



“Piramal Enterprises Limited Q4-FY2018 Earnings  
Conference Call”

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ENTERPRISES LIMITED.**

**Moderator:** Ladies and Gentlemen, Good day and welcome to Piramal Enterprises Limited Q4 and full year 2018 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over Mr. Hitesh Dhaddha, Chief Investor Relations Officer from Piramal Enterprises Limited. Thank you and over to you sir.

**Hitesh Dhaddha:** Good evening everyone. I am Hitesh Dhaddha and I am pleased to welcome you all to this conference call to discuss the Q4 & Full Year 2018 Results. Our results have been uploaded on our website. You may like to download it , you may like to refer it during our discussion. The discussion today may include some forward-looking statements, and these must 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, Piramal Enterprises Limited and Khushru Jijina – Managing Director of our Financial Services Business. With that, I would like to hand it over to our Chairman and would request him to share his initial thoughts. Over to you sir.

**Ajay Piramal:** I am pleased to announce another year of robust performance for our company. For the full year 2018, our company has delivered a 24% growth in revenue and we have now crossed Rs. 10,000 Crores mark for the first time, ending at Rs.10,639 Crores. The profit before tax grew at 49% to Rs.1,964 Crores for the last year and a 24% in normalized netprofit at Rs.1,551 Crores for the FY2018. During the year ended March 2018, we have initiated the process of merging Piramal Finance and Piramal Capital into Piramal Housing Finance with an intent of streamlining the financial services business.

A step in the direction of potentially splitting financial services and Pharma business in the future. After obtaining all the necessary regulatory approval the merger got effective from 31st March 2018 onwards. This was the key reasons why our Q4 and full year results announcement got delayed beyond our normal time. This merger will result in significant synergies over the coming years. The company has created a deferred tax asset in its balance sheet that has resulted in an accounting gain of Rs. 3,569 Crores. The benefits of these synergies are expected to accrue in the coming year.

Our effective tax outgo is expected to go down from 35% to 25% for the next 6 to 7 years. Our financial services ROEs are expected to go up by around 2% to 3% every year and hence we remain committed to deliver 20% ROE in our financial services business over the long-term. Due to the synergies on account of merger of subsidiaries in the financial services segment the actual net profit reported for the quarter grew to Rs. 3,944 Crores and for the year to Rs. 5,120 Crores.

Since then over the last 7 years the company has delivered a revenue CAGR of 29% and annualized net profit CAGR excluding exceptional gain or losses of 55%. We have delivered annualized shareholder return of over 40% as compared with 14% return by NIFTY over the last 5-year period. Since the deal, we have returned over Rs. 5,600 Crores to our shareholders in terms of dividend and buy back. For the current year, for the year ending March 2018 the board has recommend a dividend of Rs. 25 per share, at a dividend payout ratio of 29% which is before the dividend distribution tax and 34% after the dividend distribution tax.

You would recollect that we have raised Rs. 7000 Crores of capital last year out of which Rs. 5,000 Crores was in QIP and approximately Rs. 2,000 Crores in terms of the rights issue. Out of which we have allocated Rs. 5000 Crores to financial services and the balance Rs.2000 Crores has been kept for Pharma and for other initiatives. So, as of March 2018, out of our total equity of Rs. 26,447 Crores we have allocated Rs. 9,725 Crores for our lending and asset management business. Coming to some details of the financial services. During the quarter our loan book grew 69% to Rs. 42,000 Crores. In addition to this, loans worth about Rs. 23,000 Crores are approved but not yet disbursed.

So in all loan worth Rs. 65,000 Crores are either disbursed or about to get disbursed. PEL's loan book has grown at a robust CAGR of 122% over the last 6 years. The company has consistently delivered 60% plus year-on-year growth in loan book in each of the last 13 quarter. The consistency robust growth in our loan book is also an outcome of our strong diversification through launch of 22 products and business at its vertical that we have added year after year. We saw strong growth across all the vertical of financial services - real estate, developer financing, corporate financing, emerging corporate lending and the housing finance business.

In a period of a few months of its launch, a housing finance loan book grew to Rs. 1,200 Crores as on March 2018. Additionally, the business has loan approved but yet to get disbursed at Rs. 580 Crores at the end of March. Other than housing finance, we will continue to explore various opportunities to expand our offering in the retail segment. We have recorded a ROE of 25% plus over the last 10 consecutive quarter prior to the fund raised. During the quarter the business generated a ROE of 19% a little lower than earlier quarter because we have now allocated, the entire allocation of Rs. 5,000 Crores from the capital raise to our financial services business.

While we are growing exponentially, we are highly focused on our risk management and governance and this reflected in the quality of our assets with a gross NPA below 1%, for the last 9 quarters and at the end of Q4 of 2018 our gross NPA ratio based on 90 days remained healthy at 0.3%. We are conservative, and we continue to provide more than the regulatory requirements and maintain the provisioning at around 1.8%. From financial services I want to move on to Pharma. Our Pharma growth after the sale of our domestic Pharma business to Abbott has grown at 16% CAGR over the last 7 years. Global Pharma which accounts for 92% of the Pharma revenue has delivered a strong growth in EBITDA margin from 10% in 2011 to 22% in 2018.

We have a differentiated business model and that has ensured that we perform better than most of the other Indian Pharma companies which have been impacted by the regulatory issues and generic pricing pressure. Our focus on quality is ongoing and I can say that we have successfully cleared 31 US FDA inspection, 102 other regulatory audits, and 826 customer audits without a single day of production disruption. Global Pharma revenues for the quarter ended March 2018 grew 13% year-on-year to Rs. 1,245 Crores. On account of the robust performance across various facilities and good growth in business acquired from Mallinckrodt & Janssen.

The margin profile of this business has improved significantly over the last couple of years on the back of our organic initiatives and the high margin product acquisition. We continue to deliver strong EBITDA margin for this business. During FY18, we delivered EBITDA margins of 22% compared to 20% in the previous year. The Indian consumer product business registered a revenue of Rs. 346 Crores last year, which was an 8% decline over the previous year. This decline was on account of the introduction of GST and its implementation affected the industry and the wholesale channel. We are now back on track on a growth path this year.

Coming to the healthcare insights and analytics business. The last quarter revenues grew by 3% to Rs. 234 Crores increase on account of growth in life sciences data and analytics segment which was partly offset by lower demand for research products that are being displaced with dynamic uses and big application. We continue our India expansion initiatives by on boarding 340 positions of Bengaluru and Gurugram offices, representing 29% of our total employees. These were the highlights and now I would like Mr. Khushru Jijina who heads our financial services segment to give us a deeper insight in that Mr. Khushru Jijina.

**Khushru Jijina:**

Good evening everyone. I think taking forward from what Mr. Piramal said on the financial services I will go a little more granular into the financial services business. In fact, today what I will do really is compare what we have been saying from the beginning of the year and what exactly we have achieved under each segments of the financial services business. So, let us start with the biggest one which is real estate wholesale lending business. If you all recollect we had said and I have been saying this right from April 2017, that the growth which is coming and is continuously coming in the real estate wholesale business will be driven mainly by construction funding and also again in construction funding moving to commercial and then lease rental discounting which we announced during the year and the other segment in fact we added hospitality to it which I will come during a minute.

And today if we really look back at the year which is over and see what has really happened. So while the overall RE book grew from Rs. 21,300 Crores to Rs. 31,800 Crores, it's the construction finance (CF) book which really grew from Rs. 12,700 Crores to Rs. 19,200 Crores which was a 51% jump and lease rental discounting (LRD) grew from Rs. 1,200 Crores to Rs. 3,600 Crores which has a growth of 200%. During the year, we have also identified hospitality sector as the sector to be in because we found that is a niche here and again like we have done in any of the others, whether it was CF, it was structured debt whether it was any other innovative

product which you came out with. We studied the entire sector for months and really understood what this sector really requires and that is why we announced two deals one in Gurgaon which was Westin hotel and one in Bangalore which is JW Marriott where we did the LRD transactions and you will see a lot of these transactions happening in this current year also.

So this has really fueled the growth or I would say responsible for the growth of the RE wholesale. So, it is not the structured debt. We have been consistently saying that we are looking at risk adjusted return, for us that is more important than the absolute returns and I think what we have been saying for the last 1 year we have delivered on that. Let me move on to CFG or the corporate finance group. Most of you will recollect I have been saying this right from the time the corporate finance group has been integrated on our platform that this is the group which will actually in terms of percentage grow faster than the real estate and why did we say it because corporate finance grew before it got integrated on our platform. It was a one-product platform, which was only doing mezzanine funding for infrastructure space, and we realized that why we are only in the infrastructure space when we can actually study each sector and we can actually become sector agnostic.

So we have been saying this and today as we speak we have moved into various sectors whether it is cement or auto ancillary, logistics, warehousing, etc., and we have also offered senior debt and project finance during this year. Again, the combination of that the results are there to speak, we have seen the CFG book grow from Rs. 3600 Crores to Rs. 8100 Crores a growth of 118%. So, what we said during the year that this will fuel the growth, this will be faster in terms of percentage has actually happened., The CFG book has grown in terms of percentage faster than the real estate growth and we expect that to continue.

Let us look at what happened in the housing finance space. Again, during the beginning of the year, we had said that somewhere in the mid of August we expect our license from the regulator and we will start our business in August. Unfortunately, we didn't get our license in August, but we got it on the 4th of September of 2017 and we started our business because we were actually ready, we had kept the powder dry. We launched our housing finance business firstly in the MMR region which is the Mumbai metropolitan region and towards the end of the year which is March'18 we actually launched our housing finance business in Pune, Bangalore, Delhi, Gurgaon and Noida.

And I am very happy to say that in the last 8 months we have approved 156 projects across 80 developers. Chairman mentioned about the AUM that in the 8 months, we did Rs. 1,210 Crores and over and above that Rs. 580 Crores of sanctions, because these are related to project completion, slab wise release. So in 8 months we did Rs. 1,210 Crores. What it also means this AUM is the validation of what we have been speaking in the last 3 quarters about the various questions you have been raising on housing finance. One it is a myth that it is a crowded market because again let me repeat that there are only 8 players whose AUM is Rs. 10,000 Crores and above and maybe 16 players whose AUM is Rs. 5,000 Crores and above.

And we have been saying this since day one, that it is not a B2C business this is a B2B2C business. The B in the middle which is the developer plays a very important role in influencing, obviously your rate, your services have to be on par and I think the numbers prove it beyond doubt that in the last 7 months. I am sure in the recent history no housing finance would have given this numbers of 156 projects and 80 developers in seven months and mainly from Mumbai, please mark it because at the end of day the other regions were opened only in March. So the impact of these regions, the AUM impact on these regions will actually play out in the next 6 months. Again, we mentioned about our innovative products. I think to mention one of the innovative products which has become very famous in the industry now obviously others are copying it, but it is the super loan which we spoke about so that was the innovative product which we came about it.

In fact, while we speak, we are looking at innovating some other products with specific developer requirements in mind. Again, we have spoken about faster turnaround around time, if you all recollect because we believe that we were lucky to come in late and so that we could use the cutting-edge technology. Again, today we have proved it in the market; the customers have validated it that we are one of the best in service and turnaround time. So again, I think on the housing finance what we had been saying throughout the year I am happy to report that we have actually achieved it. We had also mentioned if most of you recollect that we believe that there is this emerging corporates in India, which requires, and there is a gap and that is the opportunity, which we have sent last year. So, to that we have formed the emerging corporate lending group sometime in June.

And again, I am very happy to let you all know that what happened in this 9 months that we opened five locations Mumbai, Delhi, Chennai, Hyderabad and Pune and now we have a team of 18 people and even the AUM of ECL grew to Rs. 900 Crores with Rs. 200 Crores still to be sanctioned. So again, ECL has taken off and I think there is more to come from both HFC and ECL. So the point I am making is that if you really look at, if you dissect the growth in the AUM it has largely come from again the granularity in the RE wholesale book, it has come from HFC, it has definitely come from the 125% growth in the CFG and ECL.

Moving on, to some other nuances which we have been talking for a long time if you recollect we have also been talking about our rating, because we believe that in this year when we started the year we believe that when we are moving into HFC and ECL and also doing senior lending and project finance in CFG and also LRD in the wholesale lending book of RE, we believe that this book is getting diversified and granular and we believe during the beginning of the year that now we should be getting rating upgrade and in fact we have lot of questions on that if most of you recollect.

Again, here I am happy to report that during the year, in November'17 after thorough audit. ICRA upgraded us from AA stable to AA positive, which immediately brought down our cost of borrowing on an overall cost of borrowing by 15 basis points. Let me move on to one more

point which we keep on speaking all the time and chairman spoke about it that why we speak about the growth, but I think the most important thing which we always concentrate on is the quality of the book. I think Chairman has spoken about it many times that unlike other NBFCs, probably we are the only NBFCs, where we as promoters have more than 50% stake. So obviously for us the quality is more important than the growth, so while we speak about the growth but for me the most important thing is the quality. So, what has really happened again to the quality of the book, as Chairman mentioned that our NPA ratios continues to be only 0.3% in fact it was 0.7% in the beginning of the year.

This is despite the demonetization, RERA, GST, the tsunamis which took place again I think most of you will recollect, we have spent a lot of time on the call talking about our underwriting model or process, but again it is not for us to speak again I am very happy that not only our underwriting model and the process have been validated by the tsunamis which took place. I think a very important event took place somewhere in around December where the regulator or Reserve Bank of India conducted a thorough audit of three weeks of our entire portfolio to really look into the quality of the book whether is the book really genuine, is it really having the right security, is there any issues with the book, etc., and I am very happy again to report in fact that we got an absolutely clean report from the Reserve Bank of India, but more than that the person who headed the Reserve Bank of India audit who met me on the last day, mentioned that he was positively surprised to see a 4 year or a 5 year old company an NBFC having processes, - home grown processes by us to be so good that he has seen very few in his 40 year career.

So again that validates the quality of the book. I think more than what we are saying I think it is a regulator which really validates what we have been doing. Let me move on to the other event, which Chairman spoke about is reverse merger, let me touch upon few nuances why it is advantageous to us again, again needless to say it is one entity ,we have been saying this that as a business, our model is to provide end-to-end solution to our developers and our customers. So obviously it had to be together whether it's from equity or to housing finance. It definitely needless to say brings down the common operational overheads, also there is a further scope for improving the credit rating, which will result in the reduction of borrowing cost, and I will touch upon it in a minute when I come to the future.

Again, the improved credit rating, which we hope will happen during the year, will actually open avenues for this combined entity to raise funds from diversified lenders like pension funds, which are higher rating requirement, which is nothing but AA plus. Mutual funds again can lend as you know higher amount to HFC vis-à-vis NBFC which is 40% of their portfolio against normally 25%, so these are the other advantages. The other advantage needless to say is that the tax benefits which Chairman spoke about which bumps up of the ROE anyway from 2% – 2.5% in the coming years.

Let me also talk about what is happening in the real estate industry as we do it every quarter. I think consistently we have been maintaining from the last two years and it is actually playing

out. We have been saying it much before RERA came into being, that RERA will consolidate the industry. I think on the last call we did speak about it and we said we actually seeing it payout. In fact, in the last call we did tell you that we have in fact started becoming more of marriage makers than lenders, what I meant was that today distressed developers come to us, to help tie up with good developers and that is what has started playing out, but the sales were still tepid, while they were better, our primary data of 375 projects, which we primarily map and mine showed us that while quarter-on-quarter, post demonetization things were improving. It was still not crossing the pre-demonetization stage. Today, I am very happy to report that from January to March quarter actually if you see our developer's sales it has actually gone back to the pre-demonitisation stage and I think you will be reading it a lot in the papers also generally.

But the only point I again want to make which I have been making again and again that please do not look at sales from the way we were looking at it, because it is not that everyone is going to sell, it is the same 10-90 rule, it is the same organized developers will sell others will not be able to sell and they will convert themselves to either landlord or they just sell off the business. So when I said markets are coming back, it is actually led by Mumbai and Bangalore today. But who and what is selling I think the mantra is very simple. It is the good developer, the right product and the right ticket size. I think a great example especially for people who are in Mumbai, who would have read the tremendous launch of Piramal Realty in the Mahalakshmi launch, Rs. 1,500 Crores sold in 7 days, in fact Piramal reality had to close the booking and that actually validates what we have been saying all the time that there is demand, you just need to have the good developer, the right product and the right ticket size.

In fact, we have seen the same type of launches being done by most of our big developers whether is Mumbai, Bengaluru even you will be surprised even in Noida. So definitely we are happy with what has happened in the last quarter, which is definitely better than the three quarter before. So how are we looking at the current year, before we move into Q&A, I thought proactively I will speak about the way we are looking at the current year. Let me first start with the real estate wholesale. Today unlike a year ago we are in the best position as far as the real estate whole sale is concerned. Why?, because today we have all the products in our arsenal right from equity which I will talk about it in a second to structure debt to construction finance commercial and residential and housing finance.

I am very happy to inform you all that Ivanhoé Platform which we spoke about, actually in the next three months will be announcing a slew of deals of equities for good developers of ours on the Ivanhoé Platform, because actually that is the need of the hour for real estate and today again last quarter we spoke about it we really do not consider ourselves to be pure lenders.

I am very happy to report that we are actually a part of the development I would say the strategy of the top developers across the city today, we actually discuss with the developers or vice-versa I would say. The next two to three years their growth plan what they should do what they should not do so, we have gone beyond lending.



I think I have mentioned to you in the beginning, hospitality sector is definitely since we have studied it end-to-end, this year that will add to our AUM, what is also probably add to our business is, as you know what is happening in the banking sector today. As you know with the situation in the banking sector in fact, we have started seeing a lot far more deals on the platform then what it was whether it is non-real estate or real estate. CFG ECL, I already mentioned to you with the changes we have made last year, what are the changes we made, so let me repeat it – one was the product. As I said we are now no more just a mezzanine product company. We give not only senior debt we also do project finance plus we are sector agnostic. So really, we believe that a sector like logistic warehousing as of now maybe there will be more sector coming up which is growing thanks to GST we will playing an important role.

The other point is that last year, which we had mentioned to you that we actually set up two separate important teams. One was the capital market team to really map the market. to go to the promoters and really give solution, it is not about lending, it is giving solutions and a very good syndication desk. This combination, I believe will actually take CFG and ECL further than what we have done last year. So I want to make that statement again at the beginning of the year. Talking about HFC, we will continue growing and opening our branches. In fact we are now going to go into Tier-2 cities also. We had mentioned that in the past in our thesis, when we have started our HFC. So I am happy to say that in less than 1 year, we are actually opening in the next 30 days or Tier-2 city which is Nasik. And then it will be followed up very closely by Ahmedabad, Chennai and Hyderabad. So in the next 6 months actually, we are opening the next four branches again.

What are we doing anything new this year beyond this? I think let me talk about another strategy which is right now in the works hopefully, in the next quarter we will be able to give a more granularity or more color to it ,which is the asset aggregation strategy. So far we have been speaking about on the CFG book the lending strategy, but I think, the time has come for the Group because we have been such major players in infrastructure especially in renewables that there are opportunities, while I have not been able to divulge some details right now, but we are looking at a fund either it could be an AIF or partnership like Ivanhoe, where we would actually play the consolidation story, which is right now happening in the renewable sector.

The other very important point, which I would like to make this year, I think with the syndication desk now stabilizing and all the people in place. We believe that besides lending, there is a great scope for us to now look at fee based income and this is what you would see this year. So that is the thing I want to give you a forward statement that this year you would see a lot of fee based income. This actually helps stabilizing or I would say on a quarter-on-quarter, so we have plans on that and every quarter when we speak, we will keep on unveiling, what we are doing on the syndication desk, which is a fee-based income.

The last but not the least the rating, we believe we are already engaged with our rating agency for upgrading our rating from AA positive outlook which was given in November to AA+, which

we believe that this combined entity we believe we should get. So we are actually engaged with them hopefully, very soon we will be able to share some news with that.

With that I think we can open into question and answer.

**Moderator:** Ladies and Gentlemen we will now begin the question and answer session. The first question is from the line of Alpesh Mehta from Motilal Oswal. Please go ahead.

**Alpesh Mehta:** First question is related to the segmental reporting, when I look at the segmental reporting, the financial services allocated net worth works out to be almost Rs. 17,000 Crores. Mr. Piramal mentioned at the beginning of the call is around Rs. 9700 Crores, is the pure lending net worth is roughly Rs. 6500 Crores related to Shriram Investment and rest for the AMC business?

**Ajay Piramal:** Yes that is right.

**Alpesh Mehta:** Secondly, just wanted to get the reconciliation of the overall net worth as well at the end of last year, we were at around Rs.15,000 Crores moved to around Rs. 26,000 Crores, so the entire CCD amount of around Rs. 5,0000 Crores is it included in the net worth right now?

**Vivek Valsaraj:** So the amount of CCD is included in this, there is a debt component, which under IndAS is also recognized, which is regrouped into debt. This also includes the increase in the fair value of Shriram Investment to the extent of Rs. 667 Crores and a share of profit during the quarter net of dividend that is how the overall reconciliation for the net worth is.

**Alpesh Mehta:** Can you just help me with the numbers that would be great. So at the beginning of the year till the end of the year?

**Hitesh Dhaddha:** Alpesh more details on the numbers you can get back to us, we will help you out on that.

**Alpesh Mehta:** So the last quarter at the end of third quarter, we had reported a ROA of 4.1% on the financial services business, whereas this quarter the number is 3.1%, the net interest margin last quarter reported was 8% and this quarter is 7.7%, while the ROA drop has been 100 basis points but the margin drop has only be 30 basis points and the cost to income ratio has not changed that much for almost 100 basis points drop into the ROAs?

**Hitesh Dhaddha:** We will get back to you on this.

**Moderator:** The next question is from the line of Siddharth Jain from Morgan Stanley. Please go ahead.

**Siddharth Jain:** So I wanted to ask you that in the housing finance business the loan book currently that we have is Rs. 1,210 crores can you please give me the bifurcation of how much is housing loan and how much is non-housing loan?

- Khushru Jijina:** Roughly, I think it is 75-25, but if you want I can again send you the exact numbers. So 75% is retail and 25% is small construction loan.
- Siddharth Jain:** What is the average yield that we are getting on the housing loan and non-housing loan?
- Khushru Jijina:** Basically, today on an overall basis we are at 9.55%.
- Moderator:** The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.
- Ravi Naredi:** This year our loan growth is 69% while our profit is not risen in that proportionate, any reason for same?
- Vivek Valsaraj:** Overall, this year we are on full tax, tax is at 35% and which is why do not see the corresponding improvement in the overall PAT.
- Ravi Naredi:** Tell us something about fee-based income which you mentioned in your remark, what will be the fee-based income which we will earn current year? We do not want the number from which sector we will receive it?
- Khushru Jijina:** So let me just again repeat what I just mentioned. So today in the last year what happened really is that whether in the real estate sector and more in the CFG part all the deals which we are doing, we are also down-selling a part of it now. We are basically able to give a single source, I would say solution to the promoter and then we down-sell as other NBFCs. So it will all come from that the fees are going to come from down-selling. So whether it is in the renewable sector, in the road sector, whether it is in cement, etc., it could also be in the real estate.
- Moderator:** The next question is from the line of Piran Engineer from Motilal Oswal Securities. Please go ahead.
- Piran Engineer:** Just a couple of questions. Firstly, on your corporate finance book if you could give us the sector-wise split of the book that would be helpful also, what would the average ticket size and the average tenure in this book?
- Hitesh Dhaddha:** The book is fairly diversified across 5 to 7 sectors and generally we do not disclose the sector wise breakup.
- Piran Engineer:** Maybe the top three, four sector I guess logistics is one and may be renewables is the other one.
- Khushru Jijina:** So logistics, renewable and auto ancillary will be the top three sectors that we have, which which may have like 50%- 55% of the book size and the balance will be across different sector.
- Piran Engineer:** Is this consortium lending or are you generally the sole lender?

**Khushru Jijina:** Generally, we are the sole lenders. As I said, if the exposure is large then we down-sell it, as I just mentioned about the syndication desk that again we have formed a set of lenders who are like-minded because down selling is not just down selling to anybody, but ultimately to like-minded lenders so which we have actually formed various partnership which are in formal.

**Piran Engineer:** And these loans would be of what sort of ticket size?

**Khushru Jijina:** Loan could be anywhere from Rs. 200 Crores to Rs. 500 Crores.

**Piran Engineer:** But in that case how do we really differentiate ourselves from the banks because the banks would also want these high-quality assets, so if you could just talk about, because we have grown this book by leaps and bounds in the last one or two years, so I am just trying to get a sense of how we are able to do it when we are competing with the banks or other NBFCs like Aditya Birla, etc?

**Khushru Jijina:** I think this question is not a new question, people have been asking, your question is well valid. People has been asking us on the real estate side also in the three years and how is that you people are growing, how is it developers come to you, we are definitely not the cheapest and we have demonstrated this today in the last four years. And what I mean that we are not lenders, we are actually solution providers. So without getting into detail even in the CFG book, really if you look at it, and if you happen to meet any of your promoters they will actually tell you that these guys are not really lenders, we provide a holistic solution, sometimes the promoters have come to us for something else and we have actually studied their entire balance sheet and said no do not do this, we will give you a different solution which is good in your interest long-term. So we are really known for value-add giving money is a commodity. I think it is just understanding the sector, structuring it which is what has been our forte and we have demonstrated this quarter-on-quarter and quarter for the last four years and in CFG also we demonstrated that, and you will see this happening again this year also.

**Piran Engineer:** And also, did I hear you correctly, did you say you did an LRD for JW Marriott in Bangalore?

**Khushru Jijina:** Yes.

**Piran Engineer:** An LRD for a hotel how does that really work?

**Khushru Jijina:** Again as I mentioned that it is not everybody cup of tea, without getting into the nuances because these are our underwriting models and definitely I do not want to divulge it but the point I am making it when we do this so basically obviously the LRD is for the owners is for the owner of JW Marriott hotel, but we do not even again look at it as the real estate play. We have actually mapped the whole sector, for example even the JW Marriott senior management would be aware of what we are doing. So today in the hospitality sector we are not only engaged with the owners of the hotel, we are also engaged with the operators if I am making sense to you and it requires

a different set of underwriting. So having studied, it having done it, and we have actually formed a separate central team because this is the different underwriting totally. It may be real estate but it is not really real estate. So again, that is a sector which we have understood and underwritten.

**Moderator:** The next question is from the line of Arnab Nandi from Oxbow Capital. Please go ahead.

**Arnab Nandi:** I just had a couple of housekeeping questions you had mentioned that beginning of the call that you expect tax rate to go back down to 25%, is that something you think you can achieve starting next year or how should we think about it tax rate has moved around?

**Vivek Valsaraj:** When we say that tax rate, goes down to 25% that is effectively the cash tax rate. The effective tax rate will still remain at about 34% while we have created this deferred tax assets on account of the amortization of goodwill we will be able at the MAT level and cash tax will be 25%, but the effective tax rate will remain 34%.

**Arnab Nandi:** I think as per the beginning of the call you guys said you expect from the financial service ROE to be north of 20%, can you explain sort of the ROA and ROE map for me and what leverage do you expect to run this business at?

**Khushru Jijina:** As chairman mentioned let me break it up into two parts that because of the equity infusion which has come in financial services of Rs. 5,000 Crores today our debt equity has come down to 3.7 so it obviously it affects the ROE in the short run. But we definitely expect the ROE to go back, without even the tax impact I am talking back to the normal (+20%) by 2020 because that is a time we will again be at a debt-equity of 4.5-5. Coming to the other point that the chairman made but, however, because of the merger and the tax benefit which we have on the cash basis we are getting an ROE benefit on a cash basis of 1.5% to 2% and that is why with that impact in spite of the debt-equity going down and affecting the ROE we will still be affectively having an ROE of (+20%) and that is what Chairman mentioned.

**Arnab Nandi:** Not to ask on a quarterly basis, but your cost to income has moved up some, is that sort of cost build up around the HFC business, so how should we think about it?

**Khushru Jijina:** As you know we are investing in housing finance business and you are seeing we are actually opening a branch every month, so this will in the short-term skew the cost-to-income ratio, but you would agree it will in the long-term by 2020 you will actually see the benefits of it.

**Moderator:** The next question is from the line of G Vivek from GS Investment. Please go ahead.

**G. Vivek:** I just wanted to know about the headwinds, which are prevailing for us in the Pharma sector, when are they expected to subside? and same query for the headwinds in the wholesale lending and Mumbai real estate market where I believe the average cost to be flat as cost-to-income ratio is still very high for Indian context?

**Ajay Pirmala:** The headwinds in the Pharma sector I think we are to some extent or to a great extent insulated with the headwinds in the Pharma sector and let me explain to you why. As you know that 92% of our sales, our revenue as far as Pharma is concerned is in the global space and these are in two big sectors-- One is of contract manufacturing and services and the second in complex generic product. So as far as manufacturing and services for global Pharma is concerned there are no headwinds, they are as it is and only headwind in that is the quality requirement and because we have been good in terms of quality. As I said we have had more than 30 US FDA inspections alone and more than 860 other inspections from customers and not a single day lost because of quality therefore that is a plus and hence you will see that our turnover we have shown a 16% top line growth and our margins have also gone up. Second thing is our business is in complex generic products where there is limited competition; whether it is in the product which we have been anti-narcotics, whether it is in the inhalation and anesthetic product or in the Mallinckrodt product that we have acquired and hence again there is no significant headwind there, as you are experiencing in other Pharma companies in India. I think does that clarify the situation as far as Pharma is concerned.

**G. Vivek:** But compared to the other segments, growth rate will remain comparatively lower in Pharma>.

**Ajay Piramal:** Compared to the segment in financial services. So we have grown 16% year-on-year which is a good growth rate I would say on a CAGR basis. Headwinds in real estate, I think we explained that what is happening in the real estate space and especially particularly in Mumbai is that those people now there is a clear distinction between the top developers and the average developers. Our belief has always been the top 10% of the developers who are the ones whom we are backing, there the growth rates have come back, we gave you the example of Piramal Realty but the others as well. What has changed also in Mumbai is that you have to have the right product at the right location so if you were to have flats which are Rs. 30, -Rs. 40,-Rs. 50 crores which many people built they are not selling. But at the right price, they are still selling and therefore I think we are conscious of that and continue to fund such projects.

**G. Vivek:** Because there is a few of desperate ads coming out in the newspaper from very reputed build up in Mumbai and looking outside.

**Ajay Piramal:** The trouble is that in real estate everybody make generalization. So, let me just tell you that because we have primary data from our own sources in real estate, we only back those projects in those locations where we feel that there is an adequate demand for those products. So that is the job that we do and hence that is the reason why we are seeing growth also in our quality of assets also remains.

**Moderator:** The next question is from the line of Abhishek Leekha from Investec Wealth Manager. Please go ahead.

**Abhishek Leekha:** Just want to understand the strategy behind our IT business because over the last couple of years, this is not being growing and what is the management intent behind how to take it forward?

**Ajay Piramal:** This business that you are talking about just to clarify it is really a business which is more on data and healthcare insights. The way this business is, initially it was only operated out of the US and what we provided was in the healthcare space provide insights to customers who could be Pharma companies, who could be insurance company, or it could be hospitals. What we have done now is that we have also added analytics to this space and a lot of that growth has taken place because of the people in India and therefore we have added 340 people in India which is in Bangalore and in Gurgaon. So our focus in this space is to continue to make new products available to serve both the pharma industry as well as insurer. As you know that data is the most important today to get a competitive edge and this is what we are providing to our customers. We are also making it at a lower cost in India and this we believe that you will see better results going forward now.

**Abhishek Leekha:** From which year we can see some growth rate coming back to our IT business?

**Ajay Piramal:** In the current year you will see that.

**Moderator:** The next question is from the line of Manan Patel from Equirus Securities. Please go ahead.

**Manan Patel:** Couple of question. One on OTC part of the business. It has seen a small de-growth and you have mentioned that one because of base effect and second because of a normalization of a credit policy and trade spend, so how do we look into that business because I understand that we have acquired lot of products from different companies, so I just wanted to have your thought on this?

**Khushru Jijina:** Last year was an aberration if you see the previous year we have always been growing very well in this business and far above industry. So I think this was an aberration mainly because of the GST that took place last year, the effect of that which affected almost six months of working. Now we are seeing that the growth rate is going to be back and this year you will see that the results are different, and I think we will be able to report that in the first 6 months' results.

**Manan Patel:** About launch of Desflurane have we already launched that, or it is still in the pipeline?

**Ajay Piramal:** It is available in other parts of the world, but the US which is the largest market we still have some things with the FDA and we should launch I know this has been delayed by a few years, but we should launch it in the near future.

**Manan Patel:** Last question on the lending part, so we have mentioned that Rs. 23,000 Crores is sanctioned but it is yet to be disbursed and last quarter also we had a similar number, so what is this disbursement linked to can you explain that?

- Khushru Jijina:** So, let me answer that I think broadly you have to divide it into two parts. One is today on a month-on-month basis, we actually have one investment committee or maybe even two. So at given point of time there are deals which are sanctioned and not disbursed that is one part and the second part is the construction finance. As I mentioned to you our bulk now, 60% of the portfolio of real estate lending is construction finance. So what happens in construction finance that if you have sanction Rs. 100 you may lent only Rs. 20 because then when the next slabs come up you will give another Rs. 5 and so on and this Rs. 23,000 Crores is basically a combination of these two.
- Manan Patel:** Sir last question you talked about the syndication of debt and that you are working on and another thing I can see is like there is strong trend of repayment or prepayment in your book which is a very good sign actually, but then if I look at going forward so how will the growth rate in the loan book taper down somewhat because of syndication as well as prepayments?
- Khushru Jijina:** Not really. I think syndication really comes from when the ticket size of the loan is large and today as more and more consolidation is taking place and even in this industry where more and more people are coming to us for one stop solution obviously we are not going to keep everything on our books. So that definitely is going to be down sold that is one part but coming to your first question please understand this is a part of the business and it is actually very good. In fact, in our mind anything from 35% to 40% of the book we look forward for churning in fact if you see in this year itself we have churned 50% of the opening book which is a good thing. So, it is a part of the business and when we budget our numbers for every year we have taken these things into account, so it is no surprise to us.
- Moderator:** Ladies and Gentlemen, due to time constraints we take the last question is from the line of Ronak Jain from Vibrant Securities. Please go ahead.
- Ronak Jain:** My question is on the Pharma business it has shown a very good margin improvement over the last 3 years from around 12.7% today at around 18% at EBITDA level, can this inch upward more in the future approach?
- Ajay Piramal:** We will expect it in the 20-22%, range is where it will be.
- Ronak Jain:** So even if I assume 2% to 3% increase in margins I think this business, or this segment will not make more than 15% return on capital employed is it correct?
- Ajay Piramal:** So we are targeting between 15% to 20% in the long-run that is what we are going for.
- Moderator:** Thank you. Ladies and Gentlemen that was the last question. I now hand the conference over to Mr. Hitesh Dhadha for closing comments.



**Hitesh Dhadha:** Thank you everyone for joining the call. In case you have more question, please feel free to reach out to me or my team. Thank you.

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