



**“Piramal Enterprises Limited Q3 & 9M FY 2021  
Earnings Conference Call”**

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**Hitesh Dhaddha:**

Good evening, everyone. Hope you are all safe and in best of your health. I am pleased to welcome you all to this conference call to discuss our Q3 & 9M FY 2021 results. Our results material has been uploaded on our website, and you may like to download them and refer to it during our discussion today. The discussion today may include some forward-looking statements, and these must be viewed in conjunction with the risks that our businesses face.

On the call today, we have with us our Chairman, Mr. Ajay Piramal; Nandini Piramal – Executive Director, Piramal Enterprises, Mr. Rajesh Laddha – Executive Director, Piramal Enterprises; Mr. Khushru Jijina – Managing Director, Piramal Capital and Housing Finance, and Mr. Jairam Sridharan – CEO, Retail Financing Business and Mr. Vivek Valsaraj – CFO of the 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:**

Good day, and welcome to our investor call.

**Macro scenario:**

The third quarter was marked by a pickup in recovery across various sectors within the economy. Economic activity in India is fast approaching pre-pandemic levels, aided by government and the RBI stimulus, with the IMF now forecasting that India will be the fastest-growing economy during the next fiscal. This growth momentum has been supported by the rollout of the COVID-19 vaccines. However, with vaccinations underway, the next few months remain crucial for sustained recovery.

In the sectors we operate in, Financial Services and Pharma, we continue to see good growth. Healthcare is among the champion sectors that the government would like to focus on, to enhance the sector's competitiveness, thereby creating more jobs, higher contribution to GDP and export to global markets. The sector was also one of the key areas of focus in the Union Budget, and the government has doubled the funds allocated to this sector.

The government and RBI have played an important role in supporting the NBFC sector during this period. Schemes like special purpose vehicles to purchase short-term papers from eligible NBFCs and housing finance companies and partial credit guarantee schemes, enabled the sector to access the required liquidity. Recently, the RBI has also proposed a revised regulatory framework formulated on a scale-based approach, which focuses on reducing systemic risk to the country's financial system. We welcome these regulatory proposals as this should augur well for well-governed NBFCs / HFCs.

While we transition towards normalcy in the coming months, we see consolidation speeding across sectors as recovery will be highly asymmetric across companies. Given this

macroeconomic backdrop, let me briefly touch upon the quarter performance before I talk about the Company's strategic roadmap.

**Q3 & 9M FY21 Financial Performance:**

The performance for the last quarter, as well as for the nine months, has been that we have continued to deliver a resilient performance in both these periods.

- Revenues have been largely stable at Rs. 3,169 crores for the third quarter and Rs. 9,408 crores for the nine months, in line with our stated strategy, over the last few quarters, towards changing our Financial services business model from a real-estate wholesale-led NBFC to a well-diversified NBFC.
- Net profit grew by 10% to Rs. 799 crores in the third quarter and by 12% to Rs. 1,923 crores in the nine months. On a quarter-on-quarter basis, the third quarter of FY 2021 net profit has grown by 27% over the second quarter's net profit.

**PEL's transformation journey over the past 32 years:**

PEL has had a history of multiple successful transformations. And I want to just share some of these with you. In the last 32 years, PEL has undergone several such transformations.

- The first transformation was in 1988 when we exited the textile business and entered into the pharmaceuticals business. Through a series of M&As, organic growth, joint ventures and alliances, we created one of the largest pharma companies in India.
- The second transformation took place in 2010, when we sold our domestic formulations business to Abbott for \$3.8 billion, which was a multiple of 9x sales and 30x EBITDA, which was the highest value for any generic pharma deal globally till now. We rebuilt a pharma business model and scaled it all the way back to get a valuation of \$3 billion with Carlyle in this year. We have also created a differentiated Financial Services business at scale.

M&A has been a force multiplier in all our journeys. Through these transitions, we have delivered healthy returns to shareholders. Over the last 32 years, the Company has delivered a revenue CAGR of 23%, net profit CAGR of 28% and shareholders' return of 24% CAGR.

**Major transformations planned for future:**

Today, in 2021, we are positioning ourselves for our next transformation, our boldest one yet. You would ask, why now? Many radical changes have happened in the real-estate and wholesale lending landscape in the last few years. When such changes happen, it is always useful to step

back and relook at our strategy. Moreover, in Pharma, our non-compete period with Abbott is now over, opening up new possibilities. It is 2021, the world coming out of COVID, and we have emerged on the stronger side. It is a good time to think about the next 10 years.

We are now executing two major transformations.

- Firstly, transforming our Financial Services business through multiple initiatives, including the acquisition of DHFL.
- And secondly, transforming our pharma business into a large differentiated, listed pharma company post the Carlyle capital raise, thereby, moving from a multi-sector conglomerate structure into focused listed entities, within Pharma and the Financial Services sectors.

Our Pharma business is quite differentiated from most other Indian pharma companies, and we plan to organize a Pharma Day – a virtual event – during this month to take you through our Pharma business in more detail.

**(1) Transformation of the Financial Services business:**

For the Financial Services transformation, we are executing on five important transformations in Financial Services. And we continue to make progress on our strategic priorities in the Financial Services business.

**(a) Transformation from a wholesale-led, real-estate focused lending business to a well-diversified Financial Services business:**

The first transformation is from being a largely wholesale lending business model, mostly focused on real estate, we are working towards transforming our business model to a well-diversified Financial Services business. We want to create a lending portfolio, where retail will be 50% of the lending book in the near-term.

In this direction, we plan to:

- (i) grow retail through an organic buildup, as well as the DHFL acquisition, and
- (ii) further reduce or maintain the size of our wholesale book.

In the organic retail buildup, we have launched a multi-product retail lending platform in 2020, and we have commenced disbursements in this third quarter of the current year. We have launched six new products during the third quarter, and we will be launching new products every month going forward. We have built a fintech-led digital platform which will be modular in structure, having an ability to add multiple products. The platform has seen healthy initial traction as disbursements and logins have picked up month-on-month since the launch. We are now live in all 40 locations. More importantly, we have gradually pivoted the retail lending

business towards mass-affluent and affordable housing, with no fresh disbursements in the affluent housing finance business. This will help us improve our profitability in our retail segment as well, in future.

As you know, we have just recently done the DHFL transaction. The DHFL acquisition will give a significant push towards achieving this diversification of our book sooner. DHFL's retail loan portfolio will also help in jump-starting our organic retail business, as it will lead to expansion in presence of the business with additional branches and customer reach. The Committee of Creditors' (CoC) voting ended in January 2021 and the CoC declared the plan submitted by us as the successful resolution plan. It gives us great satisfaction that we received 94% of the votes, reflecting our group's credibility and our balance sheet strength.

In order to meet our diversification target, we are looking at our wholesale book and reducing it consciously or maintaining it at a similar size.

**(b) Transformation from concentrated to granular loan book exposures:**

The second transformation is to move from concentrated exposures to granular exposures in the existing lending book. Our top-10 exposures have reduced 27% since March 2019 from ~Rs. 18,400 crores to ~Rs. 13,400 crores. Only one account at 15% of net worth, with only three accounts greater than 7% of net worth. The retail businesses that we are building under our multi-product platform also will have much granular ticket sizes as compared to the affluent retail business that we have been doing.

**(c) Transformation from high leverage to high capital adequacy:**

Our third transformation in the Financial Services is to move from a high leverage ratio to a high capital adequacy ratio. Capital inflows have been Rs. 18,000 crores since April 2019 through various capital market transactions. The total equity of PEL stands at Rs. 35,467 crores, which is an increase of 30% since March 2019.

These steps have significantly strengthened our balance sheet. Our net debt-to-equity is now below 0.9x versus 2x in September 2018. We have done significant deleveraging with a net debt reduction of ~Rs. 24,000 crores from ~Rs. 55,000 crores in March 2019 to ~Rs. 31,000 crores.

The Financial Services business is more than adequately capitalized. Our capital adequacy ratio is at 31% as of December 2020 versus 22% in December 2018. Our net debt for the Financial Services business is 1.9x, amongst the lowest across sizable NBFCs, HFCs in India.

Given the strong capital adequacy ratio, we believe there is significant opportunity to improve utilization of the equity capital available to the business, and we do not expect that our Financial

Services business would be in need of any further equity capital raise, as the business has adequate growth capital for the next three to five years.

**(d) Transformation from short-term liabilities to long-term borrowings:**

Our next transformation is moving from short-term liabilities to stable long-term borrowings. Apart from reducing the overall leverage, we have significantly shifted our borrowing mix towards long-term funds.

- Rs. 12,800 crores of long-term debt have been raised in the last nine months despite COVID crisis.
- Our CP exposure remains low at ~Rs. 1,000 crores, a reduction of 94% since its peak in September 2018.

As a result, ALM profile has improved with significant positive gaps in all the buckets.

**(e) Transformation from regulatory provisioning to conservative provision coverage ratios:**

Another transformation that we have done is moving from regulatory provisioning to a conservative provision coverage ratio. We now maintain conservative provisions of Rs. 2,935 crores, which is equivalent to 6.3% of the overall loan book versus 1.8% a year ago.

Our total provision as a percentage of the gross NPA is at 172% versus 100% a year ago.

Our provision against Stage 1 and Stage 2 loans has increased to ~Rs. 2,000 crores in December 2020 from ~Rs. 700 crores in December 2019. As a result, non-NPA assets have a provisioning of 4.5% as of December 2020.

With total provisions as a percentage of loan book stand at 6.3%, the provisioning against wholesale loans is higher at 6.8%.

**Asset Quality:**

I would now like to give comments on the asset quality. The real-estate sector has shown a healthy revival over the last few months and has started performing better since the last quarter. In fact, residential real-estate sales have now surpassed pre-COVID levels in most of the large markets. As per industry estimates, sector-wise sales across major cities in October to December 2020 were 23% higher than in the January to March quarter of 2020. We have observed a similar development in our developers' performance.

During the third quarter of the current year, sales of our developer clients increased 82% over the previous year. Their collections from homebuyers were 49% higher than the previous year same period. And construction activity is at 100% of the projects. However, it is important to note that government incentives, especially the stamp duty reduction in Maharashtra, played an important role in providing a boost to the real-estate sector. The uptick in the real-estate sector should ensure that our asset quality remains intact, if not improve, in the future.

I will talk now about our onetime restructuring. In the third quarter, we invoked onetime restructuring for loans worth Rs. 1,741 crores, accounting for 3.8% of the loan book. This was much lower than what we expected earlier. Within the wholesale portfolio, the pickup in the real-estate market also gets reflected in the fact that there was only one real-estate exposure, which is getting restructured. The other three deals were from sectors such as hospitality, auto comps and infrastructure sectors that got more impacted by COVID. Within the retail portfolio, the share of loans restructured was even lower at ~1%.

The GNPA ratio stood at 3.7% as of December 2020. The quarter-on-quarter increase in our gross NPA is largely due to slippage of one account from Stage 2 to Stage 3 and the lower base effect because of the reduction in the loan book size. While the pro-forma GNPA ratio, that is without considering the Honorable Supreme Court's dispensation on NPA classification is 3.7%, the GNPA with dispensation would have been 2.7%. Also, there was no major change in the net NPA ratio, which was 1.8% as of December 2020.

As I mentioned, we continue to maintain conservative provisions of Rs. 2,935 crores, which is equivalent to 6.3% of overall loan book. And we believe that these provisions are more than adequate to meet any future contingencies that may arise due to the impact of COVID.

## **(2) Transformation of the Pharma business:**

I now want to talk about the transformation in the Pharma business. Post the sale of the domestic formulations business to Abbott, we have rationalized our Pharma business portfolio and are focused on three core Pharma verticals with a long runway to grow: Contract Manufacturing, Critical Care and the India Consumer Products.

The Company has delivered consistently strong performance.

- Pharma revenue has grown 3.5x at a CAGR of 15% from Rs. 1,537 crores in FY 2011 to Rs. 5,400 crores in FY 2020.
- EBITDA has gone up 13x at a CAGR of 33% from Rs. 110 crores in FY 2011 to Rs. 1,436 crores in FY 2020. EBITDA margins have also improved significantly from 7% in FY 2011 to 26% in FY 2020.

During the quarter, the CDMO and India Consumer Products delivered strong performance, growing at 16% and 14%, respectively. The Complex Hospital Generics business was impacted by volatility in the demand of products used in surgeries globally, and we expect to normalize in the next quarters. EBITDA of Rs. 296 crores for the quarter at an EBITDA margin of 22% was marginally impacted due to the volatility in the Complex Hospital Generics business.

To accelerate our organic and inorganic plans in the coming years, we have subsidiarized our Pharma businesses and raised fresh capital from Carlyle.

- The Carlyle deal of fresh equity investment of up to \$560 million in the pharma business for a 20% stake has established an EV valuation of nearly US\$ 3 billion.
- During the quarter, we have received Rs. 3,523 crores on closure of the 20% strategic growth investment by The Carlyle Group during the quarter. Our quality culture remains without blemish.

We have cleared 36 U.S. FDA inspections, 177 other regulatory and 1,167 customer audits since FY 2011, without a single day of production stoppage due to these regulatory inspections. And we continued on this strong quality record with 17 successful regulatory inspections during the year.

During the quarter, we have done both organic and inorganic expansions.

- In the CDMO space, we continue to see a healthy development order book despite COVID challenges. In order to meet this demand, we intend to invest both organically and inorganically in the CDMO business. We announced an investment of \$32 million in our Riverview facility for additional capacity in potent and non-potent API development and manufacturing. In June, we had acquired a solid oral dosage facility in Sellersville, Pennsylvania.
- In the Complex Hospital Generics space, we have announced the acquisition of the 49% remaining stake in Convergence Chemicals.
- In the Consumer Products business, we launched 15 new products and 35+ SKUs during the year, highest ever new launches with most products being successful. With the non-compete expiry with Abbott, we see that as an opportunity to get back into this segment.

#### **Structure of the Company:**

I now want to comment a little bit on the structure of the Company. In the last few years, we have taken several steps in our journey towards the simplification of the corporate structure of the Company, taking into account the feedback that we have received from many investors.



- During the last one year, we have strengthened both the businesses, Pharma and Financial Services, with multiple capital raise initiatives to enable them to stand independently in the future.
- We simplified the structure with the sale of DRG. We brought all the Pharma businesses under one subsidiary, Piramal Pharma Limited, and strengthened its balance sheet with fresh equity infusion for future growth. Piramal Pharma also has a separate Board with its own executive and independent directors now.
- With the acquisition of DHFL, our Financial Services business will be more resilient and future-ready as a separate entity.

With all these initiatives, we have already become simpler and stronger and continue to make progress towards our stated objective of demerging the Financial Services and Pharma businesses.

**Concluding remarks:**

In conclusion, I would say, that we have now simplified our corporate structure with focus on the two core businesses: Financial Services and Pharmaceuticals.

- We are transforming our Financial Services business through granularity, adequate provisioning and strong capitalization to tap the future growth opportunities arising out of consolidation, with an objective to create a well-diversified Financial Services business.
- Post the capital raise, the Pharma business has started investing organically and inorganically in all the three businesses.

We have clearly defined roadmaps in place for both the Financial Services and the Pharma businesses, to deliver strong and sustained long-term performances, and both the businesses are progressing on the same. I am confident, in conclusion, that these businesses will emerge as two strong companies, which will have a good runway for growth in the long-term. Thank you.

**Moderator:**

Thank you very much. We will now begin the questions-and-answer session. The first question is from the line of Aditya Jain from Citigroup. Please go ahead.

**Aditya Jain:**

Could you talk a little bit about the DHFL acquisition? A few details on what portion of the wholesale loans could be sold. What would you like to retain? Do you see any upside potential from the wholesale loans? So they have been acquired at a sizable discount, is there a view on how much excess value could be there? And your assessment of the branches and people. So it's been in bankruptcy process for some time. Has there been a lot of attrition among people? Is the branch network in line with your strategy going forward?

**Ajay Piramal:** Let me first comment on the wholesale book. The wholesale book, we are examining it, and we think that there is an upside. How much of an upside, we are not in a position to comment upon. But we do feel that there is an upside in it. We will decide what we want to do with the wholesale book, that is a question that once we get more details we will understand, and we will share with you. As far as the branches are concerned, I will ask Jairam to comment on it.

**Jairam Sridharan:** Thank you for your question. Yes, we do think that there is a lot of potential in these branches, and our intent would be from day zero to try and find a way to get a significant proportion of them getting started, from a business standpoint as well as getting ready to cross-sell other non-housing products that we have in the Piramal kitty. That's what we are going to be working towards. Our intent with the network of DHFL is going to be to work to a place where from day zero, we are able to originate some businesses, we are able to cross-sell other products that we have in the Piramal kitty on top of the affordable housing business the DHFL themselves have been good at, etc. So we have started our assessments using publicly available data. On this, our current assessment is that a little less than half the branches are in a place where there is the right level of staffing, etc. that the business can start. We will continue to update our thinking based on how the approval processes work and our assessment of the individual branch as well.

To your question on attrition, there was a meaningful level of attrition a year ago, once DHFL went into NCLT. However, in the last few months, as it has been clear that the IBC process is succeeding and that there is a new buyer coming up, attrition levels have reduced quite substantially. So nothing new has happened on the attrition front in recent times, and we don't believe much is going to happen now, until management control transitions.

**Aditya Jain:** Got it. So you mentioned that 50% of the branches have enough staffing, did I get that correctly? So basically, you have some hiring to go before it is back to full capacity and you can get back to business as usual?

**Jairam Sridharan:** I would say that the sales capacity is there to do significant level of business. Of course, not much business is going on right now. Collection capacity is there. What we need to assess, and we will once we are able to get in, what we will need to assess is credit and putting the right audit trails in place, etc. And that's the area where there is still a little bit of uncertainty, which we will need to look into.

**Moderator:** Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

**Tushar Manudhane:** Sir, just now that Abbott non-compete clause is over, so just would like to have clarity in terms of, in first place, how attractive now Domestic Formulations piece looks for you? And if so, how do we plan to enter? Is it like acquiring the product portfolio, building up own MR team or acquiring company? And if so, then are there any assets available? Thank you.

- Ajay Piramal:** So we will look at all the different methods that you said. One is that we are expanding our portfolio through the OTC space as well, where we already have the sales and distribution network. Besides that, we are looking at both portfolios and companies. And as we have always maintained that we will only do something when we find that there is a good strategic mix on one side and that there is value that is to be created on the other. So it's a combination of those two. And as and when opportunities come, we already examined them, but until now we have not found anything which fits in with our criteria. But on the other hand, as I said, we are finding there are lots of opportunities in the CDMO space and the Complex Hospital Generics space. We did one acquisition in June, and we are looking at completing a few more. Because today, the Pharma business is very well capitalized and with very low debt-to-equity ratio.
- Tushar Manudhane:** Understood, Sir. And just on this Carlyle deal, the upside component of up to \$360 million, any clarity on that?
- Ajay Piramal:** So it's still there. We have to look what the numbers would be in the last quarter. And at that time, we will be able to comment on it better.
- Tushar Manudhane:** And then just lastly on Complex Hospital Generics – there is a mention in the presentation about winning significant contracts. Is it possible to quantify? And given that there was volatility over the past couple of quarters in this business, so these new contracts and stability in the existing contracts, how does this shape up in terms of revenue going forward?
- Ajay Piramal:** So revenue going forward, we are pretty confident that we should be able to maintain good growth rates in this space. We have got a few large contracts and one very large contract, yes. This has been a W-shaped recovery, if I can say. Because the first quarter of the current year, the sales, especially in April, May were slow, then they picked up. Then again there was a second wave of COVID in the U.S., in Europe, which are our largest markets, and now there is a third wave. So once these things settle down, once the vaccinations come, there is a big backlog of surgeries now in these areas. And we expect that things will come back to normal in the next financial year.
- Moderator:** Thank you. The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.
- Kunal Shah:** Yes. Again to touch upon on this Dewan deal. So when we look at it in terms of the book of Dewan, which you said Rs. 28,000 crores wholesale and Rs. 32,000-odd crores retail. So if you can just give some color in terms of what we would have paid, how much value we would have ascribed to its retail, wholesale and for the distribution franchise that it is holding along with the cash that it carries?
- And finally, in terms of the structuring, how this is going to happen? Because if again, like Rs. 28,000-odd crores of wholesale get added into our pool of Rs. 40,000-odd crores, so that will

again take it much higher, okay? So maybe how the structuring of wholesale, retail within the existing Financial Services business is going to be?

**Ajay Piramal:** Rajesh will answer that, but I don't think we can give you a separate valuation for wholesale and retail. But the other questions, Rajesh will answer.

**Rajesh Laddha:** Yes. So at a very high level, probably we can answer it right now. The wholesale book, while the stated value or the gross block, which is appearing in DHFL's book, which is not Rs. 28,000 crores, it's much higher than that actually. We are going to account for that at much lower valuation, because we have assigned a very low value to the wholesale portfolio. So it's not Rs. 28,000 crores, Rs. 30,000 crores getting added to our portfolio. Point number one.

Point number two, in terms of separate valuation, we have not done it that way. I think we have overall paid close to, not paid actually, total value which has got assigned to the portfolio is about Rs. 34,000 crores, which we are settling about Rs. 14,700 crores through upfront payment and about Rs. 19,550-odd crore of issuance of 10-year paper to be given to the existing DHFL lenders. So that's the overall valuation, which we have ascribed to the entire DHFL company as a whole.

**Kunal Shah:** Okay. So the overall gross block of DHFL itself will be marked down, and that's the only addition that is going to be there in our pool?

**Rajesh Laddha:** Absolutely.

**Kunal Shah:** Okay. And on retail, do we see the need for any markdowns as such from what is disclosed in terms of the overall gross block of Dewan? Or that will be at maybe the existing value which is there?

**Rajesh Laddha:** Retail will be broadly at the gross block, which is there, there are two parts to that. One is the AUM on the balance sheet, and there is some part which is coming through the securitization, which DHFL has done over the last 18 months, the MRR (Minimum Retention Requirement) portion of that. So in total, it's about Rs. 28,000 crore, Rs. 29,000 crore of retail book which is remaining. And that will come at the gross valuation. We don't anticipate a significant markdown on the retail portfolio at the time of merger.

**Kunal Shah:** Sure. And in terms of the restructuring, so we highlighted there were four accounts, so this is something which has got accepted. But is there more which has got invoked and the approval would come through, say, in the next quarter or so because that assessment would have been left? And secondly, in terms of the entire DCCO extension, for what proportion of the pool would we have taken that benefit of DCCO extension?

**Khushru Jijina:** Let me answer on the OTR. The OTR exercise is over. So to answer your question, there is no more in the fourth quarter, which should be added. And as Mr. Piramal also mentioned, there is only one in the RE space, one in the infra and one in the hospitality and one in the auto components space. So that's the total of the OTR which has been invoked, we do not see any more to be added.

As far as the DCCO is concerned, again, that was done quite early in the day. You have to look at DCCO in terms of our entire resolution, which we had spoken long time back as soon as the COVID had broken out. So that exercise, we had actually completed much earlier in the quarter of this financial year, and that would be ranging between 10% to 12% of the book is what we had done that time itself. But of course, as you know, the market has played out much better, and that's why you do see things panning out better than what we had envisaged.

**Kunal Shah:** So that would be 10% to 12% odd?

**Khushru Jijina:** Yes. But that was done at the beginning of the year.

**Kunal Shah:** Okay. And last question in terms of the reduction of the concentration in the top-10 exposures, and maybe there were news around a few of the names. So just want to know that maybe we had seen around about Rs. 1,000-odd crores, at least in the top 10, but overall reduction has been Rs. 4,000 crores. So are we seeing outside of the top-10 maybe there is a higher prepayment which is happening? And maybe going forward, we will see much coming through in the top-10 exposures because maybe we were expecting more to come in from the top-10, that would have led to the overall rundown in the wholesale? Sequentially, if I have to look at it from Rs. 14,700 crores to Rs. 13,400 crores, while the wholesale book is down by almost like Rs. 4,000-odd crores, yes.

**Khushru Jijina:** Yes. So let me break it up into parts. First of all, we need to talk about RE and non-RE. I think if you recollect, there was a lot of concern last year about our infrastructure portfolio, which is actually down, as we speak, in December to Rs. 2,375 crores. And in fact, in January it is down by another Rs. 100 crores. So that has also impacted, because at one particular time the total infra book was almost Rs. 4,500 crores. So you need to look at it in that way. Coming back to the RE book, you are partly right. Because all our exposures are coming down, it's not only the top exposures, as Mr. Piramal mentioned, that we are bringing all of them down below 7%. And a majority of them are now between 3% to 5%.

Coming to the top 10 exposures, again, you will see a steady fall quarter-on-quarter. In fact, one of the developments which has recently happened is with the Lodha exposure. It has already come down from Rs. 3,200-odd crores to Rs. 2,670 crores. In fact, it was Rs. 3,300 crores, it's come down to Rs. 2,671 crores. But more importantly, if you recollect, every time we have been saying that one of the positives of Lodha was that the security was turning into finished goods.

So thanks to the Maharashtra Government's 2% stamp duty, we in fact have now split our deal into two. We have moved all our finished inventory into an SPV now, which is fully-ready inventory of Lodha with a 1.5x cover.

So in fact, in March, the Lodha exposure which we expect to be around Rs. 2,500 crores will be actually split into two. One would be an exposure to Lodha, which would be Rs. 1,000 crores or slightly lower, and the balance would be actually an SPV exclusively charged to us, which is fully ready inventory, which helps us to actually monetize this faster and also away from the IBC risk because now it's in an SPV. So you will see this happening quarter-on-quarter.

**Kunal Shah:** Okay. And same is done with Omkar as well?

**Khushru Jijina:** Yes. So again, Omkar, I think we have been saying it proactively that our exposures with Omkar have really been with counterparties where the developers have been different. When Omkar was there, the real responsibility was only to clear the land. And our major exposures were one in Mahalaxmi, where Piramal Realty has already started developing, as you are aware, and in Crescent Bay, Bhoiwada where L&T is doing. And that is why proactively, because of the same IBC risk, we had converted them into assignment of receivables, to cut off this whole IBC issue of Omkar.

**Moderator:** Thank you. The next question is from the line of Piran Engineer from Motilal Oswal. Please go ahead.

**Piran Engineer:** Congrats on the quarter and on winning the bid for DHFL. I have a few questions. So firstly, if you can just tell us what is your Stage 2 loan number as of December and the comparable September number?

**Hitesh Dhaddha:** So we don't disclose Stage 2 number. But just to kind of give you a perspective, bulk of the movement, which is the increase in the gross NPAs because there is one account which has moved from Stage 2 to Stage 3. If you look at the total of Stage 2 and Stage 3 – if the Stage 2 plus Stage 3 was 100 last quarter, it is 105 this quarter. So just 5% increase has happened in the total of Stage 2 plus Stage 3. Having said that, we don't disclose separately the Stage 2 number.

**Piran Engineer:** Okay. Fair enough. Sir, my next question is, over the past two years you have done a good job on de-risking the balance sheet, deleveraging, but our cost of funds still remains quite elevated. So in your conversation with bankers, what really is needed to get your cost of funds back down? And also, the reason I am also asking this is because your retail lending segment is at 11%, 12% yield. So what is your assumption on cost of funds to make this business really viable and thriving? Because these segments are highly competitive. And without a competitive cost of funds, what really would be a right to win?

**Ajay Piramal:** So let me comment on cost of funds. So one of the reasons that you need to look at cost of funds is actually at the net interest margin, which is at 6.2%, which is quite healthy. The reason why our cost of funds is higher is because it was more wholesale dominated and banks would charge on that. But going forward, I can see that the cost of funds will come down. Besides, your retail question is very important. And that's why what we have got for DHFL is 10-year money at 6.75%. So this itself is bringing down the cost of funds, and you will see a marked improvement. Over a period of time, I can see that cost of funds will come down because of the diversification. The more we go into retail, it will come down. And we expect that in the near future, sometimes we should also get, with a more diversified granular book, an upgrade in terms of the credit rating, which will also impact the cost of funds.

**Piran Engineer:** Okay. Fair enough. And my last question is for Jairam. What is our target customer segment in the personal loan product? And the reason I am asking is, because the average ticket size of Rs. 30,000 is very similar to that in micro finance. So I am just trying to get my sense around who we are really trying to give a personal loan to.

**Jairam Sridharan:** So right now, the personal loans that we have started, and I will reiterate, first of all, that these are just a very small experimental level that we are trying out a few things to see which product actually has good take; or which variant of the product has good take in the market. So don't pay too much attention to the specific details on personal loans or purchase finance, both of them are in sort of test-and-learn stage right now. But that said, right now, we are live in the urban markets only. We have not gone rural at all; we have not gone semi-urban either. So we are in urban markets and doing digital and partnership-led personal finance. So I want to start that with very small ticket size. So these are basically young customers, first-time jobbers. That's the broad segment in urban markets. That's the broad segment. The salary range for all of these customer bases are going to be broadly in that sort of Rs. 25,000 to Rs. 50,000 kind of monthly income range.

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

**Nischint Chawathe:** Sure. Just a couple of questions. The first one is really on the timeline for the DHFL transaction. What happens next? And when do you see this kind of completely getting integrated with our business? The second one is, trying to understand the difference in yield that you are showing on Slide number 13, what you are saying is that your weighted average yield in the new products is around 11.8%. So just trying to get a little bit of sense as to how does it defer product-wise? And the third one is just to understand which are the few partnerships that went live in this quarter?

**Ajay Piramal:** So maybe DHFL, if Rajesh, you can answer, and the others, Jairam.

**Rajesh Laddha:** Yes. So as you all know that the voting results came out on 15<sup>th</sup> of January, post which an application has gone to RBI for clearing the proposal on behalf of Piramal Capital. We expect this approval to come in the next week to 10 days' time. And after that, the NCLT filing will be done by the administrator of DHFL. And if there are not any significant litigations during that process, we expect that process to get over in next two to three months' time, which will take us to, say, by April, May. And after that, it will be about 30 to 45 days' process to close it. So I think, in all if I were to summarize, it will be end-May, mid-June. By that time, merger will get completed and we will be able to consolidate that into our fold.

**Jairam Sridharan:** Yes. And if I may take your other questions, I think one question was on yields, and we are at the 'high-elevens' in terms of average yield of new business, you asked where that is coming from. So we have four significant product lines right now, forget the unsecured stuff, etc., which is experimental. But it's too small, it won't move the needle. We have four major product lines. And our sort of lowest yield product line is mass-affluent housing, which is just a shade under 11%. And then we have our loan against property business, which is just around the 11.5-12% range. Then you have your affordable housing business, which is also in about the 12% range, and you have got small business lending which is closer to 13%. So those are the yield ranges that we are playing in right now. Remember that our core markets are small town, midtown India, so we are not competing in the major cities at all. And we are seeking customers who are not served very well by the banking system. And that allows us to extract the right yield for the type of risk that one takes on. There was one other question though I am forgetting, what was that?

**Nischint Chawathe:** Yes. That was basically the partnership that went live this quarter.

**Jairam Sridharan:** Yes, yes. So the partnership we went live with right now is a fintech partnership. We went live with Zest Money as a partner. We have three more fintech partnerships lined up for Q4, and some of them are unsecured and some of them are secured products. I am not ready to talk about them yet, though. But in the next two or three months you should see a couple more of these partnerships going live. Our intent with respect to partnerships is to not build heavily concentrated partnership portfolios. We want to be well diversified, so that there is no one specific big partnership risk on both sides, either for a partner or for us.

**Moderator:** Thank you. The next question is from the line of Abhijit Tibrewal from Reliance Securities. Please go ahead.

**Abhijit Tibrewal:** Again, my question is an extension of what Nischint asked in the last question. So when I delve on the fintech partnerships, of course, I mean, like Jairam suggested that we are looking at some more partnerships in both secured and unsecured products. So what are the contours of these partnerships? Is there a spread sharing arrangement or is it just a fee income that you give to these fintech partners?



- Jairam Sridharan:** Right now, we will experiment with various business models, Abhijit. But what we are doing right now is the simplest version, which is we keep all the float economics or most of the float economics. And there is a risk cover or a first payment default cover that is there from the partner.
- Abhijit Tibrewal:** Okay. And this entire servicing is being done by your fintech partner?
- Jairam Sridharan:** The front-ending is being done by the fintech partner, but all the back-end stuff is ours.
- Abhijit Tibrewal:** Okay. All right. Thanks. And my second question was around this one exposure that you suggested has slipped from Stage 2 to Stage 3. So what was the quantum of this exposure? And also, what I wanted to understand is, why we have restructured four whole large exposures, one each in RE, infra, auto comps, and I think one in hospitality as well. Why is it that we let this exposure slip from Stage 2 to Stage 3 rather than restructure it?
- Khushru Jijina:** So while I will not be able to give you a name, it is in the auto ancillary sector. And we didn't want to restructure it because we believe that the answer to this, say, to get our money back is actually to liquidate the assets now and the company, or the assets of the company. So it was better to take it to Stage 3 so that we can enforce our security. Because rather than just giving them restructuring. So that was not working in our favor, and that's why we did that, to answer your question. The amount was around Rs. 436 crores.
- Abhijit Tibrewal:** Okay. And my last question is to Jairam, again. So did we hear you right when you suggested that the yields that you are making in your secured business lending is about 13%?
- Jairam Sridharan:** Yes. The small business secured, yes.
- Abhijit Tibrewal:** Okay. So which is higher than what you are making in your LAP, because these are different customer segments that you are lending?
- Jairam Sridharan:** Different customer segments, it's also a smaller ticket size business. It's a Rs. 14 lakh ticket size business, the other is a Rs. 35 lakh ticket size business.
- Abhijit Tibrewal:** Right. I see that on the Slide 13.
- Moderator:** Thank you. The next question is from the line of Vinod Jain from Wells Fargo Advisors. Please go ahead.
- Vinod Jain:** Sir, congratulations on the good set of numbers, if slightly delayed this time. I have two questions. First is that the transaction cost of transfer of Pharma business of Rs. 258 crores is reflected as an exceptional item in the standalone accounts. But where is it reflected in the consolidated accounts for the quarter and the tax deductibility of this number?

**Vivek Valsaraj:** Yes. So I will take that. In the standalone accounts, as you rightly mentioned, this is treated as an exceptional item and routed through the P&L. In the consolidated, under IndAS 102, in terms of business combinations, this is treated as a common control transaction. And therefore, the total amount, including whatever are the gains, are directly taken to reserves.

**Vinod Jain:** Okay. And my second question is, how do you see the Stage 3 loans number evolving going forward?

**Hitesh Dhaddha:** So as we explained, the real-estate market is sort of doing well. To an extent, it is also to do with regulatory developments that have happened on the real-estate side. So the expectation is that it [Stage-3 loans] should not kind of go anywhere majorly higher from what levels we are at. Having said that, we continue to monitor all our loans well. And yes, there is a big comfort in the overall real-estate market, where we have 70-80% of our loan book right now has picked up really well. So that's kind of a big comfort.

And then our ability to kind of reduce our exposures, as Mr. Jijina talked about Lodha, Omkar and some of the other exposures, that also shows the kind of diligence or the kind of transactions that we have done, where we are able to kind of reduce when we are looking forward for. So I think combining all this, with the good real-estate pickup, we don't expect any major change in NPAs coming going forward.

**Moderator:** Thank you. The next question is from the line of Alankar Garude from Macquarie. Please go ahead.

**Alankar Garude:** Sir, firstly on Pharma, the margins have scaled up really well over the last decade to almost 22% currently. But then CDMO is more than 60% of our pharma sales. And some of our Indian CDMO peers operate at more than 40% margins. So just wanted to understand, is there a scope to scale up our pharma margin significantly from current levels? And if yes, what would be the key drivers?

**Vivek Valsaraj:** Yes, I will take that. So as you are aware, our overall Pharma business is a global one, and it's got a combination of different kinds of businesses within it, which is CDMO, Complex Hospital Generics and OTC, each of them operating at different margin percentages. So if you were to compare specific segments of our profitability of the businesses that we are in, they would be comparable with what it is with the peers. It's just that the composite one doesn't look comparable.

But to answer your question in terms of margin expansion going forward, as we have already alluded to, that there is significant expansion of capacity which is happening at all our key niche segments in North America. So whether it's at our facility in Lexington or whether it's a facility in Riverview or in Grangemouth, we are seeing a lot of capacity expansion that's been happening. And this will drive margins because these operate in niche segments. So it will be a combination

of several initiatives. One, as I mentioned, in terms of expansion of capacity; and second, in terms of better utilization of our assets. Wherever we have capacities at this point in time, we will see an upward increase in the margins going forward.

**Alankar Garude:** Fair enough, sir. And my second question is linked to what you said on the Capex part. So in the PPT it's mentioned that we would be keen on acquiring niche manufacturing capabilities. Now considering the sharp increase in the new bill CMO, CDMO valuations over the past one year, what would be the broad ticket size we would be comfortable with?

**Nandini Piramal:** I think it actually has to make strategic sense for us. I think with Carlyle, we actually have the ability to do leverage and to do acquisitions. So I think we are very comfortable with leveraging up the pharma EBITDA, and we will look at acquisitions across.

**Moderator:** Thank you. The next question is from the line of Prasheel Shah from Cap Grow Capital. Please go ahead.

**Prasheel Shah:** All of my questions have been answered. Thank you.

**Moderator:** Thank you. The next question is from the line of Aditya Jain from Citigroup. Please go ahead.

**Aditya Jain:** I have a few data-point questions. Could you tell us the breakup of individual loan segments within wholesale loans? And also the size of the alternate AUM, if it's possible?

**Hitesh Dhaddha:** Yes. Aditya, some of these breakups we can discuss with you separately. We will have to pull out and give you the numbers.

**Aditya Jain:** All right. Okay. In pharma, the growth in CDMO and Consumer Products, it's a little bit slower than what we saw in 2Q. Are there any temporary factors at play or what is driving that?

**Vivek Valsaraj:** So the Pharma business does tend to be a bit lumpy, especially the CDMO business in terms of how the deliveries are scheduled across the year. So while Q2 was higher, Q3 was slightly lower, but you might see a different thing in Q4, where, again, there will be a higher quantum of deliveries. So it's just the lumpiness of how CDMO contracts are. And as far as the Consumer Products is concerned, we did see a significant uptake of our COVID range during the July to September period, where there was a lot of sale happening of sanitizers and surface disinfectants. That is slightly tapered off now in the October to December period, that's why you see a slight dip.

**Ajay Piramal:** Also, the first few months COVID was affected, because of that the sales were lower, the first two months of the year.

- Aditya Jain:** Got it. Okay. On the growth, so other than the DHFL acquisition, the book has been contracting on both fronts, retail and wholesale. Is there a view, on an organic basis, when we can return to growth? Or does that link to the cost of borrowing coming down or do you independently have a target for it?
- Ajay Piramal:** So as far as the wholesale book is concerned, we have said this while ago, we do not expect any growth in that. The retail book is going to grow organically because we are actually changing the product mix from an affluent-housing loan to a mass-housing loan and for affordable-housing. So you need to look at it segment-wise. And I think with DHFL, you will see that there will be significant growth in organic as well.
- Moderator:** Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities Limited. Please go ahead.
- Nischint Chawathe:** So just a small data question. What is the outstanding retail loan book?
- Hitesh Dhaddha:** So Nischint, we have disclosed wholesale number, and there is a total loan book also that has been disclosed. It is Rs. 5,300 crores.
- Nischint Chawathe:** Sure. And this Rs. 46,370 crores, this does not include the AIFs, right? I just wanted to double check.
- Hitesh Dhaddha:** Yes, it doesn't include.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraint, we will take that as a last question. I now hand the conference over to Mr. Hitesh Dhaddha for closing comments.
- Hitesh Dhaddha:** Thanks, everyone, for joining on the call. And if you have more questions, feel free to reach out to us, we will be happy to respond to you. Thank you.