

Piramal Pharma

Estimate change

TP change

Rating change



CMP: INR239

TP: INR300 (+25%)

Buy

Beat on operating profitability; tax burden dents PAT

Expects a better outlook in CDMO/CHG segments

- Piramal Pharma (PIRPHARM) delivered a better-than-expected operating performance in 3QFY25; however, earnings were below expectations due to a higher tax rate. PIRPHARM witnessed healthy growth momentum in the CDMO segment and a scale-up in the complex hospital generics (CHG) segment. R&D spending by the innovator customer is yet to see a considerable ramp-up on account of increased biotech funding.
- We raise our EBITDA estimates by 3%/4%/4% for FY25/FY26/FY27 (considering superior execution in CDMO/CHG segment) but reduce our earnings estimate by 68%/53%/43% (considering higher effective tax rate). We continue to value PIRPHARM on SOTP basis (19x EV/EBITDA for CDMO business, 12x EV/EBITDA for CHG business and 13x EV/EBITDA for consumer health (ICH) business) to arrive at a TP of INR300.
- The supply chain diversification initiatives by the innovator customer and PIRPHARM's offering as an integrated CDMO company offer healthy business prospects. Further, the differentiated specialty portfolio in CHG segment is expected to boost the overall performance of PIRPHARM over the next five years. Reiterate BUY.

Segmental mix impact more than offset by higher operating leverage

- 3Q revenue grew 12.5% YoY to INR22.0b (our est.: INR20.7b). CDMO (58% of total sales) revenue grew 13% YoY to INR12.8b. CHG (30% of total sales) revenue grew 14% YoY to INR6.5b. ICH (13% of total sales) revenue rose 10% YoY to INR2.8b.
- Gross margin contracted 210bp YoY to 63.4% due to product mix change.
- However, EBITDA margin expanded 160bp YoY to 15.3% (our est.: 11.0%), largely due to a decrease in employee costs/other expenses (down 150bp /220bp as a % of sales).
- EBITDA grew 25.8% YoY to INR3.4b (our est.: INR2.3b), supported by operating leverage, cost optimization, and a superior revenue mix.
- Adj. profit declined 89.5% YoY to INR37m (our est.: INR108m) owing to the high tax burden (94% of PBT in 3QFY25 vs. 48% of PBT in 3QFY24).
- In 9MFY25, revenue/EBITDA grew 14%/33% YoY to INR64b/INR8.8b, while adj. loss widened by 7% YoY to INR625m.

Highlights from the management commentary

- The company has reiterated its guidance for FY25 revenue/EBITDA growth in early-teens.
- PIRPHARM aims to double its revenue by FY30 with ~25% EBITDA margins.
- The net debt-to-EBITDA ratio for 3QFY25 stood at 2.8x.

Bloomberg	PIRPHARM IN
Equity Shares (m)	1326
M.Cap.(INRb)/(USD\$b)	317.3 / 3.7
52-Week Range (INR)	308 / 114
1, 6, 12 Rel. Per (%)	-3/47/62
12M Avg Val (INR M)	1601
Free float (%)	65.1

Financials & Valuations (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	91.6	106.2	123.6
EBITDA	14.1	19.1	23.5
Adj. PAT	1.0	2.9	5.3
EBIT Margin (%)	7.1	10.5	12.3
Cons. Adj. EPS (INR)	0.8	2.2	4.0
EPS Gr. (%)	80.8	189.7	81.7
BV/Sh. (INR)	67.1	69.6	74.1

Ratios

Net D:E	0.5	0.5	0.5
RoE (%)	1.3	3.6	6.2
RoCE (%)	1.3	2.9	4.6
Payout (%)	17.6	17.6	17.6

Valuations

P/E (x)	313.5	108.2	59.6
EV/EBITDA (x)	25.8	19.0	15.4
Div. Yield (%)	0.0	0.1	0.3
FCF Yield (%)	0.0	0.0	0.0
EV/Sales (x)	4.0	3.4	2.9

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	35.0	35.0	35.0
DII	14.1	13.8	9.7
FII	32.1	32.2	32.9
Others	18.9	19.1	22.4

FII Includes depository receipts

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Consolidated - Quarterly Earning Model

INR m

PPL Income statement (INRm)	FY24				FY25E				FY24	FY25E	FY25E 3QE	% var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Revenues	17,489	19,114	19,586	25,524	19,511	22,418	22,042	27,569	81,712	91,597	20,709	6%
<i>growth YoY(%)</i>	<i>18.0</i>	<i>11.1</i>	<i>14.1</i>	<i>18.0</i>	<i>11.6</i>	<i>17.3</i>	<i>12.5</i>	<i>8.0</i>	<i>15.4</i>	<i>12.1</i>	<i>5.7</i>	
CDMO	8,980	10,680	11,340	16,490	10,570	13,240	12,780	17,549	47,490	54,139	11,453	12%
CHG	6,170	5,890	5,760	6,770	6,310	6,430	6,540	7,277	24,590	26,557	6,509	0%
ICH	2,390	2,560	2,520	2,380	2,640	2,770	2,780	2,744	9,850	10,934	2,747	1%
Expenses	16,165	16,457	16,902	20,224	17,467	19,001	18,665	22,013	69,749	77,509	18,428	
<i>CDMO</i>	<i>8,980</i>	<i>10,680</i>	<i>11,340</i>	<i>16,490</i>	<i>10,570</i>	<i>13,240</i>	<i>12,780</i>	<i>17,549</i>	<i>47,490</i>	<i>54,139</i>	<i>11,453</i>	12%
<i>CHG</i>	<i>6,170</i>	<i>5,890</i>	<i>5,760</i>	<i>6,770</i>	<i>6,310</i>	<i>6,430</i>	<i>6,540</i>	<i>7,277</i>	<i>24,590</i>	<i>26,557</i>	<i>6,509</i>	0%
<i>ICP</i>	<i>2,390</i>	<i>2,560</i>	<i>2,520</i>	<i>2,380</i>	<i>2,640</i>	<i>2,770</i>	<i>2,780</i>	<i>2,744</i>	<i>9,850</i>	<i>10,934</i>	<i>2,747</i>	1%
EBITDA*	1,323	2,657	2,684	5,299	2,044	3,416	3,377	5,557	11,963	14,088	2,281	48%
<i>margin (%)</i>	<i>7.6</i>	<i>13.9</i>	<i>13.7</i>	<i>20.8</i>	<i>10.5</i>	<i>15.2</i>	<i>15.3</i>	<i>20.2</i>	<i>14.6</i>	<i>15.4</i>	<i>11.0</i>	
<i>growth YoY(%)</i>	<i>55.5</i>	<i>54.0</i>	<i>124.1</i>	<i>50.9</i>	<i>54.5</i>	<i>28.6</i>	<i>25.8</i>	<i>4.9</i>	<i>64.2</i>	<i>17.8</i>	<i>-15.0</i>	
Depreciation	1,736	1,845	1,863	1,961	1,846	1,922	1,968	1,818	7,406	7,554	1,900	
EBIT	-413	812	821	3,338	198	1,494	1,409	3,739	4,557	6,534	381	270%
Other income	383	492	615	264	195	611	121	922	1,754	1,850	550	
Interest expense	1,185	1,099	1,059	1,142	1,070	1,076	1,033	941	4,485	4,120	980	
Share from Asso. Co	144	191	140	120	224	173	171	233	595	800	210	
PBT	-1,071	396	516	2,580	-452	1,201	668	3,953	2,421	5,064	161	316%
EO Expenses/(gain)	-	-	323	310	-	-	-	-	633	-	-	
Taxes	-85	345	93	1,262	436	975	631	2,009	1,615	4,051	53	
<i>Tax Rate (%)</i>	<i>8.0</i>	<i>87.3</i>	<i>47.8</i>	<i>55.6</i>	<i>-96.4</i>	<i>81.2</i>	<i>94.5</i>	<i>50.8</i>	<i>90.3</i>	<i>80.0</i>	<i>33.0</i>	
Reported PAT	-986	50	101	1,008	-888	226	37	1,944	173	1,013	108	-66%
Adj. PAT	-986	50	350	1,146	-888	226	37	1,944	560	1,013	108	-66%
<i>Change (%)</i>	<i>NA</i>	<i>LP</i>	<i>LP</i>	<i>128.6</i>	<i>NA</i>	<i>348.2</i>	<i>-89.5</i>	<i>69.7</i>	<i>NA</i>	<i>80.8</i>	<i>-69.3</i>	



Key takeaways from the management commentary

- Continued traction in the on-patent commercial manufacturing and generic API business in CDMO segment.
- CY24 biotech funding improved over CY23, enough to replenish biotech cash burn but not enough to accelerate R&D spends in CDMO segment.
- Cost optimization initiatives in the areas of sourcing, manufacturing, distribution, and operational excellence, showing results in CHG segment.
- Capacity expansion at Dahej and Digwal underway to capture Inhalation Anaesthesia (IA) opportunities in the RoW markets.
- PIRPHARM is investing in Differentiated and Specialty Products - 505(b)(2)'s, Complex generics, Differentiated generics, Branded products to enable long-term growth.
- In ICH business, growth in i-range was adversely impacted by regulatory mandated price reductions.
- Overall biotech funding has improved over the last one year; however, the same remains uneven due to current volatility and uncertainty in the market.

Efforts across segments underway to further boost earnings

CDMO: Positive industry outlook/differentiated offerings to sustain growth momentum

- In 9MFY25, CDMO sales grew 18% YoY to INR36.6b, driven by continued traction in the on-patent commercial manufacturing and generic API business.
- With improving biotech funding and a shift in sourcing from China due to the Bio-secure Act, medium- to long-term opportunities will be created. To capitalize on this, PIRPHARM is building differentiated capabilities.
- Further, biotech funding environment improved in CY24, enough to replenish the biotech cash burnout.
- In order to improve profitability, the company is increasing the contribution from innovation-related work and differentiated offerings and improving operational efficiency.
- During 9MFY25, PPL cleared 24 regulatory inspections and 142 customer audits.
- We expect 18% sales CAGR over FY25-27 to INR75.4b in this segment.

CHG: Building niche pipeline/expanding reach to fuel growth

- In 9MFY25, CHG sales grew 8% YoY to INR19.3b, mainly on account of volume-led growth in IA in the US, led by order wins for Sevoflurane and Isoflurane.
- PIRPHARM is investing in differentiated and specialty products, e.g., 505(b)(2), complex generics, differentiated generics, and branded products to enable long-term growth.
- It aims to expand its IA market share in RoW in FY25, with capacity expansion at Dahej and Digwal underway. Production output is increasing month over month.
- EBITDA margin is improving due to a better product mix and cost optimization.
- We expect the CHG segment to post 13% sales CAGR to INR34b over FY25-27.

Expanding reach/investing in brands to drive growth in ICH

- In 9MFY25, ICH sales increased 10% YoY to INR8.2b. This was driven by strong growth in power brands (up 19% YoY), offset by an adverse regulatory impact of price reductions on i-range.
- During 9MFY25, the company launched 16 new products and 23 new SKUs.
- Additionally, in 3QFY25, e-commerce sales grew 40% YoY and accounted for 20% of ICH revenues vs. 16% in 3QFY24.
- In addition to new launches, PIRPHARM is investing in power brands by increasing advertisement spending. Further, the company plans to expand its reach in smaller towns and rural areas.
- We expect the ICH segment to post 13% sales CAGR to INR14.1b over FY25-27.

Reiterate BUY

- We raise our EBITDA estimates by 3%/4%/4% for FY25/FY26/FY27 (considering superior execution in CDMO/CHG segment) but reduce our earnings estimates by 68%/53%/43% (considering higher effective tax rate). We continue to value PIRPHARM on SOTP basis (19x EV/EBITDA for CDMO business, 12x EV/EBITDA for CHG business and 13x EV/EBITDA for ICH business) to arrive at a TP of INR300.
- The supply chain diversification initiatives by the innovator customer and PIRPHARM's offering as an integrated CDMO company offer healthy business prospects. Further, the differentiated specialty portfolio in CHG segment is expected to boost the overall performance of PIRPHARM over the next five years. Reiterate BUY.

Story in charts

Exhibit 1: Expect 18% sales CAGR in CDMO over FY25-27

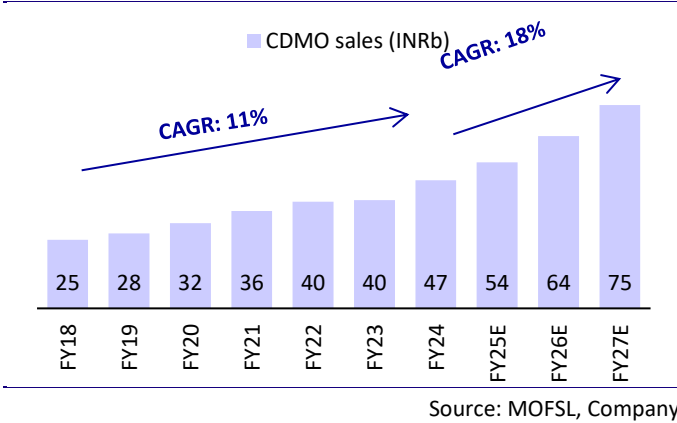


Exhibit 2: Expect 13% sales CAGR in CHG over FY25-27

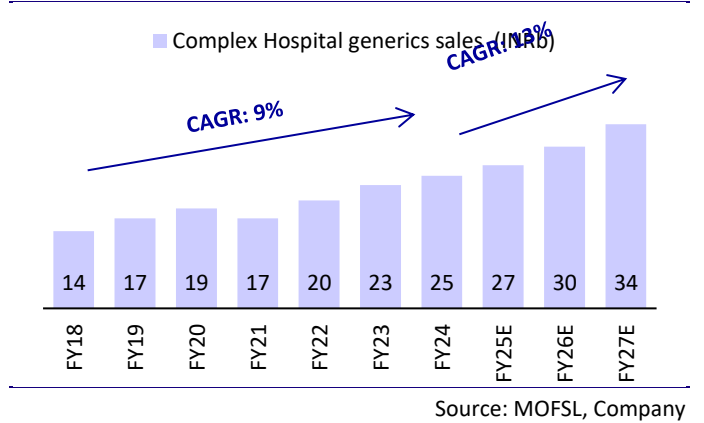


Exhibit 3: Expect 13% sales CAGR in ICH over FY25-27

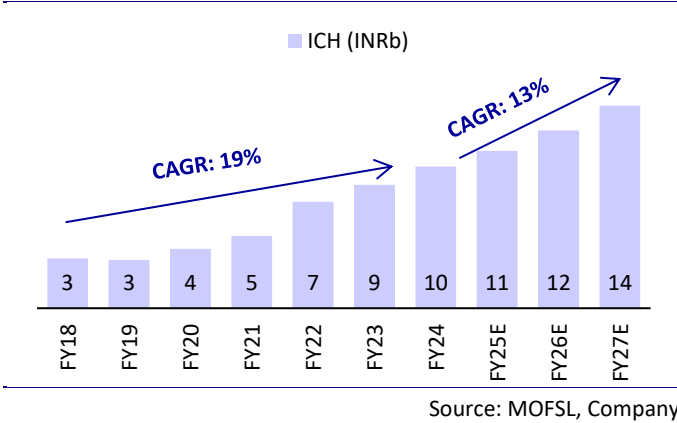
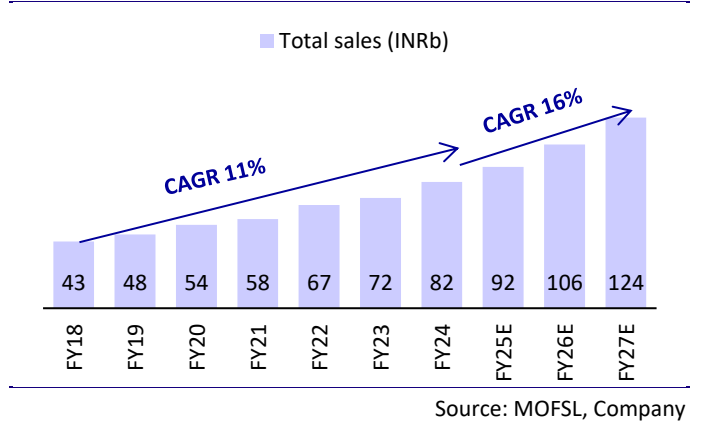


Exhibit 4: Expect 16% CAGR in total sales over FY25-27



Financials and valuations

Consolidated - Income Statement						(INR m)
Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	65,591	70,816	81,712	91,597	1,06,248	1,23,618
Change (%)	NA	8.0	15.4	12.1	16.0	16.3
EBITDA	9,497	7,286	11,963	14,088	19,087	23,549
Margin (%)	14.5	10.3	14.6	15.4	18.0	19.0
Depreciation	5,862	6,767	7,406	7,554	7,932	8,328
EBIT	3,635	520	4,557	6,534	11,155	15,220
Int. and Finance Charges	1,983	3,442	4,485	4,120	3,515	3,094
Other Income	2,758	2,251	1,754	1,850	2,000	2,210
Share of net profit of associates	590	543	595	800	840	895
PBT bef. EO Exp.	5,001	-128	2,421	5,064	10,480	15,231
EO Items	151	1,074	633	0	0	0
PBT after EO Exp.	4,850	-1,202	1,788	5,064	10,480	15,231
Total Tax	1,090	663	1,615	4,051	7,546	9,900
Tax Rate (%)	22.5	-55.2	90.3	80.0	72.0	65.0
Minority Interest	0	0	0	0	0	0
Reported PAT	3,760	-1,865	173	1,013	2,934	5,331
Adjusted PAT	3,879	-798	560	1,013	2,934	5,331
Change (%)	NA	NA	NA	80.8	189.7	81.7
Margin (%)	5.9	-1.1	0.7	1.1	2.8	4.3

Cons Balance sheet						(INR m)
Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	11,859	11,933	13,230	13,230	13,230	13,230
Other equity	55,107	55,802	65,884	66,897	69,831	75,162
Net Worth	66,966	67,735	79,114	80,127	83,061	88,392
Minority Interest	0	0	0	0	0	0
Total Loans	41,283	56,421	47,102	47,102	47,102	47,102
Deferred Tax Liabilities	1,920	2,193	2,292	2,292	2,292	2,292
Capital Employed	1,10,169	1,26,349	1,28,507	1,29,520	1,32,454	1,37,785
Gross Block	36,288	42,652	49,908	51,662	51,546	53,504
Less: Accum. Deprn.	5,862	6,767	7,406	7,554	7,932	8,328
Net Fixed Assets	30,426	35,885	42,503	44,109	43,614	45,176
Goodwill on Consolidation	10,305	11,075	11,226	11,226	11,226	11,226
Intangible assets	33,053	33,382	31,672	31,672	31,672	31,672
Capital WIP	6,732	8,529	5,657	5,657	5,657	5,657
Total Investments	3,123	2,334	2,611	2,611	2,611	2,611
Curr. Assets, Loans&Adv.	36,043	43,078	49,535	49,499	55,367	61,771
Inventory	13,888	16,814	21,759	23,047	26,243	30,163
Account Receivables	17,853	17,993	21,344	23,088	25,616	29,126
Cash and Bank Balance	3,290	3,076	4,826	1,759	1,902	876
Loans and Advances	1,013	5,195	1,606	1,606	1,606	1,606
Curr. Liability & Prov.	13,172	13,600	19,501	20,059	22,498	25,132
Account Payables	10,264	11,927	15,384	15,942	18,381	21,015
Other Current Liabilities	2,445	1,074	3,358	3,358	3,358	3,358
Provisions	464	599	759	759	759	759
Net Current Assets	22,871	29,478	30,034	29,441	32,869	36,639
Deferred Tax assets	2,973	3,493	3,865	3,865	3,865	3,865
Misc Expenditure	687	2,172	940	940	940	940
Appl. of Funds	1,10,169	1,26,349	1,28,507	1,29,520	1,32,454	1,37,785

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)						
Adj. EPS	2.9	-0.6	0.4	0.8	2.2	4.0
Cash EPS	8.2	5.0	6.7	7.2	9.1	11.4
BV/Share	56.1	56.8	66.3	67.1	69.6	74.1
DPS	0.4	0.5	0.1	0.1	0.3	0.6
Payout (%)	15.6	NA	57.0	17.6	17.6	17.6
Valuation (x)						
P/E	81.9	-398.1	566.8	313.5	108.2	59.6
Cash P/E	29.4	48.0	36.0	33.4	26.4	21.0
P/BV	4.3	4.2	3.6	3.6	3.4	3.2
EV/Sales	5.4	5.2	4.4	4.0	3.4	2.9
EV/EBITDA	37.4	50.9	30.1	25.8	19.0	15.4
Dividend Yield (%)	0.2	0.2	0.0	0.0	0.1	0.3
FCF per share	0.0	0.0	0.0	0.0	0.0	0.0
Return Ratios (%)						
RoE	5.8	-1.2	0.8	1.3	3.6	6.2
RoCE	9.2	3.7	0.5	1.3	2.9	4.6
RoIC	5.8	1.4	0.8	2.2	5.1	8.3
Working Capital Ratios						
Asset Turnover (x)	0.6	0.6	0.6	0.7	0.8	0.9
Inventory (Days)	77	87	97	92	90	89
Debtor (Days)	99	93	95	92	88	86
Creditor (Days)	57	61	69	64	63	62
Leverage Ratio (x)						
Net Debt/Equity	0.5	0.8	0.5	0.5	0.5	0.5
	120	118	124			

Cons Cash flow statement

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
(INR m)						
OP/(Loss) before Tax	4,410	-1,675	1,198	5,064	10,480	15,231
Depreciation	5,862	6,767	7,406	7,554	7,932	8,328
Interest & Finance Charges	1,983	1,983	1,983	1,983	1,983	1,983
Direct Taxes Paid	-1,694	-1,694	-1,694	-1,694	-1,694	-1,694
(Inc)/Dec in WC	-3,013	-2,710	-2,520	-2,474	-3,285	-4,796
CF from Operations	7,664	4,839	10,046	10,213	11,096	11,957
Others	0	0	0	0	0	0
CF from Operating incl EO	7,664	4,839	10,046	10,213	11,096	11,957
(Inc)/Dec in FA	-8,571	-9,451	-7,104	-9,160	-7,437	-9,889
Free Cash Flow	-907	-4,612	2,941	1,053	3,658	2,068
(Pur)/Sale of Investments	-485	-3,751	2,724	0	0	0
Investment in Associate	-7,907	0	0	0	0	0
Others	-1,158	-186	40	0	0	0
CF from Investments	-18,121	-13,388	-4,340	-9,160	-7,437	-9,889
Issue of Shares	0	0	10,359	0	0	0
Inc/(Dec) in Debt	9,830	11,558	-9,965	0	0	0
Interest Paid	-1,388	-2,710	-4,618	-4,120	-3,515	-3,094
Dividend Paid	-500	-670	0	0	0	0
CF from Fin. Activity	7,942	8,178	-4,224	-4,120	-3,515	-3,094
Inc/Dec of Cash	-2,515	-371	1,482	-3,067	143	-1,026
Opening Balance	2,620	3,290	3,076	4,825	1,759	1,902
Closing Balance	105	2,919	4,557	1,759	1,902	875
Unrealised loss / (gain) on forex	747	52	178	0	0	0
Term Deposit with Banks	2,438	105	90			
Total Cash & Cash Eq	3,290	3,076	4,825	1,759	1,902	875

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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