

Piramal Enterprises

BSE SENSEX 81,523 S&P CNX 24,918

CMP: INR1,043 TP: INR1,000 (-4%) Neutral



Stock Info

	PIEL IN
Bloomberg	PIEL IN
Equity Shares (m)	225
M.Cap.(INRb)/(USDb)	235.3 / 2.8
52-Week Range (INR)	1140 / 737
1, 6, 12 Rel. Per (%)	5/9/-32
12M Avg Val (INR M)	1409
Free float (%)	54.0

Financials Snapshot (INR b)

Y/E March	FY24	FY25E	FY26E
PPOP	12.0	18.2	27.4
PAT	-16.8	9.2	17.6
PAT (ex exceptional)	-15.4	-2.8	12.6
EPS	-75	41	78
EPS Gr. (%)	-	-	92
Consol BV/Sh. (INR)	1,182	1,213	1,275
RoA (%)	-2.0	1.0	1.7
RoE (%)	-5.8	3.4	6.3

Valuation

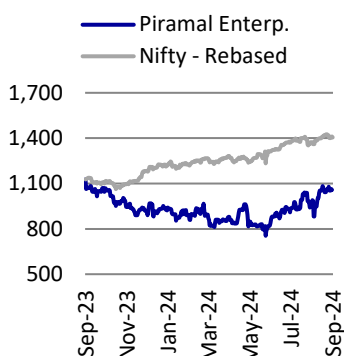
P/E (x)	-13.9	25.6	13.4
P/BV (x)	0.9	0.9	0.8
Dividend yield (%)	1.0	1.6	1.9

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	46.0	46.2	43.5
DII	13.4	13.2	11.9
FII	16.7	17.5	26.5
Others	23.9	23.2	18.1

FII Includes depository receipts

Stock's performance (one-year)



Making efforts to strengthen retail and rundown legacy wholesale

We hosted the senior management team of Piramal Enterprises (PIEL), represented by Mr. Jairam Sridharan, MD, PCHFL, for investor meetings in Mumbai. Here are the key highlights from investor engagements:

- PIEL is committed to reducing its legacy AUM from ~INR130b as of Jun'24 to ~INR60-70b by Mar'25 and expects (not guidance) that a ~25% haircut could be required to run down the residual stressed legacy book.
- As in the past, the rundown will not impair the company's net worth thanks to pockets of value in Shriram Life/General investments, AIF recoveries and tax-related gains.
- Unsecured digital loans are still a difficult but unavoidable channel (necessary evil) for lenders primarily focused on customer acquisition.
- The behavior and credit requirements of customers acquired digitally are different from those of customers acquired through physical channels.
- Retail (at industry level) has been benign for the last two years, and growth/asset quality metrics could deteriorate by FY25 end.
- PIEL is making efforts to further strengthen its retail franchise; however, the reduction in opex ratios and improvements in the RoA profile will be only linear and gradual (no quick fixes).

Despite moderation in digital unsecured, Retail continues to strengthen

- Piramal Retail began its journey in 2021 with the acquisition of DHFL's loan book, which was valued on its balance sheet at INR170b-180b. Back then, PIEL had deliberately shifted from being a mono-line lender to a multi-product lender, offering a diverse range of financial services.
- As of Jun'24, its retail loan book stood at over INR500b. The target product mix in the retail division would include 40-45% housing loans, 20-25% loan against property (LAP), and 5% in used car loans and gold loans. Unsecured loans would make up 25% of the retail loan portfolio (including business loans, salaried personal loans and digital loans).
- The target mix between secured loans and unsecured loans will be 75% and 25%, respectively. PIEL's strong leadership team in Retail, composed of veterans from mortgage finance and vehicle finance, helped guide the business toward success.
- Retail business (because of its gestation period requiring investments in branches and manpower) reported losses in its first two years and achieved a break-even in Jun'23. It has been improving its RoA profile and aspires to improve its retail RoA to ~2.5% by FY27. This is based on the assumption of a decline in opex cost ratios and normalized steady-state credit costs of 1.75%-2.0%.

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Remains steadfast to run down legacy AUM without impairing its net worth

- PIEL's wholesale lending business is undergoing significant changes. The legacy wholesale loan book will continue to decline as the company focuses on "Wholesale 2.0," which yields 13.5-14.0% with operating expenses between 1.0-1.5% and credit costs of around 2%. The company plans to downsize its legacy wholesale portfolio to INR60-70b by the end of FY25.
- To downsize its stressed legacy book, PIEL has taken a ~25% haircut on its stressed outstanding pool over the past 24-30 months. It expects that net worth will not be impaired as it attempts to further run down the residual legacy AUM to ~INR60-70b (from ~INR130b as of Jun'24). Net worth accretion is anticipated to come from the newer retail and Wholesale 2.0 segments.

Branch expansions to moderate with focus on improving productivity

- Following the DHFL acquisition, PIEL has expanded its branch network significantly, from 300 to 500 branches. It added 225 branches after the DHFL acquisition. It plans to moderate the branch expansion and may add ~100 more over the next several quarters.
- Operational efficiency has improved, with the operating expense ratio (as % of AUM) declining by ~150bp over the past five quarters. By FY25 end, PIEL expects the opex-to-average AUM ratio to stabilize between 3.5% and 4.0%. All new branches initially offer only home loans and LAP, with other retail products gradually introduced over the course of time.

Presence in digital personal loans necessary for customer acquisition

- PIEL's salaried personal loan segment has an average ticket size of INR410k, with a disbursement yield of 17.7%. Borrowers in this segment have an average CIBIL score of ~770.
- An interesting, yet worrying, statistic shared by the management was that, at the industry level, more than 10% of customers seeking unsecured credit have over 10 open credit lines, adding complexity to risk assessments.
- In terms of distribution channels, PIEL has emphasized physical channels over digital ones, using a credit bureau score juxtaposed with a leverage score to filter out high-risk customers. However, the digital channel is still critical for future growth, especially in the context of customer acquisition, even though it incurs high costs. While PIEL still does monthly disbursements of INR300-400m in small-ticket digital unsecured loans, the management admitted that it was a tough business segment and it continues to exercise caution in this segment.

Open to acquisitions in few pockets of lending but not at expensive valuations

- PIEL is open to M&A opportunities in the gold and MFI segments. However, the company has no current interest in expanding into new car financing, prime housing loans, two-wheelers (2W), or medium/heavy commercial vehicles. It may consider small commercial vehicles in the future.
- PIEL already has a presence in the micro-LAP segment, which is reported as part of LAP in the loan mix.
- PIEL could explore new product lines such as loans against shares (LAS) and mutual funds (MF) in the future. Additionally, it might consider entering the payments business (without large capital-intensive investments), with a focus on creating fee-income-generating products like co-branded credit cards. These initiatives reflect the company's long-term ambition to diversify its income streams and create a capital-light model for some segments.

Valuation and view

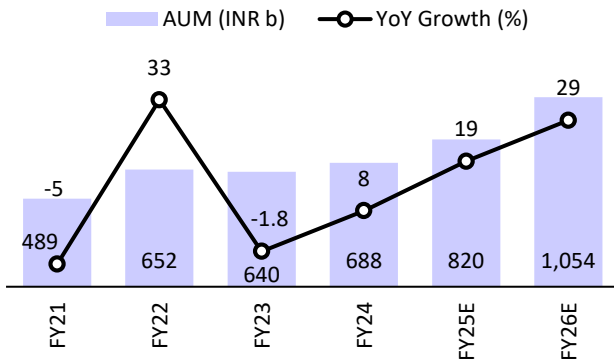
- Our earnings estimates for FY25 and FY26 only factor in exceptional gains from PIEL's AIF exposures and no tax incidence in the foreseeable future. Because of the uncertainty and unpredictability around the timing of the monetization of its stake in Shriram Life and General Insurance, we have not factored it in our estimates. It does, however, provide streams of one-off gains, which can help offset the credit costs required to dispose of the stressed legacy AUM.
- We do not see catalysts for any meaningful improvement in the core earnings trajectory of the company. We expect PIEL to deliver ~1.7% RoA and ~6% RoE in FY26. We value the lending business at 0.6x FY26E P/BV (unchanged). **Retain Neutral with a revised TP of INR1,000 (premised on Mar'26 SOTP).**

PEL: SOTP - Mar'26

	Value (INR B)	Value (USD B)	INR per share	% To Total	Rationale
Lending Business	183	2.2	816	82	0.6x Mar'26E PBV
Shriram Group	32	0.4	142	14	Based on its stake in Shriram Life/General Insurance Businesses
Life Insurance	4	0.1	19	2	0.4x FY23 EV
Alternatives	5	0.1	23	2	0.5x FY23 Equity
Target Value	225	2.7	1,000	100	
CMP			1,046		

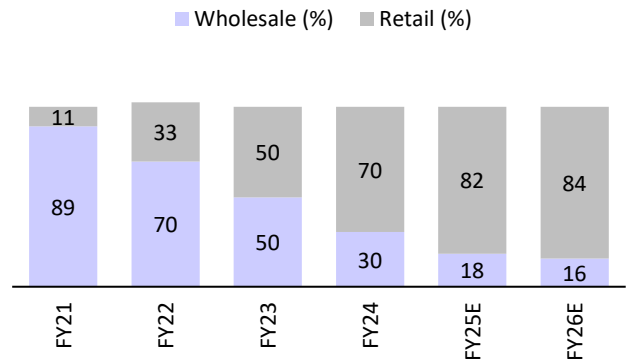
Story in charts

Exhibit 1: AUM growth to pick up from FY25 onwards...



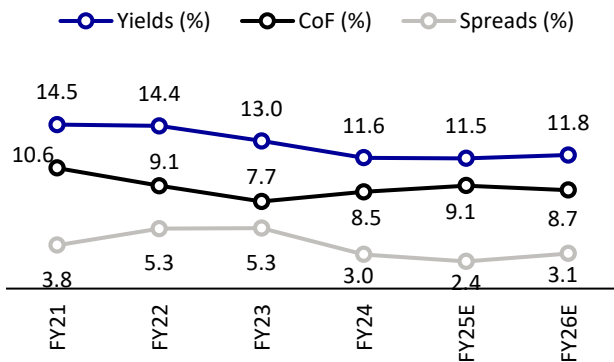
Source: MOFSL, Company

Exhibit 2: ...driven by an improvement in the retail loan mix



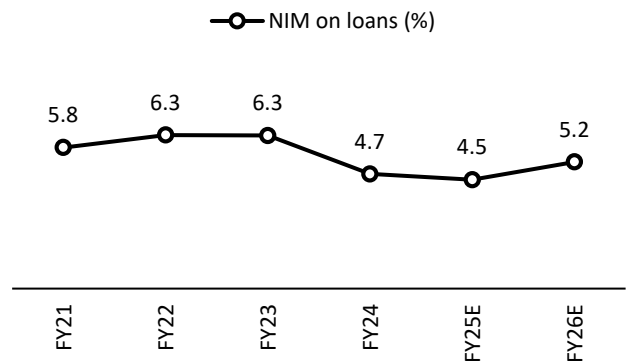
Source: MOFSL, Company

Exhibit 3: Expect improvement in yields...



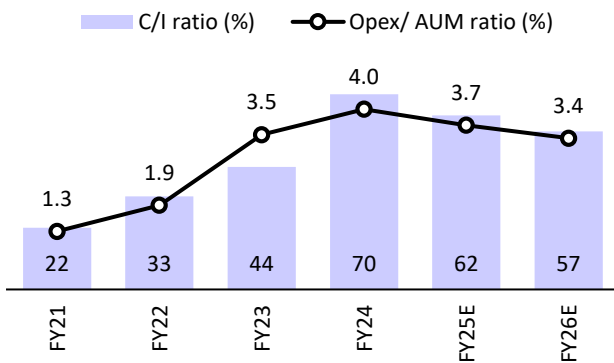
Source: MOFSL, Company

Exhibit 4: ...to lead to an expansion in NIM by FY26E



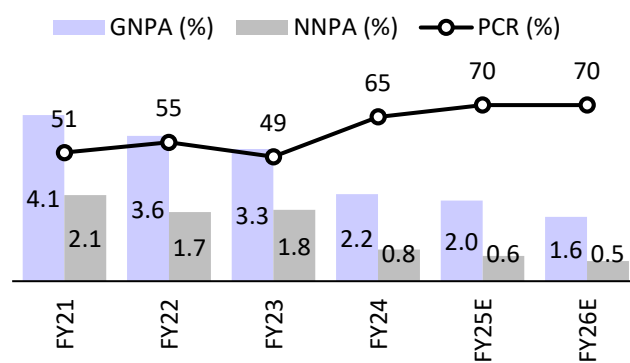
Source: MOFSL, Company

Exhibit 5: Operating costs to come down in FY25-FY26



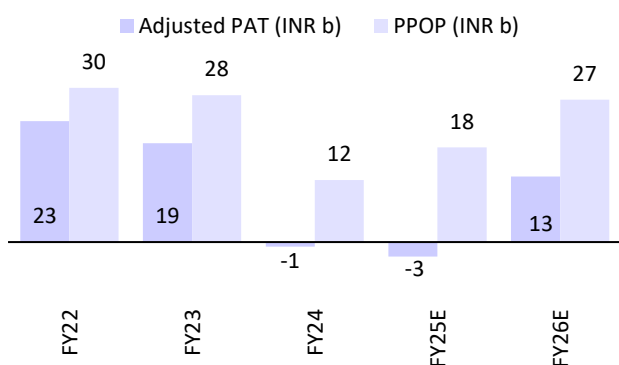
Source: MOFSL, Company

Exhibit 6: Expect further improvement in asset quality



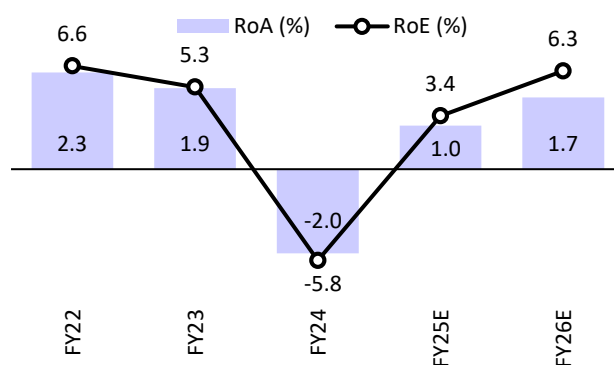
Source: MOFSL, Company

Exhibit 7: PAT is expected to grow gradually....



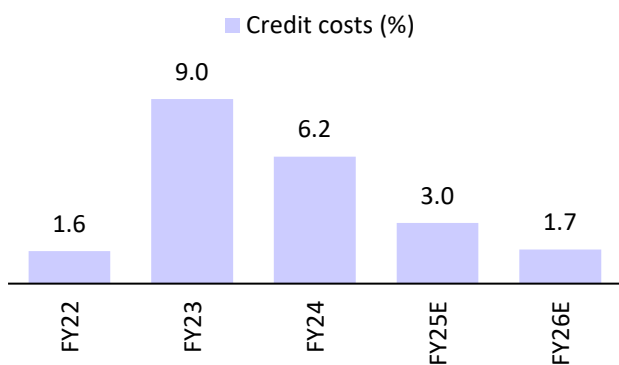
Source: MOSL, Company, Note: Adjusted PAT is calculated excluding exceptional gains/ (loss)

Exhibit 8: ...leading to ROA/ROE of 1.7%/6% in FY26E



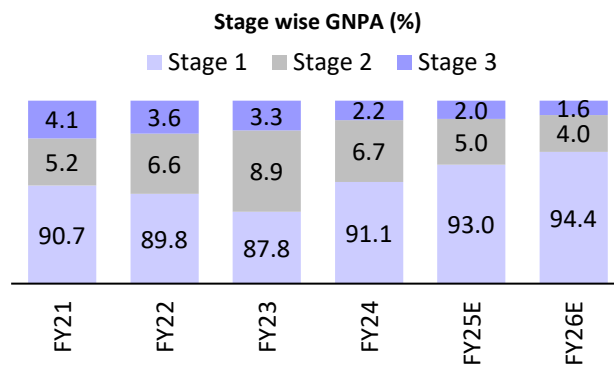
Source: MOSL, Company

Exhibit 9: Expect moderation in credit costs over FY25-26E



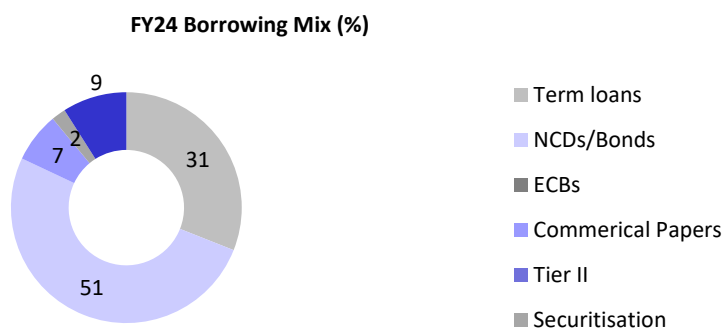
Source: MOFSL, Company

Exhibit 10: Stage-wise GNPA (%)



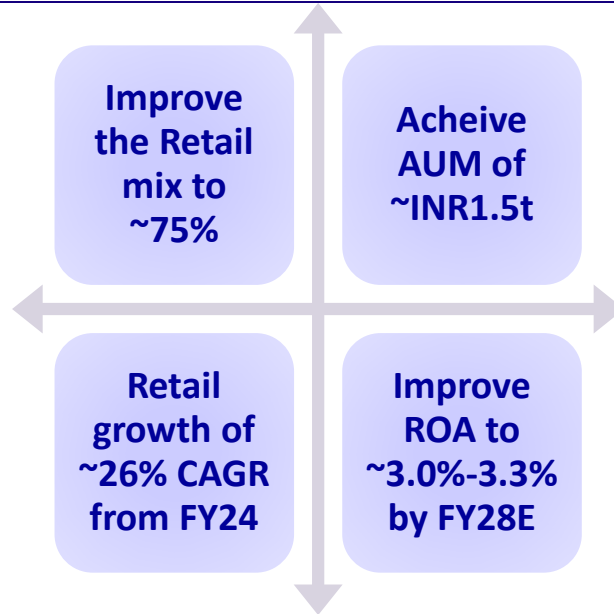
Source: MOFSL, Company

Exhibit 11: Borrowing mix as on Mar'24



Source: MOFSL, Company

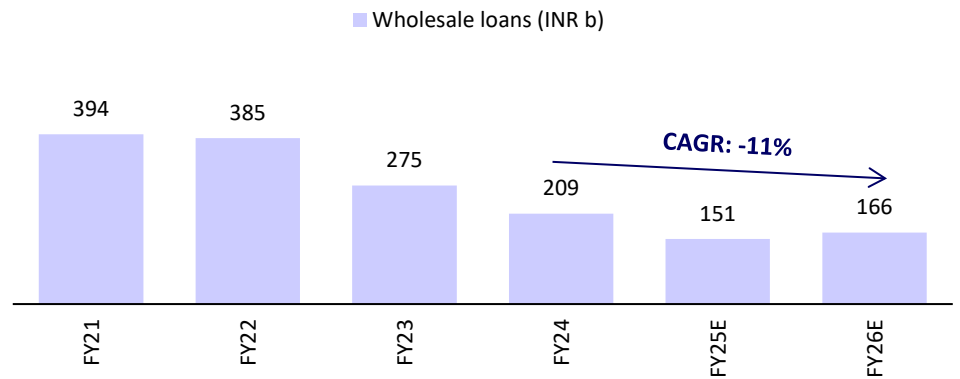
Exhibit 12: Goals PIEL aspires to achieve in the Financial Services business by FY28



Source: MOFSL, Company

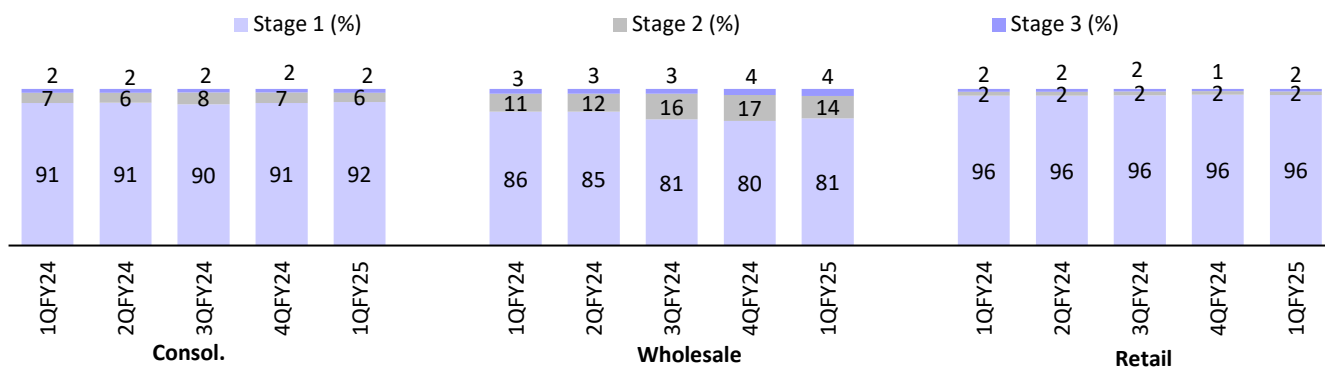
- Some of the articulated targets include ~26% CAGR in retail segment with AUM of ~INR1.5t
- For scaling up its organic origination capabilities, the management plans to improve the physical distribution by adding ~100 branches in FY25 and expanding its distribution network to 500-600 branches, with a presence in ~1,000 locations within the next five years.

Exhibit 13: Expect rundown of legacy AUM to be complete in FY25



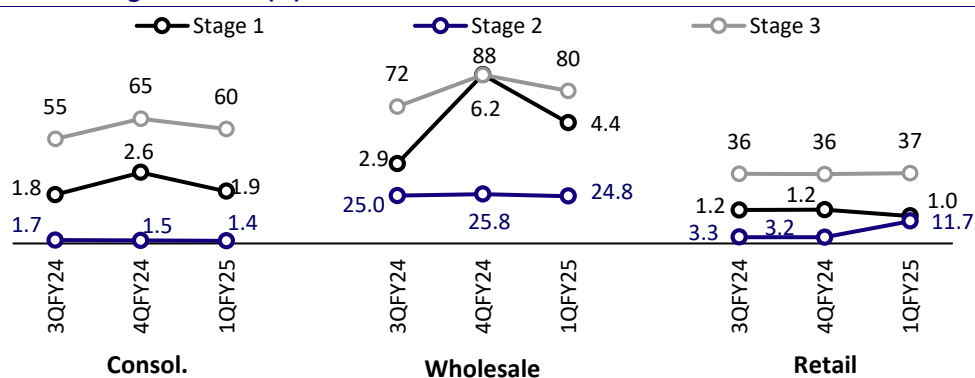
Source: MOFSL, Company

Exhibit 14: Stage-wise assets



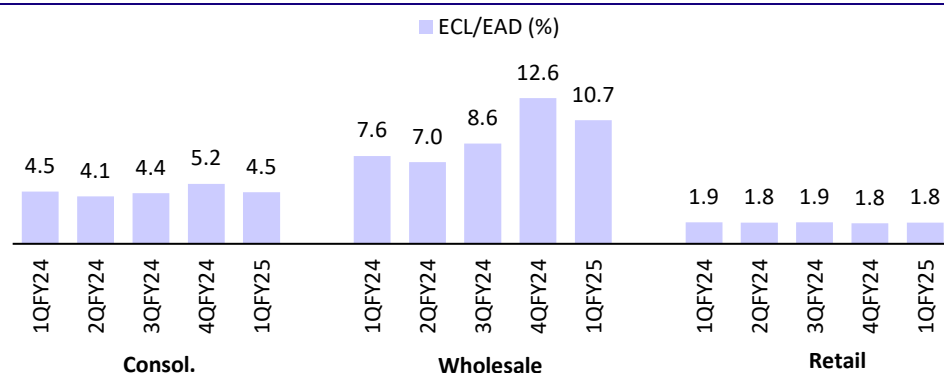
Source: MOSL, Company

Exhibit 15: Stage wise PCR (%)



Source: MOSL, Company

Exhibit 16: ECL/EAD ratio across both wholesale and retail segments



Source: MOFSL, Company

Valuation and view

Pockets of opportunity, which we earlier thought would be utilized for some inorganic acquisition in retail businesses or for strengthening the balance sheet, are being utilized to run down the stressed legacy AUM.

- Our earnings estimates for FY25 and FY26 only factor in exceptional gains from its AIF exposures and no tax incidence in the near future. Because of the uncertainty and unpredictability around the timing of the monetization of its stake in Shriram Life and General Insurance, we have not factored it in our estimates. It does, however, provide streams of one-off gains, which can help offset the credit costs required to dispose of the stressed legacy AUM.
- We do not see catalysts for any meaningful improvement in the core earnings trajectory of the company. We expect PIEL to deliver ~1.7% RoA and ~6% RoE in FY26. We value the lending business at 0.6x FY26E P/BV (unchanged). **Retain Neutral with a revised TP of INR1,000 (premised on Mar'26 SOTP).**

PEL: SOTP - Mar 2026

	Value (INR B)	Value (USD B)	INR per share	% To Total	Rationale
Lending Business	183	2.2	816	82	0.6x Mar'26E PBV
Shriram Group	32	0.4	142	14	Based on its stake in Shriram Life/General Insurance Businesses
Life Insurance	4	0.1	19	2	0.4x FY23 EV
Alternatives	5	0.1	23	2	0.5x FY23 Equity
Target Value	225	2.7	1,000	100	
CMP			1,046		

Financials and valuations*

Income statement						INR m
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E
Interest Income	69,260	75,228	77,986	74,230	86,722	1,10,550
Interest Expended	41,580	42,251	40,412	44,004	53,018	61,844
Net Interest Income	27,680	32,977	37,574	30,226	33,704	48,706
Change (%)		19.1	13.9	-19.6	11.5	44.5
Other Income	1,150	3,881	12,881	9,480	14,653	14,392
Net Income	28,830	36,858	50,456	39,706	48,358	63,098
Change (%)		27.8	36.9	-21.3	21.8	30.5
Operating Expenses	6,360	12,284	22,148	27,740	30,116	35,656
PPoP	22,470	24,574	28,307	11,966	18,242	27,442
Change (%)		9.4	15.2	-57.7	52.5	50.4
Provisions/write offs	10	8,299	54,101	39,900	22,459	15,692
PBT	22,460	16,275	-25,793	-27,934	-4,218	11,749
Tax	5,790	4,062	-39,781	-11,030	-633	0
Tax Rate (%)	25.8	19.0	0.0	0.0	15.0	0.0
PAT (before associate income)	16,670	12,213	13,987	-16,904	-3,585	11,749
Associate Income	0	5,939	3,886	1,540	770	847
PAT (before exceptional)	16,670	18,152	17,873	-15,364	-2,815	12,596
Exceptional items	0	-1,529	80,663	-1,480	12,000	5,000
PAT (after exceptional)	16,670	16,622	98,536	-16,844	9,185	17,596
Profit from discontinued Operations	0	3,365	0	0	0	0
Reported net profit/loss	16,670	19,988	98,536	-16,844	9,185	17,596

Balance sheet

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E
Capital	451	477	477	449	449	449
Reserves & Surplus	1,80,279	3,54,414	3,10,114	2,65,121	2,72,060	2,85,982
Net Worth	1,80,730	3,68,369	3,10,591	2,65,571	2,72,509	2,86,431
Borrowings	3,75,564	5,54,510	4,95,828	5,34,020	6,31,203	7,90,490
Change (%)	0	48	-11	8	18	25
Other liabilities	5,086	39,549	23,891	24,274	27,915	32,102
Total Liabilities	5,61,380	9,98,729	8,37,522	8,26,050	9,31,626	11,09,024
Loans and advances	4,61,680	4,93,180	4,63,946	5,49,434	7,38,355	9,70,959
Change (%)	0	7	-6	18	34	32
Investments		2,48,565	2,23,318	1,25,130	68,822	55,057
Net Fixed Assets	1,200	86,715	7,385	6,232	6,856	7,541
Cash and Cash equivalents	38,500	71,872	46,491	44,468	50,000	30,000
Deferred tax assets		13,679	18,472	28,756	14,378	7,189
Other assets	60,000	71,366	77,910	72,030	53,216	38,277
Total Assets	5,61,380	9,98,729	8,37,522	8,26,050	9,31,626	11,09,024

E: MOFSL Estimates

Financials and valuations*

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E
Spreads Analysis (%)						
Yield on loans	14.5	14.4	13.0	11.6	11.5	11.8
Cost of funds	10.6	9.1	7.7	8.5	9.1	8.7
Spread	3.8	5.3	5.3	3.0	2.4	3.1
Net Interest Margin	5.8	6.3	6.3	4.7	4.5	5.2
Profitability Ratios (%)						
RoE	9.9	6.6	5.3	-5.8	3.4	6.3
RoA	3.1	2.3	1.9	-2.0	1.0	1.7
C/I ratio	22.1	33.3	43.9	69.9	62.3	56.5
Asset Quality (%)						
Gross NPA	20,180	22,270	20,550	14,300	16,395	16,864
Gross NPA (% of AUM)	4.1	3.6	3.3	2.2	2.0	1.6
Net NPA	9,870	9,980	10,380	4,960	4,918	5,059
Net NPA (% of AUM)	2.1	1.7	1.8	0.8	0.6	0.5
PCR (%)	51.1	55.2	49.5	65.3	70.0	70.0

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E
AUM (INR m)						
	4,88,910	6,51,850	6,39,890	6,88,460	8,19,744	10,53,987
YoY growth (%)	-5	33	-2	8	19	29
AUM Mix (%)						
Wholesale	89.2	69.6	49.8	30.4	18.4	15.7
Retail	10.8	33.1	50.2	69.6	81.6	84.3
Total	100.0	102.6	100.0	100.0	100.0	100.0
Wholesale Loans (INR m)						
	3,93,650	3,84,620	2,74,960	2,09,190	1,50,617	1,65,678
YoY growth (%)	-13.3	-2.3	-28.5	-23.9	-28.0	10.0
Retail Loans (INR m)						
	53,030	2,15,520	3,21,440	4,79,270	6,69,127	8,88,309
YoY growth (%)	-4.2	306.4	49.1	49.1	39.6	32.8
Total Loan Book	4,46,680	6,00,140	5,96,400	6,88,460	8,19,744	10,53,987
YoY growth (%)	-12.4	34.4	-0.6	15.4	19.1	28.6

VALUATION	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (INR)	801	1,544	1,301	1,182	1,213	1,275
Price-BV (x)		0.7	0.8	0.9	0.9	0.8
EPS (INR)	73.9	69.7	74.9	-75.0	40.9	78.3
EPS Growth YoY		-6	8	-200	-155	92
Price-Earnings (x)		15.0	14.0	-13.9	25.6	13.4
Dividend per share (INR)			31.0	10.0	16.4	19.6
Dividend yield (%)			3.0	1.0	1.6	1.9

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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