Piramal

Profit and Loss

PEL delivered a resilient performance in FY 2023

Income from business increased 16% yoy to ₹ 8,934 Crores as compared ₹ 7,726 Crores in FY 2022. The yoy increase was primarily driven by an increase in AUM on account of retail lending loan book growth, new business in Wholesale 2.0, which was partly offset by a reduction in the Wholesale 1.0 loan book, in line with the Company's stated strategy to make the business more retail oriented.

CONSOLIDATED PROFIT AND LOSS STATEMENT

(₹ Crores)

Consolidated Income Statement	FY 2023	FY 2022	YOY %
Interest Income	7,799	7,523	4
Other Operating Income [1]	1,136	203	460
Total Operating Income	**8,934**	**7,726**	**16**
Less: Interest Expense	4,041	4,282	-6
NET INTEREST INCOME	4,893	3,444	42
Other Income	152	185	-18
Total Income, net of interest expenses	**5,045**	**3,629**	**39**
Less: Operating expenses	2,215	1,172	89
PRE-PROVISION OPERATING PROFIT (PPOP)	2,830	2,457	15
Less: Loan Loss Provisions & FV loss/(Gain)	5,179	830	524
Less: Shriram FV loss/(Gain) [2]	115	-	NA
PROFIT BEFORE TAX	(2,464)	1,628	-251
Current & Deferred Tax [3]	(3,978)	406	-1,079
PROFIT AFTER TAX (PAT)	1,514	1,221	24
Associate Income	389	594	-35
PAT BEFORE EXCEPTIONAL GAIN	1,902	1,815	5
Exceptional (Expense) / Gain [4]	8,066	(153)	-5,375
PAT AFTER EXCEPTIONAL GAIN	9,969	1,662	500
Profit from Discontinuing Operation	-	337	-100
REPORTED NET PROFIT / LOSS AFTER TAX	9,969	1,999	399

Notes:
(1) Includes ₹ 717 Crores of gains on account of initial recognition w.r.t. restructuring of Shriram Investments
(2) Refers to subsequent mark to market (MTM) loss / gain on Shriram investments
(3) ₹ 3,328 Crores of reversal of income tax provision
(4) Exceptional gain of ₹ 8,066 Crores in FY 2023 pertaining to demerger related transaction

Interest income
Interest income saw a modest YoY increase of 4% YoY to ₹ 7,799 Crores in FY 2023, as loan book growth, was largely offset by a decline in yields (amid ongoing reduction of the wholesale loan book and a shift in the loan book mix towards retail).

Interest expenses
While incremental cost of funds continued to decline during FY 2023, interest expenses declined 6% YoY to ₹ 4,041 Crores in FY 2023.

Net interest income (NII)
NII increased 42% YoY to ₹ 4,893, amidst a shift in the loan book mix towards retail, interest reversal, and the impact of negative carry due to excess cash held on the balance sheet.

Operating expenses
Operating expenses increased 89% yoy to ₹ 2,215 Crores from ₹ 1,172 Crores in FY 2022 primarily due to full year impact of DHFL acquisition and continued expansion on our retail business branches from 309 branches as on FY 2022 to 404 branches as of FY 2023.

Credit costs
Annualized credit cost for Q4FY23 for the lending business stood at 1.9%. We continue to remain vigilant across our portfolio and maintain conservative provisioning to take care of contingencies arising in the future.

Provisions & fair value
Provisions and FV For FY 2023, the overall provisions and Fair Value increased to ₹ 5,295 Crores from ₹ 830 Crores in FY 2022. The yoy increase was primarily driven by resolution of legacy wholesale book i.e. Wholesale 1.0.

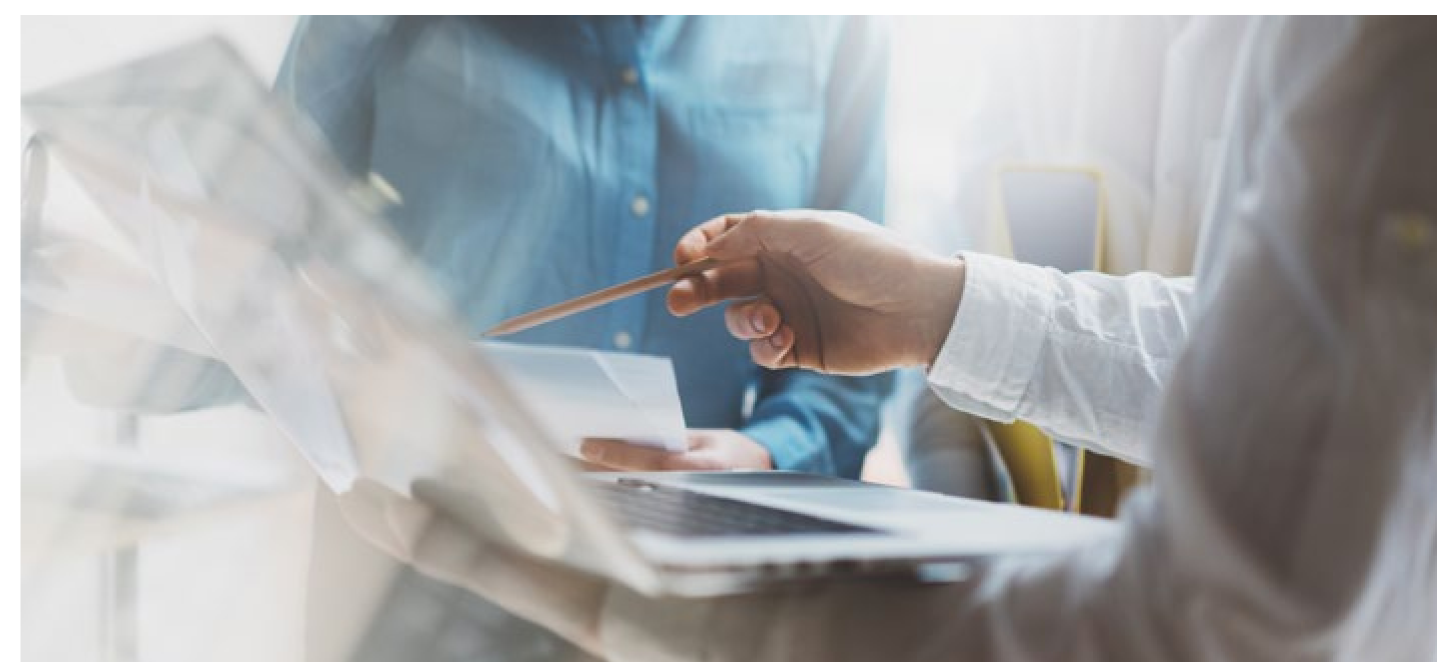
Finance costs
Finance costs for FY 2023 decreased 6% yoy to ₹ 4,041 Crores from ₹ 4,282 Crores in FY 2022 due to reduction in borrowing cost for the year. The average cost of borrowings declined 100 bps basis points yoy to 8.6% despite an increasing interest rate environment.

Operating expenses
Operating expenses increased 89% yoy to ₹ 2,215 Crores from ₹ 1,172 Crores in FY 2022 primarily due to expenses associated with expansion of the retail lending business. Investments in retail infrastructure like increase in branch network and employee headcount have led to increase in the operating expenses.

Income from share of associates
The share of net profit of associates and joint ventures decreased 35% yoy to ₹ 389 Crores from ₹ 594 Crores in FY 2022. Post restructuring investment in Shriram it is no longer accounted under Associate Income. This primarily includes the Company's share of profits in insurance business and Alternative funds.

Net profit after tax
Reported net profit after tax for FY 2023 stood at ₹ 9,969 Crores, as compared to ₹ 1,662 Crores in FY 2022. In FY 2023, the net profit includes exceptional gain of ₹ 8,066 Crores in FY 2023 pertaining to demerger related transaction.

Dividend
The Board has recommended a dividend of ₹ 31 per share, subject to approval of the shareholders at the Annual General Meeting. The total dividend pay-out on this account would be ₹ 740 Crores (dividend pay-out ratio of 39%).



MACROECONOMIC OVERVIEW

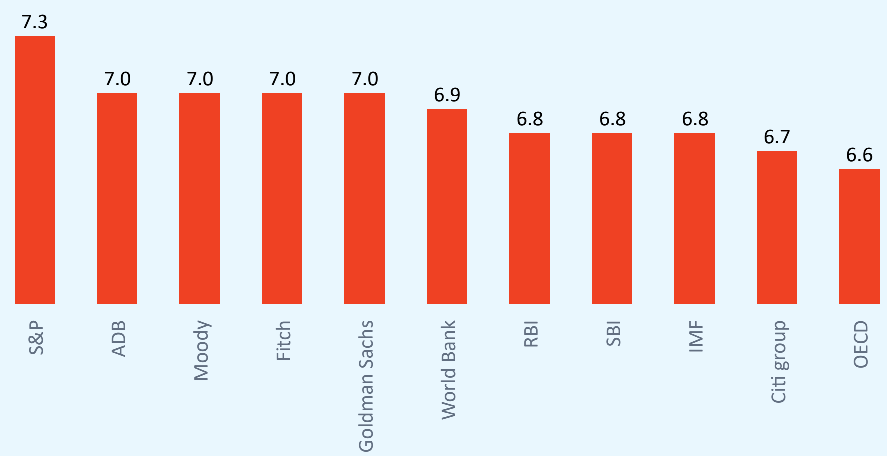
The global economy has seen continued shocks and substantial slowdown since 2020. Covid-19 had a significant impact, followed by the Russia-Ukraine conflict which caused a steep rise in inflation and commodity prices. Since then, the different world economies are striving to fight inflationary pressures, causing them to continuously hike rates, resulting in a slowdown in growth. IMF too lowered its growth forecast for 2022 and 2023. In January 2023, the World Economic Outlook Update projects that global growth slowdown will be more pronounced for Advanced economies than Emerging and Developing economies. Advanced economies Real GDP growth is projected at 1.3% in 2023 vis-à-vis 3.9% for Emerging and Developing economies.

Indian economy was resilient in the face of this global turmoil and on the path to recovering to pre pandemic levels. Projected to be one of the fastest growing economies at 6.5%-7.0%[1] in FY 2023, India has revived on the back of public spending, private consumption and capital formation. The first eight months of FY 2023 saw an increase of 63.4%[2] year on year in Central Government's Capital Expenditure, catalysing private Capex

Buoyant consumption, release of pent-up demand saw accelerated growth in not only personal loans but also in the housing market. Housing bank credit growth witnessed an uptick as housing inventories continue to decline.

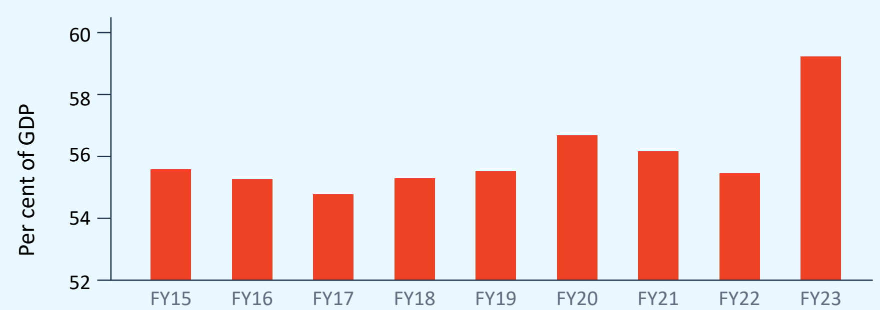
India growth projections by various agencies for FY 2023 (%)

Average Growth = 6.9%



Source: Various Agencies | Note: ADB stands for Asian Development Bank, IMF is International Monetary Fund

Private consumption highest since FY 2015 across H1



Source: NSO, MoSPI

PILLARS OF GROWTH AND LIKELY RISKS IN FY 2024

The NBFC landscape continues to evolve rapidly adapting to economic challenges, regulatory changes, and weathering industry volatility. NBFCs play a very important role in the financial sector as evident in the increase in industry AUM from ₹ 3.6[3] Lakhs Crores in March 2008 to ₹ 27 Lakhs Crores in March 2022, which is equivalent to 12.3% of India's GDP. NBFCs compliment banks in attaining India's financial inclusion goals by supporting large sections of MSMEs and retail borrowers even in smaller tier 2 and 3 towns. Improving macro-economic fundamentals will continue to drive the NBFC space given the visible improvement in asset quality and balance sheet strength post pandemic. While competition from Banks continue in the traditional segments of home loans and new vehicle finance, there is substantial growth in NBFCs in other non-traditional segments like MSMEs, Personal Loans etc. Digital thrust, use of technology, deep expertise, partnerships, and recovery in asset quality have all led to stronger fundamentals. FY 2024 expects to see NBFCs AUM grow at 13%-14%[4]. Retailisation and diversification of portfolio strategies will help retail focused NBFCs grow at 12-14% in FY 2024 according to ICRA reports published in March 2023.Additionally, easing liquidity pressures, moderation of credit costs, improved collections, controlled slippages and stable operating costs will help drive sector profitability. Group level credit risk stress test conducted by RBI shows CRAR of NBFCs would remain above minimum regulatory requirement of 15% in baseline, medium and high-risk scenarios. This highlights resilience of the NBFC sector. Similarly, group level interest rate risk stress test shows positive impact on NBFCs' earnings under scenarios of increase in interest rate due to their rate sensitive assets being higher than rate sensitive liabilities.

Note:

[1,2] The Economic Survey 2022-2023

[3,4] Crisil Assocham Report on NBFCs

BUSINESS OVERVIEW

The Company offers a wide range of financial products and solutions, with exposure across both Retail and Wholesale lending. As of March 31, 2023, the business had an AUM of ₹ 63,989 Crores. Over the past few years, the Company has consistently diversified its exposure through its strong presence in the following sub-segments:

RETAIL LENDING

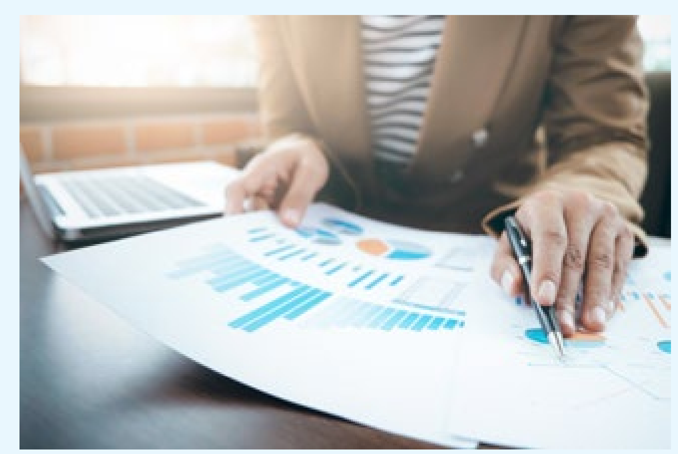
A multi-product retail lending platform, which is 'digital at the core'

Significant in size and scale; one of the largest Housing Finance Companies (HFC) in India

Holding large securitised, fee-earning assets (off-balance sheet)

WHOLESALE LENDING

Loans to real estate developers, as well as select mid-market corporates



ALTERNATIVES

Various investment platforms and JVs, with marquee partners

LIFE INSURANCE

JV with Prudential International Insurance Holdings

BUILDING A SUSTAINABLE AND RESILIENT BUSINESS MODEL

One year into the successful integration of DHFL, we are focused on delivering sustainable growth and building a resilient business model. With the appropriate foundational levers in place PEL is poised to deliver.

Last year PEL witnessed significant growth and scale across many key performance indicators. The retail financing business saw consistent growth across AUM, number of branches, customer franchise, number of products launched and thereby disbursements. Our strategy of leveraging the physical branch network and technology platform has been a key driver of this growth. Cross selling to a large and growing customer franchise has resulted in significant growth not only in Home Loans but other products as well. As the branches have started offering multi-products, the loan book has become more granular in nature. We are on track to achieve the stated aspirations of the Retail: Wholesale loan book mix at 2/3rd and 1/3rd respectively. The mix significantly improved to 50:50 at the end of March 2023.

Risk management has been at the forefront of PEL's key focus area last year. In the last two to three years concentrated efforts have been made to become a diversified lender vis-à-vis' being Wholesale driven. Apart from becoming more retail in nature the Company has consciously driven the business strategy of becoming more granular, multi product and catering to a multitude of customers from varied markets. All of which enables us to diversify risk and thereby become much more resilient during the different market cycles. Our dedicated Enterprise Risk Management system has been strengthened even further owing to the demerger and creation of a dedicated NBFC entity. Governed by stringent RBI regulations, the processes, Boards and Committees have been fortified to independently evaluate the risk policies, processes and look into each aspect critically. Our proactive approach is to ensure that risk is nipped at the operational level itself. With a more micro approach required for the Retail businesses, the Company has built all risk management operations on the back of cutting-edge technology and use of AI/ML. Proprietary score cards and data driven capabilities ensure superior risk management while maintaining costs. For the Wholesale business, the focus is on building a granular, cash-flow and asset backed loan book with less concentration risk. Smaller ticket sizes, reduced single borrower exposures and spread across geographies, Wholesale 2.0 is built out with the aim of ensuring growth without compromising on risk management. Proactive risk management will result in a superior risk management process.

A balance between the three principal vectors of growth, risk and profitability will ensure sustainable and steady profitability for a financial services firm in future. Setting the foundations for profitable businesses require a long-term view and aspirations.

PEL'S STATED ASPIRATIONS FOR THE MID-TERM

We have drawn our strategic priorities for the medium term, wherein we intend to achieve the following:

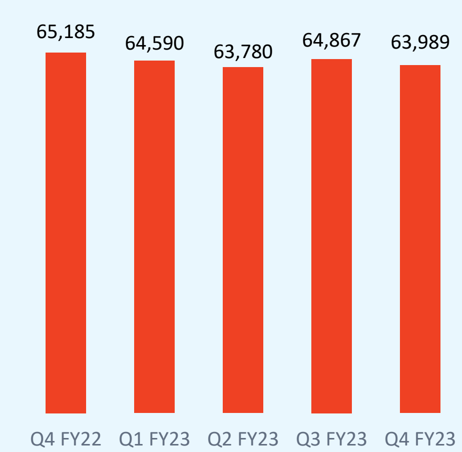
- **Mid to high teens AUM growth**
- **AUM mix of 2/3rd Retail and 1/3rd Wholesale**
- **Lending to 'Bharat' markets in Retail lending**
- **Tech and Analytics at the core of lending**
- **Building a new granular Wholesale lending**
- **Conservative liabilities mix**
- **Opportunistic inorganic plays**
- **3% ROA, Mid teens ROE**

The focus last year has been on establishing niche product lines and scaling up the business in both Retail and Wholesale. The new Wholesale 2.0 book will be granular cash-flow backed loan book while the Wholesale 1.0 book is reducing gradually. Substantial investments in scaling up the cost intensive retail business also saw elevated operational costs. With increase in book size, economies of scale will help taper this over time. The Company is looking to add 500-600 branches per annum taking the total to 1000 locations.

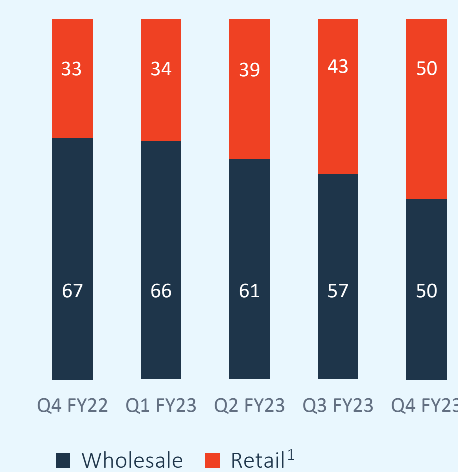
Demerger into sector focused entities will not only provide structure simplification, but also focused, long term value accretive business strategies. Industry focused experienced talent, strong governance structures coupled with a well-capitalized entity will ensure long term sustainable growth. While the profitability has been subdued with owing to lasting impact of Covid-19, with changing economic cycles, retail business builds out and revival in the real estate sector, we expect significant improvement in the financial performance of the Company in the medium term.

Our total Assets under Management stood at ₹ 63,989 Crores as on March 31, 2023. While our Retail AUM witnessed a robust 49% yoy growth to ₹ 32,144 Crores from ₹ 21,552 Crores in FY 2022, the Wholesale 1.0 AUM reduced by 33% YoY to ₹ 29,053 Crores from ₹ 43,175 Crores in FY 2022 in line with our stated strategy. We have built a Wholesale 2.0 AUM worth ₹ 2,792 Crores across Real Estate and Corporate Mid-Market Lending. This has resulted in significantly improving our Retail: Wholesale mix to 50:50 from 33:67 in FY 2022. The Company aims to achieve a loan book mix of 2/3rd retail, and 1/3rd wholesale in long term

AUM remain stable despite changing AUM Mix
(in ₹ Crores)



AUM Mix improved to 50:50
(%)



[1] Retail AUM includes Security Receipts (SRs) & Pass-through certificates (PTC) and excludes acquired off-book assets in the nature of Direct Assignment (DA) & PTC as part of the DHFL acquisition