



“Piramal Enterprises Limited Q2 & H1 FY2021
Earnings Conference Call”

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Hitesh Dhadha:

Hi, Good evening everyone. Hope you are safe and in best of your health. I am pleased to welcome you all to this conference call to discuss Q2 & H1 FY21 results.

Our results materials have been uploaded on our website and you may like to download and refer during our discussion. The discussion today may include some forward-looking statements and these must be viewed in conjunction with the risks that the businesses face. On the call today, we have with us our Chairman – Mr. Ajay Piramal; Nandini Piramal – Executive Director of Piramal Enterprises; Mr. Rajesh Laddha – Executive Director, Piramal Enterprises; Mr. Khushru Jijina – Managing Director of Piramal Capital and Housing Finance; Mr. Jairam Sridharan, – CEO of our Retail Financing business; and Mr. Vivek Valsaraj – CFO of our company. With that, I would like to hand it over to our Chairman and would request him to share his initial thoughts. Over to you, Sir.

Ajay Piramal:

Welcome and good day to all of you.

Marco environment and COVID-19:

The last 8 months have been unprecedented in the history of the world. COVID impact was severe on the Indian economy as investments, consumer spending and employment declined steeply during the early days.

As we are all aware, the first quarter GDP degrew by 24% and several reputed agencies have lowered their estimates for the full-year GDP growth. The RBI's estimate showed that the GDP will degrow by 10% for the full year. During this period, the RBI and the government have taken several measures, such as the Credit Guarantee Scheme injecting liquidity and so on – to ease the stress in the overall economy. These measures, since April, have supported the NBFC sector as well.

During this period, the Pharma industry has been playing an important role and has shown resilience. We have seen continued strong demand for our CDMO development and commercialization services. The industry has largely been able to meet patient needs, understanding the importance of the role they play in providing essential services to our fellow citizens. In the Consumer Products space, there has been a healthy demand for COVID-related product category.

Also, we have now started to see month on month improvement and there are early signs of recovery seen across industries. Real estate sales and construction activity have been picking up with the second quarter being much better than the first quarter. Auto sales whether its two-wheelers, four-wheelers, tractors have been growing. Construction equipment sector is also witnessing green shoots. The power demand has remained healthy, obviously impacting the renewable sector. The RBI Governor has also said that GDP growth rate may break out of

contraction and turn positive during the January to March quarter, due to the recovery seen across sectors.

Additionally a steady decline in the growth rate of active COVID cases and a plateauing in corresponding death rates, suggest that the worst should be behind us. Assuming there is no relapse in the health situation, we expect the various policy interventions to bode well for economic revival. Nevertheless, we continue to monitor the situation for signs of any risks in this recovery process.

Consolidated Financial Performance:

Now coming specifically to our company's performance. Despite the adverse environment we delivered a resilient performance for the quarter. Revenue remained flat at INR 3,300 crores in the second quarter but net profit grew 14% to INR 628 crores in the second quarter and up by 12% to INR 1,124 crores in H1. If we compare our performance quarter-on-quarter, the second quarter revenues have grown by 12% and the net profit has grown by 27% compared to the preceding quarter.

Balance Sheet and Liquidity:

a) Capital inflows:

During this period we have focused a lot on strengthening the balance sheet and ensuring that there is enough liquidity. Since the beginning of the previous financial year, the company has brought in INR 18,000 crores capital versus the initial commitment, which you may recollect, we had said of between INR 8,000 to 10,000 crores. This includes the capital raise in terms of the preferential issued by CDPQ, the rights issue for all our shareholders, sales of our investments in DRG and Shriram Transport and the Pharma deal with Carlyle that we completed recently. I'm also very happy to say that even during the biggest crisis the world has seen, we could still monetize our assets in DRG, as well as complete the Carlyle deal.

b) Borrowings:

Also, during this period, we've raised long-term debt of INR 24,800 crores. Out of this, INR 11,500 crores was raised in H1 FY21. Again during the peak of the COVID crisis, I must say that the public sector banks have gone out of the way, with the nudging by the RBI, to ensure that enough liquidity is available to us.

c) Total inflows and leverage:

So with these total inflows of INR 42,800 crores since the beginning of FY20, the overall equity has increased by 28% to INR 34,700 crores and our net debt has reduced by INR 22,000 crores

from INR 55,000 crores to INR 33,450 crores – leading to PEL’s net debt-to-equity ratio to less than 1x from 2x in March ‘19.

Also, through these inflows we have shifted our borrowing mix towards long-term borrowings, while reducing our CP borrowings. CPs were INR 18,000 crores in September‘18 and today are at INR 2,100 Crores. Therefore, our ALM profile has materially improved with significant positive gaps.

Corporate structure:

During this period, we have also simplified our corporate structure, because a lot of feedback that we got from investors was that they wanted a simple structure. So today, we have now just two major businesses, one is Financial Services – which is in 100% subsidiaries of Piramal Enterprises – and second is a Pharma subsidiary. Carlyle has come in and Piramal Enterprises owns 80% of the equity in the Pharma subsidiary and Carlyle owns 20% in that.

Besides, we still have some investments in the parent of the Shriram Group, which as we have said, we will monetize in the near future as and when the markets improve. Also the simplified corporate structure is just one more step in going towards the eventual aim of listing both our businesses, the Financial Services as well as the Pharma businesses separately.

Financial Services

Market scenario:

I will now come to the Financial Services and I will talk about the environment in the NBFC sector – which has gone through extremely challenging times. It was impacted even before COVID, by liquidity tightening, the weaker economic growth in the environment and negative business news from many large corporates. With COVID-19, this has now become the most prolonged crisis for this sector and what we are seeing is an increased pace of consolidation taking place in the NBFC sector.

We believe that only the fittest will survive. Those that have a strong governance and value system, who have a well-capitalized balance sheet and enough liquidity to bear the shock, and those who have an ability to radically transform or evolve their business model to the changing environment – so that they can well navigate the impact of the COVID-19 crisis.

We believe that we are well-positioned to come out stronger for a long runway of growth, by gaining market share in the next few years. Stronger NBFCs will complement bank and will play a critical role in reviving India’s growth.

Capital adequacy, equity allocation and provisioning:

What we have done during this environment is, we significantly improved our capital adequacy ratio to 34% from 22% in March '19 for our financial services business alone. This makes us safe during this current period and also gives opportunity for us to grow both organically and inorganically at the appropriate time.

With equity of INR 25,000 crores, which is available for the Financial Services business, we are among the top 3 NBFCs in India, in terms of equity capital available for financial services.

We have also, as you would recollect, at the beginning of this year made an additional provision of INR 1,900 crores thus increasing our total provision to INR 3,000 crores – which is a 237% provision coverage ratio, or nearly 6% of our loan book – to meet any contingencies that may arise due to the prolonged adverse environment.

Performance of developer clients:

How are we seeing the environment today? Early trends indicate better performance of developer clients than assumed under the stressed scenario for creating provision. As we see today, in September'20, sales of our developer clients have reached 100% of pre-COVID levels. Developer collections from homebuyers are at about 82% of pre-COVID levels, and construction activity has resumed at all the projects that we have lent to, with about 90% of the workers back at the sites.

Collection efficiency:

As far as collection efficiency is concerned, we have seen encouraging signs post the moratorium. These could also indicate collections against pent-up demand and could be early trends. We believe that the performance of the next quarter needs to be monitored for a business as usual collection.

Restructuring:

We are monitoring the post-moratorium behavior of our borrowers and are actively engaged with them to understand the business performance – their sales, collections and their construction activity. It will be difficult to put any specific number on the one-time restructuring as of now, as account performance, going forward, will play a critical factor for our decision-making.

However, we do not expect this number of restructuring to be material compared to the size of our loan book and to the provision that we have made. Having said that we do acknowledge there are certain sectors within our portfolio like hospitality, auto ancillaries, where we have limited exposure, which may be needed to be evaluated for this restructuring.

Loan book mix:

Post-COVID how do we look at the environment; from being a largely wholesale lending business model focused on real estate, we are working towards transforming our model to a well-diversified financial services business. We intend to create a balanced portfolio with retail lending – at 40-50% of the lending book in the next few years – by growing retail book organically & inorganically, while reducing our dependence on real estate, within wholesale, through repayments, prepayments and refinancing.

Retail financing:

We are building a multi-product retail lending platform. The retail and SME lending market in India have a huge untapped potential. In addition, you can see consolidation is taking place in this space as well. To take advantage of this opportunity we are building a multi-product, retail lending platform which will be ‘digital at its core’. Its modular structure will have an ability to add multiple products in the future.

As we had mentioned earlier, we are focusing on the ‘Bharat’ market, targeting customer segments that are underserved by banks in Tier II/III cities – ranked between 25th and 1000th, in terms of the economic activity. We have invested in a high-quality management team with deep experience in retail.

We are incorporating learning from the current environment to build a sound business model for the post-COVID world. In FY21, we will focus on laying the foundation of the business by taking a differentiated approach to retail lending in terms of product customization, personalization, developing robust processes and risk management framework and leveraging technology & analytics.

Our first milestone is to ‘go live’ during Diwali with four product categories in 26 towns. We will do secured lending in the current year. Going forward, we may look at product categories which are currently not as large as affordable / mass affluent housing and secured business loans, but can become large in the future.

Also, we continue to evaluate inorganic opportunities in the retail financing space to make our loan book more diversified and granular.

Wholesale lending:

As far as the wholesale loan book is concerned, we are making it more granular and have made progress in this. We have reduced single borrower exposures – for the top-10 exposures from INR 18,400 crores to INR 14,700 crores since March’19.

As of September '20, there is only one account which is over 15% of net worth and only two other accounts greater than 10%. By 2021, we intend to bring all our exposures (except one) below 7% of net worth – in fact, 75% of our exposures will be below 4% of net worth. There will be only one exposure which will be in the 10-15% range.

Pharma

Now I would shift to the Pharma business. In October, we closed one of the largest PE deals in the Indian Pharma sector with The Carlyle Group and raised USD 490 million as fresh equity for a 20% stake in the Pharma business. The deal valued our Pharma business at an Enterprise Value (EV) of USD 2.78 billion, with an upside component of up to USD 360 million.

I'm very happy that within 10 years of selling our domestic Pharma business to Abbott for USD 3.8 billion, we have been able to build a business where these values have come. These funds that we got will strengthen our balance sheet and accelerate our organic & inorganic growth plans. We look forward to leveraging Carlyle's deep expertise and global strength to bolster our growth plans.

Pharma business performance:

In the second quarter, we have been able to deliver a strong performance with revenue growth of 20% YoY in the CDMO business and 25% YoY in the Consumer Products business. The CDMO business continues to show strong momentum in the order book. India Consumer Products business has launched 15 products and 38 SKUs during the year, including COVID protection range of Tri-active disinfectant sprays, sanitizers and masks. The Complex Hospital generics business, although impacted by surgeries getting postponed in key markets, showed an improved performance over Q1 numbers, backed by the business witnessing improved demand for products used in surgical procedures. We held or increased our market share in major product categories and across key markets.

Coming to the EBITDA performance, our improved revenue performance and cost rationalization effort has enabled us to deliver an EBITDA margin of 23%. We continued our focus on fostering a culture of strong quality and compliance. We have successfully cleared 36 US FDA inspections since FY2012 and successfully cleared 4 regulatory inspections during the second quarter of FY21.

Concluding remarks:

If I were to summarize, our resilient performance during the global pandemic is a reflection of the strength of our business model and the progress that we have been making on our strategic priorities.

In the Financial Services business, with significant strengthening of our balance sheet and adequate provisions created to meet any contingencies we are now focused on making our business model well-diversified and increasingly granular.

In Pharma, with the capital raise apart from establishing a valuation for our Pharma business also provides us with a war-chest to tap multiple organic and inorganic opportunities.

We are emerging stronger from the COVID-19 crisis and are now at an inflection point. We remain confident that both businesses have a good runway for strong performances in the medium to the long-term. Thank you and I wish and pray that all of you remain safe and healthy during this challenging time. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Kranthi Bathini from WealthMills Securities.

Kranthi Bathini: Congratulations for a resilient set of numbers during these challenging times. I would like to know from you how the environment is looking going ahead and what kind of plans, as you keep on mentioning, that you're looking for acquisition, both in terms of Pharma as well as Financial Services, what kind of deals are you looking forward to and what is the horizon you're looking at? If this is the right time to go and start acquiring, or will you wait for some more time?

Ajay Piramal: First of all, let me talk about pharmaceuticals. In Pharma, we have a very differentiated model where we have manufacturing and development facilities in different countries, across continents. So, we have facilities in the United States, we have facilities in Canada, in Europe, and in India – where we do both manufacturing and development. What we are finding, and as you probably are aware, is that 93% of our revenues comes from global clients. There is a big emphasis now on Pharma, with people trying to figure how to increase activities in certain Pharma products, and how do you have a resilient supply chain – which also means that one needs to have facilities all over the world. So, we are working towards that. How we can increase our presence in some of these geographies, where our customers are asking for it. If there are certain niche products or niche capabilities that we need to acquire. So, this is a good time for us to acquire. As you know, the funding has been good now. The debt to EBITDA of the Pharma business is only 1.5x times – which means there is a big headroom for growth. Also, many of the other companies globally, are still suffering in this space and therefore, we can get good opportunities.

So, that's what we are looking at, but as you may be aware and as our track record is both in pharma and financial services we will only do acquisitions if there is a strategic fit and if we can create value.

Coming to Financial Services, our strategy is to make it more a diversified and granular one and any acquisition that we do would be to achieve that aim – which will mean that if we do any acquisition it would be in the retail space. Again it has to be value addition, the quality of assets, the culture and all have to fit in.

Kranthi Bathini: What is the size of the acquisition you're looking forward in terms of retail financial services is concerned? Do you have any specific size of acquisition?

Ajay Piramal: We do not have a specific target size. The way we look at it is, we will see whatever makes economic sense for us. As you know that our debt-to-equity is less than 1x, which is a comfortable position and gives us enough leeway to look at different types of acquisition.

Kranthi Bathini: This is my final question, how do you see the economy because you are a key observer of the economy, is the worst behind us for the Indian economy?

Ajay Piramal: Clearly the worst is behind us, for the economy and that is what people are saying. If you see the numbers, in the first quarter actually the economy degrew by 24%. Since then, there has been an improvement. All the parameters are showing that. The RBI is estimating that what was -24% in the first quarter for the year should be -10%. That means at the last quarter of the year there will be some growth. What I'm also seeing from other industries this is when you see the results coming out that they are much better than what people are expecting. So we have to be optimistic, but we still have to be cautious that's why I said let's wait for another quarter and see how things are.

Moderator: The next question is from the line of Aditya Jain from Citi Group.

Aditya Jain: Could you talk about the debt level at the Pharma segment after the deal?

Ajay Piramal: So, the debt level in Pharma after the deal would be between INR 2,200-2,500 crores.

Aditya Jain: Then on the yield in this quarter, so we have 15.2% in 1Q to 14.8% in 1H overall. What is causing the large swing, the mix hasn't moved much? And also related to this but more forward-looking; the new segments which we are launching November onwards since they are secured segments, even if retail and even if Tier II towns, would the average yield there be lower than these 14.5% to 15% level or would it be higher?

Ajay Piramal: I will ask Jairam, who heads our Retail business to comment on that.

Jairam Sridharan: On the latter part of your question, which is the average yields in retail – your observation is right – the average yields would be lower than the 14.5% average that you see in the products driven largely by the wholesale book today. We will be looking at differentiated customer segments from banks, so you should expect towards the higher end of the yield range within

those product categories. In things like affordable housing, we will be looking at 10% / 11% / 12% sort of yields. But none of these are going to be 14%+ yield businesses. We are not getting, in any meaningful way, into unsecured lending in this year while COVID uncertainties still remain.

Khushru Jijina: So basically, the shift is not much, as you yourself said, and basically it is some fair valuation loss, which led to minor yield correction – that is it. Otherwise, there's not really any significant yield which has come down. In fact if you compare with the last year yields had gone up.

Moderator: The next question is from the line of Prasheel Shah from CapGrow Capital.

Prasheel Shah: I just wanted to know if we are offering any top-ups to our existing clients.

Khushru Jijina: You're talking about the wholesale clients or retail clients?

Prasheel Shah: Yes, the wholesale clients.

Khushru Jijina: So I would answer it differently. There is no top-up as such required. As explained to you a quarter ago, we had anyway analyzed post COVID, all the requirements of our developers assuming very little sales and collections. Though, of course, the reality has played out differently. And we had set up lines, wherever required, to ensure completion of the project. So if I have answered your question and if you have seen we have enough lines with most of our clients and that is why we continue to disburse, wherever it is required to ensure the safety of our money through completion of the projects.

Prasheel Shah: How does that affect your collateral, your exposure, if you are providing any top-ups for completion of projects or whatever it is?

Khushru Jijina: So actually it has played out much better. I will just repeat that. Post-COVID, we had actually assumed zero sales and zero collections for the first half of this year and only 20-30% in Q3 and 40-50% of collections, sales and construction in the last quarter. Based on that we had looked at our cash covers, which are the ones going below 1.3x. I think I had covered it in detail in the last investor call, so I won't repeat it. We had gone about with various resolutions – and I had spoken about it in detail – the various means by which we have improved our cash covers and security covers, to ensure that there is no dip below 1.3x. But, so far cautiously optimistic, the numbers which have come out for our portfolio, as Mr. Piramal said, in September itself we have seen 100% of pre-COVID level sales and 82% of collections. So, in fact, our covers are far better than what we had envisaged, while we have done the resolutions. So in other words, we are actually right now much better than what we had envisaged.

Prasheel Shah: So in one of your slides you talked about how the industry is shaping up, the real estate industry. So in some markets the real estate sales have bounced back really well and in fact in the couple

of markets the sales are been doing better than what it was pre-COVID. So can you comment on how do you expect the demand going forward? What we have seen so far is it pent-up demand or is it there to stay, any comment on that?

Khushru Jijina:

I think Mr. Piramal alluded to that. As I said, first let's go back to our assumptions, which is very important for you to know. Our assumptions were that only 30-40% or 50% in the affordable segment will happen in the last quarter. So this is very important for you, because all our underwriting which we did, or I would say re-underwriting and the resolutions we did with the developers, was basically assuming this play out. Now that has not played out, it's already 100%. Yes, it's very important to see the third quarter, because as Mr. Piramal also said, and your question is very valid, we need to monitor whether it was pent-up demand or is this a trend where real estate has really bounced back because of COVID. So I think in the January call we will be having a much better idea to respond to this question. But the point remains that we have underwritten as if it is only the fourth quarter when this will come, so today, we are far better when compared to the January to the March'21 quarter, if it makes sense.

Moderator:

The next question is from the line of Alpesh from Motilal Oswal Financial Services.

Alpesh:

Congrats for the good set of numbers. While you have alluded about increasing the share of retail in the overall portfolio, but looking at the current situation would you be open to lending to the real estate space considering there has been a significant improvement over the last 2 or 3 months? That's a first question and again now what would be the strategy about sell-down of the portfolio.

Ajay Piramal:

You are right we see that the environment, as far as the wholesale real estate sector is actually turning better, as a business, and also in terms of lending. Now if you see there is not much competition which is left in the real estate lending space. So that is an opportunity.

Moderator:

The next question is from the line of Vinod Jain from WF Advisors.

Vinod Jain:

Congratulations on the good set of numbers. My question is related to the real estate prices. How do you see the price scenario panning out in the next few quarters and what kind of projections have been penciled in while looking at developer realizations for Piramal?

Khushru Jijina:

When COVID broke out, as you know, many people had predicted that the prices will crash. In the last six months, prices have not come down dramatically. City-by-city we have seen dips of 3%, 5%, somewhere 7%. So on an average, you can take anywhere between 5-7% – prices have got corrected. The major thing which has changed is that while the sales are happening, the collections are little slower, which also you can assume is an inbuilt discount. In other words, while people used to pay faster now developers are giving a little longer time as the payment scheduled to the clients to buy. So that is the real shift which has really happened in the last 6

months across all segments. So it's not really that the prices have come down. I didn't get your second question though.

Vinod Jain: I want to know the position, going forward, what is the view you have taken for your realizations from developers, in terms of pricing?

Khushru Jijina: Again, while we had assumed a 10% dip in the affordable and mid-market segment, when COVID happened – that dip has really not happened; and a 20% dip in the luxury segment – which also has not really happened, as I had mentioned. The real price dip has already come down to 5-7%. We do not see any significant price corrections going forward. If this trend continues, because in fact, in some of the cities in the affordable segment the prices have actually gone up in the September month.

Moderator: The next question is from the line of Abhishek Kapoor, as an individual investor.

Abhishek Kapoor: I can see that cost of funds and cost of borrowings are approximately 8.5% and 10.8%, so how can we reduce that?

Rajesh Laddha: If you see from last year March and even before that, there has been a downward trend in terms of quarter-on-quarter rate of interest. Last quarter, March quarter it was about 11% and it came down to 10.8% and this quarter I think it's 10.7% on average basis. Our incremental cost of borrowing is coming down and that's converging into the average and clearly there is a downward trend, going forward basis as well. So it's not that it's not coming down, but because of the fact that it's on average basis, the impact is seen on a minimalistic basis.

Abhishek Kapoor: Yes, based on the current interest rate scenario only, my question is, it seems the cost of borrowings are on the higher side for a company like us, because we are one of the largest NBFCs in the market. So other larger NBFCs are getting FDs and other things at the rate of 7% or 6%. So any plans to how to reduce this cost of borrowing further and what can be the optimum level, as on date, where we stand today on the terms of interest rates?

Rajesh Laddha: So there are plans, as I said the incremental borrowing is happening at much lower than the average cost and therefore, the average cost is coming down. The right set of comparison is not with 6%-7%, which is also an outcome of rating. So I think in terms of planning, we will have to work on improvement in rating and therefore, we can see a significant drop in incremental cost of borrowing. And we are hopeful that with this kind of strong balance sheet and the mix changing in favor of retail, etc. – we would get a rating upgrade.

Ajay Piramal: Also, I just want to focus on the fact that we must look at what is the spread between the borrowing and lending rates – because we must recognize that in wholesale the spreads are much higher. And that's why when people lend, they also will take that into account as well. In retail, it's not so, but in wholesale it clearly is.

- Abhishek Kapoor:** Absolutely right. Actually we are heading towards the retail loans further, as I can see in the presentation, that's why I felt that the average cost of borrowings are on the higher side to go for a good set of customers.
- Ajay Piramal:** Yes, it will come down as soon as that happens.
- Moderator:** The next question is from the line of Nischint Chawathe from Kotak.
- Nischint Chawathe:** Actually my question was pertaining to the incremental funds, if you could just share what has been the incremental cost of funding and how much you have raised in the last two quarters – if at all you can share the data? And the second is on the retail lending side, whom do you consider as direct competition for you?
- Rajesh Laddha:** The incremental borrowing, which has been happening in last 6 months, we have seen it is anywhere between 8.5-9.5%, depending on the banks and instruments, etc. – which is clearly lower than what was happening during previous year and that impact is seen in overall cost of funding coming down, on an average basis.
- Ajay Piramal:** We have raised INR 11,500 Crores in long-term funding.
- Rajesh Laddha:** Yes, we have raised about INR 11,500-12,000 crores of long-term funding in first half and we have also done INR 3,000-4,000 crores of roll-overs, etc. But yes, INR 12,000 crores of long-term funding, which was in the range of 3 to 7 years.
- Jairam Sridharan:** Second part of your question, as whom do we see as sort of direct competition and what are we modeling our business on – I would say that there are different aspects of the business, in which there are different entities that we believe are doing a really good job and we would like to emulate pockets of that. So in some of our affordable housing business and the small business lending franchise, in the smaller towns, you might see us look at people like AU or Aavas and some of the others, and try and build the business of that nature.
- When you look at the 'digital at its core' point, that we have been talking about, there you might see us try and build capabilities more on the lines of what some of the Fintechs are doing, or in some small pockets what Bajaj has done. So there is an analytics at the core element of what we are doing, which is a little bit different from what most people are doing out there in the market today. So, there isn't any one particular player that we are modeling our business on. We will try and learn from the best and try and incorporate that in our business model.
- Nischint Chawathe:** Then if there is not direct front-line bank kind of competing then would it be kind of fair to say that in terms of balance sheet strength on the liability side strength, you would be much stronger than most of your peers, I think any of your peers?

Jairam Sridharan: You are absolutely right. In fact, the core of strategy is to actually find pockets where banks are not directly focused. Because we recognize that as an NBFC, there are certain pockets that we can compete a little bit better on, given our cost of fund structure. So we would pick pockets in terms of products, customer segments and geographies, where banks are not focused and if you look at those pockets and segments, the kind of competition that you are likely to face there, our capital position, our cost of fund situation, our AA rating, etc. is going to be a massive advantage.

Nischint Chawathe: And just one last point, I don't know whether to touched upon this or not – with respect to the fintechs, would you look at kind of buying out some of them, kind of nurturing some of these kind of talents, or doing a partnership with them – given the fact that in terms of capital position you are much stronger than all of them. So how would you really look at that part, is it a partnership or would you just want to acquire?

Jairam Sridharan: So Chairman mentioned this a little bit in his opening remarks. We are open to inorganic opportunities, but that is not the primary focus. In fintech, while it is really important to build those capabilities, we are also looking at appropriate opportunities that might arise there, from an inorganic perspective. As you will appreciate, however, the key thing here is the talent. The piece of code that a fintech has written, by itself might not be worth a lot, because the piece of code may become irrelevant when the business context changes. So, the key thing is the talent and how do you make sure that the talent can stay with you and remain motivated, etc. So that's the core of the challenge in fintech. So we are unlikely to acquire, or consider acquisitions in fintech, purely for specific code or platform capabilities that they have. We don't think those are sustainable and portable. However, where we find the right product-market fit, in customer segments that we are interested in and group of founders or technical experts whose values and culture align with what we are trying to do – we would be very open to looking at those opportunities.

Moderator: The next question is from the line of Alpesh from Motilal Oswal.

Alpesh: What would be your view on the restructuring, or the DCCO extension for the exposures that you have. What percentage of the book, you expect in next 1 or 2 quarters, would be restructured?

Rajesh Laddha: I think, Mr. Piramal has in his opening speech covered this part. We are currently evaluating the entire scenario vis-à-vis our borrowers. That process is currently on, on an individual basis. We don't expect this number to be very large, as far as real estate is concerned. However, there are a couple of sectors which are under slightly more stress – sectors like hotels, etc. I think it's important to note here, while from a cash and asset cover perspective there is no problem, but from a liquidity standpoint, hospitality and hotel sector might be reeling under some pressure for foreseeable future. So those are the assets where we may have to consider some sort of

restructuring, but that amount is not going to be very significant. The number of cases are not going to be very significant, in overall scheme of things.

Ajay Piramal: We have time till the end of the year. We also want to see what's happening in the next few months and then we will take a call.

Alpesh: And Rajesh one more question on the standalone balance sheet there is a COVID-related provisioning of INR 300 crores. So what's the customer loans outstanding on the standalone balance sheet now?

Rajesh Laddha: There are few loans still outstanding on PEL balance sheet, which we are in the process of now consolidating either at PCHFL/PHL Fininvest. Before March '21 everything will be moved to PCHFL/Fininvest and corresponding provision also will move to the respective entities. If you remember when we began 4 years back there was some accounts which were there and PEL level – most of it, 95-97%, have already been moved to either to HFC or to NBFC.

Alpesh: Could you just quantify would that be number around INR 5,000 crores or so?

Rajesh Laddha: No, it's about INR 1,500-1,600 crores. It's very small and as Mr. Piramal again stated that we are now making businesses very clean, with Pharma coming down in a separate subsidy, the entire lending business will be with PCHFL/Fininvest. So that's the exercise which is currently on and before March '21 this final leg also will be done.

Moderator: The next question is from the line of Gopinath from PNR Investments.

Gopinath: My question is related to trying to liquidate Shriram Group investments. Are we still in need of selling Shriram, for strengthening our balance sheet further; or is it just that we are not happy with that investment and we want the exit out of it?

Ajay Piramal: First of all, as you have correctly said we are not in need of doing it for either strengthening our balance sheet or for liquidity. That's not the reason why we would exit from Shriram, but we had made a policy decision that we would ultimately exit from Shriram. It was not because of liquidity, but because we were also doing some competing businesses, as we go into more and more retail. So we did not want them to feel in any way, that there are two horses we are riding. That's the only reason. There is no urgency. We will do it at the right time and we get the right value. It does not mean that there is any issue in Shriram. We are happy with our investments, but we feel that in the long run that's the way we want to go.

Gopinath: But it's applicable for both Shriram City Union, as well as Shriram Capital both is it?

Ajay Piramal: Yeah both, it's the same.

- Moderator:** The next question is from the line of Aditya Jain from Citi Group.
- Aditya Jain:** Couple of things, one could you share the size of Stage 2 loans and secondly if you could talk about the outlook for the loan growth. So I understand, in retail, the ramp up will be gradual, on the wholesale side – in past you have talked about some contraction in the near-term. So let's say looking at FY22 would you start to, would you want to see wholesale book start to grow again or will you have it contracting further?
- Ajay Piramal:** I don't think we should make any projections for FY22, today. Let's look at how the environment shapes up. Today, I think to make any longer-term forecast is not right. As I said, the wholesale book, there are opportunities in wholesale because the providers, the competition is reducing day by day and we have a strong balance sheet and we have good expertise in that space. That's on one side. The second side is that we do want to also increase our proportion of our retail loans. So we will create a balance and as I said, depending on the environment, we will see how we can still get benefit of wholesale – whether it's through a fund structure, whether it is through doing co-lending, there are many other banks approaching us for co-lending. So it's a combination of things. Let's wait till the environment; I think we will get a better idea towards the end of the third quarter.
- Aditya Jain:** On the other part, the size of Stage-2 loans as of now?
- Rajesh Laddha:** Stage-3 is about INR 1,200 crores and normally we don't disclose Stage-2 and all, but the number is about INR 1,200-1,300 crores for Stage-2.
- Aditya Jain:** Sorry your voice broke. You said INR 1,200-1,300 crores in the size of stage 2 loans?
- Rajesh Laddha:** Yeah.
- Moderator:** The next question is from the line of Vinod Jain from WF Advisors.
- Vinod Jain:** My question relates to the COVID provisioning. You have done a large provision right up front in March quarter, which is the best in the industry perhaps. But the situation has played out perhaps better than what you might have envisaged in March. So is it possible that the COVID provision will be reversed to some extent in the coming quarters?
- Ajay Piramal:** As we said, regarding the provisioning, we want to see what the third quarter is like and at that time it is better, because things are uncertain in a COVID environment. So, whereas we feel confident today, but I want to still wait and see at the end of the next quarter.
- Vinod Jain:** And then if possible some reversal of the provisioning may happen?
- Ajay Piramal:** I am not saying anything, let's wait. It's only 3 months left. Let's see how the situation is.

- Moderator:** The next question is from the line of Abhishek Kumar Leekha from Neste Wealth Management Services.
- Abhishek Kumar:** Congrats for a very stable set of numbers. Just want to have your understanding on the renewable sector exposure that we may have. Since the sector is now looking up, so how the exposure is playing out now?
- Khushru Jijina:** We had a renewable sector exposure of INR 3,900 crores. It has already come down from June to September to INR 2,800 crores and in October will come down further. Because two large exposures of ours, which were Acme and ReNew, we got it refinanced at par with Brookfield, which we just concluded today. Basically, the other renewable sector exposures, wherever we have given the loans, there is a lot of refinance which will happen – as you rightly said because it’s looking up. By March, except for Mytrah – which we have already started getting the company up and back and then selling it off – all our renewable exposures will get refinanced.
- Hitesh Dhaddha:** Just to add, prospects of the renewables sector have been pretty good in last few months despite COVID environment. The power demand has been good and share of renewables has actually gone better. Mr. Jijina would you like to elaborate a little on that?
- Khushru Jijina:** One of the positives of COVID has been the renewed interest in renewables. As I said, we just concluded a deal of refinance with Brookfield which gave us INR 1,500 crores liquidity in the month of October – partly it came in September and partly in the month of October. Even Mytrah, if you recollect it was one of our weak companies and the weak loans, where we have provided almost INR 350-360 crores. But post-COVID, all the bondholders that is Piramal Capital, Goldman Sachs and APG took over, along with the promoters, and to get the things right; hopefully we should actually be able to, in the next year from today, will be able to monetize those assets also, and our loan. So that has been one of the positives of COVID.
- Abhishek Kumar:** So Mytrah the provision that we have done, INR 300-350 crores odd, do you think that it would suffice?
- Hitesh Dhaddha:** I think we would not like to go into asset by asset disclosures here. What is more important to understand, as Mr. Piramal also mentioned, that we have taken provision based on very conservative assumptions. We believe that this provisioning should be good enough for any kinds of contingencies. Frankly, as Mr. Jijina mentioned, the prospects of the real estate, as well as the renewables sectors have improved. So yes, all that provision should be more than sufficient.
- Moderator:** The next question is from the line of Meet, as an Individual Investor.

Meet: If you see our wholesale book, compared to last quarter it is more of flattish. In the last call, as Mr. Khushru mentioned, that there will be more refinancing deals in the wholesale segment. So have we done some fresh lending – if you can throw some light on this part?

Khushru Jijina: The two things which we are on top of, for the last 6 months, are resolutions – to ensure that our asset quality is good and the projects are complete – and also refinancing it. That’s what we had mentioned. And the first one is what we were concentrating on, right up till September. I can confirm to you that in this quarter, in the third quarter itself, you will see the book coming down. Though it has come down, as you rightly said, in September – but we continue to disburse towards our under-construction projects, to ensure project completion, because that also helps in refinancing. I hope you understand what I am saying. At the end of the day, if the quality of the asset is good and you complete, there is a financial closure – it’s very easy to refinance, much better than a stuck project. You will see from October itself, we have started getting more refinance than what it was in September. But in this third quarter, which is October, November, December, you will see a lot of liquidity coming in through refinancing.

Meet: I don’t know if you can answer this but have you done any fresh lending to a fresh project in this quarter?

Khushru Jijina: No.

Hitesh Dhaddha: There are no major new projects that are getting launched right now, in this environment. So the question of lending to the new projects or fresh projects is sort of more hypothetical right now.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question for today. I now hand the conference over to Mr. Hitesh Dhaddha for closing comments. Thank you and over to you Sir.

Hitesh Dhaddha: Thanks everyone for joining. In case you have more questions, please free to reach out to our team. Thank you.