"Piramal Enterprises Limited Q4 & FY2020 Earnings Conference Call"

May 11, 2020

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. RAJESH LADDHA – GROUP CFO, PIRAMAL GROUP
MR. KHUSHRU JIJINA – MANAGING DIRECTOR, PIRAMAL CAPITAL AND HOUSING FINANCE LIMITED
MR. VIVEK VALSARAJ – CFO, PIRAMAL ENTERPRISES LIMITED
MR. HITESH DHADDHA – CHIEF INVESTOR RELATIONS OFFICER, PIRAMAL ENTERPRISES LIMITED

Hitesh Dhaddha: Good evening everyone. I'm pleased to welcome you all to this Conference Call to discuss our Q4 and full year 2020 Results. Our results materials have already been uploaded on our website and you may like to download and refer it during our discussion. This discussion today may include some forward-looking statements and these should be viewed in conjunction with the risks that our businesses face.

On the call today we have with us our Chairman – Mr. Ajay Piramal, Mr. Vijay Shah – Executive Director, Ms. Nandini Piramal – Executive Director, Piramal Enterprises Limited, Mr. Rajesh Laddha – Group CFO, Mr. Khushru Jijina – MD, Piramal Capital and Housing Finance; and Mr. Vivek Valsaraj – CFO of the company. 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, friends. I hope that all of you and your loved ones are safe. These are really extraordinary times and perhaps the most important thing for all of us is to ensure that you are safe and so is your family. These are uncertain times, but with this as a background, let me cover what we have done in the last year.

Balance Sheet Performance:

In the first quarter of last year, you would remember that we had committed to bring in equity of INR 8,000 to 10,000 Crores. Despite a volatile market environment, we've exceeded our commitment and were able to bring in INR 14,500 Crores of capital, out of which $950 million, which is INR 6,800 crore was from the sale of DRG – a transaction which closed in end February in the midst of the COVID-19 crisis, in the US. We could raise INR 1,750 Crores as preferential equity from CDPQ, which has been a long-standing investor with us.

We also raised an additional INR 3,650 Crores through a rights issue, which included INR 1,600 Crores being invested by the promoters and we sold our Shriram stock for INR 2,300 Crores. So, these measures helped us increase our equity base to INR 30,500 Crores and significantly deleverage our balance sheet, resulting in a net debt-equity of 1.2x which was compared to a net debt-equity of 2.0x at the end of March 2019.

In addition, we remain on track to raise growth capital for our Pharma business through a minority stake sale. Further as we had said earlier, we will be exiting our investments in Shriram companies at an opportune time, to realize maximum value.

P&L Performance:

During this quarter revenue declined by 2% to INR 3,341 Crores and we had a net loss of INR 1,700 Crores. The full-year performance, for the year ending FY20, saw a revenue growth of 10% to INR 13,000 Crores and a net profit of INR 21 Crores.

Top-line performance:

As far as our Pharma business [is] concerned, we continue to perform well despite the COVID crisis and grew by 13% in the financial year.

Within Financial Services, as has been stated in our strategy, for the last two quarters we have been treading with utmost caution, not chasing growth and instead preserving liquidity and deleveraging our business. Thus, the debt-equity ratio for the Financial Services business is now 2.6x compared to 3.9x a year ago. Our single borrower exposure which we are committed to reduce in the wholesale book declined by 12% year-on-year with the top 10 exposures going down by INR 4,200 Crores and the reduction in the loan book from INR 56,600 Crores to INR 50,900 Crores during the year, and this has been why the top line growth of Financial Services was restrained.

Bottom-line performance:

Our net profit was impacted largely by the following non-recurring items that occurred during the year.

a) Additional Covid-19 Provisioning:

First of all, although we strengthened our balance sheet and we were well-positioned to manage any contingencies, we believe it is prudent to be cautious during this unprecedented macro crisis emanating from COVID-19.

To assess the potential risks of our business may face if COVID-19 is prolonged, we ran a scenario analysis across both the wholesale and retail lending portfolios.

And, these were the assumptions for our scenario analysis.

- The COVID-19 outbreak peaks in June 2020. Till which time the lockdown will remain in some form.
- GDP growth rate slows down considerably, and there is a surge in the unemployment numbers.
- The economy gets back to February 2020 levels only after a quarter post complete removal of the lockdown, and liquidity is expected to remain tight as government will look for avenues to raise funds to pay for any stimulus.

These assumptions were used to determine sector-wise impacts, which were in turn applied at a deal level, to assess the impact of the scenario. Based on the outcome of a scenario analysis, we decided to adopt a conservative and prudent approach, hence making an increment provision of INR 1,900 Crores which was in addition to the usual provisions against the GNPAs.

As a result, the total provisions have increased from INR 947 Crores, which was 1.8% of the book in December 2019 to INR 2,963 Crores, which is 5.8% of the loan book in 2020.

It may be noted that a large part of the portfolio, 97.6%, is standard with GNPAs at 2.4%. Thus, we believe that if action is taken in all these specific projects, we will be able to bring down the NPA.

b) One-time DTA write-off & MAT credit reversal:

The second item that is a one-off item has been the DTA write-off. In Q4 2018, the reverse merger of Piramal Capital and Piramal Finance into Piramal Capital and Housing Finance had created a deferred tax asset of INR 3,500 Crores. In September 2019, the corporate tax rate was reduced to 25% from 35%, provided companies do not avail some other tax exemptions or incentives.

Given the comparative advantage, we have opted for the new tax regime. As a result, there is a one-time impact from DTA write-off and MAT credit reversal of INR 1,760 Crores. However, we will continue to get similar benefit towards profitability and cash flows in future by paying the tax at the reduced rate of 25%.

c) Gain on sale of DRG:

The third item has been the gain on the sale of DRG.

DRG was sold for consideration of USD 950 million and we recorded a gain of USD 100 million, net of transaction costs on this and this has been reversed to determine normalized profit.

Therefore, the overall impact of the one-off, non-recurring items has been that the normalized net profit of the company grew by 40% during the quarter to INR 807 Crores and grew by 22% for the year to INR 2,615 Crores.

Capital Allocation:

I will now go for business life performance. Before that, let me just give you a look into the revised capital allocation across our businesses, because I know that many of you have been asking us this.

Post these capital initiatives and adjusted for the one-off items that have impacted this quarter's P&L, we now have an equity of INR 30,500 Crores and the gross debt for the company has been lower by INR 14,000 Crores from INR 56,000 crore to INR 42,000 Crores as of the end of March. This leads to a current net debt-equity of 1.2x versus 2x in March 2019.

The Financial Services book has a loan book of INR 51,000 Crores. As I mentioned to maintain the net worth, post creating the additional conservative provision, an additional allocation of INR 2,000 Crores has been done to the Financial Services book from the unallocated equity pool in Q4.

Post the revised equity allocation, adjusted to the one-off items during the quarter, the business now has an equity of INR 15,600 Crores and borrowings of INR 40,000 Crores to come to a leverage ratio of 2.6x versus 3.9x in March 2019.

For the Pharma business revenues have been INR 5,400 crores with an EBITDA margin of 26%. As you are also aware, the Pharma business is currently in the process of raising capital by minority stake [issuance] for its growth initiatives. Therefore, in addition to both these businesses, we have an unallocated equity pool of INR 10,500 Crores.

Pharma – Business Performance:

Pharmaceutical companies are playing an important role in these tough times, making Pharma one of the safest and most resilient industries in this period of uncertainty. Our unique business model remains well-positioned to meet the challenges of ensuring continuous production of life saving medicines, by ensuring the safety of employees, variability in sales due to access challenges and changes in selling models. Our businesses in the pharmaceutical space have a strong positioning.

The underlying demand for our products and services remain strong. The underlying medical conditions that drive demand for our complex hospital generics and CDMO Products & Services remain unchanged. If there is any near-term volatility, it is temporary in nature and will normalize over time.

We also see some potential upsides related to the current situation. Some of our complex hospital generics are used in COVID-19 treatments. We have received 30+ COVID-19 related new business inquiries for our CDMO business. We have seen an increased demand for some of our consumer healthcare products like sanitizers and multivitamin brands.

And we see customers increasing their preference for locally produced products and for diverse sourcing option. Given we have production facilities in the US, in Canada, in Europe and India, we are positioned to cater to these evolving requirements.

We have a strong focus on quality and compliance. We successfully have cleared 36 US FDA inspections, 169 other inspections since FY12 and even in the last year, all the FDA inspections went without any 483s. We had no Official Action Indicated, i.e. OAI, for any of our US FDA audits.

Financial performance – Pharma business:

Our long-term track record of 15% CAGR in the in the Pharmaceutical business, [is what] we continue to maintain. In FY20 revenues of Pharma segment grew by 13% to INR 5,400 Crores. The revenues for Pharma CDMO business grew by 13%, the complex hospital generics by 11%, and the India Consumer Healthcare business by 25%.

The recent depreciation of the Indian Rupee has been favorable to us, because more than 80% of Pharma revenues come from outside India.

The EBITDA margins for the overall Pharma segment have improved significantly over the last few years to 26% for FY20 and have grown at a CAGR of 33% for the last nine years, to have a EBITDA this year of INR 1,400 Crores for FY20.

Fund-raising in Pharma:

As I said, we are in the process of doing a fundraising for pharma and we are looking to subsidiarize the Pharma business and raise funds by issuing a minority stake to a potential investor. With the subsidiarization of Pharma as a standalone entity, PEL's structure will become easier to analyze and understand – this is one of the big demands that many of you had. The fundraising process is currently on track.

We will use these funds for both organic and inorganic opportunities. We will also evaluate our potential inorganic entry into the domestic branded generics market.

Financial Services – Business Performance:

Coming to the Financial Services space, the last 18 months have been challenging for the NBFC sector. The sector has been impacted by a system-wide liquidity tightening as well as negative corporate news from large corporates, not necessarily within the sector. This has further worsened due to COVID-19.

Although uncertainty remains, we expect that this prolonged crisis will enhance the need and extent of ongoing consolidation in the NBFC sector. Only strong, well-capitalized and well-governed NBFCs will be able to withstand the current crisis.

Liquidity:

In the current environment, liquidity remains a top priority for us. However, liquidity continues to remain scarce for most NBFCs, due to heightened risk aversion amongst lenders. While banks have surplus liquidity they are not passing it on to customers and instead parking it with the RBI. However, investment grade NBFC, with strong parentage are still able to access funds.

We have over the last year raised INR 13,500 Crores of long-term debt. As on 31st March, we had cash and cash equivalents of INR 8,900 crore in the form of cash and undrawn bank lines. Out of the above INR 4,000 Crores of long-term bank lines have been drawn down, since the beginning of the COVID-19 lockdown by us.

The capital adequacy ratio of the Financial Services business is at 31% versus 22% at the end of March 2019.

Assets:

As I said earlier, we have conducted a scenario analysis to assess the potential impact of COVID-19 across sectors and our loan portfolio.

In retail financing, we see no major challenges in this portfolio. The HFC book is also fully secured and has an overall LTV of 65%. 24% of our housing finance clients have opted for the moratorium. Also, we are consciously trying to improve the quality of book by allowing favorable client attrition to happen from a risk management perspective.

In wholesale financing, we are closely monitoring and taking the necessary actions. The real estate sector has faced several major headwinds. While our portfolio is entirely secured, we continue to monitor it closely. Based on our engagement with developers, we are also initiating mitigation action.

In the corporate wholesale portfolio other than real estate, COVID-19 has a significant impact on the overall economy. Its impact varies across sectors, within our corporate lending portfolio, we are in active discussions to down sell part of this portfolio as we continue to reduce single borrower exposure.

Provisioning:

The impact of COVID-19 is hard to predict, as the situation is still evolving, and hence, we should be well prepared for any contingencies. And as a matter of prudence we have made an additional provision of INR 1,900 Crores, which should be sufficient to meet any contingencies. Also, depending on how long the COVID crisis continues, we will be closely monitoring our loan book and evaluating the adequacy of our provision, while taking proactive measures to mitigate any potential risks.

Future priorities:

a) In the current lockdown environment, we have ensured that there are enough funds with us to meet our and our clients' liquidity needs as well. We continue to support our partners & clients in this volatile market environment by extending a three month moratorium to all clients with non-NPA accounts, as per the regulatory guidelines. As the lockdown opens, we will ensure that construction does not stop for our existing projects.

b) We are also committed to further diversifying our loan book and making it more granular by doing refinancing or down selling to reduce our single borrower exposure. [We are also] creating fund-based platforms to tap opportunities in wholesale lending.

c) In addition, we are building a fully tech-enabled, multi-product lending platform to target significant future growth opportunities, to increase the share of housing finance in our loan book, and to build a retail financing multi-product lending platform, which would be digital at its core. The competitive intensity in the retail financing space is expected to reduce due to COVID-19 as some existing players may vacate this space. As we do not have a legacy of a retail financing book, we will incorporate learnings from the current environment and build the book more conservatively. We plan to utilize the next few months to build technology infrastructure and acquire key talent.

Concluding remarks:

COVID-19 is a public health crisis with severe economic ramifications. We have significantly strengthened and deleveraged our balance sheet through multiple capital raise initiatives and significant reduction in debt over the last one year.

Our Pharma businesses continue to perform well, despite the COVID crisis. In Financial Services, although liquidity environment has tightened again, but given the strength of our balance sheet, we are able to borrow enough money despite a challenging market environment. Also, we continue to tap multiple avenues to raise debt and diversify our borrowing mix. And we continue to monitor our portfolio and take necessary action to mitigate risk.

As I said, being prudent and conservative we have created an additional provision for any contingencies that the Financial Services business may face in case of a prolonged COVID crisis. Keeping in mind the global environment of heightened uncertainty caused by the COVID-19 pandemic on one hand, and on the other the recent sale of our DRG business, as well as the interest of minority shareholders, the Board has recommended a dividend of INR 14 per share for the approval of shareholders in the AGM. The total dividend payout will be INR 316 Crores.

I think with this I have given you the highlights of the last year and would welcome your comments and questions. Thank you.

Hitesh Dhaddha: Operator, we will take questions.

Moderator: Sure, thank you very much. We will now begin the question and answer session. The first question is from the line of Subrat Dwivedi from SBI Life. Please go ahead.

Subrat Dwivedi: As expected, the real estate sector might take some time to pick up and so, cash flows from that business might take some time before they accrue. We have around INR 10,000 Crores of repayments lined up over the first two quarters. So, in terms of liquidity, how are we placed and what are the other means through which we would service this debt, in the absence of inflows in the first two quarters.

Ajay Piramal: Okay, anything else?

Subrat Dwivedi: Apart from that, I just had one more question. The Pharma business inflows through the minority stake sale, that will come in Piramal Enterprises Limited right and how will that be used?

Rajesh Laddha: Yes. So we have about INR 9,000-10,000 crore of repayments coming up in first two quarters, that's right. But if you had noticed, we carried about INR 4,000 crore of cash and cash equivalents into the new financial year. So that is one part of the thing. After that we already have got cash inflows from two banks, State Bank and Punjab National Bank to the extent of INR 4,000 Crores in April and we have a modest success vis-à-vis LTRO, where we have around INR 1,000-odd Crores of sanctioned money. And in next two to three months, we expect further INR 4,000 to 5,000 Crores coming from bank lines, different bank lines.

In addition to that, we will also be down-selling some of the assets, where we are in advanced stages of various conversations, which we should get result in a couple of months' time. So, that should take care of our complete repayments which are due from now till say 30th September. We are confident of achieving that. That on the liquidity position.

Coming back to Pharma, this transition we are expecting where we have said that we will sort of dilute, firstly subsidiarize the business, the entire Pharma business will get subsidiarized into 100% subsidiary and then the investor will come into this subsidiary, subscribing to around 20% of equity and this money will eventually flow into Piramal Enterprises Limited.

Moderator: Thank you. The next question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: I have a couple of questions relating to the Pharma business. One is, what is the debt in the Pharma books, second what is the goodwill that can be attributed to the business and third, considering our CDMO facilities from the current levels, what are the additional revenues that we can anticipate to ensure full utilization of facilities?

Rajesh Laddha: Yes, so I think the first question was around the debt level in Pharma, the debt level currently in Pharma business is about INR 4,500 Crores. As I said, when this money comes in, part of his debt will get reduced and the balance money will flow into Piramal Enterprises Limited. So, the debt levels will come down from INR 4,500 Crores to something like INR 3,000 Crore-odd level – post the transaction, but as of now is about INR 4,500 Crores.

Goodwill to Pharma business would be approximately the balance goodwill, which is now left out after DRG transaction, is about INR 1,000 crores, about INR 850-900 Crores would be attributable to Pharma. And this has got accumulated through various transactions we have done for last 10-12 years. This is tested for impairment every year and there is no issue of any impairment here because the EBITDA levels are significantly higher than this amount in Pharma business.

Ajay Piramal: So in CDMO – the additional revenues. We may have to do marginal investments here or there, but otherwise, we should be able to manage a growth rate of 15 to 20% for the next few years, without significant addition to Capex. Again, in CDMO as you know, it varies depending on what type of product or service you need to do. So sometimes you have to make marginal increases in capital expenditure.

Tarang Agrawal: So, would it be safe to assume for the next two years at least?

Ajay Piramal: Yes.

Moderator: Thank you. The next question is from the line of Antariksha from ICICI Prudential Asset Management. Please go ahead.

Antariksha: In the Financial Services business particularly can you walk us through what has been done on the moratorium side. As in how much of your book is under moratorium, under RBI guidelines and have you approached your banks for the liability moratoriums as well?

Rajesh Laddha: So as per the RBI guidelines, Piramal Capital & Housing Finance Limited and Piramal Fininvest – the boards of both these companies – have framed a guideline where we offered the moratorium to all our borrowers. I would say 85-90% of these borrowers would opt for the moratorium, starting from March till 31st May, unless and until it's again further extended. So, on the lending side we have offered this moratorium, and 80-90% of these people as I said would opt for it. As far as our borrowing is concerned – we have approached all the banks – wherever banks have agreed based on their respective Boards' policies, we have availed that, but wherever banks have not agreed or their Boards have not positively favored the moratorium policy, we have repaid the money to those banks.

Ajay Piramal: I just want to add one thing that the retail book is about ~INR 5,600 Crores, only ~20% have asked for a moratorium and all the others are on track for payment.

Antariksha: Sure. On the liability-side, roughly what would the split be like so would you have got a moratorium say half of the liabilities from banks or would it be even larger?

Rajesh Laddha: Banks [borrowing] would be about 65% now.

Ajay Piramal: The moratorium is not 65%, I think.

Antariksha: So, how much of that is moratorium for the quarter?

Rajesh Laddha: Moratorium is only for three months – that would be about total would be about INR 1,500-2,000 Crores – payable between say 27th March till 31st May. And out of these, I would say about 50% is already paid, whenever the banks have not agreed.

Antariksha: Okay. And the second one I wanted to ask Sir – you briefly alluded to your wait and watch strategy in retail. I just wanted to ask from a medium term perspective, where do you see in the retail business as in what products would you like to have, what cost of funds would they entail and some strategies something that you've thought of?

Ajay Piramal: We will share the retail strategy in detail. As I said, we are building a technology platform, we are looking at different segments and we will talk about it in more detail at the next time.

Hitesh Dhaddha: Just to add to what Chairman said, there's a lot of work that has happened, to build that strategy. But yes, we will talk about it in a quarter from now.

Moderator: Thank you. The next question is from line of Praful Kumar from Pinpoint Asset Management. Please go ahead.

Praful Kumar: Just one question on the Consumer business. I think you have recently done more hiring. Can you give us some more details on how do you want to scale-up that business, given that the competition would be much more benign and you have enough capital. So some more thoughts over the medium term on this business please. Thank you.

Ajay Piramal: So, as I said, I think we would like to discuss this in much more detail at a later stage, maybe we will have a separate session on that. So, what we doing is that we are building technology, digital at the core and we are building different platforms. We already have a start with some of the housing finance. So we are going to use that infrastructure as well.

To build this we are looking at a different segments in this. As you have said that we have recruited a very good team of people who have done this before. So, we feel that there will be a significant untapped market potential. And this will create long-term growth opportunities. We'll conservatively build a book and we are all the learning's that we are getting from the environment will take into account. So let us share with you a little more details a little later.

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

Alpesh Mehta: The first question is on a sequential basis we see there is almost 10% kind of a drop into the Financial Services revenue whereas the loan book is almost flat Q-o-Q, any specific reason for this?

Ajay Piramal: So, as we've said before that as far as what is important in this time is to ensure that liquidity is there and we had said at the beginning of the year that we want to focus on the book becoming more granular and more diversified. And therefore we are consciously bringing down some of our exposures, by down selling them, that's the main thing. So we are focusing on that and we are actually going to bring down some of this book in the real estate sector down, as well as some of the corporate wholesale book down in the future. I think this is what our strategy has been – to become more granular, more diversified. And it takes time to build up the consumer lending space and especially seeing what the environment has been for last couple of months, we have also been more conservative.

Alpesh Mehta: I agree, Sir. I agree on the growth part. It's just that my question is on a sequential basis loan book is flat versus the revenue decline of almost 10%. And the mix shift has not been that material. So any specific reason for 10-12% quarter-on-quarter drop in the revenues for the FS business?

Khushru Jijina: You're also seeing a drop because of the reversal in the income, because of the additional provision which we have taken and also some fair valuation loss on a few items.

Alpesh Mehta: Additional provision, reversal of interest income?

Khushru Jijina: Yes, income due to increase in stage-3 which we have taken, so some of the incomes from the quarter we have reduced, we have written it back.

Alpesh Mehta: Agreed, but that is only 0.6% of the portfolio right? 1.8% becoming 2.4% – if I am not wrong gross NPAs.

Rajesh Laddha: Also, there is some fair valuation losses coming in here. As Khushru said – the second point.

Hitesh Dhaddha: Alpesh these are broader reasons. If you need more detail, you can get back.

Alpesh Mehta: I'll take it offline. The second question is, can you just give me a split of the real estate lending between the residential and the commercial portfolio please out of that 70%, does that remain 47%-23% only or there is some shift on that?

Khushru Jijina: So, the commercial portfolio is INR 3,900 Crores. Again it is split between under construction projects, LRD and LAP. And the point here I would like to make is that, today commercial is going through a lot of stress because of COVID. But many of our projects, which we have funded, are also in mid-stage and also in the sale model. So it's not that it's in the lease rental model. So those projects are continuously selling, it could be smaller offices, etc. I just wanted to make that point. So it's not necessarily the typical commercial offices where you make and then you lease it out to large corporates and then do an LRD.

Hitesh Dhaddha: So to answer your question Alpesh – yes, the numbers look similar because in those commercial thing, we also include LRD and we also include Hospitality. So, that's the overall commercial pie. So, from your perspective the answer says, the number is the same.

Alpesh Mehta: 47-23 out of that 70, and that would be the broader mix which was there as of third quarter.

Hitesh Dhaddha: Yes, so hotel lease are there when we have given those with some of the best brands, and these are all operational hotels and then we have some part of which is LRD again, so that's the combination, if that helps you.

Alpesh Mehta: Sure. And if I can ask one more question. it is related to the goodwill at the FS level, that INR 10,000 crore of goodwill that continues, right there is no change in that. So when I look at the Financial Services asset of around INR 60,000 Crores minus the loan book of around INR 50,000 Crores that 10,000 crore is that reverse model?

Rajesh Laddha: That goodwill lying at Financial Services arose due to the merger, reverse merger of Piramal Finance into Piramal Capital. That's again tested for impairment and there is no issue, whatsoever.

Hitesh Dhaddha: But it doesn't come in PEL consolidated book.

Rajesh Laddha: That gets eliminated at PEL-consolidated level. So there is no impact on consolidated balance sheet.

Moderator: Thank you. The next question is from the line Abhijit Tibrewal from ICICI Securities. Please go ahead.

Abhijit Tibrewal: So this INR 260 crores of additional GNPA that you have, can you give some color on which account has slipped here?

Khushru Jijina: Basically, before I answer the question, let me just reiterate what Chairman said, that this time we have additional specific provision and a general provision of INR 1,900 Crores. The major reason for the increase in the specific provision is an account in real estate called Marvel, where we had a INR 208 Crore exposure, where we did a one-time settlement with them by taking a loss of INR 31 Crores. So that is why you see the GNPA going up. So that's one single item which has increased. We have also in stage-2, while we are in negotiations for selling of the assets of Mytrah Group, which I won't be able to discuss because we have signed the NDA, but we have taken a specific provision of INR 340 Crores.

Abhijit Tibrewal: So just these two Marvel Group and Mytrah Group, do they explain this about INR 260 crore of movement in GNPA? And what would be the broad split of this INR 260 Crore across Marvel and Mytrah?

Khushru Jijina: So, out of INR 260 Crores, Marvel is INR 208 Crores.

Abhijit Tibrewal: And sir on the housing book, what is it that you are seeing first, since the last two quarters, your housing finance, the retail housing finance book has been running down. And this quarter if I see around INR 600 or 700 Crores. I think it's come down quarter-over-quarter. So what is it that you're seeing there, any color on that?

Khushru Jijina: Yes, so let me answer as Chairman said, that basically, I think we said it in the last quarter also that while the focus remains on creating a very healthy Housing Finance and a Consumer Finance book, we have changed the strategy. We mentioned this in the last quarter call – basically, bringing in more digital and cutting down the cost, because today the cost of funds are high.

So, what we are really doing in the last quarter is that looking at the headwinds, wherever we feel that this portfolio looks risky – we are actually encouraging the portfolio to be sold out to somebody else and that is why you are finding one end the portfolio coming down and we continue slowly but surely, put in new money into the affordable segment or the midmarket segment, where the ticket size is small. So, I think you will see this for the next few quarters where you will see that the net growth may not be much because there will always be one element of down-selling or balance transfer and the other would be the new loans being put in, if I have answered your question.

Abhijit Tibrewal: Yes. So, I remember your comments from last quarter, but what I was really trying to understand there is, for how many more quarters do you expect this rundown in the retail housing finance book to continue?

Khushru Jijina: I won't be able to tell you how many quarters but probably yes, it may, it will be for some more quarters to come. As you know, in this COVID situation, things are slow and we want to be very conservative in what we do. Liquidity is the key right now. We are assessing, since we have a relationship with all the developers, major developers in the cities. So looking at the portfolio, which projects are doing, the construction is on, not on because at the end of the day, we need to be sure of the completion of the projects. So that's, the strategy we are adopting. But it will take a few more quarters, where you will see sell-downs continuously happening, while the new book can also be built. But I cannot really tell whether it's three quarters or four quarters.

Abhijit Tibrewal: Sure, so, fair to assume that this new technology platform that we are building for our consumer lending, even housing finance, the retail housing finance book you're planning to do through some digital platform going forward?

Khushru Jijina: Yes. Not only digital platform, even the segmentation would be more granular, a smaller type of loans, et cetera. But yes, the answer is yes.

Moderator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: Most of my question has been answered. Only one data point, what is incremental cost of funds during the quarter?

Rajesh Laddha: As I mentioned earlier, we have been able to borrow the large quantum of money from banks recently, where the borrowing has been done between 9.5% and 10% – incremental borrowing.

Manish Ostwal: Okay. And this Hospitality exposure, how do you see the stress in that portfolio?

Khushru Jijina: Okay. So let me answer that. We have a INR 2,000 Crore portfolio in Hospitality. Without a doubt I think hospitality has been hit the most – there is no doubt. I think it will take a while – we expect at least 18 months for it to recover. Talking about our portfolio, in our portfolio basically the loans are to all the operating assets – there is not a single asset which is under construction – and all the top brands, whether it's a Marriott, whether it is Taj Group, whether it is Hyatt. But we'll have to wait and see how it plays out. The other positive part for us is that our LTVs are low, they are below 65%. But again, we'll have to wait and see how this whole thing plays out.

Moderator: Thank you. The next question is from the line of Jignesh Shail from Emkay Global. Please go ahead.

Jignesh Shial: Mostly all my questions has already been answered, but just wanted a couple of data points to get cleared. On the liquidity side can you again repeat how much is the LTRO you could manage to draw or already have drawn and how much are you are expecting to draw in next two quarters?

Rajesh Laddha: So, LTRO as I said we have something like INR 1,000 Crores already sanctioned, under LTRO scheme – this was the LTRO-1. LTRO-2, unfortunately right now, it's not applicable to the housing finance companies and therefore, for some strange reason we will not be entitled over there. So right now we're looking at about somewhere between INR 1,000-1,500 Crores of availment during LTRO-1.

Jignesh Shial: And have I understood correct that, the bank moratorium that you availed is roughly around INR 1,500 to 3,000 Crores, is that my understanding correct?

Rajesh Laddha: Yes. INR 1,500 crores to INR 2,000 Crore starting from 27th March till 30th June part of it we already paid off wherever banks have not agreed to extend it.

Ajay Piramal: So, the moratorium today is INR 750 Crores.

Jignesh Shial: Yes, half of it has been paid understood. Roughly around INR 750-1,000 Crores. And Mr. Khushru has already highlighted the hospitality INR 2,000 crore at the most. Now here, the way lockdowns are happening, even LRDs would not be doing great at this point of time, right. That is how we are looking at that particular business number one, and number two, on the housing finance side, I understand that you're gradually seeing some sort of a decline, but now with the rate of interest falling down so sharply, don't you see the banks, the competition from banks should be increasingly, becoming challenging for NBFCs or HFCs to maintain, because if you are borrowing at 9.5 or 10%. The lending would be a challenge first of all in the housing finance segment?

Ajay Piramal: So, let me, the housing finance is not, we are going to look at that's why we are using technology and digital at the core to go to those clients which normally public sector and other banks don't lend to. So to go to the Tier III, IV cities and to go to those who are the non-salaried class. That's where with the help of technology, we identify the right customer, the right credit risk and do it. That's the way it will have to go on.

Jignesh Shial: Understood.

Khushru Jijina: On the LRD piece, we have INR 940 Crores of LRD today and while we'll have to wait and see how things play out if it gets worse, but as of today, this LRD is mainly to marquee assets in BKC, of the Wadhwa Group that's the major one. And the clients there have not asked for any deferment and they continue to pay the LRD as of now.

Jignesh Shial: Understood. And just one last one. You're saying so, two things actually here. A little more color on your overall real estate book, if you can give it on the area specific wise, zonal wise or East, West, South, North how much you are exposed to, where you see a bigger risk out here. And number two, since obviously financing will still not be a challenge that you could finance them up, but looking at the lockdowns and the migrants moving away and all don't you think so the pain in real estate is going to be much longer than anticipated, what's your view over here. That's it from my side.

Khushru Jijina: Okay, so first let me ask you a question. So how long do you anticipate and then I'll answer that.

Jignesh Shial: I've been tracking this since a while. But looking at the way people are moving away and the standstill, I see even for the Oberoi's or L&T Realty and all, I don't think so any of the projects, which was supposed to be doing in the next 12 months, will get a minimum extension of around 6 to 12 months further. So minimum of 12 to 18 months is bare minimum. And that's too I'm expecting for the very good guys, whether probably L&T's or Oberoi's are concerned, but I just wanted because you have been veteran in this industry, you will be able to give him a little more clarity over this?

Khushru Jijina: So in fact, let me start from where our Chairman was talking that basically this extra provision of INR 1,900 Crores, I'll just link it to that. And every time if you have seen that whenever there has been any tsunami, we have always looked at our book and come back with a stress test analysts. This time, obviously it is far more severe and that's why we have to look at macroeconomics also playing out.

But coming to the little more micro and looking at our book, you are absolutely right we actually did the same assumption that we will assume that there'll be zero sales, zero construction and zero collection for the next three quarters. And maybe then it will just slowly limp back to normalcy and not again, come back to normalcy immediately, it will limp back to normalcy.

We needed to do that for two reasons. One, as you know, in real estate will need to give money, provide liquidity to the developers to ensure that the project gets completed because unless the project gets completed, no stakeholder can get their money back. So that was one exercise, which we did. And obviously then we broke it down granularly and then today, I can confirm to you that we are prepared to ensure that money, as Chairman also alluded to that we will be able to fund our developers to continue their construction and complete it. That's something I want to confirm.

But what it does, but what the negative impact of that is, it does to the covers the cash cover and the security cover. So based on that we did a detailed analysis to find out that which are the projects, thanks to the additional requirement of funds because of this COVID, and which three quarters onwards if there is no sale and no collection, what will happen to the covers, and we found that roughly around 15% of our projects would, if no action is taken by us, with the developer today would actually fall below one.

And we went about taking various measures. I can give you one or two examples of that. It could mean way of additional security of ready flats from his other projects. It could be way of forcing the developer to bring down the price and also give discount to his existing customers, not to the new customers alone, to bring more liquidity in. Also in some cases asking the developer to sell the FSI rather than constructing it, or even one or two cases where we are changing the developer. So all these combinations, which we did, we took action in the last 30 days.

And that's how, while we have provided INR 1,900 crore, we actually have resolution plans to ensure that, this is a more probable and hypothetical number and a conservative number. If I've answered your question in all respects.

Jignesh Shial: That's very helpful. Thanks, I have some couple of questions on consumer financing but I'm completely off this and probably next quarter once you announce something we will come back on this. Thanks a lot and all the best.

Moderator: Thank you. We take the next question from the line of Tushar from Motilal Oswal. Please go ahead.

Tushar: Just on the EBITDA margins for the Pharma business. Now that we are at 26% and which is even better than the guidance given at the start of the year. And you have mentioned the margin drivers as well, just quantitatively if you would like to guide for the next upcoming couple of years in terms of the EBITDA margin for the Pharma business**?**

Ajay Piramal: We are not giving guidance for the future, as you know. So I don't want to give, but you are seeing that the trend, the margins are healthy and they will continue to remain healthy.

Tushar: Okay. And if possible to share at least the pecking order in terms of the EBITDA margin for our three segments, that is CDMO, hospital generics, Consumer Healthcare. In terms of the EBITDA margin in each of these segments?

Ajay Piramal: Yes, so pecking order will be the Hospital Generic, CDMO and it varies in CDMO depending on the Services & Products; and then it will be the Consumer business.

Tushar: Have we done EBITDA positive for the consumer?

Ajay Piramal: Yes.

Moderator: Thank you. The next question is from the line of Rajeev Agrawal from DoorDarshi Advisors. Please go ahead.

Rajeev Agrawal: My first question is, we are keeping a substantial equity of around INR 10,500 Crores at the Piramal-level, can you talk about your plans for the same, what do you, how do you intend to use that equity?

Ajay Piramal: So, let us see where we will use it. Now at this moment, I just want to be conservative and see how the situation unfolds. Our view is that post COVID those people that have enough equity and which have a strong balance sheet will actually have many opportunities. But I don't want to make any forward looking commitment today. Let's see how the situation evolves over this COVID. And then we'll be in a better position to answer that. But there are opportunities available, I think, as you know in both the Pharma space, as well as in the Financial Services space, as well as other opportunities, so let's just wait and see today. Let the situation evolve.

Rajeev Agrawal: Right, but just clarifying are you looking at a completely new segment as well or will it be within Pharma?

Ajay Piramal: No, not at the moment.

Rajeev Agrawal: Okay, the second question is, can you give some details around your top-10 exposures and more specifically to Lodha. I think in the last quarter, we had talked about bringing it down. So how the movement has been in the last quarter, and then what is expected to the extent you can share?

Khushru Jijina: So you're very right. We had told you that from INR 3,000 Crores we will bring it down to INR 2,500 Crores. And we were on the verge of concluding those deals. And we stay committed, it's just the delay. I think, it is safe to say that by September you will see the reduction in Lodha. Also the other thing I would like to talk on Lodha is that not only are we committed to bring it down the other good part about our exposure vis-à-vis the security which is the 2x security which we have, is that half of that, that is 1x security has actually thanks to Lodha's continuous construction has converted into a ready product. So in today's environment, we have a INR 3,000 Crore loan and INR 6,000 Crores as security, out of which half of it is ready inventory now, not under construction.

Rajeev Agrawal: Got it and but other we are comfortable as well. The top 10 continues to be around 10,000 crore is that correct?

Khushru Jijina: Yes. So as Mr. Piramal mentioned, we have a plan to bring it down in this next six months, whether it is in real estate or in infrastructure, in both, we are working on both of them.

Rajeev Agrawal: Right. And then on the corporate loan book, we have taken a provision of INR 1,900 crore. Can you segregate how much of that is towards corporate loan book and any more color that you can give on the corporate loan book too?

Khushru Jijina: I think I'll give the color on the corporate loan book and then leave it to Rajesh to talk on the provision. I think the corporate loan book is around INR 7,000 Crores, out of which around INR 4,700 Crores is in infrastructure, which is mainly renewables. And frankly in this year, you will see a majority of this portfolio getting run down, because we are in active discussions right now with a lot of funds, who want to take over the assets, because we do not have under construction renewable assets, we have fully-constructed running assets, which as you know a lot of private InvITs have sprung up. So we are in active discussion to sell them off. So this year, you will see a rundown of the corporate loan book from INR 7,000 Crores, it should at least come down by half.

Rajeev Agrawal: Great and on the provision?

Rajesh Laddha: The provision as Khushru has mentioned earlier, from a specific angle we have provided some INR 300-odd crore for Mytrah already. And apart from that, as we mentioned earlier we have created this COVID additional provision of approximately INR 1,350 Crores, even for the assets which are standard, and maybe following as standard accounts. So that you can take approximately 3-4% provision even on standard assets.

Rajeev Agrawal: So, just to clarify the INR 1,350 Crore is the provision to the corporate loan book is that? How much of the provision is to the corporate loan book?

Rajesh Laddha: We don't have segregation of provision between corporate and non-corporate. The point I'm making is out of corporate, Mytrah is one large account where we made a specific provision of approximately INR 300-325 Crores so that specific provision is against one asset. Apart from that, out of this INR 1,900 Crores, INR 1,350 Crores is an additional provision which then gets attributed to all the assets. So, that will be about as I said about 3% of the total, say loan book, corporate and non-corporate.

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

Aditya Jain: On the additional provisions, could you just clarify so, is all of the INR 1,900 crores in addition to any RBI mandated requirement due to the moratorium, or a part of this is because the moratorium was given, so some provision had to be made?

Rajesh Laddha: No, there is no RBI guideline to provide anything incremental due to moratorium that only applies to banks, not to NBFCs and HFCs.

Aditya Jain: And you mentioned that 80 to 90% of borrowers opting for moratorium, assume that was by number. So what is the number by percentage of book?

Khushru Jijina: So, INR 1,500 Crores was the moratorium asked.

Aditya Jain: No, I am asking on the lending side?

Khushru Jijina: Yes.

Aditya Jain: So, INR 1500 Crores of the total AUM – is people who have asked for moratorium?

Khushru Jijina: Moratorium – that's right.

Hitesh Dhaddha: That's on retail, is that right.

Rajesh Laddha: INR 1,500 Crore worth of installments which were due – have been asked as moratorium, not INR 1,500 Crores of AUM.

Aditya Jain: Okay, is it possible to tell that in AUM terms?

Rajesh Laddha: The entire AUM. So retail has, as we said 20-25% of the retail guys have asked [for moratorium] – that number will be large.

Khushru Jijina: Most of the developers have asked moratorium today.

Ajay Piramal: Yes.

Aditya Jain: Sir your voice broke, what did you say on the wholesale side?

Khushru Jijina: On the wholesale side, most of the developers have asked for the moratorium.

Aditya Jain: Got it. And on the corporate side, so you mentioned down selling on retail loans and also a bit on corporate and you mentioned good demand for renewable assets, so just want to understand is there a strategic direction change of doing less of corporate loans going forward, or is it more of a tactical call right now?

Khushru Jijina: No, right now, as Mr. Piramal mentioned, we are all focused on bringing the book to a granular level. So, I do not think there is any strategic angle to it, but right now we want to make our book more granular, whether it's in real estate or in corporate, or even in retail, for that matter to make our ticket size lower.

Aditya Jain: Understood. And just lastly, the stage 3 coverage of 40%. So does this reflect our current view of loss given default or should we look at this as still having plenty of buffer over the actual loss given default?

Rajesh Laddha: No, this is based on the current view of LGD.

Moderator: Thank you. The next question is from the line of Ritika Dua from Elara. Please go ahead.

Ritika Dua: Just two clarifications on something which you've already shared in the call. One, could you maybe help us understand more on the Marvel deal, were you the sole lender. And if you don't mind sharing again, what was the issue and how have we come out of it in terms of maybe selling-down or maybe providing extra as well?

Khushru Jijina: In the projects with Marvel, as you know in real estate, we are always the sole lender – 99% of the time. And in Marvel, the projects where we were, we were the sole lender. The way we had to, we did the settlement was that we needed to complete the project. And we wanted Marvel to bring in money. So he brought in an investor, where the money came in as equity to complete the project and we agreed out of INR 208 Crores to take a write off of INR 30 Crores.

Ritika Dua: Okay. And Sir the second clarification which I wanted, did I get this correctly to one of the questions that you were asked earlier on the call, you said that even in retail the reason why the retail book has also come off is because of the sell down and then I think was it correct that it was mentioned that we thought that there were certain risky loans that we wanted to take off the books and we want to only focus on affordable and the less risky one, what are the risk are we talking, are we talking about a commercial exposure here in this retail book or what was this risky bit that we were sharing?

Khushru Jijina: As you know that our average ticket size when we started was around INR 75-80 lakhs, we want to bring it down to INR 20-25 lakhs. Also based on the profile of the customers, what is happening and based on our rate, so, we are encouraging – I cannot speak much on that – but we encouraged a lot of our customers to move to other [lenders] and we have been pretty successful at that.

Ritika Dua: Okay, so you mean more from a profitability standpoint, but that's okay. But I understood that we were saying on risk side, so it's more that you want to maybe go on to the granular?

Khushru Jijina: No, it's more to do with the early warning signals, as you know COVID is having a lot of challenges in various industries. So whatever our early warning signals throw up by the risk, so certain categories, we encouraged our customers to move to other banks and institutions. But I can't speak much of that right now.

Moderator: Thank you. The next question is from the line of Umang Gandhi from Financeology Asset Management. Please go ahead.

Umang Gandhi: Can you tell us, what is the total exposure of Piramal Enterprises to Mytrah as on 31st March?

Khushru Jijina: So, our exposure is roughly in the range of around INR 1,270 Crores, including accrued interest.

Umang Gandhi: And we have taken provision of more than INR 300 Crores on it, right?

Khushru Jijina: Yes, that's right.

Umang Gandhi: And second question is, what is the median timeline of all the projects, which we have sanctioned for completion – a rough idea say 18 months or 36 months, a rough idea?

Khushru Jijina: I think averaging our 330 projects and giving an answer – for me would be difficult.

Umang Gandhi: Say the farthest one?

Khushru Jijina: I think probably we will do some working and come back to you. But it is impossible to guess whether 18 months, or 33 months or 36 months for 330 projects of ours.

Umang Gandhi: The reason for the question is that, I was following Mr. Vikas Oberoi on the concall, he is saying that based on the demand supply situation right now, there would be a huge gap between the demand and the supply in the real estate factor, especially in Mumbai. So how are we placed, how are our developers placed that is what I'm asking because the demand only for completed projects, not all projects?

Khushru Jijina: I think I already answered that question when I spoke about how we have gone about doing the stress testing and liquidity provision and our cash covers. And the resolutions with that I already answered that. If you still want we can do it offline.

Moderator: Thank you. The next question is on the line of Kashyap Prakhar from Credence Wealth Management. Please go ahead.

Kashyap Prakhar: My question is, there has been some conversion of loans for our wholly-owned subsidiary into the equity shares, is there any, is it like distribution of equity or what, I just want to get an explanation about that?

Rajesh Laddha: I think you are referring to conversion of ICD**.** As Mr. Piramal had explained in the beginning of the call that whatever this additional provisioning we have taken worth INR 1,900 crore, and which has been provided for. Against that, to maintain the equity into Financial Services – we have allocated/infused equity worth of INR 2,000 Crore into Financial Services business. And this is part of that.

Moderator: Thank you. The next question is on the line of Ritu Shah from Sameeksha Capital. Please go ahead.

Ritu Shah: Actually my questions have been already been answered.

Moderator: Thank you, we move to the next question. We take the next question from the line of Miraj Mehta from Equirus. Please go ahead.

Miraj Mehta: Sir, what I wanted to understand is, obviously looking at the scenario we have been in continuous capital raising mode over last one year and shoring up our liquidity. So, Piramal as a company over last six, seven years for the first time in last one year has been more on the liquidity challenge as in trying to shore up the liquidity rather than growth. When can we see the switch turned on in terms of the – from challenge to a growth mode?

Ajay Piramal: So let COVID settle down, let the environment improve and then I think there will be many opportunities for growth, today is not the time to talk of growth, I think today we have to be conservative. Because, every day if you've seen the projections for COVID seem to change very, very widely. So, I would not think that this is the right time for growth. But once you come out of this crisis, those who are strong, those who have strong balance sheet, who have liquidity are the ones that will grow. So that's our strategy and I think you would appreciate that and nobody expected COVID to take place but we were seeing that there was such an uncertain environment all of last year, because every day there would be some new negative news that we thought it's better to be conservative and raise more funds and that's what has helped us even today. So, I can only say that we will, we are closely watching the environment and as and when the environment improves, we will be, you will see it also.

Miraj Mehta: Sir, just last one question apart from whatever provisioning we have already taken, what do you expect how much of the incremental hit do you expect both from your wholesale lending?

Ajay Piramal: Over this provision, we hope there will not be – that's why we have taken this provision.

Moderator: Thank you. Due to time constraint will be able to take one last question. We take the last question from the line of Abhijit Tibrewal from ICICI Securities. Please go ahead.

Abhijit Tibrewal: I just had one question. Would it be possible to give some kind of breakup on this INR 1,900 crore of provisioning that you would have done? Earlier in the call you alluded to something like INR 1,350 crores that you've done on standard assets. Is some kind of a breakup available of this INR 1,900 crores provisioning?

Rajesh Laddha: What we are showing in our analyst presentation is total provision against stage-1 & stage-2 assets, which approximately now stands at about INR 2,500 crores. And stage-3 is about INR 480 crores. So, that's the kind of detail we are sharing.

Abhijit Tibrewal: Right sir. But no such break up available on the INR 1,900 crores that you have done. In other words, what has been provided for towards some of the stressed assets or something which would have slipped into GNPA?

Rajesh Laddha: Stage three we are saying 40% PCR and the total stage three assets are about INR 1,200 crores.

Abhijit Tibrewal: Fair point. So this INR 1,900 crores that you would have done in this quarter so, INR 1,350 crores is what you said were provided against the standard assets.

Rajesh Laddha: Yes.

Abhijit Tibrewal: And the remaining, is what I am trying to understand the remaining INR 550 crore?

Rajesh Laddha: INR 1,300 Crores plus INR 300 Crores – i.e. about INR 1,700 Crores is, out of INR 1,900 Crores is for stage-1 and stage-2 [assets], and incremental INR 210 Crores for stage-3. And we already were carrying around INR 260-270 Crores of stage-3 provision earlier.

Moderator: Thank you very much. We'll take that as 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. Hope you all and your family remain safe in this COVID environment. Please feel free to reach out if you have more questions. Thank you.

*****

Note: We try to bring in a high level of accuracy in our communication to stakeholders. Our transcripts gets corrected at times with few minor changes to ensure this purpose.