

Piramal Enterprises | BUY

Soft quarter; one-off erodes profit

In 3Q24, PEL reported a loss of INR -23.8bn (incl. associates income of INR730mn) leading to miss on our estimates at INR 2.2bn largely driven by chunky provisions for AIF investments (INR 26.7bn- post tax). However, there was a beat on PPOP at INR 3.9bn (+53% QoQ, +40% vs JMFe) driven by healthy NII growth (+11% QoQ/ -20% YoY), sharp increase in other income (one-off pertaining to interest income from income-tax refund of INR 640mn) and lower opex (+5% QoQ). Cost to income moderated to 64.2% (vs 72.6% QoQ). NIM expanded by 20bps (at 4.9%) due change in product mix and slower increase in COF by 10bps (at 8.7%). Headline asset quality improved with overall GS3/ NS3 (as percentage AUM) at 2.41%/ 0.97% (-16 bps QoQ/ -26 bps QoQ) with PCR at 55%. Wholesale GS3/ NS3 stood at 3.06%/ 0.87% (flat QoQ/ -47 bps QoQ) with PCR at 72%. Although, credit cost inched up to 153bps (+32bps) due to lower recoveries on the legacy wholesale book as opposed to last quarter. PEL's AUM stood at INR 673bn (+0.5% QoQ, +3.7% YoY) led by retail business growing at brisk pace (+12% QoQ/ +54% YoY). Whereas, it was impacted by run down on the legacy wholesale 1.0 resulting decline in overall wholesale book (-14% QoQ/ -34% YoY). We expect PEL to gradually navigate through its changing product mix leading to reduced uncertainty on cashflows supported by strengthening of the risk standards and meaningful process improvements ensuring improvement on profitability over the medium term. Strategic changes at key leadership positions also support the transformation story. Maintain BUY at TP of INR 1250 (valuing core PEL business at 0.9x FY26E P/BV).

- Retail growth stays put:** In 3QFY24 PEL's AUM stood at INR 673bn (+0.5% QoQ, +3.7% YoY) led by retail business growing at brisk pace (+12% QoQ/ +54% YoY). Whereas, it was impacted by run down on the legacy wholesale 1.0 resulting decline in overall wholesale book (-14% QoQ/ -34% YoY). Wholesale 1.0 contracted by 22% QoQ and 47% YoY while wholesale 2.0 saw accelerated growth 24% QoQ , +2x YoY. Retail growth was broad based with Housing/ Secured MSME/ Other secured/ Unsecured growing at +7%/ +15%/ +32%/ +17% QoQ. Among unsecured loans, PL saw sharp rise of +42% QoQ whereas, Digital/ Unsecured MSME/ MFI loan grew at +10%/ +19%/ +1% QoQ. PEL's has majority share of secured retail loans aggregating at 76% as against unsecured book at 24%. PEL saw a robust customer addition at INR 0.29mn with customer base of +3.9mn. We expect PEL to witness retail CAGR of 34% vs. decline in wholesale book by 23% over FY24-26E, translating into overall CAGR of 13% over FY24-26E.
- Credit cost inched up; as recoveries on wholesale book slowdown:** In 3Q24, overall GS3/ NS3 (as percentage AUM) stood at 2.41%/ 0.97% (-16 bps QoQ/ -26 bps QoQ) with PCR at 55%. Wholesale GS3/ NS3 stood at 3.06%/ 0.87% (flat QoQ/ -47 bps QoQ) with PCR at 72%. Wholesale assets observed an increase in stage 2 with GS2 at 16.4% vs 11.5% QoQ as an account witnessed downgrade to stage2. PEL's unsecured 90+ dpd witnessed slight deterioration of +10bps QoQ with unsecured consumer loans at 1.7% (flat QoQ) showcasing improvement in <50k ticket size loans to 2.8% (vs 4.4% QoQ) although it has headroom to moderate further, along with >50k ticket size 90+ DPD at 1.8% (-10bps



Sameer Bhise

sameer.bhise@jmfl.com | Tel: (91 22) 66303489

Apurva Deshmukh

apurva.deshmukh@jmfl.com | Tel: (91 22) 66303263

Mayank Mistry

mayank.mistry@jmfl.com | Tel: (91 22) 62241877

Gayathri Shivaram

gayathri.shivaram@jmfl.com | Tel: (91 22) 66301889

Shreyas Pimple

shreyas.pimple@jmfl.com | Tel: (91 22) 66301881

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,250
Upside/(Downside)	41.4%
Previous Price Target	1,250
Change	0.0%

Key Data – PIEL IN

Current Market Price	INR884
Market cap (bn)	INR198.6/US\$2.4
Free Float	47%
Shares in issue (mn)	238.7
Diluted share (mn)	
3-mon avg daily val (mn)	INR1,235.3/US\$14.9
52-week range	1,140/630
Sensex/Nifty	71,942/21,738
INR/US\$	83.1

Price Performance

%	1M	6M	12M
Absolute	-5.1	-17.6	9.2
Relative*	-5.9	-23.6	-8.6

* To the BSE Sensex

Financial Summary

	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Profit	19,988	99,686	13,591	12,680	14,055
Net Profit (YoY) (%)	41.5%	398.7%	-86.4%	-6.7%	10.8%
Assets (YoY) (%)	29.5%	-16.1%	8.9%	13.0%	16.2%
ROA (%)	2.3%	10.9%	1.6%	1.3%	1.3%
ROE (%)	5.6%	29.4%	4.4%	4.1%	4.4%
EPS	83.8	417.7	60.5	56.4	62.6
EPS (YoY) (%)	33.7%	398.7%	-85.5%	-6.7%	10.8%
P/E (x)	10.6	2.1	14.6	15.7	14.1
BV	1,544	1,301	1,359	1,410	1,466
BV (YoY) (%)	-0.9%	-15.7%	4.4%	3.7%	4.0%
P/BV (x)	0.57	0.68	0.65	0.63	0.60

Source: Company data, JM Financial. Note: Valuations as of 29/Jan/2024

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

QoQ). Mgmt. indicated that delinquency rates on unsecured retail lines have come down within thresholds after corrective actions taken over last couple of quarters. While net credit cost remained elevated at ~INR 2.6bn (153bps vs 121bps QoQ), impacted by lower recoveries in the legacy wholesale book. We build in avg. credit cost of 1.3% over FY24-26E and continue to monitor the same closely.

- **Valuations benefitted by structural improvements:** We expect PEL to gradually navigate through its changing product mix leading to reduced uncertainty on cashflows supported by strengthening of the risk standards and meaningful process improvements ensuring improvement on profitability over the medium term. Strategic changes at key leadership positions also support the transformation story. Maintain BUY at TP of INR 1250 (valuing core PEL business at 0.9x FY26E P/BV).

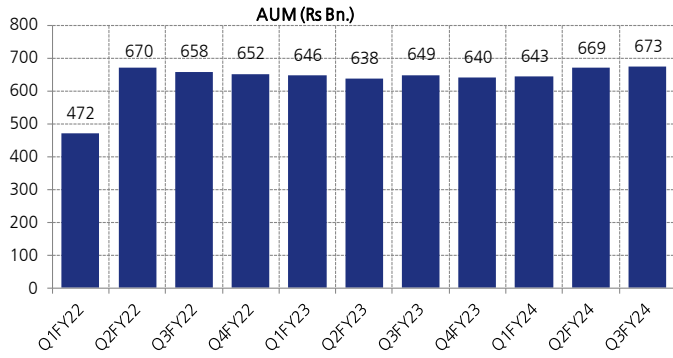
PIEL – 3QFY24 trends

Exhibit 1. 3QFY24 – key highlights

Earnings Table (INR mn)	Q3FY23	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Net Interest Income	10,357	7,500	8,350	-19.4%	11.3%
Total Income	11,787	9,142	10,864	-7.8%	18.8%
Employees Cost	2,608	3,594	3,557	36.4%	-1.1%
Fees, Commission & Brokerage	140	111	0	-100.0%	-100.0%
Depreciation and Amortisation	303	383	414	36.4%	8.1%
Other expenses	2,675	2,552	3,000	12.1%	17.6%
Total Operating Expenses	5,727	6,640	6,970	21.7%	5.0%
Operating Profit (PPP)	6,061	2,502	3,894	-35.7%	55.7%
Provisions & Write-offs	16,958	1,980	2,570	-84.8%	29.8%
PBT	-10,897	522	1,324	-112.2%	153.7%
PAT (Pre-extra-ordinaries)	-9,852	412	2,174	-122.1%	427.9%
Reported Profit	35,341	482	-23,776	-167.3%	-5033.7%
Balance Sheet Data (INR bn)					
AUM	648.7	669.3	672.8	3.7%	0.5%
Loans	573.0	497.7	622.6	8.7%	25.1%
Securitized book	75.7	48.6	50.2	-33.7%	3.3%
Retail Disbursements	51.1	62.5	76.9	50.5%	23.2%
Share holders equity	312.4	287.1	263.8	-15.6%	-8.1%
Total Assets	0.0	816.5	838.5	#DIV/0!	2.7%
Capital Adequacy					
CAR (%)	31.0%	31.0%	24.3%	-6.70%	-6.70%
Credit Quality					
Gross S3 (INRmn)	42,640	15,290	14,240	-66.6%	-6.9%
Net S3 (INRmn)	13,970	8,170	6,450	-53.8%	-21.1%
Gross S3 (%)	6.57%	2.31%	2.14%	-4.43%	-0.16%
Net S3 (%)	90.07%	5.83%	-21.05%	-111.12%	-26.88%
Coverage Ratio (%)	67.2%	46.6%	54.7%	-12.5%	8.1%
Cost / Income ratio (%)	48.6%	72.6%	64.2%	15.6%	-8.5%
Fees to Income	1.7%	2.0%	2.0%	0.4%	0.0%
Tax rate	9.6%	21.1%	-64.2%	-73.8%	-85.3%
Loan Loss Provisions (%)	5.4%	-1.5%	0.9%	-4.5%	2.4%
Du-pont Analysis					
NII / Assets (%)	6.4%	4.6%	5.0%	-1.5%	0.4%
Non-Interest Inc. / Assets (%)	0.9%	1.0%	1.5%	0.6%	0.5%
Operating Cost / Assets (%)	3.6%	4.0%	4.2%	0.6%	0.1%
Operating Profits / Assets (%)	3.8%	1.5%	2.3%	-1.4%	0.8%
Provisions / Assets (%)	10.5%	1.2%	1.5%	-9.0%	0.3%
Core ROA (%)	-6.1%	0.3%	1.3%	7.4%	1.0%
ROA (%)	22.0%	0.3%	-14.2%	-36.1%	-14.5%
ROE (%)	48.2%	0.6%	-34.5%	-82.7%	-35.2%

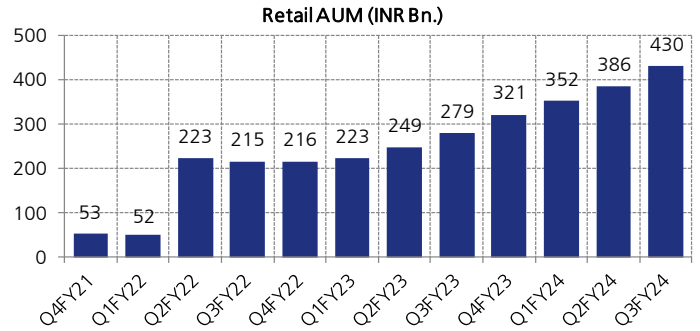
Source: Company, JM Financial

Exhibit 2. PIEL: Trend in AUM growth



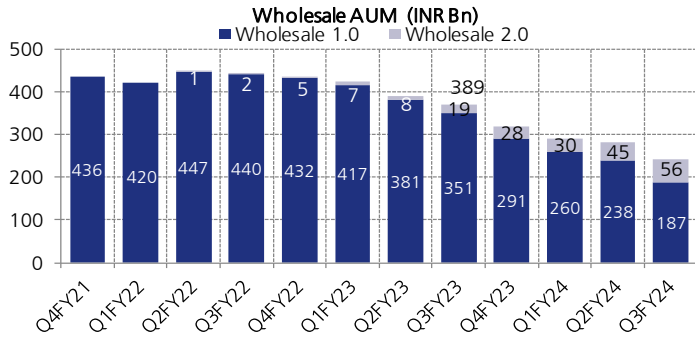
Source: Company, JM Financial

Exhibit 3. PIEL: Retail AUM trends



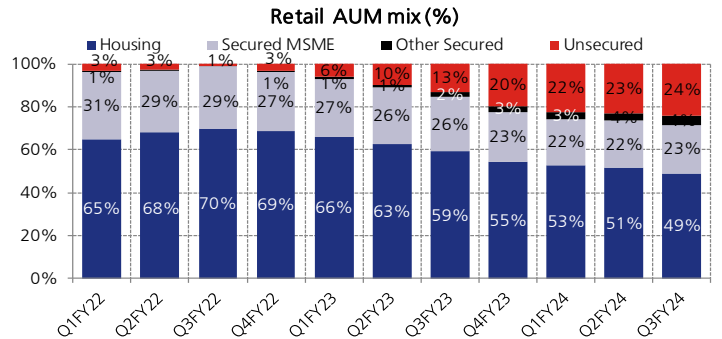
Source: Company, JM Financial

Exhibit 4. PIEL: Wholesale AUM trends



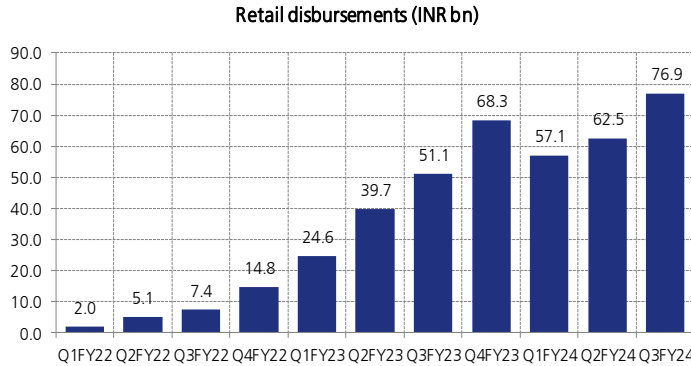
Source: Company, JM Financial

Exhibit 5. PIEL: Share of retail AUM mix (%)



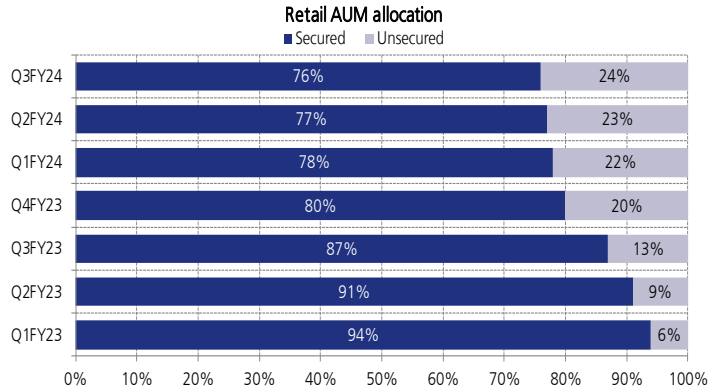
Source: Company, JM Financial

Exhibit 6. PIEL: Retail disbursement mix



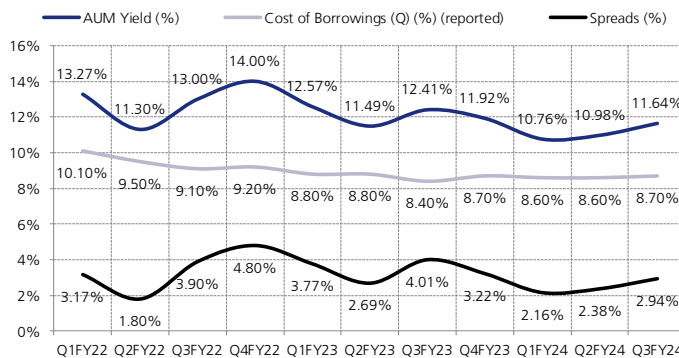
Source: Company, JM Financial

Exhibit 7. PIEL: Secured vs unsecured contribution for retail loans



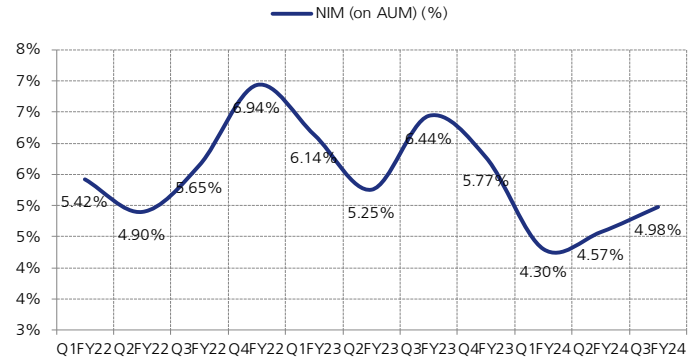
Source: Company, JM Financial

Exhibit 8. PIEL: Trends for yields, COB and spread



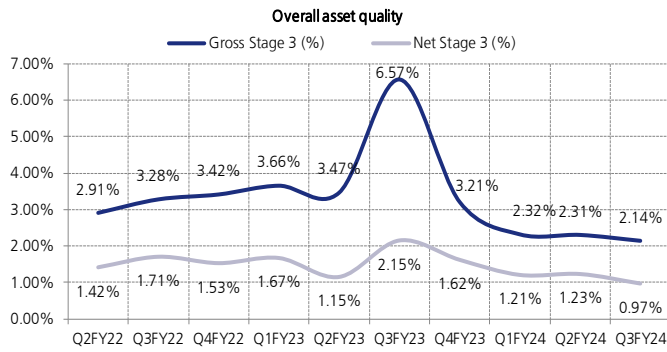
Source: Company, JM Financial

Exhibit 9. PIEL: NIM trends



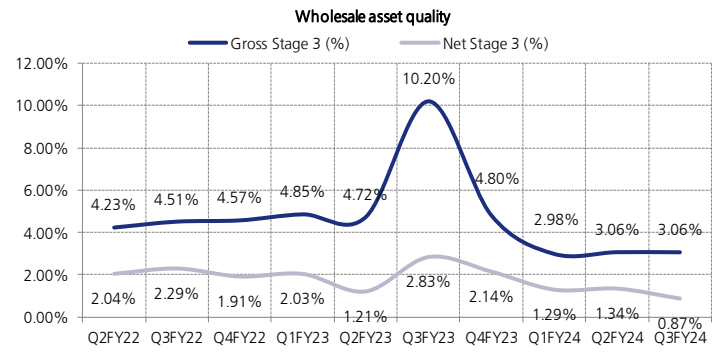
Source: Company, JM Financial

Exhibit 10. PIEL: Overall asset quality trends



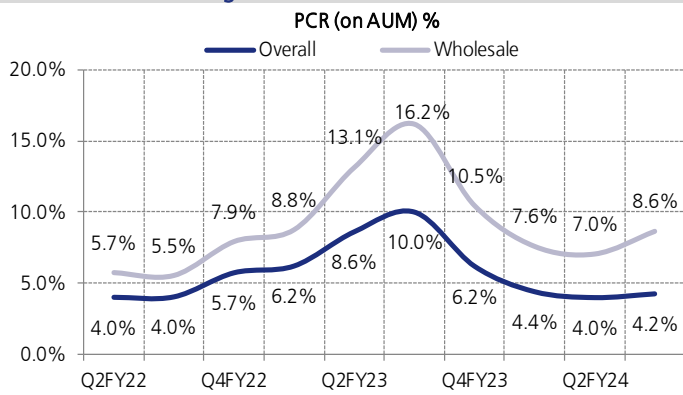
Source: Company, JM Financial

Exhibit 11. PIEL: Wholesale asset quality trends



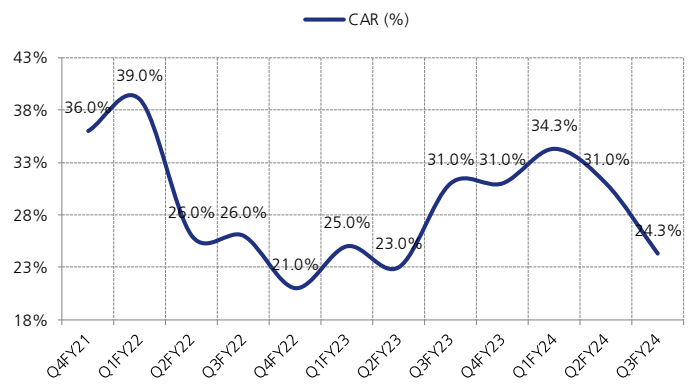
Source: Company, JM Financial

Exhibit 12. PIEL: Coverage ratio trends



Source: Company, JM Financial

Exhibit 13. PIEL: Trends on capital adequacy



Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Interest Income (NII)	32,977	38,043	38,166	49,831	58,648
Non Interest Income	3,881	5,707	5,628	6,983	7,817
Total Income	36,858	43,750	43,794	56,814	66,465
Operating Expenses	13,843	22,617	31,981	38,763	45,358
Pre-provisioning Profits	23,015	21,133	11,813	18,051	21,106
Loan-Loss Provisions	6,740	-1,559	10,113	7,877	10,414
Others Provisions	0	46,422	0	0	0
Total Provisions	6,740	44,863	10,113	7,877	10,414
PBT	16,275	-23,730	1,700	10,175	10,692
Tax	4,062	-6,508	442	2,391	2,513
PAT (Pre-Extra ordinaries)	12,213	-17,222	1,258	7,784	8,179
Extra ordinaries (Net of Tax)	7,775	116,908	12,333	4,896	5,876
Reported Profits	19,988	99,686	13,591	12,680	14,055
Dividend	7,875	7,398	1,359	1,268	1,406
Retained Profits	12,112	92,288	12,232	11,412	12,650

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Equity Capital	477	477	449	449	449
Reserves & Surplus	354,414	310,114	304,874	316,286	328,935
Stock option outstanding	13,478	0	0	0	0
Borrowed Funds	554,510	495,109	570,202	672,839	820,863
Deferred tax liabilities	1,922	0	0	0	0
Preference Shares	0	0	0	0	0
Current Liabilities & Provisions	73,928	31,103	36,480	41,232	47,927
Total Liabilities	998,729	837,522	912,005	1,030,806	1,198,175
Net Advances	493,180	463,946	534,986	624,777	737,070
Investments	248,565	223,318	187,245	237,415	280,087
Cash & Bank Balances	71,872	46,491	64,198	49,982	58,966
Loans and Advances	16,212	194	5,350	4,373	5,159
Other Current Assets	46,653	37,739	50,181	42,102	33,021
Fixed Assets	49,724	28,667	29,184	28,863	33,549
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	25,799	33,144	36,480	41,232	47,927
Total Assets	998,729	837,522	912,005	1,030,806	1,198,175

Source: Company, JM Financial

Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (YoY) (%)					
Borrowed funds	40.2%	-10.7%	15.2%	18.0%	22.0%
Advances	52.1%	-5.9%	15.3%	16.8%	18.0%
Total Assets	29.5%	-16.1%	8.9%	13.0%	16.2%
NII	-61.8%	15.4%	0.3%	30.6%	17.7%
Non-interest Income	20.2%	47.0%	-1.4%	24.1%	11.9%
Operating Expenses	-76.5%	63.4%	41.4%	21.2%	17.0%
Operating Profits	-25.0%	-8.2%	-44.1%	52.8%	16.9%
Core Operating profit	-29.4%	-15.9%	-52.8%	66.9%	17.4%
Provisions	6,701.3%	565.6%	-77.5%	-22.1%	32.2%
Reported PAT	41.5%	398.7%	-86.4%	-6.7%	10.8%
Yields / Margins (%)					
Interest Spread	1.64%	2.47%	2.35%	3.51%	3.71%
NIM	4.62%	4.92%	5.02%	5.87%	5.90%
Profitability (%)					
ROA	2.26%	10.86%	1.55%	1.31%	1.26%
ROE	5.6%	29.4%	4.4%	4.1%	4.4%
Cost to Income	37.6%	51.7%	73.0%	68.2%	68.2%
Asset quality (%)					
Gross NPA	3.42%	3.21%	3.20%	3.14%	3.06%
LLP	1.65%	-0.33%	-3.18%	1.74%	2.00%
Capital Adequacy (%)					
Tier I	0.00%	30.00%	28.36%	27.39%	25.07%
CAR	21.00%	31.00%	29.42%	28.45%	26.08%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
NII / Assets	3.73%	4.14%	4.36%	5.13%	5.26%
Other Income / Assets	0.44%	0.62%	0.64%	0.72%	0.70%
Total Income / Assets	4.16%	4.77%	5.01%	5.85%	5.96%
Cost / Assets	1.56%	2.46%	3.66%	3.99%	4.07%
PPP / Assets	2.60%	2.30%	1.35%	1.86%	1.89%
Provisions / Assets	0.76%	4.89%	1.16%	0.81%	0.93%
PBT / Assets	1.84%	-2.58%	0.19%	1.05%	0.96%
Tax rate	25.0%	27.4%	26.0%	23.5%	23.5%
ROA	2.26%	10.86%	1.55%	1.31%	1.26%
Leverage	2.7	2.7	3.0	3.3	3.6
ROE	5.6%	29.4%	4.4%	4.1%	4.4%

Source: Company, JM Financial

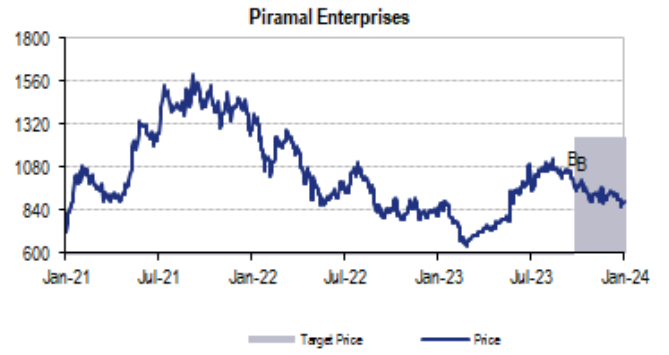
Valuations					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shares in Issue	238.7	238.7	224.7	224.7	224.7
EPS (INR)	83.8	417.7	60.5	56.4	62.6
EPS (YoY) (%)	33.7%	398.7%	-85.5%	-6.7%	10.8%
P/E (x)	10.6	2.1	14.6	15.7	14.1
BV (INR)	1,544	1,301	1,359	1,410	1,466
BV (YoY) (%)	-0.9%	-15.7%	4.4%	3.7%	4.0%
P/BV (x)	0.57	0.68	0.65	0.63	0.60
DPS (INR)	33.0	31.0	6.0	5.6	6.3
Div. yield (%)	3.7%	3.5%	0.7%	0.6%	0.7%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
23-Oct-23	Buy	1,250	
10-Nov-23	Buy	1,250	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com

Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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