

Piramal Enterprises

BSE SENSEX	S&P CNX
33,690	10,125
Bloomberg	PIEL IN
Equity Shares (m)	199
M.Cap.(INRb)/(USDb)	338.2 / 4.6
52-Week Range (INR)	3303 / 1845
1, 6, 12 Rel. Per (%)	-19/-25/-30
12M Avg Val (INR M)	912
Free float (%)	49.3

Financials & Valuations (INR b)

Y/E March	2019E	2020E	2021E
Revenues	132.7	163.5	196.5
EBITDA	37.3	44.0	51.4
PAT	15.5	25.1	30.4
EPS (INR)	78.0	126.1	152.3
EPS Gr. (%)	0.2	61.7	20.8
BV/Sh. (INR)	1,378	1,460	1,559
Payout (%)	28.4	29.2	35.0
Valuations			
P/E (x)	27.8	17.2	14.2
P/BV (x)	1.6	1.5	1.4
Div. Yield (%)	1.2	2.0	2.9

CMP: INR2,170 TP: INR2,775 (+28%) Buy

Financing business stable, liquidity situation well managed

- Piramal Enterprises' (PIEL) 3QFY19 PAT grew 23% YoY to INR6.0b, in keeping with the trend of the past few quarters. Although growth in the Financial Services (FS) business slowed down incrementally, it is commendable against the backdrop of the tough liquidity situation of the past quarter. PIEL raised INR100b in the form of term loans and NCDs during the quarter, and also reduced the share of CPs outstanding from 18% to 15% sequentially.
- **Financial Services:** Loan book growth moderated to 5% QoQ/45% YoY, which is commendable in this environment. The share of the real estate loan book stands at 69%. PIEL continues scaling up its retail housing loan book well – now at close to INR40b. Margins, however, continue contracting from 8.0% in 3QFY18 and 6.9% in 2QFY19 to 6.6% in 2QFY19. Asset quality remains stable, with a GNPL ratio of 50bp.
- **Pharma Services:** The healthcare business delivered a healthy performance in the quarter, with overall growth of 8% YoY. Growth was largely led by Global Pharma segment (~14% YoY to INR10.6b), partially offset by the muted performance in the India consumer segment. Global Pharma segment EBITDA margin remained stable at ~21% for 9MFY19.
- **Valuation view:** In the current environment, PIEL is better placed to raise capital due to (a) lower leverage on the balance sheet – NBFC business at ~4.5x and consolidated debt to equity of <2x, (b) strong relations in the banking system and (c) high corporate governance reputation. PIEL has demonstrated its ability to roll over the CP without impacting growth. The share of CP in overall borrowings has come down to 15% from 18% a quarter ago. PIEL has strong liquidity on the balance sheet of INR54b+. We largely maintain estimates over FY18-21. We bake in loan CAGR of ~28% over FY18-21, with marginal moderation in margins and an increase in credit cost. Our PAT CAGR in FS business stands at ~24% during the same period. Key risk to our estimates could stem from any change in regulatory norms for NBFCs and large default in real estate financing, if any. Our Dec'20E SOTP-based target price stands at INR2,775. Maintain **Buy**.

Quarterly Performance									(INR Million)	
Y/E March	FY18				FY19E				FY18	FY19
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Revenues	22,541	25,359	28,584	29,911	29,025	31,441	34,891	37,323	106,394	132,680
Growth YoY %	26.9	29.0	22.0	21.5	28.8	24.0	22.1	24.8	24.5	24.7
Financial Services	10,842	11,859	13,159	13,955	15,586	17,316	18,405	20,052	49,816	71,359
Healthcare	9,179	10,942	10,746	13,619	10,658	11,204	11,571	14,708	44,486	48,141
HC Insights and Analytics	2,520	2,557	4,679	2,337	2,781	2,922	4,915	2,563	12,092	13,180
Segmental Results	6,085	7,524	8,806	7,196	7,808	8,832	11,108	9,582	29,611	37,330
Growth YoY %	52.4	89.0	39.3	8.8	28.3	17.4	26.1	33.2	41.6	26.1
Financial Services	4,458	4,728	5,462	5,287	6,138	6,460	6,626	7,065	19,933	26,289
Healthcare	1,380	2,596	1,857	2,169	1,555	2,190	2,569	2,619	8,001	8,932
HC Insights and Analytics	248	201	1,488	-259	115	182	1,913	-101	1,677	2,109
Depreciation and Interest	2,590	2,612	2,291	2,480	2,798	3,134	2,821	3,171	9,973	11,924
Extra Ordinary Item	0	0	0	0	-4,523	0	0	0	0	-4,523
Reported Profit Before Tax	3,495	4,912	6,515	4,716	487	5,698	8,287	6,411	19,638	20,884
Growth YoY %	59.6	90.8	49.9	18.1	-86.1	16.0	27.2	36.0	49.9	6.3
Taxes	1,021	1,898	2,118	1,892	1,810	1,628	2,930	2,099	6,928	8,467
Tax rate %	29.2	38.6	32.5	40.1	371.5	33.0	33.0	32.7	35.3	40.5
Profit After Tax	2,475	3,015	4,397	2,824	-1,323	4,070	5,356	4,313	12,710	12,417
Growth YoY %	43.1	18.5	22.6	-4.6	-153.5	35.0	21.8	52.7	17.5	-2.3
MI and Others	548	821	508	924	602	734	676	1,118	2,801	3,131
PAT	3,022	3,836	4,905	3,748	-721	4,804	6,033	5,431	15,511	15,547
Growth YoY %	30.9	25.2	21.4	20.5	-123.8	25.2	23.0	44.9	23.9	0.2

Note: 4QFY18 numbers exclude one-off DTA benefit

Loan book crossed
INR500b; mix is largely
stable sequentially

Lending business

- Loan book growth moderated to 5% QoQ/45% YoY, which is commendable in this environment.
- The share of real estate loan book stands at 69%. The company has given a further breakdown of its portfolio – the hospitality portfolio is 4% of the total portfolio. We believe the bulk of this would classify as LRD.
- On the other hand, the share of mezzanine/structured debt seems to have settled at ~20% over the past few quarters.
- PIEL continues scaling up its retail housing loan book well – it now stands at close to INR40b.
- Margins, however, remain under pressure – from 8.0% in 3QFY18 and 6.9% in 2QFY19 to 6.6% in 2QFY19. The company has trimmed its share of CPs outstanding from 18% to 15% sequentially.
- Asset quality remains stable with a GNPL ratio of 50bp.

Global pharma sales growth
of 14% YoY

Global pharma business growth driven by customer addition

- **Global Pharma** – Growth in the Global pharma segment was driven by increased traction in acquired portfolio of Mallinckrodt and Janssen. PIEL also witnessed strong growth in the order book under services segment (including Biotech clients). In 3QFY19, PIEL added 15 new customers in the service business. It also cleared 30 inspections (including 1 US FDA) and 138 customer audits. Global Pharma segment EBITDA margin remained stable at ~21% for 9MFY19.
- **India Consumer Products** – On the FDC ban on Saridon, PIEL obtained a stay-order from the court. Saridon was exempted from the FDC ban, and the company continues manufacturing and distributing the product. PIEL successfully launched Saridon Plus in the northern and eastern part of India.

Valuation and view

- Post the sale of its domestic formulations business, PIEL invested in fast-growing, profitable businesses. It started wholesale lending from scratch and has grown to become amongst the top players in real estate financing. PIEL has built a fast-growing, highly profitable franchise, with robust asset quality.
- Investments in the Shriram Group have yielded ~15% IRR since date of investment. We expect further value accretion from these investments over the medium term.
- PIEL is better placed to raise capital due to (a) lower leverage on the balance sheet – NBFC business at ~4.5x and consolidated debt to equity of <2x, (b) strong relations in the banking system and (c) high corporate governance reputation. PIEL has demonstrated its ability to roll over the CP without impacting growth.
- We largely maintain estimates over FY18-21. We bake in loan CAGR of ~28% over FY18-21, with marginal moderation in margins and an increase in credit cost. Our PAT CAGR in FS business stands at ~24% during the same period. Key risk to our estimates could stem from any change in regulatory norms for NBFCs and large default in real estate financing, if any.
- Our Dec'20E SOTP based TP is **INR2,775. Buy.**

Exhibit 1: SOTP (Dec 2020E based)

	Value (INR B)	Value (USD B)	INR per share	% To Total	Rationale
Lending Business	327	4.6	1,641	59	2.5x PBV; ROA/ROE of ~3%/18%+ - Loan CAGR of ~28% FY19-21
Shriram Investments	98	1.4	491	18	Based on our Target Multiple; Implied 2x of invested capital
Pharma, IT and Others	129	1.8	646	23	Pharma EV/EBITDA 12x; IT EV/Sales of 4x
Target Value	554	7.8	2,777	100	Implied 1.8x Consolidated BV
Current market cap.	433	6.1	2,170		
Upside (%)	28.0	28.0	28.0		

Source: MOSL, Company

**Key conference call highlights****Business Updates**

- Did a stress case analysis of their portfolio, including various parameters like cash covers for each deal, construction status, etc.
- Have initiated some corrective actions in some projects.
- Provision of INR9.8b is more than adequate to cover any potential losses.
- Bought INR5b home loan portfolio during the quarter.
- Plan to increase the share of retail housing finance to 10% by end-FY19.
- Top 10 developers constitute 30% of loan book. Exposure to Lodha is the only one above 5% of portfolio. Lodha exposure has declined from INR43b to INR38b QoQ. Exposure will halve by Dec'19.
- Incremental CoF increased by 50bp, all of which was passed on to the builders.
- Essel Group exposure of INR2.25b (SPV for the solar project).
- Yields have increased by 15bp in retail housing in 3Q; plans to increase by another 10bp in February.

Liquidity

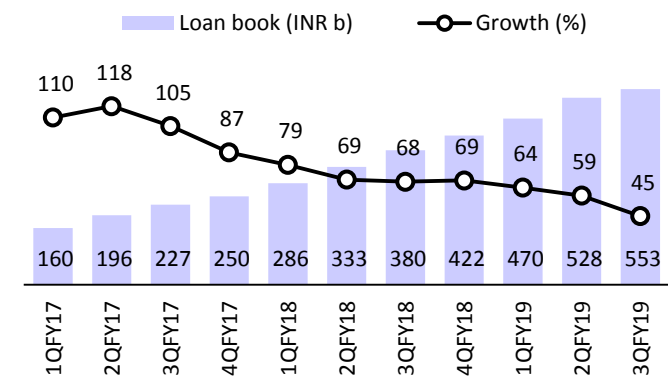
- Raised over INR100b in bank loans and NCDs during the quarter.
- CP borrowings reduced from INR180b to INR108b YTD. Plan to reduce it to INR80b by March 2019.
- Plan to issue ECBs to diversify the borrowing mix.

Others

- Average age of unsold inventory of PIEL's portfolio is 1/3rd that of the industry.

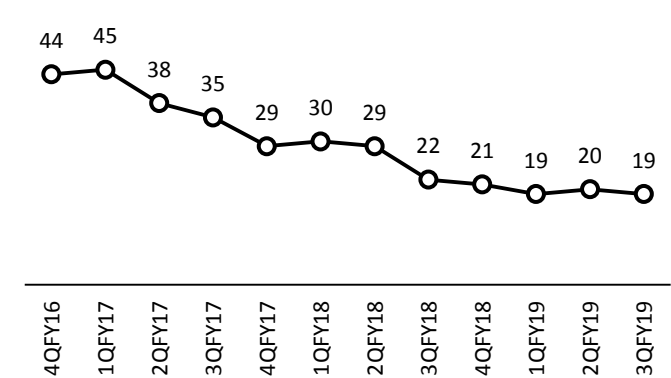
Story in charts

Exhibit 2: Overall AUM growth remains robust (%)



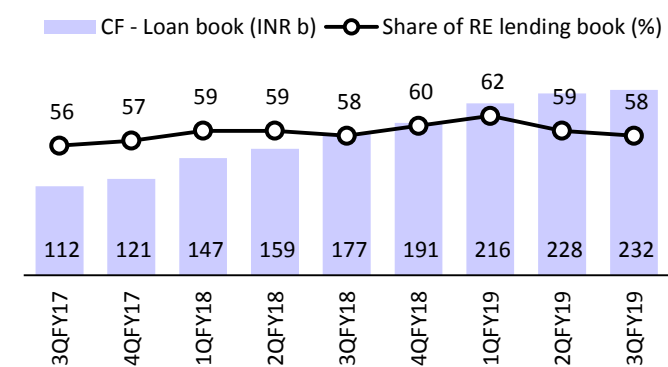
Source: MOSL, Company

Exhibit 3: Share of mezzanine lending now stable (%)



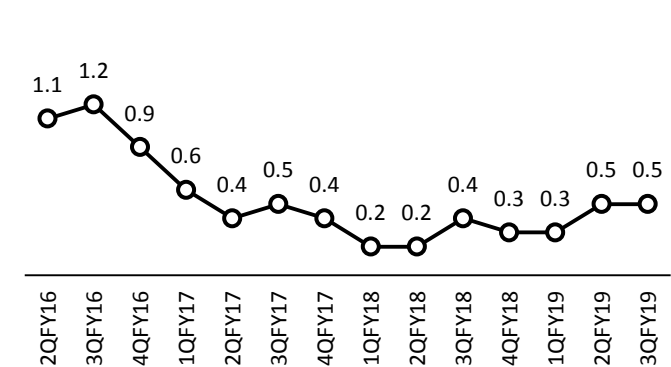
Source: MOSL, Company

Exhibit 4: Construction finance mix stable



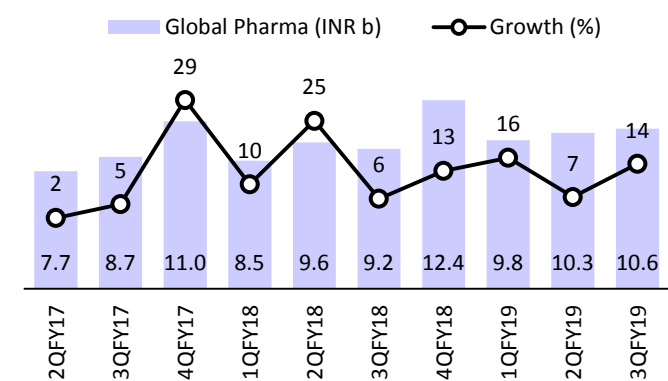
Source: MOSL, Company

Exhibit 5: GNPL ratio stable (%)



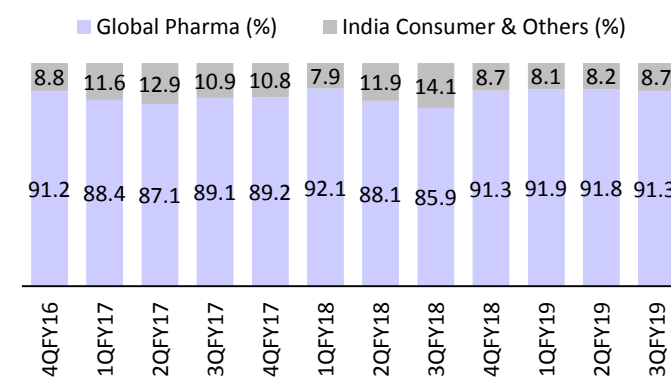
Source: MOSL, Company

Exhibit 6: Pick-up in growth in Global Pharma revenue



Source: MOSL, Company

Exhibit 7: Revenue mix stable



Source: MOSL, Company

Exhibit 8: Financials – Valuation Matrix

	Rating	CMP (INR)	Mcap (USDb)	EPS (INR)		P/E (x)		BV (INR)		P/BV (x)		RoA (%)		RoE (%)	
				FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
ICICI* [*]	Buy	343	32.3	8.0	20.2	29.8	11.9	166	181	1.4	1.3	0.6	1.2	5.0	11.8
HDFCB	Buy	2,084	80.1	79.8	95.9	26.1	21.7	543	621	3.8	3.4	1.8	1.8	16.7	16.5
AXSB	Buy	656	24.1	17.4	37.9	37.8	17.3	265	298	2.5	2.2	0.6	1.1	6.8	13.5
KMB* [*]	Neutral	1,261	33.9	37.9	46.1	33.3	27.3	303	348	4.2	3.6	1.7	1.7	12.1	13.3
YES	Buy	208	7.1	18.5	22.6	11.2	9.2	126	145	1.6	1.4	1.2	1.2	15.5	16.7
IIB	Buy	1,445	12.5	68.8	100.2	21.0	14.4	441	556	3.3	2.6	1.7	2.1	16.5	20.2
FB	Buy	84	2.4	6.1	8.9	13.7	9.5	67	75	1.3	1.1	0.8	1.0	9.5	12.5
DCBB	Neutral	176	0.8	10.2	13.2	17.3	13.3	96	109	1.8	1.6	0.9	1.0	11.6	13.4
SIB	Buy	13	0.3	1.7	2.7	7.9	4.9	29	31	0.4	0.4	0.3	0.5	5.6	8.6
Equitas	Buy	117	0.6	6.3	8.4	18.7	13.9	73	80	1.6	1.5	1.3	1.4	9.0	11.1
RBL	Buy	564	3.5	20.9	27.6	27.0	20.5	176	199	3.2	2.8	1.2	1.2	12.4	14.7
Private Aggregate															
SBIN (cons)* [*]	Buy	282	35.8	8.7	32.3	28.3	8.0	249	276	1.0	0.9	0.1	0.7	2.7	12.3
PNB	Neutral	76	3.3	-17.7	8.0	-4.3	9.5	109	117	0.7	0.7	-0.7	0.4	-13.8	6.8
BOI	Neutral	91	2.3	-1.8	8.6	-50.4	10.5	181	187	0.5	0.5	-0.1	0.2	-0.9	4.3
BOB	Buy	109	4.1	9.3	16.1	11.7	6.8	165	180	0.7	0.6	0.3	0.5	5.6	9.0
CBK	Neutral	240	2.6	17.1	51.7	14.1	4.7	448	493	0.5	0.5	0.2	0.5	3.5	9.9
UNBK	Neutral	78	1.3	4.5	12.8	17.5	6.1	235	245	0.3	0.3	0.1	0.3	2.1	5.5
Public Aggregate															
Banks Aggregate															
HDFC* [*]	Buy	1,949	46.6	42.3	48.7	21.2	18.4	306	341	2.9	2.6	1.8	1.8	15.5	15.0
LICHF	Buy	446	3.2	46.2	56.4	9.6	7.9	324	371	1.4	1.2	1.4	1.5	15.1	16.2
IHFL	Buy	699	4.5	95.6	109.7	7.3	6.4	395	446	1.8	1.6	3.1	3.1	25.6	26.1
PNBHF	Buy	902	2.1	66.0	78.0	13.7	11.6	435	496	2.1	1.8	1.5	1.4	16.1	16.8
REPCO	Buy	397	0.4	40.0	45.1	9.9	8.8	245	287	1.6	1.4	2.4	2.4	17.7	17.0
Housing Finance															
SHTF	Buy	1,055	3.6	109.0	127.9	9.7	8.3	694	804	1.5	1.3	2.3	2.3	16.9	17.1
MMFS	Buy	403	3.6	21.7	27.0	18.6	15.0	172	191	2.3	2.1	2.3	2.3	13.2	14.9
BAF	Neutral	2,456	21.0	65.8	85.6	37.3	28.7	327	403	7.5	6.1	3.7	3.7	22.1	23.5
CIFC	Buy	1,129	2.5	77.2	86.4	14.6	13.1	393	470	2.9	2.4	2.4	2.3	21.5	20.0
SCUF	Buy	1,718	1.6	139.3	144.8	12.3	11.9	944	1,070	1.8	1.6	3.4	3.3	15.8	14.4
LTFH	Buy	128	3.8	11.5	13.3	11.2	9.6	66	78	1.9	1.6	2.3	2.2	18.8	18.5
MUTH	Neutral	511	3.0	50.3	58.0	10.2	8.8	229	270	2.2	1.9	5.8	5.9	23.8	23.3
MAS	Buy	521	0.4	25.3	30.9	20.6	16.9	152	175	3.4	3.0	4.2	4.1	17.8	18.9

Source: MOSL, Company

Financials and valuations

INCOME STATEMENT								(INR m)	
	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Revenues	35,440	45,030	51,230	63,815	85,468	106,393	132,680	163,453	196,458
Change (%)	50.7	27.1	13.8	24.6	33.9	24.5	24.7	23.2	20.2
HealthCare	24,410	28,200	31,210	34,670	38,927	43,220	47,508	53,362	59,940
Financial Services	3,930	7,260	9,371	17,397	33,515	49,817	71,359	94,897	119,515
Info Mgmt	6,510	8,900	10,196	11,559	12,224	12,092	13,180	14,498	16,238
Others	590	670	453	188	802	1,264	633	696	766
EBITDA*	4,523	4,300	8,698	13,726	20,908	29,611	37,330	43,978	51,396
Change (%)	33.8	-4.9	102.3	57.8	52.3	41.6	26.1	17.8	16.9
HealthCare	100	933	299	3,266	5,928	8,001	8,932	10,117	11,458
Financial Services #	2,796	2,110	6,575	8,185	12,837	19,933	26,289	31,687	37,502
Info Mgmt	1,628	1,257	1,824	2,276	2,143	1,677	2,109	2,175	2,436
EBIT*	2,427	1,831	5,799	11,172	17,190	24,838	32,131	38,480	45,598
Change (%)	16.2	-24.6	216.7	92.6	53.9	44.5	29.4	19.8	18.5
HealthCare	-1,358	-626	-1,628	1,151	3,124	4,191	4,723	5,657	6,749
Financial Services #	2,790	2,096	6,557	8,159	12,813	19,908	26,289	31,687	37,502
Info Mgmt	995	361	870	1,862	1,254	738	1,120	1,136	1,347
Unallocated Inc/(Exp)	-4,001	-6,192	-2,407	-4,028	-3,988	-5,200	-6,725	-6,859	-7,076
Core PBT	-1,574	-4,361	3,392	7,144	13,202	19,638	25,406	31,620	38,521
Change (%)	-224.3	177.2	-177.8	110.6	84.8	48.7	29.4	24.5	21.8
Exceptional Items	-191	14	26,962	457	-100	0	-4,523	0	0
Reported PBT	-1,765	-4,348	30,354	7,600	13,103	19,638	20,884	31,620	38,521
Taxes	248	628	3,450	495	2,281	6,928	8,467	10,119	12,327
Tax Rate (%)	-14.0	-14.4	11.4	6.5	17.4	35.3	40.5	32.0	32.0
PAT	-2,013	-4,975	26,904	7,105	10,821	12,710	12,417	21,502	26,195
Change (%)	-274.6	147.2	-640.8	-73.6	52.3	17.5	-2.3	73.2	21.8
Minority Interest	56	8	-3	0	-3	0	0	0	0
Share from Asso. Co	-42	-31	1,593	1,942	1,699	2,801	3,131	3,632	4,168
PAT Post MI	-2,111	-5,014	28,500	9,047	12,523	15,511	15,547	25,134	30,362
Change (%)	-289.3	137.6	-668.4	-68.3	38.4	23.9	0.2	61.7	20.8
Dividend (Including Tax)	3,533	10,599	4,154	3,635	4,348	5,415	5,294	8,797	10,627

* 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 m)		
Y/E MARCH	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	345	345	345	345	345	399	399	399	399
Reserves and Surplus	106,891	92,866	133,910	129,138	148,481	264,055	274,331	290,668	310,404
Networth	107,236	93,211	134,255	129,484	148,826	264,454	274,730	291,067	310,802
Borrowings	76,881	95,519	71,863	162,788	304,510	441,608	593,029	732,902	908,954
Change (%)	275.6	24.2	-24.8	126.5	87.1	45.0	34.3	23.6	24.0
Other liabilities	18,404	26,316	13,908	17,526	29,058	20,772	26,280	34,073	43,736
Change (%)	26.0	43.0	-47.2	26.0	65.8	-28.5	26.5	29.7	28.4
Total Liabilities	202,521	215,045	220,026	309,798	482,394	726,834	894,039	1,058,042	1,263,492
Loans+Investments	114,613	111,406	125,696	198,500	325,163	513,814	671,944	811,099	983,650
Change (%)	-2.6	-2.8	12.8	57.9	63.8	58.0	30.8	20.7	21.3
Goodwill	40,045	44,236	49,437	54,854	54,272	56,326	56,326	56,326	56,326
Fixed Assets	20,768	22,585	18,298	23,949	54,251	57,402	63,142	69,456	76,402
Other assets	27,094	36,818	26,595	32,495	48,707	99,293	102,627	121,162	147,115
Change (%)	204.4	35.9	-27.8	22.2	49.9	103.9	3.4	18.1	21.4
Total Assets	202,521	215,045	220,026	309,798	482,394	726,834	894,039	1,058,042	1,263,492
Profitability Ratios (%)	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
EBITDA Margin - IT	25.0	14.1	17.9	19.7	17.5	13.9	16.0	15.0	15.0
EBITDA Margin - Pharma	0.4	3.3	1.0	9.4	15.5	18.5	9.3	19.0	19.1
Core ROE	-1.6	-5.0	2.6	5.1	9.0	7.5	5.8	8.9	10.1
ROE	-1.9	-5.0	25.1	6.9	9.0	7.5	5.8	8.9	10.1
Valuations									
Book Value (INR)	621	540	778	750	863	1,326	1,378	1,460	1,559
BV Growth (%)	-4.6	-13.1	44.0	-3.6	14.9	53.8	3.9	5.9	6.8
Price-BV (x)						1.4	1.4	1.3	1.2
EPS (INR)	-12.2	-29.1	165.2	52.4	72.6	77.8	78.0	126.1	152.3
EPS Growth (%)	-289	138	-668	-68	38	7	0	62	21
Price-Earnings (x)						24.0	23.9	14.8	12.2
DPS (INR)	17	51	20	18	21	25	22	37	53
Dividend Yield (%)						1.3	1.2	2.0	2.9

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 and ~30x EBITDA. 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.

Exhibit 1: Sensex rebased

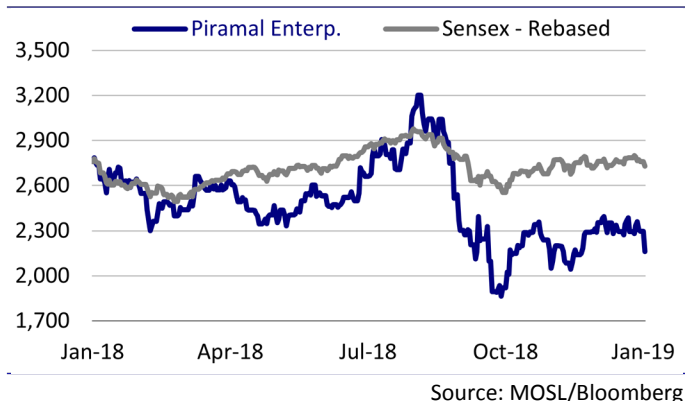


Exhibit 2: Shareholding pattern (%)

	Dec-18	Sep-18	Dec-17
Promoter	50.0	50.7	51.3
DII	5.0	4.9	4.1
FII	27.6	26.9	27.7
Others	17.4	17.6	16.9

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Life Insurance Corporation Of India	3.8
East Bridge Capital Master Fund Limited	3.5
East Bridge Capital Master Fund I Ltd	2.9
Aberdeen Global Indian Equity Limited	1.3

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Ajay G Piramal	Chairman
Swati A Piramal	Vice Chairperson
Vijay Shah	Executive Director & COO
Leonard Dsouza	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
N L Bhatia & Associates	Secretarial Audit

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	78.0	94.0	-17.0
FY20	126.1	121.5	3.8
FY21	152.3	156.4	-2.6

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

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