

Piramal Pharma

Estimate change



TP change



Rating change



Bloomberg	PIRPHARM IN
Equity Shares (m)	1193
M.Cap.(INRb)/(USDb)	123 / 1.5
52-Week Range (INR)	202 / 63
1, 6, 12 Rel. Per (%)	12/-7/-
12M Avg Val (INR M)	662
Free float (%)	65.2

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	70.8	78.7	88.7
EBITDA	7.3	10.1	12.1
Adj. PAT	(0.8)	1.9	3.9
EBIT Margin (%)	0.7	3.9	5.4
Cons. Adj. EPS (INR)	(0.7)	1.6	3.3
EPS Gr. (%)	NA	NA	109.2
BV/Sh. (INR)	56.8	58.3	61.6

Ratios

Net D:E	0.8	0.7	0.7
RoE (%)	(1.2)	2.7	5.5
RoCE (%)	3.7	3.1	4.5
Payout (%)	NA	17.6	17.6

Valuations

P/E (x)	NA	50.0	23.9
EV/EBITDA (x)	20.2	13.6	11.3
Div. Yield (%)	0.3	0.1	0.3
FCF Yield (%)	(0.0)	0.0	0.0
EV/Sales (x)	2.1	1.7	1.5

Shareholding pattern (%)

As On	Jun-23	Mar-23
Promoter	34.8	34.8
DII	25.5	25.0
FIIFII	15.4	19.7
Others	24.3	20.6

FII Includes depository receipts

CMP: INR105

TP: INR125 (+21%)

Buy

Work in progress to revive business across segments

Enhanced outlook for CDMO/CHG segment

- Piramal Pharma (PIRPHARM) posted a better-than-expected performance in 1QFY24. It witnessed a strong uptick in the order book for its CDMO business, supported by sustained volume growth in Sevoflurane in the complex hospital generics segment (CHG). Although PIRPHARM reported a net loss of INR986m in 1QFY24, we believe that with the revival in business and debt reduction, it will return to profitability.
- We raise our FY24/FY25 estimates by 1%/3%, factoring in better growth prospects in the CDMO/CHG segments and a reduction in interest costs. We value PIRPHARMA on an SOTP basis (11x EV/EBITDA of CDMO business, 11x EV/EBITDA for CHG, and 12x India consumer products-ICP) to arrive at a TP of INR125.
- PIRPHARM remains on track to improve its earnings outlook and return ratios through a) increased visibility for innovation-related work and API business in the CDMO segment, and b) incremental launches and market share gains in existing products in the CHG/ICH segment. We reiterate our BUY rating on the stock.

Superior product mix leads to improved profitability YoY

- Revenues grew 18% YoY to INR17.5b (our est: INR17b) for the quarter.
- CDMO segment (51% of total sales) revenues grew 17% YoY to INR9b. CHG segment (35% of total sales) revenues grew 22% YoY to INR6b. ICH segment (14% of total sales) revenues grew 13% YoY to INR2.4b.
- Gross margin expanded 290bp YoY to 64.2% due to change in product mix.
- However, EBITDA margin expanded 180bp YoY to 7.6% (our est: 7%) largely due to higher other expenses (+380bp as a % of sales) offset by lower employee costs (down 270bp as a % of sales).
- As a result, EBITDA grew 56% YoY to INR1.3b (our est: INR1.2b).
- Other income too declined 47% YoY to INR383m and interest costs increased 2x YoY to INR1.2b.
- As a result, the company reported a loss after tax of INR986m (our est. INR1.1b loss).

Highlights from the management commentary

- 2H is expected to be better than 1H in terms of revenue and profitability.
- In the CDMO segment, the Formulations: API ratio is 45:55 on full year basis.
- PIRPHARM incurred capex of INR1.5b for 1QFY24.
- The net debt stood at INR47b at the end of 1QFY24. After the rights issue, net debt is expected to decline by INR10b.

PPL Income statement (INR m)

	FY23				FY24E				FY23	FY24E	FY24E	% var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	
Revenues	14,820	17,200	17,160	21,636	17,489	19,206	20,001	21,960	70,816	78,655	16,908	3%
growth YoY(%)	13.0	9.0	11.5	1.5	18.0	11.7	16.6	1.5	8.0	11.1	14.1	
Expenses	13,969	15,475	15,962	18,123	16,165	16,988	16,950	18,476	63,529	68,580	15,724	
CDMO	7,700	9,400	10,210	12,850	8,980	10,528	11,333	12,933	40,160	43,774	8,855	1%
CHG	5,080	5,620	5,140	7,020	6,170	6,294	6,271	6,868	22,860	25,603	5,690	8%
ICP	2,110	2,270	2,140	2,060	2,390	2,384	2,397	2,107	8,590	9,277	2,363	1%
EBITDA*	851	1,726	1,197	3,513	1,323	2,218	3,050	3,484	7,286	10,075	1,184	12%
margin (%)	5.7	10.0	7.0	16.2	7.6	11.5	15.3	15.9	10.3	12.8	7.0	
growth YoY(%)	-34.3	-12.2	-46.9	-11.7	55.5	28.5	154.8	-0.8	-23.3	38.3	39.1	
Depreciation	1,617	1,662	1,644	1,844	1,736	1,720	1,760	1,754	6,767	6,970	1,700	
EBIT	-766	64	-447	1,669	-413	498	1,290	1,730	520	3,105	-516	-20%
Other income	719	462	825	245	383	480	550	587	2,251	2,000	400	
Interest expense	623	830	947	1,043	1,185	750	650	554	3,442	3,139	1,150	
Share from Asso. Co	199	111	156	78	144	120	140	156	543	560	150	
PBT	-471	-193	-412	949	-1,071	348	1,330	1,919	-128	2,526	-1,116	-4%
EO Expenses/(gain)	680	70	324	-	-	-	-	-	1,074	-	-	
Taxes	-61	111	165	448	-85	70	266	406	663	657	0	
Tax Rate (%)	5.3	-42.2	-22.5	47.2	8.0	20.0	20.0	21.2	-55.2	26.0	0.0	
Reported PAT	-1,091	-373	-902	501	-986	278	1,064	1,512	-1,865	1,869	-1,116	NA
Adj. PAT	-446	-274	-578	501	-986	278	1,064	1,512	-798	1,869	-1,116	
Change (%)	NA	NA	NA	-75.4	NA	LP	LP	201.8	NA	NA	NA	

Key takeaways from the management commentary

- The rights issue price would be INR81 and the entitlement ratio would be 5:46.
- The ICH segment was EBITDA positive in 1QFY24.
- PIRPHARM had a successful USFDA inspection at its Pithampur facility.
- As compared to 1QFY24, PIRPHARM's other income had higher FX gains in 1QFY23.

Valuation and view

Operating leverage to drive profitability

Robust order book to enhance CDMO business outlook

- In 1QFY24, CDMO sales grew 17% YoY to INR9b. PIRPHARMA continues to see good demand for differentiated offerings such as high potent API, peptide, anti-body drug conjugate (ADC) and development and manufacturing of on-patent API.
- To enhance profitability, the company is taking measures to optimize cost, strategize procurement and achieve operational excellence.
- The capacity expansion at its Grangemouth facility in 2HFY24 is likely to further strengthen its position in the anti-body drug conjugate segment.
- We expect a 10% sales CAGR over FY23-25 to INR49b in this segment.

CHG segment to grow on the back of capacity enhancement

- In 1QFY24, CHG sales grew 22% YoY to INR6b, led by stable growth in Inhalation Anesthesia (IA) largely due to high demand for Sevoflurane. PIRPHARM is the leader in Sevoflurane in the US with a ~40% market share by value (as per IQVIA).
- Moreover, to meet growing demand, the company is expanding its IA capacity in Dahej and Digwal outside the US.
- We expect the CHG segment to clock a 13% revenue CAGR to INR29b over FY23-25, led by increased traction in existing products and healthy new launches.

Power brands/E-commerce to continue to drive ICH segment

- In 1QFY24, ICH sales increased by 13% YoY to INR2.4b. Growth was led by 11 new launches/3 SKUs, supported by growth momentum in existing brands.
- During the quarter, Power brands maintained the growth trajectory and contributed 43% to ICH sales. Moreover, E-commerce grew by more than 18% YoY and contributed 15% to ICH revenues. Lacto Calamine product grew 29% YoY, led by new launches and good traction on e-commerce.
- With continued investments in media and power brands, in addition to new launches, we expect the CHG segment to post a 10% revenue CAGR to INR10b over FY23-25.

Reiterate BUY

- We raise our FY24/FY25 estimates by 1%/3%, factoring in better growth prospects in the CDMO/CHG segments and a reduction in interest costs. We value PIRPHARMA on an SOTP basis (11x EV/EBITDA of CDMO business, 11x EV/EBITDA for CHG, and 12x ICP) to arrive at a TP of INR125.
- PIRPHARM remains on track to improve its earnings outlook and return ratios through a) increased visibility for innovation related work and API business in the CDMO segment, and b) incremental launches and market share gains in existing products in the CHG/ICH segments. We reiterate our BUY rating on the stock.

Story in charts

Exhibit 1: Expect 10% sales CAGR in CDMO over FY23-25 (INR b)

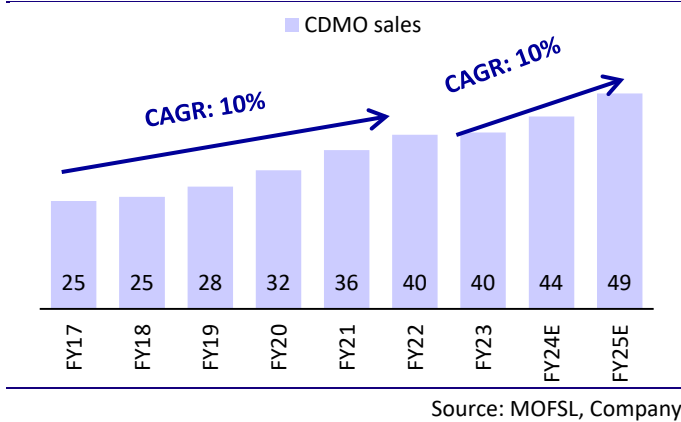


Exhibit 2: Expect 13% sales CAGR in CHG over FY23-25 (INR b)

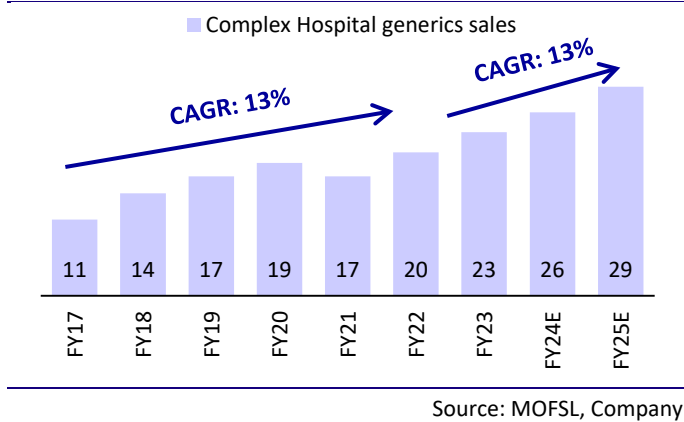


Exhibit 3: Expect 10% sales CAGR in ICH over FY23-25 (INR b)

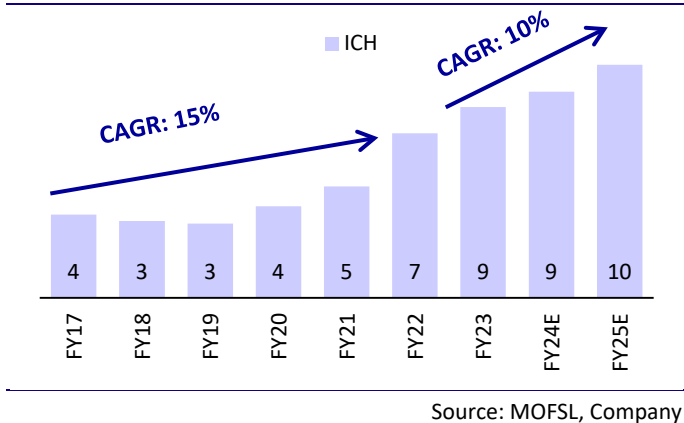
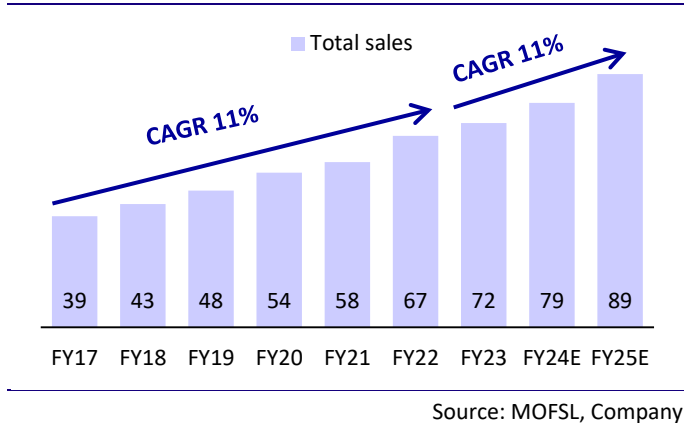


Exhibit 4: Expect 11% CAGR in total sales over FY23-25 (INR b)



Financials and valuations

Consolidated - Income Statement				(INR m)
Y/E March	FY22	FY23	FY24E	FY25E
Total Income from Operations	65,591	70,816	78,655	88,698
Change (%)	NA	8.0	11.1	12.8
EBITDA	9,497	7,286	10,075	12,074
Margin (%)	14.5	10.3	12.8	13.6
Depreciation	5,862	6,767	6,970	7,318
EBIT	3,635	520	3,105	4,755
Int. and Finance Charges	1,983	3,442	3,139	2,466
Other Income	2,758	2,251	2,000	2,200
Share of net profit of associates	590	543	560	588
PBT bef. EO Exp.	5,001	-128	2,526	5,077
EO Items	151	1,074	0	0
PBT after EO Exp.	4,850	-1,202	2,526	5,077
Total Tax	1,090	663	657	1,168
Tax Rate (%)	22.5	-55.2	26.0	23.0
Minority Interest	0	0	0	0
Reported PAT	3,760	-1,865	1,869	3,910
Adjusted PAT	3,879	-798	1,869	3,910
Change (%)	NA	NA	NA	109.2
Margin (%)	5.9	-1.1	2.4	4.4

Consolidated - Balance Sheet				(INR m)
Y/E March	FY22	FY23	FY24E	FY25E
Equity Share Capital	11,859	11,933	22,437	22,437
Other equity	55,107	55,802	57,671	61,580
Net Worth	66,966	67,735	80,108	84,017
Minority Interest	0	0	0	0
Total Loans	41,283	56,421	46,421	46,421
Deferred Tax Liabilities	1,920	2,193	2,193	2,193
Capital Employed	110,169	126,349	128,721	132,631
Gross Block	36,288	42,652	43,751	45,651
Less: Accum. Deprn.	5,862	6,767	6,970	7,318
Net Fixed Assets	30,426	35,885	36,781	38,332
Goodwill on Consolidation	10,305	11,075	11,075	11,075
Intangible assets	33,053	33,382	33,382	33,382
Capital WIP	6,732	8,529	8,529	8,529
Total Investments	3,123	2,334	2,334	2,334
Curr. Assets, Loans&Adv.	36,043	43,078	44,911	48,655
Inventory	13,888	16,814	19,653	20,504
Account Receivables	17,853	17,993	17,239	19,441
Cash and Bank Balance	3,290	3,076	2,823	3,515
Loans and Advances	1,013	5,195	5,195	5,195
Curr. Liability & Prov.	13,172	13,600	13,956	15,342
Account Payables	10,264	11,927	12,283	13,669
Other Current Liabilities	2,445	1,074	1,074	1,074
Provisions	464	599	599	599
Net Current Assets	22,871	29,478	30,955	33,313
Deferred Tax assets	2,973	3,493	3,493	3,493
Misc Expenditure	687	2,172	2,172	2,172
Appl. of Funds	110,169	126,349	128,721	132,631

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY22	FY23	FY24E	FY25E
Basic (INR)				
EPS	1.7	-0.4	0.8	1.7
Cash EPS	8.2	5.0	7.4	9.4
BV/Share	56.1	56.8	67.1	70.4
DPS	0.2	0.3	0.1	0.3
Payout (%)	15.6	NA	17.6	17.6
Valuation (x)				
P/E	24.1	NA	50.0	23.9
Cash P/E	12.6	20.6	13.9	10.9
P/BV	1.8	1.8	1.5	1.5
EV/Sales	2.0	2.1	1.7	1.5
EV/EBITDA	13.9	20.2	13.6	11.3
Dividend Yield (%)	0.2	0.3	0.1	0.3
FCF per share	0.0	0.0	0.0	0.0
Return Ratios (%)				
RoE	5.8	-1.2	2.5	4.8
RoCE	NA	3.7	3.0	4.2
RoIC	5.8	1.4	4.0	6.2
Working Capital Ratios				
Asset Turnover (x)	0.6	0.6	0.6	0.7
Inventory (Days)	77	87	91	84
Debtor (Days)	99	93	80	80
Creditor (Days)	57	61	57	56
Leverage Ratio (x)				
Net Debt/Equity	0.5	0.8	0.5	0.5

Cons Cash flow statement

Y/E March	FY22	FY23	FY24E	FY25E
(INR m)				
OP/(Loss) before Tax	4,410	-1,675	2,526	5,077
Depreciation	5,862	6,767	6,970	7,318
Interest & Finance Charges	1,983	1,983	1,983	1,983
Direct Taxes Paid	-1,694	-1,694	-1,694	-1,694
(Inc)/Dec in WC	-3,013	-2,710	-1,730	-1,666
CF from Operating incl EO	7,664	4,839	10,248	12,028
(Inc)/Dec in FA	-8,571	-9,451	-7,865	-8,870
Free Cash Flow	-907	-4,612	2,383	3,158
(Pur)/Sale of Investments	-485	-3,751	0	0
Investment in Associate	-7,907	0	0	0
Others	-1,158	-186	0	0
CF from Investments	-18,121	-13,388	-7,865	-8,870
Issue of Shares	0	0	10,504	0
Inc/(Dec) in Debt	9,830	11,558	-10,000	0
Interest Paid	-1,388	-2,710	-3,139	-2,466
Dividend Paid	-500	-670	0	0
CF from Fin. Activity	7,942	8,178	-2,635	-2,466
Inc/Dec of Cash	-2,515	-371	-253	692
Opening Balance	2,620	3,290	3,076	2,823
Closing Balance	105	2,919	2,823	3,515
Unrealised loss / (gain) on forex	747	52	0	0
Term Deposit with Banks	2,438	105	0	0
Total Cash & Cash Eq	3,290	3,076	2,823	3,515

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
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