"Piramal Enterprises Limited
Q4 FY '24 Results Conference Call"
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Moderator: Ladies and gentlemen, good day, and welcome to Piramal Enterprises Limited Q4 FY'24 Results 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Ravi Singh: Thank you, Yashashri and hello everyone. Welcome to our earnings conference call for Q4 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 of PCHFL; 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 thoughts. Thank you, and over to you, sir.

Ajay Piramal: Good evening. Welcome on this call following our board meeting this morning. Before we delve into the financial results, I wish to speak about the corporate reorganization that the Board has approved today. Led by an intent to further simplify our group structure and secure seamless regulatory compliance, our Board of Directors has today approved the composite scheme of arrangement for a merger of Piramal Enterprises Limited, PEL, with its 100% subsidiary, Piramal Capital and Housing Finance Limited and renaming Piramal Capital and Housing Finance Limited as Piramal Finance Limited.

Ahead of the merger, PCHFL will seek an NBFC-ICC license. As part of the merger consideration, PEL shareholders in lieu of every 1 equity share of PEL will get 1 equity share of Piramal Finance Limited and subject to RBI approval, 1 nonconvertible, noncumulative, nonparticipating, redeemable preference share of INR67 of Piramal Finance Limited. This scheme would also address the requirement of PCHFL being an upper layer NBFC to be listed by September 2025. We expect the entire process to be completed in approximately 9 to 12 months.

Now we move on to the company's performance during the fourth quarter and for the full year of FY'24. I will also highlight some of the important slides for your reference as we go through these comments. Over the last 2 to 3 years, the company has gone through a business and management transformation, and this process accelerated further in the financial year 2024. In this context, the fourth quarter and FY'24 were remarkable in three key areas across our growth and legacy businesses.

As you know, our growth businesses include Retail and Wholesale 2.0 and legacy includes

Wholesale 1.0. Firstly, the sustained AUM ramp-up in the growth business. This year also saw that now we have started to separately discuss the profitability of the growth business as an indication of our future profitability. And thirdly, in the fourth quarter of FY'24, the company took a strategic decision to further accelerate the rundown of legacy business and lower the nonyielding proportion of the book.

Some of the details on these fronts, I would like to discuss with you, in FY'24, our growth business grew by 55% year-on-year to INR 54,273 crores. It now forms 79% of our AUM versus 34% 2 years ago. Within growth business, the retail AUM grew by 49% year-on-year to INR47,927 crores. Our mortgage AUM, which includes housing and LAP, stands at INR32,612 crores, up 38% year-on-year in FY'24 and forming 68% of our retail AUM.

The Wholesale 2.0 AUM has grown to INR6,347 crores, of which 67% is in real estate loans and 33% is corporate mid-market loans. With the fourth quarter results, we have incorporated one of the most common feedback from investors and the analyst community. We are starting to disclose profitability trends of the growth business, even as -- its still on a path to achieve steady-state profitability.

Please refer to the Slide #8, 13 and 14 of the results presentation. In the growth business, we reported FY'24 PBT of INR 1,044 crores versus INR751 crores in FY'23. Under this AUM yields were broadly stable year-on-year, an inch up in cost of funds led to some NIM compression.

However, with fee income scaling up and OpEx ratios moderating, the PPOP to AUM was stable year-on-year at 3.3%. FY credit cost was 0.9% versus 0.4% in FY'23, as these were unusually large recoveries in FY'23, which have now normalized. While we need to watch out for the impact of cost of borrowing in the near term, the improvement of our OpEx ratios should drive profitability improvement over the medium to long term. Growth business is a segment that we're investing into and in next 1 to 2 years, you should expect this to be 100% of our lending business.

Moving to the legacy business. In the fourth quarter FY'24, we took a strategic decision to further accelerate the rundown of the Wholesale 1.0 book. A smaller legacy book, we believe, should also benefit our cost of funds over the medium to long term.

As discussed on Slide #9, during the fourth quarter '24, the legacy of AUM reduced from INR18,693 crores to INR14,572 crores during the quarter. As we accelerated the rundown, there was an increase in credit costs from this book. In fourth quarter, in particular, we resolved some of our large sticky assets, and we're also trying to conclude a few deals in our land and receivable book. Thus, we reported a loss of INR1,351 crores in the legacy book in the fourth quarter FY'24 with profit from our growth business and other gains in the P&L, the fourth quarter FY'24 consolidated PAT stood at INR137 crores as shown on the Slide 9.

Shown on the Slide #10, we expect the legacy book to further reduce to less than INR6,000 crores to INR7,000 crores or less than 10% of our total AUM in FY'25. Our objective is to make this book inconsequential in FY'26. This may lead to some incremental credit cost.

However, do note that we carry provisions of INR2,516 crores against the legacy AUM. In FY'25, we expect further gains from the AIF book, which was written off pursuant to the RBI circular in December 2023.

There are also potential gains from monetization of our residual stake in Shriram. Assessed carry forward losses of INR10,627 crores will also be available starting from FY'25. On Slide 11, we discuss our AUM growth expectation of ~15% to INR80,000 crores in FY'25, despite the rundown in legacy AUM. The retail wholesale mix will be closer to 75-25. OpEx to AUM in growth business, which is a key driver of profitability is expected to keep moderating by 4.6% by fourth quarter FY'25 versus 4.9% in fourth quarter FY'24.

Against the FY'28 targets, we highlighted last year, we have made faster-than-expected progress on the AUM growth and AUM mix. We now expect FY'28 AUM to be $1.5 trillion versus the earlier expectation of $1.2 trillion, $1.3 trillion. We expect the retail wholesale mix of about 75-25 versus the earlier expectation of 70-30. Our steady state ROA target is unchanged to 3.0% to 3.3% in FY'28. However, the assessed carry forward losses of INR10,627 crores will now be available over many years and provide an upward potential to ROA and PAT.

Finally, I would like to thank investors and analysts for all the feedback and patient support we have received during a difficult journey of transformation in the last 2 to 3 years. In the last stretch of this journey, I am encouraged by the solidifying performances of our new businesses and the confidence that overhang of our legacy challenges should largely disappear this year.

With these comments, I now hand over to Jairam and Upma to discuss some business-specific highlights. Thank you.

Jairam Sridharan: Thank you, Chairman. This is Jairam here. I will walk through the business performance, both in retail lending and in wholesale lending. Yesh is unavailable today due to some external circumstances. Let me start with some commentary on the retail lending business. In the financial year just concluded, AUM of the retail business grew 49% year-on-year to INR48,927 crores. Our disbursements during the course of the year stood at INR28,555 crores, a growth of 55% year-on-year.

Our flagship business continues to remain, mortgages comprising our housing loans business and our LAP business. Mortgages grew 38% year-on-year to INR32,612 crores, and this now forms 68% of our retail AUM. If I could point you to Slide 27 in our investor presentation, you will see the performance of our mortgage business on this slide. The book continues to experience very strong asset quality with declining delinquency ratios and a low 90 DPD today of 0.2% across both housing and LAP businesses. There has been a lot of talk in recent months about unsecured lending. If you want to look at Slide 31 and 32, you will see a discussion of our unsecured book within the retail business. Piramal today has an unsecured retail book of INR11,195 crores across 4 product categories, 2 in consumer side and 2 on the producer side or merchant side.

During the financial year 2024 through various measures, we have tightened credit underwriting and our disbursement volumes have been flat in Q4 compared to Q3 levels. Simultaneously, the risk metrics have continued to remain benign. The 90-plus delinquency ratio has been flat between 1.4% and 1.6% throughout the year. On the digital part of the business, 90% of our loan disbursements come through credit protected partnerships as opposed to own balance sheet risk partnerships.

If I could now point your attention to Slide 33, that gives you a bit of a sense of the progress the business is making on core profitability dimension. You will see that the long-term operating profitability of the business continues to head in a favourable direction.

Yield and fee income have been stable at very healthy levels. There have been some incremental income streams that have emerged over the last few quarters. And OpEx ratio, which we have mentioned in the past, is going to be the core of how profitability gets to steady state end state level. You see it gradually moderating from the high of 6.5% in the fourth quarter last year to 5.3% on a full AUM basis and 5.5% on an on-balance sheet AUM basis in fourth quarter of this year.

One important point to note is that on an overall profitability basis, the retail business had a strong tailwind from POCI book and the recoveries there in financial year '23. As you will see on Page 8 on the credit cost dimension, where we had a lot of recoveries coming from POCI last year in FY'23. In FY '24, that tailwind reduced. So POCI became a progressively smaller part of our AUM and a smaller part of the profit generation within the growth business. That trend continued strongly in FY'24 as the non-POCI book has become more and more profitable.

The PBT contribution has now fully shifted to the core retail business. This business achieved breakeven in the first quarter of financial year '24 and has since been making steady progress towards its target profitability. As we continue to expand our retail lending business, we are also investing in manpower, branch infrastructure, technology and analytics in our retail lending business for future growth.

On Slide 25, you will see the growth in our network. We have added 83 new branches in this financial year. In our branch network, 39% of branches are currently less than 2 years old. This makes 30% in the fourth quarter of last year. As new branches mature, we expect steady improvement in overall branch productivity. This will be the key driver of improvement on an ongoing basis in our OpEx to AUM ratios.

Shifting gears to our wholesale lending business. On the growth side, Wholesale 2.0 AUM continues to focus on building a granular and high-quality portfolio. Our Wholesale 2.0 AUM grew 14% quarter-on-quarter to INR6,347 crores across real estate and corporate mid-market loans. We disbursed INR1,448 crores in the fourth quarter of FY'24. Through the year, we have received prepayments worth INR2,314 crores in our new real estate book, which illustrates the credit quality of the underlying borrowers.

Our Wholesale 2 loans continue to perform very well in line with or ahead of underwriting as reflected in strong prepayments in both sides of this portfolio. The average ticket size in our Real Estate 2.0 business is around INR141 crores and in our corporate mid-market lending business at INR59 crores on a sanctioned basis. We intend to continue to build this book in a very calibrated manner, while capitalizing on the available market opportunities.

We have spoken already about our Wholesale 1.0 legacy business, but just to reiterate some high-level bullet points here, the book was down 50% year-on-year. It is down 66% over the last 2 years. This reduction generated liquidity of over INR10,000 crores in FY'24. Following the provision hit of INR3,540 crores, we took on AIF last quarter.

We did two things during the course of this quarter. First, we wrote back provisions of INR1,067 crores pursuant to RBI's clarification on how the AIF circular was to be interpreted. Second, we also made cash recoveries of an additional INR450 crores from this portfolio. So overall, we wrote back roughly INR1,600 crores on this book through various means through the course of this quarter.

Our SR portfolio reduced by 10% over the course of this year from Q1 to INR4,847 crores, led by cash realization of over INR1,400 crores during the year. On legacy AUM, our focus is to bring this portfolio below 10% of total AUM in the next year and make it insignificant in the year after.

So those were the operational details of the businesses. I'll hand over now to my colleague, Upma, to talk us through our financial performance and balance sheet numbers.

Upma Goel: Thank you, Jairam. Covering our financial performance. In addition to AIF recoveries and provision write-back, as highlighted by Jairam, we also concluded sale of Shriram Investments in quarter 4, resulting in the gain of INR871 crores. The company received an income tax assessment order for FY'21/'22, wherein it has been allowed an assessed carry forward loss of INR10,627 crores. This will be available for us starting from FY'25.

Moving to our financial performance, I would like to bring your focus to our growth business performance. With Q4 results, we have disclosed pro forma profitability trends across growth business, legacy business and others. Please refer to the Slide #9 in our investor deck. In growth business, we reported Q4 of FY'24 profit after tax of INR204 crores. Legacy business reported a loss after tax of INR1,351 crores in Q4, which includes AIF related gain of INR1,135 crores net of taxes.

Our investment in Shriram Group yielded the PAT of INR685 crores in Q4. Balance other businesses a yielded the PAT of INR599 crores, led by, tax write-back and one-off DTA and tax credit of INR640 crores. Thus total Q4 FY'24 PAT stood at INR137 crores. Annual FY '24 loss after tax stood at INR1,684 crores, impacted by the net AIF provision of INR2,473 crores over Q3 and Q4 FY'24.

Our GNPA ratio was flat quarter-on-quarter at 2.4% and NNPA ratio declined 30 basis points quarter-on-quarter to 0.8%. Our net worth stood at INR26,557 crores with capital adequacy at 25.6% on consolidated balance sheet. On liability management side, there was an increase of 20 basis points quarter-on-quarter in our cost of borrowing. And our overall cost of borrowings stood at 8.9% led by system-wide increase in bank MCLR.

We continue to focus on diversifying our borrowing mix, including securitization. Our fixed floating rate debt mix improved to 50-50, and we'll continue to see further improvement over coming quarters. Our ALM is well matched with positive gaps across all buckets.

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

Moderator: We'll take our first question from the line of Avinash Singh from Emkay Global.

Avinash Singh: Couple of questions. The first one is on that overall credit cost or loan loss provision that had come in different shapes and colors, all put together, a number of INR3,354 crores that you have disclosed. Now the question is that, I mean, because over the quarters earlier, we have been saying that on the SR side markdown has already happened when sort of the ARC transaction was done.

On the land and receivable also, you had the comfort around valuation. Now if we see there is a kind of a INR660-odd crores kind of impairment taken on this land, additionally, there is something like a INR700-odd crores of management overlay that's been impaired. If I understand correctly, there is definitely some kind of fair value loss on the security receipts. So there are so many moving parts.

I mean, because this is such a large number, particularly. I mean the revenue cost of business, if I were to sort of look at your say, growth asset and all. And if I start to put some credit cost on a quarterly basis, that number you will do, is really small. So on the legacy, I am saying that it's such a large credit cost of provision requirement. I mean, what has happened, I mean, because this has been kind of been tracked continuously on a quarterly basis. And you were comfortable with obvious sort of other the valuations were or like the provisioning were.

Additionally, if I can sort of draw your attention to your Slide 9 left bottom table, the land and receivable of course, I understand that INR660 crores kind of an impairment you were highlighting, but that has overall gone down by nearly INR1,000 to INR1,400-odd crores. So if there have been some sort of a transition here some cash received or what else experienced on another INR600 crores, INR700 crores. These are my questions.

Jairam Sridharan: You're right. There is a large credit cost line item here. Let me start with the context of how we have been looking at our legacy book. Then I'll talk a little bit about our development on the plus and minus side during the course of this year, and then I'll explain the 3,400 -- 3,300 and try and put that in perspective. See, what we have said historically, and we continue to maintain is that we have adequate provisions plus pockets of value in the legacy book for it to self-fund a lot of the hits that we believe are -- might come as we accelerate the rundown of that book. What you see in this quarter is very consistent with that.

We had a lot of positives come from the legacy book in the form of various one-off gains. We applied a lot of those positives to the same book in the other pockets where we believe losses might come either right now or in the future. And on a net-net basis, we have been able to self-fund a lot of that rundown. This is a book that came down -- the legacy book came down INR4,000-odd crores during the course of this quarter. The book has come down from INR43,000 crores to INR14,000 crores over the course of the last 2 years. What we have remaining now is a INR14,000 crores book.

In that reduction, from INR43,000 crores to INR13,000 crores, we have, at various points, taken lots of fair value adjustments or provision hits. This quarter was no exception. In this quarter, as it happens, we had 3 or 4 significant one-off gains which are all listed on Slide 9 that you refer to.

On the same Slide 9, on the top right, you see the big positives that we got during the course of this quarter. We had the big Shriram gain, we had the AIF provision write back, we had the incremental recoveries coming from AIF, and we had some tax-related gains. All of that was adding up to some fairly substantial amount. All of this came from old legacy businesses and investments that we have made. What we have chosen to do is to apply a lot of that back towards accelerated rundown of our legacy book.

There are 3 or 4 big things that have happened -- actually 3 big things that have happened in the legacy book from a provisioning perspective, which basically contributes almost the entirety of the INR3,300 crores of provisions. The first, as you rightly pointed out, is about INR1,400 crores of fair value mark down in some of the receivables and other nonearning assets that we have. That's about INR1,400 crores of markdown that we have done. Some part of it is some transactions that have fructified or on the way to fructification. The others are just doing annual fair value markdowns. So together, we have taken INR1,400 crores markdown on those non-earning assets and reduce that value.

The second is other large and very chunky assets in -- which were already in Stage 2 and Stage 3 of our legacy book. In that, we have taken those accounts into onetime settlements and closed some of them taking the appropriate levels of provisions. That is about INR1,000 crores.

And the third point, again, you mentioned this is about INR700 crores of management overlay that we have voluntarily taken and added to the Stage 1 part of the legacy book. We have added it to Stage 1, but it's actually available for the entire book. We added it to Stage 1 because that's why technically we could add it. But what we have taken a provisioning buffer of a little over INR700 crores towards future rundown acceleration of the legacy book. So those are the 3 big things that have happened.

Stage 2, Stage 3 assets being taken to write-off and onetime settle, a little over INR1,000 crores. Receivables and other nonearning assets, about INR1,400 crores, and INR700 crores of judgmental sort of management overlay to increase provision buffer in the legacy book. Between that, that's about INR3,000 crores, a little over INR3,300 crores of cost that we have taken in that book.

So what -- and because we had -- there's roughly similar amount of onetime gains coming in through the course of the same quarter, we have been able to keep the whole process, net worth accretive on a net-net basis with a little over INR130 crores of profit accreting to net worth through the course of this quarter. So that's the way we have thought about it.

We believe that reducing the legacy book as aggressively as we can as long as we can do it in a calibrated fashion along with whatever one-off gains that we're able to get, et cetera is actually beneficial to us in the long run or medium run in terms of how the balance sheet looks in terms of its overall composition for you as shareholders or to lenders in the market. So that's the way we have thought about it. I hope that makes sense.

Avinash Singh: I mean probably, an elaborate answer. What, again, so sort of I would add. There is a bit of, I would say, the difference between my understanding and what sort of you're saying. I totally get your point when you said that you had one-off gains and that's why you chose to provide these things.

But that is a bit inconsistent when you're saying that the legacy book is self-funding because here, what I see that, yes, I mean, you have been able to provide all that from the gains. But then the Shriram Investment gains and all, they were not part of legacy because then there is sort of an inconsistency that in future you might have -- I mean if this kind of a trend continues. And in future, you might have to provide, again, something again, you will still have certain, I would say, non-strategic, but investment.

Because here, I have -- what I can see, that's the same Slide 9 that legacy, yes, the AIF reversal and recovery from AIF is a part of that wholesale book, certainly. But that was not -- I mean, with that only, you have almost like INR1,350-odd crores strain on profitability for that legacy.

So that is where a bit of -- when we sort of -- you say that the legacy book is now going to be kind of a self-sustaining, but still if that sort of -- the write-down or provision have provided from the one-off gains that you are getting from past investor and all, then there's sort of that conveys that the wholesale legacy book, that is INR14,000-odd crores that might, in the future, also may sort of put some strain. So that is where I said that, it's not totally, totally self-funded...

Jairam Sridharan: That's a very valid point you are making. Let me -- just allow me to say two things. Firstly, when we talk about legacy, we are not just talking about the legacy loan book that is Wholesale 1. We are talking about all the legacy book, including the legacy investments. Even in the past, when we have spoken about legacy, we have spoken about both the pluses and minuses in the legacy book. There is a book which is the loan book or the receivables, et cetera, where there might be minus that there's a part which are investments, et cetera, which are potentially pluses.

And we have said that we should be able to net this off. But for the INR14,000 crores, I would encourage you to look at Page 10. Just a slide after the one that you're referring to, right? We have INR14,000 crores. We have said we will bring this down to basically half of this level over the course of FY'25. And against that, what do we have? We currently have provisions of INR2,500 crores, which, of course, includes the INR700 crores that we created this quarter, the incremental INR700 crores we created this quarter.

So we have INR2,500 crores of provision. We have more gains from AIF, which are expected if -- of the order of about INR1,200 crores in this coming year and another INR500-odd crores in the next year. We still have residual stakes in Shriram Group companies, where we are carrying them at a book value of INR1,700 crores, and you all know what the mark-to-market is on some of those things, so you can estimate for yourself.

And of course, as Upma mentioned earlier, we continue to have carry forward losses of INR10,600 crores, from which DTA will keep getting created. We have those pockets of value as illustrated on Page 9, which we believe are adequate and more than sufficient to cover for as they have been in this quarter and prior for any potential hits that might be there in the INR14,000 crores coming down. I hope that makes sense.

Avinash Singh: Yes, And lastly, this INR1,962 crores of land and receivable, can you sort of help that -- I mean, a large part maybe say, 50%, 60%, 80% whatever percentage is situation in how many assets? I mean, is it like a 1, 2 piece, large piece of land that even most of the value is sitting or it's like or many more?

Jairam Sridharan: Yes, most of the value is sitting on 4 assets, but we can give you more details on it if you reach out to our IR team, we'll be able to talk more about it as well. But almost all of the values in 4 assets.

Moderator: We'll take a next question from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: Sir, I mean, from an intent perspective, I would appreciate the fact that we are kind of looking to run down the legacy book. Somewhere there is an acknowledgment that running down the legacy AUM is in the better interests of the company and your shareholders. But just wanted to understand, we have run down the legacy AUM by INR4,100 crores in this quarter.

And against that, if I kind of read this right, we have ended up taking somewhere around INR3,000 crores of loss or credit charge, which is essentially almost INR1,400 crores of loss that you have reported from the legacy AUM. Another INR1,100 crores of AIF provision write-backs and INR500 crores of AIF recoveries. So to run down a book by INR4,200 crores, if it has taken us almost INR3,000 crores, if I'm reading this right, then to run down another INR7,000 crores in the next financial year is what we have guided to bring it down from INR14,000 crores to INR6,000 crores to INR7,000 crores.

I mean, can you take a proportionate charge, credit charge, despite all the potential P&L items from the legacy businesses that you talked about, provisions having the gains from AIF, residual stake in Shriram businesses and the carry forward losses.

Jairam Sridharan: Yes. So Abhijit, 2 parts to the answer -- actually, 3 parts. First, on your math, right, of how much it has cost us to actually run down the cost that INR4,500-odd crores of run down during the course of this quarter. I would say obviously, the receivables and kind of all the non-earning assets are roughly INR1,400 crores that you should take at cost and about INR1,000 crores of the -- or some of the chunkier assets, those you should consider. So roughly INR2,400 crores, you should consider.

The rest of it, about INR700 crores, INR750-odd crores with voluntarily we have added provisions. So you shouldn't consider that cost of run down, right? So -- but let's take INR2,000 crores -- a little under INR2,400 crores or thereabouts, right, as the cost of running INR4,500 crores. That has been the case in this quarter. But look at that's kind of factual point.

My second point to add to that is if you look at a larger duration, right, you look at the duration of the last 2 years, what has happened over this last 2 years and how much provisions has the company ended up taking. And all those numbers are with you, you can actually take a look. The company had this legacy book of INR43,000 crores, it has come down to INR14,000 crores. So the book has come down to roughly INR30,000 crores. And you've seen the total credit cost that have come in through this period. If you do that calculation, you will find that the hits that the company has eventually ended up taking, the loss given default has been of the order of 30%.

You have little over INR9,000 crores to bring down the book by INR30,000 crores over this period. So the loss -- through the period has been about 30%. Now this particular quarter has been a little bit higher, but that will happen. Like in some quarters will be a little bit higher and some quarters will be a little bit lower. In this quarter, of course, we have also done some voluntary stuff of taking some accelerated hits and fair value hit.

But historically, to bring from INR43,000 crores to INR14,000 crores, we have incurred an LGD of close to 30%. Now you can say on the INR14,000 crores remaining, what is the LGD that you should apply? That's your call. As an analyst, I'm sure you'll have your own opinion on what the appropriate LGD should be on that. And you can apply that LGD.

What we have shown on Page 10 is what are the pockets of value that you should net off against that. And we have got the INR2,500 crores of provisions, roughly INR1,700 crores from AIF or the Shriram gains on top of that and all the detail that can be created from INR10,600 crores of carry forward losses.

You can make your own assessment of what the net-net of all of this looks like. I will also point out as a final comment, that the net worth of the company is INR26,500 crores as of today. We have a capital adequacy of 25.5%. So whatever LGD you apply on INR14,000 crores, you subtract from that whatever the value pockets are that are shown on Page 10. If the number ends up still being a positive number that you feel that net-net still there is going to be some positive numbers, they're up against INR26,500 crores and take a look at what our capital adequacy is going to be. That's the kind of argument I'd like to offer you.

Abhijit Tibrewal: Got it. This is useful. I mean the only thing I was kind of trying to drive is when typically, I mean, others have tried to run down their wholesale book. In the past you often say that the lower hanging fruits are kind of disposed of first. And the chunkier and the difficult one’s kind of get disposed of later. That is the only thing, basically, I was kind of trying to understand here.

Jairam Sridharan: There is some merit to what you're saying. There's one piece though, that I would sort of --

that I draw your attention to, which is that if you look at the composition of the legacy book that remains right now right, if you look at that same Page 9 numbers, right?

And in that, you see that there are some like -- there are loans, which are basically INR4,000 crores. There is security receipts of INR3,000 crores, land, which we have just marked down and AIF, where we know it's more upside than anything else. You look at those and you can take your own call on what the LGD and each of those pockets might potentially look like.

Our argument is things like AIF, there is largely upside. Land, we have just done such a significant sort of markdown. SR, we are saying they have already peaked. We are reducing SR value and all the deals that we have done so far have been accretive to the book value on SR and actually not lost us money. You will see us rundown after the coming few quarters as well. So you should take a look at that.

And what remains is basically the loan book -- the Stage 1 loan book. And the Stage 1 loan book, of course, we just took a INR700 crores additional provision there, et cetera. But in that Stage 1 loan book, one other point that I'd draw your attention to is that there are only 2 -- 3 accounts -- 2 accounts, which are more than INR500 crores of value in Stage 1, which means the past, which has the most chunky assets, actually, our situation has been different from some of the arguments that you make that the difficult assets are the last ones to get out.

Some of our more difficult assets are actually out. Our largest asset by far, problematic asset was an alternative energy company, which you know we took a significant hit on and it went off our books a few quarters ago. Another very large and very problematic account in the real estate sector got out in this quarter. So our largest accounts are all out. What we have now are much smaller accounts. So this is a little bit different from some of the cases that you see generally where the most problematic assets are actually left behind.

Abhijit Tibrewal: Yes. This is useful. The second question that I had, Jairam was on you're thinking about retail growth, I mean, I am sure you will acknowledge that we are no longer a small size even in terms of retail AUM. So last year, we grew at 49% year-over-year, I remember Mr. Chairman kind of guided that you're looking to close FY'25 that I think INR80,000 crores, including the rundown that you'll see in the legacy AUM. So I mean, is this kind of growth in the retail book at this size kind of comforting for you?

And maybe another question, so that I don't have to come back is that this composite scheme of arrangement that we spoke about and the details that you have given 1 equity share of Piramal Finance to every shareholder of Piramal Enterprises and an EPS of INR67. Just wanted to understand after this scheme of arrangement where the parent merges into the subsidiary, will Piramal Finance, the new entity, or the merged entity, have any subsidiaries?

Jairam Sridharan: Okay. So let me take the retail growth question first, and we'll come to the second question. So firstly, on retail growth, I'd point you to Page 11, where we have talked about our forward-looking guidance. We have had a 49% Y-o-Y growth in retail. If you look at the box at the bottom, we are guiding between here and FY'28, we are guiding a 26% CAGR on retail.

I'm 100% with you that at this size at INR48,000 crores, we cannot possibly be growing the book at 45% to 50%. It's not possible. It is -- it would be imprudent to do that. So we -- our guidance is for much slower growth in the coming few years compared to what we saw in the course of this year. The implied thing in what you're saying is that, hey, how do you feel about risk in the retail business? And how is it going right now on risk? And are we sure that we aren't making any errors or mistakes there?

I would point you to Page 20 of our investor presentation. On Page 20, we are showing this is retail overall level, 90-plus delinquencies. The 90-plus delinquencies, you will see are fairly benign, 50 basis points of the full portfolio level, looking fairly strong. By the way, I have shown here coincident numbers, but you could look at 6-month lag numbers, the trend lines are exactly the same. The levels are obviously a little bit different, but the trend lines are exactly the same. So this is not a denominator point. This is generally how the portfolio is performing, is that the delinquency numbers are coming down.

Over the last 3 quarters, you would have noticed, Abhijit, that we have started disclosing product level delinquency charts on retail. This is to address the exact question that you had on, hey, how are you guys feeling about the risk environment? And are you confident about the growth that -- or the quality of the growth, please take a look at product level delinquency charts that are out there.

And hopefully, you will feel comforted that product after product whether it's unsecured or housing or LAP or used cars, you will see that our delinquency numbers are very much in control. And we will continue to showcase this to you every quarter so you can judge for yourself.

Now on the scheme of arrangement, see, the way we've set this up is that the shareholders of PEL receive 1 share of PFL and the INR67 RPS, that happens at the top level as and when all the regulatory approvals are done, we expect that to take whatever, 9 to 12 months for that process to happen. And through doing that, we end up getting kind of one consolidated lending entity, which can pursue all businesses that we would like to pursue without any licensing related guardrails that we need to worry about.

And we believe that it also helps us in the overall borrowing environment by presenting a much clearer picture of the type of company we are. There was a specific question he had, though. I'm forgetting what the specific question was.

Upma Goel: Subsidiaries.

Jairam Sridharan: Subsidiaries. Are we going to, have it? There are going to be no material subsidiaries. There is no operating subsidiary in which financial assets are actually going to get booked. Today, financial assets, loans, etcetera, get booked only in these 2 entities, PEL and PCHFL both of them will merge to form PFL. So all the lending balance sheet will be on the PFL balance sheet.

Abhijit Tibrewal: And what happens to our insurance and AIF businesses?

Jairam Sridharan: So that would be -- it's a non-lending -- they're associate company. It's not a subsidiary. It's an associate company. It will remain. That 50% stake will remain and PFL will own that 50% stake.

Moderator: We'll take the next question from the line of Kunal Shah from Citigroup.

Kunal Shah: Yes. So again, on this entire legacy thing. So maybe when Yesh also came in, we said like we had done that entire due diligence on this portfolio, and whatever not was required, in fact, we have made the sufficient provisioning out there. Last time maybe when we took the AIF state, we confidently said like we will be maybe at least on the recoveries, this will get -- maybe this had to sort of come back and it will accrete to the net worth.

But finally, what we are saying is maybe all those gains which are expected they are just being utilized to just run down the legacy AUM. And I think still you are indicating that further, maybe when we get this legacy AUM down, maybe in FY'25, the gains which might come in from Shriram or maybe even on the deferred tax asset, that will also further get utilized towards it. So I think the commentary maybe from the narrative, which has been there over 3, 4 quarters. It seems to be quite disappointing, I think, yes, because I think there was equal confidence, which was shown with respect to the performance of the book.

But I think there is a huge knock which is being taken. So maybe getting on to FY'25, should we further assume that maybe what we have indicated in terms of gains from AIF or maybe even the Shriram book value of INR1,700 crores that will further get used up towards this? Or not really, in fact, we have build up the management overlay. Now it's almost done or any kind of deferred tax asset benefit also getting utilized towards this?

Jairam Sridharan: Kunal, I'd say like the story is what is captured on Page 10, right, which is that we have a INR14,000 crores book left. This book will need to keep coming down and come down aggressively. We have a bunch of kind of pockets of value that are still there, including existing provisions of INR2,500 crores, gains from AIF, which we expect of INR1,800 crores, INR1,900 crores in the coming couple of years. Whatever the residual stake in Shriram is, all the carry forward losses, et cetera, there is pockets of value that are there.

Whatever losses are required on the -- or hits are required on the INR14,000 crores will get netted off against this. See, the way I see this by holding on to the asset and letting the asset run its natural course, we are not gaining anything. It's not as if, you as an analyst, or the investor community is giving us a lot of " some of parts valuation" for all the pockets of value that we have. They are getting no benefit for that anyway as things stand.

So it is I think, appropriate for us to say, okay, let's say, run entirely the whole thing down. Like it doesn't matter. Instead of waiting for 3 years and getting $100. Let me run this down tomorrow and get $60, take a $40 haircut. That seems to be what the market wants. So we will continue to do that. We did that this quarter. We will continue to do that.

And what we believe is that those undervalued and unvalued pockets of value that are there on the other side of our balance sheet are good ways to actually create that value so that we can do this rundown without any impact on our net worth, which is exactly what we have been able to do so far.

If you look at the last 2 years and you look at the total amount of provisions and write-downs that we have taken on the Wholesale 1 book and on the Legacy book, you look at the size of reduction that we have brought in that Wholesale book, roughly INR30,000 crores reduction in legacy book that we have done and about roughly INR10,000 crores -- INR9,000 crores worth of hits that we have taken, but we are still being able to maintain net worth and that has only come because of all these pockets of value.

So on a net basis, we've been doing exactly what we have been saying, which is that we have the value in our balance sheet to actually do all the provisions that are required. That is exactly what has happened over the last 2 years. And we continue to have the same level of net worth now with a much reconfigured and much markdown legacy book.

So I think the INR14,000 crores as well, you can see in that same context and say, okay, what are the hits that will likely come on that INR14,000 crores, and you net that off against whatever is there on the right-hand side on Page 10. And that will give you a sense of whether net-net, the whole legacy stuff whether it is loans or land or SRs or the Shriram stake or anything else, net-net, is that a positive or negative on net worth over the coming year or 2.

Kunal Shah: What's the net worth again, maybe on this INR14,000 crores, the way we look at it, say INR2,500 crores existing provisions, AIF INR1,800-odd crores, another INR1,700-odd crores of Shriram gain. So again, if we look at the haircut on this, it still seems to be like almost like INR8,000-odd crores, let's say, which is further coming in, say as a knock or maybe at least like 50% kind of not utilizing all those benefits, which are there. So is it like maybe these things are just getting deferred rather than having knocked it out right from day 1, okay? But it seems like we were just waiting for some one-off gains and that entire one-off gains are still being utilized to run down the legacy book?

Jairam Sridharan: See, there will be a little bit of the latter of what you said, which is that opportunistically, you've got to be careful about taking some of the write-downs in such a way that you're able to align that to the extent possible with whenever gains emerge in the balance sheet. We can't over-engineer this, but to some extent, you will see a little bit of that happening. The question I will revert to, Kunal, is on INR14,000 crores, what is the LGD that you should expect given that going from INR43,000 crores to INR14,000 crores, we have had an LGD of close to 30% so far demonstrated, right? So we have had an LGD of 30% so far. You can figure out to your satisfaction, what is the LGD that you will expect on INR14,500 crores apply it and let that off against whatever is there on the right-hand side of Page 10.

Kunal Shah: Got it. And lastly, in terms of this entire merger, okay? So again because I think whenever there has been some kind of a corporate event, there have been a lot of one-offs which have come through, okay? So maybe again with this large, maybe consolidation again happening there with respect to either costs or maybe some creation of reserves or anything which could be there or it would be like a plain merger. And again, in terms of the maybe housing plan, maybe with respect to the RBI's approval, is it expected to come through very easily as an NBFCs or maybe, we see any kind of challenges out there?

Jairam Sridharan: See, there's no indication that we have had, that there are going to be any challenges. We have been in constant touch and communication with the regulator. But at the end of the day, the regulator -- I mean, we can't speak for them. So we will await their guidance on this matter. Today is when we have got our Board approval and our letter to the regulator, et cetera, will go out today, tomorrow. And we know and they know that we have -- from a PBC standpoint the housing finance company has been unable to meet PBC guideline as of March 31.

So basically RBI guideline essentially says, if you are unable to meet as of March 31, 2024, you should apply for an NBFC license, which is precisely what we will do, right. So this is just following through on explicit RBI guidance. So we will do that. We have been fully regulated entity, the Top Co by RBI, the Bottom Co by NHB with our audits as of last year, all done and completed. So on those, there is nothing specific that's outstanding. But we will await guidance from the regulator on timing and kind of how they would like us to proceed. We cannot speak on their behalf on this point.

Kunal Shah: Sure. And no one-offs from here.

Jairam Sridharan: No. Nothing significant. There will be some changes on the capital adequacy calculation front, et cetera, but -- they'll all be netting off against like -- I mean on a net-net basis, you'll not see anything material.

Moderator: Due to time limitation, we'll take the last question from the line of V.P. Rajesh from Banyan Capital Advisors.

V.P. Rajesh: Just two questions. One, with respect to the merger -- post-merger, will that have any impact on the dividend policy of the company's dividend that we have been paying every year?

Jairam Sridharan: No, the dividend philosophy of Piramal Enterprises has been very steady. Over the years, I don't see that changing because of any corporate reorg. So no, you shouldn't expect any changes.

V.P. Rajesh: Okay. Great. And my other question is just going back to the provision on the legacy book. You have been saying that we should make an estimate, our best estimate. But frankly, you guys are much closer to the book than we are. And since we have been negatively surprised over the last 6 to 8 quarters, would you say, in your best estimate, the provisions on the rest of the book will be more or less than the 30% that you have had thus far?

Jairam Sridharan: Yes, let me not do that. See, this is not the sort of thing that either you or I are going to have a better estimate. We just need to apply our own individual judgment. We have ourselves multiple scenarios of what if this happens, what if that happens or what if the scenario C happens. And we are doing management planning across various scenarios depending on the pace and severity at which we want to run this thing off.

See, when the total book is INR14,000 crores, the range of possibilities is not that high. If you say the LGD is going to be similar to the past, you're going to assume 30%, if you assume, it's going to be higher, you'll assume 50% whatever it is you assume like it's -- if you assume it's going to be lower, so you might assume 20%. That delta -- as once we get off the right-hand side of Page 10, the deltas are not really much.

Whatever number you assume, the net impact on net worth, after netting off the right-hand side of Page 10, is not likely to be more than INR1,000 or INR2,000 crores. And remember that we have INR26,500 crores of capital. So it doesn't matter. The size has become small enough now that LGD estimations are not going to move the final outcome in terms of the legacy book valuation a whole lot, one way or the other.

I also want to reiterate that we are guiding that through the course of next year, we are going to bring the legacy book down to INR6,000 crores to INR7,000 crores, which means by this time next year, it will have kind of shrunk to even further insignificance. So the sizes have become so small now that the deltas are -- especially when once netted off against all the gains -- process of gains in the balance sheet are just not that big and net worth movements are going to be minimal.

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

Ravi Singh: Thanks, everyone. Please do reach out to me and my colleagues from Investor Relations team, if you have any further questions. Have a good day. Thank you.

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