

# Launch of Piramal Housing Finance

September 2017





**Is there an opportunity for us to create a sizeable HFC in India?**



# Significant long term potential in housing sector in India

**25%**

of 25 Crores Indian households currently facing housing shortage

Source : KPMG - NARDECO Report : 'Housing for all by 2022', Census 2011

**10 Crore**

houses need to get added in next 10 years

Source : Industry Research Report

**2 Crore**

houses targeted in urban areas under 'Housing for All by 2022'

Source : MHUPA, PIB Release on 'Housing for All by 2022'

**30 Lac**

houses targeted to get added each year in urban areas

Source : MHUPA, PIB Release on 'Housing for All by 2022'

**~3 Lac**

houses currently added every year

Source : Prop Equity, Industry Research Report

**Investments in excess of US\$ 1 trillion are required in housing and allied industry in next 7 years**



# Strong government focus on housing sector

- ✓ Low and Middle Income Group to get significantly benefited through Credit Linked Subsidy Scheme under **Pradhan Mantri Awas Yojana**
- ✓ Enhanced transparency and greater accountability in real estate sector due to **Real Estate (Regulation and Development) Act** will increase the confidence of new home buyers
- ✓ 100% tax exemption on profits from construction of **affordable housing**
- ✓ **Infrastructure status to affordable housing** will ensure easier access to credit and help in reducing developers' cost of borrowing for affordable projects
- ✓ Home buyers allowed to withdraw funds from their **accumulated Employee Provident Fund corpus** for buying homes / pay home loan EMIs

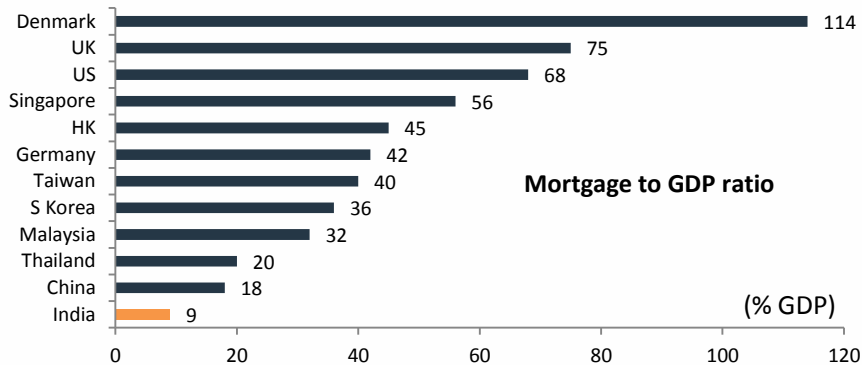
Measures to boost housing sector in India





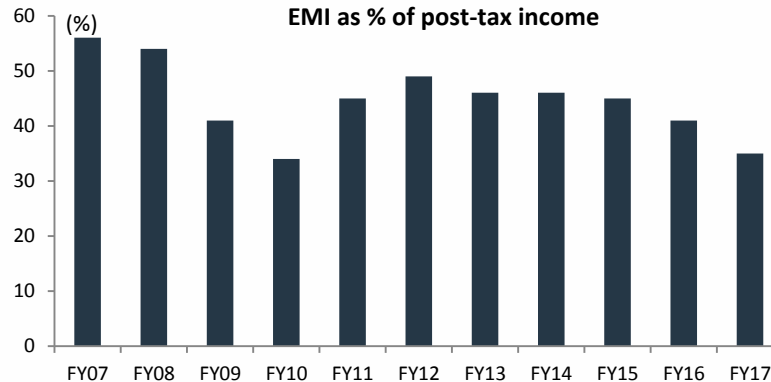
# Opportune time to enter housing finance

## India's mortgage market is highly underpenetrated



Note : Mortgage penetration is based on 2015

## Home affordability is nearing best-in-decade



## HFCs' access to funds is also improving....

### Mutual Funds

Debt mutual funds can now invest up to 40% of assets in HFCs vs 30% earlier

=>Additional Rs.600bn can be accessible to HFCs

### Insurance Funds

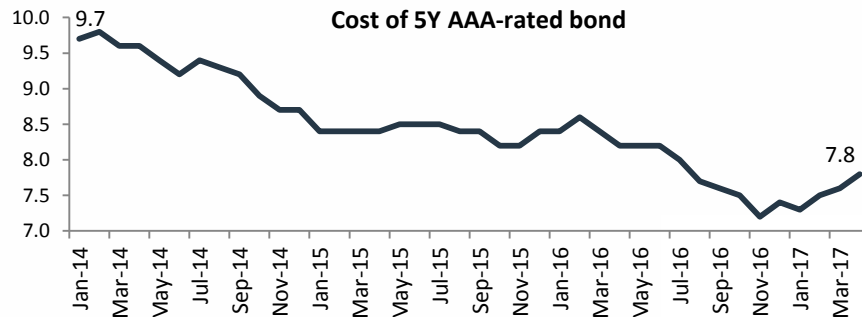
AAA-rated HFCs excluded from sectoral cap for investments in financial / insurance sector

### Foreign Funds

Masala Bonds to help tap foreign funding through INR denominated bonds

Strong demand indicates good appetite for future issuances as well

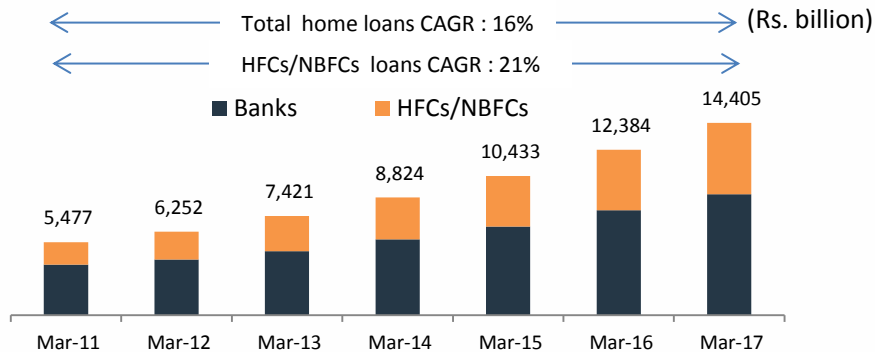
## ...and also benefits from sharp fall in funding costs



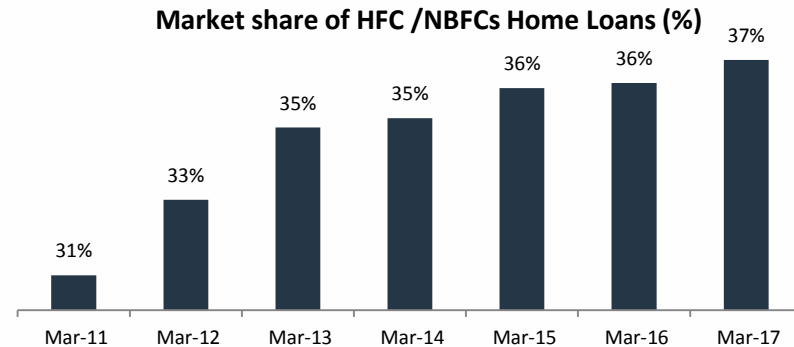


# Very few players in HFCs dominating the market

## HFCs/NBFCs growing faster than the home loan market

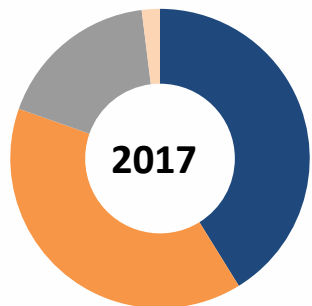


## HFCs/NBFCs market share in home loans is growing



## PSU Banks & HFCs/NBFCs dominates home loan market

■ PSU Banks ■ HFCs & NBFCs ■ Private Banks ■ Foreign Banks



Over 60% of the housing finance market is dominated today by 4 HFCs & 3 banks

Source : NHB, RBI, ICRA

## However, very few sizable HFCs present in India

(in Rs. Crores)	No. of HFCs based on Total AUM	No. of HFCs based on Retail AUM
100,000+	2	2
70,000 – 100,000	2	1
40,000 – 70,000	1	2
10,000 – 40,000	5	4
< 10,000 Cr	79	80

Source : Company analysis  
 Data as on 31<sup>st</sup> March 2017

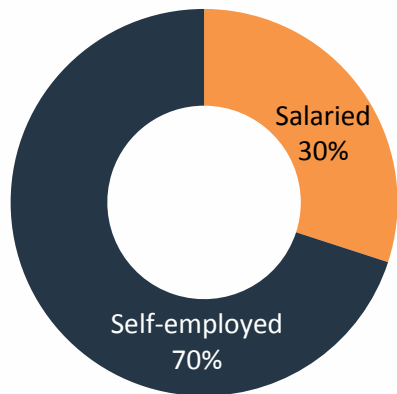


# Business Overview



# Business overview

## FY2020 Projected Segmental Mix



## Product offerings

Products	Property type
<ol style="list-style-type: none"> <li>1. Home Loan                             <ol style="list-style-type: none"> <li>i. Purchase</li> <li>ii. Improvement</li> <li>iii. Balance transfer</li> <li>iv. Top Up</li> </ol> </li> <li>2. Loan Against Property                             <ol style="list-style-type: none"> <li>i. Business expansion</li> <li>ii. Balance transfer</li> <li>iii. Top Up</li> </ol> </li> <li>3. Small Construction Finance</li> </ol>	<ol style="list-style-type: none"> <li>1. Residential                             <ol style="list-style-type: none"> <li>i. Under-construction</li> <li>ii. Self-occupied</li> <li>iii. Vacant</li> </ol> </li> <li>2. Commercial                             <ol style="list-style-type: none"> <li>i. Self-occupied</li> <li>ii. Lease Rental</li> </ol> </li> </ol>

## Key Differentiators

Leveraging the strong relationship with top developers (focusing on B to B to C model instead of B to C model)

Leveraging our understanding of micro markets

Leveraging Brickex (distributor base of ~10,000 agents) for sourcing and facilitating retail housing loan

Using technology and analytics to provide quick turnaround time in underwriting and disbursement

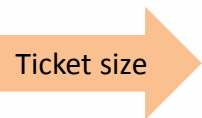
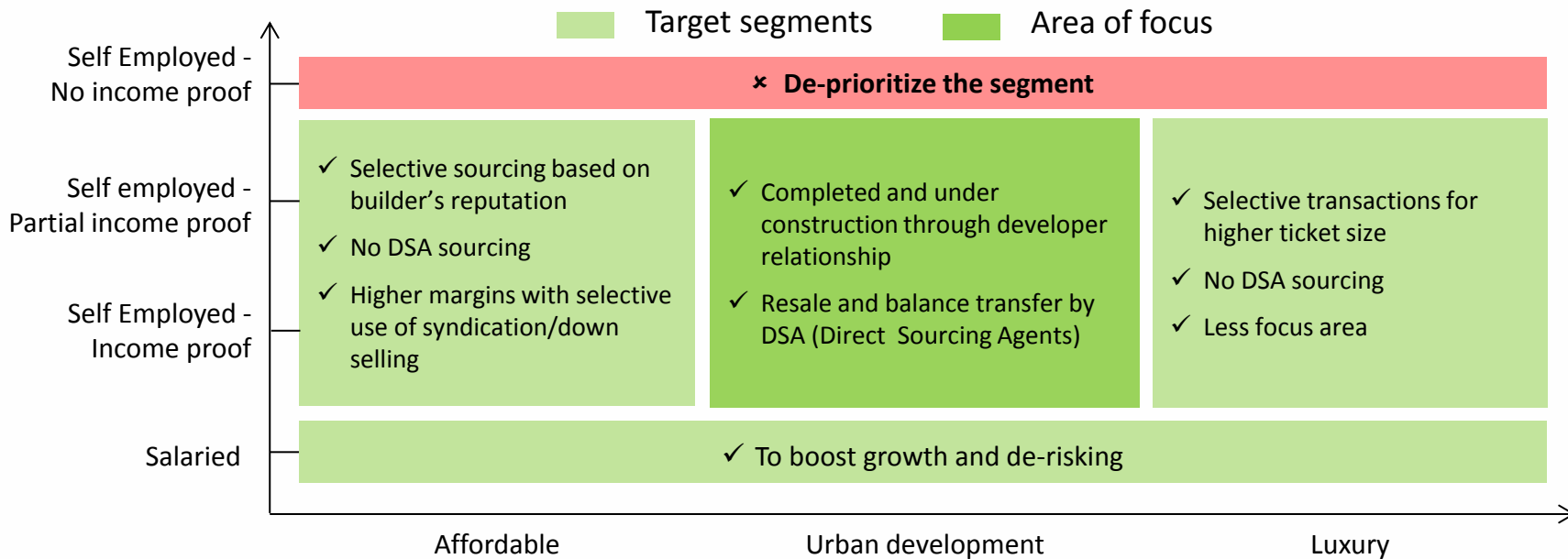
Extending loans beyond salaried class to cover the self-employed segment

Customised innovative products to suit different types of customers





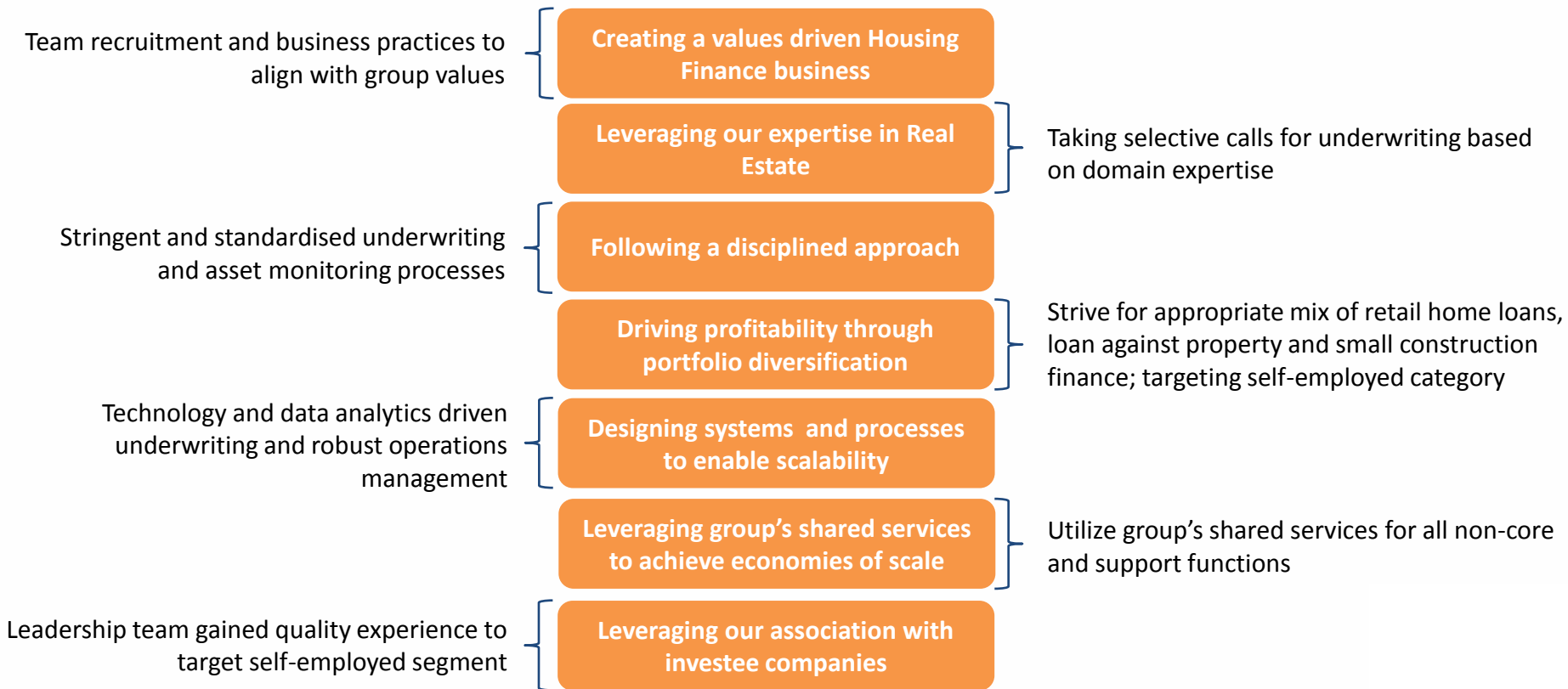
# Target segments



	Affordable	Urban development	Luxury
Tier I cities	<Rs.40 Lacs	Rs.40 Lacs to Rs. 5 Crores	Rs.5 Crores+
Tier II & III cities	<Rs.35 Lacs	Rs.35 Lacs to Rs. 2.5 Crores	Rs.2.5 Crores+



# Our guiding principles for building the HFC





**How will we grow rapidly and create a sizeable HFC?**



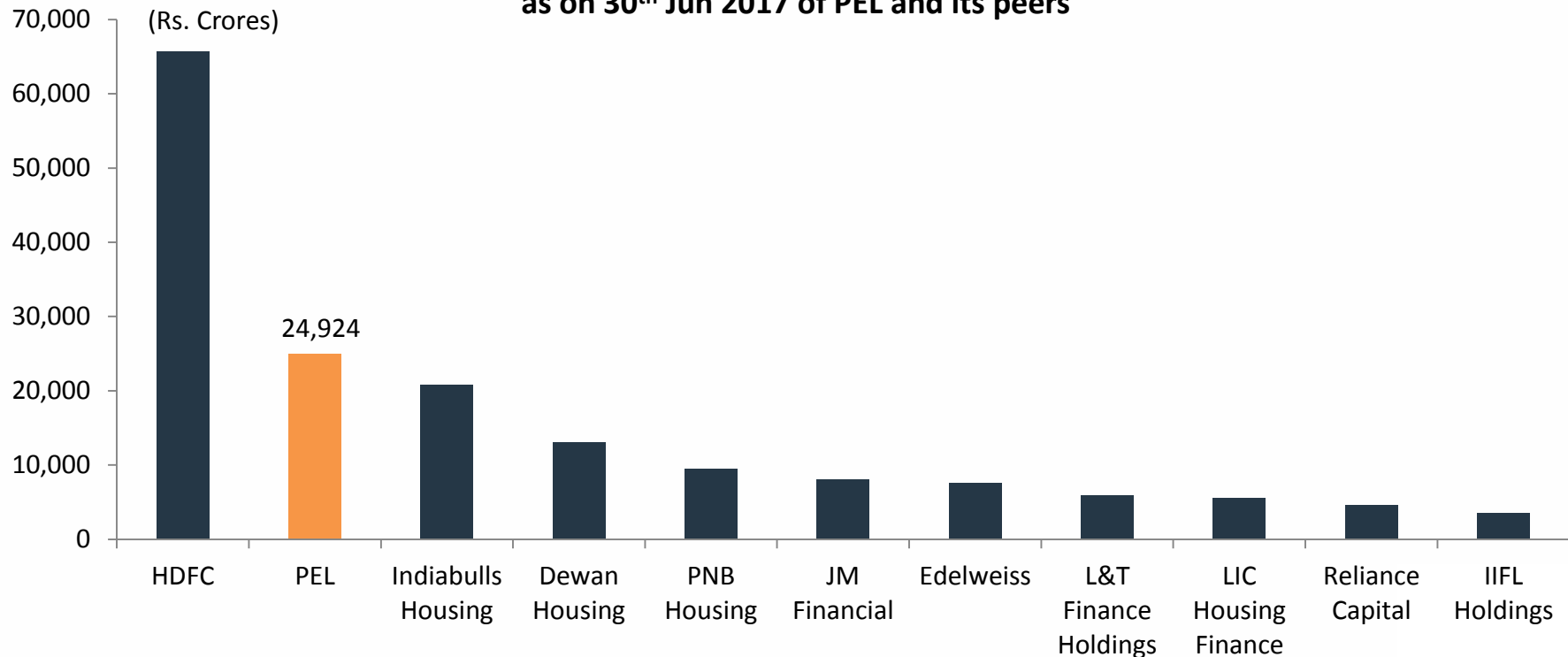
# How will we grow rapidly and create a sizeable HFC?

	<b>Leveraging developer relationships</b>	<ul style="list-style-type: none"><li>• Currently funding 330 projects of 104 developers in key micro-markets of Tier I cities</li><li>• Tapping merely a portion of the existing customer base of these developers can create a significant opportunity</li></ul>
	<b>Leveraging Brickex</b>	<ul style="list-style-type: none"><li>• Brickex, an in-house distribution arm, has an access to over 10,000 distributors</li><li>• To provide market intelligence and support in sourcing customers</li></ul>
	<b>Extending loans to self-employed category</b>	<ul style="list-style-type: none"><li>• Over 50% of workforce in India is self-employed</li><li>• Created a proprietary set of underwriting parameters to assess the creditworthiness of self-employed individuals</li></ul>
	<b>Focusing on Tier II &amp; III cities</b>	<ul style="list-style-type: none"><li>• Strong penetration in Tier I cities; incremental growth will be largely driven by entry into Tier II &amp; III cities with Grade A developers</li><li>• Target to open 50% of our branches in Tier II &amp; III cities in coming years</li></ul>
	<b>Focusing also on affordable housing</b>	<ul style="list-style-type: none"><li>• Our development partners are entering into the affordable housing segment</li><li>• To selectively fund affordable housing projects of the developers with existing relationship</li></ul>
	<b>LAP, Small Construction Finance</b>	<ul style="list-style-type: none"><li>• Tap Piramal group's ecosystem for loan against property – regular vendors, etc.</li><li>• Target top developers (leaders in their micro markets) in Tier II &amp; III cities for small ticket Construction Finance</li></ul>



# PEL has a strong presence in real estate developer financing

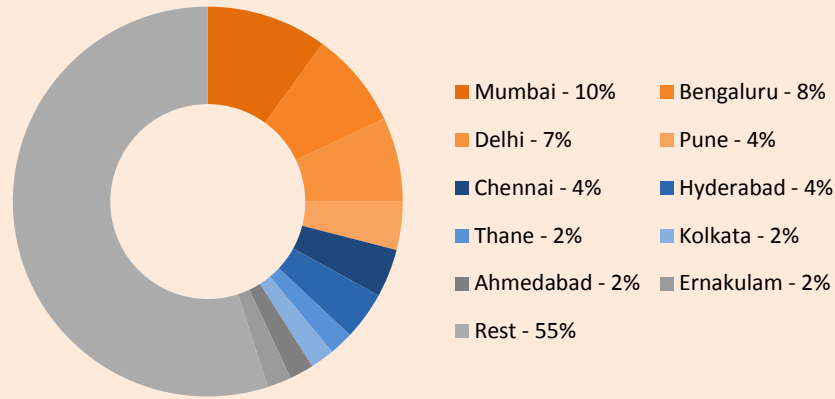
Real Estate Developer Financing Loan Book  
as on 30<sup>th</sup> Jun 2017 of PEL and its peers





# Significant opportunity from existing developer relationships

Top 10 cities account for ~45% of the total home loans in India; PEL's developer loan book is exposed to 8 of these top 10 cities



Source : Industry Research Report

Direct access to 330 projects of 104 developers in key micro-markets of top tier cities of India



Cities	Micro-markets	Developers	Projects
Mumbai	30	31	72
Bengaluru	40	26	107
Chennai	16	15	40
NCR	15	13	34
Pune	34	10	63
Hyderabad	2	5	6
Ahmedabad	5	3	8
Kolkata	1	1	1
<b>Total</b>	<b>143</b>	<b>104</b>	<b>330</b>

Potential home loan opportunity

	No. of Projects	Sold Units	Unsold units	Sold Value (Rs. Crores)	Unsold Value (Rs. Crores)	Total Units	Total Value (Rs. Crores)
Total projects financed by PEL <sup>1</sup>	221	49,131	52,379	58,006	60,311	1,01,510	1,18,317
Total projects with developer	553	1,22,828	1,30,948	1,45,016	1,50,777	2,53,775	2,95,793

Note: 1. 109 projects are either funded under land acquisition stage or mezzanine lending stage where the construction has still not commenced

Tapping a portion of the existing developers' customer base can create a significant opportunity



# Brickex is a source of differentiation for us

- Brickex is India's leading B2B aggregation platform focusing on sales & marketing of Real Estate and Financial Services products with a network of 10,000+ distributors across Tier I cities
- Partner relationships include Banks, National Distributors, and Individual Financial Advisors catering to the entire suite of Real estate, Mortgage, Mutual fund, Insurance and other third party financial products

## Leveraging Brickex

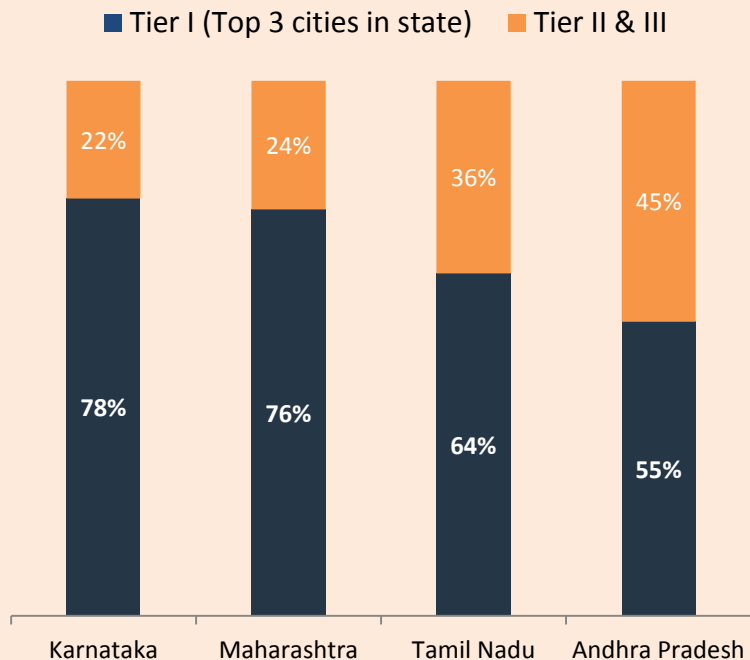
✓	Large distribution network
✓	Cross-selling
✓	Developer relationships
✓	Capital advisory





## Also focusing on Tier II and Tier III cities

Home loan concentration of Tier I cities vis-à-vis rest of the state

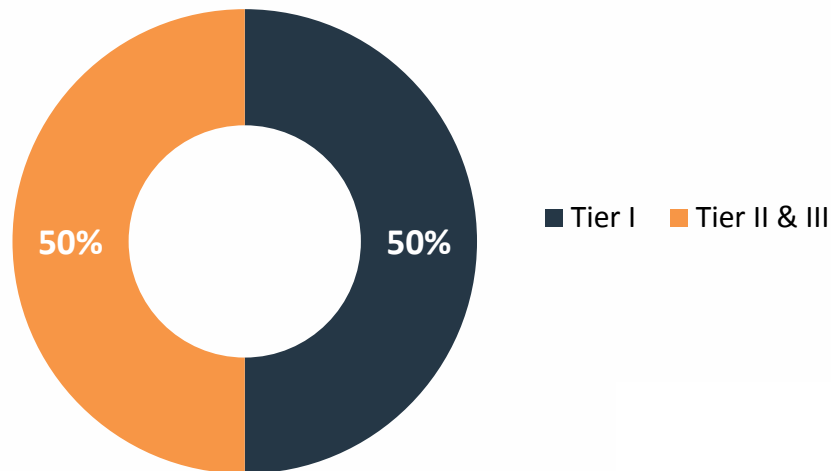


Source : Industry Research Report

Next phase of growth to come from Tier II-III cities

- Targeting to open 24 branches by 2020
- 50% of branches will be in Tier II & III cities

Target branch composition of Piramal HFC by FY2020





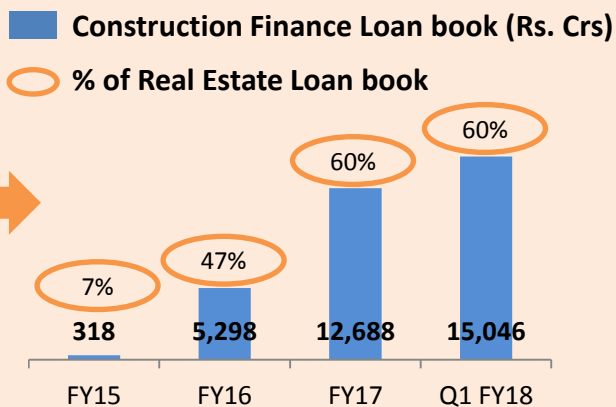


# Other products in the portfolio

## Small Construction Finance

- ✓ Focus on local developers (leaders in micro markets) in Tier I cities and 'Grade A' developers in Tier II & III cities to tap business opportunities for small Construction Finance
- ✓ Leveraging Brickex for market insights and sourcing

Our track record in building Construction Finance (large ticket size) portfolio



## Loan against property (LAP)

- ✓ To enter the market through Piramal ecosystem
- ✓ LAP will be assessed on cash flows and not just collateral
- ✓ Primarily focus on loan against residential properties
  - No LAP for under-construction properties
- ✓ Specialised underwriting cell for self-employed customers
- ✓ Valuation process will also be validated based on market intelligence through Brickex



**How will we keep our costs under control?**



# How will we keep our costs under control?



## Hub and spoke model

- Hub-based underwriting to ensure consistency in decision making, better control and ease to adapt for future
- Branch light model to enable scalability with optimum cost to income ratio



## Common team across credit & disbursement operations

- Better team utilization and tighter control
- More scalable and cross-skilled operations across sanction & disbursement at hub



## Technology

- Reduced costs and improved ability to scale by leveraging latest innovative solution providers like Fintechs, etc.
- Transparency on application status and quick turnaround time (TAT) in underwriting and disbursement resulting in enhanced customer experience



## Leveraging group shared services

- Ability to manage non-core activities with greater efficiency
- Greater economies of scale

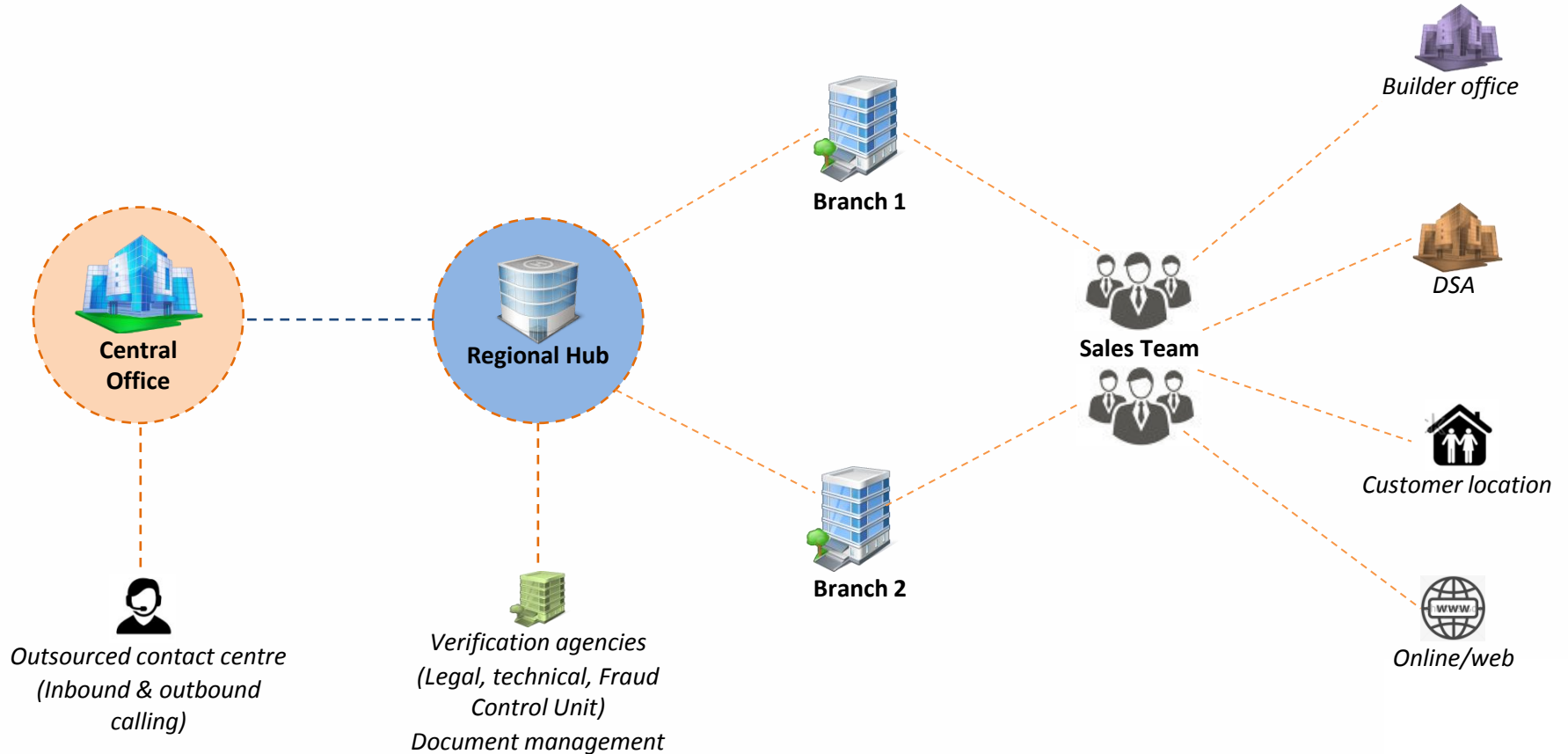


## Sourcing from developers and Brickex

- B to B to C model will enable significant sourcing from developers resulting in lower cost compared with sourcing from DSAs, connectors, etc .
- Properties sold through Brickex network will be referred to our HFC for loans – low cost of sourcing

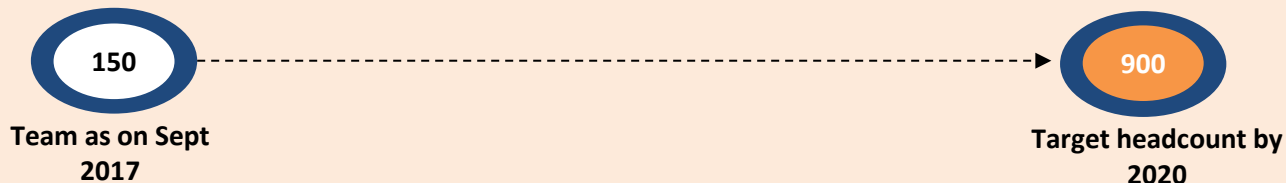


# Hub and Spoke operating model





# Adequately staffed with quality bench strength



- Key management personnel onboard : In-house hiring + externally across 6 key market players

- |                               |                         |
|-------------------------------|-------------------------|
| ✓ National Sales Head         | ✓ IT Head               |
| ✓ National Credit Head        | ✓ Chief Manager – Risk  |
| ✓ National Operations Head    | ✓ Zonal Sales Head      |
| ✓ Legal – Head                | ✓ Zonal Credit Head     |
| ✓ CFO                         | ✓ Zonal Operations Head |
| ✓ Head – Construction Finance |                         |

- Hiring at other levels done from multiple leading Banks, NBFCs and HFCs
- Hiring done via completing psychometric assessment, multi level interviews, informal and formal reference checks, diverse mix of companies, etc.

Piramal housing finance to leverage group’s shared services for some of the non-core functions like :

- Vendor bill processing
- Employee / DSA / Connector incentive working & pay-outs
- Tax payments, GST processes & regulatory return filing
- Employee salary processing



# Using innovative solutions to bring in process efficiencies

Agile Tech development	<ul style="list-style-type: none"><li>• Concept to 'Go-Live' in under 6 months</li><li>• Customized features catering to typical pain points in mortgage loan cycle</li></ul>
Customer On-boarding	<ul style="list-style-type: none"><li>• Aadhaar based applicant authentication/verification</li><li>• Mobile based information capture</li></ul>
Underwriting	<ul style="list-style-type: none"><li>• Digital modes of capturing and analysing customer financials</li><li>• Online check on legal/ litigation history of the applicant</li><li>• System driven and rule-based credit underwriting</li></ul>
Operations	<ul style="list-style-type: none"><li>• Digital tracking of application and document status</li><li>• Use of e-cheque, e-mandate and UPI* for EMI collection</li></ul>

**Leveraging Fintechs in our technology roadmap  
To reduce turnaround time – a significant competitive advantage**

\*Unified Payment Interface



**How are we going to keep the asset quality  
under control?**



# Risk management framework



**Specialised underwriters** for self employed / affordable housing; scorecards and tools based on data and analytics to flag alerts for underwriters



**Independent sales, risk, credit, collection and legal teams** to ensure there is no bias



**Cap driven portfolio** (property exposure, program, single party exposure, etc)



**Usage of analytics & bureau insights** for setting up credit policy framework and for early warning signals



Portfolio quality to be an integral part of **sales teams KRAs and incentives**



**Enterprise risk framework** using tech enabled real time data gathering



**Brickex provides high quality market intelligence** for underwriting transactions with realistic prices and sales velocity.



**Regular site visits,** interaction with local developers, etc.



**External experts** to independently assess the quality of the transactions, systems and processes





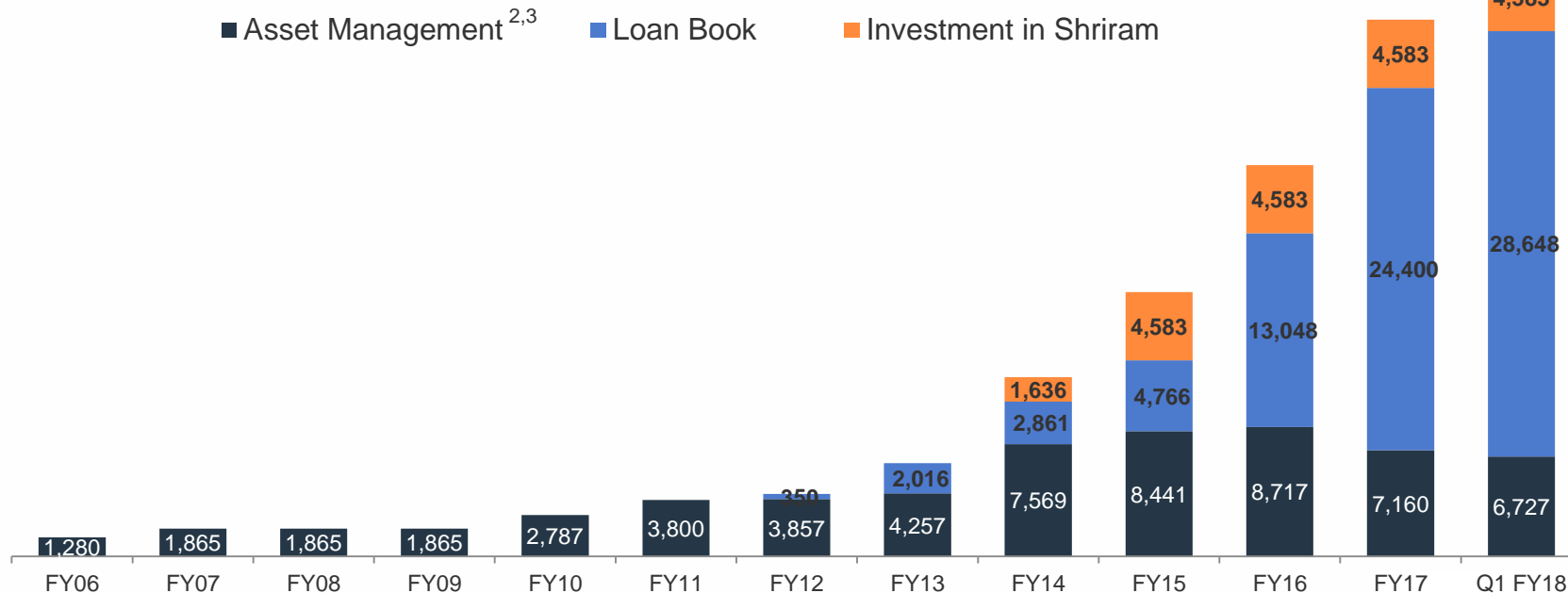
**How have we performed earlier?**



# Built a robust and scalable financial services platform

## Rapidly growing financial services portfolio<sup>1</sup>

(in Rs. Crores)



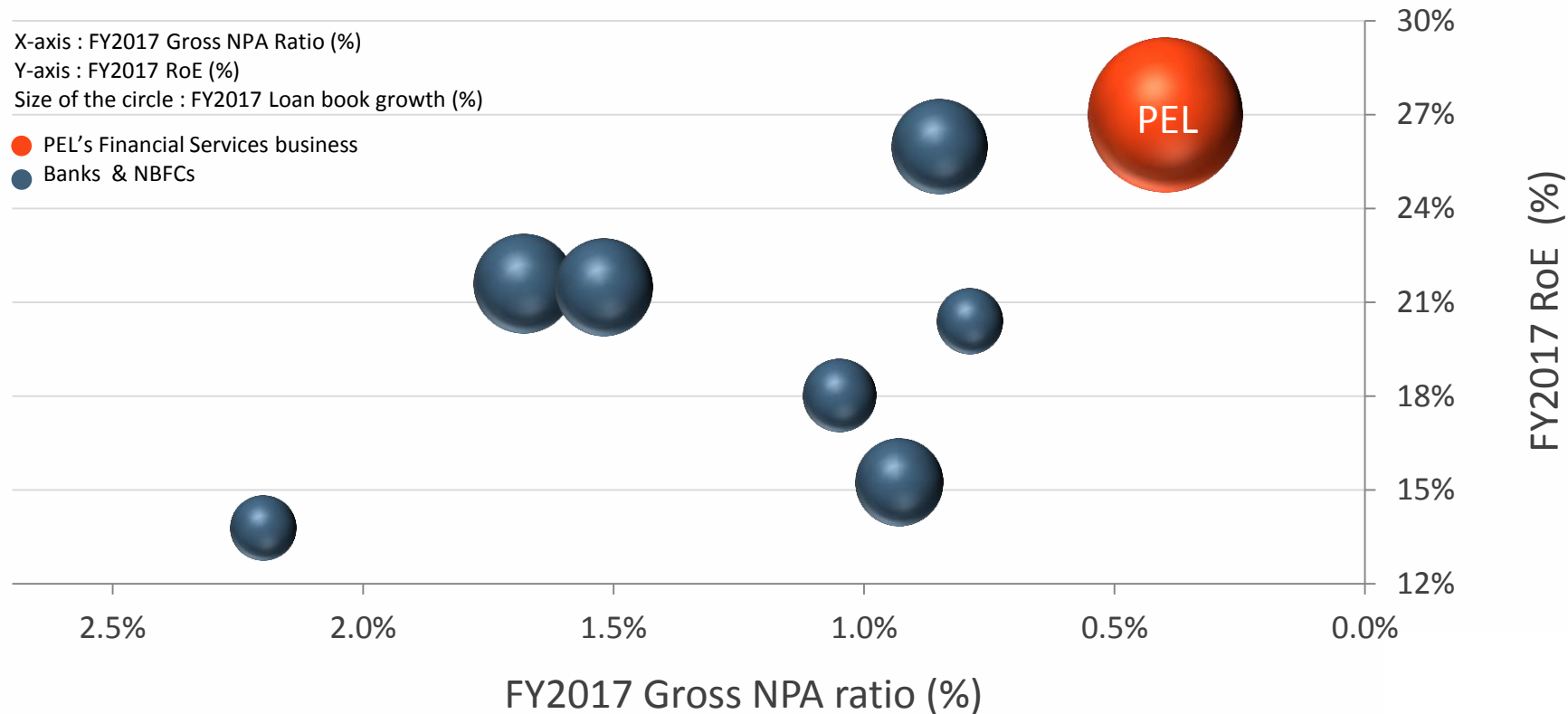
Notes:

1. Excludes our investment in Vodafone India, which was exited during FY2015
2. Exits from Asset Management business have been included on calendar year basis
3. AUM from FY2006 to FY2011 represents INDIAREIT numbers





# Performing better than the best performing banks and NBFCs of India



Note: Banks and NBFCs includes Bajaj Finance, HDFC Ltd, Indiabulls Housing Finance, HDFC Bank, Kotak Bank, IndusInd Bank and Yes Bank



**How will we generate healthy RoE?**



## Levers for generating healthy RoE

- ✓ Focus on self-employed segment
- ✓ Entry in Tier II & Tier III cities with top developers
- ✓ Diversification and expected rating upgrade will improve leveraging capability and reduce cost of borrowings, enhancing RoE for overall Financial Services
- ✓ Suitable portfolio mix : Home loans, Small Construction Finance and LAP
- ✓ Technology enabled processes and hub and spoke model to reduce costs
- ✓ Sourcing from developers, Brickex and Direct Sales Team to reduce costs
- ✓ Securitization to enhance returns
- ✓ Leveraging group's shared services to reduce cost

**Expected to continue to deliver an RoE of 20%+ in overall Financial Services business**



## For Investors :

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