

Piramal Pharma

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	PIRPHARM IN
Equity Shares (m)	1193
M.Cap.(INRb)/(USDb)	187 / 2.3
52-Week Range (INR)	182/ 152

Financials & Valuations (INR b)

Y/E MARCH	FY22	FY23E	FY24E
Sales	65.6	72.3	81.3
EBITDA	9.5	9.6	12.3
Adj. PAT	3.9	2.3	3.9
EBIT Margin (%)	14.5	13.3	15.1
Cons. Adj. EPS (INR)	3.27	1.94	3.28
EPS Gr. (%)	NA	(41)	69
BV/Sh. (INR)	56.5	58.4	61.6

Ratios

Net D:E	0.5	0.5	0.4
RoE (%)	5.8	3.4	5.5
RoCE (%)	9.2	4.0	5.0
Payout (%)	21.7	75.3	52.5

Valuations

P/E (x)	48.2	81.2	48.1
EV/EBITDA (x)	23.7	23.0	17.6
Div. Yield (%)	0.4	0.9	1.1
FCF Yield (%)	NA	0.0	0.0
EV/Sales (x)	3.4	3.1	2.7

CMP: INR157

TP: INR185 (+18%)

Buy

Work-in-progress to address challenges in the CDMO segment

Favorable demand and healthy launches to drive the Hospital Generics business

- As a demerged entity, PIRPHARM reported its first quarter of detailed financials. The receipts from government grants have been included in other income and excluded from EBITDA and hence it is not comparable with our EBITDA estimate. Including other income, EBITDA stood at INR2.2b (est. INR2.3b). The moderate YoY growth in sales and increased OPEX affected profitability on a YoY basis.
- We have recalibrated our FY23/FY24 earnings estimate based on: a) its detailed financials, b) prolonged period of pandemic-induced challenges in the Contract Development and Manufacturing Organization (CDMO) business, and c) improved traction in the Complex Hospital Generics (CHG) and the India Consumer Products (ICP) segment. Using the SoTP methodology, we value PIRPHARM's CDMO/CHG/ICH business at 17x/12x/18x FY24E EV/EBITDA. We value its 49% stake in the Allergan JV at 18x FY24E P/E and arrive at an overall TP of INR185.
- While there are near-term headwinds in its CDMO business, the outlook remains interesting, given the pipeline of molecules in Phase III clinical trials, which can provide a commercial opportunity, subject to a successful regulatory approval. The revival in the CHG segment continues, with reduced COVID-related restriction. We maintain our Buy rating.

Sales in line; margin yet to pick up

- Revenue grew 9% YoY and 16% QoQ to INR17b in 2QFY23.
- CDMO sales rose 6% YoY to INR9.4b, led by price rises in certain products, cost optimization, and other measures. CHG sales grew 12% YoY to INR5.6b on strong Inhalation Anesthesia (IA) sales in the US market, with continued volume growth driving market share gains. ICH sales increased by 18% YoY to INR2.3b, led by new products and SKUs and continued traction in power brands like Lacto Calamine, Littles, Polycrol, Tetmosol and I-range.
- Gross margin fell 20bp YoY, but grew 20bp QoQ, to 61.4% in 2QFY23.
- EBITDA margin contracted by 220bp, but expanded by 900bp QoQ, to 10% in 2QFY23. EBITDA fell 12% YoY to INR1.7b.
- PIRPHARM delivered an adjusted loss of INR300m v/s a PAT of INR273m YoY.
- In 1HFY23, it delivered a revenue/EBITDA growth of 11%/3% YoY.

Highlights from the management commentary

- The management expects an improvement in EBITDA margin in 2HFY23 v/s 1H. Historically, the second half of the fiscal has always been much stronger than the first half.
- The USFDA recently concluded the GMP inspection of its Michigan facility with zero observations.

Tushar Manudhane - Research Analyst (Tushar.Manudhane@MotilalOswal.com)

Sumit Gupta - Research Analyst (Sumit.G@MotilalOswal.com)

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- CDMO is a fixed cost leverage business. The management expects an improvement in margin due to higher operating leverage, with a mid-teen revenue growth in 2HFY23.
- Overall margin fell YoY in 2QFY23, due to: a) reinvestment of profit in sales promotion in ICH, b) investment in overseas facilities, and c) inflation led input cost.

PIRPHARM Income statement (INRm)

	2QFY23	2QFY22	1HFY23	1HFY22	FY22	FY23E	INR m YoY
Revenues	17,200	15,775	32,020	28,886	65,591	72,298	9%
CDMO	9,400	8,860	17,100	15,310	39,600	41,184	6%
CHG	5,620	5,000	10,700	9,680	20,020	22,222	12%
ICH	2,270	1,820	4,380	3,900	7,410	8,892	25%
Expenses	15,475	13,810	30,124	25,625	56,094	62,675	
EBITDA*	1,726	1,966	1,896	3,261	9,497	9,623	-12%
margin (%)	10.0	12.5	5.9	11.3	14.5	13.3	
growth YoY(%)	-12.2		-41.8			1.3	
Depreciation	1,662	1,381	3,279	2,739	5,862	6,624	
EBIT	64	585	-1,382	522	3,635	2,999	-89%
Other income	462	179	1,181	371	2,758	2,169	
Interest expense	830	492	1,453	911	1,983	3,060	
Share from Asso. Co	111	163	310	308	590	600	
PBT	-193	436	-1,344	291	5,001	2,708	
EO Expenses/(gain)	70	-	70	151	151	70	
Taxes	111	70	50	55	1,090	396	
Tax Rate (%)	-57.4	16.1	-3.7	18.8	21.8	14.6	
PAT	-373	366	-1,464	85	3,760	2,243	NA
Change (%)	NA		NA			-40.3	

E: MOFSL Estimates



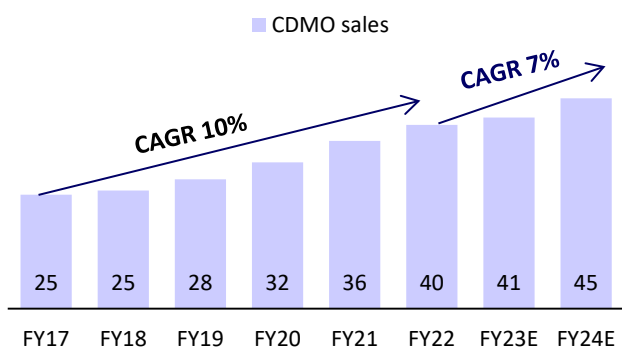
Key takeaways from management commentary

- PIRPHARM plans to double CDMO revenue in next 5 years. 60% of CDMO business is API and 40% is formulation. It has diversified mix of big pharma and generics. Revenue from top 10 clients is 40% in the CDMO segment. Peptide, high quality injectables continue to attract customers. In CDMO business, PIRPHARM is witnessing attrition and is taking measures to control it.
- Intrathecal portfolio in the US continued to command leading market share for PIRPHARM. Extensive pipeline of new products consisting of 37 SKUs at various stages of development. Market size of these SKUs is USD7b.
- PIRPHARM launched 3 products during H1FY23 including a Pre-Filled Syringe (PFS) in Germany. 8 SKUs expected to be launched in various targeted markets in Q3FY23 based on tender calendar.
- PIRPHARM expects growth in API generic business as it continues to file DMFs with help of Hemmo Pharma. It also expects API services to grow well.
- Majority of other income includes FX gain/loss and government grants.
- PIRPHARM announced growth CAPEX of \$157mn to be completed over the next 18-24 months for Brownfield expansion including Michigan API facility, UK facility for ADCs, Aurora. CDMO has grown at 12% CAGR in past four years.
- CHG - Strong sales with continued volume growth driving market share gains Inhalation Anesthesia (IA) in the US market. In Inhalation Anesthesia, PIRPHARM has less competition and expects high growth as it is gaining more supply chain.

- ICH - Power Brands constitute 42% of total ICH sales in H1FY23 (+40% YoY). PIRPHARM launched 10 new products and 11 SKUs. New products contribute 20% to sales. E-commerce contributes 15% of total business and grew by more than 40% YoY in H1FY23. Moreover, PIRPHARM expects growth in more products in media and trade segments in CHG business.
- PIRPHARM is targeting Debt: Ebitda of 4-4.5x for FY23 and 2.5x for FY24 as growth investments will be done. Internal accruals and some new debt will be used to service existing debt.

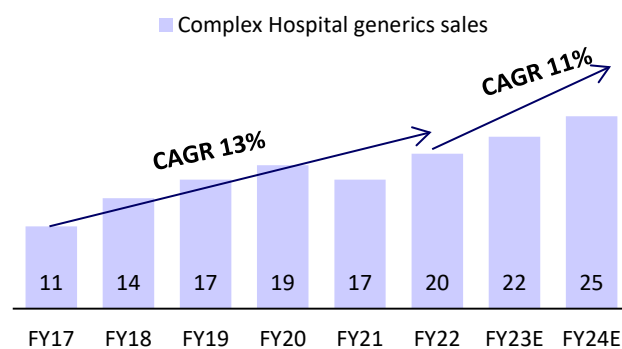
Story in charts

Exhibit 1: CDMO sales exhibited 10% CAGR from FY17-22



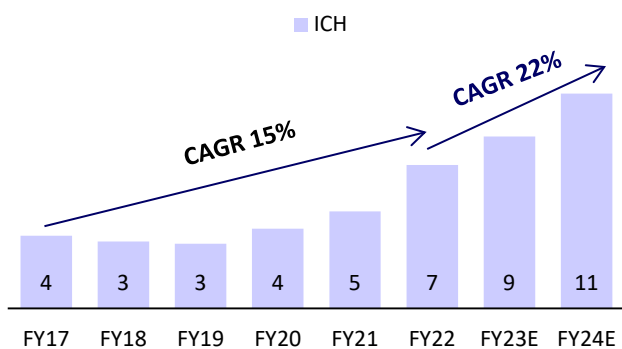
Source: MOFSL, Company

Exhibit 2: CHG sales exhibited 13% CAGR from FY17-22



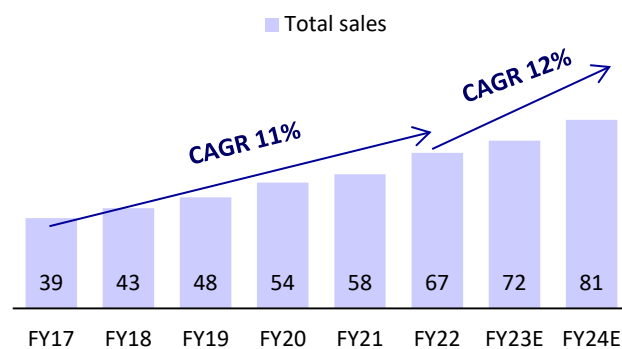
Source: MOFSL, Company

Exhibit 3: ICH sales exhibited 15% CAGR from FY17-22



Source: MOFSL, Company

Exhibit 4: Total sales grew by 11% CAGR from FY17-22



Source: MOFSL, Company

Valuation and view

Strong molecule pipeline in CDMO/CHG segment provides growth opportunity

Custom Synthesis – Strong molecular pipeline with high revenue visibility

- In 1HFY23, PIRPHARM's CDMO sales increased 12% YoY to INR17b.
- This was led by offering differentiated services to the clients. Moreover, a shift to an integrated network from distinct sites and building niche/complex capability offerings also led to growth in the CDMO business.
- To grow CDMO business, PIRPHARM undertook measures like price increase, cost optimization and operational excellence measures to offset inflationary pressures.
- Further, it has projects across various stages of R&D, providing impetus for growth subject to regulatory approvals.
- Accordingly, we expect revenue CAGR of 7% to INR45b over FY22–24.

Complex Hospitals Generics – Strong product pipeline in niche areas

- In 1HFY23, PIRPHARM's CHG sales increased 11% YoY to INR11b.
- The growth was led by strong Inhalation Anesthesia (IA) sales in the US market with continued volume growth driving market share gains.
- Due to strong product pipeline consisting of 37 SKUs at various development stages and more SKUs expected to be launched in 2HFY23, we expect CHG segment to exhibit 11% revenue CAGR to INR25b over FY22–24.

New launches to grow the India Consumer Healthcare (ICH) business

- In 1HFY23, PIRPHARM's ICH sales increased 12% YoY to INR44b.
- The growth was led by new product launches and new SKUs with continued investments in media and trade spends to drive growth in power brands.
- We expect CHG segment to exhibit 22% revenue CAGR to INR11b over FY22–24.

We expect EBITDA CAGR of 14% over FY22–24

- We have recalibrated our estimates based on a) the detailed financials, b) prolonged period of pandemic induced challenges in Contract development and manufacturing organization (CDMO) business, c) improved traction in complex hospital generics (CHG)/India consumer products (ICP) segment.
- We expect 14% EBITDA CAGR over FY22-24 to INR12.2b, led by healthy growth across business segments. This would also be supported with better operating leverage as higher proportion of opex is fixed in nature.
- We value PIRPHARM using SOTP by valuing the CDMO business, CHG, and the ICH business on 17x, 12x and 18x FY24E EV/EBITDA basis, respectively. We value Allergan JV (49% stake) on 18x FY24E PE basis and arrive at overall price target of INR185.
- While there are near term headwinds in CDMO business of PIRPHARM, the outlook remains interesting given the pipeline of molecules in phase III clinical trials, which can provide commercial opportunity subject to successful regulatory approval. Further, the CHG segment also continues to revive with reduced COVID related restriction. Maintain BUY.

Financials and valuations

Consolidated - Income Statement		(INR m)	
Y/E March	FY22	FY23E	FY24E
Total Income from Operations	65,591	72,298	81,306
Change (%)	13.6	10.2	12.5
COGS	24,512	27,763	26,506
R&D expenses	656	889	996
Other Expenses	30,926	34,024	41,553
Total Expenditure	56,094	62,675	69,055
% of Sales	85.5	86.7	84.9
EBITDA	9,497	9,623	12,251
Margin (%)	14.5	13.3	15.1
Depreciation	5,862	6,624	6,955
EBIT	3,635	2,999	5,296
Int. and Finance Charges	1,983	3,060	2,890
Other Income	2,758	2,169	1,789
Share of net profit of associates	590	600	660
PBT bef. EO Exp.	5,001	2,708	4,855
EO Items	151	70	0
PBT after EO Exp.	4,850	2,638	4,855
Total Tax	1,090	396	971
Tax Rate (%)	22.5	15.0	20.0
Minority Interest	0	0	0
Reported PAT	3,760	2,243	3,884
Adjusted PAT	3,879	2,302	3,884
Change (%)	-11.9	-40.7	68.7
Margin (%)	5.9	3.2	4.8
Consolidated - Balance Sheet			
Y/E March	FY22	FY23E	FY24E
Equity Share Capital	11,859	11,859	11,859
Other equity	55,107	57,350	61,234
Net Worth	66,966	69,209	73,093
Total Loans	41,283	42,283	40,283
Deferred Tax Liabilities	1,920	1,920	1,920
Capital Employed	110,169	113,412	115,296
Gross Block	36,288	39,041	42,482
Less: Accum. Deprn.	5,862	6,624	6,955
Net Fixed Assets	30,426	32,417	35,527
Goodwill on Consolidation	10,305	10,305	10,305
Intangible assets	33,053	33,053	33,053
Capital WIP	6,732	6,732	4,452
Total Investments	3,123	3,123	3,123
Curr. Assets, Loans&Adv.	36,043	42,441	38,979
Inventory	13,888	19,015	17,428
Account Receivables	17,853	15,846	17,821
Cash and Bank Balance	3,290	1,737	2,717
Loans and Advances	1,013	1,013	1,013
Curr. Liability & Prov.	13,172	14,318	13,801
Account Payables	10,264	11,409	10,893
Other Current Liabilities	2,445	2,445	2,445
Provisions	464	464	464
Net Current Assets	22,871	28,123	25,178
Deferred Tax assets	2,973	2,973	2,973
Misc Expenditure	687	687	687
Appl. of Funds	110,169	113,412	115,296
E: MOFSL Estimates			

Financials and valuations

Ratios	(INR Million)		
Y/E March	FY22	FY23E	FY24E
Basic (INR)			
EPS	3.3	1.9	3.3
Cash EPS	8.2	7.5	9.1
BV/Share	56.5	58.4	61.6
DPS	0.7	1.4	1.7
Payout (%)	21.7	75.3	52.5
Valuation (x)			
P/E	48.2	81.2	48.1
Cash P/E	19.1	20.9	17.2
P/BV	2.8	2.7	2.5
EV/Sales	3.4	3.1	2.7
EV/EBITDA	23.7	23.0	17.6
Dividend Yield (%)	0.4	0.9	1.1
FCF per share	0.0	0.0	0.0
Return Ratios (%)			
RoE	5.8	3.4	5.5
RoCE	9.2	4.0	5.0
RoIC	NA	NA	NA
Working Capital Ratios			
Asset Turnover (x)	0.6	0.6	0.7
Inventory (Days)	77	96	78
Debtor (Days)	99	80	80
Creditor (Days)	57	58	49
Leverage Ratio (x)			
Net Debt/Equity	0.5	0.5	0.4

Consolidated - Cash Flow Statement

Y/E March	FY22	FY23E	FY24E
OP/(Loss) before Tax		2,708	4,855
Depreciation		6,624	6,955
Interest & Finance Charges		-3,060	-2,890
Direct Taxes Paid		-396	-971
(Inc)/Dec in WC		-1,975	-904
CF from Operations		3,901	7,045
Others		-2,839	-2,449
CF from Operating incl EO		1,062	7,045
(Inc)/Dec in FA		-3,615	-4,065
Free Cash Flow		-2,553	2,980
(Pur)/Sale of Investments			
Others			
CF from Investments		-3,615	-4,065
Issue of Shares			
Inc/(Dec) in Debt		1,000	-2,000
Interest Paid			
CF from Fin. Activity		1,000	-2,000
Inc/Dec of Cash		-1,553	980
Opening Balance		3,290	1,737
Closing Balance		1,737	,2,717
Unrealised loss / (gain) on forex			
Term Deposit with Banks			
Total Cash & Cash Eq		1,737	2,717

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
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