PEL Annual Review 2019: Prudence. Persistence. Performance.

Robust performance amidst challenging environment

During the year, PEL has shown robust growth on most key parameters, despite significant headwinds faced by players in the sectors we operate in. These challenges ranged from RERA, GST and demonetization in Financial Services and liquidity tightening in the NBFC space to significant pricing pressures and stringent regulatory scrutiny in the Pharma sector.

Amidst these challenges, a strong balance sheet, uncompromising focus on quality & compliance, and pro-active risk management enabled us to stay resilient and grow our revenues 24% YoY to Rs. 13,215 Crore, while registering 25% YoY growth in profits for Full Year FY 2019. Since 1988, Annual Revenues have grown at 24% CAGR while Profits have grown at 29% CAGR. Since the Abbott deal in 2011, Annual Revenues have grown at a healthy 28% CAGR while Profits have grown at 50% CAGR.

Key Differentiating factors

Values Driven Culture, High Commitment from promoter, Strong Balance Sheet, Innovation culture, Multiple Drivers of Value Creation, Trusted Partnerships, Efficient Capital Allocation, constantly thinking ahead of the Curve, Proactive measures to mitigate risks, Strong governance, Trusteeship approach, and a high focus on Quality and Compliance are the key differentiating factors which have enabled us to deliver stronger performance over a long period, despite challenging environment.

High Commitment from Promoter and a strong Balance Sheet: Promoter holding of nearly 50% serves as a strong foundation for the Company. PEL has the highest effective promoter holding amongst sizable financial institutions in India. Even during the fund raise in FY2018, the Promoter invested in the company through the rights issue. The Company has total equity of more than ₹27,000 Crores on its balance sheet. As on March 31, 2019 the Financial Services business had a debt-to-equity multiple of 3.9x (excluding investments in Shriram) and 2.2x (including investments in Shriram), making it one of the least levered financial institutions in India.

Message from the Chairman

To quote **Mr. Ajay Piramal, Chairman** from his message to the shareholders "*Our ability to think ahead of the curve, create innovative, differentiated and sustainable business models combined with seamless execution capabilities, has enabled us to create new businesses whilst bolstering existing ones. The unique combination of a strong balance sheet, an uncompromising focus on quality & compliance, pro-active risk management, and our trusteeship approach creating maximum value for all stakeholders in tandem with our strong values-driven culture has held us in good stead, despite the challenging industry environment.*"

Business-wise Highlights

The business-wise highlights of our performance during the year and our key focus areas going forward are as follows:

Financial Services

Despite a challenging business environment our loan book grew 34% YoY to Rs. 56,624 Crores. We disbursed Rs. 29,762 Crores during the full year, of which Rs. 11,241 Crores was disbursed, in the last 6 months. In addition, we received pre-payments / re-payments amounting to Rs. 16,658 Crores during the year, nearly half of which was repaid in the last 6 months.

The loan book growth was accompanied by loan book diversification, geographic expansion and new product launches. The Wholesale RE loan book (excluding Hospitality and LRD loans) constituted ~63% of overall loan book as on March 31, 2019 versus ~83% as on March 31, 2015.

Asset quality remains healthy with a GNPA ratio of 0.9%, driven by the stringent underwriting parameters and robust asset monitoring systems built by the Company. Despite the healthy asset quality, the Company continues to be conservative, maintaining provisions of 1.9% of the overall loan book. The Financial Services business continued to deliver a healthy ROE of 19% in FY2019.

Real Estate Developer Finance

The Real Estate Developer Finance loan book grew 26% YoY to Rs. 40,160 Crore as of March 2019. Going forward, the company plans to further reduce developer concentration to lower the risk profile of the overall loan book. As of March 2019, the top 10 developer exposure constituted less than one-third of the overall loan book.

Corporate Finance Group

The Corporate Finance Group (CFG) loan book grew by 20% to Rs 9,889 crore in FY 2019. CFG successfully exited deals amounting to Rs 2,021 crore in FY 2019, spanning across sectors such as renewable, infrastructure, cement, warehousing and building materials.

Retail Housing Finance

Retail Housing Finance loan book grew more than quadrupled to Rs 5, 188 Crores as on March 31, 2019 compared to Rs. 1,210 Crores a year ago – as we continue to diversify the loan book and de-risk the Financial Services business. During the year, Retail Housing Finance accounted for 9% of the overall loan book versus only 3% a year ago.

Strategic Partnerships

The business continues to maintain long-standing partnerships with marquee institutions such as Bain Capital Credit, Ivanhoe Cambridge, APG Asset Management, and CPPIB, which provides us with access to patient and intelligent capital.

Borrowings

The Company improved the borrowing mix by shifting it towards long-term sources of funds. Since September 2018, the Company has raised nearly Rs. 16,500 Crores through bank loans and Non-convertible Debentures (NCDs), while reducing its Commercial Paper (CP) exposure to ~Rs. 8,900 Crores as of March 2019 from ~Rs. 18,000 Crores as of September 2018.

During H2 FY2019, there has also been a significant increase in bank borrowings – which accounted for 71% as of March-2019 versus only 49% as of September 2018. Simultaneously, we reduced the dependence on funding from Mutual Funds to 11% as of March 2019 from 29% as of September 2019.

As of March 31, 2019, PCHFL's Tier 1 ratio was 27% -- well above the minimum regulatory requirement prescribed by the RBI.

Pharma

In Pharma, the differentiated business model that we have built enabled sustained revenue growth despite pricing pressures and regulatory concerns ailing the industry. Pharma business revenues grew by 11% YoY in FY 2019 to Rs. 4,786 crore. Global Pharma business EBITDA crossed Rs. 1,000 Crores in FY 2019, with EBITDA margins at 23%. While quality remains an ongoing concern for many Indian and global pharma companies, we have successfully cleared all 33 US FDA inspections, 143 other regulatory inspections and 989 customer audits. This is a reflection of our commitment to quality and excellence and the exemplary framework that we have implemented across our manufacturing facilities.

In Global Pharma business, we have built niche capabilities in injectable anesthesia, inhalation anesthesia, intrathecal spasticity and pain management. Over 90% of our revenues are now derived from niche businesses of complex generics and Contract Development and Manufacturing Operations (CDMO), as compared with less than 5% for most large Indian Pharma companies. Our differentiated business model has enabled us to perform better than most other Indian pharma companies. During the year, we successfully launched Sevoflurane Integrated Closure variant in select European markets and launched MITIGO in the US. The integration of key products acquired from Janssen and Mallinckrodt remains on track. In the coming years, we will continue to develop new products, while evaluating inorganic growth opportunities. We will also strive to maintain and continue to leverage our positioning as 'partner of choice' for large Global Pharma and virtual Biotech companies.

In the India Consumer Products business, the business is seeing recovery post GST impact with H2 FY2019 revenues up 30% as compared to H1 FY2019. We added key brands in the Vitamins, Minerals and Nutrients categories. Additionally, the business is increasingly leveraging technology and analytics to augment decision-making in sales and operations while establishing a strong e-commerce channel to boost product sale. In the coming years, our focus will be on growing the India Consumer Products through launches, acquisitions, e-commerce and technology.

Caring for our stakeholders

Employees: We have built a proactive, forward-looking HR function driving our ambitious growth plans. We are investing in developing our top talent through signature leadership development experiences such as IGNITE, ASCEND and SUMMIT. We now have technology-enabled goals and performance management processes. The Piramal Learning University also continues to deliver measurable impact through focused capability-building via its Leadership and Functional Academies.

Customers: We have evolved from being product-centric to customer-centric. This enables us to differentiate ourselves across end-to-end customer experience. Voice of customers, employees, processes, and businesses are gauged to gather the Customer Experience. Our Overall Customer Satisfaction Index score has gone up to 88.8% during FY 2019, as against 81% in FY 2016.

Investors: We have a strong track record of generating superior shareholder returns over the preceding three decades. Since 1988, we have delivered 28% Annualized returns to our shareholders. Since the Abbott deal in 2011, 32% Annualized returns have been delivered to our shareholders.

Society: We are striving to create a positive difference to all our stakeholders including our society at large. In Healthcare, over 10.6 Crore beneficiaries have received health facilities at their doorstep. In Education, over 4.4 Crore students have indirectly benefitted from our State Transformation Programme across 4,37,000 schools.

Transparent and Comprehensive Disclosures

PEL is making conscious efforts to significantly improve the quality and transparency of our disclosures. Piramal Enterprises Limited was ranked 1st in India (across sectors) and 6th globally (across sectors) for its FY 2018 Annual Report by the **League of American Communications Professionals (LACP)** in March 2019. It was also ranked 1st globally (Platinum Award) in the 'Conglomerates' category, and ranked 2nd globally (Gold Award) in the 'Financials', as well as the 'Pharmaceuticals' sector.

For further details, please access PEL's 2019 Annual Report here.