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# Show me the Value

London Value Investing Club  
6 Nov 2018

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# Disclaimer

Views are personal

Not a recommendation

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# Agenda

1. About the Company
2. Curious Case of Negative Enterprise Value
3. Betting on the Jockey
4. Show me the Value

Investing in India

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# 1. About the Company

## Piramal Enterprises Limited

Listed Indian conglomerate

Run by current management for more than 30 years

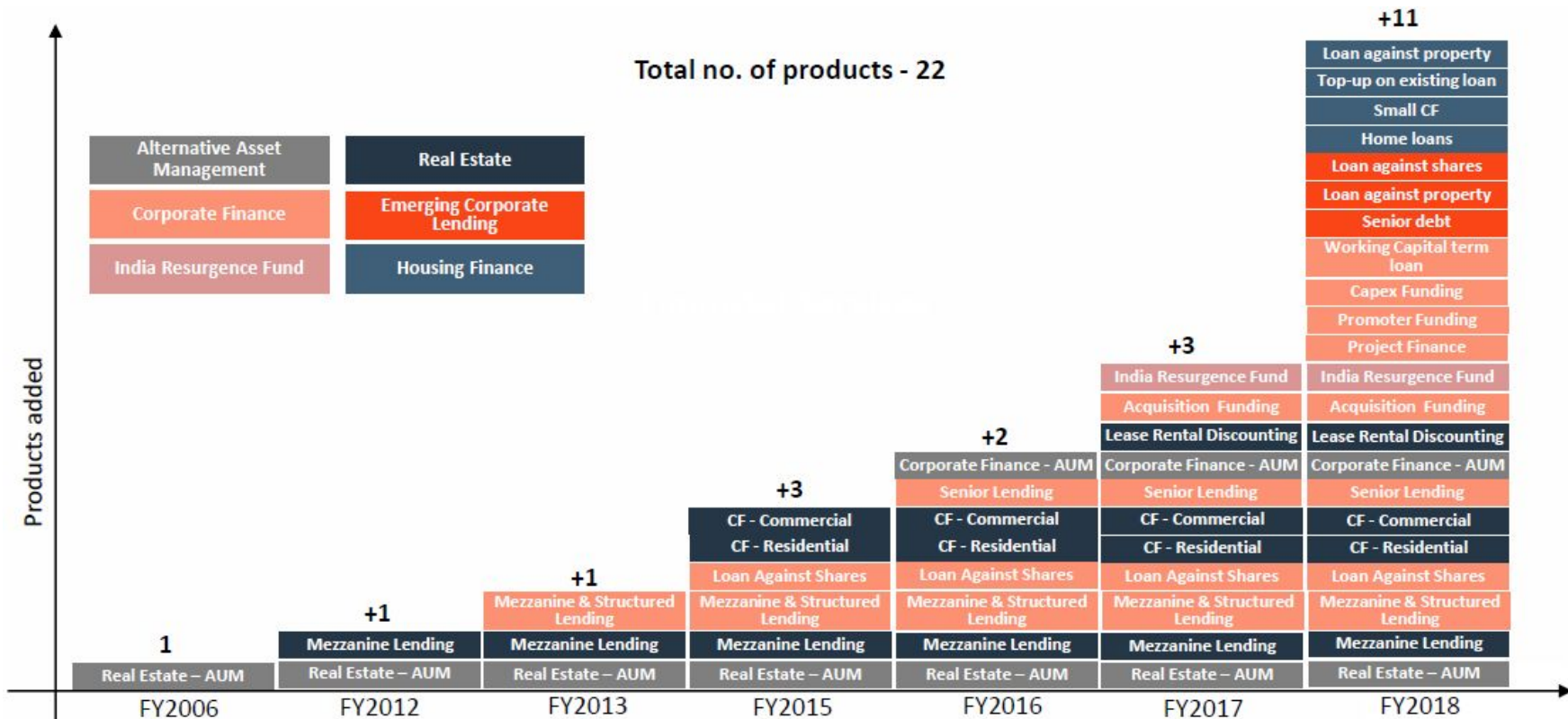
Three business verticals:

1. Financial services - India focused (47% revenue)
2. Pharma - Global and Indian pharma (42% revenue)
3. Healthcare consulting - US focussed (11% revenue)

# Financial Services - started in 2012

- Aims to be one of India's largest and diversified financial services firm
- Current business comprises of:
  - Wholesale business
    - Real estate lending
    - Corporate lending
  - Retail business
    - Housing finance
    - Strategic investment in India's large retail non-banking financial services company
  - Asset management

# Financial Services - Products



# Pharma - operating since 1980s

- Global Pharma
  - Niche branded generics in fields of critical care
    - Injectable anaesthesia, inhalation anaesthesia, severe spasticity / pain management
    - 13 manufacturing facilities (4 in North America, 30% market share in inhalation anaesthesia)
    - Distributes to >100 countries
- India Pharma
  - Portfolio of OTC products
  - 8 brands among top 100 brands in India

# Healthcare Consulting - acquired in 2012

- US based business with clients in pharma, medcare, insurance
- Provide healthcare business solutions, consulting, research and data analytics in:
  - Market assessment and access
  - Commercial optimisation
  - Digital innovation
  - Performance improvement
- 70% revenue is recurring. 96% client retention



## 2. Curious Case of Negative Enterprise Value

Enterprise Value

= MCap + Debt - Cash

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# 2010 - 2011



# 2012 - 2015



## 3. Betting on the Jockey

1. Capital Allocation
  2. Historical returns
  3. Treatment to minority shareholders
  4. Skin in the Game
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# Thirty (30!!) year performance

- Revenue CAGR: 23%
- Net Profit CAGR: 29%
- Annualised shareholder return (assuming dividends reinvested): 29%
  - Doubled shareholders money every 2.5 years for a period of 30 years

# Six year performance

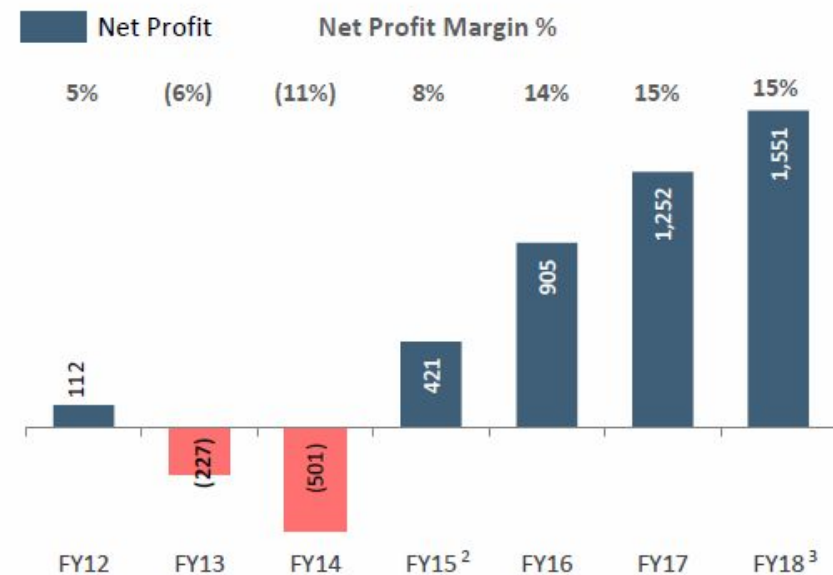
Total Revenues<sup>1</sup>

6 yrs CAGR – 29%



Adjusted Net Profit<sup>1,2,3</sup>

6 yrs CAGR – 55%



# Ajay Piramal

- “Frankly, I don’t owe my job to an analyst. So, therefore, I can afford to take a long term view.”
- “Web of trust extends to our dealings with everyone including those from whom we have bought businesses and those to whom we have sold.”
- “We have always tried to read below the headlines, looking for a way to play the business differently.”

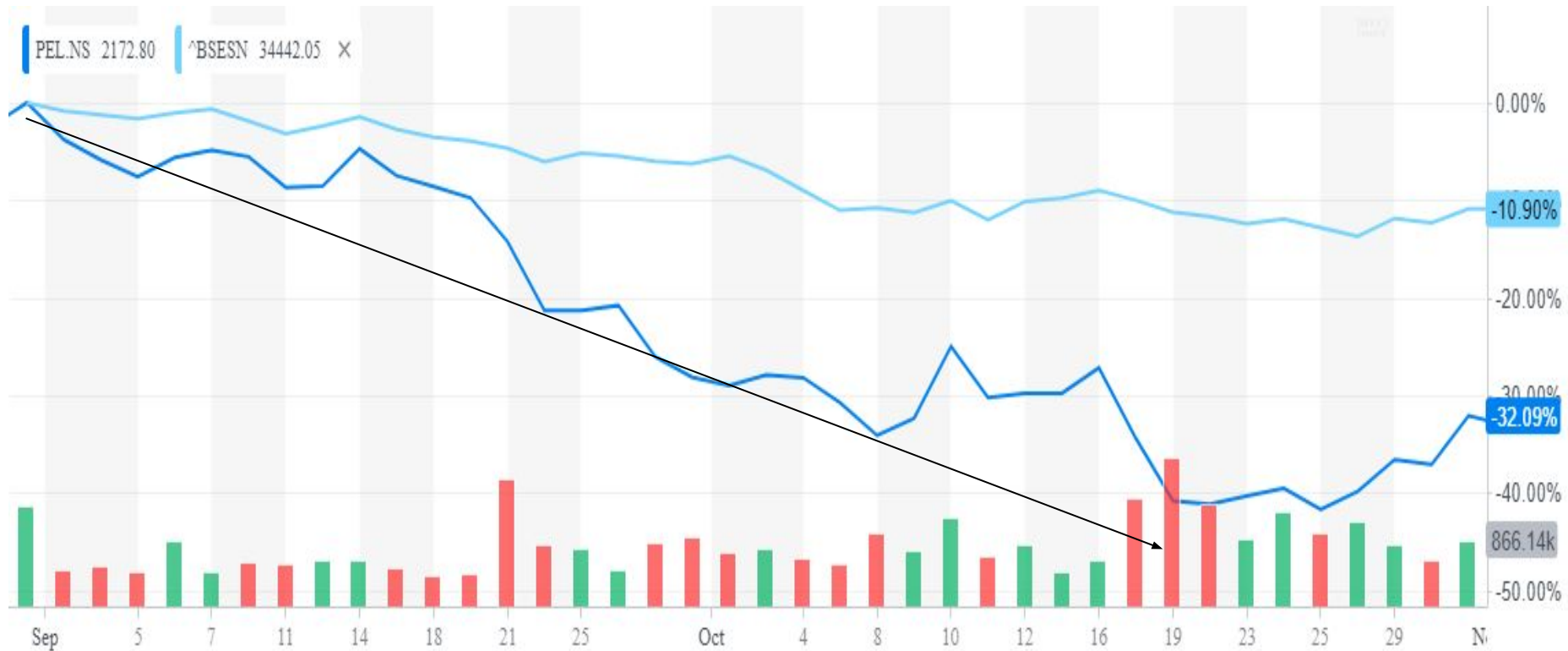


## 4. Show me the Value

1. Several headwinds in India
    - a. India's Lehman moment
    - b. Macros
  2. Exposure to real estate lending
  3. First down-cycle on financial business
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# Stock down almost 40% from peak in two months



# Value

- **Current MCap of ~INR 380bn (~\$5bn)**
- **P/B of less than 1.5x on consolidated basis**
  
- **Conservative valuation estimates / Discounted multiples**
  - Financial services
    - P/B of 2.0x (Indian peers: 2.5-5x. HDFC is at 4.87x)
    - Indian private FIs are most expensively valued in the world (growth rates)
  - Pharma at about 4x revenue (Indian peers 6-8x)
  - Healthcare consulting at about 3x revenue (transaction peers at 4.5x median)

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**“The three most important  
words in investing.**

**Margin of Safety.”**

**- WB**

# What I think on current valuation

- PEL currently trades at below 2x capital allocated to financial services
  - Business RoE>20%
  - Loan book growth of >50%
- That means, even on discounted multiples, you get 2 out of 3 businesses for free
  - These comprise between 30 - 40% of total business value
- Zero consideration to the Jockey / his track record on creating wealth

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**“Don’t tell me what you think.”**

**Show me your portfolio.”**

**- NT**

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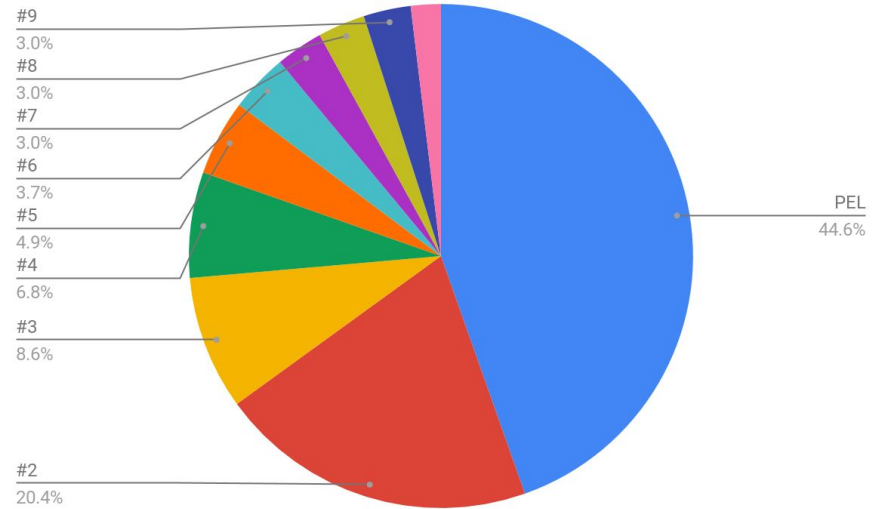
# 44.6%

of my Indian share portfolio

Investing since 2011

Views are heavily biased

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# Questions

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# Investing in India

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**Thank you**

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