Piramal

11th May, 2023

BSE Limited
P.J. Towers, Dalal Street, Fort,
Mumbai- 400 001
BSE scrip code: 500302

National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex,
Bandra (East), Mumbai – 400 051
NSE symbol: PEL

Sub: SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 ('Listing Regulations') - Transcript of Conference Call with Investors/Analysts

Dear Sir / Madam,

In continuation of our letter dated 2nd May, 2023 and pursuant to Regulation 30(6) of the Listing Regulations, please find enclosed the transcript of the Conference Call held on 5th May, 2023 to discuss the Q4 & & Full Year FY2023 Results of the Company.

The transcript of the said conference call is also hosted on the website of the Company at https://www.piramal.com/investor/piramal-enterprises-limited/financial-reports/investor-calls/

Kindly take the above on record.

Thanking you,

Yours truly,
For **Piramal Enterprises Limited**

BIPIN SINGH
Digitally signed by BIPIN SINGH
Date: 2023.05.11 10:16:43 +05'30'

Bipin Singh
Company Secretary

Encl.: a/a

Piramal Enterprises Limited

Earnings Conference Call for Q4 & Annual FY23

May 05, 2023

<u>MANAGEMENT</u>:

1. **MR. AJAY PIRAMAL – CHAIRMAN, PIRAMAL ENTERPRISES LIMITED**
2. **MR. ANAND PIRAMAL – DIRECTOR, PIRAMAL ENTERPRISES LIMITED AND PIRAMAL GROUP**
3. **MR. RUPEN JHAVERI – GROUP PRESIDENT, PIRAMAL ENTERPRISES LIMITED**
4. **MR. JAIRAM SRIDHARAN – MANAGING DIRECTOR, PIRAMAL CAPITAL AND HOUSING FINANCE LIMITED**
5. **MR. YESH NADKARNI – CHIEF EXECUTIVE OFFICER, WHOLESALE LENDING BUSINESS– PIRAMAL ENTERPRISES LIMITED**
6. **MS. UPMA GOEL – CHIEF FINANCIAL OFFICER, PIRAMAL ENTERPRISES LIMITED**
7. **MS. RUCHIKA JAIN – ASSOCIATE VICE PRESIDENT, INVESTOR RELATIONS, PIRAMAL ENTERPRISES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Piramal Enterprises Limited Earnings Conference Call for Q4 and Annual FY 2023. 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 touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Ruchika Jain, Associate Vice President, Investor Relations from Piramal Enterprises Limited. Thank you, and over to you, ma'am.

Ruchika Jain: Thank you, and welcome to the Earnings Conference Call for Q4 and Annual FY23. Our results have been uploaded on our website, and you may like to download and refer to them during our discussion. The discussion may include some forward-looking statements, and these must be viewed in conjunction with the risks that our business faces.

On the call today, we have with us our Chairman, Mr. Ajay Piramal, Mr. Anand Piramal, Director; Piramal Enterprises and Piramal Group; Mr. Rupen Jhaveri; Group President, Piramal Enterprises; Mr. Jairam Sridharan, Managing Director, Piramal Capital and Housing Finance; Mr. Yesh Nadkarni, CEO of our wholesale lending business and the CFO of our company, Ms. Upma Goel. With that, I would like to hand over the call to our Chairman and would request him to share his initial thoughts. Thank you, and over to you, sir.

Ajay Piramal: Thank you and welcome to our earnings conference call. Today, as we mark the end of FY23, I would like to discuss how we have successfully delivered on our strategic priorities over the past year.

Our total assets under management stood at INR 63,989 crores.

We have significantly improved our retail wholesale mix to 50:50, from 33% retail and 67% wholesale in FY22.

Our retail AUM witnessed a 49% year-on-year growth to INR 32,144 crores from INR 21,552 crores in the last year. Quarterly disbursements have grown by 34% quarter-on-quarter and 361% year-on-year to INR 6,828 crores in the retail business.

The wholesale 1.0 AUM reduced by 33% year-on-year to INR 29,053 crores from INR 43,175 crores in FY22. Our Stage 2 and 3 wholesale assets reduced by 39% quarter-on-quarter to INR 6,374 crores from INR 10,369 crores, in the Q3 of the current year.

We concluded 4 stressed asset monetization transactions during the quarter, through a combination of asset sales and ARC sales. With this, we generated over INR 12,500 crores of cash realization through accelerated repayments and resolution proceeds from our wholesale 1.0 portfolio in line with the provisions on these assets.

We have built a wholesale 2.0 AUM worth INR 2,792 crores across Real Estate and Corporate Mid-Market Lending.

Our GNPA ratio reduced to 3.8% in the last quarter of FY23 from 4% in the third quarter.

Our profit after tax for FY23 grew 5% year-on-year to INR 1,902 crores post excluding exceptional gain of INR 8,066 crores in FY23 pertaining to demerger related transaction.

<u>Financials Performance:</u>

The PAT for the quarter stood at a loss of INR 196 crores, led by MTM loss of INR 375 crores on Shriram investment. Excluding the impact of this MTM loss on Shriram, our PAT would have been INR 136 crores for the quarter. As of yesterday, this MTM loss has been reversed by INR 218 crores.

Net interest income for FY23 grew 21% year-on-year to INR 4,176 crores.

We have maintained a strong consolidated net worth of INR 31,059 crores for FY23 and a capital adequacy ratio of 31% on the consolidated balance sheet.

We maintained a strong liquidity, cash and liquid investments of INR 7,430 crores despite of all the provisions undertaken during the FY23.

Due to our strong balance sheet, and improving AUM mix, we have reduced our average borrowing cost to 8.6% for FY23 against 9.6% in FY22, despite a rising interest rate environment.

The Board has recommended a dividend of INR 31 per share, subject to the shareholders' approval at the AGM. The total dividend pay-out would be INR 740 crores.

Now coming to the liability management, our ALM is well matched with positive gaps across all buckets. With 59% of liabilities being fixed in nature, we have remained well-cushioned against the interest rate cycle.

<u>Retail Lending:</u>

We saw an improvement in retail disbursement yield at 14.2% for the quarter. Our average disbursement ticket size stood at INR 11 Lakhs for Q4FY23, we are consciously pivoting to a multiproduct strategy in which banks are less present.

We are present majorly in 4 product categories in retail business, namely housing loans, Secured MSME (LAP), Other Secured (currently Used Car Loans) and Unsecured Loans. Our secured offerings, which include Housing Loans, Secured MSME (LAP) and Other Secured Loans contribute to 80% of our Retail AUM. In these product mix, over 50% lending happens in Tier 2 and Tier 3 cities with an average CIBIL score greater than 735.

In our unsecured loan offerings, we are experiencing strong growth from multiple channels. We have served 880,000 customers with an average CIBIL score of 753. As we continue to expand our retail lending business, we are also investing in manpower, branch infrastructure, technology and analytics of our retail lending business for its future growth.

Over the last 1 year, we have added 95 new disbursement active branches. With this, today, we have a growing network of 404 conventional branches and 120 microfinance active branches. We have established our presence across India, serving 515 districts across 26 states. We have acquired more than 4 lakh new customers during the quarter. With this, our customer franchise now stands at ~3 million, having more than 1 million active customers.

Wholesale Lending:

Now let me talk to you a little bit about wholesale, where we continue to focus on the resolution of Stage 2 and Stage 3 assets, which will further moderate the wholesale book size in the short term. A focused professional team is involved in monitoring and executing the resolution strategy for complex recoveries and enforcement aimed to improve recoveries and monetization of assets. The 'Recognition' and 'Provisioning' part of our asset cycles have been completed. We are now deep in the resolution part of the cycle. We are deploying the following tools for resolution of stressed assets.

a) Monetization of underlying assets
b) One-time settlements
c) Enforcement via IBC or other means
d) Portfolio sales to ARCs in cash and SRs.

We had good success in our resolution strategies in FY23, particularly in the Q4FY23. We concluded for stressed asset monetization transaction during the quarter, through a combination of asset sale and ARCs. As part of these deals:

- We called out last quarter that we are working on the resolution of a large Non-RE Holdco loan namely Mytrah. We would like to inform you that we've exited the same this quarter thereby achieving a reduction of INR 1,908 crores in a single transaction.

- We also concluded sale of an NPA portfolio in cash.

- Further, we concluded sale of certain stressed assets through 2 separate ARC transactions under the 15:85 structure.

With this, we generated over INR 12,500 crores of cash realization through accelerated repayments and resolution proceeds from our Wholesale 1.0 portfolio in line with the provisions of these assets.

All the ARC sales have been undertaken at post-provisioning valuations. Security Receipts (SRs) were issued at 63% markdown to face value of underlying assets sold in FY23. Post the transactions, we received INR 1,364 crores, through cash receipts and SRs recovery. As of FY23, we have an outstanding SR portfolio of INR 3,630 crores, and 44% of the outstanding SRs have retail loans as underlying assets. As resolution process continues, we expect more ARC sales over the next 2 quarters and related continued enforcement.

Wholesale 2.0 Lending:

We are also focusing on building a high-quality wholesale 2.0 AUM. We are focused to build a diversified and granular wholesale book backed by cash flows and assets that will give loans to well-capitalized companies, across multiple sectors and geographies. We have already built a wholesale 2.0 AUM of INR 2,792 crores by adding INR 922 crores of loans during the quarter. We will further build this book in a calibrated manner while capitalizing on the market gap. The average ticket size is around INR 200 crores for Real Estate loans and INR 55 crores for CMML loans.

What are our midterm strategic priorities? We have drawn our strategic priorities for the midterm, wherein we intend to achieve the following:

- Mid- to high-teens AUM growth
- AUM mix of 2/3 retail and 1/3 wholesale
- Lending to 'Bharat' markets in retail business
- Building a new granular w\wholesale business
- Keep Technology and Analytics at the core of lending
- Ensure a conservative liability mix
- Scout for opportunistic inorganic plays
- Achieve 3% ROA and mid-teens ROE.

Now with this, I would request to move to the questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Nischint Chawathe from Kotak Institutional Equities. Please go ahead

Nischint Chawathe: Thanks for taking my question. There are a couple of questions actually. The run down in your housing book appears to be sort of rather large. If you could help us understand what would be the reason for this.

Jairam Sridharan: Are you talking about the wholesale book or are you talking about the housing book?

Nischint Chawathe: I'm talking about the housing book. Yes, I'm talking about the housing book, essentially on Slide number 8, trying to sort of add up the disbursements and loan book?

Jairam Sridharan: Okay. So if you go to Slide number 19, that shows the pure housing AUM and how the AUM has grown quarter-on-quarter, so that will give you a sense. In general, quarter 4 tends to be the peak quarter for balance transfer out, so you will see a higher level of runoff in Q4, that's seasonal. And you usually see a reversion quite steeply in Q1, so we haven't seen anything particularly unusual in Q4 that we do not normally expect.

Nischint Chawathe: On an annual basis, your run down is something like around 23%-24%, right?

Jairam Sridharan: Correct.

Nischint Chawathe: And any specific reason why it's so large in housing, so high in housing?

Jairam Sridharan: See, player like us who is originating housing loans at ~12% yield, will end up seeing a lot of balance, and also if you compare the metrics to the environment where good quality credit customers are able to get single-digit pricing. So you will have to imagine that your runoff rates will be a little bit higher. As we disclosed on our slides today, our average CIBIL score of our housing customer is 748, so these are pretty high-quality customers. So some of them will end up getting competing offers and that's fine. And that's something that we have baked in into the way we have priced the tranche.

Nischint Chawathe: And you're probably assuming a similar run rate going forward, I felt.

Jairam Sridharan: As I said, you have to adjust for seasonality, Q4 is very high from a seasonal runoff perspective, but ex of that, yes.

Nischint Chawathe: And then probably, as the cost of funding comes down, maybe you can offer the lower rate. Is that a fair assumption to make?

Jairam Sridharan: I think that's absolutely correct.

Nischint Chawathe: Perfect. Just one small suggestion is that I think the AUM, on housing on Page 8 and Page 19, maybe if you see, probably we can do this offline, but I think some of the minor numbers don't really add. Just one more question is, what constitutes like 8.9% odd fees for you?

Moderator: The audio is muffled from your line, sir. please use the handset.

Nischint Chawathe: Yes, sure. Fee income of around 9%, if you could clarify, what that would comprise of.

Jairam Sridharan: So if you're referring to Slide number 12, which is where we have shown that. See, this is fees as a percentage of total income, so the total income, what we are calling the operating income, which is NII plus fees, the total is about 6.25%, which is what you see in the chart on the top left, so that's the 6.25%. What we are trying to show is that of that, what proportion is fee and what proportion is NII. And what we're essentially saying is roughly 91% is NII and 9% is fees.

Moderator: Thank you. Next question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: I sort of try to focus on Slide 39, that's where you have given the wholesale asset details and provisioning.

Moderator: The audio is unclear from your line, please use the handset mode.

Avinash Singh: So what I am trying to focus on Slide 39, where you have given the details about the wholesale assets and the provisioning. I do understand that this is one sort of a chunky corporate account that you have resolved. However, still even adjusting for that, if I see, kind of provision cover has gone down in Stage 3 and mildly Stage 2 and 1 as well. So what sort of, I mean you know that comfort you're getting that, sort of, you are okay with reducing the provision cover? That's one.

And also, if you can just help sweep sort of that impact of your POCI recoveries on the P&L and balance sheet for the quarter and the full year. So yes, these are my two questions.

Jairam Sridharan: Got it. So let me try and see whether we understand your question correctly and we'll try and answer. The Stage 2 and 3 provision pool was about INR 4,700 crores last quarter, and it is about INR 2,100 crores now. If you look at the actual pool itself, the pool itself has come down from about INR 11,000 crores to about INR 6000-6,500 crores give or take. So essentially, we've had an INR 4,000 crores odd reduction in the Stage 2 and 3 pool.

And how does that reduction happen? That reduction, half of it roughly that sale is the micro transaction or a little less than half, but the rest of it is still significant decline has happened in Stage 2 and 3 population. And this is when we are going through the resolution cycle, so as you go through the resolution cycle, the provisions that you have made, you use that to actually either sell the asset or you basically get it off your book.

And so that's precisely what you're seeing here. Since we have completed the recognition and the provisioning part of the credit cycle, and we are in the resolution part of the cycle. In the resolution part of the cycle, the provisions that you made will get used up and you get those assets off your books, and that's precisely what you're seeing here.

Yesh Nadkarni: I'll just add 2 points to this. This is Yesh here. If you actually look at the math, in December quarter, Stage 2 plus 3, AUM provision coverage ratio we had was about 45%, which today stands at about 34%. That 45% that we had in December quarter had Mytrah which had more than 70% provision.

If we exclude Mytrah and there is a reason why we provided 70%, specifically against Mytrah, and we actually sold it at a value, which was in line with that provision. If we exclude Mytrah from the bucket 2 and 3 for December quarter, the provision was roughly 37% versus 34%. If you actually look at the rest of the pool, decrease in provision is not as material as it appears on the face of it.

And the second point I would mention is that, in terms of all the monetizations, we have seen over the last quarter, including Mytrah, which I alluded to, has happened in line with the provisions, which only substantiates our confidence that we have been providing for the Stage 2 and 3 assets in line with what the recovery is supposed to be indeed and would be. Does that answer your question?

Jairam Sridharan: You had also one question on POCI. The POCI book, as we've shown on Page 38, the POCI book was INR 3,100 crores that has come down to INR 1,400 crores. And that reduction of about INR 1,600-1,700 crores, some of that was part of one of the two ARC transactions that we did during the course of the quarter. So if you see our slide on our SR portfolio that we have added, you will see that about 44% of the outstanding SR are retail in nature, and that comes from here. So the reason you see the POCI reduction is that it was part of one of the SR transactions that we did.

Avinash Singh: And its impact on P&L for the quarter?

Jairam Sridharan: There isn't any.

Avinash Singh: And one follow-up, if I may have, on a different question. In your tech or digital partnerships, if the regulation permits, particularly the Fintech NBFC, do you have FLDG arrangements in place or it just like a business partnership?

Jairam Sridharan: We have no FLDGs in place. FLDGs are not allowed by the new digital lending guidelines. So, I know RBI is talking about it again based on the lobbying that's happening from the Fintech and maybe some version of it will come back in the future. But as of today, FLDGs are not allowed in digital lending. So we don't have any, of course.

Moderator: The next question is from the line of Bhavik Dave from Nippon India Mutual Fund.

Bhavik Dave: Good Evening sir. Two questions, sir. One is on the yield. I see that yields are moving up, obviously, because of the secured and unsecured mix...

Moderator: Thank you, Mr. Dave, please use the handset mode, sir, the audio is muffled from your line.

Bhavik Dave: Sure. Sir, just 2 questions. One is one the yield front, wherein the yields are going up because of the shift in mix. If you could just explain like broadly, what would be the yields that we charge in different segments, like home loans and unsecured fees that we are doing? Roughly, what will be the yields there?

And second is on the operating expenses, like I understand you are building a retail business, which will require higher costs. Just want to understand the trend line on opex because this year, when you see year-on-year, the opex grew almost 89%, which is understandable. But going ahead, how will the operating expenses move? How should we think about it? Like opex to AUM, how should we model that number? And from 1-1.5 year perspective, and then maybe things become steady state.

Jairam Sridharan: Sure. Great questions. So our product-wise disbursement yield are disclosed on Slide 41. So you can just take a look at that, and you will see housing we do at roughly 11%, LAP we do at 12.5%, used cars we do at 16% and unsecured we do at between 18% and 19%. So that creates the overall weighted average of 14.7%. You will notice that in the other slide, we have 14.2%. I want to emphasize that the 14.2% is only for assets which are greater than 1-year duration because there are some short-term assets to do which are really high yielding, but they're not going to be on your books. So from your modelling perspective, it's not super useful to actually keep that in mind. So we disclosed separately the yield for assets which are greater than 1-year duration, which is at 14.2% that we disclose up ahead. Otherwise, our all-in yield is about 14.7%.

Now point on cost to AUM, the way you should think about it is as the mix shift. So there are 2 trends that are happening here. One is that retail cost to assets will continue to come down from where it is. Every year, you should expect that to come down. Wholesale cost to assets will probably roughly remain the same. It might come down a little bit.

So trend line number 1 is retail cost assets will keep coming down. But trend line number 2 is that retail as a proportion of overall book keeps going up. The net of both of these is that over the next year or so, you will see the cost to assets go up before it comes down. Eventually, we expect cost to assets to settle at about a 3% level. So imagine about 3.5% of retail and about 1% of wholesale and at 2/3, 1/3, that gets you to about a 3% overall company level cost to assets. That's where it will eventually settle down.

Bhavik Dave: Correct. But before that, will it stay near the 3.5% to 4% mark, where we are today, maybe like in the fourth quarter. Would that make a fair assumption?

Jairam Sridharan: I think so.

Bhavik Dave: And the last question is on the unsecured piece, the yield under the microfinance segment where we see 18.5-18.8%. And like when we see the standalone micro finance company is charging 20% and above, do you think that that can like inch up or what happens here?

Jairam Sridharan : There are 2 parts to our micro finance portfolio that you see here. One part is where we originate micro finance business, that business is being originated at 24% average. Then the second part of this is some micro finance transactions we did and we continue to do as a direct assignment purchase.

And we do this just to get a sense of different parts of the market because we are still new in this business. So we want to get a sense of where the market is and where portfolios of different states are so to get a sense of that, we do DA transactions, those tend to happen more around the 12% to 13% kind of range. So that's the weighted average is what you're seeing here at about 18%. The MF that we originate happens at 24%.

Bhavik Dave: Perfect. Understood. And sorry, last question is on the wholesale side. When we see the PCR that Yesh spoke about, which has gone down. And like you rightly mentioned, the large account that we resolved this quarter had a 70% kind of PCR.

Do you think that this 55% on the Stage 3 and like overall 34% that you spoke about Stage 2 and Stage 3 that holds us good for like any other resolutions that we are planning or sell down that we are planning for the next year FY24? Like when this book keeps coming down, incremental provisioning requirement on this should not be much, right? Like is that a fair assumption that we have modelled that well?

Yesh Nadkarni: Yes, we believe that's a fair assumption.

Moderator: The next question is from the line of Nishid Shah from Ambika Fincap Consultants. Please go ahead.

Nishid Shah: Good Evening . Thanks for taking my question. I would like to understand the rationale for the wholesale book 2. On one side, we are trying to reduce the wholesale book 1, and we're still at INR 30,000 crores remaining, and we're still trying to grow the book 2. So how is the book 1 different than book 2? Because what problems we ended up in book 1 can also happen in book 2.

Yesh Nadkarni: No. So these are 2 different parts of our business strategy, right? Wholesale 1 has certain assets where we are seeing stress. Outside of that, which represents Stage 1, is where we actually are seeing runoff, which is organic and which is coming from the underlying cash flow from the assets. So Stage 2 and Stage 3 is where the issues are, and we are actually resolving that part of the book, and shrinkage is happening predominantly there.

So that happened, but that will take away the size of Stage 1 is performing, and it does allow us to build a book in this space allow us to actually capitalize on a big market gap, which exists by way of doing a portfolio which is granular and which is diversified in terms of loans. So our focus, as it relates to the one point of shrinkage is concerned, is on only that part of the book where we have complex assets and we see the problems. Outside of that, we continue to have that book.

So it's not like we are exiting wholesale 1.0 in totality and as we reduce that book, we also actually build on a more granular and diversified part of our wholesale business, which is a profitable business to be in. And where there is a market gap and therefore, we think it's a great vintage to start building that book as well. Across not only real estate but also across other corporate sectors as we call it mid-market lending.

Nishid Shah: Yes. The other question is, can we have the names of the top exposures in the wholesale book 1. Because that has been the apprehension in the market. And my question also comes from the fact that on an INR 65,000 crores book of asset under management, your market share has gone down to INR 15,000 crores. Market is just not valuing and not giving any credit. There are guys trading at for multiple times on both, and we are trading at 0.5 on book. So can we have some more details on the wholesale 1.0 book, the names, etc.?

Jairam Sridharan : We'll not be able to actually disclose individual account level details. We have never done that and it is not a good practice for a lender to start talking about individual client relationships in public forum. So it is unlikely that we will do that. Your point on kind of market valuations and multiples, we fully understand and empathize with, I totally hear the concern and anxiety that you have, and we feel the same anxiety ourselves. We would like to believe that the quality of our franchise, the quality of the book is much better and much more than what the market values today are ascribing to it.

Our best hope is to do our best quarter-on-quarter to continue to resolve more and more of these assets and show, as we have shown in this quarter, that all the provisioning part of the work is done and that the resolution that we are able to bring in, the reduction in book that we are able to bring in, but genuinely selling and exiting some of these positions are happening at precisely the kind of provision levels that we already have on our books.

If we do that regularly and if we are able to demonstrate to the market as we have done this quarter, that exits are possible and without taking any incremental hits to P&L. Hopefully, some of this negative overhang that you're talking about will go away, but that's a little bit less in our hands. We'll need to do our karma of actually doing the right thing with respect to the portfolio, which is what we are focused on.

Nishid Shah: Sir, my last question is, on the book 1 and on an overall basis, are we sufficiently provided now? Or are there any provisions yet to be taken? Like last quarter, we had some one-time gain, and we had booked again some provisions. So are we done with the provisions? Or are we still to do some more provision?

Yesh Nadkarni : No, we reiterate that we are done with provisions. We don't expect any more provisions at all. In fact, 2 large transactions that we concluded in the March quarter, proved the point that for those transactions, we did not take any further provisions and the actual realization happened in line with what we had provided for, so that only increases our confidence in pounding the table and saying that what we have provided for is indeed what we believe the provisions are required for.

Nishid Shah: That's useful. Thank you for taking my question.

Moderator: The next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Just a couple of questions to understand the Stage 2 and 3 movement. So firstly, we did 2 ARC sales, what would be the total quantum of it? One was INR 5,500 crores, that's in the media.

Jairam Sridharan : So that you're referring to face value Piran, don't get confused by that. That doesn't help you understand actually the portfolio very well. What I would encourage you to do is to actually look at our Page 27, which gives you a sense of the Security Receipts portfolio. That will give you a sense of how some of those transactions have actually gone down through the course of this year. So if you look at Page 27, what you see is that we have taken whatever there was a big original value, let's say, 12-odd thousand crores.

We took a 60-plus percent markdown on that, and we received through multiple transactions, many of which happened in this last quarter, a purchase consideration of INR 4,600 crores of which we received INR 700 crores of cash and about INR 4,000 crores of SRs. And since then, out of that INR 4,000, we have received a further INR 660 crores as cash. So we have about INR 3,300 crores left, this is for the full year. A majority of it, a large part of it actually happened in Q4. So I'm just using this as a base. This is a better way to actually understand it. So here, as you see, we are doing a transaction at a significant haircut to the face value.

So on average, about 63% haircut to face value. So if we just look at the face value number, which is what sometimes the press quote and they say big numbers like INR 5,000 crores, INR 6,000 crores and all that seems really, really large. But actually, the transaction size is not anywhere near that large. We are talking about a transaction which is 60-plus percent haircut from there. And the haircut already passed through our P&L, either through purchase price allocation or through P&L hits that we have taken in prior quarters. So that's been kind of the nature of these transactions.

Piran Engineer: So basically, what you're saying is that this INR 4,622 crores is the value of the loans? This INR 4,622 crores was in Stage 2 and 3? Or was it a higher value? That's all I'm trying to understand here.

Jairam Sridharan : No. It will be a lower value. Basically, these consist of actually, I was using this more as a baseline to give you a sense of how to think about the ARC transaction. So if you were to look at our Stage 2 and 3. If your intent is to say, okay, let me just figure out what are the movement in Stage 2 and 3, and kind of what went in, what went out.

So let's start with Stage 2. In Stage 2 firstly, there were no incremental Stage 2 creation that happened during the course of the quarter. Nothing moved from Stage 1 to Stage 2. In fact, entirely, like there was 0 movement from Stage 1 to Stage 2, no slippage happened. So that's kind of point number one. In terms of sale to ARC, there was about INR 500 crores from Stage 2 and about INR 500 crores from Stage 3 that were part of the ARC transaction.

Piran Engineer: Sorry, can you repeat that INR 500 crores from Stage 2 and INR 500 crores from Stage 3?

Jairam Sridharan : And there is some other POCI stuff as well, you will see POCI reduction that has happened. So that's also part of the multiple ARC transactions. So there were 2 ARC contractions that happened during the course of the quarter.

Piran Engineer: So that gets me back to my first question. Just for value at which of these loans that you were carrying on your book that was sold to ARC. Forget what the media says, what was it on your book?

Yesh Nadkarni: No. So if you actually look at the Page 26, the Stage 2 plus 3 AUM reduction, there is a pie chart there, right, the INR 4,000 crores reduction, about 20% came from the sale of ARCs in the 15:85 structure. That doesn't take into account the sale of NPA portfolio for cash, which is the 10% additional.

And since it was the net cash, I don't know if that was, that was nevertheless an ARC transaction. So 20% of this INR 4,000 crores, which got transferred is equal to INR 800 crores in terms of the book reduction, but that happened on a loss of INR 200 crores. So the claim value in these assets will get transferred about INR 1,000 crores.

Piran Engineer: Okay. Sir, I think I take this offline. And just secondly, if I have to just pick up credit cost for the quarter, you've had some net loss on the derecognition of financial institutions for INR 2,900 crores, but which has a gain of INR 130 crores from your bond buyback. So it's roughly INR 3,000 crores. And provision reversal of INR 2,500 crores. So it's fair to say that the credit cost for this quarter is INR 500 crores, right?

Jairam Sridharan : No. The credit cost for the quarter is INR 300 crores only. The bond buyback and all that is from previous quarter, Piran, nothing happened this quarter. There's only INR 300 crores credit cost this quarter. Of that, that's about 50:50 retail and wholesale. The retail part is almost entirely Stage 1 and the rest of the stuff is MTM loss.

Piran Engineer: If I just look at your numbers, there is INR 2,900 crores net loss on derecognition and correspondingly a provision reversal of INR 2,500 crores. So that is INR 400 crores plus INR 130 crores gain on the bond buyback.

Rupen Jhaveri: If I just draw our attention to page 32, I think you're referring to the SEBI results, we'll bridge it for you. Page 32 of the IR deck is that to simplify, so we combined the 2-3 line items into this year losses/fair value loss/gain. If I just focus on the Q4 numbers, which is the first column, that number is 298 before the 300 reference earlier. So for the quarter, there is no bond buyback gain, etc. The total number is INR 298 crores for the quarter, which on an annualized basis, the percentage of credit cost is significantly lower than what we went through in the first 9 months of the year.

Piran Engineer: Okay. That answers. And just lastly, in terms of the SRs that we are holding up to INR 3,600.

Jairam Sridharan : Piran, your voice is breaking. We can't hear you.

Piran Engineer: Is this better? So the SRs of INR 3,600 crores that we have, are there corresponding provisions on feasibility side?

Jairam Sridharan : Piran, SRs are investment instruments. Unlike a loan, there's no provision outstanding against them. The way you work on SRs, you keep taking fair value hits, which already goes through the P&L. The point of Page 27, which is where we have got all the details of our SR portfolio, that is to make the point that these SRs have been haircut by 63% from where they were originally outstanding.

And after the transaction, we have already received 11% more as cash from the transactions already. And the remaining 26-odd percent is what you see outstanding on our book right now. We have also disclosed here that these SRs are about 45% retail and 55% wholesale. The reason we make this point is to tell you that a lot of it is very granular where there is predictability to how much of it will actually get recovered and hence, pricing has been relatively straightforward and easy.

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

Vivek Ramakrishnan: Good Evening. My question is on the wholesale book, in terms of how do you expect the roll down to happen in the current year? And where do you expect it as a natural part of inflows, where do you expect it to close at the end of this year. This is the wholesale 1.0. And in terms of the SRs that you just spoke about, where did the retail SRs come from? And it's interesting that why didn't you just resolve it on your own? And why did you need to sell it out as SRs?

Yesh Nadkarni: Okay. So I'll address the first question. Just a few data points as we alluded to earlier. But in FY23, we reduced the wholesale 1.0 by a total amount of INR 14,000 crores. And in the last quarter of FY23, we reduced the book by INR 6,000 crores. So 6 out of 14 came in the last quarter. So quite happy with the momentum that the book reduction exercise has taken because we are running this as a project where a dedicated team of people working just with the objective of working on this complex asset resolutions. Going forward, in the next 12 months, we wouldn't give any specific guidance, but we would want to maintain the momentum that we have built, and we do expect us to make quite material progress in the direction of reducing this book further.

Jairam Sridharan : Your point on SRs in retail, all the SR came from the erstwhile DHFL portfolio. You might recall that when we purchase DHFL on the retail part of the DHFL book had a 26-27% NPA ratio. So we have been carrying that with us for a while, and we had that as part of our POCI book. You will see a reduction in the POCI book, shown in the presentation, that's the part that has actually gone into SRs.

One could have actually kept it and continued to recover from it ourselves as well. However, as you do as a company, as you do resolution strategies, where there are accounts that you want to resolve and you want to actually create pools of assets for which there will be potential buyers in the marketplace, you could always mix and match assets of various asset classes to make pools attractive and to find enough buyers and for there to be enough price tension when you go out to sell. So that's what's behind some of these transactions that you see.

Moderator: The next question is from the line of Chintan Shah an individual investor. Please go ahead.

Chintan Shah: This is Chintan Shah from ICICI Securities. So two, three questions from my end. So firstly, on the wholesale portfolio only, if you could just help me with some colour on the portfolio, which is under Stage 2 and Stage 3. So how much of that would be towards RE and towards Non-RE, what could be a ballpark percentage?

Yesh Nadkarni: It will be predominantly towards RE. A small part of that would be towards Non-RE.

Jairam Sridharan: The single largest Non-RE transaction just went off our books, Chintan. So pretty much what's remaining now is largely RE.

Chintan Shah: Okay, sure. And under RE, maybe ballpark on how much should...

Moderator: The audio is not clear from your line. Please check.

Chintan Shah: On RE, which is under Stage 2 and Stage 3, any ballpark on how much would be towards under construction projects?

Yesh Nadkarni: Most of it is under construction projects. I mean, we don't have specific data that we share.

Chintan Shah: Yes, yes. That is fine. Okay. Sure. Understood. And also, secondly, so now as we are building this wholesale 1.0, where a company is looking to build on granular ticket size portfolio, so is there any cap on a maximum or ticket size beyond which you won't be looking to enter for that account, lending towards that account?

Yesh Nadkarni: No. So as a matter of credit policy, we have all sets of limits clearly. But if you look at Page 29 and 30, that would give you a good sense of how we are looking at granularity here. And from here, I think our portfolio is expected to get more and more granular.

As far as the real estate part of 2.0 is concerned. As you can see here that the outstanding is about INR 1,296 crores as of March across 10 deals, which is roughly INR 129 crores per deal in terms of outstanding, but in terms of sanction, it's roughly INR 200 crores. We also have a strategy that we are actually putting in place for small developer financing piece, which would have an average ticket size of INR 25-30 crores.

So there are 2 distinct parts of our real-estate wholesale build-out strategy where on the first part, the average would be in the range of INR 200 crores. And the second one will have the average of INR 25-30 crores. So that will give us a weighted average in the range of, let's say, INR 150 crores or so as we actually progress. On the corporate mid-market side, as you could see, we have built a nice granular portfolio across multiple sectors and across multiple positions where the average ticket size is INR 55 crores, which is on the page 30 of the deck.

Chintan Shah: So under wholesale 1.0 also, we have average ticket size of roughly INR 200 crores, right?

Yesh Nadkarni: No, that was for Stage 1 part of it where the average was smaller. But otherwise, the average was much larger.

Jairam Sridharan: The good part of wholesale 1.0 was average of INR 200 crores for the past where we had a challenge at a much higher ticket size.

Chintan Shah: Sure. Understood. And sir, just wondering on the margins and the last question. So the cost of borrowing actually for this year, it has improved for us. And literally, also, we have been benefited on the yield side. But sir, going ahead, given the next year, so do we face any challenges on the cost front, given the repo rate hike? And also, do we expect the yields, given that we are largely progressing now into the retail piece? So any thoughts on that would be helpful.

Jairam Sridharan: No, I think the margins will stay around here in the near future as well. In the very short term, let's say, Q1, right now, you will see some of the accumulated effect of pass-through of repo rate increases that might happen. So you might see a little bit of cost of funds increase in Q1.

But overall, as we get through the latter part of the year, our view is that rates will stabilize after Q1 and maybe start declining towards the very end of the financial year. So you should see some impact of that coming through from our side as well.

As far as the yields are concerned, yields have had upward trajectory for a while. There's a little bit more steam left in it. You might see a little bit more upward trajectory in yields as well. So while there might be a little bit of upward trajectory in cost of funds, there is also a little bit of upward trajectory in yields. So on the whole, we are not super worried on that front.

If you see Slide 12 in our presentation, you will see our operating margin which is NII plus fee margin, and that has been relatively stable around the 6.3% kind of mark. And that should give you a good idea of where we are going to be in the very short term.

Chintan Shah: So sir, just one last thing, if I may squeeze in on the credit cost part. Our credit cost was around 1.9% in Q4, can we expect this kind of run rate or the custom for FY24 as well? Or what near this range?

Jairam Sridharan: We're not offering any specific guidance for F24. But as Yesh mentioned before, we believe that the provisioning cycle as far as Stage 1 wholesale is concerned is completed. Now most of the provisions, if at all that you see are all going to be about new business that we originate and the Stage 1 provisions that come with that according to IndAS. So that depends a little bit more on the growth of the businesses rather than on asset quality.

So growth is what's going to drive provision numbers. So we feel like we are getting there in terms of what normalized credit cost may be, we will not be quite there just yet, but we are kind of getting there.

Moderator: The next question is from the line of Praveen Rathi from Praveen Rathi and Associates. Please go ahead.

Praveen Rathi: Good Evening Sir. My question is for Jairam. First one is for regarding the professional and legal fees paid during the quarter and for the year? And the second one is our position pertaining to the deferred tax assets of DHFL? And the third one is anything on Shriram finance?

Jairam Sridharan: Okay. See, the first 2 questions, I don't have them readily available. I'll have somebody can reach out to you and give this to you offline. If you could, our IR team will send you, I don't have the specific professional and legal fees numbers with me offline.

As far as the Shriram sale stuff is concerned.

Rupen Jhaveri: Yes, maybe I can add, at the very fag end of last quarter, last part of the value of Shriram is now in liquid shares, and that's one of the key reasons why the P&L has swung this quarter. We own 8.34% stake in Shriram Finance. It's listed. We have no lockup. We don't sit on the board. And as we've discussed before, now that is listed at the right time, we will be looking to monetize this thing.

Praveen Rathi: Sir, the deferred tax assets, which was on the books and which we are currently showing in our books in notes and account also. Is the net deferred tax asset or the growth deferred tax asset?

Jairam Sridharan: No, it is net, but it's not on our books right now. We will be showing you...

Praveen Rathi: What you are showing on our notes and accounts basically?

Jairam Sridharan: Correct. So we're showing it in the notes right now. We have not brought it on to our books yet. So, we will, at the right time, in speaking with our auditors, etc., we will decide on what is the right time to actually bring it on to our books. So far, we have not done that. So we have spoken in the past to you all about pockets of value that exist on our balance sheet. Some of the pockets of value, you have seen them actually get realized over the course of the last year. This is one of those pockets of value, which is not yet realized, and it still remains with us.

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

Jairam Sridharan: Thank you very much, everyone, for your participation in this earnings call. We are available to you to offer any further details or clarifications on our results. Thank you for being part of the call and have a very good evening. Thank you.

Moderator: Thank you. 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.