“Piramal Enterprises Limited

Q3 FY2025 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Earnings Conference Call for Q3 FY 2025, hosted by Piramal Enterprises Limited. 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.

The results material has been uploaded on the company's website and you may like to download and refer to them during the discussion. The discussion today may include some forward-looking statements based on the management's expectations that are subject to uncertainty and changes. These must be viewed in conjunction with the risks that the business face.

On the call today, we have with us Mr. Ajay Piramal, the Chairman; Mr. Anand Piramal, Director; Mr. Rupen Jhaveri, Group President; Mr. Jairam Sridharan, CEO, Retail Lending; and MD, PCHFL, Ms. Upma Goel, CFO; and Mr. Ravi Singh, Head of Investor Relations, Strategy and Sustainability.

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

Ajay Piramal: Thank you all for joining us today for the Piramal Enterprises Earnings call. Before we get into the quarterly results, I would like to highlight the macro backdrop as we see for our businesses. India's economy has been facing headwinds. Moderating investment growth, tightening liquidity and expensive long-term capital are slowing India's economic activity. FY '25 GDP growth is expected to be at 6.4%, compared to 8.2% in the last year. However, I am certain that the short-term challenges will ease reasonably soon aided by policy support. We expect domestic demand to gain strength and a revival in public capex on infrastructure.

As we look back at our own performance in the third quarter of the current year, some key trends stand out. The business mix continues to steadily shift in favour of growth business, which comprises Retail and Wholesale 2.0. Growth AUM now accounts for 87% of our total AUM versus 34% in March 2022.

With this changing mix, the consolidated AUM growth and margins are getting stronger. In the Q3 FY '25, our total AUM grew by 16% year-on-year versus the 15% growth guidance for FY '25. And consolidated business NIM also improved 60 basis points Q-on-Q with this mix change. The legacy discontinued book rundown is on track with AIF recoveries coming in on expected lines.

The legacy AUM was down by INR 1,713 crores quarter-on-quarter to INR 10,353 crores. These are now 13% of total AUM versus 21% at the start of the year. We reconfirm bringing this book down to less than 10% of total AUM by March 2025.

In this quarter, we recovered INR 551 crores of the AIF book, leading to a gain of INR 376 crores. This puts the 9-month gain of AIF at INR 557 crores. We have used these gains to build buffer and provide for legacy AUM rundown in Q3 and the rundown expected over coming quarters. We expect further significant AIF recoveries in the last quarter of FY '25 and in '26. Amid a worsening asset quality environment for the sector, we are encouraged by our portfolio's performance. Delinquency trends for the overall retail portfolio have been stable in a narrow range during last 3 years. Secured products form 78% of our retail AUM. Wholesale 2.0 has maintained its 100% collection efficiency. The credit cost for growth businesses was at 1.9% versus 1.6% in Q2 of FY '25.

Retail's operating performance continues to strengthen. AUM yield is stable and fee income has expanded over the last 3 quarters. More importantly, opex to AUM is down 200 basis points in 7 quarters to 4.5%. Pro forma, the PBT-ROA of growth businesses was at 1.4%. This is a similar level as in the first half of FY '25. The capital and liquidity position of the company continues to be strong. Our capital adequacy stands at 23.7% and we have cash and liquidity of more than INR 8,000 crores.

As a further boost to our balance sheet, we announced earlier in the month that PEL through its subsidiary will become eligible to receive an estimated amount of $140 million, subject to final closing adjustments, expected to be received in the financial year 2026. This is in connection with deferred consideration from the sale of Piramal Imaging. The company may also receive further amounts in subsequent years from any eligible profits and future earn-outs relating to the Imaging group, subject to a maximum of $200 million, inclusive of the above $140 million.

Moving on to the proposed merger of PEL into PCHFL, with reference to our application of PCHFL conversion into the NBFC-ICC, RBI has directed us to submit the COI with a new name, namely Piramal Finance Limited and revised MoA altering the main object clause in line with the intended business of NBFC-ICC. The application for reservation of name change is being filed with ROC. Another application for issuance of NOC for merger of PEL into PCHFL is under review with RBI. We expect to complete the merger process, including the NCLT approval by September 2025.

To conclude, while the external growth environment and asset quality climate have indeed moderated in FY '25, we are encouraged that we are on track to meet or do better than the targets we set for ourselves at the start of the year on business growth, business mix and operating performance of Growth business. Our focus will stay on sustaining the superior business growth, while keeping a tight control on portfolio quality and expanding the profitability through margins, fee and opex ratios.

With this, I now hand over to Jairam and Upma to discuss our business and financial performance.

Jairam Sridharan: Thank you, Chairman sir. Let me start with a discussion on our retail lending business. In the third quarter of FY '25, our retail AUM grew by 37% year-on-year and reached a total of INR 59,093 crores. Disbursements for the quarter stood at INR 8,362 crores, up 9% year-on-year. Disbursements in unsecured products were slowed down and were down 12% Y-o-Y versus 24% Y-o-Y growth for the secured products.

Our flagship mortgage businesses comprising home loans and LAP grew by 35% year-on-year to an AUM of INR 40,027 crores and they now account for 68% of retail AUM. Our mortgage book has exhibited robust asset quality in the last 2 years. And at present, the 90-plus delinquency ratio is 0.5% in housing loans and 0.4% in loan against property.

Other retail products also demonstrated robust AUM growth with used car loans up 119% year-on-year, salaried personal loans up 111% year-on-year and business loans up 37% year-on-year. In business loans, the microfinance AUM was roughly flat with a 10% AUM growth Y-o-Y. And the unsecured business loans AUM was up 49% Y-o-Y. Digital loans, which we had put some brakes on about a year ago, saw AUM and disbursements both down with AUM down 25% Y-o-Y and 49% Y-o-Y on that metric.

On the asset quality side, the retail portfolio remains healthy and stable. 90-plus delinquency at 0.8% is slightly up but is within the narrow range we have maintained over the last 3 years. We believe that our diversified multiproduct portfolio lends this stability even as different products undergo their own cycles. In our presentation, if you look at slide number 19 and 20, these slides show the 90 days past due trends over the last 3 years. And they also show the vintage risk trends for those tranches that have been booked over the last 3 years.

Within unsecured, you will notice that microfinance which we report as part of the business loans segment has seen sharp deterioration in the last 4 quarters. Microfinance 90 days past due delinquency is at 5.5% versus virtually nothing 5 quarters ago. Microfinance is about 2% of our retail AUM. The rest of the products continue to witness benign delinquency trends.

Credit costs in the secured lending business remained largely unchanged. Within unsecured products, credit cost was a tad higher in Q3 versus Q2 but with a lower gradient than in the first half. And whatever delta is there is largely driven by microfinance. In our unsecured portfolio, overall, we have been making over the last few quarters 4 key shifts in our customer selection strategy.

Number 1, we are moving towards more branch-based origination versus digital origination. Number 2, we are moving more towards salaried versus business customers.

Number 3, we are moving more towards cross-sell and away from new originations. And finally, Number 4, we are emphasizing a little bit of a mix shift towards lower risk returns, higher ticket cases than what we used to do in the past.

Our data show that these choices are making a meaningful favourable impact on the portfolio, and you will see some reference to this on slide number 20. Overall, we expect retail credit cost to remain range bound in line with the longer-term guidance that we have offered in the past.

On slide 14, which is our slide on customer franchise and cross-sell, you will see that our customer franchise grew by 24% year-on-year to 4.5 million. We have been able to capture a sizable portion of our customer originations for future cross-sell opportunities. In the third quarter, the share of cross-sell rose meaningfully in unsecured disbursements in line with the 4 strategic shifts that I mentioned before. This, we believe, will also aid in reduction of delinquencies and credit costs in the unsecured business in the future.

From a distribution strategy standpoint, we now have a network of 514 branches, establishing a strong presence across 607 districts in 26 states. As highlighted in the previous quarter, the pace of branch opening has been moderated to 5 to 10 branches per quarter versus 20 to 30 branches per quarter that we were opening earlier.

On slides 15 and 16, we have shown the improvement in our productivity metrics. You can see clearly that productivity on a per branch basis and a per employee basis continue to improve across our network. Our branch vintage mix is also maturing, and we are widening the product reach across the network, making sure that more and more products are available from every branch that we have open.

If you look at slide 21, you will see the trend of our opex ratio. This is a very important operating metric for our return profile. And you would see that over the last several quarters, we have consistently reduced the opex to AUM, which now stands at 4.5% at the end of third quarter FY '25, down from 4.7% in the previous quarter and from 6.5% in the fourth quarter of FY '23. We aim to continue this trend in line with our long-term guidance of 3.5% to 4%.

On the same slide, on the left-hand side, you will also see that the AUM yields have been very stable in retail after mild dip in the first quarter due to the accounting policy change on processing fee. Now that accounting policy change has been absorbed and slowly the retail fee is expanding to catch up with the new steady state. Underlying cash fee collection has remained unchanged or improved in this period and the reporting fee is now just catching up.

Slide number 12 talks a little bit about our emerging new strategies on the liability side and a little bit on the asset side. To touch on the liability ones here, we have made a strong start in the direct assignment and co-lending program, a big part of our liability strategy now. We now have 12DA and co-lending partners including the largest PSU bank in the country and 2 of the top 3 private sector banks.

The momentum on new partnerships in DA, co-lending and new channels such as CSCs and digital has sustained. Most recently, we announced partnerships with RBL Bank and MobiKwik. We have a meaningful number of similar tie-ups in the pipeline as we speak as well. The retail AUM is now almost at INR 60,000 crores and we expect scale-up of our multiproduct retail strategy to continue at a healthy pace even as portfolio quality remains a very big area of focus. Simultaneously, operating leverage will continue to improve expanding our profitability profile.

With this, I want to move to the wholesale lending bit. My colleague, Yash, has been kept away due to pressing personal commitments, unfortunately. So, I'm going to channel Yash's thoughts and share with you the state of our wholesale lending business. During the quarter, we disbursed INR 2,075 crores in Wholesale 2.0, a Y-o-Y increase of 24%. We continue to see faster-than-expected repayments in this portfolio.

And so, AUM grew by 60% Y-o-Y to INR 8,916 crores and 13% Q-o-Q. Prepayments are happening across both the CMML and the real estate lending businesses. This indicates better-than-expected performance of the book, which continues to benefit from economic tailwinds across corporate and real estate sectors.

Since the inception of the new wholesale lending business, we have had 100% collection efficiency and have not experienced any delinquency in the portfolio. The portfolio has an average ticket size of INR 77 crores and an effective interest rate of 14.4%, showing a well-balanced asset duration and diversification. Encouraged by this performance and by market tailwinds, we will continue to build a granular, high-quality, profitable portfolio in a calibrated manner.

On the legacy side, the legacy AUM reduced by INR 1,713 crores quarter-on-quarter to INR 10,353 crores. Thus, in the 9 months of FY '25, we have achieved a reduction of INR 4,219 crores in this book. In this process, over this 9-month period, we have taken a haircut of around 24%. This proportion is similar to the haircut proportion that we have taken, while reducing the book from ~INR 43,000 crores to ~INR 14,500 crores between FY '22 and '24. In other words, our haircut ratios continue to remain steady at around the 24% - 25% kind of mark.

We continue to work on paring down the portfolio through a combination of organic cash flows refinancing asset sales and accelerated repayments. Based on all the work in progress on some of the larger legacy asset rundowns, we feel confident that we will meet our target of bringing the legacy AUM to less than 10% of total AUM by March 2025. In the third quarter, we recovered INR 551 crores in the AIF book with P&L gains of INR 376 crores. We expect further significant gains from this AIF book in the fourth quarter and in FY '26.

With that, I hand over the call to Upma to walk us through the financial performance.

Upma Goel: Thank you, Jairam. Now moving to our financial performance.

In Q3 FY '25, we reported a consolidated net profit of INR 39 crores. Profit before tax, including AIF gains and associate income stood at INR 91 crores.

INR 100 crores quarter-on-quarter reduction in profit before tax was primarily on account of 2 elements. First one is reduction in our non-core income in Q3, that's INR 42 crores gain on sale of property and INR 20 crores dividend income in Q2. Another area is INR 30 crores of lower profits from the funds and the insurance JV business.

In comparison to Q2, book taxes increased by INR 25 crores from INR 27 crores to INR 52 crores in Q3. This is primarily on account of higher profits at PEL standalone. The book taxes are expected to be reversed on receipt of the NCLT order for merger in, case the order is received on or before the tax filing date for FY '25.

Our pro forma PBT for Growth business stood at INR 212 crores, which translates to PBT-RoAUM of 1.4%.

In this quarter, while calculating pro forma financial ratios for individual businesses, we further simplified the business-wise cost of fund methodology. We now use same cost of funds for all the assets which is same as the company cost of funds.

This change has no impact on consolidated ratios. For Growth business, this has led to ~50 basis points reduction in the cost of funds including equity, which currently stands at 7.1%. Had we used similar methods in first 2 quarters of FY '25, the cost of funds in Q1 and Q2 would have been lower by ~50 basis points versus the reported pro forma numbers.

Our total GNPA and NNPA ratio stands at 2.8% and 1.5%, respectively.

Our net worth stood at INR 26,924 crores with the capital adequacy at 23.7% on consolidated balance sheet basis.

Our cost of borrowings stood at 9.2%, marginally higher by 10 basis points versus quarter 2. We are actively diversifying our borrowing mix and our securitization and international borrowings share has now increased to 23% (from 6% in December '23).

Our fixed to floating rate debt mix has improved to 42:58. The fixed floating gap between assets and liabilities has now been mostly neutralized to align the balance sheet better with the declining rate environment. With these remarks, I would now like to open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question comes from Avinash Singh from Emkay Global Financial Services.

Avinash Singh: Yes. A couple of questions. First one, I mean, again, I'm going to legacy book. So, on legacy book, if I see quarter has seen close to INR 1,700 crores kind of a runoff. And if I look at your credit cost overall and adjust for the INR 287 crores of credit cost in retail and then also look at how the provision in this legacy book has moved, it's just that, I mean, on this INR 1,700 crores rundown, the total provision coming closer to INR 700-odd crores?

So that broadly translates to kind of a 40-odd percent and the remaining, I mean, that is close to INR 10,000 crores that's left. Of course, we have provided 18%. But typically, this will be kind of a bit difficult accounts than whatever we have sold over the last couple of years, almost INR 43,000 crores to INR 10,000 crores now. So, I mean, in terms of rate or like in this INR 1,700 crores whatever run-off might happen the provisioning has been lower, if at all, I mean, if you can help me with this math on this part?

Second, this is more of a kind of understanding the accounting. If I see that the detailed, thanks for that disclosure, the Excel, that is available that the DA income of INR 100 crores for the quarter has been kind of added into the income piece or interest income piece as given in the same format and then of course INR 100 crores has been adjusted towards the provisioning cost. So how does this account work? I mean, in the SEBI P&L, where does this INR 100 crores appear? Because typically, there also it should be part of that some income.

Jairam Sridharan: Okay. I'll let Upma answer the second part of your question. Let me take the first part, Avinash. Thanks for your question. So, the legacy provisioning math is the following. See that INR 1,713 crores is the reduction in the legacy book. We mentioned that in the 9 months, the haircut overall has been about 24%. Actually, if you just look at the quarter, the haircut is close to 30%, right? So roughly 30% haircut on INR 1,700 crores reduction.

So more or less INR 450 crores is more or less in that range, is kind of the haircut that we have taken in the legacy book, of which INR 150 crores has been funded from pre-existing provisions. So, if you just look at the provision pool last quarter to this quarter on the legacy assets, you will see that it has been reduced by INR 150 crores.

So essentially, we've used INR 150 crores from legacy assets and another INR 300 crores new provisions we have created. So that's kind of the math. And the rest of it is coming from Growth book. So, you see about INR 600 crores and change of that about INR 300 crores and change comes from the legacy book and about INR 300 crores comes from Growth book.

And the legacy book kind of INR 300-odd crores is more or less is just getting netted off by the INR 300-odd crores gain in the AIF that you see below the line. That's kind of a very conceptual math on provisions for how the legacy book comes out. So legacy book, quarter 3, about a 30% haircut, total for 9 months, about a 24% haircut.

That's kind of the situation. And the 2 years before that, also 24% haircut. That's kind of the math so far. In last quarter legacy book haircut was quite low, so that's why 9 months is only coming to 24% but that's how it is. 9-month total is 24% haircut, the same as what it was the prior 2 years. So, I hope I was able to address that question, Upma, the second question?

Upma Goel: Yes. On the second question of DA income of INR 100 crores, which is being added into the interest income, as per the IR disclosure. In the SEBI page, this is coming under net loss on derecognition of financial instruments. Reason being the moment we sell the book, the book exits from our books and that's how it is clubbed under the net loss on derecognition of financial instruments.

Jairam Sridharan: It's shown as a negative item there.

Avinash Singh: Yes. That's very clear. Jairam, on the first question's part, I mean, because we're kind of losing track that there has been a utilization of INR 200-odd crores from your management overlay as well. So, the credit cost, I mean, that is coming in the P&L is closer to this INR 548-odd crores because INR 100 crores, of course, is the adjustment for this DA fee that I believe is the INR 548 crores kind of is coming from this thing

Jairam Sridharan: On the management overlays here, what has happened is there was a class of provision that was created where there were a few assets against which that pool of provisions was created. But in that pool, all the other assets were already closed. So, there was only one asset left. So, the pool against which this provision was kept, there was only one asset left in that pool, in this quarter when we made provisions, we essentially used that provision as well, right, into that category.

So no, like there is no general overlay for management that was there, which has gotten used up. It –is essentially because the pool only had one asset, it was effectively a specific asset provisioning that was there. But when we show the specific asset provisioning for Stage 2, we were not counting that. So that's probably the math that you're talking about.

Avinash Singh: Yes. I mean so basically you are saying that your INR 150 crores provision has reduced in legacy book and that is in addition to you have used this INR 200 crores that now is part of somewhere here. So, INR 350 crores, so that is where I was kind of losing a bit of a track?

Jairam Sridharan: Your math so far is correct. The specific asset provisions, sorry, maybe what I said is not clear. There are specific asset provisions of about INR 2,000 crores that were there against the legacy assets. That INR 2,000 crores is now down to some INR 1,850 crores or something like that. So those specific assets, INR 150 crores consumption is there.

Then there was this other thing which we were not counting as part of the INR 2,000 crores. But that pool of provisions only had one asset against it, remaining, right? And that was legacy book's provisions only, but it was not getting counted.

So only one asset was left. So, when we were making provisions against that one asset this time, we ended up converting that to a specific asset provision. So, nothing has really changed. We just changed the nomenclature of that from general provision to specific provision.

Avinash Singh: Yes. So, then you are consuming INR 200 crores plus INR 150 crores, that's INR 350 crores and then INR 300 crores in P&L. So that's what I'm saying there's INR 650 crores you are suggesting there?

Jairam Sridharan: Yes, correct. But one was pre-existing, it was just a nomenclature change. It was not a new consumption.

Avinash Singh: So basically, if I were to see that, INR 1,700 odd crores of INR reduction you're seeing, so, now at what value, including cash roughly, that's down to INR 650 crores?

Jairam Sridharan: It's about INR 500 crores. It's a little under INR 500 crores. It's not INR 650 crores. If that's the question you're asking.

Avinash Singh: Yes, okay. Thank you.

INR **Moderator:** Thank you. Our next question comes from the line of Shubranshu Mishra from Phillip Capital.

Shubranshu Mishra: Just one question. Why do we have so many subsidiaries and joint ventures? The sheer number of subsidiaries, when I look at the notes to count, the count is close to 20 and the joint ventures, again, we've got like 5 or 6. This creates a whole host of network of so many subsidiaries, one hold-co. Whereas when we look at the core business, it's largely limited to lending. So, my question here is that when someone looks at from an accounting perspective, this doesn't seem right. So just wanted some clarity on so many subsidiaries and joint ventures and associates?

Jairam Sridharan: No, thanks for your question. Some of this or a lot of this is an artifact of what our history is. We are a very, very old company, have been around for decades. Only the last few years have been as a standalone financial services company. For decades, we have existed as a conglomerate with businesses in lots of different areas. So over time, a lot of those subsidiaries have been accumulated.

But ever since we became a financial services specialist company, we have been simplifying and if you look at our number of subsidiaries today versus what they were, let's say, 3 years ago, you will see a pretty drastic reduction. And the same will continue happening as we now merge Piramal Enterprises with Piramal Capital and Housing Finance and create this new company Piramal Finance, even more simplification will happen.

So, we are committed to actually continue to simplify the corporate structure and we have already done a lot of that over the last couple of years and you should expect to continue to see that going forward. Your point is absolutely right, that it is not common for financial services companies to have these many subsidiaries. But please recall that we are a many decades-old company, which has been in financial services only somewhat recently. So that's the legacy that you are seeing there but it will all get cleaned up.

Shubranshu Mishra: Right. If I have to push this question, just one step forward. Is there a deadline to which we can see a clear simplification of this structure?

Jairam Sridharan: See, we are working with the regulator on this and the regulator has their own kind of view of what we need to do and some of the subsidiaries because they are in other jurisdictions outside of India, and they have their own sort of regulatory architecture, it is not possible for me as management to just give a deadline on this. We are working hard towards simplifying it and working with all the various jurisdictional authorities to simplify.

Having said this, from a materiality standpoint, as PCHFL and PEL merge, the only real kind of associate that you really need to care about probably is Pramerica and the joint ventures with Bain on the Alternatives side. That's about it. The rest of the stuff is not at all material.

Shubranshu Mishra: Thanks, look forward to simplification of the structure.

Jairam Sridharan: Thank you for the push, appreciate it.

Moderator: Thank you. The next question comes from Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: Yes. So firstly, again, getting on to the provisioning on the wholesale. So, when we look at the rundown, which has been there on a quarter-on-quarter basis, it seems like the larger proportion is still like almost INR 600-odd crores, out of that is SRs. Okay. So, would it be fair to assume that maybe the knock, which is being there of almost like, say, closer to INR 500-odd crores, that's because of the composition where in SRs itself are coming off?

Because earlier, you have been indicating that 20% should be the good quantum with respect to the haircut and we have seen a slightly higher proportion. And now maybe when we look at it in the next 3 months, we are again expecting closer to like INR 2,800-odd crores of run down because it would be at the accelerated pace, then should we be worried about the more provisioning out there?

Jairam Sridharan: Right. So, if you look at roughly INR 1,700 crores of reduction this time, Kunal, INR 600 crores of reduction is from SRs. INR 600 crores reduction is from Stage 1 and Stage 2 assets. INR 200 crores reduction is in Stage 3 and about INR 150 crores each in land and AIF. That's approximately, the INR 1,700 crores. So, SRs is roughly 1/3 of what has happened.

Your point is right that the haircut percentage in SR has been a little bit higher than in the other categories. That point is correct. But every quarter the mix will be a little bit different. See, we have now brought the book down from INR 43,000 crores to INR 10,000 crores and our haircut through this entire process has been 24% - 25%.

We have been showing the haircut percentage to you all for a few quarters. And you know that FY '23 and FY '24, cumulatively, our haircut percentage was about 25%. This year so far, in the 9 months so far, our haircut percentage is 24%. Now quarter-on-quarter, it can be a little bit volatile but approximately it has been about 25%. The haircut has been about 25%.

Now we have INR 10,000 crores remaining of the book. You can apply your assessment on if, let's say, INR 10,000 crores is eventually going to finish over the next, let's say, 1 year or so and about INR 2,000 cores or INR 3,000 crores, which is the residual book, let us say, the good quality book, which we will live with, then whatever INR 7000 crores-INR 8000 crores of delta you want to take, whatever extra provisions you would require, you can do some sensitivity analysis on that.

We have INR 1,800 crores of provisions on the book. Whatever is delta over and above that will need to be funded through some of the other pockets of value that we have mentioned in the past. That's probably the best way to kind of look at it.

Kunal Shah: Yes. So again when we look at it this time, it's getting offset from AIF recoveries, okay? So now that's primarily offsetting, so whatever has been the gain on the AIF that's offsetting the provisioning on the wholesale. And I think that's what you have been indicating as well that maybe the AIF recoveries or maybe any stake sale gain that would be utilized more towards this kind of a haircut. And at least in P&L, there will not be any further impact. So, would that be the right assumption again?

Jairam Sridharan: That is the right assumption. Yes.

Jairam Sridharan: Yes. That's a fair assumption. What you're saying is fair. And see, that's the way we have played in the last few quarters as well, is that over the last 4 or 5 quarters, you have seen us do this that we have not allowed net worth to get impaired. So net worth has been protected and has continued to increase. You saw our capital adequacy actually improve by 40 basis points during the course of this quarter, even though the book has grown by 16% Y-o-Y.

So, you saw capital adequacy improve. That's because of this angle that we are protecting, the net worth by making sure that any incremental kind of haircuts that are coming in are getting offset by any other sort of onetime gains that we have.

Kunal Shah: And then getting on to the growth businesses. So again, the credit cost has risen by almost like 30-odd basis points. That primarily seems to be MFI. But again, when I look at it, maybe at least there has been uptick on the salaried PL as well as digital loans. Digital loans in terms of the disbursements as well digital loans are up.

So, you have been indicating that you would be getting more comfortable and start to do this business. But the overall operating environment, I think most of the lenders are still suggesting that there is some worry on this segment and even on the business loans, this is again unsecured. So, we would have seen some part of it on the microfinance side, wherein we are taking them out.

But again, these three segments continue to grow. So, would there be more worry in terms of the overall Growth business's credit cost also inching up? And where would you see the steady-state level in this kind of an environment?

Jairam Sridharan: See, we have stated in the past as well that the business that we are building is kind of roughly a 2% credit cost business. Nothing much has changed there. Nothing that has happened in the last few quarters has changed our mind on that. This quarter you saw Growth book credit costs go up from 1.6% to 1.9%, not a big delta. The businesses that you mentioned, you're absolutely right.

We will try not to be procyclical with respect to these businesses. It is our job to take a call on where we see risk. At this point, I feel comfortable with the profile of risk that we are able to book in the digital side. So, we are starting to get a little bit comfortable. I think you and I spoke about this a few months ago where I said that we might start doing more on digital.

You see a little bit of that in the third quarter. We saw a tiny bit of increase in that. Business loans, we are not quite there yet. So, you saw a big steep fall in business loans in Q3 versus Q2. We're not quite there where to I can assert with any confidence that we are there. So, business loans might still take a little bit of time. But salaried personal loans, I continue to feel pretty good. I think the business is holding up very well.

And both horizontally and vertically, the risks are holding on quite nicely. If you see our charts on page 19 and 20, one shows vertical and one shows horizontal risk. And you can see how we are feeling about the various products and salaried personal loans, for example, you can see the very low levels and continuing to stay down. And Q3 was actually even better than Q2 in terms of horizontal risk in salaried personnel loans.

So, I continue to feel good about both salaried PL and digital, business loans and microfinance not so much. We are still in a pretty tough territory there.

Kunal Shah: Okay. And even excluding MFI, the business loan disbursements would have been down, so what we are seeing from, say, INR 1,155 crores to INR 736 crores? UBL is almost INR 640 crores.

INR **Jairam Sridharan:** Yes, so from that the delta of because of MFI is probably INR 150 crores. The rest of the delta is all business loans. The total delta is about INR 400 crores of which about INR 150 crores is MFI's delta and remaining INR 250 crores is business loan's delta.

Kunal Shah: Okay. Thanks, and all the best.

Moderator: Thank you. Our next question comes from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Just one question I had in terms of all the product segments that we have secured or unsecured, but I think I mean sometime last quarter there were conversations happening with regards to spillovers from microfinance in secured segments. So, have we seen any such spillovers in our secured segments or is it like large part of the spillovers that are being seen from microfinance are restricted to only the unsecured segments?

Jairam Sridharan: Yes. So have been, I must say, positively surprised. We have not seen spillovers yet. So, I don't want to jinx it, but so far not really. The secured side seems to be holding very steady. So housing, LAP, everything is just holding up holding up pretty steady. And actually, Q3 was pretty decent as well. December, in particular was quite strong.

And as we speak, January is looking pretty good as well. So not looking like a spillover thing yet. So far not so much, it seems pretty contained, at least right now.

Abhijit Tibrewal: Got it. And just one last question that I had was when you spoke about some hidden pockets of value, we've been utilizing that, basically the AIF recoveries to ensure that the net worth is not impaired while we are running down the legacy assets. The other pockets of opportunity that you have spoken about in the past, are there any updates on that? I mean, maybe not necessarily a direct update, but directionally how are we thinking about it?

Jairam Sridharan: Yes. So, AIF we already spoke about, and we continue to make progress on that. We will continue to see more AIF recoveries in Q4 and in FY '26 as well. Then we have got the stake in the two Shriram insurance companies, Life and General where again we have been open about our intent to see them as financial investments and exit them at the appropriate time.

As these are unlisted entities, it's a little bit more complex and you need to do some structured transactions to actually get out. There have been some organization or corporate level restructurings in those entities which has helped make things a little bit easier. However, there's no specific update for me to share with you right now. There's no specific deal or conversation that is sort of on the table.

But our old guidance on this stand which is that you should continue to expect us to be available as a potential seller to exit this at the moment the right opportunity presents itself, likely in FY '26, but we're not setting a particular timeline on that. There is, of course, the incremental sort of item that we had shared recently, which is the $140 million of deferred consideration that's available to us in FY '26.

That's a new pocket of value that has emerged in recent weeks. Again, all these are very different from AIF type stuff which we have talked about in the past as potential offsets for legacy asset side issues. Some of these items are more direct value creation items. So, we have that as well. So, between that and the stakes in the life insurance entities and, of course, our tax shield that is available to us from the past. Those are the pockets of value that continue to remain available to us.

Abhijit Tibrewal: Got it. And while you gave a very good color on this, Jairam, just wanted to understand in terms of growth on the retail side, are we still thinking just organic growth?

Jairam Sridharan: See, the Piramal Group has had kind of M&A in its DNA. So, we are always happy to consider M&A transactions as and when they present themselves. And our areas of interest where we'd like to see or like to seek M&A transactions also remain the same, which is MFI, small business loan and gold.

And there is no deal conversation that's going on right now on which we can offer any update on. But yes, we continue to remain interested in those areas. But as of now, the bulk of our strategy is going to remain organic with us opportunistically looking at inorganic transactions if and when something interesting presents itself.

Moderator: Thank you. Next question comes from Rohit Jain from Tara Capital Partners. Please go ahead.

Rohit Jain: I have a question on the borrowing mix. I see that the percentage of ECB has gone up quite decently over the last few quarters. Now given an environment where INR is depreciating, can you help us understand the dynamic of this avenue of borrowing? I mean what is the hedge cost? And how does it change given the INR depreciation? And is it still better than borrowing in the domestic market?

Jairam Sridharan: So right now, Rohit, we are fully hedged. We hedge it at the point when we do the transaction. We don't keep naked exposures. So, we hedge it at that point. And when we did these transactions, our hedging costs were about 2.5% and we entered into the hedge. So, the depreciation in rupee has zero impact on us right now.

Of course, as the rupee depreciates, the hedge cost itself might change over time. If we were to do a new transaction and enter into a new hedging deal, then the story will be a little bit different. But our old borrowings that we did during the earlier part of this year, nothing changes about them in terms of their impact to us.

Rohit Jain: So, I mean, let's say, as and when they mature, if hypothetically, you were to replace them with domestic borrowings in case this becomes slightly more, let's say, expensive, then what would it net net be, if we think about that dynamic?

Jairam Sridharan: So basically, the way we hedge it is, we have hedged for the duration of the loan. So effectively, as far as I'm concerned, it is a rupee borrowing effectively. So, it doesn't matter to us what happens to the USD, INR at this point for those loans. Of course, if you want to do a new borrowing transaction, then it does matter. But for those old borrowings, nothing changes, like they are locked in at rupee rates.

Rohit Jain: No, I get that. I'm just trying to understand what's the duration or tenure of some of these borrowings?

Jairam Sridharan: 3 years.

Rohit Jain: 3 years. And so, the ones that were borrowed, let's say, in FY '24 or something, they still have, let's say, decent couple of years before that becomes an issue for you?

Jairam Sridharan: Yes, that's right. Our first significant borrowing was in June of this year. So, we have ways to go. So, June '27 is when they will come up or July '27 is when they will come up.

Moderator: Thank you. The next question comes from the line of Rishabh Bajaj from 360 One Wealth. Please go ahead.

Rishabh Bajaj: I just wanted to ask, how you see the credit environment going forward. Do you see incremental steps? Or do you feel like it's possible that we could see a peak out in credit risk?

Jairam Sridharan: Right now, I'm leaning a little bit towards the latter of what you said. Very cautiously I would say that it looks like Q4 is going to look somewhat similar to Q3. So Q4, you're not going to see a reduction. You're going to see Q4 kind of similar to Q3 but it's not increasing. And even if you see within the quarter, the December trends were actually a lot better than October and November.

So, if you look at things on a 3-month moving average basis and by the way, January is coming in at similar levels to December or even better. So, on a 3-month moving average basis, it looks like the things have peaked. But these things tend to shift. So, I don't want to draw too much from it just now.

But I mentioned to an earlier caller that we're not seeing spillover effects into other product lines and resolution rates seem to be improving within the product lines that were stressed. So, putting these 2 together, it looks like Q4 of somewhat similar to Q3, maybe even tad higher maybe but kind of looks more or less the same.

And if that ends up being the case, maybe it's looking a little bit more like the peak than not. But I wouldn't assert it with a lot of confidence yet. Let 1 month or 2 more go, then we will feel a lot more confident about it. I can just say that December was pretty decent and January is turning out to be pretty decent.

Rishabh Bajaj: Okay. And in terms of the long-term ROA guidance, are we on track to meet that? And any exclude guidance from this quarter?

Jairam Sridharan: Yes, on that, our Growth book, you saw the pro forma PBT-ROA was 1.4%. As the legacy book keeps running down and becomes irrelevant over the course of the next few quarters, Growth book PBT profile will start becoming more and more front page. And you'll see that. You can see that our yields are holding steady and consol basis yields are even increasing.

And you can see that our cost of borrowing has peaked. Fee income is starting to rise. Opex continues to come down on a regular basis. And if credit costs sort of peak out at around these levels or kind of in Q4, then pretty much secularly, you'll see that all the metrics are favourably aligned. So, we feel confident about the medium-term guidance that we have offered, and nothing changes on that front.

Moderator: We'll take the last question from the line of Vikas Kasturi from Focus Capital.

Vikas Kasturi: Sir, I have a couple of questions. So, first is our Pramerica Holding, what is the strategy there, sir, long-term strategy? Is it to grow the insurance book aggressively and then maybe list it separately or exit that business? Because I'm sure even the regulator will ask you this question, so some broad guidance on that on that strategy.

Jairam Sridharan: Yes. See, on Pramerica, we are a 50% owner and listed as promoters. Per IRDA guidelines, promoters need to remain for a 5-year period. We have been there for 3 years now. Your questions are valid ones about what in the long term, do we see ourselves as strategic owners or not. We continue to have internal conversations on it. We are not asserting long-term strategy at this point. On this all options are open.

Having said that, right now, our job is to actually get that company to a certain level of scale and launch the right products, have certain segments in which there is some dominant position, so that value is created. How we monetize that value, we will see. But right now, the job is pretty simple and cut out, which is to focus on value generation in that entity. It will remain very small and somewhat irrelevant in the larger scheme of things for us for a little while. But once a little bit of value gets created, then we will figure out the right kind of strategic path for it.

Vikas Kasturi: Great, sir. My second question is on your branch strategy, sir. You had mention in one of the slides that the rate of addition is kind of slowing down. And so, my question to you would be that sir, given that branches tend to be the engines of growth, so why would you want to slow it down? You would rather want to have more branches and because over time, they will mature and help you grow faster. So that is my question, sir.

Jairam Sridharan: Yes. So, thanks for that question. See, these things, I mean, you should think of this as sort of a little bit of a caterpillar movement. Sometimes you will see a lot of branch expansion and sometimes you'll see that slowing down. And it tends to happen based on what your primary criterion is.

For the next 1 year, 1.5 years, our focus is going to continue to remain on operating leverage and making sure that we are able to deliver returns from the 200 - 250-odd branches that we have opened in the last couple of years, just making sure that they come up to the right productivity levels that we are able to actually show the returns on that from a continued reduction in opex ratios, etc.

If we are able to deliver that, we will come back to branch growth as well. But right now, I think the time is for us to actually demonstrate productivity improvements and opex improvements on the investments that we have already made rather than continue to make any more investments. But this is the strategy for the next few quarters, we will see that will continue to evolve.

Vikas Kasturi: Final question, sir. Sir, on your retail to wholesale ratio, which you've given as a sort of a long-term guidance of 75:25. And given that retail is growing very fast and wholesale, you are shrinking your legacy book. So, we might actually end up with something like maybe 85:15 or something, sir, as given this kind of growth rate.

So, would you still want to get it back to 75:25? Is that kind of my question is, is that kind of set-in stone? Or is it just like moving target kind of a thing?

Jairam Sridharan: I'd say that. I mean, nothing in business is set in stone. But I would say that our desire is for retail proportion to be 75% to 80%. It's unlikely that we would want it to be a lot more than that. So yes, it is possible that in the short term, because of continued wind down of the legacy book, in the short term, it is possible that we overshoot the 75:25 but even the sort of medium term, you should expect us to come back to retail being somewhere between 75% and 80%. It's unlikely that we will be too different from that ratio.

Vikas Kasturi: So, you might even slow down the retail growth?

Jairam Sridharan: No, no. I don't think we'll need to slow anything down. I think organically, the numbers will take care of themselves. I think we know what the size of the opportunity is in wholesale for somebody like us with our rating. And we know what the opportunity size is in retail and we believe that an optimal mix of 75:25 or 80:20 will kind of work out.

And on this last point, since the caller asked about growth, I want to reiterate that you've seen the consol level growth of Piramal increase quarter-on-quarter over the last multiple quarters. This quarter, we delivered, if I'm not mistaken, it must be like 3-year high of growth at 16% Y-o-Y. And we continue to feel optimistic about delivering strong growth even in an environment in which growth has been relatively slow for the market and to be able to do that in a way that is fairly risk protected.

And you should continue to expect to see fairly contained risk outcomes on Growth book even as we deliver these growth levels. Thank you for all those questions.

Moderator: Ladies and gentlemen, that was the last question for the day. I now hand the conference over to Mr. Jairam Sridharan for his closing comments.

Jairam Sridharan: Yes. Thank you, everybody, for listening. I've had 1 or 2 questions on messaging platforms. Somebody has asked a question about 24% the haircut. Sorry, let me just take 30 seconds to clarify. The 25% or 24% haircut that we have mentioned for this year, the 9 months, is without netting off the AIF impact. Just to be clear, that's the gross level impact. And then we have netted off or we have set that off against AIF gains that we have done.

So, this is a gross number, not a net number. Just because 1 or 2 of the people wrote about this on messaging platform, just clarifying this. Thank you, everybody, for listening to the call patiently. And for any further questions, do reach out to Ravi and team in our Investor Relations organization. Thank you and have a great evening.

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