

18<sup>th</sup> February, 2022

**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 7<sup>th</sup> February, 2022 whereby we had given the advance intimation of Conference Call with Investors/Analysts, enclosed please find the transcript of the Conference Call held on 10<sup>th</sup> February, 2022 to discuss the Q3 & 9M 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**  
**Company Secretary**

Encl.: a/a

**Piramal Enterprises Limited**

CIN : L24110MH1947PLC005719

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# “Piramal Enterprises Limited Q3 and 9M FY22 Results Earnings Conference Call”

**February 10, 2022**



**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 LIMITED**

**MR. VIVEK VALSARAJ - CFO, PIRAMAL ENTERPRISES  
LIMITED**

**MR. HITESH DHADDHA - CHIEF INVESTOR RELATIONS  
OFFICER, PIRAMAL ENTERPRISES LIMITED**

**Hitesh Dhaddha:**

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 Q3 and 9M FY22 results.

Our results materials have been uploaded on our website and you may like to download 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 - 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 and 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. I hope you are all safe and in good health.

This quarter, we have delivered a strong performance. The revenues grew by 20% year-on-year to Rs. 3,816 crores, driven by solid performance across both businesses. Financial Services gross income has grown 25% and Pharma revenues were up 15%. Despite the ongoing transformation within Financial Services, the Q3 normalized net profit grew by 14% to Rs. 888 crores.

### **Demerger**

I just would like to give you an update on the demerger announcement that we had done last quarter. This was approved by the Board as you are aware in October last year.

This demerger is expected to simplify the corporate structure with two separate pure-play entities, enabling better understanding by the investor and analyst community, resulting in the right value discovery for both businesses.

We expect to complete this demerger in Q3 of FY23, subject to various required approvals.

### **Financial Services**

Another significant development in the last quarter has been the approval of the merger of DHFL and our Financial Services business. This has been a very value accretive acquisition for us and it has enabled us to achieve significant growth. It has materially given a further impetus to our business ambitions and targets.

- The overall loan book grew by 31% year-on-year to ~Rs. 60,600 crores and our retail AUM grew four times year-on-year to AUM of ~Rs. 21,500 crores.

- The share of the retail AUM has also increased – the retail share has gone up to 36% from 12% as of March-2021.
- Besides that, we have now got the scale. We have significantly increased our presence with 1 million life-to-date customers and 301 branches, across 24 states and union territories.
- Also, this acquisition creates granularity for us to become one of the leading housing finance companies in India, which is focused on affordable financing with an average ticket size of Rs. 16 lakhs.
- This acquisition has been value accretive from Day-1 of the acquisition itself.
  - Yield on the DHFL book is over 11% and the cost of borrowing is nearly 7%, 300 basis points lower than the average cost of our borrowings prior to this acquisition, creating a healthy spread of nearly 4%.
  - Since the loans have already been sourced, all operating costs have been incurred to build this book.
  - The potential upside is from recoveries and additionally, we have got an off-balance sheet securitized pool of ~Rs. 20,000 crores, generating a fee of ~1.6% per annum.
  - All this growth has been achieved without infusing any additional equity.

**Integration Progress:**

During the last quarter, we had started the integration process and made significant progress.

- We have retained the 3,000+ employees which were there in DHFL. We have now added, in the last four months, another 2,000 employees.
- The new loan originations have now restarted at most of the DHFL branches.
- Customer facing digital assets are fully integrated, and a large-scale IT asset upgrade program is underway.

**Retail Lending:**

In retail lending, we have now adopted a two-engine strategy, which would drive scale and growth.

- **Engine#1:** The first engine is ‘phygital, secured lending’ with a dominant position in affordable housing, mass affluent housing and MSME loans, which contributes over 90% of the retail AUM.
- **Engine#2:** The second engine is of embedded finance that will include small ticket and short duration loans, such as personal loans, purchase finance, merchant BNPL, etc., originated through digital channel and partnerships. This acts as a customer acquisition engine, adding over 90% of the new customers.
- So, whereas the first engine does the growth in AUM, the second will be significant for growth in new customers.

**Partnerships:** In line with our new strategy, we continue to scale up partnerships with FinTech and Consumer Tech firms to acquire customers at scale, at a low acquisition cost. We are today, live with 10 partnerships in several segments.

**Disbursements:** Through the activation of multiple branches and customer acquisition, under the twin-engine strategy, our disbursements grew 5x year on year to Rs. 739 crores.

**Yields:** An improving mix of disbursements, towards both secured and digital loans, enabled us to improve our disbursement yields to 12% in Q3, versus 11.3% in Q1.

**Investing:** You will see in the next few years, we continue to focus on capacity-building and investing for the future.

- We have assembled a best-in-class leadership team over the last few quarters, across various businesses.
- We target to have a presence across 1,000 locations
- Rolled-out 2,000+ job offers post the DHFL acquisition in September-2021
- We have made significant investment in technology and analytics hires. We hired ~200 people in the technology and analytics team.
- We have set-up a Digital Centre for Excellence in Bangalore.

All these initiatives should enable us to significantly increase the disbursements in the next 12 to 15 months.

#### **Wholesale Lending:**

The real estate sector is picking up well and credit offtake by corporate seems to be improving, with a capex push from the Government.

Significant consolidation has happened across NBFCs in wholesale lending and developer financing business. We are among one of these few NBFCs that have continued to remain strong even after this prolonged crisis environment.

We aim to cater to large addressable market. We will soon start executing new deals in our wholesale business.

Our new approach to wholesale lending will be more calibrated, as we will give smaller loans and make the loan book more granular and diversified. In future, we will focus on cashflow-backed lending and high-yield loans will be done under the fund structures.

**Asset Quality and Provisioning:**

Overall the FS business' asset quality has stood the test of time. GNPA stood at 3.3%, marginally up QoQ, due to some impact of the RBI circular on NPA classification and slippage of one account from Stage-II to Stage-III in our wholesale book.

Our provisioning remained conservative at 4% of AUM, at Rs. 2,655 crores. We believe this provision should be adequate to meet any future contingencies.

**Closing Remarks – Financial Services:**

In summary, as far as Financial Services is concerned, I would like to point out to you that as a Company we have grown organically, as well as inorganically. And we have done this throughout our history, we have done more than 50 acquisitions so far, and almost all were successful. We will continue to look for M&A to boost our growth post the DHFL integration.

With debt/equity of the Financial Services business at 2.5 times and near term monetizable investments in Shriram, etc. the Company has significant firepower to continue to carry out value accretive acquisitions, as well as organic growth in the future, without needing to raise any additional equity.

As I said before, we plan to increase the share of retail loans to two-thirds in the medium-to-long term. We remain committed to create a scalable Financial Services business, to deliver sustainable growth and profitability for the long term.

**Pharma Business**

Coming to our Pharma business, our Pharma business delivered an 18% revenue growth, delivering revenues of ~Rs. 4500 crores during the nine months. The business delivered a 16% EBITDA margin for 9 months, and 22% for the Quarter 3 of FY22. Our Q4 performance is likely to partly offset margins in H1. We witnessed some execution related challenges, related to logistics, rising input prices and availability of raw materials and manpower.

**CDMO:**

The CDMO business revenues grew by 10% during the nine-month period. Apart from the execution and supply chain related challenges, deferral of few orders by customers to the last quarter of this year impacted the growth during this quarter.

We have over 500 clients, of which we have added 175 new customers since FY20. This has enabled us to witness a healthy order book for our development services business growing 32% year-on-year during the 9MFY22.

Our commercial CMO and Generics API which contributes to nearly 64% of CDMO revenues is sticky in nature. We continue to witness growth in commercial products on patent and Phase-III molecules. Business had started integrated offering since FY18 and now has a track record of delivering 125 integrated projects. There has been an 8x increase in integrated projects since FY17 with 40% of the order book now from integrated projects.

In addition, we are strategically shifting our CDMO business model towards our top clients in developed markets with focus on niche capabilities.

- This gets reflected from the fact that 76% of our revenues are coming from regulated market.
- Revenues from the Top 20 clients have grown at a CAGR of 26% over the last two years.
- Our niche capabilities now contribute 22% of our CDMO revenue in 9M FY22.

This shift will enable us to improve our CDMO top-line and bottom line performance in the medium to the long term.

**Investments:** During the quarter we acquired minority stake of 28% in Yapan Bio broadening our services in the biologics space. To meet increasing demand, we are carrying out capacity expansions worth a \$130 million across multiple sites.

#### **Complex Hospital Generics:**

Complex Hospital Generics business, which is the second business in our Pharma, grew by 25% during the first nine months of FY22. Revenues during this quarter (Q3FY22) grew by 23%. We witnessed strong sales of Sevoflurane in U.S. with continued growth in the Sevoflurane market share. However, volatility due to COVID remains across different regions. We maintained U.S. market share in the Intrathecal portfolio and continue to expand Gablofen presence in Europe.

We are witnessing some supply chain related constraints due to longer lead times, rising input prices and higher logistics costs. We have a strong new product pipeline consisting of 30+ SKUs at various stages of development and approval.

#### **India Consumer Healthcare:**

Now, coming to the India Consumer Healthcare market, this continues to deliver robust performance with nine months revenues growing by 45% which is driven by strong growth in key brands. We have launched 41 new products since April 2020 and new products now contribute to 10% of our sales. We also launched Piramal's own direct-to-customer e-commerce website, wellify.in and we are now able to sell our products across 22 e-commerce platforms which contributes 14% of revenues.

We are continuously investing in brands and marketing reflecting in the strong performance of our key brands. We are investing in media and trade spends for future growth resulting in business operating at breakeven.

**Closing Remarks – Pharma:**

Overall, in the Pharma, post the Carlyle fundraise we have been investing organically and inorganically across all our businesses. Each of our Pharma businesses has a compelling plan for growth. We expect near 20% growth in FY22 for the overall Pharma business. In the medium to the long term, we expect about 15% revenue growth across the businesses. And we expect the EBITDA margins to reach anywhere between 25% to 28% in the next three to five years' timeframe.

**Concluding Remarks**

To conclude, I would say that with the balance sheet strength and the uniqueness of our business models, both the businesses are well positioned to tap organic and inorganic growth opportunities and create long-term value for our shareholders in the years to come. 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 Abhijit Tibrewal from Motilal Oswal. Please go ahead.

**Abhijit Tibrewal:**

Sir, three questions here. Firstly, on your reporting and classification of NPA based on the RBI circular, are there any loans in Stage-III which are less than 90 DPD. So, basically what I am trying to understand is while on one slide, we talk about the impact of the RBI circular leading to this increase in GNPA, on two slides we also say that Stage-III is loans which are 90+. So, that's my first question.

The second question that I had is I mean, if you could kind of share, what is the quantum of exposure to the wholesale account which slipped from Stage-II to Stage-III and also if you can give some qualitative color around that account?

And lastly, just trying to get some texture of your disbursements, so will it be fair to say that, of the disbursements that you have reported, broadly around Rs. 390 to Rs. 400 crores will be in your Housing and MSME secured and will the remaining Rs. 330 to Rs. 340 crores will be in your embedded finance.

And lastly, if you could just help me with a few data points, what was the consolidated net worth and the consolidated net debt? And I see that we have not given what is the provisions on the wholesale book right now?



**Jairam Sridharan:** Your first question of how we have shown the RBI's November 12<sup>th</sup> circular. Firstly, we have completely implemented the circular both in terms of reporting it to RBI as NPA, as well as converting the Stage-II to Stage-III. So, what you see as Stage-III does have accounts which are not 90 days past due. So, if somewhere in the deck it says something different that must be a typo there. But the amounts are not very large. There is about Rs. 25 crores of value, which is sitting in Stage-III which is not 90 days past due as of the end of the quarter. So, the Stage-III is what is NPA as far as our numbers are concerned, there is no separate NPA reporting from our side so, that's for number one.

Your third question was a disbursement split between let's call it our engine-one business versus the engine-two businesses. You are broadly right, about 23%, by value, of disbursements in the quarter was in engine two which is the embedded finance business and about 77% was in engine one. So, that's on question number three.

**Khushru Jijina:** To your question on the wholesale book, the one which moved from Stage-II to Stage-III, let me give you a qualitative color. The amount was Rs. 147 crores. It was a packaging company. And the reason we moved it to Stage-III, because it was a part of our resolution of the packaging company and we needed to restructure it to safeguard the loan. So, it is not that it's moved to Stage-III and the money is going to be lost. In fact, we will recover the entire money, but since we had to do some restructuring, we moved into Stage-III.

**Jairam Sridharan:** And on your last question about provisioning, of the total provisioning pool which we have disclosed, I think about Rs. 2,600 crores or thereabout, roughly 10% of it is in retail and about 90% of it sits in wholesale. Please remember also, that the entire fair value adjustment that we have done as part of the DHFL transaction is not shown as part of provisioning. So, that is extra that sits over and above this Rs. 2,600 crores worth of provisioning that we have shown.

**Vivek Valsaraj:** And your question regarding the net worth and the net debt. For December, we have not reported the balance sheet for now. You may please refer to the September figures net worth of about Rs. 34,000 crores and net debt about Rs. 48,000 crores.

**Abhijit Tibrewal:** If I look at Slide #18, you are talking about disbursement yields of around 15.4% in used car, 19.5% in MSME unsecured and 14.9% in digital unsecured, how does this tie with a 14.5% disbursement yields on Slide #21?

**Jairam Sridharan:** What you see on Slide #21, is basically on all disbursed cases during the course of the quarter, which is the average yield. So, you are seeing that, what is the weighted average of all the individual businesses that we have weighted by the disbursement amounts. On 14.5% I hope you saw the annotation there, all the embedded finance business with yield of 14.5% is not included in the 12.5% – we have kept that out.

**Abhijit Tibrewal:** Yes, so the thing is, these three products that we are doing right, I mean used car, MSME unsecured, digital unsecured they all have yields well in excess of 14.5% reported on Slide #21.

**Jairam Sridharan:** Yes, the last one of that which is digital unsecured is not included in the weighted average of 12%. And the reason we have not included it is that it's very short tenure, the tenure there are like three months or thereabout. So, it doesn't add much to the to the overall value. So, if you see on the product slides that you spoke about on Slide #18, the piece that is the very last row, the one that says digital unsecured, that one we have not included at all in, Slide #21.

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

**Tushar Manudhane:** So, just on the Pharma side, and particularly on the CDMO side, while this COVID wave would have led to some deferment in terms of the patient flow. So, just would like to have your insights in terms of the offtake by the innovators in this scenario, is it improving? Or is it still yet to show some signs of improvement? That is on the CDMO piece.

And likewise, with the COVID cases reducing are you seeing better traction on the Complex Hospital Generic side?

**Vivek Valsaraj:** Okay, so as far as the CDMO business is concerned, the COVID has not actually impacted demand. In fact, demand for our CDMO services continues to remain high. And excluding the generic APIs, in all other spheres, we have seen good and consistent increase in demand. So, COVID has not specifically made an impact as far as the demand is concerned. The challenge that we have had is on the execution side, as Chairman alluded to, whether it's in terms of availability of raw materials, or availability of people, or the additional costs and the availability of carriers for logistics and distribution that's impacted the CDMO business.

As far as Complex Hospital Generic business is concerned, we did see improvement in the U.S. market, but in the ex-U.S. market, the condition has been volatile. In fact, depending upon the country that you speak about and the way that is there, the demand has been very volatile. And of course, the subsequent waves also, we have seen the situation being very volatile in different markets, whether it's Europe or whether it is the other ROW markets. So, U.S. markets, it's largely on track, but ex-U.S. markets the situation is still very fluid.

**Hitesh Dhaddha:** In addition, what is important to note is that the order book remains quite healthy for us. And I think there is a 30% increase in the order book, if you look at the new customer additions the numbers that we have reported, I think that also shows that there is a significant set of new customers that have got added in last one year. I think that will translate into better performance of the business as we continue to go forward once these logistics challenges gets reduced post COVID impact gets diluted.

**Tushar Manudhane:** And secondly, on the biologics related CDMO other than the investment into Yapan Bio if you could just give further color in terms of how are we building this capability either in the form of CAPEX, or any further acquisitions on the biologics CDMO side?

**Vivek Valsaraj:** The acquisition or the strategic investment that we have done in Yapan with a minority stake is our first foray into biologics. So, far, we have not done anything concrete in terms of doing any acquisition or investment. So, this is the first foray. And the reason for testing it out is that with minimal capital outflow, we will be able to get access to technical talent. This will help us develop some synergies with our existing sites, whether it's at Lexington or whether it is at Grangemouth, we will be able to utilize the Yapan's capabilities there. So, it's just a beginning for us, it's a foray. And we will see how this entire thing pans out for us to be able to take further decisions with respect to Yapan. Also, it will add an additional capability at this point in time because this could be complimentary for our CDMO business where this capability can be offered to our existing customers. So, that's how we have begun the space and will of course, be monitoring how we perform before we take further decisions on further investments in the space.

**Tushar Manudhane:** And just lastly, on the overall guidance of 20% growth for FY22, which implies that Q4 is expected to be much stronger. I mean in any case, 4Q is stronger for us, but it's going to be, I mean a year-on-year growth also looks quite interesting on the 4Q levels, kind of like Rs. 2400 crores kind of a top line compared to say the two quarters where we did Rs. 1500 to Rs. 1600 crores is that the right understanding?

**Vivek Valsaraj:** First let me just clarify that will be near 20% and not necessarily 20%. And yes, it will be a big quarter especially in the CDMO business. We do have a lot of deliveries lined up. And of course, it is subject to the overall situation across the world in terms of how the COVID pans out. But yes, it is going to be a big quarter for us. And if execution and delivery all of them happen consistently then you will see a significant top-line.

**Moderator:** Thank you. The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

**Kunal Shah:** So, firstly, in terms of the performance of DHFL pool, if you can highlight in terms of the recoveries rundown which is happening in there? I agree, you would primarily look at the retail, as the overall pie rather than splitting it between the DHFL and the PEL's early business. But still, if you can help to get some sense both on the retail as well as wholesale, how is the collection efficiency out there?

**Jairam Sridharan:** So, Kunal, we are going to resist talking separately about the DHFL and the erstwhile PCHFL or PEL organizations. So, you are unlikely to see us give separate disclosures on these two books. That said there is a more sort of simple version of your question, which I will attempt to answer, which is: There is some sort of distress book, that you guys took on your balance sheet, or you purchased, but it is not showing up on the balance sheet. From that distress book, were you guys able to recover anything, during the course of the quarter? If I interpret your question that way, I would say the answer is, yes. We were able to do a little bit on both sides of the business. The numbers are, at this stage, are small. Let's call it very low three digits. But I wouldn't want to go into a lot more details on that one.

If I interpret your question, as how has overall collections efficiency for the full combined retail business been, in the quarter it has been extremely good. It has been in the very high 90s. So, depending on the month, it's been between 97% and 99% a very high collection efficiency otherwise, on the on-balance sheet book.

**Kunal Shah:** And overall in terms of ROA, if I have to broadly look at between the wholesale and retail now. So, retail, is it like now we have got into breakeven, and out of this 2.5-2.6% ROA, which we report for the Financial Services, if you can help in terms of how much is still flowing in from the wholesale? And where do we see the normalized levels, once we see the scale up on the retail side, no doubt a lot of investments have been done so ROAs would be very lower, in fact negative as well. So, just broadly if you can start sharing that number, so it will be better for us to track, in terms of the entire scale up even on profitability side.

**Jairam Sridharan:** Yes, Kunal that's a good point we are considering doing segmental profitability reporting, but we don't at this point of time, as you know, do segmental profitability reporting. We are considering that so just watch that space in the quarters to come. You have a more pointed version of the question which I am able to answer, which is that given the movement and given the addition of DHFL, has retail gotten to a point where it is breakeven, the answer is yes.

**Kunal Shah:** So, this quarter there would be a profit in retail as well?

**Jairam Sridharan:** Yes.

**Kunal Shah:** And lastly, in terms of the scale up, so 3,000 odd employees are retained, plus we have added 2,000. So, that takes almost 5,000 on the overall branch network which is there. Plus, I think we are looking to add almost 100 odd branches. So, just want to get the sense maybe is the intensity so high even at the branch level, wherein if I have to look at it, maybe this would be largely the field staff and the ground level staff. So, 5,000 for almost 300 or 400 odd branches so that's how it seems to be at this point in time. So, is it like some kind of attrition which we are still building in, and that's where 2,000 odd people we would have further added on to it? Or this is altogether the newer products which we are adding?

**Jairam Sridharan:** I think there is a third reason which is the most important reason, Kunal. When we took over DHFL, the core employee base of the DHFL organization had already fallen almost 60%-65% from its peak. Not that necessarily you need to go anywhere near the peak of the staffing there. But I want to simply give you a sense that a lot of attrition had happened on the DHFL side before the merger. So, a lot of the merger is just catching up on the lost people in the premerger era, to make sure that the branches are all functional. Now they have a basic level of functional staff, so a lot of it is that.

An important distinction I would like to make is that all the employees that we spoke about are not on our rolls, that is on the rolls of the parent company. We have a separate manpower entity in the company called Piramal Sales and Services Limited, and about 60% of the staff actually sits on that entity. So, a core employee base, the "on-roll" employee base, is about 40% of the

number that you mentioned. The other 60% is in this manpower entity, which is the field staff that you rightly mentioned, where you expect to see a much higher rate of attrition.

**Kunal Shah:** I was just looking at 300 branches, 3,000 employees already retained. So, maybe 10 per branch is already there and we are still adding on. So, just wanted to gauge that.

**Jairam Sridharan:** Yes, you are right. This is including the field staff. By the time we get to March, for these 300 branches, we should by and large be done from a staffing standpoint, even including the new products. However, of course, we will continue to increase our branch network, as we have mentioned in the past. We expect to add 100 branches in the in the next 12 months. And you will start seeing some additions in Q4 itself.

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

**Prakash Agarwal:** Just trying to understand the EBITDA margin seasonality. So, last time, Quarter 2, there was again some delay in booking and all. And we said it's pushed to H2 and we are flat QoQ, margins were 12.5% last quarter and moved up significantly to 22%. So, I mean, what is the change herein terms of margin? I mean, the delta I see is not much in the, I mean, there is actually the revenue decline. But what is the higher margin business here? My understanding was CDMO and Complex Generic Hospital business, the highest margin business, and these two are flat here. So, can you explain the seasonality of the margins please?

**Vivek Valsaraj:** So, it's basically the mix of the projects which have got booked in the first half versus what is getting booked. If you have been part of the early investor calls, you may recall that we had mentioned that we had an adverse product mix in the first half where projects which had relatively lower margins were the ones which got invoiced. And the ones which have relatively higher margins are the ones which are going to get invoiced in H2. And that's what is playing out, which is resulting in the overall improvement in gross margin and therefore the EBITDA margin. In fact, you will see a similar trend playing out in Quarter 4 as well, where you will see significant part of the margin improvement happening with more high margin projects getting billed during the period.

**Prakash Agarwal:** So, this seasonality is here to stay or we are in a process of having more what you call smoother, EBITDA margins across the quarters?

**Vivek Valsaraj:** So, if you have looked at the trend for the last few years, it's true that we have had a skew more in terms of higher sales in H2 compared to H1. While we are definitely trying to make this more even kind of sales and trying to improve the overall skew, it's obviously going to take time. This year, because of various COVID related issues, and the delays that happened in execution front, it got even bit more skewed than it has historically been. But yes, our attempt is definitely to try and improve this. But remember, a lot of this also depends upon customers, because the kind of orders that we get and the kind of project deliveries and customer commitments and timelines,

all determine how the skew eventually pans out. But yes, it's a valid point and we are looking at how we can improve it.

**Prakash Agarwal:** My other question was also the understanding like you mentioned CDMO business, which has been delayed, some of the orders been delayed from Q2 and now Q3. So, there is a lot of visibility, given that 40 days of the quarter already done that the business will trickle down to Q4, and that visibility is with high margin order book closure, is that correct understanding.

**Vivek Valsaraj:** Correct. So, as far as order book is concerned, there is clear visibility of what needs to be delivered. The challenge is primarily on execution. In fact, in the month of January, even the COVID wave did impact several sites, especially our overseas sites – we did have a lot of absenteeism of people and therefore lost some production days. So, it's very important for us to ensure that the execution happens properly in the months of February and March, to be able to meet the target. So, to answer your question from an order book standpoint, there is visibility. What we need now is impeccable execution.

**Prakash Agarwal:** So, closure is also I mean this is subject to execution during the quarter.

**Management:** Correct.

**Prakash Agarwal:** And one question for Mr. Piramal on thought process of bringing some business to India. I mean, obviously, being near to the client has its own advantages. But is there a thought process of bringing in large scale business to India and have lower cost of operations?

**Ajay Piramal:** So, it is a seamless thing that we do build investment, we are doing significant investment actually, in the next year, as far as the Digwal facility is concerned, which anyway, in terms of sheer numbers is the largest manufacturing facility that we have across the world. So, we are increasing capacity depending on what the customers want, but we always are conscious of margins.

**Moderator:** Thank you. The next question is from the line of Aditya Jain from Citi Group. Please go ahead.

**Aditya Jain:** Just wanted to understand the yield a little bit. So, DHFL yield you mentioned over 11%, cost of borrowing 7%, so a spread of 4%. So, I understand the cost of borrowing, we had financed it for that low six and three quarters coupon bonds. The yield of 11%, so the denominator here, so I assume the gross yield on the original loan was probably lower, because of a housing kind of nature. So, this yield is based on a lower denominator, based on a write down of the book. Is that right understanding?

**Jairam Sridharan:** No, Aditya, it's on the gross book.

**Aditya Jain:** So, what flows into financials then should be a much higher yield than this right?

**Jairam Sridharan:** What flows into the financials should be a higher yield, yes.

**Aditya Jain:** And then when we get these kinds of recoveries, so will the small amount of recoveries that are there in the quarter, probably will become larger with time, so they are part of the Financial Services yield on loans?

**Jairam Sridharan:** That is right, as per Ind AS norms...

**Hitesh Dhaddha:** As part of the revenues, but not part of the yields.

**Aditya Jain:** These are essentially loans which are not on book at all. So, I guess it makes sense not to have them in the yield. So, they are sort of non-interest income, understood. And then just lastly, in terms of monthly disbursement, so clearly, I mean the hiring and the branch expansion shows plans to really scale things up. Just broadly, what level of monthly disbursements would you target for the new products and for the housing, or even collectively, if not broken up by that type of product?

**Jairam Sridharan:** Sure. So, Aditya we will reiterate what we said, on the previous call that our pre-DHFL retail disbursements were about Rs. 500 crores a quarter. And we had said last quarter that in the first 12 to 15 months after acquisition, we expect that disbursement number to grow 5-7x. And that continues to stand, given what we have seen in the first three months.

**Aditya Jain:** 5x to 7x in what time period?

**Jairam Sridharan:** We had said 12 to 15 months, so assume Q3 of the coming year.

**Moderator:** Thank you. The next question is from the line of Abhishek Sharma from Jefferies. Please go ahead.

**Abhishek Sharma:** My question is on the Pharma side, just trying to get some better color on the CDMO business here. Your investor presentation says that, there was a deferral of few orders to Q4, whereas the commentary is more about supply chain constraints. So, just wanted to understand what is the relative weightage of each of these in the CDMO flatness this quarter? And also in terms of what kind of decision do clients have in terms of deferring their orders to future quarters? And do you think that can sort of play some disturbance with your demand planning in the future?

**Vivek Valsaraj:** So, in terms of the overall deferral of orders which have happened, that's in our CDMO side, primary reason for not being able to achieve plan has been challenges with respect to execution at our overseas facilities. And these are the ones which are going to get pushed. So, in fact, most of the shortfall that we have had is primarily attributable to execution in various forms. So, whether it could be because of non-availability of people, or it could be because of non-availability of material or the customers themselves asking for a change of schedule, and therefore, us having to push out the orders to Quarter 4.

As you are aware, in the CDMO space, most of these are customized products made as per customer's requirements. So, obviously, the customers source from us and they obviously cannot

go elsewhere as far as CDMO is concerned. All of these of what we have done is to sensitize the customers with respect to what the reasons are. And the customers are fully aware of the various reasons under the current scenario, which is an extraordinary scenario where if you look at not just us, but in general, there have been challenges with respect to Logistics and Distribution. And there have been challenges with respect to availability of manpower, this has been a global problem. And what we do is timely sensitization of the customers so that they are fully aware of when these orders will be executed, and when they can expect to get their products.

**Abhishek Sharma:** So, the primary reason was on our side of execution, not customer deferral, per se.

**Vivek Valsaraj:** It's a mix of both, there have been cases of customer deferral as well. But it's more predominant towards execution at our end.

**Abhishek Sharma:** And given the fact that you said that January, there were still some problems, you are now back to normalcy as far as our execution is concerned?

**Vivek Valsaraj:** Not fully, but to a great extent, yes. Most of the sites now with the COVID wave receding seem to have people coming back on track. So, yes, fingers crossed for February and March to be able to meet the planned numbers.

**Hitesh Dhaddha:** I mean what is encouraging to also see is that at the beginning of the year, we had guided you that we will deliver 20% revenue growth for Pharma as a whole. And I think we are continuing to maintain that kind of similar guidance, even when we are standing in Q4 right now. So, I think that itself should be a comforting thing, despite the fact that the year had its own challenges in form of COVID and logistics issues.

**Abhishek Sharma:** Specifically, on CDMO, given the fact that we are already halfway through this quarter, you think you will be able to meet the CDMO, the targets that you have.

**Hitesh Dhaddha:** See you have to look at the Pharma revenue as a whole, and not get into specific guidance on individual businesses. I think we intend to deliver 20% revenue growth or nearly 20% revenue growth for Pharma as a whole. And I think we are sticking to that kind of target as we are talking right now.

**Moderator:** Thank you. The next question is from the line of Bhaskar Basu from Jefferies. Please go ahead.

**Bhaskar Basu:** I have two questions. Firstly, just wanted to get some understanding of the securitized pool on which you get a fee income. If you can kind of explain this, what does this pertain to? That's number one.

Secondly, the total cost on a consolidated basis has actually remained flat, even though you have consolidated DHFL during this quarter. So, just wanted to understand what is, I mean, despite the fact that you have added headcount, there hasn't been much cost increase at a consolidated level. Obviously, we do not have color on the lending side, specifically. So, if you can explain



that disconnect. And finally, on the provision coverage, so while NPLs have gone up, kind of close to reverse provision and bring down the coverage. What kind of coverage level are you comfortable with? And as you kind of ramp up your retail business, what kind of credit costs do you expect from the lending side as such?

**Jairam Sridharan:**

Alright, that is a lot of questions in there. We will try and unpack each one of them. On the first question, which is the off-balance sheet, the securitized assets. At a very simplistic level, during the times when DHFL was facing a liquidity issues, they sold a lot of their book to other investors, mostly banks. So, think of large public sector banks essentially as the buyers of those securitized pools. So, those banks hold most of the economic interest in those assets. However, those assets continue to get managed by the erstwhile DHFL team, now Piramal team, that book is about Rs. 20,000 crores which is not shown on our balance sheet, obviously. But on that book, we earn a fee of 1.6% annualized, give or take, roughly that amount. And that's what we have disclosed. We didn't talk about this the previous quarter, we thought it might be useful for us to point that out this quarter. So, we have specifically actually mentioned both the amount and the fees we make. On that, the cost base of this is relatively limited and is incremental to what we have in the core retail business, so that's not a particularly large cost line items. That is, number one.

You had another point on the cost line, which let me take as well. And you have noticed and commented appropriately, that the costs have increased, the OPEX has increased a little bit at over PEL level, but not by a whole lot. And you had wondered why and your point is absolutely right, there are a bunch of moving pieces here. So, I will not try and unpack everything, I will just say a couple of things, and then we can talk more offline.

One is, of course, this is at the overall PEL level so individual entities have had slightly different deltas. The second thing that I would say is that we chose also to move some of the manpower to this separate manpower company, which changes the structure a little bit, in terms of how some of those cost line items work out. And the final point that I would also give for your references in the last published results of the DHFL entity, you will notice that the total cost base was very small to begin with. The total cost base of DHFL in the first quarter of the financial year was only Rs. 90 crores for the quarter, and only about Rs. 55 odd crores for manpower. So, the cost-based wasn't very large to begin with. So, consolidation wasn't expected to materially move the overall OpEx line item for us. So, that's as far as that piece is concerned.

Then you had a question on provisions. What is the level of provisions that we are comfortable with? From a gross NPA perspective, we have a provision of just about 50% or thereabout on an overall basis. I think 48%. Now in a book, which is entirely secured and has sort of residential housing assets underneath it, which means 50% is, by and large, okay, especially considering that, then on top of that we have got other buffer provisions as well, which make for an overall provisioning of 4% of AUM, which we think is a fairly strong situation.

As you have seen in the past two quarters, we have resisted releasing any provisions, even though the overall real estate market was improving for the last two quarters, we didn't release anything. And we got if you might recall the reverse question the last quarter, essentially saying that, hey, the market environment is increasing do you still need to hold on to all the provisions? This quarter, we have chosen to release just a little, but don't read too much into it this is not a big trend or anything. This is a quarterly thing based on individual assets.

**Moderator:** Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

**Nischint Chawathe:** So, I am looking at Slide #32. You have AUM of around Rs. 65,000-odd crores and loan book of around Rs. 60,000. The difference between the two essentially is AIF and Investments. If you could give some breakup between how much were the AIF and how much was Investments.

**Khushru Jijina:** I think the major amount is AIFs, except for a large investment which PEL did when we took over the Andheri East land from Omkar. If you recollect almost a few months ago, or a few quarters ago, which is Rs. 1300 crores, balance everything you can assume that they are in AIF.

**Nischint Chawathe:** So, all of this pertains essentially to the lending or the wholesale lending business. This does not include any liquid investments and all?

**Khushru Jijina:** Yes, absolutely.

**Nischint Chawathe:** The other thing is if I look at Slide #33 and you have yields and margins, just wondering whether this 1.6% fee get reflected, if it is getting reflected in the yields or margins or which line item should I see this?

**Jairam Sridharan:** Yes, so the 1.6% is not part of the yields. I think there is a footnote here, which talks about that on this page, if I am not mistaken, Yes, footnote #3 on the slide talks about that. So, the fee income from securitized assets has been excluded from the yield calculation that we have shown on the slide.

**Nischint Chawathe:** So, is it reflected in the ROA? I mean kind of connected backwards.

**Jairam Sridharan:** Yes, ROAs will reflect it.

**Nischint Chawathe:** Just on the cost of funds, finally, this is 9.1% cost, if you could sort of split between the 6.75%, DHFL NCDs and what would be the cost if I exclude the 6.75% DHFL NCDs?

**Jairam Sridharan:** Yes, this is not something we want to do. I mentioned this in the early part of the call, we don't want to get in the practice of trying to separate out the DHFL transaction from the rest of the book. I mean, if you are really desperate to calculate it, I am sure you can calculate it. You know what the NCD amount is, and what the rates are. And you can go back and calculate it. We do not intend to separate that out.

I will go back to what we have been saying, before the transaction happened, right, which is that we believe one of the major advantages of the transaction is that it will lower our cost of borrowing. And it will lower cost of borrowings first, purely mathematically, because the transaction has got a lower cost of borrowing itself. And so purely mathematically, to some extent, you will see costs of borrowing decline and apart from that there will be some organic reduction costs of borrowing as well.

What we have seen, very clearly demonstrated in this quarter is the mathematical part of the reduction in costs of borrowing, the rest of the delta will also come over time, but it is not our intent to make that artificial distinction and separately show, I am sure smart folks out there, like you, will back calculate it and figure it out anyway.

**Nischint Chawathe:** Just one last point, if you could share the incremental cost of funding for the quarter?

**Hitesh Dhaddha:** Around 8.5%.

**Moderator:** Thank you. The next question is from the line of Shalini Vasanta from DSP Mutual Fund. Please go ahead.

**Vivek Ramakrishnan:** Hi, this is Vivek Ramakrishnan. My question is primarily for Mr. Jairam Sridharan because he has already been there, done that. So, when we look at the various NBFC presentations, it's almost always faced the same set of things such as Phygital and participation with FinTechs. What do you feel is a secret sauce that is going to propel DHFL forward, is one of the questions that I have?

And then just diving down into the Housing Finance business, you can see the ease, depending on which company goes all the way or a bank goes all the way from 7% to 14%, you have chosen 11%. Is that a sweet spot for you, in terms of the customer segment that you will target, which you feel will give you the best risk adjusted returns and also link into cost-to-income?

And the last question is more on their liability side. One of the keys to the Housing Finance business is to have low-cost funding, of course, and which is dependent on the ratings. Is there a glide path to ratings that you are working out with rating agencies and are there few triggers that we should watch out, for that will help us in terms of knowing how the ratings have moved?

**Jairam Sridharan:** Firstly, to your strategy points, it's started to feel a little bit a lot of NBFC sort of communication that there are these sort of two broad types of, different types of businesses that people are trying to do and how do we differentiate? In general, my feeling on this Vivek is that in the retail business, nobody is going to win because they have a better strategy. People are going to win because they have a better execution. So, I don't think kind of comparing strategies head-to-head is of any use at all. What we got to figure out is who was able to execute both the really high-touch, get sort of dirt under your fingernails, go at the ground level customer to customer and do high-touch underwriting for affordable housing. And if also able to figure out how to setup a New Gen Tech stack? How to build the right API libraries? How to connect in the most seamless

way with digital partners? How to create the most scalable, backend loan management systems, etc.?

People who are able to execute on both of those things very well, are the folks that are going to win. Needless to say, it is our belief that we have put together the right team to be able to do both of that. On the one hand, we have people who have done hands-on physical lending and affordable housing business for 20+ years, who are leading our business on that side. And on the other side, we have a team led by a CTO who has joined us from Amazon, who has put together an engineering team of 200 people, that is trying to build our own software, out of our Centre of Excellence in Bangalore. We have put together a talent set, which we believe adequately addresses both of the things that we need, and hopefully that will lead to good execution. But time will tell, on whether that execution is going to pan out or not.

Your second question was on affordable housing or the housing space in general. And the fact that we have chosen to be that 11.3%, I think, is our average yield on housing and the fact that we have chosen to be there. I will say that there is no perfect sweet spot here, Vivek. There are multiple paths, and you got to operate on all of them. And you got to let the market decide, what the most appropriate sort of product market fit is, like all sorts of people who are evaluating new markets to use the startup terminology, we are constantly looking for the right “product market fit”.

We have currently got two major offerings in the housing space, one in a mass affluent space where we found that the right product market fit for us is around the 10.5% and 10.75% quarters kind of range. And we have got an affordable housing product where we found that the right fit is around the 12% range. Weighted average, these two things are leading us to about 11.25% in terms of yields on housing. We are also considering a product in the even smaller ticket size, in budget space, where yields might be even higher.

So, in each of the spaces it is their own sort of sweet spot that we will find. And we will let the market tell us where the big opportunities are. And based on that the weighted average will come out. It's not like we are particularly targeting a specific weighted average rate.

**Vivek Ramakrishnan:**

That answers the questions on the asset side, and the liability side, please in terms of the ratings and the glide path. I mean, any specific triggers that we should look forward to?

**Jairam Sridharan:**

Yes, I mean credit ratings are like happiness, right, you can't chase them. You will get it when you stop chasing it. So, we don't have a great sort of big project which is trying to get our ratings up to a particular level. We are doing all the right things. We have changed the tenure profile of our liabilities. We have reduced leverage. We have significantly increased granularity on the asset side of the book. We have increased provision levels or capital adequacy is upwards of 25%. We are doing all the right things. Hopefully, the credit agencies will notice and give us our due in the goodness of time, but we are not going to be knocking their doors on this.

- Vivek Ramakrishnan:** Just one other question if I can sneak in, given the fact that on the liability side you have loans, which are at sub-7% for a long period of time. Essentially you can churn your housing book twice over with that liability profile, right?
- Jairam Sridharan:** Thanks for noticing that, Vivek, yes we can.
- Moderator:** Thank you. The next question is from the line of Prateek Poddar from Nippon India Mutual Fund. Please go ahead.
- Prateek Poddar:** Just one small clarification on Slide #38, you talk about three products on the Oncology side which will hit \$5 billion of sales. These are your sales or the innovator sales?
- Hitesh Dhaddha:** These are the innovators sales.
- Prateek Poddar:** And what is your share of business in this, or your share of revenue if I may ask?
- Hitesh Dhaddha:** See, we continue to have many customers, these are one of those many customers so they contribute to a portion of our sales and we don't give customer wise sales, but I think what the point we are trying to make here is these are attractive segments and there are sizable customers with whom we are continuing to do business and we can expand our business along with them as they grow.
- Prateek Poddar:** And to clarify, these are your commercial products. These are commercial basket of products under CDMO which you are supplying, right?
- Vivek Valsaraj:** Correct. And what this basically indicates is the potential and stickiness of revenues in the future. So, if these products really takeoff to the potential that is there that ensures a more stable line for the business.
- Prateek Poddar:** And any timeline by which you expect these to hit their peak sales?
- Vivek Valsaraj:** It's difficult to say that at this point in time.
- Prateek Poddar:** And last question on your tax rates, you have deferred tax assets right so can you just talk a bit about your tax rates?
- Vivek Valsaraj:** So, effectively, the tax rate is between 24% to 25% currently.
- Moderator:** Thank you. Next question is from the line of Vinod Jain from WF Advisors. Please go ahead.
- Vinod Jain:** So, my first question relates to other comprehensive income. I wish to know, what, does the changes in share values of equity instruments in OCI comprise?

- Vivek Valsaraj:** It's primarily Shriram City Union, as you are aware that equity accounted currently, and there has been a 29% increase in the share price of Shriram City Union, if you compare April to December, that's the primary driver for that.
- Vinod Jain:** So, the other question is whether some color can be given as to what comprises the share of net profit of associates and joint ventures in the quarterly results of Rs. 183 crores? What could be the going forward view on that?
- Vivek Valsaraj:** So, that basically comprises of our share of profit in Shriram, as well as our joint venture with Allergan, and that is what you see currently in that.
- Vinod Jain:** And what could be the view going forward for this Allergan income?
- Hitesh Dhaddha:** Allergan business has been growing, they are number one in Ophthalmology in India, the JV that we have, and profitability margin has been 30%. So, we remain optimistic with the business. And I am sure, Shriram business, you would be tracking in a lot more detail, so you can kind of look at the estimates of the Shriram Group.
- Moderator:** Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.
- Bharat Sheth:** On the Financial Services side of the business, our reported ROE is around 9.5% without factoring the inflow of the disinvestment that in near future we will do. So, what kind of a medium-term ROE are we looking and what are the strategies? How do we plan to achieve that medium-term ROE?
- Jairam Sridharan:** We do not offer specific ROE guidance on this, but we have said in the past, and I will reiterate that the kind of business that we are building, is one which has a mix of two-thirds retail one-third wholesale. And within wholesale about half and half between real estate and non-real estate. This type of business we believe, can yield somewhere between 2.5% and 3% ROAs. Now, what that converts to in terms of ROE, let us see, depending on what the leverage environment in the market is. Currently, we are playing it extremely conservative from a leverage standpoint with our Financial Services business. But you can apply your own leverage assumptions of how much you think a business like that, when executed well, can leverage over time and that can give you a good feel. In current market environment, businesses of that nature are in the mid-teens ROE.
- Bharat Sheth:** Currently your leverage is I mean 2.5x and once we get this disinvestment money back, so what kind of comfortable level in current kind of scenario will be, would like to have a leverage?
- Jairam Sridharan:** The only thing we can say is that we are very comfortable with where we are from a leverage standpoint, and we will be comfortable increasing it a little bit. But what is the exact limit to which we can increase it, it depends a lot on the liquidity environment and our expectations on

the liquidity side going forward. So, it would be inappropriate for me to comment for where we would like to be two, three years from now, let's see how the market evolves.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraint, we will take that as a 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. If you have more questions, please reach out to the IR team. Thank you.

**Moderator:** Thank you, ladies and gentlemen on behalf of Piramal Enterprises Limited. That concludes this conference call. Thank you for joining us, and you may now disconnect your lines.