

We hosted the management of Piramal Enterprises in Singapore and Hong Kong during 27-29 Nov-2024. The roadshow saw good interest from long-only investors and hedge funds, leading to nearly a dozen-and-half meetings. Key takeaways: 1. Investors appreciated the progression toward the 3% RoA growth business (retail and Wholesale 2.0) franchise over the medium term; 2. Increased investor comfort around divestment of the legacy book (Rs121bn as of Sep-24) without incremental hit to the P&L; 3. Investors viewed the regulatory environment as keeping a closer check on very high-growth segments and companies in the lending space; and 4. Investor remained curious about any likelihood of credit stress building up in more segments such as Micro-Business and Micro-LAP beyond Digital Unsecured, MFI, and Credit Cards amid slowing economic growth. Overall, PIEL's RoA improvement journey is to benefit from reduced NII drag of the legacy book, CoF improvement, gradual improvement in fee yield, operating leverage, and the tax shield from carried forward losses of Rs100bn, only to be partly offset by the expected inch-up in the credit cost toward more sustainable levels.

Piramal Enterprises: Financial Snapshot (Consolidated)					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profits	99,686	(16,835)	12,382	18,726	29,131
AUM growths (%)	(1.8)	5.0	20.1	24.7	25.8
NII growths (%)	15.4	(21.9)	30.2	33.1	29.6
NIMs+Fees (%)	6.3	5.3	6.2	6.8	7.1
PPOP growth (%)	15.2	(34.5)	3.2	69.7	52.4
Adj. EPS (Rs)	79.7	(20.5)	19.5	61.1	107.4
Adj. EPS growth (%)	149.3	(125.7)	(195.2)	213.2	75.8
Adj. BV (INR)	1,242.7	1,119.8	1,158.4	1,216.8	1,307.5
Adj. BVPS growth (%)	0.0	(9.9)	3.4	5.0	7.5
RoA (%)	2.5	(0.6)	0.5	1.4	2.4
RoE (%)	7.6	(7.0)	5.3	7.6	11.1
P/E (x)	14.9	(57.8)	60.7	19.4	11.0
P/ABV (x)	1.0	1.1	1.0	1.0	0.9

Source: Company, Emkay Research

Increased understanding and appreciation of turnaround progress

With the sustained reducing impact of legacy loan book and investments-led noises and improved segmental disclosures (Read: <https://tinyurl.com/mr3ftz8d>), the investors were appreciable of PIEL's turnaround journey toward a retail and granular wholesale franchise. The investors were broadly in acceptance that the complete divestment of the legacy wholesale book (Rs121bn as of Sep-24) should not cause any material P&L impact, even if the experience turns worse than the past wholesale divestment experience, as this book currently has ~Rs20bn provisions and the expected recoveries from the written-off AIF (~Rs20bn) and Shriram General holdings divestment should be more than enough. Going forward, financial reporting will be further simplified with the impending conversion of Piramal Capital Housing Finance Limited (PCHFL) into an NBFC from HFC, and its subsequent merger with the listed Piramal Enterprises Limited.

Regulatory and macro environment remains on top of the mind

The continuous news flow on regulatory developments in the lending sector and a number of regulatory actions against the players and business segments has led the investors to believe that the regulator is very watchful of excessive growth in any particular business segment or by any player. Against the backdrop of the regulator's recent actions across many loan segments to curb any ever greening practices, the investors remained worried about any further such move by the regulator covering more loan products. The deterioration in asset quality and rising credit costs in digital unsecured, Credit Cards, and MFI loans has led to investors being worried about any contagion effect to the segments, particularly to micro business loans and micro-LAP, amid slowing economic growth and the disruptive new age business-led threat to the micro enterprises.

Better visibility on profitability improvement following legacy divestment

The sustained volatilities caused by the legacy wholesale book and investments led to the underlying performance trend of the growth business getting lost in the noise. With the legacy book getting much smaller, the journey of RoA improvement aided by the reduced drag of legacy book on NII, lowering of CoF, gradual improvement in fee yield (dipped due to accounting policy changes), operating leverage, and tax shield from carried-forward losses is getting more visible, even if the credit cost is to inch up on the lines of the management's guidance of ~1.8-2%.

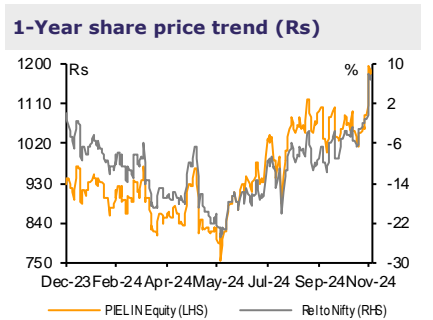
Maintain ADD; will revisit estimates in the wake of new segmental disclosures

With the sustained progress in the gradual turnaround toward divesting the legacy wholesale book and building a profitable retail and granular wholesale lending franchise, we maintain our ADD rating on the stock with an unchanged Sep-25E TP of Rs1,150. In the wake of the recent detailed segmental financial disclosures (Read: <https://tinyurl.com/mr3ftz8d>), we shall revisit our estimates in due course.

Target Price – 12M	Sep-25
Change in TP (%)	-
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	(2.9)
CMP (29-Nov-24) (Rs)	1,184.9

Stock Data	Ticker
52-week High (Rs)	1,225
52-week Low (Rs)	737
Shares outstanding (mn)	225.5
Market-cap (Rs bn)	267
Market-cap (USD mn)	3,162
Net-debt, FY25E (Rs mn)	7,000
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	1,352.1
ADTV-3M (USD mn)	16.0
Free float (%)	56.0
Nifty-50	24,131
INR/USD	84.5
Shareholding, Sep-24	
Promoters (%)	46.3
FPIs/MFs (%)	14.9/15.0

Price Performance			
(%)	1M	3M	12M
Absolute	9.4	12.2	28.9
Rel. to Nifty	10.9	17.0	7.3



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Exhibit 1: SOTP Valuation

Business unit	Valuation Methodology	Multiple	Stake	Factor value	Holdco discount	Value	Value per share	Contribution to TP
Financial Services Business	Price to Book (Sep-26 E)	0.9	100%	283,542	0%	255,188	1,150	100%
Shriram Insurance*	Fair Value	0.0	100.0%	34,192	25%	0	0	0%
AIF	Book value of equity allocated	0.0	JV	7,300	0%	0	0	0%
Insurance	Book value of equity allocated	0.0	50%	9,532	0%	0	0	0%
SOTP Value						255,188	1,150	

Source: Company, Emkay Research; Note: * Effective ownership in Shriram General: 13.33%; in Shriram Life: 14.91%; we do not ascribe any value to Shriram investment as we expect that proceeds of this investment will be used toward rundown of legacy book

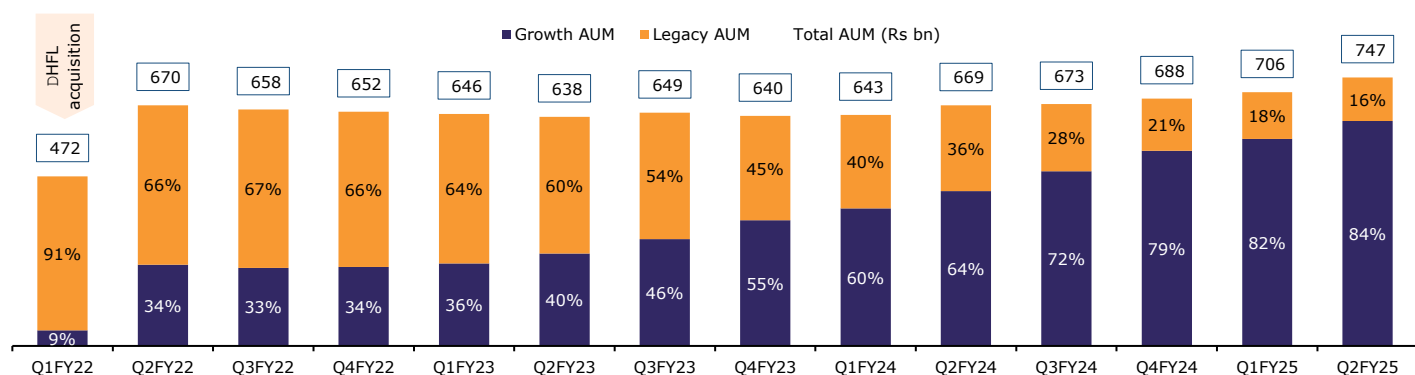
Exhibit 2: Quarterly AUM trend

(Rs bn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Growth AUM	43	226	217	220	229	257	298	349	383	431	486	543	576	626
Legacy AUM	429	444	440	432	417	381	351	291	260	238	187	146	130	121
Total AUM	472	670	658	652	646	638	649	640	643	669	673	688	706	747

Source: Company, Emkay Research

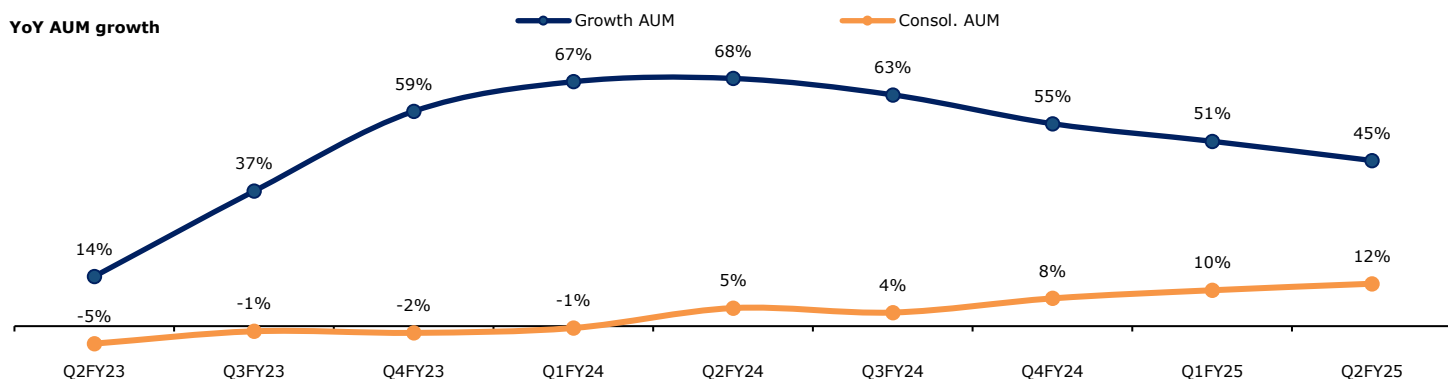
Story in Charts

Exhibit 3: Increasing share of growth business



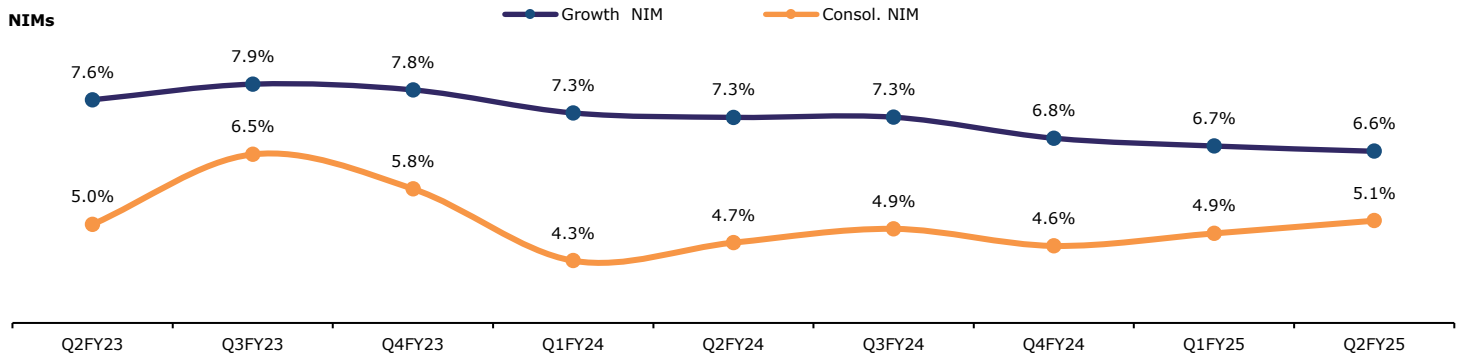
Source: Company, Emkay Research

Exhibit 4: Strong AUM growth led by robust disbursement in the growth business (Retail and Wholesale 2.0)



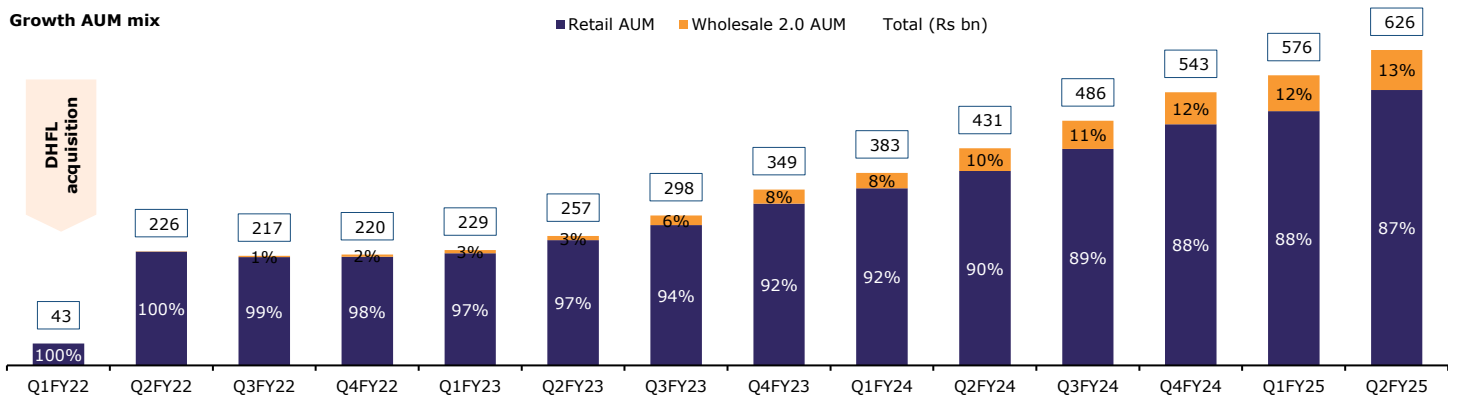
Source: Company, Emkay Research

Exhibit 5: Overall NIMs have seen improvement in the last few quarters



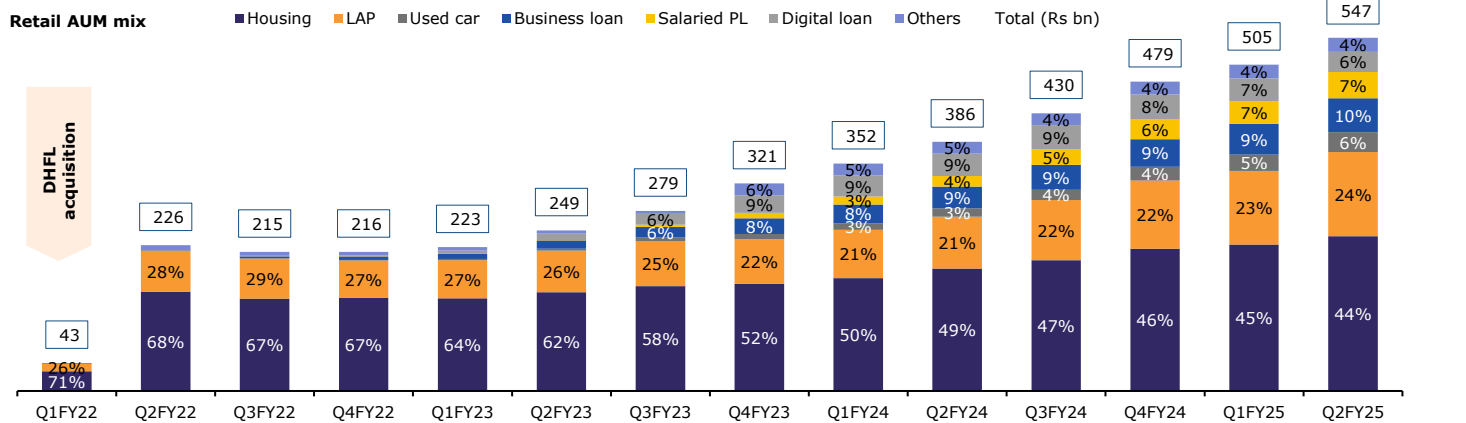
Source: Company, Emkay Research

Exhibit 6: Growth in the Wholesale 2.0 segment has picked up during the last few quarters



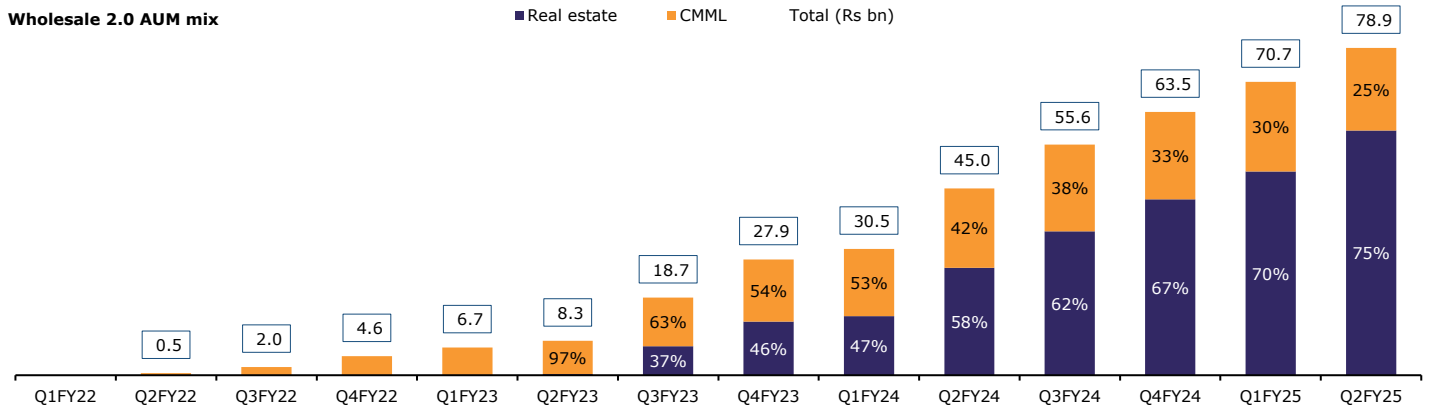
Source: Company, Emkay Research

Exhibit 7: Retail AUM mix - Housing Loan segment dominates the Retail AUM mix



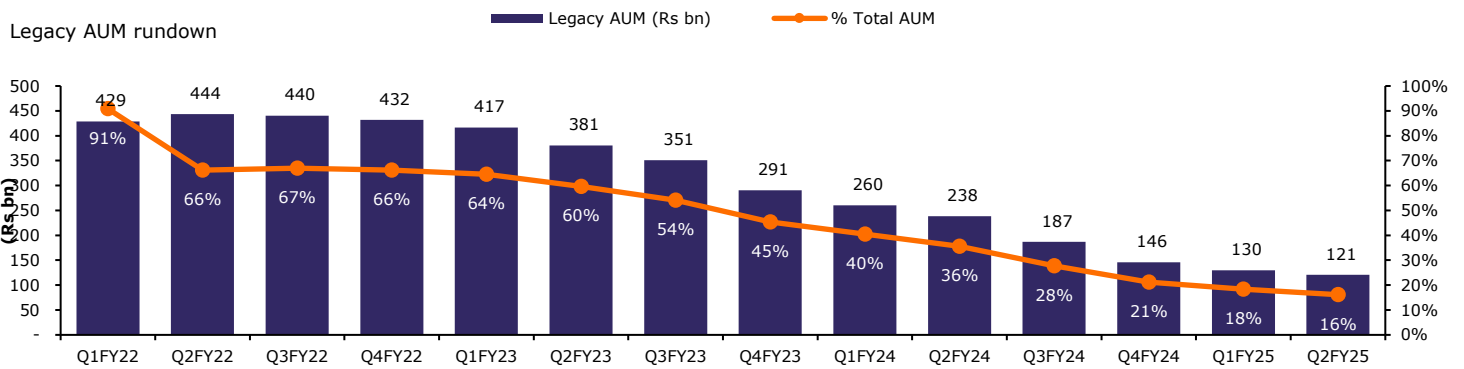
Source: Company, Emkay Research

Exhibit 8: Wholesale 2.0 AUM mix – Real Estate segments remain major contributors



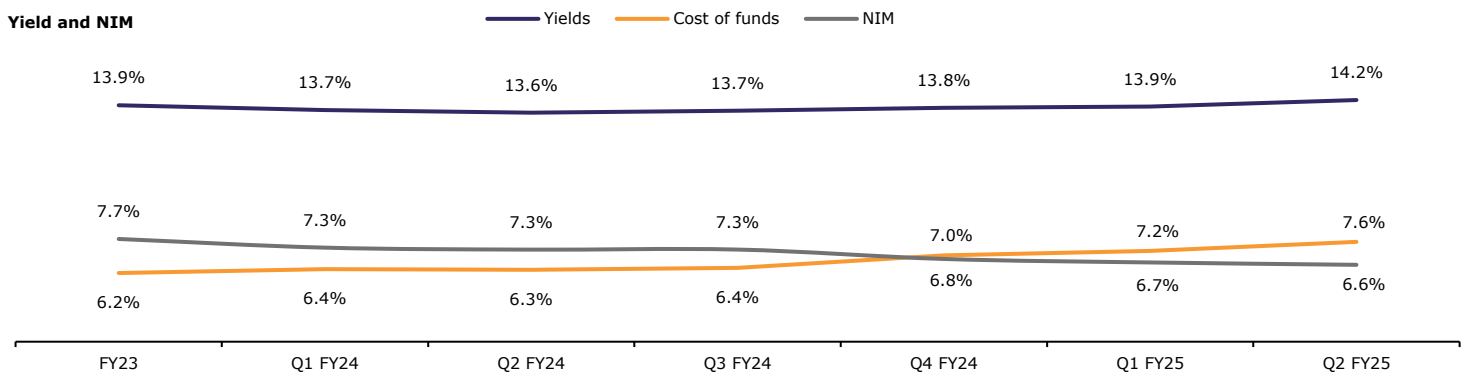
Source: Company, Emkay Research

Exhibit 9: Legacy AUM rundown – The share of Legacy AUM in the total AUM has reduced to 16%



Source: Company, Emkay Research

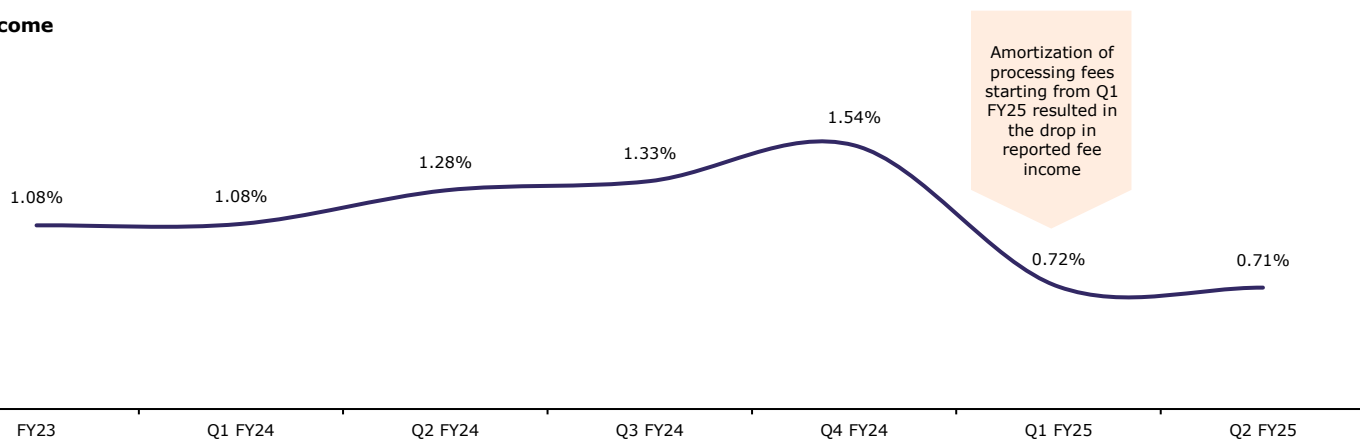
Exhibit 10: NIMs continue to improve as share of interest yielding asset increase



Source: Company, Emkay Research; Note: Dip in NIMs+Fees in the last 2 quarter is due to change in accounting policy

Exhibit 11: Fee income saw a dip due to amortization of processing fees

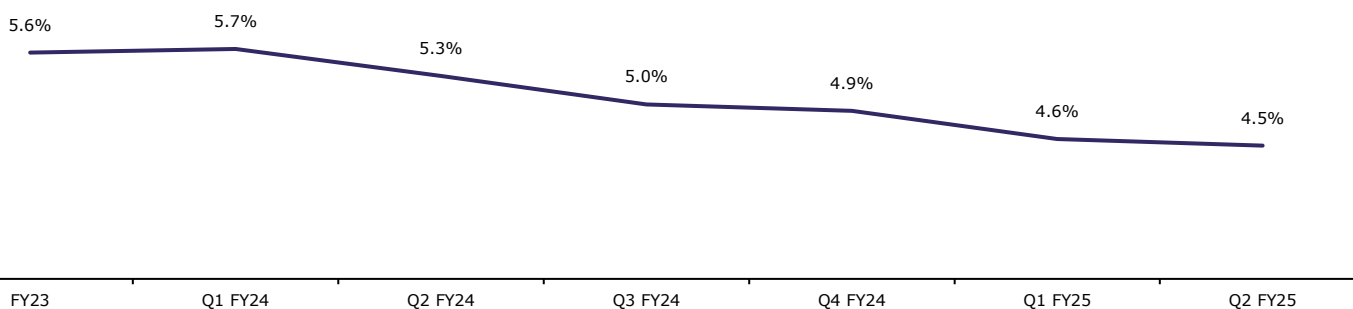
Fee income



Source: Company, Emkay Research

Exhibit 12: Opex has moderated over the last few quarters

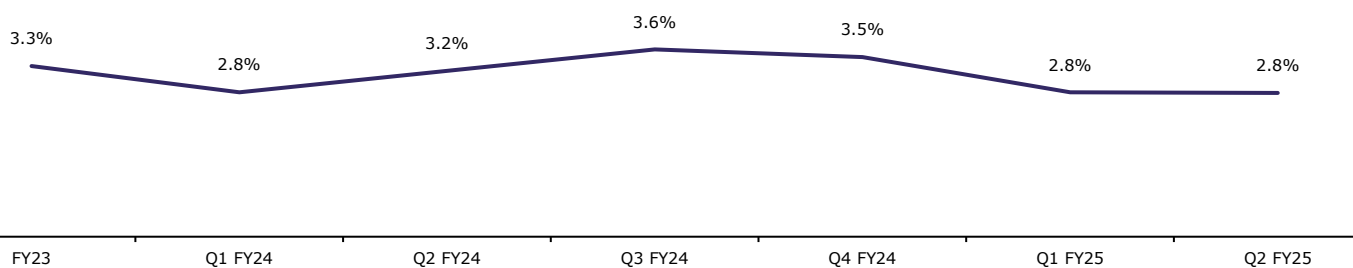
Opex



Source: Company, Emkay Research

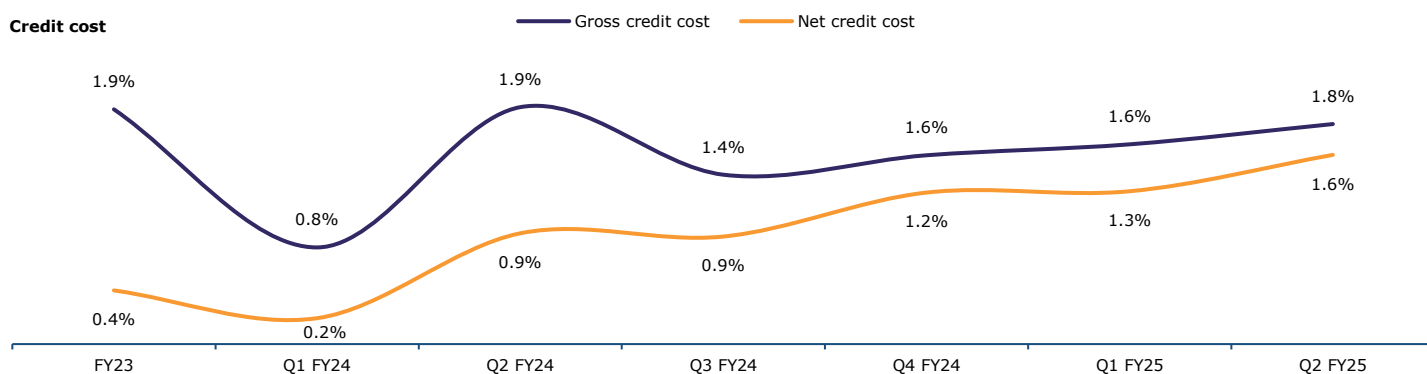
Exhibit 13: PPOP has broadly remained stable sequentially

PPOP



Source: Company, Emkay Research

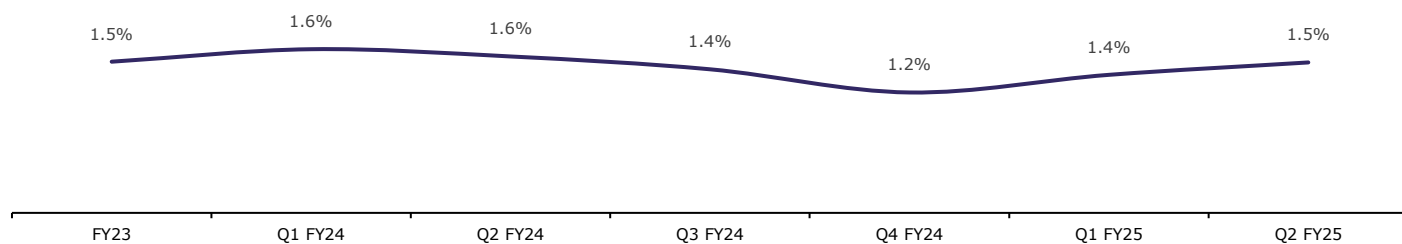
Exhibit 14: Credit cost has increased over the past few quarters but remains in a comfortable zone



Source: Company, Emkay Research

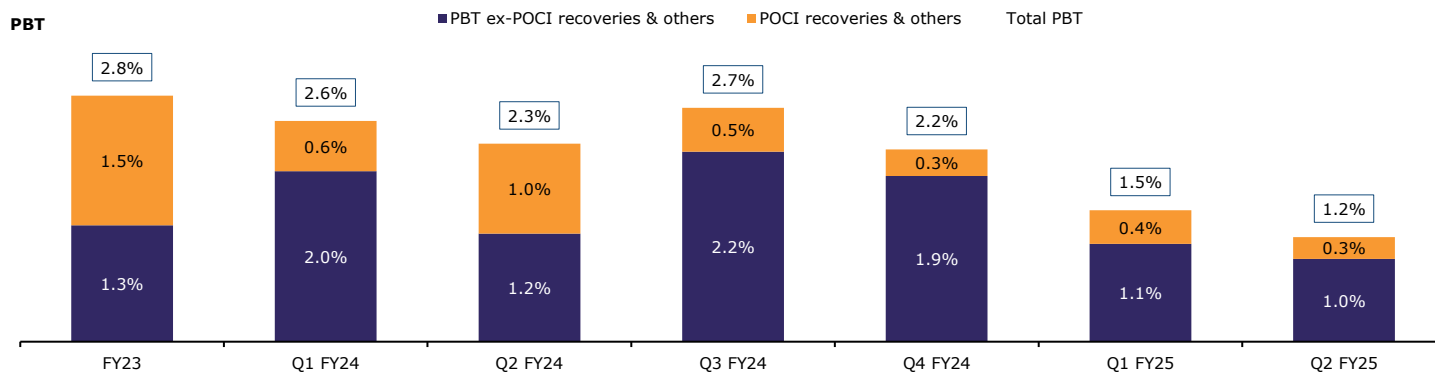
Exhibit 15: Growth Segment’s Stage 3 Assets in % terms have been range-bound

Growth Segment stage 3 assets



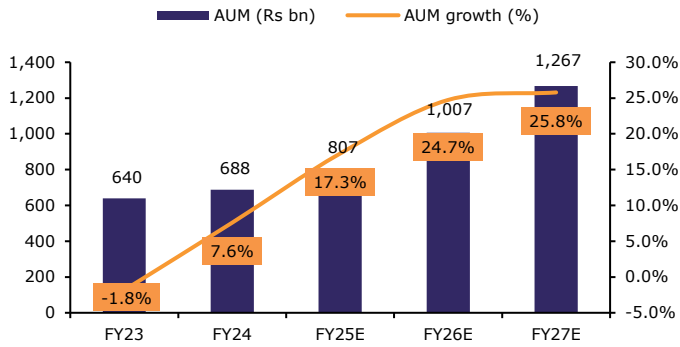
Source: Company, Emkay Research

Exhibit 16: Higher credit costs have resulted in lower profitability



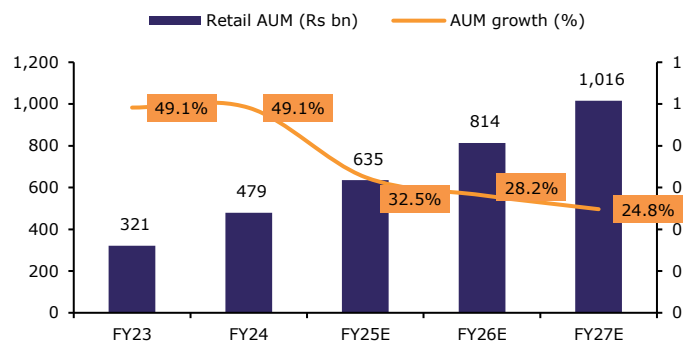
Source: Company, Emkay Research

Exhibit 17: Robust AUM growth



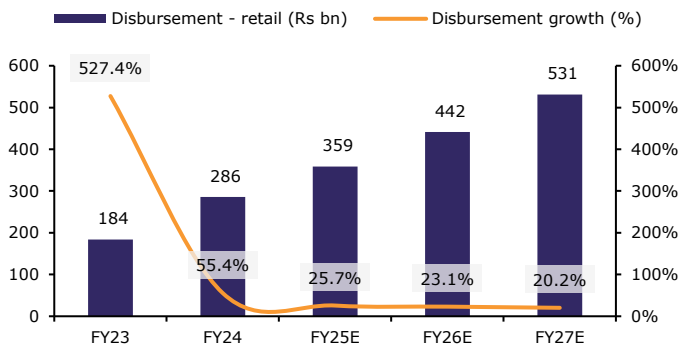
Source: Company, Emkay Research

Exhibit 18: Retail AUM to grow above 25%



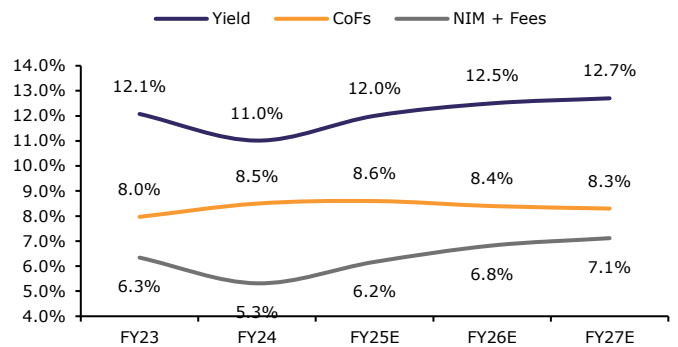
Source: Company, Emkay Research

Exhibit 19: Robust disbursement across product segment



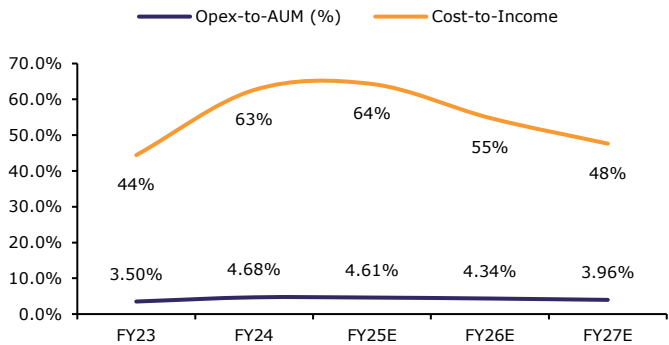
Source: Company, Emkay Research

Exhibit 20: Margin improvement led by improved product mix and moderating CoFs



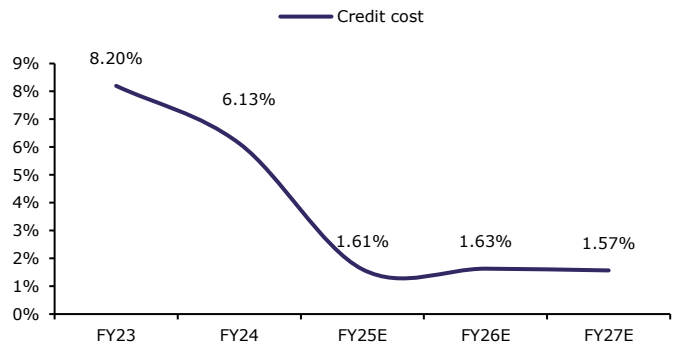
Source: Company, Emkay Research

Exhibit 21: Opex to moderate on account of improved efficiency



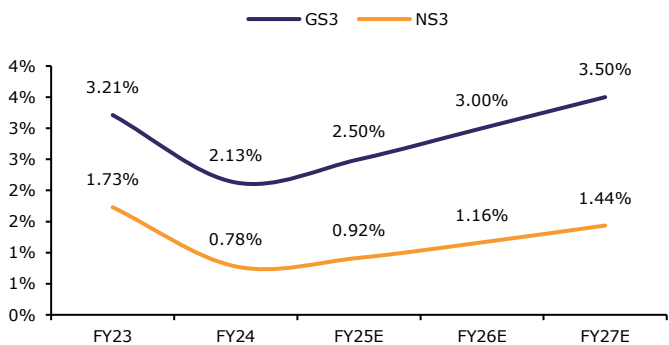
Source: Company, Emkay Research

Exhibit 22: Credit cost to remain range-bound at 1.5-1.6%



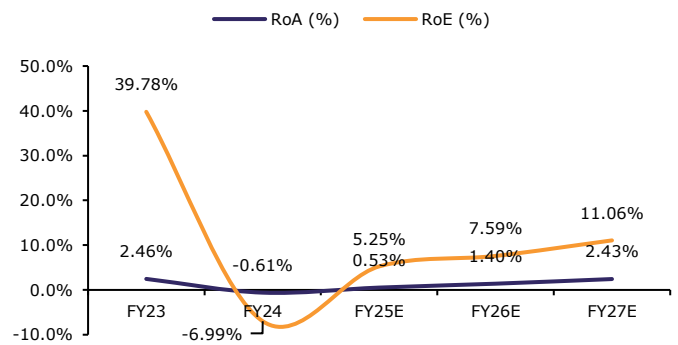
Source: Company, Emkay Research

Exhibit 23: Asset quality to remain stable



Source: Company, Emkay Research

Exhibit 24: ROA/ROE to improve with increasing share of growth book



Source: Company, Emkay Research

Piramal Enterprises: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	77,986	73,139	89,741	113,382	144,363
Interest Expense	39,943	43,439	51,071	61,918	77,670
Net interest income	38,043	29,700	38,670	51,464	66,694
NII growth (%)	15.4	(21.9)	30.2	33.1	29.6
Non interest income	12,881	19,938	14,957	20,409	27,850
Total income	50,924	49,638	53,627	71,873	94,543
Operating expenses	22,617	31,085	34,476	39,382	45,018
PPOP	28,307	18,553	19,150	32,491	49,525
PPOP growth (%)	15.2	(34.5)	3.2	69.7	52.4
Provisions & contingencies	52,951	40,715	12,023	14,787	17,817
PBT	(24,643)	(22,162)	7,128	17,704	31,707
Extraordinary items	80,663	(12,159)	8,000	5,000	5,000
Tax expense	(39,781)	(15,949)	4,283	6,477	10,076
Minority interest	0	0	0	0	0
Income from JV/Associates	3,886	1,537	1,537	2,500	2,500
Reported PAT	99,686	(16,835)	12,382	18,726	29,131
PAT growth (%)	0.0	(116.9)	(173.5)	51.2	55.6
Adjusted PAT	19,023	(4,676)	4,382	13,726	24,131
Diluted EPS (Rs)	79.7	(20.5)	19.5	61.1	107.4
Diluted EPS growth (%)	0.0	(125.7)	(195.2)	213.2	75.8
DPS (Rs)	33.0	10.0	16.5	25.0	38.9
Dividend payout (%)	0.0	(0.5)	0.3	0.3	0.3
Effective tax rate (%)	0.0	0.0	25.7	25.7	25.7
Net interest margins (%)	6.3	5.3	6.2	6.8	7.1
Cost-income ratio (%)	44.4	62.6	64.3	54.8	47.6
PAT/PPOP (%)	352.2	(90.7)	64.7	57.6	58.8
Shares outstanding (mn)	238.7	224.7	224.7	224.7	224.7

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
GNPL - Stage 3	20,550	14,300	20,181	30,207	44,329
NNPL - Stage 3	10,380	4,960	7,000	11,082	17,149
GNPL ratio - Stage 3 (%)	3.2	2.1	2.5	3.0	3.5
NNPL ratio - Stage 3 (%)	1.7	0.8	0.9	1.2	1.4
ECL coverage - Stage 3 (%)	49.5	65.3	65.3	63.3	61.3
ECL coverage - 1 & 2 (%)	4.9	3.9	3.9	3.8	3.7
Gross slippage - Stage 3	0	0	0	0	0
Gross slippage ratio (%)	0.0	0.0	0.0	0.0	0.0
Write-off ratio (%)	0.0	0.0	0.0	0.0	0.0
Total credit costs (%)	8.2	6.1	1.6	1.6	1.6
NNPA to networth (%)	3.3	1.9	2.6	3.9	5.6
Capital adequacy					
Total CAR (%)	43.6	35.5	32.4	28.5	25.1
Tier-1 (%)	42.4	34.2	31.1	27.3	23.8
Miscellaneous					
Total income growth (%)	38.2	(2.5)	8.0	34.0	31.5
Opex growth (%)	84.1	37.4	10.9	14.2	14.3
PPOP margin (%)	4.4	2.8	2.6	3.6	4.4
Credit costs-to-PPOP (%)	187.1	219.5	62.8	45.5	36.0
Loan-to-Assets (%)	75.1	79.8	82.3	85.9	87.9
Yield on loans (%)	12.1	11.0	12.0	12.5	12.7
Cost of funds (%)	8.0	8.5	8.6	8.4	8.3
Spread (%)	4.1	2.5	3.4	4.1	4.4

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	477	449	449	449	449
Reserves & surplus	310,113	265,121	273,788	286,897	307,289
Net worth	310,590	265,570	274,238	287,346	307,738
Borrowings	495,828	534,020	653,849	820,622	1,051,229
Other liabilities & prov.	0	0	0	0	0
Total liabilities & equity	806,418	799,590	928,087	1,107,968	1,358,967
Net loans	600,250	637,900	763,971	951,258	1,194,770
Investments	85,720	42,450	42,450	42,450	42,450
Cash, other balances	74,300	62,470	62,162	51,749	55,927
Interest earning assets	760,270	742,820	868,583	1,045,457	1,293,148
Fixed assets	19,340	27,340	30,074	33,081	36,390
Other assets	19,200	29,430	29,430	29,430	29,430
Total assets	798,810	799,590	928,087	1,107,968	1,358,967
BVPS (Rs)	1,242.7	1,119.8	1,158.4	1,216.8	1,307.5
Adj. BVPS (INR)	1,242.7	1,119.8	1,158.4	1,216.8	1,307.5
Gross loans	639,890	672,190	807,222	1,006,898	1,266,541
Total AUM	639,890	672,190	807,222	1,006,898	1,266,541
On balance sheet	0	0	0	0	0
Off balance sheet	0	0	0	0	0
Disbursements	183,684	285,560	358,846	441,658	530,950
Disbursements growth (%)	527.3	55.5	25.7	23.1	20.2
Loan growth (%)	0.0	6.3	19.8	24.5	25.6
AUM growth (%)	(1.8)	5.0	20.1	24.7	25.8
Borrowings growth (%)	(5.1)	9.4	22.4	25.5	28.1
Book value growth (%)	0.0	(9.9)	3.4	5.0	7.5

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	14.9	(57.8)	60.7	19.4	11.0
P/B (x)	1.0	1.1	1.0	1.0	0.9
P/ABV (x)	1.0	1.1	1.0	1.0	0.9
P/PPOP (x)	4.2	6.4	6.2	3.6	2.4
Dividend yield (%)	2.8	0.8	1.4	2.1	3.3
DuPont-RoE split (%)					
NII/avg AUM	5.9	4.5	5.2	5.7	5.9
Other income	2.0	3.0	2.0	2.3	2.5
Securitization income	0.0	0.0	0.0	0.0	0.0
Opex	2.1	2.6	2.4	2.3	2.0
Employee expense	1.4	2.0	2.2	2.1	1.9
PPOP	4.4	2.8	2.6	3.6	4.4
Provisions	8.2	6.1	1.6	1.6	1.6
Tax expense	0.0	0.0	25.7	25.7	25.7
RoAUM (%)	15.4	(2.6)	1.7	2.1	2.6
Leverage ratio (x)	2.6	2.7	3.1	3.7	4.3
RoE (%)	7.6	(7.0)	5.3	7.6	11.1

Quarterly data					
Rs mn, Y/E Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
NII	7,394	8,281	7,338	7,324	7,754
NIM(%)	6.6	6.6	6.4	5.4	5.9
PPOP	4,125	3,905	2,747	2,373	3,166
PAT	482	(23,776)	1,371	1,815	1,630
EPS (Rs)	2.02	(105.84)	6.10	8.05	7.24

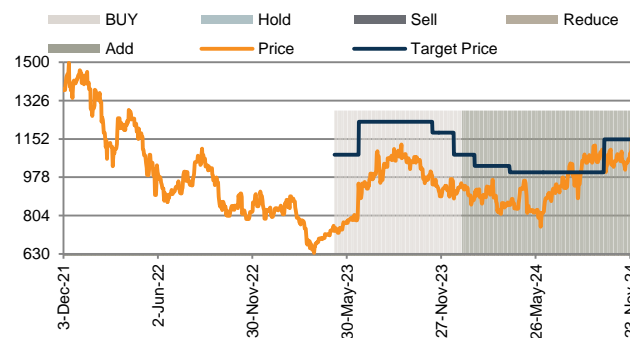
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
24-Oct-24	1,052	1,150	Add	Avinash Singh
04-Oct-24	1,032	1,150	Add	Avinash Singh
02-Sep-24	1,058	1,000	Add	Avinash Singh
20-Aug-24	1,005	1,000	Add	Avinash Singh
16-Aug-24	947	1,000	Add	Avinash Singh
04-Jul-24	946	1,000	Add	Avinash Singh
05-Jun-24	787	1,000	Add	Avinash Singh
09-May-24	816	1,000	Add	Avinash Singh
06-Apr-24	852	1,000	Add	Avinash Singh
30-Jan-24	894	1,030	Add	Avinash Singh
05-Jan-24	940	1,080	Add	Avinash Singh
21-Dec-23	882	1,080	Buy	Avinash Singh
30-Nov-23	926	1,180	Buy	Avinash Singh
22-Nov-23	915	1,180	Buy	Avinash Singh
10-Nov-23	946	1,180	Buy	Avinash Singh
28-Aug-23	1,107	1,230	Buy	Avinash Singh
30-Jul-23	1,073	1,230	Buy	Avinash Singh
08-Jul-23	927	1,230	Buy	Avinash Singh
22-Jun-23	929	1,230	Buy	Avinash Singh
06-May-23	735	1,080	Buy	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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