“Piramal Enterprises Limited Q3 & 9M FY2019 Earnings Conference Call”

January 28, 2019

MANAGEMENT: **MR. AJAY PIRAMAL – CHAIRMAN, PIRAMAL GROUP**
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: Good day, ladies and gentlemen and a very warm welcome to the Piramal Enterprises Limited Q3 & 9M FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Hitesh Dhaddha: Good evening everyone. I am pleased to welcome you all to this conference to discuss Q3 & 9M FY19 results. Our results material has been uploaded on our website and you may like to download and refer to it during our discussions.

The discussion today may include some forward-looking statements and these must be viewed in conjunction with the risks that our business is faced.

On the call today, we have with us our Chairman, Mr. Ajay Piramal; Mr. Vijay Shah, our 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 Q3 Results Conference Call. I presume everyone here on the call must have received our presentation and I am assuming that you have gone through the presentation containing management comments on the company's performance. In the interest of time on this call, I would like to touch upon some broader subjects that are impacting the economy and the sectors we operate in, and its implications for PEL.

To begin with, the Indian economy is poised for robust growth and the IMF forecasts a growth rate of 7.5% in real terms for 2019, which is the highest amongst the G20 nations.

In this, NBFCs play a significant role in our growth and employment generation. As per RBI estimates, NBFCs accounted for 17% of the total credit outstanding in the FY 2018 compared to just 9% in 2009, and more importantly, in India, the MSME sector has been one of the major beneficiaries of NBFC credit.

The medium and small scale industries are of strategic importance to India, accounting for 31% of the GDP, 40% of exports and 17% of the hiring of the labor force. And therefore, it is important for the economy, the regulators and the government to recognize the NBFCs' role in the Indian economy.

Moreover, we found that banks do not have the wherewithal to provide loans to the MSME sector. The RBI expects that this sector would require Rs. 13.6 lakh cores of incremental credit over the next few years.

And the NBFCs play an important role at a time when bank credit growth is expected to stay muted. So, whereas NBFCs have been witnessing a robust growth rate, the tightened liquidity environment in the last few months has led to a higher cost of funds for the end users thereby restricting overall demand and impacting growth.

As I had mentioned during the previous call, banks and mutual funds had broadly classified NBFCs in to three categories.

The first category was the best in class NBFCs, which continued to receive funds, though their cost of borrowing increased marginally. For the second category of NBFCs, which were relatively good but not amongst the best in class, liquidity was available selectively. And finally the third category of NBFCs, the relatively weaker ones which were not getting liquidity, and were forced to put on the block, part of the loan portfolios or businesses.

Our position in the liquidity tightening situation has been quite strong, due to the credibility of our group, our balance sheet strength, our low leverage and our track record of growth, asset quality and returns profile. I feel that we are in the first category of NBFCs, which is evident from the fact that we received enough liquidity from banks and mutual funds during this period.

The banks, many of them first-time lenders to us, did a thorough study of our loan book, of the way we underwrite loans, our risk procedures, our legal documents and were satisfied. During this quarter we raised more than Rs. 10,000 crores in the form of bank loans and NCDs.

During the last quarter, there was a lot of strain in the liquidity for NBFCs. But I must say that the government and the RBI responded very swiftly to ease the system-wide liquidity by taking various measures. Since the peak of the liquidity tightening in September and October, the situation has been gradually increasing.

The bigger NBFCs, with strong parental support are faring better than the smaller ones. However, I would like to say that the overall NBFC sector is yet to come back into a completely normal situation.

In the medium-to the long-term, I see consolidation taking place in the NBFC sector, and the credit crisis would prove beneficial for the sector, leading to constructive consolidation. Till March 2018, there were more than 10,000 registered NBFCs and as many as 276 of these which were systemically important. In addition, there were 91 housing financing companies.

We feel that the current crises and its after effects would lead to only a few of them standing tall. In our opinion, NBFCs and HFCs satisfying the criteria of having high capitalization, strong promoter pedigree, conservative internal processes and deep sectoral understanding will survive and do well going forward.

There has been a lot of talk of the real estate sector and since we are involved in it, I thought I would share with you my views on this.

Our belief is that the inherent demand for real estate is there and in the medium-to-long term would become stronger. Housing occupies an important place in India's consumption led economy. Home sales, especially affordable homes, are expected to remain buoyant owing to rising household incomes, rapid urbanization, and policy incentives.

Granular data suggests a better environment for the top developers, focused on the right product. For example, data suggests that the total absorption of key developers in Mumbai has been 4.2 million square feet in FY19, till September, compared to 4.0 million square feet in FY18 and 3.6 million square feet in FY 17.

The tightening of liquidity for NBFCs has also raised concerns about the potential impact on the real estate sector, where we lend to some top tier developers.

We reviewed the entire real estate portfolio in detail and conducted a sensitivity analysis, a sort of a stress test by taking into account all the possible risks. We tested the sensitivity of our portfolio on various parameters such as cash cover, construction status, pricing and financial closure. Here, I would like to emphasize that these findings are based on an internal assessment of our loan book and a hypothetical stress scenarios. Khushru will take you through this analysis in more detail.

I see a wave of consolidation taking place in various sectors. The NBFC and the real estate sector are some of the sectors we spoke about. If you look at it in India, we have seen consolidation taking place in the telecom sector, in the steel sector, as well as many times in the pharma sector.

As I have said earlier, both the real estate and the NBFC sectors are going through a consolidation phase. Majority of the Tier-3 and Tier-4 developers will cease to exist and we will eventually see an ecosystem of stronger NBFCs, who would be lending to stronger, well-organized developers.

Top developers, offering the right configuration, in the right micro markets and at the right prices will continue to grow. This trend of consolidation clearly signifies that our strategy of working with Tier-1 developers has been beneficial for us.

With these emerging trends, in order to remain ahead of the curve and take advantage of India's growth story for the coming decade, where India is expected to become one of the top three economies in the world, we continue to constantly transform and improve our business model.

On these lines, our near-term strategic priorities for the Financial Services business are:

1. Effectively manage and further strengthen our liquidity position.
2. Continue to diversify our loan book and to further go down the risk profile.
3. To maintain our best-in-class asset quality.
4. To deliver a healthy ROE, despite lowering the loan book's overall risk profile.

What are the measures that we have taken to strengthen our liquidity and diversify our funding mix?

We significantly reduced our CP borrowings and shifted the funding mix towards more long-term sources. CP borrowings at the overall PEL-level were reduced by 40% to Rs.10,000 crores versus Rs. 18,000 crores as of Sep-2018. We raised more than Rs.10,000 crores via NCDs and bank loans. Additionally, we plan to issue ECBs and European medium-term notes, to develop alternative sources and diversify our borrowing mix.

The second point is diversification in the loan book. Despite the tightened environment our loan book grew 45% during the quarter to Rs.55,000 crores with growth across all the verticals. But we were able to diversify our loan book, as the share of housing finance and corporate loans, other than for real estate, increased significantly as compared to a year ago. The share of our real estate loans has come down to 71% of our total book as of December 2018, and this is expected to decline further, as other non-real estate loan portfolios continue to grow.

The Housing Finance business which was launched only in October 2017 has grown by 69% quarter-on-quarter to Rs.3,920 crores. As of December 2018, the HFC business constituted 7% of our loan book, and we see that the share of HFC will continue to increase and go up to 10% by the end of this financial year.

I want to touch upon our asset quality.

As on 31st December 2018, our gross NPA ratio was 0.5%, which has remained stable versus September-2018, despite significant volatility in the environment, which reflects the quality of our underwriting. We remain conservative and maintain our provisioning at around 1.8%. Our proprietary risk models factor in various potential risks which help us in making effective underwriting decisions. We continue to further strengthen our underwriting, asset monitoring, legal and risk management practices in response to the evolving market environment.

We are committed to deliver a healthy ROE, despite lowering the loan book's overall risk profile. The focus on risk-adjusted returns is back and unhealthy competition from smaller NBFC has reduced to a large extent. Today, we see lesser instances of other NBFCs undercutting our deals. Despite the shift in the loan book mix towards lower yield housing finance loans, our risk-adjusted return on equity continues to remain in the range of 19%, after taking into account the synergies from the reverse merger.

In order to continue to deliver these returns in future, despite expanding into housing finance and constantly going down the risk profile, we also plan to enhance our focus towards multiple sources of generating fee income and creating additional innovative customize solutions.

With this let me shift to Pharma.

As I have been saying, we have a differentiated business model in Pharma. In spite of the ongoing consolidation within the Pharma space and pricing pressure in the US generics market, our differentiated model has enabled us to perform better than most of our peers. Our overall Pharma revenue has grown at a CAGR of 16% over the last 8 years.

And for this quarter Global Pharma revenues grew at 14.4% to Rs. 1,056 crores. The growth in the acquired portfolios from Mallinckrodt and Janssen also indicate the synergies we are deriving from these acquisitions, and our continued performance in the inhalation anesthetics business.

EBITDA in Global Pharma, which accounts for 93% of our Pharma revenues, continued to deliver strong growth, with margins of 21% for the nine months of FY19. During the quarter we successfully cleared 10 regulatory inspections and 49 customer audits.

Our consumer products business which is an India business, which was impacted by GST last year has now recovered. Revenues in the consumer product business, excluding Allergan, grew at 23% compared to Q2 2019 and 56% compared to Q1 2019.

These are the highlights of the performance, I will now ask Khushru to take you through the performance of the Financial Services vertical in more detail.

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 like to speak about how we navigated through this liquidity tightening situation. In the last 90 days, due to lower liquidity in the market, and negativity around the real estate sector many of our investors, lenders, rating agencies and even the NHB came down to discuss and understand our business and processes.

In these last few days itself, I am happy to share with you that I and my team have actually spent and met more than 50 lenders and investors who came from across the globe. This was actually a good opportunity for us when I reflect back to demonstrate to all our stakeholders how different we are in terms of our underwriting, processes, monitoring and criteria for selection of developers projects, which Chairman and I have been speaking about for the last few years.

And I really want to thank the investors who came down, spent sizable amount of time not only with me, but also with the various team members, whether it was a partner function or whether it was risk, asset monitoring, or the front line and going through our asset quality. I really want to thank them for taking the pains and going through that.

Chairman mentioned about the sensitivity analysis. As always, every quarter we share with you what all we do in terms of our processes and what are the nuances which we bring to the table. Last quarter, you will all recall that there were a lot of genuine concerns about real estate sector financing, and about refinance. So today I will share with you a little more granular view, about what Chairman said, into what we did in sensitizing our portfolio.

So we sensitized our portfolio on four parameters, one is cash cover. Let me explain what I mean by that. So what we did for our entire 400 odd projects is that we looked at all the cash covers, which were used for passing the deal whenever the deals were cleared by the IC, and how does the cash cover look on each deal, as on date I mean with a time delay.

The second most important thing was construction status. I have always told you all repeatedly over the years that the most important thing in real estate is that the project needs to be completed. Because if the project does not get completed, then you are in trouble. So we wanted to see if the construction progress on all our projects, whether they are delayed by six months, one year, and what is happening to those projects.

Last time there was a lot of discussion on selling prices, and I think there were a lot of worries about the crash in selling prices. Although this did not happen in reality, but we wanted to test, what if imagine that selling prices for all our projects come down by 10%, 20%, 30%, is there equity value left in those projects for the developers to complete, because it is very important for us as lenders to know that.

The fourth, financial closure, and actually one of the most important underwritings which we do, and I think we have been saying this for years, that when we underwrite a project we are not depending upon refinance.

So what did we do here? Again we put all our projects, looked at as on date. So I will take an example to make it simple. Just for example a project which was sanctioned say two and a half years ago for simplistic say Rs. 100 crores construction finance, and at that time we would have assumed another Rs. 150 crores of sales. As on date, with the balance amount left for funding, say we have already given Rs. 40 crores to the project, Rs. 60 crores remain. Out of the Rs. 150 crores, sales the assumption was that from today to the end, some Rs. 90 crores of sales has to take place. What happens with the balance amount of my Rs. 60 crores and suppose only Rs. 9 crores out of the Rs. 90 crores get sold, say only Rs. 18 crores gets sold or say Rs. 27 crores gets closed – that means 10% of our assumption of sales, 20% or 30%. Do we meet financial closure?

I am very happy to share with you that individually on all the parameters, the projects which pass the threshold, range from 87% to 95%. However, we wanted to do a stress test with all the parameters put in together, what happens with everything together?

So when we tested our overall portfolio against all the four types of sensitivities, the result showed that not only a very small fraction of our deals are the ones where we may have to take some proactive measures, such as change the counterparties by letting a stronger developer take over the project, or reduce the selling prices to boost sales.

In fact, as we speak, we have actually initiated those measures. In fact, this was also a good test of what we keep on speaking that whether the rights given to us in the document can be enforced by us. I am sharing this with you what we actually did.

However, I want to re-emphasize that Chairman also said that this is a hypothetical scenario on what would happen if everything goes wrong. For example, a very simple thing if prices crash by 30% you cannot have sales down by 30%. You cannot have that. So again, I am repeating that this is a hypothetical scenario on what would happen if everything goes wrong, and it may not actually happen.

However, as part of our early warning signal exercise, we are monitoring these loans closely and even in the worst scenario, the maximum possible loss from these deals is expected to be only a fraction of our provisioning of Rs. 980 crores.

As recent as few months back, the Reserve Bank of India had commented that the processes and monitoring followed by Piramal Capital is far superior to many even the old NBFCs and the banks. Even the NHB satisfactorily completed the audit in October.

Let me spend some few minutes on liquidity.

Last time we did mention about what we are doing with the banks, and today the proof of the pudding. Our discussion with various lenders helped us significantly improve our borrowing profile.

In fact, we raised nearly Rs. 10,000 crores in the form of bank loans and NCDs in this quarter. This helped us bring down our CP exposure at the company level from Rs. 18,000 crores to Rs. 10,750 crores, a reduction of 40% in 90 days. And by the end of March, we plan to reduce our CP borrowings to Rs. 8,000 crores.

It is worth noting that the CP markets have now largely stabilized and despite having an option to rollover CPs, we chose to shift our borrowing mix towards longer-term funds in line with what we had told you all last quarter.

Also, I want to add that commercial papers are not necessarily a bad thing, given we have seen healthy pre payments in our loan book and with this unplanned prepayment you still need to match your ALM. So, you certainly need a portion of your borrowings in the form of short term debts.

As Chairman mentioned, we plan to further diversify our borrowing mix by issuing ECB, dollar bonds, masala bonds, and adding new bank lines, which we will report to you in the next quarter because they are all work in progress at various stages of sanction. With all this liquidity coming into place, we have not only managed to reduce our CP exposure, but our long-term capital needs will also be tied up.

Chairman spoke about the growth. I will touch upon it also. Despite the tightening environment, on the back of our strong balance sheet and liquidity that was available to us, we continue to deliver strong growth performance.

Our loan book grew 45% to Rs. 55,000 crores during the quarter from Rs. 38,000 crores in December quarter. We disbursed approximately Rs. 6,200 crores during this quarter and we received approximately Rs. 3,000 crores in the form of repayment and prepayments which is almost 48% of our disbursement. In addition, we down sold Rs. 1,000 crores of our loans during the quarter.

Our real estate developer financing grew 31% over the previous year, and this is in line with what we have been saying for the last 18 months, that the strategy is to grow the non-real estate portfolio. So it is not something different.

As Chairman mentioned, our non-RE business continues to lead the growth. The corporate finance book grew 53% to Rs. 9,800 crores, and were even successful in exiting deals of Rs. 1,100 crores. Our ECL business, the new baby on the block, also registered a 134% growth.

Let me talk about Housing Finance:

I think last time we did mention that the biggest gainer was housing finance. We mentioned that the other housing finance companies are not disbursing. If you recollect, ours is a B2B2C model. What I mean, is that our housing finance business is basically backed by the projects of our developers, whom we are financing. Typically, we were seeing that our wallet share, among the other housing finance companies, for those projects where we are funding the developer was between 40% to 60%.

And in this quarter as we had predicted, we saw that while many of the HFCs who could not lend to the customers, we were able to increase the wallet share. And therefore, our retail book registered a growth of 69% compared to September '18 quarter. We disbursed almost Rs. 1,700 crores during the quarter, which included a portfolio of Rs. 500 crores that we bought. This is again an opportunity which we see and which will continue.

As you all know, there are NBFCs which are not getting enough liquidity, and have good portfolios available for sale. We continue to evaluate and do a 100% due diligence. I want to repeat that we do a 100% due diligence on these portfolios available for sale, and will continue to acquire some of these quality portfolios over the next few quarters.

So the result is that today our housing finance book is 7% of the overall book, which was merely 1% a year ago and 4% a quarter ago. And as Chairman said, that it will be 10% in March '19 itself. And by March '19, Chairman mentioned that there are 91 HFCs, we will be among the Top-15 by March'19 and in the top 10 by March'20.

Again, at the cost of repetition, all what we are doing is exactly in line with what we have been saying the strategy is the same. It is just that we are shifting gears in retail, because we see more opportunities.

Let me now update you on some of the trends that we have been observing in the real estate industry on the ground:

I think it is worth clarifying that real estate does not comprise of residential real estate only, because we all get caught. Sometimes even the experts get caught into that. It is not only residential real estate but it includes commercial, hospitality and retail which have been doing consistently well for the past few years, and constitute more than 20% of the overall real estate industry. In fact, our commercial real estate loans account for nearly 30% of our overall real estate book.

Within residential real estate too, again we tend to color all the cities and micro-markets with one brush. Yes, we have spoken about it, but I thought I will repeat that, because if you really analyze the sales trends by product and markets, then you will find that only luxury apartments in select micro-markets in Mumbai are the worst hit. If you really look at what is happening in Mumbai, in the mid-market and the affordable segments, they are actually selling well for the developers who are really, in our language, the Tier-1.

Even in NCR, in the last four months, we are seeing that even in the worst performing market of Gurgaon, inventory that is near completion or the ready flats, have actually started selling well. And let us not forget that the markets of Hyderabad, Bangalore are actually doing well. So, this is just a point I want to drive home that let us not color the whole industry, by just looking at the overall trends. In fact, I joke that some investors color the whole industry by looking at the Lower Parel market. Therefore, it is a fallacy that sales across all segments, products and regions in India suffer.

For a long time, we have been talking about consolidation in the real estate industry. I have said it, along with Chairman, multiple times over the last few years that nearly 10% of the developers will survive in the long run and they will become stronger and better, while others will continue to die.

Many people ask us that you have been saying this for so long, then why is consolidation in the real estate industry taking so much time. One of the factors has been that, in the past, Tier-2 and Tier-3 NBFCs were unnaturally keeping the distressed guys alive.

These NBFCs who are now not getting enough liquidity are no more in a position to keep these guys alive. I definitely feel in the next few months, consolidation will be faster. In fact, we are seeing it in the last two months itself. As proof, I have already shared with you on various occasions, including last quarter, that how our Tier-1 developer sales are much ahead in the industry. In the past six months, our portfolio of developers, which constitute only 1.3% of the market, have contributed to three to four times of sales in those markets.

In the last two months, we also did an analysis on the supply or the inventory overhang. And I am happy to share that for our portfolio the average age of unsold inventory is nearly one third of the average age of inventory for the broader industry. All these trends in sales, or supply, ultimately point towards consolidation.

Ultimately all our efforts towards high quality underwriting, effective processes and deep monitoring get reflected in these numbers. Our gross NPA ratio at the end of the quarter, as Chairman said, continued to remain low at 0.5%.

During our interaction with investors, we realized that there were some concerns around single borrower exposure. We spoke about it last time, but I want to repeat that about the developer concentration in our loan portfolio. I would like to take this opportunity to clarify some misconceptions. The top 10 developers constitute only 30% of our overall loan book. Except Lodha, none of our developer exposures constitute more than 5% of the overall loan book.

In fact, our exposure to Lodha has already reduced from Rs. 4,300 crores, as on end of September, to Rs. 3,800 crores as on December, and currently and we expect it to further reduce by nearly half by December '19 quarter.

I must also add that Lodha has been the best performing account for us. I need to clarify that, not only all our loans are standard, but more than 90% of our loans are prepaid till December '19. And all our deals are cross collateralized having an average cash coverage of more than 2x.

Last time, we spoke about what we believe Lodha is doing. And actually that has happened, as you may all know. Recently, Lodha also announced the sale of the SPV holding the London assets and a USD 65 million loan buyback programme.

On NIMs, as Chairman mentioned we are seeing that the risk adjusted returns are coming back. Earlier, some NBFCs were under cutting our deals by a few basis points, post the liquidity crisis all such deals are now in jeopardy, and the borrowers are now coming back to us at the rates that we had offered to them earlier. Additionally, borrowers are well aware, that in such a kind of volatile environment they need stronger NBFCs like us, who have enough liquidity and balance sheet to support them through the life-cycle of their projects.

As competitive pressures have reduced, we are seeing that yields are going up for us, as mentioned earlier, we have also managed to pass on the higher rates to the customers. Therefore, despite marginal increases in our borrowing cost, our NIMs have largely remained stable and we expect our NIMs to further improve in the next few quarters.

ROEs – as we shift our loan book mix towards lower risk products, retail, making it more granular – we often get asked whether we will be able to maintain our ROEs at around 20%.

Let me share a part of our game plan to achieve this goal. Again, what I am going to say is nothing new, it is consistently being told in the last one year that we plan to create new sources of fee income.

We have already started work on our asset aggregation platform, we recently received an approval from SEBI to set up an AIF fund. We have also received license for our merchant banking. All these platforms will help us increase our fee income in the coming quarters.

As I mentioned earlier, we aim to reduce our single borrower exposure. However, this does not imply that we would not participate in larger deals. In case of large deals, let us take an example of say Rs. 700 crores or Rs. 800 crores, we would co-invest with strategic, like-minded partners such as pension funds. While we would take the lead on driving these deals, such co-investments will help us on three counts. It would increase our fee income, it would limit our single borrower exposure and enable us to undertake large transactions.

I want to conclude by thanking all our investors and lenders who met us during the last couple of months. I genuinely want to thank everyone for taking out the time to understand our processes, because I think we have spoken about it.

In an industry which is going through difficult phases in the last few years, we have been talking about our underwriting. We have been talking about risk, of the processes, but finally there were so many investors who spent so much time in understanding what do we do.

And I was very glad for them to come back and say that we reaffirm your strategy and for also sharing valuable inputs and feedback, which is today part of our underwriting going forward. We are humbled by your positive feedback and appreciation of our transparency. And especially the feedback that our messaging has been consistent throughout the years with you all. Thank you everyone.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Sir, on page number 16 you have given a very nice breakup of the entire P&L. Can you talk about incremental yields and incremental cost of borrowings? My second question was on asset liquidity, how liquid are these assets and when do you expect the entire book to roll-over? When will you get the cash repayments back? Is it like a 3-year process or a 4-year process, including run downs and pre-payments? And the third question was, you mentioned that the exposure to Lodha has run down, so they have done this through refinancing or this is just the normal run down and repayment schedule?

Khushru Jijina: Let me answer your first question that the cost of borrowing in the quarter actually went up by around 50 basis points and we passed on the entire cost to all our borrowers, that was the first, so that is exactly why the NIMs have not changed. And in fact, just to add again at the cost of repetition, that the new deals are being priced actually higher because the risk adjusted returns are back, as Chairman and I mentioned. So you will actually see the increase in NIMs. We are telling you that in advance. What was your second question?

Agastya Dave: The asset liquidity**?**

Khushru Jijina: Yes, so in fact let me tell you if you really see and if you go granular of our book in the last three years, typically one third of our book has been churning quarter-on-quarter. So it is not a new phenomenon. Even right now, as I mentioned to you, 48% of our book was repaid, so you are actually right. In a 3-year period the book is churned. So in other words, what we started out today our book has actually fully churned to answer your question.

How liquid are these investments, in fact again the proof of the pudding is that we could down sell Rs. 1,000 crores, but let me tell you something that the way we are moving more and more granular and with housing finance, our liquidity of the assets actually are improving. Because in the mayhem, we saw that anything which is cash flow-backed, anything such as housing finance or retail,,is like a liquid asset and you can actually sell the portfolio.

So as we are moving towards that goal, as you know we started with 1% retail, today we are talking about 10% and going up in March 18% to 20%. I think and inherently there is the built in of the liquidity of the asset growing. Your third point on Lodha of repayment and prepayment, as I had mentioned last time itself, that for the last two years on an average Rs. 80 crores to Rs. 100 crores per month we are getting prepaid from the project.

Over and above that whenever the projects become mature they go and refinance from the banks, because there they are able to get far lower rates, which is in line with our strategy always. So that is how Lodha has being prepaying us – from the cash flow through our escrow mechanism we pull it out. I think we mentioned in detail last time when we covered Lodha. And also when the project becomes far mature, for it to becoming a banking product than a NBFC product.

Agastya Dave: Just one quick comment/question. I find it a bit surprising that you could pass on and re-price the entire book when 50% of the book is fixed and 50% is variable. So you could actually do it? I did not understand the mechanism?

Khushru Jijina: Yes. Let me explain. 49% of our book is floating, which we passed on, in fact more than 50 basis points, and for the first time we actually went back to our fixed borrowers and impressed upon them to increase the rate, and majority of them appreciated the fact, and we could pass it on. So yes, you are surprised, but yes we could do it.

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

Ronak Raichura: Sir I wanted to know what will be the average ticket size of our housing loan book, so that is my first question. Second is, you said that in housing we have also bought some 500 odd crores of portfolio, so how easy it is, I mean can you pick and choose from a bank specifically the loans that you want, or the bank just generally bunches them together as a package and says that okay you have to buy the entire one? I mean you can do the due diligence on each and every account is what I wanted to know more about?

Khushru Jijina: Okay. So again you will be happy to know that in our housing finance business the average ticket size is now down to 65 lakhs. As you know we started 15 or 17 months ago with Mumbai, so that time it was a crores plus. Then we started opening new branches, and again this is in line with our forward-looking statement, which is that as we go deeper and deeper to Tier-2, Tier-3 it will come down further and further. Last time I think it was around 75, now as we report it is 65 lakhs.

Your question on portfolio buyout, so there are various ways in which people do buyouts. So I do not want to comment on the right or wrong of how everyone does not do 100% due diligence, but I want to stick to 100% due diligence. So what happens is, that a set of portfolio of say Rs. 1000 crores is shown to us, and we then decide what we feel is good, and that determines the size.

So that is why we said Rs. 500 crores. So while we speak, I also mentioned that we are going to do that in the coming quarters. Why I am saying that is because we have already completed the due diligence and the portfolios are ready, and we will start actioning it now. Have I answered your question?

Ronak Raichura: Yes, that is fine. So you actually did the due diligence on all the accounts from the 1000 crores portfolio and chose it saying that okay these are the ones I will have it on my book?

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

Vinod Jain: Sir, my question is on a wider plane. We can see the increasing urbanization resulting in constraints of space and travel in our city. As a consequence construction tends to go vertical resulting in taller buildings, both for residence as well as for working. This will also entail redevelopment. Do you see this dynamic as an advantage to Piramal's construction funding activity?

Khushru Jijina: No, you are absolutely right. In fact I think you have hit the nail on the head that it is not just buying land and in fact in a city like Mumbai and you would have heard recently that even our societies can redevelop. As always today we have not spoken because this quarter we concentrated more on the liquidity and the process management. But if you have seen simultaneously on the frontline of our products, we have been the largest innovators in the real estate funding products.

So yes, without getting into details, we have separate innovative products even for redevelopment whether it is society redevelopment, MHADA redevelopment, or SRA redevelopment. There are different products for different redevelopments. But you are absolutely right.

Moderator: Thank you. The next question is from the line of Vibha Batra from FairConnect Business Advisors. Please go ahead.

Vibha Batra: Actually, my question is on the real estate funding. You know broadly you have Rs. 55,000 crores book size and 80% of this is real estate and top ten exposures are 30%. I think in the Indian market you will be the only financial institution with such a large proportion of real estate book and that too so much concentrated.

And recent shocks, you know I am not doubting your ability to assess the real estate market, all large ticket markets come with some inherent risks which are extremely difficult to predict while underwriting. So you know in next three to five years where do you see this book going because if you see any large bank, typically exposure to real estate would not be more than 15%, 20%? And I am talking about banks who have much diversified liability franchise.

So is not this book more suitable for a fund structure than an NBFC structure which is leveraged four, five times I mean right now rating agencies may be complacent giving AA ratings that such this thing, but if they were to be tightened in better standards, would that not be an issue, what is your strategy on that front?

Khushru Jijina: I think it is a very good question by you. Let me answer one by one because in your one question there are many questions and various answers. First and foremost, let me just spend a minute on the journey of our company. We started, today you are seeing a large book because we started with 100% of RE wholesale. As you know historically that was because we understand real estate, we have said it many times. But equally important if you go through our narrative or any calls in the last two years, we have been consistently saying that ultimately, we will want our RE wholesale loan book to be less than 50%.

And that is why today as we speak it is only 73% of the overall book and again in the forward-looking statement, we have said that housing finance and we have demonstrated it right, from 1% we are bringing our housing finance to 10%, our CFGs in non-real estate is almost 20%, ECL which is another MSME lending is 3% to 5%. So, you are seeing gradually coming down.

I must also add here for your interest that please do not look at RE book as just one number, again within that we have gone down the risk profile. From starting in five years ago, today as structured that is hardly less than 30% of the RE book itself. So the majority is construction finance at various stages.

Again, construction finance should not be looked at in entirety, I would request my stakeholders to really drill down, understand, meet us and see that a lot of our projects are actually in the late stage, almost in the near completion inventory. I would encourage you all to break that up also. So if I may answer your question as we go along in the years you will see our stated objective has been and is that on our overall portfolio we will be bringing down the RE wholesale lending as a percentage.

Only thing is that after this last quarter we see far more opportunities in housing finance, and that is why we are accelerating our growth prospects. And that is what you will see going forward in March '19 and March '20, if I have answered your question.

Second, you spoke about large loans. I think this is actually counter-intuitive. If you really study what is happening in the real estate market, there is massive consolidation, now when there is massive consolidation you have to actually pick the winners, the developers who are going to survive and become stronger.

Now how do you then do business by just diversifying for the sake of diversifying, correct, and that leads to large single borrower loans, which I mentioned in my speech that with the feedback which we got from lot of investors like you all, we have decided that in spite of doing large deals, you rightly have pointed out which I touched upon, that we have started to look at credit funds and AIFs who will participate in the real estate and the non-real estate sector going forward from now.

So while we will continue to do deals, it will be the same way, because you need to be relevant with the large developers, that is the less risky of the lot. We will not be holding a large portfolio on our book and you will see credit funds, you rightly said that, and that is in the works and we will keep on reporting the progress of that every quarter.

Vibha Batra: Sure. But from a risk point of view, you know the sectoral diversification and the top exposure concentrations, although the flavor of these things is different, but the very fact that these do not exist and people follow those, so they have to be, I mean long term safety factor there, that is why people follow. But I take your point where you are coming from. And this is what you kind of are experts at, and I guess you know that is understandable?

Khushru Jijina: No, I think if I may interrupt, I do not think you understood what I said. I said, I agree with you, so while we will continue to work with the large developers and promoters, both non-real estate and real estate we will follow a single borrower limit. What you are saying diversifying, in that way, not have single large exposure on our books. And we will use credit funds, I am saying exactly what you said.

Vibha Batra: And in leveraging point, you think you are comfortable at allocating broadly Rs. 10,000 crores for Rs. 55,000 odd crores book on the lending side?

Khushru Jijina: Rs. 10,000 crores?

Vibha Batra: Your allocation for the lending book of Rs. 55,000 crores I saw in one of the slides is Rs. 10,000 crores?

Khushru Jijina: Incidentally that is one of the highest equities in an NBFC today. In fact, I must again share this that many of the investors who came and meet us really appreciated the capitalization. This is one of the top three single strengths of the NBFC, and we also received this as a feedback from the investors from overseas and India.

Hitesh Dhaddha: See if you look at from an overall perspective, we have Rs. 20,000 crores of equity within the financial services business, from all perspectives. So, in that sense we are the most under levered NBFC, among the larger NBFCs in India today.

Vibha Batra: Yes actually that also depends because half of your equity is blocked in the other equity investments, so it is much lesser?

Hitesh Dhaddha: As you have more questions maybe we can take it separately.

Moderator: Thank you. The next question is from the line of Rohit Potti from Marshmello Capital. Please go ahead.

Rohit Potti: I just want to pick up on something, which Mr. Piramal mentioned in the Analyst Day conference. I think towards the concluding part he had mentioned that we will be launching new retail products in the future as well as the fact that we will be concentrating in increasing our exposure to corporate lending, because the bank lending over the last few years has been concentrated to retail lending and not corporate. So just wanted to know if that strategy remains and if there is any change over the next couple of years?

Ajay Piramal: Now that strategy continues in the same direction. In fact, now just to add to it the RBI has also given some new guidelines to banks that for any new project finance, the banks can give up to 50% and the other part, the balance of the loan, has to be met either through equity or through other sources like NBFCs.

So this is in line with what we have said. We are also evaluating our retail exposure, that began with housing finance, will be 10% by the end of March 2019 and will go up to nearly 20% in the next year. This is for us a launching pad for understanding consumer behavior and retail behavior and we will then look at introducing other retail products.

Rohit Potti: So this will be after FY20 in that case is what you are looking at?

Ajay Piramal: No, it is after FY19 as I said. We are in that process of evaluating different forms of lending.

Rohit Potti: And the second question the second and the last question I have is if you could speak a little bit about your exposure to renewable energy as well, that will help. The solar and the wind exposure that we have, how are they performing and if you could explain that that would be helpful?

Khushru Jijina: So again our renewable energy portfolio, we have stressed tested because of so many events happening. If you recall in the last one year there are two, three events which have happened. One is that the tariffs have come down. There was also a challenge in Andhra Pradesh of the tariff which got negated of course. Then we also saw some of the large renewable companies trying to IPO, which were not successful, right. So the good news is that our renewable portfolio, first of all I must share with you that all the projects which we had backed even at the holdco level, are the projects which have started or commenced, so I think in these last two years, obviously we have come down the risk curve.

We also stressed tested that suppose if an IPO does not come in two years or three years; because ultimately you must understand what is important is the quality of the asset, whether it is in renewable or real estate, it does not matter. Ultimately if the basic quality of your asset is good, you can have scenario A, scenario B or scenario C, to get your exits and that is what we have done for each of our portfolios. So while we speak, I can only share with you that for each of our portfolio borrowers, we have a Plan A, Plan B and Plan C for exits.

Rohit Potti: Okay. So just a follow up on this answer, have we seen and like you have mentioned for the real estate part of the book, and corporate as well, have we seen prepayments, repayments for the renewable exposures that we have as well over the last year?

Khushru Jijina: Yes, in fact in the last quarter only there was some prepayment, and as we speak there is another prepayment of Rs. 175 crores next week, in the renewable sector itself.

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

Alpesh Mehta: Good evening and congrats for the good set of numbers. First question is on the financial services business. When I look at the total assets versus the loan book there is a difference of almost Rs. 10,000 crores plus. Is it almost Rs. 6,800 crores on account of Shriram Investments and the cash in bank balance on the balance sheet?

Vivek Valsaraj: Yes, that is right. The difference is on account of Shriram that is also included within the financial services sector.

Alpesh Mehta: Okay. Secondly on the exposure norms, we mentioned that our Lodha exposure is around Rs. 3,800 crores, whereas when I look at the net worth it is around Rs. 10,000 crores. So I believe as per the NHB norms the maximum exposure to a group would be 20% of the net worth right? Or are we including the Shriram Investment as a part of the net worth while taking the exposure?

Khushru Jijina: So let me explain to you that as you have seen in this journey, we had various NBFCs at one time, now we have consolidated and that is why part of the Lodha exposure is in the parent, which is Piramal Enterprise. And when I told you all that we are halving it from Rs. 3,800 crores by December, this is in fact a part of the communication, including to the RBI. So it is nothing new I am telling you. We are bringing down the exposure in various ways.

Alpesh Mehta: And last time we touched upon Lodha, do you see the debt level from Rs. 5,000 crores and any progress on that front?

Khushru Jijina: Yes, as I mentioned, both the things have happened. They have raised equity of Rs. 500 crores and they have already announced their sale of their assets in London. Both the events have played out already.

Alpesh Mehta: And the money has come?

Khushru Jijina: And our loan has come down by Rs. 500 crores.

Alpesh Mehta: Okay. One more question is the financial services business. Since we are obviously moving more towards the retail products and the set-up cost has been quite high on that front, so the ROAs are coming down to at around 3.3% now versus 3.9% two three quarters back. Where do you see these numbers stabilizing going forward?

Ajay Piramal: As we said we will look at ROE in the same, we will see how we can enhance ROE through improvement in NIM, which we expect to happen and also through other income. And regarding the estimates for ROE, we will not give a forward projection, but we will be around a similar number as we are today.

Khushru Jijina: Also, let me just add to what our Chairman said. I think we have been saying that when we started in retail, and we go down deeper and deeper from HFC into various retail segments, it not only brings granularity to the book, it also brings down the risk and obviously improves the rating. And with the improvement in rating your cost of funds come down on the overall book. So there is a game plan on an overall basis, which is why we are growing retail.

Alpesh Mehta: So let me put the question other way around. What would be a comfortable leverage that you would be working with in the financial services business?

Ajay Piramal: No we said before we will work in about 4.5 times average, 4.5 times including retail as well as the wholesale book.

Alpesh Mehta: Okay. And the last question from my side would be on the commercial paper bit. Last quarter we have reduced the commercial paper exposure quite a bit. Is it just the shifting of the route from a commercial paper to a bank term loan, where the counter party was the same?

Khushru Jijina: No, not at all. These are fresh lines from large public sector and private banks, which we got and these are not for repayment of commercial paper. Good you asked this question, as it is very important for you to know that these are large lines, which are long-term lines. As we said last quarter that we will go hammer-and-tongs and get large lines with banks, so that our business does not get affected.

So it was not the same lender who just shifted from commercial paper. This is absolutely different. In fact, for commercial papers there were some mutual funds, and we brought down our commercial paper borrowings from many mutual funds to zero.

Alpesh Mehta: Okay that is great. And lastly I do not know whether you will be able to share this or not but in the Lodha exposure of Rs. 3,800 crores what would be the split between the residential and the commercial?

Khushru Jijina: No, ours is mainly residential, because their commercial portfolio is quite unlevered, and as I said last time, apart from this stake sale which they have done, they also have more than Rs. 3,000 crores of commercial property, which they can sell. It is not for me to answer, but I can only share one thing, recently they did a Rs. 400 crore commercial sale with Trent, it came in the papers. And you will see, it is for Lodha to answer, but you will see a lot of these types of liquidity events for Lodha.

Hitesh Dhaddha: And to add on to what Mr. Jijina said, the intent is that Lodha being the only one where we have single borrower exposure, which is beyond this level, is where we want to bring it down during this year itself, maybe I would request Mr. Jijina to talk about the kind of levels that he is looking at.

Khushru Jijina: Yes, as I mentioned, that it is already down to Rs. 3,800 crores and we have given a forward-looking statement and which I am sharing with you that our aim is to make it half by December '19.

Alpesh Mehta: And last question, do we have exposure to any of the SPVs of IL&FS Group or the Essel Group?

Khushru Jijina: No, zero.

Alpesh Mehta: Even in the Essel Group?

Ajay Piramal: Essel we have Rs. 225 crores.

Alpesh Mehta: It is only Rs. 225 crores?

Khushru Jijina: Which is an SPV for solar projects, Essel Infra.

Moderator: Thank you. The next question is from the line of Tejas Parekh from Citi Bank. Please go ahead.

Tejas Parekh: Sir, considering the kind of growth you have been showing on the retail side, especially the housing finance, how should we think about your cost going ahead?

Hitesh Dhaddha: So as Mr. Jijina explained that the way we are looking at this is that as we grow our retail business, and based on our discussions with rating agencies, we are pretty confident that we will have an improvement in our ratings, which will bring our cost in line with the AAA-players in the industry. Does that answer your question?

Tejas Parekh: What I meant was from the perspective of cost-to-income ratio.

Khushru Jijina: Yes, so I think we had touched upon this six months ago, that the housing finance business is at an investment stage, and we really cannot look at in a static state, because we are growing. We are adding a branch per month. And therefore the cost-to-income ratio will be out of whack for some time. And it is a three-year play, when we reach a sizable sum.

But I can share with you that we have a plan of action on cost-to-income ratios for each of our businesses. You are absolutely right that it is not only the cost of funds, it is not only the yield, it is also the cost-to-income ratio, which will determine our ROEs. So all three are something which we have planned and we are tracking quarter-on-quarter.

Tejas Parekh: Got it and secondly you said you have raised the rates which is helping your NIM. So have you increased the rates across the segment including housing as well?

Khushru Jijina: Yes. So in housing we raised by 15 basis points, and since you are asking, from 1st February we are increasing it by a further 10 basis points.

Moderator: Thank you. The next question is from the line of Manan Patel from Equirus Portfolio Management. Manan, please go ahead.

Manan Patel: Congratulations for a great set of numbers. Sir, I had two questions. One on your healthcare and healthcare insights and analytics business. So I understand that is mostly dollar-denominated revenue business. So in last four years we have hardly grown revenue in dollar terms. So what is your game plan for that business and where can we see that business in next three to five years?

Ajay Piramal: So as far as this business is concerned, first of all the space we are in, we feel that this is a good space to be in. What are we doing? We are collecting data for the healthcare industry. Today a lot of data is being generated in this industry and as healthcare costs keep going up, globally we are finding that if you can have data and manage it well, the cost of healthcare can come down. Therefore there is a good demand.

We have not grown as well as we should have, and we are taking steps to see that the growth rate goes up in this space and we are making some changes in the way we are looking at this business and I think I am confident that we will see growth rates coming up in this space in the future.

Manan Patel: And my second question is on financial services. For the three main segments as in construction or real estate financing and corporate group and then housing loans, could share the numbers on NPA in individual segments that would be great – in the presentation also, and if you can share it now?

Hitesh Dhaddha: So with respect to NPAs, if you look at three of the four segments there are zero NPAs, which are Corporate lending, Housing Finance or Emerging Corporate Lending – we have zero NPAs in those. If you look at the overall NPA, the bulk of the NPA actually belongs to the education loans, which are from the earlier period. Even within the real estate book, there is hardly any NPA. If you look at the gross NPA, it is just 0.5%, so that is not a number where we can really give you a breakup.

Manan Patel: Right that is very heartening to hear. So thanks a lot that is it from my side.

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

Ronak Raichura: Sir my question is two-fold actually. Sir you said that you have done a stressed test on your entire book and the results have been very robust, you said about 87% to 95%, is very healthy even if we consider the worst-case scenarios of price dropping by 10%, 20%, 30%? And sir also you mentioned that we have risen the cost, we have passed on the cost of borrowing to our end customers so I wanted to know sir if the ROEs of the business that you are lending is so robust, that with a 30% drop and the increase in the cost of funding they are still able to.

I mean it tells a lot about your portfolio, so could you just throw a bit of light on this because after 30% drop in the selling price and the cost of borrowing increasing they are still able to generate reasonable profitability for themselves. So just could you throw some light on the portfolio?

Khushru Jijina: So, as I mentioned in my speech today there are a lot of investors like you actually came down to understand this. So I would invite you to actually come and see this because in your question inherently there is a doubt. And really, I would appreciate that doubt, because today in an industry like this, very few people can underwrite. So I appreciate that and in the last three months I have realized that. So if you really want to understand please get in touch with Hitesh Dhaddha and he will be happy to take you through.

Ronak Raichura: Surely sir, I would love to.

Moderator: Sir, we will take the last question from the line of Vaibhav Kacholia from VK Capital. Please go ahead.

Vaibhav Kacholia: Sir, I wanted to know for the housing finance book what is our incremental cost of loans and incremental yields?

Hitesh Dhaddha: We do not disclose separately, you know, segment wise numbers.

Vaibhav Kacholia: Okay, but can you give us some feel sir is it closer, is it higher than our overall cost of borrowing which is at 8.7%?

Khushru Jijina: No, it is lower.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Hitesh Dhaddha for closing comments.

Hitesh Dhaddha: Thanks everyone for joining us today. If you have more questions, feel free to reach out to me or my team. Thank you.

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