SMART SYNC SERVICES

Piramal Enterprises Q2FY21

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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1119	1632	-31.43%	856	30.72%	1975	2572	-23.21%
PBT	121	646	-81.27%	27	348.15%	148	546	-72.89%
PAT	103	633	-83.73%	23	347.83%	126	592	-78.72%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	3339	3316	0.69%	3003	11.19%	6342	6568	-3.44%
PBT	832	866	-3.93%	657	26.64%	1489	1610	-7.52%
PAT	628	551	13.97%	496	26.61%	1124	1000	12.40%

Detailed Results

1. The company had a good quarter which saw a bounce back from Q1 lows. Consolidated Revenues for Q2 were flat YoY and reported a rise in PAT of 14% YoY.
2. The company raised Long-Term Borrowings of Rs 11,500 Cr. during H1.
3. Net debt to equity has fallen below 1.
4. The overall loan book in the Financial Services segment was at Rs 51522 Cr vs Rs 53055 Cr last year.
5. Sales of developer clients are now at 100% of the pre-covid level.
6. GNPA at 2.5% with provisioning at 5.9% of the total loan book. NNPA was at 1.6%.
7. CAR was at 34% in Q2 vs 27% last year.
8. Net debt to equity for this business was improved to 2.1 times from 2.8 times in last year.

9. The revenue drop in Financial Services was at 5% YoY. This division accounted for 56% of total revenues.
10. The company's multi-product retail lending platform is to be launched in Nov '20 and will largely be doing secured lending in FY21. It will start by operating in 4 product categories and 7 variants (Affordable, Mass Affluent Housing, Secured Business loans & LAP)
11. The average yield on loans was at 14.8% while the average cost of borrowings was at 10.8%. NIM was at 6.3% while the cost to income was at 17.4%. ROA and ROE were at 3.8% and 12% respectively.
12. The company completed the deal with Carlyle Group in Oct '20.
13. Pharma revenues grew 9% YoY. This division accounted for 44% of total revenues.
14. The breakup of pharma revenues was:
    1. Pharma CDMO: Rs 866 Cr (Up 20% YoY)
    2. Complex Generics: Rs 438 Cr (Down 8% YoY)
    3. India Consumer Healthcare: Rs 140 Cr (Up 25% YoY)
15. EBITDA margin in the Pharma division was at 23%.
16. The company passed 4 successful regulatory inspections during Q2FY21.
17. Launched 15 products and 38 SKUs in H1 in the Consumer Healthcare division.
18. Alternative AUM as of Sep '20 was at Rs 11,230 bn.

Investor Conference Call Highlights

1. The company raised long-term debt of Rs 24,800 Cr in H1.
2. The company aims to live with its retail lending platform in Diwali with 4 product categories in 26 towns.
3. 93% of pharma revenues come from global clients. The company is always on the lookout for acquisitions that may add strategic value and fit for the company in both the pharma and financial divisions.
4. The debt in the pharma division after the Carlyle deal is at Rs 2200-2500 Cr.
5. The average yield from the retail finance segment is expected to be lower than the current yield of the financial division and is expected to be at 10-12%. The company has decided to stay out of unsecured lending as long as COVID uncertainties still remain.

6. The company had built up cash covers on the overly cautious assumption that there will be zero sales & collections in H1 and Q3 will have 20-30% while Q4 will have 40-50% collections. But in reality, the bounce-back has been much better than expected with sales back at 100% and collections at 82%.
7. The company still needs 1 quarter to see whether this bounce back is sustainable or it is just pent up demand that is temporary.
8. Prices have not really come down in RE space and collections are lagging sales as builders are giving buyers more time in the payment schedule.
9. The average cost of borrowing for the company is expected to continue to go down slowly. The management is hopeful that with the company's strong balance sheet and the mix changing in favor of retail, it will get the rating to upgrade.
10. The company has indeed seen the incremental cost of borrowing come down and it was at 8.5-9.5% in the last 6 months.
11. The long term funding of Rs 12,000 Cr raised in H1 is in the range of 3-7 years. The company has also done rollovers of Rs 3000-4000 Cr in the same period.
12. There isn't any particular player that the company considers its direct competitor in all spaces. It sees competition from AU or Aavas and other small finance lenders in the affordable housing business and the small business lending spaces. While in the fintech space, it sees Bajaj Finance as competition.
13. The company doesn't want to compete for head to head with these players and is instead focusing on finding pockets in terms of products, customer segments, and properties where banks are not focused and where it can compete a little bit better on given its cost of the fund structure.
14. The company is indeed on the lookout for inorganic opportunities in the fintech space but it is unlikely to acquire in fintech purely for specific core platform capabilities of the targets.
15. The management has stated that from a liquidity standpoint, the hospitality and hotel sector might stay under some pressure for the foreseeable future and the company may have to consider restructuring in some cases in these segments. The company will take a call on it in January.
16. Around 95-97% of outstanding loans in the standalone balance sheet have been transferred to HFC or to NBFC. The company only has around Rs 1500-1600 Cr of loans left in the standalone balance sheet.
17. The management has clarified that it had not taken the decision to exit Shriram to increase liquidity or strengthen its balance sheet. They had taken the decision as they are moving into retail lending which may have direct competition with Shriram. The company is in no urgency to sell this stake and it will let it go only for the right price.
18. Stage 3 loans for the company were at Rs 1200 Cr while Stage 2 was at Rs 1200-1300 Cr.
19. The company is looking to wait till Q4 at least before considering the reversal of COVID provisions.

20. The company has reduced its renewable sector exposure from Rs 3900 Cr to Rs 2800 Cr from June to Sep. This exposure is expected to come even further down as 2 large exposures of ACME and ReNew have gotten refinanced at par with Brookfield in Oct. The management expects that by March '21, all renewable exposure except Mytrah will be refinanced.
21. The refinance deal with Brookfield has given the company additional liquidity of Rs 1500 Cr.
22. No fresh lending was done in the wholesale business in Q2.

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 complete the Carlyle deal and has brought the net debt to equity below 1 which is exceptional for a predominantly NBFC company. The company is doing well to launch the retail lending platform in Diwali and target underserved geographical and population segments that are not addressed by most of the competition. 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 for, particularly in the real-estate lending space.