Piramal Enterprises Q3FY21

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.

Standalone Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	586	532	10.15%	434	35.02%	1404	2109	-33.43%
PBT	-158*	53	-398.11%	-31	-409.68%	-198*	513	-138.60%
PAT	-165	-9	-1733.33%	-26	-534.62%	-199	490	-140.61%
Consolidated Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	3265	3411	-4.28%	3339	-2.22%	9607	9979	-3.73%
PBT	1001	898	11%	832	20.31%	2489	2509	-0.80%
PAT	799	671	19%	628	27.23%	1923	1808	6.36%

*Contains exceptional item of Rs 258 Cr which is transaction cost on transfer of pharma business

Detailed Results

1. The company had a mixed quarter with consolidated Revenues for Q3 falling 4% YoY and PAT rising 19% YoY. Similarly, 9M revenues fell 3.7% YoY while PAT rose 6.4% YoY.
2. The DHFL acquisition has total consideration of INR 34,250 Cr. –upfront cash component of INR 14,700 Cr. (incl. cash on DHFL's B/S) and a deferred component (NCDs) of INR 19,550 Cr.
3. Net debt to equity has fallen to 0.9 times.
4. The company has unallocated equity of Rs 12,375 Cr which is 35% of overall equity.
5. The wholesale loan book in the Financial Services segment was at Rs 41060 Cr vs Rs 51436 Cr last year a reduction of 20% YoY.
6. Sales of developer clients are now at 82% of Q3 last year.
7. GNPA at 3.7% with provisioning at 6.3% of the total loan book. NNPA was at 1.8%.
8. CAR was at 37% in Q3 vs 29% last year.

9. Net debt to equity for this business was improved to 1.9 times from 2.5 times last year.
10. The revenue drop in Financial Services was at 9% YoY. This division accounted for 59% of total revenues.
11. The company's multi-product retail lending platform made disbursements of Rs 3122 Cr since soft launch in Oct.
12. The average yield on loans was at 14.6% while the average cost of funds was at 8.4%. NIM was at 6.2% while the cost to income was at 18%. ROA and ROE were at 3.8% and 11.5% respectively.
13. Pharma revenues grew 5% YoY. This division accounted for 43% of total revenues.
14. The breakup of pharma revenues was:
    1. Pharma CDMO: Rs 846 Cr (Up 16% YoY)
    2. Complex Generics: Rs 399 Cr (Down 13% YoY)
    3. India Consumer Healthcare: Rs 130 Cr (Up 14% YoY)
15. EBITDA margin in the Pharma division was at 22%.
16. The company passed 17 successful regulatory inspections during 9MFY21.
17. Launched 15+ products and 35+ SKUs in 9M in the India Consumer Products division.
18. Announced expansion of $32 million in Riverview, Michigan facility.
19. PEL also announced acquisition of 49% remaining stake in Convergence Chemicals.

Investor Conference Call Highlights

1. The company is aiming to create a lending portfolio where retail will be 50% of the lending book in the near term.
2. The company launched 6 new products in the retail lending platform in Q3.
3. It is now live in 40 locations.
4. The company has gradually pivoted the retail lending business towards mass-affluent and affordable housing with no fresh disbursement in the affluent housing finance business. This is expected to improve profitability.
5. The DHFL retail loan portfolio should help in jump-starting the organic retail business and expansion in presence with additional branches and customer reach.
6. PEL's top 10 exposures have reduced 27% since March 2019 from INR 18,400 crores to INR 13,400 crores.
7. Only 1 account at 15% of net worth with only 3 accounts greater than 7% of net worth.
8. The next aim for transformation for PEL is moving from short-term liabilities to stable long-term borrowings. Around Rs 12,800 Cr of long term, debt was raised in 9MFY21 while CP exposure remains low at Rs 1000 Cr. Thus ALM profile has improved with significant positive gaps in all the buckets.

9. In Q3, PEL invoked onetime restructuring for loans worth Rs 1741 Cr accounting for 3.8% of the loan book.
10. The fall in complex hospital generics business was due to volatility in the demand of products used in surgeries globally but this is expected to normalize shortly.
11. The expansion in the Riverview facility is for additional capacity in potent and non-potent API development and manufacturing.
12. The company is successfully moving towards the demerger of the Financial Services and Pharma businesses.
13. The management has stated that it does see some upside in the wholesale book of DHFL and is yet to decide on its approach in this area.
14. Now that the non-compete clause with Abbott is over, the company is looking to expand its portfolio through the OTC space.
15. In the complex generics space, the company has won a few large contracts and 1 very large contract. This business division has seen a W-shaped recovery.
16. The management expects that once vaccinations are going full way and things normalize, demand will come back to this business due to the big backlog of surgeries that got delayed due to COVID-19.
17. The infra book has been reduced to Rs 2375 Cr as of Dec 2020. The majority of exposures are now 3-5% in the wholesale book.
18. The Lodha exposure has come down from Rs 3300 Cr to Rs 2671 Cr. The company has split the deal with Lodha into 2 and has moved all finished inventory into an SPV. By March the total exposure will be near Rs 2500 Cr of which Rs 1000 Cr or less will be Lodha exposure while the rest will be in the SPV.
19. The management has stated that the cost of funds has remained high due to high wholesale exposure but it will go down significantly as the DHFL portfolio will get added which has only 6.75% cost of funds.
20. The personal loans exercise is still in the experiment phase. The company is looking at a target market with a monthly salary of Rs 25000-50000 for this business.
21. The merger with DHFL should be complete by May or June 2021.
22. The 4 main business lines in the retail lending side will be mass-affluent housing with margins just under 11%, loan against property with a margin between 11.5-12%, affordable housing with a margin above 12%, and small business secured lending with a margin above 13%. Overall the margin from the new business is expected to be above 11% at the least.
23. The company went live with ZestMoney as a partner and has 3 more fintech partnerships lined up.
24. The management has clarified that it will be doing floating economics with all partners with the front end of the partners and the back end from PEL.
25. The 4 large exposure that the company has restructured are in real estate, hospitality, auto components, and infra.
26. The company had 1 large exposure in the auto ancillary space that it let go from Stage 2 to Stage 3. This was done as the management saw that liquidating and selling the assets of the company was a better way to get back money than restructuring it. The company recovered around Rs 436 Cr from this exposure.
27. The management expects the ongoing acquisition and expansion in the pharma business to drive margin expansion in the future for the company.

28. The outstanding retail loan book is at Rs 5300 Cr currently.

Analyst's Views

Piramal Enterprises is facing the heat of the challenging economic environment and downturn in the real estate sector. The company has seen a good bounce back in the financial division and good growth in the pharma division. The company has managed to make a successful acquisition bid for DHFL which is a shot in the arm for the nascent retail lending business. It has brought the net debt to equity for overall business to 0.9 and for Financial Services business to 1.9 times which is exceptional for a predominantly NBFC company. The company is doing well since the launch of the retail lending platform in Nov. PEL's pharma business is also expected to see additional demand coming back in the complex generics business which has been subdued due to the postponement of most surgeries due to COVID-19. 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 and the integration of DHFL. 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 for, particularly in the real-estate lending space.