Equity Research

May 14, 2021

BSE Sensex: 48691

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Q4FY21 result review and earnings revision

Target price: Rs2,230

Earnings revision

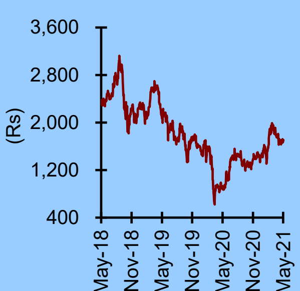
(%)	FY22E	FY23E
PAT	↓ 1	↑ 3

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	46.1	46.1	46.1
Institutional investors	39.4	39.4	39.6
MFs and others	0.9	1.3	1.4
FIs/Banks	0.0	0.0	0.0
Insurance	8.8	8.8	8.8
FIIs	29.7	29.3	29.4
Others	14.5	14.5	14.3

Source: BSE

Price chart



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INDIA

ICICI Securities

Piramal Enterprises

BUY

Maintained

DTA derecognition and interest reversals weigh on earnings; strategic priorities remain in place

Rs1,695

Piramal Enterprises (PEL) reported a loss of Rs5bn due to DTA derecognition of Rs12.6bn created on goodwill earlier. Adjusting for this, consolidated PAT was down 7% QoQ to Rs7.48bn. Company stayed put on its strategy of rationalising wholesale exposure (down 4% QoQ), ramping up secured mass retail lending, and addressing stress exposures appropriately (through provisioning or restructuring). No credit cost (all through FY21) after creating buffer in Q4FY20 despite doubling of stage-3 assets suggests adequacy of the provisioning. However, yields were dragged down due to interest derecognition and 'interest on interest' reversals, which weighed on core earnings. Pharma business performance was strong – 23% revenue jump in CDMO and 55% in OTC segment supporting margins at 28%. Near to medium term triggers: a) demerger of financial services and pharma business; and b) business transformation in each of these segments opening up new possibilities and optional value. Maintain BUY. Key risks: 1) deferment in approval process of DHFL acquisition; and 2) higher mark-down on the acquired portfolio.

- **Recovery in complex hospital generics:** PEL reported 18.0% revenue growth in Q4FY21 on the back of 23.1% YoY growth in the CDMO segment, which was driven by strong orderbook and approvals for five NCEs. Critical care segment reported healthy recovery during the quarter posting a growth of 27.1% QoQ (+1.4% YoY) with falling covid cases in the developed markets raising demand for elective surgeries. OTC reported healthy growth of 54.9% YoY albeit on a low base, with improving consumer sentiment and high demand for covid protection products (sanitisers, masks, etc.). We remain positive on the company's growth potential and expect pharma revenues to grow at a CAGR 16.0% over FY21-FY23E.
- **Stage-3 assets rose to 4.5%; no further restructuring beyond 3.8%**: Stage-3 assets increased QoQ to 4.5% (from 3.7%) – optically higher due to decline in the wholesale book. In absolute terms, there was an increase of Rs3.1bn to Rs20.2bn as 3 accounts slipped from stage-2 to stage-3. Couple of them will be resolved in Q1FY22 itself – one of the accounts (Sadbhav) has been repaid in April itself. In Q3FY21, PEL invoked OTR for loans worth Rs17bn (3.8% of loan book); no additional accounts were restructured in Q4FY21. Despite reduction in the wholesale loanbook, the company continues to maintain provisions at 6.3% of the loanbook (Rs28bn; down Rs1.4bn in Q4FY21) to manage any contingencies arising from covid second wave. PEL is confident that provisions of 6.8% on the wholesale portfolio is adequate, and there was no creation of any further buffer (fourth successive quarter of no provisioning post the one created in Q4FY20). Company carries provisions of Rs20.3bn against standard assets (stage 1 & 2 loans) – at 4.5%. We are building-in a credit cost of 1%/0.8% for FY22E and FY23E.
- **'Interest on interest' reversal, fair value adjustment and interest derecognition weighed on NIMs:** Yields corrected sharply from 14.6% in 9MFY21 to 14.1% for FY21 suggesting more than 150bps decline QoQ. We believe interest derecognition on incremental slippages and some restructuring, 'interest on interest' reversal of Rs750mn (on loans above Rs20mn), and consistent reduction in the wholesale book, resulted in fall in yields. Funding cost inched up marginally by 10bps to 8.5% for FY21 (from 8.4% for 9MFY21). NIMs consequently declined from 6.2% in 9MFY21 to 5.6% in FY21.

Market Cap	Rs368bn/US$5.1bn
Reuters/Bloomberg	PIRA.BO/PIEL IN
Shares Outstanding (mn)	225.5
52-week Range (Rs)	1632/623
Free Float (%)	53.9
FII (%)	29.4
Daily Volume (US$'000)	33,985
Absolute Return 3m (%)	17.0
Absolute Return 12m (%)	5.6
Sensex Return 3m (%)	18.3
Sensex Return 12m (%)	26.6

Year to Mar	FY20	FY21P	FY22E	FY23E
Revenues (Rs mn)	1,30,683	1,29,416	1,36,273	1,51,722
Net Income (Rs mn)	-5,530	14,128	27,436	32,433
EPS (Rs)	-24.5	62.6	108.2	122.3
% Chg YoY	-131	-355	73	13
P/E (x)	NM	27.1	15.7	13.9
P/BV (x)	1.3	1.1	1.1	1.1
GNPA (%)	2.4	4.5	5.5	5.0
Dividend Yield (%)	0.8	0.8	1.2	1.2
RoA (%)	0.0	2.0	3.8	4.1
RoE (%)	0.1	4.3	7.5	8.3

- **Exposures to Lodha and Omkar appropriately addressed to safeguard from risks:** The group had an exposure of Rs31bn as of FY20 at holdco level in Lodha group. The exposure itself was reduced through the course of FY21 to Rs26.4bn. Of this, Rs15.9bn was transferred during FY21 to SPV where it has ready inventory as collateral against the exposure. Balance of Rs10bn is at listed entity level that would further reduce with repayment from IPO proceeds. Similarly, exposure of Rs13bn in Omkar was refinanced through PEL (from PCHFL) as it envisaged that the land is valuable and given it has rights equivalent to FSI development rights, it was sitting on a rich collateral. As the company would not have been able to enforce the rights under PCHFL, the loan of PCHFL was paid back by PEL. Now PEL will monetise the asset FY22 onwards as they are the master developers and can evaluate either doing joint development or sell development rights. Given huge land parcel as collateral, PEL is confident of getting the principal recovered and hopefully will get some interest component as well.

- **Continues to monitor early trends in Q1FY22 for second wave impact:** Performance of PEL's developer clients was robust in Q4FY21: 1) developers' project sales are up 115% YoY, 2) their collections from homebuyers are 74% higher YoY, 3) construction has commenced at nearly 100% of sites, etc. With learnings from covid first wave, developers now have better sales pipelines and competencies to digitally market / sell products. With 100% escrow control, PEL is verifying clients' vendor payments ensuring construction progress across projects. While construction is continuing on almost all the sites, it is seeing some labour shortage at a few locations. However, post West Bengal elections, workers are now returning. Collections were healthy due to stronger than expected sales in FY21. This trend was visible in April as well. Till 75% construction stage, doesn't see a risk to collections. Though there isn't much risk to collections, sales may drop in May if constructions are impacted

- **Granularising and rationalising wholesale exposure:** PEL is continuing to rationalise the wholesale loanbook - compared to one account earlier, now there are no exposures >15% of net worth of financial services business. In fact, the wholesale book declined QoQ from Rs410bn to Rs394bn (down 4% QoQ and down 23% since FY19). Top 10 exposures were down by Rs1bn to Rs133bn. We expect organic growth to be led by retail scale-up and the wholesale book to remain in consolidation mode.

- **Wants to transform to 50:50 wholesale:retail mix post DHFL acquisition:** The group's core objective is transform into a well-diversified lending entity with share of retail rising to 50%. This will primarily be driven by organic build-up of retail lending, completion of DHFL acquisition, and rationalising wholesale lending and making it more granular. It continued with organic build-up of retail increased product suite from two to seven products in FY21 (will add four more in FY22), expanding to 40 locations and increasing headcount to 1,000. Company is partnering with fintechs and consumer tech firms to build scalable cloud infrastructure and create a big data and proprietary information asset~~s~~. Digital infrastructure and manpower excellence will be based out of Bengaluru. Traction was witnessed across product categories in terms of disbursements during Q4FY21 at Rs4.1bn at an average yield of 11.9%.

- **DHFL acquisition process underway:** The deal consideration is Rs342bn – comprising an upfront cash component of Rs147bn (including cash on DHFL's balance sheet) and a deferred component (NCDs of 10 years to existing DHLF lenders) of Rs195.5bn. PCHFL's resolution plan received approvals from the RBI in February and Competition Commission of India (CCI) in April. With respect to NCLT approval, hearings are underway and are expected to be concluded in a couple of months. Post NCLT approval, it will take about two months to close the deal and start integration.

- **Financial services and pharma business well capitalised; no need of capital allocation in the medium term:** Due to the reported loss, consolidated net worth reduced from Rs355bn to Rs351bn and, with net debt further being reduced to Rs301bn (from Rs310bn in Q3FY21), 'net debt to equity' ratio stands at 0.9x. Of this net worth, 51% of equity is earmarked to financial services at Rs180bn (compared to Rs174bn in Q3FY21), Rs60bn towards pharma (from Rs57bn), and unallocated equity is down to Rs110bn (from Rs124bn). Currently, both the operating businesses, be it financial services or pharma, are sufficiently capitalised and will not need capital for medium-term growth. However, there are several avenues for deployment of this unallocated equity, e.g. new business, inorganic opportunities or return to shareholders.

Table 1: PEL's SoTP valuation (not assigning optional value to unallocated equity for retail scale-up)

	Networth (Rs bn)	Multiple	Value (Rs bn)	Price (Rs/share)	Rationale
Financial Services	214	1.2	246	1089	We value this business at 1.15x Mar'23 P/BV; Loanbook CAGR of ~10-15% over FY21E-FY23E; RoA of >3% over FY22/FY23. RoE while subdued will improve with leverage.
Shriram Investments	28		34	151	~10% stake in Shriram City and ~20% stake in Shriram Capital.
Excess networth	42	0.5	21	94	Excess networth valued at 0.5x currently
Pharma	73		202	897	We value the Global Pharma business at 13xMar'23 EV/EBITDA and the India consumer products business at 3xMar'23 EV/Sales
Fair value			**503**	**2230**	
Optional value					
- Retail business scale	42	0.0	0	0	No networth to be utilised now for retail business scale-up
Total value			**503**	**2230**	

Source: I-Sec research

Table 2: Net debt to equity has almost halved over the past two years

PEL Financial Services	Net Debt to Equity (x)	CAR (%)
Q4FY19	3.9x	22%
Q2FY20	2.8x	27%
Q4FY20	2.3x	31%
Q2FY21	2.1x	34%
Q4FY21	1.8x	37%

Source: Company, I-Sec research

Table 3: RoE at 10% for FY21, despite tough year

PEL Financial Services - KPIs	FY21
Total Assets	Rs 568.48 bn
Total Loan Book size	Rs 446.68 bn
Total Equity	Rs 180.73 bn
Net Debt to Equity	1.8x
Average Yield on Loans	14.1%
Average Cost of Funds	8.5%
Average Cost of Borrowings	10.8%
Net Interest Margin	5.6%
Cost to Income Ratio	22.0%
Total Provisioning as a % of loan book	6.3%
Gross NPA ratio (based on 90 dpd)	4.5%
Net NPA ratio	2.4%
ROA	3.4%
ROE	10.0%

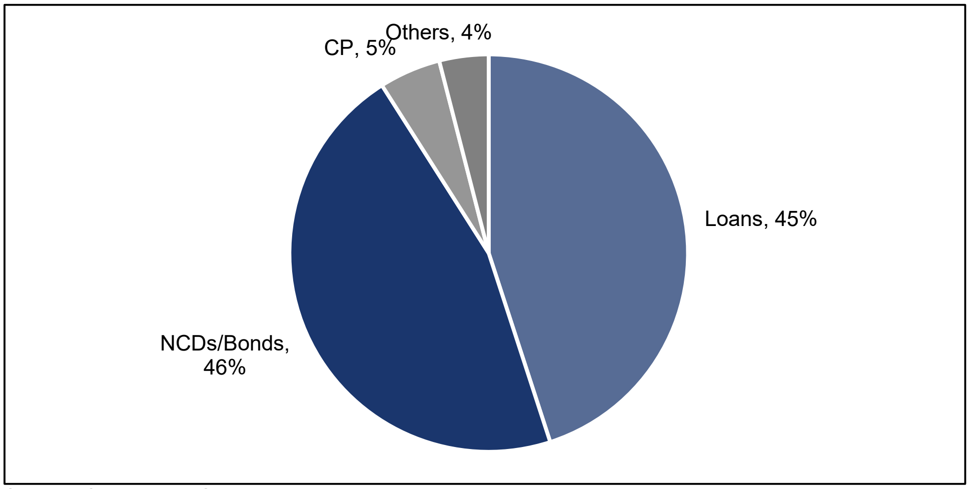
Source: Company, I-Sec research

Table 4: Looks adequately covered for the existing stress pool

PEL Financial Services - Stage wise performance (Rs bn)	Mar-20	Dec-20	Mar-21
Gross Stage 1 & 2 Loans 2 Loans	498	447	427
Provision - Stage 1 & 2 loans	25	20	18
Provision Coverage Ratio - Stage 1 & 2	**5.00%**	**4.50%**	**4.10%**
Gross Stage 3 Loans (GNPAs)	12	17	20
GNPA Ratio (% of loans in Stage 3)	**2.40%**	**3.70%**	**4.50%**
Provision - Stage 3 loans	5	9	10
Provision Coverage Ratio - Stage 3	**40%**	**53%**	**51%**
Net NPA Ratio	1.50%	1.80%	2.40%
Total Provisions	30	29	28
Total Loans	510	464	447
Total Provision / Total Loans	**5.80%**	**6.30%**	**6.30%**
Total Provision / GNPAs	**246%**	**172%**	**139%**

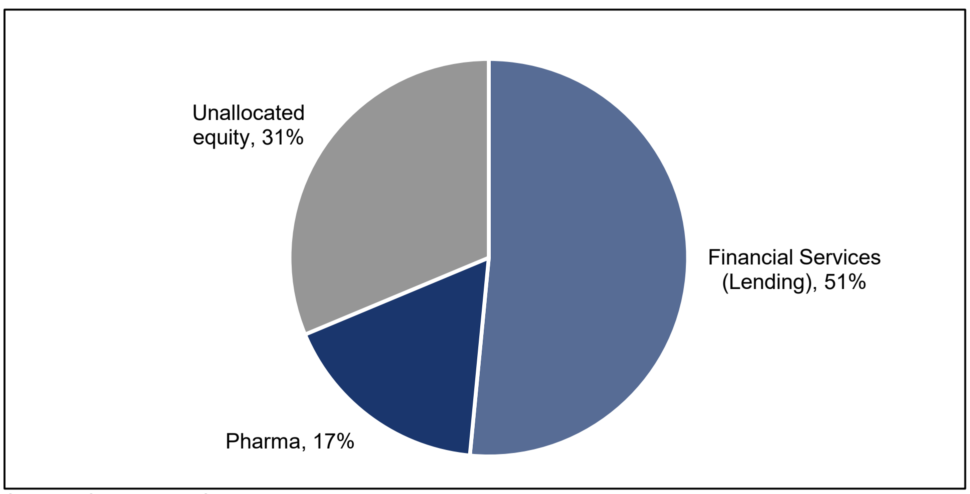
Source: Company, I-Sec research

Chart 1: Borrowing mix largely includes TL & bonds



Source: Company, I-Sec research

Chart 2: Financial Services comprise >50% of the net worth



Source: Company, I-Sec research

Q4FY21 earnings call takeaways

Chairman's commentary

- Country is better prepared this time than year back. Government imposing measured lockdown to minimise disruptions
- However, goes without saying that it is equally well important for everyone to be prepared for economic slowdown in case it is prolonged
- Macro financial conditions in Q1FY22 are similar to Q2FY20 last year.

Balance sheet strength

- Balance sheet side - raised Rs180bn of equity and Rs335bn of long term debt.
- Net debt to equity has reduced from 2x to 0.9x.
- CAR has gone up to 37%.
- Much stronger ALM profile with significant lower CP outstanding.
- DTA was created at consolidated on unamortized part of goodwill which is now reversed and cleaned up entirely.

On asset quality

- ***GNPA increased QoQ to 4.5% from 3.7% as of Dec-20 optically looks higher due to decline in wholesale book.***
- ***In absolute term, there was an increase of Rs3.1bn to Rs20.2bn as couple of accounts slipped from stage-2 to stage-3.*** Two of them will be resolved in Q1FY22 itself – Sadbhav has been repaid in April itself.
- In Q3 FY21, invoked OTR for loans worth Rs17bn; no additional accounts were restructured in Q4FY21.
- ***Despite reduction in wholesale loan book, it continues to maintain provisions at 6.3% of loan book (Rs28bn – down Rs1.4bn in Q4FY21)*** to manage any contingencies arising from the second wave of COVID-19. Provisions against the wholesale book is much higher at 6.8%. It carries provisions of Rs20.3bn against standard assets (Stage 1 & 2 loans) – at 4.5%

Specific exposures

- **Lodha exposure:** March 20 has Rs31bn at holdco and now it is Rs26.4bn – out of this Rs15.9bn is in SPV which is against ready inventory and in listed entity it was Rs10bn.
- **Omkar exposure** – Rs13bn exposure now with PEL – it had envisaged that land is valuable and since it equivalent to FSI development rights, it was sitting on a rich collateral. PCHFL cannot transfer rights on its own and it was paid back by PEL. Now PEL will monetize it FY22 onwards. It is confident of getting the principal out and hopefully will get over and above that as well. 67 lakhs square feet land on highway and collateral is far more than the exposure. Now they are master developers and will do join development or sell development rights

On provisioning

- Made incremental provisioning of Rs19bn and total provisioning now stands at Rs28bn – this is equivalent to 6.8% of wholesale loan book
- It has utilised Rs1.66bn out of this.
- Sufficient to meet any future contingencies that might arise due to second wave.

On NIMs

- As the wholesale book is coming down, it has led to margin decline.
- ***Interest on interest reversal is Rs730mn.***
- Also there was an impact on account Omkar deal where there were transfer rights

Rationalising wholesale book

- Performance of PEL's developer clients: 1) their developer's project sales are up 115% YoY, 2) their collections from homebuyers are 74% higher YoY, 3) construction has commenced at nearly 100% of sites, etc.
- It is continuing with its progress on rationalizing the wholesale loan book – compared to one, now there are no exposures >15% of net worth of financial services business. Infact wholesale book decline QoQ from Rs410bn to Rs394bn (down 4% QoQ and down 23% since FY19). Top 10 exposures were down Rs1bn to Rs133bn.

Early trends in Q1FY22 with respect to developers

- Q4FY21 sales – MMR 2.5x of pre-covid and in other regions, it clocked 1.4-1.5x pre-Covid. Doing better than pre-covid itself is a good sign.
- With learnings from COVID 1st wave, developers now have healthy sales pipeline and competencies to digitally market / sell products
- With 100% escrow control, it is verifying clients' vendor payments ensuring construction progress across projects
- While construction is continuing on almost all the sites, it is seeing some labor shortage at a few locations – however post West Bengal elections, labours are now returning back.
- Collections were healthy due to stronger than expected sales in FY2021. This trend was visible in April 21 as well. Collections in April were Rs7.5bn – only 250mn from new sales but from earlier agreed
- Till 75% construction stage, doesn't see a risk to collections. Though not much risk to collections, sales can drop in May if constructions are impacted.

Equity at the group level

- ***51% of equity is earmarked to financial services at Rs180bn (compared to Rs 174bn in Q3FY21), Rs60bn towards pharma (from Rs57bn) and unallocated equity is down to Rs110bn (from Rs124bn).***
- On financial services, with NW of Rs180bn – net debt is equity is comfortable – will not add capital though it might grow the book.
- Unallocated will remain unallocated and both the operating businesses be it financial services or pharma are sufficiently capitalised and will not need capital in the medium term.
- There are several avenues for deployment of this unallocated equity - either new business, inorganic opportunities or return to shareholders.

Building retail portfolio

- Will be well diversified with share of retail to increase to 50% - organic build up of retail lending, completion of DHFL acquisition, rationalizing wholesale and making more granular
- Continued organic build-up of multiproduct retail lending platform, since its launch in Nov-2020
- Increased product suite from 2 to 7 products in FY21 and expanded to 40 locations and increased headcount to 1,000.
- Traction witnessed across product categories in terms of disbursements during Q4FY21 at Rs4.1bn
- 3 parts to credit underwriting – work with fintech partners upfront; grading criteria is pre-determined - partners past track record and history.
- Digital infrastructure and manpower excellence will be in Bangalore

DHFL acquisition status

- Proposed DHFL Acquisition: - PCHFL's resolution plan received approvals from the RBI in Feb-2021 and Competition Commission of India (CCI) in Apr-2021
- With respect to NCLT approval, hearing are underway and to be concluded in couple of months time.

Pharma business

- Company believes it will be able to achieve 15% organic growth over long term and will consider inorganic opportunities in the near term to build the existing business.
- Growth in the complex hospital generics was driven by recovery in elective surgeries as COVID-19 cases have been declining in the developed markets. While company was able to maintain its market share in the products in the last fiscal, new orders augurs well for growth over the coming years.
- Company is no longer eligible for the additional component from the Carlyle deal due to the underperformance of the complex hospital generics business in the last fiscal.
- Capex outlay for the pharma business is USD90-100mn over the next two years.

Other highlights

- Now getting ready to demerge group into two large entities – financial services and pharma. Not sure of the timeline as DHFL transaction is still evolving and there are lot many moving parts.
- Dividend of Rs33/share to the tune of Rs7.9bn.

Q3FY21 earnings call takeaways

Q3 was marked by recovery in various segments of the economy. Continued to deliver resilient performance in all these period – revenue has been stable in line with stated strategy at Rs94bn for 9MFY21. Consolidated profit grew +27% QoQ/+10% YoY to Rs8bn.

PEL has history of several successful transformations - M&A has been a strategic multiplier for the group all through its journey

- In 1988 when it exited textile and entered pharma through series of M&A;
- In 2010 – sold domestic formulation to Abott at 9x sales and 30x EBITDA;
- Even after selling domestic formulation business, has scaled up pharma business to the extent that it can command valuations of USD3bn
- ***In 2021, its now time to think about next 10 years and is positioning itself for next transformation – Many radical changes in wholesale lending and non-compete with Abott is over opening up new possibilities.***
  - Financial services business transformation through acquisition of DHFL
  - Large differentiated listed pharma company – will host pharma day to take into more details

On simplification of corporate structure of the group

- Strengthened both financial and pharma business to stand independently of each other.
- Pharma has own board, executives and senior management team.
- ***Closer to its stated objective of de-merging pharma and financial services.***
- Both the companies have good runway of growth in the long term.

Progress on strategic priorities in financial service business transformation

- **Reduce concentration and build granularity**
  - Move from concentrated exposure to granular portfolio - on expected lines, wholesale loan book further declined to Rs411bn from Rs458bn
  - Top 10 exposures concentration reduced 27% since March 2019 to Rs134bn (from Rs147bn in Q2FY21)
  - Lending portfolio where retail will be 50% of the book – grow retail through organic build-up and DHFL acquisition
  - Commenced disbursements under the multi-product Retail Lending platform, launched 6 new products in Nov-2020 – Rs850mn disbursements in December.

- **From high leverage to high capital adequacy**
  - Since April 2019, capital infusion of Rs180bn taking total networth to Rs355bn. CAR now stands at 31%.
  - Net debt to equity is below 0.9x
  - Has adequate growth capital for next 5 years

- **From short term liabilities to stable long term borrowings**
  - Rs128bn of long term debt has been raised in last 9 months and CP exposures remains low at Rs10bn
  - ALM has improved with significant positive gaps in all buckets

- **Conservative provisioning**
  - Rs29.35bn of provisioning – 6.3% of the loan portfolio (6.8% of wholesale portfolio)
  - Provision on stage-1/2 has increased to Rs20bn – non NPL asset has provisioning of 4.5% of the book
  - More than adequate to meet any future contingencies

<u>DHFL acquisition</u>

- CoC declared the plan submitted by Piramal as the successful resolution plan. 94% votes in favor of Piramal, reflecting the Group's credibility and Balance Sheet strength
- Total consideration of Rs342bn – upfront cash component of Rs147bn (incl. cash on DHFL's B/S) and a deferred component (NCDs of 10 years to existing DHLF lenders) of Rs195.5bn.
- ***Acquisition is in line with PEL's strategy to diversify the loan book and increase its granularity. Its another step towards demerger of Financial Services and Pharma business in future.***
- ***Will give additional branches and customer reach – lot of potential and intent is to work from day zero to cross-sell products in Piramal kitty. Little less than half the branches have right level of staffing. There was meaningful level of attrition a year ago. Sales and collection capacity is there, need to assess credit and underwriting.***
- ***Examining the wholesale book of – though gross block is high will account for that at much lower valuation and believes there will be an upside from those mark-down valuations.***
- ***Retail AUM consists of both on balance sheet as well as securitization arrangements.***
- ***Application has gone to regulators for approval that might in a fortnights time. Post that NCLT approval will come in 2-3 month's time (April-May) and after that will take 35-40 days to close it.***

On performance of PEL developers clients

- Residential real estate have surpassed pre-Covid levels
- Sales of developers increased 82% YoY, developers collections were higher by 49% and 100% construction

On asset quality

- ***Proforma GNPAs have gone up QoQ from 2.5% to 3.7% (in absolute term addition of Rs4.4bn) due to slippage of one account (in auto ancillary segment) from stage-2 to stage-3.***
- Stage-2 plus Stage-3 assets – if it was 100 in Q2FY21 then it would be 105 this quarter – 5% up in absolute term.
- Should not go higher from the current levels but will keep monitoring the portfolio
- Since the company was already carrying buffer of 6% of the book, there was no need to further create the provisioning. No change in NPL ratio and was at 1.8%.

On restructuring

- ***Restructuring came in at Rs17.4bn (3.8% of the book) – much lower than expected. There was only one real estate exposure getting restructured and others were in hospitality, auto component, infra etc.***
- ***DCCO extension was done quite early in the day as soon as Covid has broken out – 10-12% of the book***
- ***Retail loan restructuring was less than 1%.***

On specific exposures

- Non-RE – infra is down to Rs23bn and is down by another Rs1bn (from as high as Rs45bn).
- Top 10 exposures would see steady fall QoQ – Lodha exposure is down from Rs33bn to Rs26bn. Moved all finished inventory into SPV - exposure to Lodha will be Rs10bn and balance will be in SPV.
- Omkar exposure – Rs23bn – counter parties where developers have been different – Piramal Mahalakshmi and L&T Crescent Bay.

On retails

- ***4 significant product lines – lowest yield is mass affluent housing - just a shade under 11% and higher small business secured loans at 13%.***
- Markets are small-town, mid-town India – seeking customers that are not served well by the banking system.
- Partnership it went live is fintech – West Money and 3-4 more lined up for the next quarter (in secured and unsecured lending). Will experiment with various business models but works on float economics at this stage. Intent is to not have heavily concentrated or dependent partnership.
- In personal loans – just in test run stage and live in urban markets. Hence looking at ticket size of Rs30k would not be true indicator – first time jobber young professionals with 25-50k income range.

On cost of borrowings and NIMs

- Cost of funds – since it was wholesale dominated, cost of borrowings is high. With diversification and more granular book, cost of borrowing would come down.
- DHFL money is raised at 6.7%.
- NIMs is healthy at 6.2%.

On pharma

- Overall pharma is a global one and has different business components- EBIDTA margin in each of the segments would be comparable with peers.
- CDMO revenues at Rs8.5bn, growing +16% YoY, driven by strong growth in the order book
- Complex Hospital Generics revenues at Rs4bn, down 13% YoY, impacted by volatility in the demand of products used in surgeries globally; expected to normalize in the coming quarters
- India Consumer Products revenues at Rs1.3bn, up 14% YoY; strong demand for self care and baby care products and new product launches (including COVID-19 protect range) during the year
- Continued strong quality track record with 17 successful regulatory inspections during the year
- Both organic and inorganic expansion – in CDMO, healthy order book generated.
- In consumer products - Launched 15+ new products and 35+ SKUs during the year.
- Upside component on Carlyle deal still exists – will look at last quarters numbers before taking a call on the same.

Other highlights

- In standalone account is treated as exceptional items and in consolidated accounts, it is directly transferred to reserves.

Financial summary

Table 5: Profit and loss statement (Consolidated)

(Rs mn, year ending Mar 31)

	FY19	FY20	FY21P	FY22E	FY23E
Revenues	**1,31,816**	**1,30,683**	**1,29,416**	**1,36,273**	**1,51,722**
-Financial Services	70,634	76,494	70,330	67,925	73,932
-Pharma	47,860	54,189	57,860	68,348	77,791
-DRG	13,322	0	0	0	0
-Others	337	0	1,226	1,000	1,000
EBITDA (Pre Exceptional)	**36,582**	**17,889**	**37,177**	**39,529**	**46,301**
-Financial Services	24,507	3,553	24,347	23,505	27,805
-Pharma	9,809	14,336	12,830	16,025	18,497
-DRG	2,266	0	0	0	0
Depreciation	**5,202**	**5,200**	**5,668**	**6,190**	**6,717**
-Financial Services	76	91	110	132	158
-Pharma	3,929	5,109	5,559	6,059	6,559
-DRG	1,197	0	0	0	0
EBIT (Pre Exceptional)	**31,380**	**12,688**	**31,509**	**33,339**	**39,585**
-Financial Services	24,431	3,462	24,237	23,373	27,647
-Pharma	5,880	9,227	7,271	9,966	11,938
-DRG	1,069	0	0	0	0
Interest exp of Pharma and DRG	6,688	4,449	2,450	2,021	2,293
Unallocated Income/(expenses)	83	939	300	300	300
Core PBT (pre-exceptional)	**24,775**	**9,179**	**30,585**	**31,618**	**37,592**
Exceptional Items	-4,656	0	589	0	0
Reported PBT	**20,119**	**9,179**	**31,173**	**31,618**	**37,592**
Taxes	8,611	19,604	20,429	7,968	9,473
Profit after taxes (PAT)	**11,507**	**-10,426**	**10,744**	**23,650**	**28,119**
Share of associates and JV (including MI)	3,194	4,896	3,384	3,786	4,314
PAT after share of assoc and JV	**14,701**	**-5,530**	**14,128**	**27,436**	**32,433**
PAT from discontinued operations		**5,745**	**0**	**0**	**0**
Net profit for the period	**14,701**	**214**	**14,128**	**27,436**	**32,433**

Note: FY19 numbers have not been restated
Source: Company data, I-Sec research

Table 6: Balance sheet (Consolidated)

(Rs mn, year ending Mar 31)

	FY19	FY20	FY21P	FY22E	FY23E
Equity share capital	370	451	451	507	530
Reserves & Surplus (including OCI)	2,71,870	3,05,260	3,55,505	3,77,615	4,04,478
Shareholders' equity	**2,72,240**	**3,05,711**	**3,55,956**	**3,78,122**	**4,05,008**
Minority Interest	90	0	0	0	0
Total equity	**2,72,330**	**3,05,711**	**3,55,956**	**3,78,122**	**4,05,008**
Borrowings	5,60,400	4,20,550	3,15,542	3,40,846	3,93,004
Other liabilities	23,400	22,829	22,929	27,619	31,845
Total Liabilities	**8,56,130**	**7,49,090**	**6,94,427**	**7,46,587**	**8,29,857**
Cash and cash equivalents	9,190	47,710	40,000	35,000	30,000
Loans	**5,66,240**	**5,09,630**	**4,46,680**	**4,91,348**	**5,65,050**
Investments	94,440	63,400	69,440	69,440	69,440
Goodwill	59,396	11,390	11,390	11,390	11,390
Fixed Assets	57,510	57,940	60,837	65,704	72,274
Deferred tax assets	40,685	23,720	23,720	23,720	23,720
Other assets	28,670	35,300	42,360	49,985	57,982
Total Assets	**8,56,130**	**7,49,090**	**6,94,427**	**7,46,587**	**8,29,857**

Note: FY19 numbers have not been restated
Source: Company data, I-Sec research

Table 7: Key ratios (Consolidated)

(Year ending Mar 31)

	FY19	FY20	FY21P	FY22E	FY23E
Growth ratios (%)					
Core PBT	26.2	-63.0	233.2	3.4	18.9
PAT	-76.2	NM	NM	120.1	18.9
EPS	-72.0	NM	NM	72.7	13.0
Debt-to-equity (x)	2.1	1.4	0.9	0.9	1.0
Profitability ratios (%)					
EBITDA Margin - Pharma	20.5	26.5	22.2	23.4	23.8
Return ratios & capital management					
RoAA (%)	1.9	0.0	2.0	3.8	4.1
RoAE (%)	5.5	0.1	4.3	7.5	8.3
Payout ratio (%)	38.0	-57.1	22.3	19.4	17.2
Valuation ratios					
DPS (Rs)	28.0	14.0	14.0	21.0	21.0
EPS (Rs)	79.5	-24.5	62.6	108.2	122.3
Price to Earnings	21.3	NM	27.1	15.7	13.9
BVPS (Rs)	1,472	1,355	1,578	1,491	1,527
Price to Book	1.2	1.3	1.1	1.1	1.1
Dividend yield (%)	1.7	0.8	0.8	1.2	1.2

Source: Company data, I-Sec research

Table 8: Profit and loss statement (Financial Services)

(Rs mn, year ending Mar 31)

	FY19	FY20	FY21P	FY22E	FY23E
Interest Income	69,331	76,925	67,420	64,724	70,250
Interest Expense	37,410	47,295	39,130	33,702	35,063
Net interest income	**31,921**	**29,629**	**28,290**	**31,022**	**35,188**
Non-interest and fee income	1,304	-431	2,910	3,201	3,681
Total Income (Net of interest expenses)	**33,225**	**29,199**	**31,200**	**34,224**	**38,869**
Operating expenses	5,550	6,990	6,864	6,160	6,996
PPoP	**27,675**	**22,209**	**24,336**	**28,063**	**31,873**
Provisions & contingencies	3,244	18,747	99	4,690	4,226
Profit before tax (PBT)	**24,431**	**3,462**	**24,237**	**23,373**	**27,647**
Tax expenses	8,551	872	18,690	5,890	6,967
Tax rate (%)	35.0%	25.2%	77.1%	25.2%	25.2%
Profit after tax (PAT)	**15,880**	**2,589**	**5,548**	**17,483**	**20,680**

Note: FY19 numbers have not been restated
Source: Company data, I-Sec research

Table 9: Balance sheet (Financial Services)

(Rs mn, year ending Mar 31)

	FY19	FY20	FY21P	FY22E	FY23E
Shareholders' equity	1,14,420	1,55,990	1,80,730	1,92,887	2,13,567
Borrowings	4,46,238	3,98,320	3,26,301	3,47,730	3,90,434
Other liabilities	27,205	29,889	61,449	44,221	33,903
Total Liabilities	**5,87,863**	**5,84,199**	**5,68,480**	**5,84,838**	**6,37,904**
Loanbook	5,66,240	5,09,630	4,46,680	4,91,348	5,65,050
Other assets	21,623	74,569	1,21,800	93,490	72,853
Total Assets	**5,87,863**	**5,84,199**	**5,68,480**	**5,84,838**	**6,37,904**

Note: FY19 numbers have not been restated
Source: Company data, I-Sec research

Table 10: Key ratios (Financial Services)

(Year ending Mar 31)

	FY19	FY20	FY21P	FY22E	FY23E
Loanbook (Rs mn)	5,66,240	5,09,630	4,46,680	4,91,348	5,65,050
Loanbook growth (%)	34	-10	-12	10	15
Growth (%)					
Net interest income	32.2	-7.2	-4.5	9.7	13.4
Operating expenses	59.9	26.0	-1.8	-10.3	13.6
PPoP	24.2	-19.8	9.6	15.3	13.6
Provisions	35.9	478.0	-99.5	4638.6	-9.9
PBT	22.8	-85.8	600.2	-3.6	18.3
PAT	22.8	-83.7	114.2	215.2	18.3
Yields, interest costs and spreads (%)					
Avg. yield on loans	14.0	14.3	14.1	13.8	13.3
Avg. cost of funds	9.3	11.2	10.8	10.0	9.5
Interest Spreads	4.8	3.1	3.3	3.8	3.8
NIM (on AUM)	6.5	5.5	5.9	6.6	6.7
Operating efficiencies					
Cost to income ratio (%)	16.7	23.9	22.0	18.0	18.0
Op.costs/avg AUM (%)	1.1	1.3	1.4	1.3	1.3
Capital Structure					
Debt-Equity ratio	3.9	2.6	1.8	1.8	1.8
Provisioning					
GNPA estimate (% of on-book AUM)	0.9	2.4	4.5	5.5	5.0
Coverage ratio [total provisions as % AUM]	1.9	5.8	6.3	7.2	8.0
Credit costs as % of average AUM	0.7	3.5	0.0	1.0	0.8
Return ratios & capital management					
RoAA (%)	3.1	0.4	1.0	3.0	3.4
RoAE (%)	15.0	1.9	3.3	9.4	10.2

Source: Company data, I-Sec research

Table 11: DuPont Analysis (Financial Services)

(%)	FY19	FY20	FY21P	FY22E	FY23E
Interest earned	13.3	13.1	11.7	11.2	11.5
Interest expended	7.2	8.1	6.8	5.8	5.7
Net Interest Income	**6.1**	**5.1**	**4.9**	**5.4**	**5.8**
Non-Interest Income	0.3	(0.1)	0.5	0.6	0.6
Total Income	**6.4**	**5.0**	**5.4**	**5.9**	**6.4**
Total operating expenses	1.1	1.2	1.2	1.1	1.1
PPoP	**5.3**	**3.8**	**4.2**	**4.9**	**5.2**
Credit cost	0.6	3.2	0.0	0.8	0.7
Profit before tax	**4.7**	**0.6**	**4.2**	**4.1**	**4.5**
Tax	1.6	0.1	3.2	1.0	1.1
RoA	**3.1**	**0.4**	**1.0**	**3.0**	**3.4**
Effective leverage (AA/ AE)	*4.9*	*4.3*	*3.4*	*3.1*	*3.0*
RoE	**15.0**	**1.9**	**3.3**	**9.4**	**10.2**

Source: Company data, I-Sec research

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