Piramal

12th February, 2020

BSE Limited
1st Floor, New Trading Wing,
Rotunda Bldg, P.J. Towers,
Dalal Street, Fort,
Mumbai- 400 001

National Stock Exchange of India Ltd.,
Exchange Plaza, 5th Floor,
Plot No. C/1, G. Block,
Bandra-Kurla Complex,
Mumbai – 400 051.

Dear Sir / Madam,

Ref: BSE SCRIP CODE – 500302, 912460
NSE SYMBOL - PEL

Sub: SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015- Transcript of Conference Call with Investors/Analysts

Further to our letter dated 31st January, 2020 whereby we had given the advance intimation of Conference Call with Investors/Analysts, enclosed please find the transcript of the Earnings Conference Call held on 4th February, 2020 to discuss the Q3 & 9M FY2020 Results of the Company.

Pursuant to Regulation 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the conference call is also hosted on the website of the Company.

Kindly take the above on record.

Thanking you,

Yours truly,
For **Piramal Enterprises Limited**

Bipin Singh
Company Secretary

Encl: a/a

"Piramal Enterprises Limited Q3 and 9M FY 2020 Earnings Conference Call"

February 04, 2020

MANAGEMENT: **MR. AJAY PIRAMAL – CHAIRMAN, PIRAMAL ENTERPRISES LIMITED**
MR. VIJAY SHAH – EXECUTIVE DIRECTOR, PIRAMAL ENTERPRISES LIMITED
MS. NANDINI PIRAMAL – EXECUTIVE DIRECTOR, PIRAMAL ENTERPRISES LIMITED
MR. KHUSHRU JIJINA –MANAGING DIRECTOR, PIRAMAL CAPITAL AND HOUSING FINANCE
MR. VIVEK VALSARAJ – CHIEF FINANCIAL OFFICER, PIRAMAL ENTERPRISES LIMITED
MR. HITESH DHADDHA – CHIEF INVESTOR RELATIONS OFFICER, PIRAMAL ENTERPRISES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Piramal Enterprises Limited Q3 & 9M FY2020 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode.

I now hand the conference over to Mr. Hitesh Dhaddha from Piramal Enterprises Limited. Thank you and over to you, Sir.

Hitesh Dhaddha: Good evening, everyone. I am pleased to welcome you all to this conference call, to discuss our Q3 & 9M FY20 results. Our results material has been uploaded on our website, and you may like to download them and refer it during our discussion. The discussion today may include some forward-looking statements, and these must be viewed in conjunction with the risks that our businesses face.

On the call today, we have with us our Chairman, Mr. Ajay Piramal; Mr. Vijay Shah, Executive Director; Nandini Piramal, Executive Director, Piramal Enterprises, Mr. Khushru Jijina, Managing Director, Piramal Capital and Housing Finance, and Mr. Vivek Valsraj, CFO of our Company. With that, I would like to hand it over to our Chairman and would request him to share his initial thoughts. Over to you, Sir.

Ajay Piramal: Welcome. We have had an eventful year, with several headwinds impacting our industry. However, our core values and resilience are seeing us through these trying time. We have been able to unlock value on several of our investments, as also raised equity to emerge much stronger.

Balance Sheet:

a. Equity:

During our Q1 call, we had committed that we will bring in anywhere between Rs. 8,000 crores to Rs. 10,000 crores of equity. I am pleased to inform you that in this exceptionally volatile market environment we have delivered, and in fact, will exceed our commitment.

We have been able to bring in Rs. 14,500 crores of funds into the company through several major milestone transactions, which include:

The Rs. 1,750 crores raised from CDPQ as a preferential allotment. CDPQ, as you know, is one of the largest and most highly rated global funds, which is not only an existing large investor for the Company, but also has been a long standing partner. They deeply understand our business model, coming in as an anchor investor in both our issuances, initially a $175 million in 2017 and later with a $250 million investment now. This is an endorsement of the strength of our business model and the future growth prospects of our Company.

Rs. 3,650 crores was raised through the Rights Issue, which was oversubscribed. Despite such adverse market environment, most of our large global and domestic institutional as well as retail investors have reaffirmed their confidence in the company by participating in the issuance. Also, we as promoters, fully participated in the Rights Issue.

We have signed a definitive agreement to sell the Healthcare Insights and Analytics business, i.e. DRG, for US$950 million or Rs. 6,750 crores, realizing 2.3x our initial equity investment. We maximized the value creation by monetizing this asset at an attractive valuation of 5x trailing EV to sales multiple and 20x trailing EV to EBITDA. We expect this realization to come in by the fourth quarter.

Earlier in the year, we sold our stake in Shriram Transport Finance for Rs. 2,300 crores.

b. Borrowings:

On the borrowing side, we made significant progress during the quarter. We would like to mention that now liquidity is not an issue for us. During the third quarter of FY20, we raised long-term funds of Rs. 4,300 crores.

The share of bank borrowing has increased from 49% in September 2018 to 67% as of December 2019 and our CP borrowing have been reduced by 90% from Rs. 18,000 crores in September 2018 to Rs. 1,800 crores at the end of December 2019.

c. Deleveraging:

These significant developments, both on the equity and debt side over the last 12 to 15 months, has led us to have a significant strengthening of our balance sheet with total equity increasing to Rs. 34,000 crores on a pro-forma basis. With a fund raise event closing in the fourth quarter, i.e. by March 2020, and the deleveraging of our balance sheet by Rs. 15,000 crores since March 2019, our debt equity ratio should now come down to 1.2x times.

With this, we expect the Financial Services business to be adequately capitalized and we shall not need additional capital raise in the near future. We also see now multiple avenues available to raise debt fund, bank funds as well as from foreign markets, including medium-term note issuances and ECBs.

Also, we can see our cost of funds gradually decreasing. Recently we raised Rs. 1,900 crores at 9% or below. Going forward, we expect the cost of funds to reduce to 9% or below by the middle of FY21, as we retire our high cost debt and substitute it with the lower cost funding.

Our strengthened balance sheet position now enables us to effectively tap both organic and inorganic opportunities that are arising from the significant consolidation taking place in the sectors we operate in.

Also, it will enable us to strategically transform our Financial Services business model from a wholesale-led model to a well-diversified model, with presence across both wholesale and retail. In the future, our loan book would be granular and we shall continue to grow in a calibrated manner.

Consolidated Performance:

Now I will discuss with you some of the financial and operational highlights for the first nine months and this last quarter.

Given the weak economic environment, in our Financial Services business, we are focused on strengthening the balance sheet and improving the business model, rather than focusing on growth.

Despite this adverse environment, we have delivered a resilient performance during the quarter.

- In the nine months of FY20, our revenues have grown by 14% to Rs. 10,915 crores and net profit by 20% to Rs. 1,749 crores.
- In the third quarter of FY20, our revenues grew by 9% to Rs. 3,806 crores, and the net profit grew by 20% to Rs. 724 crores.
- Our Pharma business has once again delivered a consistently strong performance with a revenue growth of 15% during the nine month period.
- Our company's five year revenue growth CAGR has been 23% and our five year net profit CAGR is 40%.

Financial Services:

In Financial Services, as I said earlier, we have raised enough equity capital and have strengthened the liability side. The key focus now for us, is to transform our Financial Services business to a well-diversified model with a strong presence in both retail and wholesale. And some of our key business initiatives are:

a. Wholesale lending:

a.1. Single-borrower exposures:

In the wholesale side, we want to make the loan book granular by reducing our exposure to large borrowers. We made the conscious decision to reduce our large single-borrower exposure to below 15% of our net worth. As of December 2019, only one loan is higher than the threshold of 15% of net worth and another about 12% of net worth. While all the other exposures are below 12%. The top-20 exposures were reduced by Rs. 3,500 crores in the last six months.

By March 2020, we expect the largest exposure to be below 11% to 12% of net worth of the Financial Services business. And all other exposures will be below 7% of the net worth of the Financial Services business.

Rs. 9,900 crores of our loan book that was refinanced in the last few quarters, which was refinanced at par also validates the quality of our loan underwriting.

a.2. Wholesale lending opportunities:

With the undergoing consolidation in the real estate lending space, and in fact, in the wholesale lending space, along with significant reduction in competition, the market is now offering low risk, high reward opportunities, whether it is in last mile real estate funding, where we will leverage our expertise in loan underwriting and monitoring to carry out select deals.

Commercial real estate, which forms one-third of our wholesale real estate book, is also offering an opportunity to grow and to do well.

Also, given the limited availability of wholesale credit, our ability to increase yields, make these select opportunities more attractive. The yields on our existing wholesale portfolio have improved by 150 basis points since September 2018 from 13.4% to 14.9% in the December 2019.

a.3. Asset quality:

Coming to asset quality, our asset quality has remained strong even in such an adverse environment, reflecting the expertise of domain, client selection, underwriting, and our strong risk & governance framework.

There may be some few projects that witnessed some delays, resulting in a temporary rise in NPAs, but the loss given default has been minimal at only Rs. 4 crores in the last few quarters.

As of December 2019, our gross NPAs have marginally increased. The increase in NPA is largely on account of a few accounts moving from Stage-2 to Stage-3. In addition, PEL's provisioning today stands that Rs. 947 crores, which is adequate to meet any unforeseen circumstances.

a.4. Fund-based platforms and co-lending:

We are further de-risking the wholesale business model and we plan to do higher yield deals through co-lending model or through fund based platforms. The company has entered into multiple fund based platforms with large global investing partners, such as CPPIB, CDPQ, APG, Bain Capital and IFC to tap high yield wholesale opportunities through this fund structure.

Recently we created a $600 million InvIT asset aggregation platform for renewables, with CPPIB, where we continue to evaluate deals.

CPPIB and IFC have committed an aggregate of $325 million to our stressed asset fund that is the JV with Bain Capital, which has concluded four investments worth approximately $400 million.

We are also working towards collaborating with PSU banks, global pension funds, and foreign banks towards co-lending opportunities. Recently we also entered into a Rs. 2,000 crore co-lending AIF with IIFL. The platform has already executed deals worth Rs. 1,000 crores.

These fund-based platforms and co-lending arrangements will enable us to earn fee income and help us maintain our ROEs, despite diversification towards retail financing.

b. Consumer Financing:

Coming to consumer financing. This is a large addressable market, as you may know, a US$1.2 trillion lending opportunity to SMEs and to the consumer segment – which is still underserved in the country, with not many dominant technology-enabled lenders.

In retail financing, the company is seeking to go beyond conventional lending and adopt a partnership-based approach to access large digital ecosystems. We are looking at making tailored financial products and solutions for customers and partnering with one of the largest telecom players.

The retail financing shall be under separate business entity, which will be a 100% subsidiary of PEL. We have also appointed Jairam Sridharan, the former CFO of Axis Bank as the CEO of retail financing.

McKinsey has also been brought on board to prepare a detailed strategic plan for our Financial Services business and we plan to build a complimentary lending business across the risk return spectrum comprising of retail housing finance, consumer and small businesses.

c. Housing Finance business:

In the Housing Finance business, we see there is a vacuum getting created due to dislocation taking place, wherein a few large HFCs are vacating the space as they are either growing slowly or have completely stopped their disbursements.

Also, the continued tightened liquidity situation in the space is also creating significant consolidation opportunities for us to look at M&As and portfolio purchases in this space.

We remain focused on targeting customer segments not served by banks and have been taking advantage of this consolidation. Our HFC loan book has increased more than 2.5x since September 2018 to Rs. 6,140 crores, and we have achieved this in a relatively short duration.

Pharma business:

I would now like to discuss the key highlights of the Pharmaceutical business. In my conversations with investors, I have perceived investors often miss the point that our pharma business also contributes a significant proportion of both the top-line and bottom-line of the Company.

a. Differentiated business model:

With significant global presence and contract development and manufacturing, and specialty hospital generics business, our Pharma business has a differentiated business model from most other large Indian pharma companies and is delivering a solid performance quarter-after-quarter, despite the general pharma industry facing numerous challenges such as generic pricing pressure, buyer consolidation and increased US FDA scrutiny.

b. Financial performance:

b.1. Consistent revenue growth

Continuing on our long-term track record of a 16% CAGR of the last nine years, the nine month revenues of Pharma grew by 15% to Rs. 3,796 crores, with around 75% of global pharma revenues coming from the regulated markets, that is US, Europe and Japan.

b.2. Improving profitability

EBITDA margins for overall pharma segment have improved significantly over the last few years to 23% from the nine months ended FY20. The absolute EBITDA grew at a CAGR of 39% over the last three years to Rs. 900 crores for the nine month period and global pharma margins were even higher at 25% for this period.

c. Strong focus on Quality and Compliance:

We have a continued strong focus on quality and compliance and we have successfully cleared 36 US FDA inspections, 162 other regulatory inspections, and almost 1,100 customer audits since FY2012, without facing any production stoppages and loss of sales. We have never had an Official Action Initiated (OAI status), for any of our US FDA audit.

d. Growth opportunities:

We are now confident that all our pharma businesses will continue to deliver strong performance in the future due to the following growth drivers:

d.1. CDMO:

Our CDMO business, we have a healthy pipeline of early and late stage development projects. The share of innovative products in our CDMO portfolio has increased over the last few years and we believe that this trend will continue as more products from the development pipeline are commercialized in the future.

Our strong capabilities in niche complex areas, such as antibody drug conjugates, high potency API's and sterile injectables enable us to compete in high growth market segments. Our focus in the CDMO business is also on providing integrated services across the drug life-cycle to increase our customer stickiness.

We also plan to increase our production capacities at multiple sites further through brownfield expansion.

d.2. Complex hospital generics:

In the complex hospital generics space, we are increasing our market share in the inhalation anesthesia portfolio. We are also leveraging a strong global distribution network and GPU relationships by adding new complex hospital generics, such as Desflurane to our portfolio. We have a strong pipeline of new products across various stages of development.

d.3. India Consumer Products:

In the Indian consumer healthcare market, we are leveraging our strong brand equity and consumer pull that we have for our core brands to cater to a large share of the consumer healthcare market and we are increasing our investment in marketing and promotion.

e. Strong growth in Consumer Healthcare business

Our Indian Consumer Healthcare business delivered a strong year-on-year top-line growth of 37% with revenues of Rs. 336 crores for the nine month period of FY20.

We continue to work on building power brands, as well as launching new products through in-licensing and acquisition to leverage our all India-wide distribution network.

f. Fund-raising – Pharma business:

f.1. Details about the fund-raise

We plan to bring the Pharma businesses under a 100% subsidiary and raise funds by issuing a minority stake to potential financial investors. With the subsidiarization of Pharma as a standalone entity, PEL structure will now become significantly simpler to analyze and understand. One, would be the Financial Services business and the other would be the Pharma business.

It is a step in the direction of eventual demerger and separate listing of the Pharma and Financial Services businesses. The fund raise will not just provide growth capital but will also enable value discovery for our Pharma businesses.

f.2. Plans for usage of funds

The funds that we raise will be used to target both organic and inorganic growth opportunities across the businesses we operate in. We are also evaluating our re-entry into the domestic formation market through an acquisition.

Concluding remarks:

To summarize, in an eventful year, and in a difficult economic environment, we have taken several milestone steps that have made us significantly stronger. The Financial Services business is sufficiently capitalized and shall not need additional capital in the near future. Our expansion into retail consumer finance and further growing a housing finance shall provide the growth impetus going forward and will be scaled rapidly.

Going forward, the business shall focus on building a granular and diversified loan book, while growing in a calibrated manner.

In Pharma, our differentiated Pharma business is expected to continue its growth trajectory, further boosted by the infusion of capital. This infusion will not only provide capital for future growth, but also enable value discovery. In all our businesses, we will continue to explore accretive inorganic opportunities.

We would like to exit our investments in Shriram at an opportune time and price to unlock maximum value. Our DRG divestment, infusion of capital in Pharma, and the sale of investments in Shriram are steps towards simplifying the structure of the company, which will now be focused on its two core businesses – Financial Services and Pharma.

As a result, these businesses will be simpler to analyze. With every step, we are moving closer towards unlocking, value for the company in future. Thank you.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Subrat Dwivedi from SBI Life. Please go ahead.

Subrat Dwivedi: The first question is on asset quality. So, earlier we had mentioned that there were 18 identified accounts totaling Rs. 2,800 crores which were stressed and out of that 14 accounts had been resolved. So, stress was remaining in only four accounts amounting to Rs. 600 crores. So, the Rs. 500 crore slippage which has happened in this quarter from Stage-2 to Stage-3 that is on account of these four accounts or there is anything outside that?

Khushru Jijina: So, you are right, they were part of the 18 deals. Also, let me clarify, in these three deals which have got added to Stage-3, one of them is ILD, which is not actually a bad account, it is just that we went for a one-time settlement and we wrote-off around Rs. 34 crores to Rs. 35 crores. And that's why we moved it to Stage-3 because we believe that a smaller account, if you recollect, last time also we mentioned that that wherever there is an opportunity for smaller accounts, as we are now moving to a more granular book, and increasing the quality of the assets, wherever we find that it is better to a one-time settlement with a large provision available, so ILD is one of them. The other two which is Orante and Delhi Baroda are the ones where we have taken the companies to NCLT, and that's why we need to take it. That does not necessarily mean that the entire amount is a loss given default. It's just that we need to take the company to NCLT to take control of the assets of the company. That is why we have moved it from Stage-2 to Stage-3.

Subrat Dwivedi: Understood. But these are part of those four accounts which you had identified as stressed and that was amounting to some Rs. 600 crores?

Khushru Jijina: Except for Delhi Baroda, others were already part of those stressed accounts. Yes.

Subrat Dwivedi: Okay. And my second question is on the DRG transaction. So what are the timelines for the closure of that? And the money, how will it come to India? What will be the tax implications? To which entity it will come? And how will it be used; will it be used to repay debt?

Ajay Piramal: The money should come before the end of March 2020.

Vivek Valsaraj: And money will come into India by way of return of certain inter-company payables. So there are no specific tax implications on a larger part of the consideration, which comes into Netherlands. There will be small, insignificant tax implication for the sale of the India part of the business.

Subrat Dwivedi: And this will come to Piramal Enterprises?

Vivek Valsaraj: That's right.

Subrat Dwivedi: And it will be used to repay debt here?

Vivek Valsaraj: That's right.

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

Abhijit Tibrewal: Congratulations. So I wanted to understand, while we understand that the equity raised from the pref plus rights issue and the proceeds from the sale of your DRG business is fungible at the holding company level. Would you like to share some thoughts that how would you like to deploy it between Financial Services and Pharma now?

Ajay Piramal: So, Pharma does not need any additional capital out of this. So we expect that by the end of March we will put maybe equity capital in Financial Services, which should be in the region of Rs. 20,000 crores. But we have to still decide the allocation.

Abhijit Tibrewal: Okay. All right. And sir, just a follow-up to the first question. So out of the three exposures which have moved to Stage-3 now, so if I understood correctly, ILD was about Rs. 34 crores, Rs. 35 crores. Ornate, I am guessing it was around Rs. 180 crores for you, if I am not wrong. So would that mean Delhi Baroda was roughly around Rs. 250 crores?

Khushru Jijina: Delhi Baroda was Rs. 75 crores, Ornate is Rs. 190 crores, and ILD Rs. 172 crores.

Abhijit Tibrewal: Okay. So how is it that, I mean, when we have these exposures moving from Stage-2 to Stage-3, we have not had to make incremental provisions?

Khushru Jijina: We have made, in fact, incremental provisions by the fact that it's moved from Stage-2 to Stage-3. So ILD, we have fully provided for the settlement. And Delhi Baroda, basically, because we took it to NCLT, we have provided in the Stage-3. And also Ornate, which is 15% we have provided, because we have taken it to NCLT. Not necessarily it means that there will be a write-off, it's just that we need to move the right part to take control of the land.

Hitesh Dhaddha: So, the Stage-2 number also goes down. So to that extent, the provision gets released and it gets build up at Stage-3 level. So the total provision that's why it doesn't change materially. However, if you look at stage-wise, the provision has been made wherever there was a requirement from the asset perspective.

Abhijit Tibrewal: So Hitesh, would you have a breakup of your provision between Stage 1, Stage-2 and Stage-3, that Rs. 947 crores number that you have given?

Hitesh Dhaddha: I don't think we disclose that.

Abhijit Tibrewal: Okay, no problem. And sir, just last one, one last question on your Consumer Finance. So I mean, while you have very clearly articulated, I mean, the way you look at Consumer Financing going forward. I mean, one of the apprehensions that kind of I had is when we talk about Consumer Finance, we are probably talking about taking onto very, I mean, big names in the financial services space, who are like the leaders in consumer financing today.

So I mean, in terms of a maturity curve or a preparedness curve, where are we right now? In other words, what I am trying to understand is, I mean, while I understand we have brought onboard Mr. Jairam, how long will it take before we really start disbursing? And what is the way forward for consumer finance now?

Ajay Piramal: So as far as the Housing Finance is concerned, in Consumer, we are already there. Actually you will see that the loan book will start growing in the first quarter of the next financial year. And Consumer Finance will also start sometime in next year. We will be sharing much more details a little later. McKinsey is also working on the study. So when we get our last quarter results, we will be giving you more granularity in that.

Besides in the Consumer Finance area, we need to also keep in mind that there are several inorganic opportunities, which are also available, given the consolidation that is taking place. Obviously, we will evaluate these only if we find that the quality of the book is good. That culture is good, and it is at a decent value, then we would do that.

Abhijit Tibrewal: Sure, sir. So, if I understand you correctly, I mean, Consumer Finance opportunity that we see right now, it could be a mix of both organic and inorganic?

Ajay Piramal: Correct.

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

Piran Engineer: Congrats on the quarter. Just a few questions. Firstly, you mentioned that you took Ornate and Delhi Baroda, if I heard correctly, to NCLT. So did you lend at the balance sheet level or at the SPV level?

Khushru Jijina: So Ornate is at the SPV level and Delhi Baroda is not a real estate company, it is actually in truck financing – it is part of our ECL portfolio. So there, we found that there were some issues with the numbers and that's why, as a proactive step all lenders have taken the company to NCLT. So Delhi Baroda is not a real estate company. But Ornate, at the SPV level, yes.

Piran Engineer: Okay, understood. So when you take Ornate to NCLT, you are basically just taking the SPV, right?

Khushru Jijina: Absolutely.

Piran Engineer: There are other lenders to Ornate in other projects, they are not impacted by you taking them to NCLT?

Khushru Jijina: No.

Piran Engineer: Okay. And what would the process now be like?

Khushru Jijina: So now the CoC will be called, and the whole idea is to get a clear title of land, as you understand. And that is why it's a process, but we need to go through that process. And if you go through the process, we have to declare it as a Stage-3, and that's exactly what we have done.

Piran Engineer: Okay, understood. And sir, secondly, you have mentioned that you have tied up with IIFL AIF, what exactly is this? Are you all both lenders to the same project? Or what exactly is the tie-up really?

Khushru Jijina: So basically, IIFL and ourselves tied up for last-mile funding. IIFL is using their platform for raising money from their investors of around Rs. 2,000 crores. We will be pooling in assets; it could be assets from Piramal platform also and it will also be assets from the outside. But basically, the idea is to take advantage of the last-in, first-out senior secured lending.

Piran Engineer: But then how is that different from your tie-up with CPPIB and Ivanhoe Cambridge, you all have a similar structure here, right?

Khushru Jijina: Yes. So let us first divide it into real estate and non-real estate. In real estate, Ivanhoe Cambridge, we do equity investment into projects. And CPPIB is non-real estate into senior secured between 13% to 16%.

Piran Engineer: Okay. And this will be into real estate, but debt?

Khushru Jijina: No, CPPIB...

Piran Engineer: The IIFL one, sorry. No, the IIFL one will be?

Khushru Jijina: IIFL is debt into real estate. Yes.

Piran Engineer: Debt into real. Okay, now I got it. And just lastly, you all have started securitization two quarters back and now the book is already Rs. 4,000 crores. So are these retail loans you are securitizing are corporate? And is this through the PTC structure or is it a direct assignment?

Khushru Jijina: So let's divide the Rs. 4,000 crores into two parts. One is Rs. 1,200 crores, which is retail book, which we have done as a PTC structure. And as we have explained last time also, we did the first in India, the wholesale book, which we got rated CRISIL AA+ and we then sold it down to the investors. Again, a PTC structure.

Piran Engineer: So that wholesale was real estate or is it all corporate?

Khushru Jijina: Real estate.

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

Abhishek Murarka: Sir, two quick questions. One, now what is the plan with respect to the Shriram stakes? Is just a sell-down the only option or is there any other option that you can pursue? Specifically, because you are looking to build a book in Consumer Finance, does SCUF become one of those books, which can fall into an inorganic opportunity? So that is one.

The other question is, if you can just give some color on the structure of your refinance or sell-down, who are the lenders who are refinancing exposures? And just something around the structure of how you sell down assets on the wholesale.

Ajay Piramal: So, as far as Shriram is concerned, I think, we have said this before also, that we believe that we will go towards monetizing our investment in Shriram at an appropriate time. So that process is on, though we are getting into Consumer Lending, but I think we are getting into a different type of Consumer Lending. As you know, today, the new-age consumer lending will be different. It's more technology-driven; more analytics driven. So that's what we will be doing. So we will continue. And we are not looking at an opportunity to do any inorganic in Shriram. They are also not interested in doing any sale, so both parties have to agree.

Khushru Jijina: On your other question on the down sell, on the refinance. So the refinance happens mainly with public sector banks and private sector banks. But the moot point here is that which are the assets that we like to refinance – these are basically the ones like lease rental discounting, which do not make sense in today's cost of funds. And the second is where we have been systematically, in the last one year, getting our wholesale book more granular. So the single borrower comes down, so these are the two fundamentals we use when we do the refinance, and they are all done at par.

Abhishek Murarka: So out of the Rs. 9,900 crores sold down in the last quarter, how much of that would be LRD?

Khushru Jijina: In the 9 months, not last quarter. We'll come back to you on this.

Abhishek Murarka: And just lastly, has the portfolio yield gone up largely because of that because you have sold down the lower yielding portfolio and, therefore, the residual is now at higher yield?

Khushru Jijina: No, actually, it's a combination of both, but largely because we have been able to pass on in this quarter, the higher cost of funds which we passed on to our customers.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.

Bharat Sheth: Congratulations Mr. Piramal. Sir, on this Pharma business, when we are saying that we will be taking it to subsidiaries and raising the money, so later on can you share your thought process that whether we will be vertically separating, the shareholder of Piramal Enterprises will also get the share of that? And what is the time frame that you have in mind?

Ajay Piramal: So, yes, you are right in understanding that the shareholder of Piramal Enterprises will be the shareholder in the pharma company as well. The timeline is about three years' time, I think we should do that.

Bharat Sheth: So structure, I mean, Piramal Enterprises will not remain a holding company?

Ajay Piramal: Correct.

Bharat Sheth: Is that correct understanding?

Ajay Piramal: Yes.

Bharat Sheth: Sir, can you give your vision, I mean, on three years perspective for the pharma as well as the Consumer Healthcare, where do we see? Because Consumer Healthcare is still, I mean, very small business and making only 7% kind of EBITDA margin, so can you share your thought vision?

Ajay Piramal: Overall, Pharma business is continuing to grow. If you look at our track record, we have been consistently growing year-on-year, 15%, 16%. Going forward, I see that this growth will be in two ways, one is organically, which we can achieve these numbers, plus there will be some inorganic growth as well.

As far as the Consumer Business is concerned, we have been focusing on, as you know in consumer business the most important thing is to keep building brands and to do selling and distribution, which has been a conscious strategy for us to grow the top-line. And we have grown it in the first 9 months 37% in this. Our idea is to grow the top-line, invest in the sales and the distribution, and therefore, margins will follow. So last year, we had actually a loss in EBITDA, if you see, from a minus Rs. 30 crores we have brought it to a plus Rs. 30 crores this nine months, and we will continue to actually grow the brand and profitability will follow. It's a long-term business.

Bharat Sheth: Yes. I understand, sir. And this 15% on global pharma business will be organic and inorganic will be additional, correct?

Ajay Piramal: Correct.

Bharat Sheth: And are we looking, I mean, domestic formulation business also?

Ajay Piramal: So we are looking at it. We have to find the right business; it has to be at the right valuation. In that case, we would do it.

Bharat Sheth: Sir, on this Consumer Financing business, so this fintech we have developed, or we are looking for partnering with some fintech company? And what will be the contour of the whole business, I mean, because how do we really assess the risk of the client without having a background history?

Ajay Piramal: See, first of all, as far as the fintech is concerned, it will be a combination of both. We will be having our own proprietary fintech which is what is required to build platforms. We will also be actually partnering with other fintechs, we may also do some acquisition in fintechs as well. So it will be a combination of all this. It will not be either/or, it will be and, and, and.

And the way today, that's where fintech comes in also is that the technology, if you looked at only about 10 years ago, only 10% of the consumers' data was available on the credit portals. Today, it's almost 55% to 60%. So we will use this and that's how we will build up. And yes, we will assess the risk and only do it when we see that the risk is contained.

Moderator: Thank you. The next question is from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: Yes. So firstly, in terms of the overall retail book. Actually, we had seen in absolute terms on balance sheet retail book has come up from Rs. 6,400 crores to Rs. 6,100 crores on a quarter-on-quarter basis. So maybe we have slowed down, because I think retail is doing pretty well in the industry and maybe we would have expected some rundown in the wholesale but couldn't understand the reason for the rundown in the retail. Is it off-balance sheet items? Or we have seen the slower disbursements?

Khushru Jijina: So, I think it's a good question. I think last time also somebody has asked the same question on retail strategy. But you are right, so if you recollect, I don't know whether you were there on the call last time. We had mentioned that in retail we were relooking at our entire strategy. And we were looking at that not to do Housing Finance where the banks are, because it doesn't make sense.

So in fact, happy to tell you that we are now actually ready with our new strategy, and we have actually started from January as per the new strategy, which is based on technology, going down the curve rather than giving big loans. The loans' average size is now between Rs. 15 lakhs to Rs. 25 lakhs, the yields are better. So that was a conscious decision taken, especially at a time when the cost of funds were high. So that was one of the reasons why you see the dip. So we consciously wanted to run down the loans, which do not make sense. So that is one part.

The second was the cost of funds. Here, again, I am happy to inform that we have actually started getting loans, specifically for retail which are now in the range of 8.5% to 8.75%. And that is why, in this quarter, whether Jan, Feb, March onwards, you will see the HFC book, the retail book, again, going up from 12% to probably 16%.

Kunal Shah: So in terms of disbursements, if I have to look at it, how much of disbursements would have got affected because of this recalibration of strategy? And how much of it, which was there, which we were doing it earlier as well in terms of the lower ticket size and in this kind of yield range?

Khushru Jijina: So we were doing anywhere between Rs. 400 crores to Rs. 500 crores at the peak. And on an average, around Rs. 300 crores to Rs. 350 crores. Now since we slowed down because of the recalibration of the strategy; in Jan, Feb, March, again we will go back to Rs. 150 crores to Rs. 200 crores disbursement per month. And then we will push it up from April, once our entire new strategy is tested.

Hitesh Dhaddha: Kunal, given the explanation, if you look at the Y-o-Y growth in this business, it's been 57%.

Kunal Shah: Yes. I clearly understand that. Just wanted to understand from quarter-on-quarter side. And this should help in terms of yields as well is what you are saying?

Khushru Jijina: Absolutely.

Kunal Shah: Okay. And secondly, in terms of asset quality, so given that Mr. Piramal also highlighted that obviously, the environment is challenging, but we are not seeing any further stress building up apart from those 18 deals which have been identified earlier. We are not seeing any further stress getting created on the books at all.

Khushru Jijina: For that you need to understand what have we been doing to ensure, besides the early warning signals and the monitoring. What have we really done? If you look back 15 months, we have done a very proactive management of the escrow. And if you divide our portfolio between late-stage, middle stage and early-stage, it has significantly changed in the last 15 months.

Because the money which we swept from the escrow in the late stage, we actually used the money to ensure that our early stage and mid stage projects get completed. And that's why today, so that is exactly the thing which we have done, ensured that the projects get completed. If you have a good cash cover, you bring down the price and sell. And that is why you have seen that the stress for us has been relatively much lower than what you are seeing in the market. So basically, that's the reason.

Kunal Shah: Okay. And out of four deals, which we were working, and maybe it was expected to complete in, say, one month or so, when you did the last call. Two of them have already slipped and what is the status of the other 2?

Khushru Jijina: The other two are fine. That's got resolved.

Kunal Shah: Okay. So those have got completely resolved. There is no risk in terms of any Stage-2 now falling, anyways your Stage-2 number is very small now, but there is no risk of that getting into Stage-3.

Khushru Jijina: But here, I would like to again clarify and emphasize the point. For us, it is not about Stage-2 or Stage-3, it is really the loss given default. Because Stage-2 and Stage-3 is nothing, but a delay. At the end of the day, if we are confident of using the right mechanism and the process to recover our money, I don't think we should worry. So even if, suppose tomorrow if there is some delay, we will not be shy of showing it in Stage-2. At the end of the day, what is most important is our ability to recover the money.

Kunal Shah: Okay. And the last question in terms of inorganic opportunity?

Hitesh Dhaddha: Kunal, there are more people in the queue. So would you be fine coming back? Given the time constraint that we will have.

Kunal Shah: Sure. Thank you.

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

Aditya Jain: So looking at Page 7, where you have shown the pro forma equity and borrowing. So is it right to understand, the Rs. 10,000 crores out of the total capital raised will directly be used for debt repayment? Or is this more like net borrowing, so netting off the cash or are we going to directly repay debt?

Hitesh Dhaddha: So is the question debt repayment or, what you said?

Aditya Jain: So are we going to use Rs. 10,000 crore for debt repayment? Roughly Rs. 10,000 crores.

Hitesh Dhaddha: Yes. Any capital that comes in, first day you cannot utilize the whole of the capital. So on an immediate basis what you do is, you don't keep cash on your balance sheet which doesn't earn any money and keep paying higher cost on the borrowings. So the first thing that we do is, you reduce your debt. But then this capital will remain on balance sheet, the equity-debt leverage ratio doesn't change going forward or maybe change only to the extent of the book growth. So that capital, we will definitely be able to use for organic and inorganic purposes.

Aditya Jain: Absolutely. So the initial intent will be to reduce debt, maybe in Healthcare. And then, obviously, the equity part is available as capital in the future. And the LGD of Rs. 4 crores that you mentioned, so that was across how much principal?

Hitesh Dhaddha: We will come back on this.

Aditya Jain: Got it. And then Lodha, what is the situation now? I think the exposure was Rs. 3,100 crores as of last quarter?

Khushru Jijina: So the Lodha exposure is down to Rs. 3,000 crores. And what is significant here to mention about Lodha is that we have been saying this again consistently that our portfolio assets are actually getting more towards completed. So just to give you an idea today, out of Rs. 3,000 crores, we have a cover of more than Rs. 6,000 crore of assets. Almost Rs. 2,500 crores are now completed assets, in terms of both residential and commercial. And in fact, in the next 6 months, we expect another Rs. 1,000 crores to get completed. So that is one very positive development.

Apart from that, the other development which we are doing is also some of the assets we are actually pushing it in the SPV rather than in the holdco, and that process also has started – Lodha has started that process, which should take a couple of months to complete.

Thirdly, over and above that, there has been interest shown by other institutions also to get some of our assets refinanced. And I think, in this quarter, on latest April, we would be able to shave off Rs. 400 crores to Rs. 500 crores further, so it should be down to Rs. 2,500 crores.

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

Nischint Chawathe: Is it possible for you to share a breakup of the equity for the finance business into what could go into consumers and what could stay in the real estate HFC?

Ajay Piramal: No, I don't think we can give that much granular detail. Today, we are not in a position to give that.

Nischint Chawathe: And broadly, we are on track to kind of push the entire real estate lending business in the HFC in, I think, next quarter or so?

Ajay Piramal: Yes, it will go in the HFC.

Khushru Jijina: Yes.

Nischint Chawathe: Sure. Just one final thing. It's almost one year since the entire liquidity crisis has hit the real estate industry. So if you could kind of give some broad color in terms of what are developers doing? Is the worst behind for the industry? And are there any key things going forward? Maybe not from your portfolio, but maybe from an overall industry point of view.

Ajay Piramal: Overall industry, let's keep it aside because there are other questions, we will be happy to answer.

Moderator: Thank you. The next question is from the line of Rohith Potti from Marshmallow Capital. Please go ahead.

Rohith Potti: The first question is, broadly, I would like to understand with all the fundraising done, what was the non-financial services business debt before the whole fundraising? And after the intended repayment, what would be the debt in that portion of the business?

Ajay Piramal: So with DRG, about Rs. 4,000 crores debt approximately will be paid off, and Rs. 2,500 crores will go in towards equity.

Rohith Potti: Okay. So the non-financing service debt, the remaining debt would be how much after that then?

Vivek Valsaraj: Roughly, about Rs. 5,000 crores.

Rohith Potti: Okay, understood. And I missed that financial services business equity after the whole fundraising, how much you'll be putting into it. Could you repeat the number, please?

Ajay Piramal: It will be about Rs. 20,000 crores.

Rohith Potti: Okay, understood. And so the next question I have is on the housing finance business. So when we began the business, I think, around two, three years back, we were talking about how we'll be focusing on the self-employed portion of the population in the country. But I remember seeing it, I remember in the last presentation being that 70% of our book was towards the salaried class. And then we have this particular new strategy of entering the Consumer Finance business using the technology-enabled data that is available in the country right now. So could you please tie this all together to help us understand if there has been a change in the self-employed population target and etc., or is it for the next quarter that we'll be able to do that?

Khushru Jijina: I think it's a very good question. A couple of answers on that. I think you are absolutely right. When we started, we said that, ultimately, we will focus on self-employed. But when we focus on self-employed, in fact, one of the quarters we had mentioned that before we start the business the most important thing is to get your underwriting and process right for self-employed. Like we have done in the wholesale.

And that is exactly why in the last few months, in the last quarter, we slowed down because we were shifting the model. So yes, going forward, our aim is now to move to at least 50-50 self-employed. And you will see the shift in the next six to nine months, where you will see more of self-employed coming in, because now we have got a new model in place.

The other part, which you rightly mentioned about fintech. In fact, it's not new to this Group. In fact, we have started using fintech even for housing finance, and that is why it gives us the confidence that in the new strategy, we will be able to do more self-employed.

Moderator: Thank you. The next question is the last question from the line of Vivek Joshi from Bandarpoonch Capital LLP. Please go ahead.

Vivek Joshi: I have two quick questions. The results were excellent. Congratulations for that. And my two questions are, of the lending, how much of the loan book still resides in the, like, Piramal Enterprises, like the main company book?

And the second question is, in this quarter, how much of the provision have you provided? Because from last September to this September 2018 to this time, the provisions have not moved up. So has the provision ratio come down? Because earlier we had 2x cover, so have you provided something in this quarter?

Khushru Jijina: Yes, the last question first. The book has come down. So actually the provision ratio has not come down, and that's why you see the static number. And the first question on PEL, we have brought it down now to Rs. 1,600 crores and major part of it is Lodha, which will also now be moved to PCHFL by March, because of the equity infusion coming in.

Vivek Joshi: No, but in this quarter, could you give me the number, how much has been provided in provisions in this quarter in the line item, of the Rs. 947 crores of provisions?

Khushru Jijina: How much has been provided for the PEL asset?

Vivek Joshi: The NPA, like, the provisions for the NPAs. Out of the Rs. 947 crores in this particular quarter?

Hitesh Dhaddha: See if you look at the total of Stage-2 and Stage-3 is not changing much. And that's why if you look at total provisioning, it continue to remain at Rs. 1,000 crores. And because it's just a shift from Stage-2 to Stage-3, which is happening. And the total of Stage-2 and Stage-3 is not changing as much, the total provision is nearly similar to what it was.