19th November, 2021

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- Transcript of Conference Call with Investors/Analysts

Dear Sir / Madam,

Further to our letter dated 8th November, 2021 whereby we had given the advance intimation of Conference Call with Investors/Analysts, enclosed please find the transcript of the Conference Call held on 11th November, 2021 to discuss the Q2 & H1 FY2022 Results of the Company.

Pursuant to Regulation 46 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, the transcript of the conference call is also hosted on the website of the Company.

Kindly take the above on record.

Thanking you,

Yours truly,
For **Piramal Enterprises Limited**

BIPIN SINGH
Digitally signed by BIPIN SINGH
Date: 2021.11.19 17:25:52 +05'30'

Bipin Singh
Company Secretary

Encl.: a/a

"Piramal Enterprises Limited Q2 FY22 Earnings Conference Call"

November 11, 2021

MANAGEMENT: **MR. AJAY PIRAMAL - CHAIRMAN, PIRAMAL ENTERPRISES LIMITED**
MS. NANDINI PIRAMAL - EXECUTIVE DIRECTOR, PIRAMAL ENTERPRISES LIMITED AND CHAIRPERSON, PIRAMAL PHARMA LIMITED
MR. KHUSHRU JIJINA - EXECUTIVE DIRECTOR, FINANCIAL SERVICES, PIRAMAL ENTERPRISES LIMITED
MR. JAIRAM SRIDHARAN - MANAGING DIRECTOR, PIRAMAL CAPITAL & HOUSING FINANCE
MR. VIVEK VALSARAJ - CFO, PIRAMAL ENTERPRISES LIMITED
MR. HITESH DHADDHA - CHIEF INVESTOR RELATIONS OFFICER, PIRAMAL ENTERPRISES LIMITED

Hitesh Dhaddha: Hi, good evening, everyone. Hope you are safe and in best of your health. I am pleased to welcome you all to this conference call to discuss Q2 and H1 FY22 Results. Our results materials have been uploaded on our website and you may like to download and refer 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; Ms. Nandini Piramal - Executive Director, Piramal Enterprises and Chairperson Piramal Pharma Limited; Mr. Khushru Jijina - Executive Director, Financial Services, Piramal Enterprises; Mr. Jairam Sridharan - Managing Director, Piramal Capital & Housing Finance and Mr. Vivek Valsaraj, CFO of our Company.

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

Ajay Piramal: Good day and welcome to our meeting. During the last quarter, we have made significant progress on our strategic priorities and it has been transformational for our Company, marked by the achievement of two major milestones.

First, we completed the DHFL acquisition on the 30th of September and this acquisition has created one of the largest HFCs in India that is focused on the affordable segment.

The second thing we did was, announced the Pharma demerger and simplification of the corporate structure, which we did in October. The demerger will create two separate, pure-play entities in the Financial Services and Pharmaceuticals sectors – in line with our commitment to the shareholders and investors.

<u>Financial Services – DHFL Acquisition:</u>

The DHFL acquisition is a major step in the transformation journey of our Financial Services business, which we have categorized in 3 phases.

(A) Phase 1 – Consolidation:

The first phase is consolidation. Prior to the DHFL acquisition, we had completed Phase 1, where we made the business more resilient by: (a) improving capital adequacy; (b) reducing the loan book concentration; and (c) building adequate provisions and finally; (d) diversifying the borrowing mix.

(B) Phase 2 – Transition and quantum growth:

The second phase is what we are going through now, which is transition and quantum growth. We have achieved significant growth through the acquisition of DHFL that would have otherwise taken several years to accomplish through the organic route. Moreover, this growth has been achieved without infusing or raising any additional equity for the acquisition.

Impact of the DHFL acquisition:

(a) **Growth:** The impact of the DHFL acquisition can be seen firstly in growth. Our total AUM has increased by 42% quarter-on-quarter to INR 67,000 crores and our retail loan book has increased by 4.3 times to ~INR 22,200 crores.

(b) **Diversification:** We have now got diversification and the share of our retail loan book has increased to 33% from 12% which was at the end of March.

(c) **Scale and Granularity:** Besides that, we have got significant increase in scale and granularity and have created a platform with a pan-India presence, with 301 branches across 24 States and Union Territories. We have access to our customer pool of one million and the average ticket size of the combined retail book is INR 16 lakhs, making the book more diversified and granular.

Consideration paid for the DHFL acquisition compared to the gross value of its book:

The consideration that was paid for the acquisition compared to the gross value of the book needs some explanation. The DHFL's loan book has witnessed a significant mark down by the administrator prior to the acquisition. Over the last two years, the book had already been marked down from INR 88,000 crores. Prior to the acquisition, the gross loan book excluding the fraudulent assets was INR 44,000 crores. We have paid a net consideration of INR 20,000 crores for the assets of DHFL. This valuation serves as an adequate buffer to mitigate any unforeseen asset quality risks.

Asset Quality:

Since DHFL's loan book is largely retail and has high granularity, it leads to overall de-risking of the portfolio. Also, there are no additional GNPAs and NNPAs, as the loans acquired from DHFL have been fair valued.

Consequently, the amalgamation of the DHFL book has made overall asset quality metrics noticeably stronger. As a result, NPA ratios declined post the DHFL merger. GNPA for the combined entity has improved from 4.3% in June to 2.9% on September 30th and NPA has reduced from 2.2% to 1.5%.

Provisioning:

Coming to provisioning. You would recollect that in the last quarter of the financial year 2020, at the onset of COVID-19 pandemic, we had created provisions of INR 1,900 crores incrementally. Despite conservative accounting of the DHFL loan book, improvement in the overall loan book mix and a favorable real estate market scenario, we continue to maintain these provisions even after the DHFL merger. Provisions have been stable at INR 2,683 crores as of September-2021. Total provisioning stood at 4% of the combined AUM and provisioning against wholesale asset stands at 5.8%.

The DHFL portfolio has an average yield at 11% and has been acquired with 10-year borrowings at 6.75% per annum and there has been no additional equity against this. Hence, we expect it to boost overall profitability going forward.

(C) Phase 3 – Sustainable growth and profitability:

The phase 3 of our strategy is a 'sustainable growth and profitability'. With the DHFL acquisition now complete, we have put in place the appropriate levers for superior performance in the future. Borrowing costs have declined immediately after the acquisition, as the deal was partly funded by NCDs worth INR 19,550 crores at 6.75% with a higher loan book diversification and growth. There could be further reduction in borrowing cost in the coming quarters.

Post the DHFL merger, the leverage of the Financial Services business has increased from 1.6x as of June-2021 to 2.7 as of September-2021. With growth in the retail loan book, the leverage could increase to 3.5x in the near-to-medium term.

We are also building a technology led retail lending business which should help us in improving cost efficiency as well as better manage asset quality. Moreover, the change in the product mix by launching new differentiated higher yielding product should also add to the profitability.

Demerger of Pharma and Simplification of the Corporate Structure:

Now, I will come to the second major strategic initiative which we have done – the demerger and simplification of the corporate structure. This was approved by our Board in October. This was a long-awaited announcement by our stakeholders, as we have been taking several measures to simplify the Company's organization structure over the last 2 or 3 years.

The Pharma business will get vertically demerged from PEL and get consolidated under Piramal Pharma Limited (PPL). PPL will become one of the largest pharma companies listed on the NSE and BSE, post the demerger.

In Financial Services, PHL Fininvest Limited, the NBFC which was a 100% subsidiary of PEL will get amalgamated into PEL to create a diversified NBFC, which will remain listed on NSE and BSE. Piramal Capital and Housing Finance, the HFC, post the DHFL acquisition will remain a wholly-owned subsidiary of PEL.

We expect this demerger to be done between 9 to 12 months from the date of announcement subject to all the various required approvals.

Financial Performance in Q2 & H1 FY22:

Coming to the overall financial performance of PEL, we continued to deliver resilient performance in this quarter and the first half despite the COVID second wave and our conscious strategy to reduce the wholesale loan book. Adjusted net profit was stable at INR 1,090 crores for the first half. It is important to note that the P&L performance for the period does not include DHFL financials.

Financial Services:

Organic retail lending disbursements grew 2.6 times QoQ versus the first quarter of FY22, showing a strong rebound from the impact of COVID wave-2. We launched two new product categories in this quarter and our partnership is also scaling up well. Collection efficiency in our retail portfolio recovered to 99% in September-2021, similar to that of March-2021 level.

In the wholesale lending the performance of our developer client significantly improved compared to the previous quarter FY22, reflecting the trends in the overall real estate market. However, in line with our strategy to make the wholesale loan book more granular, we are consciously brining down our wholesale book. In fact, no account exceeds 10% of net worth of Financial Services.

Pharma:

Our Pharma business delivered a robust revenue growth during the first half of this year at 20%, delivering revenues of INR 2,983 crores, the Pharma business contributed to 50% of PEL's overall revenue.

The EBITDA margin was lower at 13% in this half. We expect a better performance in the second half and which is expected to offset the lower margins in the first half. Historically, the second half has been better and is expected to be on similar lines this year. During FY2021, H2 contributed to 55% of revenue and 65% of EBITDA.

We did witness some execution-related challenges during the quarter related to logistics and availability of raw material and manpower.

CDMO:

The CDMO business grew by 11% and our development order book is up by 50% as compared to the same period last year. We are witnessing a robust demand of sterile fill-finish in North America.

Complex Hospital Generics:

In the Complex Hospital Generics business, our first half revenue grew by 26%. The business witnessed recovery despite the impact of the delta variant on demand for our key product lines in a few predominant geographies. We had delivered strong sales of Sevoflurane in the US and continued to gain market share. There was a strong demand for injectable pain management products and maintain market share in the US Intrathecal business.

India Consumer Healthcare:

In the India Consumer Healthcare business, the revenue in the first half grew by 54% which was driven by strong performance in key brands. We have launched 6 new products in this first half and have a strong pipeline for the year. We are reinvesting our profits for future business growth.

Concluding remarks:

In closing, I would say that this has been a transformational quarter for our company and the steps taken by us has significantly strengthened the foundation to support future growth. Our balance sheet strength and uniqueness of our business models set us apart enabling us to create long-term value for our stakeholders. Thank you.

Q&A Session:

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Congratulations, on all the business developments. Firstly, in terms of the breakup, if you can share this INR 20-odd thousand crores between the retail and wholesale. And similarly, in terms of from where the wholesale book was marked down to what level and same with like retail, so INR 88,000 Crores to INR 44,000 Crores and now maybe INR 44,000 Crores to INR 20,000 Crores and breakup between retail and wholesale?

Ajay Piramal: Out of the INR 20,000 Crores, we have added about INR 18,500 crores for the retail book and the balance is for the wholesale book.

Kunal Shah: So, wholesale is coming nearly at INR 1,500 odd crores?

Ajay Piramal: About INR 2,000 Crores, or a little more than that.

Kunal Shah: And the gross value of these assets would have been?

Ajay Piramal: I think this is a sufficient enough detail, Kunal.

Kunal Shah: Because the estimated value was about INR 25,000 crore-odd thousand for wholesale and INR 27,000 crore retail, so is it like…?

Ajay Piramal: No, I think we have gone exactly on the basis of how we had bid for this thing. This is what the bid we had done for both the wholesale and retail and we have just followed that.

Kunal Shah: And in terms of cash, I think last time the sense was it should be round about INR 11,000-12,000-odd crores, currently it seems to be almost like INR 15.5k crores and net may be of the liabilities it seems to be like INR 14,000-odd crores. So is it more of a repayment which has happened and we have got the cash since March, as that component seems to be higher than the expectations and net consideration or asset acquired that seems to be lower than the expectation?

Ajay Piramal: It is a combination of both. There have been some repayments, there have been some, I mean the repayments have been good and more robust that what we have thought and there have been some prepayments as well.

Kunal Shah: In terms of when I look at overall retail book and then ex-INR 18,500 crores of DHFL, then the organic retail seems to be relatively lower or there is not much of a growth out there. So definitely, we have shared the disbursement number, but I would want to understand the outlook on the organic side? And lastly, in terms of if you can give a more granular color in terms of how much would be the Stage-2 and the restructuring now on this expanded base, so was there any restructuring which was done in DHFL book or maybe there was any restructuring which was done even in PEL book ex of DHFL?

Jairam Sridharan: So, Kunal, firstly, if you look at the quarter that has just gone by, your observation is accurate that the disbursement growth is very strong in the organic retail book, but the AUM growth is not and the reason is very similar to what we saw in the previous quarter, which is that runoff of the loan book continued to be quite high.

Going forward, the way we are going to disclose is to show one consolidated number for the entire business and you are no longer going to see separation between, let us say, legacy PCHFL versus legacy DHFL part of the portfolio etc., this is all one business now and you are going to see the overall disbursement number and AUM growth numbers on the consolidated business going forward.

Our expectation is that growth at the AUM level will start coming through once we stabilize the book that we have just acquired through DHFL, once all our policies and risk management infrastructure is put in place. So, you should see that AUM growth coming through in a little while. In the interim, we will continue to show you disbursement growth as a precursor to AUM growth, as you know disbursement growth comes first in the retail business and AUM growth comes a few quarters later. That is exactly what you are going to see here as well. So, you will start seeing us talk a lot more about disbursement growth in initial quarters and it will slowly translate into AUM growth in the times to come.

Kunal Shah: And color on restructuring?

Jairam Sridharan: The overall restructuring in the book is just about 2%. Also, you will know that our book on the retail-side is a lot more self-employed than what you will see in the external markets. So, it is exactly what we are seeing in the market, we feel very good about the restructuring performance. New flows in this quarter has been relatively low, apart from the legacy DHFL book, where there has been some, but otherwise this quarter there was fairly limited amounts.

Moderator: Thank you. The next question is from the line of Nishant Shah from Point72 Asset Management. Please go ahead.

Nishant Shah: I have a question on the Shriram part of the business, is this still considered like strategic investment, there is talk in the media about some kind of the reorganization over there. If given an option to exit, would you consider an exit from that or do you continue to be happy to stay invested and enjoy the growth in that business?

Ajay Piramal: We have said this before also, it is not a strategic investment for us, but at the same time, it is not that we are desperate to sell it at any time at any price. So at the appropriate time, we will exit. So, in the long term, this will not be on our books, but at the moment, we will evaluate, but it is not strategic for us.

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

Piran Engineer: Congrats on the quarter. Dewan's book was INR 40,000-44,000 crores, we valued it at ~INR 20,000 Crores, what were the NPLs that resulted in…?

Jairam Sridharan: I will tell you. But before I tell you the NPA number, one important thing to keep in mind is the way the accounting worked is through reflection of the fair value that was discovered in a bidding process. So, this is unlike a situation where you have an existing book, you do a risk assessment of the book and then you say okay, I am going to discount the book by x% because I believe x% of loss is going to come here and that discounted value is what you see as the net book value. This is not that situation.

This is the situation where a book exists, the book was transparently bid, in the bidding process of final outcome came in terms of the discovered value of the full book, now we are reflecting that discovered value in our balance sheet and then allocating the purchase price across the various asset categories. So trying to do a pure mathematical calculation to say what does this imply in terms of our expectation on NPA recovery or new NPA formation, etc., would be incorrect, because that is not the way this number has been arrived. This number has been arrived as the part of a price discovery process.

Now, that price discovery has been appropriately allocated. That is it. Your question of how much is the NPA book and Dewan, etc., the June numbers of Dewan are well known, so you can see it in the public domain. The retail book of Dewan had NPA ratios of upwards of 25%. Of course, the way we have incorporated and amalgamated it into our book, the NPA ratio at which we have amalgamated it is basically 0%, because we have only amalgamated to a good part of the book, so that is the way this has happened.

Piran Engineer: But then again, if the NPA ratio is 25%, the maximum hit you can have is 25%?

Jairam Sridharan: No, if the price discovery process results in let us say 10 cents from the dollar on our portfolio, 10 cents is what will reflect on the book, doesn't mean that 10 cents is what we expect to recover, but 10 cents was the discovered value of the book in my hypothetical example. In this case, 40 cents and change was the discovered value of the book and that is what reflected and we will allocate that price across various asset class.

Hitesh Dhaddha: So, to add Piran to what Jairam mentioned, the large part of this book is secured book, secured by assets which are house properties and what Jairam is trying to explain you is that what you ended up paying for asset was INR 20,000 crores after the cash, if you deduct the cash that you got at DHFL balance sheet, so in all you paid INR 20,000 crores for assets and hence you are valuing the entire pool of assets as INR 20,000 crores, it has got nothing to do with asset quality of that asset pool. We wanted to remain conservative in terms of how we wanted to account for, we did not want to account for value more than what we have paid for and hence we have accounted for INR 20,000 Crores – the price that we have paid for assets.

Piran Engineer: There would be an upside, potentially?

Hitesh Dhaddha: Yes.

Jairam Sridharan: Piran, you had another question on HFC percentage and you made the valid observation that in the HFC, our ratios are below the regulatory asks right now. However, the regulator has given a glide path on how to get there. We are going to be striving to achieve those and we will be in constant conversation with the regulator in this regard.

Piran Engineer: But it is by FY24 regardless of anything, right, even for you all?

Jairam Sridharan: Yes, of course, that is the regulatory guideline. We will, of course, on a case-to-case basis, the regulator, I am sure, will have conversation with individual players, so we will continue to engage with them on that point. Right now, there is no immediate sort of looming deadline in front of us. We will continue to strive towards increasing the retail ratio as we have mentioned multiple times. So, hopefully, just organically our strategy itself will push us in that direction and we will be guided by what the regulator requests us to do.

Moderator: Thank you. We will take the next question from the line of Alpesh Mehta from IIFL Securities. Please go ahead.

Alpesh Mehta: Congrats on the good set of numbers. All the questions are related to the accounting of DHFL, first is, I can see the goodwill increasing by almost INR 10 billion. Is it on account of DHFL, that is first?

Secondly, what is this transition cost of INR 1.23 billion for the DHFL merger?

Third is, if I see the segmental reporting, the Financial Services total assets have increased by around INR 27,600 crores, whereas the loan book added is around INR 20,300 crores and our core balance sheet is largely flat quarter-on-quarter, so what explains this difference of around INR 73 billion?

The fourth question is when DHFL reported FY21 earnings, at that point in time, there was a DTA outstanding of around INR 102 billion whereas in the consolidated numbers that we have reported there is no increase in the DTA, so how the tax losses are going to be utilized, how the tax assets are going to be utilized in after the merger?

And the last question related to pharma, in the segmental reporting, pharma assets versus the debt reported, the pharma sector liabilities versus the debt reported in the footnote, the difference is around INR 23 billion, what is that difference on account of?

Vivek Valsaraj: Alpesh, I will take some of your questions. The first question that you had asked was with respect to increase in goodwill. So, the increase in goodwill here is not DHFL, this is largely the Hemmo acquisition, so we acquired Hemmo, the total consideration paid and payable is about INR 1,000 crores. Currently, the purchase price allocations have not been done and all of this has been parked in the goodwill. After the purchase price allocation is completed, this will get regrouped into the respective heads.

The second question was with respect to the transaction cost for DHFL. This is largely the stamp duty that will be payable in the state of Maharashtra, as well as other costs payable to various consultants. That is what is accounted there. It also includes the transaction cost for the Hemmo transaction which had happened.

With respect to the deferred tax asset, again this has been fair valued and marked down as we deemed appropriate in the purchase price allocation and that is what factored in terms of the increase.

Alpesh Mehta: Sorry to interrupt, will we be able to utilize this deferred tax asset in future?

Hitesh Dhaddha: We are not valuing because we wanted to remain conservative Alpesh, and we have valued the assets only to the extent of what we are paying. Anything over and above will actually be upside and we don’t want to quantify upside in any form right now.

Jairam Sridharan: Yes, but it is fair to say there is a potential tax benefit component to this, which we have not quantified and put in here, but as we have seen we have taken book at a particular face value and we have done fair value adjustments to a significantly lower value and so the losses that get created because of that do give you eligibility for potential tax covers in the future. We are not quantifying that right now.

Alpesh Mehta: And Jairam, this will not reduce the reported tax rate, right? It will be just the tax outgo that will come down, it is more of a cash flow accounting rather than the reported tax rate?

Jairam Sridharan: Right.

Alpesh Mehta: The segmental reporting difference between the loan book and the gross asset increase because of DHFL around almost INR 73 billion?

Vivek Valsaraj: Yes, it is primarily DHFL in terms of the increase that you see in the segment assets and it also includes the other assets, so it has AUM and the other assets both put together. That is what you see the increase of about INR 26,000-27,000 crores.

Alpesh Mehta: Yes, I agree, but that Rs. 70 billion, large component of that, can I assume that it is more on account of cash and bank balance; or it is more to do with some other assets because obviously the fixed assets will not be that high?

Vivek Valsaraj: It has got a combination of both, cash as well as other assets.

Alpesh Mehta: And pharma liabilities – segmental liabilities versus the reported debt?

Vivek Valsaraj: As you are referring to the comparison of September-2021 versus September-2020, then earlier the debt related to pharma was shown under unallocated and after the push down of the pharma business into Piramal Pharma, we have started reporting the number under the pharma segment. That is why you see a difference between September-2020 versus September-2021.

Alpesh Mehta: No, my question was related to if you come to notes to accounts, capital employed, segmental reporting, when you see the pharma sector liabilities, the total liabilities is around 57 billion whereas in the same table, below the notes to account is written around INR 33 or INR 34 billion related to the pharma sector, so the difference of almost Rs. 23 billion is in the pharma liabilities, what would that be on account of?

Hitesh Dhaddha: We will get back to you offline on this.

Alpesh Mehta: This is the last question, any recovery from all these wholesale book written off are the marked down value of the retail loans as well in future, so everything is upside for us right, there won't be any sharing of those with the creditors on this front?

Jairam Sridharan: Yes.

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

Abhijit Tibrewal: Just two questions, the first one is a clarification wherein we had commented that the overall restructuring was 2% of the loans, just wanted to clarify whether this 2% is in retail or as the proportion of the overall AUM?

Jairam Sridharan: Overall.

Abhijit Tibrewal: The next two questions that I have is to Jairam, so Jairam in this quarter, I see that we have started this merchant BNPL and unsecured business loan in partnership with some of the FinTechs, so if you could just dwell on both these products a little bit in terms of what are the commercials and what is it that we are exactly trying to do here?

And the second question again is on disbursements while we have been sharing disbursements that we have been doing under retail, ex of DHFL on may be a conservative basis, what can the disbursement levels look like in retail loans with DHFL under the fold in the subsequent quarters?

Jairam Sridharan: Let me start with the second question, fresh on my mind, on disbursement trajectory. If you generally think about the size of network that have actually gotten added and the fact that you can see that the overall network has increased by a fairly large number, however, a lot of the network increases from smaller locations, etc.. So keeping that all in mind, once the engine start really running from a disbursement trajectory standpoint, we will come to sort of target levels of productivity and people productivity. It wouldn't be surprising if you had the overall monthly disbursement rate go up 5-7x over the next one year or thereabout, but it will be a gradual journey to go from here to there, but that kind of increase in monthly disbursements is certainly on the cards and it is something that we would want to do.

To your first question on product trajectory, where you spoke about the merchant BNPL and unsecured BL and some of these other products that we have started, we have been talking about this for a little while. We want to be a multi-product retail lending platform and while we will be focused on affordable housing as our core pillar, there will be other products around it that we will create.

And as an organization, we have appetite for around 20% of unsecured lending in our portfolio. Now, it is not something that we are going to get to now or in the next one year or whereabouts, but overtime, slowly, directionally where we will head to make sure that we have an adequate earnings buffer in the P&L as well.

Now, in that direction, we are experimenting with a lot of different product categories, apart from plain vanilla unsecured personal loans, which of course is something that we will do digitally. But apart from that we have been drawing consumer BNPL in the quarters past. This quarter, we started merchant BNPL which is essentially merchants on a platform connecting with their buyers and at that platform we can actually offer a BNPL to the merchants. That is one thing that we are trying and on the unsecured BL, one of the things that you find in small-term, mid-town India is that small merchants very often don't have collateral to actually offer, so to go ahead and do a lending relationship them you have to come up with an unsecured business loan, unsecured MSME lending product, which is what we have launched this quarter. It is purely focused on the MSME category and needless to say it is at a price point which is very different from what some of the other secured MSME lending like LAP etc., would be. So this would be about 500 basis points higher priced than what the LAP might be for example.

Abhijit Tibrewal: And if I can just squeeze in a follow-up question in the context of the response that you gave to the disbursements that they could go up to 5-7x kind of disbursements from the current levels, monthly disbursement run rate. Would it be fair to say given that our old retail book (ex-DHFL) kind of continues to runoff at a swift pace and the fact that the DHFL retail book which you have got on your balance sheet, I am assuming it is a pristine book, which would also obviously again continue to run off at a swift pace. Would it be fair to say that AUM growth then would be relatively muted, given that our stance that we will be looking to continue to run down the corporate book?

Jairam Sridharan: I think that is going to be true for the next quarter or two, but not beyond that. By that time the disbursement trajectory will be sufficiently strong to offset potential runoffs. The other thing that also needs to be kept in mind is that in the last year and a half, 2 years, in the erstwhile DHFL book, the portfolio retention activities have been relatively weak. We have designed fairly strong retention activities and we would also undertake those and implement those in the coming months to make sure that the runoff is also reduced from where it is, but the overall mechanics of what you are saying is correct that currently the repayments are higher than new disbursements, which means the AUM growth is going to not be there, however, as the disbursement keep increasing as the prepayments keep decreasing the lines will cross over the next few months and once that happens you will start seeing AUM growth again. Which is of course the natural trajectory of all such transactions that happen.

Hitesh Dhaddha: And what is also important to see is the long-term targets that we are targeting of nearly two-third retail and one-third wholesale in 3-5 years. And you can see the kind of equity that the company has and the potential of growth that it can have, so in a matter of few quarters as Jairam is mentioning, the business is going to pick-up the growth trajectory at a decent run-rate and it will start delivering for its long-term targets.

Jairam Sridharan: Just one other thing to add, it is also important to keep in mind and not lose sight of the fact that what we have delivered in this quarter is a 40+ % growth in AUM. So this is the sort of growth which will take many quarters to deliver and all that has come in one quarter because it was through this inorganic transaction. And that has completely changed the baseline for us, as an entity, without having to put in any incremental equity from our side. So, there is a large, just one-time big growth spurt, that is going to hold up for a little while. However, on an incremental basis, from this new baseline, you will need to give us a few months to us to stabilize the book and get to the point where disbursements are higher than repayments.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Sir, firstly on the CDMO business, now that the number of molecules in the phase 3 has ramped up from 10 to almost 34 over a period of last 3 to 4 years, any indication in terms of, any of these molecules coming up for the commercialization and then provide reasonable boost to the CDMO business? That is first? Second is, while the Complex Hospital Generics sales has been pretty stable for last 2 to 3 quarters, but given that the COVID cases are on the rise for past 1 month, you see some impact on the business or the near to medium term? And thirdly, the Riverview facility expansion will take how much timeframe?

Vivek Valsaraj: So, on the CDMO business, firstly as you rightly pointed out, there is increase in the number of phase 3 molecules which obviously increases the probability of these going commercial, so of course there is a probability associated with it because it is in phase 3, but yes, that definitely will provide a boost to the CDMO business in terms of greater stability of revenues coming from the commercial. In terms of Complex Hospital Generics while in US we are seeing significant improvement and recovery especially for our inhalation anesthesia portfolio and that has helped maintain growth as far as our hospital generics business is concerned. In Europe and some of the other key markets, there are still some challenges while we are hopeful that things would improve, but it is going to be wait and watch situation. US is our largest business as far as inhalation anesthesia is concerned and for adjacent injectables and that is where large part of our business comes from, but yes, we would want to wait and see how it performs in the other market. With respect to Riverview, the CAPEX was a bit delayed because of the COVID scenario and now it would be sometime mid FY23 when the facility would be ready post expansion.

Moderator: Thank you. The next question is from the line of Sumit Choudhary from Zaaba. Please go ahead.

Sumit Choudhary: Congrats on a good set of numbers. Questions from me on the Dewan side, so just for my understanding that current quarter numbers don't reflect the P&L impact of the Dewan transaction, so if you could just help us understand what kind of yield should we expect to be delivered on the INR 20,000-odd crore book that you have taken over from Dewan. And what kind of operating expense increase should we expect going forward because of this transaction?

Jairam Sridharan: So, if you look at the average yield of the book, mostly what we have consolidated is the retail book is just sort of easier to just focus on that. The average yield is a tad over 11% and almost all of it is funded through 10-year NCD issued at 6.75%, so that should give you a little bit of sense of what the spread is on this part of the business and what impact it should have on profitability. As far as OpEx is concerned, the current OpEx levels of the erstwhile DHFL are extremely low, abnormally low because of two things, one is that new businesses not been happening, so cost of acquisition has been zero and a lot of people had left, so it is a very understaffed team, so staffing cost are relatively low.

So, what you are likely to see, in the very initial stages you might see OpEx ratios which are quite attractive for a retail business, however, you will see us making the right investments making sure we build a long-term franchise here. In the long run, you should expect to see, at the overall organizational level, a cost income ratio, given the wholesale-retail mix that we are targeting, to be somewhere around the mid-20s. This is what you should expect to see and that is the level at which we want to keep our disclosures. Overtime, let us see, but right now we don't have any intention of specifically talking about individual business level of cost to income ratios, etc., let us see how this develops.

Sumit Choudhary: And second would be on the pharma side, on the CDMO, I think you alluded to the fact that there were some logistics and manpower related issues which kind of delayed some of the delivery, so is that something that you expect to be resolved within this year and should we therefore expect overall business to grow on the pharma side at the run rates which has been indicated before and the margins for the full year, should we expect them to go back to the 20 to 25% sort of range for the year?

Vivek Vajsaraj: The CDMO business historically if you see has always been lumpy, roughly we have about 45% of our business coming in the first half and 55% of the business coming in the second half of the year, but more specifically if we were to look at the EBITDA then you have 35% of the EBITDA coming in the first half and 65% coming in the second half, so this year we expect it not to be different, it will be similar lines, a little bit more pronounced in terms of EBITDA towards H2 because we have had slightly adverse mix when it came to H1, so yes, we would see growth coming back, we delivered 20% growth overall for the pharma in H1 and the overall pharma growth for H2 would be on similar lines, though in terms of margin, we may see some modest decline because input prices have been going up and obviously we have not insulated from that completely, likewise expenses on distribution and logistics have also been going up, so there may be some impact of that, a modest decline, but yes, more closer to what it was in FY21.

Sumit Choudhary: So, the margins for first half had been closer to 13%, full year we should expect it to be closer to FY21 which is north of 20 if I recall correctly around that level.

Moderator: Thank you. The next question is from the line of Utsav Mehta from Edelweiss AMC. Please go ahead.

Utsav Mehta: Just wanted to understand a little bit more granularity on the pharma business revenue, is it possible to sort of share some insight into what percentage of revenue would be commercial? How much would be CRO and how much would be manufacturing for clinical Stage-1?

Vivek Vajsaraj: So, overall if you look at it, about 75% of our revenue comes from commercial, about 25% comes from development and the 25 includes around 3% from what we call as discovery.

Commercial by the very fact that each confinement is the large ticket size is higher in value, so that is how typically the mix is.

Utsav Mehta: And this 75% currently would be dominated by generic molecules or is there a fair share of NCE as well?

Vivek Valsaraj: It is a mix of both, we would put the mix at about 55% generics and 45% innovator.

Utsav Mehta: Last question on the margins, is there any element of pricing pressure or pricing erosions faced by clients on the generic commercial side which is causing difficulty to pass through the raw material prices?

Vivek Vajsaraj: Right now, there has not been very material pricing pressure on the kind of products that we have been dealing as far as our API generics is concerned, but on some of our injectables, we have been seeing significant pricing pressure specifically in the US market.

Utsav Mehta: And one last question, more strategic from my side, I saw in the long-term target that entering the India domestic formulations market is priority and is something you maintained for a while. How does that sort of stack up wanting to run CDMO wherein they have complex or even innovator molecules or would client be comfortable with something like that having dealing with an organization that has footprints across board?

Vivek Vajsaraj: I think our India Consumer Healthcare business is primarily India based as you are aware and it primarily caters to the India market whereas our contract manufacturing customers are those who are based outside and who sell products for the local markets in North America and Europe as you are aware almost 75% of our revenues comes from North America. So, domestic formulations what we do, if at all we enter the space again would be very different market, different kind of products versus what we are doing in a CDMO space.

Moderator: Thank you. The next question is from the line of Prakash from Axis Capital. Please go ahead.

Prakash: A quick one here on the pharma side, I heard you saying that typically it is about 30-35% of the profit for the first half and the remaining in the second half and there is a seasonality which I totally understand, but when I compare the first half of last year and this year, there is a major difference, could you explain that first half of last year showing about 17% plus margins and this year first half is about 12.5, so what is really changing here from a like to like first half?

Vivek Valsaraj: As I mentioned before this time in the first half we had a very adverse product mix which means in our CDMO space the contracts which were invoiced were comparatively lower margin compared to what we had last year. We expect this to get reasonably corrected towards H2, so it is an adverse product mix. Secondly, in line with our stated strategy, this year, we had increased our sales promotion spend in our consumer products business to boost sales as we have been saying reinvest profits to grow OTC business at a faster pace, so that spend has gone up and in some of our overseas sites, due to various execution and operational issues, revenues has been lower and we expect this also to catch up in the second half as you are aware overseas overheads are on the higher side and therefore absorption of fixed assets has been lower in the first half. We expect to get corrected in the second half.

Prakash: So, within CDMO when you say the product mix has changed when we see comparable like Divi's and all the innovator business has gone up and margins have actually gone up, so could you elaborate a little more on the product mix change in the CDMO space?

Vivek Valsaraj: So, I am only talking of product mix change from a timing standpoint, so what got delivered during the first half were the comparatively lower margin contracts, the higher margin contracts would get invoiced and delivered in the second half of the year. That is what caused the mix issue. Otherwise, overall, our mix has largely been similar to what it was last year.

Prakash: And on the complex hospital business side, since US and other export market is still seeing COVID cases, have you seen this business seeing full traction or it is still, would you see a faster growth going forward or this is the growth one should expect?

Vivek Valsaraj: So, our inhalation anesthesia portfolio which is a significant part of our complex hospital generics business saw a good recovery post COVID especially in the US market now, in fact Sevoflurane has come back nearly to pre-COVID levels with us having market leader position in the US market. Some of the adjacent injectables as I mentioned earlier, we were seeing some pricing pressure or lack of demand in some adjacent injectables, so in the US market overall the growth has been better and is coming back to pre-COVID level. It is in the other markets in Europe where we have been seeing some challenges because of sporadic lockdowns or issues related to COVID.

Prakash: And how is the pipeline looking for this complex hospital generic businesses, we had couple of products which you are expecting US approval, are we on track to get it by end of fiscal 22 or how do we see that?

Vivek Valsaraj: In terms of approval for the products that you are referring to, it has currently been delayed and we don't expect that to come within this fiscal year. In terms of the other pipeline for other generic injectables in the form of either in-licensing or sourcing from our own we continue to work on that and there is good traction in the pipeline. Obviously, the sales have got delayed because of COVID in some of the key markets especially in the US market. Hopefully, this should start improving as overall position improves.

Prakash: And lastly just reconfirming for full year margins on the pharma side it would be at par or little better is what you said, is that understanding right?

Vivek Valsaraj: We would see a modest decline and that is largely driven by rising input cost, raw materials as well as logistics and distribution expenses. So, it would see a slight decline versus previous year level.

Prakash: And next year we should probably get back to normalcy?

Vivek Valsaraj: I would refrain from commenting for next year right away. We will wait and see how things go, the longer term is to expand margin, so we remain committed to our long term strategy of expanding margins to the levels that we have stated earlier in our Pharma Day.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Sir, on this financial side, what will be our, directionally if you can give some color of blended NIM with the change in mix of the business and post DHFL?

Jairam Sridharan: We are not offering forward looking NIM guidance right now. As you have seen, you can see the book's NIM today, in the pre-amalgamated form. The book that is getting amalgamated, as I mentioned before the gross yield is about just over 11% and the cost of funds incrementally on that is about 6.75%, so putting that together that should give you a little bit of a view of what margins are and spreads are going to look like in the coming two quarters. We are not offering any specific guidance at this point. In the next quarter, you will see the full quarter financial performance of the amalgamated entity, so it will be very straight forward from there on and in the fourth quarter we might consider offering guidance for that but right now we don't guidance out on margins.

Bharat Sheth: In the last session we had acquired one land parcel against loan, so what is the status of that and monetization plan?

Khushru Jijina: So, that was the land parcel in Andheri East, as we had explained last time. And it is a large parcel. In fact, there has been progress on that and I would not like to divulge much right now. Actually, there are some approvals which we are getting from the government with some new approvals also coming. So in the next 6 months, probably, we will be able to tell more in detail, but needless to say that we have progressed in the matter and we will share the details at the right time.

Moderator: Thank you. The next question is from Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: I am referring to page number 34 of your presentation, just trying to understand after we include this 10-year NCD that we rate at 6.75%, what is our stock cost of borrowings and what was our incremental cost of borrowings. The reason of asking this is, in one of the other slides you have mentioned that the yields of our retail portfolio including DHFL was about 11.2%, so now if we were to look at you as one of the largest HFCs in the country, which at the current cost of borrowings and how do you see it trending down in the coming quarters which would make you competitive to be doing housing finance given that 75% of your retail book is indeed housing loans?

Jairam Sridharan: On the first part of your question, which is what are stock cost of borrowings that is the number that you actually see at page 34, so the decline that we see the 60-basis point decline in cost of borrowing from last quarter to this quarter is because of the addition on a proforma basis. Obviously, you have not seen the impact of this in this quarter's P&L, you will see the impact in coming quarter P&L, but on the proforma basis, if you were to just create a version of the stock, this is what it would look like.

Now, on an incremental basis, the lending rates have clearly improved materially for us. We had come out with retail NCD issue recently, in which the cost of borrowings had a low 8%-handle, so that gives you a sense of incrementally what has happened. Now with the inclusion of DHFL and aggregation into our book, with the improvement in the NPA profile, as well as the improvement in granularity of the portfolio, our hope and expectation is that incremental cost of borrowings will continue to improve from where it is, with or without any favorable action on the rating side. Either way, we should see improvement in the cost of borrowings and that will continue to strengthen the overall NIM trajectory.

Now, in terms of your question on competitiveness of the housing business, I want to reiterate that the housing business that we entered and that we are big in, is the lower end, the smaller town, the self-employed and cash salaried type of customers. Our average yield in the housing business, even today is 11%, so this is not the 6.5, 7.5, 8% housing business that banks do. We are not in that business at all. We are targeting a completely different segment which is fairly underserved by banks, etc. And that is the business model that you are going to see us pursue in the foreseeable future.

Moderator: Thank you. The next question is from the line of line of Gautam from Deutsche Bank. Please go ahead.

Gautam: Just a couple of questions, I guess the first one was, I think you already captured the fact that the DHFL acquisition book is captured at acquisition cost, will there ever be I guess a fair valuation for that book done; or will it be maintained at acquisition cost, that is one? And the second question was, when we talk about, I guess the margins on the DHFL book, how would do we think about it? Technically you have an INR 88,000 crores book that has been valued at just about INR 20,000 crores at PCHFL. There is a debt, when you talked about the 6.75% borrowing that is on a one-on-one basis to that INR 20,000 crores. But I guess the 11% yield that we get on the book will be on something that is going to be between INR 20,000 crores and INR 88,000 crores. So, I just wanted to get a sense of how that would flow in subsequent quarters?

Jairam Sridharan: So, both your points are valid ones. See on the first one, yes, it is a fair value process, but yes, it is heavily determined by purchase price consideration and that's what you see here. A fair value process formally with the auditors, etc., is ongoing and it will continue over the course of the next 6 months and we would finalize it. But I would be surprised if there will be any outcomes which are materially different from purchase price consideration. So, you should assume that valuation processes are by and large closed, even though the audit process on that and creating the final fair value reports etc., will continue over the coming months along with the auditors.

Now, that leaves us naturally to the second question that you have, which is that the interest that you are earning is on a book which is larger than INR 20,000 crores, the interest cost that you are bearing is on roughly INR 19,000-20,000 crores and so the margins might be little bit larger than what the spreads actually indicate. That point is absolutely valid. That is one of the underlying business cases of why you would do a transaction like this, so what the actual impact of that might be, you just have to wait and watch like when you see next quarter's numbers you will get a little bit of a sense of what that expanded thing might look like. We don't want to speculate of that at this point.

Gautam: Just a quick follow-up on that, I think the credit ratings was kind of, I guess put on review of both the acquisition and secondly the restructuring. Any sense on I guess what the timing for the rating agencies to complete that might be?

Jairam Sridharan: We will be having conversations with the rating agencies now that the results are over, etc. We will have our quarterly conversation with them, but this is not the thing that we control or we would want to push from our side. This is the sort of thing that the rating agencies will take their own call and their own time. If they deem, the level of progress in the company to have been adequate, they will take the course that are appropriate. We don't want to duly influence that process, but we are confident that we are doing all the right things, the balance sheet is moving in the right direction and all the metrics that rating agencies typically tend to care for, all metrics are trending in the right direction. So hopefully, we will see some favorable outcomes over the next few quarters, but it is their call to make, not ours.

Moderator: Thank you. Ladies and gentlemen, due to time constraints we will take that as the last question. I now hand the conference over to Mr. Hitesh Dhaddha for closing comments. Thank you and over to you, sir.

Hitesh Dhaddha: Thanks everyone for coming to this call. If you have any more questions, please feel free to reach out to the IR team. 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.