

# Piramal Enterprises

**BSE SENSEX**  
59,413

**S&P CNX**  
17,711



Bloomberg	PIEL IN
Equity Shares (m)	212
M.Cap.(INRb)/(USD\$)	639.7 / 8.6
52-Week Range (INR)	2857 / 1199
1, 6, 12 Rel. Per (%)	-2/27/52
12M Avg Val (INR M)	2590

## Financials & Valuations (INR b)

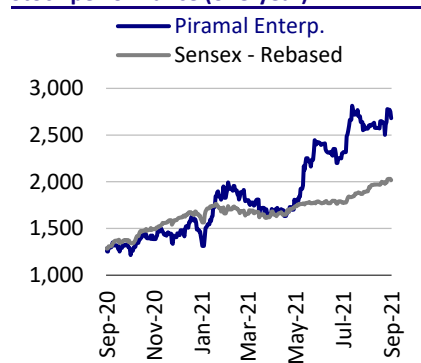
Y/E March	2021	2022E	2023E
Revenues	128.1	149.0	183.6
EBITDA	36.8	38.1	46.4
PAT	14.1	27.6	34.6
EPS (INR)	62.6	116.3	145.9
EPS Gr. (%)	-355	86	25
BV/Sh. (INR)	1,427	1,506	1,601
Payout (%)	56	35	35
<b>Valuations</b>			
P/E (x)	42.2	22.7	18.1
P/BV (x)	1.9	1.8	1.6
Div. Yield (%)	1.3	1.5	1.9

## Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	43.5	46.1	46.1
DII	9.8	10.5	9.9
FII	33.9	29.8	30.3
Others	12.8	13.6	13.8

FII Includes depository receipts

## Stock performance (one-year)



**CMP: INR2,680**

**TP: INR3,150 (+19%)**

**Buy**

## Completion of the DHFL acquisition a positive; transitioning from a 'trust me' to a 'show me' story in Retail

- Piramal Enterprises (PIEL) reported completion of DHFL's acquisition after it paid INR342.5b to the latter's creditors. This included an upfront cash component of INR147b and deferred component of INR195.5b paid via 10-year NCDs raised at 6.75% p.a. Principal on NCDs will be repaid at 5% p.a. for the first five years and 15% p.a. thereafter for the next five years.
- As per the resolution plan, there was an additional carve out consideration of INR38.1b from the available cash on Dewan Housing Finance's (DHFL) Balance Sheet, leading to a total recovery of INR380.6b for its creditors and deposit holders.
- DHFL also has a Life Insurance JV with Pramerica. As shared by the management earlier, it will be a two-step acquisition. Piramal Capital & Housing Finance (PCHFL), the HFC and the wholly-owned subsidiary of PEL, will first merge with DHFL and subsequently the combined merged entity would be renamed as PCHFL.
- Post-merger, the Retail loan book will be 5x of PIEL's current Retail loans and the retail-to-wholesale mix will be 40:60 (MOSL estimate). The management said it will improve this mix to 50:50 in the near-term (within one-year) and 67:33 over the mid-to-longer term. We have covered details on the significant improvement in distribution footprint, customer franchise, and liability profile in Exhibit 5.
- While Phase I (consolidation) was a 'trust me' story, Phase II and III in PIEL's transformation agenda has to be a 'show me' story, where PCHFL will have to scale up DHFL's mortgage franchise and leverage the platform to effectively cross-sell its other organic Retail products to the customer pool.
- With the completion of the DHFL acquisition, incremental disbursements in FY22 would be driven largely by the Home Loan business and cross-selling of PIEL's organic products to DHFL's ~1m life-to-date customer base. Though there are still some moving variables, we have incorporated the consolidation of DHFL's loan book in PCHFL in our estimates. Post this, **we forecast ~28% loan book CAGR over FY21-24E and ~13% CAGR over FY22-24E. It has ECL provisions of 5.8% on its total AUM, which is healthy and adequate.** We maintain our Buy rating with a TP of INR3,150/share (Jun'23E SoTP-based).

## Deep diligence undertaken on DHFL's retail portfolio

- PIEL has addressed the credit/fraud risk while undertaking due diligence on DHFL's Retail portfolio. In addition to financial and performance diligence conducted on the entire loan book, it has also conducted physical diligence on a sample set of ~2,620 customers by physical visits/verification and also by establishing the title in the property/mortgage documents.
- The management has ruled out possibilities of multiple loans from different institutions on the same property by creating a charge on the mortgaged property: generating an asset reference number for all live loan accounts.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

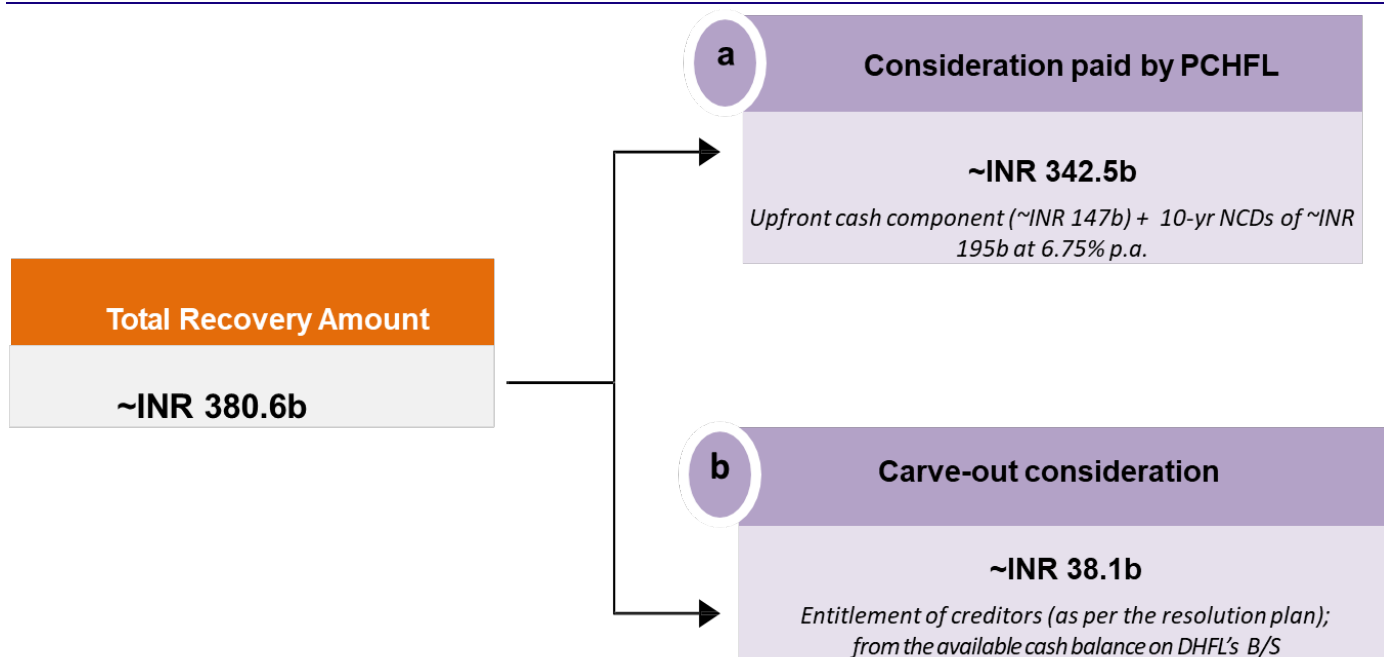
Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

- The due diligence team prepared proprietary models to predict default risk over the next 12 months in the DHFL portfolio and to quantify potential credit losses. These credit risk models also segmented the DHFL portfolio into 'high', 'medium', and 'low' risk.
- The accuracy of the model was put to test during the second COVID wave, and incremental NPA formation was from the 'high risk' segment, predicted by credit risk models.
- The output of these proprietary credit risk models has been adequately factored in the consideration paid for DHFL, ruling out possibilities of any major negative surprise on asset quality in the acquired Retail loan pool of DHFL. Acquired wholesale loans, in our view, would be marked down to ~INR30b.

#### Valuation and view

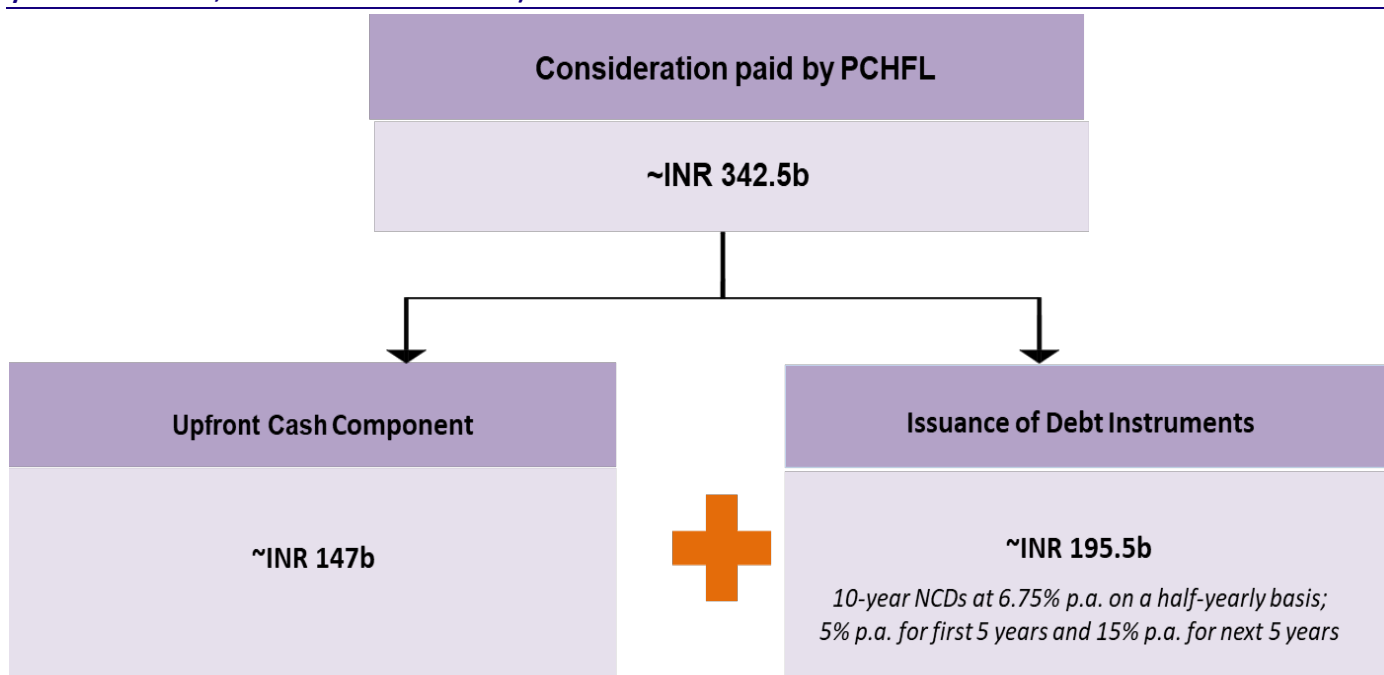
- Over the past two years, PIEL has: a) strengthened its Balance Sheet by running down its Wholesale loan book, b) reduced the top 10 exposures, c) brought equity capital into the company through multiple means, d) improved the texture of its borrowings by reducing CPs, and e) fortified itself against contingencies, with ECL provisions at 5.8% of AUM.
- DHFL's deposit license was canceled by RBI in the aftermath of the events in the company, and as such this acquisition does not come along with a deposit taking license. PCHFL will have to separately apply for a deposit licence to the RBI, which will evaluate it independently and decide.
- Mortgage has the potential for multi-year strong growth. This would be complemented by PIEL's organic multi-asset retail platform, which has been built to be 'digital' at the core, but 'phygital' for the end-customer. Over the next three years, we expect the company to make meaningful inroads into Retail. Product diversification within Retail would help the company deliver strong growth and lower concentration risk. We expect the Financial Services business to deliver ~2.3% RoA/10% RoE over the medium term (post building in the DHFL acquisition). We have maintained our target multiple of 1.8x for the Financial Services business. Using SoTP, we arrive at TP of **INR3,150/share** (Jun'23E based). We maintain our **BUY** rating.

**Exhibit 1: PCHFL paid a consideration of INR342.5b for DHFL. Additionally, there was a carve out consideration of INR38.1b**



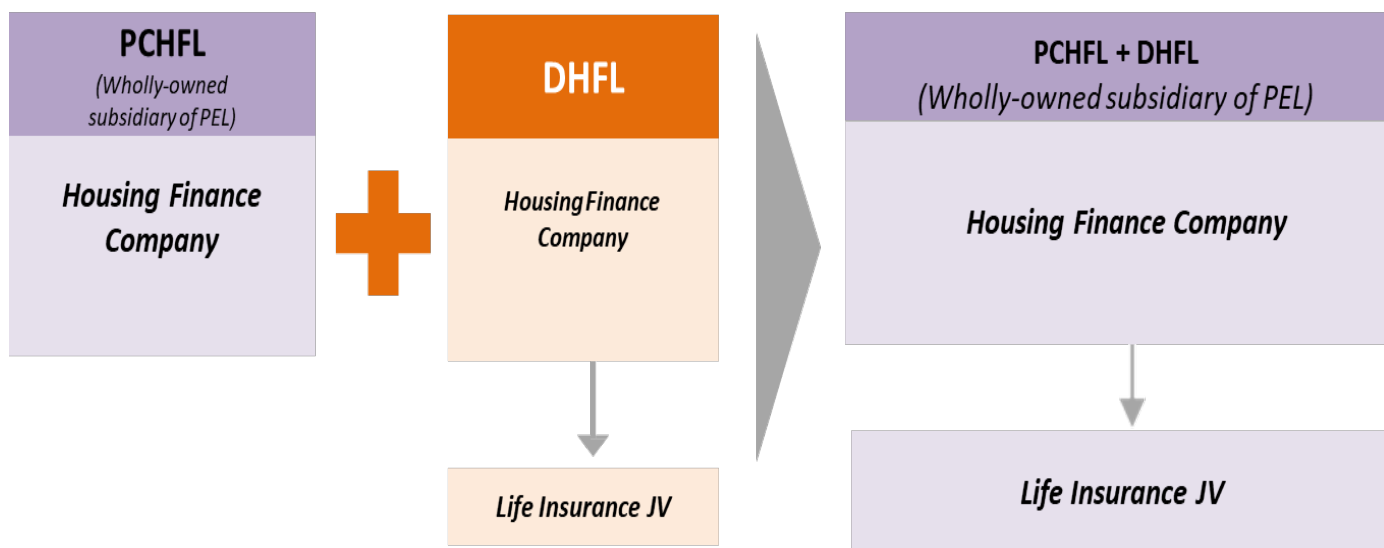
Source: MOFSL, Company

**Exhibit 2: Upfront cash component of INR147b (~43% of consideration) and delayed component of INR195.5b (paid via 10-year NCD at 6.75%; ~57% of the consideration)**



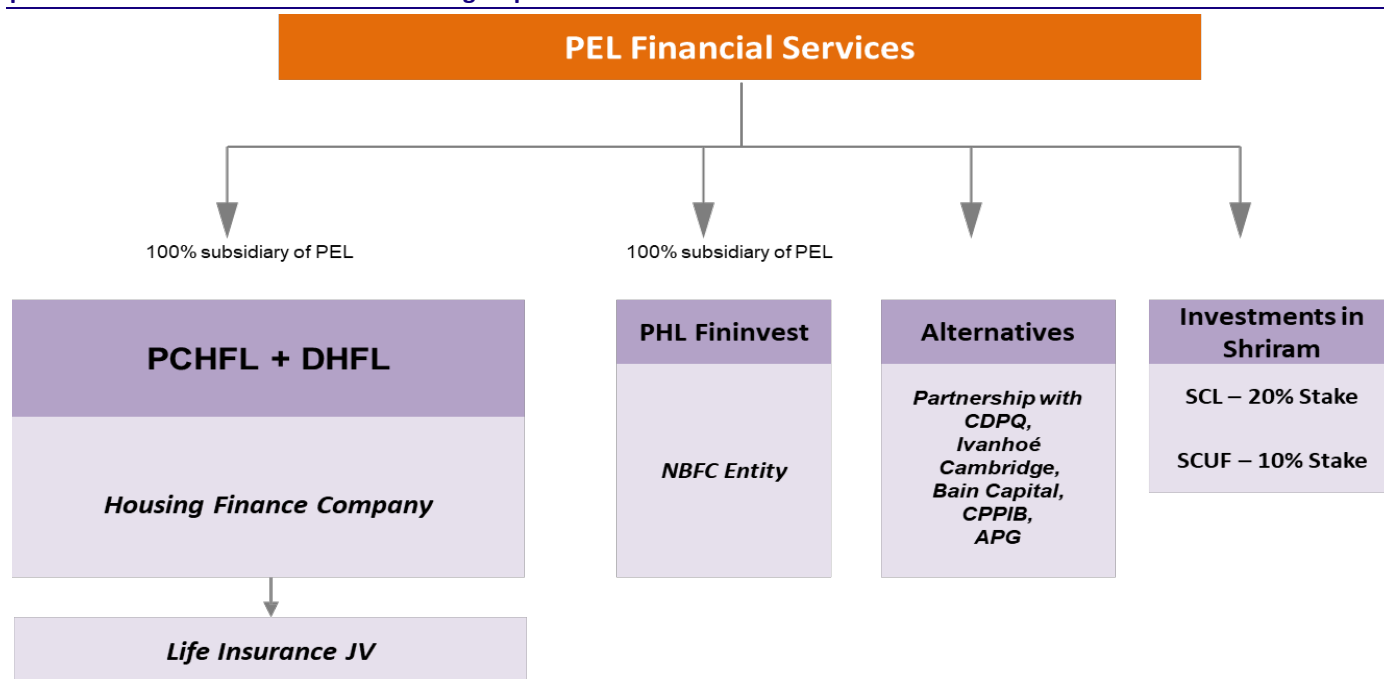
Source: MOFSL, Company

**Exhibit 3: Two-step acquisition: PCHFL, the HFC, and the wholly-owned subsidiary of PEL will first merge with DHFL and subsequently the combined merged entity would be renamed as PCHFL**



Source: MOFSL, Company

**Exhibit 4: PEL Financial Services to house an HFC (PCHFL + DHFL), an NBFC (PHL Fininvest), alternative AUM with various partners and investments in the Shriram group**



Source: MOFSL, Company

**Exhibit 5: Customer franchise, scale, distribution, and liabilities profile post the merger with DHFL**

Retail size and loan mix	❖ Retail loan book growth	5x
	❖ Retail-to-Wholesale mix	40:60
Scale	❖ States/UTs	24
	❖ Cities/towns	236
	❖ Branches	301
Customers	❖ No. of customers (Life-to-date)	~1m
	❖ ATS	1.7m
	❖ Self-employed: Salaried mix	56:44
Portfolio quality	❖ Percentage of loans with a LTV of less than or equal to 75%	90
	❖ Percentage of loans towards fully constructed properties	78
	❖ Market value of security in relation to loans	2.6x
Liabilities	❖ Borrowing cost	9.5%
	❖ Cost of 10-year NCDs	6.75%
	❖ Weighted average maturity of borrowings	Around four years

Source: MOFSL, Company

**Exhibit 6: SoTP valuation (Jun'23E based)**

	Value (INR b)	Value (USD b)	INR per share	As a percentage of total	Rationale
Lending business	403	5.4	1,701	54	❖ 1.8x P/BV
Pharma business	252	3.4	1,064	34	❖ Pharma EV/EBITDA: 19x; EV of INR315b; 80% stake; 20% holding company discount
Shriram Group	62	0.8	261	8	❖ Based on our TP for SHTF and SCUF
Unallocated NW	29	0.4	124	4	❖ 1x P/BV (net of DTA, OCI, and Shriram Group allocated NW)
<b>Total value</b>	<b>747</b>	<b>10.0</b>	<b>3,150</b>	<b>100</b>	❖ <b>Implied 1.9x consolidated BV</b>
Current market cap.	626	8.4	2,641		
<b>Upside (%)</b>	<b>19.3</b>	<b>19.3</b>	<b>19.3</b>		

Source: MOFSL, Company

**Exhibit 7: Accretion to the net loans on the balance sheet**

Particulars	INR B
Total consideration paid for DHFL (A)	342.5
Cash on DHFL Balance sheet (B)	110.0
<b>Effective consideration [ C= (A) - (B) ]</b>	<b>232.5</b>
*Marked-down DHFL Wholesale [D]	30.0
Marked-down DHFL Retail [ E = (C) - (D) ]	202.5

Source: MOFSL, Company; \*Note: MOSL Estimates based on bids submitted by various bidders for the wholesale business of DHFL

**Exhibit 8: Erstwhile DHFL Loans (as Reported)**

INR m	4QFY20	4QFY21	1QFY22
Wholesale loans (gross) [including accrued interest]	4,95,850	5,42,486	5,53,561
<b>Wholesale loans (net)</b>	<b>3,07,320</b>	<b>94,209</b>	<b>95,032</b>
Haircut (wholesale) %	38	83	83
<b>Retail loans (net)</b>	<b>3,54,710</b>	<b>2,90,344</b>	
On-balance sheet loans (net)	6,62,030	3,84,553	

Source: MOFSL, Company

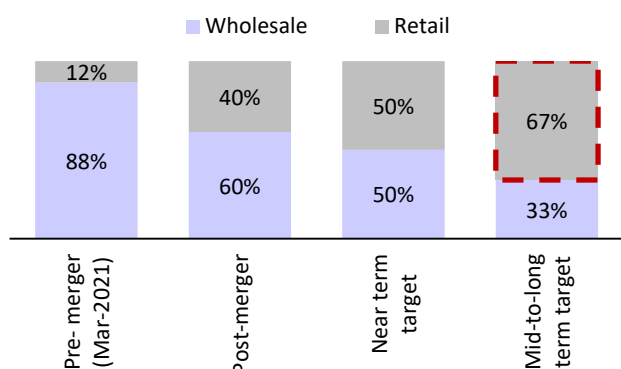
**Exhibit 9: Scenario Analysis on DHFL retail loans (basis MOSL estimates)**

INR m	Scenario 1	Scenario 2	Scenario 3
<b>Reported Retail loans (4QFY21, net)</b>	<b>2,90,344</b>	<b>2,90,344</b>	<b>2,90,344</b>
<b>Mark down</b>	<b>87,844</b>		<b>20,000</b>
<b>Provisions</b>		<b>87,844</b>	<b>67,844</b>
Marked-down DHFL Retail (net)	2,02,500	2,02,500	2,02,500

Source: MOFSL, Company

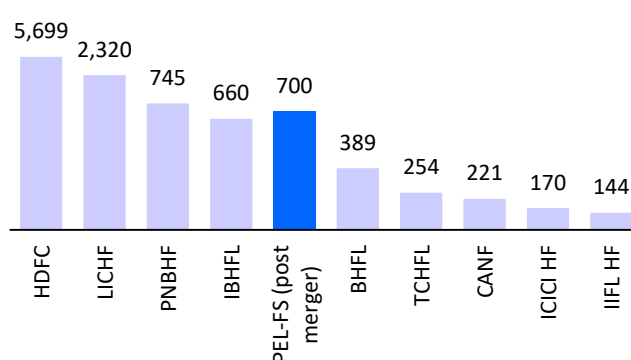
## Key exhibits

Exhibit 10: Phase II and III will further improve granularity



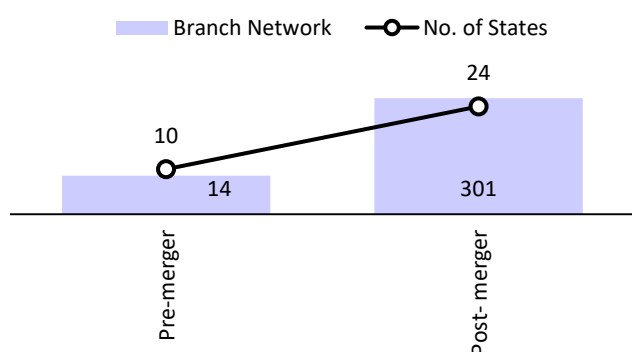
Source: MOFSL, company; Note: Post-merger mix based on MOSL estimates

Exhibit 11: PCHFL has potential to become the fourth/fifth largest HFC (INR b)



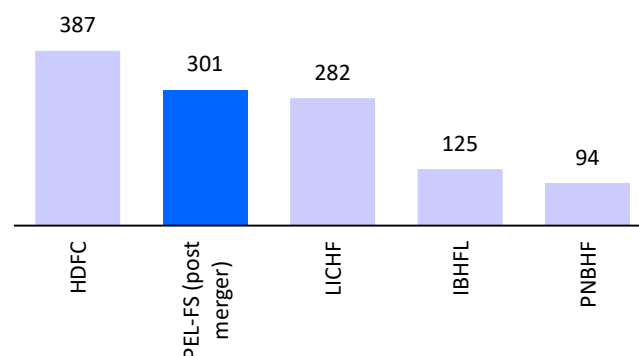
Source: MOFSL, Company

Exhibit 12: PCHFL to have a pan-India wide distribution network



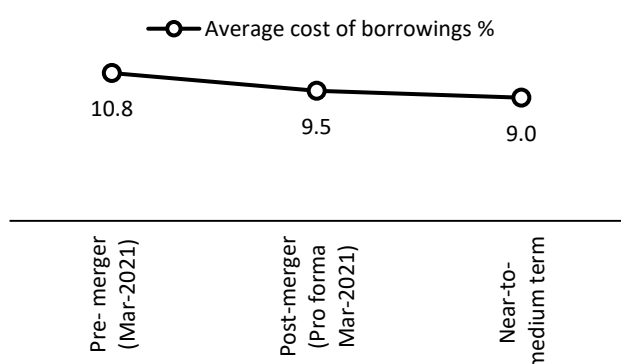
Source: MOFSL, Company

Exhibit 13: Merged entity to have the second largest branch network among peer HFCs



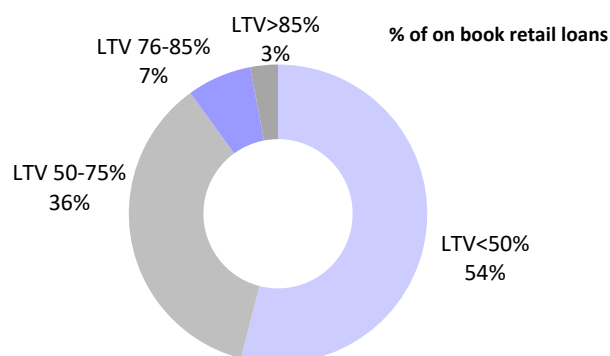
Source: MOFSL, Company

Exhibit 14: CoF benefit led by improved ALM profile and increasing granularity in the loan book



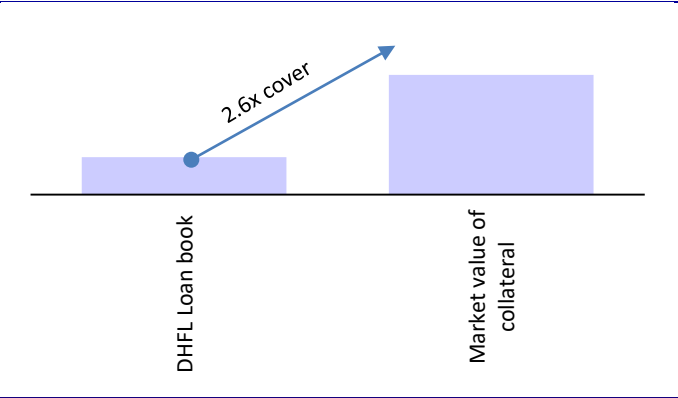
Source: MOFSL, company; Note: Near-to-medium term based on MOFSL estimates

Exhibit 15: Erstwhile DHFL – around 90% of loans have a LTV of less than 75%



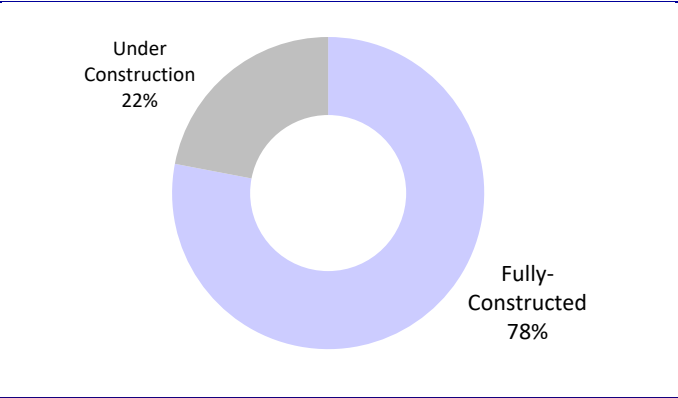
Source: MOFSL, Company

Exhibit 16: Erstwhile DHFL – adequate collateral cover in retail loans (2.6x)



Source: MOFSL, Company

Exhibit 17: Erstwhile DHFL – Low exposure towards under construction properties



Source: MOFSL, Company

## Financials and valuations

Income Statement							INR m		
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>63,815</b>	<b>85,468</b>	<b>1,06,394</b>	<b>1,32,153</b>	<b>1,30,683</b>	<b>1,28,094</b>	<b>1,49,038</b>	<b>1,83,639</b>	<b>2,06,304</b>
<i>Change (%)</i>	24.6	33.9	24.5	24.2	-1.1	-2.0	16.4	23.2	12.3
Healthcare	34,670	38,927	43,220	47,860	54,189	57,759	71,852	83,345	95,196
Financial Services	17,397	33,515	49,816	70,634	76,494	70,334	77,185	1,00,294	1,11,107
Info. Mgmt.	11,559	12,224	12,092	13,322					
Others	188	802	1,266	337					
<b>EBITDA*</b>	<b>13,726</b>	<b>21,007</b>	<b>29,611</b>	<b>36,582</b>	<b>17,889</b>	<b>36,832</b>	<b>38,441</b>	<b>46,441</b>	<b>52,671</b>
<i>Change (%)</i>	57.8	53.0	41.0	23.5	-51.1	105.9	4.4	20.8	13.4
Healthcare	3,266	6,028	8,001	9,809	14,336	12,828	15,808	19,169	22,371
Financial Services#	8,185	12,837	19,933	24,507	3,553	24,004	22,634	27,271	30,300
Info. Mgmt.	2,276	2,143	1,677	2,266					
<b>EBIT*</b>	<b>11,172</b>	<b>17,190</b>	<b>24,838</b>	<b>31,380</b>	<b>12,686</b>	<b>31,223</b>	<b>32,657</b>	<b>40,407</b>	<b>46,388</b>
<i>Change (%)</i>	92.6	53.9	44.5	26.3	-59.6	146.1	4.6	23.7	14.8
HealthCare	1,151	3,124	4,244	5,880	9,208	7,294	10,024	13,136	16,087
Financial Services#	8,159	12,813	19,897	24,431	3,478	23,929	22,634	27,271	30,300
Info. Mgmt.	1,862	1,254	697	1,069					
<b>Unallocated Inc./ (Exp.)</b>	<b>-4,028</b>	<b>-3,988</b>	<b>-5,200</b>	<b>-6,605</b>	<b>-3,510</b>	<b>370</b>	<b>-374</b>	<b>-374</b>	<b>-374</b>
<b>Core PBT</b>	<b>7,144</b>	<b>13,202</b>	<b>19,638</b>	<b>24,775</b>	<b>9,176</b>	<b>31,593</b>	<b>32,283</b>	<b>40,032</b>	<b>46,013</b>
<i>Change (%)</i>	110.6	84.8	48.7	26.2	-63.0	244.3	2.2	24.0	14.9
Exceptional Items	457	-99	0	-4,656	0	-419	0	0	0
<b>Reported PBT</b>	<b>7,600</b>	<b>13,103</b>	<b>19,638</b>	<b>20,119</b>	<b>9,176</b>	<b>31,173</b>	<b>32,283</b>	<b>40,032</b>	<b>46,013</b>
<b>Taxes</b>	<b>495</b>	<b>2,281</b>	<b>6,928</b>	<b>8,611</b>	<b>19,604</b>	<b>20,429</b>	<b>8,071</b>	<b>10,008</b>	<b>11,503</b>
<i>Tax Rate (%)</i>	6.5	17.4	35.3	42.8	213.7	65.5	25.0	25.0	25.0
<b>PAT</b>	<b>7,105</b>	<b>10,821</b>	<b>12,710</b>	<b>11,507</b>	<b>-10,429</b>	<b>10,744</b>	<b>24,212</b>	<b>30,024</b>	<b>34,510</b>
<i>Change (%)</i>	-73.6	52.3	17.5	-9.5	-190.6	-203.0	125.3	24.0	14.9
Minority Interest	0	-3	0	0	0	0	0	0	0
Share from Asso. Co	1,942	1,699	2,801	3,194	4,896	3,384	3,656	4,570	5,240
<b>PAT Post MI</b>	<b>9,047</b>	<b>12,523</b>	<b>15,511</b>	<b>14,701</b>	<b>-5,533</b>	<b>14,129</b>	<b>27,868</b>	<b>34,594</b>	<b>39,750</b>
<i>Change (%)</i>	-68.3	38.4	23.9	-5.2	-137.6	-355.3	97.2	24.1	14.9
<b>Dividend (including tax)</b>	<b>3,635</b>	<b>4,348</b>	<b>5,415</b>	<b>6,065</b>	<b>3,792</b>	<b>7,880</b>	<b>9,754</b>	<b>12,108</b>	<b>13,913</b>

\*Ex: exceptional, #post interest expenses; FY16-18 numbers based on Ind AS; excluding one off DTA of INR35.6b in FY18. E: MOFSL estimates



## Financials and valuations

Balance Sheet							INR m		
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	345	345	424	424	451	451	474	474	474
Reserves (excl. OCI)	1,21,102	1,33,609	2,43,287	2,53,732	2,86,835	3,21,299	3,56,890	3,79,377	4,05,214
<b>Net worth</b>	<b>1,21,447</b>	<b>1,33,954</b>	<b>2,43,711</b>	<b>2,54,156</b>	<b>2,87,286</b>	<b>3,21,750</b>	<b>3,57,364</b>	<b>3,79,851</b>	<b>4,05,688</b>
OCI	8,037	14,872	21,977	18,430	18,430	18,430	18,430	18,430	18,430
<b>Net worth</b>	<b>1,29,484</b>	<b>1,48,826</b>	<b>2,65,688</b>	<b>2,72,586</b>	<b>3,05,716</b>	<b>3,40,180</b>	<b>3,75,794</b>	<b>3,98,280</b>	<b>4,24,118</b>
Change (%)	-3.6	14.9	78.5	2.6	12.2	11.3	10.5	6.0	6.5
<b>Borrowings</b>	<b>1,62,788</b>	<b>3,04,510</b>	<b>4,41,608</b>	<b>5,59,867</b>	<b>4,19,562</b>	<b>3,14,593</b>	<b>7,02,423</b>	<b>7,77,354</b>	<b>8,80,250</b>
Change (%)	126.5	87.1	45.0	26.8	-25.1	-25.0	123.3	10.7	13.2
<b>Other liabilities</b>	<b>17,526</b>	<b>29,058</b>	<b>20,708</b>	<b>23,808</b>	<b>23,808</b>	<b>1,16,417</b>	<b>37,485</b>	<b>42,956</b>	<b>42,956</b>
Change (%)	26.0	65.8	-28.7	15.0	0.0	389.0	-67.8	14.6	0.0
<b>Total Liabilities</b>	<b>3,09,798</b>	<b>4,82,394</b>	<b>7,28,004</b>	<b>8,56,261</b>	<b>7,49,086</b>	<b>7,71,189</b>	<b>11,15,703</b>	<b>12,18,590</b>	<b>13,47,324</b>
<b>Loans + investments</b>	<b>1,98,500</b>	<b>3,25,163</b>	<b>5,14,984</b>	<b>6,45,325</b>	<b>5,48,231</b>	<b>5,44,625</b>	<b>8,35,194</b>	<b>9,23,664</b>	<b>10,31,007</b>
Change (%)	57.9	63.8	58.4	25.3	-15.0	-0.7	53.4	10.6	11.6
Goodwill	54,854	54,272	56,326	59,395	11,391	11,143	11,143	11,143	11,143
Fixed Assets	23,949	54,251	57,402	57,510	57,935	60,841	67,534	74,962	83,208
<b>Other assets</b>	<b>32,495</b>	<b>48,707</b>	<b>99,293</b>	<b>94,032</b>	<b>1,31,529</b>	<b>1,54,579</b>	<b>2,01,832</b>	<b>2,08,821</b>	<b>2,21,966</b>
Change (%)	22.2	49.9	103.9	-5.3	39.9	17.5	30.6	3.5	6.3
<b>Total Assets</b>	<b>3,09,798</b>	<b>4,82,394</b>	<b>7,28,004</b>	<b>8,56,261</b>	<b>7,49,086</b>	<b>7,71,189</b>	<b>11,15,703</b>	<b>12,18,590</b>	<b>13,47,324</b>
<b>Profitability ratios (%)</b>									
EBITDA Margin - IT	19.7	17.5	13.9	17.0					
EBITDA Margin - Pharma	9.4	15.5	18.5	20.5	26.5	22.2	22.0	23.0	23.5
Core RoE	5.5	9.8	8.2	5.9	-2.0	4.6	8.2	9.4	10.1
RoE	7.5	9.8	8.2	5.9	-2.0	4.6	8.2	9.4	10.1
<b>Valuations</b>									
<b>Book Value (INR)</b>	<b>704</b>	<b>776</b>	<b>1,148</b>	<b>1,198</b>	<b>1,274</b>	<b>1,427</b>	<b>1,507</b>	<b>1,602</b>	<b>1,711</b>
BV Growth (%)	1.0	10.3	47.9	4.3	6.4	12.0	5.6	6.3	6.8
Price-to-BV (x)					2.1	1.9	1.8	1.6	1.5
<b>EPS (INR)</b>	<b>52</b>	<b>73</b>	<b>73</b>	<b>69</b>	<b>-25</b>	<b>63</b>	<b>118</b>	<b>146</b>	<b>168</b>
EPS Growth (%)	-68.3	38.4	0.7	-5.2	-135.4	-355.3	87.6	24.1	14.9
Price-to-Earnings (x)					-107.7	42.2	22.5	18.1	15.8
<b>DPS (INR)</b>	<b>18</b>	<b>21</b>	<b>25</b>	<b>28</b>	<b>14</b>	<b>35</b>	<b>41</b>	<b>51</b>	<b>59</b>
Dividend Yield (%)					0.5	1.3	1.6	1.9	2.2

E: MOFSL estimates

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