



“Q1 FY’21 Earnings Conference Call of Piramal Enterprises Limited”

July 30, 2020



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Hitesh Dhaddha:

Hi, Good Evening all. Hope you are all safe and secure, given the current environment. I am pleased to welcome you all to call to discuss Q1 FY'21 results. Our results material have been uploaded on our website and you may like to download and refer 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 our call today we have with us, our Chairman – Mr. Ajay Piramal; Ms. Nandini Piramal – Executive Director, PEL; Mr. Rajesh Laddha – Executive Director, PEL; Mr. Khushru Jijina – Managing Director, Piramal Capital and Housing Finance; Mr. Jairam Sridharan – CEO, Retail Financing; and Mr. Vivek Valsaraj – Chief Financial Officer.

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 hope dear friends, you and your loved ones are safe and in good health. This is indeed a challenging and unprecedented time for all of us. Although economic activity was materially impacted it is gradually restoring as lockdowns have started easing. There are some early signs of recovery in capacity utilization, production, and demand across industries like electricity, cement, steel. Pharmaceuticals industry obviously is in a different category where demand has not been materially affected and production levels have come back to full normal. We expect the economy to rebound in a U-shaped manner over the next three to four quarters provided there is no major relapse in the COVID situation. The severity and the longevity of the pandemic impact still remains uncertain.

In the backdrop of this unprecedented environment, we have delivered a resilient performance during the quarter. Revenue declined by 8% year-on-year to INR 2,937 crores, net profit grew by 11% year-on-year to INR 496 crores. Until the environment normalizes, we remain focused to maintain our balance sheet strength and to ensure enough liquidity.

Balance Sheet performance:

Over the last few quarters as we have been repeatedly saying, we have taken steps to strengthen our balance sheet. We brought in INR14,500 crores of capital in FY'20 through various capital market transactions, exceeding our commitment of INR 8,000 to 10,000 crores that we had said during the year. Our equity base increased from ~INR 27,200 crores to ~INR 31,000 crores by June 2020 and we have significantly deleveraged our balance sheet. Our net debt, which in June 2019 was ~INR 52,000 crores, has come down to ~INR 38,000 crores in June 2020, and our net debt-to-equity stands at 1.2x as of June 2020 versus 1.9x in June 2019.

Pharma fund-raise:

During this quarter, we announced our fund raise in the pharma space. Carlyle Group agreed to invest fresh equity of US\$490 million for a 20% stake in Piramal Pharma – making it one of the largest private equity deals in the Indian pharmaceutical sector.

All the pharma businesses are getting integrated into a subsidiary of PEL, Piramal Pharma Limited. The business was valued at an enterprise value of US\$2.775 billion with a potential upside of up to US\$360 million, based on FY'21 performance. This deal will further strengthen our balance sheet and provide us with a war-chest for the next phase of our pharma strategy, that is, to accelerate our organic and inorganic [growth] plans. The deal is expected to close in this calendar year. I think, once again the successful fund-raise raises confidence amidst the whole crisis of COVID-19, (about) the inherent robustness of our business model and the measures that we have taken so far. In fact, in 2010, our domestic formulations business was valued at US\$3.8 billion, and now in the next 10 years, we have been able to deliver value anywhere between US\$2.77 billion to US\$3.1 billion. So again, [one can see] the ability to build businesses and create value for our shareholders. Over the last one year, we have been able to generate inflows of ~INR 35,680 crores through multiple borrowings and equity transactions

Liquidity / Borrowings:

In the first quarter of the current year, despite significant challenges due to COVID-19, we have raised INR 9,600 crores of long-term borrowings. We are, as we have said before, gradually shifting our borrowing mix towards long-term funding sources. The CP exposure decreased by 95% from INR 18,000 crores in September 2018 to INR 910 crores as of June 2020. Our share of bank loans has increased from 55% in June 2018 to 68% in 2020, as a result the positive ALM gap has significantly improved in recent quarters especially in the 6-month and 1-year buckets. We continue to remain very well positioned to meet our debt obligations in future.

Financial Services:

RBI's financial stability report in July, suggests a sharp rise in NPAs within the financial sector. This could intensify risk aversion among banks, which account for 70% of financial assets. Well-governed and large NBFCs & HFCs will have to ensure smooth credit flow to the economy. Also, consolidation is to accelerate in the NBFC sector due to COVID-19. Well-capitalized, well-governed entities will survive and gain market share in future. Stronger NBFCs complement banks and will play a critical role in reviving India's growth.

Key Strategic priorities - Financial Services:

We aim to build a diversified financial services business across wholesale and retail financing, and we are continuing to make progress on our strategic priorities.

(a) Granularity of the loan book:

First of all, we are increasing the granularity of the loan book and reducing single borrower exposures. In the current year, we are not chasing growth, but will focus on making the book more granular. Our exposure to top-10 accounts reduced by INR 4,000 crores in the last year, from INR 18,400 crores to INR 14,400 crores. We made a conscious decision to reduce our large, single borrower exposures to below 15% of our net worth and only one account of ours is greater than 15% of the net worth.

(b) Proactive actions:

As we mentioned during our Q4 call, our risk management and asset monitoring teams, along with our chief economist, conducted a scenario analysis at the onset of the COVID-19 outbreak. As a part of the analysis, we stressed the sectoral impact of COVID-19 under a stressed scenario. These sectoral impacts have been applied at the deal level to assess the impact on PEL's portfolio. The stressed scenario assumed, no sales, no collection, and no construction activity for the first and second quarter of the current year, followed by minimal pickup starting in the third quarter. The outcome of our scenario analysis shows that 88% of the wholesale real estate portfolio had a >1x times security / cash cover, under the stressed scenario.

The situation has played out relatively better than what we assumed in our sensitivity analysis last quarter. Although construction activity got delayed in April and May, it has gradually resumed and workers have started to return to construction sites. To preserve and replenish security and cash covers for certain deals where the security cover went below the threshold, we have initiated deal-wise resolution plan, some of these measures include: (i) change of developer through a joint development agreement; (ii) equity infusion by the developer by bringing in additional security from assets which were not mortgaged to us before, and (iii) last mile funding.

(c) Retail lending:

Besides this, we are also building a multi-product retail lending platform and the new CEO of our Retail Lending platform, Jairam, is here with us today. Retail financing, we believe, offers several long-term growth opportunities and has a significant untapped market potential. We expect consolidation to pick up in this sector as well due to COVID-19 and competitive pressures to reduce. We are incorporating learnings from the current environment and shall build the book conservatively.

In the current year, we will focus on laying the foundation of the business that is focused on processes, policies, and people. For the next rollout phase, the areas being worked upon are:

- **In product strategy**, we plan to launch a combination of products over FY'21 and FY'22. In FY'21, we will focus largely on secured lending while testing some of the

other lending products. Also, pivoting housing finance from affluent housing to mass affluent and affordable housing.

- **In terms of geography**, we will focus on Bharat, that is small and mid-market India, where the population is anywhere from 10,000 to 4 million. We have identified markets based on potential and historical risk performance.
- **Our channel strategy** will be 'digital at the core', augmented with physical channels for customer acquisition and collection.

(d) Fund-based platforms:

We also continue to selectively tap superior risk reward opportunities via fund-based platforms, with like-minded partners. We have entered into JVs / partnerships with several large investing partners, such as CPPIB, CDPQ, APG, Bain Capital, and the International Finance Corporation to tap high-yield, wholesale opportunities through a fund structure.

(e) Provisioning:

In addition to all this, in the present environment, we believe that we should provide sufficient provisioning for contingencies. Our GNPA ratio is at 2.5% as of June 2020 versus 2.4% as of March 2020. In the fourth quarter last year, based on our scenario analysis, we created ~INR 1,900 crores of additional provisions. The overall provision now stands at ~INR 3,000 crores as of June'20 – sufficient to meet contingencies from COVID-19.

The non-NPA assets have a provisioning of 5% as of June'20. Our provision against Stage-I and Stage-2 loans has increased by INR 1,631 crores in the last one year, that is from INR 887 crores as of June'19 to INR 2,518 crores as of June'20. So, total provisions as a percentage of loan book now stand at 5.9%, and if I look at provisioning against wholesale loans, it is higher at 6.3%.

Moratorium:

As you all well aware, the Reserve Bank allowed for two moratoriums, moratorium one and two. So, as of June'20, I want to highlight a few aspects about the loan book. First and the most important, our loan book is entirely secured. Secondly, we have created sufficient provisions in Q4, and thirdly, we have already initiated proactive, corrective measures to mitigate potential risks.

As of June'20, the moratorium on our wholesale loan book is at 67% of the AUM and in the retail loan book, 25% was under morat.

Capital adequacy and leverage:

Our capital adequacy ratio for the overall Financial Services business is at 33% as on June 2020 and our net debt-to-equity of the financial services business declined to 2.2x from 4.4x as of December 2018.

Pharma Business:

In the pharma business, we are well-positioned despite the pandemic related challenges. Pharma is playing an important role in these tough times, making it one of the safest and most resilient industries. The underlying medical conditions that drive demand for our products and services have largely remained unchanged. We also see some potential upside across our businesses from the current environment.

We have taken several measures during this period. First, securing our supply chain through alternative vendor development and backward integration activities, that had actually started about two years ago and we have accelerated it now. To ensure business continuity across our 14 manufacturing sites across three continents, North America, Europe, and India (Asia), and thirdly, to ensure the safety and well-being of our employees, which is our top priority.

Our pharma performance in the first quarter, we achieved nearly 90% of our Q1 FY '20 revenues at INR 1,038 crores despite challenges faced by COVID-19 pandemic in the initial part of the quarter. This reflects the resilience of our business model. The CDMO and Indian consumer healthcare businesses delivered a performance in-line with the performance for the first quarter last year. In Complex Hospital Generics, there were some near-term demand challenges in inhalation anesthesia as surgeries were suspended across many geographies due to concerns related to the pandemic. Since then, we have found that the surgeries have now bounced back and in fact the backlog of surgeries or the first couple of months in the quarter is now being made up. Volatility in sales and changes in procurement patterns are short-term in nature, and the performance is expected to normalize over time. In line with our strategy of also growing inorganically, we have recently acquired a solid oral dosage drug product facility in the US. Our excellent track record of quality and compliance continues.

In conclusion, I would say, in the last one year we have made significant progress on our strategic priorities. We have significantly strengthened the balance sheet and deleveraged the business, simplified the organization structure, and initiated proactive actions and built solid provisions for any contingencies. I believe we are now at an important inflection point. Both our business segments have clearly defined roadmaps in place to deliver sustainable long-term performance. We have been able to adopt to the new normal and in several ways have transformed the way we do business. We continue to make further progress on our strategic priorities and we are confident that PEL will emerge stronger after the COVID-19 crisis.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Abhijit Tibrewal from ICICI Securities.

Abhijit Tibrewal: Thanks for taking my question. I had couple of questions, firstly was there any sell down in the quarter or if I were to ask what is the quantum of loan assets that you would have earmarked for sell downs? The second question is more around your retail financing strategy, I see that you have provided two new slides in your presentation deck and you also elaborated, but can we have some more tangible color around, which all products segments you are planning to enter. The last question, in your Q4 presentation Slide 66, you have given out your AUM basis different categories which is green, yellow, amber, and red categories, can we get some update in terms of now, in Q1, given that a lot of economic activities have resumed and I am sure construction has started at a lot of your projects, I mean how would you kind of classify your AUM under those green, yellow, amber, and red categories?

Jairam Sridharan: Thank you for your question. You are absolutely right, we have given a little bit more information this time on how we are proceeding from a retail perspective. Firstly I want to emphasize the point that Chairman made in his opening remarks, which is that for the retail business FY'21 is very much a year of foundation building, it is not a year for growth. This is the year in which we want to put together our basic infrastructure of how we want to do retail. You asked two questions about what products we are doing and what are the activities we are working on right now. The products that we have chosen to do in FY'21 from a rollout perspective are four product categories – mass affluent housing, affordable housing, loan against property, and small-business lending – all four you will notice are secured businesses. This is a year in which we want to focus from a rollout perspective very much on secured business lines, so that is what we are going to do. We are going to do a little bit of experimental volumes on some of the other businesses, but from a rollout perspective, it will all be secured and our intent is to go live with these multiple product categories just around the Diwali season timeline, so that is what we are working towards.

Now, as far as the activities that we are working on. Again, Chairman alluded to this in his remarks, but just to expand on that for a moment. There are four categories in which activities are going on right now – policies, people, process, and technology. So I gave you the product point first, but let me give you the other three 'Ps'. So policies, which is obviously the credit policy, risk management architecture, the credit risk models that we need to build, etc. – that is one piece of work that is going on. The second is process, which is the underlying core process – the digital and phygital processes that we are going to have and the control infrastructure that we are going to have – that is the second piece we are working on. The third piece of course is super important, it is people, putting a high-quality team together both at the senior leadership level, as well as at the execution level – that is an area that we are working on. Finally, technology, which is what is the underlying architecture, as well as the front-end customer journey architecture, so those are the four things we are working on.

With all of this, our intent is, as I said, around sort of Diwali season or somewhere around that timeline – without putting too fine a point on it – to go live with four secured product categories with a little bit of experimentation around some of the other businesses, in roughly 15 to 20 towns. That is the plan right now. Abhijit, hope that answers your question.

Khushru Jijina:

I will answer both your questions on sell-downs and the sensitivity [analysis], which you spoke about. Let me first talk about the sell-downs. As Chairman also mentioned, we are focused on not only infusing liquidity, but like last year by doing various sell-downs mainly through re-finance. We have a plan in place this year itself to bring in liquidity during the current year. In this quarter, however, the things have been slow because of COVID, you will see whether both in real estate and in the non-real estate which is the renewable sector, we are working and at are fairly in different stages with other lenders for re-financing us and you will see the impact of that happening in September quarter.

Coming to your point on green, orange, yellow, I think post-COVID the way one has to look at it is very different, I think Chairman alluded to that. Let me just explain what he meant by that. If you recollect last year or almost 18 months back when the crisis of IL&FS had broken out, we had looked at sensitivity in a very different way. I think we have to relook everything post COVID, and I think last time also we had mentioned, but even at the cost of repetition let me tell you that as soon as the pandemic started, we along with the business team, the risk team, the asset monitoring team, all of us got together to look at each of our assets, which is the loan to the borrower, to see what would be the impact of COVID on it. So what do I mean by that. We, at that time, assumed that this whole year, the first two quarters will be actually a washout, there will be zero sales, zero collection, zero construction, and only a minimal construction / sales / collection in the third and the fourth quarter.

Why did we do that – because we needed to test the ALM and the quality of our portfolio, to enable us to corrective actions at an early stage. So what are the findings out of that? Based on those assumptions, our finding was that 85% of our deals were still having a cover of more than 1x times. Based on the findings which we got, we went about – I think Mr. Piramal mentioned, but I will repeat it for the sake of everyone once again – and in the last few months, the teams all jointly have really gone loan-by-loan with each developer to ensure that we get additional security and cover, so that the loan becomes safer.

I would broadly divide it into five parts, though Mr. Piramal spoke about it. One was, I would say that the change of developers we did. In certain cases we changed the developers, we brought in a stronger developer. Again I would not say it was just to move the name in the books, the loan has actually shifted to the developers with their corporate guarantees – so it is just not a shift in the name.

The second which is the most important which we did, I would say the maximum was along with the developers, we actually got together and changed a lot of project scopes and economics. For example, if a building had a different size of an apartment, we changed the sizing, we looked at the cost of construction, we looked at how to do barter, etc. In a project in Bangalore the last phase which was remaining was apartments, we moved it to plotted and I am happy to tell you that in fact we have launched that project in plotted, and actually started selling.

The third was, wherever we felt that the equity infusion needed be brought by the promoter, we got it done through land sales of the promoters which was not mortgaged to us. Again here, through that we could bring in equity to improve the cash cover.

For smaller projects, in fact, we actually were successful in doing a few resolutions where we got resolutions settled with a few developers. Also last but not the least, where we did not want to increase the exposure, we got last mile funding through various AIFs or even SBICAP, etc. So these are the various detailed exercises which were carried on by the team to ensure that post-COVID, our quality of the book and the asset cover remains.

I will take another minute for the benefit of everyone because this must be the question in everybody's mind. However, so while we took a very negative view of this entire year as I mentioned that in Q1 and Q2 FY'21, we assumed zero sales, zero collection, and construction and in fact dropped the prices by 10%. On the ground, I want to share with everyone, since the first quarter is over, what we have seen in actuals for our portfolio. So if I talk about the sales, while the sales in the month of April and May were 10% and 22% of pre-COVID sales, respectively, the sales in the month of June for us is actually 40% of pre-COVID sales. I am again repeating this is against our assumption of zero. The maximum sales are actually taking place in affordable and mid-market segments. Needless to say, the sales in luxury segment continued to be sluggish, but I would like to remind the audience that 90% of our portfolio is in affordable and mid-market segments. Talking of collections, even the collections have showed an upward trend like sales. The collection in the month of June was 40% on our portfolio of pre-COVID sales.

Talking of construction, as on date, I am happy to inform that 74% of our constructions sites have started. During the pre-COVID days, we had around 24,000 laborers on the sites and as on date we already have around 44% to 45% of laborers on the site. I hope I have answered your question in detail.

Abhijit Tibrewal:

Thank you for a very elaborate explanation. If I might one more question, in your gross Stage-3, your GNPA book, were there any new slippages in the quarter and if at all there were any resolutions during the quarter?

- Khushru Jijina:** No, there were no changes expect for one, where we actually did a resolution which is in the non-real estate space. Under our emerging corporate lending, we had a loan along with the consortium of lenders for a solar project of IL&FS, which has been now resolved by Embassy Park taking over that project. We are just waiting for the legal clearances from IL&FS – the deal is already done. Why it has been put in Stage-3 is because that as per the deal, the INR 75 crores principal comes back, the interest up to December has been fully serviced, but from January to September, all the consortium lenders including us will have to forego the interest and we have I think it is around INR 7-8 crores is what we have now taken under Stage-3.
- Moderator:** Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.
- Tushar Manudhane:** Sir, just on the pharma side, while the EBITDA margin is less for the quarter gone by, but did we have any benefit of the lower raw material cost and how do you see that panning out over near-to-medium term?
- Vivek Valsaraj:** No specific change in the raw material cost per se, the overall EBITDA margins have been lower because of the adverse mix as far as this quarter is concerned, but raw material cost is largely the same and even on a full year basis we do not expect a very significant change as far as raw material costs are concerned.
- Tushar Manudhane:** Secondly, just on this solid oral dosage drug product facility, what kind of asset turnover can be expected – as in peak asset turnover?
- Vivek Valsaraj:** We expect revenues to go close to US\$ 35-40 million over the next three to four years from this new facility that we have acquired.
- Moderator:** Thank you. The next question is from the line of Rajeev Agrawal from DoorDarshi Advisors. Please go ahead.
- Rajeev Agrawal:** My first question is around, you have sold 20% to Carlyle, so can you confirm that 20% of the cash that will come will come to PEL and not into the pharma business, just I wanted to understand the valuation and therefore the question. The second question is if you can talk about that you have a cash cover of more than 1 in 88% of the portfolio, so can you please confirm in the remaining 12%, how much of that remaining 12% has been addressed and what still remains under stress? Then if you can just talk about your collection efficiency in Q1 and how it has changed month on month, Mr. Jijina talked about how the project were progressing, but just from a collection efficiency perspective if you can give us more details? Lastly on the stress scenario, you mentioned that in Q3 things will pick up gradually, so can you elaborate what exactly are your assumptions in Q3 and Q4? Thank you very much.

Rajesh Laddha: Carlyle transaction, the money from Carlyle will come into our subsidiary of Piramal Enterprises Limited, which is Piramal Pharmaceuticals Limited. That is ~INR 3,700 crores, out of which close to about INR 3,400 crores will go back to PEL (Piramal Enterprises Limited) and that money is going to be used to deleverage PEL's balance sheet further.

Khushru Jijina: On your two questions, one is on collections, I actually mentioned it but I will repeat it for the benefit of everyone that post-COVID, in the month of April, the collections from our portfolio was actually only 10% of what we used to collect in the pre-COVID days. It improved to around 20% in the month of May and now in the month of June, it has crossed 40% as collections of the normal pre-COVID – if that answers your question on collections.

Again, let me repeat in our sensitivity analysis we have taken zero collections for the first two quarters. For the next two quarters, which is Q3 and Q4, you asked this question what exactly we meant, so let me explain to you whether it is sales, collections, or construction activity, it was ranging between, like collections was around 20% only we assumed, so just to bring home the point, we are already at 40% in June itself. In Q3, we had assumed only 20% of the sales and that too we had assumed that once construction starts, the sold receivables as per the slab cycle goes up, we will get money, so that is what we had assumed for Q3. And for Q4, we had assumed around 50% of the normal collections which we used to get pre-COVID.

Rajeev Agrawal: Actually I have a follow up on the Piramal Pharma where we are seeing that the INR 3,700 Crores goes to the Piramal Pharma, so should I assume the enterprise value, how it has been valued is that closer to the INR 15,000 or the 20,000 crores based on pre-money versus the post-money, it is not clear whether INR 3,700 is coming to Piramal Enterprise and then going to Pharma or the other way round?

Rajesh Laddha: As I said, it will go as primary infusion into Piramal Pharma Limited, when we are transferring the business from Piramal Enterprises Limited to Piramal Pharma Limited which is the investment into overseas subsidiaries of pharma and also India's direct business, which is lying in Piramal Enterprises Limited. When you transfer this business from Piramal Enterprises to Piramal Pharma, there will be a payable entry which will get created, because the business will get transferred at a particular value. The money, the primary infusion is going to happen in Piramal Pharma Limited, the subsidiary, and through this payable entry the money will go to Piramal Enterprises Limited – that is the mechanism.

Hitesh Dhadha: Also, the other way to understand this is that this money that will come in will initially lead to a deleveraging, but it will create a war chest for Piramal Pharma to look for organic and inorganic opportunities in future. You cannot have acquisitions happening on day-1 when the money comes in, so the acquisitions will be looked at from the opportunity perspective as we move on and that war chest will be utilized for those inorganic opportunities.

Moderator: Thank you. The next question is from the line of Prashant Nair from Citi Research. Please go ahead.

Prashant Nair: Good Evening everyone, just few questions on the pharma side, so firstly can you let us know what is the constant currency growth or decline would have been in this quarter on a year-on-year basis? The second question is how you see the business trajectory over the rest of the year particularly on the injectable side because we understand that is a segment which is facing the biggest challenge currently, so are you seeing signs of a pickup is July better than June or are we still waiting for some traction there. And the third question is just a clarification, so the oral dosage facility that you acquired in the US that is primarily for the CMO outsourcing business or are you looking at other opportunities as well like generics etc.?

Nandini Piramal: The oral dosage business is primarily for CDMO, we have a current contract with the current customers and we expect to grow that business as said to US\$ 35-40 million revenue over the next three to four years. In terms of the injectable business and in terms of inhalation anesthesia, yes, there has been a slowdown and surgeries have been stopped, but the underlying demand has not gone. So wherever the lockdowns have eased and where hospitals have begun work again, we are seeing actually a very good bounce back. So I think, overall, over the year we are actually quite confident in the business, we think there will be some short-term volatility, but we are pretty confident for the overall year.

Vivek Valsaraj: In constant currency, the sales were down about 16% versus Q1 last year.

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

Alpesh Mehta: First question is to Mr. Jijina, during the quarter there was a proposed guideline by RBI regarding qualifying criteria for HFCs, so are we compliant for that and if not how do we plan to fulfill the compliance requirement? That is the first part. Second question is there seems to be a sharp drop into the funding cost for the financial services business, any large ticket, high cost borrowing got repaid during the quarter and is this sustainable? Lastly to Jairam, if you can throw some light what kind of differentiating products that you can do to introduce in the market because some of the products that you mentioned are already a bit crowded, even though the opportunity is large, but the products have been crowded, so what would be the differentiating factors for the proposed consumer financing business?

Rajesh Laddha: I think as far as the RBI guidelines around HFCs are concerned, we are seized of those guidelines, first of all they are at the draft stage right now. Secondly, RBI also is going to give time to HFCs to comply with that. We have initially done our homework and we will be comfortable complying with those guidelines as and when they get applicable to Piramal Capital. We do not see a challenge, we will be fully complying with those guidelines.

Interest-rate question, yes there is a drop in interest rates, but that is an outcome of the kind of borrowing which have been done in last two quarters. And we have said this last quarter as well that, on overall basis the interest rates will come down going forward, as and when we replace our existing loans, so that is probably an outcome of that. Whether it is sustainable or not, it will be a question of how the macro-environment and the markets play out, but our endeavor would be to bring it down further.

Jairam Sridharan:

Alpesh, lovely to get back in touch with you. Your question is from a product perspective, what is the differentiation or how do we as the new kid on the block differentiate ourselves from existing service providers, you are absolutely right that are in most markets the product categories are quite crowded.

Our intent is two or three-fold. At the core, we believe that if you are operating in the exact same market as some of the very low-cost, sort of let us say bank service providers are, then there is very little chance that you are going to win. So you have got to find the right markets in which you can play. And what do we find as a market? We are thinking of market as a combination of product, customer segment and geography. So we got to pick the right combination of product, customer segment and geography, where we find that competitive dynamics are a little bit different and when you think about the choices that we are making, we are very specifically looking at sort of the 'Bharat' market, set aside some of the largest markets in the country, because the competition intensity there is extremely high. So go to the next two or three levels down and that is going to be from a geography perspective our core choice. Customer segment perspective as well, instead of going to sort of the fully-documented, salaried income segment, try to serve a little bit more of the cash-salaried, self-employed and the small business segment.

The third piece is product – and this is going to be the core idea. And here our thought process is that as a new service provider in the market or someone who wants to be differentiated, we have got to find ways to disaggregate what banks tend to aggregate. What we mean is banks and many service providers in the credit space tend to think of one aggregated macro-level product that they offer to everybody in the market, our intent is going to be come out there with deep product differentiation. So to give you a very simplistic example, instead of having one product called home loans to serve everybody, we might have a different product for somebody who is looking for an under construction apartment finance versus somebody who has a plot and who is doing self-construction on it, or somebody who has a half constructed house and he is putting one level more on it, or somebody who wants to do finishing on a house and so on. So you can imagine that one product which is aggregated as home loans, can be disaggregated into five or six different products. So that is what we are going to go after. It is product differentiation, geography selection, and customer selection, which puts you in a pocket where there are underserved segments that we can serve.

Remember that our intent at least in the first year or two is not to go out there and start doing thousands and thousands of crores of disbursements right from the get go, we will eventually get there – to that scale – but right now our intent is to just find the right foothold for ourselves and find pockets of population which have predictable risk, which we can price-in and where we can profitably grow. And we believe there is enough and more opportunity for that in the country.

Alpesh Mehta: Just a related question to this, Jairam, our secured business loan product that we are planning to offer would this be largely on back of the large telecom provider, the data that we would be getting from them, or it would be our independent product?

Jairam Sridharan: I think all options are open right now Alpesh, we will pursue partnership and strategic partnership-based opportunities and we will also pursue direct-to-customer opportunities.

Alpesh Mehta: Mr. Piramal, there is unallocated net worth of almost INR 3,000 crores in the balance sheet, any plans related to that?

Ajay Piramal: We are just waiting for opportunities, we believe that post COVID, there will be several opportunities, and therefore, we have just kept that as unallocated for the moment.

Hitesh Dhaddha: Alpesh, to add on your HFC guidelines question, you are aware that we have two entities under PEL in Financial Services – one is an NBFC and other is a Housing Finance Company. So given that structure, we will be able to grow well in all the verticals without having challenges to meet those guidelines, whenever they come formally.

Alpesh Mehta: Okay, so there could be some transfer of loans from HFC?

Hitesh Dhaddha: No, there is no need to transfer, but I am just saying that the future growth can always happen in the entity, depending on the guidelines that will be coming.

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

Abhijeet Sakhare: Few questions on the Financial Services business. First one, could you provide the loan book breakdown similar to last quarter in terms of construction finance, corporate, hospitality and retail. And within construction finance, how much would be commercial and retail? Second question is when we look at the quarter-on-quarter AUM movement, there is a small positive jump, we are just trying to understand how much of this would be fresh disbursement versus some element of interest capitalization. And the related question is the yields have moved up 100 basis points quarter-on-quarter – what explains that? Last question is looking at the AUM over the last one year or so, looking back how would you kind of quantify the reduction in terms of actual repayments versus the loan sell down that has happened?

Khushru Jijina: Let me first answer you on your breakup of commercial and retail, I think that was your first question, I think on the commercial real estate, today commercial real estate is 8% of our book – INR 3,700 crores, out of which the LAP and LRD is INR 1,300 crores, balance are under construction, for which actually those projects have actually started, mainly office space. When I say commercial, it does not mean any malls, it is just office space. Again repeating, LRD and LAP is around INR 1,300 crores where our LTVs are less than 65% and the balance amount is under construction and while we expect a six-month delay, the projects have started and they are mainly into cities like Bangalore, Hyderabad, Mumbai etc.

Coming to the question on hospitality, our loan to hospitality is around INR 2,000 crores. Yes, there is no doubt that hospitality has been the worst affected in this pandemic and we definitely do not expect things to improve till 12 to 18 months. Talking about our portfolio again, but we do believe that when things improve, the properties that will recover first would be the hotels in prime location with marquee brands. Also, just to add our exposure is basically to all operating assets and again to top brands whether it is Marriott, Taj Group, or Hyatt. And again, the LTVs are pretty low, so this was a question of yours commercial and retail.

Your question on why the increase on AUM, if you really remove the interest which has been capitalized by the two moratoriums, the AUM has actually come down – so that answers your second question.

Your third question, I understand you made a statement that the yields have gone up. Yes, yields have gone up because we had increased pricing in the last year, which is now playing out and which is adding to the bottom line.

Abhijeet Sakhare: Over the last one year the AUM reduction that has happened how much of that is explained by repayments?

Khushru Jijina: Again, I will not be able to give you exactly how much of repayments, but I can tell you last year, if you recollect, we had pressed the envelope on liquidating and bringing in liquidity. So last year, while our interest, and if you have gone by the repayment schedule was around INR 11,000 crores, we actually collected far more than that, thanks to the prepayments, refinancing, and actually only one down selling which was to Goldman Sachs of the Lodha exposure. Otherwise, mainly everything was repayments, prepayments, and refinancing, but we collected far more than the scheduled repayment.

Abhijeet Sakhare: In the AUM, I think I missed the share of construction finance book, it was 70% last quarter?

Khushru Jijina: I think it remains more or less the same.

Moderator: Thank you. The next question is from the line of Piran Engineer from Motilal Oswal Financial Services. Please go ahead.

- Piran Engineer:** Congrats on the quarter, most of my questions are answered, I just have one, you said you all have raised INR 9,600 crores in the first quarter, but it does not reflect in your debt-to-equity ratio, if I back calculate your borrowings and the financing business, it is largely flat QoQ so how do I really interpret that?
- Rajesh Laddha:** I think your question really is that why debt has not moved?
- Piran Engineer:** Why has not this gone up because quarter you all probably you have borrowing commitments of INR 2,000-3,000 crores, if you all have raised INR 9,500 Crores. I would have expected borrowings to have gone up maybe INR 6,000-7,000 crores?
- Rajesh Laddha:** The money has been used for replacement of existing debt, so that is why the reflection of this, what you are seeing, is coming in ALM. The debt which was due has been repaid.
- Piran Engineer:** But INR 9,600 crores can't be due for one quarter, it could signify a very short term liability. Typically in a quarter it is INR 2000-3000 crores?
- Rajesh Laddha:** As you would have noticed that because of the moratorium and because of the COVID situation, there has not been a significant collection from the asset side, so whatever repayments were due on the debt side have been paid-off through this borrowing. And this borrowing, what has been done, everything is long-term, 18 months and above, 18 months to 7 years.
- Ajay Piramal:** Some of it, which was due, we have repaid it earlier – which was short-term due, so that you could change the ALM.
- Rajesh Laddha:** So the reflection is not coming in the debt increase, but it is the debt repayment which is happened and the effect is being seen in the ALM.
- Moderator:** Thank you. The next question is from the line of Ritika Dua from Elara. Please go ahead.
- Ritika Dua:** Sir, thanks for the opportunity, firstly just wanted to understand the math behind the ALM, so this is after the moratorium being accounted for, that is the first question? The second question Sir is, if you could kindly just share what is the INR 104 crore number on the India Consumer Products really – what is the composition of this particular piece?
- Rajesh Laddha:** ALM calculation has considered the moratorium numbers, this is post-moratorium consideration.
- Ritika Dua:** Okay Sir, the reason why I was asking is because even in the initial six months the demand looked little high in terms of inflow, so I just wanted to recheck, so you are saying that the inflows are after accounting for the moratorium?

- Rajesh Laddha:** Moratorium given, yes.
- Ritika Dua:** Just the second question if you could just help understand the INR 104 crore number, what particular business is this in?
- Rajesh Laddha:** I think you are referring to OTC revenue?
- Ritika Dua:** Not the revenue bit, in the second or the third slide, there is an India Consumer Product which grew by 28% quarter-on-quarter to INR 104 crores, just wanted to know what is this?
- Nandini Piramal:** This would be our Indian OTC business which comprises of brands like Saridon, Supradyn, Tri Active hand sanitizer, I-pill, and Lacto calamine.
- Moderator:** Thank you. The next question is from the line of Aditya Jain from Citigroup. Please go ahead.
- Aditya Jain:** Couple of questions, on the unallocated net worth, which you said which was being kept in case of any new opportunities, what are the assets against it in terms of cash or deferred tax assets or how is that broken up?
- Rajesh Laddha:** It is largely divided between you have Shriram Investment, then you have cash available on the balance sheet to the extent of about INR 3,000 odd crores and then you have the deferred tax assets, tax receivables, and investment into fund management business, etc.
- Aditya Jain:** Just to confirm, so Lodha is flat QoQ at around INR 3,000 crores?
- Rajesh Laddha:** This quarter it is flat, by and large it is flat.
- Moderator:** Thank you. Ladies and Gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. Hitesh Dhadha for closing comments.
- Hitesh Dhadha:** Thanks everyone for joining the call. If you have any more questions, please feel free to reach out to us. Take care of yourself and your family. Thank you.