"Piramal Enterprises Limited Q1 FY22 Earnings Conference Call"

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MANAGEMENT:	**MR. AJAY PIRAMAL – CHAIRMAN, PIRAMAL GROUP**
	MS. NANDINI PIRAMAL – EXECUTIVE DIRECTOR, PIRAMAL ENTERPRISES LIMITED AND CHAIRPERSON – PIRAMAL PHARMA LIMITED
	MR. RAJESH LADDHA – EXECUTIVE DIRECTOR AND GROUP CFO, PIRAMAL ENTERPRISES LIMITED
	MR. KHUSHRU JIJINA – EXECUTIVE DIRECTOR, FINANCIAL SERVICES, PIRAMAL ENTERPRISES LIMITED
	MR. JAIRAM SRIDHARAN – CEO - RETAIL FINANCING, PIRAMAL ENTERPRISES LIMITED
	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 Q1 FY22 results. Our results materials have been uploaded on our website and you would like to download them and refer 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; Ms. Nandini Piramal – Chairperson, Piramal Pharma Limited & Executive Director, Piramal Enterprises; Mr. Rajesh Laddha – Group CFO & Executive Director, Piramal Enterprises; Mr. Khushru Jijina – Executive Director Financial Services, PEL; Mr. Jairam Sridharan – CEO of our Retail Financing Business; 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. Despite the headwinds from the second wave of COVID, we have delivered a resilient performance during the quarter.

Our revenues remained largely stable at ~INR 2,900 crores and this is amid reduction in the wholesale loan book, which is in line with our strategy of making our loan book more diversified and granular. Despite a stable topline performance, our net profit has grown by 8% year-on-year to INR 534 crores.

We continue to maintain a strong balance sheet with our equity base now at approximately INR 35,000 crores and our net debt has gone down by 50% since March-2019, thereby bringing down our net debt to equity to 0.8x as of the end of this quarter versus 2x times in March-2019.

Financial Services:

It would be a good thing to look at the journey of our Financial Services business since September 2018, when the financial crisis hit the NBFC sector.

Our journey can be categorized under three phases.

(a) Phase-1 - Consolidation

We have now largely completed the phase of consolidation with significant progress over the last two years. We have built a resilient business model in the wake of liquidity tightening, COVID-19 and other macroeconomic headwinds.

We have achieved four major outcomes in this phase.

(i) Capital Adequacy:

First, improving of our capital adequacy. We've raised significant amount of capital and deleveraged our balance sheet. Our capital adequacy ratio today stands at 39% versus 22% as of March 2019, making us one of the most well-capitalized NBFCs / HFCs in India. We have adequate growth capital for the next five years, even after the completion of the DHFL acquisition.

(ii) Loan book concentration:

The second point is how we have reduced our loan book concentration. Our top 10 exposures have gone down by 30% since March-2019, from INR 18,000 crores to INR 12,800 crores in June-2021. Today, no account exceeds the regulatory threshold of 15% of net worth.

(iii) Provisioning:

In addition, we have built conservative provisions. As of this quarter end our total provisions stood at ~INR 2,750 crores that is 5.8% of our total AUM.

(iv) Borrowing mix:

We have diversified and shifted the borrowing mix towards stable, long-term funding sources. We raised INR 34,000 crores of long-term borrowings since March-2019 and replaced most of our short-term CP borrowings. As a result, we now have a much stronger ALM profile with significant positive ALM gap across all buckets. As part of our effort to diversify the borrowing mix, we raised debt through our maiden public bond issue in July of this year. This issue received a healthy participation from retail investors and HNIs, and we could raise INR 804 crores.

(b) Phase 2: Transition + quantum growth

The Phase-2 of the journey of Financial Services business is our transition and a quantum growth. With Phase-1 largely behind us, we are now in Phase-2. Our transition from a wholesale NBFC to a well-diversified Financial Services business.

There are three components in this phase.

(i) DHFL acquisition:

The first is the DHFL acquisition. This acquisition, I'm happy to state has been progressing well. Our resolution plan received the approval of NCLT in June-2021. Post the NCLT approval, a Monitoring Committee has been formed which includes members from the COC, the

Administrator and members from our Management team. As per the IBC law, the Monitoring Committee has a duration of 90 days from the NCLT approval to complete the acquisition. And we feel confident that we will achieve this. With the DHFL acquisition, our Retail AUM is expected to grow by 5x and we expect to become one of the top-5 HFCs in India.

(ii) Reduction in wholesale loan book:

The second part of our transition is the reduction in the wholesale book. As part of our strategy of transitioning our book from a largely wholesale to a well-diversified Financial Services business, we are consciously bringing down our wholesale book. Our wholesale book has come down by 27% from INR 51,400 crores in March-2019 to INR 38,000 crores in June-2021.

(iii) Organic retail loan book:

We are also building an organic retail engine – a technology-driven, multi-product retail lending platform. In 2020, we embarked on the journey of building this technology-led retail lending business, which is digital at its core and phygital at the customers' end. We are building this platform with next-gen technology capabilities, with AI and machine learning deeply woven into the fabric of the business. In November, last year, we launched our multi-product retail lending platform. And since then, the business witnessed a healthy traction. We also launched multiple retail lending products, thus expanding our product portfolio. And have formed partnerships with FinTech and Consumer tech firms. We have on boarded top-quality talent from large Indian banks and global tech giants to take the business forward. Most importantly, as part of our journey, we have incorporated learnings from the current environment to build a sound business model for the post-COVID world.

In fact, our new lending strategy of pivoting towards affordable and mass affluent categories in Tier-2 and Tier-3 cities has made our retail book more granular. The average sanction ticket size in retail for secured lending products has declined from INR 75 lakhs to INR 20 lakhs. The end-to-end digital unsecured lending now contributes 6% of new origination by value and 75% of new customers originated into the Piramal Retail franchise. All these initiatives will result in significant change in our loan book, with the share of retail lending, moving closer to 50% in the near term.

(c) Phase-3: Sustainable growth and profitability

The Phase-3 of our journey is to have sustainable growth and profitability.

(i) Integration of DHFL:

First of all, in this Phase-3, is the integration of DHFL and leveraging its vast network to grow the multi-product retail lending business in the future. With the DHFL acquisition, we would have access to a vast network of 300+ branches, with majority of them being in Tier-2/3 cities with ~4,900 employees, and a sizeable customer base of ~1 million.

Our teams will be working towards integrating our existing multi-product retail lending platform with DHFL's network during the year.

We aim to leverage DHFL's platform to cross-sell multiple retail products offered as part of our digital platform, thereby, ensuring the continued future growth in the business. This would help us gradually increase scale in retail lending, while addressing the diverse financing needs of the growing 'Bharat' market.

(ii) Sustained profitability:

We now move towards the profitability in this next phase. We aim to deliver measured growth and profitability in the long run, while maintaining our focus on risk management, asset quality, capital adequacy, our technology infrastructure and customer experience.

The key factors that are expected to boost profitability in the near term, post the DHFL transaction, include an immediate decline in the cost of borrowing post the completion of the DHFL transaction, as this transaction will be partly funded by NCDs worth INR 19,550 crores at 6.75%.

Post the completion of the DHFL transaction, the leverage of our Financial Services business will increase from 1.6x as of June this year to 2.5x. Further, with the growth in the retail loan book, the leverage could increase to 3.5x in the near-to-medium term.

Increased loan book diversification (with about 50% retail in the near term) and growth will potentially be leading to lower borrowing costs in the coming year.

Our change in product mix, with the expansion of the product portfolio and through differentiated higher-yielding products, we expect profitability of the retail lending business to improve in the medium term.

Asset Quality:

Now, I want to comment on asset quality. The GNPAs remained stable QoQ, with no major slippages, despite the headwinds from the 2nd COVID wave and in absolute terms remained stable. Our wholesale book declined during the quarter, as I said, in-line with a stated strategy, resulting in a marginal increase in the GNPA ratio. Also, we did not see any material slippages or write-offs in the first quarter, despite the challenging business environment.

The key factors that have resulted in the asset quality remaining stable this quarter are:

(i) Wholesale Portfolio:

First of all, in wholesale loans, the real estate sector saw a revival of demand in the second half of last year. However, in the first quarter of the current year, the real estate sector has been impacted by the 2nd wave of COVID in April and May.

Performance of our developer clients in the Q1 FY22:

- Sales declined QoQ in line with industry. While sales dropped in April and May owing to the lockdown, they have seen an improving sales trends in June and July.
- Our developers' collections from homebuyers, saw no major impact despite a quarter-on-quarter decline in sales. Collections at 85% to 90% of average of the past two quarters were there, primarily because of the strong sales in the H2 FY21.
- The construction activity and availability of labor too were not materially impacted, and we are now close to pre-COVID levels.

However, given a potential risk of a 3rd wave of COVID-19, we continue to remain vigilant across our portfolio and maintain conservative provisioning to take care of any contingencies arising in the future.

(ii) Retail Loans:

On the retail loans, the collection efficiency saw some impact due to the partial lockdown imposed in the 2nd wave in June 2021, it has bounced back to 96%, that is nearly back to December-2020 levels. In July of this year, collection efficiency further improved to 98% and bounce rates have normalized as well.

(iii) Retail loans at DHFL:

The collection efficiency at DHFL, which saw some impact in April and May, has also seen a healthy pickup in the month of June. In fact, the DHFL retail portfolio is performing broadly in-line with our expectations.

Our near-term focus is to:

- First, effectively integrate DHFL with our Financial Services organization.
- Ensure that the collections and asset quality of the combined entity remain healthy.
- Generate synergies by cross-selling our innovative products, leveraging DHFL's platform.

Pharma:

Our Pharma business delivered robust performance during the quarter. The business registered a 31% revenue growth during the quarter, delivering revenues of INR 1,360 crores and the Pharma business contributed 47% of PEL's top line for the first quarter. This performance indicates the strength of our business model in a challenging business environment.

Our EBITDA at INR 170 crores was up 56% compared to the same period last year. Fundamentally, in our Pharma business, we observe seasonality in the EBITDA margin performance every year. A careful look at the trend over the last few years indicates that margins generally improve as the year progresses. The first quarter margins are broadly in-line with that trajectory, in fact it improved over the last year.

Coming to each of the businesses in the Pharma space:

(i) CDMO:

Our CDMO business grew by 17% during the quarter, we are witnessing a strong growth in the development order book driven by robust demand of sterile fill-finish in North America and strong demand for our API services across all geographies. We completed the acquisition of Hemmo Pharma, a peptide API manufacturer, during this quarter. We are carrying significant capacity expansion projects across multiple sites. Our integrated projects order book increased 8x from FY17 and our patent development programs saw a 3x increase in the number of phase-3 molecules from 10 in FY17 to 30 in the current year.

(ii) Complex Hospital Generics:

Coming to our Complex Hospital Generics business, which largely recovered from the COVID impact and grew 43% during the quarter. We have grown or maintained our market share in most markets and products. We saw strong sales of Sevoflurane, as demand recovered in the US and expansion of key products in Europe and East Asia.

(iii) India Consumer Healthcare:

The revenue of the India Consumer Healthcare business grew by 73% year-on-year during the first quarter, despite a challenging environment. The performance was also helped by a strong growth in the COVID Care portfolio.

We have witnessed a 40% year-on-year growth over the last 12 months driven by our strategic initiatives. We have navigated the pandemic with agility. We have reinvested our profits for future business growth. We launched 20 new products since March-2020. We are now able to sell our products across 22 e-commerce platforms and are continuously investing in brand building through brand ambassadors for our key products.

Each of our businesses in the Pharma space has a compelling plan for their growth. We expect to grow by around 20% in the current year. We have delivered at 22% EBITDA Margin for FY21 and we expect to deliver a similar margin for the full year. Additionally, we plan to do a few more acquisitions in the next two to three years.

Concluding remarks:

I would say, in conclusion, our performance over the last two quarters reflects the resilience and the significant efforts made toward building a solid foundation for our long-term success. We remain cautiously optimistic for FY22 and are in a stronger position to tab growth opportunities across both our businesses.

I am confident that both businesses will emerge as two strong companies with a good runway for growth in the long term. 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 Sir, for the resilient asset quality and the good quarter as well. So, two quick questions. The way we have highlighted in terms of our net debt-to-equity post DHFL transaction going up to 2.5x from 1.6x. So, that indicates in terms of maybe the net assets getting added INR 16,000-odd crores. If you can just highlight maybe what is the kind of the retail plus wholesale mix and what is the kind of markdown, which we are taking and ideally what could be the structure which we can see that now most of the approvals are in place. So, that's the first question.

Rajesh Laddha: Good evening. So, answering about the net debt-to-equity, we will be adding about INR 19,500-odd crore of debt for the DHFL transaction. So, that debt will get added to the overall debt and therefore, our leverage will increase from roughly about 1.6x to close to about 2.5x. As far as, the retail and the wholesale mix, etc. and the DHFL book is concerned, we will be doing the purchase price allocation now, based on our total consideration of INR 33,500-odd crores. At that point in time we'll be able to share the exact numbers, in terms of how we are going to allocate to the retail book and wholesale book of DHFL. Also, you wanted to know about the process, you said.

Kunal Shah: Yes, in terms of the structure. So, will it entirely, maybe wholesale plus retail will get merged with our entity or there are like different structures which we are evaluating?

Rajesh Laddha: No, the structure is already finalized. In fact, it is a part of the overall resolution plan. What we have proposed and what has been approved, both by COC and the regulator, including RBI, that Piramal Capital and Housing Finance Limited, which is our company right now, will be merging into DHFL. And therefore, by that merger process, DHFL will become 100% subsidiary of Piramal Enterprises Limited and the shares of DHFL will get delisted. And the existing NCDs also will get cancelled. And we will be issuing, basically PCHFL will be issuing INR 19,500-odd crore of NCDs to the existing lenders of DHFL. And of course, we'll change the name of DHFL. We will try and get Piramal Capital name back.

Kunal Shah: Sure, okay. And second, in terms of, if you can just highlight the asset quality, stage-3 has been very steady. But in terms of the restructuring, last time we said it was INR 1,700-odd crores any more restructuring or what is there in the pipeline. And the movement in the stage-2, did you see some stress building upon the stage two or it was maybe as stable as stage three?

Khushru Jijina: Basically, again there has not been any significant movement in this quarter. As we have been sharing with you all from the time this first COVID has come, we have been doing the stress testing. Again, if you see, there were two hotel deals which moved to stage-2, again there I want to qualify that the value of that asset remains, it is just that we wanted to move because we saw some stress in that portfolio, but the value of that asset remains. So, we just moved it to stage-2 and actually, there was a very small deal, which we moved to Stage-3. Again, I can confirm that the value of that will be fully recovered. So, there's not going to be any worry on that.

Kunal Shah: And restructuring?

Kunal Shah: Any additional pipeline or something which we will look forward?

Khushru Jijina: No.

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

Alpesh: Congrats on the good set of numbers. Sir, first question is just an extension to Kunal's question. We would be acquiring assets of roughly INR 60,000 crores and paying around INR 33,000 crores. So, how the difference would be recorded at the time of merger around INR 27,000 crores?

Rajesh Laddha: So, currently whatever is the book value of DHFL, we will be restating those values in our books, on the books of PCHFL, based on the fair valuation of all the assets of DHFL. That will include the retail, wholesale and everything else. We are not going to record it at INR 60,000 or 70,000 crores, whatever is the carrying value of those assets in DHFL's book. We will be doing purchase price allocation to these assets, based on the fair valuation or realizable value of these assets into our books.

Alpesh: Okay, so is it fair to assume there would be a decent amount of capital reserve that could be created because of this transaction?

Rajesh Laddha: There will not be capital reserve, but there would be some amount of provision which will come. So, that's the outcome which is going to be based on the purchase price allocation as I said.

Alpesh: Okay, and are we going to enjoy the tax benefit on the losses which DHFL has recorded in the past?

Rajesh Laddha: DHFL has recorded very insignificant – they have not recorded tax losses in their books right now. But whatever markdown we are going to do, we will get those tax losses. How recording, etc. will be done – we are still working on those numbers. But yes, as we markdown the numbers, those losses will be available to PCHFL.

Hitesh Dhaddha: So, Alpesh we will be able to give you more understanding in detail once we announce the transaction, upon the completion of this whole thing – the entire process. So, that time we will be able to give you more clarity on some of these things.

Alpesh: Got it, Hitesh. The other question, on slide number #16 where we show that the wholesale book declined by around 27% from March-2019, there is a footnote over there that it does not include the assets taken over or the AIF outstanding of around INR 4,400 crores. So, how this entire thing works, in the sense, this entire INR 4,400 crore is our share of the total amount of assets which have been transferred to AIF. How does it work?

Khushru Jijina: Less than 50% is ours.

Alpesh: So, around INR 8,000 crores. So, out of this INR 51,500 crores and the difference, which is around INR 14,000-15,000 crores, INR 8,800 is transferred to AIF. And there would be certain assets, as last quarter we talked about it, around INR 1,300-1,400 crores related to the Omkar exposure and INR 5,000 crore would be the proper repayment that would have come, is my understanding correct?

Rajesh Laddha: Alpesh, I can take that quickly and we can confirm the exact numbers to you. But this includes our 50% share in AIF, which we stated with Apollo. This also includes the Majas transaction which we explained to you, to you all, during the March results. So, it's a combination of these two, but our share in AIF is 50%.

Alpesh: Okay. And last question, related to this FinTech partnerships or the Consumer Tech partnerships. Are all these partnerships exclusive to us, and if not, then what are the terms that and what ensures that we get the first right of refusal for the loans which have been originated by those FinTechs, or the Consumer Tech companies.

Jairam Sridharan: No, Alpesh. These are not exclusive partnerships. There are no exclusive partnerships right now in the FinTech world. And the way to actually think about this, there are going to be a few different lenders on the platform. Each lender is going to have a set of products available and a set of tech linkages, or APIs that are set up. The APIs that work the best or that give the most seamless digital experience are the ones that will end up getting a lot of the business. You have to assume that you are doing your diligence from a modeling perspective and at a critical management perspective at your side. In general, there is a lot of infrastructure that is put in place to make sure that there is no cherry picking of assets, not just stock, but every bank in the deal is going to be making sure that there is no cherry picking of assets. So, cherry picking is very, very rare and that's not something that one should worry a lot about. What one should worry about is, are you able to give the best and most seamless integration to the customer, because that's when the first round of leads will actually come through to you rather than the leftover leads.

Alpesh: Okay, and Jairam for consumer you are the face right, consumer it is the Piramal Enterprises?

Jairam Sridharan: It's both Alpesh, it's both the lender as well as the FinTech party. So, the consumer can download my app and actually see everything, that said, the consumer can see some of the details on the customer facing app as well. So, it's both. The customer signs, of course, the agreement just with us, and all the loan information, etc. and the loan pages, will all be branded Piramal, but they can actually access this particular loan details, usually, on the FinTech's platform as well.

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

Tushar Manudhane: Just on the Pharma side, for the quarter how much the Hemmo Pharma would have added any ballpark number you would like to share?

Vivek Valsaraj: So, the Hemmo Pharma transaction closed on 22nd of June. For the quarter the revenue is just INR 5 crore. So, it's insignificant overall from the quarter's performance.

Tushar Manudhane: And accordingly, also, if you could just extend it for the outlook for this Hemmo Pharma in terms of integration with Piramal?

Vivek Valsaraj: So, the integration activities right now have commenced and the management teams are working with Hemmo's Management for execution of the plan for the current financial year. And in due course of time, we could also be merging Hemmo as a legal entity with Piramal Pharma. Our business development teams have already commenced, selling our Peptide capabilities, both from a contract manufacturing side, as well as from a generic API side to all our existing customers.

Tushar Manudhane: And just secondly would like to understand the seasonality nature for CDMO business?

Vivek Valsaraj: So, historically, we have seen that a lot of our contract manufacturing customers, they do tend to have higher offtake in the second half of the year, which is after September, is typically when they have a lot of requirement for commercial volumes. And that's the reason why you see that a lot of sales and therefore, higher quantum of margin happens in the second half of the year.

And this you will observe for last as many years, if you pick up the results of Pharma business, you will see that, that kind of cyclical trend is noticed.

Tushar Manudhane: Just lastly, on the two orders which we have won are more than USD 10 million, this would be spread over what period?

Vivek Valsaraj: So, the one which is there in Lexington would be delivered within this fiscal year and the second which we have won for our Digwal facility, to a significant extent would be delivered within this fiscal year and the balance would move to the next fiscal year. Of course, this depends upon other operational aspects also, but we do expect a split to happen between current year and next year – 50:50.

Tushar Manudhane: Good. And just lastly, while the margin guidance is given, would it be possible to share the overall revenue outlook as well for FY22?

Vivek Valsaraj: So, we have already guided that our revenue growth will be in excess of 20%. We've already guided that.

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

Abhijit Tibrewal: If I hear all the discussion on DHFL, will it be fair to say that at this point in time maybe we are not in a position to disclose the net accretion which will be there in the loan book?

Rajesh Laddha: Net accretion to the overall loan book will be to the extent of about, close to about INR 30,000 crores. But as I said, the allocation is yet pending, which we had to do for different set of assets, which DHFL has, including the insurance stake, etc. So, the allocation part is still pending, it will be INR 30,000-32,000 crores, net accretion of total assets.

Abhijit Tibrewal: Sure, that is helpful. The second question that I had is, because Mr. Chairman also said that after this acquisition, maybe it will become among the top five HFCs in the country. So, with this transaction, I'm not sure if you will be getting that deposit license that DHFL has. So maybe we will have to apply for a deposit license separately now, any thoughts around that?

Rajesh Laddha: As we speak, deposit taking license still continues with DHFL. It just that RBI has told them not to accept any deposits. We still believe, or we still hope that we will get it. What we have been told is that we have to go back to RBI after the process is completed. So, we are still hopeful, but let's see.

Abhijit Tibrewal: Sure. And the last question that I had is, because we've been guiding investors that we will be looking at a separate listing of Financial Services and Pharma business, I was trying to understand, what the structure of the listed financial entity could be like, because a large part of your DHFL loan book will come and sit in PCHFL, which is obviously the reverse merger into

DHFL. And then you will also have this multi-asset platform and I'm guessing you'll want to kind of park all the other products, which are non-HFC related in your NBFC. So, when it eventually gets listed, how will it work, will the HFC get listed and we will have a NBFC subsidiary, which will house your multi-product platform products or how will it work?

Rajesh Laddha: So, first thing first, Pharma demerger is the simplest one, because that's a straight vertical demerger. After that what will be left with is Piramal Enterprises Limited, which is the listco. And underneath that, we will have FinInvest, which is an NBFC as you rightly pointed out, then we will have this merged DHFL/PCHFL, which is an HFC. We are still figuring out as to what will be the best structure from a regulatory standpoint, because there are regulatory requirements, which an HFC needs to fulfill in terms of retail mortgages, in terms of overall real estate lending, etc. So, we are still figuring out, as to whether it makes sense to have NBFC, HFC separately, whether to merge those, etc. But, I think we are on the drawing board. As Hitesh mentioned, once this merger is completed with DHFL, we will then come back and probably announce as to what is the structure we are going to follow. So, this will happen in two parts, Pharma as I said is a simple one, but this part which is more dominated by regulations, we have to find a right choice and right answer at this stage.

Hitesh Dhaddha: I would just like to add one sentence, that in all of this, interests of minority shareholders will definitely be taken care well and protected.

Abhijit Tibrewal: Sure, that was useful. And just one last question to Jairam maybe, if you could remind us of what are the new products that you're planning to introduce in FY22 and if there are any thoughts at all around how do you plan to cross-sell some of your organic retail products to DHFL customers. Thanks that will be all from my side.

Jairam Sridharan: Yes, Abhijit absolutely. Let me take a second question first. Yes, 100%, we plan to cross-sell the rest of our retail products to DHFL customers. In fact, it would be our intention that the cross-sell should start pretty much in the very first quarter post the integration. So, we are making all the plans towards that. We are coming up with both the technology, as well as the cross-sell propensity models, etc. So, I'm fairly confident that we will be ready to start cross-selling some of our products, particularly on the unsecured, shorter duration side, to the DHFL base pretty much in Q1, post integration. Now, in terms of what is our sort of product mix that we are sort of thinking about. Needless to say, the moment the integration gets completed, our retail business will become very heavily home loans-dominated. So, let's say about 80% will be residential home loans, about 10%-15% will be loan against property and some other sort of property-backed lending. And there'll be a little bit of other stuff.

In general, our belief is that going forward, we want to still retain, or in the foreseeable future given the size of the DHFL transaction, you will probably still see secured businesses, whether it is housing or LAP or small business lending or used-car financing, etc. All of that put together will be roughly about 80%. And some of the end-to-end digital unsecured lending stuff will probably be around 20% of our book, is probably where we are headed.

In terms of specific product categories, used-car financing is our most recent product category, which we launched last quarter. We are putting a lot of focus in that. We have got now two platform tie-ups there and we are tying up with two more. And then we're also starting to do on-field, physical tie-ups with dealerships. So, that's an area we're putting a lot of focus on. We're also keenly evaluating the two-wheeler financing and education financing space, where we believe there are a lot of opportunities. So, we will see how that goes, we've not made up our mind whether we are going to launch them yet. We might do a few pilots, but those are areas we are evaluating very, very closely right now.

Moderator: Thank you. The next question is from the line of Vinod Jain from Wells Fargo Advisors. Please go ahead.

Vinod Jain: Congratulations, on the resilient set of numbers. My question is related to the net interest margins, the NIM for the financial year 2021 was 5.6% but has gone down to 4.5% in Q1 FY22. What is the view going forward on the NIMs?

Rajesh Laddha: So, let me start by saying that as a strategy, we have said that we are following a strategy where we are saying that we will be reducing our wholesale book. If you compare, first point, the yields and the margins vis-à-vis March quarter, then you will find that we are almost at the same level of slightly better than March quarter. As we are reducing our wholesale book. So, the mix of the book is changing, as the structured deals are going away, which were at high yields earlier. And the fresh disbursements which are happening, are happening on a very minor scale, but they're happening for construction finance and much more stronger deals, so to say. So, that's where you will find that the yields have come down. But, vis-à-vis last quarter, which was March-2021, now they stable. So, if you compare with June, where from that quarter on the book has come down and so have the yields, but if you look at the March last quarter they are stable or slightly better than March quarter.

Khushru Jijina: I'll just add to what Rajesh said. We have consistently been saying about this strategy that the wholesale book will come down, the single-borrower exposure will come down, which we are achieving quarter-on-quarter. Also, to add to what Rajesh said, we have been also consistently quarter-on-quarter saying one thing that we are collecting a lot of money and we are also using it to complete our other projects, because in real estate you need to complete the projects. So, as our portfolio becomes more and more mature, the interest rates will come down – which is actually a good thing, because ultimately the portfolio becomes far more safer.

Vinod Jain: So, the view is that going forward, the NIMs will be maintained?

Khushru Jijina: Yes, more or less it will be maintained yes. As of now, yes.

Vinod Jain: My second question is related to the ROE, what can be expected, can it reach double digit in FY22-23?

Rajesh Laddha: So, you must appreciate that the last two years' focus has been around balance sheet strengthening and preserving cash. And all, what we have said, has been done in last two years, in terms of balance sheet numbers and ALM, etc. As far as ROEs are concerned if you see even this quarter, and it took us a little while, but if you see the cost of borrowings are now coming down. This quarter, the cost of borrowing has come down from 10.8% for the whole year last year to about 10.1%. As soon as DHFL happens, and they are going to issue this ~INR 20,000 crore of liability to existing lenders of DHFL, our overall cost of borrowings will drop to about 9.2%- 9.3%, immediately.

To add to that, the incremental borrowing what we are doing currently, is in the range of 8.50-8.75% levels, even on PCHFL balance sheet. And we will be going for, or we will be pitching very strongly for our ratings upgrade, because our concentration between retail and wholesale would become 50:50. So, the minute we get our ratings upgrade, another 50-60 bps, or on a conservative side even 50 bps, will get applied to the entire borrowing. So, it will come down from that level onwards, but that's like six months away. So it is coming down and that's going to make a major impact on ROEs.

Number two, as our debt-to-equity improves, and Mr. Piramal also said that immediately with the DHFL merger it is going to move from 1.6x to 2.5x. And as our book grows, that's going to get funded through debt. And therefore, the debt-to-equity will move from 2.5x to 3.5x, in say 12-15 months' time.

Our product mix also is going to change, as Jairam was mentioning, that is going to improve our rates in terms of retail lending towards the products, which are going to get higher yields. So, a mix of all these three, we anticipate that ROEs will from this level, should be definitely double-digit in the near future.

Moderator: Thank you. Next question is from the line of Prakash Agarwal from Axis Capital Limited. Please go ahead.

Prakash Agarwal: My question is on the growth guidance for the Pharma business. So, we grew about 31% for the quarter. And we also would have Hemmo, full consolidation of the acquisition. We are talking about some acquisitions over the year and years after. So, are we talking about 10-12% growth for the remaining nine months. If it works out to be around 10% kind of growth?

Vivek Valsaraj: So, considering the full impact of the existing acquisition, then that accounts for about 5-6% of the total growth that we are talking about.

Prakash Agarwal: Yes, some growth from any future acquisition and Hemmo acquisition, and the fact that you already done 31%.

Vivek Valsaraj: Our growth guidance does not include any future acquisitions. It is only based on what businesses we have in hand right now.

Prakash Agarwal: Yes, so even if we take just Hemmo and 31% for the quarter Q1, for the remaining nine months are we being too conservative?

Hitesh Dhaddha: So, Prakash we would rather be keen to beat the guidance, than be very close to the margin or something like that.

Prakash Agarwal: Okay. So, I was just thinking if there is any competition in any product?

Hitesh Dhaddha: No, as a policy, our Company would tend to give conservative guidance and perform better than the guidance that we generally give. So that's the policy that we generally try to follow.

Prakash Agarwal: Okay. And second observation was on the margin trajectory. So, as you mentioned, and shown in the presentation also, it picks up given the seasonality. So, seasonality is more so in which business. Is it only the CDMO, or you have this Complex Hospital Generics business, in that also. And I understand the share is already high in these two businesses. So, it's got to do with operating leverage. So, the top line is also higher, so I am just trying to connect the dots?

Vivek Valsaraj: So, the seasonality is primarily in our contract manufacturing business. Though, if you look at the other two businesses also, you will see that generally the sales towards the second half, so it's a typical overall at the pharma level, about 45% comes in the first half and about 55% comes in the second half. From an operating margin perspective, you will also see that it's about 35% in the first half and 65% in the second half, but those primarily driven by the contract manufacturing business.

Moderator: Thank you. The next question is from the line of Tejas Parekh from Citi. Please go ahead.

Tejas Parekh: So, post DHFL integration, your branch network will reach to close to 300. So, if you could provide some color on your branch expansion strategy. And the second question would be, if you could provide us the current restructured book, where does it stand?

Jairam Sridharan: On the branches, yes we will start with about 300-odd branches of DHFL plus our existing branches, and we have stated this a couple of quarters ago as well and I will restate, that our intention is the next sort of 3-4 years, we want to be present in about a 1,000 centers in the country. So, you will see us expanding on that. Now the 1,000 centers might not necessarily need a 1,000 branches, it is going to be a little bit less than that. But you are looking at a significant expansion of the branches we have, post DHFL over the next three, four years.

Tejas Parekh: But it would mostly be concentrated in the Tier-1 and Tier-2 cities?

Jairam Sridharan: No, Tier-2, Tier-3 and Tier-4 city, Tejas. Tier-1, we will likely not be doing a whole lot.

Tejas Parekh: Okay.

Khushru Jijina: Let me take the second question on restructuring. In fact, I forgot to mention to Kunal Shah also, this question which he had asked. Last year, we had actually taken four accounts in restructuring. As we speak today, ultimately we only did two accounts – one in real estate, which is around INR158 crores, and the other is Mytrah Energy, where all the lenders did the restructuring. To tell you what is happening on the ground. The real estate project actually has started once again. And we will be actually finishing the project in December-2021 itself. Coming to Mytrah Energy, we had said this last quarter also, that we were getting ready to put this asset and company up for sale. Because with the interest in renewable energy again today worldwide, this is one of the few assets now in India, which gives a real good scale for somebody to take over. So, that exercise is already started. In fact, we should be receiving before the end of September the non-binding bids. As of today, more than 15 top renewable companies have signed the NDAs for looking at this company. This is a status of those two restructured accounts.

Tejas Parekh: So, Sir, one you said was INR 158 crores and the other one, the Mytrah Energy?

Khushru Jijina: INR 1,062 Crores. And both are active accounts, they are not NPAs.

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

Bharat Sheth: Congratulations, Mr. Piramal and the Piramal team. Sir, my question, first is on the pharma side. Hemmo's margin, which we acquired in June-2021, is it better than the overall whole Pharma business?

Vivek Valsaraj: Yes, so the overall margin profile of Hemmo is higher than what is for the rest of the Pharma business. For this quarter, Hemmo is insignificant in terms of overall financials, as I mentioned, it's just INR 5 crores in terms of sales.

Bharat Sheth: I understand, but going ahead we are also maintaining a margin the same as FY21 level – when our Generics business, which is a higher margin, were lower. So, with growing all these two businesses, don't we think, is it not fair to understand that margins may go up?

Vivek Valsaraj: So, there are two things, one of course is, Hemmo currently constitutes less than 5% of the total sales of our Pharma business. Secondly, the growth in the margins in the quarters ahead is largely driven by enhanced sales that will come in, in the second half of the year. Also, we have already given the stated guidance that in our Consumer Products business, we would be significantly increasing our sales promotion, in the form of reinvesting the EBITDA, so that we can get higher exponential topline growth. So, to that extent, we will see erosion of margin, as far as Consumer Product business is concerned. So, that's why we have given the guidance of overall, maintaining margins, here at the same levels as it was in FY21.

Bharat Sheth: And second point, with a lot of new products coming in phase three, and which will start contributing over time. So, do we think that over a period, 2-3 years, this seasonality will not be much there?

Vivek Valsaraj: So, it is difficult to predict in terms of seasonality whether all of these phase three molecules eventually becoming commercial, ultimately seasonality is driven by the fact that when is the customer actually taking the product for manufacturing the end formulations that they are in and it depends upon their demand requirements. So, product moving commercial from phase three is not necessarily an indication of the seasonality going away.

Bharat Sheth: Okay. And is it fair understanding, to our previous participant's question, the split of the Company, where Pharma will be disintegrated and will be listed separately. So, a shareholder of Piramal will get the share of Pharma business, is that fair understanding?

Rajesh Laddha: Yes, the existing shareholders of Piramal Enterprises Limited will get the shares of Piramal Pharma Limited separately, incrementally.

Bharat Sheth: Okay. And now coming to this technology platform. So, one is that we are partnering and second, is it fair understanding that we are also building our own platform?

Jairam Sridharan: Yes, absolutely. That is the right understanding, we are building our own platform. In fact, we have built our own platform. We took 6-7 months last year, before we went live to actually build the platform. And as Chairman mentioned in his opening remarks, we have put together a very strong team of engineers, based out of Bangalore. So, we've got a full team in Bangalore, which does our own engineering. So, a lot of our software development we are doing in-house. And so, we have the intention to use that team to do all of our platform development. So, for example, in this quarter, we went live with our customer service app for our existing customers, existing Piramal customers, and that app went live and we were able to develop it ourselves within 90 days. So, it is something that, it's a technology product that we just created ourselves without any need to work with an external party or partner with anybody.

Bharat Sheth: So, is it fair understanding over a period, once our full app will be in a place, we may not go for a partnership and we'll leverage our whole business through our own app?

Jairam Sridharan: I'd say that there are different kinds of needs that are fulfilled by different partnerships. Each partner has their own customer access and distribution muscle. So, you do want to use some of their strengths as well. So, there will be something which we will just do ourselves, which will probably be the bulk of it, but there will be niches where you want to leverage the strengths of existing partners.

Bharat Sheth: So, in that scenario, how do we cross-sell to our customer on the partner platform and the same customer on our own app?

Jairam Sridharan: See, when we get into a partnership, we work out all the commercial arrangements with respect to customer ownership right up-front. Usually, the arrangement is that for the specific products that we are selling, let's say it's a short-duration, unsecured lending product that we are selling with a partner – for that particular product, if we want to cross sell again to that customer, we will probably go through the same partner's route. But for every other product, we are at full liberty, to go ahead and cross-sell to the customer on our platform.

Moderator: Thank you. The next question is from the line of Saket Mehrotra from Tusk Investments Limited. Please go ahead.

Saket Mehrotra: Jairam could you throw some light on the granularity of the retail book mix. And in terms of these FinTech partnerships that we have, say for the digital lending, just wanted to understand, how do the commercials work, do you get something which is upfront, and how are the risks sort of managed?

Jairam Sridharan: Sure. So, the granularity question first. Chairman referred to this as well in his opening remarks, that granularity has been increasing quite substantially ever since we started this sort of, this new-gen business. On our home loans business, our average ticket size has now fallen to about INR 20 lakhs – home loans, and small business all sort of put together, our average ticket size is now about 20 lakhs for new sanctions that we are doing, as opposed to the INR 75 lakh average ticket size, that we used to have in the previous generation of our business. So, in this post-COVID environment, the new business that we have launched, it's a INR 20 lakh average ticket size business on all of the secured side. As far as the partnerships-driven or direct to customer, digital unsecured is concerned, there our average ticket size is INR 17,000. So, it's a much, much smaller ticket size that we are doing. And obviously, it's a much shorter duration as well, anywhere from 6-12 months. So, that's the way we are looking at these at these two pockets.

Now, to your question of risk management in unsecured. If it is direct-to-customer, unsecured from our side, then it's pretty straightforward and you know how that works. So, I'm not going to repeat that. In a partnership driven model, what tends to happen is there is some partnership credit scorecards that are used, then we have our own credit scorecards that we overlay on top of that. And that combined thing is what is being used to actually underwrite the customer at the front end. Usually, in the initial stages of the partnership, and right now we are in initial stages with all partners – so, in practically all of these cases, there'll be some sort of an FLDG type arrangement, where initial losses are covered, through the partnership arrangement itself. Once we develop enough confidence in the pipeline that we are seeing through a partner, that's when we actually go past that and start taking the entire risk on our balance sheet.

Saket Mehrotra: Okay. And would you be in a position to sort of maybe tell us about the split between the products or is that too detailed?

Jairam Sridharan: Not right now, we can talk about it offline at some point of time.

Saket Mehrotra: Okay. I have a question on the Pharmaceutical business. We have sold our business to Abbott a while back. We've spoken about the priority of re-entering the domestic formulations business. So, the question is, do we have any pipeline for doing some sort of inorganic acquisition or are we doing it in-house? And is there any non-compete that we have with Abbott?

Rajesh Laddha: So, last thing first, the non-compete which was there has got over in 2018. We are free to go back in domestic market. We keep looking at opportunities, as far as inorganic opportunities are concerned, at the right time, at the right valuation, etc. – we will decide. But pipeline is there, we keep evaluating these opportunities.

Moderator: Thank you very much. The next question is from the line of Anand Shah from Jayant Anand Securities. Please go ahead.

Anand Shah: Sir, I have just one question pertaining to DHFL. As per the approved resolution plan, the Company has committed to infuse equity of INR 3,800 crores in DHFL within one year. How the Company plans to infuse this amount of INR 3,800 crores, if you can throw light on that?

Rajesh Laddha: So, as it is, when we are acquiring DHFL we are supposed to be paying INR 14,700 crores of cash consideration, out of INR 34,200 crores and out of INR 14,700 crore the cash available on DHFL's balance sheet will be about INR 10,000-10,500 crore. So, as a matter of fact, we will be paying from PCHFL balance sheet, close to about INR 4,000 crores, on day one itself.

Anand Shah: Yes, so Sir, this would be the equity capital infusion that would happen?

Rajesh Laddha: While it's written that we will be infusing equity, but from a structuring standpoint it doesn't have to necessarily go in as equity. Because on balance sheet we already have enough net worth. So, it will not go as equity, it will go as infusion.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraint that will be the last question for today. I will now hand the conference over to Mr. Hitesh Dhaddha for closing comments.

Hitesh Dhaddha: Thanks, everyone. If you have more questions, please feel free to reach out to IR. Thank you.