Piramal

15th November, 2022

BSE Limited
P.J. Towers, Dalal Street, Fort,
Mumbai- 400 001
BSE scrip code: 500302

National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex,
Bandra (East), Mumbai – 400 051
NSE symbol: PEL

Sub: SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 ('Listing Regulations') - Transcript of Conference Call with Investors/Analysts

Dear Sir / Madam,

In continuation of our letter dated 3rd November, 2022 and pursuant to Regulation 30(6) of the Listing Regulations, please find enclosed the transcript of the Conference Call held on 9th November, 2022 to discuss the Q2 & H1 FY2023 Results of the Company.

The transcript of the said conference call is also hosted on the website of the Company at https://www.piramal.com/investor/piramal-enterprises-limited/financial-reports/investor-calls/

Kindly take the above on record.

Thanking you,

Yours truly,
For **Piramal Enterprises Limited**

BIPIN SINGH
Digitally signed by BIPIN SINGH
Date: 2022.11.15 18:08:40 +05'30'

Bipin Singh
Company Secretary

Encl.: a/a

"Piramal Enterprises Limited Q2 FY'23 Earnings Conference Call"

November 9, 2022

MANAGEMENT: **MR. AJAY PIRAMAL – CHAIRMAN, PIRAMAL ENTERPRISES LIMITED.**
MR. RUPEN JHAVERI – GROUP PRESIDENT, PIRAMAL ENTERPRISES LIMITED.
MR. JAIRAM SRIDHARAN – MD, PIRAMAL CAPITAL & HOUSING FINANCE LIMITED, PIRAMAL ENTERPRISES LIMITED.
MR. YESH NADKARNI – CEO OF WHOLESALE LENDING, PIRAMAL ENTERPRISES LIMITED.
MS. UPMA GOEL – CFO, PIRAMAL ENTERPRISES LIMITED.
MR. HITESH DHADDHA – CHIEF INVESTOR RELATIONS OFFICER, PIRAMAL ENTERPRISES LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Piramal Enterprises Limited Q2 FY'23 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Hitesh Dhaddha – Chief Investor Relations Officer from Piramal Enterprises Limited. Thank you and over to you, Sir!

Hitesh Dhaddha: Hi, good evening everyone. Hope you are safe and in the best of your health. I am pleased to welcome you all to our Q2 and H1 FY2023 Earnings Conference Call. Our results materials have been uploaded on our website and you may like to download and refer them during our discussion.

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 with us, we have our Chairman - Mr. Ajay Piramal; Mr. Rupen Jhaveri - Group President, Piramal Enterprises; Mr. Jairam Sridharan – MD, Piramal Capital & Housing Finance; Mr. Yesh Nadkarni – CEO of Wholesale Lending; and Ms. Upma Goel – CFO of our Company.

With that I would like to hand it over to our Chairman, and I would request him to share his initial thoughts.

Ajay Piramal: Good evening, I hope that all of you have had a safe, healthy and joyous Diwali. I am pleased to announce that we have completed the demerger of Piramal Pharma, well within the guided timelines, creating two separate sector focused listed entities of the Piramal Group into Financial Services and Pharma sector.

This is the first quarter wherein we are reporting the results of Piramal Enterprises Limited as a listed RBI regulated NBFC. And our discussions going forward, will be focused only on the Financial Services business. Also, now PEL being a sector focused entity we have also significantly enhanced disclosures on the business over the last few quarters.

Quarter Performance

Despite the reduction in the wholesale AUM by 13% to Rs. 38,908 crore, our total AUM has grown 35% from prior year due to the DHFL merger, and it is now Rs. 63,780 crores. And our revenues grew 37% on a year-on-year basis to Rs. 997 crores primarily driven by a healthy growth in the Retail Lending business. Retail loans are now 43% of the overall loan book as compared with 12% pre-merger.

Given that this was the first quarter post demerger Rs. 5,888 crores worth of assets were moved from Stage-1 to Stage-2, largely completing the asset recognition cycle. We believe that we are now largely well provided for Stage-2 and Stage-3 assets. An additional provision was created of Rs. 2,255 crores and a fair value loss was taken of Rs. 1,076 crores on our wholesale book during the quarter.

Our total provisions as a percentage of wholesale AUM increased to 13.1% from 8.8% last quarter. Hence, there was a net loss of Rs. 1,536 crores during the quarter as compared with Rs. 395 crore of recomputed net profit for the 2nd Quarter of FY'22 for the demerged financial services entity.

We continue to have a strong balance sheet with a Capital Adequacy Ratio of 23% & Net Debt to Equity ratio of 2 times for the lending business. Despite creating the additional provisions over the last few quarters, our company has an equity base of Rs. 27,472 crores in Q2 FY'23. In addition, there are significant pockets of value embedded in our balance sheet, where we expect value unlocking to take place in the coming few quarters.

Retail Business

This is a milestone quarter for us, as we successfully completed one year of our DHFL integration journey. Over the last one year, our loan book has grown and with diversification. The retail loan book has grown over four and a half times from the premerger level to Rs. 24,872 crores. With retail now already at 43% of the overall loan book we are now much closer to our stated target having 50% of our total loan book as retail in the near term. We are building a diversified and granular retail portfolio at an average ticket size of nearly 12 lakhs with a large part of the book comprising of secured lending products.

Our disbursement growth during this quarter has been impressive. Quarterly disbursements grew across all the product categories by eight times year-on-year and 62% quarter-on-quarter to reach Rs. 3,973 crores. We are already much ahead of our earlier stated guidance of Rs. 2,500 crores to Rs. 3,000 crores by the 3rd Quarter of FY'23.

Over the last two quarters as our disbursements grew higher than the run offs, it has resulted in a growth trajectory for retail AUM, where we ended this quarter at a 12% AUM growth.

This performance has been driven by various endeavors we took in the last few quarters:

I) Addition of new branches

II) Adding multiple new products to diversify our retail portfolio

III) Activation of branches to sell multiple products.

IV) Growth in the customer base through the Digital Lending business enabling in cross sell opportunities.

In the one year since the DHFL acquisition, we have opened 64 new branches and shut down 22 branches resulting in our branch network growing to 343 branches now. We are now present PAN India across 293 cities and towns in 27 states of India. We aim to be present at 1,000 locations through 500 to 600 branches over the next five years.

We have also launched multiple new products now offering 11 retail products. During the last few months, we entered into microfinance via the business correspondent model. During the quarter we also launched branch led personal loans to salaried individuals in Tier-2 and Tier-3 towns.

Apart from launching new products, we have also been focused on making our branches activated with multiple products. Nearly 82% of our branches are now selling products beyond just the Home Loans. Hence, not only Housing and Secured MSME loans disbursements grew 5x in the last 12 months. But also, the disbursements under the Non-Mortgage Loan categories have seen much higher traction, though from a low base to Rs. 1,677 during the quarter. Non-Mortgage Loans had a 42% share in our overall retail disbursements.

As of 30th September, we have 20 live partnerships with FinTech, OEMs and aggregators under our digital embedded finance business. Our digital offerings have enabled us to significantly expand our customer franchise to 2.2 million, giving us substantial cross-sell opportunity. We achieved cross sell disbursement of Rs. 945 crores over the last year. The asset quality of the acquired DHFL book remains in line with our expectations. We continue to make recoveries from the POCI book.

We continue to invest to strengthen technology and analytics to further enable us to build, scale and maintain a healthy asset quality in our retail businesses.

<u>Wholesale Business</u>

Focus on recoveries and monetization of Stage-2 and Stage-3 loans. While the Stage-3 assets remained stable, Rs. 5,888 crores worth of assets moved from Stage-1 to Stage-2, largely completing the asset recognition cycle. We have been working towards making our wholesale book more granular, progressing on the same exposure to the Top 10 accounts reduced 33% since March 19th by Rs. 6,050 crores. And no account exceeds 10% of net worth as of September 2022.

Our wholesale AUM has further reduced by 13% in the last one year to Rs. 38,908 crores. We will be increasing our focus on recoveries, monetization of the Stage-2 and Stage-3 loans, which will further moderate the wholesale book size in the short term. In addition, we will continue to remain vigilant across our portfolio and have well provided for Stage-2 and Stage-3 assets. I would like to comment on the quality and granularity of our Stage-1 assets.

Post these movements are loans on Stage-1 to Stage-2, our Stage-1 loan book is much more granular as the average ticket size of the Stage-1 wholesale book is lower at Rs. 187 crores per loan. Over 90% of the Stage-1 wholesale book is into asset backed SPV OPCO loans in real estate.

Our Stage-1 book largely excludes Promoter HoldCo**.** Corporate Lending Transactions. Over 78% of the Stage-1 real estate book is with large and medium developers. And over 60% of the Stage-1 real estate book has limited on low completion risks.

We believe that this is an opportune time to build the real estate book. While efforts are being made towards largely completing the recognition cycle on the existing wholesale book, we are also investing to build a granular cash flow and asset backed real estate and mid corporate lending business, that will give loans to well capitalized promoters. We will build this book in a calibrated manner while capitalizing on this market cap. We are cognizant of the trends in the real estate industry that are now favorable to grow this business.

Real estate lending is a large market of Rs. 4.5 lakh crores, with supply of credit significantly lower than the demand, offering significant growth potential for select players like us that have continued to remain strong, even after a prolonged crisis environment.

From a cyclical perspective, we believe it's a good time to build up the real estate book as the developer consolidation has resulted in a better-quality ecosystem, which is now a lot more capitalized.

A few major NBFCs/HFCs have vacated the space. We are also witnessing the beginning of a growth cycle as affordability is at an all-time high, and inventory levels are bottoming out. Leveraging our retail setup, we will also be selectively entering into Tier-2 and Tier-3 markets, which are relatively under penetrated.

Within the corporate mid-market lending book, we have already built a book of say Rs. 804 crore with an average ticket size of Rs. 50 crores.

On the liability management, our ALM is well matched with positive gaps in all buckets. Due to our strong balance sheet and healthy liability mix our average cost of borrowings stood at 8.8% for the quarter. With 78% of our liabilities being fixed in nature, we continue to maintain our cost of borrowings despite a rising interest rate environment.

In Summary

To conclude the demerger which is a long-awaited event by the Investor and Analyst Community has concluded successfully, creating two sector focused entities, giving an Investors an opportunity to choose the entity, they would like to invest in. The DHFL acquisition turned out to have delivered better than expected results in the last one year.

The retail business is continuing to deliver on its growth path, already taking the loan book mix much closer to retail 50%, 50% wholesale now.

The wholesale business has also largely completed the asset recognition cycle now, and is also well provided for it Stage-2 and Stage-3 loans. A healthy mix of liabilities is helping us gradually bring down our cost of borrowings over the last few quarters despite the adverse rate environment. And our balance sheets remain strong with a capital adequacy ratio of 23%.

With this, we continue to remain committed to our FY2027 aspirations, doubling the AUM from FY2022 levels with strong growth in retail disbursement, keeping the net debt to equity 3.5 to 4.5 times. In this process making the loan book more retail oriented, with a loan mix of two-thirds retail and one-third wholesale. We will continue to work towards creating long-term value for our shareholders.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: The first one was on the wholesale assets. So, I mean, the way I look at it, we have moved around Rs. 5,900 crores of assets from Stage-1 to Stage-2. So, two things that I wanted to understand here. One is I mean, we are still saying that this will largely complete the asset recognition cycle. So, the emphasis is still on largely completing and it is still not completed, is what I am able to understand. So, I mean, how should we view that, that's the first question.

The other thing is, I mean, while we say that we are very well provided for Stage-2 and Stage-3, will it be fair to say that given that we have now moved this Rs. 5,900 crore of assets from Stage-1 to Stage-2, the idea will be to monetize these assets which are now in Stage-2, rather than over the course of time moving them to Stage-3 which will again warrant higher provisioning in Stage-3.

And the third question again on the wholesale assets is, we talked about taking prudential write-off of about Rs. 360 crores during the quarter. So, what were these write-offs about and if you could also give some color on this Rs. 5,900 crores that you have moved from Stage-1 to Stage-2, what was the nature of these wholesale assets? Were they in real estate or non-real estate and whatever basically whatever color you can provide?

And the last question is in your P&L, you have talked about a net loss on fair value changes, which is included in this Rs. 3,300 crores of provisions or credit costs that you have reported. What are these net loss on fair value changes?

Jairam Sridharan: The first question and the most important question, I think that the use of the phrase largely completed on the asset recognition cycle, I think you are worrying about the word 'largely.' The way I frame it is, our emphasis is on the word 'completed' not on the word 'largely'. We are in an uncertain business so, there might be some new thing that might come up in the next quarter that we are completely unaware of right now. But, as far as we are concerned, this was our first quarter as a Financial Services company entirely, it was our effort to go into the market with as clear an articulation as possible of what the overall level of stress is, in the book. I know that there has been a lot of conversation and speculation about what could be potential levels of stress, our intent was that in this first quarter, we should be very clear about what that is. We did a full-fledged analysis internally and what you see is a reflection of that, unless something kind of dramatically changes, we believe that that we are done from the perspective of recognition of pockets of strength. So, please, focus on the word 'completed' like the word 'largely' is just to keep some completely unforeseen events in mind.

And so that's as far as the first one is concerned, you had a question on fair value loss and what fair value loss is? Fair value loss is essentially, again, the same intent of saying that in this our first quarter as an FS company, we got to make sure that the FS sort of balance sheet reflects all kind of potential problem areas. So, when we looked at the investment book, and we looked at and the assets and to try to see what is the best sort of mark-to-market adjustments that we might need to make that is what is reflected as fair value loss. We are clubbing it with the provisions item and giving you the full number of Rs. 3,300 crores, roughly Rs. 1,000 crores is in that fair value adjustment piece and about Rs. 2,300 crores is in the provisions pool.

Rs. 360 crores of prudential write-offs was done during the quarter. Prudential write-off is essentially those accounts where we had made 100% provisions and we want from the perspective of Stage-3, managing the Stage-3 books and ensuring that it reflects the right accounts there. We have gone ahead and actually, prudentially written off those accounts. As you can see, even after that prudential write-off, our provision coverage ratio in Stage-3 is well north of 60% at an overall level, and at about 74% to 75% at the wholesale level. So, we are fairly well provided even after the prudential write off of about Rs. 360 crores that we did during the quarter.

You had a question on what was the nature of assets that were that moved from Stage-1 to Stage-1 to Stage-2, they were largely real estate assets. You know, there are 18 assets in all which comprise this group that you see here.

Yesh Nadkarni: Just wanted to add a couple of points to what Jairam said. This is Yesh, you know. I think the movement of assets from Stage-1 to Stage-2 is driven purely by our desire to change our stance to get more proactive, with regard to the management of these assets. Therefore, to say that these are not necessarily those assets which are not performing and so I just want to make sure that that's clear to everyone.

The common theme that we have seen in these assets as we manage our portfolio is that these are some of the larger and lumpy assets on our book. And where we have seen some sort of stress at the group level mostly and in some cases at the underlying assets, we have seen performance-related delays, and so on and so forth. So, this really is our overall strategy of being proactive about categorizing them as such on Stage-2 for book, and systematically resolving them as we go from here. So, that's the background I wanted to add.

That actually leaves the Stage-1 part of our book, which is roughly Rs. 27,000 crore in size, so I think I just wanted to outline a few points as it relates to the belief we have and which is, this is a very high-quality book, which is a performing book, and which is why it is Stage-1. And in a way of sort of bringing the assets that I just referred to earlier to Stage-2, is again, clearly demarcated between the two buckets that we have on our balance sheet.

So, Stage-1 assets really are 130 plus odd loans. This is really a granular, super granular part of our wholesale portfolio, where the average size for loan is in the range of Rs. 190 odd crore, as Chairman alluded to earlier. These assets are well secured in terms of the underlying loan structure and security structures. These are senior secured, if pivoting self-asset mostly where the assets and cash flows are mortgage to us. This book is very well seasoned. A significant part of this book doesn't have construction development risk, which is a key differentiator in risk as it relates to real estate assets.

And these projects lastly are backed by established developers and sort of well managed balance sheets around our counterparties. So, I just want to take the opportunity of summarizing our Stage-1 asset as well, Stage-1 portfolio as well, while we describe Stage-2 in answering your question.

Abhijit Tibrewal: Just one small follow up here, would then it would be fair to say that given that you have moved this Rs. 5,900 crores of assets from Stage-1 to Stage-2, you would have done that because like we explained, you are seeing some pockets of stress, either at the group level or somewhere else. And then going forward, you would make some endeavor to maybe monetize this exposure.

And lastly, for Jairam, during our opening remarks Mr. Chairman, also kind of alluded to some hidden pockets of value. So, this DTA and DTL we still have on our balance sheet, which we created at the time of the DHFL acquisition, I mean, have your conversations with tax experts or tax authorities progressed in terms of whether you will be able to utilize it going ahead?

Yesh Nadkarni: So, managing these assets, categorizing these assets as Stage-2 doesn't make any difference to us whatsoever, as far as management of these assets is concerned. I think I will just remind that these are self-liquidating amortizing loans. And therefore, the monetization of these assets actually happen as we go and that will not change at all. In certain cases, we will be more focused on monetizing by way of considering various alternatives, like recapitalization of the underlying SPVs, or refinancing our exposures or any other means that we may consider appropriate in resolving it. But there is no differentiation whatsoever between Stage-1, Stage-2, Stage-3, other than seeing the fact that Stage-2, we would have even more focus --

Jairam Sridharan: The one thing that I would add to that Abhijit is that the moment you move something to Stage-2, in some sense do that, because it increases your ability to make provisions on those accounts. And once you have made a certain higher level of provision on that account, it increases your degrees of freedom in terms of potential ways in which you could resolve the account. So, things like refinancing the account with somebody else becomes a lot more feasible, once you have moved it to Stage-2, once you have made a certain amount of provision on it, and hence you have some room for negotiation with any potential buyers, right. So, it does increase degrees of freedom a little bit. So, but as operationally as Yesh was mentioning, on the ground, people will keep trying all sorts of tricks to try and work the account as appropriate.

Your second question on pockets of value, the pockets of value, you heard Chairman talking about it that we expect value unlocking to take place in the coming few quarters. We remain fairly confident of that. Our confidence on some of those pockets of value as if anything increased in recent months. So, you know of two or three of this, like that are there, we continue to of course have the retail POCI book from where we continue to get collections and recoveries. We continue to have the investments in our book of Sriram etc. where the corporate action is proceeding and is likely to close, imminently. And the moment that happens, there is a lot more liquidity that gets introduced into our holdings and potential MTM gains that that come through.

And the tax related elements that you mentioned both on the asset side and on the liability side, both of them we have made good progress, in our conversations, meaningful part on the liability side, the contingent liabilities that we have got set up is a meaningful part of that is already time barred. So, we know that there are stronger reasons that are accumulating overtime. So, overall, I would say that our level of confidence is fairly high.

Moderator: Thank you. Next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: So, maybe with respect to this forward flow, what actually triggered that okay, in terms of the development in last one quarter, and maybe also providing the indication in terms of maybe these are the assets wherein, obviously, to improve the resolution and the freedom of that, but these are like equivalent to almost when we look at it, say more than 10%, 12% of the portfolio assets. So, is it a pure management thing that triggered it or there were any other progresses with respect to this project that triggered this recognition?

Jairam Sridharan: So, Kunal as you know, in IndAS Stage-2, while there are a lot of rules that you can set up about how accounts can move to Stage-2, but there is a level of discretion, which you can apply in actually determining significant increase in credit risk of accounts. As we mentioned before, this is our first quarter as a Financial Services company. It is our desire to make sure that the Financial Services balance sheet is as transparent and clear as possible. So, given this very significant milestone in the life stage of our company, it was our desire to actually look into the portfolio in some detail and identify accounts where if not at the account level, but maybe at the parental level, there is some stresses sort of building up and make sure that the balance sheet is appropriately bullet proofed towards that. We have more than adequate level of equity. So, the provisions are, we have the ability to actually take, what steps are necessary right now, but the transparency and clarity and balance sheet was really important.

As Yesh mentioned before, the Rs. 5,900 odd crores, comes from roughly 18 accounts. So, that tells you the size on average of the accounts that have actually moved, they are fairly substantially sized accounts. And that has certainly been a risk factor that has come through. And, as we mentioned in the previous question, most of these are in the real estate sector, there are three broad categories of issues that have been used by Yesh and team to identify, I will invite Yesh to speak about that about what we have used to classify accounts as Stage-2.

I will reiterate that application of judgment in determining pockets of stress is what you are seeing reflected here. This is not 18 accounts that suddenly stopped paying in Q2, that's not what you are seeing here.

Yesh Nadkarni: Look, I think that the core of all of this is our intent to get granular and derisk and also in line with our stated strategy of having two-thirds, one-third mix between retail and wholesale. So, these accounts really are lumpy accounts. And as I mentioned earlier, I think our objective was to really focus on regulation of these accounts, not because they are not performing in a strictest sense of the word, but because these are large risks on our balance sheet, and with the passage of time, we just want to granularize our portfolio. But that's what we focused on.

I think as we reviewed our portfolio, we also have identified some of these assets where at our group level issues, and therefore actually superior resolution and focus on sort of monetizing these assets is what we want to really drive in the following quarters.

Rupen Jhaveri: There is one addition to what's been said there are also some subset of these accounts without getting into the specifics, which are nearing specific resolutions and closures, and hence that required certain type of provisions as well.

Kunal Shah: If you look further, get granular in terms of this portfolio of Rs. 5,800 crores, have we done any ranking in terms of which stage of resolution and what -- so, maybe if we want to just highlight it into maybe something which is in the red zone something, which would be in the green zone. So, you mentioned some subset is there, which is nearing the resolution, but there will be few accounts, wherein it would be really difficult and there could be further forward flows into Stage-3 as well. So, any maybe qualitative comments on this entire portfolio?

Jairam Sridharan: Let me say one thing, just re-summarize the Rs. 5,900 odd crores. There are three buckets of issues that are there, bucket one is essentially the issues at one level up, the parent entities of these companies where the group essentially is in some sort of financial distress, while the particular specific project might not be, but the parent is going through some trouble, or the builder concerned has been kind of put behind bars. We know some of the examples in sort of, one major southern city, for example, etc. So, that's one category of issues.

The second category of issues is where we believe a resolution is possible, either through sale or through some sort of other resolution mechanism. But that will come with a little bit of a haircut. And moving to Stage-2 allows us to make that provision which enables you to do that that's the second category.

And the third category is where genuinely there have been some amount of movement of the market against the borrower, though they have not really kind of defaulted on payments yet, but their cash flow seem weak. Those are kind of the broad three categories.

We aren’t breaking down to Rs. 5,900 crores into these three categories. But yes, to the bigger question that you are trying to ask, of the Stage-2 what do you expect to happen in terms of movement to Stage-3? That's the meta question that I hear you asking. The way I would frame this is, while one should expect some flow from Stage-2 to Stage-3, you are not going to see any imminent big surge, and b) you are not going to see a big amount of provision requirements, if the account moves from Stage-2 to Stage-3 because even with the account in Stage-2 we have made fairly significant provisions aligned with what we think many of these accounts can in any sort of reasonable view of the world, incur as LGDs.

Yesh Nadkarni: I just add one point to what you have summarized Jairam and which is, I think it's also important to remember that these are real estate loans where your underlying collateral is senior secured mortgage on the land and the project, right. So, it's not that we are seeing cases where the outcome is kind of binary whether you get 0 or a 100. And that's where I think the point that you are making about us having thoughtfully put this in categories and set aside the provision that we have, puts us in a position when we actually really go after the best possible strategy for resolving this as we go.

Kunal Shah: When we look at the provisions of almost 13% odd, and as you mentioned, these are collateralized at some places, that’s been here security as well. So, what is the kind of stress okay? It’s almost like more than 25% of the wholesale which is really under stress. And when we are making this provisioning, all through over last four to six odd quarters, the numbers which have been there in Stage-2 and Stage-3 have been much lower. So, is it like deferred recognition which has happened on the entire wholesale book, because situation has only improved in the last six, nine months, as you are saying, like maybe when you are confident of growing the portfolio again on the real estate side, saying that affordability is improving, inventory levels are improving. But still, the recognition has not been there and provisioning is just inching up.

Jairam Sridharan: So, Kunal I will reiterate what we said before, on this specific point of deferred recognition, I don't think this is a deferred thing. This is if you look purely at repayment behavior, these accounts wouldn't end up in Stage-2. Our intent, this being our sort of first quarter as an FS company was to actually increase transparency and believability on the portfolio. And we have significantly tightened the norms in terms of moving to Stage-2. So, if anything it's the opposite, which is that you pull forward potential events, which can happen in the future, and make sure that you have recognized all of them upfront. If we continue to have, if we had continued to have the same policies based on pure repayment behavior of these accounts, you would have seen a very different picture during the quarter.

Rupen Jhaveri: And to be specific, we put this note also in an account, there were some changes in credit policies, which has been recommended and approved at the Risk, Audit and Board, which is now driving fairly model based outputs in addition to specific subjective inputs that we need to have for extremely stressed accounts in Stage-3, etc.

Moderator: Thank you. The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: You said there is some kind of, you said there are some accounts in the Stage-2 that were closer to resolution, some which is take a long time. If we look six months down the line, let's say by March 2023, would you expect a big chunk of these accounts to get resolved? Or is it some kind of timeline you can put forward to how the process will flow from here on?

Rupen Jhaveri: At this time, we will prefer not to, I think we can tell you that all efforts are on it. There are various teams working on each account. And all efforts are being made. Yesh already mentioned the segregation between recognition versus what the business and the management teams need to do in terms of ensuring payments, recoveries etc.

The other point also that was mentioned, which I will reiterate that in some cases it's not like the payments have stopped is recognition today of some potential stress, X months, X quarters down the line based on cash flow mismatches that we see versus what the builder may see. So, allow us some time, at the right time, we will be able to share more information as time goes by.

Jairam Sridharan: The other piece is also reiterate is what Chairman had mentioned in his opening comments, which is that, with this and the other efforts that are going on our intent is for us to consolidate and reduce the size of the wholesale book overall over the next few quarters. So, between now and March, certainly the overall books will reduce and yes, you should expect some of the reduction to come from Stage-2, a little bit from Stage-1 as well and so on, but you will see the reduction in the overall book in the next few quarters.

Moderator: Thank you. The next question is from the line of Sanket from B&K. Please go ahead.

Sanket: So, again from wholesale book only but basis your answers to the previous questions, it is right to assume that what you are suggesting is rather than looking towards how much stress or the extent of stress in the Rs. 6,000 crore addition in the Stage-2, rather, the way to look at is these are the set of assets which you want to monetize. And rather than keeping it lingering for say many quarters you have taken the hit in one quarter in terms of recognition and providing it.

Jairam Sridharan: I think that's a good way to frame it. If you just look at our overall numbers, you can see what the total amount is between Stage-2 and Stage-3, right. And you can see the amount of provisions that we have made on that. So, on essentially Rs. 11,000 crore portfolio in wholesale that is sitting in Stage-2 and Stage-3, we have got about Rs. 4,400 crores of provision. So, 40% is, we have covered on that Stage-2 and Stage-3 book. So, that gives you a lot of room to achieve whatever kind of resolution you want to achieve within that portfolio.

Sanket: So, out of this Rs. 9,000 crores, particularly in Stage-2, is it that the entire pool, you look to monetize, or maybe there is a potion which you feel will get regularize on its own.

Jairam Sridharan: I will just reply fairly quickly. See these things, these flows, forward and backward will happen account-by-account, it's very hard to be precise right now. However, we know that on the full pool level, we have got a lot of provisions, we got one-third provision sitting in Stage-2; 75% provisions sitting in Stage-3. So, we know that our degrees of freedom in terms of what we can do as management action is significant with this level of provision already in there.

Yesh Nadkarni: I will add another point here, I mean given the fact that we are stating now that we will shrink our wholesale footprint for the next few quarters to come. The bucket where we would want to focus on the shrinkage is Stage-2, clearly, that also directionally answer your question.

Rupen Jhaveri: Just to give you one data point, and since this question was asked, while we won't go into more detail. But in Stage-2, for example, we do have one transaction, sitting in early November, that just got repaid. That's about Rs. 150 crores. So, just giving you an example, so there will be some movements up and down Jairam just alluded to it. So, sometime over the next one, two quarters where there will be a lot more clarity and you will see that in our numbers.

Sanket: One last question on wholesale. And then I have another question, in general. So, one of the last participant's question you mentioned that maybe going ahead, Stage-2 will come down and also Stage-1 may come down, so are there any assets in Stage-1 also, that you look to monetize now in the coming quarter?

Yesh Nadkarni: Not as a matter of deliberate strategy, but I will remind again, that in our business these loans are self-amortizing loans, where these are all cash free, and these actually reduce with the passage of time, which basically means that if you are not adding new loans to that category, with the passage of time, you will see the reduction. And that natural rate of attrition, I would imagine, would pan out for Stage-1 as well, but not at our end.

Rupen Jhaveri: The only other element I would add is, in some cases, you will also see because these are good projects there could be refinancing pressure from competing financing sources for the real estate builder. So, there could be some prepayments, but it's hard to gauge that behavior today.

Sanket: Just one suggestion, we have provided one very good slide on which is giving a flavor on Stage-1 asset in the wholesale book, it would be really helpful if we can provide some qualitative details if not absolute names, on the Stage-2 asset as well.

So, another question is on, so we lot of excess equity, which is a drive on our ROEs. And also, maybe we are looking to monetize the investments that we have done in Shriram Group. Once that happens, maybe some inorganic acquisition look more probable for us. Are there any assets in evaluation, qualitative comment which segments would be useful on that front?

Rupen Jhaveri: So, I will take that, yes, we do recognize that there is excess equity-potential monetizable cash in the near future. If you just look at the history of this group for the last many decades, it is a group that apart from strong organic growth, it has managed multiple inorganic acquisitions, and the latest and the last one being DHFL, as you very well know. We time to time, we will absolutely look at inorganic, we do think the Financial Services market is highly under penetrated in the segments that we are in, including newer segments that we may enter in. So, we are actively engaged in pretty much multiple M&A dialogues, nothing specific to discuss at this stage.

Moderator: Thank you. The next question is from the line of Bhaskar Basu from Jefferies. Please go ahead.

Bhaskar Basu: Yes. Good evening, just a couple of questions. Firstly, I just wanted to get a was there any POCI gains, which was netted off against provision, in this quarter of Rs. 334 crores? And how much was that?

Jairam Sridharan: A little over a Rs. 100 crores.

Bhaskar Basu: So, the number is a net number, right.

Jairam Sridharan: Yes, it's a net number, correct.

Bhaskar Basu: And could you give some details around the fair valuation of investments, what was it regarding exactly, I may have missed it, so some color would be helpful?

Rupen Jhaveri: Yes look, I think you should treat the fair value losses/provisions effectively is part of our AUM. So, there are certain instruments which are effectively loans, but they are categorized more as fair value instruments given how these, from an accounting standpoint, how they work. So, if they have variable rate attached to it. There were some loans that may have been enforced and we own assets/investments. So, it's a combination of two but from your vantage point, and hence that's the way we have shown in the IR deck together, effectively it's the AUM hit on the P&L that has been taken.

Bhaskar Basu: So, just to be clear, this also pertains to the loan book itself, right, because you classify some part of the loan book as investments.

Rupen Jhaveri: This is pertaining to the same book, and I think you should treat them similar to the provision broadly.

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

Nischint Chawathe: I was looking at Page #43 of the presentation you have investments of Rs. 20,000 crores odd, could you give some break up in terms of these investments, how much of this is PTC pass through certificates?

Rupen Jhaveri: PTC, very little, Rs. 255 crores as of September.

Nischint Chawathe: And this is the current value, right?

Jairam Sridharan: Yes, post markdown value if there are any markdown, everything is reflected here.

Nischint Chawathe: And the rest of it would be worth around Rs. 19,500 odd crores or whatever, actually Rs. 20,000 crores would be what?

Rupen Jhaveri: So, if you go to Page #44, I am sure you have access, so here we have just shown you the equity, I will read it for you. So, broadly speaking, we do have non-FS lending equity also against which there are assets, right. So, Sriram, Insurance, alternatives so that's a large part. And then, as we mentioned earlier, the AUM that we talk about is a combination of loans/investments, which are investments pertaining to the lending book itself. It's just the categorization of those loans are in investments. So, if you knock out these about Rs. 7,500 to Rs. 8,000 crores the rest you should really add it to a AUM. So, when you add our AUM of Rs. 63,000 crores and you add cash you will broadly tally to the number on Page #43.

Nischint Chawathe: On the networth side just to clarify Sriram is going to mark-to-market basis, right?

Hitesh Dhaddha: Sriram City Union is in mark-to-market, in terms of Capital because it is still not listed so it's not mark-to-market.

Nischint Chawathe: So, there may still be some whatever juice left out?

Rupen Jhaveri: Yes, so as Jairam mentioned earlier in the call that there is a corporate action that has been sanctioned at Sriram and in the next few days, weeks, we expect Sriram Finance to be listed and the rest of the companies to be demerged from Sriram Capital, so yes, all as equal and markets holding up with the values that they are. There will be some mark-to-market that one should expect. The exact number will be crystallized as of December 31st, mark-to-market gain just to be clear.

Nischint Chawathe: A lot has been discussed, I guess on the Stage-1 and Stage-2 loans on the wholesale side, but just one last point is that, is there a yield differential between Stage-1 and Stage-2, I mean, just to broadly understand the return and risk profile?

Jairam Sridharan: No, nothing material, except that accounts which have shown some levels of stress, you would have interest reversals on them. So, effective yield might end up looking lower, but gross yields are not materially different between the accounts on Stage-1 and Stage-2.

Nischint Chawathe: Just one last question is what is the incremental cost of funds last quarter and this quarter?

Jairam Sridharan: As you saw the total cost of borrowing was at 8.8%, we have raised very little money, this previous quarter we raised about Rs. 1,000 at about 8.55% average.

Nischint Chawathe: Just one last one is, on Page #40, what is 'others'?

Rupen Jhaveri: This other is nothing but a categorization of the type of investors who hold the NCDs the NCDs originally of Rs. 19,000 and change during the DHFL acquisition is held by a bunch of people. We can take it offline if you would like to get more categorization, but large part of it is from that.

Hitesh Dhaddha: Yes and if you see the footnote, I think it gives some more color on this front.

Moderator: Thank you. The next question is from the line of Sandeep Jain from Baroda BNP Paribas. Please go ahead.

Sandeep Jain: Just one clarification on previous question, when you said that the fair value loss was on the same asset, you want to say it is on the wholesale book only?

Jairam Sridharan: Yes.

Sandeep Jain: So, large part of it would be the wholesale book only. So, that is the case, so was there any yield readjustment or what is the nature of that if you can explain it?

Rupen Jhaveri: No, there was no yield adjustment, these were assets suppose recorded at 100 as of last quarter that 100 became less by the loss that has been recorded. Some of these assets are not yielding anything, some of them are yielding something. So, in one case, for example, there was a bit of an interest reversal. So, we recorded that, but because it's an investment, it gets knocked off from the investment value itself, unlike a loan from a pure technical definition, which would come off interest income.

Moderator: Thank you. The next question is from line of Yesh Agarwal from JM Financial. Please go ahead.

Yesh Agarwal: I wanted to know what is the interest reversal this quarter on account of the movement to Stage-2?

Jairam Sridharan: A little over Rs. 200 crores, roughly Rs. 230 crores.

Yesh Agarwal: The movement to Stage-2 how does it impact your yields? Is this going to be a recurring phenomenon?

Jairam Sridharan: Moving to Stage-2 doesn't change the yield at all. So, unlike movement to Stage-3, where interest recognition stops and happens on a cash basis, that is not the case in Stage-2. In Stage-2 interest accrual happens. So, nothing changes as far as gross yields are concerned.

Yesh Agarwal: So, we should be back at a broadly a Rs. 700 crores pre-op number next quarter assuming all things remain constant, is that a fair assumption?

Jairam Sridharan: If all goes well, you are right.

Rupen Jhaveri: The only additional data point I would offer is as mentioned by Jairam and Yesh earlier and Chairman in the opening remarks, we are consciously bringing down the wholesale books. So, natural attrition plus any specific actions that we take will obviously bring down that book. So, to that extent, you should expect similar ratios, but adjusted for the AUM that we have.

Yesh Agarwal: And incrementally as I am seeing, I think retail quarterly run rate of Rs. 4,000 crores so fairly up at Rs. 9,000 to Rs. 10,000 crores could be done in the next two quarters. So, could we be 50:50 just by the end of this financial year and not what we have guided before?

Jairam Sridharan: It's possible, like we're not changing our guidance in this regard. But, your math works.

Yesh Agarwal: And if I were to forecast credit costs for the next two quarters, given the fact that we have already taken a substantial hit, would it be like a very minimal number, incrementally the credit cost going forward?

Jairam Sridharan: Let's see, we have tended not to guide on credit cost, till we actually achieve full stability with respect to this book. It's not something that we want to do. The fact that you mentioned are correct, that we have done a fairly substantial level of provisioning, we are pretty much done on the recognition front provisioning, we have taken fairly substantial level and as we mentioned before, between Stage-2 and Stage-3 we are 40% plus provided. So, let's just leave it at that and then we will see as the quarters come.

Yesh Agarwal: So, to put it in another way, what is the steady state retail book credit cost that you are having till now?

Jairam Sridharan: See for the kind of mix that we are talking about in retail steady state, which should be maybe two, three years from now. We are probably talking about a credit cost around 1.5% to 2%.

Moderator: Thank you. The next question is from the line of Hari Kant an Individual Investor. Please go ahead.

Hari Kant: I just want to know the share value is highly beaten down after the demerger when compared to the last few years, the real value of the enterprise. And as per my previous information what I was hearing, the real value unlocking will be happening as I was getting the, after few quarters, is it dependent on the asset movement from Stage-1 to Stage-2? If yes, what is the timeframe of this asset movement from Stage-1 to Stage-2 then to Stage-3?

And the second question I have is on the Sriram Transport monetization cash which will increase the liquidity you are saying. Is there a specific timeline and what would be in the future?

Rupen Jhaveri: I can take the Sriram point first, I didn't follow the first question, if you can kindly repeat. So, on the Sriram one, as I mentioned earlier, there will be the corporate action and hence there will be some liquid shares available for majority of the holding that we have, because we will also have some illiquid holding in non-NBFC assets. As and when the time is appropriate, we will look to monetize it. We have, anyways, mentioned earlier that it is a non-core asset. So, this is definitely not a long-term holding for us.

Jairam Sridharan: Yes, the way I would answer your question is see our job as an Executive Team is to do what we think is in the best long-term interests of the firm and continue to take steps and actions which maximizes that long-term value. I know as specific Individual Investors the short term or medium-term movements in share price does matter to a lot of our owners. However, it's beyond us to be able to influence that or manage that. You should continue to expect the Management team to steer you firm toward long-term value creation. And hopefully along the way, adjustments in multiples etc. follow.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: I have only one question, last year we have acquired a large piece of the land against our lending. So, what is the status of monetization of that piece? Where do we stand currently?

Rupen Jhaveri: So, we are actively looking at engaging with potential development partners. That land obviously, as you know, is a very large piece of land. It can be developed in pieces. There are certain critical items to take care of including a bank settlement, including one or two other CPs. So, active movement on those, unfortunately, cannot give you a specific timeline on what will happen, but we can assure you that full efforts are being put on it to start towards the path to monetization.

Bharat Sheth: Any value that, do we put?

Rupen Jhaveri: The value that we have is on the balance sheet, so outside of that, at least that's the value we believe, whether it's more or less, what we realize ultimately will be a function of what the plans on development over the next few years will be.

Moderator: Thank you. Ladies and gentleman due to time constraint we take one last question from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: We have missed all the exciting developments on the retail front because the wholesale questions. I see a real diversity of products coming about. And I don't, I mean, what is the commonality in theme in terms of all the products because some are phygital and some are very branch based and in fact, in microfinance also you have said, you have let AI. Are each of these products going to attain scale, is that the plan or is there something that will fall off and you are going to concentrate on a few products?

Jairam Sridharan: There two broad sort of connecting themes across all of these #1 Is serving what we call the budget customer of Bharat, that's the core underlying theme, which says the budget customer of Bharat, what are the various products that the customer might need. And we want to be present in all of those categories. We don't want to be sort of product specific, but segment specific. And whatever the segment needs, we are here to offer that right, that one connect theme.

#2, The second, connecting theme is that from a capability standpoint, where we believe we are differentiated versus where many other competitors are, is on tech and analytics, where we believe that we have a world class team. And given that we are starting when we are starting, i.e. sort of in this era as opposed to five years ago, or 10 years ago, our ability to set up a particular kind of tech architecture and a particular kind of analytic workbenches is significantly different from what even the most tech advanced banks and NBFCs out there are able to do, because they have legacy problems, which we don't have.

So, any kind of product line which maximizes our ability to flex that muscle I mean we are quite happy to do. So, for example, the digital originations that you talked about are exactly of that variety. Even microfinance, today in microfinance, a credit person of ours sitting in a central location can see a video that the sales RM on the ground is taking of the village or of the hut of the borrower. And as the video is streaming, we can have an AI engine here, which is reading every image that is coming through and identifying assets that the potential client owns, running it through in ML model, and instantly figuring out what the potential credit rating of that client is and giving that as advice to the credit person sitting in the central office, right. That is capability that is incredibly hard for an established large firm whether bank or NBFC to be able to do. We are able to do that because we are starting now and we have that in our DNA of how we are setting up that business.

So, those are the two big connecting threads of what you are seeing in the in the product mix. The why of it though, the why we need a product mix is that we firmly believe that we are in the kind of business where cycles tend to come and we want to be diversified enough that no cycle in any single product can have a significant material impact on the overall outcome of the retail business. And hence we are building a portfolio that is sufficiently diversified and can deal with all parts of the credit cycle as and when they might come. Right now, of course we are in a very benign part of the cycle where everything looks great. But we want to build a portfolio that is robust enough to survive any scares in any part of the retail business in the years to come.

Vivek Ramakrishnan: So, would it be right to say that the disbursement bar chart that you have will start eventually looking like the AUM chart as well as in terms of diversity.

Jairam Sridharan: Yes, directionally the diversification on the AUM will absolutely grow. You will see more and more colors on that pie chart that you see on the AUM side. However, remember that secure businesses and longer duration businesses tend to be more sticky on the balance sheet compared to the unsecured digital businesses etc. So, these digital type things will always contribute more to disbursements than they will ever contribute to AUM. The AUM will always be a little bit more secure and heavy than what you see in the disbursement chart.

Moderator: Thank you. I now hand the conference over to Mr. Hitesh Dhaddha for closing comments. Over to you sir.

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

Moderator: Thank you. Ladies and gentlemen on behalf of Piramal Enterprises Limited that concludes this conference. We thank you all for joining us and you may now disconnect your line.