"Piramal Enterprises Q2 & H1 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Piramal Enterprises Limited Q2 & H1 FY19 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 Dhaddha – Chief Investor Relations Officer from Piramal Enterprises Limited. Thank you and over to you sir.

Hitesh Dhaddha: Thanks, Karuna. Good evening, everyone. I am pleased to welcome you all to this conference call to discuss Q2 and H1 FY19 Results. Our results material has been uploaded on our website and you may like to download and refer it during our discussion. 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; Nandini Piramal -- Executive Director 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: I am pleased to announce another quarter of robust performance by our company. For the second quarter of the current year, we have delivered revenues growing by 24% to Rs.3,144 crores and for the first half of 2019, the revenues grew by 26% to Rs.6,047 crores. The reported net profit for Q2 grew by 25% to Rs.480 crores. Our normalized net profit for the first half of FY2019 excluding non-recurring and non-cash accounting charge towards imaging assets in the first quarter grew by 26% to Rs.863 crores. For the first half, the company has delivered a four-year revenue CAGR of 26% and four-year normalized net profit CAGR of 73%. We have been consistently delivering +20% growth in revenues and net profits for the past 12 quarters.

Let me now take you through to the performance of the Financial Services business. During the quarter, our loan book grew by 59% to be at Rs.52,800 crores versus Rs.33,260 crores at the end of the second quarter of the financial year 2018. Our gross NPAs based on 90 dpd remain healthy at 0.5% and we continue to maintain a healthy provision of 1.74%. The ROE during the first half of the financial year 2019 is 19.6% on a cash tax basis, despite the allocation of Rs.5,000 crores of equity from the capital raise carried out in the last year. Last quarter, our long-term debt instruments were assigned a rating of AA+ Stable by CARE rating. In Q2, I am happy to announce that ICRA has also upgraded our ratings to ICRA AA+ Stable from AA Positive. You would recollect that many of you were in the 'Financial Services Day' Analyst / Investors meet which we had in August. At that time, I had mentioned that because of the high valuation that financial services companies are getting, people are indulging in reckless lending and it is high time that we start distinguishing between the good players and the not-so-good players in this space. My concern at that time was, if there was a blow up in the NBFC space, it could affect the entire sector and there could suddenly be a clamp down on funds particularly from banks and mutual funds. This is what has been happening over the last few weeks.

The default by IL&FS resulted in a liquidity-tightening situation across the NBFC sector. There were fears regarding availability of adequate funds to NBFCs, significant rollover risks with respect to borrowing and asset/liability mismatches. First of all, IL&FS is not just an NBFC - of the total loan book of ~Rs.100,000 crores and more, the NBFC is only Rs.20,000 crores whereas the balance is in infrastructure such as power, roads, waste management, etc., and hence we need to recognize that even if 25% of the NBFC book which is just mere Rs.5,000 crores, which is insignificant to the total system, even if that was an NPA, it does not mean that the whole sector should get tarnished. But what has happened is, during the last one month, banks and mutual funds have become very selective towards which NBFCs they want to finance.

Based on the way the NBFCs were dealt with by the banks and mutual funds towards providing liquidity in this period, we could classify the NBFCs into three categories: The first category of the best-in-class NBFCs which have low leverage, sufficient equity, good promoter reputation and commitment of skin in the game, strong and consistent performance track record. This category has been getting enough funds even during the peak of the liquidity tightening situation, despite that their cost of borrowing might have gone up marginally.

The second category of NBFCs which are good at the various parameters that I just mentioned but not amongst the best-in-class. For such kind of NBFCs, liquidity is available but at a significantly higher cost.

And finally, the last category of NBFCs which are performing average to low on these above parameters, where they are not getting liquidity or enough liquidity. This situation in fact is forcing them to sell a part of their assets or businesses. You will recognize that we fall in the first category, for instance, we are amongst the only three non-banking financial institutions out of nearly 30 major NBFCs which received additional bank lines from a large PSU bank at the peak of this liquidity tightening situation.

During the Financial Services Day, I had also mentioned that the PEL Board and Chairman have four major responsibilities with respect to our Financial Services business: First, an effective risk management and ensuring a healthy asset quality. Second was maintaining ROE of 20%. Third, ensuring that there are the right people with the right set of values and culture. Fourth, maintaining an adequate liquidity for the business. It is this that we have been focusing on and let me address each of these issues. As far as our liquidity is concerned, we have always been conservative and maintain sufficient liquidity in the form of cash and several bank lines which are more than Rs.7,500 crores as of September 30th. We got additional bank lines of Rs.2,200 crores sanctioned since the last week of September in this quarter and we expect to secure additional bank lines of Rs.7,000 crores. I am also happy to state that during this period, 70% of the CPs which have been matured, have come back to us. Additionally, we are also working on measures such as additional bank lines, ECB issuance, Euro medium-term loans to further boost our liquidity position going forward which Khushru will talk in more detail.

Why were we well placed during this liquidity situation is the question that would arise. I would like to explain to you why this is so. One is that we have allocated sufficient equity of Rs.20,000 crores to Financial Services business on a loan book of Rs.53,000 crores and hence have a very conservative debt-equity ratio. Because of our conservatism, you would recollect that we raised Rs.7,000 crores of equity in October of last year through QIP and rights issue. At a time when many people felt that, we were being too conservative in raising so much equity because our ROEs would have fallen, but we felt that it is always better to be prudent and I think this is why we are in a more comfortable position today. Out of this Rs.7,000 crores, Rs.5,000 crores were allocated to the Financial Services business.

The second and more important point I wish to bring to your attention is the strong commitment that the promoter group has. We as promoters continue to hold nearly 50% of equity in the company. The promoters have never sold equity in the company or have invested outside the businesses owned by the Piramal group. Even during the recent capital raise, promoters subscribed to the rights issue at the same price at which all the other new investors came in. In fact, if we compare PEL with any other large financial institution in India, Piramal Enterprises has the largest effective promoter shareholding, which means 'skin in the game' is highest for us than any other promoter of a certain size and scale in the financial services business in India. We have always been conservative and maintained a low leverage. Currently, the debt-equity is 4.4x and it is even lower if we include our investments in the Shriram Group, it is only 2.6x. In fact, we are today amongst the lowest leveraged NBFCs of India. Even after the fund raise, the ROEs today are at nearly 20% which continues to be among the best-in-class performance across various banks.

There have been questions on asset quality and I thought I will just address these as well. We follow the best-in-class risk management practices. The key practices would include, we have independent risk and legal teams which report directly to the board. External experts are part of our deal clearance committees in the board risk committee. Unlike most other NBFCs, 100% of the deals that we do are secured and 100% of the deals have escrow over the future cash flow of the assets. We have a robust risk management framework along with stringent controls and review mechanisms which you will recollect we had discussed in detail in the Financial Services Day and this has helped us maintain the best-in-class asset quality. Our gross NPA ratio has been below 1% for more than 10 consecutive quarters. As of the 30th September, our gross NPAs were only 0.5%; however, we continue to remain conservative in terms of the provisioning and have maintained a provision of 1.74% on our loan book.

With the kind of business model that we have developed over years even in the worst situation i.e. developer defaults of any payment or delays the payment beyond the regulated timelines, we have the ability to takeover, complete, finish, sell and recover our money. This, in our mind is a unique ability which I generally call as the nuclear option. So we do not see any reason for us losing our money on any of our accounts.

As discussed during the Financial Services Day, we also have a well-diversified borrowing profile with more than 100 investors including banks, mutual funds, FPIs, insurance companies, charitable trust, etc., I would ask you to actually refer to the 'Investor Deck' for detailed disclosure.

Coming to the asset/liability management, ALM is well within the regulatory requirements. As on 30th September 2018, we had a positive gap across most maturity buckets. Our cost of funds on incremental borrowing has increased by mere 50 bps recently as a result of the liquidity tightening. This increase in our funding cost has been lower than most large NBFCs. We continue to have a healthy mix of fixed and floating assets and liabilities, which limits the impact of a marginal rise in the interest rate on incremental borrowing. As of 30th September, 47% of our liabilities, while 46% of our assets were floating in nature. So, we can pass on the rate increases to our customers.

I want to comment on our partnerships. We have several longstanding partnerships with trusted and top quality strategic partners and investors who are a perpetual source of capital for us.

So if I were to summarize, I think we are amongst the best-in-class non-banking financial institution in the country, across all key performance metric and hence we are getting adequate liquidity in the most difficult of times and our assets quality is still very good.

I will now ask Mr. Jijina to go into the details of the Financial Services Performance.

Khushru Jijina: Thank you, Chairman. Good evening, everyone. Before I talk about the business performance in more detail, in continuation with what Chairman just mentioned, I would also like to go a little bit more in detail on our status in this liquidity tightening situation. As Chairman mentioned, clearly, the banks and mutual funds treated different NBFCs and HFCs very differently in the last few weeks. So looking at our performance track record, equity in the business and promoters commitment as Chairman just now mentioned, we were well positioned to get liquidity from various banks and mutual funds. In fact, there were institutions with whom we did not have prior relationships and they actually started approaching us to take more funds from them which I will talk about in more detail in a minute. As Chairman already mentioned, at the cost of repetition at the end of September quarter, we had cash and cash equivalents and undrawn bank lines of nearly Rs.7,500 crores. With respect to ALM, we were well matched across all maturity buckets and actually much within the regulatory norms. Here again, I would like to bring about a point that this is not as on end September only, if you go back to any quarter of our financial services, we have always been well matched in the ALM. In fact, as you know, Reserve Bank of India allows the mismatch up to 15%, we have not availed that in any quarter till date.

Bank borrowings, as the Chairman spoke about, they continue to remain a significant portion of our borrowing mix. As on 30th September, we had 47% of our borrowing from public and private sector banks. During the last one month since the trigger of the liquidity tightening event, we got additional bank lines worth Rs.2,200 crores. Again, it is worth mentioning here that banks who were previously not in touch, proactively approached us for the new sanctions.

Commercial Paper: Out of our borrowings Rs.6,300 crores were in the form of commercial papers. We could comfortably raise commercial paper in the last one month to an extent of Rs.1500 crores and as on date our outstanding is only Rs.5,900 crores.

If you recollect, in the last two quarter calls, we have been saying this and I am repeating this that post completion of the reverse merger in June quarter, our endeavor has been to continuously increase bank lines and also work on alternate sources of funds, we even said in the presentation on the FS Day.

Coming to the borrowing cost, Chairman already mentioned that our borrowing cost for the quarter was almost similar to that of Q1. The incremental borrowing cost saw very marginal increase; however, given the fact that our floating rate liabilities and assets are fairly matched at approximately 46% each, we were able to pass on most of the increase in our borrowing cost. In the recent one month, thanks to the liquidity and crisis and the cost of funds going up, we actually passed on the cost because of the increase in the cost by 50 bps, so we actually passed it on and for our retail lending we increased by 15 bps. However having said that, we continue to remain focused on our liquidity position over the next few weeks and will also work towards getting additional liquidity pools from domestic as well as global markets. Chairman already spoke about Rs.2,200 crores of bank line. Over and above that we have just contracted Rs.2,000 crores of domestic issuance through two year NCDs.

Let me go back to what we presented to you on the FS Day. Thanks to the reverse merger, the lines of ECB has now opened to us. And as you know $750 million per year we can raise and we had started work on it in August itself and I am happy to inform you that in the next few days or I would say in this quarter out of the $750 million, we would be actually issuing ECBs of $250 million. I had also mentioned on the FS Day that we are looking at a dollar bond issue of $1 billion if you recollect. Here again let me report the progress, we are almost in the final stages of securing the international rating from S&P and Fitch and probably in the end of December, beginning Jan, we will be on the roadshows for that. I mentioned just now to you that one of the positives of this development was that we had a lot of banks whom we were not working with before coming to us and asking us whether we want more lines or new lines. And as we speak we are in advanced stages of concluding Rs.7,000 crores of lines in this quarter itself.

Let me move on to our business performance during the quarter: The overall Financial Services performance Chairman mentioned but I will repeat a few numbers. Our loan book grew 59% to Rs.52,800 from Rs.33,200 in this quarter on the back of growth of all business segments especially the corporate finance book. As always mentioned, we continue to go down the risk profile through the launch of multiple low risk products and the introduction of new verticals. Our gross NPA ratio as on quarter continue to remain low at 0.5% and we continue to maintain a provision of 1.74% of our loan book.

Another very important data point I would like to share with you that during this quarter we received Rs.4,100 crores in terms of repayments which is almost 42% of our disbursements of this quarter. Most importantly, from the time this mayhem has taken place in the last 30-days you will be happy to note that we actually got repayments of Rs.1,350 crores.

Let me move on to the real estate developer financing: Our real estate developer financing loan book continues to see good growth of 44%, Today the book stands at Rs.38,700 crores and we have been saying this for the last one year in the line of earlier stated strategy of moving down the risk profile, construction finance and lease rental discounting continues to lead this growth. Today, construction finance accounts for 60% of the RE book and LRD book has tripled to Rs.5,000 crores. You would recollect that we had also mentioned that we are focusing now on LRD deals in hospitality sector. Happy to report that we have now crossed Rs.2,000 crores in lending in the LRD, it is like against the revenue of the operating assets which are more than five years old in the hospitality sector.

Corporate lending through CFG and ECL- ECL is the Emerging Corporate Lending which is basically to mid markets. As we had mentioned several times earlier and we have been saying this from last April, again CFG clearly came out as the biggest growth driver by crossing a book size of Rs.10,000 crores, a growth rate of 76%. If you recollect we had mentioned in the last quarter that, we are now concentrating on other fee-based income. And I think we said it in the FS Day also and we mentioned two verticals which we were looking at – one was the asset aggregation strategy and one was the AIF for structured debt deals which we would do it on the AI platform for corporate finance group. I am happy to inform you that the work on both of them have actually already started and we will continue to keep you posted on the developments. Our Emerging Corporate Lending group now a year old, has grown 4x to Rs.1500 crores in September '18.

Housing Finance: In fact, incidentally, we completed one year of our housing finance since we got our license on 4th September'17. Our retail loan book as on September'18 is now Rs.2,325 crores versus Rs.202 crores, which was as on end of September'17 and in the quarter we disbursed Rs.811 crores. Over and above, we have loans approved but not disbursed in housing finance of Rs.1,700 crores. Our LAP portfolio out of this forms only Rs.156 crores. Now why I am mentioning that? Because again consistently we have been mentioning on our calls that we will not pursue the LAP as is being pursued by everybody. If you recollect on every call, we have been saying that we will only go by cash flow based LAP and that is why we have not grown our book because as you have seen in the market, there are LAP deals being done without cash flow backed and we will continue not to do like that. Again, the proof of the pudding of

HFC which we keep on talking about B2B2C, that is basically based on our relationships, so end-to-end financing to the developer through HFC also which is a last leg, 57% of our retail loans today are from existing relationships. Again, if you look at the mix, 57% is salaried and 43% is self-employed with an average ticket size of Rs.74 lakhs. Again, here I would like to qualify that since it was more of Mumbai region right till March which was the mainstay you will see Rs.74 lakhs as an average which is a very healthy number but as we have opened now several branches in other cities you will actually see this number going down. But more than anything on the housing finance one year while we are all happy with the growth and with the quality of the book, I think last time also we took you through. One of the things in our wholesale book which Chairman just now mentioned which we are always very proud of is our processes and our EWS - the Early Warning Signals. And last time I did mention to you that we have now prepared our proprietary model for our housing finance to control the NPAs there if you recollect. I am happy to say that we are using this both the analytics and the EWS process and today our NPA in retail housing within this whole year is nil.

Let me move on to a topic which we have not spoken so far and it is pertinent today to talk on that because we find that a lot of rumors floating in the market, we felt that for the benefit of our entire investor community, today we talk a little bit in more detail on the real estate portfolio quality and a few top developers. But before I go into that, again, consistently, what have we been saying, we have been saying that the various tsunamis which came in, whether it was RERA, whether it was GST, whether it was demonetization that hit real estate sector, we have been consistently delivering strong asset quality performance of our book. So if we take a step back for a minute before I go into the details what is enabling us to continue to maintain a healthy portfolio on our real estate portfolio. We have been saying and I am repeating the same points, #1, the right developer and the project selection, because we have been saying this for the last three years that few developers will survive and you need to select the right developer who will grow. Again here let me qualify what I mean by that because people saying that Tier-I means only big developers, I think I mentioned that on the Financial Services day for us Tier-I does not mean the big 5 only, you need to go granular into each micro market and within that micro market identify the developer who is managing his balance sheet, who is doing a good execution and a good quality product and that for us is Tier-I and that is the developer whom we want to back. So in our definition, if you take this definition nearly the entire real estate portfolio today is with Tier-I developers. If you recollect, we had shared some data points with you because again last time there were some rumors that Piramal is funding everybody. And we had shared this data point with you that in the cities where we operate we were happy to inform you that we only form 1.3% of the developers in that market, so it is not that we are funding everybody. And again to logically say and to continue our logic that consolidation is taking place and only a few developers are selling, we had shared this data point that was 7% of sales are from this 1.3% developers, so basically our developers are doing 7x better than the others, which again brings to the point of consolidation. Today, let me drive this point further that we have done some more data analysis on this and I am happy to report to you that our developer sales I am talking about, have grown by 26% in this year compared to last September, once again reaffirming our theory of rapid consolidation in the real estate industry.

The second point which I always speak about, that is not only the developer, it also lies in the underwriting. We spoke a lot on the FS Day about that.

The third is cross collateralization. What do I mean by cross collateralization? Many of you would recollect some quarters back, I had mentioned this to you all that before we do a first deal with any new developer we actually go into the entire balance sheet of the developer and then we select the assets which we want and whichever assets we do, the various projects we cross collateralize it because at the end of the day since we escrow 100% of the cash flows from every project we can move the cash if one project goes slow.

The fourth is a rigor in asset monitoring. We have spoken enough of this all the time and the early warning signals. But again let me share with you what I said last time after the Reserve Bank of India Audit, the comments which they made and I would like to repeat that again in these circumstances what did the Reserve Bank of India had to say is that in so many years of experience they have not yet seen a four-year-old NBFC having systems better than any NBFC in India. As you know, we are on the verge of completing our first NHB audit because thanks to reverse merger, we are now governed under National Housing Board and I would like to make a statement here in advance that I am reasonably confident that the same remarks will be made by NHB, and once the report comes out we will share with our investors in the next call, and needless to say the independence of legal and risk, which is so important in this business. Today, if you breakup our loan portfolio, if you look at our 10 top developers, they form 42% of our portfolio and let me tell you each and every developer today is standard, there is not a day of delay.

Let me move into certain accounts, which we have not spoken, but because of the circumstances of various rumors I thought it is important for my investors to know exactly what is happening and this will also bring about some new nuances, some color of the way we operate. All what I said about whether it is underwriting, EWS, etc. So let me talk of our biggest account Lodha. Today we have an exposure of Rs.4,300 crores to the Lodha Group. This amount is spread over six deals over several projects of Lodha. Today, the entire amount of interest and principal that was due till date has been paid to us. Not only all our loan standard, but we are happy to report that in more than 90% of our loans with Lodha, we have been prepaid for more than 12-months in advance already, so in other words till October'19 to December '19 all the repayments have already been done, which was actually to have happened over a period of time. The reason being very simple that their sales and collections have been healthier than assumptions and through our escrow we have swept in the additional cash. Moreover if one really looks at the portfolio today it consists of more than Rs.2,000 crores of sold receivables already and unsold almost ready to enter inventory which will be completed in six months of Rs.4,000 crores, and as I said again all our deals being cross collateralized and having an average cash cover of more than 2X.

So as you would have appreciated by now that based on the type of underwriting, the selection of the deals, our assumptions today in fact we are just getting prepaid month-on-month by Lodha vis-à-vis the perception created in the market.

I do get a very specific question of late, what happens if Lodha's IPO gets delayed? So let me answer that. I think we said that again in the FS day that as a practice we always keep our clients to keep their Plan-B ready especially when there is a large liquidity event. Here again I am happy to inform you the Plan-B of Lodha which we had worked on with them much before what happened in the market. Today, as we speak, Lodha has already concluded their sale of the nonstrategic assets amounting to Rs.4,500 crores which they will announce in the next 15-days. Unfortunately, I cannot divulge you the name of the non-strategic assets because Lodha needs to do that, but I can confirm to you that the deal has been done. Lodha has already concluded projects specific private equity deals amounting to Rs.1,000 crores which will get consummated in this quarter. So the infusion of Rs.5,500 crores along with the net free cash flows which has already been thrown in this year of Rs.500 crores which will go to Rs.750 crores and Rs.1,000 crores later on are more than sufficient for the group to repay its obligations.

Let me talk about Omkar, which again I keep on hearing a lot of rumors about. As on date we have an outstanding of nearly Rs.1,700 crores against two projects with Omkar which is L&T Crescent Bay and Piramal Mahalaxmi. In both these projects Omkar more or less has already fulfilled its obligations for land clearances, permissions, etc., and the repayment of our loan will actually come from the construction and sale of Piramal Realty and L&T Realty. And I am sure you all know what is happening to both these projects. They are far ahead of our assumptions as of today, infact probably among the top five or six projects in Mumbai today.

Our first investment in Omkar was actually in the Worli 1973 project. We had given a loan of Rs.1,200 crores to Omkar against flats sold by them under the 20:80 scheme. So it was not a construction finance, it was just a receivable funding. This loan was actually due from June '19 onwards. I am very happy to inform you that since the handover of the flats, Omkar was faster than assumptions, we have been fully repaid or prepaid from customer receipt and today we do not have any outstanding against the Worli 1973 project.

Let me move on to one more, which we keep on hearing in the news today of late is Vatika in North. Let me take you through our exposure there. As on date, we have an outstanding of Rs.1,393 crores with Vatika, out of which 45% is actually against the operating cash flow of the established hotel in Gurgaon namely Westin which incidentally people from the North who are on the call will vouch with me that is actually one of the best performing hotels in Gurgaon, and at an LTV of only 47%. The balance amount of loan was given against three projects, two residential and one commercial. Out of the three projects, two projects that is one in residential and one in commercial are in line with our underwriting of construction, sales and collections. There was a delay in other residential projects in obtaining approvals by Vatika; however, even this project I am happy to inform is ready for launch now in this quarter because they are in the final stage of obtaining all approvals, but again I am trying to bring about the point of cross collateralization. Because of the cross collateralization we had on all the deals in spite of that residential project which was an early stage project, we could recover our interest and repayment on time in spite of the delay of one year because of the cash flows we swept in from the other projects.

So in the end to summarize as Chairman mentioned going forward our key focus in the near future especially while as you would appreciate that this situation is actually separating the men from the boys, there is a growing opportunity in the medium-term and long-term, but in the short-term we will continue to monitor our liquidity position very closely. In fact, we believe our NIMs will actually improve because you would all recollect that in the last few months of the last year because of mushrooming of various NBFCs, there were deals being taken away from us because of lower rate and they were not risk adjusted and we were not ready to go down that path. So we actually believe that the NIMs will actually go up, and will definitely continue to maintain the best-in-class quality assets with robust risk management and asset monitoring.

With this I think I will give it back to Hitesh Dhaddha.

Hitesh Dhaddha: We can have Q&A now.

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 Alpesh Mehta from Motilal Oswal Securities. Please go ahead.

Alpesh Mehta: First question about this cross collateralization. So what happens in case of RERA, because in case of RERA for a particular project, the entire cash flow has to be escrowed to that particular project, right, so it cannot be cross collateralized with the other projects, so how does this entire mechanism work there?

Khushru Jijina: Yes, the cross collateralization is on the 30% extra which the overflow keeps on moving into the 30%, not the 70% bucket. So if the project as you have seen I demonstrated in Lodha, if the money is more than enough for construction, then the additional amount under RERA can be swept into the 30% account of the developer which is swept back by us.

Alpesh Mehta: Second question is some of the smaller NBFCs were financing the Tier-3 to Tier-6 kind of developers and since they are facing the liquidity issues, do you see the impact of that on the smaller players and in that case what would be the impact on the entire industry?

Khushru Jijina: It is a good question you asked. We have been saying this repeatedly in the last one year and it is just increasing by the day - the consolidation. So I think we explained on the Financial Services Day that beyond lending today, we are marriage makers, if you really see what is happening on the space from the inside perspective is that these are the developers who have got no future and they either have to sell their land or their brownfield projects which is what we facilitate today at a much better price or much lower price than what it was before for our developers' growth. So in fact we are not only lending, we are also helping our developers grow based on the profile of the land, the micro market it is. So, as I mentioned to you we know who is strong in which micro market. So we help doing this marriage making and in fact we are a part of this consolidation in this industry today and this will continue for some time.

Alpesh Mehta: Third question is related to the current conditions and the liquidity situation. Would you like to revisit your growth targets whatever we were expecting by the end of FY'20 or FY'21, do you expect that the numbers could be revised downwards looking at the current situation or it could be revised upwards?

Ajay Piramal: One is that we do not keep growth targets, in the past never have we kept them and we do not want to keep them in the future as well, so that is one thing. Second thing is that as I have said before is, one is to ensure that the risk is contained, liquidity is always there, and that we get an ROE. If we meet these objectives, that's more than enough for us, so that is what it is.

Alpesh Mehta: Another question when we have presented the ALM profile, does this also include the undrawn sanctions from the existing bank lines or it does not?

Khushru Jijina: Yes, it does include, which actually we have drawn. As a matter of prudence, we have drawn all the undrawn lines and kept it liquid.

Alpesh Mehta: So the entire money is with you right now, there is no undrawn sanction from the bank, you would have just approached banks of the new lines?

Khushru Jijina: Yes, absolutely.

Ajay Piramal: I think we must appreciate one thing that actually, there is enough liquidity in the system, it is more of a lack of confidence that people have and therefore the lenders, there is a flight to quality. Even the lenders are lending, but they are giving it to high quality NBFCs and we fall in that category.

Alpesh Mehta: The way the cost of funds have moved for the NBFCs, at least most of the NBFCs have increased the lending rates for the developers, do you think that this could eventually lead to some asset quality related issues for the industry because there has been a sharp rise of almost 100 to 200 bps by most of the players into the segment?

Ajay Piramal: I do not think there will be asset quality deterioration because of this increase in rate, I think we have higher rates in the past as well, I do not think that will happen.

Alpesh Mehta: Just the last question now on the refinance market because we were also earlier thinking of selling down some of our portfolios, etc., so what would be the impact of the current situation on the refinance market and are the bank still willing to take the developer portfolio as a sell down portfolio or is it just the retail portfolio which is going as a sell down portfolio?

Khushru Jijina: Let me answer this, when we had mentioned about down selling in our FS Day, if you have seen mainly it is on our corporate finance book which is the non-real estate and even there today wherever we have approved the deals and sanctioned and disbursed we have down sold already. In our real estate portfolio, we typically down sell LRD portfolios for the ROEs that is what we have been mentioning all the time. But since you have brought about this topic, let me really talk about it and take two minutes on our underwriting and what we mean by this and refinancing thing. Typically, if you really again break up our book, if you remove the LRD and hospitality deals, you will see that mainly 70% of our book is construction finance and I have said this repeatedly that construction finance is not as simple as it seems right, we have said this repeatedly and we have gone on to explain to you all many times that how construction finance we look at it in the underwriting vis-à-vis many banks and NBFCs, but for the sake of many, let me repeat this and because it is so relevant today. So today first of all before I give you example, the point I am making is that when we do construction finance, we ensure completion of the project, very-very important. We are not dependent at any given point that if the sales slow down what will happen and I will explain through an example or if something goes wrong, somebody will come in and give top up because we will ensure, otherwise we do not get into construction finance of any project unless it is a separate SPV, we have full control and we have fully ring fenced and given financial closure. So now let me give you an example, which I have said it in the past for the benefit of many other people. So let us take a simple example that a developer approach us for construction finance of Rs.100 crores. Now when a developer comes to any institution for a construction finance of Rs.100 crores, inherent in the assumption is the assumption of sales which he will make and collection, so it does not require the entire money as loan. So let us take an example that he wants Rs.100 crores of lending, he is assuming that he will probably sell Rs.150 crores of goods, so basically his cost of entire construction is Rs.250 crores. Now typically I have mentioned this in the past that NBFCs and banks look an end-to-end five-year picture and feel that construction finance being so simple that we will keep on lending as the stage goes up, but people forget that this is a quarter-on-quarter business. So what do we do differently? So when this type of deals come to us first of all, we stress test it against the collections at various levels every quarter, and as you know again here we have an advantage because we have marketing arm called Brickex, which is in the B2B space of selling. So we get actually on the ground information. Today I shared some information with you all about the data points, we could do it because we have the information. So coming back, we stress test the collection and the sales and if we are not comfortable… so let me continue, for a minute in the five-year we feel that in the 9th quarter we feel that there could be deficit and the developer will slow down on construction, are we happy to give that additional Rs.10 crores over the Rs.100 crores to help him continue the construction because the trick in this trade is that you need to continue construction and complete the project because with a 2x cover, you will be absolutely safe as long as you complete the project and that is what we do. So if you are not comfortable with any deficit in even one quarter, we reject the construction finance deal and many developers have scratched their head and criticized us in the past that why have you rejected a construction finance deal. And this is what I am sharing today because it is so topical and that is why we do not depend on any refinance and that is what you see, if you pick up any of our construction finance deals in the last four years you will see that the projects get completed and then the sales takes place, that is what we do. Let me take this argument a little further, we said this on the FS day that probably we are the only NBFC in India who ring fence the developer's projects from the day of equity in fact, because we are offering equity on our Ivanhoe platform from the day he gets an equity we enshrine the agreement that if he performs X we will convert into construction finance and then we will convert into housing finance. So I think, today, to just bring home the point, when we do the funding of the project for our developers, we are not dependent on refinancing at all.

Alpesh Mehta: Just last two questions for Mr. Piramal; first there was a media news about sale of the part of pharma business. Any comment on that? And secondly from a regulatory perspective, what all changes are you expecting in the NBFC space?

Ajay Piramal: First is very easy one to answer. We just never comment on speculation, every few days there is a news either we are buying something or selling something. If I start doing this you will soon realize that we have jumbled up business, so let us leave that aside. Now what are the regulatory changes? I think it is still not clear what they are going to do, but my understanding is that the NBFCs are very critical part of the ecosystem of the country and therefore the government and the RBI realize its importance and therefore they have to see that there are no major shocks given. Just for your information, today, the SME sector, the medium and small scale industry sector forms about 31% of the GDP of the country and 26% of total employment is in this sector, and this is the sector which is actually funded by NBFCs. Banks are not in a position to adequately fund this sector. So if there is a sudden clampdown on the NBFCs, the whole employment and the economy will come to a halt. I think the government recognizes that and therefore whatever measures they are taking and they are in deep discussion for that, they will keep that in mind. So overall, I think I am optimistic that there will not be too many severe restrictions in the short-term, some changes need to made, but I think they will be calibrated and over time; the changes I think will be for the better, the stronger NBFCs will emerge out even stronger and you will be able to separate the men from the boys.

Moderator: Thank you. The next question is from the line of Ajay Vora from Reliance Industries. Please go ahead.

Ajay Vora: This question is for Mr. Jijina. So my only question is going forward now with the reset in terms of liquidity which we are seeing in the system, will there be any different approach we will be adapting to take this forward, meaning the overall growth outlook what we envisage or we will basically go ahead with the same thought process? So if there is any change, how do you see the industry shaping in terms of real estate market because over the years what we have seen whenever this liquidity situation gets tied, the first thing is people anticipating a crisis in the real estate market and you would be the best judge to understand the whole market if you can just explain how do you see that panning out?

Khushru Jijina: Again as I am saying this statement on real estate, everyone has been making for the last three or three-and-a-half years, we have been maintaining and we are seeing it from the inside that the whole industry is changing, what it never happened in the last 70 years is that only the 10% will survive, the rest are dying and that is what we have been saying consistently and we are holding only those developers we believe will survive. So that will happen irrespective of this crisis and the strong will get stronger. In fact just to add on as Chairman mentioned with this crisis I think even in the NBFCs you will see a consolidation and we are already seeing it, I mentioned to you the bank lines, and the bank is coming to us. To your first question, frankly in fact as I mentioned in the end, in the last few months or a year, we were actually leaving the deals because we do not believe in giving deals at any rate. Ultimately, the rate has to be risk adjusted, and this is what was happening, thanks to the mushrooming of small NBFCs. We believe that in fact our NIMs will actually become healthier now. So that is one thing which would definitely change for the better. As far as the growth goes, as Chairman mentioned, even I mentioned in our talk that in the short-term for us the most important thing is managing the liquidity and being conservative. So in spite of actually on the ground, opportunities have actually doubled in the last 30-days, but that does mean that we will go all out because we believe in the medium term and long term these opportunities are there, but in the short term I think managing the liquidity, managing the NIMs and the quality of the book is paramount right now. So this is the same approach we will continue, we are not going to go overboard on that.

Ajay Vora: So broadly, you do not see any major issue in the real estate sector as such, because many perceptions are there, that there is a round robin of loans from banks to NBFC which was going on may get halted for a while. Therefore, even smaller real estate guys can get into trouble, so can that not lead to some big problem?

Khushru Jijina: If I wear the hat on behalf of the industry, we are actually very happy because what was happening, because of this round robin and small NBFCs, the real consolidation was getting slower and unnecessary supply was coming in the market at obnoxious rates. So in fact this will clean up the industry faster. This is actually the industry's view.

Moderator: Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nishchinth Chawathe: This is about the consolidation that you mentioned in the NBFC sector. Now at this point of time we are seeing that some of the NBFCs and in fact some of the larger HFCs are struggling on the liquidity front and have been going really slower, sort of taken a pause in certain segments. Now what really happens when such large entities kind of take a pause? How do you benefit? Or is there a contagion risk? What are your thoughts on this?

Ajay Piramal: I think as far as the NBFC sector is concerned, as I said, I think there will be flight to quality and people will start distinguishing between what are the good NBFCs and the not-so-good NBFCs. Since the economy is growing, the demand is continuing to grow, so fund requirement will be there. It is not possible for the banks to actually meet this requirement. So ultimately NBFCs will meet the requirement, the marginal ones will shut down and consolidation will take place. Will there be a contagion? I do not think so. If it is, it will be temporary, but the system is aware of it and they are taking measures, I think to see that it cannot be widespread.

Moderator: The next question is from the line of Pritesh Chedda from Lucky Investments. Please go ahead.

Pritesh Chedda: In the whole discussion, there was probably one risk, which was not discussed. So I am just putting a question around that, it is the scenario such that, there's a higher probability of an asset price or a collateral price revision because it is about 13-14 year cycle where it has not probably happened? And if yes, then what will be our stress test on credit liquidity and solvency of our portfolio?

Ajay Piramal: It is unlikely that there will be asset price downward revision. If you look at it actually prices in real estate has not gone up for a while today that is one thing. So I do not see that suddenly there will be a crash in prices. So in the last three or four years if you see there has not been any abnormal increase in prices. So I do not see that prices coming down on real estate. The way we also lend and the way we do loan to value it is only about between 50% and 70% loan to value at the time of giving the loan. Also we take pretty conservative estimates of price lower than what any developer thinks, so will it affect if prices come down? Also, I do not think they will come down. If they did come down also I think there is enough juice left for us, the difference between the value and the loan given for us to be concerned. The other thing is that we talked our asset monitoring early warning system. So we are doing this on a monthly basis to see what the value, what the sales is, what is the sales according to our assumption and if there is an issue we take it upfront itself. So, till now I do not see there will be an issue on pricing.

Pritesh Chedda: Hypothetically, if that is to happen then what are generally the steps taken by a lender if such a hypothetical situation arises, what is the arsenal with a lender if such a situation arises?

Ajay Piramal: So the arsenal that we have with us is very clear, because the way our legal documents are drafted, we have complete charge on the assets that we have lend to. And the arsenal which we have most other people in the financial services do not have this, is that we have the ability to take over the asset, to complete it and to sell it and that is where I think even with our brand name and our ability to complete projects I think we will get out at a better position than what they would.

Khushru Jijina: So to add to what Chairman said that even say the products are ready and the developers is not able to sell at the rates because as in your situation markets have crashed without 2x cover and we have demonstrated this. This is not theory, actually of course it is not a crash situation wherever in advance we have seen that slowdown is happening and he can get into cash crunch, we have forced him to sell at lower rates. We have actually done it multiple times not once or twice and that is the trick at the end of the day you have to be on top of the curve, you have to monitor, you have to understand the nuances of real estate more than lending and that is what we do all the time.

Pritesh Chedda: Just a follow up here from a discussion itself, one of the participants had highlighted about round robin in the funding side for the past few years and if I just take that observation and if we are also highlighting that not all developers might get financing and not all NBFCs would be able to participate, if that is the situation and if round robin observation was there then why do we have an observation as asset price or collateral price will not revise?.

Khushru Jijina: First of all, let me comment that this round robin is not rampant. It was happening with a few institutions and a few developers. The point I am making is, again you must go back to the thesis of what is happening in the industry. In the industry, it is the few are surviving the others who are dying but the death is getting elongated thanks to this NBFCs who are helping them keeping on moving the liability or keeping on doing the round robin, where in fact as I mentioned to you what are we doing. The distressed guys are approaching us and we are helping them marry to our good developers either through a JDA or sale of land or a DM model that is the right way to go, rather them helping a distressed guy in round robin which is actually prolonging the pain for the industry. So it is actually the reverse of what you are saying. Please understand what the industry is going through let me give a simple example to you which should make life simple. Five years ago if a good developer would launch a project at Rs. 10,000 per square feet and a grade B would launch in the same micro market at Rs. 8,000 you would have bought it, you would have bought the Rs. 8,000. Today nobody is buying people are only buying the product where they feel they are going to get the delivery, the discount days are gone so that is the point I am saying. This round robin was prolonging the death of the developers whom we had identified as no more going to survive. So in fact it is good for the industry.

Moderator: The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: I have three questions the first one is on the liability side I think what we are seeing currently the situation I think it looks like that eventually the exposures of mutual funds to NBFC has to be coming down from whatever it was 35% - 40% to maybe lower level and hence an alternate way to get our liability has to be thought about, so what are your views in terms of how this situation will evolve and how our liability mix can change or will change?

Khushru Jijina: So I mentioned this in my talk, and in fact this is not because of the present situation itself. It was the day when we got our reverse merger approved and we became an HFC, that we had mentioned on the call that thanks to HFC we will actually now start looking at alternatives, long term sources of fund and we have always been banking on the banks and less on the mutual fund and even now as you rightly have said and I mentioned this in the speech that we had announced our ECB issuance which is actually happening in this quarter and we have mentioned on our first day that we will be going for dollar bond issue which also we are in the final stages now of getting the rating and we will be on the road for the road show from January onwards. So, you are absolutely right we were very clear from the time we got our HFC license and ultimately we need to build a robust and a long term sustainable credit line with these alternate sources.

Dhwanil Desai: Second question is to Mr. Piramal, sir what I want to understand is that we aspire, or we already have 20% ROE in our NBFC business, but if we look at our pharma business and our information management business we are still short of it. So how do we see ROEs moving up in both those businesses over a period of time, do you actually see them kind of getting to 20% kind of a range over a period or do we have a slightly lower number in mind for those business?

Ajay Piramal: A lot of the pharma business and the DRG business, are business which are outside of India so there the threshold ROE is not 20% we are looking at 15% and we are working towards getting to that number and we can see that year-on-year we are seeing improvement in the ROEs.

Dhwanil Desai: Sir my last question is on the consumer product business in India. I think we did lot of investment both in terms of acquiring brands and putting up a distribution network, but we are yet to see the momentum in terms of topline, so any sense on that as to what are the challenges there and I think we were aspiring to be one of the top three or five brands in India, so any outlook on that, it will be helpful?

Ajay Piramal: Last year has been a big year as far as OTC is concerned because there were lot of disruptions in the system mainly because of the GST coming in and the large distribution we had. Now, I think this year onwards you will see that there is growth, we are committed to this business. We believe that the distribution that we have set up and the brands that we have should enable us to grow and be amongst the faster growing business.

Moderator: The next question is from the line of Luv Sharma from Lombard Odier. Please go ahead.

Luv Sharma: Just quickly wanted to understand, you mentioned that Lodha has been pre-paying some of their loans to you, so does that mean that the loan exposure has been reducing from Lodha? if you can come at the number there?

Khushru Jijina: This is the period of what I took you through of two and half years. So our exposure has moved between Rs. 3,500 Crores to Rs. 4,000 crores and because every time we get prepaid we also look at different opportunities, otherwise if you had not gone ahead with some new deals, we would have actually been less than half of our original exposure. So it is at any given point we keep looking at new opportunities in Lodha, but again the point I am making is the trick lies is not giving money to Lodha, the trick lies in identifying the right asset, understanding the permissions what you think will be cash flow and the market and that is why you are getting prepaid if I am making sense to you.

Luv Sharma: Can you indicate what have been the new disbursals to Lodha during the last quarter?

Khushru Jijina: In the last quarter NIL.

Moderator: The next question is from the line of Prakhar Sharma from CLSA. Please go ahead.

Prakhar Sharma: Just had a one question, maybe comes to the medium term view, trying to understand that there is a difference between risk and perception of risk, especially when you are a borrower in the wholesale market. Does this basically does this event and the way markets will make you rethink how big commercial real estate financing should be part of the book structurally? And structurally does it basically bring down the ROE reported basis that you would work with?

Khushru Jijina: When you say commercial are you talking of office space?

Prakhar Sharma: Specially the construction space.

Khushru Jijina: First of all, I am sure you heard me talk about our different approach to construction finance and I do not want to repeat that. Having said that, if you have seen we have been saying this and we have been demonstrating it in the last few quarters, right from April onwards that actually the growth is being fueled from our corporate finance group which is a non-real estate. Having said that, I think we are not shying away from saying that we would not do construction finance because we understand the space, we have demonstrated to you again and again that construction finance or in fact even any other type of debt on the wholesale platform and real estate needs a special type of underwriting to ring fence it and which we have demonstrated in the last five years. So I do not think we are going to slow down on that because that is something which proprietarily we have mastered the art compared to others and that is what we keep on saying that it is not giving construction finance by any other NBFC and for that you need to really understand the nuances of that I am specifically telling you for that. So the growth definitely will come like today we have 74% in real estate we have given a guidance that in the next two years we will be actually 50% only, but that does not mean that we are slowing down, the other sectors are growing the other verticals are growing.

Prakhar Sharma: And do you plan to make any changes to the way or to the nature of this 50% of the book where you want to bring in more of cash flow backed or LRD over the construction finance or you think given the experience you have here, still make sense for you to continue growing there?

Ajay Piramal: No, I am again repeating the growth will continue in construction finance but you have seen the growth in LRDs and cash based, from the last 18 months has been growing faster than that whether it is a CFG, whether it is ECL, whether it is housing finance it just that the numbers are small and every quarter-on-quarter we are demonstrating the growth in these vertical and this will continue.

Moderator: The next question is from the line of Piran Engineer from Motilal Oswal. Please go ahead.

Piran Engineer: Firstly a legal question, let us say a builder is dragged to NCLT, so does the SPV structures still hold or all lender are pari passu?

Khushru Jijina: I am very glad that you asked this question. As I said, 99% of our deals are in SPV, where we hold 100% equity, where we hold security and the whole mortgage of land and building, so it is actually bankruptcy proof.

Piran Engineer: Another question some of your competitors have increased their interest rates on builder loan by up to 200 bps and have we also hiked our rates similarly?

Khushru Jijina: I will answer this in two parts. I mentioned that in the last few months or a year, we were grappling with lot of NBFCs lowering the rate and the rate was not in line with the risk adjusted return and we were constantly only charging what we believed is right. So obviously now with this, they have increased it by 200bps. Our cost of funds has gone by 0.5% that is 50 bps incremental, which we have passed it on to our developers. So this again let me just say it in a different way, the borrowers have appreciated that we have been consistent in whatever we charge. It is not that we are trying to undercut somebody, now the markets have changed so I go back to the borrower and increased by 200 bps. We have been consistent in our relations with the borrowers.

Hitesh Dhaddha: This also indicates that the increase in incremental borrowing rate for us versus the competition. So, the one those who had a higher increase in the rate they obviously will have to pass it on and not necessarily whether they will be able to do that or not.

Piran Engineer: Okay in your borrowing mix on slide 34, there is this others category which has gone to like 16% now and it was like zero year back, so what exactly is this others on slide 34?

Vipul Thakore: Those are ICDs and borrowing from corporate and other institutions apart from banks and financial institution segment.

Piran Engineer: And how much have we borrowed from our own group company if I may?

Khushru Jijina: None.

Piran Engineer: And we have not sold down on any loans this quarter if I got that right?

Khushru Jijina: We do not have plans as I mentioned we only do this for LRD which even today will be picked up, we do it only for ROE purposes.

Piran Engineer: And also could you update us on all these several tie ups we have with APG, Bain Capital, etc., what is happening on that front, is there any update there?

Khushru Jijina: On the APG front I can answer on the CFG we just have to do one more deal and then the entire fund gets closed $750 million between them. In fact, as Chairman said that these are perpetual providers of capital. So in fact right now I am not able to speak more, but yes we are in the last legs of one deal and then we are done with APG and then we will look at a second round.

Piran Engineer: It's a USD 750 million fund?

Ajay Piramal: So Bain, we have a JV called the India Resurgence funds and we have both put in USD 100 million each Bain and us, we are looking at several deals and we are out to raise funds for a billion. Our strategy is that once we close a couple of deals, we will raise some more funds and we have some very reputed blue-chip investors who have already agreed to be part of this thing. And I think in the very near future we will announce our first deal.

Khushru Jijina: And let me add since you asked the very good question on down-selling. I think let me clarify that the down-selling which we do in the real estate and even in the LRD is not necessarily to NBFCs and banks. Today we have already formed, I would not call it a club, but lot of providers of capital beyond NBFCs and the banks who in fact, as late as yesterday were asking us whether we can give some more deals to them. So it is not necessarily NBFCs and banks. So today, we have perpetual providers of capital whether it is family office, whether is pension funds who on an ongoing basis want to participate in deals underwritten by Piramal. So we do not see an issue tomorrow if the CFG deal of Rs. 800 crore and we want to keep Rs. 400 Crores and down sell Rs. 400 Crores, we can do it even in this market.

Alpesh Mehta: Just a follow up question, in our press release, there is a goodwill increase of almost Rs. 700 - 800 crore, what is that regarding from March end numbers?

Vivek Valsaraj: This increase is basically on account of the foreign exchange. Our closing exchange rate is higher than the March rate by 10%. So this increase is only because of the change in foreign exchange rate.

Alpesh Mehta: Secondly, at the time of transition we were expecting some of the loans, which were there on the standalone balance sheet to be transferred to the NBFC balance sheet by end of December what is the progress on that?

Vivek Valsaraj: That is in line what we have committed, it is on track currently.

Alpesh Mehta: So what would be the outstanding on the standalone balance sheet as of now?

Vivek Valsaraj: Rs. 6,000 crore outstanding of the standalone balance sheet right now.

Alpesh Mehta: And that has to be completed by end of December, is it?

Khushru Jijina: In fact we have recently written to the RBI also giving them the report which is in line with the understanding with the Reserve Bank of India.

Moderator: The next question that is from the line of Ravi Mehta from Deep Financial. Please go ahead.

Ravi Mehta: When I look at your half yearly balance sheet under the current liabilities the borrowings and the other financial liability is a very big amount of Rs. 24,000 crore and somehow when I look at the Slide #30 of ALM mismatch I could not reconcile those numbers, so can you just help me understand when am I missing on that?

Hitesh Dhaddha: The question is very specific to some specific number we will get back to you so you can reach out to us separately and we will clarify that.

Moderator: The next question is from the line of Lalaram Singh from Vibrant Securities. Please go ahead.

Lalaram Singh: Do you want to comment anything on the recent article stating we might look into divest the Pharma business?

Ajay Piramal: I think I have made that comment, every few weeks either we get a rumor in the newspaper we are buying something or selling something so we do not just comment on this.

Moderator: The next question is from the line of Trupti Agarwal from White Oak Capital. Please go ahead.

Trupti Agarwal: My two questions are, one, can you please tell me what is the average cost of funds for the second quarter and two, what is the amount of funds that we would have raised in the short-term market post the quarter?

Vipul Thakore: So our average cost of funds for the second quarter was 8.6% and the funds that we have raised post 30th September is close to Rs. 1,500 crore.

Trupti Agarwal: Sir if I am not mistaken you have been saying that the incremental cost of funds the increase is about 50 bps.

Vipul Thakore: That is right.

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

Vinod Jain: Sir, the dynamics of construction activity and real estate prices is assumed to have a linkage. I wish to know your view on Indian real estate prices going forward and also sir what view do you have on construction activity levels going forward? I would appreciate your opinion on these.

Khushru Jijina: Let us first go back to what we have been saying and then I will answer your question. If you really look at it from the outside perspective, today in real estate, you will find that most of it stand still, any city you go, but if you go into inside the industry and understand, it is the few developers who are actually constructing at a very fast pace. Lodha we gave you an example just one of them we can give you several examples, where they are actually now moving faster than even what they used to do before in construction. So that is happening from the outside because you see the 90% also together, you are not able to appreciate that. So construction is actually going very well for good developers, trust me on that, even in the worst market of Gurgaon and Noida with good developers, construction activity is actually doing very well. I would like to also share one more data point with you all, while there are a lot of talk right now on this liquidity and lot of questions has been raised on real estate, on the ground this quarter has actually been the best quarter after years for the good developers. Again I mentioned to you, the 26% growth of our developers is fueled by the worst performing market in the last three years, NCR it has grown by 2.5x. It is the first time, we are seeing in this quarter has actually grown. so the point I am making is that, if you really go deep while we are saying prices have not increased, prices have actually increased by 5% to 7% recently for the select good developers, because it is the flight to quality developers. People are ready to pay for construction and good quality and their money is secured so that is what is happening, but from the outside if you look at this as a layman you will find a lot of projects stuck and that is why you are asking this question.

Moderator: The next question is from the line of Siddharth Modi from Value Investors. Please go ahead.

Siddharth Modi: My question is regarding our corporate portfolio, can you give the average rating of companies that are there in our corporate finance portfolio?

Hitesh Dhaddha: I mean what you are trying to ask when you are asking average rating?

Siddharth Modi: I mean do we lend to only AAA rated company or do we lend to any double AA rated company, what sort of company do we lend in the corporate finance portfolio?

Khushru Jijina: So again, the philosophy remains the same that at the end of the day. What is the philosophy, who is the promoter at the other end - very important, how is the company performing? Is this company going to grow in the future? Does it have corporate governance? And is it in the sector which we believe is growing? So let me take a minute since you asked me this question, though we have mentioned this several times. So when we say that we are sector agonistic on the CFG platform, which is the corporate finance group what do we mean. We proactively, as a team identify the sector, last time I shared with you all, six months back that we have identified logistics as a sector which will grow after the GST came in, many would recall and the team studied it for more than 30 days, got internal experts on logistics then drilled-down to the promoters whom we believe will grow and then went with solutions to these promoters and that is how we create deals. It is not plain vanilla as a lender you go and say would you want to take money if I am making sense to you.

Siddharth Modi: My next question is when do we see this liquidity situation easing out?

Ajay Piramal: I think as I said before there is enough liquidity in the system. It is a confidence that the banks and mutual funds need to have for funding NBFCs and I see that there are some measures being taken by both RBI and government and so let's be hopeful in the next few weeks you will see some more liquidity in the system.

Siddharth Modi: My concern is if the low rated NBFC or the not so good quality NBFCs, they are unable to refinance do you see that effect playing out for the whole sector that played for IL&FS? This is the worry I mean if any small NBFC goes default then the market again will paint the whole NBFC sector with the same paint I am worry regarding these particular things.

Ajay Piramal: So I did answer that question I think on the ground what is happening is that the lenders are also giving to quality NBFCs. The markets are overreacting, but I think once the market also understands that the good NBFCs are actually doing better than before. I think there will be flight to quality both by investors as well as by lenders that is all I can say.

Moderator: Ladies and gentlemen due to time constraints we will move to the last two questions. The next question is from the line of Ravi Mehta from Deep Financial. Please go ahead.

Ravi Mehta: The loan book is growing at a good pace and the profitability of the company is intact, so technically the equity on lending number, should increase as a profit gets added to the equity or lending but when I look at the slide 15, I think the number is pretty flat?

Khushru Jijina: On the contrary as Chairman mentioned equity has been over provided and that is why if you see the debt-equity is low. So in fact today if you see the equity is already Rs. 9,900 crore.

Ravi Mehta: It was similar for the last quarter also, so?

Hitesh Dhaddha: This includes dividend payout also, last quarter there was dividend payment that has happened that is why.

Moderator: The next question is from the line of Vivek Joshi from Bandarpuj Capital LLP. Please go ahead.

Vivek Joshi: My question is regarding the foreign source of funding, the ECB on the dollar bond, what is the rationale? Is it that tenure is longer, is it the cost of fund, or is it just pure liquidity that is driving the decision?

Khushru Jijina: No, as we mentioned to you this is not a decision driven by today's environment. We had mentioned to you all in August itself that once we became an HFC we got an additional window of ECB. I think somebody else also asked a question and I think we have always mentioned this that, in our financial services business more important than asset is a liability management and the diversification of our borrowing and we have been pursuing this on a steady state on a regular basis. So that is why it is not only the tenure, of course it helps in the tenure of five year tenure plus today we definitely are not going to a get a cost benefit, but it definitely provide liquidity, another source of funds and long-term source of fund, but it was a part of the plan which we actually shared with you all in August itself.

Moderator: Ladies and gentlemen with this I now hand the conference over to Mr. Hitesh Dhaddha for his closing comments. Over to you sir.

Hitesh Dhaddha: Thanks everyone for joining the call. Please feel free to reach out, if you have more questions to ask.

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