“Piramal Finance Limited

Q2 and H1 FY27 Earnings Conference Call”

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MANAGEMENT:

MR. ANAND PIRAMAL – CHAIRMAN

MR. JAIRAM SRIDHARAN – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

MR. RUPEN JHAVERI – GROUP PRESIDENT

MR. YESH NADKARNI – CHIEF EXECUTIVE OFFICER, WHOLESALE LENDING

MR. VIKASH SINGHLA – CHIEF FINANCIAL OFFICER

MR. RAVI SINGH – HEAD, INVESTOR RELATIONS AND STRATEGY

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 and H1 FY27 Earnings Conference Call hosted by Piramal Finance Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

The result materials are available on the exchange and the company's website, and you may refer to them during the discussion. Please note that today's discussion may include certain forward-looking statements, which must be viewed in conjunction with the risks and uncertainties that the company faces. These statements are based on the management's current expectations and are subject to uncertainty and changes.

On the call today, we have with us Mr. Anand Piramal, Chairman; Mr. Jairam Sridharan, MD and CEO; Mr. Rupen Jhaveri, Group President; Mr. Yesh Nadkarni, CEO, Wholesale Lending; Mr. Vikash Singhla, CFO; and Mr. Ravi Singh, Head, IR and Strategy.

I now hand the conference over to Mr. Anand Piramal for his comments. Thank you, and over to you, sir.

Anand Piramal: Good afternoon, everyone, and thank you for joining us today on this call to discuss **Q2 FY27 Results of Piramal Finance**. I hope you and your families are enjoying the ongoing festive season, and I wish you all happiness and prosperity.

An important announcement before we get into Q2 results discussion. I'm delighted to **welcome Mr. Dinesh Kumar Khara**, who joins today as an Independent Director for a 5-year term. Mr. Khara has been one of the most respected CEOs in the financial services sector. During his tenure, the market cap of SBI moved from $20 billion to $90 billion at a CAGR of 47%.

During his career, particularly as Chairman of SBI, he strengthened one of India's most important financial institutions and expanded access to formal banking and credit for millions of Indians. His experience, judgment and deep understanding of financial services will be invaluable, and we look forward to his counsel and guidance. With that, let me now begin with a few observations on the **macroeconomic environment** and take you through our performance during the quarter.

India's financial sector has remained resilient and despite geopolitical upheavals, NBFC Gross NPAs have declined significantly over the last few years alongside robust credit growth, particularly among upper layer institutions. This resilience reflects the strength of the broader Indian economy. International institutions like IMF have revised India's GDP growth projections for FY27 and FY28 upwards, supported by robust consumption, capital expenditure and stable forex reserves.

However, rising global inflation will exert pressure on India's cost of capital. H2 FY27 is likely to see a broad-based increase in borrowing costs in line with the RBI shift from a neutral stance to calibrated tightening. Nevertheless, we do not expect any notable slowdown in borrowing activity with liquidity conditions remaining adequate. Emerging global risks warrant close monitoring, particularly rising U.S. and Japanese sovereign bond yields and the prospect of crude oil prices remaining high for longer, which could amplify inflationary pressures and tighten global financial conditions.

Moving on to our **company's Q2 performance**. Our Growth AUM now stands at 98.5% of total AUM. In Q2, Growth AUM increased by a healthy 30% year-on-year. Total AUM grew by 24% year-on-year to INR1,13,112 crores. Q2 FY27 RoAUM of Growth business was at 2% annualized, 34 bps higher than 1.7% RoAUM in Q2

FY26.

In Q2 FY27, our **PAT** was up 67% year-on-year to INR545 crores with underlying Growth business PBT of INR538 crores. Thus, our H1 FY27 PAT is also up 67% year-on-year and crossed the INR1,000 crores mark. Asset quality was stable and healthy across both our retail and wholesale businesses, and we will share more details later on this call.

In Q2, we completed a total **equity fundraise of INR3,850 crores**, including a QIP of INR2,100 crores and preferential allotment of warrants of INR1,750 crores to the promoter group. This was our first fund raise as Piramal Finance, and we are encouraged to see the response to QIP in terms of demand from investors and eventual participation of several marquee domestic and international investors.

In September, we completed **5 years since the merger of DHFL** in September 2021. In every possible way, this merger has proven to be a transformational one for the company. It provides us a platform on which we could steadily build up further.

The acquired product suite of mortgages and real estate lending has expanded to more than 10 key product categories, diversified across secured and unsecured retail and mid-market corporate lending.

In 5 years post the merger, our branch network and employee base have further grown by 3x, while AUM have grown 5x in 5 years from INR23,000 crores to INR1.1 lakh crores for the Growth business, making us one of the fastest-growing retail finance stories in the country.

While a large part of what we recorded on day 1 of the merged balance sheet has naturally run down, the imprint of this arguably the most consequential FS mergers in India is visible across our businesses, balance sheet and P&L.

In these years, we made gains of more than INR3,000 crores from DHFL's stress book. The large pool of long-term low-cost fixed rate borrowing rolled over from erstwhile DHFL continues to support our liabilities base. There is a tax shield of INR16,000 crores of assessed carry-forward losses, mostly arising from DHFL still available to us.

As the youngest NBFC among India's upper layer NBFCs, we are privileged to be serving over 6.5 million customers across semi-urban India, combining physical distribution with technology and AI in our processes. With a AA+ rating and demonstrated retail-led diversified business model at scale, we are confident in our ability to deliver steady and healthy earnings growth.

With that, I'll hand over to Jairam to share more details on the results.

Jairam Sridharan: Thank you, Anand. Good afternoon, everyone. I will begin by providing some details on our performance for the quarter, our progress against strategic priorities and some special topical matters for this quarter.

Let's **start with growth** on Slide Number 4. At the start of the year, we had guided for a 25% AUM growth in FY27. Over the medium term as well, we expect our AUM to double every 3 years, implying an AUM of INR1.5 lakh crores by FY28. Against these aspirations, in Q2 FY27, our AUM was up 24% year-on-year to INR1,13,112 crores. Growth AUM was up 30% year-on-year, while the legacy book came down by 69% year-on-year.

With our Growth AUM at 98.5% of the total AUM now and scaling up at 30-plus percent year-on-year for the past several quarters, we remain on track for our FY27 and FY28 AUM growth expectations. Our retail AUM

growth remains strong. The strong pickup seen in Q1 in disbursement growth continued to get even stronger in Q2.

Disbursements were up 34% year-on-year in the second quarter. Retail AUM grew by 30% year-on-year to INR97,462 crores. Our mortgage business comprising housing loans and loan against property grew by 27% year-on-year to INR64,650 crores. Mortgages account for 57% of the company's AUM.

If you look at Slide 25, which has product level details, you will note that there are substantially higher growth rates that are visible for mass affluent housing loans and larger ticket LAP plus business within our HL and LAP books. With our rating upgrade, our ability to serve these segments is significantly higher.

With risk performance under control, AUM growth in our 4 unsecured product categories -- personal loans, unsecured business loans, digital loans and rural micro loans all gained momentum. These AUMs were up 46% year-on-year to INR23,764 crores and now form 21% of the company's AUM.

If you look at Slide 31, you will see that our customer franchise grew by 26% year-on-year to 6.5 million. With the uptick in unsecured disbursements, both our overall customer franchise and our cross-sell franchise growth have been improving. Our sourcing from cross-sell in unsecured disbursements was at 30%, which we expect to keep improving over the coming years. Our cross-sell portfolio, of course, comes with significantly lower opex and credit risk.

In the second quarter, we did not add any full-service urban branch. We did instead expand our network for gold loans and rural loans. The gold loans network expanded to 100 branches from 67 in the previous quarter, and we aim to have 200 gold loan branches by the end of March 2027. On the rural side, we expanded from 178 branches last quarter to 203 branches by the end of this quarter. The company's total branch network now stands at 838.

Wholesale AUM was up 24% year-on-year in the second quarter to INR13,978 crores. The mix between real estate and mid-market lending stands at 68:32.

Moving on from growth towards profitability. I'd like to start from Slide Number 5. Return on AUM for our Growth business increased to 2% per annum in the second quarter versus 1.7% in Q2 FY26. Leverage, i.e., AUM to equity was at 3.6x in the second quarter compared to 3.7x in the first quarter.

In the second quarter, of course, we completed a capital raise that Anand mentioned. We have structured the raise in a manner so as not to take a very large hit on leverage in that quarter. With continued AUM growth, leverage should continue to progress towards our goal of 4.5x to 5x in the medium term. Let's go now into some of the components of our return on AUM, starting with margins.

The company's **net income margin** was flat quarter-on-quarter at 6.5%, which you can see on Slide 50. This is very close to the level for our overall Growth book net interest margin at 6.8%. And of course, it will get closer still as the legacy book goes off our portfolio.

Cost of borrowing. Of course, a lot of attention has been placed justifiably on the liability side of NBFC books. I'd like to draw your attention to Slides 16, 17 and 18 for a discussion on our cost of borrowing.

Our incremental cost of borrowing at Piramal Finance continues to decline steadily. Following our domestic rating upgrades to AA+ between January and March 2026, cost of incremental long-term borrowing has declined from 9.36% in H1 FY26 to 8.67% in H2 and further to 8.46% in H1 FY27. We have roughly INR37,500 crores of long-term borrowings, which are due for maturity in the next 18 months.

If you look at Slide 17, the bottom left chart shows that our current incremental cost of borrowing is meaningfully lower than the carrying cost of these borrowings that are going to mature and retire over the next 18 months. This continues to provide us a strong tailwind on the cost of borrowing side.

Our market-linked borrowings are less than one-third of our total borrowings. We also have variable rate liabilities, which are slightly lower than our total variable rate assets, as you can see in the top right chart of Slide Number 16. This again positions us well in a rising rate environment.

Despite the way market rates have moved in recent months and the RBI's recent and likely upcoming repo hikes, we believe that our overall cost of borrowing at Piramal Finance on a stock basis will continue to be at similar or lower levels over the next 12 months.

Moving to retail income, Slide 22. You'll see that total retail income was 14.6% of loans versus 14.7% in the first quarter. This small delta is largely driven by the higher number of days in the second quarter versus the first quarter. Other income was stable Q-o-Q. If you recall, in Q1, we had made and disclosed a considered strategic choice to perform fewer debt assignment transactions, resulting in a reduction in our other income line and an increase in ongoing annuity.

Moving on to insurance. Following the 23rd September consultation paper from IRDAI, we had disclosed on 24th September, our initial assessment of how our insurance commission income is likely to be impacted. The company currently exclusively distributes life insurance products of Pramerica Life Insurance, where we have 50% stake as a promoter. If the consultation paper is implemented as it is with an effective date of 1st April 2027, we estimate a gross reduction in insurance commissions, potentially having 18 to 24 basis points of impact on FY28 return on assets. However, that is at a gross level. Any improvement in economics of Pramerica Life Insurance will flow back proportionately to Piramal Finance during consolidation. Thus, the company has a natural hedge and a claw-back available in the way the company is structured.

Apart from this, there are other levers that are available to the company as well. For instance, rationalization of sales incentives for selling of insurance and other forms of product claw-backs. We believe this can significantly cushion the impact on profitability on a net basis in FY28 and beyond. In the near term, the company remains confident of meeting our earlier stated FY27 profit growth guidance of 50% profit growth year-on-year.

Retail opex to AUM declined by 5 basis points on a quarter-on-quarter basis to 3.48%. You will see this on Slide 22. You will notice that we have now consistently reduced our opex to AUM for almost 4 years. While we are now well in the target range of retail opex to AUM, the ratio continues to move downwards. The continued productivity gains for our employees and branches, we believe, have the potential to take retail opex to AUM to further lower levels over FY27. The reduction in retail opex to AUM has driven Growth business opex to AUM down 33 basis points year-on-year to 3.2%.

At a company level, our cost to income was 52% in the second quarter, down from 61% in the second quarter last year and 65% in second quarter of FY25, as you will see on Slide 52.

Tech and AI have been key enablers of both our growth and our productivity enhancements. Slides 33 and 34 show some details of our enterprise AI strategy, which we have called Piramal.ai. On Slide 33, the dashboard that we regularly share shows progress of AI use cases across all aspects of our business, such as sales, underwriting, collections, audit and compliance, customer experience and people management. Like every quarter, this quarter, we have put a spotlight on one area heavily impacted by AI. And this time, on Slide 34, we have covered customer experience, **CX.ai**.

Most impactful use cases of AI in customer experience have been Gen AI-powered automation of routine service e-mails, allowing human agents to focus more on cross-sell to these customers, leading to a 5x increase in cross-sell productivity of human agents versus what it looked like before AI took over e-mail response.

PIA, our self-service AI assistant, interacts with customers across WhatsApp and Piramal app, resulting in 6.3 lakh interactions in the second quarter for queries, payments and new loan offers. PIA also generated 20% of our total cross-sell leads during the quarter.

Our conversational AI powered bots resulted in INR102 crores of PIA's cross-sell in the second quarter and INR172 crores of end-to-end collection of overdue EMIs and fees in a human-free manner. You can see how CX.ai is boosting our productivity, digital engagement and cross-sell.

Moving to risk. Credit risk across the portfolio continued to see the strength that we witnessed in Q1. All risk metrics, both early and late across both secured and unsecured continue to look very strong. Our overall retail 90-plus delinquency is at 0.7%, stable in a narrow range of 0.6% to 0.8% over the last 4 years. Growth business credit cost was down by 10 bps quarter-on-quarter to 1.5%. Unsecured, in particular, shows risk at multiyear lows and delinquencies at one-third of peak levels. There are 4 additional dimensions, which I would like to share specific risk insights on.

First, in the IT sector, the last quarter, I had mentioned emerging risk challenges in home loans for IT sector customers from South India. That situation persists. The good news, however, is that it has not spread to other adjacent segments.

The second is on the monsoon impact. The weak monsoon does not seem to have had a negative impact on Agri income customers, at least so far. Bounce rate in this customer segment was the same as in the first quarter FY27 and 110 basis points lower than the second quarter FY26.

Leverage at the customer level, overall leverage levels continue to be low. We have indeed seen some increase in leverage in digital lending business in Q4 and Q1, but that has subsided back down in the second quarter. As of this quarter, leverage of customers applying for loans from us is lower than it was 2 years ago in every single product category.

The fourth dimension on which I want to add some risk insight is on gold loans. This is an important area of emerging risk in our mind, which is the rapidly increasing presence of gold loans on customer files. Two years ago, on our portfolio, depending on product, 20% to 25% of customers had an active gold loan outside. That number is now above 35% in all product categories. Secondly, in financial year '26, across the industry, approximately INR4.7 lakh crores of gold loan disbursements happened to customers in deep delinquency, i.e., more than 90 days past due. Today, presence of a gold loan on files is not yet an indicator of higher risk in the portfolio. However, we believe that these data points that I just shared are worth noting and tracking.

Lastly, along with growth and profitability, we have been equally focused on **predictability and consistency**. If you look at Slide Number 6, our second quarter PAT of INR545 crores has kept up the steady and predictable earnings trajectory of the last 8 to 10 quarters. Our trailing 12-month EPS growth is currently running at 155% year-on-year. We disclosed long-term 4-year plus quarterly data across most key parameters, showing the discipline and rigor that go into delivering predictability and consistency. Our risk chart, for example, cover both vertical and horizontal risk across the portfolio and across individual products for 4-plus years.

With the transformation journey of the last 5 years since DHFL merger behind us, the recently concluded capital

raise demonstrating the confidence of promoters and other investors and the strong performance in the first 2 quarters of financial year '27, we remain confident of meeting our near-term FY27 and medium-term guidance on growth, profitability and stability of earnings and risk performance.

With that, let me hand over the call to Yesh to discuss our wholesale business.

Yesh Nadkarni: Thanks, Jairam. As at September 2026, the **wholesale book** stood at INR13,978 crores, which was a growth of 24% year-on-year. Real estate to CMML mix stood at 68:32. Average ticket size of the book was INR55 crores and average yield of the portfolio was 14.1%. During the second quarter, we disbursed INR2,615 crores across 91 separate transactions, including 41 new transactions and 50 transactions which were sanctioned in the previous quarters, but were partly disbursed during this quarter.

Repayments continued to be elevated as we received INR1,889 crores or about 72% of the disbursed amounts during the quarter. Due to high rate of prepayments to date, about 74% of our contractual repayments due in FY27 have already been paid by our borrowers to us as of today.

The strong prepayment trend continues as we have seen over the past few quarters as well and is proving to be a growth headwind for our wholesale business, but it also highlights robust portfolio performance.

Separately, our **legacy AUM** decreased significantly by INR780 crores or 32% quarter-on-quarter, leading to an AUM of INR1,673 crores, which is now just 1.5% of our total AUM, as Jairam alluded to earlier. With sharply falling share of legacy book, we expect to discontinue its separate disclosures after the December quarter. The chunky reduction in legacy book in Q2 was PBT neutral. We carry ECL provision of INR459 crores on the legacy book. With this, I'll hand over to Vikash to cover financials.

Vikash Singhla: Thank you, Yesh. Moving to our **financial performance**. In Q2 FY27, we reported consolidated net profit of INR545 crores as against INR327 crores in Q2 FY26, which is up by 67% year-on-year.

Pro forma PBT for Growth business stood at INR538 crores in Q2 FY27 versus INR344 crores in Q2 FY26. The net income margin for company level is at 6.5%, which is up 35 basis points year-on-year and flat quarter-on-quarter. Growth business NIM was 6.8% versus 6.9% in Q2 FY26 and 6.8% in Q1 FY27. The capital raise in Q2 had a positive impact of 5 basis points on our NIM. Our total income thus grew 33% year-on-year to INR1,767 crores. Operating expense growth was contained at 13% year-on-year.

Pre-provisioning operating profit thus grew by 64% year-on-year to INR846 crores. Gross business credit cost was 1.5% versus 1.6% in Q1 FY27. In Q2, along with the reduction in legacy book, we had a profit of INR90 crores from recovery in legacy business. With this, the company's overall credit cost was at 1.1% versus 1.8% in Q1 FY27. Our total GNPA and NNPA were at 2.4% and 1.7%, respectively.

Our net worth stands at INR31,180 crores. Our capital adequacy is at 20.1% at the end of September 2026. In Q2, the QIP added almost 200 basis points to our capital adequacy. It also had a positive impact of 5 bps on our RoAUM and it led to a reduction of just 0.1x in our Q2 end leverage.

We are confident to stay comfortable on capital adequacy over the next few years while funding our growth and expanding the leverage. As discussed in previous quarters, there are opportunity of non-dilutive regulatory capital release in our balance sheet, likely over the next 12 to 24 months. That, combined with our recent capital raise implies enough runway for growth capital for some years.

With these remarks, I would now like to open the floor for questions. Thank you.

Moderator: We have the first question from the line of Shreya Shivani from Nomura Securities.

Shreya Shivani: I have 2 questions. First is on the **cost of funds**. Now that we are officially in the rate hike cycle, what is our view on what product segments will we be passing on the higher rates to our end customers? When will we do it? Will we wait for another MPC before we take that decision? Any color around that would be helpful.

My second question is on the **yield movement**. So there has been a significant sequential decline in the legacy book. However, the yields were sort of flattish between Q1 to Q2. Is it fair to say that once it's completely out of the base, from Q3 onwards, it will start showing up in the yields? Any thought process around that?

And sorry, one more question. The third question is while your asset quality trends, which is Slide 23 is stable. But if you see the vintage risk, there is a slight pickup in probably the digital loans and the housing loans. I guess the housing loans probably is explained by the IT sector employees, if that's correct. Any other color around that would be useful.

Jairam Sridharan: Perfect. Great question. Thank you, Shreya. Question number one, cost of funds and passing it on to customers. See, unlike banks, NBFCs are on a PLR regime. So we will pass on rates when our PLRs change, which will happen once our cost of borrowing falls. So essentially, we will wait for our cost of borrowings to fall, which will take a little bit of a lag.

After that, there will be a little bit of a lag before we pass it on to our customers. In the last cycle, we saw the lag impact on our cost of borrowing to be almost 1 year and then about a 3-month further lag for us to actually pass things on to our customers.

50% of our assets roughly are going to be of this variety where we can pass on mostly our home loans and loan against property customers. So, I don't expect anything being passed on yet. We need to first see the impact on our cost of borrowing. If it starts increasing, then we will go ahead and increase rates.

Otherwise, you shouldn't expect to see much action on that front. Your second question was on yields. And what happened to yields and why didn't yields go up if legacy book came down.

To some extent, your hypothesis is correct, but also there's a simpler explanation, which is a simple technical explanation, which is that number of days in this quarter was higher by 1 day compared to the previous quarter. That takes away almost 11 basis points of yield if calculated for the retail business.

And since mostly our book is retail, that shows as a compression in NIM, it's not real. So don't worry about it. It's just optical based on the number of days. Your third question was on risk and particularly, you spoke about -- Vintage risk, see, the digital loans, there is nothing there, the Q4 was low. Otherwise, actually, there is nothing much there. Risk is looking very good.

And by the way, in digital loans, 90%-plus of our lending is on FLDG. So anyway, it's not credit risk on our book. Whatever increase happens here, unless we breach the 5%, it's basically on the partners' book, not on our book. So I'm not worried at all on the digital lending side.

Your catch on housing loans is absolutely the right one. That is appropriate to look at. That is a real increase that has actually happened there. There is one big case. There is a INR4 crores case from Q2 of FY26, which turned out to be fraudulent, which is there in that number. So that number has ticked up because of that one case.

I expect that number to come back down in Q3 because we are seeing the Q2 numbers at the 9-month level,

they're looking a lot better. So I expect that number will come back down. But that one is a real uptick driven by one fraud case.

Shreya Shivani: Right. That's useful. Sir, on the commentary that you made on the **gold loan** -- that the gold loan disbursals are towards customers in deep 90 plus, etcetera. Any thought process around your own strategy? I mean, how are you thinking about it about your own?

Jairam Sridharan: So depending on how you count. On a gross disbursement basis, anywhere from 15% to 22%, 23% of gross disbursements in gold loans over the last year have happened to customers who are 90 days plus past due on at least one of their live trades. A shockingly high number.

That number for Piramal for October so far is less than 1%. We do not disburse gold loans to customers who are more than 90 days past due. We just don't do it, even though that's almost 1/5 of the market today.

So of course, we are a very, very, very small player in gold loans. We just started. But this is not an area where we are going to compromise. So it's less than 1% of our disbursements.

Moderator: The next question is from the line of Renish from ICICI Securities.

Renish: Congrats team for the good set of numbers. Sir, just 2 things again on this **vintage risk** slide. So when we look at HL and LAP, both these segments, we have seen a very stark increase in 90-plus on a sequential basis. So just wanted to know what is happening here. I mean I heard you on this IT related issue on the HL side. But more specifically on the LAP, what is happening? And also when we look at the used car also, there is some increase. So just wanted to understand why our new book asset quality is basically inferior to our period and book quality?

Jairam Sridharan: If you look at Page 24, you can see the small uptick in housing loans and kind of in LAP as well. Everything else is going down. So like overall, as you can see, the overall numbers are down, not up. So new business quality is all significantly better than it has been, unless I misunderstood your question.

Renish: Yes. So I will just maybe repeat my question. So sir, I'm referring to your Slide Number 23. In that slide, if we look at the used car loan, right, which is 5% of the book, there last 3 quarters, our 90-plus is 1.2%, which is flat. But when I look at the vintage risk slide, the same segment used car, there the 90-plus is actually running higher than the book quality, I mean, the period-end book. So I'm just wondering, does that mean the incremental business is being booked at inferior 90-plus.

Jairam Sridharan: I understand what you're saying. This is a different metric. So see, when you look at a full stock, what happens is you have clients who are 0 months on book, 1 month, 2 months, 3 months, 7 months, all the way to 9, 10, 11, 12 and then 23, 24, 25, etcetera. 12 months on book is about the peak of where risk is going to be at its peak, right?

But the full portfolio, when you see it, it will have both the peak as well as a bunch of non-peak vintages out there. And hence, the portfolio numbers are going to be lower than that because it's an average of many, many guys. This metric, the horizontal metric essentially just shows 1 vintage, 1 tranche and looks at them when their risk is likely to have peaked, which is around 12 months mark and says, okay, what is that peak of risk?

Renish: Okay. Got it. So, it's on a rolling basis, right?

Jairam Sridharan: On a rolling basis, absolutely right.

Renish: Got it. No, I thought it's a static full 12 months and not rolling, hence. But I understood completely, sir. And again, going back to the same question what Shreya has asked on the NIM side, right? So again, when we look at the Growth business NIM, which is at 6.8% and when we look at the company NIM, it is 6.5% and also as per our Slide Number 51, the legacy book share is just 1.5%.

So just wanted to know optically, maybe over the next 2 to 3 quarters, your Growth NIM should be the company NIM, which is obviously 30 basis points higher. So does that give you a natural hedge against the rising rate cycle and hence, despite the rising rate, our **NIM** actually should expand from here on, the only reason being legacy book coming down.

Jairam Sridharan: That is absolutely correct. Mathematically, that is bound to happen.

Renish: Okay. Got it. So we are not too worried on the rising rate cycle?

Jairam Sridharan: Not really. I mean, I don't want to be too cocky about this, but in our business, there are 2 or 3 natural hedges that exist on the rate cycle. One is this legacy book. The other is our recent ratings and hence, ratings upgrade and hence, our incremental cost of borrowing being significantly lower than what our book is and what our retiring debt cost is. These 2 things are material items, which provide a natural hedge against a rising rate cycle.

Renish: Got it. And maybe just last thing. So given we also heard one of the largest prime housing financiers is rising its PLR rate just in the month of October. And if that happens, then is that upside risk over rates?

Jairam Sridharan: Not really. See, I don't expect us to raise rates for customers because our rates are not increasing. So, it would be unfair for me to just pass on a rate increase to customers when I'm not seeing that rate increase. So, in our case, neither will we increase it, nor will we increase it for the customer.

Moderator: We have the next question from the line of Abhijit Tibrewal from Motilal Oswal Financial Services.

Abhijit Tibrewal: First a clarification. If I look at our consolidated P&L, we had reported loan loss provisions and fair value loss of about INR300 crores. While if I look at our Growth business, there the **credit cost** upwards of INR400 crores.

Jairam Sridharan: Correct.

Abhijit Tibrewal: So just trying to understand, is there some write-back from the legacy book? Or is it some other business subsidiary, which is contributing to this?

Jairam Sridharan: No, it's all legacy book.

Abhijit Tibrewal: Related to write-backs.

Jairam Sridharan: Exactly. Write-backs that come, which we are using to create other buffers elsewhere.

Abhijit Tibrewal: Second question that I had was around **liabilities**, the last 2 participants, you would remember we were all asking about margins and how they could trend in a rising rate cycle. But I could also see in one of your slides, you have mentioned you have about INR29,000 crores of debt coming up for maturity next year, which are at a higher rate than your incremental cost of borrowings. So at least that maturing debt should bring down your cost of borrowings irrespective of where your incremental is.

Jairam Sridharan: So, your point is absolutely straight forward, Abhijit. Debt is maturing at 9.1%, we are borrowing at 8.4%, there is a gap of 60-70 bps. Even if the rate is increasing, my maturity is still going on. So, my gross cost of borrowing

of the stock will come down.

Abhijit Tibrewal: And lastly, sir, if I look at this quarter, we have reported a 2% kind of **RoAUM** for our Growth business and we had given out an exit quarter target of about 2.5%. And the long-term goal is to take it above 3%. So now with the retail opex to AUM already settling below 3.5%, credit cost stable at 1.5%, what are going to be the key incremental levers to bridge this gap from current 2% to 3% over the longer term? Basically, what I'm trying to understand is how much of this improvement can come from operating leverage, margin expansion, product mix, credit costs?

Jairam Sridharan: Yes. So, the big delta comes in kind of comes under 3 heads. One is the mix shift away from legacy towards everything else. But let's keep that aside for a minute, let us just look at the Growth economics for a moment.

Within Growth economics, there are 2 big drivers. opex will continue to come down. We believe there's another 30-35 bps that is possible over the next 6 quarters. And then there is cost of funds or cost of borrowing kind of resulting in cost of funds.

And then there is the whole mix shift of us becoming more unsecured. You saw me comment earlier that we are 21% unsecured today. We were 20% till 2 quarters ago, now we are 21%. Eventually, we want to be 25%, 26% unsecured, right?

So that delta will happen over the coming quarters, right, coming quarters and couple of years. So that will continue to happen. That will continue to push the margins. So basically, there is opex, there is cost of borrowing, and a little bit is this mix towards unsecured. Those are the main components that will get out there. You want to add, Vikash? Sorry, just give Vikash one minute.

Vikash Singhla: We mentioned we are increasing gold, which is a high-yield product. And all this will come at the cost of mortgage product, which is low yielding.

Abhijit Tibrewal: Got it. So basically, the mix, not just secured-unsecured, but also gold which is secured but higher yielding and higher margin.

Jairam Sridharan: Correct.

Abhijit Tibrewal: Got it. And last thing, when you look at the bureau data, are you seeing increase in delinquencies, particularly in lower ticket size loans? And I'm not referring to any particular product, but across products, **lower ticket size loans**, are you seeing delinquencies inching up?

Jairam Sridharan: You saw this very strongly in 2024, right, calendar year '24, you saw risk increases in the small ticket and not as much risk increases in the large ticket. That sort of shape of risk, which is small tickets are much higher risk than large ticket, that shape has persisted throughout. It has not changed at all. Even today, the small ticket in any product, whether it is PL, HL, LAP, just take any product, doesn't matter. As you go up towards higher ticket size, risk is actually decreasing, right? And the smaller tickets, risk is quite a lot higher.

The situation is a little bit different in gold loans, where kind of some of the large end as well risk is increasing, or risk is higher. So the shape is a little different in gold loans. But apart from that, in every product, smaller tickets are higher risk. That has been the case. It was very, very steep in 2024. It's slightly less steep now.

Moderator: We have the next question from the line of Nischint Chawathe from Kotak.

Nischint Chawathe: Just a short one. If I look at your **market linked borrowings**, so these would largely be linked to repo, right?

Jairam Sridharan: No. We almost have nothing which is linked to repo. But repo has a very direct impact on the 10-year G-Sec or some of the other rates in the market. We have almost no borrowing that is directly linked with Repo.

Nischint Chawathe: Got it. And MCLR linked, which is, I think, around one-third, these would largely be linked to 1 year or 1 month?

Jairam Sridharan: It's largely 1 year, but we have some 6 months also.

Nischint Chawathe: Okay. Because when you say that last time around, I know you mentioned that the **rate transmission** took almost a year and then you took, I think, a couple of months after that to transmit the rates. But looking at this profile, it appears that probably the transmission could be much faster this time.

Jairam Sridharan: Yes. So basically, when I say last cycle, I actually mean the down part of the cycle. In down part of the cycle, generally transmission takes longer. In up part of the cycle, transmission happens a little bit quicker. So you should expect to see that. Market rates are already rising. But the way we are combating it and the way you see many others combating it as well is reducing market-linked borrowing.

So like this quarter, the amount of money we have raised, almost nothing we have raised from the capital markets. Because capital markets have directly shown the increase in rates or reflected the increase in rates.

So we have basically moved our mix away from market-linked towards more MCLR linked, right? So this type of mix shift within liabilities is something else that should expect NBFCs to do in the coming months.

Moderator: We have the next question from the line of Anand Dama from Nuvama.

Anand Dama: Congrats on great set of results. I had a question related to **RoAUM**. You said that there are multiple levers which will drive the RoAUM to about 2.5%. How confident you are now that we have already entered into a rate hike cycle to get to that 2.5% AUM?

And then second is that next year, we have a headwind in terms of **insurance commission capping**. You said that there are mitigants which are available. So should we then, in that case, look at a flattish kind of RoAUM in FY28 given that we have this headwind from the insurance commission capping or you have a better number to guide over there?

Jairam Sridharan: See, 2.5% in Q4, we feel fine. I don't think there's much anxiety that we have around it. We feel pretty good, and we have all the levers that we think we need to deliver 2.5% in Q4 of this year. For next year, we have not, of course, offered guidance yet. I did mention the 18 to 24 bps gross impact. If we are able to mitigate it somewhat, let's say, half of it, we are able to mitigate it, that is still meaningful.

Our hope would have otherwise been to actually get pretty close to the 3% number as we exit next year. But now with this, we have to now recalibrate ourselves. Let's see what we come up with. We'll be close enough as we exit the year. I don't know whether we'll get all the way there or not in light of the insurance capping thing. But we'll have specific guidance to offer in Q4. As of now, for the second half of this year, our confidence levels are fairly high.

Vikash Singhla: And we have not factored any impact of cost of borrowing to come down. Even if the cost of borrowing rate continues at the current level, we are confident to achieve 2.5% for the exit Q4 '27.

Anand Piramal: Also the insurance capping is a draft yet. It's not still come into as a known policy. So, we have to see what happens.

Anand Dama: Sure. And any initial discussions which you had with the regulator because you also have insurance company, I'm sure you'll have a far better understanding in terms of like where the draft rules could be basically liberalized. Any thoughts for that?

Jairam Sridharan: Yes. See, we are having conversations at multiple levels with the regulators, both as ourselves as Piramal Finance, but also as PLI, our life insurance company. So we had multiple rounds of conversations that we continue to have. We will, of course, also be formally giving in our feedback next week to the regulator, as asked for the NBFC industry together is giving a representation as well through FIDC. So we are participating in that as well.

So multiple levels of representation are happening. The IRDAI Chairman has indicated openness to listen to the feedback. And we all saw, I'm sure his comment that the intent was not to do anything very dramatic or very disruptive. So let us see what happens. I mean your guess is as good as ours at this point.

Anand Dama: Okay. And the current environment is good enough for you to grow into **unsecured loans**? Or you believe that maybe you'll just wait and watch and then press the pedal. I mean any thoughts over there in most of the unsecured loan products that you do?

Jairam Sridharan: I mean you have seen us for a while. You know our philosophy on this. We don't take macro calls. We don't take decisions on everyday credit choices because of how the macro looks. We take decisions based on how the micro looks, how each sub-segment is looking like from its delinquency trend perspective, etcetera. And based on that, we change our credit risk criteria.

Growth is an outcome of our framework. It is not an input to our framework. We are not targeting any growth rate. The growth rate is what it is depending on what our credit criteria are. As it happens, there is improvement that we are seeing in many subsegments in unsecured. So our credit filtration changes are resulting in higher growth rate in that segment. If tomorrow at the micro segment level, risk start moving in the other direction, our processes automatically will cut down growth rate. We won't have to make any macro choice in that regard.

Anand Dama: Sure. And lastly, what percent of your portfolio will be linked to **rural customers** directly or indirectly maybe going to the farmers?

Jairam Sridharan: So we have about INR2,300 crores or something in exposure, which is primarily in the rural segment.

Moderator: We have the next question from the line of Rakesh Kumar from Valentis Advisors.

Rakesh Kumar: Just a few questions on the **interest rate movement**. So firstly, like we have 60% of borrowings on a floating basis and 50% of assets on floating basis. So this difference of 10%, so does that mean that we would increase our lending rate by the higher pace as compared to the increase in the borrowing cost that we are going to have?

Jairam Sridharan: No, just look at the absolute value. There is INR56,000 crores of assets, which are variable rate and there is INR51,000 crores of liabilities, which are variable rate, which essentially means that I have more assets where I can reprice up than liabilities where I will get repriced up. So essentially, it's positioned well for a rising rate environment.

Rakesh Kumar: Okay. Secondly, this **credit rating improvement** that we are anticipating and which might be going to happen. In the rising rate scenario, how well we are positioned like with this event happening. So how much really would

this help us in containing or reducing the borrowing cost because the rates are rising, so I don't know how much market will take care of the credit risk premium changing with the difference in the credit rating across the institutions?

Jairam Sridharan: Yes. I'm sure you can just go to Bloomberg and look at our credit risk spread versus any competitor, any kind of AA+ player or a AA player, like pick anybody and look at our spreads over the last few months, and you will see clearly that our spreads have come down. There is no question about it. The spreads are around 40 to 45 basis points lower over the last few months against any benchmark that you look at.

We've shown on Page 17, our incremental cost of borrowing and how it has actually reduced, right? So in a rising rate market, our incremental cost of borrowing is falling. That is happening because our ratings have gotten better, right? And this narrative is likely going to continue.

Rakesh Kumar: Okay. Thirdly, like the expected change in our borrowing cost vis-a-vis our competition and the kind of breakup that we have on the asset side. So how does this breakup mix putting us vis-a-vis or as compared to other competition when the rates are rising because any competition like which is going to witness faster or maybe slower rate of change in the borrowing side, they might be slightly better off as compared to you. So any thoughts on that?

Jairam Sridharan: See, I'll reiterate a couple of messages that I mentioned before. A, our variable rate assets are higher in absolute terms than our variable rate liabilities, which means rising rate helps us, right? This is not true for many, many players in the competition. It is true for us. So that helps us.

Number two, we have the tailwind of a rating improvement, which essentially means our credit risk spread across practically all competitors, except those who themselves have gotten upgraded, our credit spreads are decreasing and will continue to decrease. That is number two.

Number three is that our retiring debt is at least 60 basis points higher priced than where we are currently borrowing. This, again, will not be true for most players in the market. These 3 tailwinds all help us in a rising rate environment.

Moderator: Ladies and gentlemen, that will be the last question. And that concludes the question-and-answer session. I now hand the conference over to Mr. Jairam Sridharan for the closing comments.

Jairam Sridharan: Thank you very much, everybody, for joining our call. Have a great festive season. Happy Dussehra to everyone, Bye.

Moderator: Thank you, members of the management. On behalf of Piramal Finance Limited, we conclude this conference. Thank you, everyone, for joining with us today, and you may now disconnect your lines.