

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

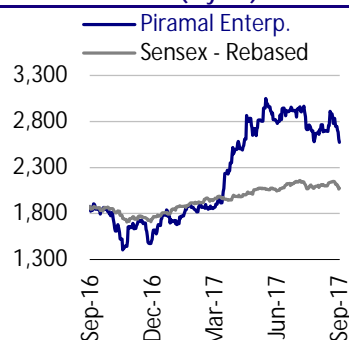
| | | | |
|----------------|------|------|------|
| P/E (x) | 36.0 | 25.0 | 17.5 |
| P/BV (x) | 3.0 | 2.8 | 2.5 |
| Div. Yield (%) | 0.9 | 1.4 | 1.9 |

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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