

Piramal Enterprises

Bloomberg	PIEL IN
Equity Shares (m)	239
M.Cap.(INRb)/(USD\$)	256 / 3.1
52-Week Range (INR)	1142 / 630
1, 6, 12 Rel. Per (%)	10/21/-9
12M Avg Val (INR M)	1674

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
PPOP	28.3	37.3	40.3
PAT	98.5	23.5	19.8
PAT (ex-exceptional)	17.9	23.5	19.8
EPS	75	104	88
EPS Gr. (%)	8	40	-16
BV/Sh. (INR)	1,301	1,376	1,431
RoA (%)	1.9	2.8	2.1
RoE (%)	5.3	7.6	6.3

Valuation

P/E (x)	14.3	10.3	12.2
P/BV (x)	0.8	0.8	0.7
Dividend yield (%)	2.9	3.1	3.4

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	43.5	43.5	43.5
DII	11.9	9.6	8.1
FII	26.5	29.2	34.9
Others	18.1	17.8	13.5

FII Includes depository receipts

CMP: INR1,073 TP: INR1,260 (+17%) Buy

Wholesale run-down positive, but transient impact on Revenue

Share buyback of ~INR17.5b announced at INR1250/share

- PIEL reported a net profit of ~INR5.1b in 1QFY24 (PQ: Net loss of ~INR2.0b) which included 1) a gain of ~INR8.6b from the stake sale in Shriram Finance and 2) a goodwill write-off of ~INR2.8b.
- NII declined 31% YoY/26% QoQ to INR6.8b due to reduced interest income, resulting from a rundown in the wholesale book.
- Reported Core PPOP declined 58% YoY to ~INR2.6b. Average CoB declined ~20bp YoY to 8.6% in 1QFY24 (PY: 8.8%). NIM (as a percentage of AUM) declined ~30bp YoY to 4.3%.
- Net credit costs (incl. recoveries) declined to ~INR1.8b in 1QFY24 (PQ: ~INR3b). Total ECL provisions declined ~180bp QoQ to 4.4% of AUM (PQ: 6.2%).
- Wholesale AUM declined 31% YoY to ~INR290b, while Wholesale 1.0 AUM declined 38% YoY to ~INR260b. PIEL reported a net cash realization of ~INR24.3b in the quarter, primarily driven by accelerated repayments and resolution proceeds from the Wholesale 1.0 portfolio.
- PIEL also successfully completed the sale of specific wholesale loans (including loans acquired from DHFL) through two separate ARC transactions in 1QFY24, with a total exposure of INR60.9b. The management expressed confidence that resolving the stressed exposures further should not lead to any substantial additional credit costs in the upcoming quarters.
- We believe that PIEL has already gone through the process of recognizing stressed assets and making corresponding provisions. It is now embarking on the resolution phase, and this quarter served as evidence of that progress. A few more quarters of successful resolutions in the wholesale segment would further bolster confidence in the normalization of credit costs.
- PIEL has already completed the stake sale of Shriram Finance and partially deployed the proceeds for a share buyback of ~INR17.5b at INR1250 per share. We believe that PIEL might further deploy the excess capitalization on its balance sheet for some M&A activities in retail product segments.
- We estimate a ~18% AUM CAGR over FY23-25, including further moderation in the Wholesale book and a 45% CAGR in Retail AUM over the same period. **We reiterate our BUY rating on the stock with a TP of INR1,260 (based on Mar'25E SoTP).**

Highlights from the management commentary

- During the quarter, the company opened 19 new branches. It now has 423 conventional branches and 136 microfinance branches and plans to expand to 500-600 branches over the medium term.
- PIEL is evaluating potential M&A opportunities in small business lending, microfinance, and gold loan segments. It could utilize the surplus capitalization to achieve inorganic growth in some of these segments.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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Valuation and view

- Over the past two years, PIEL has strengthened its balance sheet by running down its Wholesale loan book; improved texture of its borrowings (driving lower cost of borrowings); and fortified itself against contingencies with ECL provisions at 4.4% of AUM.
- Over the next two years, we expect the company to make meaningful inroads into Retail, led by mortgages/LAP and complemented by a good mix of unsecured loans. Product diversification within Retail will help PIEL deliver strong growth and reduce concentration risks. We expect PIEL to deliver ~2.1% RoA and 6.3% RoE in FY25E. We acknowledge that PIEL possesses pockets of value: a) deferred tax assets relating to the time of DHFL acquisition, b) potential recoveries from written-off exposures, and c) fee income levers that it can leverage to enhance profitability.
- We have a target multiple of 0.9x P/BV for the lending business. **We reiterate our BUY rating on the stock with a TP of INR1,260 (premised on Mar'25 SoTP).**

Quarterly Performance

(INR m)

Y/E March	FY23				FY24	FY23	FY24
	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24		
Interest Income	20,392	18,437	20,062	19,206	17,251	78,097	89,205
Interest Expenses	10,514	10,129	9,733	10,035	10,439	40,412	44,080
Net Interest Income	9,878	8,307	10,329	9,171	6,812	37,685	45,125
YoY Growth (%)	65.6	34.2	13.7	-17.9	-31		
Other operating income	585	500	12,254	-582	11,739	12,757	18,285
Other Income	231	625	555	113	208	1,524	1,631
Total Income	10,694	9,433	23,138	8,702	18,759	51,966	65,041
YoY Growth (%)	58.6	37.4	130.2	-31.1	75.4		
Operating Expenses	4,415	5,411	5,587	6,735	9,061	22,148	27,701
Operating Profit	6,278	4,022	17,551	1,967	9,698	29,818	37,340
YoY Growth (%)	35.1	-15.7	152.4	-76	54.5		
Provisions & Loan Losses	902	32,567	16,958	4,035	3,090	54,461	9,540
Profit before Tax	5,376	-28,545	594	-2,068	6,609	-24,643	27,800
Tax Provisions	1,454	-6,938	-34,319	22	1,732	-39,781	4,825
PAT (before associate income)	3,922	-21,608	34,913	-2,090	4,877	15,137	22,975
Associate Income	1,493	1,721	541	131	211	3,886	500
PAT (before exceptional)	5,415	-19,887	35,454	-1,959	5,088	19,023	23,475
Exceptional items	76,140	4,523	0	0	0	80,663	0
Profit from Discontinued operations						-	-
PAT (after exceptional)	81,555	-15,364	35,454	-1,959	5,088	99,686	23,475
YoY Growth (%)							
Key Parameters (Calc., %)							
Yield on loans	11.7	10.9	12.4	11.9	10.6	13	13.8
Cost of funds	8.8	8.8	8.4	8.7	8.6	7.7	8.6
Spread	2.9	2.1	4	3.2	2	5.3	5.2
NIM	4.6	4.6	6.5	5.8	4.3	6.3	7
C/I ratio	41	57	24	77	48	42.6	42.6
Tax rate	27	24			26		17
Balance Sheet Parameters							
Retail Disbursements (INR m)	24,590	39,730	51,110	68,280	57,070	1,83,710	2,77,001
Total AUM (INR b)	646	638	649	640	639	640	726
Growth (%)	39	-3	7	0	8	-2	14
AUM mix (%)							
Wholesale	66	61	57	57	66	50	34
Retail	34	39	43	43	34	50	66
Asset Quality Parameters							
GS 3 (INR m)	23,620	22,100	42,640	20,550	14,840	20,550	18,161
GS 3 (%)	3.7	3.7	4	3.8	2.8	3.2	2.5
NS 3 (INR m)	10,800	7,350	13,970	10,380	7,720	10,380	9,444
NS 3 (%)	1.8	1.3	1.7	1.9	1.5	1.9	1.4
PCR (%)	54.3	66.7	67.2	49.5	48	49.5	48
Total ECL (%)	6.2	8.6	10	6.2	4.4	6.2	4.5

E: MOFSL estimates

Improved retail disbursement yields fueled by enhanced product mix

- Retail AUM grew ~57% YoY to ~INR349b, with the retail mix improving to 55% (PQ: 50%). The retail engine (across Home Loans, LAP, Pre-owned Cars, and all other unsecured products) is scaling up well, with a strong focus on risk management and aggressive provisioning on 90+dpd unsecured loans.
- PIEL's 1QFY24 retail disbursements rose 132% YoY to ~INR57b, driven by growth across both digital and phygital products.
- Disbursement yields for retail loans with > 1 year duration improved to 14.7% in 1QFY24 (PQ: 14.2%), driven by a better product mix. Unsecured loans (including microfinance) contributed 47% to the total retail disbursements in 1QFY24 and 22% to retail AUM mix.

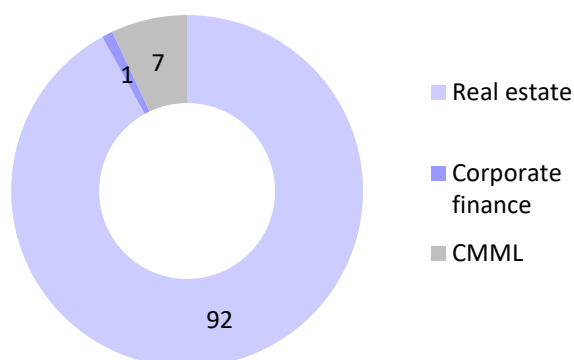
Asset quality improves as wholesale book continues to run down

- GS3/ NS3 improved ~100bp/ ~40bp QoQ to 2.8%/ 1.5%. PCR on S3 loans declined ~2pp QoQ to ~48%.
- Annualized credit costs in 1QFY24 stood at 1.1% (FY23: 1.9%).
- Wholesale Stage 2 + 3 declined to 14.5% (PQ: 20%), driven by resolutions of stressed exposures. With higher focus on recoveries/monetization, Wholesale 1.0 will continue to moderate in FY24. In Wholesale 2.0, the company is building a granular lending book across real estate and Corporate Mid-Market (CMML).

Texture on Wholesale Book

The company has shared valuable insights on its wholesale book.

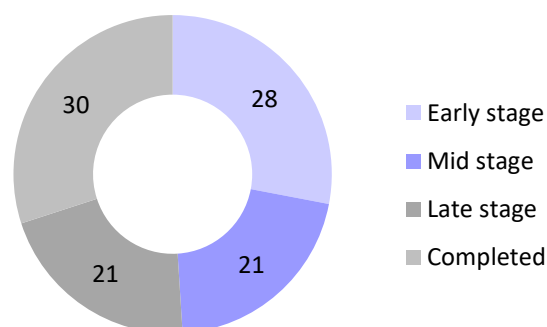
Exhibit 1: Real estate lending forms a majority of wholesale book (%)



Source: MOFSL, Company

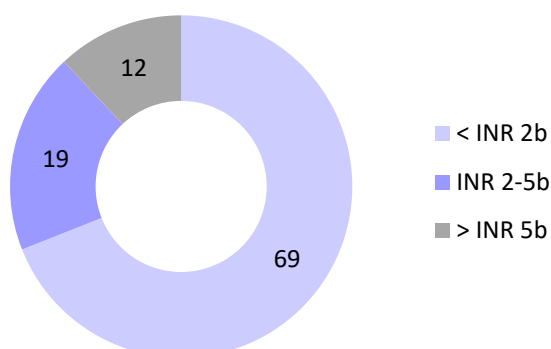
Note: Excludes development right of INR13.4b and DHFL's wholesale loans of ~INR2.5b; Includes Wholesale 2.0 of INR30b

Exhibit 2: Basis stage of construction (%)



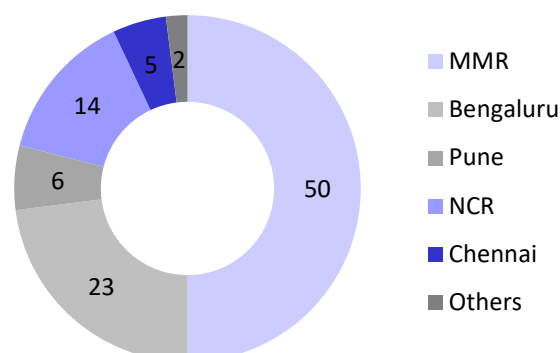
Source: MOFSL, Company; Note: For Real Estate Book only

Exhibit 3: 12% of Stage 1 loans have a ticket size of over INR5b (%)



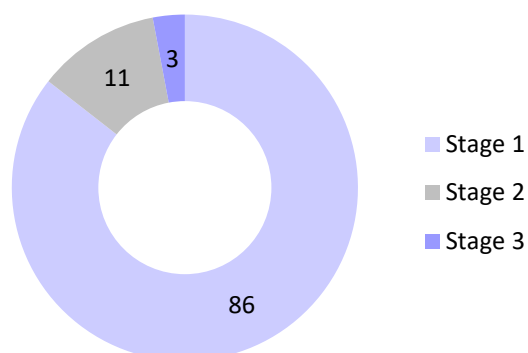
Source: MOFSL, Company;

Exhibit 4: City-wise Stage 1 loan mix (%) -



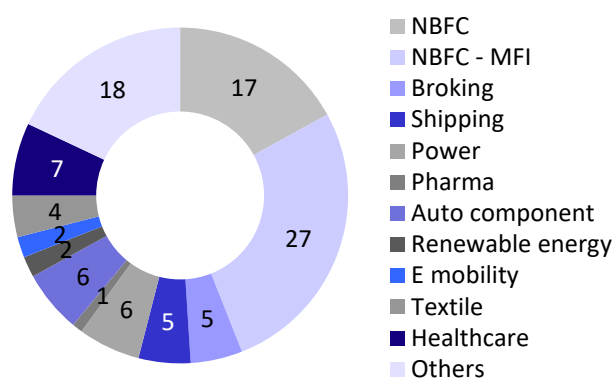
Source: MOFSL, Company;

Exhibit 5: Wholesale – Stage-wise loan mix (%)



Source: MOFSL, Company

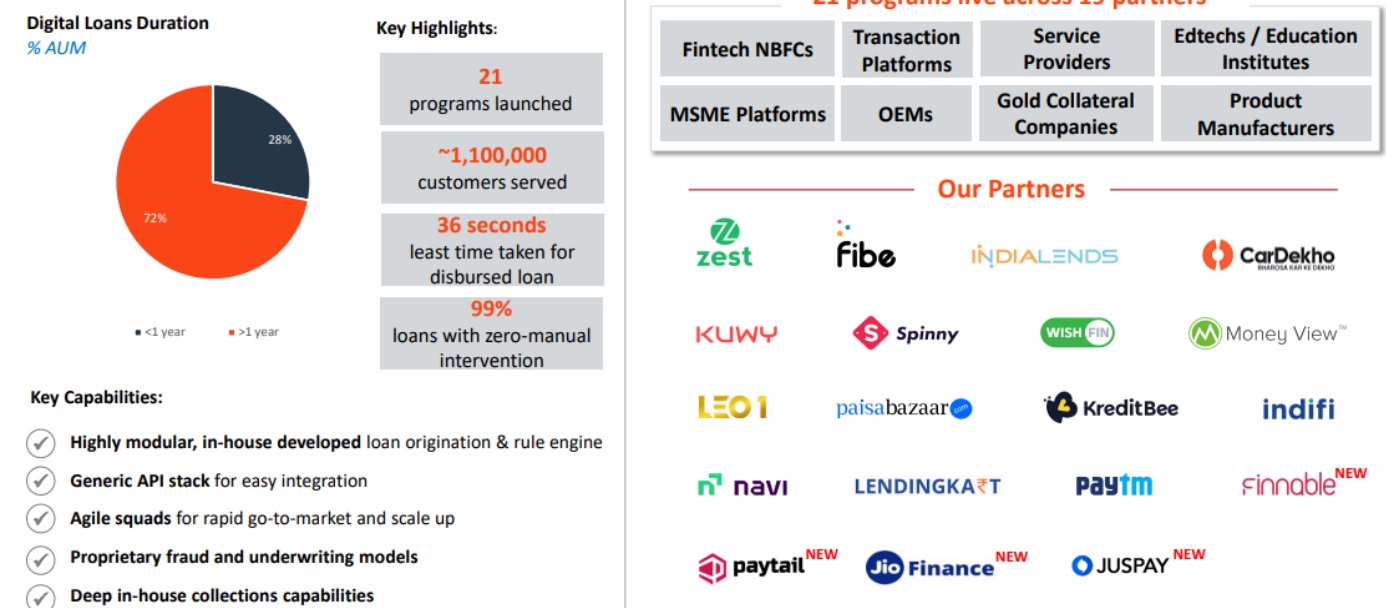
Exhibit 6: Industry-wise loan mix



Source: MOFSL, Company

Exhibit 7: Scaling up partnerships with Fintech and Consumer Tech companies

Digital Embedded Finance: Scaling-up Partnerships With Fintech And Consumer Tech Firms



Source: Company, MOFSL

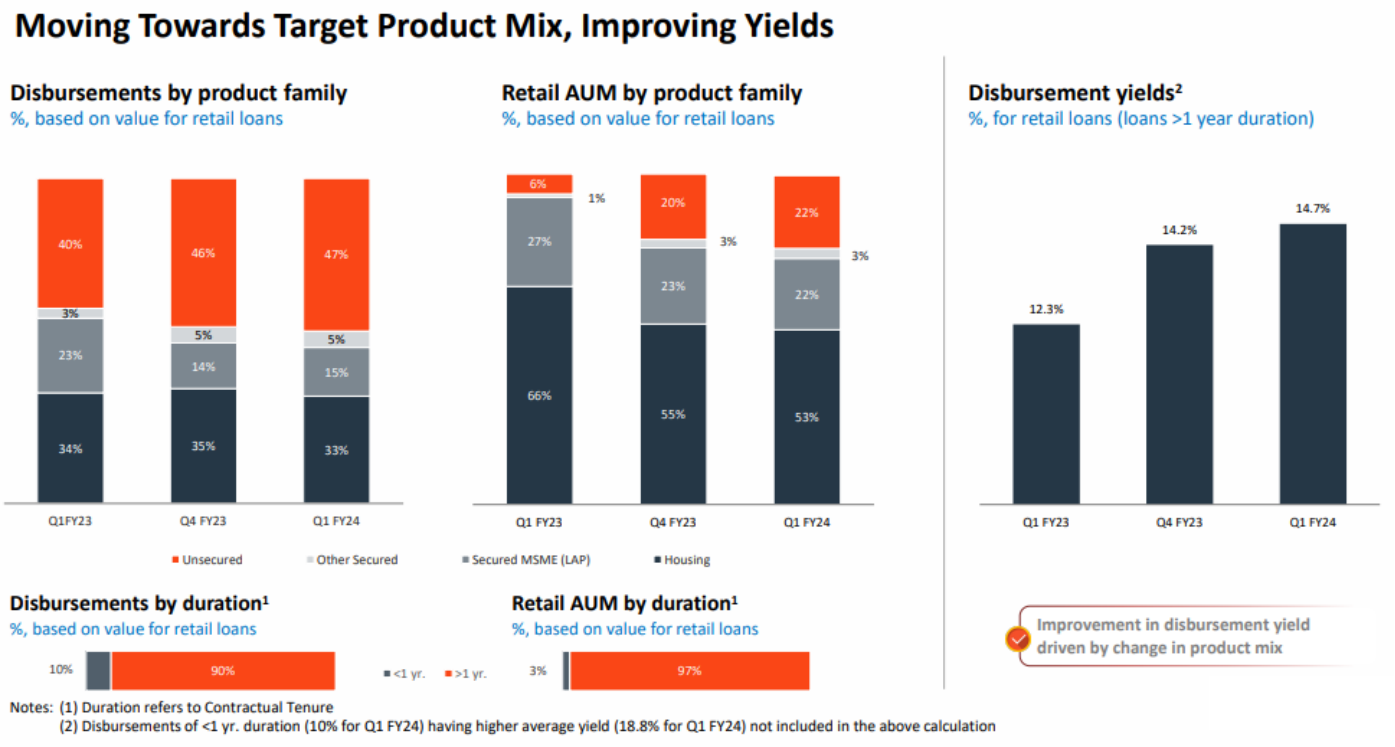
Exhibit 8: Key products with average ticket size and disbursement yields

Multi-Product Retail Lending Platform Across The Risk-Reward Spectrum – Q1 FY24

Product Segments	Products	Average Disbursement Ticket Size (INR Lakh)	Disbursement Yield (%)	Share in Disbursements (%)	AUM Yield (%)	Share in AUM (%)
Housing	Affordable Housing	18.1	11.2%	33.4%	11.5%	52.8%
	Mass Affluent Housing					
	Budget Housing					
Secured MSME (LAP)	Secured Business Loan	20.0	12.6%	14.9%	12.8%	21.6%
	Loan Against Property (LAP)					
	LAP Plus					
Other Secured	Pre-owned Car Loans	6.2	16.4%	4.7%	16.0%	3.0%
Unsecured	Salaried Personal Loans	4.6	18.0%	7.8%	17.9%	3.6%
	Microfinance Loans	0.3	18.8%	5.6%	18.8%	3.0%
	Unsecured Business Loans	6.4	19.9%	8.3%	19.5%	5.9%
	Merchant BNPL					
	Digital Purchase Finance	0.4	19.2%	25.1%	19.3%	10.0%
	Digital Personal Loans					
Total / Weighted Average		10.3	15.0%	100%	13.2%	100%

Source: Company, MOFSL

Exhibit 9: Disbursement yields improving with a change in the mix



Source: Company, MOFSL



Highlights from the management commentary

Buyback transaction

- The Board of Directors has approved a buyback of up to 14m shares, representing 5.87% of the pre-buyback, fully paid-up equity shares at a price of INR1,250 per share, aggregating to INR17.5b.
- The company will maintain a well-capitalized position, with a consolidated CRAR of ~31% even after the buyback.
- The promoter and the promoter group will not participate in the buyback transaction.

Retail Lending

- The average CIBIL score of customers in the secured segment stands at 738.
- To foster growth in the retail business, the company is making strategic investments in manpower, branch infrastructure, and analytics.
- During the quarter, the company opened 19 new branches, with the total branch count of 423 conventional branches and 136 microfinance branches.
- It plans to expand to 500-600 branches by over the medium term.

Guidance

- The company guided for pre-tax RoA of 4%.
- PIEL is actively seeking potential merger and acquisition opportunities in the small business lending, microfinance, and gold loans segments. The company aims to utilize its surplus liquidity to achieve organic growth in these areas.

Wholesale lending

- The company has been able to reduce the wholesale book by ~38% YoY to INR260b.
- Generated INR24.3b of net cash realization in the quarter through accelerated repayments and resolution proceeds of Wholesale 1.0 portfolio.
- Completed the sale of specific wholesale loans (including loans acquired from DHFL) through 2 separate ARC transactions in 1QFY24, with a total exposure of INR60.9b.
- The wholesale AUM has experienced a rise in non-income earning assets, resulting in decreased yields. As the proportion of these assets decline, it anticipates an improvement in wholesale book yields.
- The company anticipated no unforeseen developments in the wholesale lending book, and reassures that the book is adequately provisioned for. In the upcoming quarters, efforts to recover loans will intensified to further enhance the recovery process.
- A substantial portion of the reduction in Stage 2 and Stage 3 accounts was driven by SR transactions.

Security receipts

- PIEL issued SRs worth INR20b, and after a mark down of 62%, the cash received amounted to INR3.2b.
- The outstanding SRs as of Jun'23 stood at ~INR53.7b with 30% being retail in nature.
- The company expects a reduction in the SR portfolio going forward, through a combination of sales, enforcement actions, and collections at the carrying value.

Unsecured portfolio

- The 90+ dpd in unsecured book has increased to 1.6% (PQ: 1.1%) despite the high rate of growth.
- A large portion of increase in delinquencies in the unsecured book is from the partnership businesses and the net impact of it in the P/L is ~90bp.
- The company is closely monitoring this book and will be careful about the same in the subsequent quarters.

Goodwill

- The goodwill write-off of INR2.7b pertain to a FY14 transaction, wherein the company had set up funds for investing in real estate.
- The tenor of the funds is over and the goodwill write-off amount pertains to a book entry to remove these funds from the balance sheet.
- The total amount of goodwill outstanding on the balance sheet amounts to INR20m as of Jun'23.

Valuation and view

- Over the past two years, PIEL has strengthened its balance sheet by running down its Wholesale loan book; improved the texture of its borrowings (driving lower cost of borrowings); and fortified itself against contingencies with ECL provisions at 4.4% of AUM.
- Over the next two years, we expect the company to make meaningful inroads into Retail, led by mortgages/LAP and complemented by a good mix of unsecured loans. Product diversification within Retail will help PIEL deliver strong growth and reduce concentration risks. We expect PIEL to deliver ~2.1% RoA and 6.3% RoE in the near term. We also acknowledge that PIEL possesses pockets of value: a) deferred tax assets relating to fair value adjustments at the time of DHFL acquisition, b) potential recoveries from written-off exposures, and c) fee income levers that it can leverage to enhance profitability.
- We have a target multiple at 0.9x P/BV for the lending business. We reiterate our **BUY rating with a TP of INR1,260 (premised on Mar'25 SoTP)**.

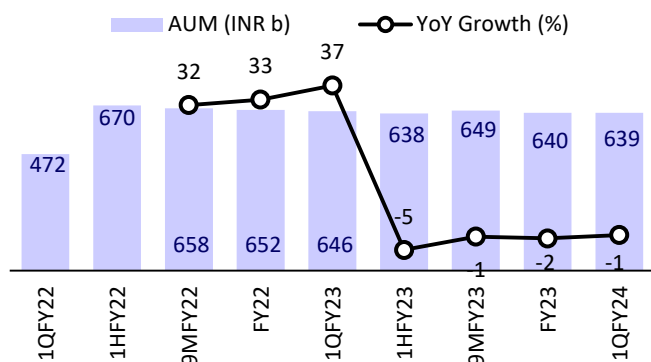
Exhibit 10: SOTP valuation (FY25E-based)

	Value (INR B)	Value (USD B)	INR per share	% To Total	Rationale
Lending Business	264	3.2	1,108	88	❖ 0.9x FY25E PBV
Shriram Group	30	0.4	126	10	❖ Based on its stake in Shriram Life/General Insurance Businesses
Life Insurance	3	0.0	12	1	❖ 0.3x FY23 EV
Alternatives	3	0.0	14	1	❖ 0.3x FY23 Equity
Target Value	300	3.7	1,260	100	

Source: MOFSL, Company

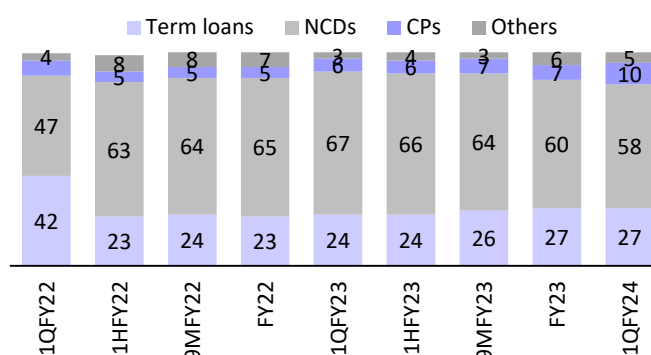
Key exhibits

Exhibit 11: AUM declined 1% YoY (%)



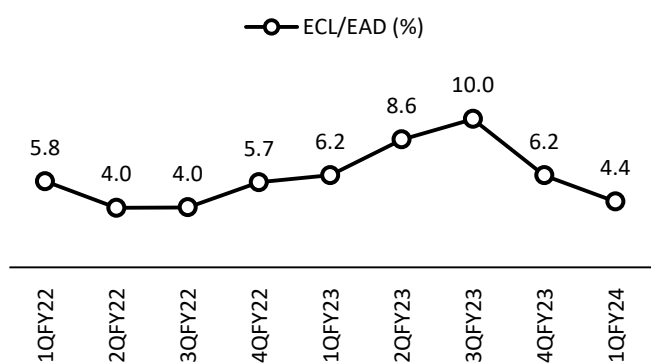
Source: MOFSL, Company

Exhibit 12: Borrowing mix (%)



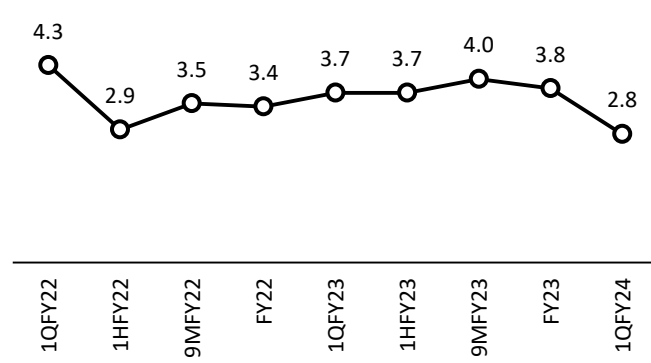
Source: MOFSL, Company

Exhibit 13: ECL/EAD declined ~180bp QoQ (%)



Source: MOSL, Company

Exhibit 14: GNPA ratio improved QoQ (%)



Source: MOSL, Company

Financials and valuations

Income statement

	INR m			
Y/E March	FY22	FY23	FY24E	FY25E
Interest Income	75,228	77,986	89,205	1,07,572
Interest Expended	42,251	40,412	44,080	52,291
Net Interest Income	32,977	37,574	45,125	55,280
Change (%)	19.1	13.9	20.1	22.5
Other Income	3,881	12,881	19,916	12,371
Net Income	36,858	50,456	65,041	67,651
Change (%)	27.8	36.9	28.9	4.0
Operating Expenses	12,284	22,148	27,701	27,313
PPoP	24,574	28,307	37,340	40,338
Change (%)	9.4	15.2	31.9	8.0
Provisions/write offs	8,299	54,101	9,540	14,660
PBT	16,275	-25,793	27,800	25,678
Tax	4,062	-39,781	4,825	6,419
Tax Rate (%)	19.0	-	25.0	25.0
PAT (before associate income)	12,213	13,987	22,975	19,258
Associate Income	5,939	3,886	500	575
PAT (before exceptional)	18,152	17,873	23,475	19,833
Exceptional items	-1,529	80,663	0	0
PAT (after exceptional)	16,622	98,536	23,475	19,833
Profit from discontinued Operations	3,365	0	0	0
Reported net profit/loss	19,988	98,536	23,475	19,833

Balance sheet

	INR m			
Y/E March	FY22	FY23	FY24E	FY25E
Capital	477	477	449	449
Reserves & Surplus	3,54,414	3,10,114	3,08,717	3,20,968
Net Worth	3,68,369	3,10,591	3,09,166	3,21,417
Borrowings	5,54,510	4,95,828	5,29,289	6,72,810
Change (%)	48	-11	7	27
Other liabilities	39,549	23,891	14,335	11,468
Total Liabilities	9,98,729	8,37,522	8,52,789	10,05,695
Loans and advances	4,93,180	4,63,946	6,63,423	8,25,821
Change (%)	7	-6	43	24
Investments	2,48,565	2,23,318	89,327	71,462
Net Fixed Assets	86,715	7,385	7,016	7,717
Cash and Cash equivalents	71,872	46,491	35,000	50,000
Deferred tax assets	13,679	18,472	9,236	4,618
Other assets	71,366	77,910	48,787	46,077
Total Assets	9,98,729	8,37,522	8,52,789	10,05,695

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY22	FY23	FY24E	FY25E
Spreads Analysis (%)				
Yield on loans	14.4	13.0	13.8	13.8
Cost of funds	9.1	7.7	8.6	8.7
Spread	5.3	5.3	5.2	5.1
Net Interest Margin	6.3	6.3	7.0	7.1

Profitability Ratios (%)

RoE	6.6	5.3	7.6	6.3
RoA	2.3	1.9	2.8	2.1
C/I ratio	33.3	43.9	42.6	40.4

Asset Quality (%)

Gross NPA	22,270	20,550	18,161	21,302
Gross NPA (% of AUM)	3.6	3.3	2.5	2.4
Net NPA	9,980	10,380	9,444	11,716
Net NPA (% of AUM)	1.7	1.8	1.4	1.4
PCR (%)	55.2	49.5	48.0	45.0

INR m

Y/E March

AUM (INR m)	6,51,850	6,39,890	7,26,433	8,87,577
YoY growth (%)		-2	14	22

AUM Mix (%)

Wholesale	69.6	49.8	34.4	23.9
Retail	33.1	50.2	65.6	76.1
Total	102.6	100.0	100.0	100.0

Wholesale Loans (INR m)	3,84,620	2,74,960	2,19,968	1,86,973
YoY growth (%)	-2.3	-28.5	-20.0	-15.0

Retail Loans (INR m)	2,15,520	3,21,440	4,76,465	6,75,605
YoY growth (%)	306.4	49.1	48.2	41.8

Total Loan Book	6,00,140	5,96,400	6,96,433	8,62,577
YoY growth (%)	34.4	-0.6	16.8	23.9

VALUATION

Book Value (INR)	1,544	1,301	1,376	1,431
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Price-BV (x)	0.5	0.6	0.8	0.7
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EPS (INR)	69.7	412.9	104.5	88.3
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EPS Growth YoY	-6	493	40	-16
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Price-Earnings (x)	10.6	1.8	10.3	12.2
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Dividend per share (INR)		31.0	33.8	36.5
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Dividend yield (%)		4.2	3.1	3.4
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E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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