

CMP: INR 1060

Rating: Buy

Target Price: INR 1650 - 2600

Stock Info

BSE	500302
NSE	PEL
Bloomberg	PIEL:IN
Reuters	PIRA. NS
Sector	BFSI
Face Value (INR)	2
Equity Capital (INR Cr)	48
Mkt Cap (INR Cr)	25,412
52w H/L (INR)	1974 / 630
Avg Yearly Vol (in 000')	1699

Shareholding Pattern %

(As on July, 2023)

Promoters	43.8
Public & Others	56.2

Stock Performance (%)

	1m	6m	12m
Piramal Enterprise Ltd	5.19	38.1	-44.7
Nifty	-2.14	11.7	11.6

PEL Vs Nifty



Abhishek Jain

abhishek.jain@arihantcapital.com

Harshit Jain

harshit.jain@arihantcapital.com

We attended the Piramal Enterprise Ltd Investors meet where the company was represented by the senior management team including Mr. Ajay Piramal, Chairman and Mr. Anand Piramal, Non-Executive Director, Piramal Group. At the meeting, they laid down their growth strategy for the company. PEL have identified their shortcomings like low ROE, high cost of funds, bad wholesale 1.0 book among others and is working to eradicate them through buyback and sale of bad book to ARC, which will help them increase their performance in long term.

Investment Rationale

1. The run down of Wholesale 1.0 book, which will further help them improve their asset quality.
2. Building a granular wholesale book 2.0, across real estate and corporate mid-market lending. This book is better than the Wholesale book 1.0 as it is backed by cashflow and consists of small ticket size loans as compared to the wholesale book 1.0.
3. Company is focused on building a housing focused diversified retail portfolio, which will further help them improve their performance.

Guidance till FY28

Management has given a NII guidance of 8.5% - 9.2% (FY23: 6.2%) with a slight decline in OPEX ratio to 2.7 – 3% (FY23: 3.1%) and Credit Cost guidance of 1.7 – 1.8% (FY23: 8.2%). Core ROA is expected to increase from 0.2% to 3/3.3% by FY28. Total Asset to Equity is expected to be 3.7 (currently: 2.5).

OUTLOOK

Company's focus on resolution of wholesale book 1.0 has increased, along with building a granular wholesale book 2.0. This will happen slowly and gradually and will help to further improve their asset quality. Further, company has shown a seasonally weak Q1FY24 but, with the increasing focus on retail lending, company is expected to show positive performance in coming quarters, with improvement in margins. Further, leveraging the Phygital strategy to serve budget customers in tier 2 and tier 3 cities will help in increasing its AUM. In the near term, wholesale book 1.0 is expected to reduce via sale to ARC and the retail to wholesale mix is expected to be 60:40. In the long term, company targets to double its total AUM to INR 1.2 lakh crore by FY2028. Also, with the approval for buyback of equity shares, their ROE is expected to improve. We also expect the monetization of Shriram Life insurance in short term. If we look at a bigger picture, company has identified its shortcomings like low ROE, high cost of funds, bad wholesale 1.0 book among others and is working to eradicate them through buyback and sale of bad book to ARC. The stock is down because of long liquidation post investors meet. We have a target price of INR 1650 in the bear case and INR 2600 in the bull case scenario.

Retail Lending Business

Current Retail to wholesale mix during the Q1FY24 is at 55% retail and 45% wholesale. The acquisition of DHFL in September 21 has helped them to improve their retail mix. Prior to acquisition, retail mix stood at 12%. Post acquisition, it increased to 33% and to 55% in Q1FY24. The company has given a guidance of retail to wholesale mix as 70:30 by FY28. The retail AUM is expected to grow by 23% CAGR till FY28. The company aims to achieve 3-3.3% ROA by FY28. In the near term, their retail to wholesale mix is expected to improve to 60:40 by FY26.

The Key takeaways from the investors meet are as follows:

Key events that happened in past year

1. **Pharma segment demerged** into a separate entity named Piramal Pharma Ltd.
2. PEL incorporated a **simplified corporate structure**.
3. The company **successfully integrated DHFL** within one year of its purchase.
4. They **sold 8.3% of stake in Shriram Finance** in Q1FY24 for INR 4,820 cr.
5. They further announced **Buyback of shares** of INR 1,750 cr (14 mn equity shares at INR 1,250/ share).

Company's vision to become a world class Retail led NBFC, which they plan to achieve as follows:

1. Building a leading housing focused diversified retail portfolio.
2. Accelerated run down of WS1.0 book and building diversified and granular WS2.0 book.
3. Increasing strength of Balance Sheet to support M&As.
4. Leveraging Phyigital strategy to serve budget customers in tier2/3 cities.

Wholesale Lending Business

During the past year, company's primary focus has been on the **run down of the wholesale 1.0 book**. They have reduced their wholesale 1.0 book from INR 43,175 cr to INR 26,002 cr, **through sale to ARC for cash & SR**. This has helped them to improve their asset quality substantially. Another area of focus has been on **building granular wholesale 2.0 book**, across real estate and corporate mid-market lending. Company believes there is an **opportunity for real estate to grow in coming years**. In the near term, we can expect the wholesale AUM to reduce as a result of reduction in wholesale 1.0 book via sale to ARC.

Treasury

On the treasury side, PEL **replaced its short-term borrowings with long term borrowings**, with **reduction in cost of borrowings** from 9.6% in March 22 to 8.6% in June 23. Company's plan ahead is to build a low-cost liability franchise with diversified borrowing profile, by **adding more partners, develop new sources at scale through diversification**.

M&A

Key M&A events that happened during past year are: stake sale of Shriram Finance, announcement of Buyback worth INR 1750 cr among others. Company's plan ahead is **sell the remaining stake in Shriram group** along with exploring growth **opportunities through multi-dimensional M&A strategy**. We are **expecting monetization of Shriram life insurance in short term**.

Phyigital – High Tech + High Touch

This helps the company to **target the budget customers in India through their phyigital strategy**.

- **High Touch**: Company has 423 conventional branches, 136 microfinance branches, across 339 cities and has conducted 86,000+ personal discussion in FY23. Out of total, >75% branches are in Tier 2/3 cities.

- **High Tech**: PEL has created 30+ Machine learning models across products/processes from underwriting to recoveries. These models have significantly higher predictive power than bureau score. Further, they have 100+ automated dashboards for real time analysis.

Alternatives

Company has **proposed to increase AUM from \$1bn to \$3.5 bn by FY 28**. They further plan to launch follow-on funds for both existing funds and launching new funds such as hybrid funds.

Insurance (Pramerica Life)

Existing lines in which it operates in is Defence, Credit Life – NBFC and Credit life – MFI. It has the **highest market share in defence segment**, which operates under brand name "Prahri". **New Lines**: Agency, BroCA Partnerships, Banca Partnerships, and Employee Benefits.

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park
Building No. 10, 1st Floor
Andheri Ghatkopar Link Road
Chakala, Andheri (E)
Mumbai – 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House
E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return**Research Analyst
Registration No.**

INH000002764

Contact

SMS: 'Arihant' to 56677

Website

www.arihantcapital.com

Email Id

instresearch@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880