Initiating Coverage

Piramal Enterprises Ltd.

08-June-2021

RETAIL RESEARCH

Piramal Enterprises Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Financial Services & Pharma	Rs.1961	Buy on dips at Rs.1845 and add more at Rs.1605	Rs.2088	Rs.2344	2 quarters

HDFC Scrip Code	PIRENTEQNR
BSE Code	500302
NSE Code	PEL
Bloomberg	PIEL IN
CMP Jun 07, 2021	1961
Equity Capital (RsCr)	45.11
Face Value (Rs)	2
Equity Share O/S (Cr)	22.56
Market Cap (Rs Cr)	44,222
Adj. Book Value (Rs)	1508
Avg. 52 Wk Volumes	1690180
52 Week High	2053.7
52 Week Low	990.0

Share holding Pattern % (Mar, 2021)	
Promoters	46.1
Institutions	39.9
Non Institutions	14
Total	100.0

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Our take

Piramal Enterprises Ltd. (PEL) is involved in broadly two businesses – Pharmaceuticals and Financial services. PEL's financial services segment has a wide range of financial products. It provides both wholesale and retail funding opportunities across industry sectors. In Nov-20, the company had launched its consumer finance segment. Management has planned to increase the contribution of retail loans to total loan book to ~50% in five years.

In the past few years, the company has implemented significant measures to strengthen its balance sheet by reducing its leverage as well as large client exposure in the wholesale lending business (WLB). The company has progressed on the path to make the loan book more granular and diversified. As a result, its WLB book has declined by 23% in FY21. Also the concentration of top-10 client exposure has contracted by 28% over the same period. In Q4FY21, the top-10 client exposure stood at Rs. 13,309Cr vs 18,404Cr in FY20. Apart from this, the number of accounts that are more than 15% of net worth have come down from 3 in FY20 to 0 as of Q4FY21. The company's developer financing business has seen a revival as real estate sentiment turned positive on the back of favorable government initiatives like stamp duty reduction. This has led to a strong uptick in sales and improved collections across developer clients. The financial services segment has sufficient capital to grow for the next 3-5 years. The company's Capital Adequacy Ratio (CAR) stood at 37% as of Q4FY21. The net debt for the financial services business is 1.8x, which is amongst the lowest across sizeable NBFCs and HFCs in India.

PEL operates four business divisions in the Pharmaceutical Business - CDMO (62% of revenue), CHG (29%), India Consumer Healthcare and JV with Allergan for ophthalmology products (9%). The underlying medical conditions help drive demand for Complex Hospital Generics (CHG) and Contract Development and Manufacturing Organization (CDMO) products and services. We believe that near-term volatility is temporary in nature and the situation would normalise over time. Given the recent developments in the pharma world (due to COVID), the company has a potential upside. It has received 30+ new business inquiries related to COVID-19 for the CDMO business, and some of CHG drugs are being used in the treatment of COVID-19 patients. 50 customers have been added in the CDMO segment. Around 40% of the order book is from integrated projects, which implies increasing confidence of innovator pharma companies in the company's service offerings. PEL intends to demerge the pharma and financial services businesses in the medium term to unlock value for shareholders. It has successfully cleared 36 US FDA inspections and 186 other regulatory inspections since FY12. Management has guided 15% revenue

CAGR for the next three years. Revenue growth could be better in FY22, led by recovery in the Complex Hospital Generics segment, strong order book in the CDMO segment, and strong growth in India Consumer Products. The company has guided for ~US$ 90mn capex on an annual basis.

Valuation and recommendation

We have envisaged 11% CAGR for consolidated revenue and 11% CAGR for operating profit over FY21-23E. For the financial services business, we expect the loan book to grow at 12% CAGR with most of the growth coming from retail lending book. The initial asset quality picture post moratorium seems positive, but we still remain cautious. Pharma business has grown at a strong 14% CAGR in revenue and robust 28% CAGR in EBITDA over the past 10 years, led by strong growth from both CDMO and CHG segments. CDMO has registered 13% CAGR while CHG grew at faster rate at 16% CAGR over the same period. EBITDA margin has seen sharp improvement from 7% in FY11 to 26% in FY20. We estimate 14% CAGR in revenue and 23% CAGR in EBITDA for FY21-23E. We believe that investors can buy PEL on dips at Rs.1845 (HealthCare at 12.3x FY23 EV/EBITDA + Financial Services at 1x FY23E Net worth + Shriram Group value at 157/share+ Unallocated NW 1x P/BV - Holding Co Discount 17%) and add more at Rs.1605 (HealthCare at 10.5x FY23 EV/EBITDA + Financial Services at 0.85x FY23E Net worth + Shriram Group value at 157/share+ Unallocated NW 1x P/BV - Holding Co Discount 17%) for the base case fair value of Rs. 2088 (refer SoTP Table below) and the bull case fair value of Rs. 2344 (refer SoTP Table below) over the next two quarters.

Financial Summary (Consolidated)

Particulars (Rs Cr)	Q4FY21	Q4FY20	YoY-%	Q3FY21	QoQ-%	FY19	FY20	FY21	FY22E	FY23E
Net Revenue	3402	3341	1.8	3169	7.4	13215	13068	12809	13829	15647
EBITDA	1778	-98	LP	1891	-6.0	7095	6267	7464	8054	9177
RPAT	-571	-1702	LL	780	PL	1616	-1043	1015	2244	2887
EPS						65.2	0.9	62.6	116.3	143.5
RoE						5.5	0.1	4.4	7.5	8.8
P/E						30.1	2178.9	31.3	16.9	13.7
P/BV						1.3	1.4	1.3	1.2	1.2
EV/EBITDA						9.2	10.4	8.7	8.1	7.1

(Source: Company, HDFC sec)

Q4FY21 result update

The company reported decent performance despite the global COVID-19 impact. The consolidated revenue remained steady and stood at Rs. 3,566 Cr, while it reported net loss of Rs.510 Cr due to a one-off tax adjustment due to DTA derecognition of Rs1260 Cr created on goodwill earlier. Adjusting for this, consolidated PAT was down 7% QoQ.

For the financial services business, the company reported 4% QoQ dip in total AUM. GNPAs have increased QoQ from 3.7% to 4.5% due to decline in the wholesale book. And despite this reduction, the company continued to maintain provisions at 6.3%. PEL has added seven new products in their retail lending portfolio in March 2021. The disbursements have also started kicking in. The company has witnessed significant YoY increase in developer sales and collections from home buyers during Q4FY21, amidst government initiatives providing a boost to real estate. It restructured loans worth Rs.1740 cr (3.8% of loans) in Q3, but did not carry out any further restructuring in Q4FY21.

‘Investment property’ of Rs.1300 cr on the Balance Sheet refers to the transfer of land from Omkar Developers. The company had sanctioned a loan against land for an SRA project. Omkar has even received LoI. This land is situated in Andheri and is spread over 6.7m sq feet. The value of the land is higher than its exposure.

The pharma business was hit by COVID, mainly in Q1FY21; however, post that, the company has seen healthy growth. The business delivered 7% YoY growth in sales with 22% EBITDA margin on an overall basis in FY21. CDMO business registered 15% YoY growth at Rs 3616cr in FY21. In Q4FY21, pharma business grew 18.5% YoY, led by strong 23% growth in CDMO segment. CHG revenue grew a mere 1% YoY to Rs 507cr, impacted by volatility in demand for products used in surgeries globally but this segment is expected to normalise in the coming quarters. Strong growth in the order book for the CDMO segment, the addition of new contracts/revival of surgeries in the CHG segment, and sustained momentum in the India consumer segment together present better prospects for the pharmaceutical segment. The company has received Rs 3,523cr on closure of 20% investment by the Carlyle Group in the pharma business.

Financial services business

Strong balance sheet with adequate growth capital

In the past few years, the company has implemented significant measures to strengthen the balance sheet. It has focused on reducing leverage and bringing down large client exposure in the wholesale lending business.

The company aims to make the loan book more granular and has taken several measures like increasing the share of retail loans. The launch of the consumer finance segment is a part of this strategy. PEL has been making consistent efforts to reduce concentration risk and has made a conscious decision to reduce large single-borrower exposures. Since Sep-2018, it has made significant progress in reducing single borrower exposures as a percentage of the net worth of the financial services business. This has been driven by both refinancing of loans and capital raise. As of March-2021, it has nil exposure and is above the threshold of 15% of net worth of the financial services business. Its business concentration in top-10 accounts has also reduced 28% since Mar-2019.

The company is moving away from short-term liabilities towards stable long-term borrowings. Apart from reducing the overall leverage, it has significantly shifted borrowing mix towards long-term funds. There is 45% reduction of Rs.24,968 Cr in net debt in the past two years. As a result, ALM profile has improved with significant positive gaps in all the buckets.

PEL has deleveraged its balance sheet by raising equity capital and by doing various stake sales. It has been also providing growth capital to its subsidiaries, including pharma and financial services. During FY20, PEL raised nearly Rs.14,500 Cr of capital. Even for future requirement, PEL has financial flexibility in terms of its holdings in the Shriram Group.

The financial services segment has sufficient capital for growth for the next 3-5 years. The company’s CAR stood at 37% as of Q4FY21. Net debt of the financial services business is 1.9x, amongst the lowest across sizable NBFCs and HFCs in India.

A wide range of financial products

Piramal Capital & Housing Finance Ltd. (PCHFL), the wholly owned subsidiary of PEL, is registered as a housing finance company with National Housing Bank (NHB) and engages in various financial services businesses. It provides both wholesale and retail funding opportunities across industry sectors.

In real estate, the platform provides housing finance and other financing solutions across the entire capital stack such as structured debt, construction finance, flexi lease rental discounting, etc. PCHFL also offers customised financing solutions to the hospitality sector.

The wholesale business in the non-real estate sector includes separate verticals – Corporate Finance (CFG) and Emerging Corporate Lending (ECL). CFG provides customised funding solutions to companies across sectors such as infrastructure, renewable energy, industrials, and auto components while ECL focuses on providing funds to small and medium enterprises (SMEs).

Newly launched consumer finance segment

The company sees a significant untapped potential in the retail financing space, offering long-term growth opportunities. Also, due to the impact of COVID-19, the competitive intensity in the retail financing space is likely to decline.

The company had launched four retail lending products in Nov'20 (digital at its core) – LAP, affordable housing finance, mass housing finance, and small business loans. And in the last quarter, it also added two more products- Digital Purchase Finance and Digital Personal Loans. The overall yield in this segment is 11.5-12%. The company has witnessed healthy traction across product categories since their launch. These products may give higher pricing power due to their niche capabilities and low competition from banks. Management plans to take retail lending book contribution to 50% of the total loan book in five years. It is targeting to be present at 1,000 locations with ~5000 employees over the same time.

Management is currently focused on building technology infrastructure, setting up robust processes, developing loan products and acquiring top quality key talent for this business. Also, as part of this multi-product retail lending strategy, and in order to improve profitability, it plans to gradually shift its housing finance business and target the mass-affluent category.

DHFL acquisition deal

Piramal Capital & Housing Finance Limited (PCHFL, wholly-owned subsidiary of PEL) has been emerged as the successful resolution applicant for DHFL (got approval from RBI, CCI and NCLT). IRDAI's approval is still pending. Total consideration of Rs.34,250 Cr is paid via upfront cash component of Rs. 14,700 Cr (including cash on DHFL's B/S) and a deferred component (10-year NCDs at 6.75%) of Rs. 19,550 Cr.

The acquisition is in line with the Piramal group's strategy to diversify its loan book, and a step towards the demerger of the group's financial services and pharma businesses in future. On the business side, the proposed acquisition will help PCHFL diversify its loan book into the retail segment and improve the wholesale-retail mix. Asset quality of DHFL's retail loan book however remains a key monitorable. Business integration may take some time.

Piramal has recently also raised Rs. 4,050 crore through issuance of long-term, five-year non-convertible debentures (NCDs) in two tranches. The first tranche of the NCD issue amounted to Rs. 2,000 crores followed by the second tranche of the remaining Rs. 2,050 crore. The fund raise had come just weeks after the Reserve Bank of India had given PCHFL the approval to acquire DHFL. The five-year NCD issuances of Rs. 4,050 crores reaffirm significant improvement in its liabilities, which has strengthened its balance sheet. Post this, the company is well-positioned to tap growth opportunities across the financial services spectrum.

Alternative asset management

The company has entered strategic partnerships with various institutions like Caisse de dépôt et placement du Québec (CDPQ), Bain Capital Credit, Canada Pension Plan Investment Board (CPPIB) and APG Asset Management (a Dutch pension fund asset manager), each with a specific mandate, to explore alternative investment opportunities. Its AUM stood at Rs.11,496 Cr across various investment platforms and Joint Ventures (as of FY20).

Robust risk management

PEL has a strong risk management framework and robust asset monitoring in its financial services business. The risk management framework spans across the pre-qualification and pre-approval stages, whereas asset monitoring takes place throughout the lifecycle of a project. As part of its review and governance mechanism, the risk and legal teams are independent and report directly to the Board. The investment committees, apart from executive directors and business heads, also include independent directors and external experts.

The asset monitoring team critically analyses the key set of triggers like financials, operational performance, regulatory changes, macro-economic factors, etc., and highlights the Early Warning Signals (EWS). The early-warning predictive model helps identify deals that could potentially go into stress in the near-to-medium term.

Asset quality and provisioning

Management informed that the real estate sector has shown a healthy revival over the past few months and has started performing better since the last quarter. In Q4FY21, sales of their developer clients increased 115% YoY. Their collections from homebuyers were 74% higher than the same period in the previous year. And construction activity is at 100% of the projects. The uptick in the real estate sector should ensure that its asset quality remains intact, if not improve, in the future. The GNPA ratio stood at 4.5% vs 3.7% in Q3FY21.

Management has also stated that it has transformed from regulatory provisioning to conservative provision coverage ratios. It now maintains a conservative provision of 6.3% of the overall loan book versus 1.9% a year ago.

Pharma business

CDMO (Piramal Pharma Solutions)

PEL offers integrated drug discovery, development, and manufacturing services to pharmaceutical companies globally for both drug substance (APIs) and drug products (formulations) in the CDMO business vertical. Through integrated offerings, the CDMO business supports a customer’s product across its lifecycle from discovery and clinical development to commercial launch. The company has a diversified customer base that includes large global innovator pharma companies, emerging biopharma companies, and generic pharma companies.

It has development and manufacturing facilities located in India, the UK, the US and Canada. These facilities have requisite approvals from global pharma regulatory agencies, including the US FDA (Food and Drug Administration), UK MHRA (Medicines and Healthcare products Regulatory Agency), Japan PMDA (Pharmaceuticals and Medical Devices Agency), ANVISA (Brazilian Health Regulatory Agency), and Health Canada, to supply products to respective markets. Around 42% of the order book is from integrated projects, which reflects the increasing confidence of innovator pharma companies in their service offerings.

CDMO - strong demand, offerings, and inorganic opportunities to drive growth

CDMO revenue grew at 13% CAGR over FY11-21 to touch Rs 3,616cr. In FY21, revenue grew 15% YoY to Rs 3616cr, despite a COVID-related decline in Q1FY21. At present, commercial manufacturing contributes the most to CDMO revenue (70%), followed by development services (26%), while drug discovery services constitute the remaining portion.

PEL has supported over 40 product launches through its CDMO offerings, with four NCEs launched in FY20. It has aided increase in patented products to 19 in FY21 from 8 in FY17. Patented products provide an opportunity to grow at a faster rate due to the potential growth in sales. There are 30 molecules currently under Phase III trials, up from 24 in FY19, in which the company is providing its services.
Around 40% of the CDMO order book is from integrated projects. It has grown from 16 in FY17 to 30 in FY21. PEL has a track record of executing over 125 integrated projects in CDMO. It has an over 500 strong customer base and boasts a win rate of more than 50% in proposals. Client concentration is also very low, with top three/10 clients contributing only 15%/36% of revenue. Around 77% of CDMO revenue comes from North America, Europe and Japan.

At present, it has over 120 molecules under clinical trials and has capabilities to manufacture over 50/65 APIs/FDFs across therapeutic areas. PEL's offerings include niche products such as high potent APIs, sterile injectables, antibody drug conjugates (biologics), and hormonal and complex Oral Solid Doses (OSDs). Its oncology offerings bode well for future growth opportunities, as the segment/therapy is expected to see the highest growth amongst all segments in the coming years.

Currently, it has 65 ongoing cancer projects for 25 different kinds of cancers, with seven integrated oncology programs. Peak sales for the three products that it is currently working on are expected to be US$ 5bn.

Over the past decade, PEL has invested heavily to grow its capabilities and capacity. It had acquired 76% stake in Oxygen Research in CY11 for ~US$ 11.3mn, Coldstream Laboratories in CY15 for US$ 31mn, Ash Stevens in CY16 for US$ 43mn, and OSD facility in Sellersville, Pennsylvania for US$ 18mn. In Ash Stevens' Riverview facility, it has invested ~US$ 14mn to expand site capabilities and continues to invest in HP API labs and office expansion. The Riverview facility now supports integrated services as well. The company continues to enhance capabilities through value-accretive acquisitions, such as the acquisition of solid oral dosage drug product facility in Sellersville, Pennsylvania, US in Jun-2020.

Going forward, integrated projects, patent protected products in commercial manufacturing, and Phase III clinical trial molecules moving to commercial stage will aid growth. PEL intends to increase its integrated project offerings. It intends to supplement growth through inorganic initiatives, which will either add scale or technical capabilities that in turn will help it cross-sell its offerings. We estimate 12% CAGR in CDMO revenue over FY21-23E.

Hemmo Pharma acquisition update

In Apr-2021, Piramal Enterprises' (PEL) wholly owned pharma subsidiary Piramal Pharma Ltd (PPL) announced the acquisition of Hemmo Pharma for an upfront cash consideration of Rs 775cr and additional milestone linked payments. PPL believes that Hemmo's forte in peptide API manufacturing will not only complement the existing CDMO business but also provide additional growth opportunity as well as vertical integration benefits. The deal is valued at around 7x FY21E sales and ~20x FY21E EV/EBITDA.

Hemmo is one of India's largest manufacturers of synthetic peptides with a legacy of nearly four decades. It has strong expertise in both solution and solid phase synthesis of peptides with a healthy commercialised product basket and pipeline of under development products. Globally, the peptide API market has a size of US$ 2bn which is growing at 6-8% every year. Hemmo generates around 75% of sales from exports and about 65% is to the regulated market. It has an R&D facility at Thane and a world class GMP manufacturing facility at Turbhe that is deemed compliant by the US FDA, EU, and several Asian regulators.

Complex Hospital Generics (Piramal Critical Care)

PEL is the 4th largest player (ex-China it is the third largest) in the global Complex Hospital Generics (CHG) market with an approximate target market size of >US$ 50bn. It markets niche inhalation anesthesia, injectable anesthesia, pain management, intrathecal spasticity and other products used in hospitals or other managed care units. It is one of the few global suppliers of inhaled anesthetics with an internal capability to manufacture all four generations of inhalation anesthetic products. The company is building a portfolio of injectable products with strong presence in anesthesia, pain management, and intrathecal therapy. It had launched nine injectable products in FY20 and has a pipeline of 20+ products in various stages of development, targeted for launch over the next 3-4 years. The overall industry size for injectables is comparatively much larger than that of inhalation products and, as per the management, it believes that this will be the faster growing segment in the future, led by new products and entry into new geographies. The company has strong commercial capabilities that allow the business to distribute products in over 100 countries with (a) direct sales presence in the US, the UK, Italy and Germany and (b) strong local marketing partnerships in other markets, including Japan and South Africa.

PEL has R&D capabilities for developing and manufacturing complex products. Products developed through internal R&D gets better margin. The company has in-licensed products such as Linezolid to grow its offerings and acquired products as well. It markets its CHG products exclusively through its sales force in the US and Europe. CHG business is supported by the acquisition of products. The company had acquired five products from J&J for US$ 175mn in CY16, two products from Mallinckrodt for US$ 171mn in CY17 and two other products in CY18. These were complimented by in-house developed products.

Developed markets such as the US, Europe and Japan account for almost 75% of the segment’s revenue. PEL is the fourth largest player in inhalation anesthesia products globally. It derives ~54% of this segment’s revenue from inhalation anesthesia while 22% from injectable anesthesia and pain and 21% from Intrathecial spasticity.

Growth in the CHG business is expected to be driven by new launches and inorganic growth strategy. The company has a pipeline of 27 products with a market size of US$ 6bn, which will support medium-term growth. Management said that it is looking for variety of product combinations to grow in new markets. The company intends to increase the share of revenue from its market force, which would lead to margin expansion.

Complex Hospital Generics (CHG) revenue has grown at 16% CAGR to Rs 1,669cr over FY11-21. The segment revenue declined 11% YoY due to decline in the demand for hospitalisation on the back of COVID-19. We estimate 14% CAGR in CHG revenue over FY21-23E.

Consumer healthcare business

It has an over-the-counter (OTC) business model across key categories like skincare, gastro-intestinal care, women’s intimate range, child-care, pain management and oral and respiratory healthcare. PEL is the 11th largest player in the Indian OTC segment with an approximate target market size of US$ 6-10bn. With 21 brands, direct reach to over 2.8 lakh outlets (more than 1,500 towns), and ongoing marketing activities, PEL is well-placed to further scale up this business over the next 4-5 years. PEL has a product portfolio of 21 brands, which include power brands such as Saridon, Lacto Calamine, and i-pill. Five core brands – Saridon, Supradyn, i-pill, Tetmosol, and Lacto Calamine – contributed over 60% to the segment’s revenue.

While brand awareness campaigns generate pull for its products, the use of analytics to improve distribution and listing of products on e-commerce platforms have been able to translate into actual sales. Management has invested heavily in tech and analytics to support its modern trade and e-commerce channels. Its field force is 100% tech enabled which would help increase productivity. It also uses analytics in forecasting demand for greater accuracy.

Management is focusing on modern trade and e-commerce to increase its market share and customer base in the existing markets. Success in its e-commerce strategy can be viewed from the 36x growth in Little's Wipes to 1.2m over FY18-20 (2.4m units in 9MFY21), and growth of 75x in i-know ovulation kits to 75,000 units in FY20. The company has overall risen 3x in e-comm sales in FY21. Launches, strong distribution through consolidation/technology enablement, and healthy growth in existing products would sustain the company's growth momentum in the consumer healthcare segment.

Rapid urbanisation, a young population, higher disposable incomes, rising penetration of e-commerce and modern trade channels like supermarkets are the key growth drivers in the consumer healthcare business. This business' current product portfolio has been supplemented by launches in FY21. The latter mainly comprises COVID products such as hand sanitizers, masks, disinfectants, pulse oximeters, and vitamin supplements. The segment also includes product extensions like Lacto Calamine Sunshield, JM Doodle Waterz, Little's Diapers, Lacto Calamine wipes, etc. India consumer healthcare business registered 15% CAGR in revenue at Rs 501cr over FY11-21. It posted 20% YoY growth in revenue to Rs 501cr in FY21. We expect 12% CAGR in revenue over FY21-23E.

Ophthalmology products: Piramal - Allergan JV

PEL had in 1996 entered into a 49:51 joint venture (JV) with Allergan India Pvt Ltd.(now part of AbbVie), a specialty pharmaceutical company. Indian ophthalmology branded products industry has an approximate market size of US$ 350mn. The JV is India's largest player in this segment and enjoys superior margin as compared to other businesses, and has a net profit margin of 26% in FY20.

It is one of the leading players in the eye care segment in the country with presence across all major diseases. It has four brands among top-10 ophthalmology brands in India – Refresh Tears (rank 1), Combigan (rank 2), Lumigan (rank 6) and Refresh Liquigel (rank 7). The JV has proved its dominance through a lot of successful launches, which include ones for glaucoma, dry eye, infections and inflammations. These products are manufactured at the Pithampur facility.

The JV has reported 12% CAGR in sales over FY11-20 to Rs 393cr. It has recorded revenue of Rs 365cr and net profit of Rs 121cr in FY21. Going forward, we expect this segment to report a revenue CAGR of 10% over FY21-23E.

Raised US$ 490mn for 20% stake sale in pharma business

In June 2020, the Carlyle Group agreed to invest fresh equity capital of ~US$ 490mn for a 20% stake in Piramal Pharma. The transaction valued the pharma business at an enterprise value (EV) of ~US$ 2.7bn, with a potential upside of another US$ 360mn, depending on the business' FY21 performance. The transaction was concluded in Oct-2020. The deal further strengthened the balance sheet. The proceeds will be used for organic and inorganic growth strategies in the pharma business. Post the transaction, net debt was reduced to Rs 2621cr in Dec-2020 from Rs 3,981cr in Mar-2020. The company has successfully cleared 36 US FDA inspections and 186 other regulatory inspections since FY12. With the non-compete clause being over with regards to the Abbott deal, PEL may look to re-enter the domestic formulations business, subject to a strategic mix and the valuation of inorganic opportunities.

Information management (DRG)

In May-2012, the company acquired Decision Resource Group (DRG), a US-based healthcare information analytics company, for US$ 650mn. Over the years, it has evolved from being a provider of syndicated market research into a diversified data and analytics business with a proprietary database providing information services in life sciences and healthcare provider and payer industries to world's leading pharmaceutical, biotech and medical technological companies. The company's growth in the segment has been inorganic with a major acquisition of Adaptive Software and Healthcare Business Insights. It has 17 offices across six countries employing >275 specialised industry analysts and disease experts. In Jan-2020, PEL announced the sale of its healthcare insights and analytics segment to Clarivate Analytics at an EV of US$ 950mn. The company concluded the transaction in Mar-2020.

Risks and concerns

- The stiff competition from banks will pose increasing challenges by way of lower than expected loan growth and lower NIMs.

- Prolonged COVID-led slowdown might negatively impact on multiple fronts like liquidity, asset quality, loan growth, etc.

- Any adverse change of norms for housing finance companies can impact the growth prospects, especially after the change of the regulator body to RBI from NHB in FY20 Budget.

- Despite several measures to counter it, the company's loan book continues to be concentrated in the hands of a few borrowers. This high client concentration brings the risk of loans becoming NPAs. The company also has significant exposure to the real estate sector.

Over the last 2-3 years, real estate inventory has piled up in India, and product launches have also been coming down in the past one and half years, with COVID-19 worsening this situation.

- Slowdown in expenditure on innovative R&D as pricing pressure in the global market has led to lack of funding. This can impact the CDMO segment revenue growth.

- Failure of products in the innovative pipeline to move to next stage of development.

- The company has a robust track record of successfully meeting compliance audits from various authorities. However, regulatory hurdles with any lapse by the company in adherence to compliance standards could delay projects/dispatches and affect revenue and profitability.

- The stock price has run up also due to expectations of demerger of two businesses. When and in what form will this happen remains uncertain at this point of time.

- The company's plan to quickly increase the retail portion of lending depends to a large extent on successful and quick acquisition of DHFL assets. Any inordinate delay in achieving this could postpone the rerating of finance business.

Company background

PEL is one of India's leading diversified companies, which has an established presence in pharmaceuticals and financial services.

In the financial services segment, the company offers a wide range of wholesale and retail financial products and solutions. The wholesale lending business or WLB provides financing to real estate developers and corporate clients in non-real estate sectors. In retail lending, the company offers housing loans to individuals and it is building a multi-product retail lending platform. India Resurgence Fund (IndiaRF), the distressed asset investing platform of the company in partnership with Bain Capital Credit, invests in equity and/or debt across non-real estate sectors. The company has long-standing partnerships with leading institutional investors, –including CPPIB, APG, Bain Capital Credit, CDPQ, and Ivanhoé Cambridge. PEL also has equity investments in the Shriram Group, a leading financial conglomerate in India. PEL is also planning to foray into the consumer financing business.

Piramal Enterprises Ltd.

Piramal Pharma Ltd (PPL), a subsidiary of PEL, offers a portfolio of differentiated products and services through end-to-end manufacturing capabilities across 14 global facilities and a global distribution network in over 100 countries. PPL includes an integrated contract development and manufacturing (CDMO) business, Complex Hospital Generics business, and India Consumer Products business, selling over-the-counter products in India. In addition, it has a joint venture with Allergan, a leader in ophthalmology, in the Indian formulations market. In Oct-2020, PPL received US$ 490mn for selling 20% stake to the Carlyle group. In FY20, PEL had divested its stake in the Healthcare Insights and Analytics (HIA) business to Clarivate Analytics PLC.

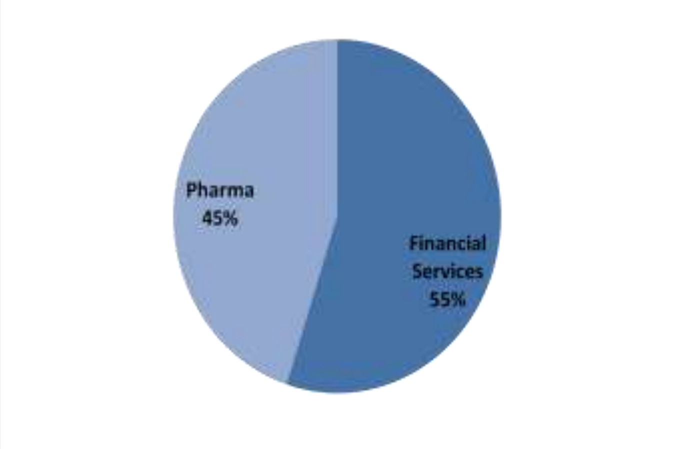
SoTP Valuation:

Business segments	Metric	Valuation (Rs Cr)		Valuation (Rs/share)	
		Base Case	Bull Case	Base Case	Bull Case
Financial Services	1.15x & 1.3x FY23E Net Worth	25015	28277	1109	1254
Healthcare (80% stake)	13.5/14.5x FY23E EV/EBITDA	18919	20447	839	907
Shriram Group*	~10% stake in Shriram City and ~20% stake in Shriram Capital	3533	3533	157	157
Total Subsidiaries Value		22452	23980	995	1063
Less: Holding Co Discount	Less: Holding Co Discount 15/10%	3368	2398	149	106
Unallocated NW (Net of DTA, OCI and Shriram Group allocated NW)	1x P/BV	3000	3000	133	133
Target Price		**47098**	**52860**	**2088**	**2344**

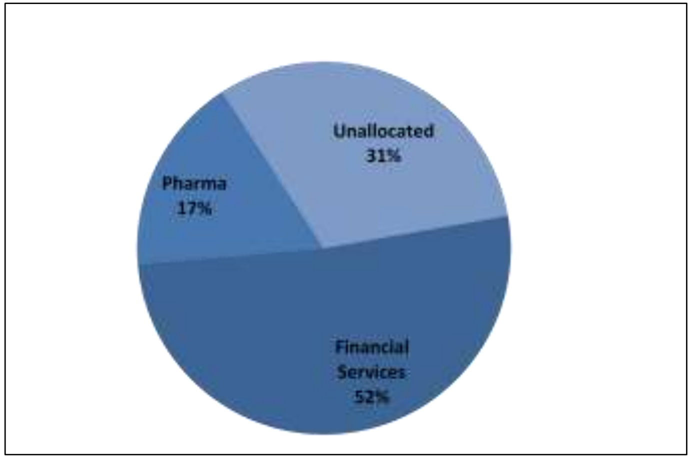
*Note: We have not considered values of life insurance, general insurance and other businesses, while valuing the total value for Shriram Capital.

Piramal Enterprises Ltd.

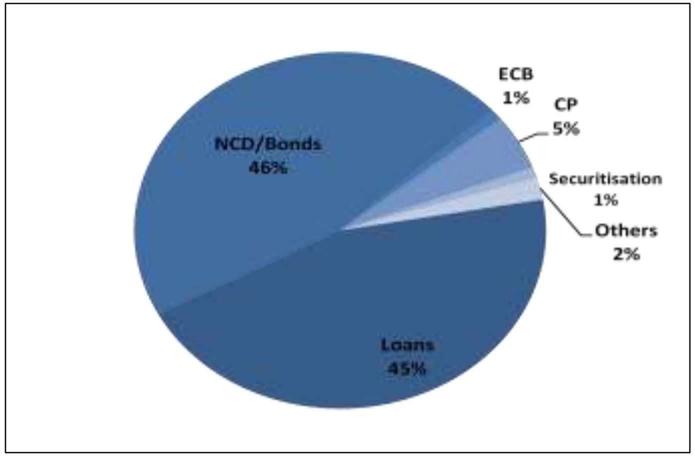
PEL's Revenue Breakup (%)



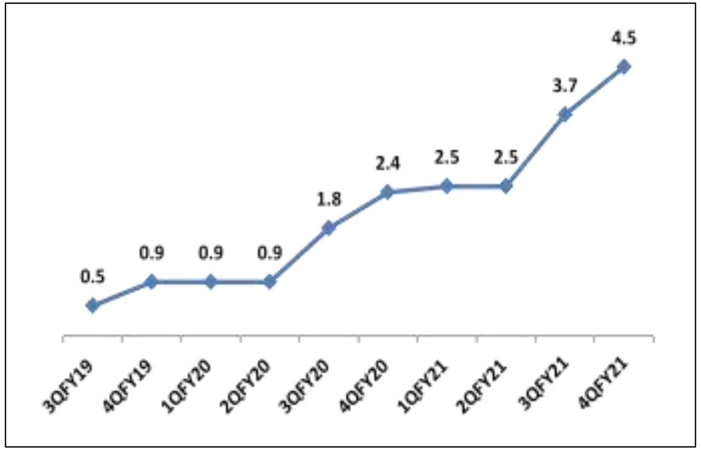
Equity Allocation



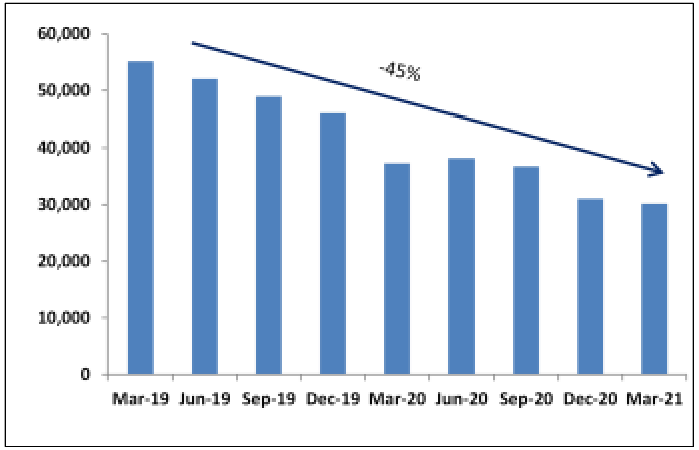
Borrowing Mix



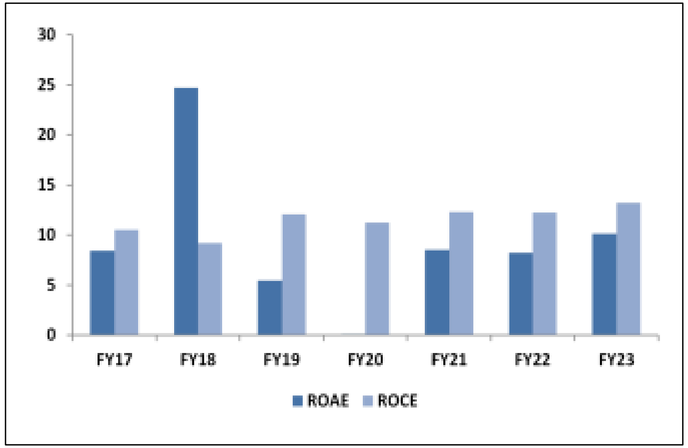
GNPA in Financial Service



Consolidated Net Debt (Rs. Cr.)



Return Ratios



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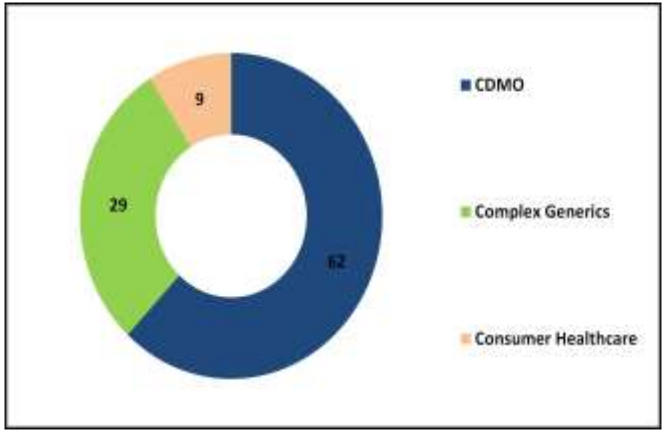
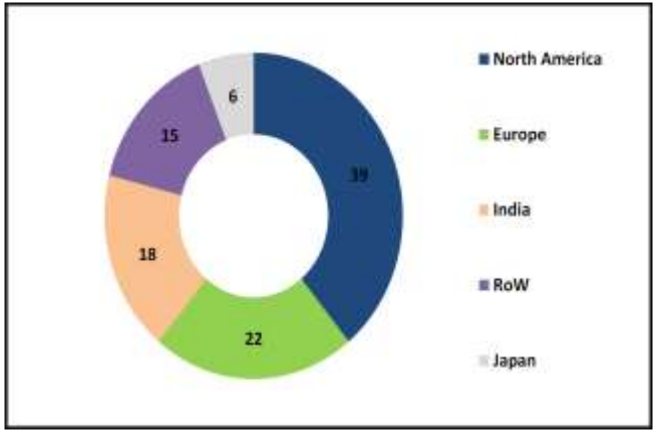
Piramal Enterprises Ltd.

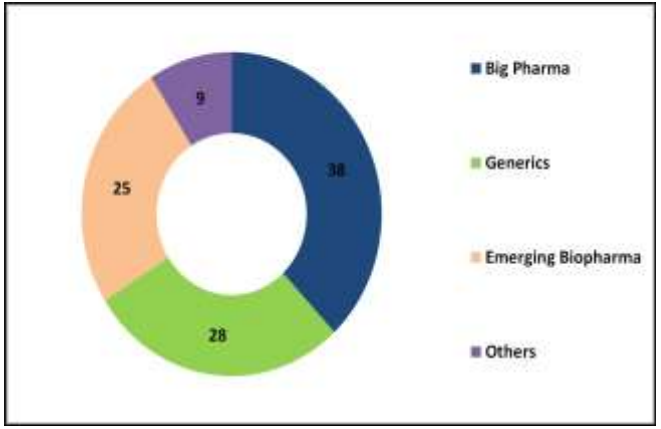
Revenue Mix (%)



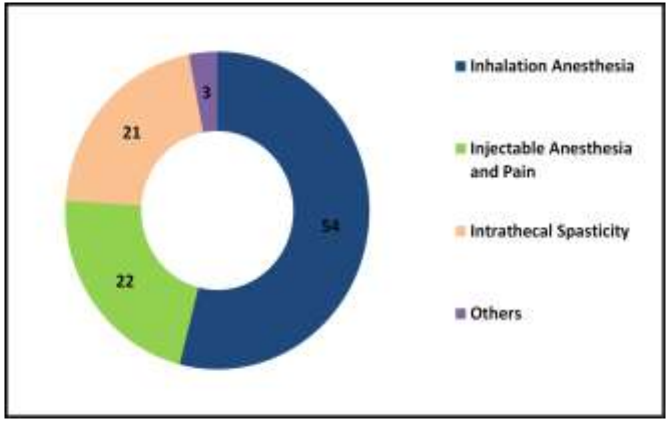
Geography wise Break up (%)



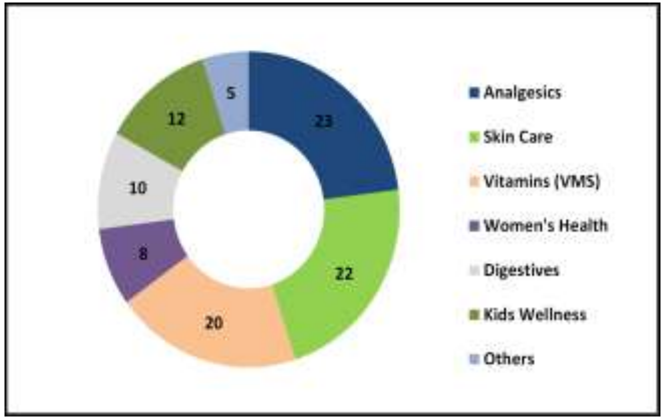
CDMO Revenue Mix (%)



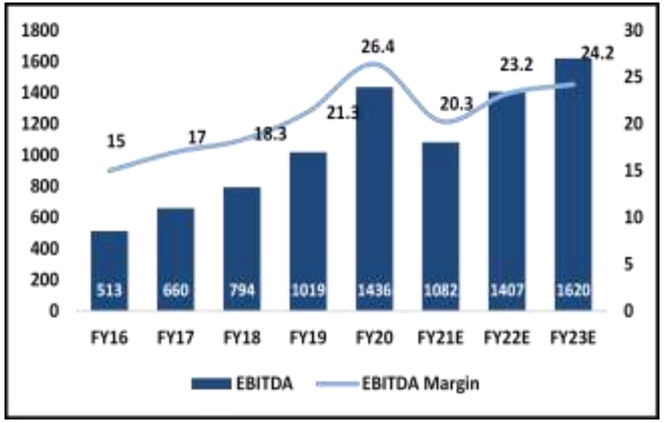
CHG Revenue Mix (%)



Consumer Health (%)



EBITDA and Margin



Piramal Enterprises Ltd.

Consolidated Financials

Income Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Net Revenue	**13215**	**13068**	**12809**	**13830**	**15647**
HealthCare	4786	5419	5776	6631	7480
Financial Services	7063	7649	7033	7199	8168
Info Mgmt & Other	1366	0	0	0	0
Growth (%)	24.3	-1.1	-2	8	13.1
Operating Expenses	6121	6801	5345	5776	6470
EBITDA	**7095**	**6267**	**7464**	**8054**	**9177**
Growth (%)	**37.5**	**-11.7**	**19.1**	**7.9**	**13.9**
EBITDA Margin (%)	**53.7**	**48**	**58.3**	**58.2**	**58.6**
Depreciation	520	520	561	580	610
EBIT	**6574**	**5747**	**6903**	**7474**	**8568**
Other Income	**313**	**491**	**364**	**411**	**400**
Interest	4409	5320	4208	4884	5118
PBT	**2478**	**918**	**3058**	**3000**	**3849**
Tax	861.1	1960.4	2043	756.1	962.3
RPAT	**1616**	**-1043**	**1015**	**2244**	**2887**
APAT	**1470**	**21**	**1413**	**2623**	**3237**
EPS	65.2	0.9	62.6	116.3	143.5

Balance Sheet

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	36.9	45.1	45.1	45.1	45.1
Reserves	27196	30526	35094	36774	38872
Shareholders' Funds	**27233**	**30572**	**35139**	**36819**	**38917**
Long Term Borrowings	**27033**	**20306**	**28097**	**30906**	**32915**
Net Deferred Taxes	19	8	223	200	180
Long Term Provisions & Others	244	350	313	325	300
Total Source of Funds	**54530**	**51236**	**63772**	**68251**	**72312**
APPLICATION OF FUNDS					
Net Block	5258	5095	5255	4072	3563
Capital Work-in-Progress	494	517	636	450	320
Goodwill	5939	1139	1114	1114	1114
Non-Current Investments	23299	16492	19765	20753	21791
Long Term Loans & Advances	33614	31304	27388	30400	33440
Other Non-Current Assets	4749	4248	3094	3267	3477
Total Non-Current Assets	**73352**	**58796**	**57252**	**60057**	**63705**
Current Investments	2448	2950	3562	3918	4114
Inventories	831	1061	1299	1288	1458
Trade Receivables	1403	1324	1545	1667	1886
Short term Loans & Advances	6364	5218	5046	5399	5777
Cash & Equivalents	919	4771	7025	7865	7705
Other Current Assets	296	788	1390	1529	1636
Total Current Assets	**12261**	**16113**	**19866**	**21667**	**22576**
Short-Term Borrowings	15578	7950	3362	3194	3098
Trade Payables	961	990	1178	1296	1439
Other Current Liab & Provisions	14544	14733	8806	8983	9432
Total Current Liabilities	**31084**	**23673**	**13347**	**13473**	**13969**
Net Current Assets	-18823	-7560	6519	8194	8607
Total Application of Funds	**54530**	**51236**	**63772**	**68251**	**72312**

Piramal Enterprises Ltd.

Key Ratios

	FY19	FY20	FY21	FY22E	FY23E
Profitability (%)					
EBITDA Margin	53.7	48.0	58.3	58.2	58.6
EBIT Margin	49.7	44.0	53.9	54.0	54.8
APAT Margin	8.7	-8.0	8.4	16.2	18.4
RoE	5.5	0.1	4.4	7.5	8.8
RoCE	12.1	11.2	10.8	11.0	11.8
Solvency Ratio					
D/E	1.6	0.9	0.9	1.0	1.0
PER SHARE DATA					
EPS	65.2	0.9	62.6	116.3	143.5
BV	1476	1355	1508	1583	1676
Dividend	28.0	14.0	35.0	25.0	35.0
VALUATION					
P/E	30.1	2178.9	31.3	16.9	13.7
Dividend Yield	1.4	0.7	1.8	1.3	1.8
P/BV	1.3	1.4	1.3	1.2	1.2
EV/EBITDA	9.2	10.4	8.7	8.1	7.1
EV / Revenues	4.9	5.0	5.1	4.7	4.2

(Source: Company, HDFC sec Research)

Piramal Enterprises Ltd.

Financial Snapshot- Financial Services segment

Income Statement

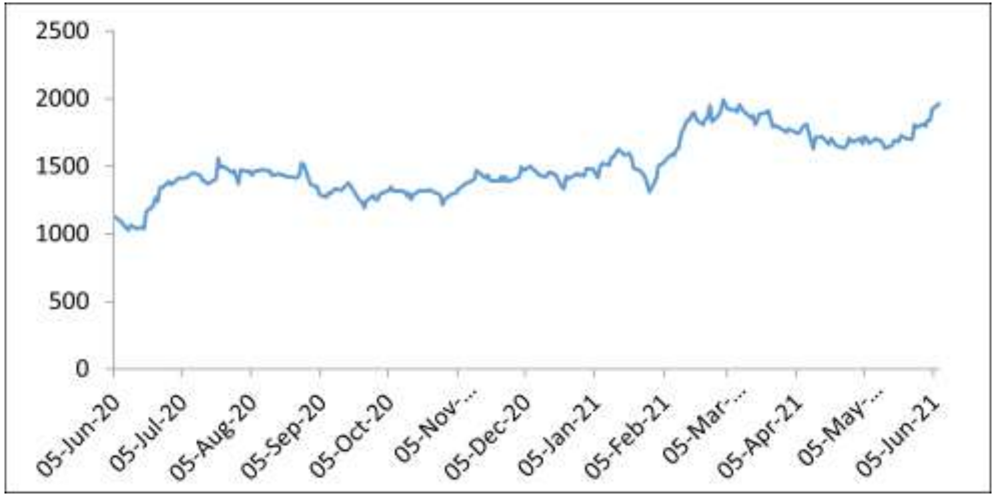
	FY19	FY20	FY21	FY22E	FY23E
Interest Income	6933.1	7692.5	6742	6878.9	7797.7
Yield on Advance %	12.2	15.1	15.1	14	13.8
Interest Expense	3741	4729.5	3913	3837.9	4413.6
Cost of Fund %	8.4	11.9	12	10.7	10.7
Net interest income	3192.1	2963	2829	3041	3384.1
Non-interest and fee income	130.4	-43.1	291	320	370
Total Income	3322.5	2919.9	3120	3361	3754.1
Operating expenses	555	699	686	630	700
PPoP	2767.5	2220.9	2433.6	2731	3054.1
Provisions & contingencies	324.4	1874.7	9.9	460	420
PBT	2443.1	346.2	2423.7	2271	2634.1
Tax expenses	855.1	87.2	1869	567.7	658.5
Tax Rate%	35	25.2	77.1	25	25
PAT	1588	259	554.7	1703.2	1975.6

(Source: Company, HDFC sec Research)

Balance Sheet

	FY19	FY20	FY21	FY22E	FY23E
Shareholders' equity	11,442	15,599	18,073	19,776	21,752
Borrowings	44,624	39,832	32,630	35,868	41,249
Other liabilities	2,721	2,989	6,145	1,465	1,025
Total Liabilities	58,786	58,420	56,848	57,109	64,026
Loan book	56,624	50,963	44,668	49,135	56,505
Other assets	2,162	7,457	12180	7,974	7,521
Total Assets	58,786	58,420	56,848	57,109	64,026

One Year Price Chart



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