



“Piramal Enterprises Limited Conference Call to
announce the launch of Piramal Housing Finance”

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Moderator: Ladies and Gentlemen, Good Day and welcome to the Piramal Enterprises Limited Conference Call to announce the launch of Piramal Housing Finance. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the opening remarks of the management. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Hitesh Dhaddha, Chief Investor Relations Officer for Piramal Enterprises Limited. Thank you and over to you, Sir.

Hitesh Dhaddha: Thanks, Stanford. Good Evening everyone for joining this call from India and Good Morning and Good Afternoon to all those who are joining this call from US, UK, and Europe. I am Hitesh Dhaddha, Chief Investors Relations Officer for Piramal Enterprises Limited. I am pleased to welcome you all to this conference call to announce the launch of our housing finance business. We have also uploaded a presentation for today’s call on our website, you may like to download it as we may refer it during the discussion. The discussion today may include some forward-looking statements and these must be viewed in conjunction with the risk that our businesses face. On the call today, we have with us Mr. Vijay Shah, Executive Director, Piramal Enterprises Limited, and Mr. Khushru Jijina, Managing Director, Piramal Finance and Piramal Housing Finance. With that, I would like to hand over to Mr. Shah and would request him to share his initial thoughts. Over to you, Mr. Shah.

Vijay Shah: Greetings for being on the call today from different parts of the world. It has always been our endeavour in Piramal Enterprises to drive growth and to pursue growth through newer initiatives. In this context, you have seen the performance of financial services division quarter on quarter in several quarters, at least last 10 quarters, and we have been mentioning that one of the factors adding to the growth is the addition of newer products and newer lines of business. In continuation of this strategy, we have identified that housing finance is an area where we would like to enter. It is alike to what we are doing today and is an extension of what we are doing today. There could be no better person to explain to you our entry strategy into this area than Khushru Jijina, so over to him and he will explain to you and then later he will be patiently taking your question and answers.

Khushru Jijina: Thank you, Mr. Shah. Hi everyone, I think before I go into the housing finance and in fact we had spoken about it some months ago, our whole thesis of why we are going into it and what makes us confident. The most important thing as I always say on the call is the proof of the pudding is in the eating, so we actually got our license on September 1, we could have actually done the call on 4th September or 5th September, but the idea was to first, actually we wanted to test out our thesis, which I am going to speak about in a few minutes and then talk to all of you.

Let me first give you the scorecard of the last 22 days what has really played out and then I go back to my thesis, which I spoke about sometime back when we had introduced our whole concept of housing finance. Today as I speak, in the last 22 days, we already have more than 150

employees onboard. The senior management which is across the marketing, the sales, the risk, the operations etc., the senior management itself brings more than 100 years of experience. We have already opened our first branch in Goregaon and we will be opening our second branch in Thane next week. In these 22 days, we have already got on-board 15 developers because we have started in the MMR region, that is the Mumbai region for more than 30 projects. We have already got more than 500 connectors onboard and more than 50 DSAs, the direct selling agents onboard and of course the most important number should be the AUM, the asset under management, in the first month itself, we will be crossing 200 crores. This is a scorecard of what has actually happened and then I would like to move back and rewind along with you all what was our thesis and how it is playing out.

If I go back in time, I think six to eight months, when we decided to move into the housing finance, one of the primary reasons was that obviously we, being a platform, which is offering all the products to the developers from equity to construction finance and lease rental discounting in commercial, we thought we needed to add housing finance to this basket. You all would recollect, we had discussed this thesis and the myth on housing finance, that time we had spoken about it that people think that it is a crowded industry and that time also we had mentioned that it is not a crowded industry because at the end of the day there are only eight to ten players whose AUM is more than Rs 10,000 crores, which includes the likes of HDFC, Gruh Finance, LIC Housing, etc.

The second was that we are a wholesale platform, many people thought that how will we enter retail and that is why last time also we had explained that actually it is more of a B2B2C model where the middle B, the developer, plays a very important role, and I would like to start with that thesis itself that what has actually played out from the time we got the license, we have actually approached all our developers in this last 20 days of Mumbai and reached out to them for this housing finance. Now why we did that, there is this AUM of 200 crores which is a very good number in the first month itself not because they love us, because coupled with our relationship, it is the same DNA of Piramal Group which we have demonstrated on the wholesale platform, which is relationship plus innovation, so let me talk about it what has happened in the last 22 days technically.

Basically, the way we are looking at housing finance for the developers is totally different from the way others are looking at it. For us, housing finance is just another product on our wholesale platform for the developers where we help them with a solution to sell. Now, let me give a few examples, which is in the last 22 days itself. One example, the first one is that one of our developers wanted us to tailor the product for them to help in selling certain larger flats. He has a project in suburban area called Thane, which is outskirts of Mumbai and in his project, the one-and-a-half bedroom flats were doing very well, but he was struggling to sell the two-bedroom, hall, kitchen flat, so he asked us whether we can help him out through the HFC model, through an HFC product.

Typically, in fact according to me this was not a problem of the developer, it is actually a problem about the way Indians buy flats and many Indians on the call will be able to resonate with what I am saying. Typically in India, an Indian family when they want to buy a flat and say let us make it simple if the family feels that they have Rs. 100 in their pocket to spend, they typically end up spending Rs. 75 to Rs. 80 because the Indian psyche has always been that what happens in a rainy day, though logically everybody, 80% or 85% of the probability is that you will do better in life not worse in life, so what happens is typically Indians end up buying a suboptimal home and then again after two or three years realizing that, “oh gosh, I should have bought the bigger flat” and then going in for another flat and this is a typical story and that is why if you go back in the data of housing finance, you will see that a 15-year loan or 20-year loan lasts only for five or six years and that is the reason.

Here, we at Piramal Housing saw an opportunity not only to solve the developers problem, but to also solve the problem of the Indian psyche according to me, so the product our housing finance team introduced was something called SURF, simply means that we are encouraging the customer to buy two-bedroom house flats, of course, after screening the customer obviously because it is not for everyone. We feel that if this customer is doing well etc., we tell him that we will charge you the EMI monthly assuming that you have bought one-and-a-half and after five years I will step it up.

This product has actually become a hit product in the market, let me tell you and in fact there is a demand pull which is coming right now from other regions also that why it is not introduced in Bangalore or in NCR, but obviously we cannot roll out everything in HFC because in the first three months, we would like to test all our processes because like in our wholesale platform, what we are known for, we are really known for our processes, checks and balances and the early warning signals. The AUM as I always say is a byproduct of those things, so here just to share with you there is a huge demand and excitement in the market about Piramal Finance in 22 days of introducing our products, which is the need of the hour, it is not a vanilla product. It helps, let me complete with all the examples and I will tell you how it helps us also.

The second example was an example for a high-end property called Omkar 1973 in Worli. Now, typically again in India and again the Indians on the call will agree with me that the super-rich in India, if we go by the typical income proof statements probably you would not even give the rich guy a loan to buy in the suburbs because the income is not really shown. Now, here comes our knowledge of real estate because here we were already entrenched from private equity right from day one on the landscape with Omkar, right up to the final product and also being in the ecosystem, we understand each customer, again we tailored a very different product for Omkar 1973, this is again an example.

Let me give an example of Piramal Realty, which asked us to tailor a different product for their suburban flat where we came up with 199, again a unique product which has its own structuring to safeguard ourselves, so just giving you a flavor of what we are doing. Now, this actually helps

us also because typically one of you should ask me a question that what is the ROE in this business, because at the end of the day if we end up doing a vanilla business, obviously the ROEs are not as good as what is in the wholesale platform, but it is this tweak, it is this innovation which actually allows us not to be in the range game and it is proved in the first month itself, and I am very confident that when you all see the first quarter numbers itself, you will be happy that this thing has played out, so it is a win, win, win, so it is a win for the customer who is able to get a different type of housing loan product, it is a win for the developer, and it is a win for ourselves because it helps us getting a better ROE, if I am making sense, so that was our thesis, that I spoke about which has actually played out, that is one of them.

The other thesis which we spoke about which many would have been skeptical, I am sure last time that we said that we being a new company and late entrant, there is a tremendous advantage for us in imbibing or embracing the technology. You know, it sounds very simple, everybody talks about technology, but you would all agree that had I been an old company in housing finance embracing is not so easy. This was of course we are lucky that we are one of the late entrants and we had spoken about how we are looking at technology which housing finance has not seen so far.

Now, let me also share with you all investors that luckily again we had launched it post-RERA, why is it lucky, because post-RERA every detail of a developer or a channel partner is actually on the site, so the information required also has come down because if you know the RERA number you do not require so much information, so again let me share with you guys that 15 days back, we actually were invited by the National Association of Realtors, which is an all India body, like CREDAI is for real estate, NAR is actually for the channel partners and connectors all India, in fact it was people from all over the world had come down and I was the keynote speaker, and there we proved it to them, we showed them the technology of how we can on-board any of this channel partners in 45 seconds and today that is why this number of 500 connectors and 50 DSAs on-board. It is not only the on-boarding process, I think the technology provides a lot of transparency not only to the customer, but to all the channel partners, so the entire ecosystem.

Let me explain what we have actually developed. Today, even whether you are a channel partner or customer, you can actually track your file with me on the system. Gone are the days when the DSA does not know what the hell is happening with the company with all the files given, he can actually track it online and also the payout, his fees, he does not have to follow up, it is there online and he will get it at the end of the month, these are the nuances which we are bringing in the transparency and the speed, the turnaround time on technology.

I do recollect speaking about this sometime back that we are also going to be in self-employed sector, which I will touch upon it in a minute. In self-employed today which is an underserved sector in housing finance because more than 50% of Indians are self-employed, so it is not only the salaried in India. Now these are the underserved sector especially when you go to Tier-2,

Tier-3 cities. Now we had mentioned last time that we will actually come with the program, I will talk about self-employed, I am on TAT right now, so we actually studied and mapped out the best in class TAT for self-employed which was 21 days, not an average best in class, and through our technology platform, we have actually developed a program which will give loans once we approve, if we like the customer, in 11 days, so it is playing out what we spoke. I can go on and on a lot on technology and we will keep on, I am sure you will hear about it from the market because ultimately the market has to speak about our technology and TAT.

I was talking about self-employed. If you all recollect, we spoke about self-employed that is an underserved market, someone had asked me also that what makes you confident about it and last time we mentioned a couple of things that our association with Shriram by being an associate of Shriram Housing and if you all recollect, I and some of my senior members like Srinu and others were actually running housing finance of Shriram for the last 18 months. What is Shriram's model, actually it is below the self-employed, in fact they serve the unserved, the informal sector, but they have mastered the art of underwriting those, so we have actually made our own underwriting model based on our association with Shriram Housing and our understanding of that, and that is why we are confident, in fact, we have already tested it out against all the compliances and the credits and the risks, so I am very hopeful and I am confident that this will actually play out, so that is the other.

Again, self-employed and ROE go hand-in-hand, I want to interlink everything to ROE. It all goes hand-in-hand because ultimately when you do self-employed, when you do the tweaks in the normal, this gives you higher ROE and ultimately when we move to Tier-2, Tier-3 that will add on to the ROE, so ultimately we are ROE focused. I am just getting everything together, that is the point I am making. The other point which has, in this short-term not played out, probably it will play out in this quarter which we are again very confident of is the Brickex platform. As all of you know, we have this unique Brickex platform which is a B2B platform of more than 10,000 distributors which not only helps on the wholesale platform, it also helps our developer sell their flats.

Now, why do we do it not for profits, of course they make profit, but the most important thing is that when they are in the market they actually know what is happening on the ground, the ears to the ground as I say. Brickex will also be one of our large DSAs. Now, why I am stressing on that, because while DSAs are an important element of a housing finance program or any company, it is a double-edged sword. Many times, DSAs also keep on switching the loans because at the end of the day by switching the loans they earn more profits, that is natural. This being our home grown DSAs, they are not going to switch so this will also bring stickiness, so this again we believe is a uniqueness of the platform. Just two minutes on Brickex I must share from the last time we spoke that the importance of Brickex, not only it helps today our platform in underwriting and as we see what is happening in the market today, so it is not a normal underwriting which people do because the things are changing in the market very fast, the velocity, the price points.

I will give a small example, I do not know whether any of you would have read four months or five months back that Omkar in Malad sold 588 flats in one week, actually they sold in three days. What happened let me share with you all. This actually was a joint effort with Brickex and their team. We worked 35 days backwards. Brickex mapped out each and every building in their micro-market and what was the stage of selling and what was selling and what was not selling. Based on that, they give the input of the ticket price because Omkar's statement was that you give us solution, but we want to sell it in one week in seven days. Now you tell us what to do, so we said that you sell one-and-a-half bedroom at Rs 75 lakhs and two-bedroom at Rs 94 lakhs or something, but that is not enough, you have to plan it accordingly, it is not just the ticket size, so actually with Brickex and with their architects, we sat down and made a plan and that is the story, it was the work done 35 days, I am just bringing the point of power of this platform. I am very confident that the other thing which we spoke about last time that Brickex platform will actually add a lot to this.

The other thing is on the costs, I think again being a newcomer with technology and also the way I think the customers as you all know the way millennials behave. Gone are the days when people visit the branch and stand in a queue, those days are gone, so that is why it gives again an opportunity for us. Let me again explain how it is played out. In MMR region, what are we doing, we are just having a hub and spoke model, so the first hub and branch we opened in Goregaon and another branch to serve the Eastern part of Mumbai we are opening in Thane, that is it, we do not need any more branch, so our costs are controlled from day one, so that is very encouraging again for us because not only there is a technology, but the millennials do not want to come in and visit the branch, but you definitely need the branch for credit assessment, sometimes somebody will come, but the point I am driving here is gone are those days when you need a lot of branches.

As I come back to the main point about a B2B and B2C as I said has already played out. I am very confident and I am saying this today, it will actually, you will see it play out in all the cities and of course as I said right now, there is this whole thing about as I always say greed and fear, but I think we will hold on till testing all the models and then roll it out to Pune, Bangalore, NCR in the next two or three months. On how fast we move will actually depend on the processes and the things which we already have, so just to give an idea, the entire credit process has been tested with compliance and risks. Just to share with you one of the advantages we definitely had because we on-boarded a person called Mr. Satish Mehta. Satish Mehta was the employee number two of HDFC Limited, probably the number one would have been Deepak Parekh, I do not know and he actually is known to have written the processes for HDFC Limited, he is the person who formed CIBIL, so he is with us on a full-time basis now and I must acknowledge his contribution in the last nine months of really helping us through the nitty gritty of the entire thing, each and everything goes through his eyes, just to share with you that we are very fortunate to have him right now on-board on this.

The other thing which will also play out this year itself, I think the other two points which I must talk about is affordable housing and LAP and small construction which we spoke about last time also. Affordable housing, many people keep on asking me even on the wholesale platform that will it succeed, I am a firm believer now having been in this industry for so many years and actually visiting the site of so many developers that finally affordable housing is coming into play and I will tell you why, I think it is for a couple of reasons. When people attempted affordable housing some years ago, the developer mindset was different. What is the developer mindset is maximizing FSI because those days the margins were high, they never worked like an industry, there was no concept of inventory, no concept of debtors, no concept of IRR as I would say, they were only looking at money multiples, those days are gone.

As you can see with RERA and with consolidation, people are moving and running it like an industry. Having moved into that, affordable housing is nothing but production, you have to produce you have to run it as an industry like an MNC and that is what I am actually seeing on the ground. Let me share with you my visit to Bangalore recently with a top developer who has got into affordable housing and doing very well, and I visited the sites and I was amazed and I was more amazed by the thought process of that entire team, what was the thought process. They are going with the thought process that the margin, the profit is zero in housing in affordable, but they will make profit by value engineering by cutting down the cost and it is a religion, it was amazing, even coming from a real estate background like me, I learnt a lot of things that how people are now cutting down costs and making it standardized including the show flats can be rolled back even, the thought process how to make sops that every nut and bolt can be used again in another site, that is the thought process, so I am very confident coupled with the Pradhan Mantri Awas Yojana which has also picked up, so I am of the belief that actually our housing loan, in fact just as we speak I can share with you all in the next 30 days, we are actually making right now an affordable product or housing product for affordable housing in the next 30 days. We are testing it out for various risk parameters and that is why we have not rolled it out, but we will be coming out with that because I am a believer that ultimately, it will be this affordable which will add a lot in the coming years to our AUM.

The other two which will add to the AUM will definitely be Loan Against Property, LAP, and small construction finance. Again, LAP is a very misused word and people think that LAP is a very dangerous thing. I think we spoke last time, anything is dangerous when you go away from the basics of that deal. What is the basics in LAP, it is not only the property, you have to see the income generation or the cash flow, which people missed and started giving LAP and that is why people are in that situation. I can assure you that we will do LAP not only against the property but cash flow, the same thing which we follow even in our wholesale platform. Construction finance, we spoke about and I will repeat, I think that will start playing out probably in six months' time when we move into the Tier-2 cities, which we have a plan to roll out.

Again, just at the cost of repetition, today the wholesale platform cannot cater to the Tier-1 developers of Tier-2 cities because it makes no sense because in the Tier-2 city like a Nasik or

Nagpur, the Tier-1 developer will ask for a construction finance of Rs 15 crores or Rs 20 crores, it makes no sense for this wholesale platform to go there, but now with the branch opening, we will be able to cater to the Tier-1 developers of Tier-2 cities, so all in all if I have given you a whole idea, this is what is playing out and this is the thesis.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the question and answer session. We take the first question from the line of Piran Engineer from Motilal Oswal Securities. Please go ahead.

Piran Engineer: Sir, I just had a couple of clarifications, firstly this Rs 200 crore AUM that you generated in the first month is it from one project only or is it multiple projects?

Khushru Jijina: Across 30 projects.

Piran Engineer: What would be the yield on this Rs 200 crore AUM?

Khushru Jijina: It is around 9.5%.

Piran Engineer: I presume mostly self-employed borrowers because salaried wouldn't be much?

Khushru Jijina: No, in fact you would be surprised to know this was more salaried, but as I mentioned to you because of the innovative products which we offered, people were ready to buy. As I said, the way we look at it housing finance is not only a rate gain, it gives the rate gain when you are having a me-too product, but when you are solving the problem of an individual, you will agree with me that he is happy to pay you more and let me also add to this that we are so early in the days, we have not even added insurance on that as a wrapper, which you will see, so in fact I am going to, I am not hoping, I am pretty sure that actually the yields will improve, this is just yields on the loan in the last 22 days.

Piran Engineer: This is of the product where the EMI is low for the first five years and then picks up after five years?

Khushru Jijina: No, that was only one project, I just gave an example on this call, already we have unfolded six products.

Piran Engineer: Also Sir, in this B2B2C model, do you pay the developer a fee for recommending you or how does it work?

Khushru Jijina: In fact with our relationships today as we speak, the developers are not asking for anything, but yes, going forward, we will have a program for that also. In fact that is a very good point you have raised, which I forgot that in a lot of cases since we are bringing solution to the developer, you understand, for him ability to sell because of HFC, I do not have to pay him commission and that is also bringing down my cost, there is no DSA involved, it is a good question you asked.

- Piran Engineer:** Now, the next model which is the Brickex network, how exactly are you going to leverage that network and how does the sourcing cost compare versus another regular DSA, or is it the same cost and it is just a different platform to source loans from?
- Khushru Jijina:** I think what they bring to the table is stickiness, while they will charge a little more, I am not so fuzzed about that, to answer your question they will charge less than the other DSAs, but I am not worried about that saving. For me, the most important thing which you will agree is stickiness because what is the sense of doing a loan and getting it out after one year, so that is the thing which they will bring on the table.
- Piran Engineer:** But some other DSA can bring that guy out after two years?
- Khushru Jijina:** I agree and disagree because ultimately you own the customer as a DSA.
- Piran Engineer:** Sir, lastly if I may, what is your targeted loan mix just in terms of LAP versus construction finance, I mean because you want to achieve a healthy ROEs, so I am sure the non-core loans should be a big enough part, so what kind of mix are you thinking about maybe over the next two to three years?
- Khushru Jijina:** Basically, I think LAP as a proportional, or first of all let us divide it into retail & wholesale in that way, so basically I think the small construction finance will be roughly not more than around 20%, & within the 80% of the retail, LAP we would be restricting it to 15% to 20%.
- Piran Engineer:** Sir, lastly the small construction finance, are you going to leverage on the same team of your wholesale team, for everything appraisal, etc. or it is a totally different team?
- Khushru Jijina:** It is a totally different front end team, the back office team of assessment, risk, and the whole process which we have already mastered and proprietary, which I always talk about will be used.
- Moderator:** Thank you. We take the next question from the line of Kunal Shah from Edelweiss. Please go ahead.
- Kunal Shah:** Sir, firstly in terms of the existing book which is there in Piramal NBFC, are we planning to transfer any of that into the home loan or it will be entirely the new origination which would happen under this HFC model?
- Khushru Jijina:** This will be entirely new origination.
- Kunal Shah:** None of the developer loan will get transferred from that entity at all?
- Khushru Jijina:** Not at all.

Kunal Shah: Sir, just was thinking if there is any arbitrage between the NBFCs and HFCs from the existing book can be ...?

Khushru Jijina: It can happen that tomorrow in a certain project where we have funded, it moves down to the HFC, but that is a part of the normal business model, we are not going to encourage it, and ultimately please understand I want to drive on this point and I am saying this today, you will see us, we have a game plan, it is just that we are not giving timelines right now as I said that we want to test our system, you will appreciate, it is very important to test it and ultimately we move to Tier-2, Tier-3.

Kunal Shah: Sir, coming down to Tier-2 and Tier-3, so I think maybe in the presentation also where we are highlighting it is largely say in terms of the top 10 cities, until what level we will be focusing on say the top 10 cities and later on beyond a particular level of AUM, we would get into Tier-2 or Tier-3 or is it that right from day one maybe our expansion would be both across Tier-1 as well getting into Tier-2, Tier-3?

Khushru Jijina: I think it is a great question, I think it is not going to be first, we have a rollout which I would call it, not exactly simultaneous but just behind the simultaneous, for example, yes, we have a rollout plan, we will definitely move now into Pune, we will move into NCR, we will move into Ahmedabad, we will move into Bangalore, but we also have a plan to start moving into Tier-2, Tier-3 cities which will be possibly, it need not be that we extend the full 10 cities and then move into Tier-2, it is a mix and match, I am repeating again for the Nth time for us very important is to stabilize our systems and processes, I have always said this even in the wholesale platform, anybody can give loans, it is the returns, the recovery which is most important. We will not compromise on that, so if everything goes well, we may even accelerate our growth plans right now, so internally we have all the optimistic, normal, pessimistic plans in place, but we will not compromise on the quality.

Kunal Shah: Lastly, definitely we are bringing about a lot of innovation say wherever it is needed, but would it not get easily replicable by the other players as well and given that I do not know maybe in terms of the funding cost advantage which we have today as compared to that of say someone like HDFC and do we see like maybe initially at this level of AUMs maybe we are getting into 9.5% yield, but once these innovative product gets replicated, we see the pressures and again that could be some kind of a pressure on ROEs as well then what we are expecting?

Khushru Jijina: Let me tell you, give you a couple of reasons why I think it will be replicated, people are going to copy, there is no doubt about it but why it is not so easy and why we feel we will continue, let me take you through this whole journey of even our wholesale. Today, when we launched construction finance, everybody told me who is going to give you construction finance and today 60% of the book is construction finance, so why are people giving us even when we are slightly costlier than State Bank of India and others, because of the turnaround time, because of the innovation in everything we do. Now, okay your point taken that somebody also will innovate,

but again here there are some certain things which are unique to us. As I said, though it sounds softer, but trust me they are really very important. One of the things is again a very unique platform here that the wholesale and the retail team are working together. If you see this is the 100% subsidiary of Piramal Finance, we have purposely done it, we have not kept it separate, so as much as the retail team has a KRA of achieving something, even my wholesale regional heads have part of them as a KRA, so it is a very unique model without naming the top guys, I have never seen a wholesale head bothered to talk to developer about the retail, he is not bothered, so that is one softer aspect.

Again, I am a believer that after launching six innovative products, I am not going to stop, I will move on. This is exactly what has happened in wholesale, people have copied me, apartment fund I launched, 20 people launched it, I moved on, I moved on to something else, again I tweaked something else, so today my apartment fund looks totally different from what I started, so I am a believer that we are an innovative platform and we will continue to bring innovation. Also, let us not forget that today as a market, I am the financial partner of choice, it may sound arrogant, but actually it is because today nobody in India post RERA is able to give right from equity to LRD, nobody is able to do it under one platform, so obviously I believe I have a more I would say strength or influence over the developer to give me a little more preferential treatment, I believe we will do that, so obviously competition is there, competition is healthy and there is a large enough game here. We are also undermining the market, I am a believer that with RERA coming the customers ultimately will come back, with affordability coming, with Prime Minister's office really pushing, I can tell you being part of the discussion with NHB, I am a firm believer that there is a great opportunity for lot of HFCs, so it is not either or, it is going to really grow.

Vijay Shah: I just want to add what Khushru said, it applies to any other industry also. Actually, if you go to see strategies are generic, it is not about the quality of the strategy, it is about the quality of the execution and that is what is differential between one organization and the other, so you need to replicate the strategy, but it is very difficult to execute the strategy.

Moderator: Thank you. We will take the next question from the line of Punit Sehgal from SBI Mutual Fund. Please go ahead.

Punit Sehgal: Sir, just to check, you just said you were coming into affordable housing, you are planning to come in next 30 days, so which cities are you targeting?

Khushru Jijina: No, as I said, the first 30 days everything we are testing out in the MMR region, I was just transparent in telling you all that today we have rolled out various products for midmarket, I gave some examples, I rolled out products for ultra-rich, now we will roll out the product for affordable. So I was transparent in saying that I do not have the product today in 30 days because I want to test it out, there is no sense just growing the AUM, let us test it out and then do it properly.

Moderator: Thank you. We take the next question from the line of Utsav Gogirwar from Investec Capital. Please go ahead.

Utsav Gogirwar: Sir, my question is regarding affordable housing, you mentioned in the initial comment that you have seen one of the developers who is innovative in affordable housing segment and he is doing excellent over there, but are you seeing this trend across all over India because my question is do you really see the affordable housing will pick up in this next six months or next one year, just wanted to understand your views on that?

Khushru Jijina: Good question again, so I will answer it in parts. I am not the *jyothishi* to say, but six months definitely not, I think in one year, the reason is also because of RERA, because everybody is grappling with GST and RERA, so I definitely see this coming, really kickstarting in a year's time. Now, coming to your question, yes, throughout India wherever I am going talking to our developers, as you know we have all the developers in our fold, they are all talking affordable now that is also a danger. Let me just share with you, you did not ask again the danger lies that everybody seems to think that affordable is the Mecca, I do not think so, again affordable will be successful for people who know their job and that is why again as lenders, I am not talking both wholesale and retail both because we are one platform. It will ultimately lie for an NBFC to really spot the right guy. Again, the NBFCs in India will have to apply the real estate knowledge to see whether this guy is ready for affordable, just speaking of affordable I think many people are going to have accidents, that also is a danger, but yes we are seeing a lot of stress right now by top-notch developers and we do a lot of interactions with them because it helps our knowledge base and to understand the technicality. Across India, the big boys are really talking about affordable and talking a very different language which they used to talk three or four years back. So I am very optimistic about it, but you will not see the result immediately as I said the entire industry is grappling with RERA and GST, so give it time to settle down.

Utsav Gogirwar: Sir, lastly, the issue with affordable housing, what does our interactions say, that it is the land prices, higher land prices which is actually impacting the projects, so is there any other concern or any other factor which you think will impact?

Khushru Jijina: I think there are couple of things for affordable which is important, since you have asked I will take you through the whole issue. It starts with the land prices, happy to tell you that land prices have actually corrected across and affordable especially because it is outside the city limits, so when it is in the periphery or outside the city limits, the land prices have definitely corrected, let us not kid ourselves for various reasons. One is obviously the slow sales, second is of consolidation, what has happened typically let us go back in time. Land prices never used to come down because who are the landowners who used to own the land, but typically the generations used to own the land, so they used to sit on the land, so they used to never allow land prices to fall. Today, 90% of the developers who are going through trouble as I said are becoming landowners, those stressed-out developers or people in difficulty who are becoming landowners are happy to sell it at lower and I am seeing it play out on our wholesale platform

today because we are helping the marriages happen actually in the market by getting a distressed guy with our developers. We are actually doing it as we speak, so land prices have corrected which is a good news, of course not to the extent which the press spoke about 30% to 40% that is rubbish, that will never happen, but it has now corrected.

The second very important point, which I am hoping that also improves, and which has definitely improved in certain states is the approval. As you know, the approvals play a very important role in the cost of flat or the project, we ignore that but it is very important. Today, across India there are certain states which have actually started doing much better in approvals than others, so I am hoping that other people pick it up. especially when the stress is coming from the PMO, but that as of today it's not perfect, so let me not say it is perfect, but I think it should improve but certain states like Maharashtra if I would say has really done well, I think approvals across is now far, far better than what it was before.

The third is the cost of construction, I think developers who have imbibed this factory type of construction making it like I would say cookie cutter that each project is the same, you are just repetitive, standard product which has happened. I am actually seeing it on the site which is happening now and bringing those repetitive technologies which the foreigners use, I am very happy that the way some developers have started imbibing those technologies that makes us confident that in future affordable will succeed.

Moderator: Thank you. We take the next question from the line of Abhishek Murarka from India Infoline. Please go ahead.

Abhishek Murarka: My question was when you are targeting a Rs 10,000 crore kind of portfolio by let us say 2020, are there any ROA or ROE thresholds, if the thresholds are breached then you would not underwrite a certain kind of business and what are those thresholds?

Khushru Jijina: You are asking me something which I will not be able to answer fully, let me answer it differently and you will appreciate why I am not giving the full answer. At the end of the day, ROE is most important. I also said that we are across self-employed, salaried, Tier-1, Tier-2, Tier-3, we are across all products whether it is for the ultra-rich, we are for the affordable. Obviously in my mind there is a mix to achieve that ROE, which I cannot divulge right now to you.

Abhishek Murarka: You have, obviously there would be a threshold, I was just trying to see that typically in the first two or three years or especially when you are growing fast, there is a lot more expense and some of the loans have not yet got into the time period when the outlay is lower and the cash flows are higher, so typically the initial few years might be where ROEs are low?

Khushru Jijina: Agreed, in fact first of all I think we have never said that we are going to get 18% to 20% ROE in the year one, I think that is impossible, I think that is a wrong way of looking at it, I think in a steady state which will be I am assuming three years, you will see this ROE. As I said it earlier,

what are we going for that, one I told you that obviously in this whole thing, we are monitoring the mix, so we have a strategy in mind what we are going to do, whom are we targeting which I cannot really unfold, if you will appreciate, but on a broader aspect obviously the focus will be on self-employed, the focus will be on giving the tweaks or the innovative products. The faster we move into Tier-2, Tier-3 will be better for us, let me tell you that. Also cost is under control from day one and not that we will say, that after three years we will start cutting the flak. We actually have a separate team which is signing off on every rupee spent, if that satisfies you.

Hitesh Dhaddha: To add on to what Mr. Jijina is saying the ROE target that we have right now is basically 20% plus ROE target for overall financial services platform which include wholesale plus retail in a sort of longer run on a steady state basis that is what we look at.

Abhishek Murarka: The second question may be just getting back to affordable housing, I think you gave a pretty good idea of the kind of work that is going on from the developer side, but I just had a question about the size of the entire opportunity because, you are going to finance very small units with lower ticket sizes and you need it in volumes and of course it will take probably a year or two years for the volumes to come up if not more, so do you think in the next two years or so, is it really as big an opportunity as is being made out by the media or the industry?

Khushru Jijina: I think it is a big opportunity. Now let me answer it differently because you have asked me in two years will there be that big an opportunity, so let us understand one thing, even right now, if you really look at the affordable projects which have been launched, what is the big difference in their launches? If you see their sales, they are basically launching 2500 to 3000 flats and the volumes even in the initial launch itself is 500 to 700 flats, so volumes are there, it is not that it is not there at all. So the volumes make up and it is not so difficult as it seems to be because it is a cookie cutter product ultimately. Suppose if I have already developed something for a particular project, all I need to do is my guy sitting there and assessing it and getting it done, I think the volumes more than make up, let me assure you that, and the ROE also is better, but my confidence is coming because on the ground for the first time the Tier-1 developers are really talking, really, really seriously with us, so they are not only talking housing finance, what I meant was they talked to us that post RERA how can we on a wholesale platform work with them, I am digressing but actually we are coming out with a post-RERA product on our wholesale platform also, but I am not naming you can assume the top five or 10 developers of each city are looking at it right now, I can tell you that.

Abhishek Murarka: There should be reasonable amount of supply in the next year ...?

Khushru Jijina: As I said, please be patient because I personally believe that this one year all developers are little distracted ultimately and become conservative because let us give it to them, this whole confusion of GST, RERA, I think we will have to be patient.

Moderator: Thank you. We take the next question from the line of Rohit Potti from Marshmallow Capital. Please go ahead.

Rohit Potti: Could you, Sir, please explain a little more in detail the risk management in place, underwriting aspect of the whole project and how is Shriram Housing helping us in this?

Khushru Jijina: Let me break it up into two parts, one is how Shriram Housing helped, like I said was the method of the proprietary underwriting of Shriram Housing, so what was Shriram Housing doing, there the person does not even have income proof, so they have mastered the art of doing surrogate underwriting or coming out with the income of the person, we are not even going into that segment. We are actually going into better segment called self-employed, so again I cannot spell it out because this is proprietary, but coming to your other question on risk management, so as we have done it on the wholesale platform, this is very different this itself is more detailed, retail is detailed as you would appreciate, so again let me just assure you that the last nine months have gone into setting this whole credit policies, in setting up this whole processes, pre-loan, post loan whether it is the system, the processes, the checks and balances, the sign off from the credit, the risk, the compliance which are all in-house in place today plus the same rigor which we have in our wholesale, the concurrent audit of each and every deal of pre, post and the follow-up of the portfolio. Trust me, as I have always said our religion is processes, our religion is risk management and our religion is follow up, so if that is the answer you want, but I cannot give any of the details because that is proprietary to us.

Rohit Potti: I just wanted to understand if in this venture, we will be tapping into any of the structured systems or the customer base of Shriram by any chance or is it going to be separate?

Khushru Jijina: It is a good question again, if you really think about it Shriram and us are very, very complementary because Shriram serves whom we also do not serve, below the self-employed, so in fact I missed out this point, in many of the affordable projects, we will actually go in jointly which is again a very powerful combo that between Piramal Housing Finance and Shriram Housing Finance, we will be able to serve all your customers.

Vijay Shah: We are not competing, it is complementing, Shriram is at the bottom of the pyramid, we are above that, we start where Shriram ends.

Rohit Potti: Will you be using the bank infrastructure at that point?

Khushru Jijina: No, because as I said we are already on the technology platform, so we cannot use that, there is a different system they use.

Rohith Potti: If you could explain little more the joint effort in addressing the affordable housing segment?

Khushru Jijina: As I mentioned to you in affordable as we move into Tier-2, Tier-3 cities there will be people who will be lower than self-employed, whom as I call informal sector, the *rickshawallahs*, the *Thellawallahs*, etc. in which Shriram operates, there could be a possibility which I do not want to do it but as a good marketing statement or actually as a solution provider there would be an opportunity in a certain project where I can actually tell the developer that I am able to do

salaried, self-employed, below that also, do not worry, your sales will not get restricted, I have Shriram.

Vijay Shah: Also, affordable housing definition will change from city to city, what is affordable housing in Mumbai will be a different ticket size from what is affordable housing in Indore or Jaipur, so Shriram will be catering to the affordable housing of those Tier-2, Tier-3 cities which may not be.

Khushru Jijina: As I said it is not a must, but this can actually be a weapon for us to actually sell to the developer.

Moderator: Thank you. Ladies and Gentlemen, that was the last question, I would now like to hand the conference over to Mr. Hitesh Dhaddha for closing comments.

Hitesh Dhaddha: Thank you everyone for participating on the call. In case you have any more questions, please feel free to reach out to me or my team, our contact details are there on the website. Thank you.

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