Piramal Enterprises **CMP : Rs 820**

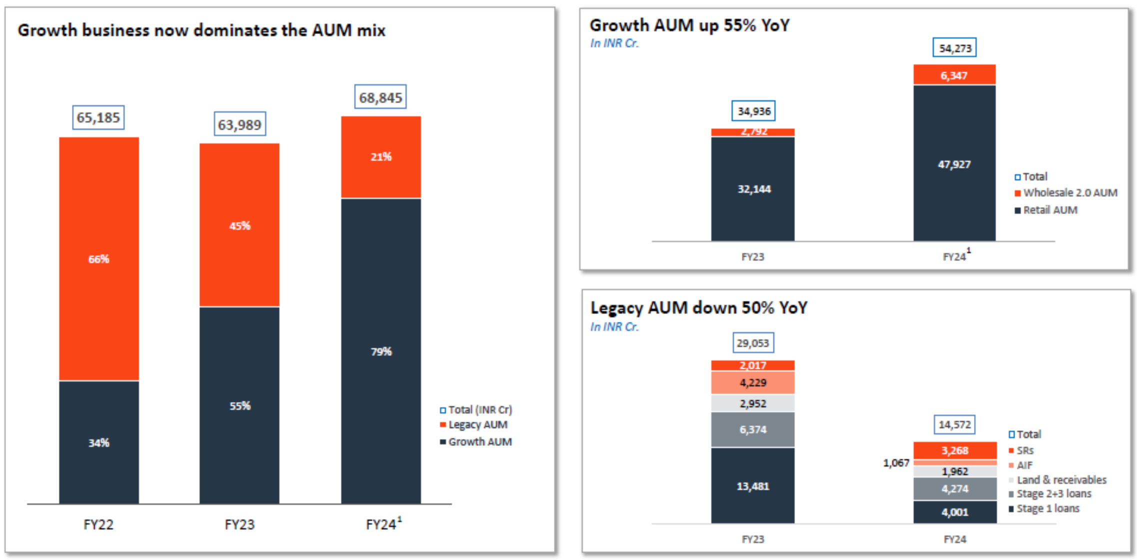
New avatar

Piramal has gone through considerable pain over the past few years with extremely high credit costs in its wholesale real estate lending vertical. The impact has not been minor with ~30-35%+ of the book being written off. Management underplaying the deterioration, signalling bottoms at various points, has eroded investor confidence.

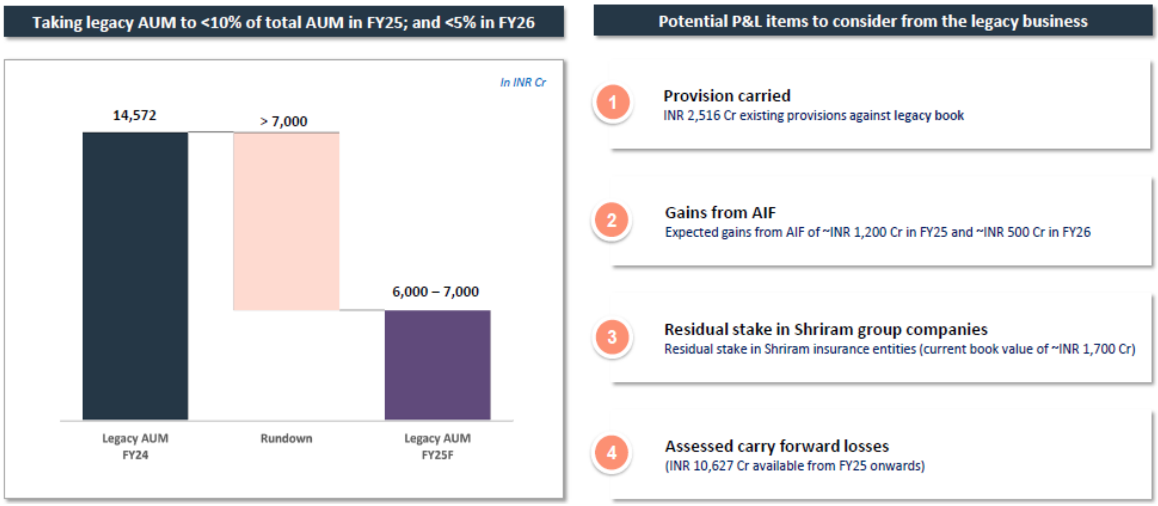
What we like:

- ✓ Building of a sizeable retail lending business with shift in book to majorly retail now. Legacy book has taken a lot of pain, but is running down fast quarter after quarter, now stands at 21% of aum.

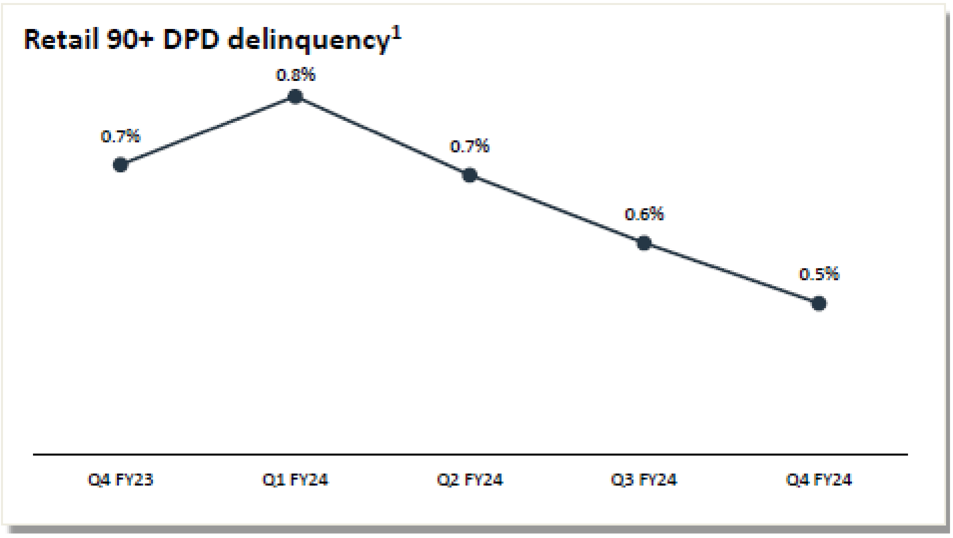
Growth business is now 79% of AUM



- ✓ 14,000cr remaining legacy book, current net worth 26,000cr with levers to minimize future hits on balance sheet.



- ✓ Asset quality for the retail business holding up well. Scale up has been sizeable.



- ✓ We like its approach of 'building for scale, not niches' for the retail business as the company puts it. Opex heavy approach, which keeps roes low, by way of branch network & on ground collections team is expensive to build. Combination of 'high tech' & 'high touch'. Focusing on tier 2,3 customers, relatively high secured book of 75%+ is comforting. Roes will be low for next few years given high current opex. Growth needs to continue, credit costs need to be kept low, and scale benefits should come over time for roe improvement.

We expect ~15% AUM growth in FY25

Key metrices	FY24	FY25E
Total AUM (INR '000 Cr)	~69 (+8% YoY)	~80 (~15% YoY)
Legacy AUM (as % Total AUM)	21%	<10%
Retail : Wholesale mix	70 : 30	75 : 25
Exit quarter opex to AUM - growth business	4.9%	4.6%

FY28E guidance update

Key metrices	FY28E (earlier guidance)	FY24 actual	FY28E (new guidance)
Retail growth	23% CAGR (from FY23)	49% YoY	26% CAGR (from FY24)
Retail : Wholesale mix	70 : 30	70 : 30	75 : 25
Total AUM (INR '000 Cr)	120 - 130 (15% CAGR from FY23)	~69 (+8% YoY)	~150 (21% CAGR from FY24)

- Profitability targets are unchanged - **ROA of 3.0-3.3% by FY28E**
- In addition, assessed carry forward losses of INR 10,627 Cr, provide an **upside potential** to ROA & PAT targets

✓ Dividend: Company paying consistent dividends over the past few years, effectively ~3-4% yields at cmp, is a big positive, reflects confidence on company's part, also did a 2000cr+ buyback last year in which the promoters did not participate, hence increased their holding to ~46% from 43%.

Broadly, we feel at current market cap of ~18000cr, 0.7x trailing book, odds are favourably geared for a fresh investor in a company which is in growth mode and can turnaround. Piramal has gone through hard times, not so long ago, were widely appreciated for their value creating track record by the street. The assumption at current market cap is that legacy book will see much larger pain, eroding net worth, which will drive down value for the newly built retail business which is now at ~45000cr aum. Market cap is assuming the very worst, not that it can't happen, regardless risk-reward on the company seems quite attractive for a new investor at current valuations.

Regards,

Anubhav Goel