

Pilani Investment

₹ 2326

Holding Birlas under one Roof!***Buy***

May 19, 2017

Company Background

Pilani Investment and Industries Corporation Limited (Pilani) is an Investment Company registered with Reserve Bank of India as a Non-Banking Financial Company without accepting public deposits. It was incorporated on 9th August 1948 and remains one of the flagship holding companies of the Birla Conglomerate and is a high dividend paying company. The overall market cap of the company is far less than the market cap of all its listed equity investments plus a recent news about restructuring BK Birla Group companies has generated a wholesome interest in Pilani from inside the Birla Circle itself.

Key Highlights

- ➔ Pilani Investment has a large significant holding in Birla Group companies viz Aditya Birla Chemicals, Century Textiles, Grasim Industries, Hindalco, Aditya Birla Nuvo, Jay Shree Tea, Kesoram Industries, Ultratech Cement, Mangalam Cement, Tanfac Industries, Zuari Global and Zuan Agro Chemicals. A major chunk of it is in Cement Companies or Companies which have strong cement divisions. Given the government's focus on Infra, the company's investment would grow strongly in the years to come.
- ➔ Pilani Investment has shown a 250% dividend record since the past 5 years; it is expected that the same may be continued even for this year.
- ➔ It is estimated that Kumar Mangalam Birla is set to tighten his grip over Century Textiles & Industries and Century Enka by soon taking over as chairman of the two companies owned by his grandfather Basant Kumar Birla. He already chairs the board meetings of Century in the absence of 92-year-old family patriarch (BK Birla owns a 51% stake in Pilani). Investments in line with his interests, Kumar Mangalam Birla has been buying shares of Pilani Investments, which owns 37% of Century Textiles. His formal accession will bring both companies under the Aditya Birla Group that he controls.
- ➔ Pilani would also be benefitting from the proposed Idea-Vodafone merger, acquiring around 81.68 lakh shares of Idea Cellular in the December quarter as per latest promoters' shareholding disclosure. Each such share acquired at an average price of Rs 71.7 a piece is now worth Rs 110.

Key Financials

Year Ended 31 st	Mar 14	Mar 15	Mar 16
Revenue (INR mn)	667.5	507.2	466.1
Rev. growth (%)	(66.04)	(24.01)	(8.10)
EBITDA (INR mn)	639.5	443.6	403.6
Net profit (INR mn)	599.7	424.2	389.1
Shares outstanding (mn)	7.9	7.9	7.9
EPS (INR)	71.6	48.6	44.1
EPS growth (%)	(63.62)	(32.16)	(9.15)
P/E (x)	14.83	26.92	0.00
RONW (%)	7.26	4.97	4.47
ROCE (%)	7.72	5.18	4.61

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Info Codes

Reuters	: PILN.BO
Bloomberg	: PIICL:IN
NSE	: PILANIINV
BSE	: 539883

Market Data

52 Wk Range (₹)	: 1220/2538
Shares in Issue (mn)	: 113.3
Mkt. Cap (₹ bn)	: 18.31
BSE 2 Wk Avg Vol	: 236

Share Holding Pattern (%)

Promoters Holding	: 57.55
Corporate Holding	: 00.00
Domestic Institution	: 00.25
Foreign Institution	: 00.00
Public & Others	: 42.20

Investment Theme

Pilani Investment (Pilani) is a NBFC (non-banking financial company) promoted by the Birla Conglomerate. The company is playing the role of a holding company for most of the Birla Group companies like Grasim, Ultratech etc since many years. The company's activities primarily consist of investing in the long-term investments in equity shares & other securities of Birla Group companies in a range of industries. The major sources of income for the company consist of dividend income and profit on sale of investments. The company also has investments in mutual funds and other investment-related securities. The total portfolio value of the company is more than the total market cap of the company. We therefore feel it is highly undervalued and looking at the interest generated in some of the Birla scions for the company we recommend a Buy.

Restructuring Birla Group!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 14	Mar 15	% Chg	Mar 16	% Chg
Operating Income	639.2	505.3	(20.95)	466.0	(7.78)
Other Income	28.3	1.9	(93.29)	0.1	(94.74)
Total Income	667.5	507.2	(24.01)	466.1	(8.10)
Operating Expense	25.4	61.2	140.94	57.2	(6.54)
Other Expense	2.7	2.4	(11.11)	5.3	120.83
Total Expense	28.1	63.6	126.33	62.5	(1.73)
PBDIT	639.4	443.6	(30.62)	403.6	(9.02)
Depreciation	1.6	1.3	918.75	2.1	61.54
Interest	0.0	0.0	-	0.0	-
PBT	637.8	442.3	(30.65)	401.5	(9.22)
Taxation	38.2	18.1	(52.62)	12.4	(31.49)
PAT	599.6	424.2	(29.25)	389.1	(8.27)
Extraord. Items	0.0	0.0	-	0.0	-
Adjusted Profit	599.6	424.2	(29.25)	389.1	(8.27)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 13	Mar 14	Mar 15	Mar 16
SOURCES OF FUNDS	8074.9	8443.2	8629.5	8780.6
Equity Share capital	79.1	79.1	79.1	79.1
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	7995.6	8363.9	8550.2	8701.3
Secured Loans	0.0	0.0	0.0	0.0
Unsecured Loans	0.2	0.2	0.2	0.2
USES OF FUNDS	8074.9	8443.2	8629.5	8780.6
Gross Block	1.0	1.0	1.0	1.0
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	0.4	0.6	0.7	0.8
Net Block	0.6	0.4	0.3	0.2
Capital Work in Progress	0.0	0.0	0.0	0.0
Investments	7195.7	7940.8	8080.5	8863.6
Current Assets	1128.6	759.3	814.1	203.8
Less : Current Liabilities	250.0	257.3	265.4	287.0
Total Net Current Assets	878.6	502.0	548.7	(83.2)
Misc. Expenses not writtenoff	0.0	0.0	0.0	0.0
NOTE				
Book Value of Unquoted Investments	2232.4	1351.4	1487.6	2246.1
Market Value of Quoted Investments	29879.9	36846.7	52249.5	48713.4
Contingent Liabilities	0.0	33.6	36.2	24.7
Dividend (%)	250	250	250	250

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 16	Sep 16	Dec 16	Mar 17
Operating Income	19.7	64.5	381.9	52.3
Other Operating Income	6.6	5.2	4.9	5.8
Total Income	26.3	69.7	386.8	58.1
Operating Expense	26.2	4.7	3.8	3.1
Other Expense	2.4	1.6	3.5	3.5
Total Operating Expense	28.6	6.3	7.3	6.6
Adjusted PBDIT	(2.3)	63.4	379.5	51.5
Depreciation	0.6	1.6	1.6	1.6
Financial Expenses	0.0	0.0	0.0	0.0
Adjusted PBT	(2.9)	61.8	377.9	49.9
Taxes	(0.4)	10.2	5.7	10.4
Reported PAT	(2.5)	51.6	372.2	39.5
Extra-ord Items	0.0	0.0	0.0	0.0
Adjusted Profit	(2.5)	51.6	372.2	39.5

52 Week Index Relative Percentage Appreciation



Pilani vs SENSEX

Points to Ponder

As Kumar Mangalam Birla goes for a major restructuring of his group involving Grasim, Aditya Birla Nuvo and Aditya Birla Financial Services (ABFSL) Pilani, because of its strategic investments in major Birla group entities, stands to benefit as Birlas would hold significantly higher stake in post-merger Grasim. Aditya Birla Group has announced restructuring its group under which companies Aditya Birla Nuvo's financial services business would be taken out and merged with ABFSL and then listed where Grasim would be holding 57%. The rest of Nuvo will be merged with Grasim to create a new Grasim with consolidated businesses in chemicals and textiles, thereby strengthening its presence in the textiles value chain. While the proposed restructuring is being positioned as a move to enhance value for the shareholders by bringing together strong financials of Grasim and high growth potential of ABNL's businesses, it is being seen as pro-promoter and anti-minority shareholders by some including advisory firm liAS. As per the detailed 450-page disclosures issued Pilani is holding 4.9% stake in Grasim and a small 0.14% in ABNL. Following the restructuring, promoter outfits, including Pilani, would have combined holdings in new Grasim going up to 40.1% from 31.28%.

Risks Associated

Pilani is an Investment Company and risk of the company consists principally of investment in shares and securities loans and trade accounts receivable and investment in Mutual Funds The portfolio value cannot be directly construed as a networth of the company Further any risks and losses of the companies invested in directly transfer themselves into Pilani. The overall macroeconomic environment will also indirectly cause a positive negative effect on the company So will the overall market sentiment and the approach of fund managers.



Pilani

In a Nutshell

Pilani is an investment Company of the Birla Conglomerate with significantly large holding of Birla Group companies like Aditya Birla Chemicals, Century Textiles, Grasim Industries Hindalco, Aditya Birla Nuvo Jay Shree Tea. Kesoram Industries Ultratech Cement Mangalam Cement. Tanfac Industries, Zuari Global and Zuari Agro Chemicals Most of these companies have significantly appreciated in the last year and therefore the consolidated market cap of the listed equity investments of Pilani as on May 18, 2017 has crossed the Rs 68.12 bn mark This figure doesnt contain the real estate if any and the value of unlisted companies held by the company and also the nearly 2.04 Cr units of 16 different Mutual Funds and other investment schemes held by Pilani. It can therefore be inferred that as compared to the investment held by Pilani the market price is at a far discounted rate The restructuring of the BK Birla Companies Conglomerate has also generated new interest in Pilani from the Birla Circles. Further it is estimated that the companies especially the cement companies held by Pilani will grow at a significantly fast pace on the Infra Policies in India considering the demand. The Idea Vodafone merger will also be beneficial for Pilani because the cost of the investment of Pilani in Idea will appreciate by nearly 50%. If we discount the current equity holding marketcap by 50%. we feel Pilani still has a very good scope of growth We therefore maintain a buy on the stock.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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