“Piramal Enterprises Limited

Q3 FY '24 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Piramal Enterprises Limited Q3 FY'24 Results Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal a Moderator: by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ravi Singh from Piramal Enterprises Limited. Thank you, and over to you, Mr. Singh.

Ravi Singh: Thanks, Neerav, and hello, everyone. Welcome to our earnings conference call for Q3 FY'24. Our results material has been uploaded on our website, and you may like to download and refer to them during our discussion. The discussion today may include some forward-looking statements based on management's expectations that are subject to uncertainty and changes and must be viewed in conjunction with the risks that our businesses face.

On the call today, we have with us our Chairman, Mr. Ajay Piramal; Mr. Anand Piramal, Executive Director, Piramal Group; Mr. Rupen Jhaveri, Group President, Piramal Enterprises; Mr. Jairam Sridharan, CEO of our Retail Lending business and MD PCHFL; Mr. Yesh Nadkarni, CEO of Wholesale Lending business; and Ms. Upma Goel, CFO of Piramal Enterprises.

With that, I would like to hand over the call to our Chairman, and I would request him to share his initial thoughts. Thank you, and over to you, sir.

Ajay Piramal: Thank you, and welcome to our earnings conference call for Q3 of FY'24. I will speak about the company's performance during the quarter. A significant development took place in December. The RBI issued a new circular on treatment of AIF investment by banks and NBFCs. Consistent with our disclosure immediately following the circular, during the quarter, we made full provisions against our exposure. This action impacted both our reported profit and AUM.

We are confident of full recovery of these investments as reflected in the payment record of the affected schemes. You will notice in our investor disclosure that we have split our lending business into two parts. I would like to introduce this classification to you. A major part of our lending business now is the growth business. This comprises retail lending and our wholesale 2.0 businesses. This segment is what we are investing into. And over time, you should expect this to be 100% of our lending business.

As of December 2023, the growth businesses formed 72% of our AUM. This growth AUM has grown at a CAGR of 57% since the end of FY'22 to almost INR49,000 crores today. Within growth business, retail AUM grew by 54% year-on-year to be slightly above INR43,000 crores.

Our flagship mortgage business AUM now stands at more than INR29,000 crores. These are growing at 27% year-on-year, cementing our leadership position in the affordable housing finance. Our granular wholesale 2.0 AUM has grown from a standing start two years ago to about INR5,500 crores, benefiting from our revamped business model leveraging upon the industry tailwinds.

The rest of the AUM is our legacy business, comprising of wholesale 1.0 assets, security receipts and the erstwhile AIF investments. This is the portfolio we have been winding down. And over time, you should expect this to be minimal in size.

At the end of December quarter, the legacy portfolio was 28% of the AUM. The wholesale AUM are down by 37% year-on-year, excluding the impact of AIF book and by 47% year-on-year including the impact of the AIF book. In all, our wholesale 1.0 book is now down 57% since end FY'22 from INR43,000 crores to less than INR19,000 crores. Thus, the growth business now is in a driving seat with 72% AUM share and at critically large size of INR49,000 crores and will dominate and drive AUM growth and earnings from hereon.

We have some buckets of value in the balance sheet, which we would unlock over time. We have today announced the sale of INR1,440 crores from our stake in Shriram Investment Holdings. We expect closure in Q4 FY'24. The transaction is aligned with our focus on monetizing noncore assets. The carrying value of the stake was INR569 crores. The gains from the transaction will further strengthen our balance sheet.

You might recall that last year, we offered some guidance on the contours of our lending business in FY'28. We had mentioned that in that time period, we intend to build an AUM of INR1.2 lakh crores to INR1.3 lakh crores with a retail-wholesale mix of 70-30 and ROA of 3% to 3.3%. We are progressing strongly on these key metrics.

On growth and business mix, we are presently running slightly ahead of our guided pace. On profitability and risk, we are on track with where we are hoping to be. Excluding the impact of AIF provisions, in Q3 of FY'24, our total AUM growth accelerated to 6% quarter-on-quarter and 9% year-on-year, leading to an AUM of more than INR70,000 crores. On business mix across retail and wholesale, our AUM now is 64% retail and 36% wholesale versus 33% retail and 67% wholesale at the end of FY'22.

Moving on to profitability. In Q3 FY'24, we improved our interest margins, fee income growth and opex ratios to deliver core operating profit of INR316 crores versus INR237 crores in Q2 and INR187 crores in Q1, an expansion in yield of AUM due to improving AUM mix and broadly stable cost of funds drove 28 bps expansion in our net interest margin, led by retail business, the fee income grew by 83% year-on-year and fee AUM improved to 0.9% versus 0.5% in the Q3 FY'23.

Opex grew by 5% Q-on-Q and 25% year-on-year, implying a slight moderation in opex to AUM to 3.8% in the third quarter versus 3.9% in the previous quarter while increasing share of retail AUM has driven opex growth and improving operating leverage in retail itself should drive a moderation in overall opex ratio over the medium term.

Our PPOP to AUM ratio has improved to 2% in Q3 versus 1.1% in Q1. We remain committed to further raising our operating profitability by driving operating leverage in the growth businesses and reducing the contribution of the legacy businesses.

On asset quality. Our overall gross and net NPA ratios were down by around 35 bps Q-on-Q, each to 2.4% and 1.1%. In retail, our 90-plus DPD ratios were stable to down across all products.

In wholesale, our Stage 2 plus 3 book is down 54% year-on-year and carries 32% provision coverage.

In Q3 of FY'24, our credit cost stood at 1.6%, while still running lower than our long-run expected range of 1.7% to 1.8%. Q3 credit cost was higher than the H1 credit cost of around 1.2%. The H1 credit cost benefited from much higher recoveries. Recoveries tend to be lumpy, which can create slight volatility in the short term in this metric for us as we work on our resolution strategies.

Our PAT, excluding exceptional items, and one-off gains thus stood at INR119 crores versus INR113 crores in Q2 of FY'24 and INR30 crores in Q1 of FY'24. We remain strongly capitalized with a net worth of INR26,000 crores and capital adequacy ratio of 24.3% on a consolidated basis, even after taking the full impact of AIF circular.

With these highlights, I will now hand over to Jairam, Yesh and Upma to discuss segment specific highlights. Over to you, Jairam.

Jairam Sridharan: Thank you, Let's start with retail lending, our AUM scaled up by 54% year-on-year. This goes with quarterly disbursement growth of 50% year-on-year. In the third quarter, our disbursement yield and the AUM yields were both stable at 14.2% and 13.2%, respectively.

Our flagship business, the mortgage business now stands at an AUM of roughly INR30,000 crores accounting for 72% of retail AUM. The mortgage business, which comprises housing loans and LAP, is our core hook product in our branch-based business. When we start any new branch, we start with the mortgage business exclusively for some time before launching other products from the branch.

Our housing loan disbursements grew 23% year-on-year, with an average ticket size of INR19,00,000 in the third quarter, our disbursement yield in this business was 11.2%. LAP disbursements almost doubled year-on-year. And here, our average ticket size is INR23,00,000. Yields in LAP are about 150 basis points higher than housing loans.

Mortgages witnessed significant reduction in its already low 90 DPD ratios during the quarter, signifying continued strong asset quality. Our other secured loans, which are primarily used car loans continued to witness sharp growth with AUM up more than 3x year-on-year to INR1,700 crores.

Our unsecured retail book has four products. And together, they stood at about INR10,000 crores of AUM. Over the last three quarters through various measures to tighten credit underwriting, our disbursement volumes in this have been slightly controlled. Simultaneously, the risk metrics have remained benign. 90 plus delinquencies has been around 1.4% to 1.6% in the last three quarters.

We have also shared during this quarter a special analysis on unsecured lending, given all the interest in that segment about how our consumer unsecured business has done as opposed to our business unsecured loans. We have broken up the consumer unsecured loans, which are about INR6,000 crores of the total INR10,000 crores. We have split that up into loans above and below

INR50,000 ticket size. And we have also shown how that portfolio breaks up between salaried personal loans business from branches and digital loans.

What you will find from those special analysis pages in our presentation, is that loans that are below INR50,000 in ticket size have, in general, been 2x to 3x higher, 90 plus delinquency rates than that of loans above INR50,000 ticket size. However, these loans are just about 10% of consumer unsecured AUM. And the risk here as well, through a series of actions on our part has come down quite sharply. You will see both the risk chart as well as the contribution chart in our presentation in the special analysis slides.

We have launched and scaled up our branch originated salaried personal loans business, and this has led to its share in disbursements increasing to 39% of unsecured consumer loans versus 20% same time last year. We continue to make steady progress towards long-term operating profit metrics, which we have shared with you in the past. Yields and fee income have been stable at a fairly healthy level. Opex ratios as well have been moderating from the highs seen in FY'23.

Our opex to asset ratio was down another 20 basis points during the course of this quarter. As we continue to expand our retail lending business, we are also investing in manpower, branches, technology, and analytics of our retail lending business for continued strong future growth. We continue to add branches to our network. And during the quarter, we added 28 new disbursement active branches, aggregating to a total of 95 branches added over the last 12 months.

With this, we today have a network of 470 conventional branches and 179 microfinance active branches. Speaking of microfinance, we have also, this time, specifically shown delinquency trends of the microfinance business and of the unsecured business loans portfolio as well for you to look at as part of our special analysis slides.

Talking about our branch network for a minute. Last year, at the same time, we had 93 branches, which were less than one year old. Those 93 branches are today all in the one to two year old category. That kind of mix shift implies that you should expect to see and we do see more than 2x the productivity at this vintage compared to what these branches had in the 6 to 12 month vintage. This will remain the key driver of improvement in opex to assets for retail segment as we move towards our target of 3.5% to 4% opex to asset ratio compared to where we are today, which is 5.6%, down from 5.8% last quarter.

Our consumer franchise today stands at 3.9 million. We acquired another 3 lakh new customers during the quarter. And our active customers out of the 3.9 million today is 1.2 million and this entire 3.9 million base continues to form a strong base for us to do cross-sell activities in the future.

That's the summary on the retail lending business and to walk us through our wholesale business, Yesh, I'd invite you to take it on.

Yesh Nadkarni: Thanks, Jairam. In our wholesale 2.0 AUM, we are focusing on building the granular and high-quality portfolio. Our wholesale 2.0 AUM grew 24% quarter-on-quarter to INR5,562 crores across real estate and corporate mid-market loans. Wholesale 2.0 loans are performing well and are in line with or ahead of underwriting as reflected in prepayments in the portfolio, which stood at INR980 crores in our new real estate books in some section, which illustrates the credit quality of the underlying borrowers. We disbursed INR1,798 crores in quarter three of FY'24, of which INR1,005 crores was disbursed in the month of December 2023.

The average ticket size is around INR157 crores for real estate loans and INR57 crores for corporate mid-market lending highlighting the granularity nature of the portfolio. We will further build this book in a calibrated manner while capitalizing on the market opportunity.

In our legacy business, we have achieved an accelerated rundown of wholesale 1.0 AUM, which is down 57% since March 2022 in line with our strategic focus. In the last few quarters, we generated gross liquidity of INR7,100 crores. Wholesale 1.0 AUM, excluding non-yielding assets, such as Stage 3 assets, security receipts, land receivable assets and DHFL book put together, stood at about INR11,197 crores with an average yield of 11.6%. Our Stage 2 and 3 AUM reduced 54% year-on-year to INR4,721 crores with a provision coverage ratio of 32% combined.

Wholesale SRs have reduced by 6% since end Q1 of FY'24, led by cash realizations of INR909 crores. As resolution process continues, we expect our SR portfolio to reduce in the near term by a combination of sales, enforcement, and collections at our carrying value. For the AIF schemes impacted by the RBI circular, as alluded by Chairman, we are confident of full recovery from these investments.

We have received INR1,137 crores as interest and principal payment on these units so far. That ends the update on wholesale, and I'm going to hand over to my colleague, Upma, to cover financial performance.

Upma Goel: Thank you, Yesh. Now I'll talk about the financial performance. In Q3 FY'24, our NIM expanded by 28 basis points quarter-on-quarter supporting the NII growth of 11% quarter-on-quarter to INR835 crores.

Fee income was up 23% quarter-on-quarter to INR155 crores further boosted by one-off interest income on IT refund of INR64 crores. Our other income was up 53% quarter-on-quarter to INR251 crores.

Our opex was up 5% quarter-on-quarter to INR697 crores led by growing retail business and our investments in distribution and tech platforms. Thus, our pre-provisioning operating profit went up 55% quarter-on-quarter to INR389 crores. If we exclude one-off incomes, which are dividend income and the interest income or IT refunds totalling to INR73 crores. Pre-provisioning operating profit was up 33% quarter-on-quarter to INR316 crores.

Credit cost was at 1.6% versus 1.2% in H1 FY'24, which is in line with our expected range for credit cost. We made provision of INR3,540 crores, pursuant to the RBI circular on investments in AIFs. These pertained to two of our AIF schemes where we have taken full provision and also reduced them from our reported AUM.

Excluding the impact of AIF provisions, our Q3 FY'24 PAT stood at INR290 crores versus INR48 crores in Q2 FY'24. Excluding the benefit of one-off tax refund and interest income on it totalling to INR184 crores, our profit after tax stood at INR119 crores versus PAT of INR113 crores on a comparable basis in Q2 FY'24.

Now let me talk about the liability management. We continue to focus on diversifying our borrowing mix, including securitization. Our fixed to floating rate debt mix improved to 51:49 and will continue to see further improvement over coming quarters.

Our cost of borrowings was largely stable at 8.7%. Our ALM is well matched with positive gaps across all buckets. To conclude, the performance of the company in Q3 and nine months of FY'24, highlights the progress of the company which is better than the medium-term guidance on AUM growth and mix. The trends on operating profitability and asset quality are also aligned with our strategic road map. We are confident on the company continuing in the growth mode and improving profitability to our stated goals.

With this, I would like to open the floor for questions. Thank you.

Moderator: The first question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: Hi, good evening. A couple of questions. The first one on your AIF investment. So for the two investments, you have made a provision of around INR3,500-odd crores. So if you can just sort of provide some colour around the life cycle of the AIF and kind of tentatively when one can expect the recoveries to happen? That's one.

And the second one would be, if I look at Slide 12 where you have sort of given in one of the charts, profits after adjusting for one-offs. So if I see there, the jump from Q1 to Q2 hedging material. Now Q2 to Q3, like INR113-odd crores going to INR119 crores, that is just like a 4% -5% sequential increase despite the fact that the PPOP level, the growth has been kind of a 33-odd-percent. So that is basically due to higher credit cost.

And I recall you have been talking about slightly normalization of credit cost in the retail that was going. So does that mean, if this is a sort of a trend that the underlying profitability emergence is going to be much slower. Because I mean like Q3 seeing a normalized credit cost and then the PAT or the adjusted PAT is not growing in line with PPOP. So can you just provide some colour how do you see that? I mean, with the credit cost normalizing going further, how sort of your underlying PAT going to develop? Thanks.

Yesh Nadkarni: Thanks for your questions. This is Yesh. I will take your first question and let Jairam run with the second one. On AIF, just to give you a background on these AIFs. These AIFs actually came into being back in 2020. So this has been in existence for three-odd years now. When these AIFs were formed, the portfolio comprised loans, about 35-odd loans, which were headed by the AIF in which we had the exposure.

Today, out of 35 loans, 22 loans have exited and what's left is 13 loans. Proceeds of these 22 exited loans have been used to bring down the size of the AIF. When they were formed, it was roughly in the range of INR8,000 crores to today, which is INR3,500 crores, which is the amount we have, as a prudent measure in response to RBI regulation taken through the P&L.

As far as the plan is concerned, it was always our intention to work on the underlying assets as part of wholesale 1.0 recovery as a strategic plan and bring this portion of the balance sheet down systematically over the next few quarters. That plan hasn't changed at all. We continue to work with underlying loans and underlying partners. We continue to expect liquidity of the underlying assets to occur as we go from here. These loans are all performing. We get paid interest and we get paid principle as they fall due, and we are quite confident that we will recover pretty much everything that we have taken up on this quarter as we go from here.

So I'll just take a pause here to make sure that you understood various aspects of what I just said. And if you have any queries.

Jairam Sridharan: If I may add one other point to that Yesh, a data point that we have shared in the presentation. We have so far recovered INR1,137 crores to our Piramal account from these AIFs. This is on Page 11 of our earnings presentation. You see the number INR1,137 crores of cash recovery has happened to Piramal account from these over the last few years.

In this current financial year, in the last three quarters put together, we have recovered INR700 crores, so that gives you a sense that this is not kind of a one-off that suddenly you've got some money, but we continue to recover. Over the last three quarters, we have recovered INR700 crores. So that's the pace at which is going.

You can never be super certain about exactly the pace at which it will move forward. But let me just state the fact that over the last three quarters, we have cumulatively recovered INR700 crores or received INR700 crores. Recovery is the wrong word here. These are not stressed accounts.

So we have received INR700 crores of cash flow from these accounts in the last three quarters. We would also like to reiterate that the INR3,500 crores of adjustment that we have taken through P&L into our network is an accounting adjustment. This absolutely does not change the economic characteristics of the underlying asset.

So the cash flow that we have been receiving in the past, there is no reason to believe that anything much is actually going to change in that regard, except that because we have now written down the entire AIF to zero, everything that comes in, in the future in one form or the other comes through P&L directly. So that's the change that you will see that we will continue to see some extraordinary positive inflows coming in from these AIF flows, which would otherwise have shown us normal regular income. You will see them now as extraordinary item for the quarters to come. I hope that clarifies the part on the AIF side.

Let me do the credit cost side or the PAT side thing as well, and then we will see whether you have any further follow-ups. On your point on profitability, you're absolutely right. Our PPOP increased materially during the course of the quarter. However, our profit after taxes did not materially change. The delta, of course, is caused by credit cost, which went up by about INR60 crores. The core credit cost went up by about INR60 crores during the course of the quarter from roughly INR200 crores to INR260 crores, give or take. So a INR60 crores increase in credit cost happened.

The gross credit cost is about the same. Nothing much has changed here. What has happened is that there are recoveries that happen in our wholesale business which tend to be bulky. So sometimes you get big bulky recoveries, and sometimes you don't. And last quarter, it just so happens where we have had INR140 crores of higher recoveries than we had in this quarter and that explains all the difference and more of what you're seeing in credit costs.

So basically, smaller recoveries pulled from wholesale 1.0 is what explains all of the difference, INR140 crores of extra came from there. So that's the reason why you see the PAT not growing as well. But this recovery suffers a bit bulky, especially in wholesale 1.0, it's bulky, sometimes it comes and sometimes when it comes to be a large number. So I don't think this changes anything with respect to our long-term profit trajectory. Our long-term profit trajectory continues to be strong, and you should continue to expect strong improvement in the profit profile in the quarters to come.

Avinash Singh: Yes. A quick follow-up, just accounting perspective. I mean whatever income that will come from this INR35 billion of NPA declared, AIF provided. So how will you account, I mean whatever you are getting back the principal or the interest. How will it get accounted?

Jairam Sridharan: See, we don't know yet is the honest truth. Like there will be some part of it, which will show up as interest, there will be some part of it which will show as extraordinary income, there will be some part of it which will show up as other income. So we don't know. We need to work with our auditors. The one thing that is for certain is that all of it will come through P&L, because the hit has gone through P&L. So all of the inflow will also come through P&L.

And so we will continue to make disclosures which make it very clear how much of the income that we make from next quarter onwards is coming from this AIF too. We will try and keep it separate as much as possible so that you can see it clearly. We will try and make those disclosures. As that happens, the capital that has gotten consumed, we have consumed about 400 basis points of capital because of this AIF thing, that capital will also keep getting released as the recoveries come. We will try and be as clear about this as possible in our disclosures in the quarters from now.

Avinash Singh: Okay, thank you.

Moderator: Thank you. Next question is from the line of Piran Engineer from CLSA India. Please go ahead.

Piran Engineer: Yes, hi. Thanks for taking my question. A couple of things, and I think I probably might have missed this in the initial comments. Our wholesale Stage 2 has seen a jump Q-on-Q. Have you all commented on that? Have I missed anything here?

Jairam Sridharan: No, you haven't missed anything.

Piran Engineer: Okay. Can you then help clarify, please?

Yesh Nadkarni: So we had one account which slipped into Stage 2, and that's what explains the increase in the Stage 2 bucket. And corresponding with that, we have obviously taken more provisions.

Piran Engineer: Okay. Any colour on the industry, etc., what is the timeline that you're looking at for an upgradation? Or is this more a watch list account that would slip into NPA next quarter?

Yesh Nadkarni: No, it's actually the mismatch in the cash inflow from the underlying asset, which caused this. And we have changed our ECL criteria where once the account slips Stage 2, we actually keep it there for six months at the very least, before reverting it back to Stage 1. So we don't see an upgrade happening for the next couple of quarters at least. But we don't see this slipping into Stage 3 either.

Jairam Sridharan: Piran, it is a wholesale 1.0 real estate asset. So there the industry is real estate and it's a real estate account.

Piran Engineer: Got it. Okay. Jairam, just on unsecured loans. Now you've got a book of INR10,000 crores. A couple of things. One is, how should we think about economics in the own channel versus the fintech channel? That's one. Because obviously, you mentioned yields of 18%, 19%. But through the fintech channel, I would assume it's actually much lower.

And secondly, our sub INR50,000 digital lending book is also quite large now INR4,000 crores. How do we think about, given the RBI, let's call it actions concerns over INR50,000 unsecured loans, how should we think about your strategy?

Jairam Sridharan: Okay. I'll ask your second question first. The less than INR50,000 loan book AUM is only INR600 crores. So please look at Page 27 of our disclosure. The total unsecured book of INR10,000 crores, split that into two parts. Consumer is INR6,000 crores and business is INR4,000 crores. Within that INR6,000 crores of consumers, about INR600 crores is less than INR50,000 and the rest, like INR5,500 crores is greater than INR50,000. So less than INR50,000 consumers is only INR600 crores of exposure.

Needless to say, that's much higher delinquency. The delinquency, as again you can see on Page 27, we have been able to bring down quite materially in the last two quarters through a series of actions that we have taken. However, it is still high. And this part of the book is essentially sort of a flywheel kind of business, you're going to originate a bunch of customers here and only a small part of them are going to flow through the funnel to become large ticket customers of yours in the future. So that's the way to kind of think about it.

Piran Engineer: So Jairam, on your Slide 27, the digital loans average ticket size of INR50,000, I know the average, so some will be above and some below, and that's about 38% of your total unsecured AUM.

Jairam Sridharan: Yes, but digital channel. There are two ways to look at it. One is by channel and one is by ticket size. The ticket size uncovers the whole thing. It's digital, non-digital everything put together, INR620 crores is AUM, which is less than INR50,000 in ticket size.

Piran Engineer: Okay. At disbursement, right? It's not that after a rundown, it comes below 50,000?

Jairam Sridharan: No, that is disbursements. It's all disbursement.

Piran Engineer: Okay. And then secondly on fintech and non-fintech.

Jairam Sridharan: Yes, so the fintech business, broadly speaking, the fintech business is being done at roughly 14%, 14.5% IRR, right? But as you can see on the fintech slide page 29,the fintech business is largely protected through FLDG. There's a new disclosure that we have added this time. Just to give people a bit of sense of how that digital business is going on. So we are currently about 90% of the fintech business is protected through FLDG, which essentially means I'm not taking any of the credit cost. I'm only facing record on that 11%, which is up there.

So essentially, I have a 14% IRR business with pretty much no opex and no credit cost. So currently, it tends to be very profitable. So that's kind of the way to think about the fintech business that we're able to originate a lot of customers, and we're able to do that at reasonably good economics without increasing your opex without really increasing your credit costs at all.

So right now, business done through partnerships is better economics. However, in the long run, you do want to have your own channels originating a lot of these businesses, so you will continue to see us invest in own channels and continue to bring that up.

Piran Engineer: Got it. Okay. This is useful. Thanks a lot, Jairam.

Jairam Sridharan: Thanks, Piran.

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

Nischint Chawathe: Just one from my side. You mentioned that AIF has your exposure of INR3,142 crores. I just wanted to know what is the total size of the AIF out here, including the other investors?

Yesh Nadkarni: So at inception, the total size across both the AIF was about INR8,000 crores, right, of which the first one was INR7,260 crores. What's left now on our balance sheet is INR3,500 crores. And all of that attribute to our investment or our holdings. So there is no third-party investor left in the AIF anymore. So all the assets and the cash flows that the assets generate are to our benefit going forward.

Nischint Chawathe: The net tranche and the senior has paid off.

Yesh Nadkarni: That is correct.

Nischint Chawathe: So I think whatever is now sort of in the AUM is completely blocked.

Yesh Nadkarni: That is correct.

Nischint Chawathe: And you said that you received around INR800 crores in the last three quarters on this.

Jairam Sridharan: INR700 crores in the last three quarters.

Yesh Nadkarni: But in all INR1,130 odd crores of which the INR700 crores is part.

Nischint Chawathe: To say that, this is sort of run down over the next, whatever, 10- 12 quarters or so.

Yesh Nadkarni: Our plan is to actually run it down more sort of faster and quicker than that. I think we don't give specific guidance in terms of the velocity at which this will, but all I would say is that these assets have been in the portfolio for some time they have been performing. Our partners as well as we have received cash coming from this portfolio, and our effort is going to be on receiving cash from the portfolio over the following quarters.

Jairam Sridharan: And we'd like to reiterate that INR700 crores cash flow last three quarters, it gives you a good sense of the pace at which stuff is coming, that should provide a decent sort of anchor for you to think about going forward. And everything that comes in here is directly to P&L.

Nischint Chawathe: Some colour on the underlying assets. I mean, how many of these projects would be already completed, under completion, via completion or anything else that you could share?

Yesh Nadkarni: So these are 13 different loans. All of the loans are residential real estate project finance loans, and there are different stages of execution. One of these underlying loans are backed by undeveloped or early-stage land parcels. These projects have been in production for some time at different stages, as I said, and therefore cash generation has been happening here.

Nischint Chawathe: That was my question. All the best.

Yesh Nadkarni: Thank you.

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

Kunal Shah: Yes. So particularly with respect to the Stage 2 assets, almost like INR7,000-odd crores kind of increase. So if we look at it in terms of the provisioning which we were carrying on this asset and how much that would have actually impacted the credit cost? Because earlier you mentioned it was largely because of the over recoveries on account of which the sequential credit cost seems to be up. But was there any increase on account of the higher provisioning towards this particular asset?

Yesh Nadkarni: The delta is INR700 crores not INR7,000 crores.

Kunal Shah: Sorry, INR700 crores yes.

Yesh Nadkarni: So a small part of it, it was due to this, but not a material one.

Jairam Sridharan: Kunal, the total provisions in the quarter about INR250 crores, right? If you see Stage 2 addition is about INR150 crores -INR170 crores. And the rest is write-offs. Basically, that's what has happened. And so yes, there is this INR700 crores that has come in has gotten provided for at the rate of roughly 30%. So roughly INR200 crores is the provision there, and the rest is some write-offs.

Kunal Shah: Okay. So there was nothing which was there in the Stage 1 as such, okay. When it was in the Stage 1, it was still provided at the regular run rate of 3-odd percent or so.

Jairam Sridharan: Yes, roughly 5% because these are wholesale accounts, so roughly 5%.

Kunal Shah: And then incremental you would have done.

Jairam Sridharan: We have also done 60%.

Kunal Shah: Yes. So INR200 crores coming particularly from this and balance is coming from the write-off. And again, getting on to the write-off. So this is again getting into the lower ticket sales because we are seeing a sharp decline out there in terms of the 90-plus delinquency. Out there, what we have shared in our presentation, particularly the less than INR50,000. It's coming up from 4.4%, maybe that proportion is still quite low, in fact at INR600 crores.

Jairam Sridharan: But you're right. There are a lot of write-offs out there. But it's not purely because the write-off that the ratio is coming down. If you see the denominator has been very flat, it's been roughly INR550 crores to INR600 crores denominator throughout for the last five quarters. That less than INR50,000 crores. So the denominator is roughly flat, yes.

It is just that in these really small ticket cases, you either do a very quick settlement with the customer, take whatever money you can and you go away or you take the write-off and actually close the account and move on. You can't actually sit with these accounts for long periods of time because it doesn't work. You're never going to recover any money. If you don't recover it very quickly, you're not going to recover it at all.

Kunal Shah: Sure. And lastly, in terms of the increase in the borrowing cost and maybe the bank borrowings, how much is the increase that we have witnessed because we are not seeing much of the increase in the cost of funds, it's hardly.

Jairam Sridharan: So you've seen cost of funds have gone up at a stock level by about 10 basis points. Marginal costs are indeed high. I have to say, 8.70 is where we are at a stock level. But on a flow level, it's 9.25 to 9.5 is kind of where margins are. So margins have gone up by 25 basis points, roughly 20 basis points ever since RBI's NBFC risk-weighted thing happened. So yes, so it has gone up a little bit since then.

Kunal Shah: Okay. So 20, 30, and that will get reflected in terms of the overall borrowing cost as well?

Jairam Sridharan: Let's see. There's a lot that is going to happen. Let's see what RBI themselves do in the coming few quarters and the few policy meetings that are lined up. If, as we expect the second half of the calendar year sees RBI changing stance towards being a little bit more accommodative that will completely overwhelm all these small deltas, and you should see cost of funds start to decline at that point.

Kunal Shah: Sure. Got it. Okay. Thanks.

Jairam Sridharan: Thanks, Kunal.

Moderator: Thank you. Next question is from the line of Harshvardhan Agrawal from Bandhan Asset Management. Please go ahead.

Harshvardhan Agrawal: Hi, sir. Thanks for the opportunity. Just wanted to understand on the stake sale that we have done from Shriram, any residual stake that we are left with in any of Shriram entities?

Jairam Sridharan: Yes, Harsh. All our ownership in the general insurance and life insurance businesses of Shriram remain intact after the sale. So those are not assets that we have sold yet. So you will continue to see the general and life insurance businesses on our book. They will be held at a total cumulative book value of INR1,709 crores.

Harshvardhan Agrawal: Okay. So to stake that you have sold, that was largely in the lending entity of Shriram?

Jairam Sridharan: No, it's not in the lending entity. It's a Holdco entity. My colleague Rupen can explain a little bit more. Just give me one moment.

Rupen Jhaveri: Entity called Shriram Investments Holdings Limited, this entity held a bunch of their investments, including some stake via this entity into the main lending entity, called Shriram Finance. They also held their brand and associated cash flow of that group in this entity. And there are a bunch of other investments. So we just monetize this particular company. This company was spun out as part of the demerger that happened in December '22, which led to the creation of SFL, LI, GI, and this company.

Harshvardhan Agrawal: Sure. That helps. So just one last quickly. What is our stake in that in the insurance entity now as the percentage?

Rupen Jhaveri: On beneficial interest rate is about 13.3% on GI and 14.9% on LI.

Harshvardhan Agrawal: Sure. Great. Thanks a lot, sir.

Moderator: Thank you. The next question is from the line of Praveen Rathi from Pravin Rathi & Associates. Please go ahead.

Praveen Rathi: I have two questions for Jairam. First, what is our current position pertaining to deferred tax assets, when can we see it to be accounted for in our books of accounts? When will DTA availability will get time barred? And the second one, what is the status of Andheri land bought a few years ago, when can we see it to be monetized?

Jairam Sridharan: What was your second question? I couldn't hear your second question. Can you please repeat that?

Praveen Rathi: What is the status of the Andheri land bought a few years ago? When can we see it to be monetized?

Jairam Sridharan: Got it. Okay. On the DTA, deferred tax assets, Q4 is the timeline. We will get to know. We are in active conversations with the tax authorities, everything will pass the time bar in the next few weeks actually. And so in Q4, we will find out the final details. So you should expect to know that and see that. On land, Yesh you want to take that?

Yesh Nadkarni: Yes. So as we said earlier, land monetization is work in progress, and we don't have anything material to report at this moment, but we will keep you updated as we make progress.

Praveen Rathi: Can we see another risk adjusted discounting cash flow for that asset where we have done earlier?

Yesh Nadkarni: Taking all the options, but as I said, nothing material to update at this moment.

Praveen Rathi: Okay. Thank you.

Jairam Sridharan: You will see, by the way, that this quarter, we have made a new disclosure, which very cleanly and clearly shows you all the various aspects of our legacy business and how that has actually changed. This is Page 7 in our investor presentation, please take a look at that. That should give you a good sense of how all the various legacy assets have moved. As you can see, the legacy AUM has fallen very softly over the last one year, and we expect that level of monetization to continue in the quarters ahead.

Praveen Rathi: Okay. Thank you.

Moderator: Thank you. Next question is from the line of Vinod Jain from WF Advisors. Please go ahead.

Vinod Jain: Good evening. My question relates to loss on derecognition of financial instrument. What is the nature of this net loss on derecognition of financial instruments under amortization cost category?

Moderator: Vinod, sorry, we are losing your audio, there is slight disturbance from your line.

Jairam Sridharan: Vinod-ji, I think I got the essence of your question. So I think you were talking about our SEBI disclosures where we have a loss on sale of financial instruments. All this is, by the way, captured. This is one part of the overall credit cost picture that we shared. When we say that the overall credit cost for the quarter is INR250 crores, all this is captured as part of that. This subpart is any losses that you take when you sell any one of the investment instruments that you might have.

In our case, during the course of the quarter, there was some sale of security receipts that happened, which came with a little bit of a hit, which is incorporated here. However, I want to reiterate that all this is part of the INR250 crores of credit cost that we mentioned. So you don't need to go beyond the INR250 crores. Everything that is there in the SEBI disclosures will all tie up to the INR250 crores eventually.

Vinod Jain: Okay. Understood. And how is this line item expected to behave in the coming quarters?

Jairam Sridharan: See, we have guided on credit costs overall as being 1.7% to 2% at the overall level. This quarter, we had 1.6%. And two quarters, we have been in the 1.2%, 1.3% kind of range. Let's see in the quarters if we have strong recoveries in our wholesale business, you're in the 1.25% kind of range. And when we have slightly less recovery, we are in this 1.5% kind of range. You should expect us to be roughly in that range in the times ahead as well.

Vinod Jain: Understood. Okay, that answers my question.

Moderator: Thank you. Next question is from the line of Arpan Agrawal, individual investor. Please go ahead.

Arpan Agrawal: Hi. Good evening. My question is on profitability on the interest-earning assets, so we can ignore the one-offs and the non-interest earning assets. And I'm already assuming that the long-term opex will be around 3% and credit cost will be around 1.5%, 2%. So my question is, do we expect profitability to increase in the long term, either due to borrowing costs going down or see it increasing?

Jairam Sridharan: Yes, absolutely, Arpan. And you're pointing out all the right things. What do we need to see for us to build a 3% to 3.25% ROA, like which is what we have guided, you need to see, first and foremost, opex needs to come down from its current level 3.8% to a little bit more like 3%. Number two, you need to see yields go up. Yields plus fees, I would put that together. Again, you're seeing that happen but you need to see more of that take place.

And hopefully, a little bit of moderation in cost of borrowings. The three things if they happen. And even if credit costs stay roughly where they are right now, you will see us get to 3% to 3.25%. So those are the 3 things that fundamentally need to change. And the one thing that doesn't need to change is basically a credit cost, which needs to be somewhere in the 1.5% kind of range. And we have good line of sight on all 3 of those items.

Arpan Agrawal: I have a follow-up question. So is it possible to provide the average yield as a percentage of the interest-earning assets?

Jairam Sridharan: Yields. There is one disclosure. Look at page 36, that will show you in our legacy business, what the yields are for the performing part or the loans part of the legacy business and everything else, of course, it doesn't contribute to yield. So 11.6% is the yield that we are getting on the loans and the rest of the book about INR7,500 crores does not contribute to yield.

Yesh Nadkarni: But this is on the legacy book, right? So on wholesale 2.0 new business is obviously different, close to 14% and on retail is different.

Arpan Agrawal: All right. Thank you.

Moderator: Thank you. Next question is from the line of Aagam from Flute Aura Enterprises. Please go ahead.

Aagam: Thank you for taking my question. Just wanted to check if there's any update in terms of the upgradation of the long-term credit rating of the company.

Jairam Sridharan: Nothing to report just yet. See the credit rating agencies, just like all of you in the equity market, watching our numbers, they want more clarity on things like AIF and credit cost trajectory and our legacy business, etc. as well. So some of our disclosures this time are also aiming at providing more clarity to some of these constituents. And we continue to have those conversations but nothing to report at this moment.

Aagam: Understood. Thank you.

Moderator: Ladies and gentlemen, that was the last question. I will now hand the conference over to Mr. Ravi Singh for closing comments.

Ravi Singh: Thank you everyone for joining this call today. If you have any further questions, please reach out to the Investor Relations team, and have a good day. Thank you.

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