

CMP: INR 963

Rating: BUY

Target Price: INR 1300-INR 2600

Stock Info

BSE	500302
NSE	PEL
Bloomberg	PIEL:IN
Reuters	PIRA. NS
Sector	BFSI
Face Value (INR)	2
Equity Capital (INR Cr)	46
Mkt Cap (INR Cr)	22,841
52w H/L (INR)	1203 / 630
Avg Yearly Vol (in 000')	1663

Shareholding Pattern %

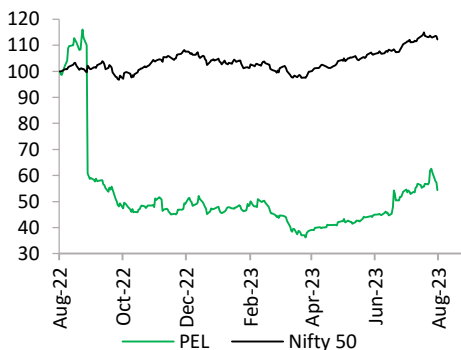
(As on June, 2023)

Promoters	44.06
Public & Others	55.94

Stock Performance (%)

	1m	6m	12m
Piramal Enterprise Ltd	0.65	9.9	-45.1
Nifty	0.00	8.23	11.1

PEL Vs Nifty



Source: Arihant Research

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On July 28, 2023, Piramal Enterprises Ltd.'s Board of Directors approved a buyback plan for 14 Mn equity shares (5.87% of total paid up equity shares) at a price of INR 1,250 per share (offer presents a premium of 31% to closing price as on 2nd Aug, 2023), for a total buyback size of INR 17.50 Bn.

- The record date for determination of eligible shareholders would be 25th August, 2023.
- The promoters and promoter group of companies will not be participating in the buyback scheme.

Minimum Profitability Scenario Analysis

RETAIL

Small shareholders have a certain portion of buyback reserved specifically for them, leading to higher acceptance rate. Based on 50% acceptance rate @cost of INR 952.95 (closing price as on 3rd August 2023), a small shareholder would be able to earn 31% margin on 50% of shares bought back. Based on this, residual value per share would be INR 656.

High Net Worth Individuals (HNI)

Based on 20% acceptance rate @cost of INR 952.95 (closing price as on 3rd August 2023), a HNI would be able to earn 31% margin on 20% of shares bought back. The residual Value would turn out to be INR 879 in this case.

Exhibit 1: Buyback Scenario Analysis (Based on different acceptance rate)

Retail			
Acceptance Rate	30%	40%	50%
Buyback Price	1,250	1,250	1,250
Closing as on 2nd August	953	953	953
No. of shares	100	100	100
Total cost	95,295	95,295	95,295
Buyback of shares	30	40	50
Buyback @ INR1250	37,500	50,000	62,500
Gain on Buy - back	8,912	11,882	14,853
Margin (In case of shares bought back)	31%	31%	31%
Residual Value of Shares	57,795	45,295	32,795
Balance number of Shares	70	60	50
Residual Value/ Share	826	755	656

HNI			
Acceptance Rate	20%	30%	40%
Buyback Price	1,250	1,250	1,250
Closing as on 2nd August	953	953	953
No. of shares	100	100	100
Total cost	95,295	95,295	95,295
Buyback of shares	20	30	40
Buyback @ INR1250	25,000	37,500	50,000
Gain on Buy - back	5,941	8,912	11,882
Margin (In case of shares bought back)	31%	31%	31%
Residual Value of Shares	70,295	57,795	45,295
Balance number of Shares	80	70	60
Residual Value/ Share	879	826	755

Source: Arihant Research

Valuation & Outlook

Our desk had initiated PEL at INR 650 with a price objective of INR 1300. Their retail business is doing well, under the guidance of Jairam Sir. Their retail AUM was up by 8bps QoQ and 57% YoY at INR 34,891 cr during the quarter. Further, write-off are already over for wholesale business, and this may go in a steady state business. Company generated a net cash realization of INR 2431 cr from wholesale 1.0 portfolio. Further, company concluded sale of certain wholesale loans (including loans acquired from DHFL) through 2 separate ARC transactions in Q1FY24. This has helped to improve their asset quality. They may sell Shriram Insurance stake also, which can fetch INR 35 bn, as per media reports. Also, with the approval for buyback of equity shares, their ROE is expected to improve. Valuations are at 0.6x of forward BV. We have a long term positive outlook on the company with the target price of INR 1300 in the bear case and INR 2600 in the bull case scenario.

Shareholding Pattern

The buyback would lead to increase in Promoter Holding by 2.75%.

Before Buyback Shares

Promoter Holding-10,51,59,129 (44.06%), & Non-Promoter holding- 13,35,04,571 (55.94%).

After Buyback Shares

Promoter Holding- 10,51,59,129 (46.81%), & Non-Promoter holding- 11,95,04,571 (53.19%).

Q1FY24 Concall Highlights

Approval of Buyback

- The Board of directors approved the buyback of equity shares of company.
- A total of 1.4 cr shares @ INR 1250, aggregating to INR 1750 cr, will be buyback. The share of INR 1250 per share is at a premium of 25% over the last closing price of stock market.
- The promoter and the promoter group will not participate in the buyback.
- Buyback is expected to be completed within next 2 months.

Retail Lending

- Disbursement yields improved from 14.2% to 14.7% QoQ.
- 78% of AUM is in secured loans consisting of Housing loan, LAP and other secured loans.
- They added 19 branches during the quarter. They have a total network of 423 branches and 136 microfinance branches.
- PEL added 3 lakh new customers during the quarter. Their total customer franchise now stands at 3.3 million.

Wholesale lending

- They generated over INR 2431 cr of cash realization through accelerated repayment and resolution proceeds of wholesale 1.0 assets.
- They continue their focus on resolution of stressed asset which will moderate their wholesale book in short term. There's a dedicated team for monitoring and executing the resolution strategy for complex recoveries, for the purpose of improving recoveries.
- Company concluded the sale of wholesale loans during the quarter, including loans acquired from DHFL through two separate ARCs transactions. They received a cash of INR 316 cr and issued SR worth INR 2000 cr.

Liability Side

- Cost of borrowings improved by 20 bps YoY to 8.6%.
- The fixed to floating rate mix came at 57:43 during the quarter and is expected to improve in coming quarters.
- PEL's ALM is well matched with positive gaps across all quarters.

Financial Highlights

- Consolidated PAT came at INR 509 cr (down 94%YoY, up 360% QoQ), which includes gain of INR 854 cr on account of stake sale in Shriram finance.
- Other expenses came in at INR 568 cr (up 164% YoY, up 61% QoQ). The increase is attributable to one time write off of goodwill amounting to INR 278 cr in Q1FY24.

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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