Piramal Finance

Operator: Ladies and gentlemen, good day and welcome to the Q4 and annual FY26 earnings conference call hosted by Piramal Finance Ltd.

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone.

The results materials are available on the exchanges 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 management's current expectations and are subject to uncertainty and changes.

On the call today we have with us Mr. Anand Piramal, Executive Chairman; Mr. Jayaram Sridharan, MD and CEO; Mr. Rupin Javeri, Group President; Mr. S. Natkarni, CEO, Wholesale Lending; Mr. Vikas Singla, CFO; and Mr. Ravi Singh, Head of Investor Relations and Strategy. I now hand the conference over to Mr. Anand Piramal for his comments. Thank you and over to you, sir.

Management: Good afternoon everyone and thank you for joining us today on this call to discuss the March quarter and full year FY26 results of Piramal Finance.

As you all know, during the last few weeks of this quarter, geopolitical disruptions in the Gulf have created a volatile global macroeconomic environment. Crude oil prices have risen sharply. There have also been concerns around the availability of refined products such as LPG. We believe ongoing diplomatic developments and a potential de-escalation could limit the overall macro impact on India. At this stage, the effect on India's economy and financial services sector appears contained, reflecting underlying resilience. Retail petrol and diesel prices have largely remained stable.

Management: Retail AUM growth was well diversified across our product categories, all growing at about 20% to 50% year-on-year.

Management: Wholesale 2.0 AUM was up 38% year-on-year in the fourth quarter, with both real estate and mid-market lending showing strong year-on-year trends.

Management: Growth AUM was collectively up 33% year-on-year to 98,423 crores.

Management: If you look at slide 30, our retail customer franchise grew by 22% year-on-year to 5.7 million. As Anand reported earlier, we crossed 5 million in our customer franchise this year.

Management: Our sourcing from cross-sell in unsecured disbursements is around 30%, which we expect to materially improve over the coming years. Our cross-sell portfolio comes with significantly lower OPEX as well as credit costs.

Management: During the third quarter call, we had guided towards opening 100 new branches in the fourth quarter across three formats. We have successfully delivered on that plan. After not expanding our branch network for seven quarters, we resumed branch expansion in Q4, for which I would like to refer you to slide 28.

In this quarter, we opened 26 full-service branches, which we have now categorized as urban branches. In addition to these, we have also opened 22 gold loan branches and added 60 rural branches, which we earlier called microfinance branches. We have now taken our rural network to 136 branches. In all, our total branch network has crossed 700 in this quarter and stands at 701.

Management: As shown on slides 25 and 27, we took meaningful steps forward in this quarter on gold loans and rural lending. Starting with slide 25, we launched phase one of our gold loan business with 22 branches in Maharashtra and Telangana. As of today, 13 of these gold loan branches are disbursement active. We are innovating traditional gold loan products with unique tech and AI-based features. We expect to open 180 more gold loan branches in FY27 to take our gold loan branch count to approximately 200.

Management: We are spearheading our emerging rural strategy with micro-loans as the first product through our 136 rural branches, which you see on slide 27. Our micro-loan AUM was up 42% year-on-year from a small base to 1,384 crores.

Management: Moving on to margins, our consolidated level NIM has expanded 20 basis points quarter-on-quarter to 6.5%, which you will see on slide 15. You will also see on the slide that the consolidated NIM has been continuing to close the gap with our growth book NIM, which is 7%.

Management: Cost of borrowing during the quarter declined by 11 basis points on a quarter-on-quarter basis to 8.84%. Along with actively working on our borrowing mix, the impact of credit rating upgrades should provide a change in our cost of borrowing over the coming years.

Domestic credit rating upgrades from AA to AA+ have the potential to lower our cost of borrowing by 50-80 basis points once we turn our current borrowings out and replace them with new borrowings. The AA+ rating also offers us access to certain parts of the lending market we could not access before, thus enhancing our ability to continue delivering industry-leading AUM growth. It can also aid expansion of return on AUM and potentially also allows us to lever our balance sheet higher versus what was possible with the AA rating. All of this could lift steady-state ROEs by 3 to 4 percentage points.

Management: On retail income, total retail income, as seen on slide 21, grew by 35 basis points quarter-on-quarter to 15.5% of the loan book. Our yields on loans were stable. The retail processing fee amortization continues to catch up to support the overall fee income. There was, however, a reduction in our insurance fee in this quarter due to a change in commercials with our partner, Pramerica Life.

Management: On OPEX, retail OPEX to AUM further came down by 21 basis points quarter-on-quarter to 3.6% per annum in quarter four. You will see this trend on slide 21. We have now consistently reduced our OPEX to AUM ratio for three years and have now entered the target range which we had indicated some years earlier. While we have restarted our branch expansion, the continued productivity gains for our employees and branches have the potential to take our retail OPEX to AUM a little bit lower than current levels over FY27.

Management: Tech and AI have been key enablers of our growth and productivity enhancement. While we have been sharing in the past the impact of AI across five key business areas, we are now starting to share additional input metrics as well.

I would like to draw your attention to slide number seven. Here, we have tried to share a metric for the overall use of AI statistics at Piramal. You will see that there is a strong growth in our total token usage across SLMs and LLMs in the course of this year, showing the high levels of AI adoption in the company. In Q4, our total token volume was at 178 billion tokens in the quarter versus 63 billion in the first quarter of this year. This compares well with the best of global elite enterprise-scale companies in terms of token usage for high-frequency agent AI and processing of massive amounts of document data.

Management: On slides 32 and 33, we have shared some more details of our enterprise AI strategy, Piramal.ai. On slide 32, we introduce a new dashboard on the progress of AI, particularly Generative AI, use cases across all key aspects of our business. As you can see, AI adoption spans sales, underwriting, collections, audit and compliance, CF, and people management.

The next stage, slide 33, covers our fourth quarter AI spotlight. Last quarter we had featured collections in our AI spotlight. This quarter we feature operations. You can see on the slide that operations productivity has doubled in the last two years. Our AUM has doubled in this period, whereas our operations staff and headcount has remained roughly flat.

Management: Moving to risk, the risk performance of the company was solid with GNPA down 32 basis points quarter-on-quarter and growth business credit costs down slightly quarter-on-quarter to 1.5%. Retail is 87% of our growth AUM and it witnessed significant improvement in Q4 risk across all products.

Asset quality in unsecured lending showed strong improvement in the last four months. Risk metrics here are broadly back to two-year-ago levels. The micro-loan portfolio has almost completely normalized as you see in our 90 DPD charts that we share every quarter. In our unsecured business, specifically used cars, after three quarters of elevated risk metrics, we saw a steep fall in Q4. In the mortgage business, risk continues to be quite steady. We had earlier flagged a part of this business as potentially problematic given increasing risk levels. This was around smaller ticket mortgages with SME customers. Since last quarter, however, we have seen this segment stabilize and perform noticeably better than before. We will, however, continue to track this segment closely.

Management: So, as you can see, headline risk metrics are all stable to improving in Q4. However, we are closely watching segments that could potentially be vulnerable to the ongoing conflict in the Middle East. We have originally taken SMEs in the S&B sector as the epicenter of potential vulnerability and impact, but we have since expanded our watch list to include a broader set of sensitive sectors, including travel and logistics, textiles, gems and jewelry, food processing, etc. As of now, risk metrics here all appear contained. Bounce rates in these vulnerable sectors in April have come in at the same levels as March.

We use AI to rapidly scan and classify hundreds of industry sub-segments by their sensitivity to the conflict, mapping direct impacts first and progressively identifying knock-on effects across connected sectors. This use of AI turned what would have been weeks of manual analysis into a near real-time exercise, allowing us to move quickly from portfolio diagnosis to targeted product-level action. We have thus tightened our underwriting in these sensitive sectors. We believe that customers from these sectors who also have moderate to high pre-existing leverage are likely to be the most vulnerable. That is the segment where we are taking most of our credit action right now.

Overall, we have not seen any visible impact of the conflict on retail risk metrics yet. We remain, however, watchful and ready to act as necessary.

Management: On the liability side of potential impact from the conflict, we continue to maintain a strong liquidity buffer. Our average quarterly LCR in Q4 was 450%. We have cash and cash equivalents of 8,640 crores, equivalent to 8% of all our assets. CDs form less than 1% of our liability stack as of March 10. This conservative position both minimizes our liquidity risk as well as maximizes the opportunity for us to benefit from broad rates at the short end.

Management: And finally, let me come back to the overall company. We have met all our stated targets for FY26. We have refreshed our targets for FY27, which we have listed on slide number 17. We are sharing three pieces of our goals and guidance for the coming year. We expect another year of approximately 25% growth in total AUM. We expect consolidated profits to also grow at approximately 50%. And we expect to exit FY27 with a return on AUM of approximately 2.5% versus the 2.1% we reported in Q4 FY26.

You will notice here that we have not called out a separation in language between consolidated and growth. That is because, given the relatively small size of the legacy book, one should expect that somewhere along the course of this year, we would stop reporting legacy as a separate segment. You should expect that to happen sometime during the course of this year, though we are not calling out any specific date on that yet. With that, I will hand over to discuss our wholesale business.

Management: Thanks. As of March 2026, the Wholesale 2.0 book stood at 12,538 crores, which was a growth of about 30% year-on-year. The Real Estate to CMML mix stood at 73:27. Average ticket size of the book was 53 crores and the average yield of the portfolio was at 14.4%. Asset quality remained robust with zero NPAs in this book, as was mentioned earlier. During the year, we disbursed 9,292 crores with fresh sanctions across 135 deals.

Repayments continued to be robust as we received 5,859 crores, or about 63% equivalent of the disbursed amount during the year. In the fourth quarter, the repayments were particularly strong, amounting to almost 82% of the new investments. While strong rates of repayments continue to be a major growth segment for us, it also highlights that the portfolio is doing very well and is performing well ahead of our underwriting. In fact, due to these significant repayments, almost 50% of the contractual repayments due to us in FY27 have already been paid by our borrowers to us today.

On the Wholesale 1.0 or the legacy book, we ended the book at 2,807 crores, which showed a reduction of 59% during the year. This is now a very small part of our balance sheet and we will continue to work on the reduction of this book over the coming quarters. Before handing over to Vikas, I would also say that we continue to monitor the impact of the Iran war on the real estate and

CMML sectors. Since the war broke out in February, to date, portfolio sales, collections, and other operating parameters have continued to remain very strong. We also feel good about the granularity and the diversified nature of our portfolio, but will continue to monitor our credits proactively as we progress from here.

Management: Thank you. Moving towards financial performance, in Q4 FY26, we reported a consolidated net profit of 502 crores versus Q4 FY24 net profit of 102 crores. Full-year FY26 net profit was 1,506 crores versus 485 crores in FY25. Our pro-forma PBT for the growth business stood at 495 crores. In Q4 FY26, this implied a growth of 61% year-on-year. Growth business OPEX grew by 12% year-on-year versus income growth of 24% year-on-year. Operating profit then grew by 37% year-on-year to 854 crores.

In Q4 FY26, we reported a growth business credit cost of 1.5% versus 1.6% in Q3. Our total GNPA and NNPA were down 30 basis points quarter-on-quarter each to 2.3% and 1.6% respectively. Our net worth stands at 28,191 crores. Our capital efficiency was very strong at 19.8% as of March 2026. Our profitability continues to improve and we also have investments that can potentially be divested to unlock capital. As we have done in the past, we remain committed to maintaining a comfortable margin of safety over regulatory capital requirements. We will use all the available leverage at our disposal to ensure that. With these remarks, I would now like to open the floor for questions. Thank you.

Operator: Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on their touch-tone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We will take our first question from the line of Shreya Shivani from Nomura. Please go ahead.

Shreya Shivani – Nomura: Hi, thank you for the opportunity. I have two questions. My first question is on the consolidated NIM and the growth NIM. The gap between these two has been narrowing; it was at about 50 basis points as of the fourth quarter, around 6.5% and 7% or so. The legacy book is now very minimal. Where do we see our NIM going? I am assuming the consolidated NIM will reach the level of the growth NIM, and then beyond that, what are the levers for expansion? I mean, I understand your gold loan and MSI segment would be one of the major levers.

My second question is on the legacy book. The scale-down is quite impressive. Is it fair to say that the majority of it is actually SR and Stage 1, and how should we think about the legacy book movement over the next two years? It is at about less than 3% of your AUM mix right now.

Management: Thank you, Shreya. For your first question, the consolidated NIM will obviously become effectively the same as the growth NIM toward the latter half of this coming year as the legacy book gets smaller and smaller. Today, the growth NIM is about 7%. Regarding the levers on the growth book NIM itself, there are two main factors. One is exactly what you said, which is the product mix on the asset side, specifically an increase in unsecured lending. We have previously guided that we would like unsecured to be about 400-500 basis points larger in our mix compared to where it is right now. Plus, some of the new products we are launching, particularly gold, which is secured but high yielding. Between the two, the mix story is going to be a marginal contributor.

Even more importantly, on the liability side, the AA+ rating has not yet shown its effect on our cost of borrowing. As I mentioned before, I expect the AA+ impact to be about 30-80 basis points over the course of the coming three years, because three years is the churn cycle of our liability side book. So that should come in. Those are the two big levers: one on the asset side and one on the liability side, which should help lift our NIM on an overall consolidated basis once we merge everything together.

Regarding the question on the legacy book, we are at less than 3% of the portfolio this year. By this time next year, you will be very surprised; it will become irrelevant by the latter half of this year. By Q4 of this year, it will become so small as to be irrelevant, and that is why I stated earlier that we will just talk about one set of numbers rather than legacy numbers by the end of this year.

Shreya Shivani – Nomura: Okay, that is great to hear. Just a follow-up on the scale-up of the unsecured book. Would the unsecured book scale-up be equal across digital loans, which are aggregated loans, and your own sourced UDL book, or would one take precedence over the other? Or do you focus more on one over the other?

Management: Regarding risk performance, Shreya, as it happened over the last few quarters, digital loans have performed super well. If you see page 22 and look at the risk performance of digital loans on the bottom left, it has been exceptionally good. Currently, we are somewhat bullish on that segment. But if it starts to turn quickly, we are starting to compare that and move even more toward branch business. If you see that, the branch business is also very strong. We love both the branch business as well as the digital business. Month on month or quarter on quarter, we decide depending on what we see. So we do not have a fixed bias of one over the other.

Shreya Shivani – Nomura: But is it easier to scale up on one faster than the other?

Management: It tends to be more volatile month-on-month. So, you might see fluctuations, but both are contributing significantly. Volume is around 60% in that area.

Operator: Thank you. Next question is from the line of Harshit Toshniwal from Premji Invest. Please go ahead.

Harshit Toshniwal – Premji Invest: Hi. My query is regarding the fee income and income from other sources. Generally, for a growth lender like us, there is some amortization impact on fees. So, should we look at the current numbers as indicative? Also, looking at the ROA guidance of 2.5%, can you elaborate on the components?

Management: Your point is correct. What we have in Q4 is low and it needs to go up. It will go up. There was a one-time event in Q4 where we reversed some fee income in aid of our associate company, which is our life insurance company, for some technical reasons. I would not like to go into that here, but it was a one-time adjustment where we stepped in to help them out. It is a company where we own 50%. The underlying point is correct; fee income should see a normalization.

Management: Regarding the 2.5% ROA number, it is a target for the exit quarter of FY27. As we mentioned, simplified reporting and the winding down of the legacy book helps. We have been surprised positively by how good the collections were this year, and we expect that to continue. We are mindful of the potential upside, but we are also launching new businesses. You will notice that as we scale gold and rural lending, they will contribute to the expansion.

Operator: Thank you. Next question is from the line of Avinash Singh from SK Global Financial Services. Please go ahead.

Avinash Singh – SK Global Financial Services: Thank you for the opportunity. I have a question regarding the deductions from capital. Could you break down the delta between net worth and Net Owned Funds (NOF)? Also, on the tax protection and DTA, how long do we expect the carry-forward losses to shield the P&L from taxes?

Management: Great question, Avinash. There are three main deductions from net worth to get to Net Owned Funds (NOF). Net worth is what you see on the balance sheet at 28,191 crores. The first deduction is the regular one for any lending company, such as cash positions for securitization, some unamortized DSA fees, and so on. The second element is Deferred Tax Assets (DTA). There is about 2,700 crores of total DTA on the balance sheet. The third deduction is investments, including various general investments. These three categories are roughly equal and account for the delta between net worth and NOF.

Of these, the first is normal. The DTA exists because of accumulated losses; we get the benefit for PAT purposes, but it must be deducted from capital. The third one, investments, is what can go away as we divest more assets. That gap will narrow by about a third of what it is right now as we divest.

Regarding your second question, we have about 24,500 crores of accumulated tax losses and have created about 2,100 crores of loss-related DTA. Effectively, we have roughly 15,000 crores of future profits that are tax-protected as far as the P&L is concerned. As long as we consume that 15,000 crores within the next few years—and the window is quite long, until 2032—we can keep using it. So we have 15,000 crores worth of tax protection, which is significant.

Avinash Singh – SK Global Financial Services: Just a follow-up, in the normal course of business, as profits rise, will this loss carry-forward continue creating more DTA, or will it be offsetting?

Management: Every quarter, we will assess our projected profits and discuss this with our auditors. Based on their advice, we will create DTA as necessary to offset taxes. From a P&L perspective, your PBT and PAT will be very close to each other, except for some specific taxable line items like certain dividends. For the foreseeable future, for the next 15,000 crores of PBT, you can model a very low effective tax rate. This is based on current carry-forward losses; any future losses would add to this. They are generally valid for 8 years from the time they are generated.

Operator: Thank you. Next question is from the line of Nishit Doshi from Kotak Securities. Please go ahead.

Nishit Doshi – Kotak Securities: Hi, thanks for taking my question. You touched upon this already, but regarding funding, what is the current difference between incremental and average cost of funding?

Management: Our cost of borrowing is about 8.8%. In Q4, our incremental borrowing cost for long-term money was 8.4%. Short-term money would likely be around 7.4% if we went to the market now. We are currently not raising much in the short-term market; we have been focused on long-term funding over the last 4 to 5 months.

Nishit Doshi – Kotak Securities: As your cost of funding comes down, how does that feed into your future strategy? Does it change your acquisition criteria?

Management: Two things: we will take some of that delta into the P&L, and we will use some of it to price growth. Effectively, we will build some new businesses which we could not do when we were rated AA. That will help us gain growth. The rest will get us closer to our 2.5% return on AUM goal. We have already seen signs of this in our high-ticket LAP and mass affluent housing disbursements. Those are more AA+ like businesses, and we have been building that muscle in anticipation. We were purely a mid-prime player in the past; now you will see a bit more of a prime-like portfolio.

Nishit Doshi – Kotak Securities: Second, regarding inorganic growth, is there anything you are planning?

Management: Nothing has changed on that front. We remain quite interested in M&A. Piramal has a DNA of doing mergers and acquisitions. However, we are value-based acquirers. We have limited interest in buying perfect assets at fully priced-in values. We would rather find something that might be a little imperfect but is priced at a value. Market conditions have not been conducive for that in the last few quarters, but we remain interested in spaces like microfinance, gold loans, and SMEs. We look at many deals, but nothing is imminent.

Nishit Doshi – Kotak Securities: Anything on the promoter side regarding a holding threshold?

Management: The promoter holding currently is 46%. We are perfectly happy with that, and the promoters remain fully committed to supporting the company. There is nothing strategic to talk about regarding dilution; none of the M&A deals in the segments I mentioned are large enough to merit significant dilution. We are not looking at transformational M&A right now because we do not need it.

Operator: Thank you. Next question is from the line of Abhijit Chidrawar from Motilal Oswal. Please go ahead.

Abhijit Chidrawar – Motilal Oswal: Good evening. I am looking at slide 17 regarding the pathway for ROA expansion from 2.1% toward 2.5%. Large parts of this expansion seem to come from the margin side because of the credit rating benefit and product mix, as OPEX is already in your target range. How should we think about credit costs given the environment?

Management: Abhijit, you are pointing out all three factors correctly. However, I do think there is more play in OPEX to assets. I believe we have another 50 basis points of reduction we can achieve. The OPEX narrative is not over. The second big driver is the NIM story, primarily on the cost of borrowing side. On the asset side, the mix of unsecured and gold is margin-accretive, but we will also do some prime lending. Overall, the margin will grow as our cost of borrowing adjusts to the AA+ reality. We have not yet done a single bond issue since becoming AA+ because markets have not been conducive. As we do that, you will see the cost of borrowing fall. So, cost of borrowing and OPEX are the big drivers. Even if credit costs go up slightly from 1.5%, we will be able to absorb that.

Abhijit Chidrawar – Motilal Oswal: Got it. And the last question regarding the unsecured segment, specifically business loans and PL. It is difficult to understand how, despite supply chain disruptions, we haven't seen an alarming impact. Should we expect second or third-order effects of the Iran conflict in the coming months?

Management: It is inconceivable that if the conflict continues for much longer, you will see zero effects. It is not possible; the effect will definitely come. I think it might show up in Q2. I do not think there was any chance of seeing it in Q4, and I do not expect it in Q1 either. But in Q2, we should watch. Clients have a little bit of a margin of safety. They can go on for a month or two even after feeling the effects of a business slowdown. It then takes another three months to move into the 90-day bracket. So, this takes time. July or August is when you might see that outcome.

That is why bounce rates are important to watch. As we said earlier, in April, the bounce rates in this segment were the same as in March. It is surprising but true. We will keep watching it. It is our job to watch like a hawk and react the moment we see something happening. So far, nothing much to report.

Operator: Thank you. We will take our last question from the line of Vikram. Please go ahead.

Vikram: Hi, congratulations on a good set of numbers. I have two questions. First, could you explain the two line items on the P&L: the net loss on fair value changes and the 590 crore impairment that you took? Second, regarding branch expansion, you have gone from 570 to 701, and now you are aiming for more as per the presentation. Should we expect a change in the OPEX to AUM ratio because new branches take time to mature?

Management: Thank you for bringing that up. Regarding the first point, the markdowns we took this quarter were to make good use of the one-time gains we had. We had two important one-time gains this quarter: the deferred tax component of the PCL merger, which was about 1,300 crores, and about a 250 crore gain on the sale of the IDBI Life insurance business. We had 1,500 crores in bounty and we wanted to strengthen the balance sheet rather than taking it all through the P&L.

The line items you are referring to are our ways of strengthening the balance sheet—identifying areas where potential future losses could come and pre-empting them now, or areas where prudence suggests putting something away even if there is a chance it might come back in the future. Suffice it to say, this helped us clean up the legacy book nicely and created pockets of conservatism in the balance sheet.

Vikram: So, can I assume those broadly increase your buffer and are related to the legacy book?

Management: I think it is a fair way to put it. We have increased our safety buffer.

Management: Regarding the second question on OPEX to assets and whether it will increase because of new branches, the answer for next year is no. We have planned our branch expansion such that OPEX to assets will continue to fall. Let me restate: if it comes to choosing between a declining OPEX to assets ratio and putting up new branches this year, we will lean toward the OPEX target. We want that ratio to come down for one more year.

I do not think we will have to make that hard choice, because the areas where we are adding branches are gold and rural lending. A gold branch takes about one-third of the operating expense of a regular urban branch on an annual basis. A rural branch takes about one-tenth of the investment of an urban branch. These categories are much cheaper than our full-service branches. So we should be okay, but if my math is wrong and OPEX starts to move up, you will see us give up on branch growth rather than give up on the OPEX target.

Vikram: Very useful. Thank you so much.

Management: Thank you very much, everybody. Have a great evening and thanks for participating actively. If you have more questions, please reach out to Ravi and the IR team. Have a great evening.

Operator: Thank you to the members of the management team. On behalf of management, thank you for joining and have a good day.