15th February, 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 1st February, 2023 and pursuant to Regulation 30(6) of the Listing Regulations, please find enclosed the transcript of the Conference Call held on 8th February, 2023 to discuss the Q3 & 9M 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: 2023.02.15 16:35:05 +05'30'

Bipin Singh
Company Secretary

Encl.: a/a

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"Piramal Enterprises Limited Q3 & 9M FY23 Earnings Conference Call"

February 08, 2023

MANAGEMENT:	**MR. AJAY PIRAMAL – CHAIRMAN** **MR. ANAND PIRAMAL – DIRECTOR, PIRAMAL ENTERPRISES LIMITED & PIRAMAL GROUP** **MR. JAIRAM SRIDHARAN – MD, PIRAMAL CAPITAL & HOUSING FINANCE** **MR. RUPEN JHAVERI – GROUP PRESIDENT, PIRAMAL ENTERPRISES LIMITED** **MR. YESH NADKARNI – CEO, WHOLESALE LENDING BUSINESS, PIRAMAL ENTERPRISES LIMITED** **MS. UPMA GOEL – CFO, PIRAMAL ENTERPRISES LIMITED** **MR. HITESH DHADDHA – CHIEF INVESTOR RELATIONS OFFICER, PIRAMAL ENTERPRISES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Piramal Enterprises Limited Q3 and 9M FY 2023 Results Conference Call.

As a reminder, all participants' 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 "*" then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Hitesh Dhaddha – Chief Investor Relations Officer from Piramal Enterprises Limited for the opening remarks. Thank you and over to you, sir.

Hitesh Dhaddha: Welcome to the Q3 and 9M FY23 Earnings Conference Call. Our results materials have been uploaded on our website and you may like to download and refer to them during our discussion.

The discussion today may include some forward-looking statements and these must be viewed in conjunction with the risks that our businesses face.

On the call today, we have with us our Chairman Mr. Ajay Piramal, Mr. Anand Piramal – Director, Piramal Enterprises and Piramal Group, Mr. Jairam Sridharan – MD, Piramal Capital & Housing Finance, Mr. Rupen Jhaveri – Group President, Piramal Enterprises, Mr. Yesh Nadkarni – CEO of our Wholesale Lending Business, and Ms. Upma Goel – CFO of our company.

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

Ajay Piramal: Welcome to our Q3 Earnings Conference Call for the year FY23.

We are at an inflection point currently, and this quarter finally puts us on a solid foundation for future growth and steady profitability, with historical asset quality issues now fully accounted for. Performance of this quarter, as far as the AUM and the operating performance movement is concerned, I would like to say that we continued to deliver on our strategic priority of achieving an AUM mix of two-thirds of retail and one-third of wholesale, and in this regard, our retail AUM grew 29% year-on-year to Rs. 27,896 crores.

Our Wholesale 1.0 AUM reduced 20% year-on-year to Rs. 35,101 crores. This has resulted in continued improvement in our retail-wholesale AUM mix. Retail AUM now accounts for 43% of the overall AUM as compared with 33% in the Q3 FY22. We are very close to achieve our near-term target of having 50% retail composition of total AUM and are on track to achieve our stated target of having two-thirds retail composition of the total AUM in the medium to long term. 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.

The financial performance for this quarter:

We have registered a net profit of Rs. 3,545 crores during the quarter as compared with the net profit of Rs. 888 crores in the same quarter of last year. The key transactions leading to the gains were:

1) Rs. 3,328 crores on account of reversal of an income tax provision,

2) Rs. 1,106 crores on account of restructuring our Shriram Capital Group and bond buyback.

Also, during the quarter, we created a one-time additional provisioning buffer of Rs. 1,073 crores on Stage-1 and Stage-2 assets of the Wholesale 1.0 AUM. With this provision, we have adequately provided toward Wholesale 1.0 AUM, and we are in the process of reducing our Wholesale 1.0 AUM in line with our strategy through a combination of various means such as accelerated repayments, settlements, etc. Our total provisions stood at Rs. 6,485 crores versus Rs. 5,491 crores in Q2 FY23.

For the balance sheet:

With our increase in net profit, even after creating this one-time additional provisioning buffer, our net worth has strengthened to Rs. 31,241 crores from Rs. 27,472 crores in Q2 FY23. At these equity levels, our net debt to equity stands at 1.3x with consolidated capital adequacy ratio of 31%. Our retail lending book continues to deliver strong growth with retail AUM growing 29% year-on-year to Rs. 27,896 crores. The in-house originated loan book at 53% of retail AUM is now larger than the acquired loan book.

Disbursements grew by 593% on a year-on-year basis and 29% on a quarter-on-quarter basis to Rs. 5,111 crores with a healthy growth across both phygital as well as digital products resulting in an improvement in disbursement yield at 13.9% for the quarter. Our average disbursement ticket size stood at Rs. 11.6 lakhs for this quarter. We are firmly committed towards building a diversified and a granular retail portfolio. The performance has been driven by the following initiatives over the last few quarters.

First, the addition of branches:

Over the last 1 year, we have added 74 new disbursement active branches. With this today, we have a growing network of 375 conventional branches versus 343 conventional branches in Q2 FY23 and 116 microfinance active branches versus 72 microfinance active branches in the previous quarter. We have established our presence across India, serving 450 districts across 25 states of the country. As stated earlier, our target is to serve 1,000 locations through 500 to 600 branches over the next 5 years, and we are constantly working to achieve it.

Second part is branch activation:

Moving beyond launching new products, we are also working towards making our branches activated with multiple products. Nearly 67% of our branches are now selling products beyond just the home loans. Hence, not only housing and secured MSME loan disbursements grew 387% in the last 12 months, but also the disbursements under the unsecured loan category have seen a growth of 46% from the previous quarter and stand at Rs. 2,215 crores during the quarter.

Third is product expansion:

We have been consistent in launching new products and currently, our product stack consists of 13 retail products catering to different customer segments. This quarter, we launched 2 new products – Budget Housing in the housing loan category and LAP Plus in the MSME loan category. As we focus on the Bharat market, we also launched our maiden brand campaign to build the brand – Piramal Finance – in our target segment.

Fourth point is on digital-embedded finance:

We have 22 programs live across 20 partners who are fintechs, OEMs, and aggregators under our digital-embedded finance business. Digital-embedded finance disbursements grew to Rs. 1,238 crores, contributing to 6% of our AUM in retail. Our digital loan offerings have powered us to significantly expand our customer franchise to ~2.6 million with an active customer base of over 1 million, providing us with substantial cross-sell opportunities. We received cross-sell disbursements of Rs. 1,862 crores in the last 1 year.

The fifth point is focus on technology and analytics:

In line with our endeavor to focus on technology, we also launched a new innovation hub in Bengaluru to accelerate the development of next-generation lending solutions and analytics.

In line with our stated strategy, we have been working towards bringing down our Wholesale 1.0 book. Progressing on the same, our Wholesale 1.0 book AUM reduced 20% year-on-year to Rs. 35,101 crores. 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 dedicated team is involved in monitoring and executing the resolution strategy for recoveries and monetization of assets. In addition, we will continue to remain vigilant across our portfolio and remain well provided for Stage-2 and Stage-3 assets. We are also focusing on building a high-quality Wholesale 2.0 book. While efforts were made towards completing the recognition cycle of the existing wholesale book, we are also investing to build a granular cash flow and asset-backed real estate and mid-corporate lending business that will give loans to well capitalized promoters across multiple sectors and geographies. We will build this book in a calibrated manner while capitalizing on this market gap. We have already built a new wholesale portfolio of Rs. 1,870 crores by adding Rs. 1,041 crores of loans during the quarter.

Within the new real estate lending business, we have deals worth Rs. 697 crores outstanding as of December 2022. Within the corporate mid-market lending business, we have already built a book of Rs. 1,174 crores diversified across industries.

On the liability management:

Our ALM is well matched with positive gaps across all buckets. Due to our strong balance sheet and improving AUM mix, our average cost of borrowings improved to 8.4% for the quarter as against 9.1% in Q3 FY22 and 8.8% in the Q2 FY23, despite a rising interest rate environment. With 77% of our liabilities being fixed in nature, we have remained well cushioned against major increases in the interest rates. Our cash and cash equivalent is Rs. 6,032 crores at the end of this quarter.

To Conclude:

The retail business is continuing to progress on its growth path with the AUM mix at 43% of retail and 57% of wholesale now. In wholesale, we are focused on bringing down our Wholesale 1.0 book and at the same time, build a new granular real estate and mid-corporate lending business in a calibrated manner. With one-time additional provisioning buffer created during the quarter, we are now adequately provided towards Wholesale 1.0 AUM.

Our healthy mix of liabilities is helping us to gradually bring down our cost of borrowing over the last few quarters despite an adverse rate environment, and our balance sheet remains strong with a capital adequacy ratio of 31%. We will continue to work towards creating long-term value for our shareholders.

Moderator: We will now begin the question & answer session. We have our first question from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Just 3 questions. First, on the asset quality and related provisioning and write-offs. In the last quarter, we had moved around Rs. 5,900 crores of exposure from Stage-1 to Stage-2 and made associated provisions and write-offs and we had said that the asset recognition cycle is largely complete. This quarter, again, we have taken accelerated provisioning while we might obviously choose to call it a prudential or a management overlay. But now, our press release says that we are adequately provided on the Wholesale 1.0 book. Sir, even in your routine remarks, you had said that the historical asset quality issues have now been fully accounted for. My simple question is, now can we draw the comfort that we have fully provided on the stressed wholesale exposures? That is my first question. The second question is, again, on your investments in the Shriram Group. If I recall correctly, earlier we had articulated that we would want to exit the Shriram investments by March 2023, which is this fiscal year. I wanted to understand that will we still adhere to this timeline or has there been some rethink on our strategy or timeline on when we want to exit our investments in Shriram Finance? And lastly, recently, there was a media article I think which talked about our exposure to Sahana Group or its promoter. I wanted to understand what our exposure in that account is. In which of the 3 stages is this exposure classified now? And after the sale of the flat and the transaction, have you now recovered your money? And what is the haircut that you had to take on this account?

Jairam Sridharan: Thank you, Abhijit, for all your questions, very good questions. Let me start, and Yesh will chip in with a lot more of the details as well as others in the room. Your first and most important question was around the provisions, the one-off provisions that we have made or one-time provisioning buffer that we have created during the course of this quarter. When we said last quarter that we were largely done with respect to the recognition cycle, that was absolutely correct. We stand by that statement that we were done, largely completed from an asset quality recognition perspective in that cycle. This quarter, as you have seen, there have been a lot of one-off gains that have come in the balance sheet that has created an opportunity as well to create some additional buffers over and above whatever our models might have otherwise asked for and continue to ask for. So, we have created this sort of one-time buffer. We want to be clear that we are done with respect to asset quality recognition. You saw that in the Stage-2 and Stage-3 numbers as well. If you see our Stage-2 plus Stage-3 numbers, they were Rs. 11,000 crores last quarter in wholesale, and that number has come down a little in this quarter to about Rs. 10,800 crores. So, the total amount has come down. We have made more provisions, we have written off stuff, and there is nothing surprising that's going on from an asset quality perspective. We just chose the opportunity to create or get on the other side of the cycle and start creating some provisioning buffers for ourselves. So, we want to reiterate that we are done with respect to the Wholesale 1.0 asset quality and provisioning issues.

Yesh Nadkarni: The only thing that I would add here is that I think what you articulated is a good summary. But the reality also is, because we changed our stance towards the asset resolution last quarter and sort of consistently executed our resolution strategy, we have seen a significant reduction in the wholesale book. We are on this journey where the wholesale book will continue to grow in that direction. And as you again rightly highlighted, we have seen a fair bit of reduction in Stage-2 and Stage-3 assets. But because of the additional buffer that we are taking in Stage-1 and Stage-2 assets as well as overall provisioning, our coverage ratio is going up quite significantly across these stages. And that is the only thing which I would highlight.

Rupen Jhaveri: On your second question on Shriram, as you know, this company had a restructuring and bulk of the asset value is now in the form of listed shares. We continue holding those shares on the balance sheet. Some part of the gain attributable to the one-off is related to that and that you should expect going forward, whether it's mark-to-market gain or loss. Given it's a public stock, it has a large value for us. Like we mentioned last time, we continue to monitor it, and once we decide what the right course of action is, we shall let you folks know.

And on your third question on news articles, again, we will not comment specifically on news articles. But what we can tell you is that we, as part of the DHFL acquisition, inherited a bunch of wholesale loans and from the time of acquisition, which was September 2021, we have been consciously trying to sell those, whether it's NPAs or PTCs or whatever the case may be and what you read is one such example. That's our response to that.

Abhijit Tibrewal: Just one follow-up question here. When we have done this fair value accounting for exposure in the Shriram Group, when we do the fair value, is that fair valuation done based on the current market price of Shriram Finance, let's say, as on December 31st which is the end of the quarter? Is that how fair valuation has been done during the quarter?

Rupen Jhaveri: That's correct. And we will do that again on March 31st, as we still own the shares and whatever the gain or loss, will reflect in the fair value gain/loss. That would be very easy to spot, and we will be calling that out anyways every quarter.

Ajay Piramal: Also, there is, Rupen, a part of it which is unlisted. So, about 75% of the total value is in listed stock and the balance is in unlisted that is valued at cost.

Abhijit Tibrewal: In summary, at least on the Shriram Group, our stance is that we will want to exit it by March and then after the transaction, whatever fair value gains or losses are, we will again recognize it in the March quarter?

Ajay Piramal: I don't want to put a time limit of March because it depends on where the markets are and we will, at the appropriate time, do what is necessary.

Moderator: We have our next question from the line of Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani: I have 2 questions. First is, can you tell us what is the interest reversal for this quarter? And the other question is, given that our product mix is rapidly changing between retail and wholesale, what is the run rate credit cost assumption that you guys are building in? Any guidance around that?

Upma Goel: On your first question of interest reversal during the quarter, we have reversed Rs. 58 crores during the quarter.

Jairam Sridharan: And as far as the run rate credit costs are concerned, the kind of business model that we are building, which we have spoken about in the past, two-thirds retail and one-third wholesale; within retail, about 1/4 of it being unsecured and the rest being secured, and within wholesale, a little bit of cash flow type mid- market lending and the bulk being real estate lending. That's the kind of business that we are working towards. That business, in the go-to state will likely have credit costs in the 1% to 2% range. We will see, but it's a little away right now, because we are so heavily provided, in the short term, the credit cost metrics might look more suppressed because of the heavy level of provisioning that's there right now and the fact that the wholesale book is degrowing. So, in the short term, you might see a very different number. But in the medium to long term, that's the range that we are building towards.

Shreya Shivani: The 1% to 2% in the medium term is for the whole book, right?

Jairam Sridharan: Yes.

Moderator: We have our next question from the line of Santosh Kumar Keshri from Keshri Wealth. Please go ahead.

Santosh Kumar Keshri: I am an individual investor and manage funds for my family and myself. I think that we have been invested in your company for more than 2 years now and since that time, it's been all downhill. For example, the numbers that we are providing for, ECL model changing, and suddenly there is a new provision of Rs. 2,300 crores.

To the earlier participant's question, you said that we had an opportunity because there is an income tax write-back and there is valuation gain also from Piramal Pharma. That led you to create further provision. But when you look at the financials, above the line and below the line, the tax provision for the gain on pharma valuation all this is below the line, whereas the provision that you are making is above the line. So, our gains are one time and the losses that you recognize is for all time on the assets. And this is not actually giving a very good picture of the financial health of the company. So, what should we take as an indicator? Shall we exit fully from the company or it's like it's all downhill and there would be further extra skeleton in the cupboard. Sorry, my question is sounding negative, but the point is that the financials are not giving us any confidence. How do you see it, sir?

Jairam Sridharan: Firstly, Santosh thanks for the question. Thanks for being a patient shareholder over the last 2 years. It is our endeavor as a management team and the promoters, which are on the call as well, you heard. It is our collective joint endeavor to actually build a business which is built with strength for the long term, a business which will continue to be around decades from now and has the solidity and predictability that we expect from a financial services institution. Some of these transitions from asset quality problems do take multiple years in financial services. I am sure if you have been invested in the Indian markets and in financial services in the past, you would have seen other situations as well. What we have attempted to do is be disciplined over this last 2-year period in trying to address each of the issues as openly and as honestly as possible and use every opportunity to actually both clean up the book as well as make provisions that are necessary to strengthen and create a strong foundation for the future. That is the path that we are on. As the Chairman mentioned in his opening remarks, we believe we are at the point of inflection. And this quarter marks the moment when, from making defensive provisions, we start moving a little bit more to the front foot and go on the offensive and start making some provisions like other banks have been able to do over the last 1.5 to 2 years and create large buffers for themselves. You see us getting into that domain in this quarter.

Our intent, Santosh, is to build this business for many decades to come. And hopefully, we will continue to see you as a shareholder in this period as well. And hopefully, we will be able to pay you for the faith and the trust that you put in this company. One other thing that I would mention in this regard is that in this 2-year period that you mentioned, if you just look at the net worth of the firm, the net worth of the firm has significantly increased. Now, market values we cannot control as a management team. Market does what it does. But we are at our all-time high in terms of our net worth on the financial services business of Rs. 31,000 plus crores right now. And that results in a capital adequacy of upwards of 31%, some of the highest capital adequacies that you will see in any large NBFC in the country. We are doing the utmost to create an institution which is generational in nature. And hopefully, you will see the benefits of that in the years to come.

Santosh Kumar Keshri: That's very good and nice words you have put to the whole thing. But the second point is, Mr. Dhaddha, every quarter we say that there would not be fresh provision, this is like we have taken an extra buffer. But somehow or the other, we find opportunities to create fresh provision. And that is somehow not convincing the investors, the financial community as a whole. So, what do we do to finally see an end to it or whatever are the provisions required on the worst case? Maybe you can take all in one go in 1 year and be done with it. Because they are all something hidden in the cupboard. It may not be true, just it's a way of speaking. There may be something hidden in the cupboard that unsuspecting investor might feel and then may junk the stock or there is a large sell-off. It's not that the reaction of the financial community is negative. It's that the financials are not providing us confidence. So, my simple question is that why don't you take all hit in 1 quarter, at most 2 quarters, and be done with it?

Jairam Sridharan: That's precisely what we have been doing in these last 2 quarters, Santosh, I think, as we mentioned before, we have reached a point where we feel very confident about where we are right now.

Yesh Nadkarni: I would just simply highlight the fact that we have been consistent in achieving the objectives that we have been laying out for ourselves, be it in terms of change the business mix, between retail and wholesale, be it about focused way in which we are going about resolving the assets, which is reflected in the shrinkage of the wholesale book or also provided, which we believe we are now adequately provided for. That's the summary.

Moderator: We have our next question from the line of Nischint Chawathe from Kotak. Please go ahead.

Nischint Chawathe: I have 2 questions essentially. We just discussed about the exposure to a real estate project in Mumbai, where you had probably some flat sales and recoveries. And you said that this was something that you inherited from the DHFL portfolio. Just trying to understand the book value of this exposure would probably be zero, right? So, probably whatever you would receive would be a gain?

Rupen Jhaveri: At the time of the DHFL acquisition, obviously we inherited this, as you rightly said. There was a certain value attached to all the assets, whether it's retail or wholesale. This is one of many assets as a part of that book. And as I mentioned, over the last 1.5 years, systematically that's been coming down. At this point, we would not be able to go into specific account details, etc. This asset is actually not on our books. We have sold it some time ago.

Nischint Chawathe: On the home loan side, on the retail business, how much interest rates would you have raised over the last 4 to 5 quarters?

Rupen Jhaveri: On the portfolio, about 50 basis points. In terms of new originations, about 30 basis points.

Nischint Chawathe: On the home loan side is what you're saying?

Rupen Jhaveri: Yes.

Moderator: We have a question from the line of Gopinadha from PNR Investments. Please go ahead.

Gopinadha: My first question is regarding the Shriram Finance investment that we have done. Initially, yes, there was a stress a couple of years back in our books. So, we might have got the need to sell that investment and we were looking for an opportunity to get out of it. Now, given the balance sheet position and our strength and we have capital adequacy ratio of 31%, do we really need to look at exiting that company or we can retain it for a long time is my question. Do we really need to sell it is the primary question. The second one is, as the previous investor who talked to you, the individual investor, my question is a bit related to that only. Last quarter, even though you have, in the presentation, said largely provided, in the conference call, you said it's not largely actually, we have provided completely. And this time coming up with another Rs. 1,000 crore is really a bit disappointing because when you clarified in the last quarter conference call, it gave a confidence that, that is true, and it is a surprise having this Rs. 1,000 crores provision again. He just said, “I'm a 2-year-old investor.” I'm a 12-year-old investment in this company, sir. I trust this company completely. But this gave a bit of bad taste kind of. I genuinely believed that last time was the complete provision when you clarified about that almost provided thing. Hope these kinds of things may not repeat. Or is there any specific stress that we have found and provided? Or just because we got Rs. 3,000 crores unexpected extra into books this time due to the tax reversal that we have simply provided Rs. 1,000 crores? Would you please give the confidence this time so that it will help?

Rupen Jhaveri: I will take the Shriram question first. The response to that would be, we will evaluate any and all disposition or holding depending on the condition of the market. It is a liquid stock. Currently, it's mark-to-market on our books. At this point, we obviously cannot disclose what we are going to do. But in due course, once we make up our mind, we shall do the needful.

Jairam Sridharan: On the provisions, I will reiterate what I mentioned to the previous caller as well. We stand by what we said in the previous quarter. We said in the previous quarter that we were largely done with respect to the asset quality recognition cycle. And what we are doing in this quarter is getting on the front foot, getting a little bit more on the offensive and essentially creating a war chest, creating a little bit of a defensive buffer, as you have seen a lot of banks and financial services institutions do. Over the last 1.5 years since COVID, people have created a lot of these things, whether you call them contingency buffers or by other name. People have created these buffers because profitability has been around and you want to create a little bit of bulletproofing for your portfolio for the future. So far till last quarter, we have not been in a position to actually get there, but this quarter, we are. So, you have seen us actually get into that mode a little bit and try and start creating some bulletproofing of the future. We continue to feel really good about the recognition cycle. I will reiterate that our Stage-2 and Stage-3 assets are today lower than what they were in the previous quarter. And in fact, all of the provisions that we have made are in Stage-1 and 2, as you saw. Clearly, we are giving the indication that we are creating a buffer for the future perspective, not because there is any new information that has come about in this last 1 quarter about the asset quality status of any of our accounts. We want to be quite unequivocal on that point. We continue to feel very comfortable about our staging of assets as well as the level of provisioning the assets held prior to this one-time buffer creation. And of course, this one-time buffer only strengthens that situation even further.

Gopinadha: That is very helpful, sir. This reconfirmation helps a lot. And coming to the first question about Shriram Group, my question is a bit different. It looks like that business is doing good. So, do we really still need to think of exiting or we can retain it? Why not is my question. Why not retain that as a strategic investment as long as the business is going good?

Jairam Sridharan: There are various possibilities. We can do many things. That is also one of the possibilities. For you, as a shareholder, you could directly own the Shriram share as well. Why would you want to hold it through us? For one publicly listed company to hold a large share in another publicly listed company is a bit weird and it adds a layer of intermediation in the ownership which is non-value-adding for the ultimate beneficiary shareholder. But that said, we will take a call on strategically how we want to proceed with this over the coming months, and we will let you know the moment there is something to disclose here.

Moderator: We have our next question from the line of Bhavik Dave from Nippon Mutual Fund. Please go ahead.

Bhavik Dave: One question is regarding the Stage-3 assets that we have on the wholesale side and that is around Rs. 2,700-odd crores which was like Rs. 1,300-odd crores in the note that you mentioned that there is a non-RE exposure which is credit impaired but obviously it's not yet 90 DPD. Just want to understand, what kind of exposure this is like? Which sector is this? And also wanted to understand on this Rs. 2,700-odd crores Stage-3 that we have, what is the kind of resolution pipeline one can think of? Because it is reasonably provided at 72%, but is there any visibility on resolutions on this front or any pipeline that we can think about from a next 12-month perspective?

Yesh Nadkarni: To address your first question, there is one specific asset that had moved during the quarter to Stage-3, which is a non-real estate sector asset which had been credit impaired and which has been provided for significantly to the extent of 75-odd percent, which has caused the change in the numbers, as you see, between Stage-2 and Stage-3. And that's what this is about. As far as resolution on that specific asset is concerned, we have been working on resolution for many months now and are in literally the final stages of documenting the settlement, which is again in line with the numbers that you see in front of you in relation to provisioning for that specific asset. As far as the other stationary assets are concerned, again, it's sort of a mixed bucket between the real estate and non-real estate assets. And we have been actually working on separate resolution strategies for each of the assets commensurating with the underlying complexities involving those assets. We have made significant progress in terms of resolving some of them. And for some, the resolution will take a few more quarters to come. As you would say, ex the movement of that asset from Stage-2 to Stage-3 this quarter, I think the Stage-3 assets have actually reduced marginally and that's moving in the right direction.

Bhavik Dave: I was trying to understand that if you can give us some details, maybe this time around or next time, on the top 10 accounts that we have and the resolution timelines that we can anticipate, that will be great because that will give more clarity on the Stage-3 assets that we have because it's a large chunk. Second question is to Jairam sir. I just wanted to understand the retail piece. We have been growing the digital unsecured piece at a reasonable pace. I just want to understand what exactly are we doing there. In the sense, who are the large 2-3 partners that we are taking the loads from? In the sense, who are the originators? What kind of funding is this? What ticket size is this? Any color on that would help because that's growing at a reasonable pace. I just want to understand the unit economics in the sense what kind of ROAs do these businesses generate? Because, they are not AUM building, they are more disbursement linked. From that perspective, how does the profitability on these unsecured products work for us on the digital front?

Jairam Sridharan: Lots of questions there on embedded finance. I will start with the last thing you said, and that's the right way to think about it. This is not a business that is about AUM building. This business will always be single-digit percentages of AUM. It's unlikely that it gets larger than that. And it is about acquiring a lot of customer relationships to whom you can, in the future, cross-sell a lot. This is our largest customer acquisition engine. And hopefully, over time, we will keep converting this customer into a franchise by actually cross-selling them other products as well. We have made some disclosures on how our cross-sell engine is working, etc., and you will continue to see more of that. Today, this business has about 22 partners and 26-odd programs under which we do this. The name of partners, etc., is disclosed on our website; you should take a look at it. Our largest partners here would be fintech companies like Navi or EarlySalary or ZestMoney or MoneyView and KreditBee. Many of these guys are all at roughly the same level. Some of the biggest partnerships like Paytm, etc., are still relatively small for us, and we are just scaling them up because those are still new partnerships and new relationships that will get scaled up. About 50% of this business is at roughly Rs. 1 lakh ticket size and greater than 1-year duration. The rest of the business is short-duration small-ticket business. Overall, the way the economics of this business work is that on a net-net basis, we make an ROA of upwards of 4% on this business and so it's a small part of the AUM pie but it makes a very strong ROAs and also gives us a massive customer base. That's the way to think about this part of the business.

Bhavik Dave: And Paytm and all are new partners, right? That's what I understand.

Jairam Sridharan: Yes, we went live with Paytm and did our first disbursement in the 3rd week of December.

Bhavik Dave: And the other businesses that we are running – housing and the secured side of the business, is the business being done by the same team which we acquired from DHFL? Or how has the manpower worked around for this business? Because it's a set up business.

Jairam Sridharan: Most of our manpower now is new. It's neither from the legacy Piramal Company nor from the legacy DHFL Company. Most of the people are new and have been hired post the merger. You might recall that right after the merger, we were about 4,000-odd people in terms of our total strength. Today, we are upwards of 10,000 people. Practically, that entire staff has joined us in the last year or so. These are people from the industry. We are at about 90% lateral and about 10% fresher right now, so most of the population that you see running the retail business are people who have come in laterally with very solid retail lending experience and various other institutions, and are now part of this joint retail finance business.

Moderator: We have our next question from the line of Bhaskar Basu from Jefferies. Please go ahead.

Bhaskar Basu: I had a couple of questions. Firstly, on the asset quality, there have been some slippages from Stage-2 to Stage-3, and we still have about 12% Stage-2. When you say, you are done in terms of provisioning, have you kind of accounted for a move from the Stage-2 to Stage-3 or would you need to incur more provisions when these assets slip possibly into Stage-3?

Yesh Nadkarni: No, we have adequately provided for these assets. As things stand today, we have seen that the Stage-2 and Stage-3 assets put together is roughly Rs. 10,000-odd crores vis-a-vis Rs. 11,000-odd crores which was the number for last quarter. While the book has reduced, we actually have increased the provisions combined for the stage categories to Rs. 4,600-odd crores from Rs. 4,400-odd crores, which makes us believe that we have actually adequately provided for the complexities of the underlying assets in this business.

Jairam Sridharan: Bhaskar, we have roughly 45% provided between Stage-2 plus Stage-3. And, for a 100% secured book in real estate, we think that's a pretty good place to be in. There might be one-off timing issues in some quarters, something goes from 2% to 3% and in the next quarter, we get some recoveries, etc. I mean, some timing issues might happen, but they will be minor. In the larger scheme of things, Stage-2 plus Stage-3 asset pool with a 45% provision cover when it's all 100% secured book, we believe that's fully provided for that book.

Bhaskar Basu: The AIF, which is part of your wholesale book, which used to be about Rs. 5,100 crores roughly in the prior quarters, has gone up to about Rs. 7,200 crores.

Rupen Jhaveri: Just to clarify, this quarter, the only increase would be in the form of one resolution that we have done and that too related to some security-related increase. But we can take this offline as we will be able to further clarify what exactly you mean and we will be happy to provide more information.

Jairam Sridharan: The AIF number, Bhaskar, has not changed materially, last quarter or this quarter. Maybe we can just catch up offline on what number you are looking at. Maybe there is some confusion.

Bhaskar Basu: Okay, I will take it offline. The third question was, when you look at running down this book as you intend to, do you foresee any further haircuts as you try to monetize these assets or sell down? Or that's all accounted for now?

Yesh Nadkarni: In fact, that's precisely the point that we have been trying to make for the last couple of quarters that the provisions that we are taking have actually enhanced our ability to go on the front foot and actually recover money using whatever the strategies appropriate for a given asset. We don't actually expect any further provisions or losses to come beyond what we already have provided for, for this category of asset, and therefore, what we have is adequate.

Bhaskar Basu: My final question was on the Shriram investment. Basically, I just wanted to understand the thought process. Once if you decide to liquidate that, what is the plan with the excess capital? Because you are already overcapitalized. So, what's the plan to do with the proceeds?

Rupen Jhaveri: At the right time, we will share that. You would have seen over the last 1-2 quarters; we do look opportunistically for the right kind of acquisitions that fit our broader financial services strategy. These would keep coming. We have a few things in mind. At the right time, we will be able to share a lot more.

Moderator: We have our next question from the line of Sandeep Jain from Baroda BNP Paribas Mutual Fund. Please go ahead.

Sandeep Jain: First, on the P&L side. If I look at that, your operating cost is slightly higher. What's the kind of range in terms of guidance in terms of operating expenses, if I look at that way for years to come? And second, on the book; just to continue with Bhaskar's question, if I look at the wholesale Stage-1, it is declining from Rs. 39,000-odd crores to Rs. 26,000-odd crores. From here onwards, the decline in the book, what you are trying to say would be largely due to the repayment and not due to the further recognition or provision kind of thing. That is what the sense which we are getting?

Jairam Sridharan: Yes, certainly. The latter of what you are saying is like there is no provision-related reduction. Of course, Yesh might decide that the best way to resolve an asset is to actually sell it, and we might get the right opportunity to do that. Given that we are well provided, our ability to actually consummate some of those transactions is a lot higher. So, that might happen. But otherwise, no, there isn't any provisions-led reduction in net advances that you should expect in the times to come. That's not the way we are talking about. When we are talking about reduction in the wholesale book, it is through resolution, not through additional provisioning.

Your first question on OPEX, you might have seen that we have made, in our presentation, a disclosure on OPEX to assets as a ratio and we have shown that this quarter, we were at 3% annualized OPEX to assets. Historically, you might recall that when we were a wholesale-only company, we used to have an OPEX to assets of roughly 1.3%. Right now, that number is at about 3%. As we continue to make investments in the retail business, as we continue to expand our branches and our staff size, etc., which should continue for another year or so, you should expect to see OPEX to assets go up a little. In the medium term, our expectation when we become a book which is two-thirds retail and one-third wholesale, and we have started to see more of the scale efficiencies come in on the retail side of the business, you should expect OPEX to asset in the 2.5% to 3% range with wholesale being at about 1.25% and retail being at roughly 3%.

Sandeep Jain: The related question, which you have said that the digital unsecured retail book and on the retail book kind of thing, when you are saying that this business is giving you a 4% kind of ROA, what kind of OPEX to assets and what kind of credit cost you are assuming in that 4% kind of ROA?

Jairam Sridharan: In the digital embedded finance of OPEX, that numbers are very low because most of the OPEX is actually being borne by the partner. So, our OPEX is very limited to our internal staff, etc. Apart from that, the rest of it is all acquisition costs that we share with the partner. We give the partner a revenue share in the form of origination fee or a skim on the interest based on risk performance of the tranche, etc. But apart from that, there are no real operating expenses on our side in that business.

Sandeep Jain: And in terms of credit cost?

Jairam Sridharan: In terms of credit cost, obviously, it's a higher risk business than normal. But again, because of the way the OPEX is structured, where there is a skim on interest which is linked to the credit risk performance, our creditors outlay is capped in almost all cases. Overall, we have budgeted in up to 4% of credit cost in that business. The effective number that we are seeing is much, much, much below. Actually, we are seeing effective numbers in the 1% range.

Sandeep Jain: Last question on Wholesale 1.0. Declining of the book from here onwards, what kind of percentage decline we will see from here onwards? We have seen a 20% decline in the last 1 year. Now, the repayment or resolution, any kind of timeline or any kind of stage that "Okay, from here onwards, it will not decline" kind of thing and we will run this book kind of. How will you look at that Wholesale 1.0 book?

Yesh Nadkarni: I think we have got a fairly good traction on resolving the assets across stages and part of our book also runs off organically given the fact that these are still amortizing loans. What we have achieved in the last 1 year is a reflection of that. We have shrunk by about 20%.

Moderator: We have our next question from the line of Rikesh Parikh from Rockstud Capital LLP. Please go ahead.

Rikesh Parikh: Just one question. For this quarter, we have provided for a contingency raised provision on the overall asset. I just wanted to understand from the overall portfolio point of view, what kind of provision, as a contingency, we will lift to, where we will be comfortable as such from future onwards, we can expect that much additional provisions could be possible as such?

Jairam Sridharan: I don't think there is any specific number that we have in mind. This is a little bit opportunistic. You do it when you can. We had an opportunity, we did it. I don't think we have a plan of continuing to do it in this manner. At an overall provisioning level if you see, on a Rs. 64,000 crores book, we have Rs. 6,400 crores of provisions. So, we have a tonne of provisions right now on our book. I don't think there is much interest on our part to create much more in the form of any of these contingency provisions. I think we are good right now.

Rikesh Parikh: And second is, I just wanted to understand about how the DHFL book, what we acquired, is shaping up right now?

Jairam Sridharan: The DHFL book is shaping up quite well. We continue to get recoveries from old DHFL NPAs. We are also seeing the core performance of the non-NPA book of DHFL continue to hold up quite nicely. We are very happy with the performance. It continues to be a little bit ahead of our estimations when we did the bid that it has been a highly transformative and positive acquisition for our company.

Moderator: We have our next question from the line of Vinit Sharma from Saankhya Funds.

Vinit Sharma: Thank you for taking my questions. Some of them were already raised earlier. A couple of comments. 1) It would be helpful if you could give some guidance for FY24 for provisioning related credit costs. 2) Given the steep discount that the stock trades compared to book value, given that we are very comfortably capitalized, would we consider a buyback?

Jairam Sridharan: On your first point, guidance, etc., those are Q4 events we will see. As we get to Q4 results, we will take a look at our coming year and how we want to talk about some of the forward-looking statements on where we are. As Chairman mentioned in his opening remarks, that this quarter has been a little bit of an inflection point quarter for us. And hopefully, you will continue to see that spirit being reflected in the quarters to come and in the next year as well, where you should expect to see a lot more of BAU type business performance rather than a lot of one-off driven business performance.

On your second idea, we note your suggestion. Thank you for that. We always welcome suggestions and ideas from shareholders on what might be good ways to actually utilize the capital that we have. Needless to say, you will appreciate that. Any capital market action of that nature, we can only talk about if and when there is something concrete for us to disclose to you. So, we take your suggestion on-board.

Moderator: We have our next question from the line of Nimish Maheshwari from RSPN Ventures. Please go ahead.

Nimish Maheshwari: It might be a repetitive question, but what is the DHFL connection with the Sahana Group? And will it come in our book in Q4 or how much if it is?

Rupen Jhaveri: We have already replied to that. We have mentioned that we have already sold this asset, and this was part of the acquired assets from DHFL in September 2021 at a significantly markdown price and that asset is already off our books.

Moderator: Ladies and gentlemen, due to time constraints, that was the last question. I now hand over the call to Mr. Hitesh Dhaddha for closing comments. Over to you, sir.

Hitesh Dhaddha: Thanks, everyone. Please feel free to reach out to IR for any further questions.

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