“Piramal Enterprises Q4 FY-25 Earnings Conference Call”

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MANAGEMENT:
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MR. JAIRAM SRIDHARAN – CEO (RETAIL LENDING) & MD (PIRAMAL FINANCE)
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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2025 earnings conference call of Piramal Enterprises Limited.

As a reminder all participants' 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.

The Results Material has been uploaded on the Company's website, and you may like to download and refer to them during the discussion. The discussion today may include some forward-looking statements based on the management's expectations that are subject to uncertainty and changes. This must be viewed in conjunction with the risk that the business face.

On the call Today we have with us Mr. Ajay Piramal – the Chairman, Mr. Anand Piramal – Director, Mr. Rupen Jhaveri – Group President, Mr. Jairam Sridharan – CEO (Retail Lending) & MD (Piramal Finance), Mr. Yesh Nadkarni – CEO (Wholesale Lending), Ms. Upma Goel – CFO and Mr. Ravi Singh – Head of Investor Relations and Strategy.

I now hand the conference over to the Chairman – Mr. Ajay Piramal for his comments. Thank you and over to you sir.

Ajay Piramal: Good day everyone and thank you for joining us today on this call. With the Q4 FY25 results, we take a stock of our full year performance versus the goals we set for ourselves at the start of the year. It is also an opportunity to look back on how far we have progressed in our transformation journey in the last 3 years.

I am happy to report that we met all the stated objectives for FY25. We said we will get our legacy AUM from Rs. 14,572 crores at the start of the year to below Rs. 7,000 crores and we ended the year with Rs. 6,920 crores of legacy AUM. This is 9% of our total AUM.

We also spoke about expected gains of 1,700 from AIF recoveries over 2 years. In the current year we were able to recover AIF book of Rs. 1,601 crores with gains of Rs. 926 crores.

We expected the AUM growth for FY25 at about 15% year-on-year, net of Legacy AUM rundown and the Growth AUM scale up, and our total AUM of 80,000 crores. We delivered an AUM growth of 17% YoY to a total AUM of 80,689 crores at the end of March 2025. We wanted to move our Retail : Wholesale mix from 70:30 at the beginning of the year to 75:25 by the end of the year. We have ended this year with the Retail : Wholesale mix of 80:20.

We also put a target of getting our opex-to-AUM of our Growth business - a key driver of our profitability - down from 4.9% in the last quarter of FY24 to 4.6% in the last quarter of FY25.

We did significantly better with an opex-to-AUM of 4.0% for Growth business in Quarter 4 of FY25.

If we take a longer-term view also, the last 3 years have been transformational for the Company. Our Growth AUM consisting of retail and wholesale 2.0 have grown at a 50% CAGR in 3 years from about Rs. 22,000 crores to about Rs. 74,000 crores now. The share of Growth AUM in total AUM increased from 34% to 91% in the same period. Our legacy AUM is down from Rs. 43,174 crores to Rs. 6,920 crores in 3 years. We believe a reduction of this scale in the wholesale book in such a short time period is perhaps unprecedented in industry. While running down the legacy book and investing in new businesses, we were able to protect our net worth. Except for dividends and share buyback, our net worth has remained broadly unchanged at about Rs. 27,000 crores.

In these 3 years we have also greatly simplified our corporate structure. We demerged pharma in September '22. Currently we are at final stages of merging Piramal Enterprises with our subsidiary Piramal Finance. We also monetized about Rs. 6,300 crores from our non-core investments in the last 3 years. There is still significant embedded value in our balance sheet where we have visibility of crystallizing it over the next 1 to 2 years. With the merger of PEL and Piramal Finance, a tax shield of Rs. 14,500 crores in assessed carry forward losses will be available. This would make our PBT equal to our PAT for several years in the future. There are further monetization and recovery opportunities from our Shriram General Insurance and Life Insurance investments and the AIF books. We also expect to receive deferred consideration of about USD140 million in FY26 for the sale of the Piramal Imaging business in 2018.

With change in the business mix, consolidated AUM growth and NIM have consistently been increasing over the last six to eight quarters. Similarly, our consolidated net profit have become more stable in the last five quarters versus a volatile phase we underwent between 2 and 3 years ago. In FY25 we thus reported a consolidated net profit of 485 crores versus a loss of Rs. 1,684 crores in FY24. Our growth business made a PBT of Rs. 896 crores in FY25. Both our retail and wholesale businesses had a strong FY25 meeting their respective plans and we are now well positioned to build upon the platform and leverage the investments that have been made.

As we come to the end of our transition journey of the last 3 years, we are excited about the opportunity ahead of us to cement our position as an at-scale financial services company with consistent and superior earnings growth. In FY26 we expect to deliver an AUM growth of about 25% year-on-year taking our total AUM to more than Rs. 1,00,000 crores. This will be driven by our Growth AUM, which grew at 36% year-on-year in FY26 and should grow at about 30% year-on-year in FY26. Retail should form 80% to 85% of our total AUM in FY26. The legacy AUM should further decline to Rs. 3,000 to 3,500 crores in FY26 and be negligible in the context of our overall Balance Sheet size.

The increase in our Growth business profits and realization of the embedded value in our Balance Sheet would drive strong earnings growth in FY26. We currently expect the FY26 consolidated PAT of more than Rs. 1,300 crores in FY26 versus the profit of Rs. 485 crores we reported in FY25.

Once again, I thank all the investors and analysts for their support and useful feedback over the years. Amidst dynamically evolving markets, customer expectations, economic, global, technological and regulatory landscapes; we are focused on execution and delivering on our plans. The journey of the last 3 years should give everyone confidence in our capabilities.

With this optimism, I hand over to Jairam, Yesh and Upma to share more details on our performance and plans. Over to you Jairam.

Jairam Sridharan: Thank you Chairman sir. Good evening, everybody.

It has been a strong quarter and a strong year for our retail lending business.

At the end of March 2025, the AUM of our retail business stood at Rs. 64,652 crores, a growth of 35% year-on-year.

In the 4th Quarter of FY25 our disbursements at Rs. 9,754 crores were up 9% year-on-year. Disbursements in unsecured products were slowed down further and were down 1% YoY compared to disbursements in secured products which were up 22% YoY.

Our flagship mortgage business comprising housing loans and loan against property grew by 34% year-on-year to Rs. 43,841 crores. Mortgages account for 54% of the total AUM of the Company and 68% of retail AUM. Our mortgage book has exhibited robust asset quality in the last 3 years with a stable (90+ DPD) delinquency ratio of around 0.5%.

Slide #15 on our investor presentation shows that amongst the specialist affordable housing finance companies where the data is available publicly, we are not only amongst the largest lenders, but we are also able to grow much faster than the peer set. We believe this has been made possible by our distribution efficiency and our High Tech plus High Touch business model which marries our on-ground presence with our tech and AI/ML capabilities.

In other retail products, used car loans AUM were up 91% year-on-year and salaried personal loans AUM were up 93% year-on-year.

We continue to go a tad slow on disbursements in Business loans and Digital loans. AUM for Business loans were still up 22% year-on-year while Digital loans AUM were down 24% year-on-year.

Overall retail asset quality remains healthy, if you flip over to Slide #24 in the investor presentation you will see that the (90+) days past due delinquency rate of our business at 0.8% remains within the narrow range that we have maintained consistently over the last 3 years.

The next page Slide #25 in the presentation shows vintage risk trends across various products. We have received multiple requests on this chart in the past and we have incorporated that feedback this time. So, this time you will see that we are showing vintage risk using (90+) days past due at the 12-month mark as opposed to the (30+) days past due at 3-month mark which we used to show till last quarter. You will notice that the trends on improving the asset quality of new tranches continue to remain the same.

Our diversified multi product portfolio approach provides us the flexibility to actively navigate any product specific cycles while keeping overall asset quality healthy.

Within unsecured businesses, microfinance which we classify within our Business Loans segment witnessed the sharpest deterioration in the last six quarters. (90+) days past due in microfinance remains at 6.9% on a much-reduced AUM size. Microfinance is now about 1.5% of retail's AUM.

The rest of the products continue to witness benign delinquency trends.

Slide #26 in the presentation shows how our credit scorecards have been effective in managing credit risk. Customers rejected by Piramal who end up getting loans elsewhere are seen to have risk which is 2.8x that of the customers that our models approve.

In the last 4 months of FY25, we have seen noticeable improvement in operating parameters of asset quality. Credit costs in Q4 FY25 stabilized at levels very similar to Q3 FY25. This is in spite of some upward adjustments we made in ECL rates during the quarter. Asset quality metrics in unsecured, ex-microfinance, appear to have peaked in Q3. Microfinance likely saw its peak in Q4 including the impact of upward ECL adjustment. Secured lending products continue to remain largely stable.

As shown on Slide #19, our customer franchise grew by 24% year-on-year to 4.7 million customers. We have been able to capture a significant portion of our customer originations for future cross-sell opportunities. During FY25 we were able to significantly increase the share of cross-sell disbursements in our unsecured lending disbursements to about 30%. From a distribution standpoint, we now have a network of 517 branches across 428 cities in 26 states. In FY25, we opened 27 branches versus about 90 branches per year that we used to open in the prior 2 years. Our focus this year has been on raising productivity of existing branches and increasing the number of products offered per branch. Slides #20, #21 and #22 in the presentation show these dynamics and the resultant improvement in our branch productivity and employee productivity, which leads me to opex ratios.

We have continued to see strong outcomes in our opex to AUM ratio. If you flip over to Slide #23 you will see that over the last eight quarters, we have consistently reduced our retail opex-to-AUM ratio from 6.5% in Q4 FY23 to 4.3% in Q4 FY25. We aim to continue this trend, in line with our medium-term guidance of 3.5% to 4.0%.

Our performance in lowering the retail Opex-to-AUM ratio consistently has been slightly better than what we expected and what we guided at the beginning of the year. This is thanks to the investments that we have made in technology and both traditional and generative AI; and these making significant headway across risk management, operating leverage, productivity, and the controls infrastructure among other areas. On slides #28, #29 and #30 in the presentation we have highlighted some of the successful use cases that we have been able to execute on traditional and generative AI in our businesses.

Also, as you see on Slide #23, an accounting policy change at the earliest part of the year in Q1 of processing fee impacted the reported Retail fee in this year. On a like-for-like basis, underlying cash fee collected but not yet booked stands at 0.6% of AUM. Adjusted for this change, which should normalize over the coming years, AUM yield in Retail has been broadly stable.

We have undertaken multiple new initiatives in FY25 which you will find displayed on slides #31, #32 and #33. These include the launch of a micro-lap business, major progress on our Direct Assignment and Co-lending programs, and rising customer engagement particularly through digital channels.

Over the last 3 years Piramal has built the foundations of a strong Retail Lending business. We have refined our execution rigor and have successfully navigated a tricky credit risk environment. We are confident about the continued, steady scale-up of our multi-product retail lending business, with consistent improvement in operating leverage, and stable asset quality through the cycle.

With this I hand over the call to Yesh to talk about the Wholesale business.

Yesh Nadkarni: Thanks, Jairam and good evening, everyone. FY25 has been a very active year for the Wholesale business too.

As Chairman alluded to earlier, we were able to reduce our Legacy AUM by 53% year-on-year to Rs. 6,920 crores which now occupies a much smaller part of our balance sheet at 9%; and will therefore be a small contributor going forward.

During the year we saw recoveries of some of our lumpy loan assets and are glad to note that the credit costs associated with these complex asset recoveries were adequately covered by the

AIF recovery gains, which were broadly in line with the AIF recovery guidelines we had provided towards the beginning of FY25.

Going forward we will continue to pare down this book. We expect this book to reduce to Rs. 3,000-3,500 crores by March 2026.

We also had a productive FY25 for Wholesale 2.0 business or a new business in the wholesale side. During the year we disbursed 7,192 crores in new wholesale book across real estate and mid-market lending strategies. This was an increase of 22% year-on-year in origination. Origination per loan was Rs. 60 crores during the year, while disbursed amount per loan was Rs. 47 crores, thereby signifying the granularity with which we are building this business as well. The portfolio has an average ticket size of Rs. 70 crores and an effective interest rate of 14.4% featuring a well-balanced asset duration and diversification.

We continue to see strong tailwinds across real estate and CMML segments and will grow this book in a calibrated manner through FY26.

Wholesale. 2.0 AUM was Rs. 9,117 crores as at March 2025 which is a year-on-year growth of 44%. While this is a strong year-on-year growth, it nevertheless was tempered due to significant prepayment pressures faced by both real estate and CMML segments. Repayments were almost 45% of amounts disbursed during the year, signifying better-than-expected performance of the book, which continues to benefit from strong sectoral performance and quality partner / asset selection.

Since the inception of the new wholesale lending business about 2.5 years ago, we have not experienced any delinquency in the portfolio.

With this I will hand over to Upma to take through financial performance.

Upma Goel: Thank you Yesh. Good evening, everyone. Moving to our Financial Performance:

In Q4 FY25, we reported consolidated net profit of Rs. 102 crores versus Rs. 39 crores in Q3 FY25. FY25 net profit stood at Rs. 485 crores versus loss of Rs. 1,684 crores in FY24.

In Q4 FY25, pro-forma profit before tax for Growth business stood at Rs. 307 crores versus Rs. 212 crores in Q3 FY25. This translates to PBT-RoAUM of 1.8% in Q4 FY25.

For the full year FY25, pro-forma PBT for Growth business was Rs. 896 crores versus Rs. 1,044 crores in FY24.

In FY25, Growth AUM grew by 36% year-on-year to Rs. 73,769 crores. Operating profit grew by 34% YOY to Rs. 1,889 crores.

In FY25 Growth business credit cost was at 1.6% versus 0.8% in FY24. Credit cost, ex-POCI recoveries and other gains, was 1.9% versus 1.4% in FY24.

Our total GNPA and NNPA ratios stand at 2.8% and 1.9%, respectively.

Our net worth stood at Rs. 27,096 crores with a capital adequacy ratio of 23.6% on a consolidated balance sheet basis.

In Q4 FY25 our cost of borrowings moderated by 10 basis points quarter-on-quarter to 9.1%. We are also actively diversifying our borrowing mix, and securitization and international borrowings share stands at 19% (from 6% in March '24). Our fixed-to-floating rate debt mix has improved to 43:57. The fixed-floating gap between assets and liabilities has now been mostly neutralized to align the balance sheet better with a declining rate environment.

With these remarks, I would now like to open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. We will take our first question from the line of Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani: Thank you for the opportunity. I have three questions, the first is on the legacy book. Congratulations on bringing down the book as had been stated earlier. Now one of the things that I can see is that the major reduction in the book has come from Stage II and Stage I and the Security Receipts. You have set a target of now bringing it down to Rs. 3,000 to 3,500 crores. So, if you can help us understand what will remain in that Rs. 3,000 to 3,500 crores. Will majority of that would be lands and receivables and you'll try to remove as much of the Stage I and II and SRs as possible. That is my first question. My second question is on the wholesale 2.0 book, you had mentioned that the prepayment rate was elevated. I wanted to understand is it that the prepayment repayment rate was elevated, or we have seen more of refinancing and borrowers exiting to other lenders if you can help us understand and from which segment specifically? And my third question, you have given a target PAT for next year of Rs. 1,300 or 1,500 crores or something like that for FY26. You had also mentioned about the one-time consideration coming through Piramal Imaging. How much money would come in and what could be the timeline and is that included in this PAT or some color on that would be useful? Thank you.

Yesh Nadkarni: That is a lot of questions. I will try and answer the first two. My short answer to your first question is we expect the recovery to be broad-based across different categories, across sort of loan book, Security Receipts, obviously AIF and the non-performing part of the book, probably slightly delayed on the land side. But the effort would be actually to bring the reduction across the book and that is how the trajectory will be as we expect. To answer your second question, the prepayments has been again broad-based. Most of the prepayments have occurred because the underlying projects have performed much ahead of the underwriting and therefore the cash generated by the project has been used to prepay the principal. It has been broad-based across the portfolio as opposed to certain loans getting refied and therefore being lumpy. The same is true for CMML book as well.

Jairam Sridharan: Yes, even CMML book as well. See this is not a refinance story, Shreya. This is actually clients cash flow which is actually paying us back. And some of it I must admit is also coming from capital markets because the equity capital markets have done so well. A lot of the promoters are able to raise money, raise primary equity and use that to repay a bunch of debt. That is a phenomenon we have seen a lot in the last year in the corporate book. On your third question on profit guidance, yes, we have guided to a profit of Rs. 1,300-1,500 crores in the coming year. This is on a consol. basis, Shreya. So, there are lots of puts and takes here. The gains from the Piramal Imaging transaction that you mentioned is one of them. There are kind of potential haircuts from some of the reduction of the Legacy book. There are a lot of these one-offs all of which is included in that Rs. 1,300 crores too. Yes, there are AIF recoveries, other recoveries from our old books. There is a lot of stuff that is baked in there. We know there are a lot of moving pieces in the P&L here and that is why we wanted to offer a sense of stability in terms of a central anchor around where we believe on a consol. basis the Company's profitability is going to land. We ended this year at about Rs. 485 crores and we expect next year to deliver between Rs. 1,300 and 1,500 crores.

Shreya Shivani: Okay, wonderful. That answers all of my questions. Thank you so much and all the best.

Jairam Sridharan: Thank you Shreya.

Moderator: Thank you. We will take our next question from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: Congratulations. So here are my questions and even I have a lot of questions. So, in terms of you manage to switch on and switch off various products and grow your retail business. Jairam, I just wanted to know what is the secret sauce there and Micro LAP is looking like a bit of the flavor of the month, everybody is increasing Micro LAP. So, does your credit model show any dangerous signals or segments that you would avoid in Micro LAP? That is question number one. And the second question is a follow up to the previous question only in terms of profits because increasingly your ROE from your core business is going to become more and more important. So, if there are excess profits from let us say Piramal Imaging or other recoveries and set offs which are there, will this Rs. 1,300 crores, the way you have baked in, be core profits or would it be profits which include the other stuff also? Because you could very well use the profit, I mean be tempted to use the profit to write off the balance Rs. 3,500 crores also which is clearly will be left over at the end of the year? Those are my questions. Thank you.

Jairam Sridharan: So, Vivek, thank you for your comments and for your good wishes. I think yes, we have had some success in accelerating and decelerating products appropriately to keep our overall delinquency and credit costs fairly stable in retail. In general, if you see the Business loans environment overall, it has not been the greatest. Q4 was actually good compared to Q2 and Q3, so Q4 things got better. So at least we ended the year kind of a lot better than what it was looking like in the middle overs. So, the slog overs were actually pretty good as far as this business is concerned. Let us see whether that continues on into Q1 or not. It's a space to watch. Micro LAP is a very small business. It will remain a small business for us for a while. We do want to invest in the space. Building new businesses is a 3-to-5-year journey. So, we are in no hurry to build this business. So, we are absolutely not trying to ride a wave here. This is a space where you will see us make investments and slow and steady grow it. If you see us get to like a Rs. 1,000 crores or 1,500 crores AUM by the end of next year that will be probably a really big thing. So, we are not going to go berserk on this stuff much at all. So, we will see how the market plays out. On your other question on profitability, I want to reiterate the Rs. 1,300 to 1,500 crores is all in everything. All the positive one offs, the negative one offs, everything put together at a consol. basis from PEL, you should expect Rs. 1,300 to 1,500 crores. Now if the positive one offs are a lot more, that gives us an opportunity to accelerate further some of the rundowns that we are thinking about. We will probably do that. We have told you in the past and we have shown some of the metrics and shared some of it in this forum that historically we have had between 25% to 30% haircut in reducing the Legacy book. So, if you are going to reduce the Legacy book from Rs. 7,000 to 3,000 crores or even further, there is something implied there. So, all inclusive, we do believe that Rs. 1,300-1,500 crores we will deliver. I don't want to get into the components of each of that just yet because there are too many moving pieces and many of them will play out differently. And our strength over the last year and a half has been that we have been able to navigate ups and downs appropriately and we have been able to play the delivery that is bowled to us. So, we will see what deliveries we face in the course of the year, and we will play it accordingly. What we are guiding is that from an outcome standpoint, we will deliver an outcome of Rs. 1,300-1,500 crores.

Vivek Ramakrishnan: Those were my questions. Thank you very much and wish you all the best.

Jairam Sridharan: Thank you, Vivek.

Moderator: Thank you. We will take our next question from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: So, few questions. Firstly, again, touching upon the guidance just within this Rs. 1,300-1,500 crores, what is the Growth businesses contribution that we are looking at? Maybe obviously you have indicated there could be one-offs in terms of the sale plus the haircut. But broadly, when you are giving this specific number, what are you putting it for Growth business as well?

Jairam Sridharan: We delivered about Rs. 900 crores of profits, I think Rs. 896 crores of profits from growth business this year. Growth business is expected to grow at about 30% YOY from an AUM standpoint, give or take. That is what we have guided. So, you should broadly expect that from earnings growth as well on Growth business side.

Kunal Shah: Okay, so you are saying broadly ROAs remaining stable in the Growth business. So, if I have to look at PBT Ro-AUM at say 1.4%-1.5% which was there in FY25, you are seeing broadly that might continue?

Jairam Sridharan: We are not guiding very specifically on that. So, we will see as the year goes. You saw that we ended the year at 1.8%, so of course it was a very strong end of the year. So, I don't want to make that the benchmark. But you do see that we have had some really strong quarters as well in there. So, depending on kind of what the strength of the year looks like on the growth side we will appropriately use one off for legacy adjustment.

Kunal Shah" Yes. But broadly even on Rs. 900 crores if we take like 30%-40% growth, that itself could be like say still closer to almost like Rs. 1,200 crores contributing from the Growth businesses?

Jairam Sridharan: Correct.

Kunal Shah: Okay, got it. Perfect. And secondly, in terms of the Wholesale credit cost, if we have to look at this particular quarter, would it be fair to assume that it was like Rs. 300 crores for the Growth businesses credit cost and maybe to Rs. 220 odd crores to be the Wholesale credit cost in this Rs. 220 crores to 230 crores, would there be the fair assumption for this Rs. 530 crores of loan loss provision?

Jairam Sridharan: Yes. Most of the Growth business has had about Rs. 300 crores of credit cost. The rest of it is all in the Legacy side. In the Legacy side you have also seen recoveries from the AIF, etc. So, all that has also gotten netted-off there.

Kunal Shah: Yes. So, after these recoveries in fact there would have been like Rs. 230 odd crores of Wholesale credit cost which would have been booked in this?

Jairam Sridharan: Correct.

Kunal Shah: Got it. And lastly in terms of this entire associated income of Rs. 90 odd crores which is broadly driving this entire thing, how should we look at this? Maybe going up quite significantly out there. So, what is this and is it like one time or this is going to continue just because out of Rs. 102 odd crores, Rs. 90 crores is associated income?

Jairam Sridharan: Yes. Some of associate income does tend to be a little bit higher in Q4. So, there's a little bit of that is going on. We had a better quarter in our insurance subsidiary than what we thought our alternatives business has done well. So that is what you are saying. There is a little bit of quarterly seasonality that is embedded in there. Please don't annualize what you saw in Q4.

Kunal Shah: No, the only thing was out of Rs. 102 crores, like Rs. 90 crores coming in from insurance subsidiary and alternate businesses, then eventually if you have to look at it, maybe the Growth plus the Wholesale AUM that has hardly contributed Rs. 10 odd crores for the quarter.

Jairam Sridharan: Yes. So, Kunal, that is the way we have managed the quarters. We have shown you the full Growth profitability for the full year, about Rs. 900 crores. As and where possible we have used any gains that we had over and above what we thought were kind of core requirements we have used to actually bring down the Legacy book and that is a story and a trajectory that you will see continuing in the times to come as well.

Kunal Shah: Okay. Got it. Yes. Thanks, and all the best.

Jairam Sridharan: Thank you, Kunal.

Moderator: Thank you.

Jairam Sridharan: Guys, while we are waiting for the next caller to come, I want to clarify a small errata that we just noticed. We will try and correct it. And this kind of connects with Kunal's question as well. On the Associate income in Page #46 in the Investor presentation, it shows Q4 profit from Pramerica Life as Rs. 82 crores and from alternatives as Rs. 8 crores. Those numbers are swapped. So, you should assume that those numbers are swapped. We will create the errata soon. Apologies for this error, but we just noticed it. Thank you, Kunal, for asking the question because it pointed us in that direction.

Moderator: We will take our next question from the line of Kishan Rungta from Emkay Global. Please go ahead.

Kishan Rungta: Thank you for the opportunity. Sir, I wanted to understand like how do we see the cost of fund trajectory going forward because we have seen 10 bps moderation this quarter and given the RBI rate cut cycle, how do we see our cost of fund shaping going forward?

Jairam Sridharan: Yes, so I will break this into two parts. One is the trajectory of cost of borrowing and the second is the trajectory of the cost of funds. Cost of borrowing, we expect slight moderation through the course of this year. There is a certain amount of our borrowing which is directly linked to market rates where we have already seen some benefits come in. Even by the end of April we have started seeing some moderation in those rates. But a lot of our other borrowing is linked to bank MCLRs, etc. which haven't yet changed. And I expect those changes to come around June-July-August time frame which is when we will start seeing some of the benefits onto our P&L. So, my expectation is that it's only in the later part of the 3rd Quarter and in the 4th Quarter that we will see all our bank borrowing rates actually be benefited from the rate cycle. But through the rest of the year the market-linked borrowings should indeed give us some benefits. Given all of that situation and kind of slight delays in transmission of rates at the bank's end, I expect the cost of borrowing to moderate through the course of the year, anywhere between 10 and 20 basis points. However, the cost of funds for us will remain roughly flat to where we are right now because our leverage will also continue to increase in this period because we are a very low leverage Company right now. And as we expect the leverage to increase quarter-on-quarter, I think these two effects will largely net each other off and hence COF will probably remain flat. even COB will continue to come down.

Kishan Rungta: Fair enough sir. So basically, since we have Home loan and LAP because some of the benefit has to be passed on, so what would be the net impact on the NIMs on the margin front?

Jairam Sridharan: We do expect that our margins to expand slightly in general, first of all, only 50% of our lending is variable rate and even within that a lot of them we have some leeway in terms of reset dates etc. And we are moving by the way more and more of our assets to fixed rate as we speak. Our customers are slightly less sensitive to fixed versus variable in some pockets. So, you will see us make that move. In general, NBFC customer bases tend to see margin expansion in declining rate cycles. I don't want to speak too much about our specific strategies here, but I don't think that dynamic is going to change in this cycle.

Kishan Rungta: Got it sir. Thank you.

Jairam Sridharan: Thank you very much.

Moderator: Thank you. We will take our next question from the line of Vinod Jain from WF Advisors. Please go ahead.

Vinod Jain: Thank you. First of all, congratulations on the improved working. My only question is related to the view on Pramerica Insurance business and related mutual fund business. What is the view going forward on this two business?

Jairam Sridharan: Vinod Ji, I think you are asking us about Pramerica and what our strategic view is on that business. Firstly, thank you for your kind words on the performance of the Company. On Pramerica, we have 50-50 joint venture partners in this business with Prudential US; and India is a strong market and an underpenetrated market for life insurance. We do believe in the long run there's a lot of value here. However, we also have a lot of other users for capital which are competing, and they are very strong users that we have. As you heard we are expecting a 25% growth in our AUM next year. So, our lending business is growing quite strongly as well. So, we need to keep all options on the table in terms of trying to figure out what the best use of capital is. So, working closely with our joint venture partner we will discuss what the right opportunities are and as shareholders, we promise you that we will be good stewards of the long-term value of your capital and will do whatever is in the long-term interest of the firm.

Vinod Jain: And what about the related mutual fund business? Is that also to be viewed as and would you focus on the growth of that business also?

Jairam Sridharan: We don't have any stake Vinod Ji in a mutual fund business right now. It's an interesting business in financial services in India and penetration is increasing. However, it's not a business of immediate interest to us right now.

Vinod Jain: Very well, thank you.

Moderator: Thank you. We will take our next question from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Good evening, sir. First question is on the credit cost. So, this year we have seen a sharp jump on the same. So that picture is not being adequately displayed by when we see the days past due data and the origination data. So, were there any one offs in this credit cost for this year or are there some specific segments which led to this sort of a 3x jump in the overall Growth business credit cost?

Jairam Sridharan: So, Sarvesh, if you see Page #9 please. Page #9, if you look at the bottom left chart you will see our credit cost data. You can see three lines there. The topmost line which is the core credit cost of the Growth business which is ex of some of the gains that we make from the old Dewan bad book, the so called POCI book, ex of that if you see that orange line, that line has been relatively stable. It used to be 1.9% then it went down to 1.4%, it's back at 1.9%. Nothing much has happened there. The dotted line which is the net-net credit cost of the Growth business has indeed gone up. But that is more because the POCI book has everything that needed to be recovered has largely gotten recovered and hence its proportion and contribution to the book has actually declined. From a credit cost perspective, we have had a very stable year in financial year '25. We have not had any jerky movements. We have not had any significant dramatic deltas in credit costs.

Sarvesh Gupta: Going forward also we would expect this 2% sort of a credit cost trajectory?

Jairam Sridharan: We have not guided specifically on that but that is a good assumption.

Sarvesh Gupta: Secondly on the Wholesale 2.0 model, so what is the sort of aspiration because it's a small book right now and is doing well but going forward how much, at what pace do we want to grow that book?

Yesh Nadkarni: See we have been building this book up now for last 2.5-3 years as I mentioned earlier, right. We believe that there is a market gap and we believe that therefore we can actually build a business in a calibrated manner which will contribute significantly as we go forward from here to the firm's P&L. I think our objective is that the right mix for Wholesale : Retail would be in the range of 20:80 and that is where we would want to be as we optimize this business going forward.

Jairam Sridharan: You will also note that it has been a remarkable performance of the Wholesale 2 business from a credit perspective over the last 2 years. And that is the advantage of having a mixed portfolio is that you can accelerate and decelerate different pockets of the business based on where credit is doing well. Right now, Wholesale credit is doing extraordinarily well. It might or might not continue, so let us not jinx it. But right now, it's a good environment and we have been able to demonstrate good growth there. However, we will keep our ears very close to the ground and play it as per the market conditions.

Sarvesh Gupta: Lastly, how do you look at the overall leverage in the balance sheet? Because right now we are at Rs. 75,000 crores loan and we are already at a net worth of Rs. 27,000 crores. Now there are some one-offs and transactions etc. for which the money is due to come. So, it might make your net worth even more bloated in the coming years thereby reducing the overall ROE etc. as we look into the Company. So, is there any plan to give back the money or reduce use the capital at the Company level or can the business adequately sort of leverage itself to a meaningful ROE?

Jairam Sridharan: I point your attention to Page #42 in the presentation and the top right chart on Page #42 shows how the leverage ratio on a gross and net basis has moved in the Company over the last 1 year. You will see that over the last year our debt to equity has gone from 2x to 2.4x. We have said in the past as well that we would probably never go past 4x. So, there is still a way to go for this metric to keep rising. Now can we return capital to shareholders? Returning capital to shareholders in financial services companies in India is relatively complicated. There are only two ways of returning capital. One is dividend and the other is buyback. Buybacks are largely not feasible for financial services companies because our debt equity is greater than 2 and SEBI norms don't allow it. But on dividend you did hear our dividend announcement today. We have announced a dividend of Rs. 11 per share and a payout ratio of 50%. So, we are going to the max level that we can in terms of paying dividends because that is a way for us to return capital to shareholders. Your point is absolutely right that we are a little bit overcapitalized, and we should strive to return some capital to shareholders. But regulatorily our options are somewhat limited, and we are using to the fullest the one option that we have, which is dividend by paying 50% payout ratio, which is the max we can.

Sarvesh Gupta: And this sort of a payout will continue, is it?

Jairam Sridharan: No, let us see. We will have to play it year by year. See, the leverage ratio is one thing that you want to monitor. You also want to monitor where our capital adequacy norms are, where the growth opportunities are and whether the money is better utilized internally. 50% is the highest we are regulatorily allowed to pay and it is obviously the highest that we have ever paid in terms of the payout ratio in our history. Typically, we have been more in the 30%-35% range, let us see what happens next year.

Sarvesh Gupta: Thank you, Sridharan. All the best.

Jairam Sridharan: Thank you.

Moderator: Thank you. Next question is from the line of Mohit Jain from Tara Capital Partners. Please go ahead.

Mohit Jain: So how should we look at the growth rate for the unsecured business going forward? I believe you said the credit cost in microfinance is almost peaked in this quarter. So going forward, both in terms of disbursement as well as AUM growth how should we look at unsecured books?

Jairam Sridharan: I think FY26 will be higher than FY25 in terms of growth rate in unsecured. I think we have had some severe challenges in at least I would say two and a half quarters out of four in this year. And if you look at Slide #17, for example, you will see how both in Digital and Business loans, we have had to go super slow in this year. Digital at least our confidence has increased a little bit. And so, you might see us accelerate a tad on that front. On Business loans probably not yet, maybe another quarter of watching it before we get going. But in general, my expectation is that growth in unsecured will be higher in FY26 compared to '24, both in disbursement terms and in AUM terms.

Mohit Jain: How do you think that is going to affect the NIMs going forward? Because I believe you also touched upon NIMs once. But if you can just put your views considering the fact the growth in the unsecured is going to get the faster pace and obviously, we will have the headwinds of the rate cut. So how do you look at the NIM projection for the next year?

Jairam Sridharan: I mean the increase in unsecured in this coming year is not going to affect NIMs this year. It will affect NIMs in the future, but in the coming immediate year it doesn't make a difference because it will not change the proportion of AUM. In general, we would like to be about, I want to say 4 to 5 percentage points higher on unsecured in our contribution to AUM compared to where we are today. Over the next couple of years, I don't know how conducive the coming year is going to be on this, but generally we would want to be 4 to 5 percentage points higher than where we are. And that is obviously NIM accretive in the future. But make no mistake, it is not going to affect NIM this year at all. These things only impact the year after.

Mohit Jain: Just one final follow-up. On Housing loans that we have been hearing, it's getting very competitive. Obviously in the prime segment in which we don't operate. But just as an extension of that, the other segments are also going to get more competitive. So, do you think there can be a situation in which we may end up focusing more on the let us say margin part as compared to the growth or which is more going to be more important?

Jairam Sridharan: If you look at Page #16 where we have shown the data on housing, you will notice that on a year-on-year basis our disbursements actually have not grown in housing. We are in the 11.6%

segment. So, our disbursement yield is 11.5%. And you will notice if you go back to the last 2 or 3 quarterly presentations that we have consistently been around 11.5%. So, we have not budged on the rate just to gain some growth. So, we have stuck to the disbursement yield that we need and if that means disbursement growth is not there, so be it. And so far, it has been okay because LAP we have been able to grow reasonably well. And so, on an overall basis in mortgages we have been able to deliver (+12%) from an overall yield perspective. And it's something that I'm reasonably comfortable with. Yes, housing, particularly ticket size less than Rs. 25 lakh housing loans are going through a little bit of a challenge from a growth rate standpoint. But these things are cyclical. I am sure it will come back, especially if Pradhan Mantri Awas Yojana takes off. I am sure it will come back. But last year was not it. Let us see whether this coming year it does any better.

Mohit Jain: Thanks a lot. Thanks for the clarification.

Jairam Sridharan: Thank you.

Moderator: Thank you. Ladies and gentlemen. I now hand the conference over to Mr. Jairam Sridharan for his closing comments. Over to you, sir.

Jairam Sridharan: Thank you very much. Thank you very much to all the participants for participating actively in this call and for all your great questions. We have had a great year as a Company and a strong quarter in somewhat turbulent times as we have guided for the coming year. We are looking forward to a strong year in terms of both growth and profitability as well as resolution of some of our historical legacy assets. Looking forward to your continuous engagement in the course of the coming year. Have a great evening everyone and thanks for participating.

Moderator: Thank you. On behalf of Piramal Enterprises Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.