15 September 2022

Update | Sector: Financials - NBFC

Piramal Enterprises

BSE SENSEX	S&P CNX
59,934	17,877

CMP: INR988 TP: INR1,320 (+34%) Buy

Building out the Retail franchise in the NBFC entity

Post demerger of the Pharma business, PIEL is now an NBFC with a simpler structure

- **PIEL had fixed 1st Sep'22 as the record date for the demerger of Piramal Pharma (PPL). Price discovery for the Financial Services business has already occurred, and PIEL now trades as a diversified NBFC registered with the RBI.**
- **Integration of DHFL has progressed well. The Retail lending business continues to gain traction, with an improvement in the disbursement run-rate. Multiple partnerships with FinTechs and Consumer-Techs have aided the momentum in the Embedded finance product segment.**
- **Asset quality (with slippages in the Wholesale book) has deteriorated over the last two quarters, with PIEL making provisions in corresponding accounts. The company currently carries ECL provisions of 6.2% of its total AUM and ~8.5% (MOFSLe) on its Wholesale AUM, with a PCR of 38%/~54% on S2/S3 loans. PIEL will utilize any recoveries from the POCI book, or any one-off gain from the contingent liabilities (~INR33b), to make requisite provisions on the stressed portion of its Wholesale loan book in FY23.**
- **We expect its Wholesale loan book to continue to moderate as the company looks to aggressively create provisions on stressed exposures, and then monetize them. Within Retail, we expect a disbursement/AUM CAGR of ~90%/~30% over FY22-25E. Consolidation in the Wholesale book and strong growth in the Retail book will result in the proportion of Retail loans increasing to ~55% of the loan mix by FY25E.**
- **We estimate a PAT CAGR of 37% over FY22-25, resulting in a FY25 RoA/RoE of 2.2%/~10%. Using the SoTP method (FY24E based), we value the Lending business at 1x BVPS, Shriram group investments at our TP for its subsidiaries, and Life Insurance and alternatives at 0.5x trailing EV and BV, respectively. PIEL has an excess net worth of ~INR48b, which we have valued at 1x. We maintain our Buy rating with a revised TP of INR1,320.**

Embarking on a growth path and sustainable profitability

- The management will now be looking to scale up its loan book, which will entail a consolidation in the Wholesale book and strong growth in Retail. Even the Retail mix will improve, which may translate into a decline in borrowing costs (over time) and an upgrade in its credit rating.
- While PIEL will try to maintain a fine balance between growth, risk, and profitability, it has articulated targets that it aspires to achieve in the Financial Services business by FY27. These include: a) an improvement in the Retail loan mix to 60-70%, b) doubling of AUM, with a Retail disbursement CAGR of 40-50%, and c) an improvement its net debt-to-equity ratio (leverage) to 3.5-4.5x. This will be achieved by running down its Wholesale exposures, diversifying the Retail mix, and expansion of the distribution network to 500-600 branches, with a presence in ~1,000 locations within the next five years.

Stock Info

Bloomberg	PIEL IN
Equity Shares (m)	239
M.Cap.(INRb)/(USDb)	235.3 / 3
52-Week Range (INR)	1642 / 851
1, 6, 12 Rel. Per (%)	-6/-20/-34
12M Avg Val (INR M)	1870
Free float (%)	56.5

Financials Snapshot (INR b)

Y/E March	FY22	FY23E	FY24E	FY25E
PPOP	16.9	24.9	27.9	33.2
PAT	7.4	13.9	15.9	19.2
EPS	31.1	58.3	66.5	80.3
EPS Gr. (%)		87.6	14.1	20.7
BV/Sh. (INR)	713	763	811	872
RoA (%)	1.2	1.9	2.1	2.2
RoE (%)	4.2	7.9	8.5	9.5
Valuation				
P/E (x)	31.8	16.9	14.9	12.3
P/BV (x)	1.4	1.3	1.2	1.1
Dividend yield (%)		1.8	2.0	2.4

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	43.5	43.5	43.5
DII	8.1	8.4	9.8
FII	34.9	35.4	33.9
Others	13.5	12.7	12.8

FII Includes depository receipts

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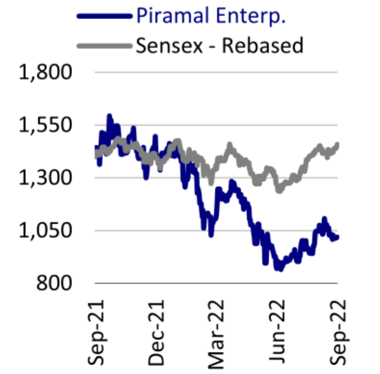
Stock's performance (one-year)



Wholesale lending: Going granular with a focus on cash-flow backed lending

- The management is looking to pivot its business model in the Wholesale segment to focus on mid-market Residential projects in Tier I cities and the top 15-20 centers in Tier II/III cities. The company has discontinued financing high-yield, structured mezzanine loans under the 'HoldCo' structure.
- Within Corporate Mid-Market Lending (CMML), the focus will largely be on smaller ticket corporate loans (non-Real Estate) at the OpCo-level.
- PIEL has a healthy deal pipeline and has appointed Mr. Yesh Nadkarni as CEO of its Wholesale lending business, who was earlier leading the Real Estate credit franchise at KKR.

Retail lending: Diversifying the Retail mix with its twin engine approach

- The management is targeting a well-diversified product mix in its Retail credit franchise. It has been undertaking various pilots and launching newer products where it is confident of scaling up.
- It launched its Microfinance business in May'22 under the 'Phygital' model, with a video and AI driven underwriting through a BC partner model. It is looking to activate ~100 Microfinance branches across four-to-five states in the near-to-medium term.
- We expect secured Housing and MSME loans to contribute 70-75% to the product mix. We forecast unsecured loans (originated via digital partnerships) like PL, BNPL, digital purchase finance, and small-ticket/short-tenor embedded finance products to constitute 10-15% of the loan mix.

Asset quality: Stressed exposures would be provided for in the near-term

- Asset quality has deteriorated over the last two quarters, resulting in higher than expected provisions due to slippages in the Wholesale business. The management has made higher provisions on Mytrah Energy, which is likely to get resolved based on expected realization.
- Investor concerns, with regard to the level of stress in its Wholesale book, can be addressed if PIEL chooses to carve out its stressed Wholesale book as 'defocused' and makes accelerated provisions on this defocused pool of stressed loans. This will serve two goals, help: a) investors identify the quantum of stressed exposures in the Wholesale book, and b) PIEL quickly monetize these exposures as they will largely be provided for. For additional details on the Wholesale book, refer Exhibit 16 to 21.
- Recoveries from the POCI book (fairly valued ~INR33b as of Jun'22) will enable PIEL to make accelerated provisions and help keep aggregate credit costs lower than the guided levels of 2% in the near-term. Any differences in cash flow from recoveries in the POCI book (higher or lower than its fair value) will be accounted through the P&L. We model in a net credit cost of 1% each in FY24/FY25.

Liability profile will improve leading to a steady improvement in margin

- PIEL is relatively better positioned to navigate the rising interest rate regime as: a) ~60% of its assets are at a floating rate, and b) ~80% of its liabilities are at a fixed rate. This includes debentures of ~INR195b, which were raised for the DHFL acquisition at 6.75% p.a.

- Average borrowing cost has been declining. Given the rising proportion of Retail in the mix, there is a case for an upgrade to its credit rating within the next two years.
- We model a NIM of 5.6% in FY23 and expect it to improve by ~10bp each over FY24/FY25 led by an improvement in its liability profile.

Investment in the Shriram group – How can PIEL deploy the proceeds whenever it monetizes its stake in the merged entity?

- PIEL has already articulated that it will look to exit its investments in the Shriram group at an opportune time.
- The company has optimized the capital on its Balance Sheet through the DHFL acquisition. We believe that PIEL's guidance of doubling AUM by FY27 assumes some inorganic acquisitions as well. **Proceeds from the Shriram group stake sale may be utilized for acquisitions in Financial Services and growth capital, and if there is any excess capital it can even be returned to shareholders through a buyback or a special dividend.**

Valuation and view

- Over the past two years, PIEL has: a) strengthened its Balance Sheet by running down its Wholesale loan book; b) ensured its Wholesale book is granular, with no exposure over 5% and only 10 exposures over 2% of Wholesale AUM; c) improved texture of its borrowings, driving lower cost of borrowings; and d) fortified itself against contingencies, with ECL provisions at 6.2% of AUM.
- PIEL will now have to scale up DHFL's Mortgage franchise and leverage the platform to cross-sell other Retail products to its customer pool.
- It will be prudent to take a deep dive into the Wholesale loan book, recognize any stressed loans, and front-load the required provisioning. We expect a loan book CAGR of ~12% over FY22-25, incorporating consolidation in the Wholesale book over the next one-year. We maintain our Buy rating with a revised TP of INR1,320 (FY24E SoTP-based).

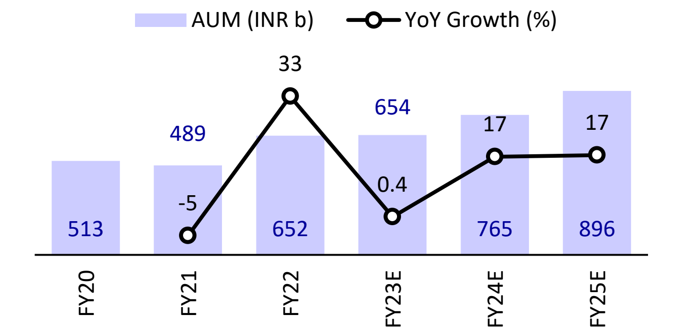
SoTP-based valuation (Mar'24E based)

	Value (INR b)	Value (USD b)	INR per share	As a percentage of total	Rationale
Lending business	194	2.6	810	61	❖ 1x FY24E P/BV
Shriram Group	63	0.8	263	20	❖ Based on our TP for SHTF and SCUF
Unallocated NW	48	0.6	198	15	❖ 1x P/BV (net of fixed investments, OCI, and Shriram group allocated NW)
Life Insurance	5	0.1	19	1	❖ 0.5x FY22 EV
Alternatives	7	0.1	29	2	❖ 0.5x FY22 equity
Target value	**316**	**4.2**	**1,320**	**100**	
CMP			988		
Upside (%)			**34**		

Source: MOFSL, Company

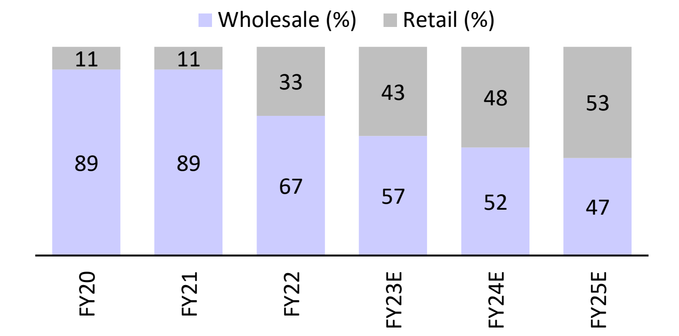
Story in charts

Exhibit 1: AUM growth to pick up from FY24 onwards…



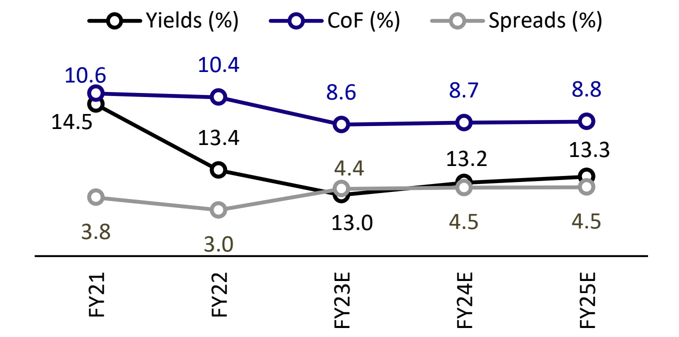
Source: MOFSL, Company

Exhibit 2: …driven by an improvement in the retail AUM mix



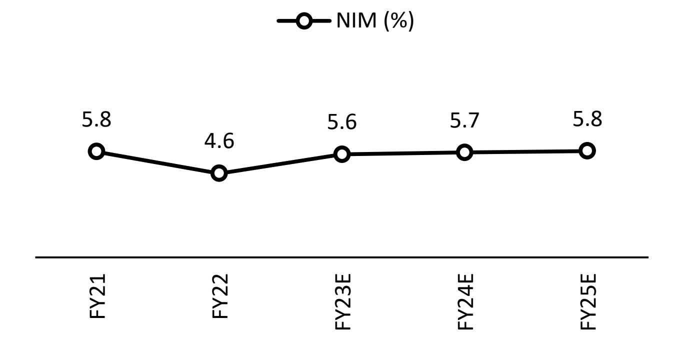
Source: MOFSL, Company

Exhibit 3: Expect relative benefit on cost of borrowings…



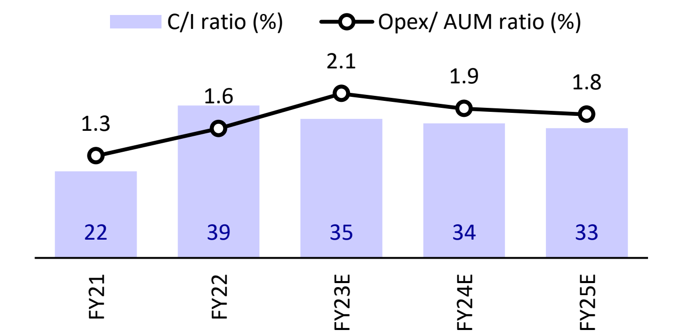
Source: MOFSL, Company

Exhibit 4: …to lead to a steady expansion in NIM



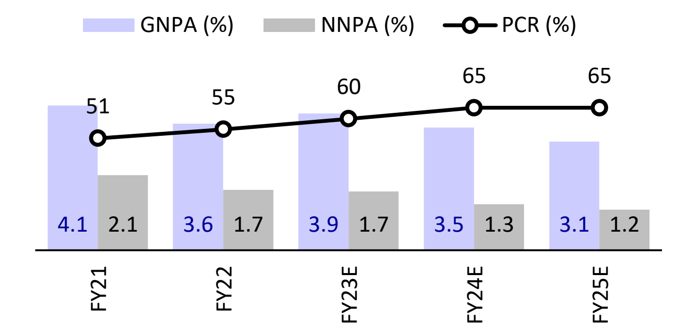
Source: MOFSL, Company

Exhibit 5: Operating costs would remain elevated in FY23-FY24 and then gradually moderate



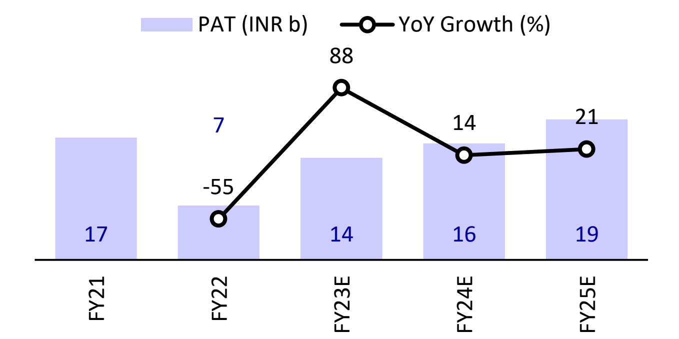
Source: MOFSL, Company

Exhibit 6: Expect asset quality to improve driven by monetization and run-off in the wholesale book



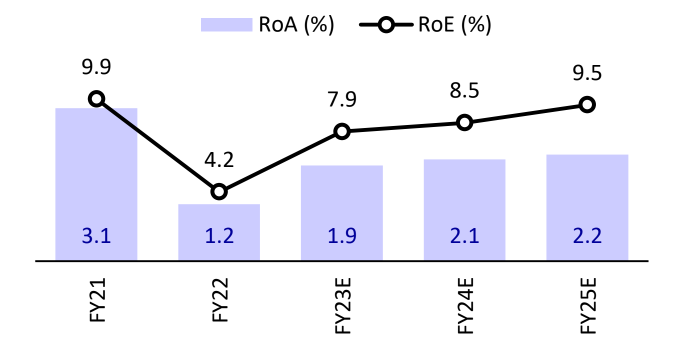
Source: MOFSL, Company

Exhibit 7: We model PAT CAGR of ~37% over FY22-25E…



Source: MOFSL, Company

Exhibit 8: …leading to an RoA/RoE of 2.2%/10% by FY25E



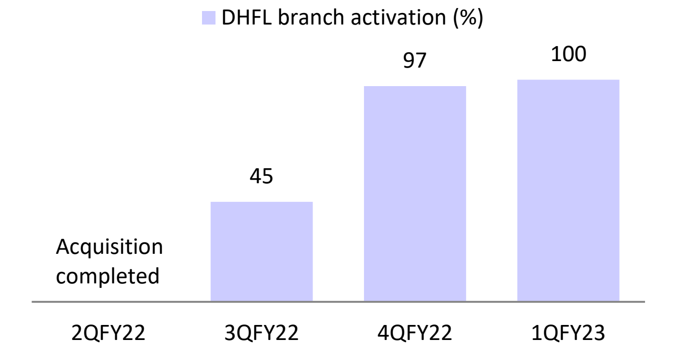
Source: MOFSL, Company

Embarking on a growth path and sustainable profitability

A multi-product platform will aid 'retailization' of the lending book

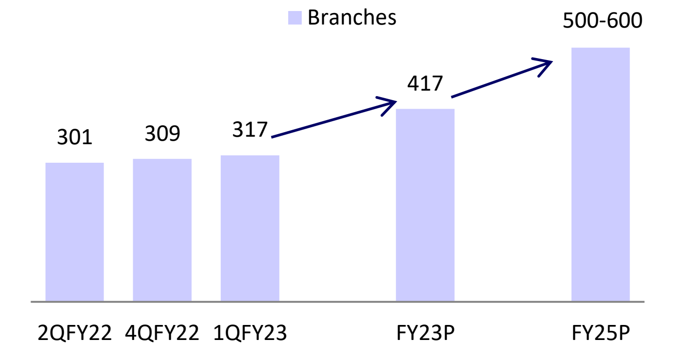
- PIEL, through its multi-product platform, offers a plethora of Retail products: Home loans (Mass Affluent and Affordable), Secured Business loans, LAP, Microfinance, Used Car loans, digital purchase finance, digital PL, merchant BNPL, and Unsecured Business loans.
- With the acquisition of DHFL in Sep'21, the proportion of Retail loans in the mix has improved. Retail loans grew to ~INR223b, with its share in the loan mix improving to 37% as on 1QFY23 (v/s 12% in 1QFY22).
- Reactivation of DHFL's branches has progressed well, with ~100% now enabled for disbursements (v/s 45%/97% in 3Q/4QFY22). The scale-up of Embedded finance products (in partnership with FinTechs and Consumer-Techs), combined with an expanding distribution via physical branches and touchpoints, will drive robust growth in the Retail segment.

Exhibit 9: Activates 100% disbursement at all DHFL branches



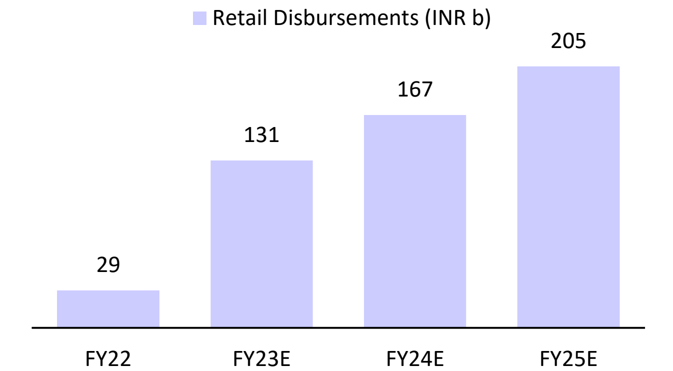
Source: MOFSL, Company

Exhibit 10: Aims to take branch count to 500-600 by FY25E



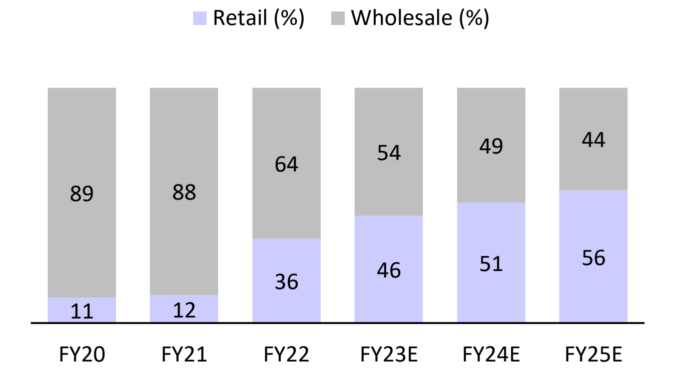
Source: MOFSL, Company

Exhibit 11: Expect Retail disbursements to clock ~90% CAGR over FY22-25



Source: MOFSL, Company

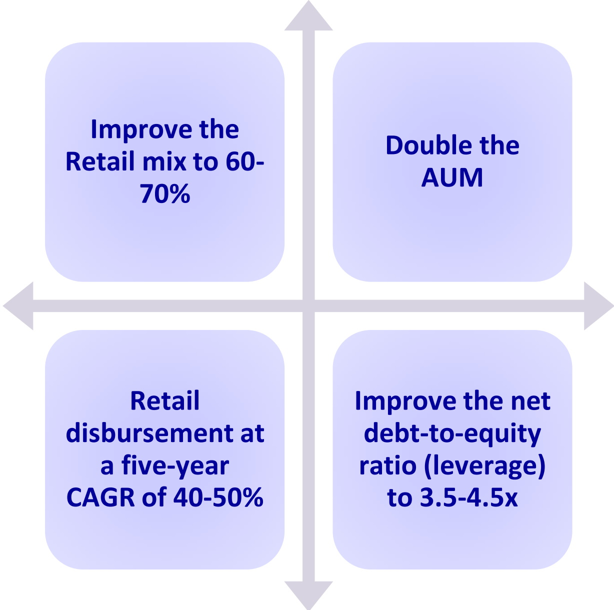
Exhibit 12: Expect Retail proportion to rise to ~56% of the loan mix by FY25 (%)



Source: MOFSL, Company

PIEL's aspirations in the Financial Services business suggest an inclination for a few more inorganic acquisitions in the near-to-medium term

Exhibit 13: Goalposts that PIEL aspires to achieve in the Financial Services business by FY27



Source: MOFSL, Company

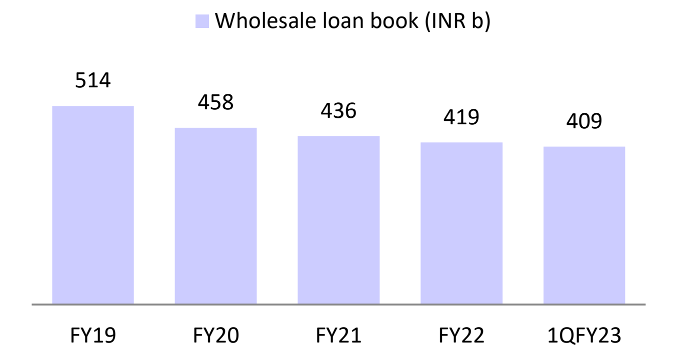
- Some of the articulated targets like the five-year Retail disbursement CAGR of 40-50% and doubling of AUM by FY27 assumes some portfolio buyouts as well as inorganic acquisitions.
- For scaling up its organic origination capabilities, the management plans to improve the physical distribution by adding ~100 branches in FY23 and expand its distribution network to 500-600 branches, with a presence in ~1,000 locations within the next five years.

Going granular with a focus on cash-flow backed lending in the Wholesale segment

PIEL has a healthy deal pipeline and has appointed Mr. Yesh Nadkarni as CEO of its Wholesale lending business, who was earlier leading the Real Estate credit franchise at KKR.

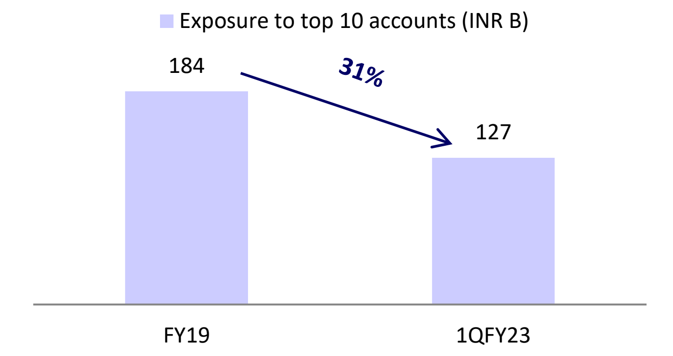
The management is looking to pivot to Wholesale Lending 2.0. Under its new Wholesale avatar, PIEL will make its Wholesale book granular by restricting it focus to mid-market Residential projects in Tier I cities and the top 15-20 centers in Tier II/III cities. It will leverage analytics both for its underwriting engine as well as for any pro-active monitoring through ‘early warning signals’. The company has discontinued financing high-yield, structured mezzanine loans under the ‘HoldCo’ structure. All high-yield loans will instead be disseminated under the fund structure.

Exhibit 14: Wholesale loan book (INR b) continues to moderate (%)



Source: MOFSL, Company

Exhibit 15: Healthy reduction in exposure to its top 10 accounts (INR b)



Source: MOFSL, Company

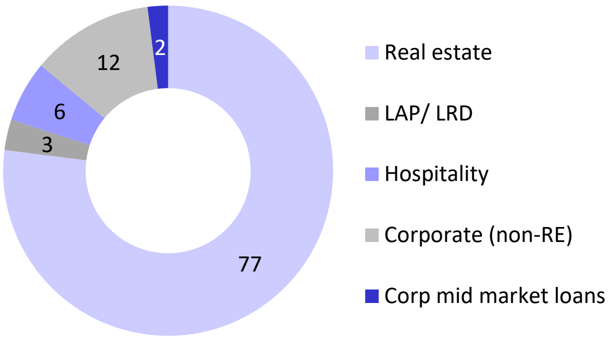
Within Corporate Mid-Market Lending (CMML), the focus will largely be on smaller ticket corporate loans (non-Real Estate) at the OpCo-level. In CMML, the company has already built a loan book of ~INR7b as of 1QFY23 with maximum ticket size of ~INR1b.

The company recently gave more color on its existing Wholesale book by providing the composition of its Wholesale portfolio.

Key highlights from the recent disclosures on the Wholesale portfolio:

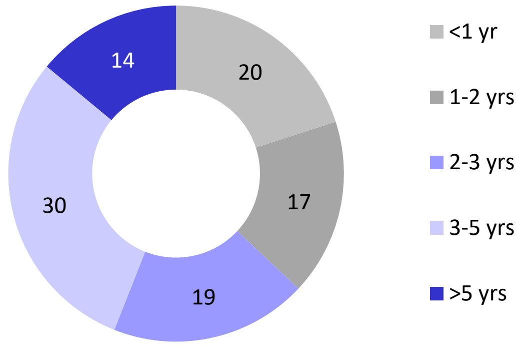
- 92% borrowers contribute <2% of its Wholesale AUM and only 10 unique borrowers (out of 120) have a share >2% in the Wholesale AUM of PIEL
- 37% of its Wholesale portfolio (excluding NPA accounts) have a tenure of <2 years.
- Corporate (non-RE) book has declined to 12%

Exhibit 16: Wholesale loans by product segment (%)



Source: MOFSL, Company

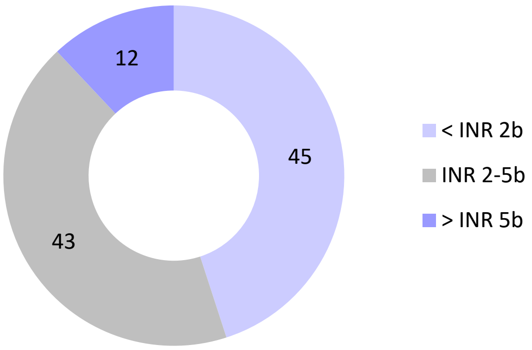
Exhibit 17: Wholesale loans by tenure (%)



Source: MOFSL, Company

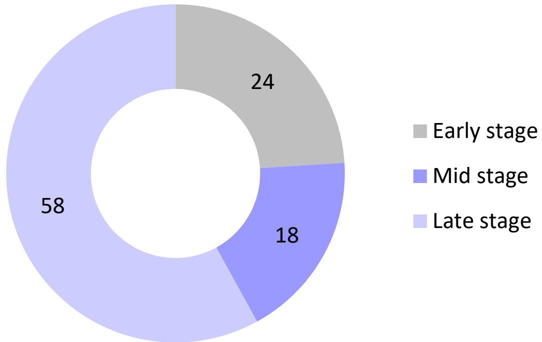
- Around 55% of PIEL's portfolio has a ticket size of above INR2b. It reported a Wholesale Stage 2/3 of 10%/6%. Among its Real Estate exposures, ~25% of projects are in the early stage of construction.

Exhibit 18: Wholesale loans by ticket size (%)



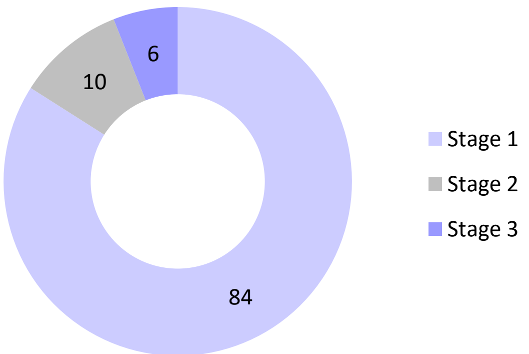
Source: MOFSL, Company

Exhibit 19: Wholesale loans by stage of Construction (%)



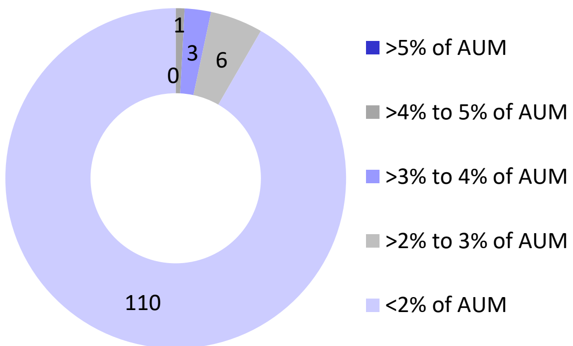
Source: MOFSL, Company

Exhibit 20: Wholesale loans by staging (%)



Source: MOFSL, Company

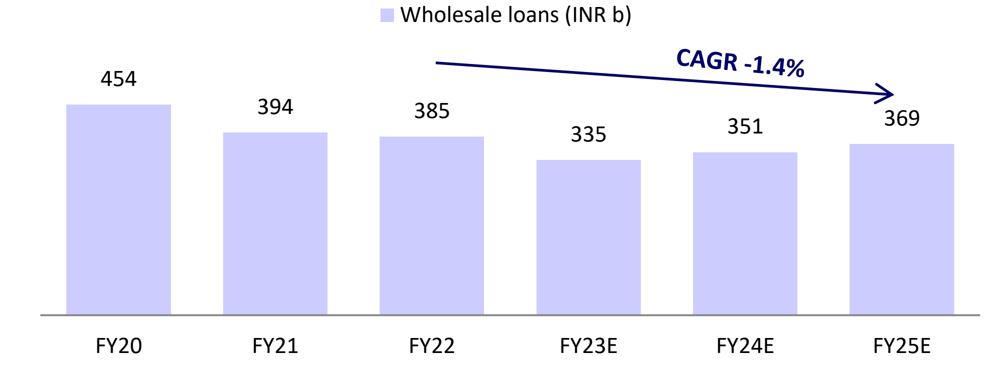
Exhibit 21: Wholesale loans by share in AUM



Source: MOFSL, Company

- We expect consolidation in the Wholesale loan book to continue for the rest of FY23, with the likely monetization of stressed exposures.

Exhibit 22: Expect Wholesale loans to remain in a INR335-370b range over FY22-25



Source: MOFSL, Company

Diversifying the Retail mix with its twin engine approach

- The management is targeting a well-diversified product mix in its Retail credit franchise. It has been undertaking various pilots and launching newer products where it is confident of scaling up.
- Under the 'Phygital' model, it will extensively leverage its branch network and its propriety digital platform for loan originations and cross-selling. It will extend its partnerships with various FinTechs and Consumer-Techs to add newer customers and scale up its Embedded Finance business. As part of this strategy, PIEL has partnered with EdTechs as well as Gold Collateral companies to extend Education and Gold loans to its customers.
- PIEL has acquired ~10% equity stake in EarlySalary, which had an AUM of ~INR10b as of FY22, and offers Consumer loans to meet the lifestyle needs of its customers.

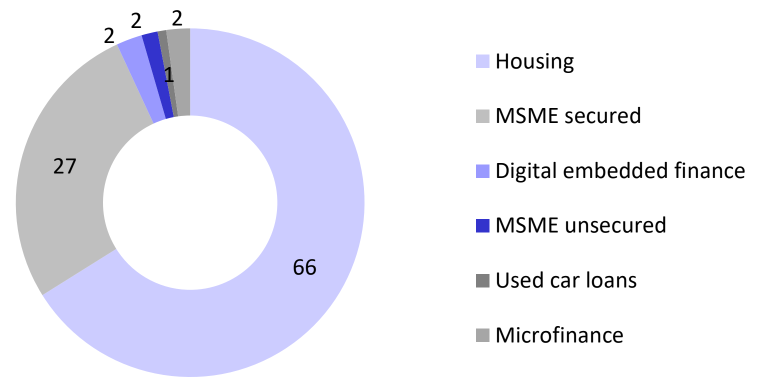
Exhibit 23: PIEL gradually introduces newer products where it can scale and drive growth

FY20 and earlier	FY21	FY22
LAP	LAP	LAP
Affluent Housing*	Secured Business loans	Secured Business loans
	Affordable Housing	Affordable Housing
	Mass Affluent segment	Mass Affluent segment
	Digital Personal loans	Digital Personal loans
	Digital purchase finance	Digital purchase finance
		Pre-owned Car loans
		Merchant BNPL
		Unsecured Business loans

Source: MOFSL, Company; Note: PIEL exited the 'Affluent Housing' segment to pivot towards 'Affordable' and 'Mass Affluent' Housing

- We expect secured Housing and MSME loans to contribute 70-75% to the product mix. We forecast unsecured loans (originated via digital partnerships) like PL, BNPL, digital purchase finance, and small-ticket/short-tenor embedded finance products to constitute 10-15% of the loan mix.

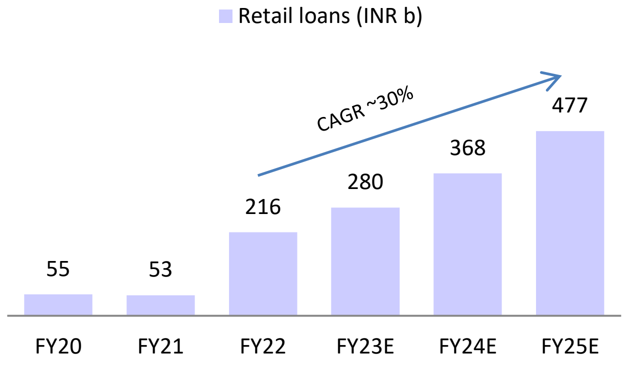
Exhibit 24: Retail loan book largely dominated by Housing and LAP, but expect the proportion of embedded finance products to improve in the near-to-medium term (%)



Source: MOFSL, Company

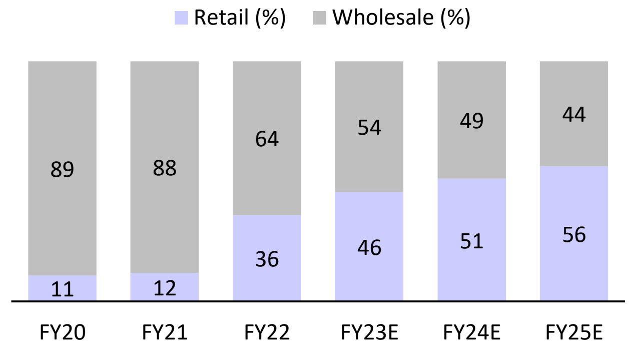
- We expect a healthy Retail loan CAGR of 30% over FY22-25, which will translate in the proportion of Retail improving to ~55% of the loan mix by FY25. As we expect the Wholesale portfolio to consolidate further, we model a total loan CAGR of 12% over the same period.

Exhibit 25: Expect Retail loans to grow at CAGR of ~30% over FY22-25E…



Source: MOFSL, Company

Exhibit 26: …with an improvement in the share of Retail in the mix (%)



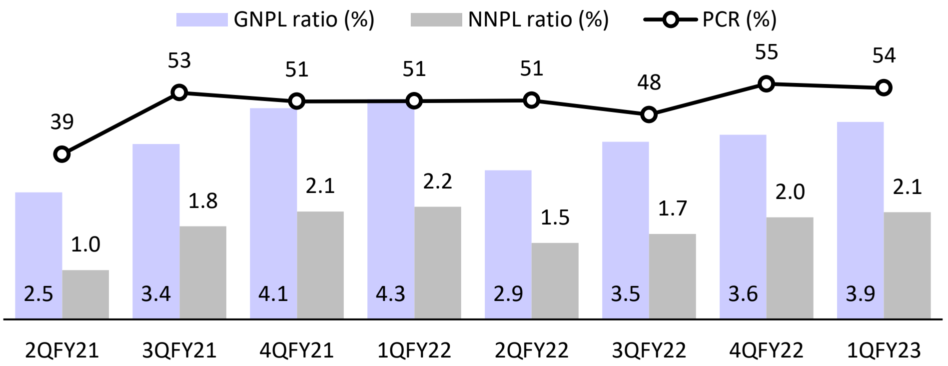
Source: MOFSL, Company

Stressed exposures would be provided for in the near-term

Asset quality has deteriorated over the last two quarters, resulting in higher than expected provisions primarily due to slippages in the Wholesale business. The management has also made higher provisions on Mytrah Energy, which is likely to get resolved based on expected realization.

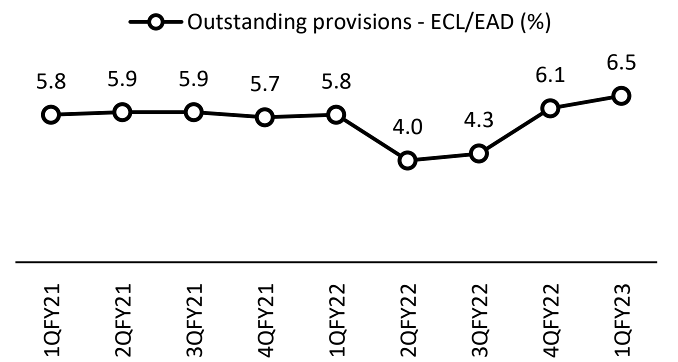
- In 4QFY22, the management undertook accelerated provisioning and interest reversals on three non-RE exposures (high-yield structured mezzanine loans), which were classified under Stage 2. The highest exposure among these three accounts was in Mytrah Energy.
- In 1QFY23, one of the above non-RE accounts (with an exposure of INR1-1.5b) slipped into Stage 3. Another two large accounts also slipped into Stage 2. These include: a) **a Real Estate company in South** India, where there was an ED inquiry and out of caution PIEL classified it under Stage 2, even though it is still a standard account; b) **exposure to a Hotel,** which has now started doing well, but has been classified under Stage 2 as there was a mismatch in cash flows.

Exhibit 27: Asset quality deterioration in the last two quarters were driven by slippages and reclassification of stressed wholesale exposures (%)



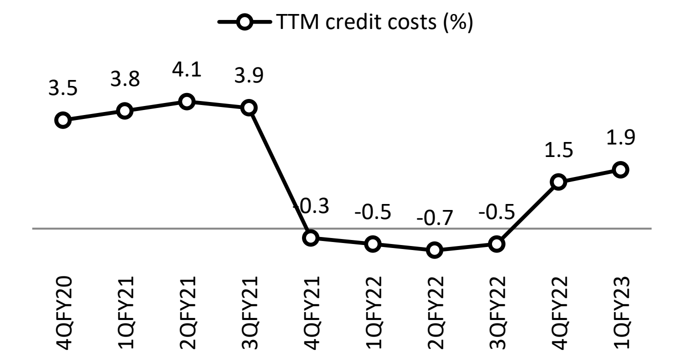
Source: MOFSL, Company

Exhibit 28: PIEL increases its provision cover on the loan book to provide for stressed exposures (%)



Source: MOFSL, Company

Exhibit 29: Expect provisions and credit costs to be more stable rather than episodic (%) going forward



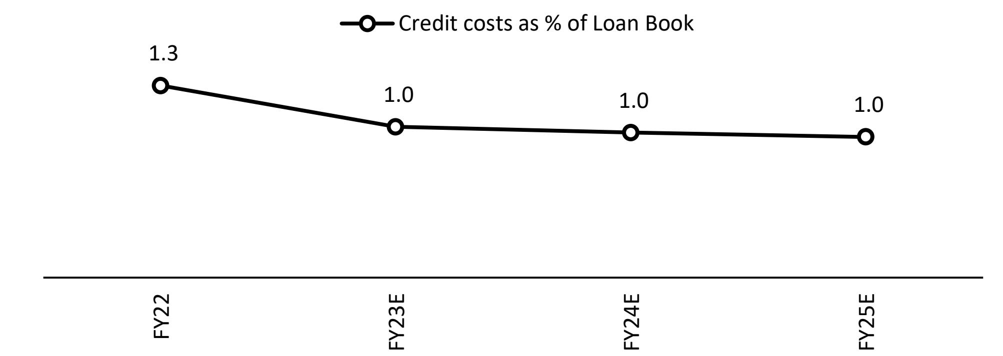
Source: MOFSL, Company, Note: *Cumulative incremental provisions for the trailing 12 months/average AUM for the trailing 12 months

Investor concerns, with regard to the level of stress in its Wholesale book, can be addressed if PIEL chooses to carve out its stressed Wholesale book as 'defocused' and makes accelerated provisions on this defocused pool of stressed loans. This will serve two goals, help: a) investors identify the quantum of stressed exposures in the Wholesale book, and b) PIEL quickly monetize these exposures as they will largely be provided for.

Two important aspects that need to be highlighted here include:

- At the time of the DHFL acquisition, PIEL had created contingent liabilities to the tune of ~INR33.5b, which pertains to an FY20 Income Tax obligation of DHFL. This was recognized pursuant to uncertain tax positions relating to DHFL on the implementation date (i.e. 30th Sep'21, when PCHFL merged with DHFL to conclude the acquisition). Based on our discussions with a few tax experts, PCHFL may not have to incur this tax liability since DHFL was acquired under the IBC process.
- PCHFL has also created a net DTA of ~INR62b in relation to fair value adjustments at the time of the DHFL acquisition. However, the company has not recognized this DTA as it is still a gray area and there are uncertainties associated with the allowability of such adjustments.
- It will utilize: a) any one-off gain from contingent liabilities (~INR33b), and b) clarity on the usage of DTA (of INR62b) for setting off tax obligations to make requisite provisions on the stressed portion of its Wholesale loan book in FY23.

Exhibit 30: Expect net credit cost ~1%, adjusted for POCI recoveries



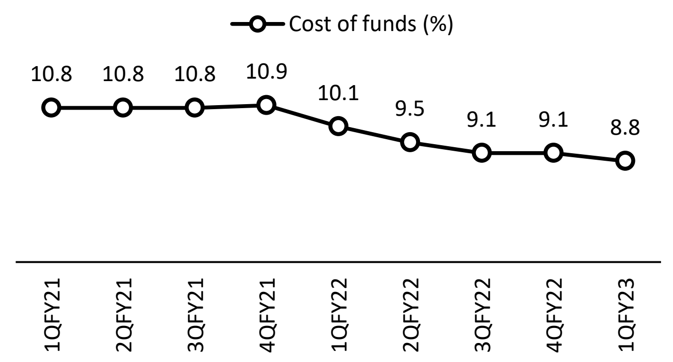
Source: MOFSL, Company

Recoveries from the POCI book (fairly valued ~INR33b as of Jun'22) will enable PIEL to make accelerated provisions and help keep aggregate credit costs lower than the guided levels of 2% in the near-term. Any differences in cash flow from recoveries in the POCI book (higher or lower than its fair value) will be accounted through the P&L. **We model in net credit cost of 1% each in FY24/FY25.**

Liability profile would improve, leading to a steady improvement in margin

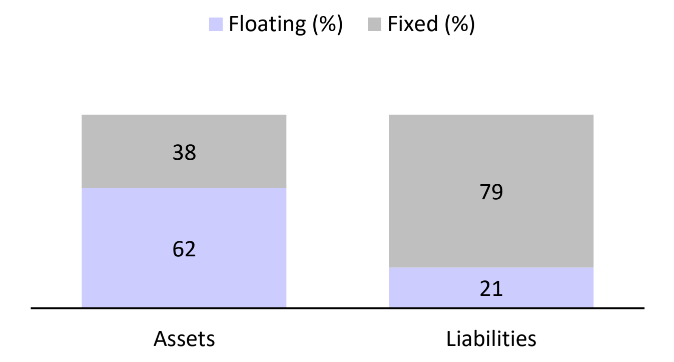
PIEL is relatively better positioned to navigate the rising interest rate regime as: a) ~60% of its assets are at a floating rate, and b) ~80% of its liabilities are at a fixed rate. This includes debentures of ~INR195b, which were raised for the DHFL acquisition at 6.75% p.a.

Exhibit 31: Steady decline in CoF (%)



Source: MOFSL, Company

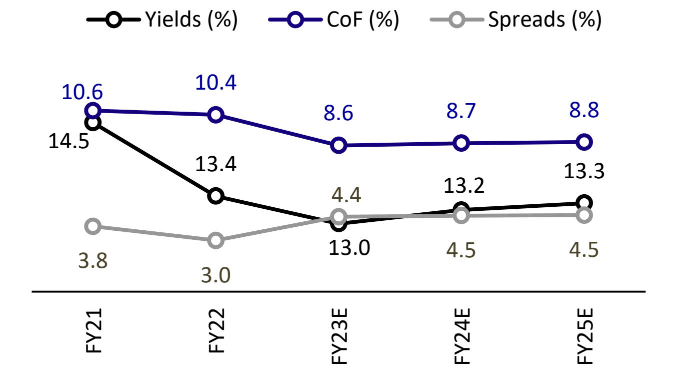
Exhibit 32: Floating-Fixed rate mix on assets/liabilities (%)



Source: MOFSL, Company

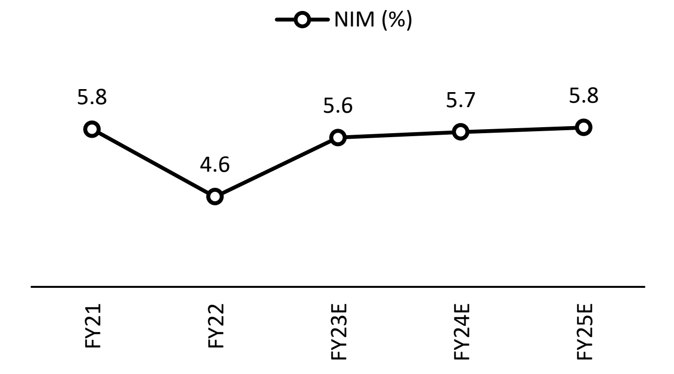
Average borrowing cost has been declining. Given the rising proportion of Retail in the mix, there is a case for an upgrade to its credit rating within the next two years.

Exhibit 33: Expect spreads to expand to ~4.5% by FY25



Source: MOFSL, Company

Exhibit 34: Expect NIM to expand by ~20bp over FY23-25



Source: MOFSL, Company

We model a NIM of 5.6% in FY23 and expect it to improve by ~10bp each over FY24/FY25 led by an improvement in its liability profile.

Valuation and view

Expect PIEL to front-load provisioning, monetize its stressed Wholesale exposures, and exhibit strong Retail growth on a cleaner Balance Sheet

- Over the past two years, PIEL has: a) strengthened its Balance Sheet by running down its Wholesale loan book; b) ensured its Wholesale book is granular, with no exposure over 5% and only 10 exposures over 2% of Wholesale AUM; c) improved texture of its borrowings, driving lower cost of borrowings; and d) fortified itself against contingencies, with ECL provisions at 6.2% of AUM.
- PIEL will now have to scale up DHFL's Mortgage franchise and leverage the platform to cross-sell other Retail products to its customer pool.
- It will be prudent to take a deep dive into the Wholesale loan book, recognize any stressed loans, and front-load the required provisioning. We expect a loan book CAGR of ~12% over FY22-25, incorporating consolidation in the Wholesale book over the next one-year. We estimate a PAT CAGR of 37% over FY22-25, resulting in a FY25 RoA/RoE of 2.2%/~10%. We maintain our Buy rating with a revised TP of INR1,320 (FY24E SoTP-based).

Exhibit 35: SoTP-based valuation (Mar'24E based)

	Value (INR b)	Value (USD b)	INR per share	As a percentage of total	Rationale
Lending business	194	2.6	810	61	❖ 1x FY24E P/BV
Shriram Group	63	0.8	263	20	❖ Based on our TP for SHTF and SCUF
Unallocated NW	48	0.6	198	15	❖ 1x P/BV (net of fixed investments, OCI, and Shriram group allocated NW)
Life Insurance	5	0.1	19	1	❖ 0.5x FY22 EV
Alternatives	7	0.1	29	2	❖ 0.5x FY22 equity
Target value	**316**	**4.2**	**1,320**	**100**	
CMP			988		
Upside (%)			**34**		

Source: MOFSL, Company

Financials and valuations*

Financial Services (Lending)

Income statement					INR m
Y/E March	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Interest Income	69,260	70,160	78,951	88,048	1,04,129
Interest Expended	41,580	46,100	44,697	49,765	58,563
Net Interest Income	**27,680**	**24,060**	**34,253**	**38,283**	**45,566**
Change (%)		-13.1	42.4	11.8	19.0
Other Income	1,150	3,620	4,395	4,185	4,082
Net Income	**28,830**	**27,680**	**38,649**	**42,468**	**49,649**
Change (%)		-4.0	39.6	9.9	16.9
Operating Expenses	6,360	10,750	13,701	14,547	16,404
PPoP	**22,470**	**16,930**	**24,948**	**27,920**	**33,245**
Change (%)		-24.7	47.4	11.9	19.1
Provisions/write offs	10	6,960	6,339	6,694	7,624
PBT	**22,460**	**9,970**	**18,609**	**21,226**	**25,621**
Tax	5,790	2,550	4,689	5,349	6,456
Tax Rate (%)	25.8	25.6	25.2	25.2	25.2
Reported PAT	**16,670**	**7,420**	**13,919**	**15,877**	**19,164**
Change (%)		-55.5	87.6	14.1	20.7

Balance sheet					INR m
Y/E March	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Capital	451	477	477	477	477
Reserves & Surplus	1,80,279	1,69,583	1,81,521	1,93,180	2,07,566
Net Worth	**1,80,730**	**1,70,060**	**1,81,998**	**1,93,658**	**2,08,043**
Borrowings	3,75,564	5,11,012	5,28,456	6,11,637	7,19,338
Change (%)	0	36	3	16	18
Other liabilities	5,086	33,838	3,913	14,407	19,284
Total Liabilities	**5,61,380**	**7,14,910**	**7,14,367**	**8,19,701**	**9,46,665**
Net Loans + investments	**4,61,680**	**6,15,140**	**6,14,483**	**7,19,573**	**8,46,280**
Change (%)	0	33	0	17	18
Net Fixed Assets	1,200	4,440	4,884	5,128	5,385
Cash and Cash equivalents	38,500	85,330	80,000	80,000	80,000
Other assets	60,000	10,000	15,000	15,000	15,000
Total Assets	**5,61,380**	**7,14,910**	**7,14,367**	**8,19,701**	**9,46,665**

E: MOFSL Estimates

*Note: We have only presented the financials for the Lending business based on limited disclosures published by the company. We expect PIEL to publish standalone and consolidated financials of the NBFC when it reports its 1HFY23 result. At that point, we would be in a better position to further refine our estimates for the Financial Services business

Financials and valuations*

Ratios

Y/E March	FY21	FY22	FY23E	FY24E	FY25E
Spread Analysis (%)					
Yield on loans	14.5	13.4	13.0	13.2	13.3
Cost of funds	10.6	10.4	8.6	8.7	8.8
Spread	3.8	3.0	4.4	4.5	4.5
Net Interest Margin	5.8	4.6	5.6	5.7	5.8
Profitability Ratios (%)					
RoE		4.2	7.9	8.5	9.5
RoA		1.2	1.9	2.1	2.2
C/I ratio	22.1	38.8	35.5	34.3	33.0
Asset Quality (%)					
Gross NPA	20,180	22,270	25,525	26,760	27,785
Gross NPA to Adv.	4.1	3.6	3.9	3.5	3.1
Net NPA	9,870	9,980	10,210	9,366	9,725
Net NPA to Adv.	2.1	1.7	1.7	1.3	1.2
PCR	51.1	55.2	60.0	65.0	65.0

INR m

Y/E March	FY21	FY22	FY23E	FY24E	FY25E
AUM (INR m)	4,88,910	6,51,850	6,54,483	7,64,573	8,96,280
AUM mix (%)					
Retail	89.2	66.9	57.2	51.8	46.7
Wholesale	10.8	33.1	42.8	48.2	53.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Wholesale Loans	3,93,650	3,84,620	3,34,619	3,51,350	3,68,918
YoY growth (%)	-13.3	-2.3	-13.0	5.0	5.0
Retail Loans	53,030	2,15,520	2,79,864	3,68,223	4,77,362
YoY growth (%)	-4.2	306.4	29.9	31.6	29.6
Total Loan Book	**4,46,680**	**6,00,140**	**6,14,483**	**7,19,573**	**8,46,280**
YoY growth (%)	-12.4	34.4	2.4	17.1	17.6

Valuation	FY21	FY22	FY23E	FY24E	FY25E
Book Value (INR)	801	713	763	811	872
Price-to-BV (x)		**1.4**	**1.3**	**1.2**	**1.1**
EPS (INR)	73.9	31.1	58.3	66.5	80.3
EPS Growth YoY		-58	88	14	21
Price-to-Earnings (x)		**31.8**	**16.9**	**14.9**	**12.3**
Dividend per share (INR)			17.7	20.0	23.6
Dividend yield (%)			**1.8**	**2.0**	**2.4**

E: MOFSL estimates

DuPont	FY21	FY22	FY23E	FY24E	FY25E
Interest income	13.7	11.0	11.0	11.5	11.8
Interest expense	8.2	7.2	6.3	6.5	6.6
NII	**5.5**	**3.8**	**4.8**	**5.0**	**5.2**
Fee and other income	0.2	0.6	0.6	0.5	0.5
Total income	**5.7**	**4.3**	**5.4**	**5.5**	**5.6**
Operating expense	1.3	1.7	1.9	1.9	1.9
PPOP	**4.4**	**2.7**	**3.5**	**3.6**	**3.8**
Provisions (annualized)	0.0	1.1	**0.9**	**0.9**	**0.9**
Provisions during the period	0.0	1.6	1.4	1.3	1.1
Recoveries from POCI book	0.0	-0.4	-0.5	-0.5	-0.2
PBT	**4.4**	**1.6**	**2.6**	**2.8**	**2.9**
RoA (PAT)	**3.3**	**1.2**	**1.9**	**2.1**	**2.2**
Assets-to-equity	3.0	3.6	4.1	4.1	4.4
RoE (PAT)	**9.9**	**4.2**	**7.9**	**8.5**	**9.5**

E: MOFSL estimates

*Note: We have only presented the financials for the Lending business based on limited disclosures published by the company. We expect PIEL to publish standalone and consolidated financials of the NBFC when it reports its 1HFY23 result. At that point, we would be in a better position to further refine our estimates for the Financial Services business

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Investment Rating	**Expected return (over 12-month)**
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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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