

Piramal Pharma

BUY

Choice

July 28th, 2024

Piramal Pharma's reported performance in Q1FY25 was above our estimates driven by healthy YoY growth across the segments. Revenue stood at INR 19,511mn (+11.6% YoY and -23.6% QoQ) majorly driven by growth in the CDMO business which saw a growth of 17.7% YoY, due to sustained order inflow. EBITDA at INR 2,045mn (+54.5% YoY and -61.4% QoQ) and margin at 10.5% (+291bps YoY and -1028bps QoQ), due to better product mix, ongoing cost optimization measures, and better product procurement. The company reported adj. PAT of INR (886)mn (+10.1% YoY and 177.2% QoQ). The company continues with the guidance of achieving early teen growth on revenue and absolute EBITDA front in FY25 and maintaining the capex at the current level.

- **CDMO business:** During the quarter, CDMO business contributed INR 10,570mn (54.1% share of revenue), which saw a growth of 17.7%YoY and de-growth of 35.9% QoQ, due to continued growth momentum in the new order inflow, especially for commercial manufacturing of on-patent molecules. Piramal has also increased the contribution of innovation-related work to about 50% of the CDMO revenues compared to 35% five years back. The business saw an increase in profitability which was driven by growth in the revenue, favorable revenue mix, normalization of raw material cost, and cost optimization initiatives.
- **CHG & ICH Business:** CHG business contributed INR 6,310mn (32.3% share), with a growth of 2.3% YoY and a decline of 5.4% QoQ. The decline was due to US price erosion, especially on the sevoflurane, which offset the volume growth during the quarter. CHG business will be incurring non-recurring expenses in FY25 on regulatory product transitions and business continuity to ensure the stability of supplies in the future. ICH's business segment saw a growth of 10.5% YoY and 10.9% QoQ to INR 2,640mn, which was driven by power brands and strong traction in the e-commerce channel (37% YoY). The company launched 7 new products and 10 new SKUs in the quarter. The management expects consumer products to deliver better EBITDA margins.
- **Margin profile:** During the quarter, Gross margin came at 65.4% (+127bps YoY/+518bps QoQ), due to better product mix and product procurement. EBITDA margin came at 10.5% (+291bps YoY/-1028bps QoQ), benefitting from the cost optimization measures. The margins are lower in every Q1, but will progressively improve in the coming quarters. The company expects absolute EBITDA for FY25 to grow in the early teens, and achieve a 24-25% margin level in the next 3-5 years.
- **Outlook & Valuation:** We remain optimistic about Piramal Pharma due to its growth momentum in the CDMO business segment which is expected to continue, further optimize Net Debt to EBITDA ratio, India consumer product to deliver a better EBITDA margin, early teen growth in the revenue and absolute EBITDA front, and commercialization of additional inhalation anesthesia capabilities to capture the RoW market. We value the stock based on SoTP methodology to arrive at a target price of **INR 185** and recommend a **BUY** rating.

Financial Snapshot

Year end: March	FY22	FY23	FY24	FY25E	FY26E
Revenue (INR Mn.)	65,591	70,816	81,712	92,583	1,04,839
Gross Profit (INR Mn.)	41,079	43,783	52,172	59,253	67,621
EBITDA (INR Mn.)	9,497	6,282	11,963	14,082	17,718
EBITDA Margin (%)	14.5	8.9	14.6	15.2	16.9
Adj. EPS (INR)	3.29	-1.48	0.18	1.90	3.58

Source: Company, CEBPL

CMP (Rs)	167
Target Price (Rs)	185
Potential Upside (%)	11

Company Info

BB Code	PIRPHARM IN Equity
ISIN	INEODK501011
Face Value (Rs.)	10.0
52 Week High (Rs.)	172
52 Week Low (Rs.)	88
Mkt Cap (Rs bn.)	221
Mkt Cap (\$ bn.)	2.6
Shares (Mn.)/F.Float (%)	1323/46.0
TTM EPS (Rs)	0.21
EPS FY26E (Rs)	3.6

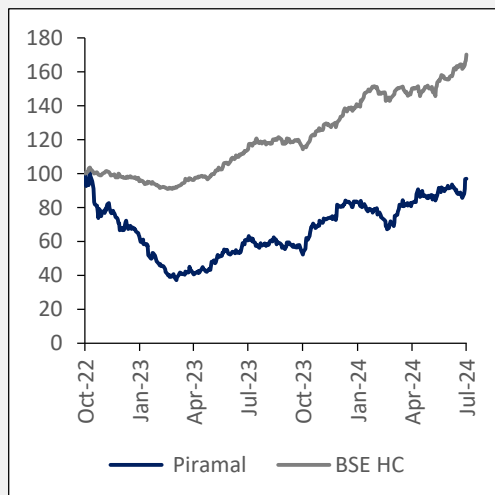
Shareholding Pattern (%)

	Jun-24	Mar-24	Dec-23
Promoters	34.94	35.02	35.02
FII's	31.41	30.58	32.51
DII's	12.95	12.12	9.68
Public	20.67	22.26	22.79

Relative Performance (%)

YTD	3M	6M	1Y
BSE Healthcare	13.4	21.8	48.9
Piramal Pharma	17.0	16.6	59.5

Rebased Price Performance



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Quarterly performance

Particulars (Rs. Mn.)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Revenue	19,511	17,489	11.6	25,524	(23.6)
Gross Profit	12,768	11,221	13.8	15,380	(17.0)
GP Margin (%)	65.4	64.2	127.4 bps	60.3	518.0 bps
Op. & Employee Expense	10,723	9,898	8.3	10,080	6.4
EBITDA	2,045	1,323	54.5	5,299	(61.4)
EBITDA Margin (%)	10.5	7.6	291 bps	20.8	(1,028) bps
Depreciation	1,846	1,736	6.3	1,961	(5.9)
EBIT	199	(413)	(148.3)	3,338	(94.0)
Interest	1,070	1,185	(9.8)	1,142	(6.4)
Other Income	195	383	(49.0)	264	(25.9)
Exceptional Items			NA	(305)	NA
Share of Profit from JV	224	144	55.7	120	86.0
PBT	(451)	(1,071)	(57.9)	2,275	(119.8)
Tax	436	(85)	(610.7)	1,262	(65.5)
RPAT	(886)	(986)	10.1	1,013	(187.5)
Adj. PAT	(886)	(986)	10.1	1,149	(177.2)
PAT Margin (%)	(4.5)	(5.6)	19.4	4.5	(904.3) bps
Adj. EPS	(0.7)	(0.8)	18.9	0.9	(177.2)

Source: Company, CEBPL

Segmental Performance

Rs. in Mn.	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
CDMO	10,570	8,980	17.7	16,490	(35.9)
% of sales	54.1	51.2		64.6	
CHG	6,310	6,170	2.3	6,670	(5.4)
% of sales	32.3	35.2		26.1	
ICH	2,640	2,390	10.5	2,380	10.9
% of sales	13.5	13.6		9.32	

Source: Company, CEBPL

Actual vs CEBPL Estimates

Particulars (Rs mn)	Actual	Estimates	Deviation (%)
Net Sales	19,511	18,653	4.6
EBITDA	2,045	1,660	23.2
EBITDA Margin (%)	10.5	8.9	158.1bps
Adj. PAT	-886	-549	61.3
Adj. EPS	(0.7)	(0.4)	61.3

Source: Company, CEBPL

Change in Estimates for FY25E & FY26E

Income Statement (INR Mn.)	FY25E			FY26E		
	New	Previous	Change	New	Previous	Change
Net sales	92,583	91,311	1.4	1,04,839	1,03,491	1.3
EBITDA	14,082	13,706	2.7	17,718	17,374	2.0
EBITDA margin(%)	16.9	8.9	803	16.9	16.8	11
PAT	2,517	2,711	(7.1)	4,737	4,696	0.9
EPS	1.9	2.0	(7.1)	3.6	3.5	0.9

Source: Company, CEBPL

Management Meet / Concall Highlights

CDMO

- Over the last 5 years, the CDMO business has delivered healthy growth driven by steady order inflows and strong execution.
- Orders for early-stage development continue to come in gradually as the company awaits full recovery in biotech funding.
- The company is seeing early signs of recovery in biotech funding, with an increase in customer inquiries and visits.
- Calibrated investments in the CDMO business are being made to align with customer preferences for integrated services, especially in differentiated areas such as ADCs, peptides, and non-patent API development and manufacturing.
- Generic API witnessed a pickup in demand during the quarter, led by a strong recovery in CDMO revenues along with continuous efforts toward cost optimization and operational excellence.
- The company intends to further increase this over the medium term through higher capacity utilization and contributions from differentiated offerings and innovation-related work.

CHG

- The company is seeing strong demand for Sevoflurane and Isoflurane in the US and emerging markets such as Asia, Europe, and the rest of the world.
- Expansion plans include setting up new manufacturing lines for Sevoflurane at the India facility in Digwal and increasing KSM manufacturing capacity at other sites, both expected to be operational by FY26.
- Sales of Sevoflurane will be boosted by onboarding new customers in the intrathecal segment.
- The company maintains a market-leading position in the intrathecal Baclofen market in the US with over 70% market share.
- New in-licensing deals are being explored to bring differentiated products, aiding growth and reducing dependence on CMO fluorine.
- The company currently has 5 approved products and 17 in the pipeline at various stages of approval.

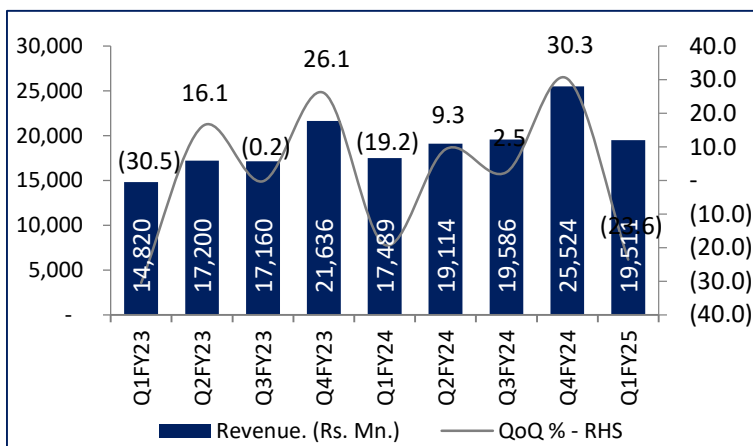
ICH

- The company launched the Bohem brand, catering to the men's grooming segment.
- Continued investment in media and trade spend will boost the growth of power brands.
- During Q1 FY25, the company added CIR, a geriatric care brand, to the list of power brands, based on encouraging responses received in the first year of its national launch.

Other

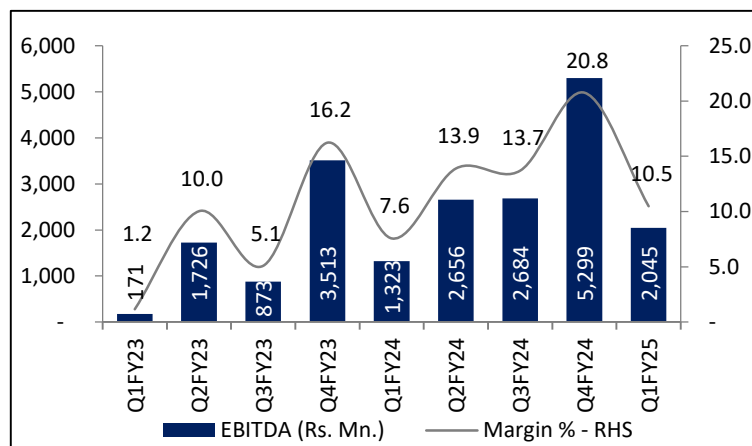
- Management believes the company is better positioned in terms of purchase orders and end revenue booked, with high potential compared to last year.
- There is a higher level of capacity available in drug products versus drug substances.
- The company closed the USFDA inspection at the Lexington facility with an EIR, and the Ahmedabad formulation development facility cleared the USFDA audit with zero observations, becoming a USFDA-approved site for analytical services.

Revenue grew 11.6% YoY



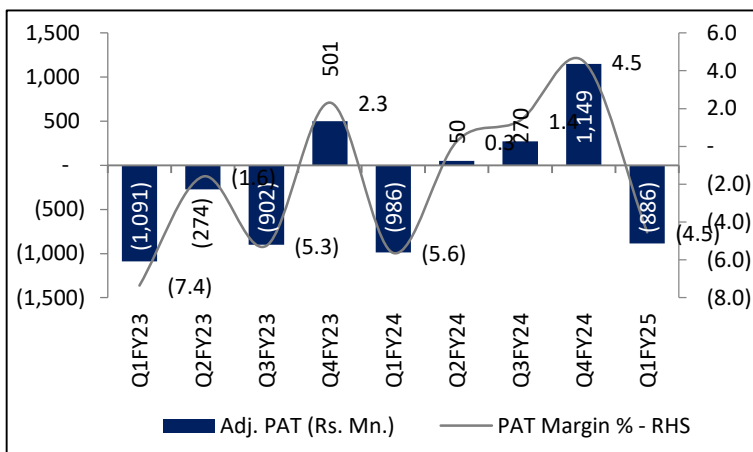
Source: Company, CEBPL

EBITDA Margin improved 291bps YoY



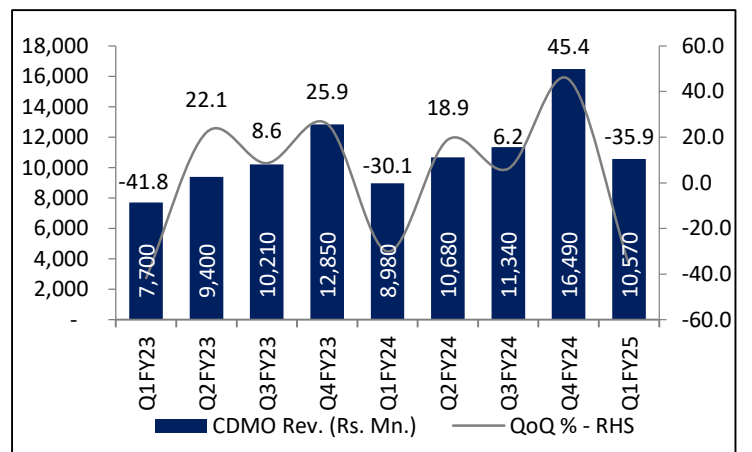
Source: Company, CEBPL

Adj. PAT and Adj. PAT Margin



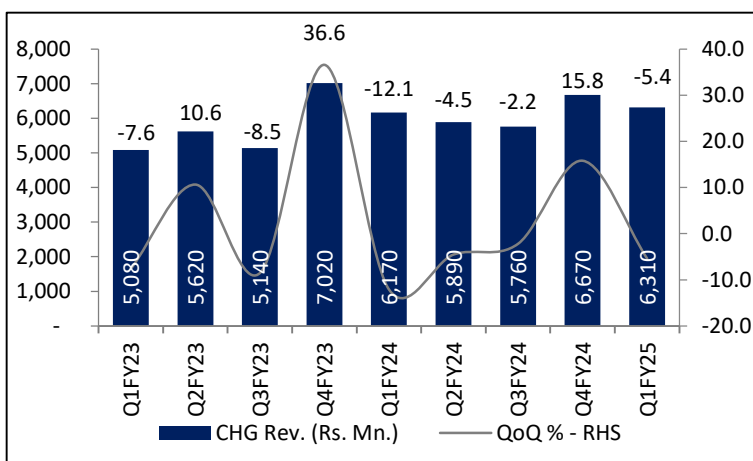
Source: Company, CEBPL

CDMO revenue grew 17.7% YoY



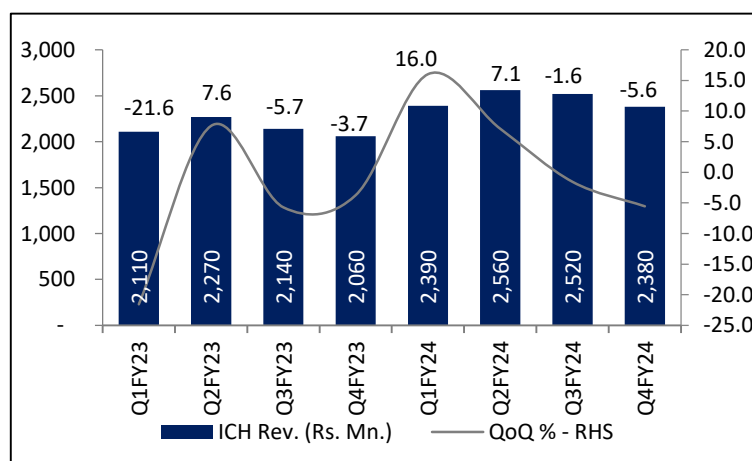
Source: Company, CEBPL

CHG revenue declined by 2% YoY



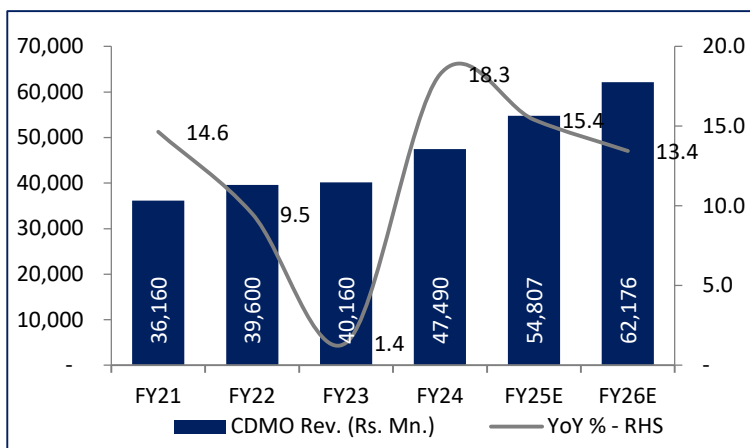
Source: Company, CEBPL

ICH revenue grew 10% YoY



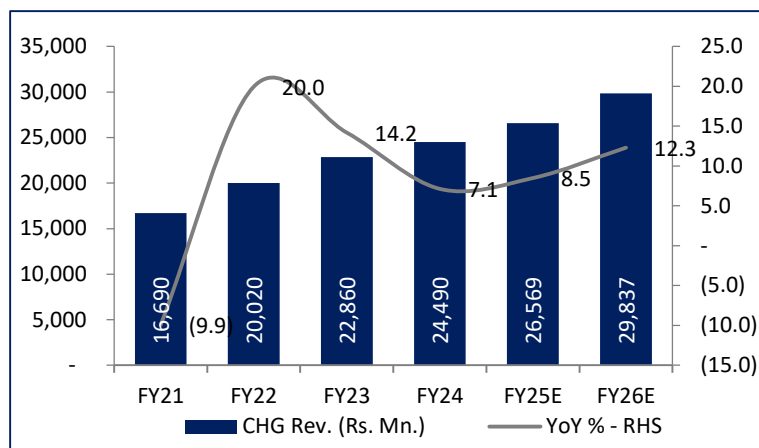
Source: Company, CEBPL

CDMO Revenue (INR mn) and YoY Growth (%)



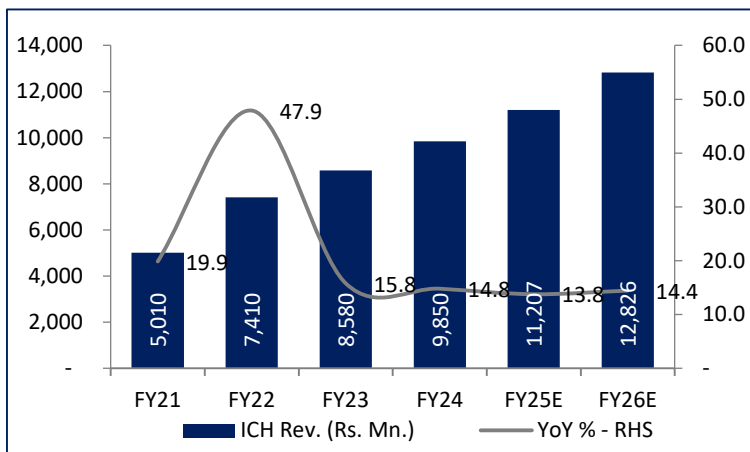
Source: Company, CEBPL

CHG Revenue (INR mn) and YoY Growth (%)



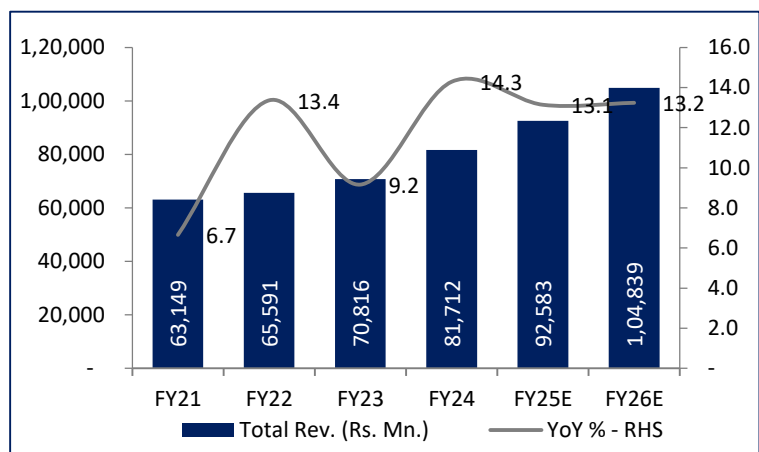
Source: Company, CEBPL

ICH Revenue (INR mn) and YoY Growth (%)



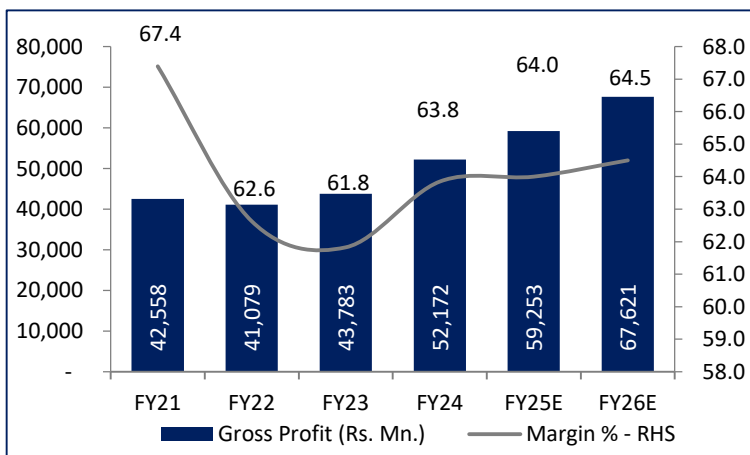
Source: Company, CEBPL

Total Revenue (INR mn) and YoY Growth (%)



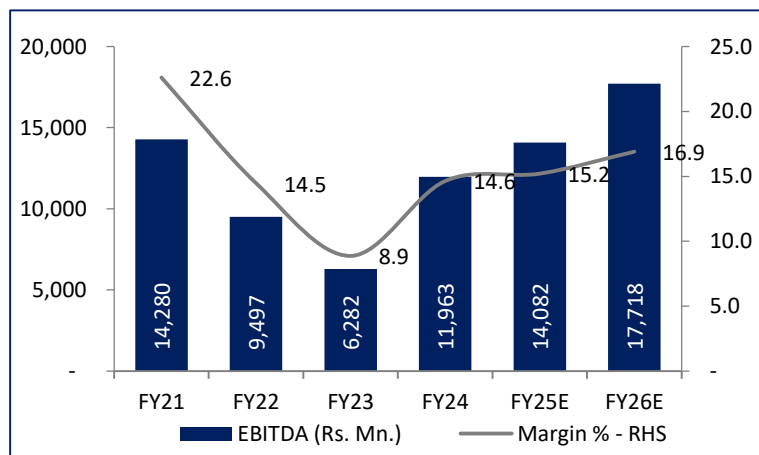
Source: Company, CEBPL

Gross Margin Trend (%)



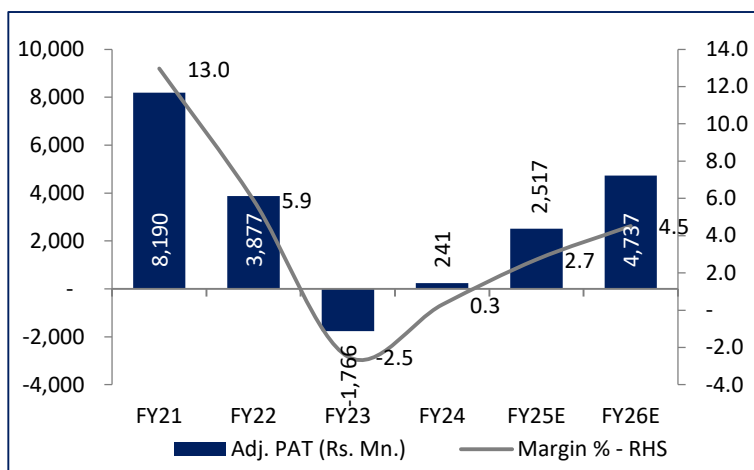
Source: Company, CEBPL

EBITDA Margin Trend (%)



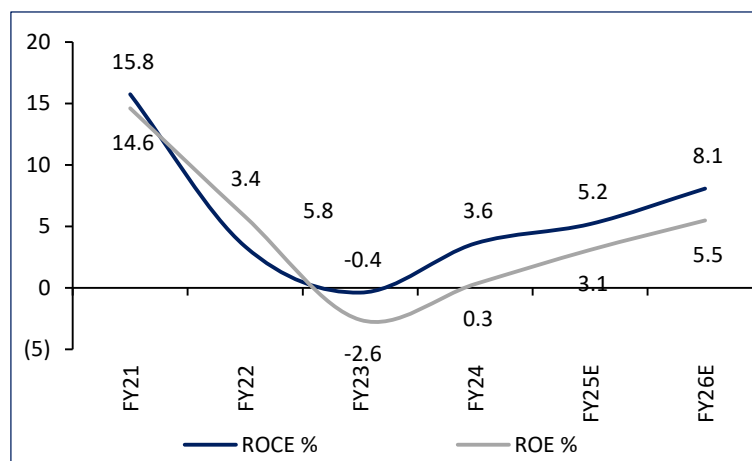
Source: Company, CEBPL

Adj. PAT and YoY growth trend



Source: Company, CEBPL

ROCE (%) and ROIC (%)



Source: Company, CEBPL

SoTP based Valuation

Particulars	Rs. Mn	Allotted Multiple (x)	Value (Rs. Mn)
CDMO & CHG Business EBITDA (FY26E) (A)	16,435	12	1,97,222
ICH Business (Domestic) Revenue (FY26E) (B)	12,826	5	64,131
Enterprise Value (A+B)			2,61,353
Less: Net Debt (FY26E) (C)			30,954
(A+B-C)			2,30,399
Share of Profit from Allergan JV (FY26E) (D)			14,289
Implied Market Cap			2,44,688
Value per share			185.0

Source: Company, CEBPL

Income statement (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24	FY25E	FY26E
Revenue	65,591	70,816	81,712	92,583	1,04,839
Gross profit	41,079	43,783	52,172	59,253	67,621
EBITDA	9,497	6,282	11,963	14,082	17,718
Depreciation	5,862	6,767	7,406	7,644	7,662
EBIT	3,635	(485)	4,557	6,438	10,056
Interest expense	1,983	3,442	4,485	4,027	3,624
Other Income	2,758	2,251	1,754	1,944	2,202
EO Items	(151)	(70)	(628)	-	-
Share of Profit from JV	590	543	595	679	841
Reported PAT	3,760	(1,865)	178	2,517	4,737
Adjusted PAT	3,877	(1,766)	241	2,517	4,737
Adj. EPS	3.3	(1.5)	0.2	1.9	3.6
NOPAT	2,818	(752)	453	3,219	5,028

Balance sheet (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24	FY25E	FY26E
Net worth	66,966	67,735	79,114	81,631	86,368
Deferred tax	(1,053)	(1,300)	(1,573)	(1,389)	(1,573)
Total debt	41,279	56,371	47,102	42,391	38,152
Other liabilities & provisions	1,668	2,012	2,002	2,685	3,355
Total Net Worth & liabilities	1,08,860	1,24,818	1,26,644	1,25,319	1,26,302
Net Fixed Assets	30,426	35,885	42,503	42,176	41,643
Intangible Assets	38,366	38,801	37,397	37,527	37,659
Capital Work in progress	11,723	14,186	11,158	6,000	5,000
Investments	2,672	6,390	3,850	5,047	5,565
Cash & bank balance	3,290	3,076	4,826	5,403	7,198
Loans & Advances & other assets	1,643	2,387	1,149	1,666	1,887
Net Current Assets	24,031	27,169	30,589	32,901	34,548
Total Assets	1,08,860	1,24,818	1,26,644	1,25,319	1,26,302
Capital Employed	1,08,245	1,24,106	1,26,215	1,24,022	1,24,520
Invested Capital	54,499	68,900	68,991	65,902	64,472
Net Debt	37,989	53,295	42,276	36,989	30,954
FCFF	(906)	(4,612)	2,925	4,248	7,328

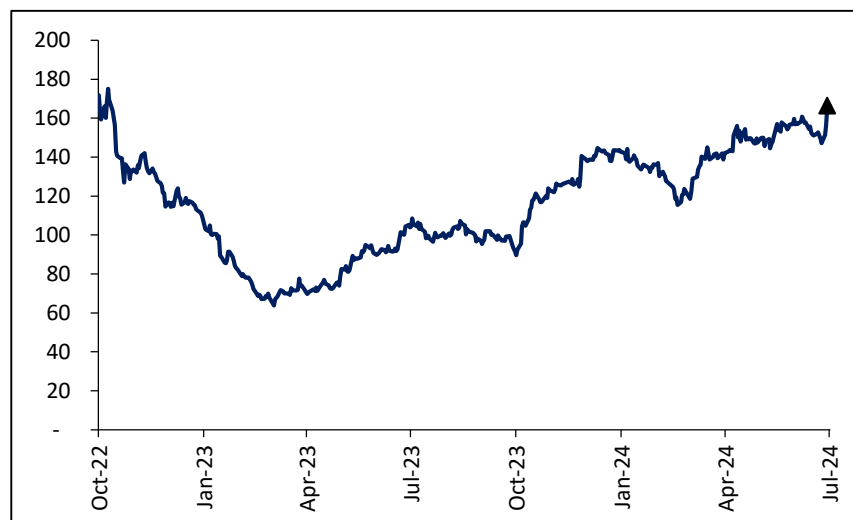
Source: Company, CEBPL

Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
CFO	7,664	4,839	10,045	11,377	14,457
Capex	8,571	9,451	7,120	(7,129)	(7,129)
FCFF	(906)	(4,612)	2,925	4,248	7,328
CFI	(18,121)	(13,388)	(3,943)	(3,169)	(6,647)
CFF	7,942	8,178	(4,224)	(9,255)	(8,084)

Ratios	FY22	FY23	FY24	FY25E	FY26E
Growth Ratios (%)					
Revenues	3.9	8.0	15.4	13.3	13.2
EBITDA	(33.5)	(33.9)	90.4	17.7	25.8
Adj. PAT	(74.8)	(145.0)	(112.3)	946.2	88.2
Margins (%)					
EBITDA	14.5	8.9	14.6	15.2	16.9
Adj. PAT	5.9	(2.5)	0.3	2.7	4.5
Performance Ratios (%)					
OCF/EBITDA (x)	0.8	0.8	0.8	0.8	0.8
OCF/IC (%)	8.1	4.4	9.1	17.3	22.4
RoE %	5.8	(2.6)	0.3	3.1	5.5
ROCE %	3.4	(0.4)	3.6	5.2	8.1
RoIC (Post tax) %	-	(0.7)	(1.4)	3.9	6.9
RoIC (Pre tax) %	-	(0.5)	4.1	9.3	15.3
Turnover Ratio (Days)					
Fixed Asset T/o (x)	0.95	0.9	1.0	2.2	2.5
Inventory	77	87	97	96	94
Debtors	99	93	95	94	93
Payables	57	61	69	69	70
Working Capital Cycle	120	118	124	121	117
Financial Stability Ratio (x)					
Net Debt to Equity (x)	0.6	0.8	0.5	0.5	0.4
Net Debt to EBITDA (x)	4.0	8.5	3.5	2.6	1.7
Interest Cover (x)	1.8	(0.1)	1.0	1.6	2.8
Valuation Metrics					
Fully diluted shares (mn)	1,179	1,193	1,323	1,323	1,323
Price (Rs)	167	167	167	167	167
Market Cap (Rs. Mn)	1,96,284	1,98,688	2,20,271	2,20,271	2,20,271
PE (x)	51	-113	915	88	47
EV (Rs.mn)	2,34,273.65	2,51,982.98	2,62,547.18	2,57,259.77	2,51,225.08
EV/EBITDA (x)	25	40	22	18	14
Book value (Rs/share)	57	57	60	62	65
Price to BV (x)	3	3	3	3	3
EV/OCF (x)	31	52	26	23	17

Source: Company, CEBPL

Historical recommendations and target price: Piramal Pharma



Piramal Pharma

1.	28-11-2022	OUTPERFORM	Target Price Rs.208
2.	12-02-2023	OUTPERFORM	Target Price Rs.124
3.	26-05-2023	OUTPERFORM	Target Price Rs.120
4.	06-08-2023	OUTPERFORM	Target Price Rs.126
5.	31-10-2023	OUTPERFORM	Target Price Rs.127
6.	31-01-2024	ADD	Target Price Rs.162
7.	13-05-2024	BUY	Target Price Rs.180
8.	28-07-2024	BUY	Target Price Rs.185

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OUTPERFORM	The security is expected to generate more than 25% returns over the next 12 months
BUY	The security is expected to generate greater than 5% to less than 25% returns over the next 12 months
REDUCE	The security expected to show downside or upside returns by 0% to 5% over the next 12 months
SELL	The security expected to show Below 0% next 12 months

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