



“Piramal Enterprises Limited - Conference Call to Discuss the Impact of Demonetisation on Financial Services Business”

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**Moderator:** Good day, ladies and gentlemen, and very warm welcome to the Piramal Enterprises Limited Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Hitesh Dhadha -- who looks at Investor Relations for Piramal Enterprises Limited. Thank you and over to you, sir!

**Hitesh Dhadha:** Thanks, Ali. Good evening, ladies and gentlemen. I am Hitesh Dhadha and I handle Investor Relations for Piramal Enterprises Limited. Thanks for joining us today to discuss the impact of de-monetization on our financial services business.

The discussion today may include some forward-looking statements and these must be viewed in conjunction with the risk that our businesses face.

On the call today, we have with us Mr. Vijay Shah -- Executive Director at Piramal Enterprises Limited and Mr. Khushru Jijina -- Managing Director of Piramal Fund Management, the financial services arm of Piramal Enterprises.

I would like to hand over to Mr. Shah now for his initial thoughts.

**Vijay Shah:** Good evening. The demonetisation is an indeed black swan event, the kind that we have not faced in the history of India. And in the context of such an event, it is extremely difficult to predict the future. However, in our context, we will try and make the best effort to clarify the implication of this event to the unique context of Piramal and throw as much light as we can in this call. So, we have got Khushru Jijina on this call, who is the Managing Director of Piramal Fund Management and oversees the entire financial services arm of Piramal Enterprises.

I will hand over to Khushru Jijina and I will add on whenever required. Khushru Jijina will begin with initial comment from the perspective of demonetisation as also its implication for us and then we will move on to Q&A mode.

**Khushru Jijina:** Good evening everyone and good morning to our overseas investors. Firstly, a lot of things are being said especially about the real estate industries so I will touch upon that. We will spend some time on what is happening in the real estate industry on the ground because from the time it has happened to today I myself and the team has visited various regions and so, we have got a sense of what is happening. And then, we will touch upon our financial services business which is not only real estate but non-real estate also.

So, starting with the impact of demonetisation on real estate, I would like to take a step back actually and which I have been saying for long time almost two years now that what we are

seeing in the real estate industry for the last two years is that there has been a consolidation happening, okay.

Before anything I say, I would like to first start by saying, that whatever will be the views there is no doubt in my mind that the sentiments for the real estate for the first three months to six months will definitely be subdued. Then let us talk about what is actually happening on the ground. So, coming back I have been seeing in the last two years' consolidation happening at a rapid pace in the real estate so, what do I mean by that? So, there is a clear distinction because of the downtrend or downward moment of the real estate sector in the last two years that the customers have actually chosen which developers will actually grow and which developers will not grow. So, in other words developers who have been delivering, who have got the brand, where the people feel safe with the money have been growing and in fact all the data points if one looks at it for the last one and half year of the sales and the launches of these developers whom we have also backed clearly show that they have been able to sell.

Again, here I would like to distinguish between Tier-I and Tier-II. Tier-I basically are the cities where we operate in which is Mumbai, NCR, Bangalore, Chennai, Pune, Hyderabad, etc., and the Tier-II are basically cities like Indore, Surat, etc., where we do not operate. So, coming back I wanted to bring this distinction before we go into demonetisation.

Now, who are these Tier-I developers who have become good brands and are doing well, there actually if you actually look at it, why people have started choosing them? It is not only for the execution capability, it is also because the mood of the curve in this last few years on corporate governance, execution having a good team and also, they are basically if you really look at it, operating in cheques and not cash. So, if one ignores the sentiment for the short-term which is three months to six months, our house view is that obviously, these people are going to thrive and I will come to it why they are going to actually thrive because they are not going to be affected because their sales are always in cheque and these are the developers with whom we work. Yes, the same set of developers would also have some luxury projects which might get affected which I will again touch upon in a little more detail.

So, first and foremost I wanted to distinguish between Tier-I and Tier-II. Tier-II are the cities like as I said Indore, Jaipur, it could be Surat, Ahmedabad, where the cash element was pretty high and those definitely I think the sales are going to be affected. The second are even in the Tier-I the developers who are especially in NCR I just visited NCR and on the ground, I saw that the developers who are in the parlance were using I would call it unauthorized construction means their entire project is cash, I think they are going to be in severe trouble. But the developers who have embraced cheque and really looking at and talking to people who has housing loans or having loans from people like us because we insist on minimum selling prices, those developers definitely will get affected as of now, but long-term and medium-term we do not see an issue.

Again, talking about what is going to happen in the short-term, I think two points are very important to talk about. One is the prices, a lot of talk has been made that the prices will crash. I think again, this is one thing which I have been saying in the last few years right from the time I have been in real estate and then moving to the lending platform that you cannot paint the real estate platform with one brush and that is a mistake I think everyone make even in 2006, people from overseas made that mistake of painting real estate and looking at everything with one brush. Real estate is such a local game that you have to actually look at city by city, in fact, I go micro to micro market.

As I said Tier-II cities I definitely see prices coming down and coming under pressure. Now, let us go to Tier-I cities. Again, in Tier-I cities as I said already consolidation is happening and with RERA which was introduced my prediction was that it is accelerating the death of the non-organized sector and with this demonetisation it is going to accelerate it further. So, obviously there would be people who would come under pressure and try to break the price.

Now, I have a view on the pricing. Before I go into that there is a fundamental shift in the last two years which I want to place before all of you, what is happening with the customers, I will give it by way of an example. A few years ago I would say anywhere before two years in India, if somebody would have come to me with a proposal in one micro market in Mumbai saying that 'x' developer who is very good is selling at 10,000 a square feet and this new developer who is not so good will actually sell it at 25% discount to that developer so, I think it is a great underwriting I would have bought the argument at that time. Not any more, in the last two years I have been saying that because the customers are not driven by discounts any more, they are driven with whom the money should be given because that has become binary and that is why this consolidation is happening much before RERA was announced and much before this de-monetization.

But having said that, now if prices are brought down by these type of developers who are not the organized sector, I think I would not say that the prices of the organized or the Tier-I will not come down they may come down by 10%-15% which of course when I touch upon our business I will say it is actually very good when it happens and I will touch upon it why it is very good. But that is what we feel. Yes, Tier-II cities where we do not operate at all, I do see prices coming under pressure, so, that is the point I wanted to talk about our view on pricing but I definitely do not see prices crashing because anyway the margins have been reduced in the last few years and the cost are what they are in the Tier-I cities but this is our view on the pricing. I think the other one which will get affected will be approvals in the short-term, I think obviously, everyone knows the reasons for that I will not talk about it because there are reasons why approvals are to get delayed or not delayed. Now, with the demonetisation, there could be issues of approvals getting delayed. Now again here, I think approvals will get delayed in the short-term but in the long-term cannot get delayed the answer is very simple again, one, it is very clear that at the end of the day you cannot have a system where the approvals are not given at all, it has to, it will get escalated at some point or the other. But yes,

in the short-term there could be some issues, I do not deny that at all. One of the things which our CM has been saying and as recently when I met him that he is so cognizant of this problem of menace of approval issues that ultimately most of the government state governments want to make it online and in fact Maharashtra is already done part of it online. So, when you do online obviously this problem goes away but I am not saying that it is going to go away in the short-term thing which could go on for six months to nine months, well that could be one of the issues. The other thing is when I meet the developers, just to again say as late as two days back, some of our developers have actually got approvals on the ground, they have got the approvals and I asked them how they got the approvals so, they said that we have come out with some new models which I cannot talk on the phone. So, as I said India keeps on evolving at the end of the day but yes, I do see some hick ups in the next six months to nine months on approvals. So, I think this is what I would like to speak about on the industry.

Yes, let me also touch upon the long-term for this industry. I think the organized sector and the Tier-I or the alpha developers with whom we work, I think are unanimous in one thing, this is a great event for the real estate for the long-term and I will tell you why because in the last two years to three years ultimately in sentiment driven this year, everyone was looking for a trigger for this industry to come back. In fact, the last quarter has been one of the best in the last five years of this industry in terms of sales from Diwali onwards but again this demonetisation came in. But now, with the expectation of interest rates going down of housing loans developers are telling it will go down to 7% and there is a wide expectation of taxes coming down in the budget, I think people are very convinced that this is the trigger for real estate to come back. So, yes, I think there we are also very confident and sure, and this is where we think the long-term is good for that it is unanimity in the industry today, I have visited each and every region from 8th of November and met almost all our developers and it is very clear that for the long-term they are very bullish. Yes, I am again saying for the people who are not doing well before they will die faster but the death was already written, it was already started, it is not the demonetisation which is the trigger, the trigger was already much before that and the escalation came with RERA and now with de-monetization so, that is what I would like to speak about on the industry on whole.

Now let us talk about our book. Again, I would like to first talk about our journey in this whole thing which from January 2014 when I took over we actually in 2013 and 2014 were doing mezzanine funding which was high cost, high yield 18% to 20% pre-approval or just post approvals dates.

In January 2015, we announced our intention to move to construction finance because not only from the diversification it was very clear to us that you need to move down the value chain in terms of risk reward because at the end of the day we realize that construction finance, on a risk adjusted return and from the ROE perspective with the leverage, it is far better than doing the mezzanine funding actually in real estate. And I am very happy to tell you all, that today as

we speak 52% of our book is actually in construction funding. I just want you all to park this number.

Let us talk about January 2016, we had announced that we will now move into commercial because we started seeing improvement in the commercial segment and if one goes back in time I said to the press that we will do at least Rs. 5,000 crores of construction funding in this year and I am very happy to say that we have actually crossed this number in construction finance in commercial.

In February 2016, we announced our Piramal Preferred Program where we gave pre-approved limits to the alpha developers of the Tier-I cities of almost Rs. 15,000 crores. Again, here we have sanctioned almost 50% of that to the developers as we speak. So, obviously, the natural corollary or the natural next deal or the next product should have been the lease rental discounting product, which we just announced today to the market which will come all over in the press tomorrow. So, obviously if we are giving construction finance for commercial it was natural of us to move to LRD which is called lease rental discounting. And the beauty of this whole thing is that unlike if we go back again in January 2014 and people use to ask me, what is the risk in mezzanine? I use to always say that the deal remains for not more than one and half - two years. Now, just imagine what is going to happen in the commercial lending, I have given a construction funding for a Grade A project to a Grade A developer for five years and I convert that once it is ready and leased for another 12 years or 9 years to 12 years, LRD lease rental discounting, the developer is going to be with me for 15 years to 17 years that is the stickiness of the loan. And again, if I look at it on the risk adjusted return and with the down selling which we do with all our associates, I think I can confirm today that it will be in line with the ROE expectation of the group. So, again this is a big move which has come coincidentally with demonetisation so, anyway it is a part of our plan, it just happens that demonetisation comes in so, again if you look at it our growth will get in fact, we have announced today that we already have Rs. 1,500 crores of deals but I am happy to even say that we will probably cross that in December because today itself we have started looking at far more deals than Rs. 1,500 crores. Again, if I may really look at and share with you all the last two ICs again, in fact, if I look at the IC 70% of my deals were actually commercial so, again what are we saying that as we move along I think in FY 2018 hopefully, not hopefully you will actually see a very good mix between residential commercial and within residential it could be mezzanine and it could be construction finance and again in commercial you would look at construction finance and LRD so, I think a very healthy diversified portfolio.

Now, let us look at what is happening to our existing portfolio. Again, I am very happy to announce that more than 85% of all the projects we have funded so far are already approved projects, they are already above the ground, more than I would say a large amount of project is sold out, financial closure achieved, so the approval issue is not there with me, right that is one point I would like to park.

Even in mezzanine funding one of the things which we always followed and many people use to question me that time for this conservatism which is holding us in good stead is that whenever we entered at a pre-approval stage we insisted on a mature project from the developer that we would like to have for the bad or rainy day which today is paying dividend for us that at the end of the day we are having cash flows. Again, this point I make again-again to whoever has met me that so far I have lost so many deals to my competition because we do not insist only on security we insist on cash cover and security cover both because in the real estate industry for whatever I have understood when I running real estate it is the cash cover which is more far more important than security cover for our business.

The other thing which has been very helpful to us today is I can share with you in confidence is the way we underwrite, unlike the various NBFCs who basically do sensitivities on 20-20 cost increase and sales coming down our real rigor has been that we delay our sales by one year and that is what we have been doing. And, we delay the sale from the sales velocity taken by our team not by developer. So, you can imagine the conservatism we build at it. Again a lot of criticism had come in between that competition is taking away your deals because of this but today as I speak, just imagine in the short-term if things go slow by six months - nine months I am not worried, absolutely no issue at all because I have already underwritten that delay of one year and that also on a conservative estimate than the developer so, I am sitting pretty comfortable, I can in fact confirm today that after reviewing each and every deal of mine I have absolutely no issue, I can make that confirm statement today. So, that is one part on that.

The other thing I would also like to share with you is that even in construction finance many of you could do your due diligence and check with the competition that we actually even give construction finance link to sales performance. We have always had so, many people told me that are you doing sales discounting or you are doing construction finance but again being conservative today this is holding us in good stead so, what do I mean let me explain. So, first of all, let us look at deals which we just approved in the last two months, now the first dollar or the rupee will go to the developer only after he makes the minimum sales which I am comfortable so, if does not do it there is no deal. So, I am not going to give him the money. I am talking of the mature projects, the old projects they have already achieved those sales what that was. So, I am not worried about that again. So, again that in today's rainy day or a black swan event as Mr. Shah said has helped me in good way. So, again I just wanted to share with you the way we under wrote monitoring and the early warning signals which I keep on talking about all the time people sometimes get fed up of hearing it, I say, I always say the investment anybody can do it is the exit which distinguishes the men from the boys and today I am happy to say that in a bad situation like this I can confirm that everything is in good order for us on that.

So, again I think I spoke a lot on real estate but we forget that we have non-real estate which used to be called SIG the structured investment group which got folded under Piramal Fund Management in June which we have renamed as Structured Finance Group. So, there again, I

see a lot of impetus and what do I mean by that. So, when I took over, the two main things that we did one again it was playing in the mezzanine space which is 18% to 20% so, we announce that we will actually do from senior lending to mezzanine so, we have actually started doing deals from 12% onwards, the same funda or the same rules which we applied in real estate. And second, we made it sector agnostic so, no more we are only focusing on infra and you will see us announcing very soon deals which are non-infra and non-renewable so, I hope I can give some forward-looking statement that in fact we see doubling the portfolio of SFG by March. So, I see a lot of growth coming from the non-RE in Piramal Enterprises.

Again, the same thing what we achieved and which we are proud about in RE which is our monitoring and keep on speaking about the proprietary systems which we have developed as I shared with some of the investors who met me recently that even when the technology e-front met us and studied the processes before putting the technology they wrote to us that our processes actually put the European companies to shame.

Again, I do not see a big deal because we understand the business and that is why we have put out system and the same thing we are now implementing in SFG. So, this is what I would like to share.

Also let me make a last point, I think which is very important that more than 90% of our deals are in the mid segment to affordable segment. I think that is an important point I forgot and it is very minuscule percentages which is in our high-end.

Again, here let me tell you we have something called minimum selling prices, because I do not want to know whether the developer is selling in cash or cheque so, we have in our underwriting the minimum selling price. So, what do I mean by that so, ultimately, we insist that the developer cannot sell below a price which we are stating because that is the rate which we have underwritten.

Again, let me share with you all across the board in all our deals the rate which we take to underwrite is lower than what he was selling. So, again today as I was telling you all, if rates come down, now this is an important point, if actually rates come down by 15% - 20% I am actually going to have a great time because the velocity will increase and I have already underwritten less than 20% of my rate in my stress scenario. So, I would in fact say that god willing it happens because for me it is a great moment.

So, sorry, I forgot to tell you all, that is an important point to take cognizance of because we have already under written 20% below. We have also under written 20% cost going up but let me tell you on the ground, cost has actually gone down so, that is also another buffer for us. So, all in all, based on that and the sales velocity we have already taken one year delay which I explained but if prices come down I think we very happy that is something which I want to talk about.



Yes, so operator, we are happy to take questions from the participants.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from Aadesh Mehta from Ambit Capital. Please go ahead.

**Aadesh Mehta:** Sir, if you can briefly elaborate your foray into housing finance that will be great.

**Vijay Shah:** Foray into housing finance, we are not directly into retail market, we are doing wholesale finance to the developers.

**Aadesh Mehta:** Okay, but through Shriram Housing?

**Vijay Shah:** No, this is the call only for Piramal Enterprises, so we will not take any questions for Shriram Housing.

**Moderator:** Thank you. The next question is from Rajendra Mishra from IDFC Mutual Fund. Please go ahead.

**Rajendra Mishra:** Sir, just wanted to check on this number that you gave, Rs. 5,000 crores that was one and the second was Rs. 15,000 crores tied up to Tier-I developer has pre-approved limits. So, just wanted some of those housekeeping numbers once again, if you can clarify so, what is Rs. 5,000 crores you have crossed?

**Khushru Jijina:** Yes, so, let me explain, Rs. 5,000 crores is the sanctioned amount for construction finance in commercial. So being construction finance, in the disbursement you will not see it totally coming. It will be stage wise. And Rs. 15,000 crores are the pre-approved limits which we had a unique called Piramal Preferred Partner Program, let me explain to you, we identified some of our very large alpha developers across the city and we give them pre-approved lines for example, if you are an alpha developer I will give you a pre-approved line saying that I am ready to back you for say Rs. 1,000 crores for any type of a product or any segment whether residential or commercial however please understand that this is a marketing statement or a marketing letter, ultimately we will sanction it project by project. But it just gives the developer a comfort that Piramal is ready to back me if I come with something sensible.

**Rajendra Mishra:** Okay, so, this is a kind of pre-approved line which is there to take, it comes with bankable project?

**Khushru Jijina:** Yes, that is it.

**Rajendra Mishra:** Okay. And how much we have done within that so far?

- Khushru Jijina:** So, within that again we have sanctioned 50%.
- Rajendra Mishra:** 50% sanction we have already done.
- Khushru Jijina:** Yes, why I am using the word sanctioned because as I said today for every dollar I use roughly \$0.50 cents go into construction finance, right so, in other words when I talk about sanction and if you just relate it to the book, you will see where the money gone but these will keep on coming as the stage increases.
- Rajendra Mishra:** Okay. And just to clarify on this Rs. 5000 crores sanctioned for commercial you mean commercial real estate?
- Khushru Jijina:** Commercial offices, office buildings.
- Rajendra Mishra:** Office buildings, Yes, okay. And just one last thing, among all these segments that we have spoken about both real estate and non-real estate one which you think would be the fastest growing over next second-half or next one year - two years so, one you clearly said that you the non-real estate that you expect to double but anything else that on the real estate side or anything else which is going to grow very fast?
- Khushru Jijina:** One of the things not to sound a little immodest but if you see we have always been ahead of the curve. So, even last year we came right in time for the commercial, right. Now we are introducing LRD, we believe it will be successful. Just to share with you we are ready with our RERA product also for the developer which will be a very unique product which I cannot share right now but we will be introducing that so, we are always innovating and coming out with a product because under RERA again there will be challenges for most of the developers so, we are coming out with a very unique product again where it will be win-win for the Tier-I developer and me. So, this is on the products but since you are asking me in terms of percentage I think the growth definitely I see is from SFG because understand the logic this is one sector there I have opened up the sector, sector agnostic and we are saying we are ready to play from senior debt to mezzanine. So, logically, I see no reason why we should not do better in terms of growth percentage then even RE. Though RE will continue to grow, I really believe that in the medium-term with budgets and all coming as I mentioned in the beginning I see real estate coming back, I really-really see that and the day it comes back we will be there actually doing much more than what we are doing because thanks to this last three years deep relationships and our understanding of the market and the deep relationship we have created with the top level developers, I see us being part of this success story.
- Rajendra Mishra:** And is there any long-term or short-term target as to how much in the book between real estate and non-real estate or capital allocation will depend on opportunity and yields?

- Khushru Jijina:** So, it would be definitely on opportunities and I do not think I can give a forward-looking number I suppose.
- Rajendra Mishra:** Fair point. And just one clarification last clarification on this, pre-approved limits of this Rs. 15,000 crores is a one-time thing which you have done or this is a continuing process which you will roll out in other cities?
- Khushru Jijina:** Again a very good question, I think we will roll it out at the right time as a second round, whenever we think it is required. Let me explain to you since you have been asking this, for us to give this letter it is not just a letter, we need to first work with the developer for two projects - three projects. We need to get comfortable in the DNA so, while we give this letter in February 2016, now we have got some new set of developer with whom we are working. So obviously slowly that comfort level is coming with a few more once we are sure of that then we will unveil the letter.
- Moderator:** Thank you. The next question is from the line of Rohit Potti from PPFAS Mutual Fund. Please go ahead.
- Rohit Potti:** My first point of clarification which I would like was if you could elaborate on the cash cover which you were mentioning that would be quite helpful.
- Khushru Jijina:** Okay, what is cash cover? Cash cover is nothing but our expectation of cash generated from the net cash, we actually map for example, if the project comes at a particular stage from that stage to the end of the project as per our assumption, how the cash will get generated net on net, the sales collection, construction cost, other cost and what is left month-on-month in the hand that is what we sensitize because please understand we are a debt fund, means it is not equity, equity is a different ball game, NBFCs make the mistake of just looking at a security that the land is great, the project will go so much ultimately the value of the project is so much we forget that on quarter-on-quarter we need to get our interest and repayments and ultimately in fact one of the most important mechanism for us is escrow. The whole cash is escrowed in fact, we have learned and have experienced that the most important weapon for us is the escrow mechanism, where we control and percentage sweep month-on-month we control based on the cash flows and it is very actively done by dedicated team.
- Participant:** That is helpful. Second question which I wanted to understand is about this preapproved limits of Rs. 15,000 crores are these for the existing projects, or are these for the new products which the developers might come out with?
- Khushru Jijina:** So, as I explained the letters are marketing letter saying that I am ready to back you to so much amount provided you come with future projects which makes sense to us. So, underwriting is the same.

- Moderator:** Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.
- Manish Ostwal:** My question on demonetisation impact on project execution front and demand outlook especially the segment where we are operating so, what is your outlook or secondly, significant amount of proportion is affordable segment, what is the pricing point in that segment right now?
- Khushru Jijina:** So, let me explain again, I made one comment today that in real estate nothing is universally through. So, let me explain, let me attempt to answer this question. I have always said that, what is affordable? So, when I mean, when I talk about affordable I meant mid segment. So let me explain what do I mean. It means the ticket size of particular product in a micro market, let me explain that. So, let me take Mumbai as an example, let me divide the micro markets into roughly a few like I would say Eastern suburb, Thane, Western suburb, Central suburb, South Mumbai, okay. Now for example, in Thane today now this is by experience, okay I can tell you that anything around Rs. 1 crores - Rs. 1.5 crores will sell very easily it is a sweet spot. Anything between Rs. 2 crores to Rs. 2.5 crores in Western suburb will sell very easily, okay. Anything from Rs. 1.5 crores to Rs. 2 crores in Eastern suburb will sell very easily. Anything in Central Mumbai around Rs. 4 crores to Rs. 6 crore will sell easily. You understood what I mean? Affordability is defined by the segment of the micro market. Now you will ask me how you arrive that this? It is with our data and our experience on the ground.
- Vijay Shah:** With respect to the context of the geography and the affordability....
- Khushru Jijina:** Affordability of the people staying there.
- Manish Ostwal:** So, basically the income profile of particular....
- Khushru Jijina:** Correct, absolutely bang on, absolutely right. So that is how we map and that is why we look at projects so deeply into each micro market that is where the people make a mistake by just backing a project without understanding the each micro market. Now there are micro markets where sometimes commercials sells, residential does not sell, you have to go so deep. In fact, if I will confuse you, in fact, I divide micro markets into who are the authorities also whether it is MMRDA, BMC, SRA, because each has their own nuances, okay. Real estate is a very local-local game.
- Manish Ostwal:** Right. Second question what is our view on this strong developers acquiring good project from weak developer which may happen now faster, what is your view?
- Khushru Jijina:** Fantastic question which I missed, fantastic question, I must really say this. In fact, in the last one year because of the scale and the size and our relationship with the strong developers, in fact I have been saying that I am no more in the business of lending, I am in the business of

marriage making, what do I mean? What is happening is all the people who are not able to sell, are actually turning into land lords, they come to me not for money, they come to me to ask me for help for tying up with a good brand because ultimately these are all your relationships. Now this is going to accelerate. In fact, I did not say there is short-term window opportunity for Piramal Fund Management what does this mean not only in this way, I am also looking at NBFCs who did not underwrite properly so, they are going to be in trouble so, obviously they will be coming for refinancing and I will actually have the luxury to now look at post demonetisation, I can look at my underwriting today and I can actually go with the new loan where it is actually very safe it could be a last mile funding, so I am actually looking at opportunities now because I am sure many NBFCs in their enthusiasm have under written fast bigger velocities which will not happen.

**Manish Ostwal:**

And lastly, entire this demonetisation what is your opinion what is the short-term impact on our business?

**Khushru Jijina:**

I already explained that in short-term first of all, as it just happened before demonetisation itself if you see from the last one year our growth which continues in residential but if you really look back it is coming from last mile funding, construction funding, commercial funding which I mentioned that we have sanctioned more than Rs. 5,000 crores today we announced to the press that we will be doing lease rental discount which has got nothing to do with demonetization and by December I am telling you today that we will be sanctioning more than Rs. 1,500 crores only in lease rental discounting and structure finance group, which is non-real estate, I made that statement and I see actually doubling the portfolio in this current year. So, there could be one or two deals which we will not do obviously because we are ultimately in the long-term, medium-term so, even if three months or six months, if I have to not do two or three deals, I have to drop, I have no issues, for me safety is much more important because to be honest, I am very clear that I will meet my targets anyway so, I do not have to do anything stupid to just meet my target. But long-term I actually see us doing very well as I already explained to you. But just on the side even having said this all, I must also share with all of you all my ground knowledge what has happened, it is not that sales have become zero post 8<sup>th</sup> of November, let me share with you just as a matter of information because we have just mapped out recently all our developers, till today sales are happening let me tell you, it could be 60% of the normal sales, it could be 50% somehow 70% let me just share with you all, this is a statement I want you all to absorb. So, just to give you an example, Lodha is our client who does Rs. 200 crores per week, have just finished last two weeks of Rs. 100 crores each so, it is no mayhem as people think, the mayhem is in Tier-II please, I am giving you ground knowledge.

**Moderator:**

Thank you. The next question is from Prashant Premkumar from Consilium Investment Management. Please go ahead.

- Prashant Premkumar:** Can you talk a little bit on the competitive environment for both the construction finance the real estate side as well as the SFG and the sustainability of the ROA that we are doing? And also what is the loan loss ratio, the credit loss ratio for each of these businesses over the cycle?
- Vijay Shah:** What is loan loss?
- Prashant Premkumar:** The actual loss I know just like....
- Hitesh Dhaddha:** Are you talking about gross NPA levels?
- Prashant Premkumar:** Correct, NPA level.
- Khushru Jijina:** So, first of all, I am happy to say that NPA level today is 0.4%.
- Hitesh Dhaddha:** That is gross NPA that is what we reported last quarter.
- Khushru Jijina:** On my entire portfolio and on the construction finance it is zero.
- Prashant Premkumar:** How sustainable are those levels
- Hitesh Dhaddha:** So, we will sort of continue to have the levels the way we had so sub-1%
- Khushru Jijina:** Absolutely, while we continue to provide on our entire standard portfolio 2%
- Hitesh Dhaddha:** Yes, that is the provision that we do.
- Prashant Premkumar:** Okay. And in terms of the competitive dynamics....
- Khushru Jijina:** Yes, so, again that was a good question, so, in fact frankly, why I said it is a good question is because I had introduced construction finance in residential space in January 2015 everyone told me that how you will every compete on rates with the banks, right? But today we are 52% of the book the proof of the pudding is in the eating and why were we successful? So, I will take a step back, I think it is an important point. What has been the success of this platform? Besides of course monitoring and all which is a success for that is you and me both, the success has also been because we are one-stop shop, we are a solution provider, every deal for us as I say is a job shop. We are not a cookie cutter. So, we are able to provide solution for every issue, even in construction finance there are nuances which every bank is not able to understand and twist and do it which we are able to do it that is all I can explain, otherwise you will actually have to meet me and I can actually take you through the deals to explain to you what I mean but this is one of the reasons. The same thing happened when I introduced in this year the commercial finance, it is the flexibility and the understanding of the sector and making the structure in a way including SFG today that is our strength today, if you do some due diligence if you go to our customer and if you ask them, what is it that comes across this

platform, it is never the rate, rate we are always slightly higher than the competition, it is the understanding, the speed and the structuring what we do is you will come across, that is what people talk about. Again, let me just also add this 0.4% on the entire is because of our legacy education loans, which also we are clearing it is coming down on the real estate even right now the NPA is zero including mezzanine it is zero.

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

**Nischint Chawathe:** Yes, hi, this is Nischint here. Just wanted to check basically what you are saying is that there may not be really any change in guidance for this year and definitely not for next year, if anything the guidance of next year would actually improve but just trying to get a sense, I am sure, you would have done a study of your portfolio, have you found any stress points, is it something that is worth noting or it is just one project or two projects that may not really be very relevant?

**Khushru Jijina:** So, first of all, let me make a statement that I started by saying that after reviewing the portfolio everything is in order so, let me explain what did I mean by that. In fact, let me again go back to my pet topic of monitoring. At the end of the day for us monitoring is religion, whether demonetisation or whatever. So, at every given stage at that is almost on a monthly basis, we have a very active monitoring process which has been developed in house with a separate asset management team which I myself chair on a monthly basis. There on a regular basis, we keep on looking at projects where we think that everything going well could this go wrong in six months, could this go wrong in nine months, could this go wrong in one year and then we take a lot of steps or remedial measures to do that. Let me explain to you what I mean by that so, for example, if there is a project where we had assumed something and everything is going very well, the sales have done better, construction is better, project is great, but something like an approval something came because in our business as you know the government plays spoilsport all the time. Something happened which delay his formation by say six months and genuinely we think that we need to give him further moratorium of six month and in fact the covers has actually improved, we do not feel shy to do that we will proactively go and see to it that unnecessary the project does not suffer. However, if in a very stage which today it is not there which in a miniscule stage if there is a small loan we find that no, this thing did not come out the way we thought we actually start pushing the developer for refinancing and it is not theory, it is practical, we have been able to achieve 100% results from that because when you push, the developer at an early stage it is easy for him to get refinance, it is only when you are sitting and enjoying thinking that everything is fine and then the default happens then the problem is that he cannot even get refinance. So, that is what I always say it is the early warning signals which we so religiously and ruthlessly monitor and the project monitoring committees which we have which I myself chair monthly and the sweep ratios which I spoke about. So, again here this is the real trick really which I am giving out, is that for example, if the sweep ratios was agreed as 40-60, 40 in my favor 60 for the developer, if I find

that nine months down the line I may hit a road block, I will increase the sweep ratio today to 70%, you get it, there are various weapons in our hand, the key is monitoring, monitoring and monitoring and understanding the space very well, that is the key.

**Nischint Chawathe:** We started off saying that sentiments around real estate are sort of subdued right now which possibly means that the retail sales at least over the next couple of months would be sort of a little weak. So, in your discussion with developers what is the broad thought process how are they dealing with the situation, will they wait and let time pass by or will they kind of go ahead and give some attractive offers. I am sure you would have also had a discussion with them for example of projects....

**Khushru Jijina:** Yes, so, I mentioned to you all that everything is not zero, I shared with you all, that sales are happening. But it is definitely subdued, right. I am talking about the Tier-I developers with whom we have relationship. But having said that, I do believe that the sales will be subdued in the next few months. My interview with the developers are they are saying that as of now they are not in any mood to cut the rates because they really believe that post the budget things will come back and most of them with our money and with already locked-in sales so, collections are happening through locked-in sales, they construct slab the money is coming. So, they are not in any stress at all. The stress is with this unorganized fellows where there is anyway without demonetisation also as I have kept on saying in the press no sales are happening nobody is ready to bet on them. So, sales will be subdued but as of now nobody is in a mood to cut prices because already this industry because I am from this industry we use to enjoy 40% - 45% margin come down to 20% - 25% I am not in a mood to cut, but I also mentioned my view, that if suppose in a situation there is a pressure on everyone to cut into a 10% - 15%, I am happy man because I have underwritten at far lower, I will be a happier man because I will see sales velocity coming back faster.

**Vijay Shah:** The questions are getting a bit repetitive and we have hard stop at 6:30 so, we may be able to take only one or two more people.

**Moderator:** Certainly, sir. So, we can take two more questions, one we will take from the line of Lokesh Mallya from SBI Mutual Fund.

**Lokesh Mallya:** Yes, my question is on the gearing and the funding profile, so, Piramal Enterprises on a consolidated basis Rs. 27,000 crores of debt is almost nearing 2x debt-to-equity, if you talk about Piramal Finance, the real estate portion that is closer to 4x where will this gearing stabilize number one? Number two, in the funding profile we have a large portion of short-term debt and quite a lot of commercial payable which is non-bank debt capital market instruments, how is this funding profile, is this funding profile going to be remain the same what are you doing to tap the bank lines?



- Vijay Shah:** This call was more to do with de-monetization and its impact on the financial services still Khushru we will try to answer it.
- Khushru Jijina:** Yes, so, I will actually try to answer it. In fact, let me again go to your the last question.
- Lokesh Mallya:** Yes, no my question was because is there any rethink on the gearing policy in the wake of this.
- Khushru Jijina:** No, so, let me answer this. One of the things which we have started actively doing is also down-selling because that improves our ROE and there is a good churn, so, which I did not touch upon because especially in the LRD segment and construction finance, we have actually started doing down-selling so, it is just not that we are doing more loans, and the borrowing is going on it is not that. Second, you spoke about your short-term, it is actually not true because what is happening is the CPs, again let me share with you all, you are from SBI Mutual Fund, right?
- Lokesh Mallya:** Yes.
- Khushru Jijina:** Including your bank, I can share with you, we have now got dedicated lines from the banks for long-term with us, against this which we are borrowing now, you understand. So, we are paying commitment fees to the likes of SBI and again that we do CP with a hard commitment from SBI that if you ever want to draw you can come and draw and this is the rate. So, it is really long-term, right now we are just taking advantage of market forces as you know the rates are going to come down your own bank SBI is in the news every day everyday saying the rates are going to fall and the good news is that my returns of the past this present portfolio is already fixed so, in fact I am actually happy. Have I answered your question in a limited way?
- Lokesh Mallya:** The gearing policy is that going to increase, is it going to....
- Vijay Shah:** No change in the gearing policy.
- Khushru Jijina:** No change in the gearing policy, though I am not, that is a group treasury but still since you asked I am just trying to attempt it.
- Hitesh Dhaddha:** See the incremental debt will come more or less for the growth in financial services business and that have their gearing levels and all, yes.
- Moderator:** Thank you.
- Khushru Jijina:** One more.
- Moderator:** The next question is from Tirath Muchhala from Individual Investor. Please go ahead.

- Tirath Muchhala:** I just wanted to say the growth that we are seeing in our loan book in the last two years, it is a little unprecedented, and you have touched upon how your processes are in place. But do you think that our demand for talent, or demand for human capital is being met and even with the future growth that you are talking about how are we placed for keeping the adequate number of people in our team?
- Khushru Jijina:** So, a good question, nobody has ever asked this question, it is my favorite topic. This business is all about people, right and I have always said this openly, I will not be shy of investing in fact, I like to over invest in people so, today as I speak I have got more than 150 people with 60% only doing monitoring now that is a large number many people say why you are spending because at the end of the day this is very important. I do not know how to answer your second question because it will sound a little arrogant but I can share with you in true honesty as I speak I can assure you including CEOs of my competing NBFCs who know me personally are ready to work on my platform today. It sounds arrogant but since you asked I am giving you a very direct and frank answer. So, I do not see that issue as late as you know I was late by two minutes to this call because one of my colleagues who is heading an NBFC had come down to see me only for a job.
- Vijay Shah:** We can take one more question.
- Hitesh Dhaddha :** Operator, last question?
- Moderator:** Yes, sir, we will take the last question from the line of Mohamed Idhrees, Individual Investor. Please go ahead.
- Mohamed Idhrees:** We are talking about the construction finance, but what is the impact on the actual real estate developments like Piramal Realty and Address Makers.
- Vijay Shah:** Piramal Realty is a private company and has nothing to do with Piramal Enterprises.
- Khushru Jijina:** On Address Makers, Address Makers have got three projects which is the money from the third-party fund nothing to do with Piramal Enterprises but still, since you are asking me I am very happy to tell you that all the three are getting exited by March at more than 24% return. They are all in exit mode they all are completed.
- Mohamed Idhrees:** They did not affect Piramal Enterprises...
- Khushru Jijina:** Not at all because that is the fund third-party money but since you asked I am still sharing with you.
- Vijay Shah:** Okay, thank you very much.

**Khushru Jijina:** No, thank you very much for listening to me and if ever there are more questions you all can probably sent a mail, I can reply through mail, there is no problem. Happy to meet to you all if anybody would really like to understand more of India and especially the overseas investors, happy to give a fair and right perspective because that is what is important for us, it is not only about our business, it is important to give the right picture of this country. So, if anybody I am happy to give that to you.

**Vijay Shah:** Thank you.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Piramal Enterprises Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.