SMART SYNC SERVICES

Piramal Enterprises Q4FY21

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)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	517	569	-9.14%	586	-11.77%	1920	2678	-28.30%
PBT	129	-237	154.43%	-158	-181.65%	-69	276	-125.00%
PAT	79	-605	113.06%	-165	-147.88%	-120	-115	-4.35%
Consolidated Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	3566	3581	-0.42%	3265	9.22%	13173	13559	-2.85%
PBT	966	-1101	188%	1001	-3.50%	3456	1407	145.63%
PAT	-510*	-2361**	78%	799	-163.83%	1413*	-553**	355.52%

*Contains tax adjustment of Rs 1258 Cr for earlier years

**Contains tax adjustment of Rs 1758 Cr for earlier years

Detailed Results

1. The company had a flat quarter with consolidated Revenues for Q4 falling 0.4% YoY and PAT turning negative due to tax adjustment. Normalized net profit for FY21 was at Rs 2627 Cr which was flat YoY in terms of normalized profit.
2. The DHFL acquisition has gotten RBI & CCI approvals already and is awaiting IRDAI approval & NCLT resolution.
3. Net debt to equity has fallen to 0.9 times.
4. The company has unallocated equity of Rs 11,029 Cr which is 31% of overall equity.
5. The wholesale loan book in the Financial Services segment was at Rs 39365 Cr vs Rs 41060 Cr last year.
6. Sales of developer clients are now at 115% of Q4 last year.
7. GNPA at 4.5% with provisioning at 6.3% of the total loan book. NNPA was at 2.4%.

8. CAR was at 37% in Q4 vs 31% last year.
9. Net debt to equity for this business was improved to 1.8 times from 2.3 times last year.
10. The revenue drop in Financial Services was at 14% YoY in Q4 & 8% YoY in FY21. This division accounted for 55% of total revenues in FY21.
11. The company's multi-product retail lending platform made disbursements of Rs 9270 Cr in Q4 with fresh disbursement yield at 11.9%.
12. The average yield on loans was at 14.1% while the average cost of funds was at 8.5% in FY21. NIM was at 5.6% while the cost to income was at 22% in FY21. ROA and ROE were at 3.4% and 10% respectively.
13. Pharma revenues grew 19% YoY in Q4 & 7% YoY in FY21. This division accounted for 45% of total revenues in FY21.
14. The breakup of pharma revenues was:
    1. Pharma CDMO: Up 23% YoY in Q4 & 15% in FY21
    2. Complex Generics: Up 1% YoY in Q4 & Down 10% in FY21
    3. India Consumer Healthcare: Up 55% YoY in Q4 & 20% in FY21
15. EBITDA margin in the Pharma division was at 22% in FY21.
16. Pharma revenues were in the ratio of 62% B2B & 38% B2C.
17. Added 50+ customers in FY21 in CDMO business.
18. Gained market share in complex health generics in major markets.
19. Launched 15+ products and 35+ SKUs in FY21 in the India Consumer Products division.
20. Announced Hemmo acquisition for INR 775 Cr which is One of the few pure play peptide API manufacturers globally with 75% export sales.
21. The Board announced a dividend of Rs 33 per share.

Investor Conference Call Highlights

1. PEL holds around Rs 7,000 Cr of cash and cash equivalents as of March 31st, 2021.
2. The company is aiming to become a 50% retail lending NBFC from the current level of 12% in retail lending contribution.
3. PEL is now the largest Sevoflurane supplier in the U.S. for the third and fourth quarter of FY '21.
4. The new acquisition Hemmo has a higher EBITDA margin than PEL's 22% and is expected to grow 3x or more in the next few years according to the company projections.
5. PEL is now getting ready for demerging into 2 large listed entities in the financial sense and pharma sector.

6. NIM has come down due to the rise of the retail book as retail NIMs are lower than Wholesale NIMs at present.
7. The management expects the proceedings in NCLT for the DHFL acquisition to be over in the next 2 months.
8. The management has stated that the company has enough capital to grow at 25% for the next 4-5 years.
9. The company made a reversal of Rs 75 Cr of interest on interest which was also another factor that contributed to lower NIM.
10. In the case of the Omkar transaction, PEL has taken over the development rights of 67 lakh square feet. It has yet to decide on doing either the joint development or selling of the development rights.
11. In partnering with fintechs, the company only allows the partners to apply a gating criterion to filter the applicants and does the underwriting for these filtered applicants by itself.
12. The collections from customers in April were at Rs 750 Cr which was in line with normal COVID levels. Out of this Rs 75 Cr only Rs 25 Cr was from new sales and the rest was from old sales locked up in receivables.
13. May is expected to see a dip in construction activity of 20-25%.
14. The management maintains that the current provisions are adequate to ride out the 2nd wave of COVID-19.
15. The management has provided long-term guidance of a 15% growth rate in the pharma business. It believes that the immediate growth in the business will be greater than the long-term rate.
16. EBITDA margin in Q4 was at 285 and the management believe that it can continue to stay high as operating leverage comes into play with the rise in sales of the India Consumer Products division. It can even go higher when the Complex Generics business starts growing again.
17. The management expects a capex of $ 90-100 mn per year in the pharma business in the next 2 years. This capex is mainly for the facilities in Canada at Riverview and Grangemouth.
18. The management states that it doesn't need any additional capital to grow both Financial Services & Pharma businesses but the unallocated equity can be used at a later date for any acquisitions in both businesses if the need arises.
19. The CDMO business is expected to grow faster than overall pharma business due to the additions of the Sellersvile & Hemmo which should add to growth.
20. The Lodha exposure as of March '21 is at Rs 2637 Cr, of which Rs 1593 Cr is now in SPV with a one-time 1.5x cover of fully ready inventory of apartments. The balance of Rs 1058 Cr is in macro tech developers. Rs 431 Cr has already been prepaid and only Rs 620 Cr of exposure is pending now. The total pending exposure adding to the SPV comes to Rs 2150 Cr which is less than 15% of the total book.
21. The total exposure to Omkar was Rs 1300 Cr and the management believes that the value of the underlying land is far greater than the loan amount due.
22. In CDMO, commercial revenues are 65% of sales while the rest 35% is from development. The management has pointed out that development used to account for only 10% of revenues and as it is rising, it is also providing new avenues for commercial production.

23. The company saw a lot of synergies rising from Hemmo which spurred them to this acquisition. For example, a lot of peptides are injectables, and the company already has a client that gets its APIs from Hemmo and gets it filled at PEL's Lexington plant.
24. The main issue with Hemmo was its limited capacity. PEL came to know that many customers didn't put orders with Hemmo as it didn't have enough capacity to service these orders. Once the capacity expansion is completed here, PEL is confident of bagging many orders from existing customers.

Analyst's Views

Piramal Enterprises has seen the continuation of recovery in the financial division and good growth in the pharma division. The company DHFL bid has already gotten CCI & RBI approval & is expected to get NCLT approval soon. It has also brought the net debt to equity for overall business to 0.9 and for Financial Services business to 1.8 times which is exceptional for a predominantly NBFC company. The management maintains that the company has enough capital for organic growth of 20-25% per year for both financial services & pharma divisions. The pharma business has good runway in all 3 segments, especially in the CDMO division with the addition of capacities here throughout the year. It 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 this slow period for financial services will last for the company and what challenges will it face in establishing its retail lending platform and the integration of DHFL from the ongoing 2nd wave of COVID-19. 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.