Wholesale Lending

INDUSTRY OVERVIEW

Despite the geopolitical tensions, energy crisis, and high inflationary environment witnessed in FY 2022, institutional borrowing has continued to grow at a rapid pace in FY 2023, breaking away from a long period of sluggish credit flow inundated by heavy corporate indebtedness. Over the past few years, corporates have strengthened their balance sheet by an unwavering focus on deleveraging. Bank credit growth improved in FY 2022 and FY 2023, driven by all round growth from micro to large industries. However dwindling savings, caused a stretch on credit-deposit ratios of Indian banks. This contributed to tight liquidity and increasing interest rates. As budgetary capex increased for the third year by 33% to ₹ 10 Lakh Crores which is 3.3% of GDP it shored up demand and consumption in the economy. As per ICRA, PLI (Production Linked Incentive) CAPEX deployment is expected to surge from FY 2024 for more than 80% of the projected investments. Empirical evidence suggests Government capex to have a multiplier of 2.4x, indicating a strong probability of a sharp rise in corporate credit demand, as economic uncertainties mellow down in FY 2024.

Investor confidence has risen in India post pandemic owing to improved economic performance. Indian Real Estate is emerging as a preferred investment destination with attractive rental yields and future appreciation potential in many micro markets. The market is fore-casted to reach US$ 650 billion, representing 13%[1] of India's GDP by 2025. In the second quarter of 2022, India's real estate sector experienced price growth of 5.6%. Increasing share of real estate in the GDP would be supported by increasing industrial activity, improving income level and urbanisation. The real estate sector will expand because of increased accessibility, greater openness, rising urbanisation, and government incentives.

The residential market has been on a strong recovery path over the past 18 months as the economy emerged from the pandemic's shadow. The residential sector witnessed a robust demand revival with the year expected to register a decadal high in-home sale. The market registered strong sales backed by robust consumer demand and quality launches by developers. As per ICRA- new launches are expected to be at a six-year high of 400 Mn. sft. in FY 2023, showing improvement from the previous two years which were impacted by the Covid-19 pandemic.

Trends in Real Estate Developers

Share of the top listed developers in the Indian residential market is expected to increase to 29%[1] in FY 2024, driven by a strong pipeline for residential project launch. Real Estate developers saw record years, with most of them reporting all-time-high pre-sales.

- Healthy demand is leading to improve profitability for realty developers.
- With improving cash flows, realty developers have brought down debt levels, enabling them to save on interest costs despite rising interest rates.
- They have also stepped-up capex on business development.
- Regional developers have now started exploring other micro-markets to gain scale and de-risk the core micro-market.
- Investors continue to seek organic growth in developers' residential sales in a cyclical sector.
- Developers themselves are pursuing a path of calibrated growth with moderate price hikes and selectively launching inventory while keeping balance sheets healthy.

Looking Forward

Reserve Bank of India raised policy rates by 250 bps in FY 2023 aimed at reducing inflationary pressures and stabilise the INR. It is expected that India has or will soon reach the peak of the current rate cycle in FY 2024. The peaking of rate-hike cycle can be positive for NBFCs that have seen pressure from rising funding costs that dragged NIMs. As margins stabilise, NII growth will start to match loan growth, initiating a virtuous growth cycle within the industry.

One of the most critical themes that will hold centre stage in 2023 and impact the entire real estate sector value-chain will be Environmental, Social and Governance (ESG) which is now a critical boardroom agenda and shape the future of the sector. Combination of demand and supply-side consolidation will keep the sector in the spotlight for the next 3- 5 years.

Source:

(1) Indian Real Estate Industry Analysis – IBEF Report

PERFORMANCE OF PEL'S DEVELOPER CLIENTS

We are progressing to rebuild our real estate developer financing book. 87 % of the book is large and medium developers. The remaining Stage 1 book is healthy with smaller ticket sizes (₹ 199 Crores), and exposures to well capitalized large and mid-size developers.

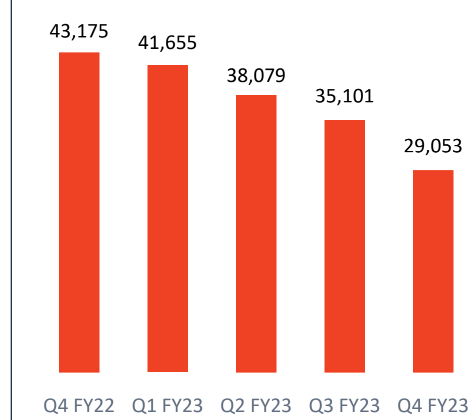
Operating Performance in FY 2023
Wholesale lending

Our strategy continues to focus on making the existing loan book more granular as well as building a healthy deal pipeline across real estate and corporate lending. In line with our stated strategy, we been working towards building a high-quality Wholesale book. We continue to focus on the resolution of Stage-2 and Stage-3 assets, which will further moderate the wholesale book size in the short term. We have built a Wholesale 2.0 AUM of ₹ 2,792 Crores as of Mar-23.

- Over 90% of the book is into Real Estate lending; largely excludes promoter holdco corporate lending. We are building exposure in select markets across Tier 1, 2, and 3 cities.
- We are in the process of reducing our Wholesale 1.0* AUM, in line with our strategy, through a combination of various means such as accelerated repayments, settlement, etc.
- Reduction in Wholesale 1.0* AUM by ₹ 14,122 Crores (down by 33%) in since March 2022.

Wholesale 1.0* AUM reduced by 33% YoY

(₹ Crores)



Note

* Wholesale 1.0 refers to wholesale loans excluding the loans sanctioned under Wholesale 2.0

A focused professional team is involved in monitoring and executing the resolution strategy for complex recoveries and enforcement, aimed to improve recoveries and monetization of assets. Accelerated repayments is expected to rundown significantly over the next 2 years. 26% of book reduction is from organic and accelerated repayments.

We continue to focus on the resolution of Stage-2 and Stage-3 assets, which will further moderate the wholesale book size in the short term.

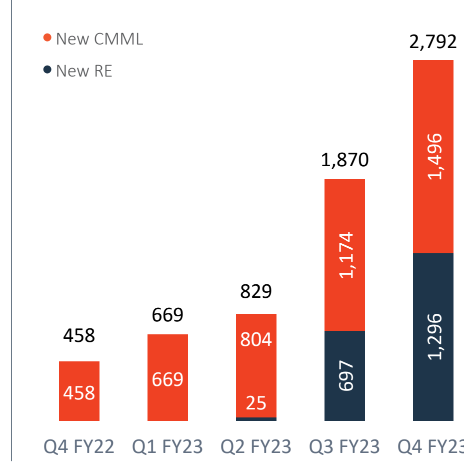
Wholesale 2.0- Building a Diversified and Granular Book Backed by Cash Flows and Assets

Wholesale 2.0 refers to loans sanctioned under corporate mid-market loans (CMML) and new Real Estate loans from FY 2022 onwards. A key component of Wholesale Lending 2.0's strategy is concentrating on granularizing its existing loan book and there are two parts to it, Real Estate, focusing on mid-market residential projects in tier-1 cities, as well as expanding into top 15-20 tier 2/3 cities by lending to strong local developers and in Corporate Mid-Market Lending (CMML), focusing on smaller ticket, corporate non-RE loans.

- Built a Wholesale 2.0^ AUM across Real Estate and Corporate Mid-Market Loans worth ₹ 2,792 Crores as of Mar-2023
- Added new loans worth ₹ 922 Crores, leading to a growth of 49% QoQ

Wholesale 2.0^ AUM grew by 510% YoY

(% based on value for retail loans)



Note

^ Wholesale 2.0 refers to loans sanctioned under CMML and new RE loans from FY 2022 onwards

Piramal

Real Estate

We are also investing to make the real estate developer financing book more granular and diversified are striving to we build exposure in select markets across Tier 1, 2, 3 cities. Relatively under penetrated and less competition makes them attractive spaces. We continue to maintain our position in terms of best-in-class governance and risk management.

New Real Estate Loans

Capitalizing On The Market Gap And Leveraging Our Strengths

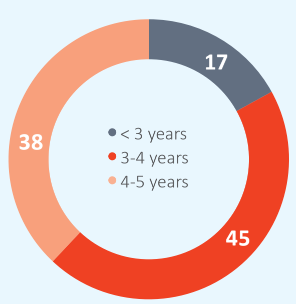
Origination Funnel

	# of deals; ₹ Crores
Deals Originated	123; ₹ 24,396 Crores
Deals Under Evaluation	59; ₹ 12,139 Crores
Taken to Committee	24; ₹ 4,776 Crores
Due Diligence	17; ₹ 3,787 Crores
Sanctioned	10; ₹ 2,157 Crores
Outstanding	10 deals; ₹ 1,296 Crores

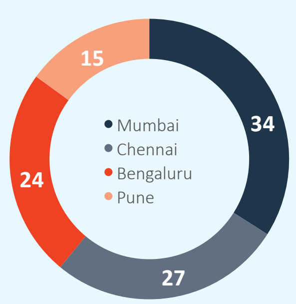
Progressing to rebuild our Real Estate Developer Finance book

- Deals worth ₹ 1,296 Crores outstanding as on Mar-2023
- Granular and diversified Real Estate developer finance book
- To build exposure in select markets across Tier 1, 2, and 3 cities
- Best in class governance and risk management

By Original Tenor (%)



By Geographic Exposure (%)



₹ 216 Crores

Average Ticket Size / Loan

14.9%

Average Yield % [1]

4.1 years

Average Loan Tenor

Note:

[1] Average Yield % includes fee income

Corporate Mid-Market Lending

The size of Corporate and Mid-Market Lending (CMML) book has grown from ₹ 458 Crores to ₹1,496 Crores and it's diversified into sectors like NBFC, cement, shipping, power, pharma, IT, renewable energy, E-Mobility, textiles and healthcare. 81 % of this book is into investment grade ratings and 19 % of the portfolio is not rated.

Efforts were made towards completing the recognition cycle of the existing wholesale book, and investing to build a granular cash flow and asset-backed real estate and mid-corporate lending business that will give loans to well capitalized promoters across multiple sectors and geographies. There's a lot more granularity in terms of disclosures of the wholesale portfolio. We have created focused, analytics-driven underwriting vertical with superior risk management.

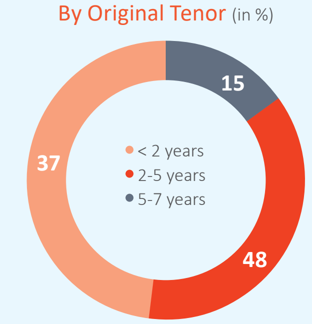
Under Wholesale 2.0, ₹ 1,296 Crores of AUM is towards real estate as we leverage the opportunity in real estate financing with a few major NBFCs/HFCs vacating the lending space. We believe that, from cyclical and structural perspectives, this is a conducive time to build up real estate lending book with better-governed developers. Also, we are building a diversified, granular and cashflow-backed corporate mid-market lending book, which has an AUM of ₹ 1,496 Crores (227% YoY).

Our AUM is on an increasing trend due to build-up of Retail AUM and Wholesale 2.0 book which is offsetting the impact of continued reduction in Wholesale 1.0 AUM. We see opportunities to build good quality Real Estate book in select cities as the segment is less completive.

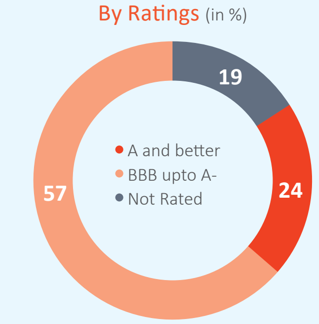
Corporate Mid-Market Lending

Building a granular book backed by cash flows

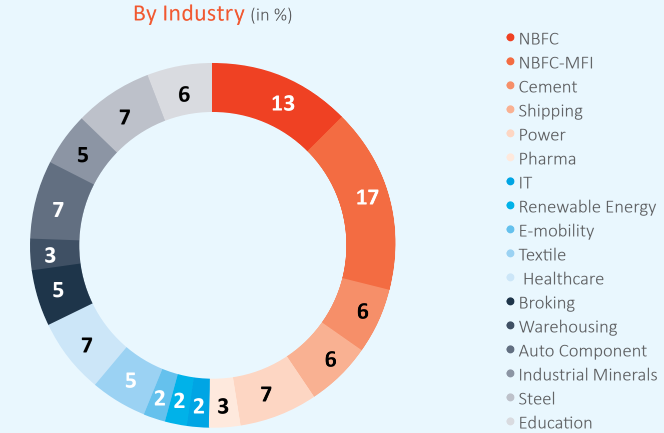
By Original Tenor (in %)



By Ratings (in %)



By Industry (in %)



₹ 55 Crores

Average Ticket Size / Loan

12.3%

Average Yield % [1]

3.5 years

Average Loan Tenor

Note:

[1] Average Yield % includes fee income

Company Overview
Management Discussion & Analysis
Board & Management Profiles
Statutory Reports
Financial Statements

Foundational pillars for 'Wholesale Lending 2.0'

Our short-term strategic priorities for the Wholesale business is to focus on effective management of asset quality & recovery cycle of current book. This will focus on maintaining the quality of Stage 1 assets and to focus on resolution of Stage 2 and Stage 3 assets with an aim to improve the overall AUM mix. We have laid out our mid-term strategic priorities to rebuild high quality wholesale book to capitalize on market gap and build a diversified and granular book backed by cash flows and assets. The rapid expansion in retail segment and adequate coverage on wholesale portfolio gives us comfort on margins and credit-cost trajectory going forward.

WHOLESALE LENDING

Foundation Pillars in Place

Granularity+ Diversification
Building a granular and diversified wholesale book across real estate and mid-market corporate lending

Risk Appetite & Governance
Separated guardrails
Strong approval and governance
Proactive asset monitoring

Right Organization Structure
Separated credit and organization
Asset Management works with Organization
Strengthened Credit

Active Asset Management
Quarterly detailed portfolio review meeting
Dedicated Inv. Committees for RE and CMML

Focus on ALM
Pro-active asset liability management-match funding: active participation in ALCO

Alignment of Interest
Long term incentive embedded in the compensation for the team

Risk + Control Functions + Technology Embedded in the Process

Risk Group

Control Functions
(Legal, Compliance, Operations, Finance)

Technology
(Pinnacle; analytics driven)

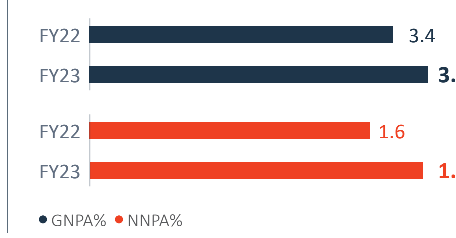
Catering to a large addressable market (having few credit providers), by adopting a calibrated approach, with focus on cash flow-backed lending

ASSET QUALITY

Overall asset quality

The overall GNPA ratio remained stable at 3.8% as on March 2023 versus 3.4% as of March 2022 and the net NPA ratio at 1.9% as of March 2023 versus 1.6% as of March 2022. The amalgamation of the retail DHFL book has made our loan book granular with less concentration risk and making our overall asset quality metrics noticeably stronger. Focus in FY 2023 has been to complete the asset recognition cycle post Covid-19 and provide adequately for the same. As of March 2023, overall provisions increased to ₹3,964 Crores from ₹3,735 Crores a year ago. However, provisioning as a percentage of AUM remained stable YoY at 6.2%, given the increase in AUM.

Overall GNPA and NNPA Ratio
(%)



TOTAL ASSETS: ASSET CLASSIFICATION

Total Assets (₹ Crores)	Q4 FY23	Q3 FY23	Q4 FY22
Stage-1	54,956	49,725	55,420
Stage-2	5,553	7,741	4,072
Stage-3	2,055	42,64[1]	2,227
Sub-Total	**62,564**	**61,730**	**61,720**
POCI	1,425	3,137	3,465
Total AUM	**63,989**	**64,867**	**65,185**
Total Provisions (₹ Crores)			
Stage-1	1,571	1,659	1,126
Stage-2	1,375	1,960	1,380
Stage-3	1,017	28,67[1]	1,229
Total	**3,964**	**6,485**	**3,735**
Asset Quality Ratios (%)			
Provision Coverage Ratio - Stage 1	2.9%	3.3%	2.0%
Provision Coverage Ratio - Stage 2	25%	25%	34%
Provision Coverage Ratio - Stage 3	50%	67%	55%
Total Provisions as a % of Total AUM	**6.2%**	**10.0%**	**5.7%**
GNPA Ratio (%) 2	**3.8%**	**4.0%**	**3.4%**
NNPA Ratio (%) 2	**1.9%**	**1.7%**	**1.6%**

Notes: Prudential write-off of ₹ 644 Crores undertaken during Q4FY 2023 and ₹ 771 Crores during Q3FY23

1) Stage 3 of Q3FY23 includes a client group from a non-RE sector which was credit impaired, having an aggregate outstanding exposure of ₹ 1,908 Crores with a total provision of ₹ 1,483 Crores We exited the said exposure in Q4FY23, thereby achieving a reduction of ₹ 1908 Crores in a single transaction.

2) GNPA and NNPA ratio for Q4FY23 & Q3FY23 are disclosed basis the regulatory reporting.

Asset quality - Wholesale portfolio

We continue to focus on resolution of the Stage 2 and 3 assets, which will further moderate the wholesale book size in the short term. A focused professional team is involved in monitoring and executing the resolution strategy for complex recoveries and enforcement, aimed to improve recoveries and monetization of assets.

The 'Recognition' and 'Provisioning' parts of our asset cycles have been completed. We are now deep in the 'Resolution' part of the cycle. We are deploying the following tools for resolution of stressed assets:

- Monetization of underlying assets
- One-time settlements
- Enforcement via IBC / other means
- Portfolio sales to ARCs in cash and / or Security Receipts (SRs)

We have had good success in our resolution strategies in FY 2023, particularly in Q4. We concluded 4 stressed asset monetization transactions during the quarter, through a combination of asset sale and ARC deals.

As part of these deals the business saw the resolution of a large Non-Real Estate Holdco loan, namely Mytrah. This helped achieve a reduction of reduction of ₹ 1,908 Crores in a single transaction.

We also concluded sale of a NPA portfolio in cash.

Further, we concluded sale of certain stressed assets through 2 separate ARC transactions under 15:85 structure. All the ARC sales have been undertaken at post-provisioning valuations with these, we generated over ₹ 12,500 Crores of cash realisation through accelerated repayments and resolution proceeds from our Wholesale 1.0 portfolio in line with the provisions on these assets.

Additionally, Security Receipts were issued at 63% mark down to face value of underlying assets sold in FY 2023. Post the transactions, we received ₹ 1,364 Crores (i.e. 11% of face value) through Cash Receipts & SRs Recovery.

As of FY 2023, we have an outstanding SRs portfolio of ₹ 3,630 Crores and 44% of the outstanding SRs have Retail loans as underlying assets.

As resolution processes continues, we expect more ARC sales over the next two quarters and related continued enforcement.

WHOLESALE ASSETS: ASSET CLASSIFICATION

Total Assets (₹ Crores)	Q4 FY23	Q3 FY23	Q4 FY22
Stage-1	25,471	26,603	38,098
Stage-2	4,844	6,598	3,542
Stage-3	1,530	3,770[1]	1,993
Total AUM	**31,845**	**36,971**	**43,633**
Total Provisions (₹ Crores)			
Stage-1	1,143	1,346	949
Stage-2	1,341	1,915	1,351
Stage-3	847	2,722[1]	1,158
Total	**3,332**	**5,983**	**3,457**
Asset Quality Ratios (%)			
Provision Coverage Ratio - Stage 1	4.50%	5.10%	2.50%
Provision Coverage Ratio - Stage 2	28%	29%	38%
Provision Coverage Ratio - Stage 3	55%	72%	58%
Total Provisions as a % of Total AUM	**10.50%**	**16.20%**	**7.90%**

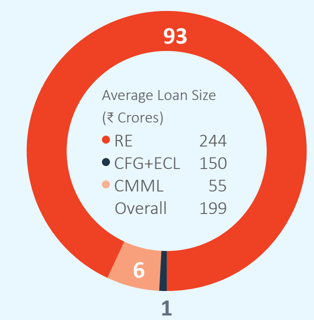
Notes: Prudential write-off of ₹ 644 Crores undertaken during Q4FY23 and ₹ 771 Crores during Q3FY23

[1] Stage 3 of Q3FY23 includes a client group from a non-RE sector which was credit impaired, having an aggregate outstanding exposure of ₹ 1,908 Crores with a total provision of ₹ 1,483 Crores We exited the said exposure in Q4FY23, thereby achieving a reduction of ₹ 1908 Crores in a single transaction.

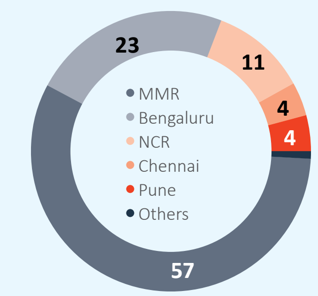
Stage 1 Composition

Total Stage 1 AUM of ₹ 25,471 Crores with an average yield of 10.3%

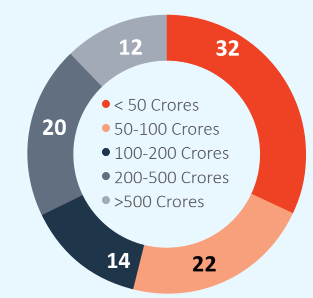
Sector Composition[1]- Over 90% of the book is into Real Estate lending; largely excludes promoter holdco corporate lending (%)



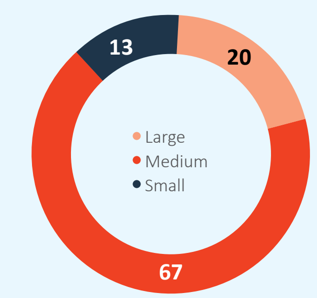
Geographical Exposure[1]- Diversified across multiple geographies (%)



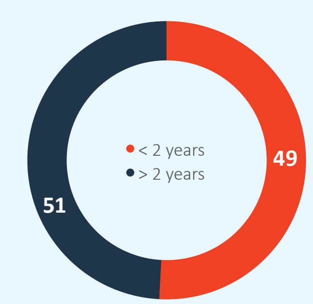
Granularity[1]- 68% of the number of loans are below ₹200 Crores (%)



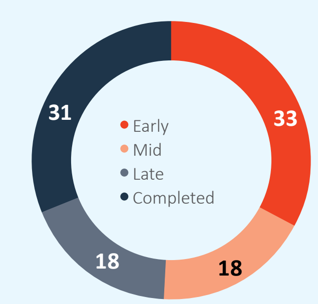
Developer Categorisation[2] - 87% of the book is large and medium developers (%)



Contractual Repayments[1]-49% of Stage-1 repayments expected in less than 2 years (%)



Stage of Construction[2] - 49% of the book is late stage or completed %)



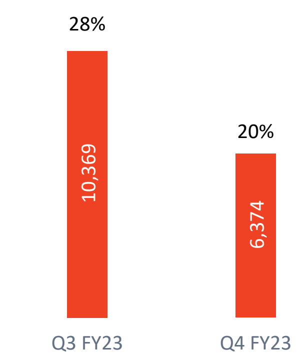
Notes:

[1] Excludes development rights of ₹ 1,335 Crores and DHFL book of ₹ 653 Crores, includes Wholesale 2.0 AUM of ₹ 2,792 Crores

[2] For RE book only
CFG: Corporate Finance; ECL: Emerging Corporate Lending

Stage 2+3 Wholesale assets reduced by 39% QoQ

(₹ Crores) % of AUM



Gradually normalizing Wholesale provisioning levels

(₹ Crores) Provision %