are evaluating on the same criteria I laid out a minute ago, that we will look at some part of a portfolio, not the entire portfolio. We are not looking at investing in the company or in any of the shares. And if we find that the quality is good of its portfolio that we are looking at, if we find that they are following the right systems, processes, if the culture and the team is right,

and if it is at a reasonable valuation and provided that, the retail portfolio is what we will do. So if all these criteria are satisfied, then we will look at it and may do it. But otherwise, nothing more than that.

Moderator: Thank you. The next question is from the line of Pranav Tendulkar from Red Enterprise. Please go ahead.

Pranav Tendulkar: Sir, can you just highlight what are the structured debt part and CFG and ECL part of the total loan portfolio? What are they exactly against, like, what is the security? What is the structure of portfolio? What is the composition of portfolio structure-wise? Is it promoter loan? Is it project loan? What are these two parts?

Khushru Jijina: So first of all, let me say that if you look at it on a portfolio basis, our structured debt is a minority portfolio compared to the overall. In this last few years what have we have done? Let me break it up into various businesses. Business number one that is real estate wholesale. Now in that, if you recollect five years back, we started with entire structured debt. I think today, as we speak, it is I think not more than 25% or 30%, I'll just get the exact number. It's actually only 15% of our portfolio. Again, in real estate, I have said this many times, even in structured debt, means what we have funded at the land stage. We have actually cross-collateralized with the mature projects. We never do a pure land funding. It is always cross-collateralized with other projects, which are mature, for the cash flow. And that is why we have never had a default in structured debt.

Next, let us move to structured debt of CFG, the Corporate Finance Group. Now, those are in the nature of mezzanine deals in the infrastructure and the renewable space where, again, we have various structures to ring-fence ourselves. So, again, we started in CFG three years back with structured debt. Today, again, it is less than 50% of it because we have moved to senior debt and working capital. Talking about Emerging Corporate Lending, it is pure cash-based, operating, there's not a single structured debt in that. So hope I have answered your question.

Pranav Tendulkar: Right. So, Mytrah Energy for which the rating downward that had happened some days ago. So is that a part of CFG?

Khushru Jijina: Yes, it's a part of CFG.

Pranav Tendulkar: Okay. And that is the bridge loan that you had provided around Rs. 1,800 crores. That will be taken over by another...

Khushru Jijina: It's not a bridge loan. It is a long-term loan, which is secured by assets and cash flows, and also the shares of the company, and which is what, in the papers, what you are alluding to, which has been taken over by somebody, yes.

- Pranav Tendulkar:** Right. Right. So another thing, in the...
- Hitesh Dhaddha:** Can we restrict the number of questions to maybe two, I think. We have more participants. We can take your question offline.
- Moderator:** Thank you. The next question is from the line of Alpesh Mehta from Motilal Oswal Securities. Please go ahead.
- Alpesh Mehta:** Just one clarification. You mentioned that the debt level at Pharma and DRG both put together is Rs. 8,500 crores. And then I look at your segmental reporting, the total capital employed is around Rs. 12,500 crores into these businesses. So logically, the equity contribution over there is Rs. 4,000 crores and Rs. 11,000 at the NBFC business level. And at the group level is Rs. 27,000 crores. So I am just trying to reconcile the Rs. 12,000 crores number into that. I believe a large chunk of that would be...
- Hitesh Dhaddha:** Can you please send your working to us, and we will help you to understand. Because I don't think we will be able to understand the numbers the way you are trying to explain to us. So you can send us your working and we will help you out.
- Hitesh Dhaddha:** We will take it as a last question, operator.
- Moderator:** Thank you. The next question is from the line of Kranthi Bathini from WealthMills Securities. Please go ahead.
- Kranthi Bathini:** Sir, my question is to the Chairman. Sir, as your non-compete agreement with Abbott is over, what are your plans for again foraying into the Pharma space? And how your plans are going to be?
- Ajay Piramal:** Well as far as Pharma space is concerned, we will continue to grow in the existing spaces we are in Pharma. As you have seen we are in global Pharma business, we will continue in that. We will continue in the over-the-counter drug space as well. In addition, and as I said this even in the last couple of calls that we are looking at the domestic formulations business. If we find some opportunity here, we will grow through acquisition. If we find something, which is of good value and which will have a growth potential in the future. So we are evaluating. We don't have any specific proposal at the moment.
- Kranthi Bathini:** Are you going with any timeline, Sir?
- Ajay Piramal:** No. We are not bound by any timeline. We are only bound by, that it should create value.
- Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to Mr. Hitesh Dhaddha for closing comments.

Hitesh Dhatta: Thanks, everyone. In case you have more questions, feel free to reach out to us, and we will help you to understand better. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Piramal Enterprises Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.