

Estimate change



TP change



Rating change



CMP: INR144

TP: INR165 (+14%)

Buy

Gradual revival in overall performance

Outlook remains promising for CDMO/CHG segments

- Piramal Pharma (PIRPHARM) reported a lower-than-expected performance in 3QFY24. While the company delivered in-line sales, its profitability was lower than expected due to higher opex. Having said this, the scope of work in the CDMO segment continues to move toward innovation-related work as well as integrated contract manufacturing.
- We reduce our earnings estimate for FY24 by 3% on higher opex/interest outgo. We maintain our estimates for FY25/FY26. We continue to value PIRPHARM on SOTP basis (15x 12M forward CDMO EV/EBITDA, 13x 12M forward complex hospital generics (CHG) EV/EBITDA, 15x 12M forward India consumer products (ICP) EV/EBITDA and 18x PE for its stake in Allergan) to arrive at a TP of INR165.
- PIRPHARM is implementing efforts to improve the sales outlook of its key segments, CDMO, CHG, and ICP. The company expects growth to be driven by 1) increasing commercial manufacturing of on-patent molecules in CDMO; 2) increasing reach/expanding capacity in CHG; and 3) new launches and enhanced marketing in ICP. **Maintain BUY.**

Product mix/operating leverage drive profitability on YoY basis

- Revenue grew 14% YoY to INR19.6 b (est. INR20b) in 3Q. CDMO segment's (58% of total sales) revenue grew 12% YoY to INR11b. CHG segment's (29% of total sales) revenue grew 12% YoY to INR5.8b. ICH segment's (13% of total sales) revenue grew 11.5% YoY to INR2.5b.
- Gross margin expanded 200bp YoY to 65.5% due to a change in product mix.
- EBITDA margin expanded 670bp YoY to 13.7% (est. 15.3%), due to lower employee costs and other expenses (down 190bp/280bp as a % of sales).
- As a result, EBITDA grew 2x YoY to INR2.7b (est. INR3b) for the quarter.
- Interest costs rose 12% YoY to INR1.1b.
- After adjusting the one-off provision against a supplier of INR323m, PIRPHARM registered a profit of INR350m vs. a loss of INR578m in the previous quarter (our est. profit was at INR821m).
- For 9MFY24, revenue/EBITDA grew 14%/77% YoY to INR56b/INR6.7b, while Adj. loss decreased to INR585m from INR1.3b.

Highlights from the management commentary

- PIRPHARM maintains its guidance of high-teens YoY revenue growth in 2HFY24, with a meaningful margin expansion.
- Sales growth of 14% YoY in 3QFY24 implies 12-15% YoY sales growth in 4QFY24. 4Q is historically the strongest quarter for PIRPHARM.
- The company indicated strong demand for Anti-drug Conjugate (ADC), and the current ADC contract has already commenced.

Bloomberg	PIRPHARM IN
Equity Shares (m)	1323
M.Cap.(INRb)/(USD\$b)	190.8 / 2.3
52-Week Range (INR)	149 / 62
1, 6, 12 Rel. Per (%)	4/32/18
12M Avg Val (INR M)	746
Free float (%)	65.0

Financials & Valuations (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	80.5	90.4	101.9
EBITDA	11.4	13.5	16.0
Adj. PAT	1.9	4.0	6.3
EBIT Margin (%)	5.5	7.0	8.3
Cons. Adj. EPS (INR)	1.4	3.1	4.8
EPS Gr. (%)	NA	116.6	56.0
BV/Sh. (INR)	67.1	70.5	75.8

Ratios

Net D:E	0.5	0.5	0.4
RoE (%)	2.5	4.9	7.2
RoCE (%)	3.4	4.8	6.0
Payout (%)	20.3	17.6	17.6

Valuations

P/E (x)	98.5	45.5	29.2
EV/EBITDA (x)	20.0	17.1	14.2
Div. Yield (%)	0.2	0.3	0.5
FCF Yield (%)	0.0	0.0	0.0
EV/Sales (x)	2.8	2.5	2.2

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	35.0	35.0	34.8
DII	9.7	8.0	5.3
FII/FIIFII	32.9	32.8	41.7
Others	22.4	24.3	18.3

FII Includes depository receipts

PPL Income statement (INR m)

Consolidated	FY23				FY24E				FY23	FY24E	FY24E	% var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Revenues	14,820	17,200	17,160	21,636	17,489	19,114	19,586	24,302	70,816	80,490	20,043	-2%
growth YoY(%)	13.0	9.0	11.5	1.5	18.0	11.1	14.1	12.3	8.0	13.7	16.8	
Expenses	13,969	15,475	15,962	18,123	16,165	16,457	16,902	19,542	63,529	69,066	16,976	
CDMO	7,700	9,400	10,100	12,850	8,980	10,680	11,340	14,381	40,160	45,381	11,435	-1%
CHG	5,080	5,620	5,140	7,020	6,170	5,890	5,760	8,012	22,860	25,832	6,168	-7%
ICP	2,110	2,270	2,260	2,060	2,390	2,560	2,520	1,807	8,590	9,277	2,440	3%
EBITDA*	851	1,726	1,197	3,513	1,323	2,657	2,684	4,760	7,286	11,423	3,067	-12%
margin (%)	5.7	10.0	7.0	16.2	7.6	13.9	13.7	19.6	10.3	14.2	15.3	
growth YoY(%)	-34.3	-12.2	-46.9	-11.7	55.5	54.0	124.1	35.5	-23.3	56.8	156.1	
Depreciation	1,617	1,662	1,644	1,844	1,736	1,845	1,863	1,526	6,767	6,970	1,760	
EBIT	-766	64	-447	1,669	-413	812	821	3,234	520	4,453	1,307	-37%
Other income	719	462	825	245	383	492	615	610	2,251	2,100	510	
Interest expense	623	830	947	1,043	1,185	1,099	1,059	1,007	3,442	4,349	890	
Share from Asso. Co	199	111	156	78	144	191	140	134	543	608	140	
PBT	-471	-193	-412	949	-1,071	396	516	2,972	-128	2,813	1,067	-52%
EO Expenses/(gain)	680	70	324	-	-	-	323	-	1,074	323	-	
Taxes	-61	111	165	448	-85	345	93	519	663	871	245	
Tax Rate (%)	5.3	-42.2	-22.5	47.2	8.0	87.3	47.8	17.5	-55.2	35.0	23.0	
Reported PAT	-1,091	-373	-902	501	-986	50	101	2,453	-1,865	1,618	821	-88%
Adj. PAT	-446	-274	-578	501	-986	50	350	2,453	-798	1,867	821	-57%
Change (%)	NA	NA	NA	-75.4	NA	LP	LP	389.5	NA	NA	LP	

E: MOFSL Estimates

Key takeaways from the management commentary

- While PIRPHARM has reduced its debt through a rights issue, the increase in interest rate has led to elevated interest expenses for the quarter.
- The company has seen healthy demand for inhalation anesthesia products in non-US markets like UK, France, Vietnam, and Thailand.
- It has a pipeline of injectable products at different stages of development. It launched three products in US and EU markets during the quarter.
- ICP segment growth was affected by unfavorable seasonality, dragging down sales of Tetmosol brand.
- PIRPHARM launched three products and three SKUs in ICP segment in 3QFY24.
- ETR would be 25% for FY25.
- Gross debt stood at INR45b as of Dec'23. About 78% of debt is from foreign sources.
- Revenue breakup from CDMO business is 33% each from biotech, large pharma and mid-small size pharma.
- In CDMO the revenue breakup from API: Formulation is 60%:40% and in terms of Innovation: generic is 45%:65%.
- Capex would be USD20-24m for 4QFY24.

Valuation and view

Improved revenue visibility/operating leverage to drive growth

Strengthening CDMO business through innovative order book

- In 9MFY24, CDMO sales grew 14% YoY to INR31b due to a strong order inflow in differentiated offerings and YoY pickup in generic API segment.
- PIRPHARMA has built a strong order book for FY25 despite challenges in biotech funding resulting in strong revenue visibility.
- With cost optimization measures taken earlier, PIRPHARM's profitability has increased, aided by lower raw material costs and a change in revenue mix.
- The company has received the order of anti-body drug conjugate (ADC). Also, the expanded capacity at the Grangemouth facility is expected to be commercialized in Feb'24, which would boost revenue growth.
- We expect a 12% sales CAGR over FY24-26 to INR57b in this segment.

Market share gain/new launches to boost growth in CHG segment

- In 9MFY24, CHG sales grew 13% YoY to INR17.8b, primary on account of volume-led growth in IA in the US and non-US business, partly offset by pricing pressure.
- PIRPHARMA has launched three injectable products in 3Q in the US/EU and has maintained leading market share in intrathecal baclofen in the US market.
- Moreover, the company has 25 new products under various phases of development, with an addressable market of over USD2b.
- EBITDA margin is improving due to a better product mix/cost optimization.
- We expect the CHG segment to clock a 14% revenue CAGR to INR33.5b over FY24-26.

Increased focus on E-commerce to fuel growth in ICH segment

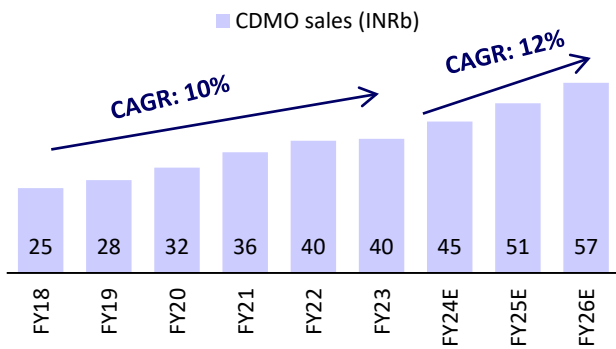
- In 9MFY24, ICH sales increased by 13% YoY to INR7.5b. Growth was led by 24 new launches/8 SKUs, supported by growth momentum in existing brands, offset by seasonal impact in Tetmosol brand.
- Power brands maintained their upward trend in 9MFY24, accounting for 41% of ICH sales. Additionally, in 3QFY24, e-commerce expanded by more than 17% YoY and accounted for 16% of ICH revenues.
- PIRPHARMA is increasing promotional spending and expanding its presence across 20+ ecommerce websites, including its own D2C website.
- In addition to new launches, PIRPHARM is investing in media/power brands. We expect the CHG segment to post an 11% revenue CAGR to INR11b over FY24-26.

Reiterate BUY

- We reduce our earnings estimate by 3% for FY24 (on higher opex/interest outgo) and maintain our estimates for FY25/FY26. We value PIRPHARM on SOTP basis (15x 12M forward CDMO EV/EBITDA, 13x 12M forward Complex hospital generics (CHG) EV/EBITDA, 15x 12M forward India consumer products (ICP) EV/EBITDA and 18x PE for its stake in Allergen) to arrive at a TP of INR165.
- PIRPHARM is implementing efforts to improve sales outlook across key segments of CDMO, CHG as well as ICP. We believe growth will be driven by 1) increasing commercial manufacturing of on-patent molecules in CDMO; 2) increasing reach/expanding capacity in CHG; and 3) new launches/enhanced marketing in ICP. Maintain BUY.

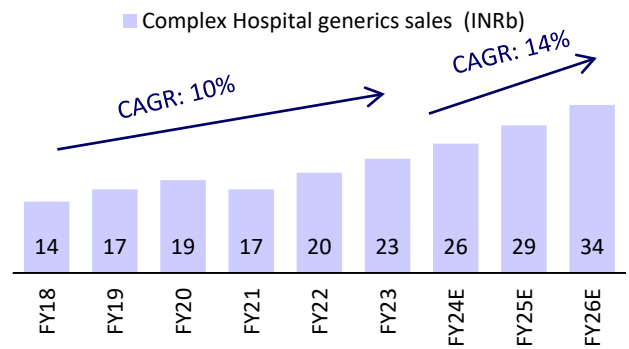
Story in charts

Exhibit 1: Expect 12% sales CAGR in CDMO over FY24-26



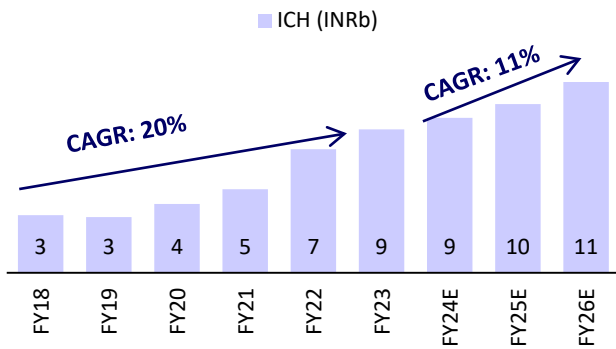
Source: MOFSL, Company

Exhibit 2: Expect 14% sales CAGR in CHG over FY24-26



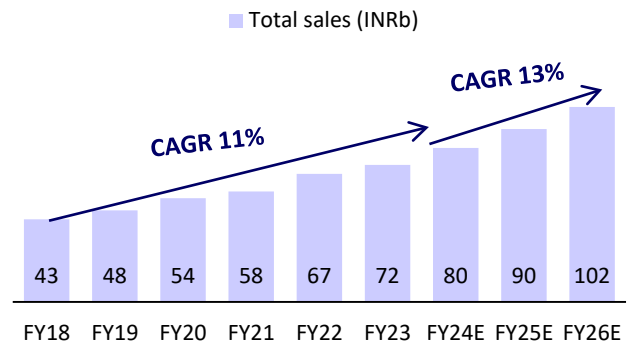
Source: MOFSL, Company

Exhibit 3: Expect 11% sales CAGR in ICH over FY24-26



Source: MOFSL, Company

Exhibit 4: Expect 13% CAGR in total sales over FY24-26



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement					(INR m)
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	65,591	70,816	80,490	90,387	1,01,923
Change (%)	NA	8.0	13.7	12.3	12.8
EBITDA	9,497	7,286	11,423	13,472	15,959
Margin (%)	14.5	10.3	14.2	14.9	15.7
Depreciation	5,862	6,767	6,970	7,109	7,465
EBIT	3,635	520	4,453	6,362	8,494
Int. and Finance Charges	1,983	3,442	4,349	3,582	2,954
Other Income	2,758	2,251	2,100	2,120	2,200
Share of net profit of associates	590	543	608	639	671
PBT bef. EO Exp.	5,001	-128	2,813	5,539	8,411
EO Items	151	1,074	323	0	0
PBT after EO Exp.	4,850	-1,202	2,490	5,539	8,411
Total Tax	1,090	663	871	1,496	2,103
Tax Rate (%)	22.5	-55.2	35.0	27.0	25.0
Minority Interest	0	0	0	0	0
Reported PAT	3,760	-1,865	1,618	4,044	6,308
Adjusted PAT	3,879	-798	1,867	4,044	6,308
Change (%)	NA	NA	NA	116.6	56.0
Margin (%)	5.9	-1.1	2.3	4.5	6.2

Cons Balance sheet					(INR m)
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	11,859	11,933	13,230	13,230	13,230
Other equity	55,107	55,802	66,876	70,920	77,229
Net Worth	66,966	67,735	80,106	84,150	90,459
Minority Interest	0	0	0	0	0
Total Loans	41,283	56,421	46,421	46,421	46,421
Deferred Tax Liabilities	1,920	2,193	2,193	2,193	2,193
Capital Employed	1,10,169	1,26,349	1,28,720	1,32,764	1,39,072
Gross Block	36,288	42,652	43,934	46,003	49,086
Less: Accum. Deprn.	5,862	6,767	6,970	7,109	7,465
Net Fixed Assets	30,426	35,885	36,964	38,894	41,621
Goodwill on Consolidation	10,305	11,075	11,075	11,075	11,075
Intangible assets	33,053	33,382	33,382	33,382	33,382
Capital WIP	6,732	8,529	8,529	8,529	8,529
Total Investments	3,123	2,334	2,334	2,334	2,334
Curr. Assets, Loans&Adv.	36,043	43,078	44,863	48,095	52,212
Inventory	13,888	16,814	18,630	20,992	22,116
Account Receivables	17,853	17,993	18,744	21,544	20,943
Cash and Bank Balance	3,290	3,076	2,294	364	3,958
Loans and Advances	1,013	5,195	5,195	5,195	5,195
Curr. Liability & Prov.	13,172	13,600	14,092	15,210	15,747
Account Payables	10,264	11,927	12,420	13,538	14,074
Other Current Liabilities	2,445	1,074	1,074	1,074	1,074
Provisions	464	599	599	599	599
Net Current Assets	22,871	29,478	30,771	32,885	36,466
Deferred Tax assets	2,973	3,493	3,493	3,493	3,493
Misc Expenditure	687	2,172	2,172	2,172	2,172
Appl. of Funds	1,10,169	1,26,349	1,28,720	1,32,764	1,39,072

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)					
EPS	2.9	-0.6	1.4	3.1	4.8
Cash EPS	8.2	5.0	7.4	9.3	11.5
BV/Share	56.1	56.8	67.1	70.5	75.8
DPS	0.4	0.5	0.2	0.5	0.7
Payout (%)	15.6	NA	20.3	17.6	17.6
Valuation (x)					
P/E	47.4	NA	98.5	45.5	29.2
Cash P/E	17.0	27.8	18.8	14.9	12.0
P/BV	2.5	2.4	2.1	2.0	1.8
EV/Sales	3.4	3.4	2.8	2.5	2.2
EV/EBITDA	23.4	32.6	20.0	17.1	14.2
Dividend Yield (%)	0.3	0.4	0.2	0.3	0.5
FCF per share	0.0	0.0	0.0	0.0	0.0
Return Ratios (%)					
RoE	5.8	-1.2	2.5	4.9	7.2
RoCE	NA	3.7	3.4	4.8	6.0
RoIC	5.8	1.4	5.0	7.6	10.3
Working Capital Ratios					
Asset Turnover (x)	0.6	0.6	0.6	0.7	0.7
Inventory (Days)	77	87	84	85	79
Debtor (Days)	99	93	85	87	75
Creditor (Days)	57	61	56	55	50
Leverage Ratio (x)					
Net Debt/Equity	0.5	0.8	0.5	0.5	0.4

Cons Cash flow statement

(INR m)

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	4,410	-1,675	2,813	5,539	8,411
Depreciation	5,862	6,767	6,970	7,109	7,465
Interest & Finance Charges	1,983	1,983	1,983	1,983	1,983
Direct Taxes Paid	-1,694	-1,694	-1,694	-1,694	-1,694
(Inc)/Dec in WC	-3,013	-2,710	-2,074	-4,045	13
CF from Operations	7,664	4,839	11,113	10,690	16,740
Others	0	0	0	0	0
CF from Operating incl EO	7,664	4,839	11,113	10,690	16,740
(Inc)/Dec in FA	-8,571	-9,451	-8,049	-9,039	-10,192
Free Cash Flow	-907	-4,612	3,064	1,652	6,548
(Pur)/Sale of Investments	-485	-3,751	0	0	0
Investment in Associate	-7,907	0	0	0	0
Others	-1,158	-186	0	0	0
CF from Investments	-18,121	-13,388	-8,049	-9,039	-10,192
Issue of Shares	0	0	10,504	0	0
Inc/(Dec) in Debt	9,830	11,558	-10,000	0	0
Interest Paid	-1,388	-2,710	-4,349	-3,582	-2,954
Dividend Paid	-500	-670	0	0	0
CF from Fin. Activity	7,942	8,178	-3,846	-3,582	-2,954
Inc/Dec of Cash	-2,515	-371	-782	-1,930	3,594
Opening Balance	2,620	3,290	3,076	2,294	364
Closing Balance	105	2,919	2,294	364	3,958
Unrealised loss / (gain) on forex	747	52	0	0	0
Term Deposit with Banks	2,438	105			
Total Cash & Cash Eq	3,290	3,076	2,294	364	3,958

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

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