



**“Piramal Enterprises Limited Q3 & 9M FY2018
Earnings Conference Call”**

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COMPANY PARTICIPANTS: **MR. AJAY PIRAMAL -- CHAIRMAN,
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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Piramal Enterprises Limited Q3 and 9 Months FY 2018 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the opening remarks by 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 Dhatta -- Chief Investor Relations Officer for Piramal Enterprises Limited. Thank you and over to you, sir.

Hitesh Dhatta: Good Evening, Everyone. I am Hitesh and I am pleased to welcome you all to this Conference Call to Discuss the Result for Q3 and 9 Months FY 2018 Results. Our Result Presentation has been uploaded on our website. You may 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. The quarter ending December 2017 has been another strong quarter for us. Revenue for the quarter rose by 22%, at Rs. 2,858 crores and it is 26% higher at Rs. 7,648 crores during the nine months period ending FY2018.

The net profit is 21% higher at Rs. 490 crores during this quarter and for the nine months period is 25% higher at Rs. 1,176 crores.

During the quarter our loan book grew by 68% to Rs. 38,000 crores. Further loans worth Rs. 23,000 crores are approved but not disbursed as on 31 December 2017.

So over the last six years, our company has delivered a revenue CAGR of 29%; net profit CAGR of 41%; and the annualized shareholder return for the last five years has been 45% as compared with 14% return by Nifty.

Based on the last full year reported number, Piramal Enterprises was among the top five companies with the BSE 100 index in terms of five years revenue CAGR and five years net profit CAGR. What is heartening is that consistently quarter-on-quarter we have been able to report improved overall revenue and net profit performance and in each of the last 10 quarters

both revenue and net profit have been higher than 20%. Both the key sector, financial services and pharma have been consistently delivering superior performance since the Abbott deal in 2010.

The loan book has grown at a CAGR of 95% over the last five years. Pharma revenues have grown at a CAGR of 17% over the last seven years. The margins for global pharma business which account for 90% of the total pharma revenues has consistently improved from 4% in FY 2011 to 21% in nine months period ending FY 2018, both on account of organic and inorganic initiatives.

Before I move to talk about the individual business segment, I would like to give you a few highlights of the equity capital raised that we are undergoing from our existing and new investors.

You must be aware that the company has successfully raised Rs. 5,000 crores through a qualified institutional placement of compulsorily convertible debentures. This is the first major fundraising in the history of our company. It is the largest QIP deal by any company excluding banks in India. It is also the first QIP of Indian rupee denominated CCDs in India - a milestone deal in the history of corporate India.

We are also working towards raising Rs. 2,000 crores through a rights issue because we are keen to give the existing shareholders of PEL an equal opportunity to participate in the fundraising at a price of Rs. 2,380 per share. Promoters will underwrite the rights issuance to an extent of 90% of its size.

We have received the final SEBI observation for the rights issue and the compulsorily convertible debenture holders also have the right to participate in the issue.

Out of the Rs. 7,000 crores that we would have raised in this financial year our endeavor would be to allocate Rs. 5,000 crores to financial services and Rs. 2,000 crores for pharma and other initiatives.

Till the last quarter, we had around Rs. 5,000 crores of equity invested in our financial services business excluding our investments in Shriram. With the eventual allocation of this additional 5,000 crores to financial services and strong profitability that the business continues to generate, the equity in the financial services business excluding Shriram will be in excess of Rs. 10,000 crores.

As I mentioned earlier, apart from the loan book of Rs. 38,000 crores, which is generating a healthy ROE of 21% and a significantly low gross NPA of 0.4% there is a strong pipeline of loan that has already been approved but not disbursed of Rs. 23,000 crores.

So we have a loan book of around Rs. 60,000 crores that are already disbursed or will get disbursed in the near future. We feel we will soon be able to effectively utilize the equity that we will deploy in this business and generate good returns for all our stakeholders maintaining a healthy asset quality.

Coming to more details on financial services. Our robust growth of 68% in this quarter on our loan book is the outcome of multiple products and business verticals that we have been adding year after year. The addition of new products is not just helping us maintain a strong growth rate but also helping us improve our diversification.

In 2015 March about 86% of our loans were high yield real estate loans. We have now significantly diversified our book. 24% of our book is in high yield loans of real estate; 47% of our book is construction finance where the risk profile is lower and around 17% of our book is into corporate finance loan.

Our business in financial services has consistently delivered 25% plus ROE for the last 10 quarters. As we continue to consistently improve our diversification and with the larger pool of capital, we believe that we should be able to deliver continuously over 20% ROE on the larger book size in future. During the quarter, the ROE is 21% compared to what was 25% in the year ahead. That is because towards the end of the quarter we allocated around Rs. 2,300 crores of the capital raised to the financial services business.

Our asset quality is robust. Gross NPAs based on 90 days remained healthy at 0.4% in this quarter. Being conservative, we continue to provide much more than the regulatory requirement and maintain the provisioning at 2%. We have also had approval regarding the reverse merger of Piramal Capital and Piramal Finance into Piramal Housing Finance. We have got the RBI approval and we target to complete this entire process before the year is out in March 2018.

We have also received an upward revision of rating outlook from ICRA during the quarter from double AA stable to AA positive. Strong growth was visible across all the verticals of financial services. Real estate developer financing, corporate financing, emerging corporate lending, and housing finance business.

Now coming to pharma. The global pharma revenues for this third quarter grew 6% year-on-year to Rs. 923 crores. The reason why this growth to extend is subdued is because the third quarter of our financial year is the last quarter for most of our customers in global pharma and during this quarter they always try and bring down the inventory. We believe that in the next quarter that is from January to March, we should come back the normal growth that we had earlier as there would be increased orders and increased EBITDA.

The products that we acquired from Mallinckrodt & Janssen their transition and integration is going as per plan. We continue to focus on quality and since 2011, we have had 29 US FDA inspection which has been successfully cleared by us without a single hour stoppage of production. In addition, we had 91 other regulatory inspections and almost 700 customer audit.

During the last quarter, we have successfully cleared 4 regulatory audits and 35 customer audits. The margin profile of this business has improved significantly over the last couple of years on the back of organic initiatives and high margin product acquisitions.

We continue to deliver strong EBITDA margins for the business. During the nine months period ending December 2017, we delivered EBITDA margin of 21% compared to 15% in the corresponding quarter.

Indian consumer product business, the whole industry had a subdued performance because of the impact of GST but our business has registered a strong growth of 17%. During the quarter we have acquired Digeplex & associated brands to further consolidate our position in the OTC market in the Gastro-Intestinal segment.

These are the highlights that we have and I would now open it up for questions and comments that you would have.

Moderator: Sure. Thank you very much. We will now begin with the Question-and-Answer Session. We have the first question from the line of Alpesh Mehta from Motilal Oswal Securities. Please go ahead.

Alpesh Mehta: Just first question related to the reverse merger at Piramal Housing Finance so after the merger would the entire lending come under one entity or there would still be some business that would be a part of the other entities?

Ajay Piramal: So will ask Mr. Khushru Jijina our Managing Director to answer the questions on the financial services.

Khushru Jijina: The whole idea was that we bring the entire lending book under one platform whether it is wholesale or retail. So, in other words, the new entity which will be called Piramal Capital, it will actually cater to the real estate, wholesale housing finance, our CFG part of basically the senior lending, etc. and also the emerging corporate lending. The private equity funds which we have the old Indiareit Funds or what we will do with Ivanhoé Cambridge which comes under SEBI will be housed under Piramal Fund Management.

Alpesh Mehta: Okay. So this entity will continue to be considered as a housing finance entity or it would be a normal NBFC?

Khushru Jijina: The lending arm will be considered to be a housing finance entity.

- Alpesh Mehta:** Okay. So that entity would be governed by NHB rather than RBI, is it?
- Khushru Jijina:** Absolutely and the second will be governed by SEBI.
- Alpesh Mehta:** Okay. And when we are transferring this entire business by end of the year the net worth would be Rs. 10,500 crores roughly?
- Khushru Jijina:** Yes.
- Alpesh Mehta:** Okay. In the process would there be any reserve accretion or anything related to the accounting that would flow into the net worth?
- Khushru Jijina:** Yes. Actually, you are right. That would actually happen.
- Alpesh Mehta:** And what would be the quantum of that any rough guess?
- Khushru Jijina:** We will get back to you on this definitely.
- Alpesh Mehta:** Okay. And in the other comprehensive income, the equity related instruments there is a gain of almost 1,000. This is I believe on account of Shriram Group, is it?
- Khushru Jijina:** That is right.
- Alpesh Mehta:** And Shriram Capital is not mark-to-market, it is only Shriram Transport and Shriram City Union Finance?
- Khushru Jijina:** Yes.
- Alpesh Mehta:** Okay, thanks. There is one more question related to your information management business typically we see in the third quarter there is some lumpiness on the segmental results - anything to read from that?
- Ajay Piramal:** It is always the case in DRG that the last quarter is always lumpy because that is how the nature of this business is. You should see year-on-year growth in the last quarter. You should not look at one quarter; just normalize for the whole year that is better.
- Alpesh Mehta:** Okay. And would you be giving any numbers related to the domestic pharma business EBITDA margins since you have strong improvement on the global side, is any operating leverage playing through over there?
- Ajay Piramal:** As far as the domestic pharma is concerned, it is only in the OTC. We are still in the investment and the growing stage. So the margins this year are at breakeven. We are investing in actually setting up the sales and distribution and investing in growing the top-line.

- Hitesh Dhaddha:** Alpesh to add on to what Chairman mentioned what is more important to look at is the number that global pharma is generating because that is where 90% of the revenue is coming right now and that margin has consistently improved right from 4% in FY 2011 to now 21%.
- Alpesh Mehta:** And just a last question from my side on the NPL, there has been a sequential increase in the absolute number from around Rs. 65 crores to Rs. 150 crores, multiple accounts or only one account that has caused this kind of increase
- Khushru Jijina:** No, actually the increase is on account of two fronts. One was an addition in the education loan which we are confident of sorting it out and the second one actually is a very temporary one the lotus green which we have actually found a solution for that and it will go away in March.
- Moderator:** Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.
- Manish Ostwal:** My question is first on the opportunity in the stressed real estate sector how we are approaching that segment? And secondly, what is our long-term business strategy in that segment?
- Ajay Piramal:** So as far as the stressed asset is concerned, we are doing a joint venture in that space where we are doing 50-50 joint venture with Bain. So the joint venture with Bain, it will be a fund and we will raise funds from outside investors as well. So both Bain and we will be acting as GP's in this fund and we are going to bid for assets. Generally, what we are bidding for is in different industries, but we would get a partner who already has the knowledge and working in this industry. So that is how we are going ahead, we feel there is an opportunity in this and we should be able to invest equity and with some loans be able to turn around companies and get a decent IRR.
- Moderator:** Thank you. Next question is from the line of Anil Kumar Tulsiram from ContrarianValue Edge. Please go ahead.
- Anil Kumar Tulsiram:** First question is sir, for Mumbai region looks like our entire real estate construction loan growth is being driven by the refinancing of the existing project. I think in the last two years no significant new project has been announced and the competition is also increasing in the construction finance. So is it, right? And if yes, how do you plan to manage your growth and risk going ahead?
- Khushru Jijina:** So first of all, let me give you an overview of what is happening in the Mumbai real estate market. So I will take some two minutes because it is a good question you have asked and it's for the benefit of everyone. See, in fact, last quarter when we spoke we were talking about how GST disrupted the sales of a lot of developers. But let us not forget, again, I am repeating at the cost of repetition, that this entire industry is rapidly moving towards consolidation and it is

actually happening. So what I mean is that first of all, when people say that real estate industry is bad, actually, it is not. In fact, the way to look at real estate industry now is that actually there is a flight of customers to quality that is actually what is happening to the real estate. In other words, the consolidation is playing out the 10% are doing well. Maybe another 10% - 15% are trying to survive the other are actually dying in this industry. So what is happening is that in the last quarter, in fact, has been a better quarter than the previous quarter because now the impact of GST, everything has stabilized and in fact, we have seen a lot of new launches. So first of all, I think, and I am talking about the set of developers whom we are backing and whom we believe will survive so I am just putting that caveat. So I do not think it is a refinance only at all. In fact, we have seen a lot of new launches which have actually come, and we supported not only in construction finance because we do end to end partnership in even helping them market and sell the products. So, we are actually seeing that play on the ground. So it's not really that it is only refinancing which is happening. I think, we mentioned last time also like the consolidation in the industry the consolidation in the way lending business is happening will also change and that is what is happening. It is now a game of financial partnerships. In other words that you are a financial partner to the set of developer with whom you are backing in India whether they want to buy land, whether they want construction finance, structured debt, LDR, housing finance, we are there to cater to them and that is going to be the future really. So just let me give you a small example, a flavor to what the future will look like. Today this Affordable Housing is a buzz word and it is picking up, thanks to the push from the Prime Minister and the Government. Just look at the way we are approaching it. You would have heard some institutions are talking about bringing equity, some are talking about funding, we are the only platform in India probably that is doing end-to-end, and what do I mean by that? So today if a developer is looking at an Affordable project, today on day one I am able to help him buy the land along with equity which is on my Ivanhoe platform. On this very same day, we can actually agree with the developer when this equity will get converted to debt when it gets approvals and we are able to commit to construction finance. And also, let us not forget one of the negatives or the challenges of Affordable Housing in the past has been housing finance. See, we all talk about Housing Finance, Housing Finance is all for salaried people. There is a 50% market in India which is self-employed which many do not cater to and I think, I have mentioned in the past also that our housing finance on day one is going to move into self-employed in Tier-III, Tier-IV cities because on the back of the underwriting which we also thank to Shriram Housing Finance who actually serves the informal sector. So coming back. So today one while we are giving equity, we are not only able to commit our construction finance, we are also able to commit a structure or a product on housing finance on day one for affordable housing and we have Brickex who will help him market and sell. This type of end-to-end, this is just an example I am giving of how the lending institution will play the game in the future. This is a small example of what we are looking and how we are looking at end-to-end if it makes sense to you.

Anil Kumar Tulsiram:

Yes, thanks. Thanks for the very detailed answer. Sir, the next question is I understand generally in construction finance there is a moratorium of one year - two years before which

repayment of principal and interest begins. So what I want to understand is how should I look at how we say our NPA numbers are just 0.4%. So without the repayment even happening how do I look at the NPAs. So help me understand this.

Khushru Jijina: So let me correct you. In construction financial, there is no interest moratorium.

Anil Kumar Tulsiram: Okay. Only principle moratorium.

Khushru Jijina: Yes. In fact, as Chairman said, I want to share a number with you that this quarter we have grown but in fact, this was a quarter with the largest amount of repayment of Rs. 4,000 crores and where did this come from maximum from structured debt the high-yield, riskier debt. So in fact, I am extremely happy to report that while we have grown, we have grown as we always talk about the ROE because the ROE is the same in spite of the risk coming down for construction finance or we talk about project finance or senior debt in CFG and the structured debt which was high-yield and high-risk and where sometimes what you said is right, when you are buying land with structured debt there is a moratorium interest. We have actually been paid out. And in fact, in this last quarter from September 2017 to December we saw a de-growth in our book of structured debt which is a very good thing from our perspective. So that extent I think, it is actually good because then we see month-on-month cash coming in terms of interest, in terms of construction finance or senior debt.

Anil Kumar Tulsiram: Okay. And one last question from me and this pertains to your financial business, what is the vision and strategy of the company as far as our lending business is concerned for next five years to seven years. I am not looking for any guidance but the overall direction of the company.

Khushru Jijina: Yes. So let me answer this. Let me first start the real estate wholesale platform. As you know obviously for making sense in business we need a certain size of business or market available for us. So obviously we are today in the metros we are in the cities. This year after doing studies we have just launched in Surat and Kolkata (Calcutta) that is how we will move. We will keep on studying the market that we like, and we will keep on moving into those markets and obviously, we keep on unfolding newer products also. In fact, this last quarter you would have read in the papers we actually were studying for more than four months the hospitality sector and we have finally entered, we cut two cheques totaling to Rs. 1,200 crores and you will see a lot of such deals coming in the market from our platform. So that is how we will move region by region. Talking for housing finance, I think last time also we gave this guidance and I am happy to tell you that what we had mentioned that we would like our Mumbai region to stabilize because at the end of the day it is not a game of AUM, it is a game of NPA, we do not want high NPAs, we want the quality of the book to be there. And I am happy to report that Mumbai region has actually stabilized, our processes are stabilized and end February we are going live in our business in five locations which are Delhi, Noida, Gurugram (Gurgaon), Bengaluru (Bangalore) and Pune. So end February we are starting in

five locations. And obviously, next year we have a rollout plan which will continue throughout the year where we will move into other regions step-by-step block-by-block. Now again there the other thing which we are looking at is simultaneously launching Tier-III - Tier-IV next year. So again, next year you will see us coming to the market in Surat and Nasik that is the plan for Tier-III - Tier-IV in the first-half of next year. So that is how we will move over a period of time. Talking about the Corporate Financial Group that is not region specific that is actually industry specific. As I have always mentioned that we study an industry, if we like the industry then we actually go deep into that sector, understand it we get people on board and then go after the promoters whom we like. So that will roll out. You saw us being very active in auto ancillary some months back. If I can give you an immediate guidance you will see a lot of deals coming in the logistics play and warehousing play because that is the flavor of the season with the GST coming in. So similarly, those things will play out in the next five years. Emerging corporate lending has a different model for regions, at the end of the day what is emerging corporate lending, it is serving probably the people who are the vendors to the big boys. Like if I may give an example, people who are supplying to the OEMs so there the expansion will be based on where these people are located so not necessarily the same regions as other are going. It could be probably Bhopal or Indore just to give an example because this is where they are located or Ludhiana. So that is how the expansion plan is. Needless to say, we have our expansion plan actually in place for the next three years.

Anil Kumar Tulsiram: Right. Sir and one last data point, what is the interest accrued but not paid in cash which we have accounted so what is that number?

Khushru Jijina: I would not have the number, but I will answer it differently. As I have always said that our major book is real estate and real estate is a cash-on-cash business, every month-on-month we are getting interest. So there is no accrual, it is all cash. There would be the certain interest which will be accrued on our corporate financial loans which again the old mezzanine where we are accruing interest but safely to say our major maybe 80% - 85% or 90% I do not know would be really on non-accrued means you are actually receiving the cash month-on-month.

Moderator: Thank you. The next question is from the line of Rana Gupta from Manulife Asset Management. Please go ahead.

Rana Gupta: My question is that if we look your loan book over the period of last two years or so you have diversified starting from mezzanine, you have added a lot of new stream, and the risks looks like the risk is diversified, risk has come off. So the question is that in spite of that you have maintained that healthy ROA. So if you can help me understand that in spite of reducing risk, diversifying, how come you have maintained your ROA?

Khushru Jijina: I think, I will answer it. Last time also, I will repeat it is again a brilliant question. The way to look at it as you rightly said is the risk-adjusted return. In other words, when you are doing construction finance, when you are doing senior lending, when it is project finance, or LRD,

actually our rating agency allows you to lever better. The provisioning norms are actually lower and basically the ROAs are the same because also what is happening which I think Chairman mentioned because of our movement in the last one year to this less risky product, let us not forget our liability side also the rates we have been able to attract and get lower interest rates which have a multiplier effect on the ROE. So again, to give you an example on the merger of the wholesale and the retail platform, by just announcing that on our entire book, we could reduce our interest cost by 0.25%, just to give a small example. So we are in constant engagement with ICRA on how to increase or improve our rating and bring down our interest cost. So that actually helps. So both come to play. It is not only the asset which is less risky, it is also that the market recognizes that you are now into a much more granular book, much more less riskier book and therefore, you are able to borrow at lower cost, so that is how we are able to manage our ROE.

Rana Gupta:

Great, thanks for that. I think that helps. Now, the next question is that, it looks like that going forward the growth from this base could be high in corporate finance and retail home finance. Now, from a business perspective I fully understand your dominant position in real estate lending and your dominant position in the other structured finance that you do. But if you can help me understand your right to win because you study industry for long before you get in. I heard you answering this in the previous question. So the question is the corporate finance and in the segment, what is your right to win, where your products are differential from other that is already in the market?

Khushru Jijina:

I think, this is an ongoing process. I think this question was asked to me five years ago, it has been asked two years ago and you are asking me now which is a very valid question. I think the trick is that the change is the only constant. I think if you are seeing in the last four years what is that it has really come out. I think, it has been our innovation, it has been our understanding of the market. So just to clarify, this is not a linear exercise, so there is a separate team which is there all the time while the business team is carrying this business out, there is obviously at given point there are certain products, there are certain regions, there are certain industries being looked at. So it cannot be linear otherwise I will lose my winning edge if I am making sense to you. But that is something which one has to do it all the time. That is the only way I can answer you very frankly.

Rana Gupta:

Okay. And the last question from my side on the distressed asset as an opportunity and I think it was mentioned in the call the JV with Bain Capital, whatever I understand that for Piramal Enterprises company will it be a fund kind of structure? The Piramal Enterprises will deploy funds or that Piramal Enterprises will only earn fees from it?

Ajay Piramal:

So Piramal Enterprises will earn fees and carry from it. It will be a fund, we will invest in the fund approximately USD100 million we will invest in it and then we will get a fee and carry.

Moderator:

Thank you. The next question is from the line of Nitin Chawathe from Kotak. Please go ahead.

Nischint Chawathe: Hi, this is Nischint. Just this pertains to the Housing Finance business you have almost kind of Rs. 1,200 crores of loans which are approved but not disbursed. Just trying to understand maybe you could give some color as to where this comes from? Is it all from the city of Mumbai or where does this come from and is it originated through DSAs and how much of it is self-employed vs salaried?

Khushru Jijina: Yes. Again if I take a step back when we started one of the unique proposition we did mention if you recollect was that our this business is a B2B2C business and we being pretty strong on the wholesale side our relationship we believed when we started this business should help. So first of all, to answer your question yes, as I mentioned, this business has come out of the MMR region right now because only in February we are going into other regions as I mentioned before. Mainly it has come from a developer relationship. Yes, we have DSAs also who are working for us but today, the majority of the loans are being generated directly because of our end-to-end relation with the big developers of MMR, we are being able to get housing finance loans. Now to come to your second question on self-employed, as I said this proportion of self-employed will actually start becoming bigger and bigger when we enter Tier-III, Tier-IV and we start looking at affordable which we will now in the quarter starting January. But otherwise, I would safely say that the major 75% to 80% of this 1,200 would be salaried.

Nischint Chawathe: Sure. And the ticket sizes would be roughly?

Khushru Jijina: Basically, the ticket size because these are all mid-income products, so the ticket size would vary anywhere Rs. 40 lakhs to Rs. 50 lakhs.

Nischint Chawathe: Sure. The second question essentially is on Shriram, is there any thought process as to how do you kind of capitalize on this investment?

Ajay Piramal: We constantly look at ways to actually realize the value in this and as and when something comes up we will let you know. But I just want to let you know that just on the sheer market basis our investment has grown 18% IRR over the time we invested. So that is how it is and we will see what to do as you may have seen in the performance of Shriram in the last quarter for both City Union and Transport has been good.

Moderator: Thank you. The next question is from the line of Danish Mistry from TATA Mutual Fund. Please go ahead.

Danish Mistry: I had just one basic question. With this whole capital raise with the CCDs and the forthcoming rights we are essentially looking to double our capital base in the financing business. So I just want to understand what is the kind of leverage level then we would be comfortable within the business?

- Khushru Jijina:** So I think on the leverage even today we have always maintained our leverage anywhere between 4x - 4.5x sometimes 4.7x it moves in that range because at the end of the day as I mentioned in the past also that we work very closely with ICRA and we are guided by the rating agency in fact not just in the overall scheme of things but even product-by-product. So while there is a temporary dip, it will ultimately go back to the same levels, no way we are going to cross that.
- Danish Mistry:** Okay, fine. No considering the fact now we are getting into housing loans and possibly slightly lower risk in that sense. So would we look at slightly higher leverage?
- Khushru Jijina:** While in housing finance there would be a high leverage which the rating agency would give but today if you look at the composition of our book. I think for housing finance to actually catch-up with the same size of wholesale will take time. So it is not really significantly in the next three years going to change the debt-equity ratio.
- Moderator:** Thank you. The next question is from the line of Piran Engineer from Motilal Oswal Securities. Please go ahead.
- Piran Engineer:** I will just twist a question asked by someone else wherein he referred to changing loan mix over the last one year or two years moving more into the lower risk segment and while he asked by ROAs have not really compressed. My question is that your yields are also have not really compressed much. It has bearly been like 50 bps - 60 bps. So could you just explain to us what the incremental yields in each segment are and why they have not compressed as much as one would have guessed?
- Khushru Jijina:** So the answer as I mentioned to you that while the yields have come down for two reasons in the market generally but the normal common sense should be that the yields should have come down not only because of our moving to less riskier assets but even the market yields have gone down. But as I mentioned in the past two years we have constantly brought our cost of borrowing down, which I would really urge you all not to ignore.
- Piran Engineer:** Sir, I think you mistook me. I would have expected yields to go down much more than the 50 bps - 60 bps they have gone down. Given the loan mix shift, given that in general interest rates have gone down in the last one year or two years. Basically, my thing is that 50 bps - 60 bps seems small that was my only question really.
- Khushru Jijina:** So, see the yields have gone down and this is more of an average that you are looking at. So maybe we will again get back to you on specific numbers in which all segment how much has been the yield?
- Piran Engineer:** Okay. Roughly if you could tell us in each segment like in construction finance, mezzanine and say the regular corporate finance what will the incremental yields be?

- Khushru Jijina:** Okay. Basically, I think if I have understood your question, are you asking for the rates we are getting in each product, is that what is your question?
- Piran Engineer:** That is right.
- Khushru Jijina:** Right. So basically, structured debt which is around 15% - 16% today, construction finance would be anywhere based on the type of the developer anywhere from 11% to 14% or 14.5% that is how the range is today. You can safely assume 12.5% - 13% as an average.
- Piran Engineer:** And the corporate finance book.
- Khushru Jijina:** So in the mezzanine again, if you do a mezzanine deal it would be anywhere around 14.5% - 15% yield today on the mezzanine and the senior debt would be anywhere from 12.5% to 14%.
- Piran Engineer:** Okay. And in your corporate finance book, could you just give us a rough mix of the sectors you all have exposure in that Rs. 7,000 crores book. Which would be the largest sectors and what is the quantum of the exposure?
- Khushru Jijina:** So the largest sector would be renewables.
- Piran Engineer:** Okay. With an exposure of roughly?
- Hitesh Dhadha:** See, specific numbers we can always get back to you later. But I think broadly you should hear from him what is the larger exposure, so the larger he is saying is on the renewable side and we also have exposure of the automotive parts.
- Ajay Piramal:** It is fairly diversified.
- Khushru Jijina:** It is cement, auto ancillary, it is into logistics now.
- Moderator:** Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.
- Kashyap Jhaveri:** The Slide #18, right-hand bottom chart which is floating to fixed borrowing which is 60% - 40%, same composition on the lending side would be?
- Khushru Jijina:** Yes, I will repeat the answer. As you know that we have to maintain our ALM in terms of both the tenure, the maturity based on the borrowing and the lending and the interest rate, so you can safely assume that if the mix of borrowing in floating and fixed is x, we maintain the same in the lending book also.
- Kashyap Jhaveri:** Okay. And the second question is on Slide #19, in the float chart on ROA, the total provisioning is about 2% of assets, gross NPA is roughly about 40 basis points, does that mean

that overall let us say the credit cost or write-off that you were comfortable in this business would be about that number of provisioning and then eventually the gross NPA will continue to give out this number?

Hitesh Dhadha: No. So to answer it more precisely we try to be more conservative when we are doing provisioning so we make sure that we maintain a 2% flat provisioning on the outstanding loan book amount. So it has got no correlation with that we are expecting NPAs or we have something on asset quality where we feel there can be something. It has been a standard practice and we have been doing this right from when we started the business, we continue to maintain this kind of provisioning.

Kashyap Jhaveri: And on this 200 basis points, what will be the break-up between provisions and write-off?

Khushru Jijina: There is hardly any write-off.

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

Manan Patel: Sir, extending the previous question I wanted to understand, how do you account for the provisioning so 1.9% provision is there but if I look on the balance sheet it shows just Rs. 167 crores of provisioning? So how do you account for that?

Vivek Valsaraj: So the loan book reported is net of the provisioning amount. 1.9% of the loan book is the total provision which has been made.

Manan Patel: Okay. So that is already reduced from the loan book that you report?

Khushru Jijina: Absolutely.

Manan Patel: But even though it is not NPA, can it be reduced from the loan book?

Hitesh Dhadha: Yes, in terms of reporting we have done that. It does not mean that the actual amount has been provided for, it is just a provision right now.

Manan Patel: Okay. And it does not flow through your P&L at this point in time?

Hitesh Dhadha: No, it is provided for. So it is part of the provision in the P&L.

Manan Patel: Okay. And sir, the second question is we were planning to separate this financial services business and the pharma and IT business. So how far is the progress on that and when can we expect this break-up?

Ajay Piramal: We have said that in the mid-term we will do it and we will still stay by that only. In the mid-term, we will do it.

Moderator: Due to time constraints that was the last question. I would now like to hand the conference back to Mr. Hitesh Dhaddha for closing comments.

Hitesh Dhaddha: Thanks everyone for joining the call. In case you have more questions, please feel free to reach out to me or my team, we will be able to help you out. Thank you.

Moderator: Thank you very much. On behalf of Piramal Enterprises Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.