

Piramal Enterprises

BSE SENSEX 31,282 S&P CNX 9,769

CMP: INR2,612 TP: INR3,266 (+25%) Buy



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Stock Info

Bloomberg	PIEL IN
Equity Shares (m)	172.6
52-Week Range (INR)	3083 / 1378
1, 6, 12 Rel. Per (%)	-3/30/27
M.Cap. (INR b)	450.7
M.Cap. (USD b)	6.9
Avg Val, INRm	426
Free float (%)	48.6

Financials Snapshot (INR b)

Y/E March	2017	2018E	2019E
Revenues	85.5	122.0	152.3
EBITDA	22.5	34.4	45.5
PAT	10.8	15.6	22.6
EPS (INR)	72.6	104.6	149.7
EPS Gr. (%)	38	44	43
BV/Sh. (INR)	863	932	1,030
Payout (%)	33.8	34.0	34.0

Valuations

P/E (x)	36.0	25.0	17.5
P/BV (x)	3.0	2.8	2.5
Div. Yield (%)	0.9	1.4	1.9

Shareholding pattern (%)

As On	Jun-17	Mar-17	Jun-16
Promoter	51.4	51.4	51.6
DII	3.6	3.6	3.4
FII	28.7	28.7	28.6
Others	16.3	16.3	16.4

FII Includes depository receipts

Stock Performance (1-year)



Final piece of the jigsaw in place

Completes its real estate lending product suite with launch of HFC arm

- Piramal Enterprises (PIEL) hosted a conference call to discuss the launch of its housing finance business. The call revolved around the strategy, competitive positioning and outlook for this segment.
- Post the receipt of the HFC license in the first week of September, PIEL is off to a good start, driven by its 'B2B2C' strategy, i.e. reaching out to home buyers in projects funded by PIEL. It has already on-boarded 15 developers, 500 connectors and 50 DSAs, building AUM of INR2b.
- While this was anticipated, PIEL has finally added the last piece of the 'real-estate jigsaw' – its product suite now ranges from pure equity for land purchase by the developer to home loan for end-home buyer. We had already factored in some contribution from retail home loans over the next 2-3 years. Reiterate Buy with a target price of INR3,266.

Migrating to Tier I, II and III locations with a hub-and-spoke model

The company is deploying a hub-and-spoke model for its sourcing and underwriting business. Over the next three years, management plans to open 24 branches, with a 50:50 split between Tier I and Tier II/III cities. While the split of branches will be equal, we expect AUM to be skewed toward Tier I locations, as a) the company has existing builder loan projects at Tier I locations and b) volumes and ticket sizes are expected to be higher. PIEL has opened one branch by now (in Mumbai), and would open another one in Thane (outskirts of Mumbai) shortly. In the initial stages, it will enter more of Tier I markets and then move on to Tier II/III markets. PIEL will cater to the affordable housing segment too – management is confident that affordable housing supply will pick up in a big way (after 12 months or so), as most of the Top 10 developers in the large cities are seriously looking at this segment. Land prices in the outskirts of some cities have declined too, strengthening the affordable housing push.

Targeting a diversified loan book across product categories

Over the medium term, management expects the share of retail:non-retail loans to be 80:20. Within the retail segment, home loans will account for 80-85% of the loan book, and LAP for the rest. Construction finance loans in this segment will be of a smaller ticket size compared to those in the wholesale lending book. While the front-end sales team here will be different from the one in wholesale lending, the back-end team (for site appraisal, monitoring, etc.) will be the same. In addition, PIEL will cater to both the salaried and self-employed segments, with a higher share of self-employed customers (targeting 70% by FY20). Within LAP, the focus will be largely on residential properties, and no loan will be given for under-construction properties.

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Unique sourcing strategy; Diversified sourcing mix

PIEL's loan sourcing is expected to come from several avenues, such as a) 'B2B2C' – offering loans to home buyers of projects financed by PIEL, b) leveraging Brickex, a B2B aggregation platform launched by PIEL, which has over 10,000 distributors across Tier I cities, and c) DSAs. With the B2B2C model, the company is off to a good start and has already built AUM of INR2b, with customers coming from 30 residential projects that it has funded. Yields for these loans have been close to 9.5%. Management also spoke about offering home loans with differentiated repayment structures (EMI is low for the first five years and then increased) in some cases. This is to assist home buyers in purchasing a slightly bigger property than they would have otherwise bought. Currently, the company does not pay the builder any referral commission; however, management acknowledged that this could be a possibility in the future. With Brickex, management stated that sourcing costs are lower than most other DSAs, and more importantly, there is a higher level of customer stickiness.

Reiterate Buy; strong foundation for robust growth

PIEL has the distinction of being one of the few companies in India to generate 25%+ book value CAGR over the past 25+ years. We believe the company has the DNA to incubate and grow businesses in the niche segments. Introduction of the retail home loan product completes and complements its real estate lending suite. PIEL targets to scale up the book to INR150b over the next 2-3 years. While the first few years would have lower profitability due to start-up costs, we believe the company can generate 15%+ RoE in this business after 2-3 years with the targeted product mix. The overall financial services business will continue to grow at a robust pace and generate 20%+ RoE. The planned capital infusion (up to INR50b) will provide the much-needed ammunition for growth. We use SOTP to arrive at a target price of INR3,266. Buy.

Exhibit 1: PIEL: SOTP - Sep 2019 (without factoring in the proposed capital raise of up to -INR50b)

	Value (INR B)	Value (USD B)	INR per share	% To Total	Rationale
Lending Business	310	4.8	1,798	55	3.5x PBV; ROA/ROE of ~4%/20%+ - Loan CAGR of 40% FY17-20
Shriram Investments	86	1.3	500	15	Based on our Target Multiple; Implied 1.8x of invested capital
Pharma, IT and Others	167	2.6	969	30	Pharma EV/EBITDA 14x; IT EV/Sales of 4x
Target Value	564	8.7	3,266	100	Implied 3x Consolidated BV
Current market cap.	451	6.9	2,615		
Upside (%)	24.9	24.9	24.9		

Source: Company, MOSL

Financials and Valuations - Consolidated

INCOME STATEMENT								(INR m)
	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E	FY20E
Revenues	35,440	45,030	51,230	63,815	85,468	122,003	152,289	187,242
<i>Change (%)</i>	<i>50.7</i>	<i>27.1</i>	<i>13.8</i>	<i>24.6</i>	<i>33.9</i>	<i>42.7</i>	<i>24.8</i>	<i>23.0</i>
HealthCare	24,410	28,200	31,210	34,670	38,920	50,221	57,061	64,897
Financial Services	3,930	7,260	9,371	17,397	33,515	55,558	74,548	96,513
HFC Business	0	0	0	0	0	1,725	4,538	7,850
Info Mgmt	6,510	8,900	10,196	11,559	12,224	13,691	15,334	17,174
Others	590	670	453	188	809	809	809	809
EBITDA*	4,523	4,300	8,698	13,726	22,506	34,357	45,515	55,619
<i>Change (%)</i>	<i>33.8</i>	<i>-4.9</i>	<i>102.3</i>	<i>57.8</i>	<i>64.0</i>	<i>52.7</i>	<i>32.5</i>	<i>22.2</i>
HealthCare	100	933	299	3,266	6,338	9,500	11,878	13,864
Financial Services #	2,796	2,110	6,575	8,185	14,239	21,322	29,113	36,170
HFC Business #	0	0	0	0	0	523	1,150	1,807
Info Mgmt	1,628	1,257	1,824	2,276	1,929	3,012	3,373	3,778
Depreciation	2,096	2,469	2,899	2,554	3,817	4,118	4,418	4,718
HealthCare	1,457	1,560	1,927	2,115	2,904	3,154	3,404	3,654
Financial Services	6	14	17	26	24	25	25	25
HFC Business	0	0	0	0	0	0	0	0
Info Mgmt	633	896	954	414	889	939	989	1,039
EBIT*	2,427	1,831	5,799	11,172	18,689	30,239	41,097	50,900
<i>Change (%)</i>	<i>16.2</i>	<i>-24.6</i>	<i>216.7</i>	<i>92.6</i>	<i>67.3</i>	<i>61.8</i>	<i>35.9</i>	<i>23.9</i>
HealthCare	-1,358	-626	-1,628	1,151	3,434	6,346	8,474	10,209
Financial Services #	2,790	2,096	6,557	8,159	14,216	21,297	29,088	36,145
HFC Business #	0	0	0	0	0	523	1,150	1,807
Info Mgmt	995	361	870	1,862	1,040	2,073	2,384	2,739
Unallocated Inc/(Exp)	-4,001	-6,192	-2,407	-4,028	-5,487	-9,465	-9,665	-9,865
Core PBT	-1,574	-4,361	3,392	7,144	13,202	20,774	31,432	41,036
<i>Change (%)</i>	<i>-224.3</i>	<i>177.2</i>	<i>-177.8</i>	<i>110.6</i>	<i>84.8</i>	<i>57.4</i>	<i>51.3</i>	<i>30.6</i>
Exceptional Items	-191	14	26,962	457	-100	0	0	0
Reported PBT	-1,765	-4,348	30,354	7,600	13,103	20,774	31,432	41,036
Taxes	248	628	3,450	495	2,281	5,194	8,801	12,311
<i>Tax Rate (%)</i>	<i>-14.0</i>	<i>-14.4</i>	<i>11.4</i>	<i>6.5</i>	<i>17.4</i>	<i>25.0</i>	<i>28.0</i>	<i>30.0</i>
PAT	-2,013	-4,975	26,904	7,105	10,821	15,581	22,631	28,725
<i>Change (%)</i>	<i>-274.6</i>	<i>147.2</i>	<i>-640.8</i>	<i>-73.6</i>	<i>52.3</i>	<i>44.0</i>	<i>45.3</i>	<i>26.9</i>
Minority Interest	56	8	-3	0	-3	0	0	0
Share from Asso. Co	-42	-31	1,593	1,942	1,699	2,463	3,195	3,828
PAT Post MI	-2,111	-5,014	28,500	9,047	12,523	18,043	25,826	32,554
<i>Change (%)</i>	<i>-289.3</i>	<i>137.6</i>	<i>-668.4</i>	<i>-68.3</i>	<i>38.4</i>	<i>44.1</i>	<i>43.1</i>	<i>26.0</i>
Dividend (Including Tax)	3,533	10,599	4,154	3,635	4,227	6,135	8,781	11,394

* Ex Exceptional, # Post interest expenses; FY16 & FY17 nos based on IND AS

Financials and Valuations - Consolidated

BALANCE SHEET								(INR m)
Y/E MARCH	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E	FY20E
Equity Share Capital	345	345	345	345	345	345	345	345
Reserves and Surplus	106,891	92,866	133,910	129,138	148,481	160,389	177,434	198,594
Networth	107,236	93,211	134,255	129,484	148,826	160,734	177,779	198,939
Borrowings	76,881	95,519	71,863	162,788	304,510	462,564	631,873	816,243
Change (%)	275.6	24.2	-24.8	126.5	87.1	51.9	36.6	29.2
Other liabilities	18,404	26,316	13,908	17,526	29,058	35,402	44,772	57,343
Change (%)	26.0	43.0	-47.2	26.0	65.8	21.8	26.5	28.1
Total Liabilities	202,521	215,045	220,026	309,798	482,394	658,700	854,424	1,072,525
Loans+Investments	114,613	111,406	125,696	198,500	325,163	497,563	678,873	880,514
Change (%)	-2.6	-2.8	12.8	57.9	63.8	53.0	36.4	29.7
Goodwill	40,045	44,236	49,437	54,854	54,272	54,272	54,272	54,272
Fixed Assets	20,768	22,585	18,298	23,949	54,251	59,677	65,644	72,209
Other assets	27,094	36,818	26,595	32,495	48,707	47,188	55,635	65,530
Change (%)	204.4	35.9	-27.8	22.2	49.9	-3.1	17.9	17.8
Total Assets	202,521	215,045	220,026	309,798	482,394	658,700	854,424	1,072,525
Profitability Ratios (%)								
EBITDA Margin - IT	25.0	14.1	17.9	19.7	15.8	22.0	22.0	22.0
EBITDA Margin - Pharma	0.4	3.3	1.0	9.4	16.3	18.9	20.8	21.4
Core ROE	-1.6	-5.0	2.6	5.1	9.0	11.7	15.3	17.3
ROE	-1.9	-5.0	25.1	6.9	9.0	11.7	15.3	17.3
Valuations								
Book Value (INR)	621	540	778	750	863	932	1,030	1,153
BV Growth (%)	-4.6	-13.1	44.0	-3.6	14.9	8.0	10.6	11.9
Price-BV (x)					3.0	2.8	2.5	2.3
EPS (INR)	-12.2	-29.1	165.2	52.4	72.6	104.6	149.7	188.7
EPS Growth (%)	-289	138	-668	-68	38	44	43	26
Price-Earnings (x)					36.0	25.0	17.5	13.9
DPS (INR)	20	61	24	21	24	36	51	66
Dividend Yield (%)					0.9	1.4	1.9	2.5

E: MOSL Estimates

NOTES

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Piramal Enterprises

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