Piramal Enterprises Limited
Q2 FY 2025 Earnings Conference Call

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MR. JAIRAM SRIDHARAN – CEO (RETAIL LENDING) & MD (PCHFL)
MR. YESH NADKARNI – CEO (WHOLESALE LENDING)
MS. UPMA GOEL – CHIEF FINANCIAL OFFICER
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Moderator: Ladies and gentlemen, good day, and welcome to Piramal Enterprises Limited Q2 FY25 Earnings Conference Call.

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

I now hand the conference over to Mr. Ravi Singh – Head of Investor Relations, Strategy and Sustainability from Piramal Enterprises Limited. Thank you, and over to you, sir.

Ravi Singh: Thanks, Michelle, and hello, everyone.

Welcome to our Earnings Conference Call for Q2 FY25. Our Results material has been uploaded on our website, and you may like to 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 – Director, Piramal Enterprises; Mr. Rupen Jhaveri – Group President, Piramal Enterprises; Mr. Jairam Sridharan – CEO of Retail Lending and MD of PCHFL; Mr. Yesh Nadkarni – CEO of Wholesale Lending; and Ms. Upma Goel – CFO, Piramal Enterprises.

With that, I would like to hand over the call to Mr. Piramal for his remarks on the Q2 performance. Thank you, and over to you, sir.

Ajay Piramal: Good evening, everybody, and thank you all for joining us today. First of all, I would like to take this opportunity to wish everyone a very Happy Diwali and a Prosperous New Year.

Our financial performance in the 2nd Quarter of FY25 tracked the objectives we have been speaking about as part of our transformation in the last few years. In the 2nd Quarter, our Growth business continued to scale up steadily. Risk was well-controlled and operating leverage further improved. At the same time, we continue with the focused rundown of our discontinued legacy business.

Let me summarize the key trends in this quarter:

Driven by the rising share of the faster growing Growth business, our total AUM growth has been recovering well. In this quarter, the total AUM was up 12% year-on-year to Rs. 74,692 crores. The Growth AUM was up 45% year-on-year and now accounts for 84% of our total AUM. This is up from 34% of the total AUM at March 2022.

Within the Growth business, retail AUM grew 8% quarter-on-quarter and 42% year-on-year and now form 73% of the total AUM. Wholesale 2.0 AUM rose by 12% quarter-on-quarter and 75% year-on-year to Rs. 7,889 crores.

Our legacy discontinued AUM now stands at Rs. 12,066 crores, which is 16% of the total AUM. We re-iterate bringing this book down to less than 10% of the total AUM by March 2025. We have a fair line of sight on the expected reduction in the second half of FY25 from loans, SRs and AIF assets through a combination of organic cash flows, refinancing, asset sales, and accelerated repayment. In this quarter, we have reported a consolidated net profit of Rs. 163 crores. Within this, the Growth business accounted for a net profit of Rs. 130 crores.

Increasing share of the Growth business, which has a higher NIM, has driven the overall NIM improving to 5.1% versus 4.9% in the 1st quarter of FY25. In the 2nd quarter of FY25, our operating profit to AUM for the Growth business was stable at 2.8%. OPEX to AUM was down 10 basis points quarter-on-quarter and 80 basis points year-on-year to 4.5%. The further reduction in this ratio would drive future expansion of operating profit in the Growth business. Our gross credit cost was at 1.8% versus 1.6% in Q1 of this year.

With normalizing recoveries from the DHFL book, the reported net credit cost was 1.6% versus 1.3% in the 1st quarter of FY25. Thus, the PBT to AUM for the Growth business stands at 1.2% in this quarter. On the merger between PEL and PCHFL, we have filed a scheme with the stock exchanges. The next steps include approvals from the exchanges, SEBI and RBI, followed by the NCLT process.

We continue to diversify our borrowing base with securitization now at 14% of total borrowings, up from 4% in the same quarter of FY24. We currently have 27 DA and 2 co-lending live programs with Axis Bank and the Central Bank of India, who now are our co-lending partners. Following our US$100 million social impact loan and our debut US$300 million sustainability bond in July 2024, we successfully completed a tap issuance in October 2024, raising an additional US$150 million from international capital markets. The tap issuance was oversubscribed 3.5x, reflecting strong investor confidence.

I'll now hand over to Jairam, Yesh, and Upma to discuss our business and financial performance.

Jairam Sridharan: Thank you so much, Chairman sir. I am going to start with the discussion on the retail lending business, and it will be followed by Yesh speaking about the wholesale side of our business.

In the 2nd Quarter of FY25, our retail AUM grew by 42% year-on-year and is now at an AUM of Rs. 54,737 crores. Our disbursement stood at a little over Rs. 8,000 crores reflecting 29% year-on-year increase. Disbursement yields remain stable at 14.1%. In our flagship mortgage business, which comprises housing loans in affordable housing and loan against property, the business grew by 37% year-on-year to an AUM of Rs. 37,005 crores, and now it accounts for 68% of the retail AUM.

Our mortgage book has exhibited robust asset quality in the last 2 years. Currently, the 90 days past due delinquency ratio is 0.5% in our housing business and 0.3% in loan against properties. Other retail products also demonstrated robust AUM growth with used car loans, up 145% year-on-year, salaried personal loans up 148% year-on-year, and business loans up 55% year-on-year. However, our disbursements to the digital loan business remain constrained, and we were at Rs. 562 crores of disbursements in the quarter versus Rs. 836 crores in the 1st Quarter of FY25 and an average of about Rs. 1,300 crores quarterly run rate that we had through FY24. From peak, this business has reduced by more than two-thirds on a quarterly disbursement run rate basis. While we have been controlling digital loan origination, the use of digital channels in our overall business has seen quite a transformative change over the last year.

We have shared a new slide in this presentation, Slide #10, where we have highlighted some metrics on the adoption of our mobile app and of our use of WhatsApp in customer engagement, customer service, and collections. Our mobile app received a significant upgrade, introducing features such as last mile PL disbursal, advanced EMI payments, and third-party products like health insurance. Monthly active users, or MAU on Piramal Finance app have more than doubled in the last one year. Today, 53% of all the service requests that we get in the company are fulfilled digitally. We also launched the WhatsApp Service Bot in April that supports 8 languages and uses conversational AI, enhancing the user experience beyond traditional menu-driven interaction. This service has seen a sharp uptake in MAU and in concluded service requests and is playing a big part in overdue collections.

During the quarter, we also received formal approval from RBI to launch our prepaid payment instrument, Piramal Pay. This happened in October 2024. We aim to provide seamless secure platforms for prepaid transactions, enhancing accessibility of payments for individuals and businesses in our customer segment.

Moving on to asset quality:

The overall retail asset quality remains healthy. Slippage ratios and 30 plus and 90 plus days past due delinquencies are all running flat compared to the 2nd quarter of FY24, though slightly up from the 1st quarter of FY25. We believe our diversified multi-product portfolio provides the stability even as various products undergo their own cycles. Slides #15 and #16 in our presentation outline the 90-day past-due delinquency chart and the vintage risk trends across various product segments. You will see here that digital loans have remained elevated from a risk standpoint. These represent 6% of retail AUM.

Within all the unsecured areas, the area where you see the most steady increase in risk is business loans, which in our classification also includes a small microfinance population. The 90-day delinquency trends here, as you will see, have been trending up. The portfolio is also seasoning, so that has got something to do with this, apart from what's going on in the macro environment as well. Within unsecured business loans, and all unsecured loans in general, sub Rs. 50,000 category is where we are seeing the steepest risk deterioration.

In our retail business, our total exposure to less than Rs. 50,000 loans is less than Rs. 750 crores. The rest of the products continue to witness benign delinquency trends, but we remain vigilant.

Moving on to customer franchise and cross-sell:

If you look at Slide #11, our franchise grew by 27% year-on-year to 4.2 million. We have been able to capture a significant portion of our customer originations for future cross-sell opportunities. In our unsecured business, we have slowly increased cross-sell penetration to a point where 17% of our unsecured disbursements today happen through cross-sell. We expect to see continued improvement on this metric in the quarters to come.

On our network side:

We have a network today of 508 full service branches, apart from 236 microfinance branches. Through these, we serve 608 districts in 26 states. As we have mentioned in the past, our aim is to expand our reach to about 600 full service branches in the medium term. However, the pace of our branch opening has moderated to about 10 to 15 branches a quarter down from 20 to 30 branches a quarter, which was our pace in prior years. Our focus now has shifted to raising the productivity of our existing network, even as we slowly move towards the 600 mark that we have guided before.

Slide #12 talks about these very productivity metrics and how they have been improving. As you can see here, we have seen steady gain in productivity amongst our branches and all our employee base as our branch-vintage mix continues to improve. So, on a disbursement per branch basis, AUM per branch basis, or disbursement per employee basis, you will see productivity metrics steadily improving. In addition to scaling our operations and managing risk, we are equally focused on enhancing profitability.

If you look at Slide #17, over the last multiple quarters, we have consistently reduced our OPEX to AUM ratio in the retail business. This now stands at 4.7% in the 2nd quarter of FY25, down from 4.9% in the previous quarter, and 6.5% in the fourth quarter of FY23. We aim to continue the steady reduction in this metric in line with our medium-term guidance of 3.5% to 4% per annum. With retail AUM now at almost Rs. 55,000 crores overall, we expect to continue to scale our multi-product franchise and for this to continue to grow at a healthy pace, even as we keep portfolio quality and some of the emerging asset quality issues as key areas of focus. As we do that, we will continue to improve operating leverage to drive profitability expansion.

With that, I hand over the call to Yesh to walk us through the wholesale lending business and our progress there.

Yesh Nadkarni: Thanks, Jairam and good afternoon to everyone.

On the wholesale side, during this quarter, we disbursed Rs. 1,837 crore in our new wholesale business, that is Wholesale 2.0. This was a Q-o-Q increase of 17%. We also saw faster than expected repayments in this portfolio, due to which AUM grew 12% QoQ to Rs. 7,889 crore. Pre-payments occurred across both CMML and real estate lending businesses, however, were more pronounced in the CMML segment. This only indicates better than expected performance of the book, which continues to benefit from economic tailwinds across corporate and real estate business.

Since our inception of the new wholesale lending business, a 2.0 version of wholesale, we have not experienced any delinquency in the portfolio. The portfolio has an average ticket size of Rs. 75 crore and an effective interest rate of 14.3%, featuring a well-balanced asset duration and diversification. Encouraged by this performance and the market tailwinds, we will continue to build in a calibrated manner, a granular high quality and profitable wholesale 2.0 business. Our legacy discontinued wholesale AUM reduced by 49% year-on-year to Rs. 12,066 crore. This portfolio is now down 72% since March 2022 and stands at about 16% of total AUM of the firm. In the first half of FY25, we have achieved a reduction of Rs. 2,506 crore in this book. We continue to work on paring down the portfolio through a combination of organic cash flows, refinancings, asset sales, and accelerated repayments.

Given the amount of work in progress towards this, we feel confident to meet our target of bringing the legacy AUM to less than 10% of total AUM by March 2025.

With this, I will hand over to Upma for her to cover finance part of her.

Upma Goel: Thank you, Yesh.

Moving to our Financial Performance:

In Q2 FY25 we reported a consolidated net profit of Rs. 163 crores led by Growth business reporting a profit after tax of Rs. 130 crores. The Growth business reported a net interest income growth of 29% year-on-year to Rs. 940 crores led by AUM expansion. OPEX to AUM for the Growth business declined by 80 basis points year-on-year to 4.5% supporting a 23% year-on-year increase in operating profit to Rs. 397 crores.

Net credit cost after POCI and other recoveries was at 1.6% in Q2 of FY25 versus 0.9% in Q2 of last year. The Growth business thus reported a profit before tax of Rs. 173 crores. This represents a PBT ROA of 1.2% in quarter 2 of FY25. The tax rate at PCHFL was nil due to assessed carry forward losses. While at the Piramal Enterprises level, we continue to accrue the applicable tax rate.

Our GNPA-NNPA ratios were 3.1% and 1.5% respectively. Our net worth stood at Rs. 26,930 crores, with the capital adequacy at 23.3% on consolidated balance sheet basis. Our cost of borrowing stood at 9.1%. We are actively diversifying our borrowing mix, including securitization and international borrowing. Our fixed to floating rate debt mix has improved to 54% fixed and 46% floating and is expected to enhance further in the coming quarters.

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

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

Abhijit Tibrewal: So, first thing is on the legacy AUM. We plan to bring it down by another Rs. 4,500 to Rs. 5,000 crores in the second half of this fiscal year. Just trying to understand this quarter we have reported that we brought down the legacy AUM without any P&L impact. So how are we thinking about the additional Rs. 5,000 crores in the second half? Will it kind of coincide with the recoveries that we have talked about in the past, whether from AIF or some of the other monetization tools that we have spoken about?

Yesh Nadkarni: Yes, I think that's a fair description of what it is likely to be. We don’t see any further hits beyond on a net basis, the recoveries that we look at.

Jairam Sridharan: You might see Abhijit, credit cost line item come up, but correspondingly some of the AIF recoveries and some of the other items that we have pointed to in the past will also come in. So we are reiterating both the points that we have made in the past. One, that the reduction through the course of the year will be Rs. 7,000 crores or a little bit more than that, the reduction in the legacy book. And two, that reduction would be on a net worth neutral manner. And both of those we continue to believe to be true.

Abhijit Tibrewal: Thank you. The other thing is, we have reported total credit costs of Rs. 317 crores in this quarter. Just trying to understand what is the split between our Growth and Legacy business in this Rs. 317 crores?

Jairam Sridharan: We will just show it to you. So growth credit cost is Rs. 223 crores. You will see on page 26 in the presentation. The growth is Rs. 223 crores on a net basis. And on the legacy, which is on a net basis, you will see the balance.

Upma Goel: But this will obviously not include the Rs. 77 crore of AIF gain.

Jairam Sridharan: Yes, AIF gain sort of shows up in the extraordinary level, not on the credit cost line.

Abhijit Tibrewal: Yes, so that is separate, that we have shown separately in the AIF fields. So gross credit costs were Rs. 317 crores and when we include the AIF gains, that Rs. 317 crores will come down?

Jairam Sridharan: Come down to Rs. 277 crores.

Abhijit Tibrewal: Yes, got it. And then, the last question that I had was for Jairam. Jairam, in the past, we have articulated that it seemingly looks like a difficult year in terms of asset quality, whether we want to call it normalization, whether we talk about the broad-based stress that we are seeing in the environment. Yesterday also, one large NBFC talked about basically broad-based stress across retail and SME segments. So two things I want to understand, while you already explained, I mean, business loan also includes MFI for us and that is where maybe it is also inching up and also, basically, portfolio seasoning is what you spoke about. But, how are you thinking about this environment in terms of asset quality? And the related question is, we have been growing upwards of 40% in retail. Now, you would have seen RBI on multiple occasions, right? I mean, highlighting it's discomfort without naming anyone with NBFCs who are growing at a very high rate. So, I mean, will we at some point in time after this legacy AUM has run down, think about moderating our retail loan growth?

Jairam Sridharan: Yes, really good question. So there are two or three aspects to your question. Let me start with the last one first, which is growth outlook. At an overall basis, our AUM as a company has grown 12%, so fairly modest as growth rates go. You are rightly saying this has been driven by kind of a tale of two cities, one part which is growing fast, one part which is de-growing fast, and that what has resulted in a modest overall growth. As the degrowth runs its course and as we finish the recalibration of our portfolio, we do expect to see more modest growth rates across the pool. If you look at our 3-year growth rate that we have guided, we have guided around 25%-26% CAGR from FY24 level, that implies that by the time the wholesale rundown happens, we would have moderated the retail growth rate as well. Needless to say, when we are a Rs. 55,000 - Rs. 60,000 crore book, you can no longer grow at 40 plus percent. Like it's just physically just gets harder and harder. So it's not something that we intend to do too much. So we will see as the years go, but that's our medium term guidance hasn't really changed in that regard. Now, on your question on risk and how we are reading the risk environment. See the risk environment has turned out exactly as we expected it to, the first two quarters of this year have been challenging. And our numbers have been modestly impacted by this delta in the environment. But it is something that we are very much prepared for. And we have been making underwriting cuts in our business for more than kind of a year, almost a year and a half. And we have shown a specific slide this time, slide 16 in our presentation, which shows the impact of all the underwriting cuts that we have been making over the last year and a half, two years. And what that shows is that with continued tightening of our underwriting criteria, our new origination quality has quite drastically improved in this period. As we have mentioned in the past, when cycles start on the credit risk side, it is too late to start doing underwriting changes. At that point, your investments should focus on collections. The time for underwriting interventions was before, not now. And that's exactly our belief, that people who haven't made underwriting changes in the last year, year and a half, probably a bit late for them to start doing it now. Now, the other element of your question is, kind of where do we see the credit risk cycle going from here? We have no strong guidance to offer in this matter. We do think that the retail business has had an extraordinarily benign risk environment for almost 10 years. And ex of a small blip in the microfinance business during COVID, really nothing really bad has happened in the sector for a long, long time. And if that cycle is starting now, and it is now 2 quarters old. Our guess would be that it will probably continue for a little bit more. So we would hesitate to call a top here of the credit risk cycle. It still seems early day.

Abhijit Tibrewal: So this is useful, Jairam, just a follow up on that. Given how the environment is shaping up and I am glad you acknowledged that if it started in the last 2 quarters, it might continue for some more time rather than topping out in this quarter. So then will it also mean over the course of the next few quarters mean that retail credit costs could inch up?

Jairam Sridharan: Yes, it could. I think we have seen that in this quarter, and if you look at our growth business, and we have got a page on this, look at page 6, that shows what has happened in our growth business in terms of credit costs. And let's just look at the growth, the chart on the bottom middle. Let's just look at the gross numbers, the net numbers are a bit misleading. But at the gross level, we were at credit cost of 1.6% last quarter. We are up at 1.8% this quarter, roughly the same as what we were at same time last year. Now, so we have seen a 20-bps delta from Q1 going to Q2. My estimation would be that you would see a little bit more of an increase in this metric for the Growth business in Q2 and Q3 as well. We are not guiding any specific number here. We don't know, honestly. But it's hard to imagine that this is the peak.

Moderator: Thank you. We will take the next question from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: So two questions. First one is on that AIF recovery. So if I recall, I mean, when this kind of one time big provision hit was taken due to regulatory changes. It was kind of indicated that the typical run rate will be kind of a closer to Rs. 200 crores, ballpark number of quarter leading to kind of Rs. 800 crore a year. But the last quarter it had come lower. This quarter it is further lower. And again, in a broader context, if I understand, the real estate sector continues to do well, I mean, of course, might have moderated, but if you look for the longer time, it is still doing perfectly fine. So what sort of a thing is going on there and what kind of a further recovery expectation we can have with this? That's one. And second, for Jairam, I mean, again, continuing on the same thing. So about a year back or so, of course, you had your eyes set on to just find targets in the area of like microfinance, gold. Today, microfinance, unsecured PL, even gold has its own set of challenges. So that kind of inorganic opportunity seems to be off the table. And on top of that, growth also, because as you also said, you do not believe that the credit thing is going to top, so it will certainly last for some more quarter. In that context, your growth will also get affected on the retail side due to all this for a few more quarters. Do you still stand by the kind of your long-term guidance like FY27-28 guidance that you have given because this is going to affect it for next few quarters. Your organic growth is going to get impacted. Inorganic currently is likely off the table. So how do you see sort of a growth panning out which segment will drive growth because over the last few days or so, the numbers coming out from your peers. One or the other, almost every segment seems to have some kind of a trouble. They know right now, I would say that segment does not seem some kind of an inch up at cost. These are my two questions, thank you.

Yesh Nadkarni: See, I will address the AIF question first. The AIF constitutes four assets mainly which is the focus of our recovery. We have been working on resolution of these assets for the last 2 quarters. A lot of work has gone into it and this is which we continue to believe that we will be able to see the results of all the efforts that have gone into this in terms of the actual recovery happening in the next 2 quarters. To that effect, we stick to our guidance that we had given in the March quarter of making about Rs. 1200 crores or so of gain on P&L. And we do feel that the progress has been made, significant progress has been made towards this objective. And if it changes along the way next quarter, then we clearly will report back, but we do think that we are on track to achieving this performance. The only thing I'll highlight here is that the market obviously has been quite supportive. The physical market performance has been quite supportive of our recoveries. And so is the interest that we are seeing from different capital pools, particularly the funds market where we have seen historically a lot of takeouts in our portfolio have happened through the funds taking us out and that continues. It's not changed at all. But at the same time, we appreciate the fact that these are complex recoveries. They have many moving parts and it can't just be a straight line in terms of quarter-on-quarter performance. So that kind of explains the delay in terms of where we are at on the quarterly run rate. But we do feel positive and confident about being on track with our targets.

Avinash Singh: So you are still suggesting, I mean, again, with the uncertainty, of course, implied uncertainty, but you are still kind of hopeful of H2 contributing nearly Rs. 800 crores to Rs. 1,000 crores of recovery in this area?

Yesh Nadkarni: Yes, we absolutely we do. And our hope comes from the fact that there's a lot of work that is going on these.

Jairam Sridharan: Many of these deals are large deals and a lot of background work has been completed and the first half of the year tends to be a bit slow from a deal making perspective. But all the groundwork has been laid out by Yesh and his team and we feel good about reiterating what we had said at the beginning of the year. So nothing much has changed there. Yes, on a full year when the year is run, you will see a full year average not different from what you mentioned. But every single quarter, you might not see the same number, but we feel pretty good about where we are. The second part of your question on the opportunities in retail, there again, same answer as what you have said. We reiterate all the guidance that we have offered in the past, the growth final number, the trajectory, nothing much has changed there. We are a multi-product business. At every point in time, we expect some portfolio or the other, some business or the other to be going through some challenges either on the risk front or on the growth front etc. But that's the benefit of having a multi-product platform. As you've seen in these last two quarters, while we have slowed down, let us say, digital lending growth, our overall growth has not come down because we have been able to accelerate on affordable housing this quarter, LAP in the previous quarter etc. So there's always something, there is some part of the business where there is an opportunity. So we don't feel like anything needs to change on that front. We will continue to find these opportunities that is more than enough in the Bharat market to keep stuff going and that's it. As you increase in scale, in absolute number, the percentage growth will fall, of course, that we are not going to continue to have 40% to 45% year-on-year growth that we have had over the last 2 to 3 years, that's unreasonable to expect, and that will certainly moderate out. As I mentioned to a previous caller, our medium-term guidance is more at 25%-26% growth over a 4-year, 5-year period, of which the first year or so has been a little over 40%. So we feel pretty confident on the growth side. You spoke also a little bit about inorganic opportunities kind of drying up and certain businesses, gold and microfinance etc. being out of flavor etc. That is absolutely true. The markets are going to be bearish on some of these businesses for a little while, but we are perpetual owners of businesses. We don't get into businesses because we want to time markets or we are looking for an investment opportunity. If we get into any of these businesses, it will be for perpetual ownership, which essentially means that downcycles are an opportunity, not a threat for us. So if we like a certain business, the fact that that business becomes cheaper in the market is a good thing for us, and we wouldn't run away from it if we like the underlying long-term economy.

Avinash Singh: If I may be allowed one more, any progress on some of the investments, particularly the stake in insurance venture of Shriram Group, because I guess there was an indicated timeline kind of targeted timeline for the same. So is there any progress on what kind of a change?

Jairam Sridharan: Not much has changed. There is some development internally on that. We are not talking publicly about it. Let me just say that there is development operationally. The deal is a lot more feasible now than it was, let's say, a couple of quarters ago. When we want to do the deal, who we want to do the deal with, whether we are already in conversations or not, it would not be in our economic interest to be very open about that at this point. Let me just say that what we have guided in the past still stays.

Moderator: Thank you. We will take the next question, which is from the line of Parag Thakkar from Fort Capital. Please go ahead, sir.

Parag Thakkar: So, Jairam, just wanted to know that our Growth business has reported a ROA of 130 bps, 1.3% on PBT basis, right?

Jairam Sridharan: Correct.

Parag Thakkar: Okay, so Growth business, we include retail of Rs. 55,000 crore and around Rs. 7,500 crore of wholesale too. There is no tax here, right?

Jairam Sridharan: Our effective tax rate at console level is about 14%. There is no tax at the PCHFL level, but there is taxation at the PEL level. So you will see our effective tax rate at 14 odd percent.

Parag Thakkar: So basically, what is our target for the ROA in next, say, 18 to 24 months from now? When you are saying that credit cost might increase and OPEX might decrease by 1%, right?

Jairam Sridharan: So if you see our long-term goals that we have stated, we have talked about an ROA of a little over 3% by FY28. That has been our medium-term target that we have articulated a little over a year and a half, maybe a little over a year ago. Nothing much has changed there. So 3% ROA continues to be our goal.

Parag Thakkar: While calculating, we can calculate that current Growth book, which is Rs. 64,000 crores can grow at 25% and can achieve ROA of 3% by FY28?

Jairam Sridharan: Yes.

Parag Thakkar: That is a fair assumption in spite of your view on credit cost.

Jairam Sridharan: Credit cost is a cyclical view. Like you can't think about cycles when you are doing medium term target assignment. I mean you have to think about through the cycle averages like okay, cycle will come now but in two quarters cycle will go away. So, what's the connection between that and what happened in 2028?

Parag Thakkar: Correct. No, what I am trying to say is that your OPEX lever still you are at 4.6, right? And you are saying that you can go to 3.5. So you have an OPEX lever target of around 1% in the ROA, right?

Jairam Sridharan: We have OPEX lever, we need to increase fees from where we are right now. So you should expect to see 60, 70 basis points coming from the fee side. Hopefully, even if we keep our yields the same in the medium term, hopefully we will be able to get ratings upgrade so there's a little bit of margin expansion that you should expect to see as well. And all of these will net off against any credit cost increase that happens, which is a good high margin business, will continue to expand as well and will replace a negative margin wholesale 1.0 business. And that was it. By the way, I hope you noticed, and we have put up a slide specifically to talk about this time that I think it's on page #5, that because of this mix shift between Growth and Legacy, even in this quarter at a consol. level, we saw NIM expansion. Contrary to what you are seeing in most NBFCs, we saw NIM expansion this quarter because of the shift from wholesale 1.0, the negative margin business has been reducing and has been replaced by wholesale 2.0 and retail. Just that mixed shift is driving margin expansion.

Parag Thakkar: Correct, I really appreciate your answer. And just one thing, if I have heard correctly, what you have always said is that this Rs. 12,000 crore legacy book, when you are running it down, because of the recoveries and AIF and all those things, it will be offset not on a quarterly basis but at least on an annual basis. So on an annual basis, this Rs. 12,000 crore run down will not cause any losses. Right?

Jairam Sridharan: Yes, it will be net worth neutral or better.

Moderator: Thank you. We will take the next question from Ms. Shreya Shivani from CLSA. Please go ahead, ma'am.

Shreya Shivani: So, I wanted to understand when you say that you are running down your legacy book, like just now you were saying will be net worth neutral or no impact on P&L, etc. If I simply look at your legacy book movement of the different stages etc. or through the lands and receivables, the Stage-1 has declined QoQ this quarter, some Rs. 863 crores or so. The Stage-3 has increased. So how do I read this? Do I read this as some loans in the Stage-1 were refinanced or some cash flows came through etc. and that is why there is reduction there. But there was some slippage into Stage-3 and possibly that could get written off at some point. Is that way of reading it correct? And then how does it?

Jairam Sridharan: Yes, mechanically what you are saying is absolutely correct. All that stuff will happen. But that has been happening every quarter and will continue to happen every quarter. So business as usual, collections, stage movements etc. will keep happening in the legacy book, even as we do one-time transactions to actually keep reducing the book size in the times to come. This quarter, you've seen the book come down by a little over Rs. 900 crores. Some of it is through repayments and regular action of the customer. And some of it is through special activities that the team has taken on. Both of those you should expect to see in every quarter.

Shreya Shivani: Correct. And the stage three movements that, I mean, it's actually the stage three for quite some time was at around Rs. 740 to Rs. 800 crores level in the legacy book. This one has inched up. So that bit can possibly at some point pass through in form of write-offs or something like that later. That option is still there, right?

Jairam Sridharan: That point is absolutely correct but do remember that we have 66% provision made in Stage-3 against that book. So it's not naked exposure.

Shreya Shivani: Absolutely correct. And last quarter you had mentioned that your lands and receivables you've written off something. Has more action been taken on that side because that's also come off in this quarter?

Yesh Nadkarni: We continue to actually work on those assets. We have strategic MoUs which are being explored with some development partners. There is no real progress to report that we can talk of here in terms of monetization potential of this side. As we progress from here, we very much do expect to see some development and will keep you updated as we go ahead.

Jairam Sridharan: Actually, our guidance in general in this whole legacy book has been there are a handful of assets here. It's not productive to have an asset to asset conversation on exactly what the resolution path on each of these is. We believe that at an overall level, we have been able to bring that book down from Rs. 43,000 crores to Rs. 12,000 crores over the course of the last two and a half years. We have guided that this 12 will become 7 in the next 2 quarters. Exactly where that reduction will come from etc., we also don't know with that precision. It depends on 10 different deals that are in the pipeline and which one gets resolved first versus not. So, it's not super productive to do a deal by deal conversation on that one. However, at a macro level, the overall book will come down and it will come down in a way that is net worth neutral or better. That's our continued guidance on the matter.

Shreya Shivani: Got it. And my last question is on the yield for the overall book. So that sequentially, at least the calculated yields for us look higher. Now the share of the non-interest paying bit in your legacy book is as a percentage of mix is higher this time. So clearly there is some yield expansion that has come through from the retail side. Is it purely because of some change in mix over there or have you raised any lending rates in any segment or any action that has been taken on that side?

Jairam Sridharan: On slide 5, Shreya. We have answered that specific question of why NIMs have expanded. And we have shown the last 5-6 quarter trend, and it should be self-evident once you read this slide.

Moderator: Thank you. The next question is from Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise: Just wanted to ask on write-offs, what was the write-off amount for the quarter?

Jairam Sridharan: Rs 110 Cr.

Sameer Bhise: And I presume it is entirely from the legacy book?

Jairam Sridharan: Yes, of course.

Sameer Bhise: Okay, and secondly, just on the fee bit, there's an element called as others, which looks kind of lumpy. So how does one read it on a run rate basis ongoing?

Jairam Sridharan: Which slide you are looking at?

Sameer Bhise: I am looking at slide 26.

Jairam Sridharan: Okay, got it. So, which part do you think is lumpy?

Sameer Bhise: So, fee and commission of Rs. 102 crores, dividend of 32 and others is Rs. 123 crores.

Jairam Sridharan: There is one property sale that happened during the course of the quarter. Rs. 40 odd crores is coming from a one-time sale of a property.

Moderator: Thank you. We will take the next question from Nischint Chawathe from Kotak Institutional Equities. Please go ahead.

Nischint Chawathe: I was just looking at the Growth assets and stage three loans out here. I was just curious, there was a sequential rise this quarter, but more importantly, what is the coverage that we are comfortable on stage three loans? I know we are on the legacy obviously gone to like 65%.

Jairam Sridharan: Yes, so see, in the Growth business, we use ECL models to come up with stage three cover and that depends on a product-to-product basis. So for example, if it's a housing business case, then your LGD expectation might be 25%. But if it's a personal loan case, your LGD expectation might be 70%. So depending on that, depending on the mix of what comes in, you will see this ratio change. It's different for each product. At one extreme is a very safe product like housing, where the cover will be somewhere in the 20% to 25% kind of range. And at the other extreme will be unsecured products where it will be in the 70%-75% kind of range. So this is equal to LGD basically of the product, which is the way ECL models work.

Nischint Chawathe: Yes, but the fact is that you've not really seen a business cycle, right? For a very effective kind of a data driven ECL model to be?

Jairam Sridharan: No, but we have all the industry's data, no. We don't need to see a business cycle ourselves. We can use all the industry's data and it's all available quite readily. What we have done, is that we have done a thorough analysis of the last 25 years of credit experience of the industry on the bureau. And that's what we have used to come up with PD-LGD models, which for any player that's starting business and have IndAS you have to have models, that is the IndAS requirement. You cannot do subjectively, you have to have ECL model, which means you need to have PD estimates and you need to have LGD and EAD estimates, which we have chosen to do using a bunch of industry data. Of course, as our business is maturing, now we are 4 years old, we have 4 years' worth of data, so we keep weighing our internal data a little bit more in the sample every year as the years go on. And over time, hopefully at some point in time, we will become all internal data. But right now, we are heavily weighted by industry data.

Nischint Chawathe: Got it. And sorry, I joined the call late, but have you called out specific reasons for sequential increase in stage three loans?

Jairam Sridharan: So if you look at our risk trajectory, and we have shown on page 15, you will see the risk performance of all the different products in retail. And you can see here how businesses like, business loans etc. and a little bit in used cars, you can see that trajectory increase. And so that's the kind of higher risk environment that we are seeing. And that's what's flowing through to stage three in the growth business right now.

Nischint Chawathe: And these probably will need a higher coverage sooner than later, right? I mean, they probably have a 180 or 360 day fully write-off policy or something like that?

Jairam Sridharan: No, actually in unsecured lending businesses like business loans, when the account reaches 90 days, we make a 70% provision. When the account reaches 120 days, we make a 100% provision.

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

Vivek Ramakrishnan: Thank you. Jairam, you had called out the deterioration about a year ago in the meet and so a good call that. If I go back to Slide #16, we see a dramatic improvement in 30 DPD for retail loans. And we are not seeing a concomitant decrease in yield on your loans. So is it part of the learning curve and this is a new normal for Piramal where your credit standards will be tighter, it's just early stages of modeling which is a result in that. And linked to that, in terms of write-offs and so on, if I leave out LAP and housing loans, I think most of your loans will be 2 to 3 years tenure. So if you've already seen a couple of quarters and if you take it back a couple of years, then like you said, the pain will be there for maybe another 2-3 quarters before the new book kind of, even the macro environment is deteriorating, the new book dominates the mix, right?

Jairam Sridharan: That is a fantastic question, and I am glad you noticed that. I think those are really, really good points. Your point is absolutely right. New origination quality has been dramatically different than where we were before. And we have been able to do that without a yield reduction by just kind of getting a little bit. And of course our approval rates have suffered. Our approval rates are fairly low now. In unsecured lending, our approval rates are in the 15% to 17% range, which is meaningfully lower than where some players in the market are. So obviously it's not been free. So it comes at the cost of OPEX, but at least we have been able to protect yield and we have been able to protect risk. Now, the newer originations, today if I look at all my unsecured lending businesses, those older originations when I had those challenging times, they are about 12% of the AUM today, right? And as that 12% keeps reducing and that goes to single digits etc., all the benefits of the chart that you saw on page 16, all that will start showing.

Moderator: Thank you. The next question is from the line of Prit Nagersheth from Wealth Finvisor. Please go ahead.

Prit Nagersheth: I think most of my questions have already been answered. The only thing I would add is that if it's possible, could we limit the kind of time it takes for the team to share all the updates? It's kind of taken 30 odd minutes to kind of mostly say what's already there in the slides. So it's just a request. So, if we could save some time, it would allow more questions to come in.

Jairam Sridharan: We hear you.

Moderator: Thank you. We will take that as the last question for today. I would now like to hand the conference over to Mr. Ravi Singh for closing comments. Over to you, sir.

Ravi Singh: Thanks everyone on the call. Do feel free to contact us if you have any further questions, have a good day. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of Piramal Enterprises Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.