Initiating Coverage | 17 February 2017

Sector: Financials - Pharmaceuticals

Piramal Enterprises

Winner's Edge

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Piramal Enterprises

BSE Sensex	S&P CNX
28,301	8,778

CMP: INR1,844 TP: INR2,200 (+19%) Buy

Stock Info

Bloomberg	PIEL IN
Equity Shares (m)	172.6
52-Week Range (INR)	2095/835
1, 6, 12 Rel. Per (%)	-2/-2/69
M.Cap. (INR b)	303.2
M.Cap. (USD b)	4.5
Avg Val, INRm	251.0
Free float (%)	48.6

Financial Snapshot (INR b)

Y/E Mar	2017E	2018E	2019E
Revenues	84.5	113.2	138.7
EBITDA	22.3	33.1	40.3
PAT	12.9	21.9	28.4
EPS (INR)	74.5	127.1	164.7
EPS Gr. (%)	35	71	30
BV/Sh. (INR)	768	851	958
Payout (%)	35.0	35.0	35.0
Valuations			
P/E (x)	24.8	14.5	11.2
P/BV (x)	2.6	2.6	2.6
Div. Yield (%)	1.4	2.5	3.2

Shareholding pattern (%)

As On	Dec-16	Sep-16	Dec-15
Promoter	51.44	51.47	51.58
Public	47.44	47.39	47.22
Others	1.11	1.14	1.21

FII Includes depository receipts

Piramal Enterprises
Winner's Edge

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Please click here for Video Link

Winner's Edge

Converting opportunities to success

- **We initiate coverage on Piramal Enterprises (PIEL) with a Buy rating and SOTP-based target price of INR2,200. The financial services business contributes ~75% of our total SOTP value.**
- **PIEL's wholesale lending business is on a strong growth path, with new product addition. Apart from financing for real estate, PIEL has started financing for other sectors as well. The wholesale financing book is expected to double in FY17 (INR261b) and end FY19 with INR548b. The company has also applied to the NHB for an HFC license – this will supplement real estate financing business.**
- **Turnaround of healthcare business (we expect EBITDA margin to expand from 11% in FY16 to 20% by FY19, partially helped by recent acquisition) and strong traction in private equity/assets under advisory business are other positives. Merger with Shriram Group, demerger of financial services business and value unlocking in information management business will provide upside to our SOTP.**

Wholesale lending: Aggressively scaling up; key value driver

The NBFC business (largely real estate financing to developers) is expected to remain on a robust growth path, with strong relationships, customized end-to-end solutions, and new product additions. Over FY12-9MFY17, it has built INR227b+ customer assets, which we expect to grow to INR548b by FY19. This business has healthy RoA (pre-tax) of ~6% and RoE (assuming 35% tax rate) of 22%+. With the addition of low-yielding products, we expect RoA (pre-tax) to decline to ~5%. However, increased leverage will keep RoE healthy at 25%+. PIEL has applied for retail housing finance business license; this business could scale up fast considering the strong relationships Piramal enjoys with developers.

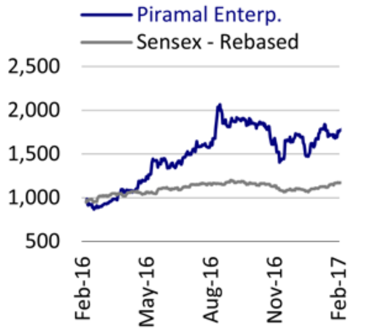
Healthcare: Re-building the business; expect strong turnaround

We expect PIEL's healthcare business to deliver robust mid-teens growth over the next three years, driven by (1) recent acquisitions, (2) expansion into new areas and ADC manufacturing capacity, and (3) debottlenecking/capacity expansion at other facilities. Global pharma businesses (89% of revenue) enjoy strong operating margins of 20%+; however, domestic business has margins of low single digits. Imaging business, which was a key drag to profitability, is likely to wind down by CY17, driving overall margins higher. Overall, we expect strong turnaround in this business, with EBITDA margin expanding from the current ~11% to ~20% by FY19, with revenue CAGR of 17%.

Building on DRG acquisition to scale healthcare information services

PIEL's information management (PIM) business originated from the acquisition of Decision Resources Group (DRG), a decision-support platform in the healthcare information services space. It intends to scale up via product innovation and geographical expansion, with active thrust on the inorganic route. Its CY15 revenue was USD178m, implying 9% 5-year CAGR.

Stock Performance (1-year)



Merger of Shriram Group entities would provide significant granularity

Apart from building its wholesale book organically, PIEL has acquired stakes in Shriram Group companies, the MTM value of which is ~INR60b (~20% of PIEL's market cap). Merger with Shriram Group will lead to significant scale-up in lending business, with AUM of INR1.2t+. Further, share of wholesale lending will decline to ~20%.

SOTP our preferred way to value PIEL

- Best talent coupled with stringent underwriting and rigorous post-disbursal monitoring has enabled PIEL to build a fast-growing, highly profitable franchise, with robust asset quality. We expect this business to deliver 35%+ PAT CAGR over FY16-19 and value the business at 2.7x FY19E BV (25%+ RoE and strong growth of 45%).
- PIEL's fund management business has AUM of INR70b+ and the company has seeded investments into each of the funds. We value this business at 7% AUM.
- PIEL's INR46b investment in the Shriram Group is valued at ~INR80b based on a target multiple of 2x for SHTF and 2.5x for SCUF. We have excluded investment in the Shriram Group from PIEL's net worth.
- Invested capital in healthcare and IT businesses stands at INR110b+. We have allocated INR40b of net worth to these businesses, of which INR21b is towards the IT business. We have valued the healthcare business based on EV/EBITDA and the IT business based on EV/Sales. Due to limited disclosure on debt allocation to each of the businesses, we have taken combined (healthcare and IT) EV and deducted combined debt to arrive at the value in SOTP. Healthcare and IT businesses contribute ~25% to SOTP.

Exhibit 1: SOTP (FY19E Based)

	Value (INR B)	Value (USD B)	INR per share	% To Total	Rationale
NBFC business	202	3.0	1,169	53	2.7x PBV; ROE of ~25% - Loan CAGR of 45% FY17-19
Shriram Investments	80	1.2	465	21	Based on our Target price; Implied 1.75x of invested capital
AMC	6	0.1	37	2	7% AUM
Pharma, IT and Others	91	1.4	529	24	Pharma EV/EBITDA 13x; IT EV/Sales of 3x
Target Value	**380**	**5.7**	**2,200**	**100**	**Implied 2.3x Consolidated BV**
Current market cap.	318	4.7	1,844		
Upside (%)	**19.3**	**19.3**	**19.3**		

Source: MOSL, Company

Exhibit 2: Total capital employed (FY16; INR b)

	Net Worth	% of total	Borrowings	% of total	Capital Employed	% of total
NBFC business	34	28	105	65	140	49
Shriram Investments	46	37	0	0	46	16
AMC	4	4	0	0	4	2
Pharma, IT and Others	40	32	57	35	97	34
Total	**124**		**163**		**287**	

Source: MOSL, Company

Financial services: Key value driver

One of the largest players in an underserved market

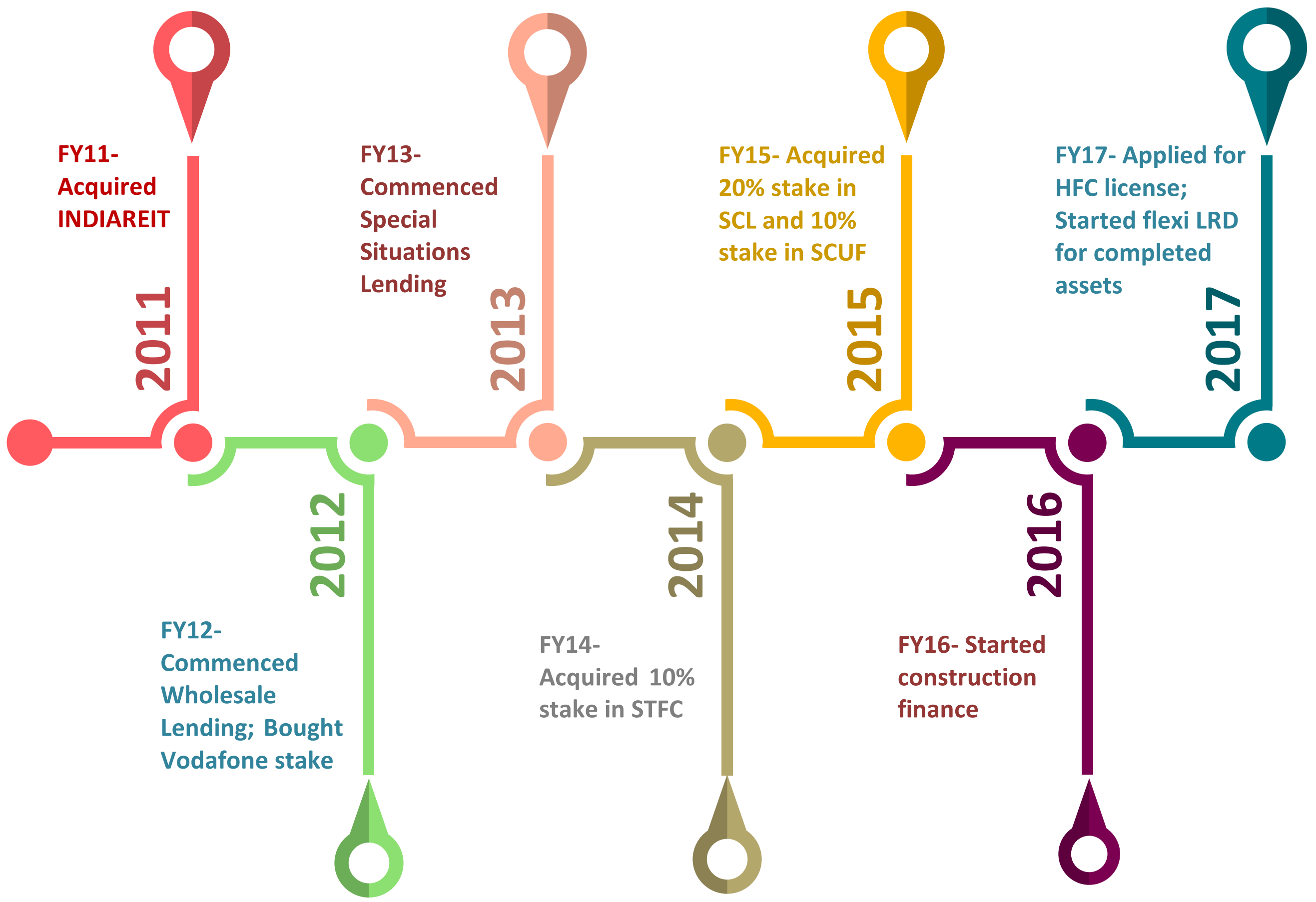
- **The NBFC business (largely real estate financing to developers) is expected to remain on a robust growth path, with strong relationships, customized end-to-end solutions, and new product additions.**
- **Over FY12-9MFY17, it has built an INR227b+ loan book, which we expect will reach INR548b by FY19.**
- **Backed by higher margins, low cost to income ratio and negligible credit cost, business has healthy RoA (pre-tax) of ~6% and RoE of 25%+. With the addition of low yielding products, we expect RoA (pre-tax) to decline to 5%. However, increased leverage will keep RoE healthy at 25%+.**
- **In 2013, PIEL acquired 10% stake in Shriram Transport. It followed this up with the acquisition of 20% stake in Shriram Capital and 10% stake in Shriram City Union Finance in 2014. With these investments, PIEL has also diversified into retail financing.**
- **Additionally, the company has recently applied to the NHB for an HFC license, which could help drive growth over the long term (not factored in our estimates).**

Significant scale in financial services business

The wholesale lending book has grown significantly in the past five years. PIEL is now among the top 3 real estate financiers in India.

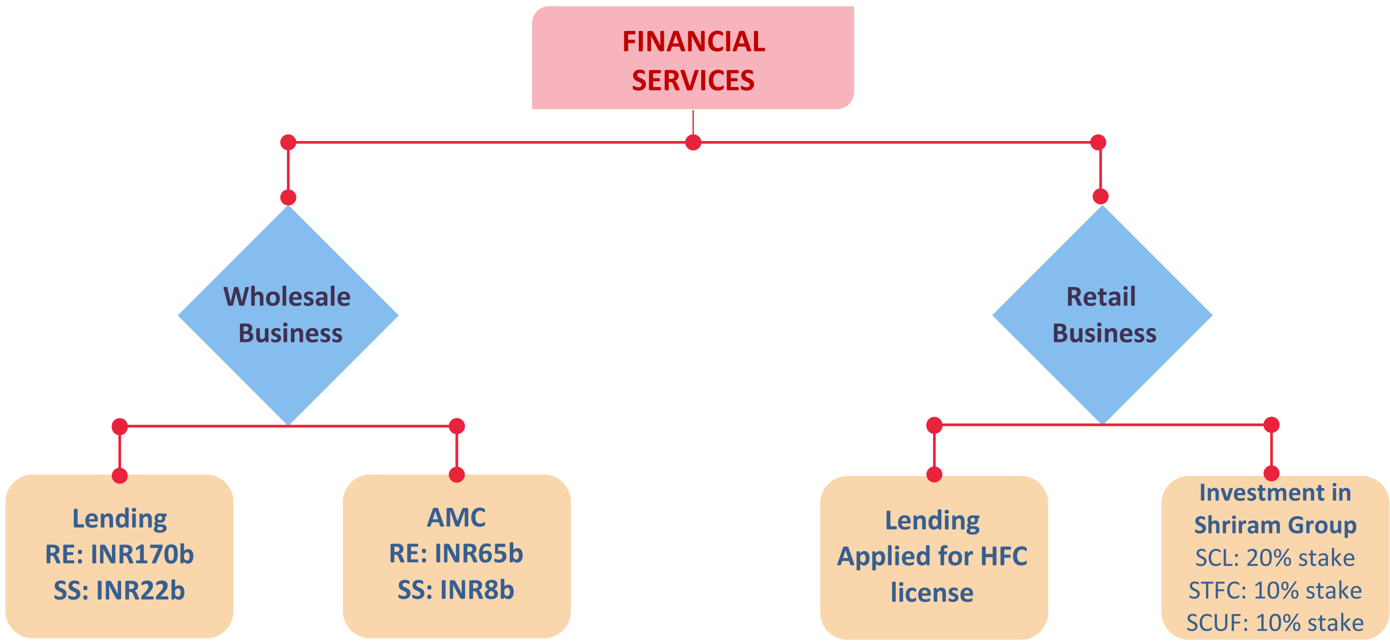
- In a span of just five years, PIEL has evolved to become one of the largest real estate financiers in India with a loan book of over INR227b+. Given the lack of availability of capital for real estate projects and one off opportunities in the other sectors, we expect the loan book to continue to grow at a rapid pace over the medium term.

Evolution of the financial services business



- Unlike most of its competitors that are engaged purely in construction finance, PIEL offers a large suite of products across the entire real estate financing spectrum. It has positioned itself as a one-stop shop for all capital needs of the developer, ranging from preferred equity to senior debt.
- In 2013, PIEL acquired 10% stake in Shriram Transport. It followed this up with the acquisition of 20% stake in Shriram Capital and 10% stake in Shriram City Union Finance in 2014. With these investments, PIEL has also diversified into retail financing.

Financial Services Business - Snapshot



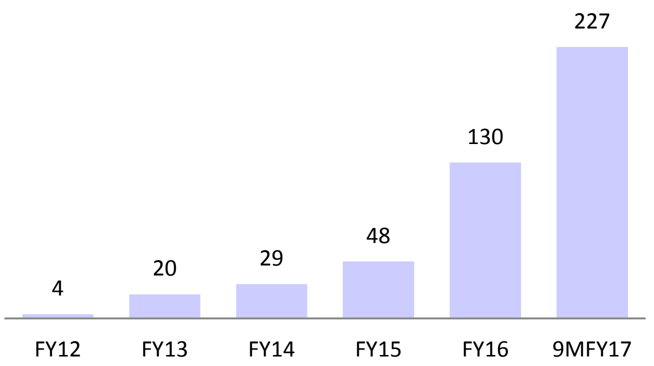
Source: MOSL, Company; Note- RE: Real Estate, SS: Special Situations

NBFC business: On a strong growth path

New product additions driving strong growth; RoE best-in-class

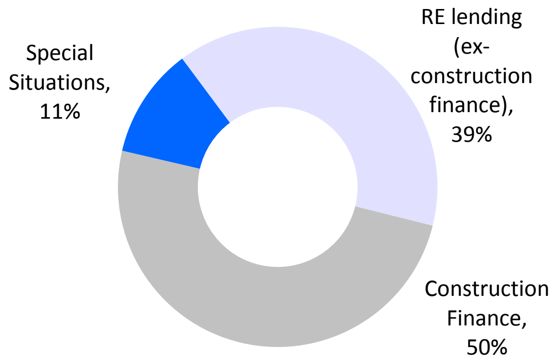
- With a diversified product suite targeting top tier developers, the real estate financing loan book has grown at a CAGR of over 100% since FY12.
- The business is largely concentrated in the top-six metro cities and focused more on residential real estate projects in the mid-to-affordable market segment in the early stage. PIEL has been adding new products/segments every year, leading to strong growth. The company also focuses more on gaining large share of the wallet of the developer.
- This business delivers a healthy RoA of 6%+ and RoE of 25%+. We factor in loan CAGR of 45%+ over FY17-19; as leverage increases, there would be a marginal decline in RoA, but an improvement in RoE.

Exhibit 3: Loan book trend (INR b)



Source: MOSL, Company

Exhibit 4: Break-up of loan book as of 9MFY17 (INR227b)



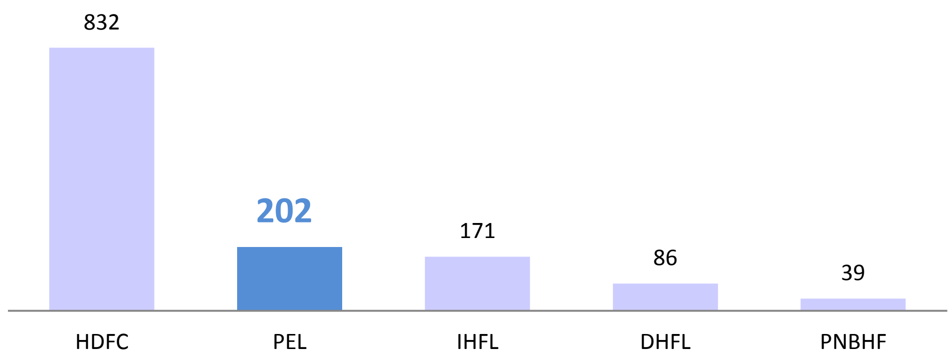
Source: MOSL, Company; Note: Others include equity and senior debt offerings

PIEL offers wholesale loans in six metros to over 80 real estate developers; with its foray into construction finance, PIEL has become a one-stop shop for all financing needs of the developer

From a pure residential RE financier to diversified wholesale lending

- In FY12, PIEL acquired teams from leading financial services companies to run its NBFC business. It forayed into special-situations investing/lending (mezzanine financing) in 2013. This product has high yield, low tenure (18-24 months) and higher risk. Leveraging on its relationships PIEL started doing construction finance from January 2015 (low risk and high maturity period of 4-5years).
- PIEL forayed into commercial real estate financing in January 2016. Construction finance (INR14.3b) and lease rental discounting (7-10 year tenure - recently added) are the key products. Company has recently launched flexible LRD product for completed commercial real estate projects. Management is bullish on the prospects of lease rental discounting and expects this book to grow to INR100b by end-FY18.
- PIEL does not offer preferred equity finance, structured finance, etc, and does not intend to diversify into those products anytime soon.
- By March 2018, we expect PIEL to have a strong diversified residential and commercial RE loan book. The company is looking at portfolios of other NBFCs to make in-roads to strong projects and better developers.
- PIEL intends to do more business with existing clients rather than acquiring new clients. It is capitalizing on the opportunities available around existing relationships; for example: refinancing, construction finance, etc.
- Recently, the special investment group has merged with the RE financing division. With this, PIEL is looking at wholesale lending across sectors.

Exhibit 5: Comparison of non-retail housing loan portfolio with peers (INR b, 9MFY17)



Source: MOSL, Company; PNBHF corporate loan portfolio is an estimate

Exhaustive product suite, one team approach and strong relationships

PIEL has a single team catering to every need of a particular developer, right from preferred equity financing to construction finance

- Over the years, PIEL has lent to over 80 developers in most metropolitan cities. Almost the entire real estate lending is from Mumbai, Pune, Bengaluru, Hyderabad, Chennai, and NCR. Over 70% of its loans are to A-grade developers for residential developments. PIEL does business with 3/5 of the top real estate developers in any city.
- Initially, PIEL focused on lending in the middle stage of development – post land acquisition, but pre-approval. Now, it provides end-to-end solutions. Incrementally, construction finance – both in the residential and commercial space – has been the biggest growth driver.
- Unlike other players, PIEL has a single team catering to the developer from start to end and offers multiple financing solutions like private equity, structured debt, senior lending, construction finance, etc. This business model of a single team per developer for end-to-end financing solutions, coupled with preferred financier approach has helped PIEL to win relationships from competitors.
- The company also has a special situations lending arm to offer last mile financing, promoter financing, acquisition financing, etc. While the focus is primarily on real estate, it diversified into sectors such as cement, infrastructure, renewables and transportation in FY16. Lending is done against a security cover of 1.5-2x. Total loans outstanding in this segment are INR25.4b as of 9MFY17.

Exhibit 6: PIEL caters to the end-to-end capital needs of the developer

Particulars	Alternative Assets Management	Wholesale Lending	
Stages of a lending for a project	Primarily for land purchase	Post land purchase till commencement of construction (Phase of obtaining approvals)	For construction of projects
Products offered	Pure / Preferred / Mezzanine Equity	Senior Secured / Structured Debt	Construction Finance
Capital Allocation	Off Balance Sheet (Third Party Funds with PEL sponsor commitment of 7.5%)	On Balance Sheet	On Balance Sheet
Year of commencement	Started in 2006; acquired by PEL in 2011	2011	2015
Yield / IRR	20-24%	18-20%	14-16%
Tenor	4-6 years	3-5 years	4-6 years

Source: MOSL, Company

Construction finance driving incremental growth, but at lower yields

Construction finance, which commenced in FY16, now accounts for 56% of the loan book; it will continue to drive business growth

- From a business model perspective, PIEL's loans used to get refinanced by banks (due to lower cost) post completion of certain milestones. However, by introducing construction finance, PIEL is able to retain the relationship with the developer till the end of the project life cycle. Yields (14-16%) in this segment are ~400bp lower than senior secured debt/structured debt (18-20%). However, the tenor is higher at 4-6 years v/s 3-5 years for other products.
- With strong disbursements in construction finance during FY16 and 9MFY17, this segment now accounts for 56% of the outstanding real estate loan book. The management expects the construction finance segment to drive growth, going forward. The total construction finance loan book as of 9MFY17 stood at INR113b.

Entry into commercial real estate financing helps diversify loan book

PIEL forayed into commercial real estate financing in FY16; however, it restricts itself to construction finance

- PIEL began commercial real estate financing in FY16. Due to risk aversion, a lot of lenders have vacated the space and PIEL seized the opportunity to capitalize on its strong relationships with developers in the residential space.
- Risk is much higher than in the residential real estate segment, as the developer earns money only at project completion. PIEL does not provide equity financing (preferred or mezzanine) and does not intend to do so in the near term. In addition, with few Greenfield commercial real estate projects coming up, there isn't much demand for equity/structured debt.
- PIEL does not face competition from private equity (PE). PE players do not offer construction finance; they directly buy out commercial real estate assets. In commercial RE financing company has only two products: (a) construction finance, and (b) Lease Rental Discounting (LRD).
- Management expects to grow the LRD book to INR100b by FY18.

Exhibit 7: Product introduction timeline

Timeline	Products introduced
2011	■ Preferred/Mezzanine equity and structured debt for residential projects
2013	■ Mezzanine lending for special situations
2015	■ Construction finance for residential real estate projects. Also started LAS for special situations
2016	■ Started construction finance for commercial real estate projects and senior lending in special situations ■ Started doing Lease Rental Financing

Source: MOSL, Company

Getting aggressive in non-RE wholesale financing business

- Along with wholesale financing for real estate developers, PIEL also offers financing for special situations (Structured Investment Group recently merged with PIEL) – promoter financing, bridge funding for cash flow mismatches, and financing for regulatory arbitrage opportunities.
- The company used to do mezzanine financing earlier; post-merger, it also does senior lending. The Group's focus will expand beyond infrastructure financing.
- Current outstanding total loans under this business are INR25.4b, up from INR10.5b a year ago. Management commentary points to strong growth driven by entry into multiple sectors (infrastructure, cement, renewables, etc). Management expects to grow the book to INR40b+ by end-FY17.

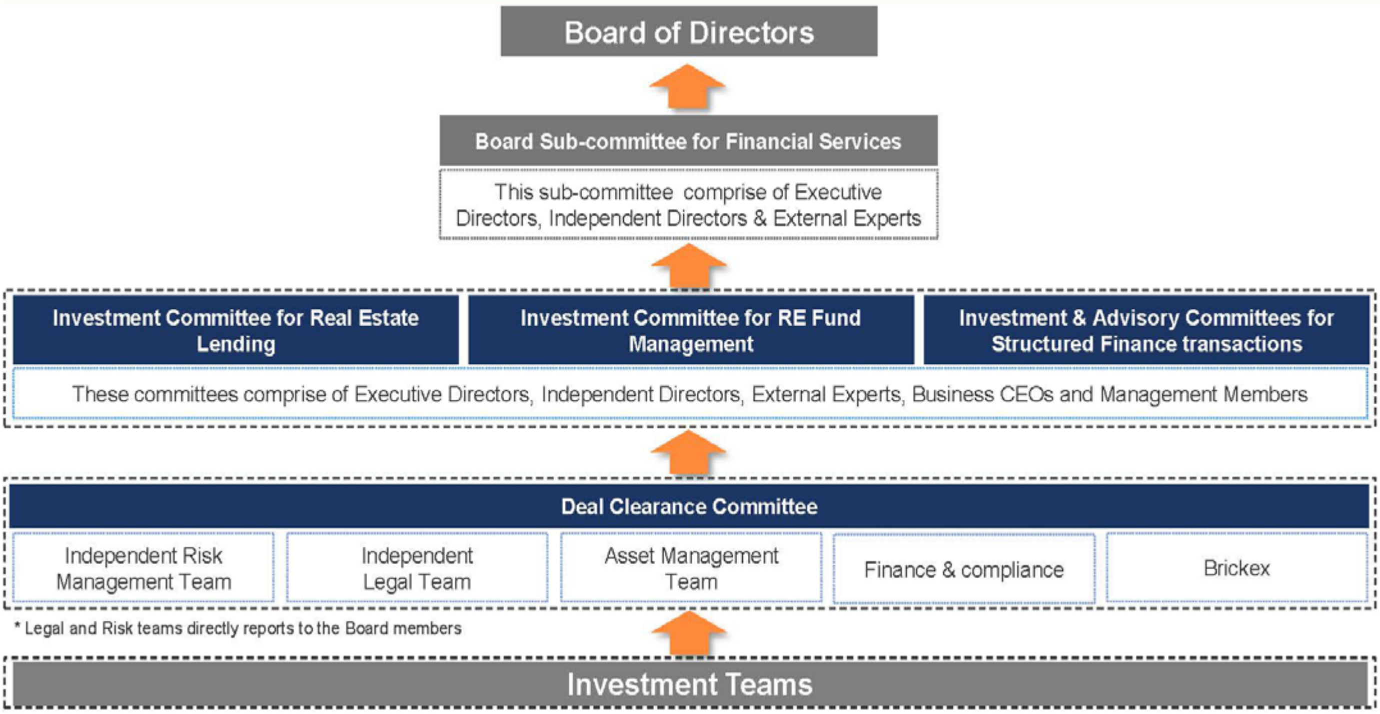
- The business has healthy security and cash cover of 1.5-2x. Yields range from 13% to 20% depending on the product offering and the sector dynamics.

Strong risk management focus allays asset quality fears

PIEL has independent legal and risk teams that can veto any decision taken by the investment committee

- PIEL has a team of 150 investment professionals across six cities, responsible for investments, asset monitoring, fund raising and other processes. Of the 140 people, 90 employees are responsible for continuous asset monitoring.
- The Investment Committee comprises not only of senior professionals in the company but also industry experts and independent directors. All proposals are thoroughly reviewed on a case-by-case basis by the Investment Committee and are then sent to the risk team, which has the right to veto.
- PIEL also has a proprietary risk scoring model. Each transaction is uniquely structured so as to address the specific risks of that project.
- Since the Piramal Group is also involved in real estate development, PIEL has a better understanding of the on-the-ground environment. After loans are disbursed, local asset monitoring teams make monthly visits to the project sites to ascertain the progress of the project, cost overruns, if any, etc.
- The teams also ascertain if the cash covers are sufficient or if they need to be topped up. The risk team is also responsible for managing risk at the portfolio level – that is, to balance the exposure by city, region or project. PIEL enjoys good relationships with several banks and is able to source loans at 9-10%.
- PIEL maintains adequate security cover (1.5-2x) in the form of (a) value of under-construction property as appraised by it, and (b) present value of the developer's receivables.

Exhibit 8: Strong review mechanism



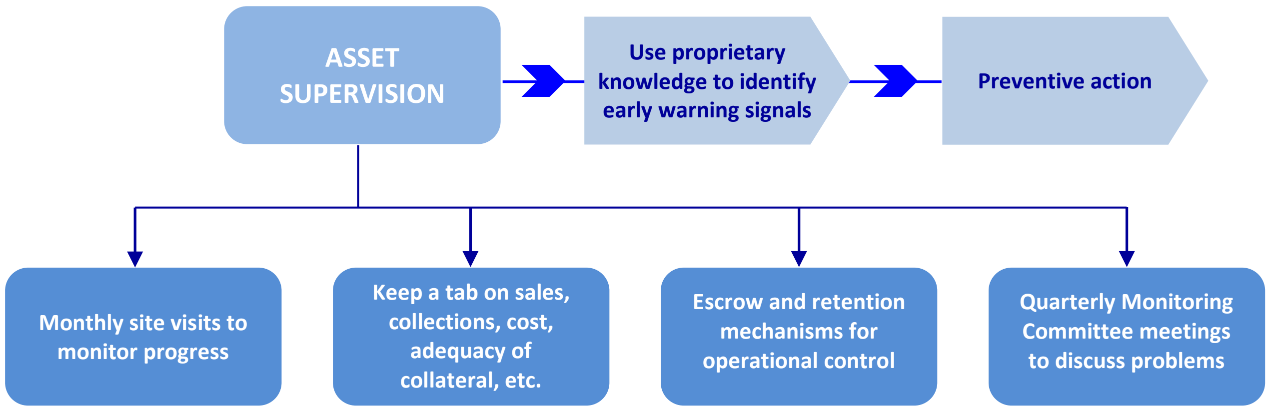
Source: MOSL, Company

Exhibit 9: PIEL also has external luminaries as part of the Investment Committee

Niraj Bhukhanwala	Worked with Mckinsey & Company and Intel, MBA from INSEAD, France
Ashish Dalal	Ex-partner with PWC, Practicing in Mergers, Acquisition, & Valuations
Shitin Desai	Exceutive Vice Chairman of DSP Merrill Lynch; Member of SEBI and RBI Committees
Harish Engineer	Former ED & Head Wholesale Banking, HDFC Bank,; Worked for 26 years in Bank of America
Rajesh Khanna	Founder & CEO of Arka Capital Advisors; Ex. Managing Director at Warburg Pincus
Suhail Nathani	Among panel of lawyers for SEBI, CCI and WTO Panel for the Government of India
Deepak M. Satwalekar	Former MD & CEO, HDFC Standard Life; Ex-consultant to the World Bank and ADB
Bharat D. Shah	Chairman, HDFC Securities; Advisor HDFC Bank
R A Shah	Solicitor and senior partner at M/s Crawford Bayley & Co
Tara Subramaniam	Director - Sun Group; Past experience in HDFC Limited
N Vaghul	Former Chairman, ICICI Bank

Source: MOSL, Company

Post-disbursal asset monitoring process key to robust asset quality



Source: MOSL, Company

Competitive intensity and product mix change to drive spreads lower; increase in leverage to drive RoE higher

- Competition in construction finance and lending to top-tier developers is high. With the shift in PIEL's incremental business mix towards this space, yields/spreads are likely to come under pressure. Our industry interactions indicate that yields in this space (despite sluggish real estate activity) have declined by 150-200bp over the last 12-18 months.
- Currently, leverage is low in this business (based on internal net worth allocation – although not exactly quantified) at 3.5x, which we believe could increase to 5-6x. The NBFC borrows from PIEL's balance sheet, where leverage is low at 2.5x. Hence, there is enough scope to improve leverage and maintain RoE, despite fall in RoA. It is looking at generating higher fee income to support profitability.

Exhibit 10: Best-in-class financial metrics (%)

	FY16	9MFY17
Loan Yield	17%	16%
C/I ratio	7%	7%
GNPA	0.9%	0.5%
RoA	7%	6%
RoE	25%	25%+
Leverage	3.5x	4.1x

NBFCs offer greater flexibility at competitive rates, which give them a competitive advantage over banks in real estate financing

Inherent advantages over banks in RE financing

- Banks require a formal date of completion for the project, beyond which it would be classified as NPA. NBFCs don't have such a requirement.
- Banks require monthly interest payments and they also disburse loans in stages as per the stage of development in case of construction finance. NBFCs can adopt a more flexible model on this front.

Plans to enter into retail housing finance space

- With strong reach of 250+ projects, relationships with 80%+ developers and presence in large metros PIEL has decided to enter retail housing finance market
- PIEL plans to utilize technology, analytics and world class process to use it as a competitive advantage
- Company plans to put INR10b initially into this business and planning to achieve mid to high teens return ratios

Click here to listen to the concall

Impact of demonetization – key takeaways from concall

- Risk management is of utmost importance. 85% of the projects have achieved financial closure and are up and running. 90% of the portfolio financed in the residential segment is towards affordable and mid-market segment
- PIEL insists on cash cover along with security cover with a higher focus on cash cover. Cash cover stands for expectation of net cash collection by the developer from the project. The entire cash flow is escrowed with PEL.
- Disbursements in construction finance are linked to sales. Payments are made only after achieving a minimum amount of sales. A minimum selling price is specified in the loan agreement with the developer.
- PIEL does a sensitivity analysis while underwriting, assuming a 'bear case' scenario. The key assumptions are a) Delay sales by one year b) sales velocity is calculated by the company rather than stated by developer c) Assume cost increase of 20% and sales decline of 20%
- Management does not see a significant impact on the asset quality and in fact expects higher growth rates and benefit PIEL in the long term

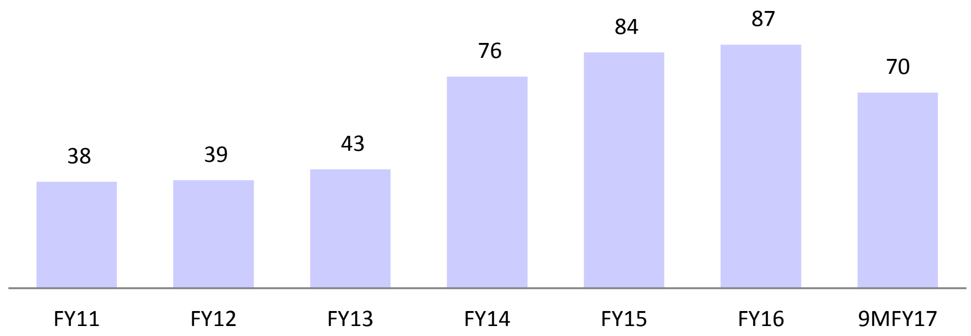
PIEL has recently launched an INR60b 'Piramal India Resurgent Fund' for investment in stressed assets

Alternate asset management business – focus on higher returns

- PIEL's asset management business raises funds from third parties and deploys these in pure/preferred/mezzanine equity products. PIEL has ~7.5% sponsor commitment in all the funds. This is an asset-light business, and the company earns income on 2%/20% fees/profit-sharing structure. Typical yields/IRRs in this space are 20-24% and tenor is 4-6 years.
- So far, the company has invested in 62 projects across 7 cities with 25 leading developers. It has exited almost 100% of corpus in all three vintage funds.

- It intends to gradually move towards preferred/pure equity structures with Tier-I developers. Recently, it has also launched India Resurgent Fund with a corpus of INR60b focused on acquiring stressed loans.

Exhibit 11: Cumulative assets under management in various funds (INR b)



Source: MOSL, Company; Note: Decline in 9MFY17 as they completely exited two vintage funds

Other strategic alliances/investments

Finding opportunities for shareholder value creation

- PIEL has a strategic alliance with APG for the special situation fund business. Total outstanding disbursements under this fund are INR8.5b as of December 2016.
- Some of the successful financing deals under this business are: (a) acquisition of ~11% stake in Vodafone India in August 2011 for INR59b and monetizing it at INR89b in April 2014, (b) mezzanine funding of INR9b to GMR (financed 50:50 by PIEL and APG), and (c) mezzanine funding of INR2.75b to ReGen.
- PIEL has entered into JV with Bain Capital credit to invest in restructuring cases in India. Team has been on boarded and deal valuations being commenced. Intital contribution of USD200m is contributed by both parties.

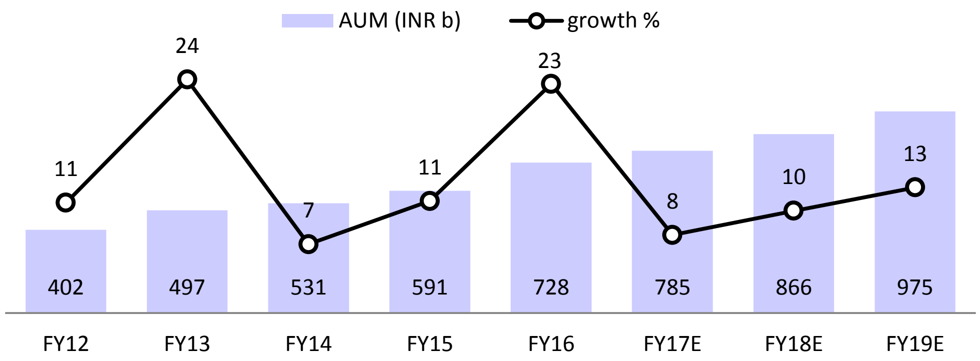
Shriram group stake acquisition helps in diversifying into retail financing

PIEL acquired 10% stake in SHTF in 2013, followed by 20% stake in Shriram Capital and 10% stake in SCUF

- PIEL prefers the M&A route to build long gestation businesses. It has entered the retail financing business by acquiring stakes in Shriram Group companies. It has acquired 10% each in Shriram Transport (for INR16.4b in 2013) and Shriram City Union Finance (for INR8b in 2014). PIEL has also acquired 20% stake in these two companies' parent, Shriram Capital (for INR21.5b in 2014). Altogether, it has invested INR45.8b (37% of FY16 net worth) in these companies.
- Shriram Transport (SHTF), Shriram Group's flagship company, is involved in commercial vehicle financing. It is the only organized player that offers old vehicle (8-10 years vintage) financing. With a turnaround in the CV industry, SHTF is well poised for growth over the medium term.
- Shriram City Union (SCUF) is a multi-line financier dealing in SME, two-wheeler and gold loans. It offers smaller ticket size SME loans than its peers. It does not rely on DSAs for customers; instead, it mines the large number of customers Shriram Chits has. SCUF is a pioneer in 2W financing and is one of the largest 2W financiers in the country.
- SHTF and SCUF are listed entities, and based on our back-of-the-envelope calculations for Shriram Capital, the total value of PIEL's stake in these companies works out to ~INR92b (2x its initial investment).

- In November 2014, Mr Ajay Piramal became the Chairman of Shriram Capital. He is focused on developing a long-term strategy for the Group and has hired external consultants to assist in developing the strategy.

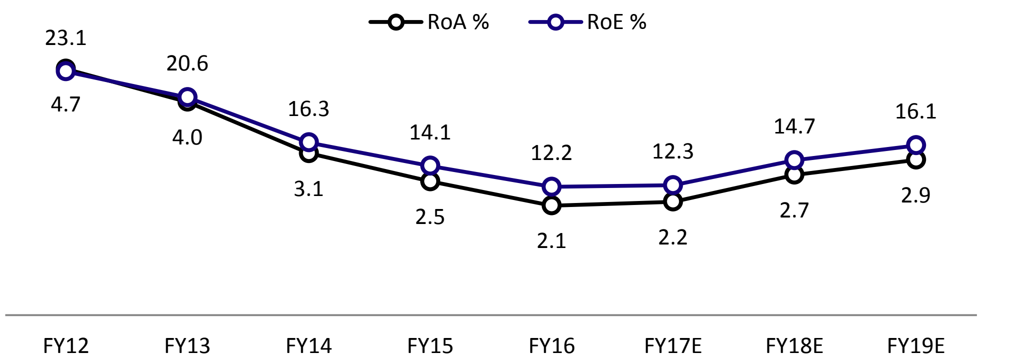
Exhibit 12: SHTF – AUM trend



Source: MOSL, Company

With a turnaround in the CV industry, we expect a sharp uptick in SHTF's return ratios

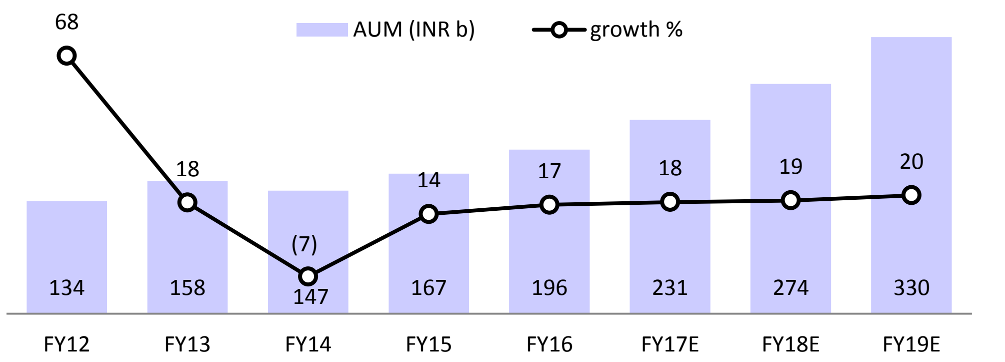
Exhibit 13: SHTF – return ratios trending up



Source: MOSL, Company

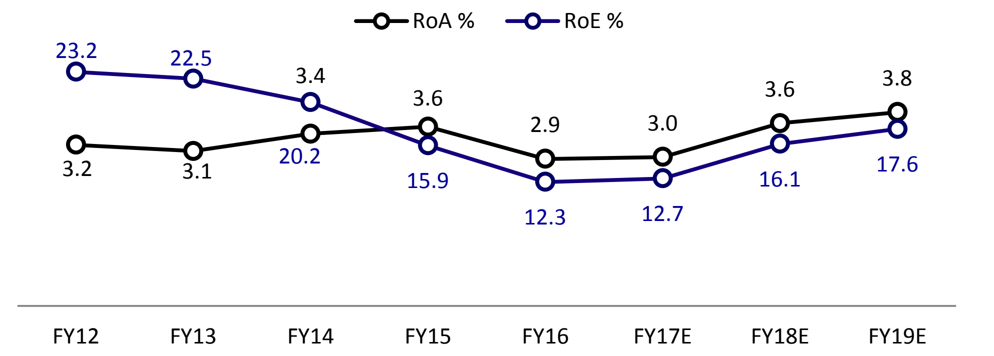
While SCUF witnessed a decline in return ratios due to rural stress, we expect a turnaround on the back of good monsoons and government thrust on infrastructure

Exhibit 14: SCUF – AUM trend



Source: MOSL, Company

Exhibit 15: SCUF – return ratios trending up



Source: MOSL, Company

Merger of Shriram Group entities would provide significant granularity

- The Shriram Group has built expertise in the retail financing business and has created a niche in SME, vehicle financing, two-wheeler financing, and gold loans. PIEL has developed expertise in wholesale financing.
- On a standalone basis, loan concentration risk is high for PIEL. However, post-merger, it would have a diversified loan book, reducing concentration risk.
- A profitable, diversified business would fetch higher valuations as compared to the standalone RE financing business. Hence, the option value remains high.

Mr. Piramal quoted by media on possible Shriram Group acquisition

- "As all of the initiatives for growth take shape, we are also increasing orientation of employees towards performance because that is the right thing to do as trustees to our stakeholders. As a consequence, there are some changes under way at Shriram as one would make in the normal course of any business. This implies placing the right people for the right roles given their capabilities and strengths, recognizing and rewarding the good performers based on objective criteria, and bringing in external talent in areas where we have capability gaps in Shriram."
- "We have hired McKinsey on some of the initiatives largely in SCUF for SME and cross-selling."

Exhibit 16: Pro-forma merged numbers (FY16) for PIEL, SHTF an SCUF

INR b	FY16 Loan Book	% share
HCV	338	32
Passenger Vehicles	168	16
M&LCV	145	14
Real estate	130	12
MSME	106	10
Tractors	39	4
2 -Wheeler loans	35	3
Gold Loan	33	3
Others	22	2
SEF	16	2
Auto loan	12	1
Personal Loan	10	1
Total	**1,054**	

Source: MOSL, Company

Financials: Financial services business

Income Statement					(INR Million)
Y/E MARCH	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Interest Income	7,026	15,578	29,358	45,668	61,065
Interest Expense	505	5,940	12,950	21,660	30,765
Net interest income	**6,521**	**9,638**	**16,408**	**24,008**	**30,299**
Change (%)		47.8	70.2	46.3	26.2
AMC Fees	1,601	1,716	1,569	1,499	1,724
Fee income	381	891	1,957	3,262	4,697
Other income	363	454	481	638	789
Net Income	**8,866**	**12,699**	**20,415**	**29,407**	**37,510**
Change (%)		43.2	60.8	44.0	27.6
Operating Expenses	**1,819**	**1,662**	**1,429**	**2,059**	**2,626**
Change (%)		-8.6	-14.0	44.0	27.6
Operating Profits	**7,047**	**11,037**	**18,986**	**27,349**	**34,884**
Change (%)		56.6	72.0	44.0	27.6
Total Provisions	**473**	**1,700**	**4,110**	**6,198**	**8,925**
% to operating income	6.7	15.4	21.6	22.7	25.6
PBT	**6,575**	**9,337**	**14,876**	**21,151**	**25,959**
Tax	2,301	3,268	5,206	7,403	9,086
Tax Rate (%)	35.0	35.0	35.0	35.0	35.0
PAT	**4,274**	**6,069**	**9,669**	**13,748**	**16,874**
Change (%)		42.0	59.3	42.2	22.7

BALANCE SHEET					
Y/E MARCH	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Networth	**28,336**	**34,405**	**44,074**	**57,822**	**74,696**
Borrowings	**28,722**	**105,176**	**208,768**	**332,724**	**482,254**
Change (%)		266.2	98.5	59.4	44.9
Other liabilities	**0**	**0**	**21,166**	**20,466**	**18,467**
Change (%)				-3.3	-9.8
Total Liabilities	**57,058**	**139,581**	**274,008**	**411,012**	**575,417**
Customer assets	**47,660**	**130,480**	**260,960**	**391,440**	**548,016**
Change (%)		173.8	100.0	50.0	40.0
Other assets	**9,398**	**9,101**	**13,048**	**19,572**	**27,401**
Change (%)		164.5	265.5	428.3	691.0
Total Assets	**57,058**	**139,581**	**274,008**	**411,012**	**575,417**

RATIOS					
Y/E MARCH	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Spreads Analysis (%)					
Avg. Yield on loans			15.0	14.0	13.0
Avg. Cost of funds			8.3	8.0	7.6
Interest Spreads			6.8	6.0	5.5
Net Interest Margins			8.4	7.4	6.5
Profitability Ratios (%)					
RoE			24.6	27.0	25.5
RoA			4.7	4.0	3.4
Cost to Income Ratio			7.0	7.0	7.0

Pharma: Rebranding the business

Expect strong EBITDA CAGR of ~40% over FY16-19

- **PIEL operates under two broad divisions under healthcare currently 1) Global Pharma which constitutes of Pharma solutions and Critical Care & 2) India consumer products. Imaging is another division which the company plans to trim down over next few months.**
- **Pharma business for PIEL grew at a CAGR of 17% over the last five years (till FY16). The company has invested ~INR30b in the last two years to acquire seven assets in the Pharma space. We expect the pharma solutions business to deliver robust mid-teen growth over the next three years on the back of (1) ramp-up of injectables business, (2) expansion into new areas, including high potency APIs, (3) expansion of ADC manufacturing capacity, (4) debottlenecking/capacity expansion at other facilities and (5) growth driven by recent Inorganic expansion**
- **Global pharma businesses like Pharma and Critical Care (80% of pharma revenue) has the strong EBITDA margin of 20%+ whereas, EBITDA margin for consumer business (domestic business) is low single digits (5-8%). On the domestic business PIEL is in a significant investment mode hence margins will remain low but revenue growth is expected to be strong. Imaging a drag to profitability is likely to wind down in CY17 hence improving overall profitability of Pharma division**
- **PIEL has invested >INR60b in this business and we have valued this business on EV/EBITDA of 13.5x (12x EV/EBITDA for Pharma and Critical Care; 3x EV/Sales for Consumer Products). Our total EV for this business works out to INR124b.**

Piramal Healthcare 2.0

Post the sale of its domestic formulations business to Abbott in FY11, PIEL has re-built its healthcare business. Over the last five years, healthcare revenue has grown at a CAGR of 17% to INR35.6b (~54% of total revenue) in FY16. PIEL operates under two broad divisions in the healthcare segment: (1) Global Pharma which constitutes of pharma solutions & critical care (~89% of pharma revenues) and (2) consumer products (~11% of pharma revenues).

New capability additions should drive growth in the pharma solutions division

PIEL is one of the few large integrated contract development and manufacturing organizations (CDMOs) in the world, offering both APIs and formulations through its 11 sites across North America, Europe and India. We expect this business to deliver robust mid-teens growth over the next three years, driven by (1) ramp-up of injectables business, (2) expansion into new areas, including high potency APIs, (3) expansion of ADC manufacturing capacity, and (4) debottlenecking / capacity expansion at other facilities.

Desflurane launch is likely to act as a catalyst for the critical care division

PIEL is the third-largest player (after Abbott and Baxter) in the global inhalation anesthesia space. It has 12% market share currently in this space, up from ~3% in FY09, on the back of strong product portfolio, competitive pricing, consistent supply of products and robust distribution network. Launch of Desflurane, cost reduction, and entry into new markets should help achieve 17-18% CAGR over the next three years. PIEL is actively looking at both organic and inorganic opportunities to add other critical care products to its portfolio.

Expect margins in the OTC division to expand

The company has expanded its OTC product portfolio. It now features among the top-7 players in the OTC space; in 2007, it ranked 40th. PIEL has expanded its distribution reach to 1,500 towns (~480 towns in FY15), with a field force of ~2,000

(~800 in FY15). We expect margins in this business to expand (achieved breakeven in FY16) on positive operating leverage (distribution expansion largely done) and sales force automation (to facilitate efficient productivity).

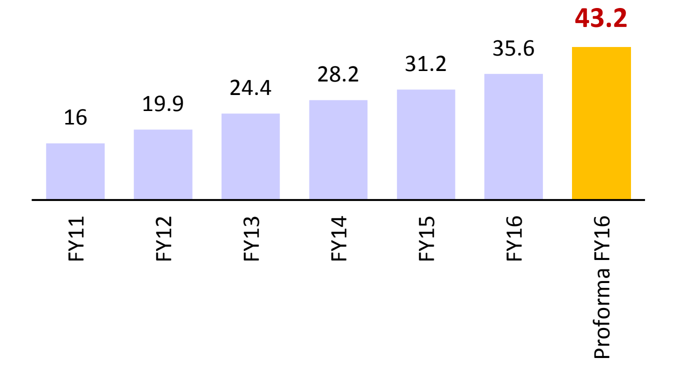
Invested ~INR30b to do seven acquisitions in Pharma space

In the last two years, PIEL has invested heavily in the pharma business. It has spent ~INR30b to acquire seven assets across geographies in different areas. It acquired two pharma businesses - Coldstream into Injectables and Ash Stevens into High Potency API. Both of these are in the U.S. Two pharma product portfolios that contain differentiated branded generic products from Janssen and the latest one from Mallinckrodt. In the consumer products portfolio in India, it acquired four brands from Pfizer, five brands from Organon India & MSD, and the Baby-care brand 'Little's'. Because of these acquisitions, proforma revenue for FY16 would go up to INR43b from INR36b currently. Similarly, EBITDA margins of global pharma business (Ex India) will jump to ~21% vs ~17% currently.

Exhibit 17: Invested ~INR30b to do seven acquisitions in Pharma space

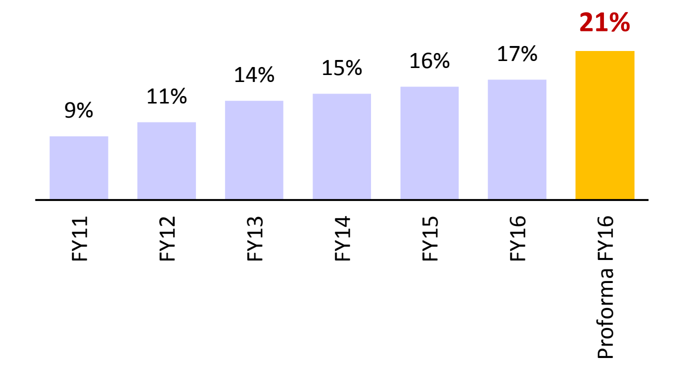
Source: MOSL, Company

Exhibit 18: Pro-forma revenue increase led by seven acquisitions (INR b)



Source: MOSL, Company

Exhibit 19: Pro-forma EBITDA margin increase led by seven acquisitions

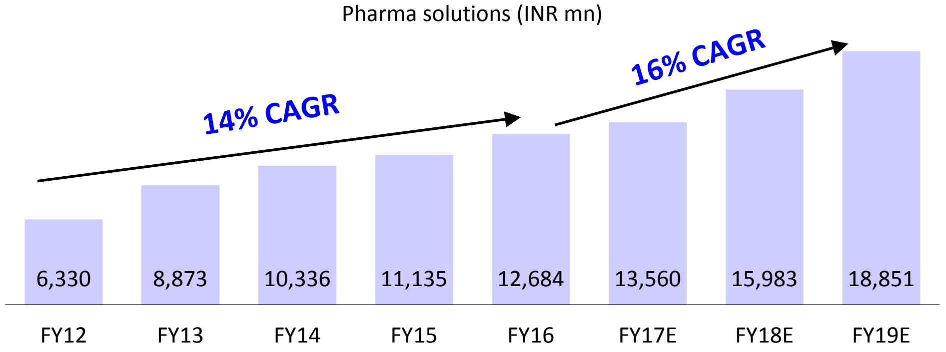


Source: MOSL, Company

Global Pharma business (~89% of pharma revenue)

- **The global pharma solutions business has grown at a CAGR of 16% over FY12-16, on the back of steady growth in CMO business and >20% growth in critical care space.**
- **We forecast 15.5% CAGR in revenue over FY16-19, buoyed by entry into niche segments (sterile injectables, ADCs, high potency APIs).**

Exhibit 20: Global Pharma- the largest segment within healthcare (89% of FY16 revenue)

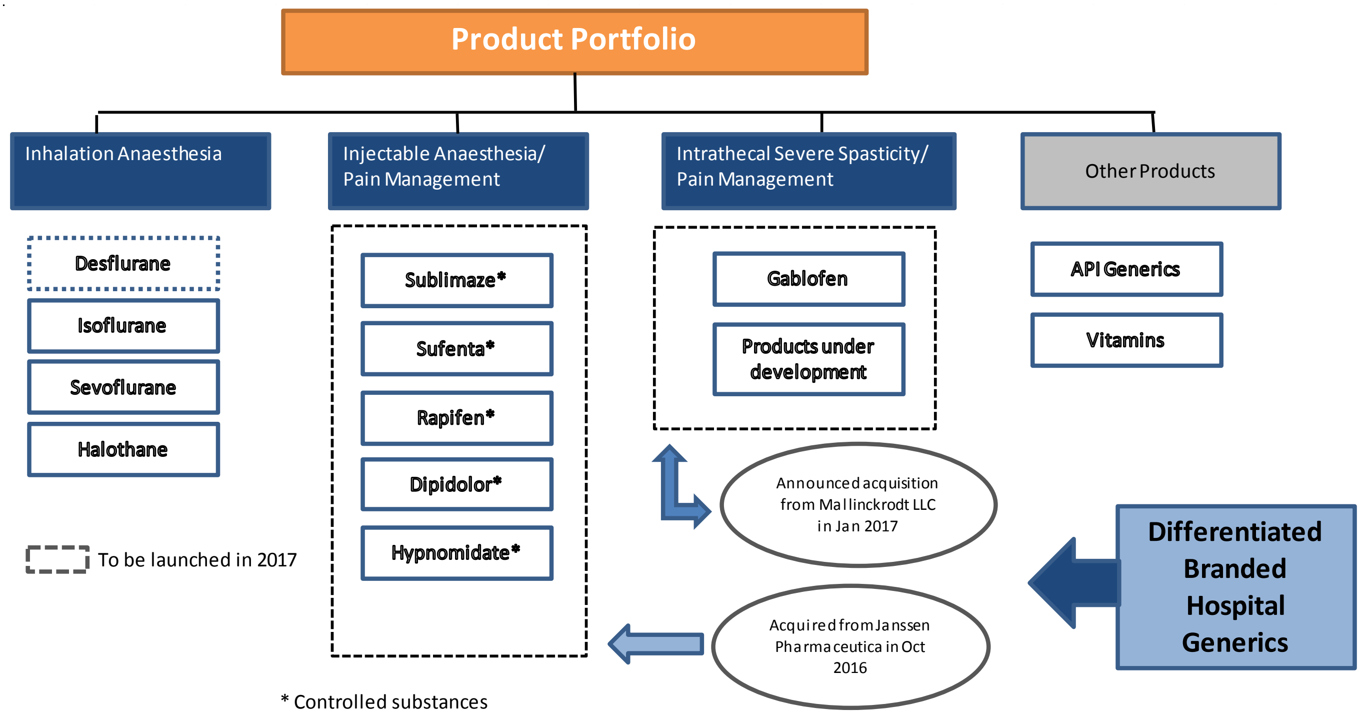


Source: MOSL, Company

Adding strength across the value chain- product capabilities, manufacturing facilities and distribution network

PIEL has end-to-end manufacturing and service delivering capabilities both for APIs and formulation including niche capabilities in Injectables, High Potency API, Antibody Drug Conjugates, Inhalation Anesthesia, etc. It also has a large global distribution network reaching to over 100 countries through dedicated sales force and distributors and a strong presence in key geographies of North America, Europe, India, and Japan.

Exhibit 21: Global Pharma- Adding capabilities in niche areas



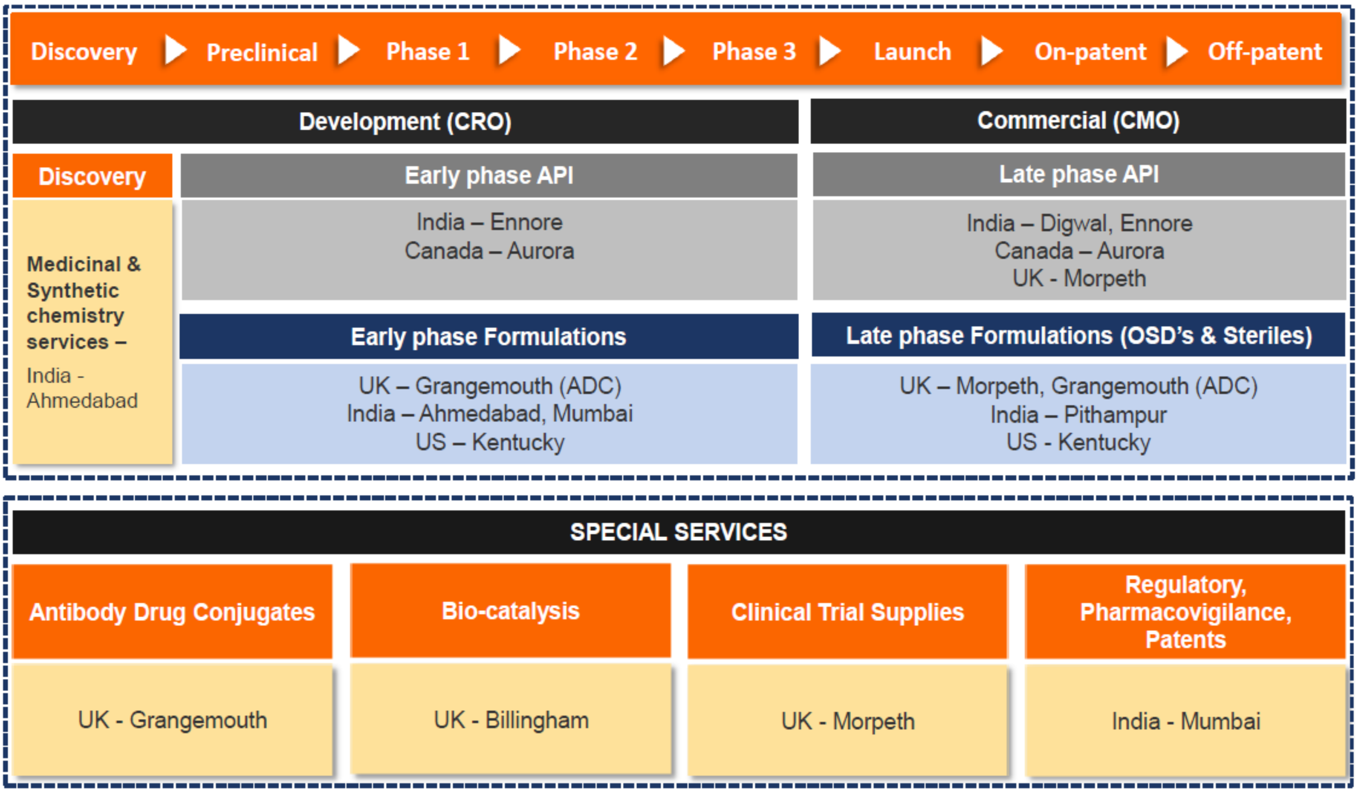
Source: MOSL, Company

Addressing customer needs across the drug life cycle

PIEL offers end-to-end contract development and manufacturing services (CDMO) through collaborative partnerships.

PIEL offers end-to-end contract development and manufacturing services (CDMO) through collaborative partnerships. It works with customers throughout the life cycle of the drug across APIs and formulations. It also offers differentiated services in areas such as antibody drug conjugates (ADCs), bio-catalysis, continuous flow chemistry, etc. This is quite different from the model adopted by most leading Indian CRAMS players – Divis, Dishman, Neuland, etc – that focus only on APIs.

Exhibit 22: End-to-end CRAMS players for APIs and formulations



Strong customer relationships

PIEL has been working with five of the top seven global pharmaceutical companies. Additionally, its long-term partnerships with several mid-sized, small and virtual pharma firms in the regulated markets have also supported growth.

Regulatory compliance – a key focus area

PIEL has a strong global footprint of manufacturing assets at 14 sites, of which nine are approved by the USFDA.

PIEL has a strong global footprint of manufacturing assets at 14 sites, of which nine are approved by the USFDA. Manufacturing facilities in India are primarily used to cater to the API market, whereas facilities in the US and Europe are primarily used for manufacturing formulations, as innovators typically want formulation manufacturing for patents to be closer to the end-markets.

The company has successfully cleared more than 20 USFDA audits for its manufacturing facilities over the past three years, with no major observations. Its key facilities at Morpeth (UK), Pithampur (India) and Digwal (India) account for 60-70% of Healthcare revenues. The company successfully cleared a USFDA audit at its Digwal facility with no observation in 1QFY17.

Exhibit 23: 14 manufacturing facilities spread across the world

Source: MOSL, Company

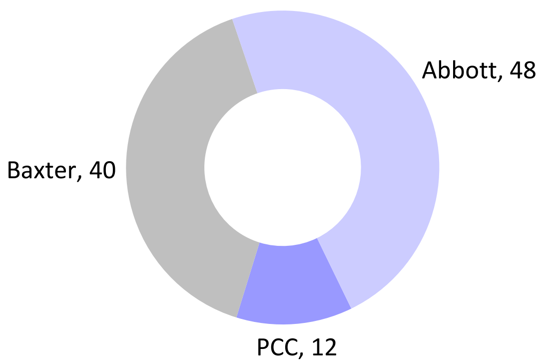
Niche capabilities across product segments

- **Grangemouth (ADC):** PIEL has a facility in Grangemouth (Scotland) for antibody drug conjugates (ADC – delivery system where the drug attaches itself to dead cancer cells and then bursts, thereby minimizing toxicity). It acquired this facility 5-6 years ago.
- **Coldstream Laboratories (sterile injectables):** In FY15, PIEL acquired US-based Coldstream Laboratories, a specialty pharmaceutical CDMO focused on the development and manufacturing of sterile injectable products. This acquisition has strengthened its position in the injectables market, complementing its sterile injectable development capability at Mumbai. There is significant traction at Coldstream, with its order book running full. To cater to commercial demand from existing and new projects, it is currently implementing a USD12million capacity expansion project.
- **Ash Stevens:** PIEL is set to acquire US-based full-service CDMO, Ash Stevens. It develops and manufactures high potency active pharmaceutical ingredients (HPAPIs). This is one of the fastest growing segments in the pharmaceuticals sector and over 50% of the HPAPIs are anti-cancer drugs.
- **NCE:** The company has scaled back NCE R&D and is now looking to divest these assets to suitable buyers. All assets are in phase-1 trials.

Inhalation is a three-player market – PIEL lowest cost producer

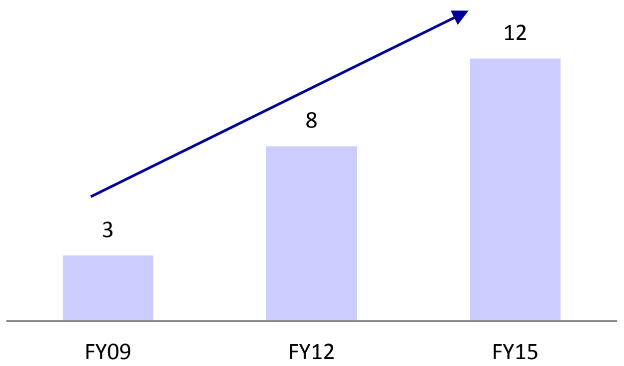
The inhalation anesthesia market is largely a three-player market, comprising of Abbot, Baxter and PIEL. On an average, it takes four years to get approval for a drug. PIEL is the lowest cost producer owing to the strategic location of its facilities (India). Its cost advantage enables it to control prices and its market share has increased from 3% to 12% over the past few years.

Exhibit 24: Global market share (FY15, %)



Source: MOSL, Company

Exhibit 25: PIEL's market share has increased significantly owing to its disruptive pricing strategy



Source: MOSL, Company

Complete product portfolio in inhalation

PIEL's product portfolio currently includes three inhalation anesthetics – Halothane (animals), Isoflurane (developing/third-world countries) and Sevoflurane (developed markets). With the launch of Desflurane in CY17, PIEL would be the only company to offer a complete product portfolio of inhalation anesthetics.

With the launch of Desflurane in CY17, PIEL would be the only company to offer a complete product portfolio of inhalation anesthetics.

Exhibit 26: Sole company with a portfolio of all generations of inhalation anesthetics

	AbbVie	Baxter	Piramal
Desflurane*		✓	✓*
Sevoflurane	✓	✓	✓
Isoflurane	✓	✓	✓
Halothane			✓

* Desflurane is expected to get launched in 2017

Source: Company, MOSL

Competitive intensity within the US inhalation industry

- **Desflurane (gSuprane)**
  - Baxter is the innovator
  - No generic substitute currently available in the US
  - PIEL expected to launch in CY17

- **Seroflurane (gUltane)**
  - Accounts for 70% of global inhalation anesthesia market
  - Abbvie is the innovator
  - Five-player market; PIEL has captured ~30% market share in the US

- **Isoflurane (gForane)**
  - Baxter is the innovator
  - Four-player market including the innovator and three generics; however, one manufacturer has exited recently, leading to better pricing
  - PIEL is the largest player in the US

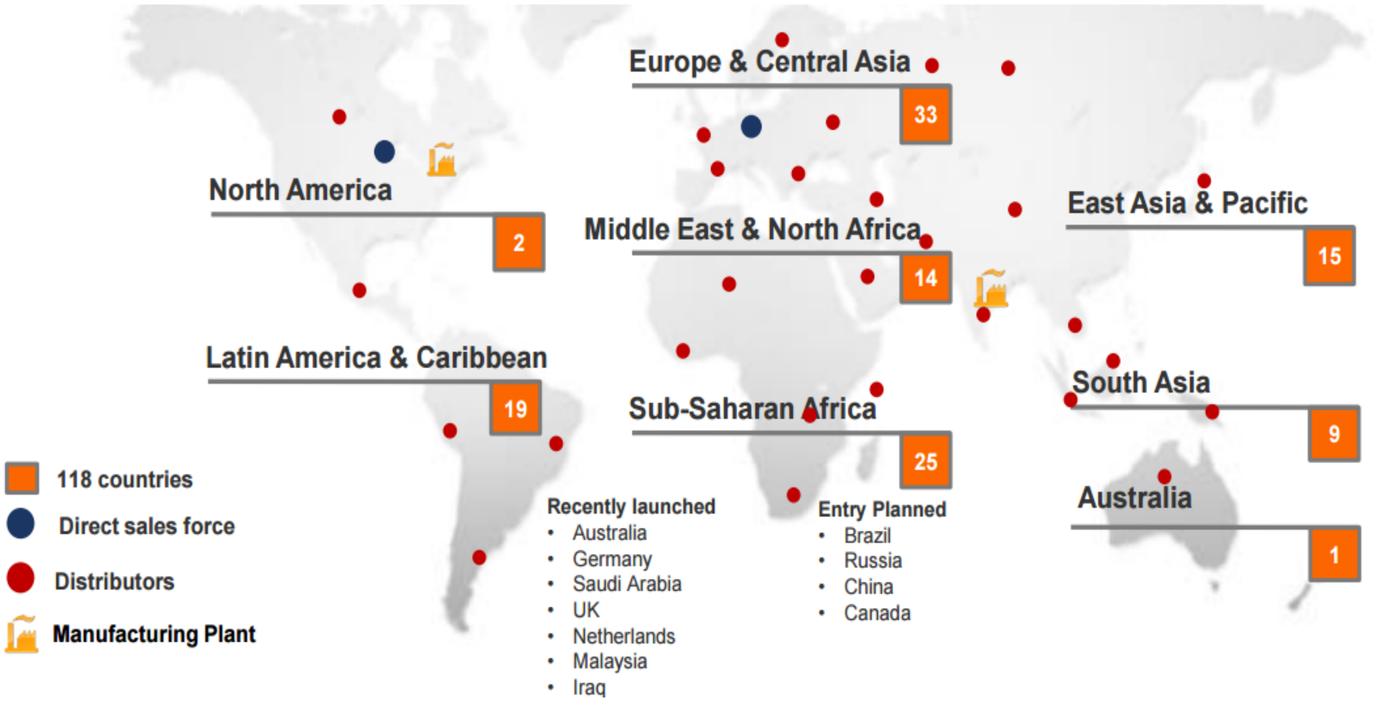
- **Halothane**
  - PIEL is the sole manufacturer in the US

Additionally, PIEL has gained significant traction within the Sevoflurane market in the UK. The company captured ~42% market share after one year of its launch. It is also gaining traction in Japan (Sevoflurane market share: 56%) and other markets of Saudi Arabia, Germany and Malaysia.

Strong hospital network

PIEL has built strong relationships with hospitals and doctors. It serves over 6,000 hospitals through a combination of a direct sales force (the US and select European markets) and marketing partners/distributors (rest of the world). It works collaboratively with over 150 marketing partners in countries where it does not have a direct sales force.

Exhibit 27: Wide hospital reach



Source: MOSL, Company

Key business drivers

1. **Desflurane launch in the US (USD200m market):** PIEL is expected to launch its next generation product, Desflurane in the US in CY17. Currently, there is no generic substitute for this product in the US. Besides the launch of the first generic Desflurane in the US and other key geographies, growth would also be aided by increasing share in inhalation anesthesia markets and launch of existing products in new geographies.

2. **JV with NavinFluorine:** PIEL would be collaborating with NavinFluorine to manufacture APIs in India, which would further lower manufacturing costs (procurement savings). It would be able to gain market share within the global inhalation anesthesia market by further lowering its selling prices.
3. **Leveraging strong hospital network:** PIEL would be expanding its portfolio beyond inhalation anesthetics to injectable anesthetics, pain management, and other hospital and veterinary injectable products used in critical care. This would enable it to push products to hospitals where its sales force has relationships, and thus achieve higher sales and profitability.

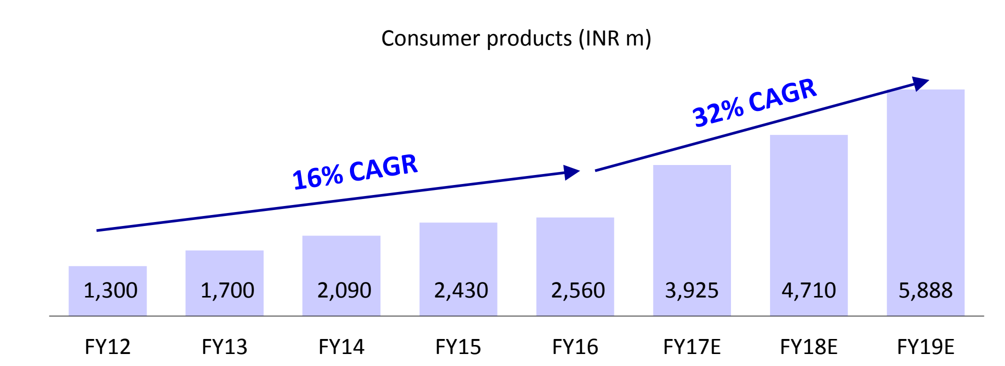
In FY16, PIEL entered into a co-promotion agreement with Cumberland Pharmaceuticals, a specialty pharmaceutical company focused on hospital acute care and gastroenterology. As part of this agreement, PIEL started promoting two branded hospital products, *Caldolor®* and *Vaprisol®* to top customers in the US.

Consumer products (OTC + opthalmology)

Asset sweating + brand acquisitions to stimulate growth

- **PIEL's consumer products business has grown at a CAGR of 16% over FY12-16, outpacing the 12% CAGR in the domestic consumer products market.**
- **We forecast >30% revenue CAGR over FY16-19, driven by leveraging of investments made in distribution over the past few years and acquisition of powerful but underleveraged consumer brands.**
- **Profitability (EBITDA margin) could improve further, if PIEL is able to sweat its resources efficiently. It achieved EBITDA breakeven in FY16 and targets 20% EBITDA margin by FY20.**

Exhibit 28: Consumer products – targeting INR10b revenue in 2020



Source: MOSL, Company

Strong brand portfolio

PIEL's consumer product business is the 7th largest among all OTC companies in India.

PIEL's consumer product business is the 7th largest among all OTC companies in India. It has a good portfolio of high-ranked brands – *Saridon* (analgesic), *Lacto Calamine* (skincare), *i-pill* (oral contraceptive), *Polycrol* (antacid), *Tetmosol* (dermatology) and *Jungle Magic*. PIEL intends to be either number-1 or number-2 in each category it is in. As at the end of FY16, six of PIEL's 11 brands featured among the top-100 Indian OTC brands.

Exhibit 29: Consumer products portfolio

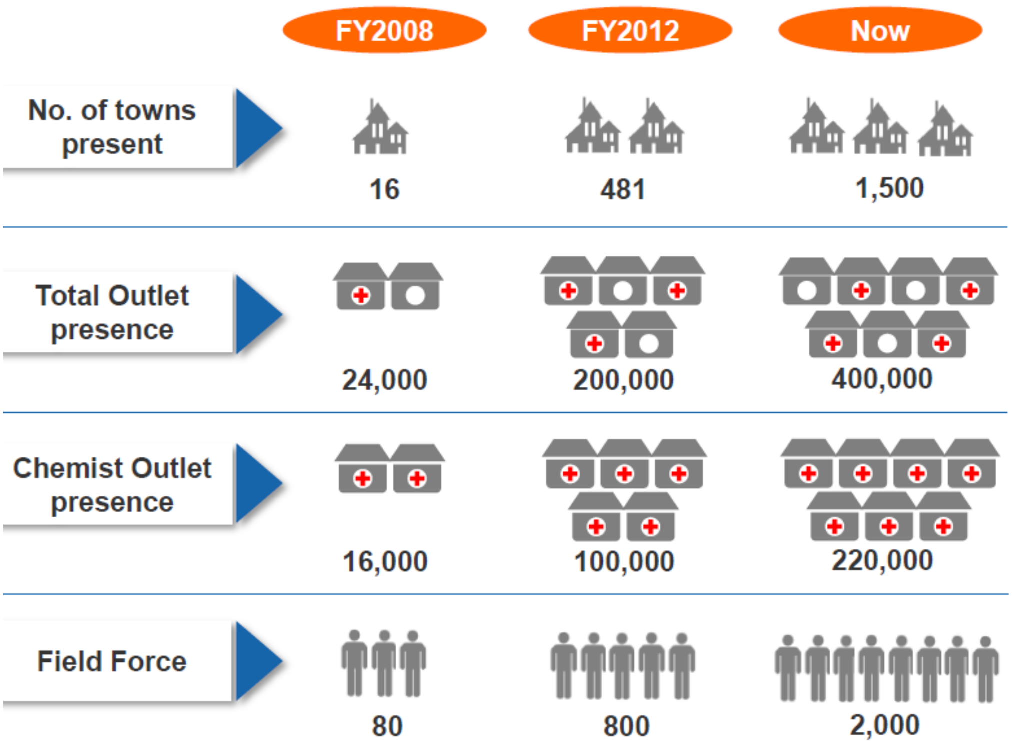
Source: MOSL, Company

One of the largest India distribution networks in consumer product segment

PIEL's biggest strength lies in its strong distribution reach to ~1,500 towns, with 350k retail outlets, of which 220k are chemist outlets.

PIEL's biggest strength lies in its strong distribution reach to ~1,500 towns, with 350k retail outlets, of which 220k are chemist outlets. It has made strategic investments over the years in the marketing of its brands to enable them to reach their present position. Its field force has expanded from 80 people in FY08 to 2,000 people in FY16. Its wide distribution network is a key consideration for several companies approaching it for distribution partnerships in India.

Exhibit 30: Large India-wide distribution network



Source: MOSL, Company

Key business drivers

1. **Accrual of operating leverage benefits to boost profitability:** PIEL has made the necessary investments in terms of ramping up its distribution network and expanding its field force. These investments appear to be yielding results. The business achieved EBITDA breakeven in FY16. Profitability (return ratios) could improve further if the company is able to leverage the investments made in distribution over the past few years and sweat its resources efficiently by enhancing its product basket.
2. **Brand acquisitions:** PIEL's non-compete agreement with Abbot expires in 2018. Until then, it cannot enter the domestic prescription (Rx) market. Its medium-term strategy is to drive growth through acquisition of Rx brands that have strong legacy and brand recall and re-launch them as OTC products. The typical acquisition cost paid by the company is ~3x sales. Another strategy PIEL employs is to acquire strong regional brands and expand reach pan-India, leveraging its strong distribution network. Some of its recent acquisitions are:
   - **Baby care brand – Little's:** In November 2015, PIEL acquired baby care brand, *Little's*. The *Little's* range, which includes products across the non-

food baby care category, is preferred by mothers of babies in the age group of 0-4 years. PIEL already caters to children in the age group of 5-10 years through its in-house *Jungle Magic* brand. With this acquisition, it now has offerings for babies/children in the age group of 0-10 years.

- **Five brands in gastro-intestinal (GI) segment:** In December 2015, PIEL acquired five brands from Organon India Private Limited and MSD BV. These include *Naturolax*, *Lactobacil* and *Farizym*, which PIEL intends to continue in the GI segment through the OTC route. These brands have a rich legacy in India and high consumer pull. PIEL already has an antacid brand, *Polycrol* in the GI segment. *Polycrol* the number one brand in East India. With these additions, PIEL has enlarged its basket of offerings in the GI market.
- **Four brands from Pfizer:** In May 2016, PIEL entered into an agreement to acquire four brands from Pfizer – *Ferradol*, *Neko*, *Sloan's* and *Waterbury's Compound*. The agreement includes the trademark rights for *Ferradol* and *Waterbury's Compound* also for Bangladesh and Sri Lanka. These brands hold a rich legacy of 30+ years and enjoy high consumer pull.

Key risk

- **FDC ban:** In March 2016, the central government had banned 344 fixed dosage combination drugs, including PIEL's largest-selling headache analgesic brand, *Saridon*. *Saridon* is PIEL's first INR1billion+ brand (25-30% of FY16 consumer product sales). While the High Court has stayed the central government's ban, an adverse ruling could hamper the company's near-term growth prospects.

Information management: Opening new avenues

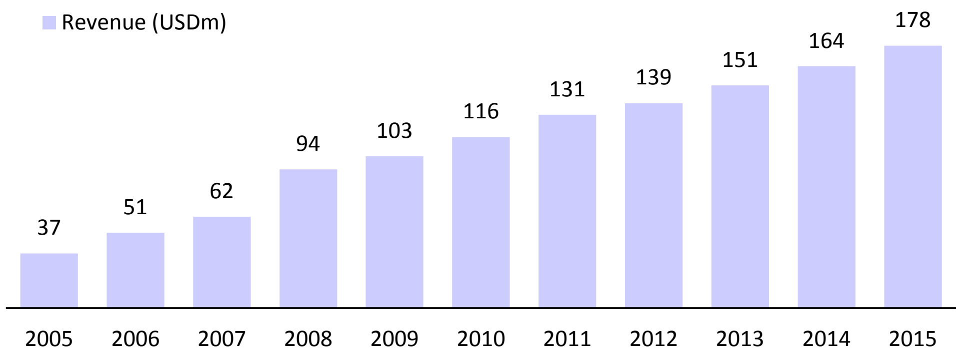
Building on DRG acquisition to scale healthcare information services

- **PIEL's Information Management (PIM) business originated from the acquisition of Decision Resources Group (DRG), a decision-support platform in the healthcare information services space.**
- **It strategizes to scale via product innovation and geographical expansion, with active thrust on the inorganic route**
- **Its CY15 revenue was USD178m, implying 9% 5-year CAGR. We value PIM at 3x EV/Sales.**

DRG has achieved revenue CAGR of 17% over the last ten years.

- In CY12, PIEL acquired Decision Resources Group (DRG), primarily a provider of syndicated content to life sciences customers. DRG's products and services are built around proprietary data, algorithms, primary research, and domain expertise.
- The business is headquartered in Burlington, Massachusetts, with strong presence in North America, Europe and Asia. Recently, the company leveraged its existing capabilities to establish presence in China, which will help it cater to a large part of emerging markets. It now has 15 office locations globally.
- In CY15, DRG had revenue of USD178m. Its revenue has grown at a CAGR of 9% over the last five years and at 17% over the last 10 years. It has capabilities across the customers' product life cycle, and employs 900+ people globally.

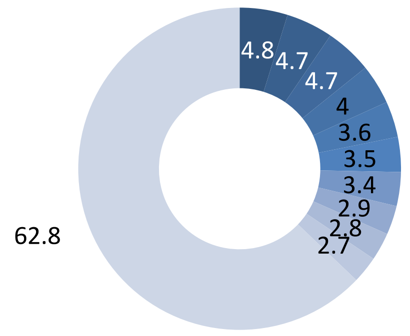
Exhibit 31: Revenue CAGR of 17% over the last ten years



Source: MOSL, Company

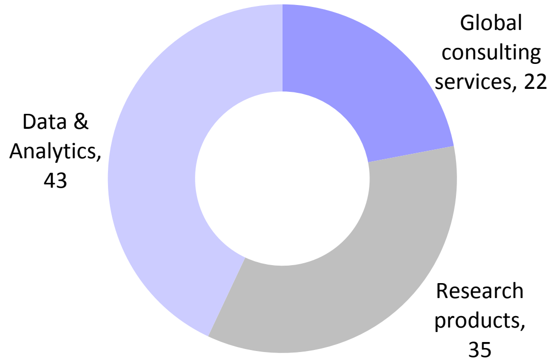
- PIM works with several leading life sciences companies, and has 10+ year relationships with all of the top ten customers. In CY15, it boasted 96% client retention (by value); among its top-20 customers, it had 100% retention. It derives 37% of its revenue from its top-10 customers, and 57% from its top-20.

Exhibit 32: Top 10 (20) customers contribute 37% (57%) of revenue



Source: MOSL, Company

Exhibit 33: Well-balanced composition of service lines



Source: MOSL, Company

Strategy based on four pillars

PIM's strategy is based on the dual intent of revenue growth and profitability improvement. It has been expanding its addressable market through acquisitions and product innovation, and the focus on profitability improvement is visible in its efforts to augment presence in India and realize operational synergies. Its strategy is based on the following four pillars:

[1] Expanding market size and geographical presence: HBI acquisition to enable entry into provider market; adaptive software to enable entry into payers market.

[2] Continued development of cost and operational synergies: DRG India office on target, with 160+ positions on-boarded in two offices; leveraging India and reviewing cost structure to identify margin enhancement opportunities; leadership team progressing well on integrating products and services under one brand.

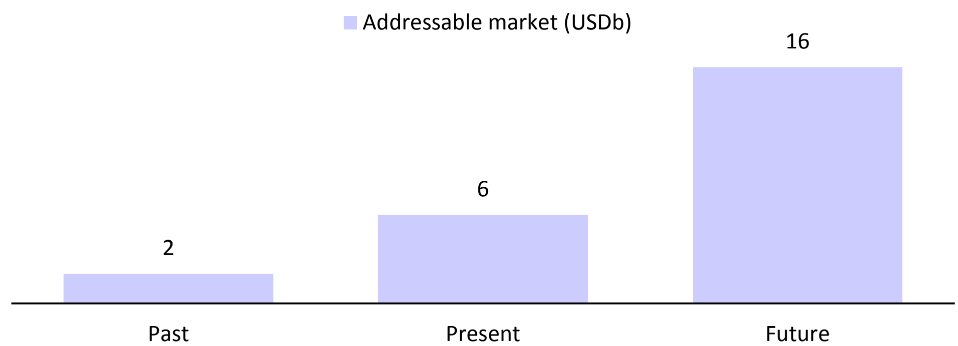
[3] Inorganic growth opportunities: Continue to look at attractive opportunities to enhance capabilities/expand geographically through acquisitions.

[4] Product innovation: New delivery platform for all DRG research reports is progressing well and will transform how customers access and consume DRG content; multiple new product ideas in pipeline.

Inorganic growth a crucial driver

Acquisitions have been a key part of PIEL's growth strategy. After its acquisition by PIEL, DRG added six companies, expanding the addressable market by 2.7x from USD6b to USD16b.

Exhibit 34: Addressable market expanded through multiple acquisitions



Source: MOSL, Company

While previous acquisitions have been aimed at adding/augmenting service lines, the two latest acquisitions give PIM access to the healthcare provider and payer spaces. Entry into these markets has been the key driver of the multifold expansion in addressable market. Acquisitions after PIEL took control include:

1. **Abacus International**: Gave access to European Health Economics and Outcomes Research (HEOR) market.
2. **Relay Technology Management**: Enabled DRG to supply clients with premier analytics.
3. **Activate Networks**: Expanded DRG's analytics capabilities; supports clients with sales force targeting.
4. **HealthHiway**: Strength in providing analytics & solutions to Indian healthcare providers.
5. **Healthcare Business Insights**: Trusted provider of best practice research, training & services to >1,400 hospitals in the US; marks PIM's entry into provider space.
6. **Adaptive Software**: Leading solutions for health plan and pharmacy benefit managers; marks PIM's entry into payer space.

India expansion to accelerate product development and profitability

PIM has opened offices in Bengaluru and Gurugram in the past two years.

- In FY16, PIM continued its expansion in India. It opened offices in Bengaluru (January 2015) and Gurugram (February 2016). It has hired over 160 employees in India so far.
- The objective of this initiative is to accelerate growth by accessing talent, increasing capabilities beyond existing products and services, improving customer delivery & response time, and realizing cost efficiencies.
- It will continue to capitalize on its India operations to drive innovation, enhance revenue, expand margins, and promote cost efficiencies.

Performance in FY16 demonstrative of strategy enablement

Revenue growth of 13% in FY16 was a function of growth in Data & Analytics and the HBI acquisition. Revenue visibility is high, driven by 96% retention rate in FY16 and continued new customer addition. Moreover, the newly entered provider and payer markets give an additional impetus to growth.

DRG's new, dynamic and web-based insight platform for its research reports is expected to be launched in 2016. The DRG Insights Platform combines Google-like search capabilities with a highly-intuitive user interface. This should help customers identify and explore relevant content. The management believes this platform will transform the way customers access and consume DRG content.

Global peers trade at EV/Sales of 1-4x

PIEL has stated its intent to demerge its diverse business segments to unlock shareholders' value. It had acquired DRG for USD635m, valuing the transaction at ~5x EV/Sales. This is in line with comparable global M&A transactions.

Exhibit 35: DRG – peer comparison

	EV/ Revenue (x)	EV/EBITDA (x)	EV (USD m)
Veeva Systems Inc	8.1	28.0	3,297
Verisk Analytics, Inc	7.7	18.0	15,924
Medidata Solutions, Inc	6.0	27.0	2,362
Athenahealth, Inc	5.8	29.0	5,336
Inovalon Holdings, Inc	4.8	14.0	2,092
IMS Health	4.3	14.0	12,542
Median	5.9	23.0	

Source: MOSL, Company

Exhibit 36: M&A valuation multiples

Target	Buyer/Investor	Acquisition price (USD m)	Value/LTM revenue (x)	Transaction value/LTM EBITDA (x)
iHealth	Connolly	1,200	7.5	14.0
Heartbeat Experts	Truven	136	5.2	22.0
Vitruvian	CRF	374	4.5	18.0
IMS Health	Quintiles	13,346	4.4	15.0
Altegra	Emdeon	910	4.3	16.0
Truven Health	IBM Watson	2,600	4.2	17.0
Merge Healthcare	IBM Watson	1,000	4.2	24.0
Median			4.4	17.0

Source: MOSL, Company

Value DRG at 3x forward sales

Assuming DRG grows at a CAGR of 12% (versus 17% CAGR over the last 10 years and 9% over the last three years), it would have sales of USD235m in CY17. We value DRG at USD670m – 3x FY19 sales or 4x LTM sales of USD178m. We peg DRG at a 10% discount to peers, which trade at a median value of 4.4x LTM revenue, to factor slower sales growth post acquisition by PIEL. Our EV for this business works out to be INR43.5b FY19.

Valuation and view

SOTP of INR2,200; implied P/BV of 2.3x FY19E

- **Post the sale of its domestic formulations business, PIEL has invested in fast-growing, profitable businesses. It started wholesale lending from scratch and has grown to become amongst the top players in real estate financing. With the best talent coupled with stringent underwriting and rigorous post-disbursal monitoring, PIEL has built a fast-growing, highly profitable franchise, with robust asset quality. We expect this business to deliver 45%+ loan book CAGR over FY17-19.**
- **PIEL's fund management business has AUM of INR70b+ and the company has seeded investments into each of the funds. We value this business at 7% AUM.**
- **We believe the financial services business is a key growth driver as well as value contributor for PIEL. This business constitutes ~75% of our SOTP valuation.**
- **Investment of INR46b in the Shriram Group is valued at ~INR80b (FY19) based on a target multiple of 2x for SHTF and 2.5x for SCUF. We have removed PIEL's investment in the Shriram Group from net worth.**
- **Invested capital employed in healthcare and IT businesses stands at INR110b+. We have allocated INR40b of net worth to these businesses. We have valued the healthcare business based on EV/EBITDA and the IT business based on EV/Sales. Both these businesses together contribute ~25% to SOTP.**

Financial services business contributes ~75% of SOTP value

NBFC business is making healthy RoA of ~6% and RoE of 25%+

The financial services segment is a key value contributor for PIEL. It has demonstrated its ability to grow faster than competition and simultaneously generate best-in-class return ratios with robust asset quality. Over the past few years, it has gained significant market share. The size of its loan book is comparable to the developer loan book of Indiabulls Housing Finance and is bigger than the developer loan books of Dewan Housing Finance and LIC Housing Finance. The company also generates significant fee income from its asset management business. The business generates pre-tax RoA of 5%+ and RoE of 25%+, with C/I ratio of ~7%.

Expect loan CAGR of 45%+ over FY17-19 and sustainable RoE of 20%+

Given the strong growth the business has demonstrated in the past few years as well as the immense opportunity available, we expect 45%+ loan CAGR over FY17-19. PIEL is well capitalized (leverage of ~4x) to support such high loan growth. We expect RoA/RoE (post 35% tax rate) to be ~3.4%/25%+ by FY19. Asset quality should remain robust, given the best practices followed by the company.

We have deducted investment in Shriram Group from net worth to arrive at the amount allocated to NBFC business

The acquisition of Shriram stake is a strategic diversification into retail finance. PIEL could grow manifold in the long term and emerge as one of the most significant players in the Indian financial services arena. Our back-of-the-envelope calculations (refer exhibit 18) suggest that the merger of Shriram Group entities into PIEL would lead to a sharp decline in the share of wholesale business to less than 20% and loan book would increase to INR1t+. We value Shriram Group investment at INR80b v/s invested capital of INR45b+. Our valuation is based on P/BV of 2.5x for SCUF and 2x for SHTF.

AUM of alternate funds at INR87b; expect 15% CAGR over FY16-19

The total AUM of PIEL's alternate funds is INR70b. Under some funds, PIEL has put the seed investment. We have factored in 10% CAGR in funds under management and value this business at 7% AUM. We have deducted the seed investment from net worth to arrive at the allocated net worth to the financial services business. This business contributes ~2% to overall SOTP.

Financial services business contributes ~75% of SOTP

On a blended basis, we value the financial services business at 2.3x March 2019E BV – INR1,671/share (~75% of SOTP). We have assigned a P/BV multiple of 2.7x for the NBFC business. The implied value of Shriram Group investments is ~2x invested capital.

Pharma and IT contribute ~25% of SOTP

Blended EV/EBITDA of 7x; contributes ~19% of SOTP

PIEL had initially invested INR79b+ in Pharma (INR36b) and IT (INR43b) businesses. Total capital employed in these businesses stands at INR100b+ as of FY16. Pharma business has become profitable and we expect it to make EBITDA margin of ~20% and achieve revenue CAGR of 16% over FY16-19. EBITDA growth is expected to be ~40% over FY17-19. On a blended basis, we have valued this business at EV/EBITDA of 13x. IT business is expected to grow at a CAGR of 8-10% over FY16-19 and EBITDA is expected to be ~16% over the same period. We value this business at EV/sales of 3x.

Exhibit 37: SOTP (FY19E Based)

	Value (INR B)	Value (USD B)	INR per share	% To Total	Rationale
NBFC business	202	3.0	1,169	53	2.7x PBV; ROE of ~25% - Loan CAGR of 45% FY17-19
Shriram Investments	80	1.2	465	21	Based on our Target price; Implied 1.75x of invested capital
AMC	6	0.1	37	2	7% AUM
Pharma, IT and Others	91	1.4	529	24	Pharma EV/EBITDA 13x; IT EV/Sales of 3x
Target Value	**380**	**5.7**	**2,200**	**100**	**Implied 2.3x Consolidated BV**
Current market cap.	318	4.7	1,844		
Upside (%)	**19.3**	**19.3**	**19.3**		

Source: MOSL, Company

Exhibit 38: Total capital employed (FY16; INR b)

	Net Worth	% of total	Borrowings	% of total	Capital Employed	% of total
NBFC business	34	28	105	65	140	49
Shriram Investments	46	37	0	0	46	16
AMC	4	4	0	0	4	2
Pharma, IT and Others	40	32	57	35	97	34
Total	**124**		**163**		**287**	

Source: MOSL, Company

Financial and valuations

Income Statement								(INR million)
Y/E March	**FY12**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**
Revenues	**23,520**	**35,440**	**45,030**	**51,230**	**66,100**	**84,543**	**113,227**	**138,725**
Change (%)		*50.7*	*27.1*	*13.8*	*29.0*	*27.9*	*33.9*	*22.5*
HealthCare	19,870	24,410	28,200	31,210	35,580	38,749	48,240	54,858
Financial Services	2,730	3,930	7,260	9,371	18,638	33,365	51,067	68,275
Info Mgmt	0	6,510	8,900	10,196	11,562	12,429	13,921	15,591
Others	920	590	670	453	320	0	0	0
EBITDA*	**3,325**	**4,331**	**4,314**	**8,698**	**15,533**	**22,299**	**33,062**	**40,287**
Change (%)		*30.3*	*-0.4*	*101.6*	*78.6*	*43.6*	*48.3*	*21.9*
HealthCare	-1,532	-92	947	299	3,971	4,664	8,824	10,873
Financial Services #	4,857	2,796	2,110	6,575	9,337	14,901	21,176	25,984
Info Mgmt	0	1,628	1,257	1,824	2,226	2,734	3,063	3,430
Depreciation	**1,293**	**2,096**	**2,469**	**2,899**	**3,274**	**3,839**	**4,139**	**4,439**
HealthCare	1,293	1,457	1,560	1,927	2,064	2,564	2,814	3,064
Financial Services	0	6	14	17	26	25	25	25
Info Mgmt	0	633	896	954	1,185	1,250	1,300	1,350
EBIT*	**2,032**	**2,236**	**1,845**	**5,799**	**12,258**	**18,459**	**28,923**	**35,848**
Change (%)		*10.0*	*-17.5*	*214.4*	*111.4*	*50.6*	*56.7*	*23.9*
HealthCare	-2,825	-1,549	-613	-1,628	1,906	2,099	6,009	7,808
Financial Services #	4,857	2,790	2,096	6,557	9,311	14,876	21,151	25,959
Info Mgmt	0	995	361	870	1,041	1,484	1,763	2,080
Unallocated Inc/(Exp)	**0**	**0**	**0**	**-2,407**	**-3,773**	**-5,680**	**-6,430**	**-6,630**
Core PBT	**2,032**	**2,236**	**1,845**	**3,392**	**8,485**	**12,779**	**22,493**	**29,218**
Change (%)		*10.0*	*-17.5*	*83.9*	*150.2*	*50.6*	*76.0*	*29.9*
Exceptional Items	**0**	**0**	**0**	**26,962**	**457**	**-180**	**-180**	**-180**
Reported PBT	**2,032**	**2,236**	**1,845**	**30,354**	**8,942**	**12,599**	**22,313**	**29,038**
Taxes	**56**	**248**	**628**	**3,450**	**1,032**	**1,764**	**3,124**	**4,065**
Tax Rate (%)	*2.8*	*11.1*	*34.0*	*11.4*	*11.5*	*14.0*	*14.0*	*14.0*
PAT	**1,976**	**1,988**	**1,217**	**26,904**	**7,910**	**10,835**	**19,189**	**24,972**
Change (%)		*0.6*	*-38.8*	*2,110.3*	*-70.6*	*37.0*	*77.1*	*30.1*
Minority Interest	38	56	8	-3	-3	5	5	5
Share from Asso. Co	0	-42	-31	1,593	1,593	2,023	2,753	3,454
PAT Post MI	**1,938**	**1,890**	**1,178**	**28,500**	**9,506**	**12,853**	**21,937**	**28,421**
Change (%)		*-2.5*	*-37.7*	*2,318.7*	*-66.6*	*35.2*	*70.7*	*29.6*
Dividend (Including Tax)	**3,510**	**3,533**	**10,599**	**4,154**	**3,635**	**4,499**	**7,678**	**9,947**

** Ex Exceptional, # Post interest expenses*

Financial and valuations

Balance Sheet								(INR million)
Y/E March	**FY12**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**
Equity Share Capital	345	345	345	345	345	345	345	345
Reserves and Surplus	112,075	106,891	92,866	117,014	123,876	132,231	146,490	164,963
Networth	**112,420**	**107,236**	**93,211**	**117,359**	**124,221**	**132,576**	**146,835**	**165,308**
Borrowings	**20,467**	**76,881**	**95,519**	**73,061**	**162,545**	**289,084**	**413,040**	**554,539**
Change (%)		*275.6*	*24.2*	*-23.5*	*122.5*	*77.8*	*42.9*	*34.3*
Other liabilities	**14,609**	**18,404**	**26,316**	**18,937**	**21,591**	**25,706**	**31,909**	**40,838**
Change (%)		*26.0*	*43.0*	*-28.0*	*14.0*	*19.1*	*24.1*	*28.0*
Total Liabilities	**147,496**	**202,521**	**215,045**	**209,358**	**308,356**	**447,366**	**591,784**	**760,686**
Loans+Investments	**117,711**	**114,613**	**111,406**	**115,153**	**199,609**	**330,089**	**460,569**	**617,145**
Change (%)		*-2.6*	*-2.8*	*3.4*	*73.3*	*65.4*	*39.5*	*34.0*
Goodwill	5,872	40,045	44,236	52,393	57,141	57,141	57,141	57,141
Fixed Assets	20,886	20,768	22,585	21,031	26,532	29,185	32,103	35,314
Other assets	**8,900**	**27,094**	**36,818**	**20,781**	**25,075**	**30,951**	**41,971**	**51,086**
Change (%)		*204.4*	*35.9*	*-43.6*	*20.7*	*23.4*	*35.6*	*21.7*
Total Assets	**153,368**	**202,521**	**215,045**	**209,358**	**308,356**	**447,366**	**591,784**	**760,686**

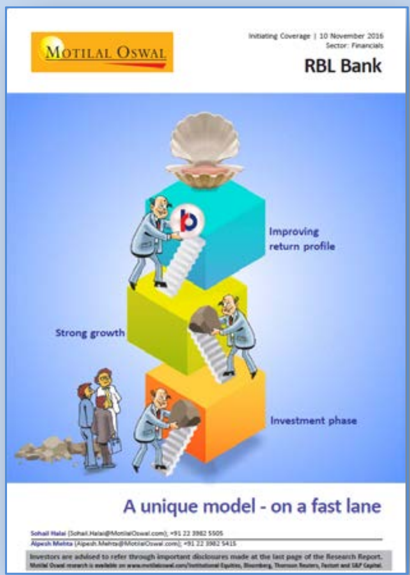
Profitability Ratios (%)								
EBITDA Margin - IT	0.0	24.9	14.0	17.9	19.2	22.0	22.0	22.0
EBITDA Margin - Pharma	-7.7	-0.4	3.4	1.0	11.2	12.0	18.3	19.8
Core ROE		1.8	1.2	2.9	6.2	10.0	15.7	18.2
ROE		1.7	1.2	27.1	7.9	10.0	15.7	18.2

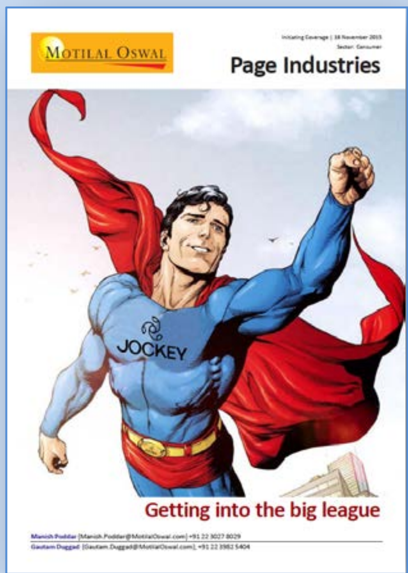
Valuations								
Book Value (INR)	652	621	540	680	720	768	851	958
BV Growth (%)		-4.6	-13.1	25.9	5.8	6.7	10.8	12.6
Price-BV (x)	2.8	2.9	3.3	2.7	2.5	2.4	2.1	1.9
EPS (INR)	11.2	11.0	6.8	165.2	55.1	74.5	127.1	164.7
EPS Growth (%)		-2	-38	2,319	-67	35	71	30
Price-Earnings (x)	160.9	165.0	264.6	10.9	32.8	24.3	14.2	11.0
DPS (INR)	20	20	61	24	21	26	44	58
Dividend Yield (%)	1.1	1.1	3.4	1.3	1.2	1.4	2.5	3.2

E: MOSL Estimates

REPORT GALLERY

RECENT INITIATING COVERAGE REPORTS





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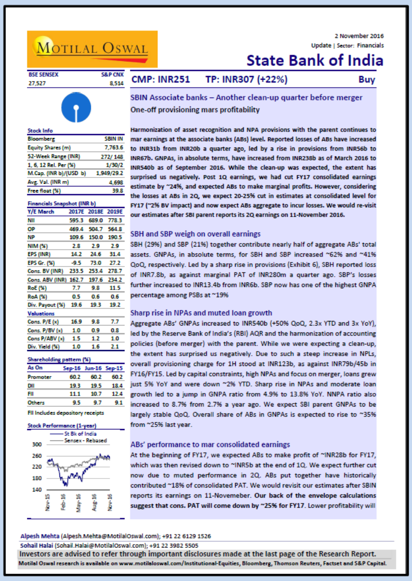

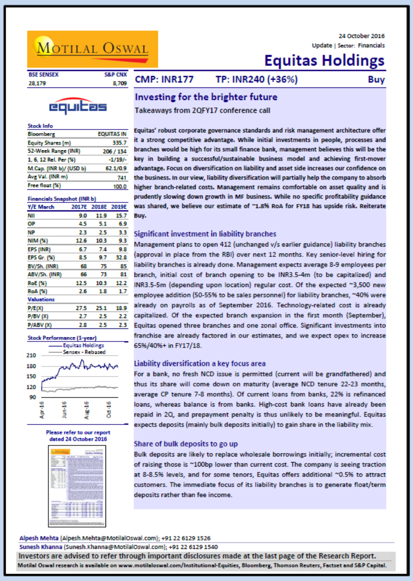

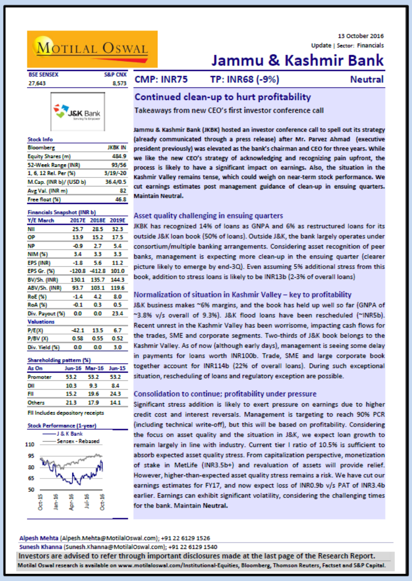

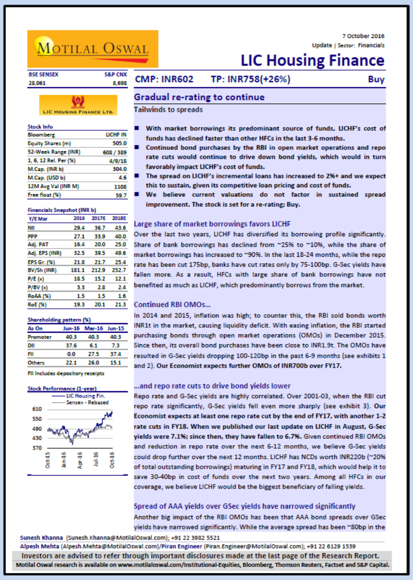

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