20th July, 2021

BSE Limited
P.J. Towers, Dalal Street, Fort,
Mumbai- 400 001
BSE scrip code: 500302

National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex,
Bandra (East), Mumbai – 400 051
NSE symbol: PEL

Sub: Chairman's speech delivered at the 74th Annual General Meeting of the Company

Dear Sir/ Madam,

Please find enclosed the Chairman's speech delivered at the 74th Annual General Meeting of the Company held on 16th July, 2021.

This is for your information and records.

Yours truly,
For **Piramal Enterprises Limited**

BIPIN SINGH
Digitally signed by BIPIN SINGH
Date: 2021.07.20 14:09:31 +05'30'

Bipin Singh
Company Secretary

Encl.: a/a

Chairman's Speech

74th Annual General Meeting of Piramal Enterprises Limited

Namaskar,

I welcome you all to the 74th Annual General Meeting of the Company.

- I hope you all are keeping safe and well.
- Some of us have felt the pandemic even more acutely with the loss of our family members, relatives or friends. I wish all the strength and fortitude to deal with our loss in these challenging times.

1.1 Long-term prospects have improved for India

- Although the second COVID wave has impacted the recovery cycle that India was witnessing in the second half of FY21, the economic impact is nowhere close to what we saw during the peak of the 1st wave as our country was better prepared this time than a year ago:
    - Businesses had learnt to adapt to physical restrictions.
    - Government was judiciously imposing localised lockdowns to minimise disruptions.
    - RBI and financial markets were better prepared to manage liquidity challenges. The recent RBI relief measures for small borrowers and MSMEs were proactive.
- In addition, the country is getting well-prepared for future contingencies such as the third COVID wave:
    - We are seeing a rapid pace of vaccination. Over 32 crore doses have been administered. Indians receiving their first shot increased by 133% in June'21 compared to May'21.
    - Higher spending on health infrastructure including the National Digital Health Mission will improve healthcare services to the masses significantly.
- **In fact, from a long-term perspective, I feel more optimistic about the country's future.**
    - We added US$ 87.3 billion to our foreign reserves in FY21. Foreign reserves exceed US$ 600 billion which is a strong support to withstand global volatilities.
    - Foreign Portfolio Investors showed high interest due to India's stable financial market conditions, favourable economic prospects and easy liquidity conditions. As a result, net FPI inflows stood at US$ 36.2 billion in FY21, despite the pandemic.
    - Growth in exports driven by strong global demand. Exports in 2021 so far is higher by 12% compared to the same time in 2019.

- International agencies like OECD estimate India to be the fastest growing economy among G20 nations in 2021. The long-term growth prospects over the next 3-5 years also remain optimistic at 7%+.
- Continued policy reforms across sectors like manufacturing, construction and services will enable an environment of economic growth with millions of jobs creation.

1.2 We are in the right sectors for the long-term

Financial Services:

- It is an acknowledged fact that NBFCs play an important role in the growth of the Indian economy.
- With retail lending penetration at only 12% of the India's GDP, there is significant long-term growth potential.
- NBFCs have been instrumental in providing retail credit to the under-served markets in tier 2 and tier 3 cities owing to their deep understanding of target customer segments, use of technology and differentiated business models.
- However, since September 2018, due to liquidity tightening followed by the COVID-19 pandemic, several players have limit their credit exposure to these markets or have completely vacated this space.
- As a result, the significant consolidation in the sector is leading to a decline in competition.
- We believe, the current environment offers enough growth opportunities for well-run, well-governed and well-capitalized NBFCs.

Pharma:

- During the current uncertain times, the pharmaceutical industry has emerged as one of the most important, safest, and resilient industries.
  - Pharmaceutical and healthcare companies play a vital role in ensuring the global supply of critical drugs amid a rapidly changing environment, while also planning for new vaccines and therapeutics.
- Also, the Pharma sector globally is witnessing a structural shift, with niche verticals such as CDMO, injectable generics etc. gaining prominence.
- Within India as well, Pharma sector is poised for higher growth amidst rising preference for an alternate supplier as a part of global supply chain shift.

1.3 Demonstrated resilience and strength in performance, despite the year affected by pandemic

- On back of our differentiated business models, our committed teams and agility of our organisation, we delivered a resilient P&L performance despite major headwinds faced in FY2021.
  - FY2021 revenues stood at ₹12,809 Crores and normalized net profit of ₹2,627 Crores, broadly stable on YoY basis.

- In fact, our balance sheet performance improved significantly over the last 2 years. We raised ~₹18,000 Crores of equity capital through several milestone transactions:
  - Increased the equity base by 29% to ₹35,139 Cr. and reduced our net debt by 45% to ₹30,154 Cr. bringing down the net debt-to-equity from 2x times to 0.9x times.

(2) Financial Services

2.1 Among a few NBFCs coming out a lot stronger from a pro-longed crisis environment

- Our Financial Services business has been among few companies that have emerged stronger, despite prolonged headwinds faced by the NBFC sector.
  - Capital adequacy ratio of our FS business stood at 37% as of Mar-2021 vs. 22% as of Mar-2019.
  - With a net debt-to-equity of 1.8x, our Financial Services business is amongst the least levered across sizable NBFCs/HFCs in India, i.e. it has enough growth capital for the next 3 to 5 years.

2.2 Taking advantage of consolidation in the space – getting scale, plus setting up engine for future growth

(A) Acquiring DHFL to obtain size & scale in retail lending:

- We had bid for DHFL through the IBC route for a total consideration of ₹34,250 Cr.
  - I am pleased to inform that our resolution plan for DHFL received an overwhelming vote of confidence by the COC, reflecting the Group's credibility and balance sheet strength.
  - The acquisition process has been progressing well with the RBI, CCI as well as NCLT approval now obtained.
- This acquisition brings together two large HFC entities, creating one of the largest NBFCs of India.
- It would help us achieve scale in retail lending – that would have otherwise taken many more years to accomplish through the organic route.
  - With this acquisition, we would have access to a vast network of 250+ branches with a majority of them in tier 2 and tier 3 cities and a sizable customer base of ~1 million.

(B) Organically setting-up the engine for future growth – a technology-driven, multi-product retail lending platform:

- In 2020, we embarked on the journey of building a technology led retail lending business, which is 'digital at its core' and 'phygital' (i.e. Physical, as well as digital) at the customers' end.
  - We are building this platform with 'next-gen' technology capabilities, with 'Artificial Intelligence' and 'Machine Learning' deeply woven into the fabric of the business.
- In Nov-2020, we launched our multi-product retail-lending platform and since then, the business witnessed a healthy growth traction.

- We also launched multiple retail lending products, thus expanding our product portfolio.
- Formed a few partnerships with Fintech and Consumer Tech firms.
- We on-boarded top-quality talent from large Indian banks and global tech giants to take the business forward.

- Most importantly, as part of our journey, we have incorporated learnings from the current environment to build a sound business model for the 'post-COVID' world.

We aim to leverage DHFL's presence to sell multiple retail products, offered as part of our digital platform, thereby, ensuring the continued future growth in the business.

2.3 Making the business model a lot more stable through: (a) strengthening our liability side, (b) enhancing diversification, (c) improving granularity (d) increased provisioning, etc.

Strengthened the liabilities side:

- Raised ~₹33,000 Crores of long-term borrowings in the last 2 years and replaced most of our short-term CP borrowings.
- As a result, we now have a much stronger asset-liability (ALM) profile
- In addition, the Company held ₹7,025 Crores of cash and cash equivalents – i.e. nearly 15% of our loan book size, serving as a healthy liquidity buffer.

Increased diversification and granularity:

- The DHFL acquisition will also result in significant change in our loan book mix, with the share of Retail Lending moving closer to 50% in the near term.
- To further improve diversification and granularity of our loan book, we are also consciously bringing down our wholesale portfolio size by reducing our Top-10 exposures, which have declined 28% since Mar-2019.

Built conservative provisions:

- At the onset of the COVID-19 pandemic in March 2020, we created an incremental provision of ₹1,903 Crore.
- As of March 2021, our total provision stood at ₹2,797 Crore – equivalent to 6.3% of the overall loan book.
  - During FY2021, over 90% of our total provisions remained unutilised despite the year getting impacted by the pandemic.
- We continue to focus on building a 'shock-proof' business for the future. In this direction, we will continue to maintain conservative debt equity ratio and conservative provision levels, to take care of any future contingencies.

(3) Pharma

3.1 Pharma business – Consistently delivering healthy performance since the Abbott deal

- Post the sale of Domestic Pharma business to Abbott, we were left with a set of few small-sized pharma businesses.
- Over few years post the Abbott deal, we decided to sell / exit a few of them and shortlist a set of three business that we wanted to grow for future, depending on their long-term growth potential.
- I am glad today that those decisions, taken a couple of years ago, have proven to be correct now.
- We rebuilt an entirely differentiated Pharma portfolio comprising of these niche verticals: CDMO, Complex Hospital Generics, and India Consumer Healthcare.
- In this period of last 10 years, the Company has consistently delivered strong performances:
  - Pharma revenue has grown 3.8 times at a CAGR of 14% from ₹1,537Cr in FY11 to ₹5,776Cr in FY21.
  - EBITDA has gone up 12 times at a CAGR of 28% from ₹110Cr in FY11 to ₹1,283Cr in FY21; with EBITDA margin improving from 7% in FY2011 to 22% in FY 2021.

3.2 Carlyle deal validates our focused approach of growing these three businesses

- Our performance in the Pharma business over last 10 years was revalidated with the Carlye deal that valued the Pharma Business at an enterprise value (EV) of US$2,775 million. This transaction is one of the largest private equity deals in the Indian pharmaceutical sector.
- In October 2020, PPL received ~₹3,500 Crores on closure of the transaction for 20% equity investment from The Carlyle Group. The transaction further strengthens the Pharma business' balance sheet:
  - Net Debt-to-Equity for the Pharma business now stands at 0.4x post the fund raise versus 0.9x as of March 2020.
  - Net Debt-to-EBITDA now stands at 1.9x post-fund raise compared with 2.8x as of March 2020.

3.3 Further investing in all the businesses for future growth

- Each of the Pharma businesses has a compelling plan for organic and inorganic growth in future.
  - We believe that we will continue to deliver in line with our long-term growth track record just through organic initiatives, and
  - We will target a few more acquisitions to further boost our growth.
- During the last one year, post the capital raise, we have invested across the businesses:
  - **CDMO:** (i) Announced investment of $32m in Riverview facility; (ii) Acquired solid oral dosage facility in Sellersville, Pennsylvania; (iii) Acquired Hemmo Pharmaceuticals for ₹775 Crore, a peptide API manufacturer.

- **Complex Hospital Generics:** Acquired 49% remaining stake in our Joint Venture company, Convergence Chemicals.
- **India Consumer Healthcare:** Launched 15+ new products and 35+ SKUs, including COVID-related products. Also, we now have brand ambassadors for some of our key brands to further improve their brand recall.

(4) Governance

- We have always believed in having a strong corporate governance environment within our organization. Our goal is to ensure fairness for all our stakeholders, including our investors, clients, partners and the society.
- We have always aspired to have eminent personalities be a part of our Board, who are not only experts in their professional field, but they also help steer the Company grow in the right direction with their experience and expertise.
- In the last decade or so, the Company has grown multiple folds and the experience and guidance from the Independent Directors has kept the Company on the path of excellence.
- Further, your Company is cognizant of the imminent maximum tenure guidelines, and to ensure continued smooth functioning of the Board, has implemented a succession plan for the Independent Directors to revamp the Board in a phased manner.
  - In the last 2 years, 5 Independent Directors have resigned from the Board, of which 3 were “long tenured”.
  - The term of the remaining 2 “long tenured” Independent Directors will come to an end on 31st March 2024.
- In line with the succession plan, three Independent Directors, Mr. Keki Dadiseth, Dr. R. A. Mashelkar and Professor Goverdhan Mehta, retired from the Board in the last financial year.
  - I, on behalf of my fellow Board Members would like to take this opportunity to highlight the contributions made by them. The Independent Directors have, together, worked tirelessly to not only grow and diversify the business of the Company, but also inculcate the philosophy of good corporate governance and a strong ethical code of conduct across the entire organisation.
  - Our Directors have also helped build a strong and self-sufficient model of Corporate Social Responsibility based on the philosophy of giving back to the society. We, as Members of the Board realise that the Board has lost eminent voices and that we will miss their valuable suggestions and able guidance.
- In their place, three new Independent Directors (Mr. Suhail Nathani, Mr. Kunal Bahl and Ms. Anjali Bansal) joined the PEL Board, during the year. As part of the succession plan the Board might look to retire at least 1 Independent Director in the current financial year.

(5) Doing Well and Doing Good – Our Corporate Purpose

- Our continuous endeavour is to make a positive impact, by serving people and living our values.
- We conduct our CSR initiatives through Piramal Foundation and have so far, directly and indirectly benefitted over 120 million lives.
- Piramal Foundation works cohesively with the central and state governments, as well as through collaborations with NITI Aayog, The Rockefeller Foundation and The Bill and Melinda Gates Foundation, amongst several others.
- In the wake of the COVID-19 pandemic, we undertook a complete transformation in our Foundation activities.
- I am glad to report that the business teams have been quite proactive in taking several measures to navigate the current challenges posed by the unprecedented environment.
- We pivoted our programmes and retrained our staff, thereby expanded our activities, partnerships and impact.
- Also, we committed to invest ₹100 Crores towards COVID Relief in partnership with NITI Aayog.

Some of the key initiatives undertaken include:

- We refocused our partnership with NITI Aayog's 'Aspirational Districts Programme' towards COVID relief.
  - Through this programme, we aim to serve 112 districts with the lowest Human Development Index.
- We reinvented the services that are provided as part of our 'Health' initiatives to support states during the pandemic.
  - Health helplines in 7 states expanded their offerings to serve over 1 million poor every month.
  - Mobile medical vans served the most marginalized communities by conducting in-village COVID testing & advisory.
- Our 'Education' initiatives also completely redesigned their programmes, since schools were closed for most of the year.
  - As part of these initiatives, we trained 600,000+ teachers across 7 states, to use digital tools to teach students and create content.

(6) Progressing towards demerger of the Financial Services & Pharma businesses

With the steps taken over the last 2 years, we are progressing towards the next phase of evolution:

(a) Simplified the organization's structure to focus on two core businesses: Divested non-strategic investments or businesses by: (i) stake sale in Shriram Transport and (ii) the sale of DRG.

(b) Strengthened the Balance Sheet for future growth:

- Multiple capital raise initiatives have resulted in strengthening the balance sheet for both FS and Pharma businesses and they have enough capital available to tap future growth opportunities.

- In addition, the company has a pool of additional equity capital that can be utilized for inorganic growth opportunities across both the businesses.

(c) Created a subsidiary for the Pharma businesses: Integrated all our Pharma businesses under Piramal Pharma Limited, a subsidiary of PEL, where we have an investor now i.e. Carlyle.

(d) Board and Management teams: We now have separate Boards and sector focused high quality management teams for both the businesses.

(e) Strengthening teams across businesses to deliver on future growth plans:

- We have hired top talent from external, as well as internal talent pools for key positions across existing and new businesses.
  - Retail Finance headcount doubled to almost a 1,000 employees in line with the growth plan for the business.
- Restructured our corporate office to make it more strategic and leaner. The business-specific roles moved to the individual businesses to further empower the businesses and make them more independent as well as ready for the demerger in future.

(7) Closing Remarks

- Our FY21 performance reflects the resilience and the significant efforts made towards building a solid foundation for our long-term success.
- In addition, the Company has further strengthened its governance, with new Independent Directors on its Board, as well as creating separate Boards and Management Teams for its two core businesses.
- We also remain committed to our corporate purpose of 'Doing Well and Doing Good' and continue to work towards bringing positive change in the lives of people, as well as minimizing the impact of the COVID-19 pandemic for them.

Dividend:

- Given our resilient performance in FY2021, as well as the significant progress made on key strategic priorities, the Board has recommended, subject to your approval, a dividend of ₹33 per share.

Outlook:

- We remain cautiously optimistic for FY2022 and are in a stronger position to tap growth opportunities across both our businesses.
- Post the completion of DHFL acquisition, we will be better positioned to finalise and announce the demerging plan for the two large listed entities in Financial Services and Pharma sectors.
- I am confident that both businesses will emerge as two strong companies, with a good runway for growth in the long term.