JM FINANCIAL

Piramal Enterprises

Phoenix rising; retail-led transformation underway

Retail led credit growth | Diversified high yielding assets to improve margins | Credit costs to moderate

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Piramal Enterprise Ltd (PEL) is a diversified NBFC with a presence across retail, wholesale lending and fund-based platforms. PEL is transforming itself into a retail-led franchise by changing its portfolio mix and running down its wholesale book. Its business model revolves around a) servicing the underserved customers; b) focus on risk management, and c) ability to ensure timely collections. PEL is well-placed to benefit from the benign credit environment and its diversified profile and driven by its transformation towards high yielding assets, we believe PEL should be able to deliver avg core RoA of 0.7% over FY24-FY25E. We initiate coverage with a BUY rating and a target price of INR 1,250 (valuing core PEL at 0.9x FY25E P/BV).

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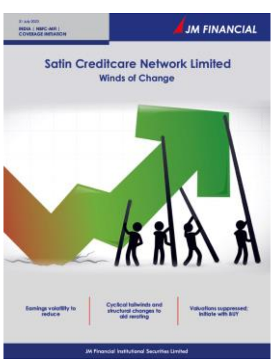

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JM FINANCIAL

Piramal Enterprises

Phoenix rising; retail-led transformation underway

Piramal Enterprise Ltd (PEL) is transforming itself into a retail-led franchise by changing its portfolio mix and running down its wholesale 1.0 book. PEL, like other NBFCs, has weathered multiple storms over the past few years (NBFC-liquidity crisis post IL&FS in 2018, Covid-19). It has since decided to pursue diversified growth in its wholesale 2.0 book (wholesale 2.0 are loans sanctioned post FY22), which is granular, has lower concentration risk and takes on calibrated risks. PEL has comfortable capital adequacy (CAR at 34.3% in 1QFY24), partly also benefiting from the sale of its strategic investment in Shriram Finance Limited. In addition, asset quality has normalised with overall GS3/ NS3 at 2.32%/1.21% in 1QFY24 vs. 3.66%/ 1.67% in 1QFY23. Wholesale segment's asset quality improved sharply with GS3/ NS3 at 2.98%/ 1.29% in 1QFY24 vs. 4.85%/ 2.03% in 1QFY23, with proactive rundown of the wholesale 1.0 book with write-offs and additional provisioning. PEL has also focussed on improving its processes and building its digital infrastructure to have 'High Touch & High Tech' strategy going ahead. The company is well-placed to benefit from the benign credit environment, diversified profile and driven by its transformation towards high yielding assets, we believe PEL should be able to deliver avg core RoA of 0.7% translating into avg RoEs of 4.8% over FY24/25E (high capitalization levels, Tier1 of 30% as of FY23). Strategic changes at key leadership positions, strengthening of the governance standards and meaningful process improvements should ensure continued delivery on growth and profitability. This should enable PEL to witness meaningful valuation upside. We initiate coverage with a BUY rating and a TP of INR 1250 (valuing core PEL business at 0.9x FY25E P/BV). Relapse of asset quality pressures is a key risk to our call.

Retail-led transformation: PEL's transformation into a retail-led NBFC is silently taking shape. PEL has a retail customer base of 3.3+mn customers with 47% belonging to tier 2/3 towns, median age of the borrowers being 39 years. Housing segment remains mainstay of the retail business forming 53% of the retail book (27% of overall). In addition, PEL is scaling up its other products such as secured MSME, used cars and unsecured loans (personal loans, MFI, business loans) which are scalable and RoA-accretive. Retail AUM saw robust growth of 57% YoY (1QFY24). In contrast, the wholesale book shrank by 31% YoY (1QFY24) where in PEL's wholesale 1.0 contracted by 38% YoY while wholesale 2.0 saw accelerated growth of 3.5x YoY. In its wholesale 2.0 portfolio, PEL anticipates opportunities due to sectoral dynamics, sectoral tailwinds and under-penetration. We expect PEL to witness retail CAGR of 35-40% vs. decline in wholesale book by 21% over FY24-25E, translating into overall CAGR of 10% over FY24-25E.

Asset quality on the mend: PEL's underwriting and collection methods, combining 'High Touch and High Tech', has allowed it to avoid risky sanctions and detect potential risks at an early stage. It has established an independent risk management and governance framework, which plays a pivotal role in implementing a rigorous credit approval process and enhancing the asset quality of the portfolio. PEL's wholesale book is now has undergone a leadership change (bringing in experienced management) and risk management remains a key priority. We expect PEL to continue with moderation in credit cost going. We build in credit cost of 1.1-1.3% over FY24-25E.

Valuations benefitted by structural improvements: PEL is expected to benefit from a. retail led credit growth, b. diversified high yielding portfolio, c. low credit cost and d. benign credit environment. Strategic changes at key leadership positions, strengthening of the governance standards and meaningful process improvements should ensure continued delivery on growth and profitability. Near-term RoE looks suppressed due to high capital adequacy; we expect avg. core RoE/ROA of 4.8%/ 0.7% over FY24-25E. We value PEL at 0.9x FY25E P/BV and initiate coverage with a BUY rating and TP of INR 1250. PEL's inability to execute growth plans while maintaining asset quality or sharp broad-based deceleration in economic activity are key risks to our call.

Recommendation and Price Target	
Current Reco.	BUY
Current Price Target (12M)	1,250
Upside/(Downside)	23.1%

Key Data – PIEL IN	
Current Market Price	INR1,015
Market cap (bn)	INR242.3/US$2.9
Free Float	50%
Shares in issue (mn)	238.7
Diluted share (mn)	
3-mon avg daily val (mn)	INR2,305.2/US$27.7
52-week range	1,140/630
Sensex/Nifty	65,398/19,543
INR/US$	83.1

Price Performance			
%	1M	6M	12M
Absolute	-4.9	41.7	20.7
Relative*	-4.0	29.2	9.4

*To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Profit	14,129	19,988	99,686	16,362	13,693
Net Profit (YoY) (%)	6,583.3%	41.5%	398.7%	-83.6%	-16.3%
Assets (YoY) (%)	2.9%	29.5%	-16.1%	6.8%	11.1%
ROA (%)	1.9%	2.3%	10.9%	1.9%	1.5%
ROE (%)	4.3%	5.6%	29.4%	5.3%	4.4%
EPS	62.6	83.8	417.7	72.8	61.0
EPS (YoY) (%)	6,567.1%	33.7%	398.7%	-82.6%	-16.3%
P/E (x)	16.2	12.1	2.4	13.9	16.7
BV	1,558	1,544	1,301	1,370	1,425
BV (YoY) (%)	14.7%	-0.9%	-15.7%	5.3%	4.0%
P/BV (x)	0.65	0.66	0.78	0.74	0.71

Source: Company data, JM Financial. Note: Valuations as of 20/Oct/2023

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet & Visible Alpha. You can also access our portal: www.jmflresearch.com

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

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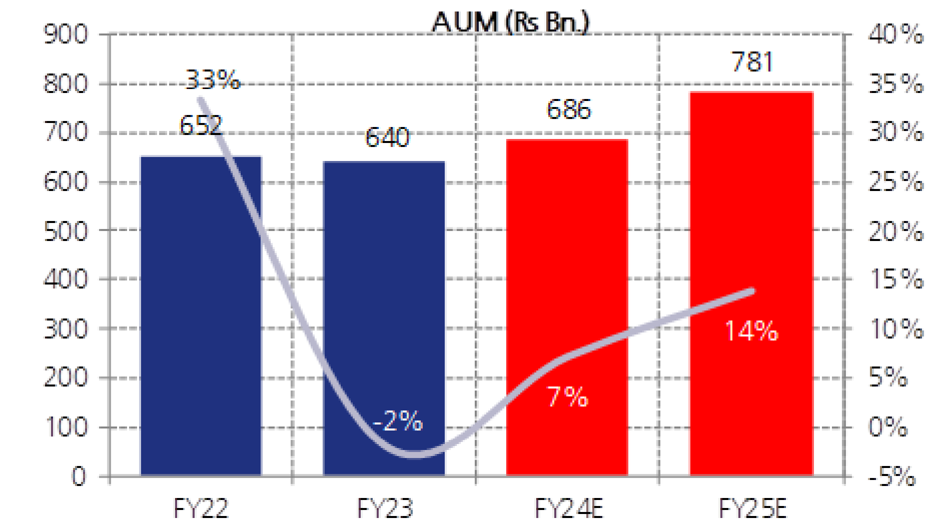
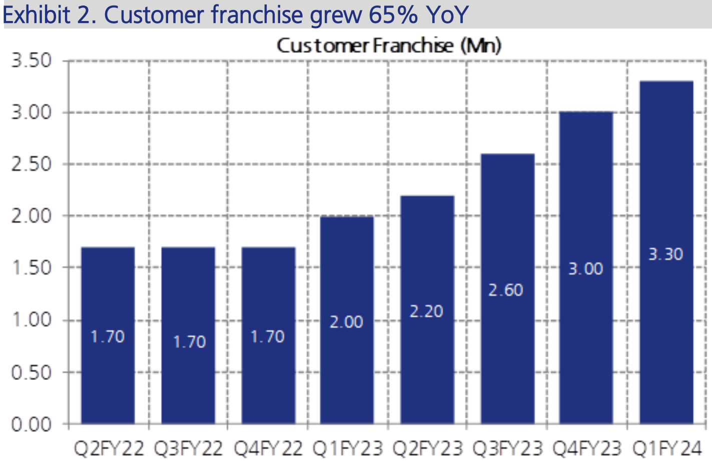
Focus Charts

Exhibit 1. PEL: AUM expected to grow at 9-11% CAGR over FY23-25E



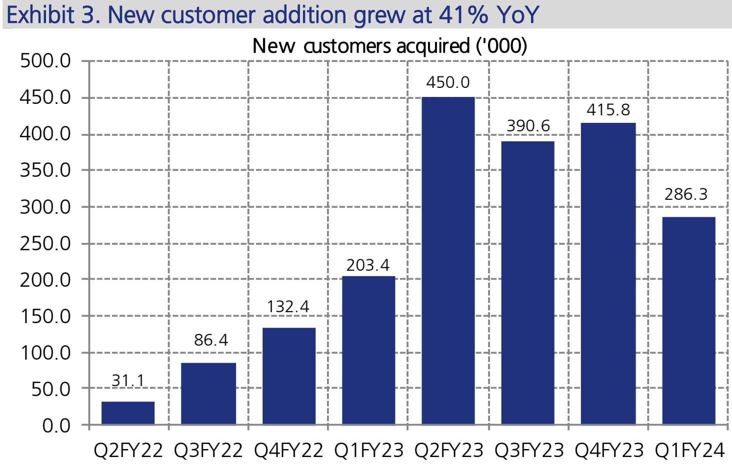
Source: Company, JM Financial

Exhibit 2. Customer franchise grew 65% YoY



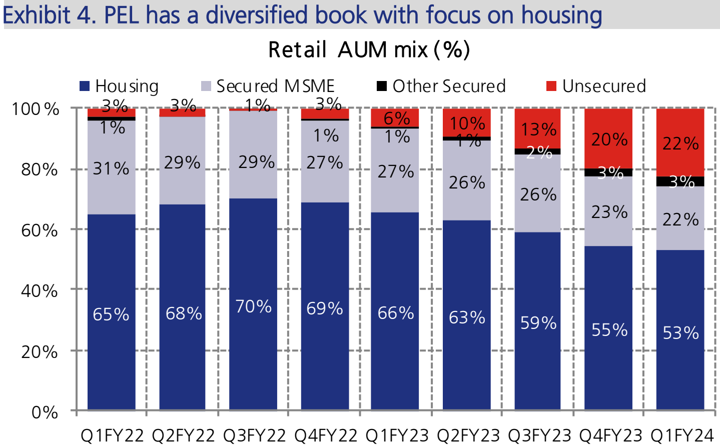
Source: Company, JM Financial

Exhibit 3. New customer addition grew at 41% YoY



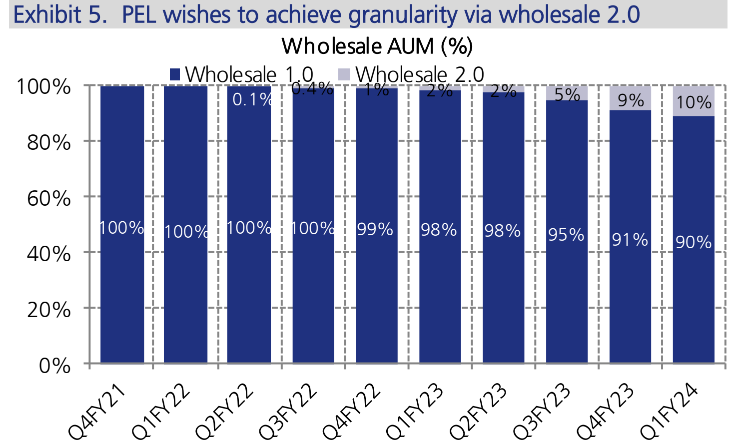
Source: Company, JM Financial

Exhibit 4. PEL has a diversified book with focus on housing



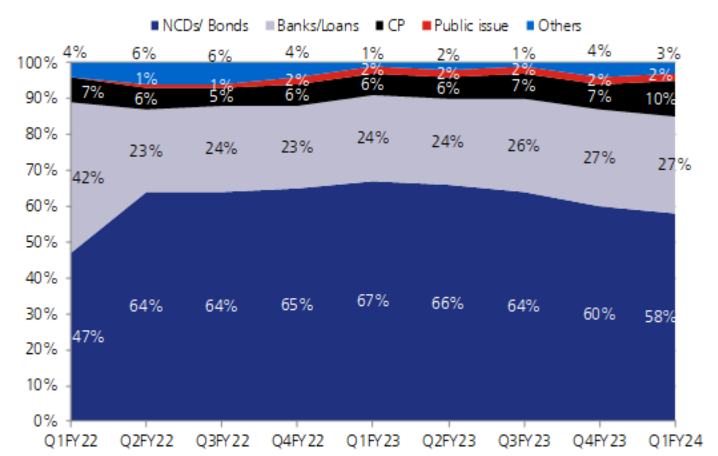
Source: Company, JM Financial

Exhibit 5. PEL wishes to achieve granularity via wholesale 2.0



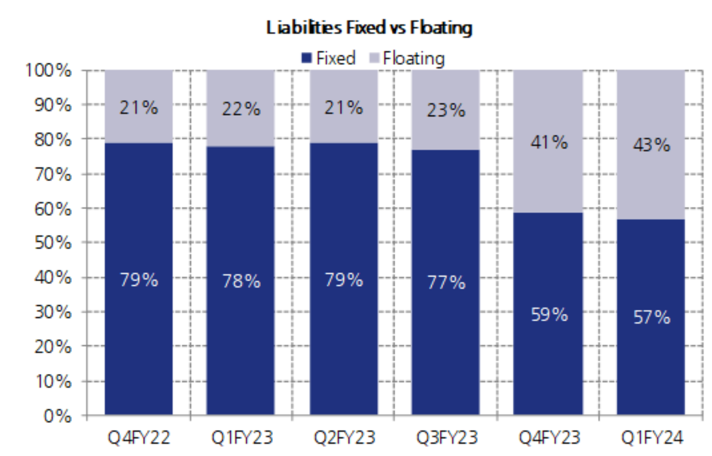
Source: Company, JM Financial

Exhibit 6. PEL: Breakup of borrowings



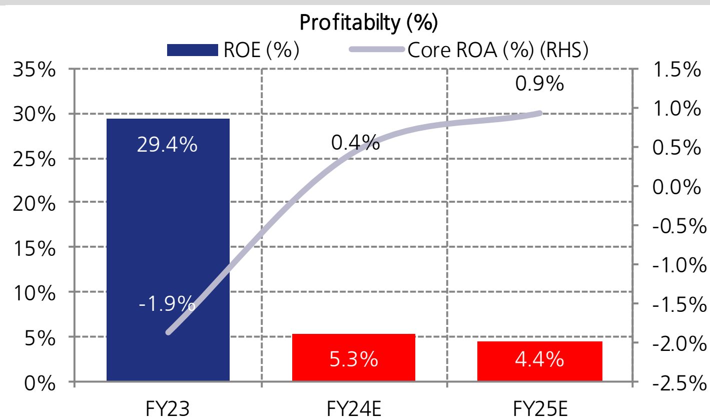
Source: Company, JM Financial

Exhibit 7. PEL: Breakup of borrowings - fixed vs. floating



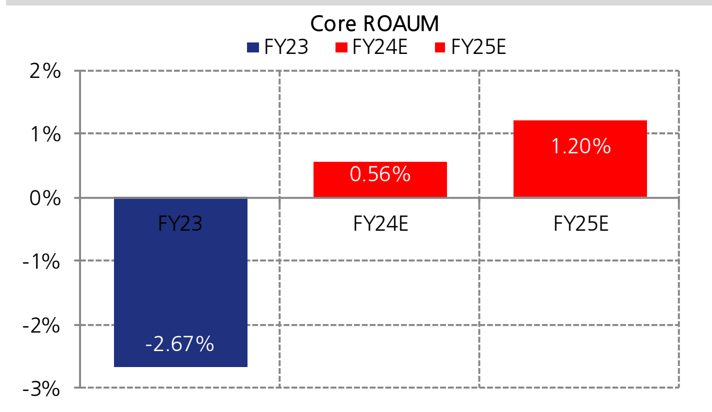
Source: Company, JM Financial

Exhibit 8. PEL: Trend in return metrics



Source: Company, JM Financial

Exhibit 9. PEL: Trend in Core-RoAUM



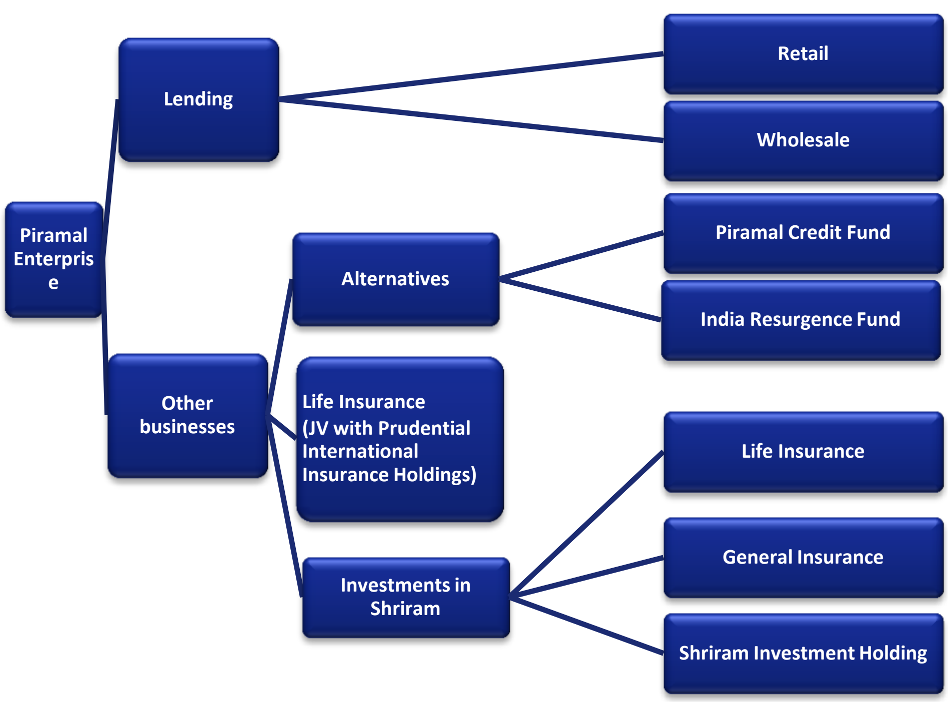
Source: Company, JM Financial

Company Overview

Piramal Enterprises Ltd (PEL) entered into the financial services business by setting up PHL Finance Pvt Ltd, a non-banking finance company (NBFC), in 2011. Piramal evaluated various sectors after which it decided to acquire a real estate equity fund management business for a total consideration of INR 2.3bn (Indiareit Fund Advisors Pvt. Ltd and Indiareit Investment Management Company) after selling its domestic formulation business to Abbott for USD 3.8bn. PEL started its lending in the real estate sector through PHL Finance. In 2014, PEL's private equity business and its lending arm were merged to form Piramal Fund Management Ltd. Post this, PEL entered into a strategic partnership with Shriram Finance, looking at synergies in the long term. In 2017, it announced its plan to enter into retail housing finance with a view to diversify its portfolio and followed that up with an announcement to merge Piramal Finance and Piramal Capital into Piramal Housing Finance with the intent of streamlining the financial services business. This was a step in the direction of de-merging financial services and pharma businesses in future. During this period, Piramal worked on diversifying its loan book and increasing its granularity, with the aim of reducing the overall risk profile. In 2021, Piramal announced that it had acquired DHFL; the acquisition was completed in Sep'21 for a total consideration of INR 342.50bn (including upfront cash of INR 147.00bn and INR 195.5bn through 10-year NCDs at 6.75% per annum). In FY23, PEL completed the demerger of its pharma business, allowing it to simplify structures and streamline processes, enabling value creation for all stakeholders.

PEL is a diversified NBFC with a presence across retail, wholesale lending and fund-based platforms. The company provides end-to-end financing solutions in both wholesale and retail funding opportunities across sectors. Within retail lending, through its multi-product platform, PEL offers home loans, secured MSME, used car loans and unsecured loans (personal loans, MFI, business loans). Within wholesale lending, the business provides financing to real estate developers, as well as corporate clients in select sectors. Its other businesses include Alternatives, Life Insurance (joint venture with Prudential International Insurance Holdings) and investments in the Shriram Group (stakes in Shriram Life Insurance, Shriram General Insurance and Shriram Investment).

Exhibit 10. PEL: Piramal structure at a glance



Source: Company, JM Financial

Exhibit 11. PEL: Shareholding as of Sep'23 (adjusted for buyback)

Category of Shareholder	No. of shareholders	Total no. of shares	Shareholding (%)
Promoter and Promoter Group	17	10,37,80,693	46.2%
Non-Promoter - Non Public	2	11,24,051	0.5%
Public	2,96,206	11,97,58,956	53.3%
Institutions	292	7,12,43,394	31.7%
Non-Institutions	2,95,914	4,85,15,562	21.6%
Total	**2,96,225**	**22,46,63,700**	**100%**

Source: Company, JM Financial

Exhibit 12. Piramal Enterprises: Key events

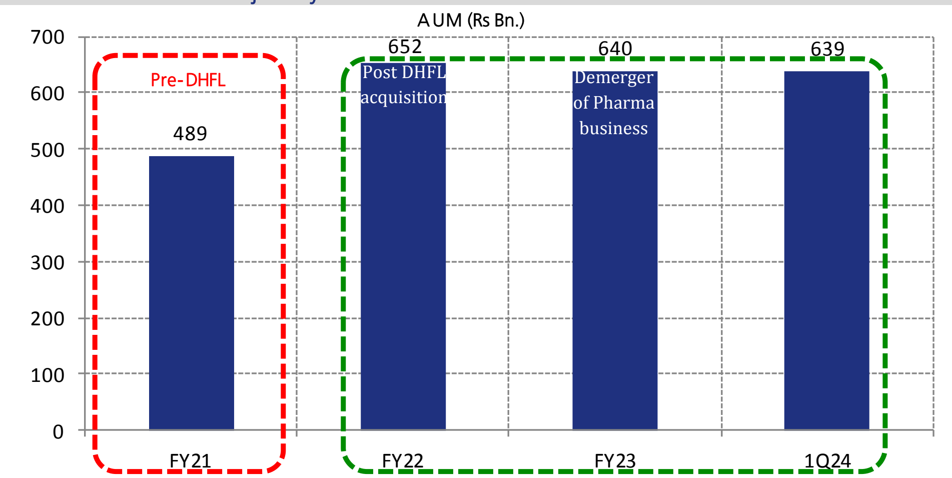
Year	Particulars
2011	Piramal Healthcare Limited (PHL) plans to venture into Financial Services business post selling its domestic formulation pharma business at USD 3.8bn
	Board approved acquisition of Indiareit Fund Advisors Pvt. Ltd. and Indiareit Investment Management Company for INR 2.3 billion.
2012	Commenced lending to real estate sector through NBFC - PHL Finance Pvt. Ltd.
	Acquired 11% stake in Vodafone India for INR 58.64bn
2013	Change in name from Piramal Healthcare Limited (PHL) to Piramal Enterprise Limited (PEL)
	PEL started lending to Education Sector
2014	Combined real estate private equity funds management business allied sector focused NBFC into Piramal Fund Management (PFM)
	Strategic partnership with Shriram May 13- acquisition of ~10% stake in STFC (Shriram Transport Finance Company) April 14 - 20% stake in SCL (Shriram Capital Limited) June 14 - ~10% stake in SCUF (Shriram City Union Finance)
	Alliance with CPPIB (Canada Pension Plan Investment Board)
2015	Expanded portfolio construction finance
	Ajay Piramal became Chairman of Shriram Capital Limited
	Exited Vodafone investment at INR 89bn
2016	Extended real estate financing to commercial in addition to residential and financing to sectors beyond infrastructure
2017	Announced plan to enter Retail Housing Finance
	Added lease rental discounting to portfolio
	Strategic partnership with Ivanhoe Cambridge, a real estate subsidiary of CDPQ, to provide long term equity capital to blue chip residential developers.
	Launched a distressed asset fund in a joint venture with Bain Capital Credit, the credit arm of Bain Capital
2018	Merging Piramal Finance and Piramal Capital into Piramal Housing Finance which was renamed as Piramal Capital and Housing Finance
2019	Liquidity crunch due to ILFS resulted in corrective action in borrowing mix being shifted to long term and diversifying loan book to reduce overall risk profile
2020	Pandemic and NBFC crisis lead to increasing its granularity of loan book and reducing single borrower exposure
2021	Announcement of DHFL acquisition
2022	DHFL acquisition completed on Sep 21
2023	Demerger of the Pharma business in Q2FY23.

Source: Company, JM Financial

Growth led by retail segment with wholesale 1.0 witnessing a rundown

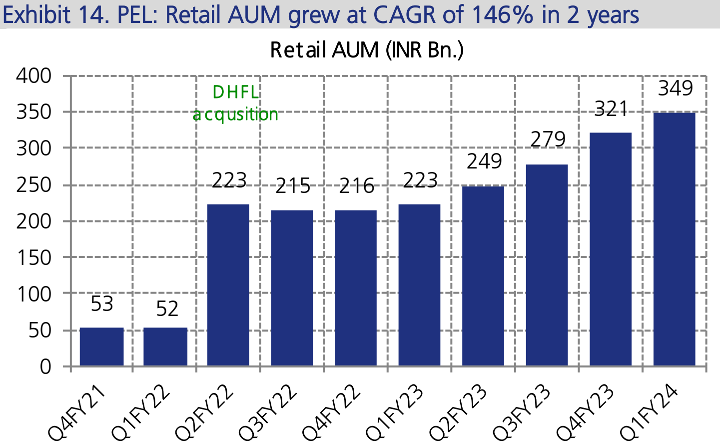
PEL's AUM was INR 639bn as of 1QFY24; it has declined on an overall basis (-1% YoY in 1QFY24) as the company is reducing its wholesale exposure and strategizing on becoming a retail-led NBFC. Retail AUM grew at a robust 57% YoY (1QFY24) and 146% CAGR over FY21-FY23. The company operates in housing, secured MSME, used cars and unsecured loans (Personal loans, MFI, Business loans). In contrast, the wholesale book shrank by 31% YoY (1QFY24). PEL is running down its wholesale 1.0 book as it builds a diversified and a granular wholesale 2.0 book. In 1QFY24, PEL's wholesale 1.0 contracted by 38% YoY while wholesale 2.0 saw accelerated growth of 355% YoY. Growth in wholesale 2.0 has been broad-based across real estate and mid-corporates. PEL has a customer franchise of 3.3mn with a stable customer addition of 0.39mn every quarter on average in the last 1 year.

Exhibit 13. PEL: AUM trajectory



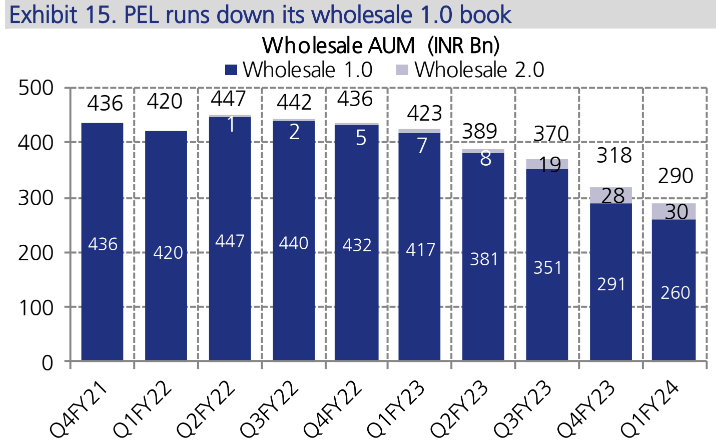
Source: Company, JM Financial

Exhibit 14. PEL: Retail AUM grew at CAGR of 146% in 2 years



Source: Company, JM Financial

Exhibit 15. PEL runs down its wholesale 1.0 book



Source: Company, JM Financial

A diversified retail business model focused on housing loans

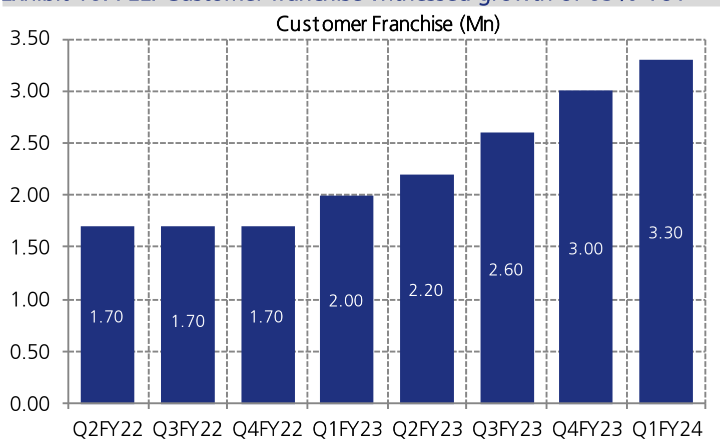
Who is PEL's typical customer?

PEL is a diversified NBFC across products and customer segments, both retail and wholesale, and it aims to serve unserved and underserved segments. Its target segment is the budget customers of Bharat. It plans to achieve this through operational excellence and a 'High Tech & High Touch' strategy.

PEL has a customer base of 3.3+mn customers with 47% belonging to tier 2/3 towns, and median age of the borrowers being 39 years with 45% of them having applicant or co-applicant as female. PEL emphasises on catering to the goals and aspirations of underserved segments of the population who lack formal documentation but have the intent to pay back; most of its customers are self-employed (58% share as of 1QFY24).

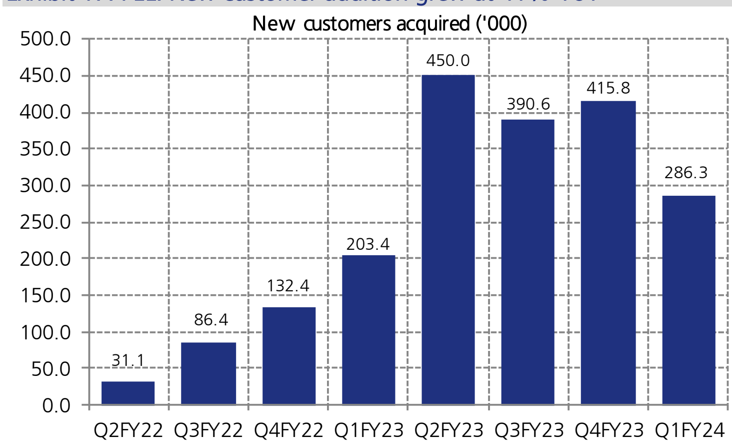
In its wholesale 2.0 portfolio PEL anticipates opportunities due to (a) sectoral dynamics with gap generated in the HFC/ NBFC space on account of bigger players vacating it, (b) sectoral tailwinds with higher affordability, and (c) underpenetrated and low competition. PEL targets customers in outskirts of tier1, tier 2 and 3 cities with ticket size of INR 100mn-500mn; it lends to developers of mid-market and affordable residential housing projects with low leverage, fully secured with a low LTV and all approvals in place.

Exhibit 16. PEL: Customer franchise witnessed growth of 65% YoY



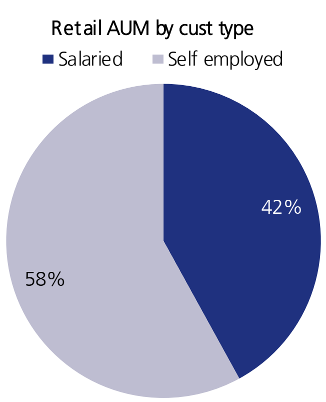
Source: Company, JM Financial

Exhibit 17. PEL: New customer addition grew at 41% YoY



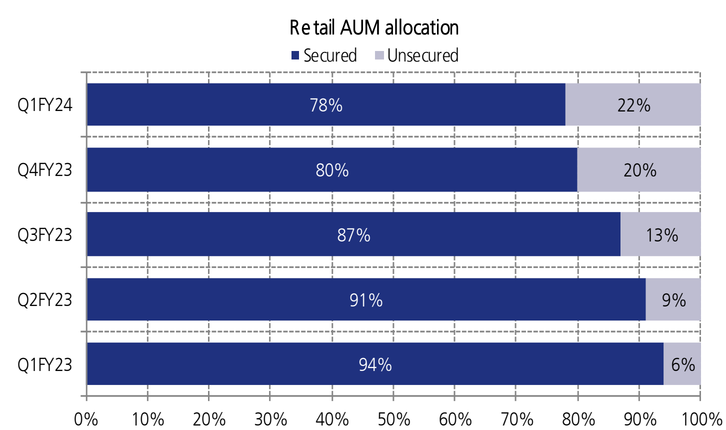
Source: Company, JM Financial

Exhibit 18. PEL: 60% of PEL's retail customers are self-employed



Source: Company, JM Financial

Exhibit 19. PEL: Retail lending has seen increase in unsecured loans



Source: Company, JM Financial

Product portfolio and characteristics – secured, diversified and scalable

PEL has a product portfolio that is mostly secured (~78% of its retail AUM as of 1QFY24). Its retail portfolio stands at INR 349bn, which is presently 55% of the loan book; it aims to scale that up to 70% by FY28. This is supported by strong disbursements in retail at INR 57bn in 1QFY24 and growth of 132% YoY, which is expected to continue in the medium term. We expect retail to grow at 35-40% CAGR over FY23-25, on the back of operational execution, benign credit environment, especially in affordable housing, and unsecured lending assisted by calibrated risk.

PEL's retail book - includes secured products like housing (affordable housing, mass affluent housing, budget housing), secured MSME (secured business loans, LAP, LAP plus) and used car loans (classified under other secured loans), and unsecured loans (22% of retail AUM - includes salaried personal loans, MFI unsecured business loans, merchant BNPL, digital purchase finance and digital personal loans). Secured loans are longer-duration loans and cater to customers with average CIBIL score greater than 740.

Exhibit 20. Product category wise details (as of 1QFY24)

Product categories	Yield on AUM (%)	Disbursement Yield on Loans (%)	LTV	Self-employed share (%)	ATS (Mn)	Average CIBIL score	LTV	Tenor (Yrs)
Housing	11.5%	11.2%	61%	52%	1.8	746	61%	
Secured MSME	12.8%	12.6%	46%	87%	2.0	747	46%	
Other secured	16.0%	16.4%	78%	69%	0.6	739	78%	
Unsecured				42%		755		
Personal Loans	17.9%	18.0%		3%*	0.5			5.0*
Digital loans	19.3%	19.2%		50%*	0.04			2.0*
Unsecured MSME	19.5%	19.9%		100%*	0.6			4.0*
MFI	18.8%	18.8%		100%*	0.03			2.0*
Retail AUM Yield	**13.2%**	**15.0%**						
Wholesale 2.0	13.1%							
Real estate	13.8%				1,650			4.2
Mid- Corporate	12.5%				530			3.1

Source: Company, JM Financial; Note: *Data for disbursals in 1Q24

Housing portfolio is INR 175bn, ~53% of the total retail AUM; the average ticket size is INR 1.8mn with yield at 11.5%. PEL aims to be a housing-focused diversified player supported by growth in disbursements (128% YoY). In housing loans, in-house sourcing accounted for 73% of disbursals as of 1QFY24, and 52% of the customers are self-employed. Continued focus on affordable housing will aid growth; we expect housing to grow at 23-27% CAGR over FY23-25.

Secure MSME/ LAP business loans focus on providing credit facilities against property (can be residential, warehouses, plots, land or offices) as collateral. The end-use of these loans is majorly for business purposes. The three primary offerings under this segment are secured business loans, loan against property (LAP) and LAP plus. These products cater to customer requirements ranging from INR 0.5mn to INR 40mn. It stands at INR 72bn, or 22% of the total retail AUM; average ticket size is INR 2mn with yield at 12-13%. In-house sourcing accounted for 54% of disbursals as of 1QFY24 and 87% of customers in this category is self-employed. PEL's target customers are those who have a steady cashflow generating business but lack formal access to credit. We expect secured MSME to grow at 25-30% CAGR over FY23-25.

Used car loans are loans given to customers looking for financing used cars for personal use. PEL has 500 partnerships pan-India including dealers, agents and aggregators; this business stands at INR 10bn, or 3% of the total retail AUM, with an ATS of INR 0.6mn. In-house sourcing accounted for 62% of disbursals made as of 1QFY24 with 69% of the customers self-employed. PEL plans to scale this business as it contributes to high yields of 15.5-16.5%. We expect used car loans to grow at 75-80% CAGR over FY23-25.

Unsecured loans have grown strongly in recent years with AUM at INR 74bn (22% of total retail AUM) and the growth trend is expected to continue along with continuous monitoring of risk in this book. The sourcing for unsecured loans happens via partnerships/ branches/ pools, which contribute 44%/ 47%/ 9% respectively. Unsecured loans consist of embedded finance, MFI, unsecured MSME and salaried personal loans. We expect unsecured loans to grow at 75-80% CAGR over FY23-25.

a. **Embedded finance** (digital purchase loans and digital personal loans) forms 10% of the retail book at INR 10bn and has an average ticket size of INR 40,000 with tenor ~2 years and yield of 19.3%. It is addressed towards both salaried and self-employed customers, who account for 50% of these loans. PEL partners with various fintech players for digital loans, viz., Navi, PayTM, Lendingkart, Indialends, etc. In FY22, as part of the DHFL acquisition, PEL acquired ~10% equity stake in Early Salary that offers consumer loans catering to lifestyle loans. We expect digital loans to grow at 75-80% CAGR over FY23-25.

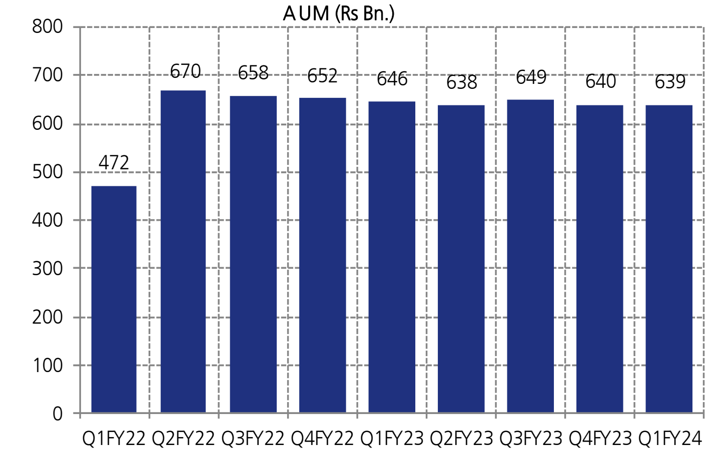
b. **MFI** focuses on catering to bottom-of-the-pyramid customers with monthly income around INR 25,000. MFI, at INR 10bn, forms 3% of the total retail AUM with an average ticket size of INR 30,000 and yield of 18.8% and tenor of ~2 years, addressing to self-employed customers as per disbursal in 1Q24. MFI loans follow a partnership model for onboarding as per guidelines laid down by PEL. This product is typically availed by women entrepreneurs in a JLG (Joint Liability Group) of 4-5 members. These are loans of INR 25,000-35,000 and work on a JLG model wherein each member ensures and stands guarantee for the other member. We expect MFI loans to grow at 85-90% CAGR over FY23-25.

c. **Unsecured MSME** loans, at INR 19bn, forms ~6% of the total retail AUM with an average ticket size of INR 0.64mn and yield of 19.5% with tenor of ~4 years addressing to 100% self-employed customers as per disbursal in 1Q24. We expect unsecured MSME loans to grow at CAGR of 70-75% over FY23-25.

d. **Salaried personal** loans are offered to salaried individuals (97% of this business) with good bureau score. PEL offers loans up to INR 1.2mn and the business, at INR 12bn, forms ~4% of the total retail AUM; average ticket size is INR 0.46mn and yield is ~18% with average tenor of ~5 years. We expect personal loans to grow at 65-70% CAGR over FY23-25.

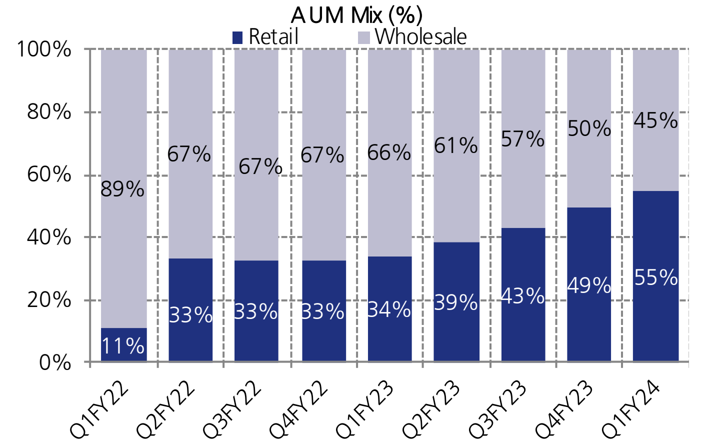
PEL's **Wholesale AUM** stands at INR 290bn - wholesale 1.0 at INR 260bn and wholesale 2.0 at INR 30bn. The company aims to build a dominant and profitable wholesale credit franchise by optimally reducing its old book and regaining dominance by building a granular and diversified real estate and mid-corporate book. PEL remains mindful of concentration risk, which is evident in decline in exposure to the top 10 accounts to INR 95bn in1QFY24 from INR 184bn in FY19; simultaneously, it has also reduced large-single-borrower exposure (NIL in 1QFY24 vs. 23% in FY19). Wholesale 2.0 comprises of real estate (INR 14.2bn) and mid-market corporates (INR 16.1bn). We expect PEL to be mindful in its growth in its wholesale book with continued focus on reduction on wholesale 1.0 aggregating to a decline in portfolio by 25-30% each year between FY24-25.

Exhibit 21. Robust AUM growth in retail with overall at INR 639bn



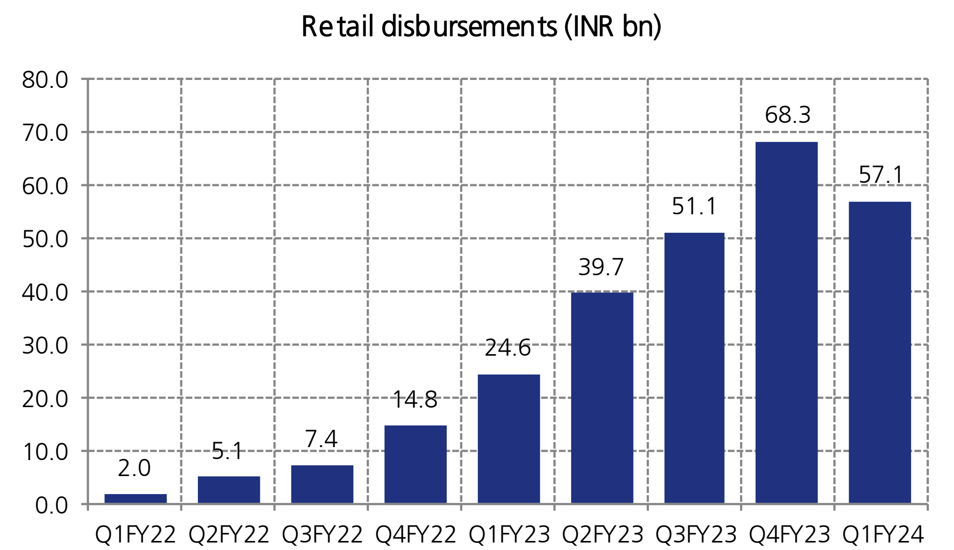
Source: Company, JM Financial

Exhibit 22. PEL has increased its retail share to 55% in 1Q24



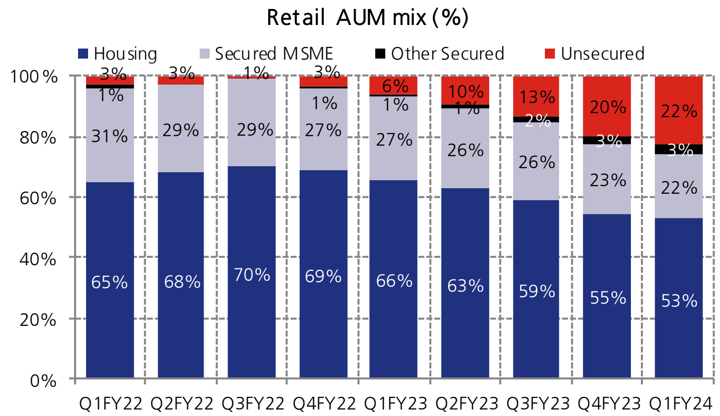
Source: Company, JM Financial

Exhibit 23. Retail disbursements grew by 132% YoY in 1QFY24



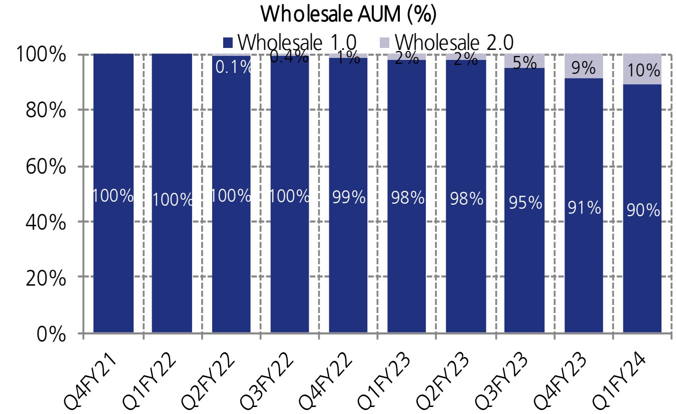
Source: Company, JM Financial

Exhibit 24. PEL has a diversified book with focus on housing



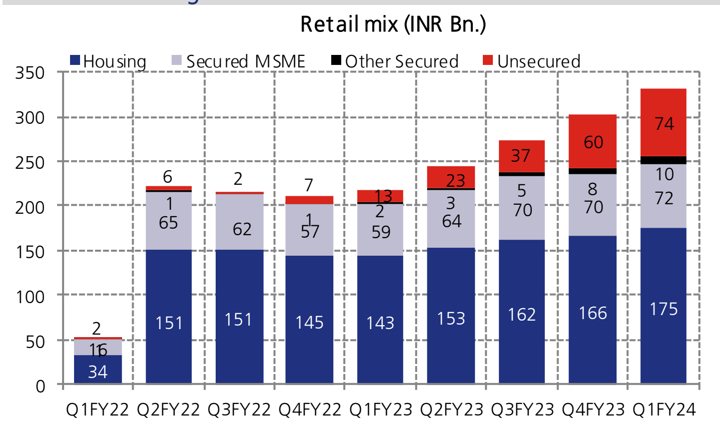
Source: Company, JM Financial

Exhibit 25. PEL wishes to achieve granularity via wholesale 2.0



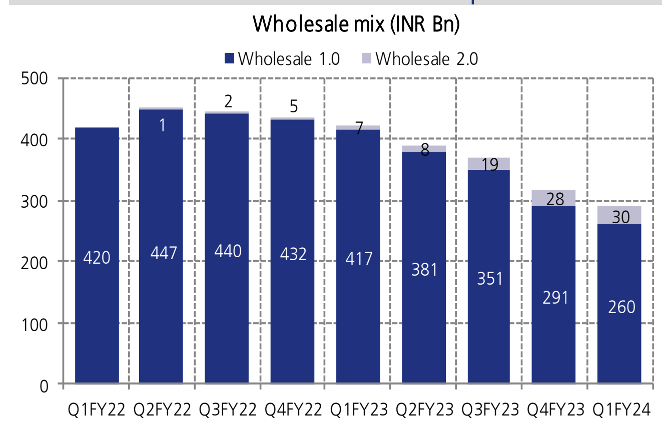
Source: Company, JM Financial

Exhibit 26. Housing forms 53% of total retail AUM



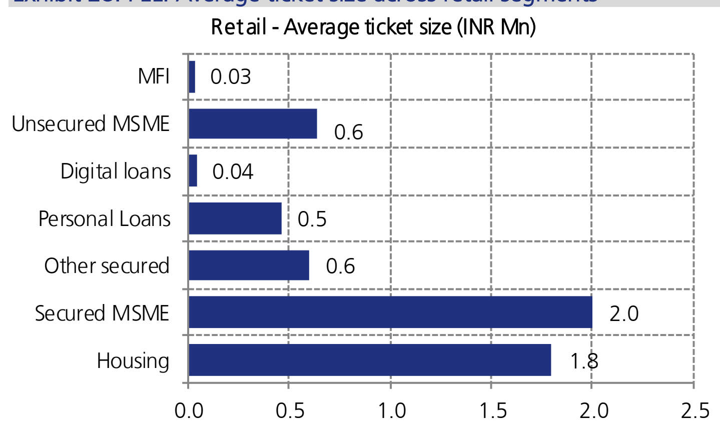
Source: Company, JM Financial

Exhibit 27. PEL runs down its wholesale 1.0 portfolio



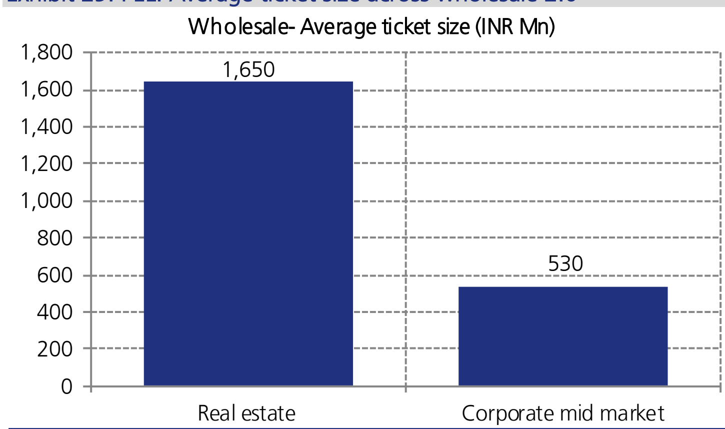
Source: Company, JM Financial

Exhibit 28. PEL: Average ticket size across retail segments



Source: Company, JM Financial

Exhibit 29. PEL: Average ticket size across wholesale 2.0

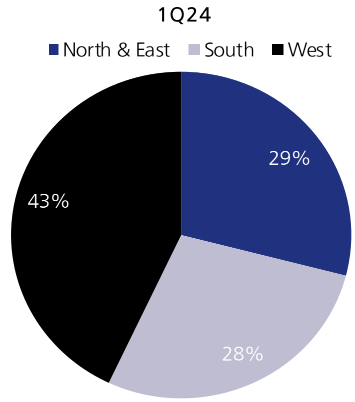


Source: Company, JM Financial

Present primarily on the outskirts of metro and tier 2 towns

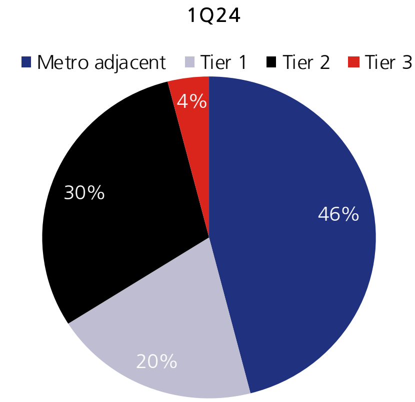
PEL has a strong retail pan-India network with 423 conventional branches in 339 cities and 25 states. The company has more than 75% of its branches in tier 2/3 towns (forming 34% of AUM) and prominent presence in the West (~43%). PEL plans to grow its branch network by adding 100 branches in FY24 to increase its penetration and leverage its physical presence.

Exhibit 30. PEL: Piramal has prominent retail presence in the west



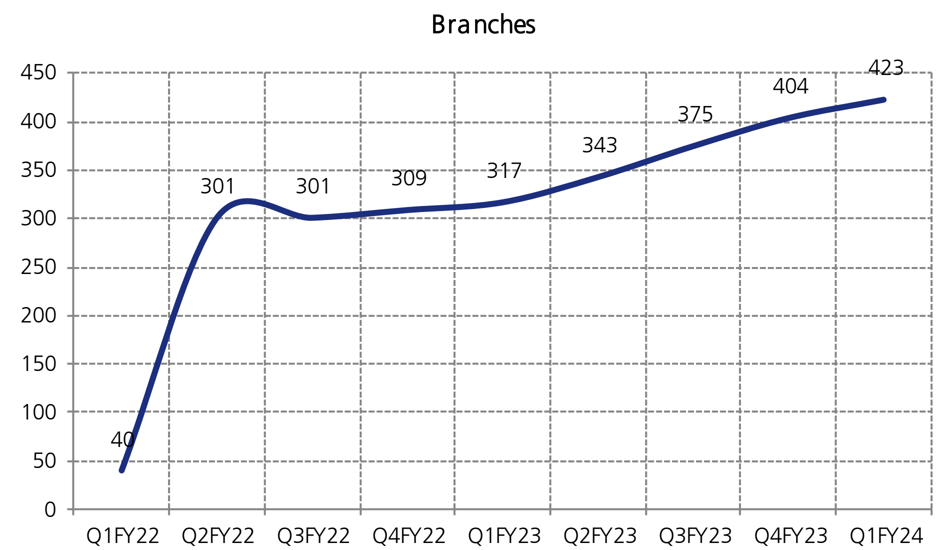
Source: Company, JM Financial

Exhibit 31. PEL: Retail AUM from adjacent metro regions forms 46%



Source: Company, JM Financial, Population considered Tier 1: 4+mn, Tier 2: 1-4mn, Tier 3: <1mn

Exhibit 32. PEL focusses on branch expansion; 106 branches opened in last year



Source: Company, JM Financial

A strong underwriting model for informal customers with robust collection infrastructure

PEL has a 'High Touch + High Tech' strategies which is methodological and through supported by direct connect with customers at all stages of the lifecycle. This helps them identify risk at early stages and help to control the same. The steps of underwriting are a) Sales and sourcing, b) Eligibility checks c) Underwriting and sanction d) Monitoring and e) Collections.

a. **Sales and Sourcing:** PEL has a strong branch network of 423 branches in combination with DSAs and connectors network. Its sourcing mix has 41% contribution attributed to in-house, DSA-27% and digital partnerships-32% as of 1Q24.

b. **Eligibility checks:** They perform customer's eligibility check on the basis of various lending parameters along with a multiple checks by assessing customer's scorecard as per in-house metrics & high tech initiatives with AI/ML model decision which provides higher predictive power.

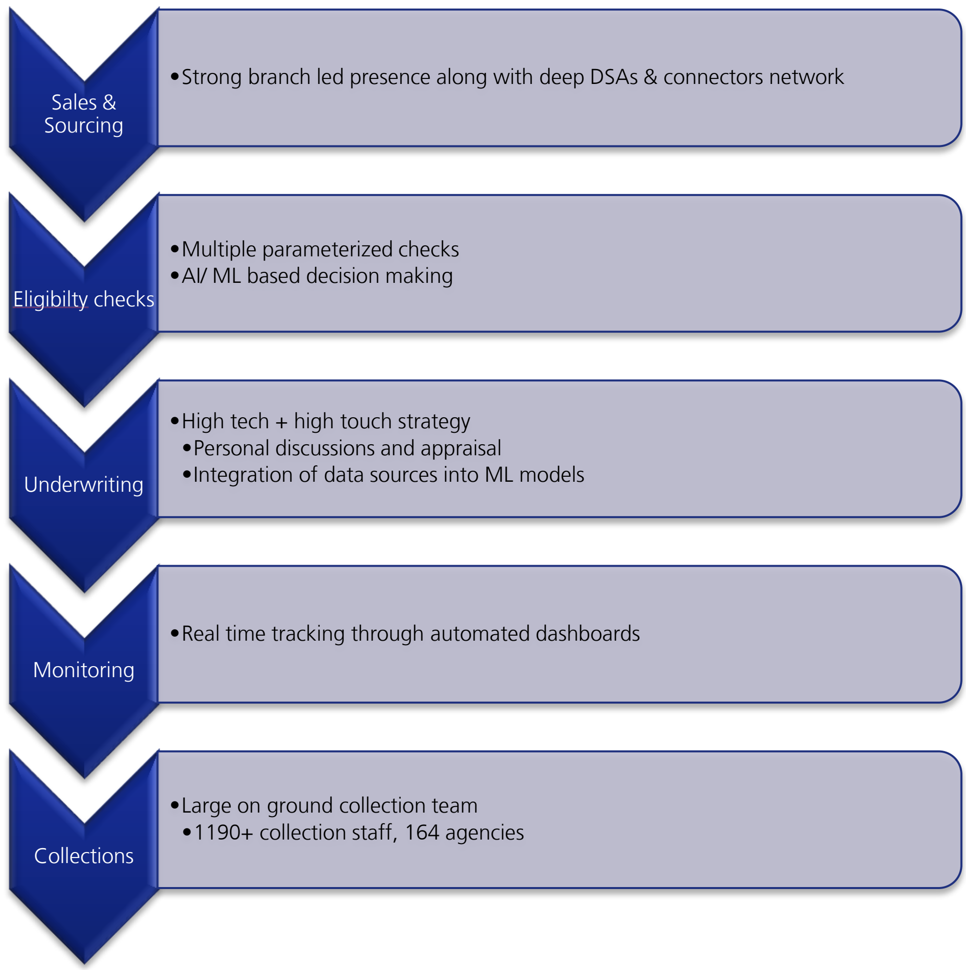
c. **Underwriting and sanction:** PEL has a through underwriting methodology blended with high tech and high touch strategy. Here the relationship manager has a personal discussion and appraises the customer to ascertain his ability to pay back. They have

600+ credit managers at branches and 85+ in central processing unit. They have an on-roll appraisal staff of 220+ who value and appraise the property in site with at least 2 visits for property value INR >5mn. At the same time, ML models churn the diverse integration of data sources to make underwriting observations. A combination of both these assessments are taken into consideration while sanction.

d. **Monitoring:** It performs real time tracking and monitoring of customers through automated dashboards and analytics which help to keep a track of customer statistics ensuring healthy asset quality.

e. **Collection team:** PEL has a large on ground collection team with 1190+ collection staff, 164 agencies who service 6000+ pincodes. This team is focussed towards increasing upgrades and recoveries to aid in enhanced collection management.

Exhibit 33. PEL: Underwriting and loan approval process



Source: Company, JM Financial

Alternatives Business

The alternatives business is a wholly owned subsidiary of PEL, set up in partnership with institutions such as CDPQ, Bain Capital Credit, CP Investment Board and IFC. The platform has two funds, namely, Piramal Performing Credit Fund (PPCF) and India Resurgence Fund (IRF) launched in Feb'20 and Sep'18 respectively. It has overall committed capital of ~USD 929mn with PPCF having ~USD 300mn and IRF having ~USD 629mn.

Life Insurance Business

PEL has a joint venture with Prudential International Insurance Holdings with 50% stake that was the result of its acquisition of DHFL. The company has a customer base of ~3.5mn and a network of ~15,000 agents with gross written premium (GWP) of INR 14,950mn. It has new business premium of ~INR 6,970mn and annualised premium of ~INR 2,240mn as of FY23. Since inception, it has partnered with 100+ MFIs, and 50+ rural and co-operative banks.

Investments in Shriram

PEL invested a total of INR 45,830mn in Shriram Group companies in FY14, of which it sold 8.3% stake in Shriram Finance Limited for INR 48,200mn in 1QFY24. It also owned 20% stake in each of the three holding companies namely Shriram General Insurance Holdings Private Limited, Shriram Life Insurance Holdings Pvt Limited and Shriram Investment Holdings Limited. Pursuant to restructuring of the Shriram Group, PEL now effectively owns 13.33% in Shriram General Insurance Company Limited and 14.91% in Shriram Life Insurance Company Limited, totally amounting to INR 22,780mn.

Strong growth outlook, going ahead

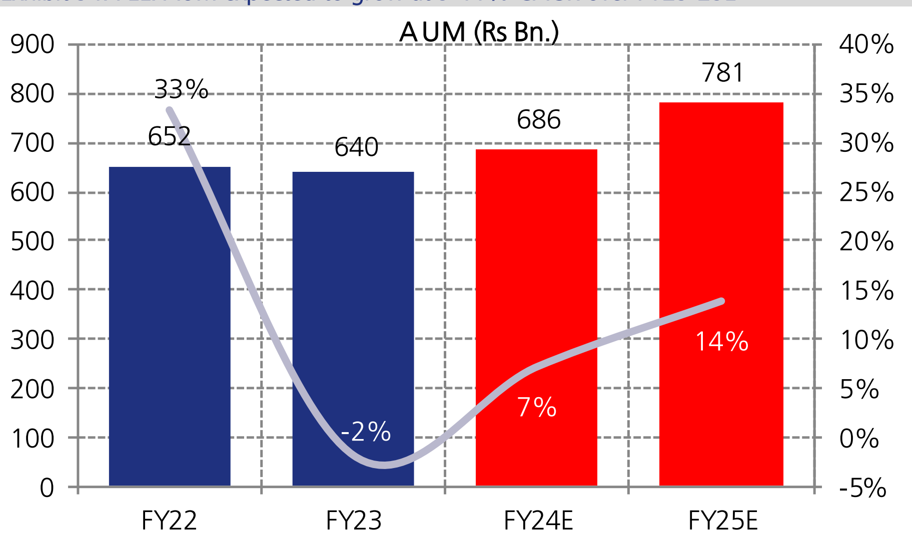
PEL's AUM growth has been led by the retail segment with significant rundown witnessed in its wholesale 1.0 book. At the same time, it has been building its wholesale 2.0 as a diversified and a granular book. The retail to wholesale mix was 55:45 in 1QFY24 and is expected to scale to 70:30 by FY28. This will be achieved by accelerated step-up in retail segments, making the company a multi-product diversified NBFC. PEL has seen a shift towards unsecured lending in the last few years (with unsecured loans at 22% of total retail AUM in 1QFY24); this leads to increase in higher-yielding assets, translating into better NIMs (net interest margins). Growth is expected to be led by high customer acquisition, and expansion of branch network, leading to greater penetration and a benign credit environment.

Mgmt. has guided that I is expected to build retail AUM of INR 800bn-850bn by FY28 with the portfolio mix as follows; home loan contributing 40-45%, secured MSME contributing 20-25%, used cars 5-10% and unsecured mix 25-30%. We believe PEL's retail book will grow at 35-40% CAGR over FY24-25, aggregating INR 609bn by FY25.

Wholesale forms 45% of the total book currently but that share is expected to be brought down to 28-30% by FY28. PEL has grown its new book to 9% of the wholesale portfolio. Mgmt. expects to build an INR 350bn-400bn book across new real estate and corporate mid-market lending by FY28. This will be achieved on the back of pick-up in growth, benign ecosystem for growth and under-penetration in the market. We believe PEL's wholesale book will decline at 25-30% each year over FY24-25, with wholesale 2.0 growing at 32% CAGR over FY24-25, aggregating INR 172bn by FY25.

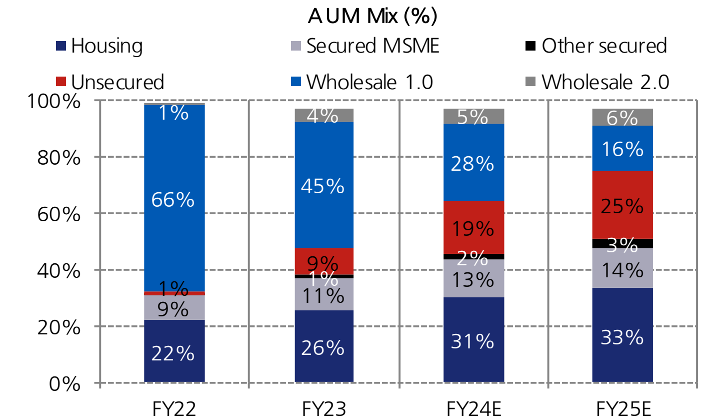
The portfolio mix is expected to be; home loan/ secured MSME contributing/ used cars/ unsecured mix 30-35%/ 13-15%/ 2-4%%/ 24-26% with personal loans/ digital loans/ unsecured MSME/ MFI contributing 2-4%/ 10-15%/ 5-7%/ 3-5% in unsecured loans.

Exhibit 34. PEL: AUM expected to grow at 9-11% CAGR over FY23-25E



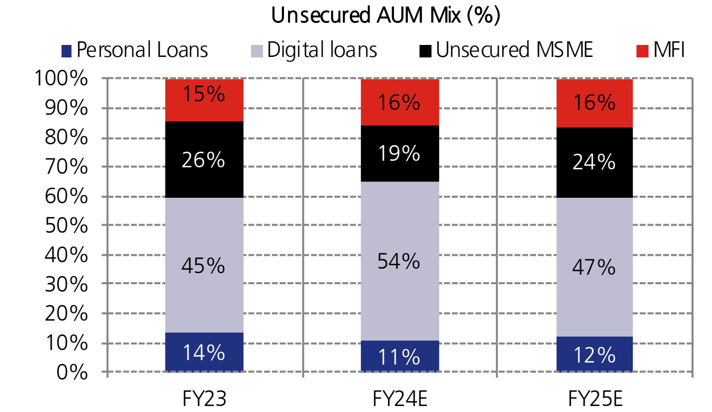
Source: Company, JM Financial

Exhibit 35. PEL: Housing and unsecured expected drive growth



Source: Company, JM Financial

Exhibit 36. PEL: Digital loans form majority share

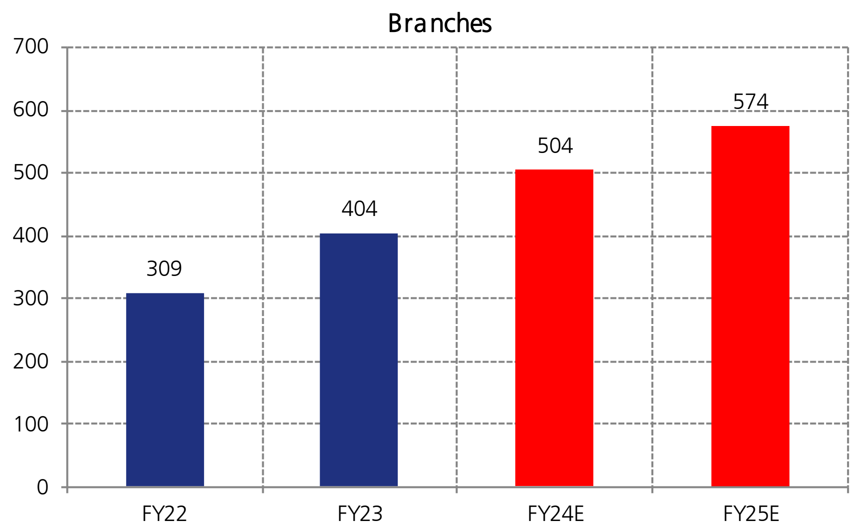


Source: Company, JM Financial

Increase in branch network and penetration:

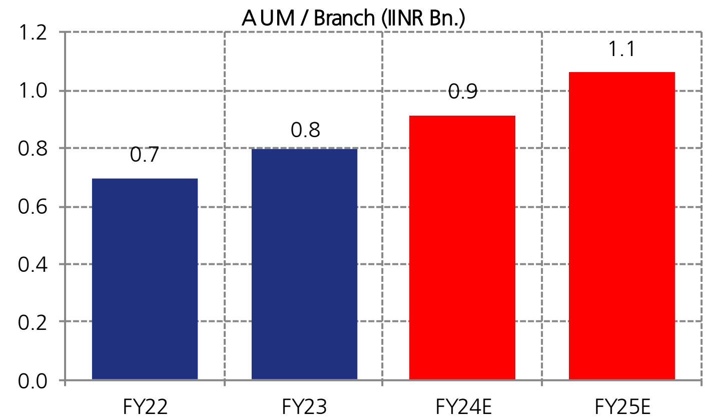
PEL has a wide branch network with a presence in 25 states although it has a prominent presence in the West. The company adopts a strategic approach of leveraging its physical branch network and technology platform as a key driver of growth. With 100% of DHFL branches being activated PEL is expected to witness continued increase in productivity (disbursal/ branch). The management has guided for sustaining the branch addition run-rate at 80-100 branches per year.

Exhibit 37. PEL is expected to add ~170 branches over FY24-25E



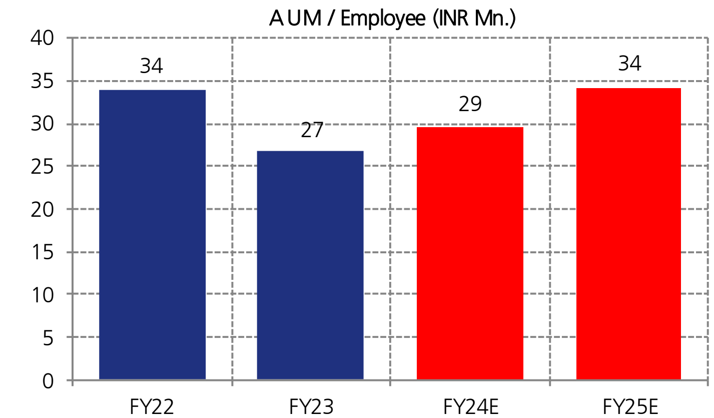
Source: Company, JM Financial

Exhibit 38. PEL: Retail AUM per branch (INR bn)



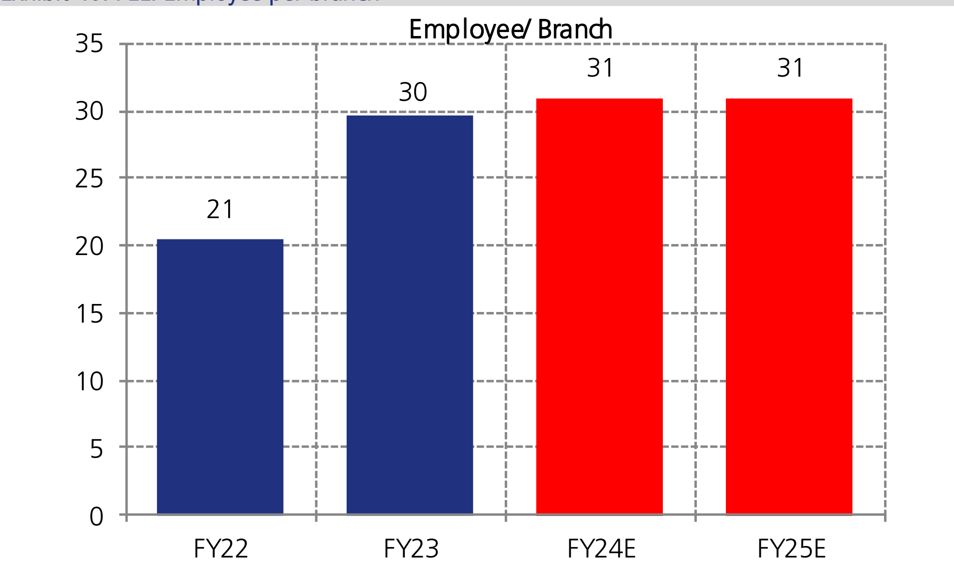
Source: Company, JM Financial

Exhibit 39. PEL: Retail AUM per employee (INR mn)



Source: Company, JM Financial

Exhibit 40. PEL: Employee per branch



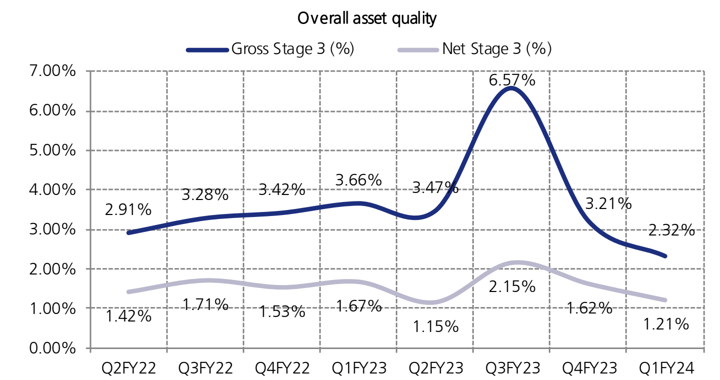
Source: Company, JM Financial

Asset quality on the mend

PEL's underwriting and collection methods, combining 'High Touch and High Tech', has allowed it to avoid risky sanctions and detect potential risks at an early stage. It has established an independent risk management and governance framework, which plays a pivotal role in implementing a rigorous credit approval process and enhancing asset quality of the portfolio. Notably, its gross stage3/ net stage3 (as percentage AUM) figures stood at 2.32% and 1.21%, respectively, in 1QFY24, as compared to 3.66% and 1.67% in 1QFY23, signifying improvement.

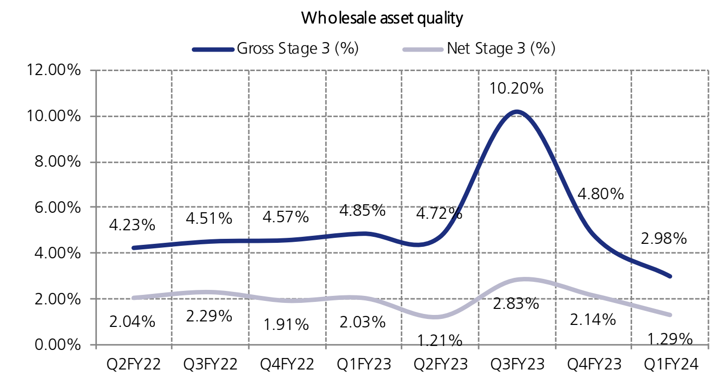
Furthermore, PEL's integration of DHFL's loan portfolio has diversified its loan book, reducing concentration risk and further refining the quality of their assets. This transformation is supported by the incorporation of technology-driven scorecards and AI/ML-based underwriting processes, which actively contribute to maintaining the high standard of its assets. Moreover, PEL has implemented analytical tools that facilitate data visualisation and expedite decision-making, while also incorporating in-app monitoring to enhance collection efficiency.

Exhibit 41. PEL: Overall asset quality



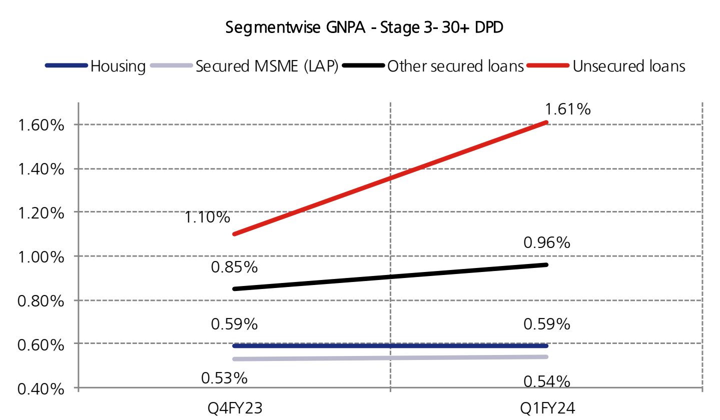
Source: Company, JM Financial

Exhibit 42. PEL: Wholesale asset quality



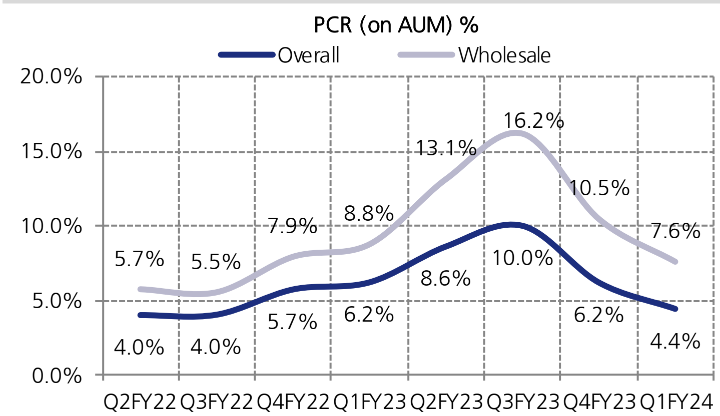
Source: Company, JM Financial

Exhibit 43. PEL: GS3 for retail loans product wise



Source: Company, JM Financial;

Exhibit 44. PEL: Trends in PCR



Source: Company, JM Financial

Its wholesale asset quality improved sharply with GS3/ NS3 at 2.98%/ 1.29% as of 1QFY24 vs. 4.85%/ 2.03% in 1QFY23, due to proactively running down its wholesale 1.0 book, working on recoveries of wholesale 1.0-like sale of assets, sale to ARC and organic recoveries. This transformation has been led by improved governance standards and change in leadership. The current senior management handling the wholesale book is very experienced, has deep domain knowledge, and is expected to transform its wholesale lending into a more granular, calibrated riskiness and diversified product portfolio.

In the previous year, PEL initiated a comprehensive reassessment and detailed risk analysis of the wholesale portfolio in stages 2 and 3, focusing on provisioning and resolution. As a result of this initiative, the company has now appropriately acknowledged and set aside provisions for the wholesale book, achieving coverage (PCR on AUM) of 7.59% of AUM and Stage 3 coverage of 56.7% in 1QFY24.

To enhance the recovery and monetisation of assets, PEL has devised strategic resolutions employing a range of techniques, overseen by a professional team dedicated to monitoring and executing these resolution strategies. The following tools are deployed for resolution of stressed assets:

a. monetisation of underlying assets

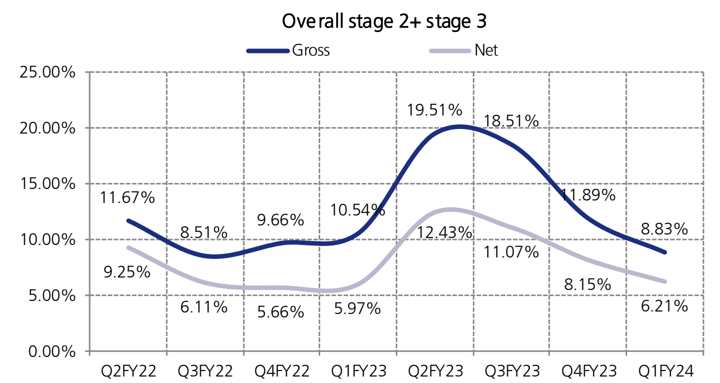
b. one-time settlements

c. enforcement via Insolvency and Bankruptcy Code (IBC)

d. Portfolio sales to ARCs in cash or SRs (security receipt)

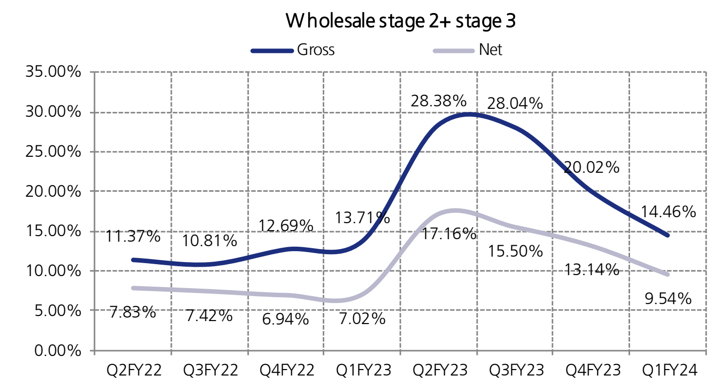
PEL's asset quality has improved with overall gross/net stage2+3 assets at 8.83%/6.21% in 1QFY24 vs. 10.54%/5.97% in 1QFY23. The wholesale book has also seen similar improvement; with aggressive rundown in the book along with adequate provisions gross/ net stage2+3 assets stood at 14.46%/9.54% in 1QFY24 vs. 13.71%/7.02% in 1QFY23.

Exhibit 45. PEL: Overall asset quality



Source: Company, JM Financial

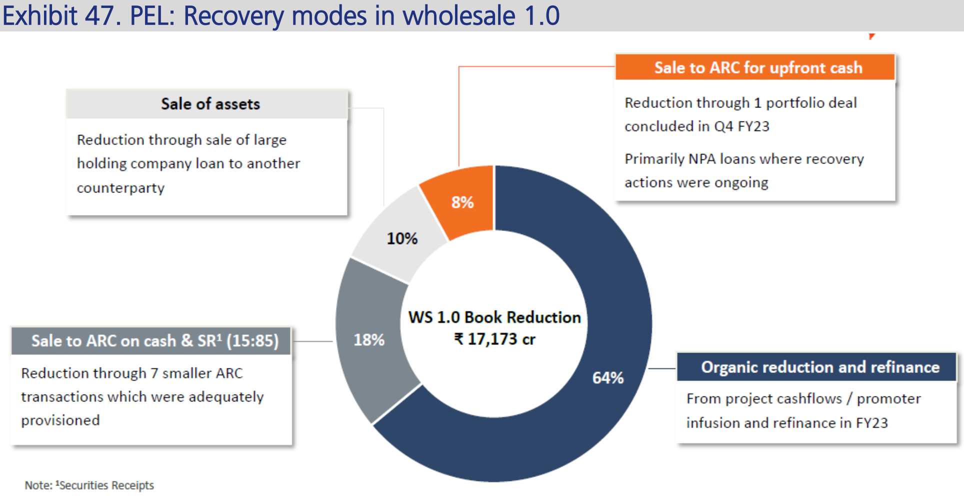
Exhibit 46. PEL: Wholesale asset quality



Source: Company, JM Financial

PEL has worked towards recovery in wholesale 1.0 with the support of a focused collection team. Out of the total reduction of INR 171,730mn in the wholesale book, 64% was via project cashflows or promoter infusion and refinance in FY23. Sale to ARC on cash and security receipts formed 18% through seven smaller ARC transactions, whereas sale of assets accounted for 10% via sale of a large holding company to the counterparty, and sale to ARC for upfront cash accounted for 8% (targets customers where recovery actions are ongoing).

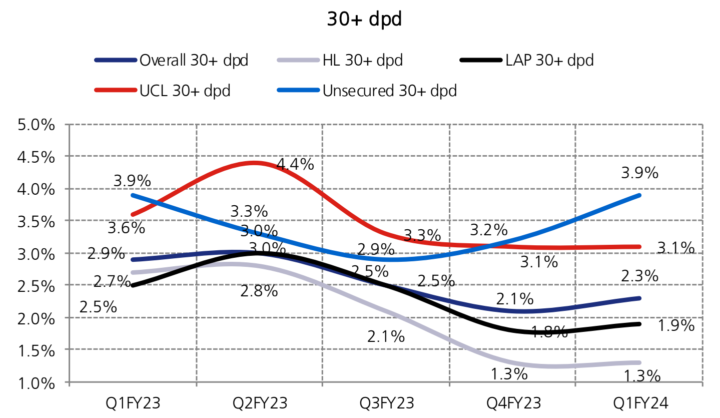
Exhibit 47. PEL: Recovery modes in wholesale 1.0



Source: Company, Investor presentation

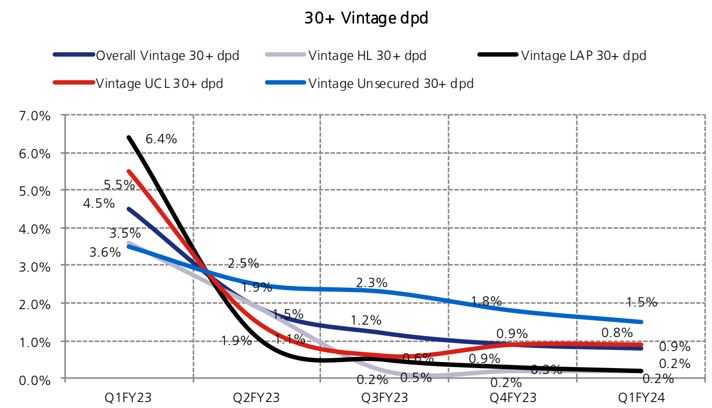
The chart below facilitates a comparison between the 30+ days past due (dpd) rates across different product segments and the 30+ dpd rates for vintage risk at the 3-month mark. It shows that the recent book has demonstrated improved performance post-2QFY23. This improvement may be attributed to proactive corrective measures taken at an early stage, such as the reduction in sanctions through more rigorous credit underwriting for specific products with warning signs.

Exhibit 48. PEL: Trends in 30+ dpd



Source: Company, JM Financial

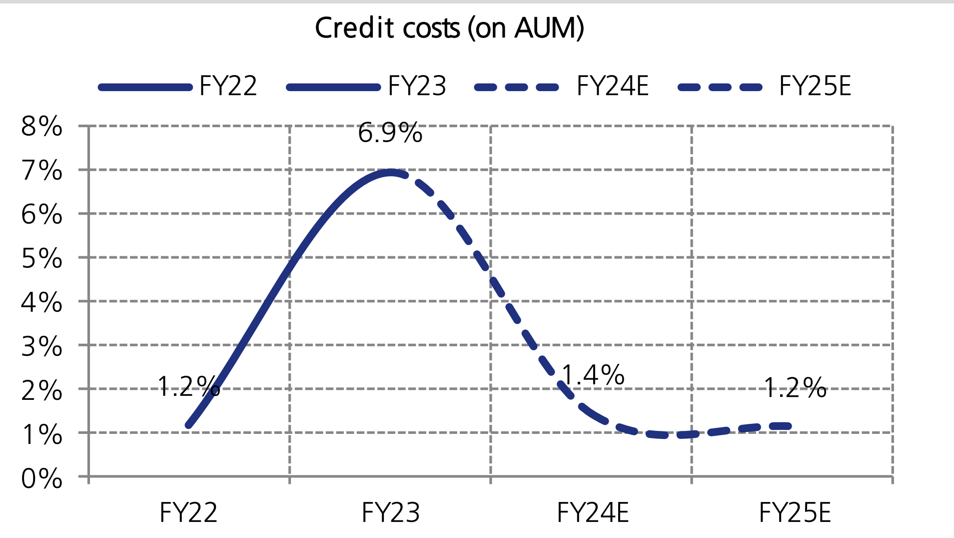
Exhibit 49. PEL: Trends in 30+ vintage dpd



Source: Company, JM Financial, Trend of vintage risk for 30+ at 3 Month-on-Book (MoB) mark

To facilitate efficient interaction between collection officers and customers, PEL employs an application that monitors the collections process. Each relationship officer is assigned a specific group of customers, and their interactions are tracked using predictive behaviour analysis. Customers are engaged through various channels such as messaging, phone calls, and in-person visits. After these interactions, feedback is promptly recorded within the application, streamlining the follow-up process for the collection team. These prompt and continuous efforts are expected to see reduction in credit cost, going ahead.

Exhibit 50. PEL: Trend in credit cost



Source: Company, JM Financial

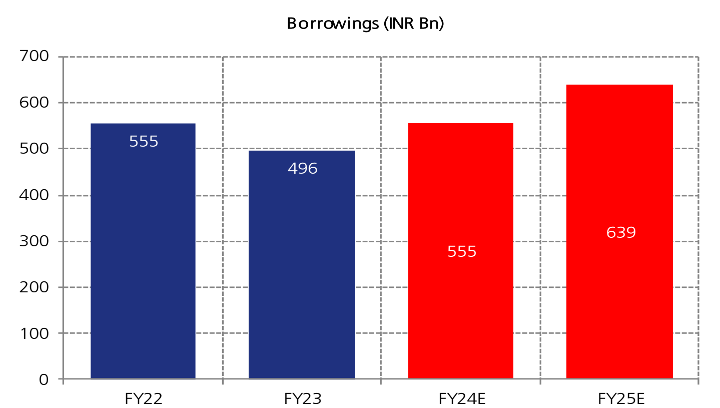
Diversified borrowing profile with strong capital ratios

PEL has a diversified borrowing profile with higher dependence on banks as per type of lender (56% share among lenders). PEL's borrowing mix is diversified across various sources, with contributions as follows: non-convertible debentures (NCDs) account for 58%, followed by banks at 27%, commercial paper at 10%, public issues at 2%, and other sources at 3%. Based on type of instruments, NCD forms majority share which has seen decline over one year period (58% as of Jun'23 vs. 67% as of Jun'22).

The shift in PEL's borrowing mix towards bank borrowings was primarily driven by prevailing interest rate trends influenced by the economic environment. This strategic move allowed it to effectively lower the cost of borrowing. PEL implemented a strategy to decrease its fixed rate liabilities, which was at 78% as of Jun'22, to 57% by Jun'23. This shift resulted in the cost of borrowings declining by 60bps since Mar'22.

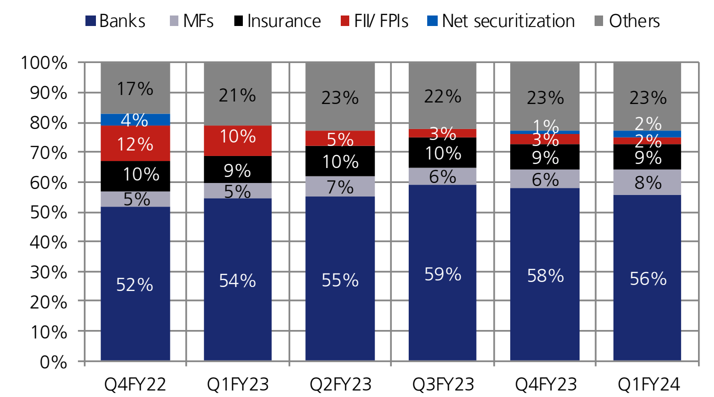
PEL had a comfortable capital adequacy ratio of 34.3% in 1QFY24; it has increased over the last 1 year from 25%, indicating that there is no need to raise funds to meet medium-term loan growth targets. It also has cash and liquid investment of c.12% of the total assets, including profits from the stake sale of 8.34% (amounting to INR 48.2bn) in Shriram Finance.

Exhibit 51. PEL: Trends in borrowing



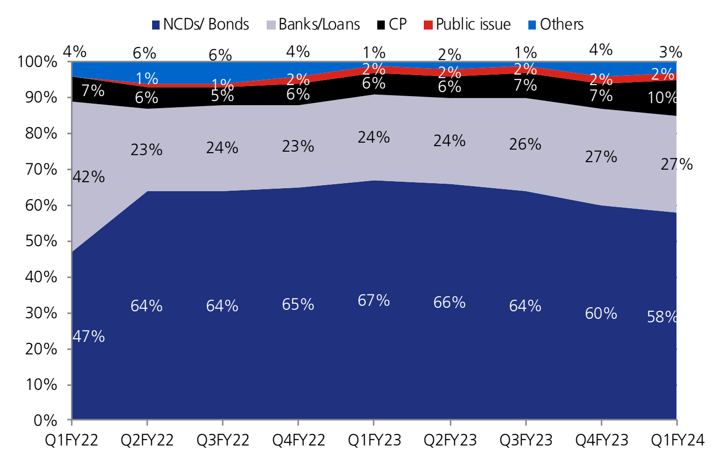
Source: Company, JM Financial

Exhibit 52. Borrowing by type of lenders



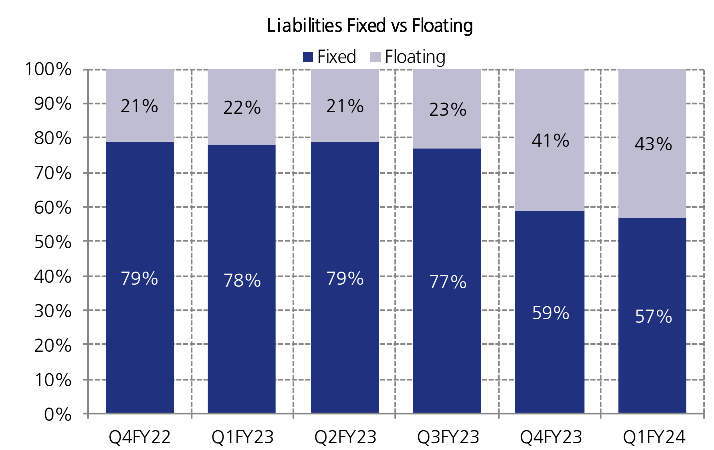
Source: Company, JM Financial

Exhibit 53. PEL: Breakup of borrowings



Source: Company, JM Financial

Exhibit 54. PEL: Breakup of borrowings - fixed vs. floating



Source: Company, JM Financial

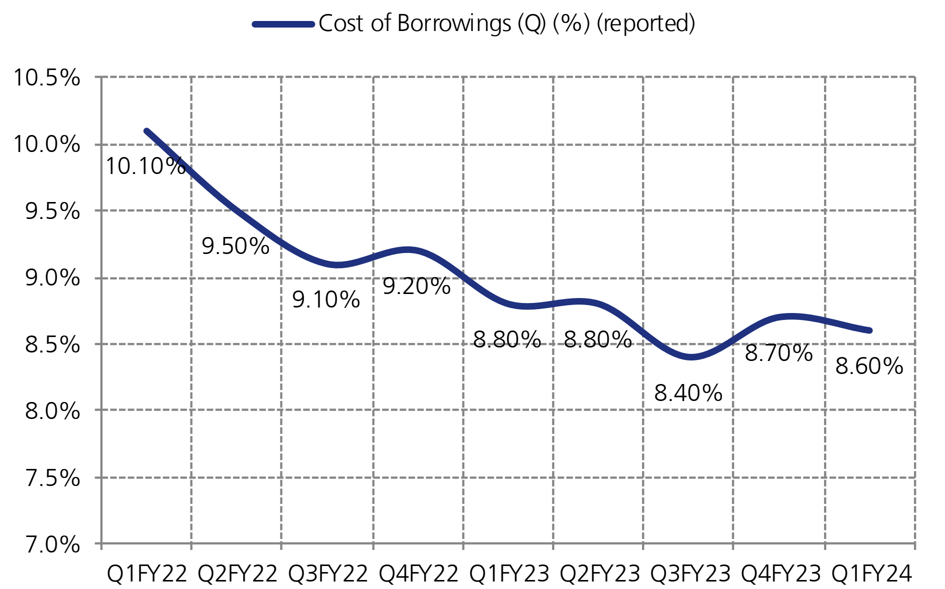
PEL has long-term ratings of ICRA AA (stable) and CARE AA (stable). The stability in rating should help PEL maintain its cost of borrowings. We build in cost of borrowings (calculated) gradually increasing to c.8.7% in the next 2 years from 7.6% in FY23.

Exhibit 55. PEL: Long-term credit ratings from various rating agencies

Rating Agency	Credit Rating	Rating Month
ICRA	ICRA AA (Stable)	Jul'23
CARE	CARE AA (Stable)	Aug'23

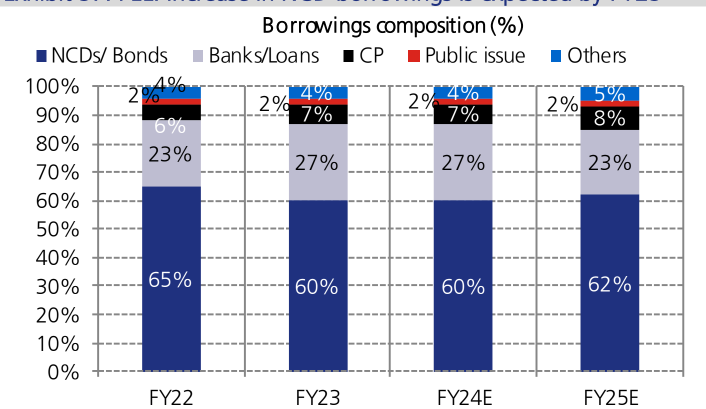
Source: Company, JM Financial

Exhibit 56. PEL: Trend in cost of borrowings (calculated)



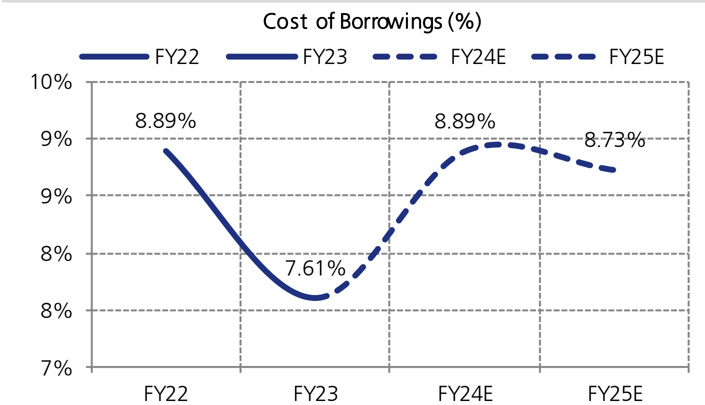
Source: Company, JM Financial

Exhibit 57. PEL: Increase in NCD borrowings is expected by FY25



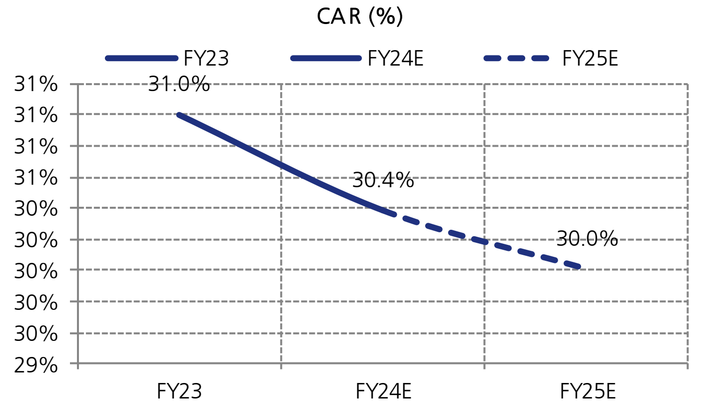
Source: Company, JM Financial

Exhibit 58. PEL: Annual trends in COB



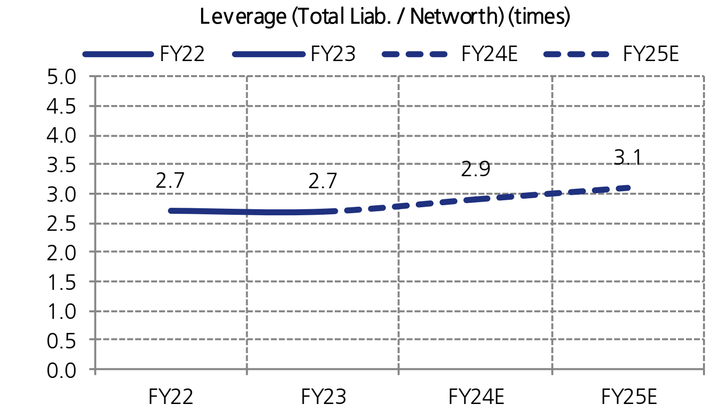
Source: Company, JM Financial

Exhibit 59. PEL: Trends in CRAR



Source: Company, JM Financial

Exhibit 60. PEL: Trends in gearing

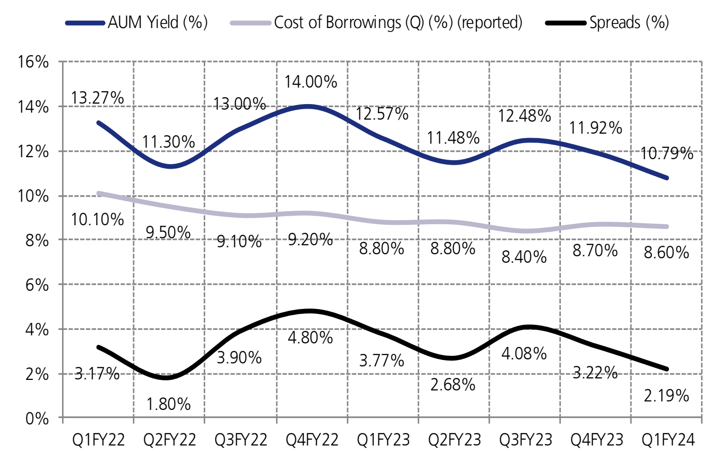


Source: Company, JM Financial

Margin expected to remain strong

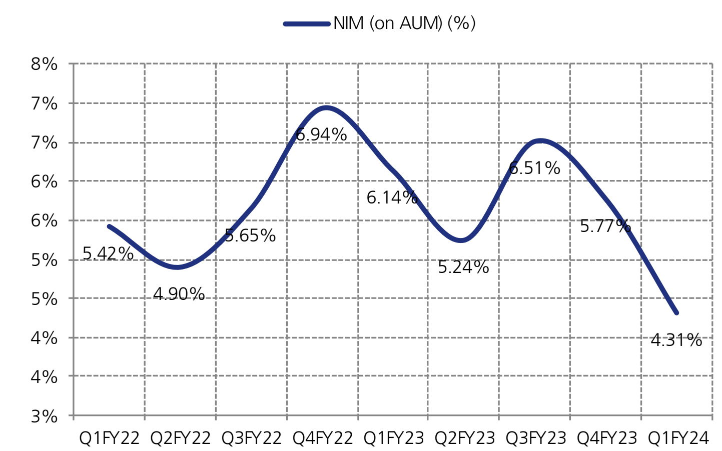
Around 67% of PEL's AUM is at floating rate as against floating rate liabilities of 43% as of 1Q24. PEL has consciously shifted its borrowing to floating rate in the last 1 year to 43% vs. 22% a year ago to take advantage of the changing rate cycle. We expect the cost of borrowing to inch up in the coming year with fall in share of low-cost DHFL borrowings and higher incremental borrowing cost in FY24. However margins will be supported by higher yields with shift towards higher yielding assets, leading to a change in the portfolio mix. PEL is expected to increase portfolio NIMs on average of 5.8% over FY24-25 as against 4.9% in FY23.

Exhibit 61. PEL: Trend in yields, cost of borrowings and spreads



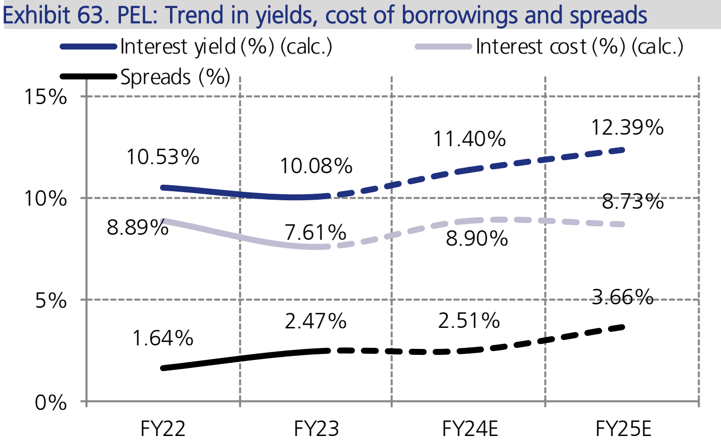
Source: Company, JM Financial

Exhibit 62. PEL: Trend in NIMs (%)



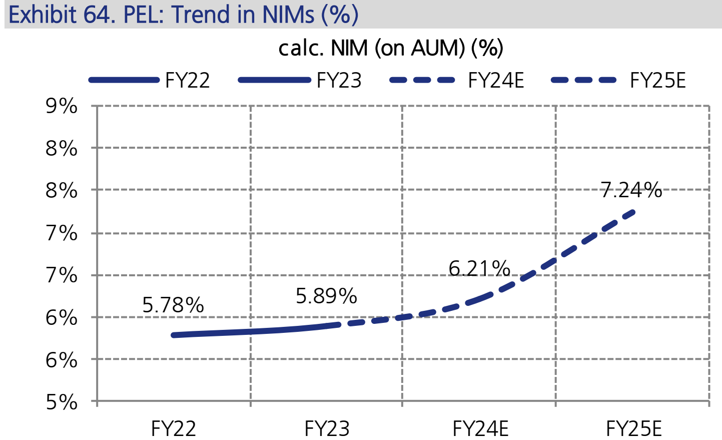
Source: Company, JM Financial; % of AUM

Exhibit 63. PEL: Trend in yields, cost of borrowings and spreads



Source: Company, JM Financial

Exhibit 64. PEL: Trend in NIMs (%)



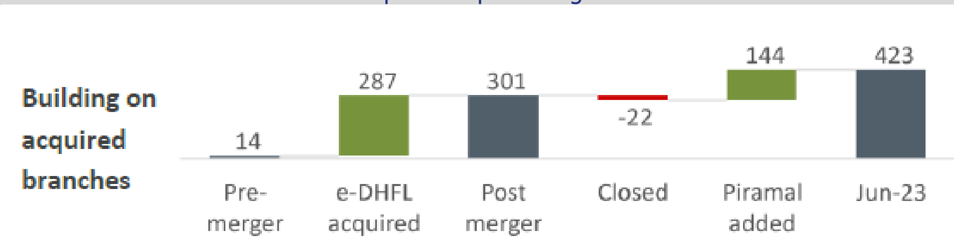
Source: Company, JM Financial;

Opex is sticky, expected to improve gradually

PEL plans to further intensify its branch presence by adding 100 branches in the upcoming year. This expansion aims to enhance its reach, with particular focus on deepening penetration in tier 2 and 3 cities. It has added over 5,600 employees in the last 1 year along with some additions at the senior management level. The number of employees stands at 13,209 with 31 employees/ branch as of 1QFY24. Opex is sticky with branch additions and tech investments in the short term with cost to income at 52% in FY23. We expect to see gradual improvement over the long term.

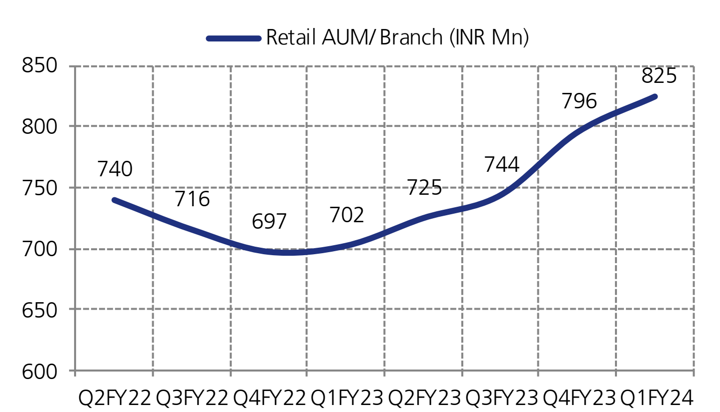
We expect productivity to improve over time with expected increase in AUM/ Branch as 100% of DHFL branches have become active. Meanwhile, surge in quarterly disbursals has improved the productivity of DHFL branches. This will aid increase in overall productivity. With increase in staffing to 31/ branch in 1QFY24 we expect increase in AUM/ Branch to improve overtime with operating leverage kicking in. We expect retail AUM per branch to be range-bound from the current c.INR 0.8bn to c. INR 1.1bn by FY25E on the back of increase in number of employees per branch and branch expansion.

Exhibit 65. Trends in branch addition pre- and post-merger



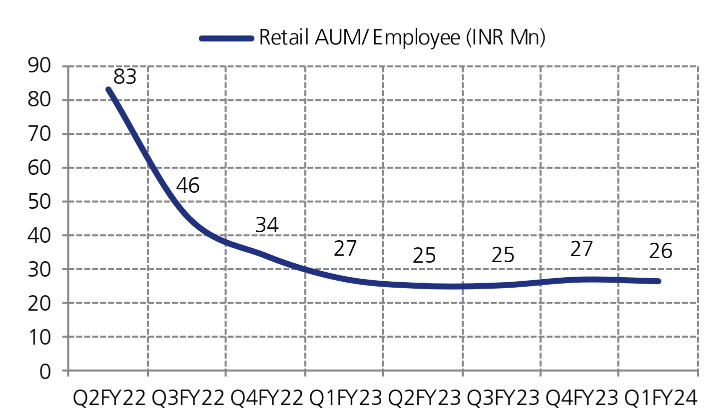
Source: Investor Day Presentation, JM Financial

Exhibit 66. PEL: Retail AUM per branch (INR mn)



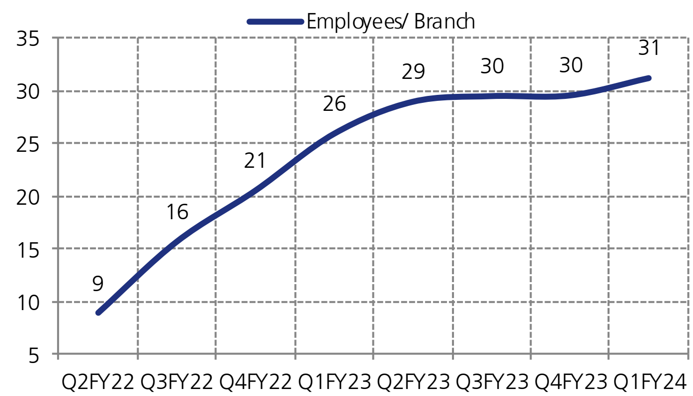
Source: Company, JM Financial

Exhibit 67. PEL: Retail AUM per employee (INR mn)



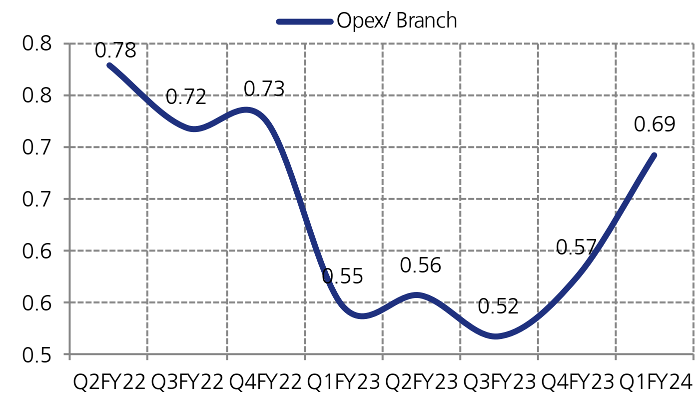
Source: Company, JM Financial

Exhibit 68. PEL: Employees per branch increase in last 1 year



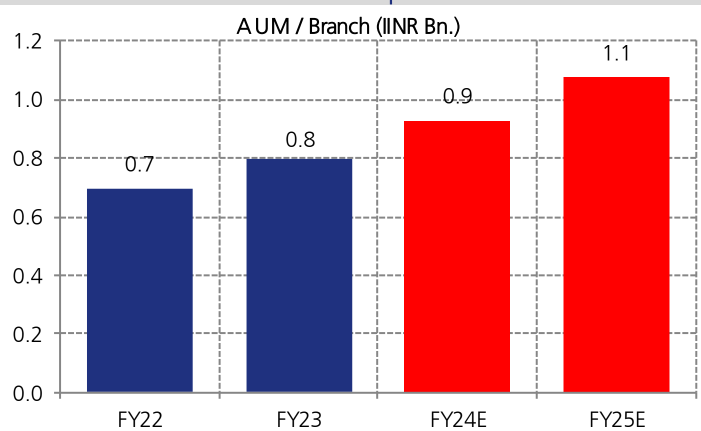
Source: Company, JM Financial

Exhibit 69. PEL: Opex per branch (INR mn)



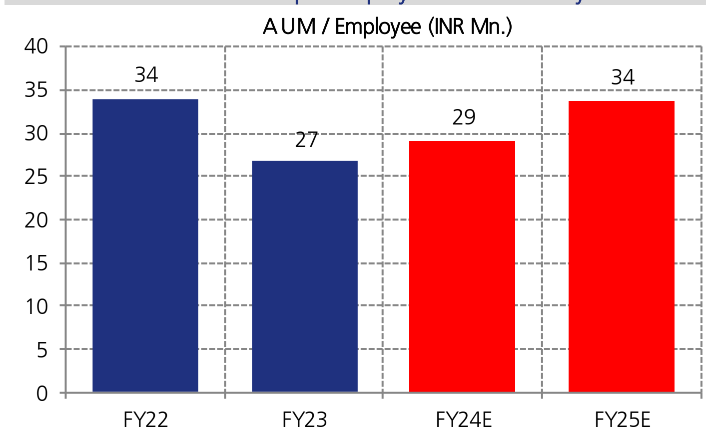
Source: Company, JM Financial

Exhibit 70. PEL: Retail AUM/ Branch expected to increase



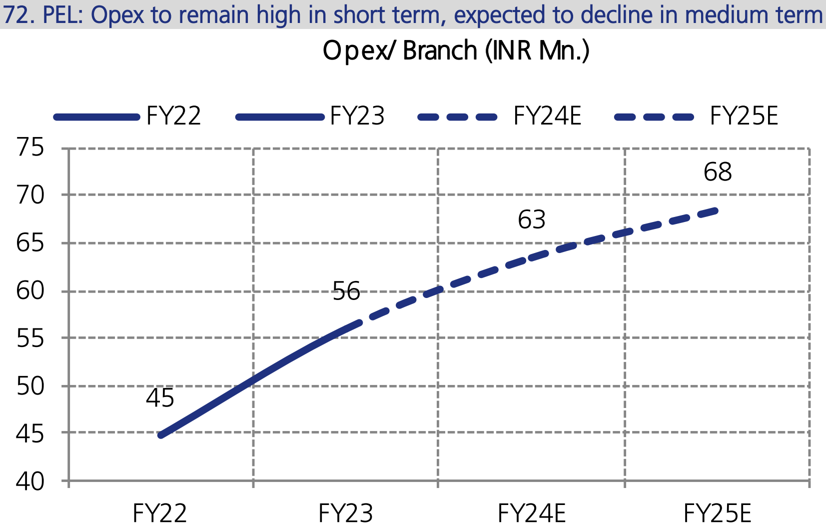
Source: Company, JM Financial

Exhibit 71. PEL: Retail AUM per employee to rise steadily



Source: Company, JM Financial

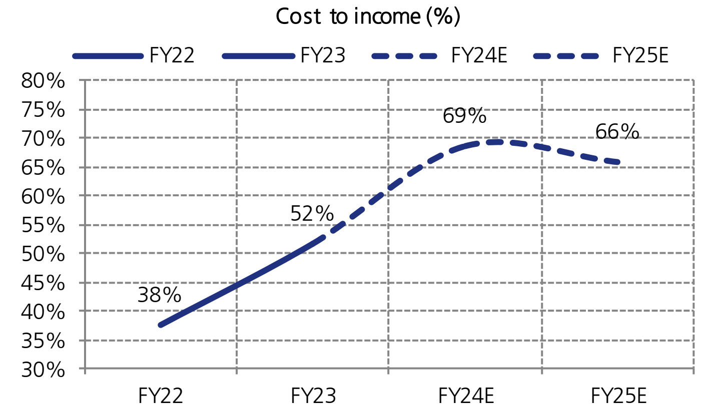
Exhibit 72. PEL: Opex to remain high in short term, expected to decline in medium term



Source: Company, JM Financial

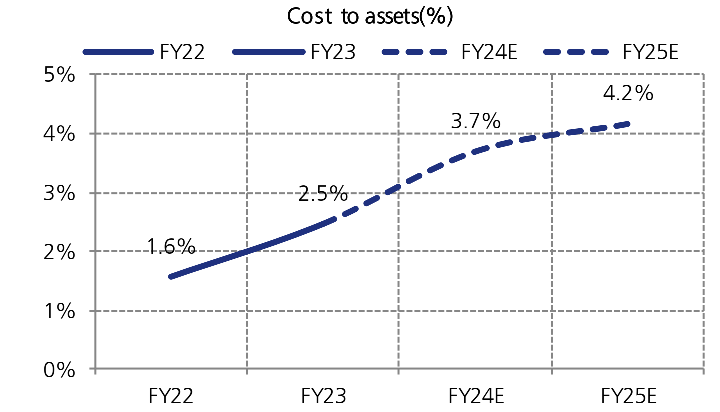
Thus, we expect PEL cost ratios to remain slightly higher with cost to income ratio and cost to asset ratio at 66% and 4.2% respectively by FY25E.

Exhibit 73. PEL: Cost to income to remain sticky



Source: Company, JM Financial

Exhibit 74. PEL: Cost to assets to remain high

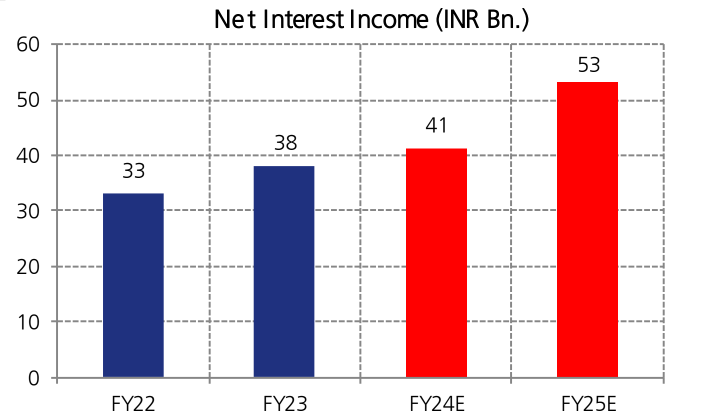


Source: Company, JM Financial

Returns metrics to improve

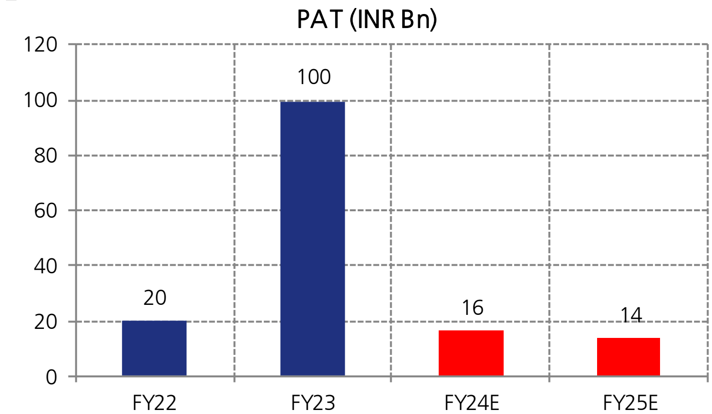
PEL is expected to demonstrate its ability to expand NIMs with increase in high-yielding assets offsetting the expected increase in incremental cost of borrowing. Improved margin profile, further aided by low credit cost despite sticky opex cost should help PEL deliver on its return metrics and we expect it to report average core RoA of 0.7% over FY24-25E. While near-term RoE is expected to be a bit suppressed due to high capital adequacy, we expect average RoE of 4.8% over FY24-25E.

Exhibit 75. PEL: Trends in NII



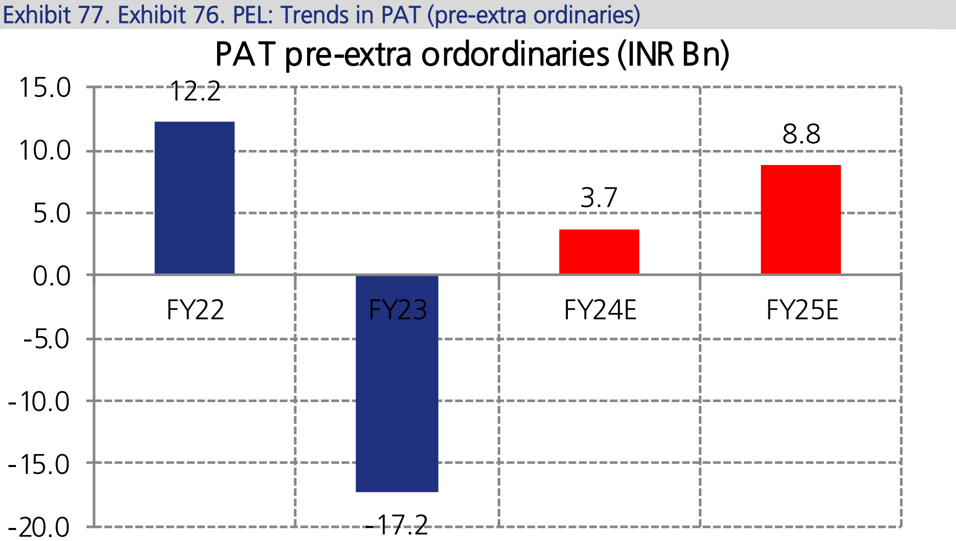
Source: Company, JM Financial

Exhibit 76. PEL: Trends in PAT (post-extraordinaries)



Source: Company, JM Financial

Exhibit 77. Exhibit 76. PEL: Trends in PAT (pre-extra ordinaries)



Source: JM Financial, Company

Exhibit 78. PEL: DuPont (% of assets)

DuPont (% of Assets)	FY23	FY24E	FY25E
NII / Assets (%)	4.14%	4.75%	5.62%
Other income / Assets (%)	0.62%	0.63%	0.69%
Total Income / Assets (%)	4.77%	5.38%	6.32%
Employee Cost to Assets (%)	1.01%	1.78%	2.14%
Other Cost to Assets (%)	1.45%	1.91%	2.02%
Cost to Assets (%)	2.46%	3.69%	4.16%
PPP / Assets (%)	2.30%	1.69%	2.16%
Provisions / Assets (%)	4.89%	1.10%	0.90%
PBT / Assets (%)	-2.58%	0.58%	1.26%
Core ROA (%)	-1.88%	0.43%	0.93%
ROA (%)	10.86%	1.89%	1.45%

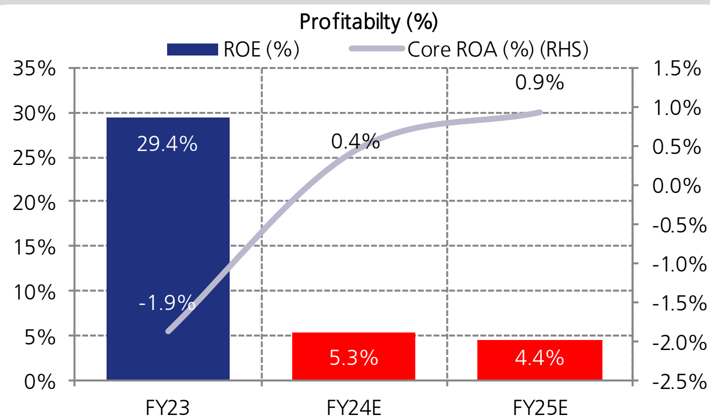
Source: JM Financial, Company

Exhibit 79. PEL: DuPont (% of AUM)

DuPont (% of AUM)	FY23	FY24E	FY25E
NII / AUM (%)	5.89%	6.21%	7.24%
Other income / AUM (%)	0.88%	0.82%	0.89%
Total Income / AUM (%)	6.77%	7.03%	8.13%
Employee Cost to AUM (%)	1.44%	2.33%	2.75%
Other Cost to AUM (%)	2.06%	2.50%	2.61%
Cost to AUM (%)	3.50%	4.82%	5.36%
PPP / AUM (%)	3.27%	2.20%	2.78%
Provisions / AUM (%)	6.95%	1.44%	1.15%
PBT / AUM (%)	-3.67%	0.76%	1.62%
Core ROA (%)	-2.67%	0.56%	1.20%
ROA (%)	15.43%	2.47%	1.87%

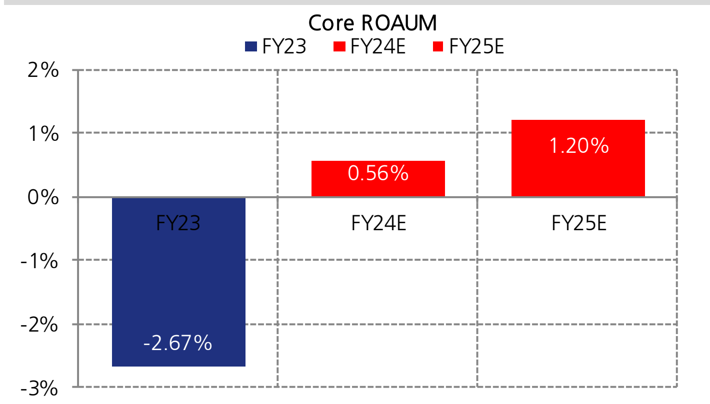
Source: JM Financial, Company

Exhibit 80. PEL: Trend in return metrics



Source: Company, JM Financial

Exhibit 81. PEL: Trend in core RoAUM



Source: Company, JM Financial

Experienced leadership with a longstanding promoter and a professional management team

PEL is led by qualified and experienced management personnel, who are supported by a capable and motivated team of managers and other employees. The management team has knowledge and understanding of the business and the financial landscape in India, and the expertise and vision to grow its business. It also has diverse experience in a range of financial products and functions related to the company's business and operations, and it is supported by qualified personnel who have an in-depth understanding of its loan products and customers.

Exhibit 82. PEL: Senior management team profile

Name	Designation	Profile
Ajay Piramal	Chairman & Executive Director	Mr Ajay Piramal is one of India's leading industrialists, philanthropists and Chairman of the Piramal Group. Mr Piramal holds an Honours degree in Science from Mumbai University and a Master's degree in Management Studies from the Jamnalal Bajaj Institute of Management Studies. He has completed an Advanced Management Programme from the Harvard Business School, and has been conferred with an Honorary Doctorate in Philosophy (D. Phil) by Amity University, India, and an Honorary Doctor of Science (Honoris Causa) Degree by IIT-Indore.
Dr Swati A Piramal	Vice Chairperson, Piramal Group	Dr Swati Piramal is the Vice-Chairperson of Piramal Group, a global business conglomerate with diverse interests in pharmaceuticals, financial services and real estate. She holds a Master's Degree in Public Health from the Harvard Business School, in addition to a Medical Degree (M.B.B.S) and a Bachelor's Degree in Medicine and Surgery from University of Mumbai, India.
Yesh Nadkarni	CEO, Wholesale	Mr Yesh Nadkarni is the CEO of Wholesale Lending at Piramal Enterprises Limited (PEL). He has over 2 decades of investing experience across debt, equity and special situations spanning India, Australia, and Southeast Asia. Before joining Piramal, Mr Nadkarni was the Managing Director & CEO of the India Real Estate lending business at global investment firm KKR, where he built a leading India real estate credit franchise. Prior to KKR, he has held senior leadership roles at J P Morgan where he led Asia-ex China franchise of the balance sheet investing group, and ICICI Prudential, where he set up and led the real estate / corporate investing business. He has a Masters in Finance from the London Business School and is a Bachelor in Engineering, from University of Pune, India.
Jairam Sridharan	CEO, Retail	Mr Jairam Sridharan is the CEO of Retail lending at PEL. He has over 2 decades of rich domain experience and specialises in setting up and scaling new businesses. Before joining Piramal, Mr Sridharan was the Chief Financial Officer (CFO) of Axis Bank. He has handled a variety of roles at the Bank and was previously President, Retail Lending & Payments. In this role, he was responsible for driving growth in the retail lending and payments businesses comprising retail lending products (home, car, personal & other loans), cards business (credit, debit & prepaid) and the agriculture & rural lending business. In his 5 years in this role, Axis Bank saw industry leading 6X growth and emerged as one of the top 5 retail lending institutions in the country. Prior to Axis, he served Capital One Financial, a consumer bank based in Richmond, VA (USA) as Head – 'New to Credit' Card Acquisitions in the US Cards Business. At the start of his career with ICICI Bank, he played a key role in its initial foray into the retail lending businesses, serving as Head – Business Intelligence Unit. He holds a Bachelor of Technology degree in Chemical Engineering from IIT Delhi and Post Graduate Diploma in Management from IIM Kolkata where he was awarded a Roll of Honour for academic excellence.
Rupen Jhaveri	Group President	Mr Rupen Jhaveri is the Group President at Piramal Enterprises Limited (PEL). In his role, Mr Jhaveri is responsible for business development, strategy, M&A, capital allocation and corporate finance with a primary focus on financial services. He has close to 2 decades of experience across private equity and investment banking. Prior to joining PEL, he was the Managing Director of KKR India, a global investment firm. As part of the founding team in India, Mr Jhaveri has led investments in Jio Platforms, Reliance Retail, Alliance Tires, Magma Fincorp (Poonawalla Finance), Dalmia Cement, Max Financial Services, Emerald Media, SBI Life Insurance, Bharti Infratel, HDFC Ltd and RE Sustainability. Prior to KKR, he has worked with Goldman Sachs & Co. in its Principal Investment Area (PIA), Warburg Pincus and Merrill Lynch.
Kalpesh Kikani	CEO, Piramal Alternatives	Mr Kalpesh Kikani is the Chief Executive Officer of Piramal Alternatives. In his current role, Mr Kikani drives profitable growth across all Piramal Group's alternative asset funds across multiple asset classes. He has over 25 years of expertise in investing and financial services including a decade as the founding Managing Director at AION Capital, a joint venture between Apollo Global Management and ICICI Group, to invest in buyouts, distressed and hybrid capital solutions. He holds a Bachelor of Engineering Degree in Computer Science and an MBA in Finance from Bombay University and is a member of the CFA Institute, USA.
Upma Goel	CFO	Ms Upma Goel is the CFO of Piramal Enterprises Ltd. and is responsible for the finance function of PEL and all its subsidiaries. She played a key role in the integration of Dewan Housing Finance Corporation Limited (DHFL) into Piramal Capital & Housing Finance Ltd. She is a Chartered Accountant with 3 decades of post qualification experience in the financial services industry. Her core competencies lie in business strategy, financial control, capital restructuring, M&A, tax, risk management and regulatory compliances. She joined Piramal as CFO – Retail Finance Business of Piramal Capital & Housing Finance Ltd. and was subsequently elevated to CFO of PEL. Prior to Piramal, she was the CFO & Key Management Personnel at Ujjivan Small Finance Bank Limited and played a critical role in upscaling the finance function and successfully transitioning the NBFC MFI into the Bank. She successfully led the primary market fund-raise from domestic/overseas market. She also spearheaded the finance and account function, procurement, liabilities management, business strategy and planning, regulatory compliances and investors relations. Prior to Ujjivan, she was the Group Deputy CFO at L&T Finance Holdings Limited. She holds a Master's Degree focused on Chartered Accountancy from The Institute of Chartered Accountants of India.

Source: Company, JM Financial

Valuation and View

A high-yield portfolio, retail-led credit growth and low credit cost should help PEL achieve the desired return metrics. While near-term RoE is suppressed due to high capital adequacy (34.3% as of 1Q24), we expect average core RoE of 4.8% over FY24-25E. We value core PEL at 0.9x FY25E P/BV and initiate coverage with a BUY rating and TP of INR 1,250. PEL's inability to execute growth plans while maintaining asset quality or sharp broad-based deceleration in economic activity are key risks to our call.

Exhibit 83. PEL: Steady state (schematic) RoE

NII / AUM (%)	8.00%
Other income / AUM (%)	0.61%
Total Income / AUM (%)	8.61%
Cost to AUM (%)	2.75%
PPP / AUM (%)	5.86%
Provisions / AUM (%)	1.70%
PBT / AUM (%)	4.16%
ROA (%)	3.10%
Leverage (x)	5.0
ROE (%)	15.5%

Source: JM Financial

Exhibit 84. PEL: Computation of valuation multiple

Blended ROE	12.0%
g (initial growth)	10.2%
r (Cost of equity)	12.8%
gn (perpetual growth rate)	3.6%
n (initial growth period, years)	10
Payout 1	15%
Payout n	70%
K1	1.32
K2	6.22
P/BV	0.9x

Source: JM Financial

Exhibit 85. PEL: SOTP valuation

PEL SOTP	Holding (%)	Valuation Methodology	Value per Share	Contribution to TP (%)
PEL - Parent (ex- of Shriram Group investments)	100.0%	0.9x FY25E BV	1,202	96%
Value of investment in Shriram Group		1x of cost of Investment	95	8%
PEL Prudential International Insurance Holdings	50.0%	1x of cost of investment post 20% holdco discount	22	2%
Less: Cost of investments			-69	-5%
Total (INR)			**1,250**	**100%**

Source: Company, JM Financial

Key Risks

- Pressure on yields and cost of borrowings to impact NIMs: PEL has seen an increase in yields with a shift in its portfolio mix; it is able to charge yields (on AUM) of 11.9% as of 1QFY24. At the same time, borrowing cost as of 1QFY24 remains at 8.7%. If competition increases in PEL's target segment, it could put pressure on the company's yields, whereas an increase in COB due to external factors such as an increased rate environment or company specific factors can impact margins.
- Inability to maintain healthy asset quality parameters: PEL has successfully improved its asset quality parameters with expectation of further refinement and improvement in recoveries on the back of a strong monitoring and collection mechanism. Any failure to sustain its asset quality metrics in future, leading to an increase in credit cost, will be a risk.
- Key personnel risk: PEL has an experienced management team with rich experience and domain expertise. Any change in key management personnel can be a risk to PEL.
- Adverse developments in segments: Any adverse developments in the segments PEL operates in, including small business loans, microfinance and vehicle finance could adversely affect the business and results of operations.
- Inability to access sources of funds: PEL has a continuous requirement of funds and inability to access sources of funds in an acceptable and timely manner or any disruption in accessing funds will adversely impact the results of operations, financial condition and cash flows.
- Economic cycle and volatility: Economic stability and the demand environment could be affected during any domestic or global uncertainty; this can hamper demand for the company's products, which could impact its growth.

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Interest Income (NII)	86,416	32,977	38,043	41,174	53,096
Non Interest Income	3,228	3,881	5,707	5,418	6,548
Total Income	**89,645**	**36,858**	**43,750**	**46,592**	**59,644**
Operating Expenses	58,961	13,843	22,617	31,981	39,290
Pre-provisioning Profits	**30,684**	**23,015**	**21,133**	**14,611**	**20,354**
Loan-Loss Provisions	99	6,740	-1,559	9,565	8,467
Others Provisions	0	0	46,422	0	0
Total Provisions	**99**	**6,740**	**44,863**	**9,565**	**8,467**
PBT	**30,585**	**16,275**	**-23,730**	**5,046**	**11,887**
Tax	7,846	4,062	-6,508	1,312	3,091
PAT (Pre-Extra ordinaries)	**22,739**	**12,213**	**-17,222**	**3,734**	**8,797**
Extra ordinaries (Net of Tax)	-8,610	7,775	116,908	12,627	4,896
Reported Profits	**14,129**	**19,988**	**99,686**	**16,362**	**13,693**
Dividend	7,443	7,875	7,398	1,636	1,369
Retained Profits	**6,685**	**12,112**	**92,288**	**14,725**	**12,324**

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Equity Capital	451	477	477	449	449
Reserves & Surplus	339,729	354,414	310,114	307,367	319,691
Stock option outstanding	11,210	13,478	0	0	0
Borrowed Funds	395,571	554,510	495,109	555,327	638,627
Deferred tax liabilities	2,227	1,922	0	0	0
Preference Shares	0	0	0	0	0
Current Liabilities & Provisions	22,002	73,928	31,103	31,306	34,774
Total Liabilities	**771,189**	**998,729**	**837,522**	**894,449**	**993,540**
Net Advances	324,333	493,180	463,946	521,268	593,538
Investments	220,293	248,565	223,318	234,571	237,415
Cash & Bank Balances	70,247	71,872	46,491	52,235	59,477
Loans and Advances	15,447	16,212	194	5,213	4,155
Other Current Assets	46,536	46,653	37,739	9,783	27,421
Fixed Assets	46,247	49,724	28,667	31,306	29,806
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	9,372	25,799	33,144	35,778	39,742
Total Assets	**771,189**	**998,729**	**837,522**	**894,449**	**993,540**

Source: Company, JM Financial

Key Ratios					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Growth (YoY) (%)	**0**	**0**	**0**	**0**	**0**
Borrowed funds	-5.9%	40.2%	-10.7%	12.2%	15.0%
Advances	-1.7%	52.1%	-5.9%	12.4%	13.9%
Total Assets	2.9%	29.5%	-16.1%	6.8%	11.1%
NII	9.3%	-61.8%	15.4%	8.2%	29.0%
Non-interest Income	-2.1%	20.2%	47.0%	-5.1%	20.9%
Operating Expenses	8.3%	-76.5%	63.4%	41.4%	22.9%
Operating Profits	9.9%	-25.0%	-8.2%	-30.9%	39.3%
Core Operating profit	9.9%	-29.4%	-15.9%	-37.4%	46.1%
Provisions	-99.5%	6,701.3%	565.6%	-78.7%	-11.5%
Reported PAT	6,583.3%	41.5%	398.7%	-83.6%	-16.3%
Yields / Margins (%)	**0**	**0**	**0**	**0**	**0**
Interest Spread	11.34%	1.64%	2.47%	2.51%	3.66%
NIM	14.56%	4.62%	4.92%	5.34%	6.25%
Profitability (%)	**0**	**0**	**0**	**0**	**0**
ROA	1.86%	2.26%	10.86%	1.89%	1.45%
ROE	4.3%	5.6%	29.4%	5.3%	4.4%
Cost to Income	65.8%	37.6%	51.7%	68.6%	65.9%
Asset quality (%)	**0**	**0**	**0**	**0**	**0**
Gross NPA	4.13%	3.42%	3.21%	3.20%	3.15%
LLP	0.03%	1.65%	-0.33%	-3.34%	1.91%
Capital Adequacy (%)	**0**	**0**	**0**	**0**	**0**
Tier I	0.00%	0.00%	30.00%	29.30%	28.90%
CAR	0.00%	21.00%	31.00%	30.39%	30.01%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
NII / Assets	11.37%	3.73%	4.14%	4.75%	5.62%
Other Income / Assets	0.42%	0.44%	0.62%	0.63%	0.69%
Total Income / Assets	11.79%	4.16%	4.77%	5.38%	6.32%
Cost / Assets	7.76%	1.56%	2.46%	3.69%	4.16%
PPP / Assets	4.04%	2.60%	2.30%	1.69%	2.16%
Provisions / Assets	0.01%	0.76%	4.89%	1.10%	0.90%
PBT / Assets	4.02%	1.84%	-2.58%	0.58%	1.26%
Tax rate	25.7%	25.0%	27.4%	26.0%	26.0%
ROA	1.86%	2.26%	10.86%	1.89%	1.45%
Leverage	2.2	2.7	2.7	2.9	3.1
ROE	4.3%	5.6%	29.4%	5.3%	4.4%

Source: Company, JM Financial

Valuations					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Shares in Issue	225.6	238.7	238.7	224.7	224.7
EPS (INR)	62.6	83.8	417.7	72.8	61.0
EPS (YoY) (%)	6,567.1%	33.7%	398.7%	-82.6%	-16.3%
P/E (x)	16.2	12.1	2.4	13.9	16.7
BV (INR)	1,558	1,544	1,301	1,370	1,425
BV (YoY) (%)	14.7%	-0.9%	-15.7%	5.3%	4.0%
P/BV (x)	0.65	0.66	0.78	0.74	0.71
DPS (INR)	33.0	33.0	31.0	7.3	6.1
Div. yield (%)	3.3%	3.3%	3.1%	0.7%	0.6%

Source: Company, JM Financial

APPENDIX I

JM Financial Institutional Securities Limited

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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.
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