

Piramal Enterprises

BSE SENSEX	S&P CNX
39,059	11,604
Bloomberg	PIEL IN
Equity Shares (m)	199
M.Cap.(INRb)/(USD\$b)	343.5 / 4.8
52-Week Range (INR)	2796 / 1302
1, 6, 12 Rel. Per (%)	-7/-29/-25
12M Avg Val (INR M)	1896
Free float (%)	53.9

CMP: INR1,722 TP: INR2,200 (+28%) Buy

Loan book consolidation key priority; Pharma EBITDA margin expands

- Piramal Enterprises' (PIEL) PBT increased 29% YoY to INR7.3b in 2QFY20. However, with a tax rate of 36%, the company has not availed of the tax rate reduction this quarter.
- **Financial Services (FS): Loan book declined 6% QoQ to INR530b. PIEL securitized INR24b in the quarter which has been reported on books based on Ind-AS.** Net income (calc.) declined 7% QoQ to INR7.6b. However, PBT was sequentially flat.
- **PIEL has infused INR17b of equity in the FS business from the stake sale of SHTF done in 1Q.** Total equity in FS (ex Shriram Group) stands at INR143b. Debt to equity of FS declined to 2.9x versus 3.8x a quarter ago.
- **Pharma Services:** Pharma revenue grew 17% YoY to INR13.2b. **Global pharma revenue was up 17% YoY to INR12b, while India consumer business revenue increased 39% YoY to INR1.1b.** Reported global EBITDA margin improved to 24% from 22% a year ago.
- **Valuation view:** In the current environment, PIEL has focused on (a) reducing the top 10 exposures from INR140b to INR100b by Mar '20, (b) lowering the share of short-term borrowings and (c) diversifying the loan mix towards retail assets. The company has infused INR17b from the SHTF stake sale in the lending business and is committed to further infuse capital in this segment. Asset quality performance is a key monitorable. Our estimates do not factor in the proposed capital raise of \$750m. We derive an SOTP-based target price of **INR2,200** (FY21E based). **Buy.**

Financials & Valuations (INR b)

Y/E March	2019	2020E	2021E
Revenues	132.2	147.7	155.3
EBITDA	36.6	42.5	41.9
PAT	14.7	20.1	21.5
EPS (INR)	73.7	100.8	107.9
EPS Gr. (%)	-5.2	36.7	7.1
BV/Sh. (INR)	1,275	1,340	1,410
Payout (%)	38.0	29.2	35.0
Valuations			
P/E (x)	23.3	17.1	15.9
P/BV (x)	1.3	1.3	1.2
Div. Yield (%)	1.2	1.2	1.6

Quarterly Performance

Y/E March	FY19				FY20				(INR M)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY19	FY20
Revenues	29,025	31,441	34,891	36,797	35,063	36,036	37,845	38,781	132,153	147,723
Growth YoY %	28.8	24.0	22.1	23.0	20.8	14.6	8.5	5.4	24.2	11.8
Financial Services	15,586	17,316	18,405	19,328	20,144	19,540	19,149	19,365	70,634	78,198
Healthcare	10,658	11,204	11,571	14,765	11,726	13,164	13,191	16,457	48,197	54,538
HC Insights and Analytics	2,781	2,922	4,915	2,705	3,192	3,332	5,505	2,958	13,322	14,987
Segmental Results (Ex Exceptional)	7,831	8,832	11,108	8,812	10,289	11,199	11,207	9,786	36,582	42,481
Depreciation/Interest/Unallocated	2,798	3,134	2,821	3,054	4,229	3,880	4,000	3,673	11,807	15,781
Profit Before Tax (Ex Exceptional)	5,032	5,698	8,287	5,758	6,060	7,320	7,207	6,113	24,775	26,700
Growth YoY %	44.0	16.0	27.2	22.1	20.4	28.5	-13.0	6.2	26.2	7.8
Extra Ordinary Item	-4,523	0	0	-134	-113	-141	-125	-121	-4,656	-500
Reported Profit Before Tax	510	5,698	8,287	5,624	5,947	7,179	7,082	5,991	20,119	26,200
Growth YoY %	-85.4	16.0	27.2	19.3	1066.5	26.0	-14.5	6.5	2.4	30.2
Taxes	1,810	1,628	2,930	2,243	2,176	2,599	2,550	2,107	8,611	9,432
Tax rate %	355.1	33.0	33.0	34.0	36.6	36.2	36.0	35.2	42.8	36.0
Profit After Tax	-1,300	4,070	5,356	3,381	3,771	4,580	4,533	3,884	11,507	16,768
Growth YoY %	-152.5	35.0	21.8	19.7	-390.0	12.5	-15.4	14.9	-9.5	45.7
MI and Others	602	734	676	1,181	729	961	800	832	3,194	3,322
PAT	-698	4,804	6,033	4,562	4,500	5,541	5,333	4,716	14,701	20,090
Growth YoY %	-123.1	25.2	23.0	21.7	-744.6	15.3	-11.6	3.4	-5.2	36.7

Loan book flat YoY at
INR530b.

Lending business – loan book declines sequentially, asset quality stable

- **Loan book declined 6% QoQ to INR530b as the company was cautious on disbursements.** Within this, the retail housing book grew 5% QoQ to ~INR64b – it now accounts for 12% of total loan book (v/s 11% in 1QFY20). On the other hand, the real estate/corp. fin loan book declined 6%/12% QoQ.
- NIM remained under pressure with a contraction of 30bp QoQ to 5.4%. Cost of funds increased 70bp QoQ to 11%.
- **The share of bank borrowings/tier II bonds was up 400bp QoQ to 67%/6%, while that of CP reduced by 500bp QoQ to 2%. Total CP exposure is reduced to INR14.8b.**
- The GNPL ratio has been stable for the last three quarters at 0.9%. Stage 2 assets increased by 40bp QoQ to 0.9% of total loans at INR4.7b. Against this, total outstanding provisions amounted to 1.8% of loans (v/s 1.85% in the prior quarter).

Global pharma sales growth
of 17% YoY

Global pharma business growth stable

- Revenue increased 17% YoY to ~INR13.2b, driven by 17% YoY growth in the Global Pharma segment and 40% YoY growth in the India segment (off a low base).
- EBITDA margin improved 400bp/200bp YoY/QoQ to 24%.

Valuation and view

- In the current environment, PIEL is focused more on reducing the share of lump exposures, raising more long term liabilities and preserving balance sheet liquidity.
- The company is also committed to raising capital for the financial services business. This would help it reduce leverage and improve incremental cost of funds
- Asset quality is a key monitotable. Key risk to our estimates could stem from any change in regulatory norms for NBFCs and large defaults in real estate financing, if any.
- We arrive at a target price of **INR2,200** using SOTP (FY21 based). **Buy.**

Exhibit 1: SOTP (FY21E based)

	Value (INR B)	Value (USD B)	INR per share	% To Total	Rationale
Lending Business	267	3.8	1,343	61	1.7x PBV; ROA of 2.8%+ - Loan CAGR of 5% FY19-22
Shriram Group	45	0.6	226	10	Based on our TP; Implied 1.5x of invested capital; Post 20% Holdco
Pharma, IT and Others	126	1.8	631	29	Pharma EV/EBITDA 10x; IT EV/Sales of 4x
Target Value	437	6.2	2,200	100	Implied 1.5x Consolidated BV
Current market cap.	343	4.8	1,719		
Upside (%)	27.6	27.6	27.6		

Source: MOFSL, Company



Key conference call highlights

Financial Services business

Comments on the liability side

- Board meeting on 25th October to decide new capital raise. Company is planning to raise USD750m however instrument is yet to be decided.
- Remain committed to infuse INR80-100b new capital addition for FY20
- **CP exposure down to INR14b from INR180b+; MF exposure to CP is down to ~INR6b (vs INR150b+ a year ago)**
- INR450b of new liquidity received in the last one year; INR240b long term funds from banks etc; INR190b from repayment/prepayments from borrowers of this INR77b refinancing from banks/MF etc
- INR300b debt obligation repaid so far
- Expect borrowing cost to normalise in FY21 from the current elevated levels right now
- **Recent securitisation deal - INR23.72b amount received; INR33b exposure leading to 20% cash collateral; 10% is already prepaid; CoF 10.5%; Rated AA+**
- 9% of borrowings is from other corporate

Comments on assets side

- In an uncertain turbulent market not going for new business
- Disbursed INR50b towards retail in the last one year
- **Yields break up - RE Structured deals 16%+; Construction Fin 14-14.5%; CFG structured deals 16-18% and 13-14% for senior debt and housing 9%**
- Seeing improvement in yields due to lack of competition in the focused areas
- On the current infra – Company can do INR7-10b of monthly housing loan disbursement
- 50% of the housing comes from existing developer book financed project; Due to higher presence in MMR and higher share of MMR projects 45%+ housing loans come from MMR

Comments on asset quality

- **Top 10 loans exposure is down from INR180b as of March 2019 to INR140b as of September 2019 and management plans to bring it further down to INR100b by March 2020.**
- Out of 18 deals only 4 are yet to be resolved. Exposure of the remaining deals is just ~INR6b
- 81% of the projects in affordable and mid income segment. Even in this environment INR8-10b of sales on a monthly basis in the financed projects
- INR13b of working capital financing required in the exposure till July 2020
- Lodha - Focused on reducing exposure further by INR4-4.5b from current level of INR31b
- Omkar - No exposure to 1973; Piramal Mahalaxmi INR11b (receivable funding in parts); L&T Crescent Bay INR4b (receivable funding in parts)
- **Principal moratorium within Residential RE book is 18-19% (less than INR50b) - average duration is 19months; Overall loan book moratorium proportion is less than 10%.**
- 40%+ RE book is towards completion stage

Pharma and IT business

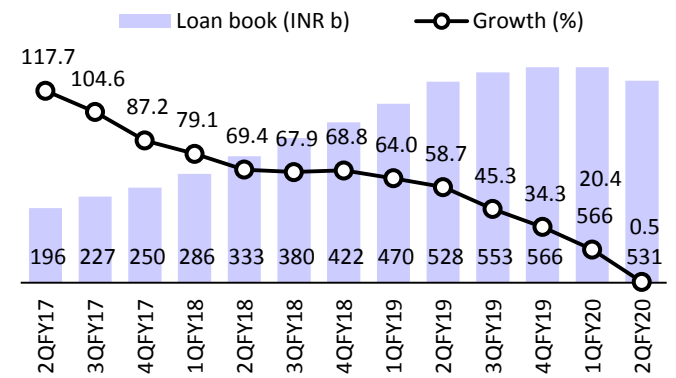
- Domestic Pharma – Entry would be largely by inorganic acquisition; Right opportunity and right valuation
- **Pharma business guidance – 25% topline growth; EBITDA margin of 25%+ in FY20**
- IT business guidance – 10% guidance
- IT business – focused on reducing cost; Started two operational centres in India(Bengaluru and Gurgaon)
- Debt break up – Pharma INR41b; IT INR49b

Other comments

- Well capitalised to focus on organic and inorganic opportunities
- Not yet moved to new tax rate

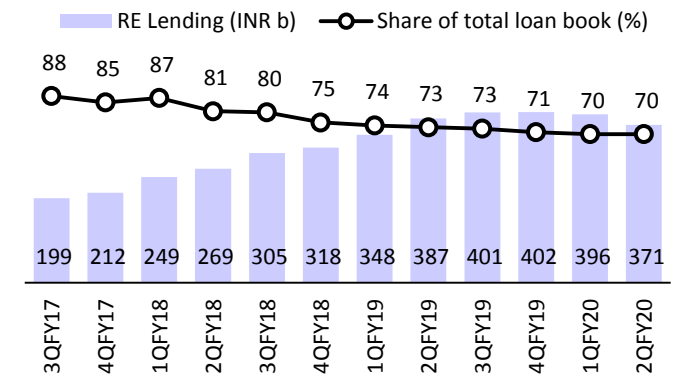
Story in charts

Exhibit 2: AUM book stable



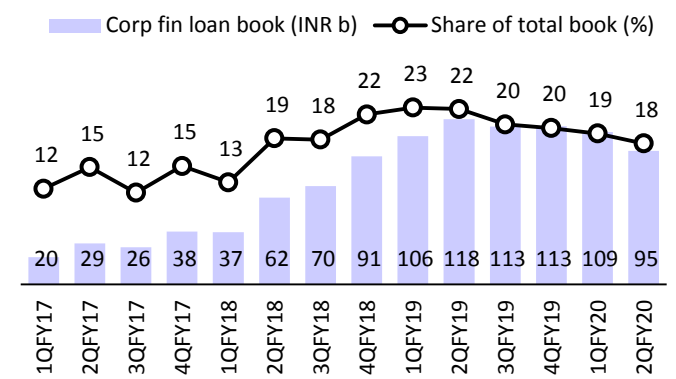
Source: MOFSL, Company

Exhibit 3: Share of real estate lending sequentially stable



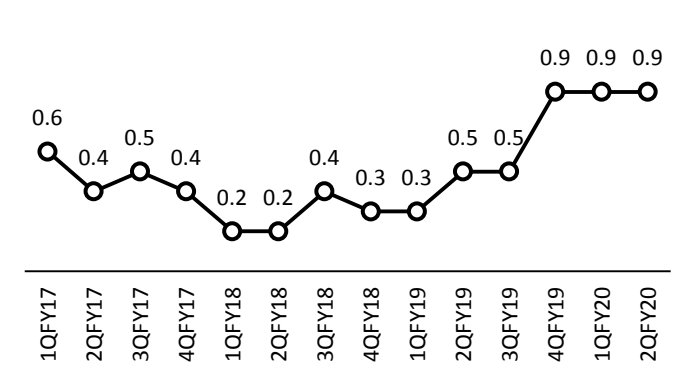
Source: MOFSL, Company

Exhibit 4: Corporate finance share on a downtrend



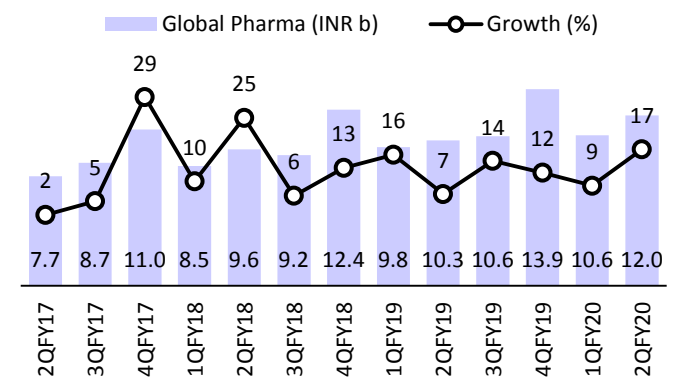
Source: MOFSL, Company

Exhibit 5: GNPL ratio stable for the last few quarters (%)



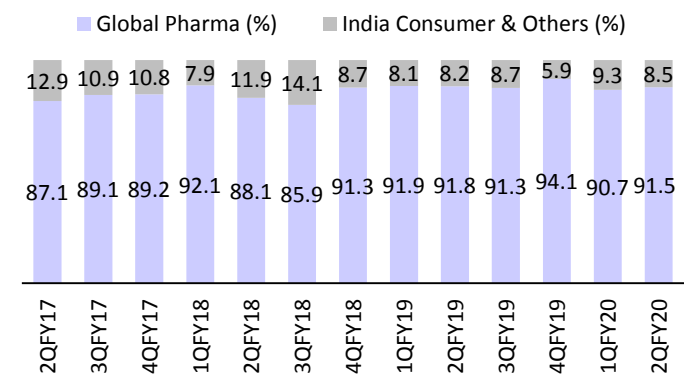
Source: MOFSL, Company

Exhibit 6: Global Pharma revenue growth up 800bp QoQ



Source: MOFSL, Company

Exhibit 7: Share of Indian Consumer declines sequentially



Source: MOFSL, Company

Exhibit 8: Financials – Valuation Matrix

	Rating	CMP (INR)	Mcap (USDb)	P/E (x)		P/BV (x)		RoA (%)		RoE (%)	
				FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
ICICIBC*	Buy	456	41.0	20.0	12.1	2.0	1.7	1.1	1.6	10.2	15.4
HDFCB	Buy	1,241	95.6	25.3	20.0	4.0	3.4	2.0	2.1	16.8	18.4
AXSB	Buy	715	28.3	29.7	15.4	2.3	2.0	0.8	1.3	8.4	14.0
KMB*	Neutral	1,613	43.8	34.7	28.7	4.6	4.0	1.9	2.0	14.1	15.0
IIB	Buy	1,333	11.4	14.8	10.7	2.5	2.0	1.9	2.2	18.6	21.1
RBL	Buy	259	1.7	15.9	8.9	1.4	1.2	0.8	1.1	8.9	14.4
Private Aggregate											
SBIN (cons)*	Buy	276	34.0	10.1	7.5	0.9	0.9	0.5	0.7	9.6	12.7
PNB	Neutral	61	3.9	-10.7	6.2	0.7	0.6	-0.3	0.5	-6.1	10.3
BOI	Neutral	66	3.0	-83.4	8.2	0.4	0.4	0.0	0.3	-0.5	4.7
BOB	Buy	93	4.9	16.0	3.9	0.6	0.5	0.2	0.8	3.3	13.3
Public Aggregate											
Banks Aggregate											
HDFC	Buy	2,145	51.4	67.8	45.2	358.6	399.2	1.9	2.0	14.7	15.7
LICHF	Buy	375	2.7	6.7	6.2	1.0	0.9	1.3	1.3	16.3	15.6
PNBHF	Buy	453	1.1	5.3	4.9	0.9	0.8	1.7	1.6	18.1	16.7
REPCO	Buy	285	0.3	5.9	5.2	1.0	0.8	2.6	2.6	18.1	17.3
SHTF	Buy	1,077	3.6	8.9	7.7	1.4	1.2	2.5	2.6	16.2	16.3
MMFS	Buy	333	3.0	12.2	10.5	1.7	1.5	2.4	2.4	15.1	15.6
BAF	Neutral	4,038	32.8	38.2	30.1	9.3	7.3	4.1	4.0	27.2	27.2
CIFC	Buy	289	3.2	15.1	13.0	3.0	2.5	2.4	2.3	21.8	20.9
SCUF	Buy	1,325	1.2	7.7	7.1	1.2	1.0	3.8	3.8	16.5	15.4
LTFH	Buy	88	2.4	7.1	6.2	1.1	1.0	2.3	2.5	16.8	16.5
MUTH	Neutral	683	3.9	11.0	9.1	2.5	2.1	6.1	6.3	24.7	25.1
INDOSTAR	Buy	184	0.2	6.9	5.2	0.5	0.5	2.0	2.6	7.9	9.4
MAS	Buy	732	0.5	20.7	17.3	3.8	3.3	4.9	4.9	21.1	21.3

Source: MOFSL, Company

Financials and valuations

INCOME STATEMENT		(INR Mn)						
	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Revenues	51,230	63,815	85,468	106,394	132,153	147,723	155,346	174,114
<i>Change (%)</i>	13.8	24.6	33.9	24.5	24.2	11.8	5.2	12.1
HealthCare	31,210	34,670	38,927	43,220	47,860	54,538	61,473	69,291
Financial Services	9,371	17,397	33,515	49,816	70,634	78,198	77,088	86,023
Info Mgmt	10,196	11,559	12,224	12,092	13,322	14,987	16,786	18,800
Others	453	188	802	1,266	337	0	0	0
EBITDA*	8,698	13,726	21,007	29,611	36,582	42,481	41,940	45,354
<i>Change (%)</i>	102.3	57.8	53.0	41.0	23.5	16.1	-1.3	8.1
HealthCare	299	3,266	6,028	8,001	9,809	11,702	13,278	14,948
Financial Services #	6,575	8,185	12,837	19,933	24,507	27,332	24,969	26,271
Info Mgmt	1,824	2,276	2,143	1,677	2,266	3,447	3,693	4,136
EBIT*	5,799	11,172	17,190	24,838	31,380	35,856	34,865	37,829
<i>Change (%)</i>	216.7	92.6	53.9	44.5	26.3	14.3	-2.8	8.5
HealthCare	-1,628	1,151	3,124	4,244	5,880	6,523	7,850	9,269
Financial Services #	6,557	8,159	12,813	19,897	24,431	27,332	24,969	26,271
Info Mgmt	870	1,862	1,254	697	1,069	2,000	2,046	2,289
Unallocated Inc/(Exp)	-2,407	-4,028	-3,988	-5,200	-6,605	-9,156	-8,515	-8,558
Core PBT	3,392	7,144	13,202	19,638	24,775	26,700	26,349	29,270
<i>Change (%)</i>	-177.8	110.6	84.8	48.7	26.2	7.8	-1.3	11.1
Exceptional Items	26,962	457	-99	0	-4,656	-500	0	0
Reported PBT	30,354	7,600	13,103	19,638	20,119	26,200	26,349	29,270
Taxes	3,450	495	2,281	6,928	8,611	9,432	8,432	9,366
<i>Tax Rate (%)</i>	11.4	6.5	17.4	35.3	42.8	36.0	32.0	32.0
PAT	26,904	7,105	10,821	12,710	11,507	16,768	17,918	19,904
<i>Change (%)</i>	-640.8	-73.6	52.3	17.5	-9.5	45.7	6.9	11.1
Minority Interest	-3	0	-3	0	0	0	0	0
Share from Asso. Co	1,593	1,942	1,699	2,801	3,194	3,322	3,605	3,926
PAT Post MI	28,500	9,047	12,523	15,511	14,701	20,090	21,522	23,830
<i>Change (%)</i>	-668.4	-68.3	38.4	23.9	-5.2	36.7	7.1	10.7
Dividend (Including Tax)	4,154	3,635	4,348	5,415	6,065	7,031	7,533	8,341

* Ex Exceptional, # Post interest expenses; FY16-18 nos based on IND AS; FY18 Excluding one off DTA of INR35.6b

Financials and valuations

BALANCE SHEET								(INR Mn)
Y/E MARCH	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Equity Share Capital	345	345	345	399	399	399	399	399
Reserves (Ex OCI)	119,925	121,102	133,609	243,287	253,732	266,790	280,779	296,269
Networth	120,270	121,447	133,954	243,686	254,131	267,189	281,178	296,668
OCI	13,985	8,037	14,872	21,977	18,430	18,430	18,430	18,430
Networth	134,255	129,484	148,826	265,662	272,560	285,618	299,608	315,097
Change (%)	44.0	-3.6	14.9	78.5	2.6	4.8	4.9	5.2
Borrowings	71,863	162,788	304,510	441,608	559,867	477,724	537,596	638,388
Change (%)	-24.8	126.5	87.1	45.0	26.8	-14.7	12.5	18.7
Other liabilities	13,908	17,526	29,058	20,734	23,834	23,834	28,650	34,676
Change (%)	-47.2	26.0	65.8	-28.6	15.0	0.0	20.2	21.0
Total Liabilities	220,026	309,798	482,394	728,004	856,261	787,176	865,853	988,162
Loans+Investments	125,696	198,500	325,163	514,984	645,325	563,701	614,662	698,749
Change (%)	12.8	57.9	63.8	58.4	25.3	-12.6	9.0	13.7
Goodwill	49,437	54,854	54,272	56,326	59,395	59,395	59,395	59,395
Fixed Assets	18,298	23,949	54,251	57,402	57,510	63,261	69,587	77,241
Other assets	26,595	32,495	48,707	99,293	94,032	100,821	122,210	152,777
Change (%)	-27.8	22.2	49.9	103.9	-5.3	7.2	21.2	25.0
Total Assets	220,026	309,798	482,394	728,004	856,261	787,176	865,853	988,162
Profitability Ratios (%)								
	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
EBITDA Margin - IT	17.9	19.7	17.5	13.9	17.0	23.0	22.0	22.0
EBITDA Margin - Pharma	1.0	9.4	15.5	18.5	20.5	21.5	21.6	21.6
Core ROE	2.8	5.5	9.8	8.2	5.9	7.7	7.8	8.2
ROE	26.7	7.5	9.8	8.2	5.9	7.7	7.8	8.2
Valuations								
Book Value (INR)	697	704	776	1,222	1,275	1,340	1,410	1,488
BV Growth (%)	29.0	1.0	10.3	57.4	4.3	5.1	5.2	5.5
Price-BV (x)				2.0	1.9	1.8	1.7	1.6
EPS (INR)	165.2	52.4	72.6	77.8	73.7	100.8	107.9	119.5
EPS Growth (%)	-668	-68	38	7	-5	37	7	11
Price-Earnings (x)				30.8	32.5	23.8	22.2	20.1
DPS (INR)	20	18	21	25	28	29	38	42
Dividend Yield (%)				1.0	1.2	1.2	1.6	1.7

E: MOSL Estimates

Corporate profile

Company description

Piramal Enterprises Ltd., the flagship company of the Piramal Group, has a fundamental position in the Pharma, Healthcare Information Management, and Financial Services. In 2010, PIEL sold its domestic formulations business at a valuation of ~9x sales. It also commenced the wholesale lending business, with a particular focus on real estate lending. In May 2013, it acquired a 10% equity stake in Shriram Transport Finance followed by a 20% equity stake in Shriram Capital Limited, and in June, 2014, acquired an additional 9.9% stake in Shriram City Union Finance Limited. In June 2019, it sold its stake in SHTF.

Exhibit 1: Sensex rebased

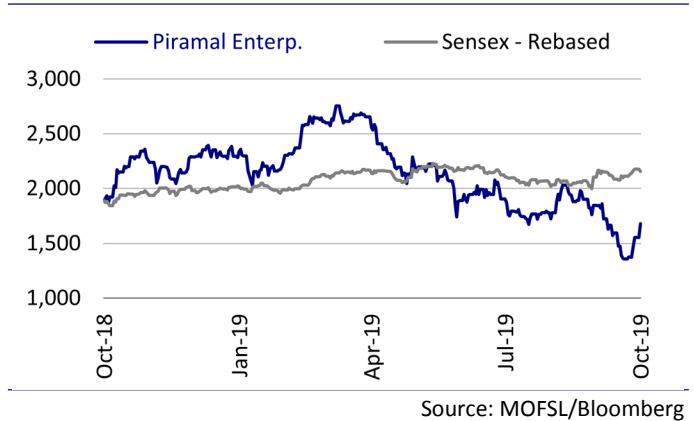


Exhibit 2: Shareholding pattern (%)

	Sep-19	Jun-19	Sep-18
Promoter	46.1	46.1	50.7
DII	10.0	9.1	4.9
FII	29.3	29.3	26.9
Others	14.6	15.6	17.6

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
LIC of India	8.3
East Bridge Capital Master Fund Limited	4.4
East Bridge Capital Master Fund I Ltd	3.1
Caisse De Depot Et Placement Du Quebec	2.2
Indiahold Limited	2.2

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Ajay G Piramal	Chairman
Swati A Piramal	Vice Chairperson
Vijay Shah	Executive Director & COO
Bipin Singh	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Anand Piramal	N Vaghul*
Nandini Piramal	R A Mashelkar*
Deepak Satwalekar*	S Rama Dorai*
Gautam Banerjee*	Siddharth Mehta*
Goverdhan Mehta*	Arundhati Bhattacharya*
Keki Dadiseth*	

*Independent

Exhibit 6: Auditors

Name	Type
Deloitte Haskins & Sells LLP	Statutory
G R Kulkarni & Associates	Cost Auditor
N L Bhatia & Associates	Secretarial Audit

Source: Capitaline

Exhibit 7: MOFSL forecast v/s consensus

EPS (INR)	MOFSL forecast	Consensus forecast	Variation (%)
FY20	100.8	103.9	-3.0
FY21	107.9	122.1	-11.6
FY22	119.5	142.1	-15.9

Source: Bloomberg

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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