



“Piramal Enterprises Limited Q2 and H1 FY 2018 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Piramal Enterprises Limited Q2 and H1 FY 2018 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 opening remarks by the management. 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 Dhadha – Chief Investor Relations Officer for Piramal Enterprises Limited. Thank you and over to you, sir.

Hitesh Dhadha: Thanks, Ali. Good evening, everyone. I am Hitesh Dhadha, Chief Investor Relations Officer for Piramal Enterprises Limited. I am pleased to welcome you all to this conference call to discuss Q2 and H1 FY2018 results. Our results presentation has been uploaded on our website. You might like you to download it, as we may refer it during our discussion.

The discussion today may include some forward-looking statements, and these must be reviewed in conjunction with the risks that our businesses face.

On the call today, we have with us our Chairman – Mr. Ajay Piramal; and Mr. Khushru Jijina –Managing Director, Piramal Finance and Piramal Housing Finance.

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: Good day. This quarter and the first half of the current year have been good for the company. Our revenue for this quarter was 29% higher than the same quarter last year at Rs. 2,536 crores. And for the half year we are 28% higher at the revenue of Rs. 4,790 crores.

The net profit for the quarter has been at Rs. 384 crores, which is 25% higher than the same quarter last year and for the half year, it is 28% higher at Rs. 686 crores. In fact, if you look at the profit before tax, then for this half year our profit before tax (including Share of Associates) was Rs. 977 crores compared to Rs. 586 crores in the previous half year last year, showing a growth of 67%. But today, we are fully tax paying.

We have consistently improved revenue and net profit performance each quarter for the last ten quarters. Our top-line growth has been higher than 25% in each of the last eight quarters. And our normalized net profit has also been over 25% in each of the last ten quarters.

In the last 29 years our revenue growth has been 24% CAGR and our net profit CAGR has been 29%. And the annualized return over these 29 years has been 30%, which is one of the very few companies on the exchange would have delivered consistently a 30% return year-on-

year for the last 29 years. Thus, Rs. 100,000 invested in our company in 1988, would be worth about Rs. 210 million today.

Even in the last five years, our revenue CAGR has been 29% and the net profit CAGR has been 62%. And we have delivered an annualized shareholder return of 45% as compared to 13% by NIFTY. And we are now amongst the top five companies within the BSE100 Index in terms of five years revenue CAGR and five years net profit CAGR.

I will now come to the individual business performances.

In the Financial Services, we have consistently delivered exceptional performance quarter-on-quarter. Our total loan book has grown by 69% to Rs. 33,260 crores and we continue to deliver 25% plus ROE for the last ten quarters. Our quality of assets is robust. The gross NPA ratio, which is based on the positioning of 90 days, remained stable at 0.2% in this quarter. And we have maintained our provisioning at 2%.

If I have to look at segment-wise in Financial Services, we saw strong growth across all the verticals of the Financial Services: Real-Estate Developer Financing, Corporate Financing, Emerging Corporate Lending, and the housing Finance Business. The Real-Estate loan book grew by 61% to Rs. 27,000 crores, and the Corporate loan book has doubled to Rs. 6,000 crores nearly. And the Emerging Corporate loan book, which is sector agnostic platform, with funding provided to diverse sectors with a ticket size ranging from Rs. 10 crores to Rs. 100 crores, grew to be Rs. 320 crores at the end of the quarter.

We also got the Housing Finance license in the first week of September and have launched that business. We expect to create a sizable book in the near future, leveraging our developer relationships, technology, data analytics and the ability that we have developed to give loans to the self-employed segment. And in the first year of operation, in the first month of operation itself, we have disbursed Rs. 200 crores in this. We have also got our team working on the stressed asset fund and are looking at several interesting opportunities there.

Now, coming to the Pharma segment. Global Pharma revenues for the second quarter grew at 24% to Rs. 963 crores. We offer differentiated high margin products that we have acquired from Janssen and Mallinckrodt and these are getting successfully integrated. The Ash Stevens facility, which we acquired to do contract manufacturing, has also been integrated. And we are focused to expand capacity across our plants. We continue to focus on quality. And since 2011, we have successfully cleared all the 29 US FDA inspections that we have had across our sites, 87 other regulatory inspections and 660 customer audits. During the quarter, we successfully cleared three regulatory audits, including one US FDA audit and 36 customer audits. The margin profile for this business has improved significantly over the last couple of quarters on the back of organic initiatives and high margin product acquisitions. And we continue to develop strong EBITDA margins for this business.

In the Indian Consumer products, the industry had a subdued performance due to GST, but our business still registered a strong growth of 20% to Rs. 119 crores during the quarter. We recovered from the impact of channel destocking, led by the newly introduced GST tax regime.

I would also like to spend some time on the fund raise. We have, as you may be aware, done a QIP of Compulsorily Convertible Debenture. And through this we successfully raised Rs. 5,000 crores, the first major fund raise in the history of Piramal Enterprises. The last time we had raised funds from the public was in 1992, and since then it is the first time that we have done it. This is the largest QIP by any company, excluding the banks in India. And the structure of the deal is probably setting a benchmark for future fund-raising deals in India. It is a win-win, both for investors and the company. And what do I mean by that? For the investors, this protects from the downside, investors will get an interest coupon of 7.8% per annum for the next 18 months. It gives all the upside to the investors because the CCDs can be converted into pure equity at any time in the future. It provides the benefits of both, a debt and equity instrument, and the CCDs are listed which brings liquidity to the instrument.

For the company, the interest coupon is nearly the same, or it is actually slightly lower than the cost of borrowing from PEL. And the equity base will get enhanced progressively in the next 18 months, at a time when we really need it. And also, I am very happy to say that we have attracted a very high quality of institutional investors, which should be our partners in the long-term.

In addition to the QIP, we also plan to have rights issue and we want to raise Rs. 2,000 crores through our rights issue, so that we give an equal opportunity to our existing shareholders of PEL, which has stood by us for so many years. In this, the promoters, having full faith and confidence in the company, will underwrite 90% of the size of the company and we have approved the rights issue with a price of Rs. 2,380 per share.

This is a summary of the big activities that we have undertaken in the last quarter and the first six months of the year. And now, I would leave it open for questions. Thank you.

Moderator:

Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. We would take the first question from the line of Ritika Dua from Elara Securities. Please go ahead.

Ritika Dua:

Sir, firstly, going through your presentation, obviously, this is regarding the credit book. So, we have a covering of 110 plus developers and 200 plus transactions over like spread over large number of projects across India. And like you have said that you will be leveraging these particular tie-ups which you already have, to grow your Housing Finance book. Sir, any kind of guidance or any kind of sense you want to help us with as to what is the opportunity which lies here? And which are all these geographies, or rather not geography, the states which we are really mainly focused on?

Ajay Piramal: I will ask Mr. Khushru Jijina, our Managing Director of the Financial Services to take on these questions.

Khushru Jijina: Yes, so to answer your question, basically, I think even in the last investor call, I had made this point which is actually playing out in the last two months, that being a B2B, B2C platform and this is again unique where our wholesale platform and retail platform have started working together. As Chairman said in the first month itself, we have got an AUM of Rs.200 crores and in fact we have got a healthy pipeline in the next few months. So, what is actually happening? So, first of all, let me tell you our rollout plan. Our rollout plan is that we have already started in the MMR region, the Mumbai Metropolitan Region. We already have two branches and a hub in Mumbai. By the end of January, we will be having three more locations, which will be the NCR, the Bangalore region and Pune region. And every three months going forward we will be rolling out into other states, so it will be followed by Hyderabad and then we will move in to Ahmedabad, Surat, etc. Basically, where we already have business because with the relationships which we have and just to give you an update, today we have more than 336 projects, not 200 and odd. So, that is going to be the rollout.

What we are seeing right now in the market and in this last two months is that not only the relationships are helping because of the uniqueness which you bring to the table, right from equity up to HFC, but also the same innovation, which we are known for, on the wholesale platform, which we keep on coming up with new innovative products on a month-on-month basis. The same thing has actually unfolded in the Housing Finance. Just to give you an example, in the first month itself we have come up with more than three innovative products for the Mumbai developer itself. And we will be rolling out more and more innovative products. So the same theme of providing the entire capital stack to the developers, providing innovation for our Housing Finance customers and developers will continue. If that answers your questions?

Ritika Dua: It certainly does. Sir, if I can ask, maybe, a few more questions. Sir, if possible, can we get some color onto this Corporate Finance book, Corporate Finance group segment and the emerging corporate lending segment? What are the lendings against and what are the tenures, the ticket sizes are available but then generally what are the tenures and yields here?

Khushru Jijina: So, again, let me talk about the Corporate Finance group first. So, actually Corporate Finance Group was also started way back in 2012. It was actually called the Structured Investment Group. The whole idea at that time was to participate in the infrastructure development or the growth story of infrastructure in this country. So what I mean is, we started doing mezzanine funding into completed road projects, etc, and that is how it started. As we speak today, and that is why the name has changed to Corporate Finance Group, basically to put it simply, it does everything what the real-estate division does, except that this is non-real-estate. So let me explain what I mean.

So we are a sector agnostic group, the Corporate Finance group. Having said that, what do we do really when we say we are sector agnostic group? So we actually identify the various sectors which we believe are growing and are good. We take expertise from the outside and inside, we even have experts on-board. So, for example, like a cement sector which we have looked at in the past, so if you look at the deals now you will be able to relate to me, and then we identified the auto ancillaries. Recently, we have identified the logistics sector and the warehousing sector which is opening up. So, we identify the sectors, study it deeply. If we like these sectors then we actually go deep to find out that which industry or I would say, which companies we would like to work with. And then the team, which is a separate team, starts doing the deals.

So again, here, we started with the mezzanine and like in the real estate space where we actually moved from 2014, it was really structured deals, if you see 70% to 80% of our book was a structured debt, which was high-yielding debt but high-risky debt, today not more than 30% is really structured debt, most of it is construction finance. The same thing is playing out in the Corporate Finance group. Today, as we speak, in this one year, we move from mezzanine to majorly into senior debt. And recently we have also entered into project finance. So that is what is happening on the Corporate Finance Group, if I answered your question.

Emerging Corporate Lending is nothing but an opportunity we see, as you will agree with me, the mid-market, the mid-corporates, it is a very important sector for the Indian industry, for the Indian economy, which needs a separate handling, a separate mindset and a separate team. And that is what we found very recently. And that is what the Chairman mentioned that in a span of three months they have been able to do very good deals and come up to a level of Rs. 320-odd crores. But their models were the same, it is just that ECL division will serve the mid-market and the CFG will actually serve the top-end of the customer which is Rs. 100 crores beyond.

Ritika Dua:

Sir, is there a way one can understand what are the yields in most of the segments that we are already in, real-estate, housing finance, ECL and CFG?

Khushru Jijina:

Yes, sure. So again, if you look at the entire capital stack of real-estate, as we speak today, the yields have definitely come down over this period from the last three years. So, if you look at private equity, which we do from the fund book and not from the prop book, from 24% they are now ranging anywhere between 20% to 22%. But if you move to mezzanine, which was in the range of 18% to 20%, it is now in the range of anywhere between 15% to 16%. And then you come down to Construction Finance, depending on the developer and the riskiness of the project, it is anywhere from, I would say, 10% - 10.5% to up to 13%. And LRDs are in the range of 9% - 9.5%. That is on the real-estate segment.

Talking about the Corporate Finance Group, again, the mezzanine funding would be in the same range, 15% to 16%, it is no more the 18% to 20% deals. Even though if they are available, we would not do it, because that is not our risk appetite. Looking at senior debt,

again, that is between 13% to 14% and the project finance will be anywhere between 10.5% to 12%.

So let me just add to this, at the end of the day, the way we look at it is not the way you asked us this question. The way we look at it is really the risk adjusted return. So obviously when you look at it, for us it is the ROE which matters and not really the IRRs. Because if you really break it down to the ROE and if you can look at the risk adjusted return for all of that, actually, you will be surprised to know that when you do a senior debt and a construction finance the ROEs are actually the same because your provisioning norms are lower because of less risk and you can actually leverage more. So, if I have answered your question. So, actually one has to look at the ROE and not really the IRR.

Moderator: Thank you. We take the next question from the line of Roshan Jain from Reliance Industries. Please go ahead.

Ajay Vora: Sir, this is Ajay Vora here. Sir, just three questions from my side. Firstly, on the total fund raising, what sort of capital infusion are we expecting in the NBFC division, broadly over next one year or so? And what sort of leverage are you planning to build on that?

Ajay Piramal: Yes, so we will be raising Rs. 7,000 crores, which will come in into equity. Rs. 5,000 crores has already come in; another Rs. 2,000 crores will come in before the end of the year. And we will, probably about in the next, I am not going to say in the next one year, but in the next three years we will use the majority of it for the loan book, which will be about Rs. 5,000 crores, the balance we would do for pharma and for general purposes. And the equity leverage levels would be up to 6 - 6.5x.

Ajay Vora: Okay, great. What sort of amount, either, in case if you are planning for any debt reduction on the pharma side? Or that will be used for inorganic because there was one interview where you also mentioned that there are quite a few opportunities globally in the pharma space.

Ajay Piramal: So, we are pretty disciplined in this. If we find the opportunities have a strategic fit and if they are value creating, then we will do that, and you have seen that in every acquisition that we have done in the pharma space as well. So we will follow the same discipline and if there are opportunities we may do the acquisition or otherwise we will just bring down the debt

Ajay Vora: Okay. And just lastly, sir, if you can also explain a little more on the pharma business. How are we planning, what exactly are you planning to do there? So you guys gave in your presentation the detailed thing on the approval and everything, but over next two to three years, how do you see your overall existing pharma business shaping up?

Ajay Piramal: So, overall Pharma business, the way we are doing that is, keeping a much more product focused business, and if you see therefore, the acquisitions that we have done in the last year

have been two acquisitions. So we are moving towards getting a higher margin. And we will continue in the same way. We are also creating niche products and services and our revenue we have said in the next three years will be between Rs. 6,500 crores to Rs. 7,000 crores and the EBITDA would range between 20% to 25%. The OTC is also another area that we are focusing on and we will continue to grow, both organically and through acquisitions.

Ajay Vora: Sorry, I just missed that, you said the Global Pharma piece revenue will be around Rs. 6,500 crores to Rs. 7,000 crores?

Ajay Piramal: The total revenue will be Rs. 6,500 crores to Rs. 7,000 crores, out of which the OTC would be under Rs. 1,000 crores range in next three years.

Moderator: Thank you. We take the next question from the line of Prashant Nair with Citi Group. Please go ahead.

Prashant Nair: Just continuing on the pharmaceutical side, can you breakdown the growth this quarter, and maybe for the first half into organic and the inorganic component?

Ajay Piramal: So, let me just give you that... I will give it to you. Let's take the next question, I am just collecting the details.

Prashant Nair: Okay. So just following up, besides that, when we now look at the business over the next two to three years, assuming there is no further acquisition, do you see the need for any meaningful capex in the next two to three years? Or do you feel that after the current round there is adequate capacity to reach your fiscal 2020 targeted revenue number?

Ajay Piramal: So, when we see the future I see that as a group, our products and services are actually quite healthy, and we really need to make some capex in some of our facilities, particularly in Digwal and in Morpeth, we will be doing some expansion there, because we see the orders coming up. There will also be some capex, when we launch Desflurane, which is our new product, so these are the two areas that we will see growth in. And just coming to the growth, as far as the organic growth is concerned, it is at the same level as last year, the balance is through acquisition. I also want to bring home to you the fact that actually the rupee has strengthened in the last six months and, therefore, to some extent, almost 4% of the growth, which should have normally come has not been there.

Prashant Nair: Okay, understood. And last question is on Desflurane. So, any update on when you expect to launch? Are we still on track for the end of this fiscal?

Ajay Piramal: You know, we are still waiting for the US FDA to comment on it. So I do not have anything additional to add to it.

- Prashant Nair:** And do you have a target date for this or...?
- Ajay Piramal:** The target date is actually gone by, but they have not given us an explanation. The target has gone by, frankly.
- Moderator:** Thank you. We will take the next question from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.
- Nishchint Chawathe:** Two questions from my side. One was about the integration with the Shriram Group and I think, in the past, you had kind of articulated your thoughts on integrating with this group a couple of years down the line. Just wanted to get your latest sense on this one? And the second one was on the real-estate side where we have been hearing that there has been a fair amount of slowdown in the industry and some concerns on the financial health of developers, especially in backdrop of GST and RERA. So, we believe that things have been weak over the last two to three months. So whatever you are picking up on the ground on that one? Thank you.
- Ajay Piramal:** Khushru, you can answer the real-estate first, then I will come to Shriram.
- Khushru Jijina:** Okay. So, in fact, I am happy that you have asked this question. And, in fact, I want to answer this question in three parts so that whoever else also has this question on real-estate, can get the answer. So the first part would be, I would really like to give some numbers, because the proof of the pudding is always in the statistics. How we are performing? Second would be what is actually happening on the ground with our primary data? I have always said this in all investor conferences or calls that we are one of the few lucky platforms who have all the primary data. As I said, if you have 340 projects obviously we have our own primary data. And I will share with you all our analysis of what is happening on the ground month-on-month. And the third is, with all the situation how come our portfolio is performing well? If that is fine.
- So I will start with the first point. As Chairman already mentioned about the growth, but I will put it in a different context. If I compare it to March of 2017, in the last six months our RE book has grown 27%; and the CFG, which is the Corporate Finance Group has grown 56%. Now this is in line with what I have been telling you for the last six months that Corporate Finance Group being sector agnostic should grow faster, and actually it has happened. I remember some of the people who were skeptical in the first call six months ago that how it could happen, but it actually played out.
- The other number which is very important when we talk about the real-estate industry slowdown and there is no cash and sales available, you all will be surprised to know that in this last six months, in spite of this growth, we have actually got prepaid and repaid to the extent of Rs. 5,400 crores. And to put it in context, Rs. 5,400 crores is 22% of our March AUM numbers of real-estate.

The third point I want to make is to really dissect the growth of the disbursements which we give in the first six months, is mainly into construction finance, residential and commercial which has really picked up in the last six months. And we, obviously, did some LRDs For office spaces and, in fact, we have started sanctioning even for select hotels. Again, the growth in CFG, I just mentioned about it that we will move some mezzanine to senior debt, and I am happy to report that in the six months of real growth has really come from senior debt and project finance.

Also, I want to make a point here, touching up on Housing Finance, because I am sure there will be this question coming on the ROE. Just to give you one number that the mere announcement of the reverse merger, which we have announced, the merger of Housing Finance and our Wholesale Platform into one company called Piramal Capital, has brought down my cost of funds by 25 basis points, just by the announcement, just wanted to make that point.

Also, I want to share that ICRA, our rating agency, because of whatever is happening in the market, just completed a full one-month exercise looking into all our deals and all of our processes, and we came out clean. So this, again, I would like to share with you all.

Again, I would also like to mention with special emphasis, in their report, they in fact mentioned to the Chairman when they met him, about our asset monitoring quality. They mentioned that we have not seen this anywhere in India.

Again, the proof of the pudding is the NPA. In March, our NPA was 0.4%, which has actually come down to 0.2%, and real-estate continues to be zero NPA. So these are the statistics, which I think, I wanted to share with you all before I move into what is happening on the ground.

So what is our primary data actually telling us about the sales velocity? That is the question you asked. Again, before I go into that, at the cost of repetition which I do every time, and unfortunately most of us keep on making this mistake that we are painting the real-estate industry with one brush. It is such a local, local game, I have always been saying that not only you need to bisect it city wise, you actually need to dissect it micro market wise, which we do. And that is why probably we get the forecast or the early warning signals faster.

We are speaking about the consolidation in the real-estate industry for the last two years, actually for the last six months, post RERA, and it is actually playing out faster. And we see this happening because we ourselves have moved, as you all know, from just lending to be a financial partner. So most of the distressed players come to us looking for our developer partnership so that we can help them get out of the distress. Not that we will fund the distressed guy, we will fund our guys.

Let me talk about the sales, your pertinent question about the sales velocity per city. So, if I really map post demonetization, what has really happened? If I go back in time on post 8th of November 2016, in fact the call which I had done, we were clear that time also that our developers who are doing well will suffer but not to the extent that the market is expecting, and that actually played out. Then, slowly the markets for our developers, so I am really talking about our developers, the selection of our developers whom we believe are the 10% who is going to survive, they continue to do well.

RERA was a temporary blip, but not a major blip. The real blip, as you rightly asked, is the GST. The confusion around GST has definitely brought a slowdown in the sales velocity across India, there is no doubt about it. But what has also happened very uniquely, in fact, it has turned the whole industry on its head. So what do I mean? So you all will agree with me that at the land stage it is always the riskiest and when we are near completion a layman will tell you that the sales velocity increases. Not anymore, thanks to the GST issue where you are saddled with 12% more GST. Today, projects which are almost getting completed are hit the most. In other words, so for example, if the project has to get completed in six months, the sales have become near zero, because a customer feels that might as well come after the OC and buy it. So actually it has gone reverse, the whole way of doing business is gone reverse. So let me share this point with you.

But, who all are selling? This is a common thread, this I am sharing with you the common thread across India. However, who are the people who are selling? The people who are selling are the developers who have actually realized that they need to bring down the price. So if anybody thinks that the markets are not down, it is actually down, the developers have brought down the prices either directly or with subvention schemes or with absorbing the GST. So that is absolutely clear.

Now what is happening in each city? So definitely, let us take the case of Mumbai Metropolitan Region. So, in the last quarter, thanks to GST, I am really talking about our developers, our projects, they have shown 60% sales of the last quarter. So obviously, Mumbai Metropolitan Region has shown 40% dip.

Let us move on to Pune. Pune actually has improved because Pune market if you really study historically in last two quarters it was at its worse. So actually, in spite of GST, my data shows that it is actually better than the last two quarters.

Chennai, same story. Because Chennai right from 2016 has been suffering from multiple reasons and has actually done better last quarter, because the permissions have started coming, the sales velocity has picked up.

Let us look at NCR, which is the worst market. Again, people make the mistake of painting NCR with one brush. In fact, Noida, you would be surprised to know, has done double of what

it did in the last two quarters. Again, let me breakdown Gurgaon into two parts; one is the New Gurgaon, which is Dwarka Expressway; and the other is where we talk about where the DLF is there and beyond that the Golf link extension and the Golf Road; those continue to do well. It is only in the New Gurgaon, where we call the Gurgaon extension, except if it is a township, which is the Vatika Township, everything else suffers today, it continues to suffer.

Let us look at Bangalore. Again, Bangalore, as you all know, suffered heavily, normally Bangalore is the most stable market, historically. But last two years it suffered because of the policy paralysis on the TDR issue, which got through six months back. And today they are back on track, in fact, last quarter our data shows that it is better than the last two quarters.

Ajay Piramal: Okay. You had a question on Shriram integration.

Nishchint Chawathe: Yes.

Ajay Piramal: Shriram, at the moment we do not have plans to integrate with Shriram, I think the Piramal book is growing on its own and we will continue like this for a while.

Moderator: Thank you. We will take the next question from the line of Hiten Jain from Invesco Asset Management. Please go ahead.

Hiten Jain: I have an accounting question. Say, if any of the developer whom we have financed becomes an NPA, and we decide to take over his project and develop it ourselves. In that event do we treat it as NPA or standard on our books?

Ajay Piramal: So, we have not yet taken over any project yet. So we have not done that.

Moderator: Thank you. We take the next question from the line of Abhishek Minda from Goldman Sachs. Please go ahead.

Abhishek Minda: So, I had one follow-up question on RERA and GST implementation. So, you already said that the developers have brought down the price. So, with more consolidation in this space and impact of GST and increasing transparency because of RERA, how do you see this influencing the developer yields going forward? Thanks.

Ajay Piramal: Actually, going forward, I see that the land, which is the major component of cost, in a city like Mumbai it is more than 50% of cost, those prices are coming down for the people because there are a lot of people who are in stress, who would like to get rid of the land and give it to the better developers. So, I feel in the long run, actually, the yields of developers going up. It may take a year for transition but it will go up.

Moderator: Thank you. We will take the next question from the line of Rohith Potti from Marshmallow Capital.

Rohith Potti: I was just wondering if you could give us a little more information on the Information Management of Piramal?

Ajay Piramal: So the Information Management business of Piramal in the last quarter had an average, not a very good growth. We are at the same level in dollar terms as we were in the previous year. And I think the market opportunity is good, it is for us to sort out the way we will grow. So in one of our segments in that business we did not see growth, but in the analytics and in the consulting, those other businesses we saw growth.

Rohith Potti: Okay. And one more question, it is a more general question. So, from our view what are the major risks that you see in each of these businesses going forward for the next four - five years? I just want to get your perspective on this.

Ajay Piramal: So, if I look at pharma, there is always a risk on regulatory. Till now for the last several years we have not had an issue on regulatory. But when I see what is happening in the industry, there is always a risk. But, to mitigate that risk, let me say that we continuously raise our standards. And one of the advantages that we have is that we have many of the largest and most sophisticated pharma companies as our customers as well. So they keep raising the standards. So, as far as pharma is concern that is the risk.

Secondly, there is a risk that till now we were used to the rupee depreciating every year 4% - 5%. But I am seeing that in this first six months of the year the rupee has actually overall strengthened, and therefore that has been a bit of chance.

Coming to Financial Services. There is always a risk of NPAs and that is why we say we have a very close asset monitoring. And I just want to highlight that risk is the most important as far as Financial Services is concerned, the role that Khushru and I play is more as risk officers than anything else, because unlike in any other large financial company, the promotor stake is still a 50%. And therefore, we need to ensure, in our own selfish interest as well that the risk is mitigated.

Moderator: Thank you. We will take the next question from the line of Ronak Jain from Vibrant Securities. Please go ahead.

Ronak Jain: Sir, I want your views on the repaid and prepaid numbers in the real-estate lending portfolio. So in this quarter it is Rs. 2,290 crores and in the previous quarter it was Rs. 1,807 crores. So, how should we look at this numbers, is it a matter of concern for our business?

Khushru Jijina: I did not get the question.

- Ronak Jain:** Sir, I was looking at the repaid and prepaid numbers.
- Khushru Jijina:** Okay. So, no, as I mentioned to you, in fact, that should tell you the quality of our underwriting, because the churn is always good. In fact, in my mind, we always take anywhere from 30% to 35% of the book being churned on a regular business, and that is what is happening and that should tell you about the quality of the business, because if the book is not churning then that is a cause for concern. Am I making sense?
- Ronak Jain:** Yes. So that is a good point, but we just wanted to know whether is it a case of refinancing by those companies for lower cost of funds?
- Khushru Jijina:** No. I have always said that please look at Piramal Finance as not a lender, it is a financial partner, we do end-to-end. So, without sounding arrogant today, I would say 99% of our developers would not leave us for rates because they know what we can provide, the service and solution, we are solution provider, the advisory which we go beyond lending, people do not leave us for rates. So, I am very happy to tell you that this prepayment has happened, especially into big accounts like Lodha and Omkar where massive prepayments have been done. So, which I always say on all of my calls that market could be good, could be bad but proof of the pudding is really into the underwriting. So, that is what it is all about. So if I may just take one more minute on that, for the benefit of everyone who is on the call. I myself said that the markets have slowed down, then why are we doing well? I have always given you all this example, and today it has really played out, let me just repeat it, if I take two minutes more of that. I always give this example, a simple example of underwriting of construction finance. Construction finance is a banker's domain. But I have always said it is not as simple as that. Why? Because with that same example I will repeat, when the developer comes to you and wants Rs. 100, to make it very simple, or Rs. 100 crores of construction finance, what typically banks do that they look at probably whether the approvals have come, whether the site is mobilized. And obviously when a developer is asking for Rs. 100 crores he may actually need Rs. 250 crores to complete the project. And the assumption is that Rs. 150 crores will come from sales. That is where folly is, really, which I have always explained to all of you. At the end of the day, you have to be very clear whether the Rs. 150 crores will come from sales or you are ready to put in that money in that quarter where the deficit is. And that is why we look at construction finance very differently and we look at our deficits quarter-on-quarter in our assumptions. And only if we are comfortable giving more on day one, which the developer not aware, is when we sanction, because at the end of the day we want the project to get completed. So it is no more relevant than right now when the last mile funding is required. I mentioned to you'll right, when the project is almost getting finished people thought that now we are in the easiest zone, the sales have stopped because of GST. It is because of our underwriting today, that I can reconfirm to all of you'll that all our projects are on track. In fact, we are looking at this as an opportunity. We have now approached other developers where the other lenders are there and who are not able to grapple with this situation because of the last mile funding. Just to give an example, you put in Rs. 40 crores, the developer needs

Rs. 40 crores and he has got locked in receivables of Rs. 400 crores. Those are the type of opportunities which are actually playing out for us; it is all about the underwriting at the end of the day.

Moderator: Thank you. The next question is from the line of Vivek Joshi, individual investor. Please go ahead.

Vivek Joshi: I want to know on the agreement that Piramal Enterprises has signed with Piramal Phytocare regarding some distribution of products? And second question is, can you throw some light on the accounting of the shares held of Shriram Capital by Piramal Enterprises. I believe it is through a partnership firm and joint venture with Shriram ESOP and stuff like that. I have been asking the Investor Relations but I have not got the answer for that as yet.

Ajay Piramal: So, Phytocare is a potential, this is sales and marketing for new product. We have not yet done anything but Phytocare develops new product and we want to sell it, then that would be the sort of agreement that we have entered into. As of now, we have not done anything. The details of Shriram Capital and all, I will ask the Investor Relations, they will talk to you.

Moderator: Thank you. We will take the next question from the line of Ajay Vora from Reliance Industries. Please go ahead.

Ajay Vora: Just a couple of more questions. On the lending side, so incremental growth, what do we think that will it be from the existing developers which we have because of the all the new projects and whatever consolidation there may be in the industry? Or you think that there are many more states or other projects where we can penetrate?

Khushru Jijina: Yes, so a good question. I will try to answer it without revealing the entire strategy, because obviously we will not like to do that, but I will give you the color. Again, a good question. In fact, last time on the call I had said the same thing that the markets of the developers are actually moving towards a partnership model. And I had made that statement in last three or four months back itself that gone are the days when any lender on NBFC would look at just one project and lend, at least we do not believe in that. And again see, this has played out. So, what do I mean? From the last few months, whoever comes to us even for Rs. 100 crores, we first look at the health of the entire developer, because we want to understand the entire problems and the strengths of the developer, his assets and liabilities. So, not only it gives us an opportunity, but then you know what you are getting into. If I am making sense. So, I am answering you differently, so going forward right now actually it is playing out. So, developers who are not with us and who were doing this type of multiple banking, they have actually come to us because, obviously, they cannot resolve this. So, obviously, when we look at the entire health and we feel that there is not enough juice in the system because of the understanding of our real-estate, we are able to give a solution. So that is the opportunity.

The other opportunity, because we look into the health of each developer, I can share one nuance with you. Typically we talk about Tier-I developers, etc, big brands. We were very pleasantly surprised in the last few months when we went developer-by-developer in each micro market we did study that there are developers out there in each region or each city who are medium-sized, whose balance sheets are actually stronger than the debt, I would say the cash management skills or the balance sheets are stronger than even the big boys. So we have looked that as an opportunity, so why not work with them. So, basically, we are following the partnership model. If we like the partner then go with the partner and help him not only sort out his problems which he had with other lenders, but also help him in his growth story. Because, as I said, at the end of the day, post-GST is a temporary phenomenon, it is ultimately consolidation is just playing out. And when things become better, it will be these big boys or the good players which will actually do very well after all the clouds have gone. If I answered your question in a limited way.

Ajay Vora: And lastly on the yields, how confident are we? Mainly because I understand that we have an expertise in this segment, but now more and more players are getting quite aggressive in the same space. So, where do you see yields for this business?

Khushru Jijina: Again, I repeat, I will answer in two parts. Definitely, yields are compressing, in fact, we have seen it in the last four years, and it has been continuous compressing. And if you see, we have continuously been able to bring down our rates because our treasury is also doing better. In fact, I just mentioned that the only decision or announcement of merging the wholesale and the retails has given us 25 basis points more. Obviously, I am not able to say more but we will be working with the rating agencies for upgrade, because as you go granular, what we are doing, is that we are really diversifying the book and going granular, we are going retail whether it is ECL or HFC, it is retail. So with that, our cost of funds will go down. We are pretty confident that we will be able to match the yields. To also give the nuance, we will never be the cheapest in the market, we have always said that.

Ajay Vora: On the NIM side we are pretty much comfortable where they are right now?

Khushru Jijina: Yes, absolutely. Because at the end of the day one has to look, again I am going back to the ROE concept, at the end of the day one has to look at that risk adjusted returns. Just imagine, just the announcement, 25 basis points on my entire book, I have got the benefit. Tomorrow you get a rating upgrade, I get the benefit on my entire book. HFC does well you move into AAA, the entire book gets the benefit. If I am making sense to you.

Moderator: Due to time constraints, we will take the last question from the line of Hiten Jain from Invesco Asset Management. Please go ahead.

Hiten Jain: I was just curious to know the source of a repayment in the last six month, which you said that was approximately 22% of your March AUM. So, is it the sales or the developer has brought

in some equity or debt maybe from some other financier. What could the source of this repayment?

Ajay Piramal:

So, as I already mentioned, more than 90%. So I really would not know whether there would have been some small repayments through some other lenders, but I can safely tell you that more than 90% has actually come from sales velocity which was better than what we had underwritten. And that is the point I am making again and again, the consolidation is playing out. If you look at the market, just from 60,000 feet you say that there is a blood bath. But if you really break it down into developer-by-developer, project-by-project, which we do, they continue to sell.

Moderator:

Thank you very much. Due to time constraints, that was the last question. I now hand the conference over to Mr. Hitesh Dhaddha for closing comments.

Hitesh Dhaddha:

Thank you everyone for participating on the call. In case you have any more questions, please 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.