Piramal Enterprises Q1FY21

Financial Results & Highlights

Brief Company Introduction

Piramal Enterprises Limited (PEL) (including its subsidiaries) is one of India's large diversified companies, with a presence in Healthcare, Healthcare Insights & Analytics business and Financial Services. In Pharmaceuticals, through an end-to-end manufacturing capabilities across its manufacturing facilities and a large global distribution network, the Company sells a portfolio of niche differentiated pharma products and provides an entire pool of pharma services (including in the areas of injectable, HPAPI etc.). In Financial Services, PEL provides comprehensive financing solutions to real estate companies. Healthcare Insights & Analytics business, Decision Resources Group, is a premier provider of healthcare analytics, data & insight products and services to the world's leading pharma, biotech and medical technology companies.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	856	939	-8.84%	1278	-33.02%
PBT	27	-100	-127.00%	-118	-122.88%
PAT	23	-41	-156.10%	-484	-104.75%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	3003	3251	-7.63%	3581	-16.14%
PBT	657	744	-11.69%	-1102	-159.62%
PAT	496	448	10.71%	-1703	-129.13%

Detailed Results

1. The company had a rough quarter. Total Revenues for Q1 were lower by 8% YoY and reported a rise in PAT of 11% YoY.
2. The company raised capital of $ 490 million from Carlyle for a 20% stake of Piramal Pharma.
3. Net debt was reduced by Rs 13902 Cr since Q1FY21 and debt to equity has fallen to 1.2 times from 1.9 times last year.
4. Raised long-term borrowings of ~Rs 9,600 Cr. during Q1.
5. The overall loan book in the Financial Services segment was at Rs 51265 Cr vs Rs 56605 Cr last year.
6. Top 10 exposures were reduced by Rs 4000 Cr in the past 1 year.

7. GNPA at 2.5% with provisioning at 5.9% of the total loan book.
8. CAR was at 33% in Q1 vs 23% last year.
9. Net debt to equity for this business was improved to 2.2 times from 3.7 times in last year.
10. Revenue drop in Financial Services was at 6% YoY. This division accounted for 65% of total revenues.
11. The company is focused on building a multi-product retail lending platform with products such as Affordable Housing Loans, Mass Affluent Housing Loans, and Secured Business Loans in FY21. The focus for these products will Tier-II/III locations.
12. Alternative AUM in Q1 was at Rs 11480 Cr.
13. The average yield on loans was at 15.2% while the average cost of borrowings was at 10.8%. NIM was at 6.5% while the cost to income was at 17%. ROA and ROE were at 3.8% and 12% respectively.
14. Pharma revenues fell 11% YoY. This division accounted for 35% of total revenues.
15. The breakup of pharma revenues was:
    1. Pharma CDMO: Rs 614 Cr (95% of Q1FY20)
    2. Complex Generics: Rs 324 Cr (78% of Q1FY20)
    3. India Consumer Healthcare: Rs 104 Cr (96% of Q1FY20)
16. India Consumer Products grew by 28% QoQ to Rs 104 Cr.

<u>Investor Conference Call Highlights</u>

1. All the pharma businesses are getting integrated into a subsidiary of PEL, Piramal Pharma Limited. The business was valued at an enterprise value of $2.775 billion with a potential upsize of up to $360 million, based on FY21 performance.
2. The company now has only 1 account that is greater than 15% of the total exposure.
3. The company conducted a scenario analysis at the onset of the COVID-19 outbreak. The stressed scenario assumed, no sales, no collection, and no construction activity for the first and second quarters of the current year, followed by minimal pickup starting in the third quarter. The outcome showed that 88% of the wholesale real estate portfolio had a >1x times security/ cash cover, under the stressed scenario.
4. In the retail lending space, the company is looking to focus on locations with a population between 10,000 to 4 million. The company has identified these markets to target based on potential and historical risk performance.
5. This business shall have a digital core strategy with physical channels for customer acquisition and collection.

6. As of June'20, the moratorium on the wholesale loan book was at 67% of the AUM and in the retail loan book, 25% was under moratorium.
7. The company has recently acquired a solid oral dosage drug product facility in the US.
8. For the retail lending business, FY21 is widely expected to be a year of foundation building and the management is not expecting much growth in the year.
9. The company is looking to go live with its product offering in retail lending around the Diwali season.
10. Sales in the month of April and May were 10% and 22% of pre-COVID sales while in June sales reached 40% of pre-COVID levels. The maximum sales for the company are actually taking place in affordable and mid-market segments.
11. There was no change in RM in the pharma business and the lower EBITDA was due to adverse product mix. The management does not expect any significant change in RM costs going forward.
12. The company expects revenues to go close to $35-40 million over the next three to four years from the newly acquired US facility.
13. PEL will receive around Rs 3400 Cr from the stake of Rs 3700 Cr to Carlyle. This amount will be used to further reduce debt for the company. These funds will also be used to fund inorganic expansion opportunities in the near future.
14. Collections in June had reached 40% of pre-COVID levels.
15. In the injectables and inhalation anesthesia businesses, sales may have slowed down due to drop in surgeries but underlying is expected to bounce back once normal activity resumes for the sector.
16. In the pharma business, the sales were down 16% YoY in constant currency terms.
17. The management is confident that the company will be compliant with any guidelines issued by RBI for HFCs.
18. The main reason for the company to target tier II & III locations for its retail lending is that the competition in Tier I locations is too high and it is easier to establish itself as a differentiated provider in such markets.
19. Commercial real estate is 8% of total real estate book at Rs 3700 Cr where LAP & LRD are at Rs 1300 Cr and the rest is under construction finance. Most of the construction finance is in office space. The average LTV in LAP & LRD is at less than 65%.
20. Loans to hospitality is at Rs 2000 Cr. The company has lent to top brands in the space like Marriott, Taj Group, and Hyatt.

Analyst's Views

Piramal Enterprises is facing the heat of the challenging economic environment and downturn in the real estate sector. Although the prospects of the pharma business seem good, the financial business is expected to stay muted for FY21. The company is constantly working on improving the liquidity condition of its Balance Sheet and has also managed to raise capital in Q1 both through a stake of 20% in Piramal Pharma and raising debt. The company is doing well to use this downtime to develop its retail lending platform and target underserved geographical and population segments. It remains to be seen how long will this slow period for financial services lasts for the company and what challenges will it face in establishing its retail lending platform. However, given their past track record, management capability, and surplus unallocated capital which can be deployed to support any of the conglomerate's various businesses, Piramal Enterprises continues to be a good conglomerate stock to watch out, particularly in the real-estate lending space.