

8<sup>th</sup> August, 2018

**BSE Limited**

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Rotunda Bldg, P.J. Towers,  
Dalal Street, Fort,  
Mumbai- 400 001

**National Stock Exchange of India Ltd.,**

Exchange Plaza, 5<sup>th</sup> 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 25<sup>th</sup> July, 2018 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 30<sup>th</sup> July, 2018 to discuss the Q1 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**



**Leonard D'souza  
Company Secretary**

Encl: a/a

**Piramal Enterprises Limited**

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“Piramal Enterprises Limited Q1 FY2019 Earnings  
Conference Call”

**July 30, 2018**



**COMPANY PARTICIPANTS :** **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 CAPITAL & HOUSING  
FINANCE LIMITED  
MR. HITESH DHADDHA - CHIEF INVESTOR  
RELATIONS OFFICER, PIRAMAL  
ENTERPRISES LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Piramal Enterprises Limited Q1 FY2019 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Hitesh Dhadha - Chief Investor Relations Officer from Piramal Enterprises Limited. Thank you and over to you, sir.

**Hitesh Dhadha:** Good evening everyone, I am Hitesh Dhadha and I am pleased to welcome you all to this conference call to discuss Q1 FY2019 results. Our results material have been uploaded on our website and you may like to download it and refer it during our discussion. The discussion today may include some forward-looking statements, and these must be viewed in conjunction with the risk that our businesses face. On the call today, we have with us our Chairman - Mr. Ajay Piramal, Mr. Vijay Shah – Executive Director, Nandini Piramal - Executive Director, Piramal Enterprises and Mr. Khushru Jijina - Managing Director of our 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:** Welcome to our investor call. I am pleased to announce another quarter of robust performance by our company. For the first quarter of the current financial year 2019, the Company has delivered a 29% growth in revenues at Rs. 2,902 crores and during the quarter we sold the imaging business to Alliance Medical Group. Upon the sale of this business, there was a non-recurring and non-cash accounting charge of Rs. 452 crores towards imaging assets and hence the company reported a net loss of Rs. 70 crores. Excluding this charge, the adjusted net profit for the quarter is Rs. 382 crores, an increase of 27% as compared with Rs. 302 crores in the same quarter of 2018. On account of the synergies from merger of subsidiaries in Financial Services the cash profit for the quarter grew even higher by 54% to Rs. 540 crores. During this quarter, all our businesses have demonstrated a strong growth performance.

Financial Services in detail. During the quarter our loan book grew by 64% to Rs. 46,995 crores. In addition to this loans worth Rs. 22,400 crores approved but yet to get disbursed. So, in all loans worth Rs. 69,000 crores are either disbursed or about to get disbursed soon. We also saw strong growth across all the verticals of Financial Services. Real estate developer financing, Corporate Finance lending, Emerging Corporate lending and the Housing Finance business. The Real estate loan book grew by 40% to Rs. 34,800 crores and the corporate finance loan book grew by a 163% to Rs. 9,400 crores.

The new verticals which were launched in the last year are also witnessing a strong performance. The sector agnostic Emerging Corporate Lending vertical grew to Rs. 1,163 crores and the Housing Finance vertical grew to Rs. 1,604 crores. Additionally, the business has loan approved but yet to be disbursed of Rs. 1,087 crores as on 30<sup>th</sup> June 2018. We have been consistently maintaining our healthy asset quality with the gross NPA below 1% since the last 10 quarters.

At the end of the first quarter ending June 2018, our gross NPAs ratio based on a 90-day DPD remains healthy at 0.3%. Being more conservative, we continue to provide much more than the regulatory requirements and maintain our provisioning at around 1.8%. Risk is the most important as far as the board is concerned and to further strengthen our focus on risk, we now have a risk management committee of financial services. This includes people who have a lot of experience in Financial Services such as, Mr. Vaghul, Mr. Deepak Satwalekar, Mr. Bobby Mehta and also an external advisor Mr. Deven Sharma, who was the former president of the Standard & Poor's, USA.

Post the merger, in the first quarter of this year, the long-term debt instruments of Piramal Capital and Housing Finance Company were rated CARE AA+ Stable and it is an upgrade from the earlier rating of CARE AA Stable. The company has recorded a ROE of 25% + over the last 10 consecutive quarters prior to the fund raise through the QIP and the rights issue. As you are aware, we raised nearly Rs. 7,000 crores from the QIP and right issue and during this quarter the business generated an ROE of 19% taking into account cash tax and other synergies from merger that we completed under our Financial Services business a few months back. The ROE as reported in this quarter is lower than that of the earlier quarters only because we have allocated Rs. 5,000 crores as equity, which was allocated to the Financial Services business on 31<sup>st</sup> March. In the long term we expect to deliver 20% plus ROE on a sustained basis.

On the Pharma side, Global Pharma revenues grew at 16% to Rs. 979 crores as compared to Rs. 845 crores in the first quarter on account of a strong growth in API development, stable performance of inhalation anesthesia, strong volume growth of vitamins and premixes. Our differentiated business model has ensured that we perform better than most of the other Indian Pharma companies who have been impacted by regulatory issues and generate pricing pressure. We remain focused on quality and whereas it is an ongoing issue for many Indian and global pharma companies with the large number of them facing scrutiny by regulatory authorities such as the US FDA. The company has cleared 5 regulatory inspections including an US FDA inspection in this quarter and 51 customer audits. Since 2011, we have successfully cleared 138 regulatory inspections and 877 customer audits.

The Indian Consumer Products business saw strong recovery in the topline performance as revenue grew by 55% year-on-year to Rs. 64 crores. This improved performance was on account of launch of new line extensions, investment in digital assets and scaling up of the e-commerce and the lower base of last year. The Healthcare Insights and Analytics business revenue grew by 10.5% to Rs. 278 crores primarily driven by our continuing focus on data and analytics business and out of this 4% was because of the depreciation of the Rupee. The India expansion continues in Bengaluru and Gurugram offices. It has now on boarded a total of ~400 employees out of the total of 1,200+ at DRG. These are the highlights that I wanted to touch upon the quarter. I would now like to ask Mr. Khushru Jijina to take you through the performance of the Financial Services business vertical in more detail.

**Khushru Jijina:**

Good evening everyone, Khushru Jijina here. I think I will start with the numbers which Chairman just mentioned that our loan book in Financial Services grew by 64%, that is we ended the quarter with Rs. 46,995 crores, so roughly Rs. 47,000 crores. Now where did this growth come from? I think it is what I would like to touch upon and we will also touch upon the same point when we go into each vertical of financial services. We have been saying that for the last few quarters, in fact from the last year or so, that when we integrated the Corporate Finance Group into our vertical that we feel that the CFG will actually grow the fastest and as Chairman rightly said in fact even in this quarter if you see compared to the last year the CFG has actually grown the fastest. Of course, the growth was also fueled by two new businesses which is Emerging Corporate Lending and Housing Finance which I will talk in detail. Again, there is a growth in the real estate, not to say so because that is the bulk of a business as of today. But again, if one really dissects the business in the real estate wholesale segment of financing, then again, where are we growing? I think if you really do a granular deep dive you will see that the growth is again coming mainly from construction finance and also the hospitality sector which we entered. So, that is where the growth actually came from. So, what is really happening in terms of diversification, we have been talking about granularity and diversification.

Today, when we started off with these new verticals last year, our real estate wholesale was 87% of the book. Today it is down to 74% of the book and we continue to maintain that as a percentage to the overall book it will continue to come down. Chairman mentioned about the NPA, yes, we continue to have a gross NPA of 0.3% and it has been below 1% for the last 10 consecutive quarters. The other very important data point for this quarter was that we disbursed Rs. 8,800 crores and out of which the repayment and prepayments were Rs. 4,200 crores which is actually 48% of the disbursals. Let me also go into little more granular details of the repayment and prepayments. Again, more than 50% of the prepayments and repayments actually came from the cash flows of the project and the others were refinancing. Again, in the refinancing let me clarify that the major refinancing was not because the project was not doing well and it shifted to something else or some other lender. It was basically that if I had underwritten say structured finance loan and our assumption that it will be taken over by our bank or somebody else when the project becomes much less risky that has actually played out. So, that is the point I want to make. So, not necessarily that refinance is if somebody refinances me is a bad word because as long as the thesis has played out, it is fine. So, that is the point I want to make and again this is not something unique, we have been saying this for the last 3 years that more than 35% to 40% of the book is getting churned. So, it is actually a very good thing. It again shows that our underwriting, the thesis which we follow is going right.

As Chairman mentioned that over and above the AUM we have Rs. 22,400 crores of sanctioned, but not yet disbursed loans, let me give you a feel of what these sanctions are; again, majority of the sanctions are nothing but construction finance which have been sanctioned in the last 1 year or more or because the payment to the developer is done slab wise. So, obviously this will get disbursed in a particular time. Also, this includes various other deals, not necessarily it could be only Real Estate. It could be in the CFG part, where the IC has just taken place we have

sanctioned the deals. Housing Finance for example, our Chairman mentioned number of almost Rs. 1,100 crores, ECL and other businesses. I thought I should just clarify what this number stands for. Yes, our ROE even after the receiving capital of Rs. 5,000 crores has been at 19% on a cash tax basis and today our debt equity ratio has come down to 3.9x. Though in the long term we have given a guideline that by 2020 we will go back to 4.5-5x.

Rating, I think I had mention this last time that we expect a very positive feedback from the rating agency after our reverse merger which has actually played out. So, immediately after our reverse merger between the wholesale and the retail, CARE has now assigned long term rating of CARE AA+ which has immediately brought down our borrowing by 25 to 30 basis point, the impact of which will actually play out in the next quarter. Again, just to reemphasize the rating rationale for it, is not only the merger. I think it recognizes the strong performances across all our verticals whether it is real estate or non-real estate. And is also validation of our efforts towards diversifying our loan book and the risk management which has been tested not only by the Reserve Bank of India but by the rating agencies. Let me move on to the vertical of Real estate financing the wholesale part. As we have always been speaking, so let me start by that, what is happening in the real estate industry. I have been saying this for the last few quarters that the consolidation is on and we actually see it quarter-on-quarter the consolidation actually playing out more and more because thanks to the introduction of RERA, GST, demonetization and we keep on seeing this consolidation happening in the real estate industry.

In fact, I am happy to say that even with these three tsunamis, which the industry has gone through, our portfolio has not just withstood the impact but actually perform better due to this regularity changes on the back of deep relationship with the developer. So, one is of course the relationship cutting across the entire capital stack today which we are able to provide, the risk management and the monitoring processes, and I have always mentioned that it is not to be taken lightly, the underwriting processes which we have. In fact, today, I think I am going to share some data points with you. We have been saying if you recollect in the past that we work with select developers. Last 3 years we have been saying that, that ultimately few developers who have imbibed new technology, who have imbibed new ways. In fact, as we say that the traditional way of Real estate is dead of doing business. It is actually the FMCG way, which will only make the developer survive and we have been saying this for long, not a quarter or 2 back. We have been actually saying this for last 2 years.

So, we actually, did a deep dive to find out what the percentage of market we are serving is and what is really happening to those developers. Because if you recollect, last time I did mentioned that from January to March for the first time we saw our developers selling, that their sales were as good as pre-demonetization days. But the market continues to reel under tremendous pressure of oversupply, price correction, etc. Then how is it that we are doing well? How is it that we are getting repaid? So, just to share the numbers with you, in the cities where we are present there are around roughly 10,500 developers and 21,000 projects stack up and our portfolio actually comprises only a 1.3% of the developers in market. So, what I mean is that our loan book in Real

estate of Rs. 34,600 crores is actually serving a very small group of developers. The developers who have moved on from the traditional methods which we have spoken about or we speak about all the time and have actually got into the new method of getting financial closure from day 1. Because after RERA you need financial closure, after RERA you need execution capability. You have to actually work like an FMCG, as I always say that.

So, we are only serving 1.3% of them and we wanted to know what is the percentage of sales of these developers. So, actually our portfolio 1.3% contributed to 6.7% of the sales across India in the past 6 months, which validates our selection of superior projects vis-à-vis that available in the market. Let me give some more granular details. In the two large markets, which is MMR and NCR - in MMR we are only 1.6% of the projects today which are ongoing which contributes to more than 9% of the overall MMR sales and NCR is far more interesting we have funded only 1.7% of the project contributing the 17% of the overall sales and Noida is 3.4% of the project contributing to 39% of the sales in market. So, what does it mean really? All the points which we have been saying for the last few quarters that ultimately it is the underwriting and selecting the right developer and the right project, is actually playing out.

Let us also test this thesis on the number of months' supply overhang. So, let us, again look at MMR and NCR. Today in MMR the inventory overhang is 58 months and our project are at 40 months. Within NCR Gurgaon inventory overhang is 65 months and ours is only 39 months for our projects and Noida from 80 months our is only 42 months. So, needless to say, this performances is truly a proof of the rigor that we take in our underwriting, which is not backed by any desktop research, but on the ground research, which we have been talking about, but I think this data proves beyond doubt that we are really selecting a very few set of developers whom we believe are the 90-10 which we speak about. In fact, it is not even 90-10. It is a very small set of developers whom we are backing, and they are actually doing better.

Let us talk about our loan book. As Chairman mentioned that our loan book grew by 40%. Again, I have already mentioned that you have to look at the 40% with what happened within the portfolio. Let us look at what has happened in terms of percentage to the high yield mezzanine loans. Today I am happy to say, and we have been saying this as a guidance that our main segment today is construction finance and we are moving towards the LRD and also to construction finance for commercial. Again, our mezzanine loans, which was 35% to our loan book in real estate a year back has, actually come down to 25% and construction finance has increased to 62%, which was 60% in quarter 1 of FY2018 and 49% in quarter 1 of 2017. Our commercial real estate book which is basically office space construction finance has increase to 22% in this first quarter from 12% last year. And basically, in absolute terms has increased from Rs. 3,000 crores to Rs. 7,500 crores. Again, the LRD book which is really growing granular has increased from Rs. 1,250 crores to Rs. 4,300 crores again, a jump of 250% and in the hospitality sector, which we have just recently entered, again mainly in the form of LRD means basically revenue discounting of more than 3 to 5 years operational assets. Across the country we have disbursed Rs. 1,340 crores and we actually have a very healthy pipeline there.

If I move to Corporate Finance Group, which is basically the non-real estate financing that is where the loan book really grew to 163% that is to Rs. 9,414 crores. Again, here very important data point is the mezzanine funding. We started of doing mezzanine funding that is high risk for high yield and we have been giving guidance that we will move exactly like what we did before and while we bring down real estate, we will go down the risk curve but, on the risk adjusted return we will still be getting a good return. We have actually done it, just to give you a number within 18 months today our mezzanine funding is down to 51% of the Corporate Finance Group and the balance is senior debt, loan against shares and project finance. We have moved away not only from mezzanine funding, we have also moved into other sectors that is from Renewables and Infrastructure we have also moved into Cement, Logistics and Warehousing, etc. ECL, Chairman mentioned about Emerging Corporate Lending again the growth there has been 8 times. Of course, the numbers are smaller but that is what is giving us the granularity, which we have been speaking about, the book is now Rs. 1,163 crores against Rs. 140 crores last year and this is where we are really ramping up, we are actually ramping up the team. The team has now become 21 people strong across all functions, whether it is investment, its asset monitoring, risk, legal, etc.

Let me talk about Housing Finance vertical which we launched on the 4<sup>th</sup> of September 2017. I think within this less than a year today our Housing Finance loan book has grown to Rs. 1,604 crores and more importantly I am very happy to share with you that we disbursed Rs. 384 crores in the last quarter. What does it mean really is that when you look at Rs. 1,600 crores though today we are into 6 cities and 7 branches mainly the bulk came from the Mumbai region, because the other centers whether it was NCR, the 3 regions in NCR, whether it was Bangalore, whether it was Pune all were launched between March and April, so, the real AUM has really come from Mumbai and that is why I am sharing with you the last quarter because that is what we are monitoring and we do see the uptick month-on-month disbursement because now the other regions are also able to give us the throughput. So, that has been a very I would say a heartening number for us and even the customer mix of 54% salaried and 46% self-employed is very good. Again 87% of the home loans are actually below one crore. So, as I said being in Mumbai basically Mumbai biased as of now, hopefully in the next few quarters you will actually see a diversification in terms of regions also in terms of cities. But even being mainly right now in Mumbai and ticket size of below Rs. 1 crore is actually a very good number to have.

What are we doing on the underwriting? Because that is something which we have it is a constantly, risk and underwriting is something which have to look at an ongoing basis. It is not something that it is static. So, let me again give you an insight of what we are doing. Recently we went through an entire exercise along with the risk and asset monitoring, I can just share that with you of reclassifying who are Tier-1 and Tier-2 developers. This whole concept of Tier-1, Tier-2 which is being very loosely spoken about Tier-1 a large developer, etc. and Tier-2 could be smaller. So, we have really looked at it very differentially, recently to reclassify them and re look at the opportunities or if we have to get out any of the developers. So, again just to share some of the nuances not all obviously like, since now we have the data points of the last 3 to 4

years. For example the ability to sell in such a difficult market, we look through that whether these developers have been continuously executing on the site. We also looked at the team, minimum key man risk, etc. Very interestingly, we have been speaking about Early Warning Signals, I am sure most of the people on the call know that we speak about it all the time, one of the sense we have.

I am also very happy to share with you that we have also developed proprietary model of Early Warning Signal in our Housing Finance, which is again unique to Housing Finance. Because it is these processes, it is this underwriting, it is this Early Warning Signal which differentiates us from the rest. I always said that the growth is the byproduct of all these quality things which we do. So, I am sharing it with you in this quarter, we actually have developed a very robust and very different proprietary EWS mechanism for our HF. Also, want to touch on the asset liability match in borrowing mix. We just mentioned about CARE, so I do not want to repeat that, I also mentioned that it has immediately benefitted in our cost of funds. What is happening to our ALM, so as on June 30<sup>th</sup> our asset liabilities are again I want to mention are well-matched. 45% of our floating assets are against 43% of our floating rate liability. So, it is absolutely well. Also the balance fixed portion is linked to our PLR. So, what do I mean because lot of questions being raised, people think that in a raising interest scenario what happens. So, here, I wanted to make this statement that as I said almost half of our portfolio is floating and the other half which is fixed is also linked to the Piramal PLR. So, it means that at the most on the 50% portfolio you have the lag effect of maximum of quarter. So, we are absolutely well hedged that is the statement I wanted to make. Over and above that in terms of liquidity today we have adequate cash surpluses and unutilized bank lines, and which are confirmed committed lines which are maintain that all times. So, today on a prudent basis we not only keep cash surplus we also keep unutilized lines at any given point of time. I had mentioned in the last call that once the merger happens between the wholesale and the retail there are lot of things which will play out. Of course, the benefit of consolidation, etc. but one point I had also spoken about one was, of course the rate and then it also opens the vistas to various other borrowing mechanism that is ECBs and masala bonds, etc. So, we have started looking at that, so I just thought I will share with you. So, to end priorities going forward. So, I think in terms of the loan book we will continue to concentrate on diversification. These two key words you will keep on hearing from us, which is diversification and granularity. And I think we are definitely going to keep on doing that. We see a very good opportunity in continuing to do the financing in the real estate wholesale side as I already demonstrated the numbers. And now with the entire capital stack, right from equity to Housing Finance in fact in the next 2 months you will hear us announcing a few equity deals on the Ivanhoe platform also. So, that is giving an end-to-end solution to our developer and having chosen the right partner developers, I think it is a good time to continue the growth into the sector. We will, needless to say, continue to strengthen the risk monitoring and the asset monitoring without a doubt.

I think the other very important thing which we have not touched upon, but I would like to ~~give~~, just touch upon, is the technology. I think at the end of the day whether it is housing finance or

wholesale technology has to be used because of the disruption. And we have started using in the last 6 months a lot of technology not only in bringing the turnaround time down in Housing Finance and that is showing in the number, it is one of the reasons why Housing Finance is doing well. It is not only the relationship with the wholesalers also with the service, the turnaround time and the analytics.

We now have full-fledged analytics there which works. It according to me, is a third eye, which actually works with not only the Housing Finance but also the asset monitoring and the risk on the wholesale side, which is bringing another unique opportunity, or I would say an advantage to our platform to see things much earlier. And needless to say, our end game is ultimately the rating. We will keep on moving and focusing on getting a better rating because at the end of the day by getting a better rating basically what are we saying? We are saying that we are a much better book. We get much lower cost of funds.

Last time, I touched upon the new businesses, let me share with you all what we are doing. One was the asset aggregation strategy into operating roads and renewables. We have already started identifying some few team members. We are hiring a few of them. We have applied to SEBI for the AIF and we have already started talking to a few sovereign funds for that. Hopefully, in the next few months, in this financial year we should be announcing the setup of that.

We spoke about the aggregate REIT platform. I think that is also in the works. I think by March 2019 we should be ready to launch that means I would say the company would be in place.

We also spoke about last time the syndication, the focus on fee-based income. Apart from these two which I spoke about we are going to concentrate, we have actually started hiring more people into the syndication desk. You will hear from us more and more in fact in the first quarter itself, the syndication team gave us a small but is our good beginning of Rs. 9 crores fee income. But that is something which, we will concentrate in the coming years.

So, with that I think, I will hand it over to Hitesh for any question-answers.

**Hitesh Dhadha:**

Operator, we can go for Q&A.

**Moderator:**

Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Hardik Doshi from First Voyager. Please go ahead.

**Hardik Doshi:**

So, firstly just wanted to understand on the real estate side, I saw, I heard the metrics that you gave in terms of MMR and NCR and how your projects are doing lot better. By the same time the feedback you get is also within these regions post GST and post the RERA, a lot of the sales has been slow, especially in the high-end market which is also where you will be lending to among the top 10 developers. So, I just wanted to understand how are you viewing the overall industry, and do you think this is a short-term structural problem from the industry overall? Is

this is a short-term liquidity problem or is it a structural issue that is going to continue for a while?

**Khushru Jijina:**

No, so let me answer it. I think as I gave you the data but even before giving the data I have been saying this for the last 2 years that there is consolidation, what do I mean by consolidation? Means the customers are only going to developers. I will come to your luxury in a minute, they are going to the developers who are able to execute and deliver. I think on the last call I also made that statement, I give an example of Piramal Realty who is incidentally not our client because of related party. But the example I gave of the launch of Piramal Realty of Piramal Mahalaxmi, why did I give that example? Because it proved beyond doubt that if today you are a good brand, you give a good product and the right ticket size, it is all a combination of that, demand is there. Piramal Realty incidentally sold Rs. 2,500 crores in 15 days. That shows that the demand is there for very few select people and the right ticket size. Let me define right ticket size not necessarily low-ticket size in each micro market. So, that we are actually seeing with the primary data in all our 380 projects which we monitor across India. It is the same theme playing out. So, while and today why I gave this data 1.3% because as an outsider you are very right in asking the question that how come you guys are doing well when we are seeing blood bath in the market? And that is the point I am making. You are seeing 98% of the market, which is basically not doing so well. The 90-10 statement which we keep on making and that is why this will take some time for the market to filter. The filtration process as I say is going on where the distressed developers are turning themselves into landlords. Incidentally we are playing a major role in that, in the consolidation by getting the distressed developers tied up or selling their assets to our developers. Talking specifically of luxury flats just to give you a data point more than 90% of our loans are in mid-market. So, we are not into luxury anyways. This luxury-luxury is not a bad word. Where did everyone go wrong? People went wrong because in just a few years ago the market had become frothy and actually the developers you will be surprised to know had started making flats for the investors and not the end users. And investors have started asking for bigger flats and then people started making luxury flats with 200 luxury flats. You cannot have volumes and luxury together. I always give this example about Worli Seaface. If you make 10 flats in Worli Seaface for 100 crores each trust me they will sell. But if you make in any other location even in a South Mumbai with 200 flats and sell it for 40-50 crores it will not sell. And that is the point I am making. But to just give you a direct answer we are 90% actually in mid-market. So, we are not affected.

**Hardik Doshi:**

So, last quarter in your presentation the average yield on loans was 14.8% which now seems to be at 13.9% and while your cost of borrowings which was at 8.4 is going to 8.5 but yet your NIMs have increased from 6.4 to 7.1 and your ROA has gone up from 3.1 to 3.6. So, can you just reconcile those numbers?

**Vivek Valsaraj:**

In the last quarter yields which you saw that the average yields for the last financial year this year what you are seeing is the average yields for the April to June quarter. So, they may not very clearly be comparable.

- Hitesh Dhadha:** Actually, also the 3.1 number that we have reported last quarter was not correct and then we had rectified, we have sent a note to the exchange saying that the number was actually 3.9. So, what is comparable number is 3.9 for the last quarter is actually gone to 3.6.
- Hardik Doshi:** And the NIM also, I guess the 6.4 is the average for the full year which is now increased to 7.1, is that correct?
- Hitesh Dhadha:** Yes, so 3.9 was also average for the full year.
- Hardik Doshi:** And my last question is on the CFG part. In the past, you have spoken about how we build domain expertise in each industry prior to entering there. But I am just looking at the rate at which you are entering the industry, I think this time we entered into three new ones, last quarter I believe it was a similar number. So, just trying to understand, how do you go about building domain expertise so quickly and so many industries?
- Khushru Jijina:** So, that is a good question. So, actually let me share the way we work. It is not it happened suddenly it just happens of that few months of work has fructified. So, let me tell you, for example if you hear as now in the next few quarters talking about logistics and warehousing it is not that we have discovered logistics and warehousing now. For the 9 months, I have been speaking about it, if you really go back through all my calls 9 months we are studying the sector, we have got the experts on board. We have gone deep. We have identified with whom we have to work, identified which are the areas where we will bring value-add and then you suddenly see 3-4 deals being announced, if I am making sense to you. So, we first spend 6 to 9 months into each sector. We have a separate team which does that and then we have got experts on boards. So, each deal is vetted by internal and external experts. And first we actually spend time understanding the industry. Means when we talk to the promoters of the industry trust me, it is not a financier talking. We know the industry as much as that as the promoter. So, that is our model.
- Moderator:** Thank you. The next question is from the line of Alpesh Mehta from Motilal Oswal. Please go ahead.
- Alpesh Mehta:** First question is related to the Financial Services business. If I look at the segmental asset the number is around Rs. 56,000 crores whereas the loan book which is reported around Rs. 47,000 crores. So, this Rs. 9,000 crores difference would be, would that be primarily related to Shriram Group?
- Vivek Valsaraj:** Yes, that is right. So, the segmental results also include Shriram group in that and that is the reason you see the difference.
- Alpesh Mehta:** And the Shriram Group in the segmental results is it at the cost or including the mark-to-market gains as well on that?

- Vivek Valsaraj:** Yes, so it is at the market price.
- Alpesh Mehta:** So, around Rs. 7,500 crores.
- Vivek Valsaraj:** Rs. 7,500 that is right.
- Alpesh Mehta:** And Rs. 1,300 crores would be the asset management related?
- Vivek Valsaraj:** That is right.
- Hitesh Dhaddha:** So, the mark-to-market is for the two listed companies.
- Alpesh Mehta:** Sir, second question if I look at your annual report there are some loans and the loans which are not to the related party but the external loans or the bonds which are standing on the standalone balance sheet, by when do you expect that to be transferred to the Piramal Housing and Capital?
- Khushru Jijina:** In fact, just to share with you in fact we have even committed to the regulators that this year we will be moving them and the process is already started.
- Alpesh Mehta:** And what could be the exact quantum of that? Would that be around Rs. 8,000 crores-9,000 crores?
- Khushru Jijina:** No, I think Rs. 7,300 crores.
- Alpesh Mehta:** And that would be transferred to the NBFC division?
- Khushru Jijina:** Yes.
- Alpesh Mehta:** Again, a very strong performance on the housing financing business, what would be the average ticket size and what percentage of that exposure would be towards the subvention kind of schemes?
- Khushru Jijina:** So, I do not have a number on subvention schemes. But let me answer the first one. Today our average ticket size is Rs. 80 lakhs and you will appreciate that it is a good number as I said. In fact, this number will keep on coming down now with the AUMs coming from the smaller cities like Pune, Noida, Bangalore, etc. But today even with in Mumbai as you will appreciate that Mumbai normally the flat sizes are even the smaller are Rs. 60 lakhs - 80 lakhs. So, Rs. 80 lakhs is the number for you and we are constantly seeing the number actually coming down. Coming to the subvention scheme, while I do not have a number let me answer it differently, today it is a mix of everything. Yes, I would not have the number really probably if you want we can ask Hitesh to get to back to you. But to my knowledge it is not only subvention because it is a mix of everything. It is normal housing loans also.

- Alpesh Mehta:** And now the last question, your networth the last quarter reported to Financial Services business was Rs. 9,700 crores roughly which in this quarter is Rs. 9,850 whereas the quarterly profit post tax is around 400 crores. So, what would be the difference? Is it that the dividend which is given to the parent company?
- Vivek Valsaraj:** That is right. Dividend is from the other segment.
- Moderator** Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.
- Nischint Chawathe:** Just couple of questions. The Real Estate loans that you disbursed this quarter were around Rs. 6,900 crores and I guess you have got pre-payments of around Rs. 3,800 crores. Can you broadly share as to how many number of loan accounts are these in each of the cases?
- Hitesh Dhaddha:** Very difficult to give but if you understand our tickets sizes, average ticket size is roughly like Rs. 250 crores - 300 crores. So, you can arrive to the number, if you are looking for exact number maybe we can get back to you.
- Khushru Jijina:** I think the more important which is what I have already mentioned is that more than 50% came from the cash flows and the others actually refinanced us because that was the thesis, which played out. When the project became less risky and we got paid out from the banks. I think, that is more important frankly if I would look at it.
- Nischint Chawathe:** The fee income that you earn you would defer over the tenure of the asset?
- Khushru Jijina:** Yes, we defer it over the tenure.
- Nischint Chawathe:** On the home loan side, what would be your average yield like? Home loan side the retail home loan?
- Khushru Jijina:** So, it is around 9.1%.
- Nischint Chawathe:** This is the IRR?
- Khushru Jijina:** Yes.
- Hitesh Dhaddha:** Average yield is 9.1%.
- Nischint Chawathe:** So, again on the retail side, you mentioned that you have early warning program on the retail business. Now the general market perception is that kind of retail home loans sort of tends to be more commoditized business, especially in markets like Mumbai and all where asset quality is not really as much an issue. So, maybe if you could throw a little bit of light on what you are

doing differently and is it because of different segment or what it is maybe some color on that would be appreciated?

**Khushru Jijina:** So, let me answer it. In fact, what you just now said is true only to the salary segment. If you look at the self-employed there are lot of delinquencies everywhere today. And in fact, we have not really entered affordable in a big way, but I am just saying that you would be hearing that so many delinquency in the affordable. The major reason is the underwriting. I always mentioned that it always about the underwriting and the understanding of not only the projects also the customer. And that is what we are developing. Today what has stood us in good stead has been our early warnings and systems in wholesale which is proprietary. And that is what last time on the call I did share with you that even the Reserve bank of India commented that they were surprised to see such strong processes on our platform, being such a young company. And this is what we have again developed which I cannot explain in detail because that is proprietary and that is what I thought I will share with you guys. That is, so it is not really what you just now said that there is no delinquency. There are very high-levels of delinquencies when it comes to self-employed and affordable. And only this it is the salary segment where the delinquencies are less. So, obviously, this will help us in good stead going forward.

**Nischint Chawathe:** But for now, what is the proportion of self-employed or non-salaried in the portfolio?

**Khushru Jijina:** As I mentioned already that 54% are salaried and 46% is self-employed. As of now, we are zero NPA.

**Nischint Chawathe:** See, the overall loan book for NBFC, I think as you know all the NBFCs have moved to IndAS this quarter, the NBFCs have been kind of breaking up their book in terms of saying how much is Stage-1, Stage-2, Stage-3. So, anything that you can share on this one?

**Vivek Valsaraj:** So, we have already moved into IndAS. Our accounts for our financial services business effective FY17 have always been reported in the IndAS platform.

**Nischint Chawathe:** So, and how much would be your loan being in Stage-1 and Stage-2?

**Vivek Valsaraj:** So, we will come back to you with that.

**Nischint Chawathe:** And just one more request if you could share the breakup of your portfolio, rating wise breakup of your portfolio maybe from the next quarter or so?

**Hitesh Dhaddha:** Thanks for the feedback.

**Moderator:** Thank you. The next question is from the line of Piran Engineer from Motilal Oswal Securities. Please go head.

- Piran Engineer:** I had a couple of questions. Firstly, on mezzanine book, which has been largely stable in the last few quarters, so is this is a conscious decision or is it because of a lack of good enough options in the market?
- Khushru Jijina:** So, it is not constant. I think as I mentioned, definitely at the end of the day we need to diversify because the risk adjusted return today even in project finance and senior debt is almost the same. It gives you the same ROE, exactly what we did in the real estate space. So, while the numbers keep on growing it is not that we are not going to, let me clarify. We are not a bank who will only do project finance. We will continue to do mezzanine, especially if we have understood the business we have gone deep. We will be doing end-to-end and that is what differentiate us from the normal NBFCs and banking. So, we will continue to do that.
- Piran Engineer:** That is fine but if I see the numbers a year back it was Rs. 8,500 crores today it Rs. 9,000. So, it is largely stable and the reason I am asking is because mezzanine is the entry point for our relationship with the developer and that has been stable. How does this translate into growth in the future?
- Khushru Jijina:** No, I think the number was not Rs. 8,500 crores. I think the number was only Rs. 3,500 crores.
- Piran Engineer:** Mezzanine?
- Khushru Jijina:** The total book itself for 3,500 crores.
- Piran Engineer:** No, I am not talking about corporate finance. I am talking about mezzanine lending in real estate. So, that has been largely stable. So, the way I am thinking about it is that here if you have not added to your relationships over the last one year how does that translate into growth in construction finance or other whatever products you have later down in the life cycle of your relationship over the next few years? That is my question really.
- Khushru Jijina:** Let me answer you in 2-3 points. First of all, in real estate, when do you need mezzanine funding? Largely you need mezzanine funding when you do not have equity and the real estate developer does not need equity. Again, if you take a step back, if you have seen in the last 4 years what have we done? We have moved from category Tier-2 developers to Tier-1 developers. What is the need of a Tier-1 developer? Tier-1 developer needs really equity then he needs construction finance and then he need suppose it is the commercial projects LRD and then otherwise he needs Housing Finance. Now, if you really look at 3 years back people were borrowing mezzanine only because there were not able to borrow or not able to get equity and also, they were Tier-2 and that is what we have done. We have consciously moved to Tier-1. And today with the combination of Ivanhoe platform and construction finance then housing finance, you see the number coincidently stable, but I am coming to that also in a minute. So, that is not something which a Top Tier developer normally takes. Coming to also the mezzanine funding the number coincidently looking stable but there is already a churn. So, it is not that the

same structure debt continues. It either got paid off maybe we have done some new again. But conceptually fundamentally in real estate if you are backing the right developers or the developers who are in the 10% category, they will take your equity maybe for a short time they will convert it into structure debt and then really move on to construction finance, that is how the industry works.

**Piran Engineer:** So, the way I understand it is that in Tier-2 you had this competitive advantage of providing mezzanine finance which is not required by Tier-1 developers.

**Khushru Jijina:** I would not say competitive advantage. Probably we did not have when ...

**Piran Engineer:** Versus the HFCs?

**Khushru Jijina:** Let me answer it very bluntly. When we were a one product company no Tier-1 developer will look at it. Today we actually cater to the entire capital stack. So, that time even I did not have a choice.

**Piran Engineer:** And sir, another question is that now what percentage of our loans are under the HFC subsidiary and how much is under the parent? And the reason I am asking is what sort of exposure norms are we restricted to as an HFC. I am guessing as an NBFC you are more free to have a larger proportion say locked up exposed to one particular builder versus an HFC where there would be more stricter such exposure norms. So, in that light is it more actually of a disadvantage of being an HFC versus an NBFC? While I agree on the liability side and credit rating you get better, you have an advantage?

**Khushru Jijina:** Not really. Because in fact, the capital adequacy ratio in HFC is in fact better than in the NBFC which is 12% against 15%.

**Piran Engineer:** But on exposure norms?

**Khushru Jijina:** Having said that we have been ready for HFC much before we integrated. So, in fact it is not about the NHB norms or the RBI norms. I think the right word is prudent norms. And this is what we have been following because at the end of the day we have to look at the safety of the book and not just grow the book. I have been mentioning this in the second quarter and today also that we will, ultimately it is not about the growth only. It is about making a good book and also creating a good sizeable fee income which is syndication, and which is what in the last quarter we have actually started doing and that will be the way forward. So, we have already looked at it in a different way. If I am making sense to you that we will follow the prudential norms and we already have a glove of like-minded NBFCs and other sovereign funds who would want to participate with us, which gives you a stable fee income quarter-on-quarter.

**Piran Engineer:** And sir, just lastly on that the Worli Seaface example. So, for example, if we funded one project of 10 apartments of 100 crores and that is what is going to sell but then another builder comes of 100 apartments and he kind of screws up the market and your project is under cut. What do you do then? Because that is what we have seen in Bombay, right?

**Khushru Jijina:** Let me explain. What I meant was that in real estate luxury and volumes do not go together. Let me give you this example. This is a live example, which I am not naming the two projects, none of them are funded by me. But please understand you are a very high net worth customer. You can afford, and what does the high net worth individual want? He wants a limited gentry, he wants to be neighbors to only the people whom he relates to. Am I making sense that is the fundamental flaw which developers made and today if you ask them and they have realized that. Today if I am a big guy like, I would rather pay 20 crores more, but I do not want to see some of the other executives in other companies who are much lower to me residing in the same complex. I definitely do not want it.

**Piran Engineer:** I was not really referring to the luxury but what I meant is that you fund a project based on its own merits and that holds true until some other developer comes right next to you kind of gives a rate 10% below yours. So, you do not have any control on what another builder will do. You have control over what your builder will do? And that is what actually happening in Mumbai, right if I look out of my office?

**Khushru Jijina:** Let me answer that. So, first and foremost, if you have been on the calls much before we have actually given this example of how our underwriting is different. And we actually look at our underwriting, with sales when prices started falling. We have been starting to do that 1.5 year ago when people didn't even realize that prices will fall, and we have been doing that. So, as long as it is a sensible way, it is fine. Now, I can assure you one thing that nobody today in developer is able to bring down the price beyond the point why? Because the margins itself are not more than 15% to 18% or 20%. So, today those days are gone of 40% when a developer suddenly comes in and says I will go sell 20% lower. Those days are gone. So, I do not think that is a risk. That is not a risk. I can tell you that today. But if somebody brings it 7%-8% I have no issues because my underwriting anyway takes into account 10% to 15% reduction.

**Moderator:** We move to the next question from the line of Pritesh Chedda from Lucky Investment. Please go ahead.

**Pritesh Chedda:** My question is with respect to Healthcare Insights & Analytics business. What is the plan of action to enhance the shareholder value here, because this business occupies 20% of our capital employed and is a low growth and a low return on capital employed business. And on the contrary we actually raised us slightly expensive equity money of about Rs. 7,000 crores. So, there about Rs. 5,000 - 5,500 crores of capital employed here. So, if you could share your plan of action to create shareholder value?

- Ajay Piramal:** So, in this business we are focused on trying to increase the topline as well as improve profitability. What has happened in this business is there has been a shift, as you know we provide data and we provide insights to the whole healthcare industry and there has been change in the requirements of customers. Earlier on we used to make a lot of money giving reports which had data which was done out of research, experts that we had would give research reports to our customers. Now what happened is gone towards real world data, it has gone towards more analytics and that is the transition that we have taken to and we are seeing that there is some early signs of both top-line growth and that is what you are seeing in this quarter as well as now we are focusing on improving the profitability. So, yes, it is an area of focus for the management to ensure this and we are monitoring it closely and we hope that you will see better result in the months to come.
- Pritesh Chedda:** So, shareholder value creation will be a function of running the business and enhancing profitability or will be a function of unlocking value here?
- Ajay Piramal:** So, we are, our focus is always to do what is in the best interest from shareholders. At the moment we feel that if we can increase top-line and profitability the value should go up significantly. If we find that in the future this is not happening, then we will go towards unlocking of the value.
- Moderator:** Thank you. The next question is from the line of Tejas Parekh from Citi Group. Please go ahead.
- Tejas Parekh:** Can you talk a bit on your cost-to-income ratio considering it has inched up slightly high. I clearly understand that because of your Housing Finance launch there would have been additional cost. But if you can just give some guidance on your cost-to-income ratio for end of FY19 and secondly if there are any new product launches that is planned for this year?
- Khushru Jijina:** So, let me answer on the cost-to-income. It is not only Housing Finance, we also took a one-time cost and in fact, there will be one more cost in this quarter also of Rs. 25 crores in the first quarter which was the merger cost related to the merger-demerger. So, that is why you see the cost-income ratio going up and of course needless to say we are ramping HFC as you can see in the next, even in the next 5 months we will be opening 4 more branches. So, that cost-to-income will definitely go because it is an investment into our businesses. But there was this one-time Rs. 25 crores hit which I think there is some more coming also in this quarter which will be the last. So, that is the answer to cost-to-income. In terms of products, I did not understand if you talking about financial products or general products?
- Tejas Parekh:** Financial products.
- Khushru Jijina:** So, I already mentioned to you that our innovation will keep on happening. We will be unveiling even on the lending side some financial products which right now I would not like to speak. But besides that, we have the equity platform with Ivanhoe which we will announce a few deals plus I already spoke about the asset aggregation platform. I also spoke about the asset, the REIT

aggregation platform. And we are looking at AIF - the alternative investment fund, a fund model for equity investments into commercial assets and also non-real estate assets. So, these are the various things which will be unveiled in the next 9 months to a year.

**Moderator:** Thank you. The next question is from the line of Dhwani Desai from Turtle Capital. Please go ahead.

**Dhwani Desai:** My question is on the pharmaceutical side. I think, if we look at last couple of years we have made significant investment in terms of inorganically acquiring companies with products. We are doing CAPEX of \$85 million on that side, we have spent money on expanding our distribution channel on the OTC segment. So, these are in the 14% to 16% growth in last 5-6 years. So, with all this investment do we see that trajectory changing to 20% range and in the next 3 to 5 years? Is that a possibility?

**Ajay Piramal:** Yes, we are targeting that we are looking at that as well as improvement in the EBITDA percentages. So, our margins should go between 20% to 25% overall.

**Dhwani Desai:** And the growth trajectory may change to 20%.

**Ajay Piramal:** Yes.

**Moderator:** Thank you. The next question is from the line of Megha Hariramani from Pi Square Investments. Please go ahead.

**Megha Hariramani:** Two questions, one on the real estate part. What are the macro risks that we still have after coming out of RERA and GST? Is there anything else that we see as a concern for this particular segment? And secondly, how do we intend to grow the consumer product business in India? What is the strategy on that front?

**Khushru Jijina:** So, I will talk on the real estate one, without giving details because again that is something proprietary to us right now which I did not speak. There is, I think in the macro environment one has to look at 2019 politics election year and without getting into details we are actually proactively started working with our developers in guiding them how their borrowing and how their loan book should like, so that ultimately at the end of the day no constructions should stop in any of their projects. So, that is something, as I said we go beyond lending. We are actually the partners and solution providers and advisors to most of our developers. So, I definitely cannot divulge what we are doing because that is proprietary to us. But that is the macroeconomics scenario which can play out negatively for real estate if things go wrong in the elections. I hope you understand what I meant. So, coming to the consumer ...

**Ajay Piramal:** So, in the OTC consumer business, the strategy is very similar to what we did in the domestic formulations business earlier. What it is is that we have invested in setting up our sales and

distribution network and now our whole strategy is to add new products to it. Some of these will be organically developed and also some which we will do acquisitions. So, what happens in this is that it is an infrastructure set up of sales and distribution. Then whatever you put in into the mix just gives you a straight margin improvement. So, that is what we are going to do.

**Megha Hariramani :** So, do we have any company that we are looking to acquire going forward in the near future?

**Ajay Piramal:** We continuously keep looking at products and at the appropriate time we will disclose it.

**Moderator:** Thank you. Ladies and gentlemen, due to time constrain we take the last question from the line of Nirmal Bari from Sameeksha Capital. Please go ahead.

**Nirmal Bari:** My question is, if you can provide break up in Housing Finance loan book between LAP and home loans as well as what percentage of this loans have been from developers to whom we have initially financed out of the 385 odd developers that we have?

**Khushru Jijina:** So, LAP is only 5% of the loan book. Again, I want to qualify that the way we look at LAP is not only the security and we actually look at the cash flows also just at the point of view. But LAP is only 5% of the book, of the Housing Finance book. What was your second question?

**Nirmal Bari:** What percentage of the loan book is from we had ...

**Khushru Jijina:** Our developers?

**Nirmal Bari:** Yes.

**Khushru Jijina:** So, if I take a step back we had said it when we launch that this is the B2B2C platform, right? And we had said that we will be different our growth will come from this entire wholesale and retail talking together and that has played out. So, 80% of the housing loans today are through our developer relationships.

**Nirmal Bari:** But going forward by engaging DSAs and through other means we expect this to come down significantly as we ...

**Khushru Jijina:** I would answer it differently. The way we will be going like for example we are launching Nashik. Again there, where the, we have the small construction finance division, or the mid-market construction finance division embedded in housing finance. Again, there today while we are announcing that by the end of August we are launching housing finance in Nashik, I am happy to share that the construction finance team who are looking at Tier 2 who have already entered Nashik and started seeding the market getting to know which are the developers with whom we are working. So, the model will remain the same. Now whether it goes down to 70%-60% or 80% but our major businesses will always be this model, B2B2C.

**Moderator:** Thank you. Ladies and gentlemen, with this I now hand the conference over to Mr. Hitesh Dhadha for closing comments. Over to you, sir.

**Hitesh Dhadha:** Thanks everyone for joining the call. We are really sorry, we could not take up couple of more questions that were in the line. In case you have more questions, you can always reach out to us. Thank you.

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