

September 3, 2018

Rating: BUY

Ticker: PEL
 CMP: Rs.3064
 Target: Rs.4050
 Upside: 32%

Key Stock Data

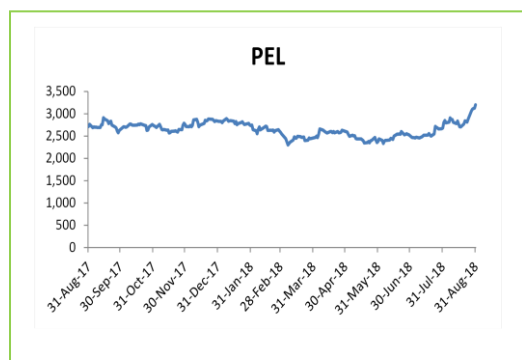
Sector	Pharmaceuticals
No. of shares	18 Crs
FV (Rs)	2
MCAP (Rs)	56,092 Crs
MCAP (\$)	806 Crs

Key Financials (Rs. in Crs)

Y/E March	FY18 A	FY19 E	FY20 E
Revenue	10,899	13,624	16,349
EBITDA	2961	3500	4025
PAT	1271	1423	1637
EPS /sh.	72	79	90
BV /sh.	1326	1458	1531
P/BV (x)	2.35	2.14	1.90
PE (x)	42.75	38.96	34.2
ROE (%)	10%	12%	14%

Shareholding Pattern

Promoters	50.77%
FII's	31.99%
DII's	2.86%
Others	14.38%



Research Analyst

Foram Parekh

Foram.parekh@indiabulls.com**Piramal Enterprises Ltd. - PEL****1QFY19 Result Update**

The Company reported good set of 1QFY19 numbers on all counts on a yearly basis. The topline of the company grew by 25% Y-o-Y to Rs. 2,916 Crs in 1QFY19 as against Rs.2,337 Crs in 1QFY18. EBITDA for the quarter grew by 34% Y-o-Y to Rs. 1541 Crs in 1QFY19 as against Rs.1,146 Crs in 1QFY18 and Rs. 1417 Crs in 4QFY18. Adjusted PAT for the quarter grew by 27% Y-o-Y to Rs. 382 Crs in 1QFY19 against Rs.302 Crs in 1QFY18. EBITDA Margin increased by 604 bps Q-o-Q to 52.85% as against 49.04% in 1QFY18. Adjusted PAT Margin increased marginally by 18 bps Y-o-Y to 13.10% in 1QFY19 as against 12.92% in 1QFY18.

Retail Housing Finance Business mounting up

On account of the merger between Piramal Capital and Piramal Housing Finance, the long-term debt instruments of Piramal Capital and Housing Finance Company were rated CARE AA+ Stable and it is an upgrade from the earlier rating of CARE AA Stable. The Housing Finance vertical which was opened last year is worth Rs.1604 Crs in 1QFY19 and disbursements are of Rs.384 Crs.

Outlook & Valuations

PEL earns most of its revenues from exports as a result rupee depreciation will play a vital role in increasing sales. Also, the financial service business is the key to growth for PEL. We feel Housing Finance business will continue to do well as the management has successfully grown its Pharma business. On a conservative side, we expect the company to grow at a CAGR of 12% on a bottom-line on a consolidated basis for the next two years. The company is currently fairly trading at 35x FY20 PE. We would like to allot a PE multiple of 45x on account of its strong Pharma business which is mainly export driven and growing NBFC business to arrive at a target price of Rs. 4050 per share.

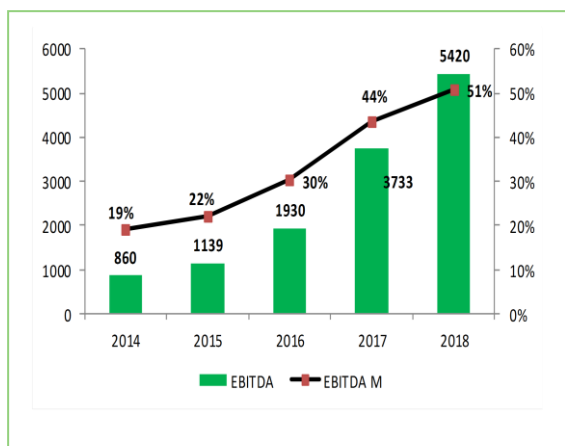
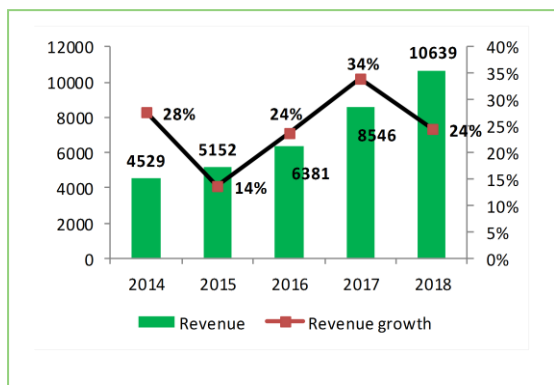
Quarterly Financial Highlight Table (Rs. In Crs)

Particulars	1QFY19	4QFY18	1QFY18	Q/Q	Y/Y	FY2018
Revenue	2916	3027	2337	-4%	25%	10899
EBITDA	1541	1417	1146	9%	34%	2961
PAT	-130	3851	247	NA	NA	1271
EPS	-3.47	203.65	17.46	NA	NA	72
EBITDA M	53%	47%	49%	604 bps	381 bps	27%
PAT M	NA	127%	11%	NA	NA	12%

Investment Rationale

1. Housing Finance Business arm is the cash cow of the portfolio.

The Housing finance business which is the newly opened segment is growing at a speedy rate. The Housing Finance vertical which was launched on the 4th of September 2017 which is less than a year as on today, is growing a loan book to the corpus of Rs. 1,604 Crs and disbursement has touched to Rs. 384 Crs as on 1QFY19. The loan book growth has chiefly come from 6 cities and 7 branches. The region which contributed to the steep growth is Mumbai as the other centers like NCR, Bangalore and Pune all were launched between March and April FY19. As a result, the real AUM has come solely from Mumbai. The management continues to see the uptick month-on-month in disbursement as the other regions are also able to contribute in the upcoming months.

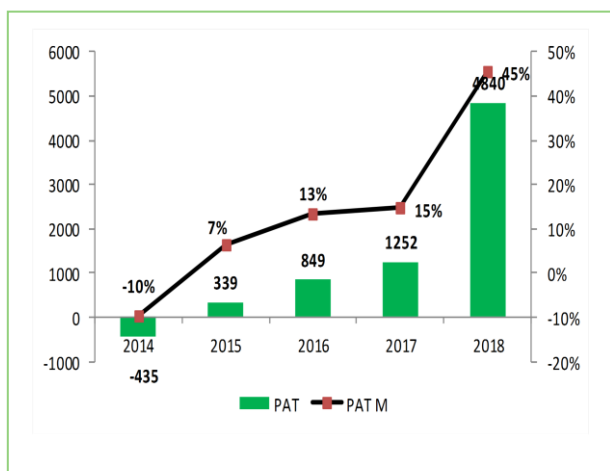


2. Stable Asset Quality

PEL has a stable asset quality with NPA of 0.3% and have zero NNPA and it has been continuously below 1% for the 10 consecutive quarters. This asset quality is on a disbursement amount of Rs. 8,800 Crs. The management expects the asset quality to be on the similar grounds in the upcoming quarters.

3. Uptick in Pharma segment too

Pharma revenue grew 16% Y-o-Y to Rs.1065 Crs as against Rs. 917 Crs. EBITDA margin, however, shrank 300 bps Y-o-Y to 20% in 1QFY19, primarily due to a change in revenue mix (high growth from service business). Going forward, PEL expects margin to improve to approximate 25% on a yearly basis. On account of a strong growth in API development, stable performance of inhalation anesthesia, strong volume growth of vitamins and premixes, the Pharma segment managed to grow in double digits globally. As the company's business model is different than other Indian Pharma companies it is able to perform as it is not impacted by regulatory issues and generate pricing pressure. PEL has cleared 5 regulatory inspections including an US FDA inspection and 51 customer audits during the quarter and since inception PEL has cleared 138 regulatory inspections and 877 customer audits.



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In financial services, PEL provides comprehensive financing solutions to real estate companies.

PEL's primary businesses are based on contracts with customers.

PEL earns most of its revenues from exports as a result rupee depreciation will play a vital role in increasing sales.

Housing Finance business will continue to do well as the management has successfully grown its Pharma business.

Company Background

Piramal Enterprises Ltd., the flagship company of the Piramal Group, has a fundamental position in the Pharma, Healthcare Information Management, and Financial Services. In 2010, PEL sold its domestic formulations business at a valuation of ~9x sales and ~30x EBITDA of the Group's flagship company, Piramal Enterprises Limited, generates more than 51% of its revenues from international markets. In financial services, PEL provides comprehensive financing solutions to real estate companies. The division's Corporate Finance Group also provides senior and mezzanine growth capital to various businesses across varied sectors that are integral part of India's growth story.

Risk & Concerns

1. In the financial services businesses, the risk of default and non-payment by borrowers may adversely affect profitability and asset quality.
2. PEL's primary businesses are based on contracts with customers. In some contracts, a large portion is transacted with a few major customers. Therefore, any set back at customers' end may adversely affect the Company's financials.

Outlook & Valuations

PEL earns most of its revenues from exports as a result rupee depreciation will play a vital role in increasing sales. Also, the financial service business is the key to growth for PEL. We feel, Housing Finance business will continue to do well as the management has successfully grown its Pharma business. On a conservative side, we expect the company to grow at a CAGR of 12% on a bottom-line on a consolidated basis for the next two years. The company is currently fairly trading at 35x FY20 PE. We would like to allot a PE multiple of 45x on account of its strong Pharma business which is mainly export driven and growing NBFC business which is showing strong signs of growth to arrive at a target price of Rs. 4050 per share.

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Analyst Stock Rating	
Ratings	Expected absolute returns over 12 months
BUY	>15%
HOLD	10- 15%
REDUCE	<10%

Research Analyst:

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Indiabulls Ventures Limited is a SEBI Registered Research Analyst having registration number: INH100004906

Disclosure:

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