



“Piramal Enterprises Limited Q1 FY2020 Conference Call”

July 30, 2019



MANAGEMENT: MR. AJAY PIRAMAL – CHAIRMAN, PIRAMAL ENTERPRISES LIMITED
MR. VIJAY SHAH – EXECUTIVE DIRECTOR, PIRAMAL ENTERPRISES LIMITED
MS. NANDINI PIRAMAL – EXECUTIVE DIRECTOR, PIRAMAL ENTERPRISES LIMITED
MR. KHUSHRU JIINA – MANAGING DIRECTOR, PIRAMAL CAPITAL AND HOUSING FINANCE LTD.
MR. VIVEK VALSARAJ – CFO, PIRAMAL ENTERPRISES 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 Q1 FY20 Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during 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 call to discuss Q1 FY20 results. Our results material have been uploaded on our website and you may like to download and refer it during our discussion. The discussion today may include some forward-looking statements and these must be viewed in conjunction with the risk that our businesses face. On the call today, we have with us our Chairman – Mr. Ajay Piramal; Mr. Vijay Shah – our Executive Director; Nandini Piramal – Executive Director, Piramal Enterprises and Mr. Khushru Jijina – Managing Director of our Financial Services Business. We also have with us Mr. Vivek Valsaraj – our CFO. 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. The first quarter has been another quarter of good performance, despite a challenging business environment. In the first quarter, our revenues grew by 21% compared to the same quarter last year and are now INR 3,506 Crores. The net profit grew also by 21% to INR 461 Crores. Our 5-year revenue CAGR is 24% and our 5-year net profit CAGR is 53%. And I am very happy to say that we have been consistently delivering 20%+ revenues and net profit growth over the last 16 quarters.

On macro environment:

I want to just briefly touch upon what is happening in the environment. The liquidity tightening, post the IL&FS crisis at the end of September, has impacted the NBFC sector significantly. The crisis settled down a little bit during December 2018, but it has again intensified in April due to the negative corporate news from large corporates, not necessarily from the NBFCs. Consequently, CPs have dried up, banks and mutual funds are hesitant to lend to NBFCs. The relapse made it one of the most prolonged crisis within this sector. This has also adversely impacted the real economy.

On regulatory and policy measures for NBFCs:

It is an acknowledged fact that NBFCs play an important role in the growth of the economy. Several recent policy measures taken by the government and RBI will help restore confidence in good quality NBFCs.

For example, incentivizing the public sector banks to purchase up to INR 1 lakh Crores of high-rated pooled assets from financially sound NBFCs, a special liquidity window of INR 1.3 lakh crores for banks to support NBFCs, the recapitalization of public sector banks by infusing INR 70,000 crores, RBI's strengthening of the regulatory & supervisory powers over housing finance companies, and RBI's focus on transmission of reduction in internal rates.

All these measures would help, but we are still awaiting final guidelines from the government on some of these. Our belief is that these measures will benefit well-run, well-governed and well-capitalized NBFCs, such as ours.

On Financial Services – Q1 FY2020 Performance:

Coming to the specific performance of the Financial Services business in this quarter, our loan book has grown by 20% to nearly INR 56,600 Crores from nearly INR 47,000 Crores a year ago. The retail loan book has grown 4x times to INR 6,100 Crores and accounts for 11% of our overall loan book versus only 3% a year ago. We have delivered a 20% ROE during the quarter.

In the current business environment we have witnessed several black swan event happening together. In this environment we have been treading with utmost caution, not chasing growth but preserving liquidity. In fact, during this period we have further focused on strengthening our assets, as well as our liabilities-side.

On loan book and asset quality:

Let me first touch on the asset side and the quality. Our gross NPA remains at 0.9% of our book. What is heartening is that the Stage-2 loans declined to INR 309 Crores as compared to INR 830 Crores on March-2019, and this is because we could shift some of the loans which were Stage-2 to make them performing loans. We have maintained a conservative provisioning of 1.85% of the loan book. And hence, our provision coverage is at 216% of gross NPAs. Provisioning as a percentage of Stage-2 and Stage-3 loans has increased from 83% to 132%.

We have a strong risk & governance and asset monitoring framework, with early warning signals which we have often discussed with you. But over the last few months, we have further improvised it and made it even tighter. We have increased diversification of our loan book with wholesale residential RE now being 47% of the loan book and retail lending coming to 11%. Thus, overall you would see that the quality of assets because of the way we are doing the structuring of the loans, the quality of developers, the legal agreements around it and the early warning signals have shown that the quality of assets remains good.

On liabilities and borrowings:

On the liabilities-side, we have significantly improved our borrowing mix towards long-term sources. We raised INR 18,500 Crores of long-term loans in the last 9 months and reduced exposure to CPs from INR 18,000 Crores in September-2018 to INR 7,300 Crores today. During this period, we have met all our obligations of payment on time. We continue to raise long-term funds through various measures such as the ECB issuance, Dollar bonds, additional bank line and NCDs and we are confident of raising enough funds in the rest of the year. We have a well-managed ALM and are confident of fulfilling all our short-term and long-term liabilities and repayments.

On consolidation in the NBFC sector:

We believe that the continuing tightening and consequently major reforms undertaken by the government are expected to bring consolidation in the NBFC space. Our Financial Services business is well-positioned to take advantage of this sector consolidation.

Due to the credibility of the Group, our strong promoter commitment with an effective promoter holding of nearly 50%. The balance sheet strength, we are amongst the highest capitalized financial institutions in India and our debt equity ratio is still under 4x times at 3.7x times debt-to-equity, makes us one of the least leveraged NBFCs / HFCs in India. We have had a strong record of growth backed by a solid team, which has been with us since the inception of the NBFC. Our gross NPA ratio is amongst the lowest in the industry. The ratio is below 1% for the last 13 quarters and we have been consistently delivering 18-20% ROE since the fund raise.

On potential growth opportunities:

How do we look at the future? We still believe in the long-term growth story of India and expect the environment to improve during the current year. NBFCs will continue to play an important role in India's growth story and consolidation will take place in this sector, which will lead to a decline in competition. The environment will create enough growth and profit opportunities for well-run, well-governed and well-capitalized NBFCs, like ours. There are also opportunities to acquire value assets across both NBFCs and banks.

On Management team:

I need to emphasize that we have a highly tenured, committed and dedicated leadership team. For instance, our MD, Mr. Jijina has been with us for the last 20 years and the leadership team working with him has been with the company for the last 8 years with almost no attrition.

On ‘thinking ahead of the curve’:

If you have noticed one thing in our company, we have always thought ahead of the curve and I recollect in September 2017 we raised INR 7,000 Crores as equity. Many people questioned us that wasn't it too much of equity, but we always felt that it is better to have conservative leverage levels and it is better to raise equity well in advance and more than what is needed if you want to remain a strong NBFC. This fund raise now has held us in good stead during the recent liquidity tightening environment.

Continuing with our belief of keeping the business well capitalized and also to tap the growth opportunities that I spoke about, we are now committed to bring in further equity of INR 8,000-10,000 Crores in to the Financial Services business during the current financial year.

To summarize for the financial services business, we have sufficient long-term capital, we have a highly tenured, committed and dedicated leadership team, we have robust processes & systems and risk management, and a strong performance track record. We remained well-positioned to capture the growth opportunities available in the environment.

On Pharma – Q1 FY2020 Performance:

I would now like to shift to Pharma. In the first quarter, Pharma businesses grew at 12% year-on-year to INR 1,173 Crores versus INR 1,043 Crores last year. Global Pharma EBITDA margins were at 22%. These have been consistently growing up from 5% in the first quarter of 2011. Despite buyers' consolidation and pricing pressure in the Pharma space, the business has delivered consistent performance due to our differentiated business model and our uncompromising focus on quality and compliance. The business has delivered a 15% revenue CAGR over the last 9 years. And during the first quarter, we successfully cleared two US FDA inspections, 5 other regulatory inspections and 41 customer audits.

We successfully made 4 key launches in important markets. The order book sustained the strong development seen last year, with the addition of 15 new customers. And in the last year we have added 50 new customers.

Coming to the India Consumer Products business, we saw a strong growth of 70% year-on-year on the topline with revenues at INR 109 Crores. The trend of business recovering from the impact of GST and demonetization is clearly visible in the last 3 quarters. We continue to use analytics and technology to improve efficiency and productivity.

On Healthcare Insights & Analytics – Q1 FY2020 Performance:

The Healthcare Insights & Analytics business, DRG, revenues grew by 15% year-on-year to INR 319 Crores. We now have offices in Bengaluru and Gurugram which account for 40% of our overall talent.

This is a summary of the performance in the first quarter. I would now like to ask Mr. Khushru Jijina, our Managing Director, to take you through the performance of the Financial Services business in more detail.

Khushru Jijina:

Good evening everyone. Before we begin, let me outline some of the topics that we should discuss during today's call.

Firstly, we would like to share an update on the proactive, corrective measures we took to strengthen our asset quality in this quarter. Second, we would talk about the trends in the real estate sector what we have been observing at the ground level, especially in the recent times. Third, we would like to discuss some of the steps that we took on the liabilities-side during the last 9 months. Fourth, we would also like to talk about some false, misleading rumors that have been doing the rounds in the last few months. And finally, we would like to touch upon the potential growth opportunities that we see in the near-to-medium term.

On asset quality:

Let me first talk about the asset quality. As we have always said, but at the cost of repetition, I would like to repeat that the entire lending that we do is 100% secured. While our GNPA ratio at 0.9% has been below 1%, as Chairman also mentioned for the last 13 quarters, we have consistently proved our ability to cure stressed projects even after the 90 days past due. Recent case in point is our exposure to Nirmal Group, which is now down to INR 7 Crores from a peak exposure of nearly INR 200 crores. I can give another example of LG Yardscape, where I am happy to say that we have actually recovered the entire loan amount and the interest there on.

Moreover, this quarter we cured several Stage-2 loans which have declined significantly QoQ from INR 838 Crores as on March 2019 to INR 309 Crores as of June 2019. As Chairman mentioned, our total provisioning coverage ratio at more than 200% is among the highest in the industry. In fact, the total provisions as a proportion of Stage-2 and Stage-3 improved to 132% as of June 2019 from 83% as on March 2019.

On stress test and portfolio analysis:

We very often get asked this question that how we maintain this healthy asset quality, despite a challenging business environment – which is a fair question actually. As we have said earlier, the answer to that question is our close access monitoring process, along with the early warning

signal mechanism which enables us to take proactive, corrective measures. I am sure you have heard this many times from both Chairman and me.

Despite seeing steady sales in our developer portfolio over the last few quarters, we had proactively conducted a sensitivity analysis on our residential real estate portfolio, testing it against hypothetical, worst-case scenarios, which we had shared with you on our last quarter investor call. As mentioned on the last call, we had identified a small number of deals – 18 deals out of nearly 242 deals – where we felt that proactive corrective measures needed to be taken. We are happy to say that those proactive measures have been completed for 10 out of the 18 cases, and I would like to confirm that we have made significant progress on the remaining 8 deals and we will give you an update on those in the next quarter.

So, what did we do in terms of the analysis of the portfolio. During the quarter, we conducted a detailed analysis of our wholesale residential RE portfolio. Just for your information the loans outstanding against the residential RE portfolio were nearly 28,000 Crores. So, what did we do? We actually looked at all our residential projects to analyze the working capital requirements for those projects over the next 9 months. Because as you know, and Chairman spoke about it and we are reading it in the papers every day, that there is a softness in the economy, everything is going bad, will the sales happen, what will happen if sales don't happen and which NBFCs, like us, if they need the funding for completing the project will we have that money. So, we conducted an analysis on that. Also, through this analysis we wanted to estimate the incremental disbursement they would need from us to complete the project.

So, what does the analysis reveal, let me share it with you. Assuming that the sales velocity goes down further even from the sales velocity which is anyway very soft in the last 2 months, I am happy to share that majority of our projects have sufficient receivables because they are late stage, lot of our projects are mid stage and late stage and there is no incremental working capital required for the next 9 months from us. Some of our projects require incremental working capital to complete construction, but the amount required, we have estimated would be in the range of INR 1,400-1,600 Crores for the next 9 months, which is a fraction of the undisbursed limit which we already have for this project.

Let me move on to the key trends in the real estate sector that we are observing:

On consolidation in the real estate sector:

We have said on almost every quarterly conference call over the last 3 years consistently that the real estate sector is undergoing consolidation and 90% of the real estate developers may find it difficult to survive. Back in November 2016, we have said that consolidation will accelerate post demonetization and RERA as unorganized players would struggle to cope with stringent compliance norms. Today if you see any recent reports on the real estate sector whether it is by Knight Frank, Anarock, PropEquity or the news items coming in the papers almost regularly, all

of them are now saying that the consolidation theme is playing out. These studies indicate that the total number of developers in the top 9 cities have fallen by over 50% between 2011-2012 and 2017-18 and by the end of this consolidation cycle nearly 70% of the developers are at risk of going out of business – we said this 3 years ago.

Since we were possibly the earliest one to see this consolidation in real estate sector playing out, our entire underwriting over the last few years has been focused on lending to tier-1 clients who will take advantage of this ongoing consolidation in the long run and which is actually now playing-out on the ground.

On market share of well-established developers:

We had always said that the market will shift towards quality, well-established developers. Way back in 2016, again we had said that developers who have been delivering, who have a strong brand, where people feel safe with their money will continue to grow. This is exactly what we have said. Now some of the recent reports estimate that over the last 2 to 3 years, the market shares of these tier-1 developers have increased substantially across large cities in India – exactly what we have been saying for so long.

On ‘saleable’ inventory:

Again, a very important point which we were saying, and we are very glad to see this coming in the papers from all the analyst now, is the unsold inventory versus the saleable inventory. Over the last two years, we have been hearing about the inventory overhang in the real estate market. However, we have always said that the large portion of this unsold inventory lies in stuck or stalled projects and you need to distinguish that. Moreover, the stuck projects are primary under tier-3 and tier-4 developers who were being kept alive by some NBFCs before the liquidity tightening. Today, we are pleasantly surprised when we see that some analyst have now started to distinguish unsold inventory between saleable inventory and stuck projects. Saleable inventory today is less than 50% of the reported inventory levels.

On commercial real estate:

Commercial real estate continues to see strong demand. We have been saying it on all our calls. Supply, as well as the transactions were at a decade high in the first half of 2019, again this is all over the press. I don’t think I am saying something different, but I am just reiterating what we have been saying all along. Again we would like to highlight that the share our commercial real estate including hospitality has increased from 4% which was in March-2015 to 16% today as a part of our portfolio. Last time we had also mentioned about the rising interest of corporates in real estate.

The point we were making that there is demand, it is just that the consolidation is taking place and please do not look at the real estate industry from 60,000 feet. Please go deep and separate the men from the boys. This is exactly what is played out, almost every week we read in the papers that the big corporates are now taking positions in real estate. I am just reiterating what we have been saying all along.

So, these were some of the observations about the real estate industry that we wanted to share with you, just to reiterate that all what we are reading in the last few months is what we consistently said quarter-on-quarter for the last few years.

Moving on to our loan book:

As Chairman said that our loan book grew to 20% year-on-year to INR 56,605 Crores. We did disburse INR 4,800 Crores during this quarter, mainly towards Construction Finance to ensure that the projects continue, as we have consistently told you all that in real estate it is very important for the project to get over and if you have a good cash cover and a security cover, you will always exit. So, we continue to disburse and we also got some repayments and prepayments and we did some down-selling of nearly INR 4,900 crores.

Let me move on to the liquidity part:

As Chairman said we continue to strengthen the liabilities-side and manage our liquidity position. During the last 9 months we have significantly improved our borrowing mix. We raised INR 18,500 Crores of long-term debt between September 2018 and June 2019 from several reputed institutions. And when I mean long-term debt it goes right up to 10 years. Further in July, we also raised INR 1,500 crores through NCDs. Our exposure to CPs have now come down from INR 18,000 Crores to INR 7,300 Cores as we speak today. And as some of you would have read our first ECB tranche from IFC of USD 100 million came in this quarter. Post May, since the DHFL defaults, despite a tough market environment, we are happy to say that we are able to meet our entire funding requirement.

Primarily to reduce single borrowed exposure, again this is what we have been saying for the last 2 quarters, we down-sold some portion of our larger and LRD exposures. We down-sold INR 3,100 crores in the last 9 months at par. Our ability to down sell refinance our wholesale loan book in the current environment is also a reflection of our robust asset quality and strength of our underwriting practices. We will continue to reduce our single borrower exposure, in line with the RBI's prudential risk management norms and as conveyed to you over the last two quarters, and we are well on track to reach there.

So, what would be the funding plan going forward? Till the end of this calendar year, we have plans to raise nearly INR 25,000 Crores of long-term money through various measures, which include additional bank lines, NCDs, ECBs and Dollar bonds. And again this is not wishful

thinking. These are at various stages of term-sheets and negotiations. Assuming that the current level of CPs, of INR 7,300 Crores, goes down to zero – so we are assuming that it will go down to zero – these long-term funds of INR 25,000 Crores along with the equity of INR 8,000-10,000 Crores, that Chairman mentioned just now we would be bringing in, will be more than sufficient versus the projected repayments of INR 17,000 Crores in the next 6 months.

On retail housing finance:

In the business, we continue to focus on retail housing finance. Our Housing Finance loan book grew 4x times year-on-year to INR 6,110 Crores and now constitutes 11% of the overall loan book. We disbursed INR 1,100 Crores during the quarter and the loans approved, but not yet disbursed, stood at INR 2,500 Crores. We now have presence in 15 cities and 16 branches. In this quarter, we set up branches in Indore and Vadodara. And our average ticket size has now come down to 70 lakhs from the last quarter of 75 lakhs.

On PEL-related rumors:

Let me now move on to the new section of rumors versus reality. And let us go through some of the rumors in detail, one by one.

One of the rumors which we keep on seeing and reading and there is lot of WhatsApp which move around, is these alleged defaults on our loans by some stressed developers such as Radius, SuperTech, Amrapali, Aristo and Nahar. So, what are the facts? We already said this in a press release way back in October 2018. But let us clarify this one again, we have never had any loan exposure to Aristo, Nahar, Supertech, Radius and Amrapali. Therefore, there is no question of any default on loan repayments by this developers.

The other rumor which keeps on coming in fact, one of the most regular rumors is the rumor about the default of Lodha on our account, because they are unable to pay. Let me start by saying that there has been no defaults by Lodha, ever, not on interest or on repayment and it remains a well-performing account. Also, we must take into cognizance that over this period, Lodha now has mature projects in its portfolio with significant share now of commercial projects. If some of you may remember, two quarters back, we had said that we would be bringing down our exposure to the Lodha group in our endeavor to reduce single borrower exposure, as advised by lot of investors and lenders who met us. We had already reduced our exposure from INR 4,300 Crores in September 2018 to INR 3,900 Crores in March-2019. Since March-2019, our exposure has further come down by over INR 700 Crores to now INR 3,180 Crores out of which INR 532 Crores was from down-selling to Goldman Sachs and balance through repayments and prepayments from the company itself.

But again, talking of Lodha, another very shocking rumor is that there was a buyback agreement with Goldman on the Lodha down-selling – which is absolutely baseless. The fact is that the

prepayment and the plant down-selling will help us further reduce our Lodha exposure by another INR 500 crores to INR 2,600 crores by the end of September 2019.

The other rumor which we keep on hearing is that Piramal has exposure to Omkar 1973. I think once and for all we want to make this clear that we have zero exposure to Omkar 1973. Our exposure to Omkar is in the mature projects where Omkar has entered into a JDA, joint development agreement, with L&T which is Crescent Bay and Piramal Realty which is Mahalaxmi. These are projects which continue to do well, if you research. I will give you an example. Piramal Mahalaxmi where we have sanctioned INR 1,100 Crores to Omkar and where the share of their commitment is over. Now it is only Piramal Realty to perform, Piramal Realty has launched all the 3 towers and sold INR 1,800 Crores of inventory, out of which Omkar's share is already INR 700 crores. So, even before the plinth, today we are sitting on a INR 700 Crores of receivables of INR 1,100 crores of loan which is a 5-year to 6-year loan.

The other rumor which was again took us by surprise that we sold a stake in Shriram Transport due to liquidity pressures. Again, this was very surprising because I think consistently and transparently, our Chairman has been communicating to the market that we intent to exit the investments in Shriram Group in the months to come.

The other rumor was that the rating revision by ICRA has impacted our ability to raise funds. While we would respectfully not want to comment on the rating revision by ICRA, the proof of the pudding is that since the rating revision, which was over a month ago in June end, we have raised INR 8,000 Crores from the market with no increase in our interest rate post the rating change.

But here again to be fair, I would like to quote from ICRA, from their rating note, which is very important. I quote from ICRA's note, the overall asset quality at a consolidated level is comfortable with reported gross non-performing assets of 0.9% as on March 31, 2019. While the company has demonstrated its ability to maintain adequate asset quality, a prolonged slowdown in the real estate industry coupled with a liquidity crunch in the overall market could have an adverse impact on the same. The risks are however mitigated to some extent by the collateral cover maintained by the group on such exposures. The Promoter Group's expertise in real estate segment and the company's risk management and monitoring processes which enhanced its ability to proactively manage the portfolio.

Also, later in July, CRISIL assigned its highest rating A1+ to PEL's NCDs of INR 1,500 Crores and reaffirmed its highest rating to PCHFL's CP program worth INR 10,500 Crores.

The other rumor which I would like to touch upon is the stress in the renewable book of Piramal, particularly Mytrah and Acme due to re-negotiation of power purchase agreements by the Andhra Pradesh government. So, what are the facts? Let me first say that we have already downsold more than INR 500 Crores of our exposure to Acme during this quarter, as we continue

reducing our single borrower exposures as has been communicated to all of you. The loans extended to the companies are at the holdco level and only a portion of the exposure is to Andhra Pradesh. Also, these are secured long-term loans backed by assets & cash flows and also the shares of the companies. The PPAs of these renewable power producers are legally enforceable contracts and we will wait and watch for the final outcome here.

The other rumor which I think even Chairman touched upon in brief is that the rumor going around is that there is significant attrition of high performing senior level employees in recent months within the financial services of Piramal. As Chairman mentioned, the entire top management team remains committed and there was zero attrition since September 2018. In fact, you will be surprised to know that the headcount has actually increased from 900 employees in September 2018 to more than 1,400 employees as of June 2019.

On growth opportunities:

To conclude, let me touch upon the growth opportunities. I think though Chairman spoke about it. The market volatility over the last few months has created an opportunity for the stronger, well-run, well-governed NBFCs to participate in quality deals. Several assets and portfolios are available at a cheap discount as stressed NBFCs and RE players are willing to take a haircut. In fact due to our deep understanding of the real estate sector, several PE funds are working with us as of now as we speak, and partnering with us to capitalize and jointly look at such opportunities. Details of which we can only share as they fructify. It could be either a portfolio buyout from an NBFC or buying-out a developer.

We believe that the liquidity pressures are short-term in nature, whereas the medium to long-term growth prospects for NBFCs continue to be good. Needless to say, we will continue to focus on growing our retail housing finance. As Chairman mentioned while we are closely watching the situation in the market, now with the long-term money in place, a diversified loan book and a healthy asset quality, we believe we are better positioned to capitalize on the potential growth opportunities in medium and the long-term. Thank you.

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

Avinash Singh: Two questions. First on your loan book particularly on the wholesale loan book such as residential and commercial. Can you tell what percentage is currently under principal moratorium and related to that, can you give some ballpark number in terms of what percentage of your residential real estate exposure, the developer loan, has end user ticket size of say INR 2 Crores plus. So, this was my first question.

Khushru Jijina: First and foremost, I think before I answer the question, I think it is very important to know that we do not have a static book. In the last 6 months this whole book has churned because this

question has come again and again. So, what was in moratorium probably last quarter or last year, is not necessarily in moratorium today. I would not be able to give you the exact percentage, but safely I will be able to tell you that anywhere around 30%-35% of our book would be in moratorium. But it is also very important to know that in the last 9 months, and if you really go into the granular details, you will see that even projects – let us take Lodha for an example – even in projects which were in moratorium, [there are] prepayments. Why do we talk of prepayments because the projects of many of our developers have done actually better than what we had envisaged and that is why we continue to see prepayments. So, to answer you, basically around 35% you can take would be under moratorium, but again I would like to qualify that the moratoriums are not long, moratoriums typically range from 18 months to 2 years. They are not some 3 years to 4 years moratorium, just to clarify that, otherwise then obviously there is no repayment pressure if that is what you want to get at. I think coming to the second point of retail loans about INR 2 crores, I think I need to get back to you.

Avinash Singh: Not retail, I was talking more from your developer, your loan to the residential projects which had got 2 crores plus ticket size, the end user, ballpark number?

Khushru Jijina: We will get back to you on this.

Avinash Singh: Second a quick just data. So, CP, you said that INR 7,300 Crores, but borrowing mix it just says 7%. So, 7% is too low assuming that INR 55,000 Crores of your overall borrowing, what are we missing here?

Khushru Jijina: So, we have to look at. When I mentioned the number of INR 7,300 Crores, it is at the overall group level, not only at PCHFL level. The overall number of INR 7,300 Crores is against the overall taking the consolidated debt of Piramal Enterprises and PCHFL together.

Avinash Singh: So, what will be your corresponding number at PCHFL? I mean if I am referring to the slide where you have given the borrowing mix.

Hitesh Dhadha: It should be around INR 3,500 crores.

Avinash Singh: And if I can just ask more questions. Slide #24 where you have given your asset and liability fix versus float, so if I look at the asset side, liability side is okay, but on the asset side it seems a big jump in floating in last one year. So, is it that the existing loan terms have been renegotiated or like just the incremental loans?

Khushru Jijina: That is a good question. So, in fact we have shared this with you all in the last quarter. Way back in November, we had moved a lot of our fixed loans to floating and all the incremental are also in floating. Basically, today we are fairly balanced on our asset-liability, on the interest rate – floating and fixed.

- Moderator:** Thank you. The next question is from the line of Alpesh Mehta from Motilal Oswal. Please go ahead.
- Alpesh Mehta:** Congrats on the good set of numbers in the tough operating environment. First question is related to the Shriram Transport accounting. So, I see in your annual report the amount outstanding including the fair value was around INR 2,900 Crores whereas when you sold the shares, it is around INR 2,250 Crores or something like that. So, the INR 650 Crores is the negative charge which is coming in the other comprehensive income, is that right?
- Vivek Valsaraj:** So, essentially as you are aware that Shriram Transport is fair valued. The reduction in the share prices from March till the date of sale is what you see in the other comprehensive income.
- Alpesh Mehta:** And the gain is not routed through the P&L, it is the transfer within the reserves right from other comprehensive income to the retained earnings.
- Vivek Valsaraj:** That is right. It is moved directly from OCI to the retained earnings.
- Alpesh Mehta:** And secondly, the balance amount of the OCI is on account of the Shriram City Union Finance?
- Vivek Valsaraj:** Yeah, that is right. There was a reduction in Shriram City Union share price as well vis-à-vis March and the balance is predominantly on that account.
- Alpesh Mehta:** Secondly, your loan book there is almost INR 10,000 Crores of loans which are through Piramal Fininvest, just want to know the rationale of it – why we have two lending subsidiaries, since we are trying to consolidate everything into one subsidiary for the lending businesses?
- Khushru Jijina:** Let me answer that. Actually, this is a step in the final goal which I will explain to you. So, basically you will appreciate that we have real estate loans and non-real estate loans. And in non-real estate loans, we have infrastructure also, which is renewables etc. And ideally, they need to be housed in a separate NBFC. So, right now PHL Fininvest serves as that NBFC. We have actually applied to the RBI to give it an IFC license, which is an infrastructure finance company which is an NBFC, so that we can house our infrastructure loans into that. So, ideally then we would like to have real estate under Piramal Capital and Housing Finance because that is a housing finance company and the infrastructure. So, this is a path towards IFC.
- Alpesh Mehta:** And that entity has not raised any debt, right?
- Khushru Jijina:** No, because as I said, it is a path. Once we get our IFC license, then IFC will directly raise money from the market.
- Alpesh Mehta:** And lastly what is the game plan for the parent-level loan book of around INR 4,500 crores?

- Khushru Jijina:** So, the INR 4,500 crores has actually come down to INR 3,300 crores. It is in fact slightly better than the path we have given to Reserve Bank that we will making it zero by December 2019.
- Alpesh Mehta:** Okay. If I can squeeze in one more question. We have mentioned around INR 8,000-10,000 crores of capital infusion into Financial Services business, does this include complete divestment into Shriram Group or this is the new capital raise we are looking at?
- Ajay Piramal:** I think I would restrict just to saying what we have said that we will bring in that much equity.
- Alpesh Mehta:** Okay. And are we looking at starting new lending businesses apart from the real estate and the infrastructure kind of, the wholesale financing and housing finance that we are doing, or would we be restricting ourselves to this since there are opportunities available?
- Ajay Piramal:** No, we are looking at beyond real estate, infrastructure and housing.
- Moderator:** Thank you. The next question is from the line of Vivek Joshi from BP Capital. Please go ahead.
- Vivek Joshi:** Congratulations for a great set of numbers in the tough environment. I had two very quick questions. One is that the retail portfolio that has grown to like INR 6,000 Crores, that is the housing finance, is it all organic or have we bought out some portfolios from someone. And a quick update on the Piramal Phytocare merger – is there any tentative date for that?
- Khushru Jijina:** So, let me answer on the retail book. It is all organic this quarter.
- Vivek Valsaraj:** And on the Phytocare merger, the shareholders have approved the merger. It is now pending with NCLT. As and when the NCLT takes it up, the merger process will be concluded.
- Moderator:** Thank you. The next question is from the line of Shraddha Maru from CRISIL. Please go ahead.
- Shraddha Maru:** Sir, actually I wanted to know the NPA for wholesale residential RE and wholesale commercial RE, the NPA split?
- Khushru Jijina:** Actually the 0.9% NPA includes residential and our old education loans. If I remove the education loans, basically, there are no commercial loans in NPA only residential, which is a subset of the overall because it includes, as I said the old education loans. So, I just need to give you a number which is less than 0.9. If you can just hold for a minute, do you have any other question?
- Shraddha Maru:** Yeah sure. And I actually wanted to know incremental cost of...
- Khushru Jijina:** So, madam, it is 0.6%.
- Shraddha Maru:** 0.6% for residential?

- Khushru Jijina:** Yes, within that 0.9%.
- Shraddha Maru:** And what about commercial RE?
- Khushru Jijina:** As I said, zero.
- Shraddha Maru:** Okay. And what would be the incremental cost of funds for the gone quarter?
- Khushru Jijina:** So, this quarter the cost of funds did go up as you know because of the liquidity tightening and I think so now our cost of funds are at 10.3% overall, from 10% which was in the previous quarter.
- Shraddha Maru:** And have we passed on the increased cost of funds to our borrowers in terms of increased yield?
- Khushru Jijina:** Absolutely. In fact, I think we have been saying this consistently again on the last two quarters and as I think, today it is well believed by everybody that today there are very few NBFCs who are actually lending. So, the risk-adjusted returns are actually back and again this is what we have been saying for the last 6 to 9 months which is now playing out. So, yes, answer in short we have been easily able to pass on the increased cost to our borrowers.
- Shraddha Maru:** Okay. And sir what would be your guidance for growth for the coming year?
- Ajay Piramal:** In this challenging environment, I don't want to give a guidance on growth. Let us look at what the environment plays out to be. I don't think we should venture a growth guidance today.
- Moderator:** Thank you. The next question is from the line of Rajeev Agrawal from DoorDarshi Advisors. Please go ahead.
- Rajeev Agrawal:** First question is on the cost of borrowings. So, we talked about cost of borrowings going up this quarter to 10.3% on the overall borrowing book. Last quarter it was 10%. So, it seems that the incremental borrowing was done at the very high level. Can you just tell us what that incremental borrowing was, the cost?
- Khushru Jijina:** Yeah. So, basically if you look at it, this quarter, I think the incremental borrowing was at 1% more than the last quarter and that is why it has impacted our quarter by 0.3%.
- Rajeev Agrawal:** And so should I assume 11% or is it higher than that?
- Khushru Jijina:** So, I wouldn't say 11% because for example if the CPs were at 8.5%, today we are getting at 9.5%. If the loans are at 10.5% probably at 11.5%. So, you can't generalize and that is why I gave you a percentage hike. For example, the ECBs were at 9.75%, fully hedged.

- Rajeev Agrawal:** Got it. And what is your sense in terms of the incremental borrowing that we are doing in Q2? Are we going to continue to be at a similar rate? Is it going down, what are you seeing in the environment right now?
- Khushru Jijina:** So, I think in the short term, the rates would remain the same unless things improve. As you know the RBI is trying to bring down the rates, but I would be cautious in saying that the interest rates would come down for NBFCs very soon. But yes, in the medium term, definitely and if I have to speak about ourselves post equity infusion with our debt equity coming down below 2x times, we would definitely look at slightly lower rates than what is there today.
- Rajeev Agrawal:** Got it. The second question is on the housing book. So, that seems to be growing nicely and especially growing nicely, organically, right? So, what is the yield we are getting on that housing loan book?
- Khushru Jijina:** So, the yield is around 9.4%.
- Rajeev Agrawal:** So, actually if we are borrowing at 10.3% on the book and we are actually lending at 9.3%, is there something that I am missing here?
- Khushru Jijina:** Yes. Because at the end of the day we have our risk-based pricing in the group from Treasury. For example, a mezzanine deal of 18% to 20% cannot be given at the same rate as what you are giving to housing finance because the risk-weights are also very different. So, the cost to our housing finance is 8.5%, whereas to mezzanine it is higher, slightly lower to construction finance from mezzanine. So, it is a risk-based pricing. You cannot give the same rate whether for a mezzanine funding or to retail or to construction finance.
- Rajeev Agrawal:** Okay. We also talked about the financial closure on slide 19, where we said what percentage of unsold inventory needs to be sold for us to have the financial closure. So, that financial closure I assume you mean where your loans are repaid. Is that a fair assumption?
- Hitesh Dhatta:** Yes, you are right. So, 30% of our incremental inventory if we sell, for 84% of the projects we get financial closure done and if we are able to sell 50% of the incremental inventory, 98% of our projects get financial closure done. So, you are absolutely right. Financial closure means, enough amount to cover up our loan and interest amount. And that's the unsold inventory.
- Rajeev Agrawal:** We have done it, but if we were to do it by the loan book size, would the stats change materially or they will be similar?
- Hitesh Dhatta:** That is basis the loan book size.
- Rajeev Agrawal:** And then maybe there was an article which talked about the top-10 exposure that the company has and that was actually not very, it was not necessarily quoting company sources. So, would

you be willing to share how your, I know you talked about Lodha a little bit, but would you be willing to share your top-10 exposure and how they have moved over the last few quarters?

Khushru Jijina: You know, let me clarify. There are only now 3 loans which are above our threshold which we shared with you. If you recollect our 15% [net worth threshold], one is Lodha, second is Wadhwa and third is Omkar. Let me answer on each. Lodha, let me repeat at the cost of repetition, we are well on track to bring it within 15% this year. Wadhwa, we will bring it below 15% in this next quarter itself. And Omkar, as I explained to you, because the projects are matured, we have started to see play down. So, during this year you will see all 3 coming below 15%. So, we have now only 3 deals which are above 15% and I want to reconfirm that all of them will go below 15% this year itself.

Rajeev Agrawal: Got it. And then the last question from me is, if I heard right, you are planning to raise INR 20,000 crores in the next 6 months, is that right?

Khushru Jijina: That is right. INR 25,000 crores, not INR 20,000 crores. That is the debt. Over and above that, Chairman spoke about equity.

Rajeev Agrawal: And then you talked about the distribution across US bonds, ECB, etc.

Moderator: Thank you. The next question is from the line of Aditya Jain from Citi Group. Please go ahead.

Aditya Jain: So, on the decline in the Stage-2 loans, did that lead to a net provision write back and related to this, could you share the level of ECL which is maintained in Stage-1, 2 and 3 loans?

Hitesh Dhaddha: So, the write back is basically because our Stage-2 loan has come down and the provision is always on the Stage-1 a separate percentage of Stage-1, separate percentage of Stage-2 and separate percentage of Stage-3.

Vivek Valsaraj: So, the overall provisioning continues to remain at 1.8% which was there before, it is the same.

Aditya Jain: Right. So, my question, I don't know if you can go into the details. On the Financial Services P&L, did we end up with a negative provision line, essentially aided by this movement from Stage-2 to Stage-3 and if you could help us with the amount of provision that is maintained on a stage wise basis if that is possible?

Vivek Valsaraj: So essentially, we have about 1.5% on our Stage-1 asset, about 10% on Stage-2 and about 33% of our Stage-3.

Aditya Jain: Got it. And then just, the real estate book analysis that you provide last quarter and this quarter. So, one, the total number of deals has declined from 242 to 232. So, 10 have been repaid or concluded, is it?

- Khushru Jijina:** Yes, repaid, pre-paid or down sold.
- Aditya Jain:** Okay. Got it. And the remaining 8 which are in the process of going through corrective action, so the total exposure there would be how much and is there any separate provisions that you are keeping and related to that which stage would they form a part of?
- Khushru Jijina:** So, let me tell you, out of the 8 deals, we are well on path of actually curing the 6 deals in the next 3 months itself. So, the total 8 deals would comprise of INR 1,000 Crores, out of which I am confirming that the 6 deals are on the final stages of getting resolved. The 2 deals are actually part of our NPA really. One is the LG Delhi one and one is Jain Heights and for which provision has already been made. Again here, I would just like to repeat that even those two may not be resolved in the next quarter but as we have demonstrated again and again, those will be cured in the coming quarters. But we have already provided for those two NPA cases. But the other six, I would like to reconfirm that within the next 3 to 4 months that will be fully resolved.
- Hitesh Dhatta:** Again Aditya, the point of question on provisioning comes when these are Stage-2 or Stage-3 assets. These are the findings that we have been able to get because we did a hypothetical stressed case scenario. Most of these deals continue to remain good even today. But in a stressed case scenario is what we came out that these 18 deals we need to proactively work upon.
- Moderator:** Thank you. The next question is from the line of Anand Jain, an individual investor. Please go ahead.
- Anand Jain:** My first question is mainly on the housing loan side, so as you had mentioned earlier that our cost of borrowing is 8.5% and our yields are 9.3%, so effectively we are working on around 0.8% NIMs. What is our long-term strategy here and along with that INR 70 lakhs housing loan is an easy target for banks who have much lower cost of capital. So, can you just give a strategy around the housing loan portfolio?
- Khushru Jijina:** First I will answer your last point that frankly it is not true. Because if that was true, banks would always be the cheapest. But it is always some value addition from NBFCs or in housing finance. Otherwise this housing finance would not be doing housing loans for the last 40 years in this country. I think that is where I would respectfully differ because definitely we bring a lot of value and that is why even the developer recommends housing finance companies vis-à-vis a public sector bank. And individually, if you really want a housing loan, you will really get a practical experience of what I am saying.
- Coming to the point of yours of 9.4% and 8.5% which is a 0.9 percentage point difference of what you spoke about, absolutely right. I think we have spoken about this. Right from the time we have launched our housing finance that we have been very lucky to be one of the few housing finance companies who entered late and that is why we have started from day one. If you heard me, we said 16 branches. In fact, we are not going to expand beyond, because these 16 branches

cater to most of the growth states and the tier 1-tier 2 cities of our country today. Now, you will see the technology playing-in and that is where over the next quarters you will see the cost-income ratios coming down further and further and that is where you will see the ROE increasing. So, far the ROEs were negative because we were in an investment stage in the last 2 years. You will now actually start seeing the ROEs improve because of the cost-to-income ratio, which is going down and the technology and the fintech which we have just started. So, it is just playing out. Unfortunately, I am not able to give numbers, because it is just playing out now because we just finished our first phase of opening branches, getting the teams and everything else in place, you will now see, in the next quarters we will share with you what we are doing on technology.

Anand Jain: That helps. Just a question as to what is the targeted ROAs on the housing loans, the retail housing loans, maybe in a year or two years, whatever?

Khushru Jijina: So, over a 2 to 2.5-year-period we are targeting anywhere between 2% to 2.5% as ROA.

Anand Jain: That helps sir. The last question that I have is, so effectively we are talking of equity dilution this year raising capital, now my question is the structure of a company, Pharma doesn't need any kind of dilution but Financial Services would always need that. So, can you just explain the rationale of having these two together? I think this question was being asked again and again but I would just want to understand why are we diluting Pharma where the capital is never needed there, if we dilute our parent Piramal Enterprise.

Ajay Piramal: So, we have not yet decided whether we will dilute Pharma or not. That is the first question. So, that is one. Secondly, just to tell you, we have given the logic that ultimately in the mid-term we want to have separate Pharma and the Financial Services, the timing we will do it at the appropriate time.

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

Nischint Chawathe: Just wanted to understand how much did you borrow during this quarter and from which avenue?

Hitesh Dhaddha: We will send you the numbers separately for the quarter.

Nischint Chawathe: Just one micro question is, if I look at Slide #23, where you have got borrowings mix by investors, so what is the others component, the 7% going to 11%?

Hitesh Dhaddha: We will send you the details on the others. So, there could be various categories within others which must be comprising. So, it is difficult to give you one specific answer.

- Nischint Chawathe:** No issues. Just one last question, what is the outstanding borrowing absolute amount as per this table which is I think for the financial services vertical?
- Hitesh Dhaddha:** So, you have the equity which is given, which is INR12,000 Crores roughly and the total book is INR 56,000 Crores. So, the difference is the total borrowings that we have for Financial Services.
- Moderator:** Thank you. The next question is from the line of Amit Vohra from PCS Securities. Please go ahead.
- Amit Vohra:** I missed the part on Mytrah renewables that you mentioned. If you can give me some more details?
- Hitesh Dhaddha:** Yeah. So, you can reach out to us separately because there are more questions and we would like to now close the call. Since we have already answered, we will give you over an email.
- Moderator:** Thank you. The next question is from the line of Lalaram Singh from Vibrant Securities. Please go ahead.
- Lalaram Singh:** Within the Stage-1 loans, can I get the loan quantum in the 1 to 30 dpd category?
- Khushru Jijina:** Stage-1 is 1 to 30-day dpd.
- Lalaram Singh:** I think it is 0 to 30 which means that it actually entails everything beyond 2 and 3. I want to know specifically 1 to 30?
- Khushru Jijina:** I think we will have to come back on this. But I don't see there will be, if at all, because otherwise obviously we would have it on the top of our mind. Basically, you are saying are there any overdues, really?
- Lalaram Singh:** Right.
- Khushru Jijina:** So, while we will send you the details, but I can confirm to you, if at all there will be minority few.
- Moderator:** Thank you very much. That was the last question. I now hand the conference over to Mr. Hitesh Dhaddha for closing comments.
- Hitesh Dhaddha:** Thanks everyone. We have seen lot of rumors floating around in the market and would suggest all the analyst and investors to seek clarification directly from us, or the company whenever there is a need. Thanks everyone for joining the call. Thank you.