



Company Name	: PIRAMAL ENTERPRISES
BSE Code	: 500302
Time Duration	: 1 year
CMP	: ₹1595 (as on 10 November, 2016)
Target Price	: ₹2103

Our Value Pick for the month of Nov, 2016 is Piramal Enterprises. Piramal Enterprises evolved as diversified conglomerate with strong presence in healthcare (54%), financial services (28%) and information management (18%). It recorded growth of 32% CAGR over FY11-16 in topline. This was primarily driven by Financial services and healthcare sectors on account of robust loan growth (113%), strategic acquisitions, capacity expansion and improvement in market share. PEL is following a strategy of inorganic expansion by buying high growth potential brands and make them to grow. With this strategy, we expect PEL's topline and bottomline to grow by 40% and 35% respectively over FY16-17. Owing to this we see upside of 35% in this scrip from current levels.

Healthcare and Finance sectors driving growth Health Care sector (54% of revenue)

Health care sector delivered strong growth track record since FY12. It has reported growth of 14% CAGR over H1FY12-H1FY17. Its revenue mix includes - Pharma solutions (66%), Critical Care (24%) and Consumer product (10%). In last two years PEL has invested ~Rs 1800 crores for six value accretive acquisitions to boost growth.

It has acquired niche facility of Ash Stevens in Aug-16 with high potential API and anti-cancer agents. It is also planning to expand capacity at Coldstream (acquired in Jan-15, manufactures sterile injectable). PEL's pharma solution cleared 67 inspection including 24 FDA audits and is focusing to reach new geographies. This will help company to boost growth going forward.

PEL also added five injectable (anaesthesia & pain management) from Belgian drugmaker Janssen Pharma which we believe will add 33% in Critical Care division's earning of Rs 876 crore. This acquisition is an important step for PEL to enter global generic injectable hospital drug markets with presence in over 50 countries. PEL will benefit with high entry barrier from these products.

Out of total six acquisitions in last two years, three were made in OTC business (Consumer Product). This includes

baby care products from Little's, which helped it in adding a new revenue line in new segment. Besides, it acquired four gastro-intestinal products from Merck to complement its existing portfolio. It also acquired five legacy brands from Pfizer, including Waterbury's Compound and pain reliever Sloan's. It started OTC in 2007 with continuing strategic acquisition like i-pill, Lacto calamine and Saridon which are contribution well in growth.

It also plans to enter into new product category by launch of anti allergic product like StopAllerG, Quickkool (mouth ulcer cream) and ThroatSil (throat pain spray); with aim to make them top players in their category.

We believe high EBITDA margin of the acquired products will improve the overall profitability.

Finance Sector (28% of revenue)

Finance sector has inflated at 62% CAGR over H1FY12-H1FY17. Also, company has seen robust growth in loan book of 113% YoY to Rs 19170 crore in 2QFY17. It is utilizing 60% of its finance team for asset monitoring which results in improved GNPA from 1% to 0.4%. PEL is benefiting from 20% share in Shriram Finance group. Company entered into the finance business through joint ventures and strategic tie-ups. Also, its strategy to enter the construction finance business helped it to expand its loan book. It has approximately ~42% exposure to real estate sector. Considering the nature and size of business, Company has announced its intention to consolidate the finance business eventually under one company and de-merge the same in about two years.

Information Management (18%)

PEL's Information Management business is a global, market leading, decision support platform in the healthcare information services sector. It has got presence in US, Canada, Hong Kong, Japan, China and recently expanding in India. Clients include top 50 pharma companies. In FY16, company witnessed growth of 13.4% YoY on account of its entry into two new segments by expanding its services to Payer and Provider markets. In H1FY17, this segment recorded revenue of Rs 532 crore which has grown

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from Rs 230 crore in H1FY13. We see stable growth in this segment going forward.

Financial Performance

The company recorded continuous growth in revenue owing to profitable acquisitions and rising global presence. PEL increased its revenue to Rs 6610 crore in FY16 vs Rs 2159 crore in FY12. PAT also rose to Rs 790 crore in FY16 vs Rs 115 crore in FY12. EBITDA and PAT margin increased to 32% & 12% in FY16 from 22% and 4% in FY12 individually.

On quarterly basis, in Q2FY17 its net sales rose by 29%YoY to Rs

1936 crore. EBITDA also surged up by 67% to Rs 743 crore YoY. EBITDA margin expanded by 690bps to 39.98% YoY. PAT grew by 37% to Rs 254 crore YoY. PAT margin also swelled by 58bps to 12.94% as compared to Q2FY16.

Valuation

We see PEL at FY17 EPS of 74.39, will trade at FY17 P/E of 22.84x. It has P/B of 1.96x which looks attractive as compared to its peers. It also has D/E of 1.31x in FY16 vs 0.62x in FY15 due to investments to enhance product line which results in rising profit. Considering continuous growth, smart business strategy; we recommend to BUY in this scrip in the range of 1500-1673 per share (CMP- 1594) with target of Rs 2103 per share.

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201603	201503	201403	201303	201203
Net Sales	6609.89	5122.61	4502.74	3520.19	2158.87
Total Income	6853.20	5377.36	4728.17	3716.36	2631.10
Total Expenditure	4738.48	4237.69	3867.83	3105.38	2159.80
PBIDT	2114.72	1139.67	860.34	610.98	471.30
PAT	790.99	2690.39	-497.52	-217.48	115.26
Dividend %	875.00	1000.00	2625.00	875.00	875.00
Adj. EPS(Rs)	55.09	165.17	-29.06	-13.17	6.46

Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201609	201606	Q on Q Var%	201509	Y on Y Var%
Net Sales	1936.40	1761.05	9.96	1493.04	29.70
Total Expenditure	1222.50	1138.07	7.42	1058.29	15.52
PBIDT (Excl OI)	743.65	638.15	16.53	445.30	67.00
PAT	254.36	172.93	47.09	185.79	36.91
PBIDTM% (Excl OI)	37.82	35.93	5.26	29.62	27.68
PBIDTM%	39.98	38.91	2.75	33.08	20.86
PATM%	12.94	9.74	32.85	12.36	4.69
Adj. EPS(Rs)	17.75	13.38	32.66	13.64	30.13