

**CMP: INR 898**

**Rating: BUY**

**Target Price: INR 2503**

**Stock Info**

BSE	500302
NSE	PEL
Bloomberg	PIEL:IN
Reuters	PIRA. NS
Sector	BFSI
Face Value (INR)	2
Equity Capital (INR Cr)	45
Mkt Cap (INR Cr)	20,009
52w H/L (INR)	1139 / 716
Avg Yearly Vol (in 000')	1738

**Shareholding Pattern %**

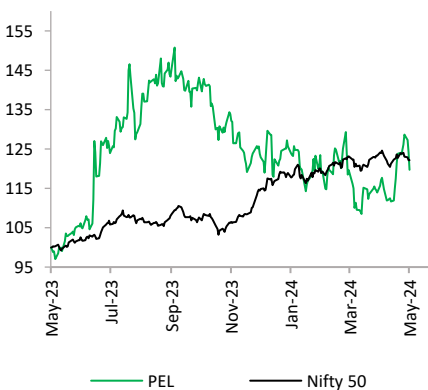
(As on April, 2024)

Promoters	46.19
Public & Others	53.31

**Stock Performance (%)**

	1m	6m	12m
Piramal Enterprise Ltd	2.55	-8.97	20.8
Nifty	-1.5	15	22.1

**PEL Vs Nifty**



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Piramal enterprise ltd has reported a consolidated profit of INR 1370.8 mn (up 170% YoY, up 105.7% QoQ). It includes gain of INR 8.71 bn on sale of stake in Shriram investments for INR 14.40 bn, having carrying value of INR 5.69 bn. Gain from such sale is included in other operating income. Their GNPA ratio remained flat on a sequential basis at 2.4% in Q4FY24 and NNPA ratio improved by 30 bps QoQ at 0.8%. Total AUM of the company increased by 7% QoQ at INR 688.45 bn, while their retail to wholesale mix improved from 64:36 to 70:30. Retail AUM stood at INR 479.27 bn against INR 348.91 bn in last quarter (up 37% QoQ, up 49% YoY). Their retail to wholesale AUM is expected to improve to 75:25 in the coming quarters.

**Operating performance was weak:** NII decreased by 21% YoY/ 11% QoQ to INR 7,338 mn, driven by decrease in interest income and increase in expense. Interest income decreased from INR 19,306.6 mn to INR 19,008.5 mn QoQ (-1.03% YoY, -1.54% QoQ), whereas the interest expense increased from INR 11,025 mn to INR 11,670.5 mn QoQ (-17.78% YoY, +5.85% QoQ). Other income came in at INR 6,273 mn during the quarter, which includes gain of INR 8.71 bn on account of stake sale in Shriram Investment Holdings during the quarter. Other income excluding gain from stake sale would amount to loss of INR 7.34 bn. Bank has reported profit of INR 1.37 bn as compared to loss of INR 1.96 bn in Q4FY23. Profit/ Loss during the quarter excluding gain on stake sale amounts to loss of INR 7.34 bn.

**Asset quality remained stable sequentially:** Bank reported marginal improvement in asset quality as GNPA remained flat sequentially at 2.4%. NNPA improved by 30bps QoQ at 0.8%. The improvement in NNPA is driven by recoveries made from their AIF portfolio. Company made AIF recoveries of INR 4.50 bn and provision write-back of INR 10.67 bn in Q4FY24. Further, company concluded 1 ARC transactions in Q4FY24 with total deal value of INR 3.75 bn under 15:85 structure. SR's issued worth INR 3.19 bn. This has helped to improve their asset quality.

**Advance growth continues to be driven by retail assets:** Retail AUM stood at INR 479.27 bn (up 11% QoQ, up 49% YoY). As the company's focus on retail portfolio increases, their retail to wholesale mix improved to 70:30 during the quarter, which is expected to improve further. This will help them improve their yields, which will in turn improve their NIMs.

**Valuation & View:** PEL has delivered a weak quarter but the performance is expected to improve in medium to long term. Company's focus on resolution of wholesale book 1.0 has increased. This will improve their asset quality. Further, with the increasing focus on retail lending, company is expected to show positive performance in coming quarters, with improvement in margins. PEL further announced a corporate reorganization, merging with its subsidiary Piramal Capital & Housing Finance Ltd. (PCHFL), which will be renamed Piramal Finance Limited (PFL) and apply for an NBFC- ICC license. **We have a buy rating on the stock with a TP of INR 2019 based on 1.4x of FY27E and INR 2987 based on residual free cash flow model approach. Giving a 50 – 50 weightage to both approaches, we arrive at a TP of INR 2503.**

**Financial Summary**

Y/E Mar (Rs Mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
NII	32,977	38,043	29,700	45,132	51,815	58,741
PAT	12,213	15,137	2,493	17,900	20,482	20,721
Networth	3,68,369	3,10,591	2,65,571	2,89,068	3,06,610	3,23,903
Adj BVPS (Rs)	1502	1237	1131	1244	1314	1442
EPS (Rs)	84	418	-75	87	99	101
P/E (x)	11	2	-12	10	9	9
P/Adj BV (x)	0.6	0.7	0.8	0.7	0.7	0.6

## Q4FY24 - Quarterly Performance (Consol.)

(INR mn)

Quarterly Result Update (Rs Mn)	Q4FY24	Q3FY24	Q4FY23	Q-o-Q	Y-o-Y
Interest Income	19,008.5	19,306.6	19,205.6	-1.54%	-1.03%
Interest Expended	11,670.5	11,025.6	9,908.8	5.85%	17.78%
<b>Net Interest Income</b>	<b>7,338.0</b>	<b>8,281.0</b>	<b>9,296.8</b>	<b>-11.39%</b>	<b>-21.07%</b>
Other Income	6,273.1	6,155.4	113.1	1.91%	5446.51%
Operating Income	13,611.1	14,436.4	9,409.9	-5.72%	44.65%
Operating Expenses	14,667.7	7,122.3	9,660.5	105.94%	51.83%
Employee Expenses	3,345.4	3,556.6	2,799.3	-5.94%	19.51%
Other Operating Expenses	11,322.3	3,565.7	6,861.2	217.53%	65.02%
<b>PPOP</b>	<b>(1,056.6)</b>	<b>7,314.1</b>	<b>(250.6)</b>	<b>-114.45%</b>	<b>321.63%</b>
Provisions	20,852.3	5,995.2	4,034.6	247.82%	416.84%
<b>PBT</b>	<b>(21,908.9)</b>	<b>1,318.9</b>	<b>(4,285.2)</b>	<b>-1761.15%</b>	<b>411.27%</b>
<b>Exceptional Items</b>	<b>15,175.5</b>	<b>(35,398.0)</b>	-	<b>-142.87%</b>	<b>0.00%</b>
Tax Expenses	(23,279.7)	(9,575.1)	21.8	143.13%	-106887.61%
<b>Net Profit</b>	<b>1,370.8</b>	<b>(23,775.9)</b>	<b>(1,958.7)</b>	<b>-105.77%</b>	<b>-169.99%</b>

Source: Arianth Research, Company Filings

#### Concal Highlights:

- Board has approved the merger of Piramal Enterprises Limited (PEL) with its 100% subsidiary Piramal Capital & Housing Finance Limited (PCHFL).
- PCHFL will be renamed as Piramal Finance Limited (PFL) and will apply for an NBFC-ICC license.
- PEL shareholders, in lieu of every one equity share of PEL, will get one equity share of PFL and subject to RBI approval, one NCRPS (non-convertible non-cumulative nonparticipating redeemable preference share) of INR 67 of PFL.
- The entire process is expected to be completed within 9-12 months.
- The merger aims to simplify the group structure, ensure seamless regulatory compliance, and provide shareholders direct access to the lending business.
- They concluded sale of Shriram investments for INR 14.40 bn, having carrying value of INR 5.69 bn. Gain from such sale is included in other operating income.
- There is an exceptional item of INR 15.1755 bn which is the reversal of AIF provision of INR 35.398 bn created in Q3FY24.
- AIF recoveries of INR 4.50 bn and provision write-back of INR 10.67 bn in Q4FY24.
- The Company received an income tax assessment order for FY2021-22, wherein it has been allowed an assessed carry forward loss of INR 106.27 bn, for future years starting FY25, arising from the merger with eDHFL.
- Their retail to wholesale mix came at 70:30. It is expected to increase to 75: 25 in FY25.
- Further, their total AUM is expected to grow by 15% YoY to around INR 800 bn.
- The opex to AUM – growth business for the whole FY24 came at 4.9%. It is expected to reduce to 4.6% for FY25.
- Management has guided retail business to grow by 26% CAGR till FY28.
- The company expects continued improvement in branch productivity and opex ratios.

## Key Financials

P&L (INR Mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest income	75,228	77,986	73,139	95,160	1,07,233	1,20,056
Interest expense	42,251	39,943	43,439	50,028	55,418	61,315
<b>NII</b>	<b>32,977</b>	<b>38,043</b>	<b>29,700</b>	<b>45,132</b>	<b>51,815</b>	<b>58,741</b>
Non-interest income	3,881	4,794	28,645	4,907	5,225	5,790
<b>Net revenues</b>	<b>36,858</b>	<b>42,837</b>	<b>58,345</b>	<b>50,040</b>	<b>57,041</b>	<b>64,531</b>
Operating expenses	11,541	66,251	63,510	12,647	15,037	15,752
Depreciation	743	1,229	8,290	8,870	9,491	10,060
<b>Total Opex</b>	<b>12,284</b>	<b>67,480</b>	<b>71,800</b>	<b>21,517</b>	<b>24,527</b>	<b>25,812</b>
<b>PBT</b>	<b>16,275</b>	<b>(24,643)</b>	<b>(13,455)</b>	<b>23,931</b>	<b>27,383</b>	<b>27,701</b>
Tax	4,062	(39,781)	(15,949)	6,031	6,901	6,981
<b>PAT (Before Extraordinary item)</b>	<b>12,213</b>	<b>15,137</b>	<b>2,493</b>	<b>17,900</b>	<b>20,482</b>	<b>20,721</b>
Share of Net Profit of associates & JV		5,939	3,886	1,537	1,691	1,860
Exceptional Items	1,836	80,663	(20,866)	-	-	-
<b>PAT</b>	<b>19,988</b>	<b>99,686</b>	<b>(16,835)</b>	<b>19,591</b>	<b>22,343</b>	<b>22,767</b>

Balance sheet	FY22	FY23	FY24	FY25E	FY26E	FY27E
Share capital	477	477	449	449	449	449
Reserves & surplus	3,67,892	3,10,114	2,65,121	2,88,618	3,06,161	3,23,454
<b>Net worth</b>	<b>3,68,369</b>	<b>3,10,591</b>	<b>2,65,571</b>	<b>2,89,068</b>	<b>3,06,610</b>	<b>3,23,903</b>
Borrowings	5,53,244	2,12,945	2,24,640	6,18,967	6,84,993	7,74,889
Deposits	1,266	1,269	1,272	1,276	1,280	1,284
Other liability	64,471	3,12,717	3,34,567	3,68,024	4,04,826	4,45,309
<b>Total liabilities</b>	<b>9,87,350</b>	<b>8,37,522</b>	<b>8,26,050</b>	<b>12,77,334</b>	<b>13,97,709</b>	<b>15,45,384</b>
Fixed assets	89,860	98,846	1,03,788	1,08,978	1,14,427	1,20,148
Advances	4,93,180	4,63,946	5,49,434	7,42,195	8,25,128	9,33,891
Investments	2,48,565	2,23,318	1,25,130	1,31,387	1,37,956	1,44,854
Cash	71,870	46,491	44,468	44,968	47,216	49,577
Other assets	83,875	4,921	3,230	2,49,807	2,72,982	2,96,915
<b>Total assets</b>	<b>9,87,350</b>	<b>8,37,522</b>	<b>8,26,050</b>	<b>12,77,334</b>	<b>13,97,709</b>	<b>15,45,384</b>

Source: Arianth Research, Company Filings

Ratios	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth (%)</b>						
NII		15.36%	-21.93%	51.96%	14.81%	13.37%
PBT		-251.42%	45.40%	-277.85%	14.43%	1.16%
PAT		23.94%	-83.53%	617.93%	14.43%	1.16%
Advances		-5.93%	18.43%	35.08%	11.17%	13.18%
Deposits		0.22%	0.28%	0.32%	0.30%	0.30%
<b>Spread (%)</b>						
Yield on Funds	12.90	12.00	13.70	12.50	12.50	12.50
Cost of Borrowings	9.53	8.60	8.80	8.70	8.50	8.40
Spread	3.37	3.40	4.90	3.80	4.00	4.10
NIM	5.30	5.80	4.41	5.93	6.04	6.12
<b>Asset quality (%)</b>						
Gross NPAs	3.61	6.80	5.00	4.00	4.00	4.00
Net NPAs	1.72	2.49	1.65	1.22	1.31	1.31
Provisions	55.19	67.00	70.00	72.00	70.00	70.00
<b>Return ratios (%)</b>						
RoE	7.3	29.4	-5.8	7.1	7.5	7.2
RoA	2.6	10.9	-2.0	1.9	1.7	1.5
<b>Per share (Rs)</b>						
EPS	84	418	-75	87	99	101
BV	1544	1301	1182	1287	1365	1442
ABV	1502	1237	1131	1244	1314	1442
<b>Valuation (x)</b>						
P/E	10.7	2.1	-12.0	10.3	9.0	8.9
P/BV	0.6	0.7	0.8	0.7	0.7	0.6
P/ABV	0.6	0.7	0.8	0.7	0.7	0.6

Source: Arianth Research, Company Filings

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**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  
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