

Piramal Pharma

Estimate change



TP change



Rating change



Bloomberg	PIRPHARM IN
Equity Shares (m)	1323
M.Cap.(INRb)/(USDb)	126.3 / 1.5
52-Week Range (INR)	175 / 62
1, 6, 12 Rel. Per (%)	-4/32/-46
12M Avg Val (INR M)	608
Free float (%)	65.0

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	70.8	79.2	89.0
EBITDA	7.3	11.5	13.3
Adj. PAT	(0.8)	1.9	4.0
EBIT Margin (%)	0.7	5.7	6.8
Cons. Adj. EPS (INR)	(0.6)	1.4	3.0
EPS Gr. (%)	NA	NA	112.1
BV/Sh. (INR)	56.8	67.1	70.5

Ratios

Net D:E	0.8	0.5	0.5
RoE (%)	(1.2)	2.5	4.9
RoCE (%)	3.7	3.3	4.7
Payout (%)	NA	17.6	17.6

Valuations

P/E (x)	NA	69.0	32.5
EV/EBITDA (x)	25.1	15.1	13.1
Div. Yield (%)	0.5	0.2	0.5
FCF Yield (%)	(0.0)	0.0	0.0
EV/Sales (x)	2.6	2.2	2.0

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	35.0	34.8	34.8
DII	8.0	5.5	4.9
FIIFII	32.8	35.4	47.8
Others	24.2	24.3	12.6

FII Includes depository receipts

CMP: INR95

TP: INR115 (+20%)

Buy

Healthy recovery in operational performance

Higher interest costs hurt earnings

- Piramal Pharma (PIRPHARM) delivered a better-than-expected operational performance in 2QFY24, led by better traction in the CDMO and India consumer product (ICP) segments. However, higher interest costs resulted in a modest PAT of INR50m, compared to EBITDA of INR2.6b.
- We maintain our estimates for FY24/FY25. We value PIRPHARM on SOTP basis (11x EV/EBITDA for CDMO/CHG; 12x EV/EBITDA for ICP; 18x PE multiple for Allergen JV earnings) to arrive at a TP of INR115.
- PIRPHARMA has delivered a healthy improvement in EBITDA margin, supported by a superior segment mix and better operating leverage. While the company reduced its debt by INR10.5b to INR38b through a rights issue, we continue to monitor its efforts to further reduce its financial leverage. Maintain BUY.

Low RM costs and controlled opex boost margins on YoY basis

- 2QFY24 revenue grew 11% YoY to INR19.1b (our est: INR19.2b). CDMO segment's (56% of total sales) revenue grew 13.6% YoY to INR10.7b. Complex hospital generics segment's (CHG; 31% of total sales) revenue rose 4.8% YoY to INR5.9b. India consumer healthcare segment's (ICH; 13% of total sales) revenue jumped 13% YoY to INR2.6b.
- Gross margin expanded 520bp YoY to 66.6% due to product mix change.
- EBITDA margin expanded 390bp YoY to 13.9% (our est: 11.5%), largely due to lower employee expenses (down 30bp as a % of sales), offset by higher other expenses (up 170bp as a % of sales).
- As a result, EBITDA grew 54% YoY to INR2.7b (our est: INR2.2b) in 2Q.
- Interest costs rose 32% YoY to INR1.1b in 2QFY24.
- During the quarter, PIRPHARM reported a profit of INR50m vs. a loss of INR274m in the previous quarter (our estimated profit was INR278m).
- For 1HFY24, revenue/EBITDA grew 14%/54% YoY to INR36.6b/INR3.9b, while adj. loss widened by 30% YoY to INR936m.

Highlights from the management commentary

- PIRPHARM expects revenue growth in high-teens in 2HFY24.
- It expects gross margin of 64-65% in FY24
- The company witnessed 40% higher orders (development and new commercial orders) in 1HFY24 vs. 1HFY23.
- PIRPHARM also saw better demand for its generic APIs during the quarter.

Consolidated - Quarterly Earning Model

PPL Income statement (INRm)	FY23				FY24E				INR m			
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY23	FY24E	FY24E 2QE	% var
Revenues	14,820	17,200	17,160	21,636	17,489	19,114	20,043	22,584	70,816	79,229	19,206	0%
Growth YoY (%)	13.0	9.0	11.5	1.5	18.0	11.1	16.8	4.4	8.0	11.9	11.7	
Expenses	13,969	15,475	15,962	18,123	16,165	16,457	16,976	18,150	63,529	67,749	16,988	
CDMO	7,700	9,400	10,210	12,850	8,980	10,680	11,435	13,482	40,160	44,578	10,528	1%
CHG	5,080	5,620	5,140	7,020	6,170	5,890	6,168	7,147	22,860	25,375	6,294	-6%
ICP	2,110	2,270	2,140	2,060	2,390	2,560	2,440	1,888	8,590	9,277	2,384	7%
EBITDA*	851	1,726	1,197	3,513	1,323	2,656	3,067	4,434	7,286	11,481	2,218	20%
Margin (%)	5.7	10.0	7.0	16.2	7.6	13.9	15.3	19.6	10.3	14.5	11.5	
Growth YoY (%)	-34.3	-12.2	-46.9	-11.7	55.5	53.9	156.1	26.2	-23.3	57.6	28.5	
Depreciation	1,617	1,662	1,644	1,844	1,736	1,845	1,760	1,629	6,767	6,970	1,720	
EBIT	-766	64	-447	1,669	-413	811	1,307	2,806	520	4,511	498	63%
Other income	719	462	825	245	383	492	510	515	2,251	1,900	480	
Interest expense	623	830	947	1,043	1,185	1,099	890	911	3,442	4,085	750	
Share from Asso. Co	199	111	156	78	144	191	140	90	543	565	120	
PBT	-471	-193	-412	949	-1,071	396	1,067	2,500	-128	2,891	348	14%
EO Expenses/(gain)	680	70	324	-	-	-	-	-	1,074	-	-	
Taxes	-61	111	165	448	-85	345	245	507	663	1,012	70	
Tax Rate (%)	5.3	-42.2	-22.5	47.2	8.0	87.3	23.0	20.3	-55.2	35.0	20.0	
Reported PAT	-1,091	-373	-902	501	-986	50	821	1,994	-1,865	1,879	278	-82%
Adj. PAT	-446	-274	-578	501	-986	50	821	1,994	-798	1,879	278	-82%
Change (%)	NA	NA	NA	-75.4	NA	LP	LP	297.8	NA	NA	LP	

E: MOFSL Estimates

Key takeaways from the management commentary

- PIRPHARM is expanding capacities to meet demand for Inhalation Anesthesia (IA) products. It is building a pipeline of 28 products at various stages of development.
- It launched 7 products and 2 SKUs in ICP segment during 2QFY24. E-commerce grew 34% YoY and formed 16% of ICP sales for the quarter.
- The company successfully completed a rights issue of INR10.5b and reduced its net debt to INR38b.
- USFDA concluded its inspection at the Bethlehem facility with two observations. Both the observations are related to system improvements.
- Power Brands in ICP segment (Littles, Lacto Calamine, Polycrol, Tetmosol and I-range) grew 15% YoY in H1FY24 and contributed to 42% of ICP sales in 2Q.
- It expects ETR to be around 25%.

Valuation and view

Improved revenue visibility/operating leverage to drive growth

Strong order inflows to strengthen CDMO business outlook

- In 1H FY24, CDMO sales grew 15% YoY to INR19.6b due to healthy demand for innovation and differentiated offering and YoY pickup in generic API segment.
- PIRPHARMA continues to see 40% YoY higher order inflows due to rising demand for the innovation and differentiated offerings and a partial recovery of the biotech funding.
- With cost optimization measures taken earlier, PIRPHARM's profitability has increased, aided by softening of raw material cost and change in revenue mix.
- The capacity expansion at Grangemouth and the successful completion of the USFDA inspection at its 5 facilities (contributing 50% of the CDMO revenue) to further boost revenue growth.
- We expect an 11% sales CAGR over FY23-25 to INR49.9b in this segment.

Market share gain/capacity expansion to boost growth in CHG segment

- In 1H FY24, CHG sales grew 13% YoY to INR12b, primary on account of volume-led growth in IA.
- PIRPHARM is experiencing consistent volume growth in Sevoflurane in the US and ROW markets. The volume market-share as on 2023 has reached 44% as per IQVIA.
- EBITDA margin is improving due to a better product mix and cost optimization. Moreover, the ongoing backward integration its key products like Sevoflurane at its Dahej plant will further improve margins.
- We expect the CHG segment to clock a 12% revenue CAGR to INR28.9b over FY23-25.

Focus on Power brands/E-commerce to fuel growth in ICH segment

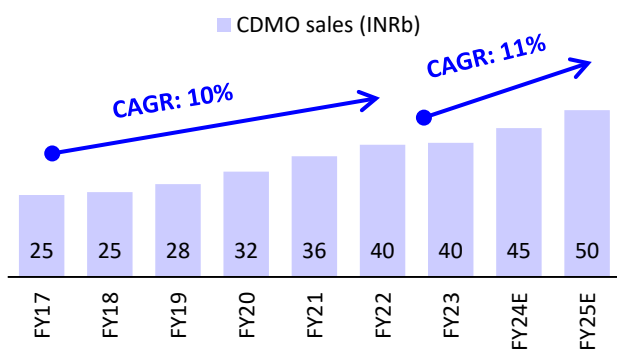
- In 1H FY24, ICH sales increased by 13% YoY to INR4.9b. Growth was led by 18 new launches/5 SKUs, supported by growth momentum in existing brands.
- Power brands maintained their upward trend in 1H FY24, accounting for 42% of ICH sales. Additionally, in 2Q FY24, e-commerce expanded by more than 34% YoY and accounted for 16% of ICH revenues. In 2Q FY24, lacto-calcamine product growth was 19% YoY, driven by strong e-commerce momentum.
- In addition to new launches, PIRPHARM is steadily investing in media and power brands, we expect the CHG segment to post an 8% revenue CAGR to INR10b over FY23-25.

Reiterate BUY

- We maintain our estimates for FY24/FY25. We value PIRPHARM on SOTP basis (11x EV/EBITDA for CDMO/CHG; 12x EV/EBITDA for ICP; 18x PE multiple for Allergen JV earnings) to arrive at a TP of INR115.
- PIRPHARMA has delivered healthy improvements in EBITDA margin, supported by a superior segment mix and better operating leverage. While the conclusion of a recent rights issue has helped reduce debt by INR10.5b to INR38b, we continue to monitor efforts to further reduce the financial leverage. Maintain BUY.

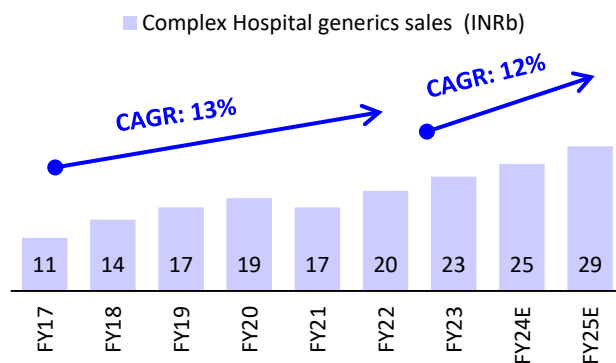
Story in charts

Exhibit 1: Expect 11% sales CAGR in CDMO over FY23-25



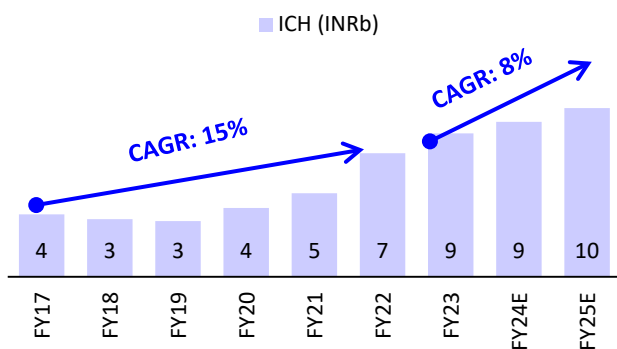
Source: MOFSL, Company

Exhibit 2: Expect 12% sales CAGR in CHG over FY23-25



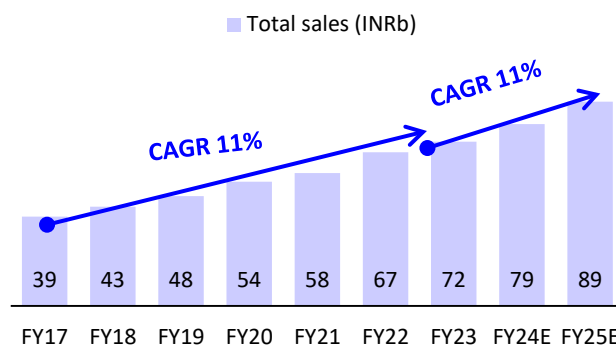
Source: MOFSL, Company

Exhibit 3: Expect 8% sales CAGR in ICH over FY23-25



Source: MOFSL, Company

Exhibit 4: Expect 11% CAGR in total sales over FY23-25



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement				(INR m)
Y/E March	FY22	FY23	FY24E	FY25E
Total Income from Operations	65,591	70,816	79,229	88,966
Change (%)	NA	8.0	11.9	12.3
EBITDA	9,497	7,286	11,481	13,343
Margin (%)	14.5	10.3	14.5	15.0
Depreciation	5,862	6,767	6,970	7,318
EBIT	3,635	520	4,511	6,025
Int. and Finance Charges	1,983	3,442	4,085	3,403
Other Income	2,758	2,251	1,900	2,100
Share of net profit of associates	590	543	565	593
PBT bef. EO Exp.	5,001	-128	2,891	5,315
EO Items	151	1,074	0	0
PBT after EO Exp.	4,850	-1,202	2,891	5,315
Total Tax	1,090	663	1,012	1,329
Tax Rate (%)	22.5	-55.2	35.0	25.0
Minority Interest	0	0	0	0
Reported PAT	3,760	-1,865	1,879	3,987
Adjusted PAT	3,879	-798	1,879	3,987
Change (%)	NA	NA	NA	112.1
Margin (%)	5.9	-1.1	2.4	4.5

Cons Balance sheet				(INR m)
Y/E March	FY22	FY23	FY24E	FY25E
Equity Share Capital	11,859	11,933	13,230	13,230
Other equity	55,107	55,802	66,888	70,875
Net Worth	66,966	67,735	80,118	84,105
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	1,10,169	1,26,349	1,28,732	1,32,719
Gross Block	36,288	42,652	43,808	45,735
Less: Accum. Deprn.	5,862	6,767	6,970	7,318
Net Fixed Assets	30,426	35,885	36,838	38,416
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	44,736	48,314
Inventory	13,888	16,814	18,234	20,662
Account Receivables	17,853	17,993	18,451	21,206
Cash and Bank Balance	3,290	3,076	2,857	1,251
Loans and Advances	1,013	5,195	5,195	5,195
Curr. Liability & Prov.	13,172	13,600	13,828	14,998
Account Payables	10,264	11,927	12,156	13,325
Other Current Liabilities	2,445	1,074	1,074	1,074
Provisions	464	599	599	599
Net Current Assets	22,871	29,478	30,908	33,316
Deferred Tax assets	2,973	3,493	3,493	3,493
Misc Expenditure	687	2,172	2,172	2,172
Appl. of Funds	1,10,169	1,26,349	1,28,732	1,32,718

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY22	FY23	FY24E	FY25E
Basic (INR)				
EPS	2.9	-0.6	1.4	3.0
Cash EPS	8.2	5.0	7.4	9.5
BV/Share	56.1	56.8	67.1	70.5
DPS	0.4	0.5	0.2	0.5
Payout (%)	15.6	NA	17.6	17.6
Valuation (x)				
P/E	33.4	NA	69.0	32.5
Cash P/E	12.0	19.6	13.2	10.3
P/BV	1.7	1.7	1.5	1.4
EV/Sales	2.6	2.6	2.2	2.0
EV/EBITDA	17.7	25.1	15.1	13.1
Dividend Yield (%)	0.4	0.5	0.2	0.5
FCF per share	0.0	0.0	0.0	0.0
Return Ratios (%)				
RoE	5.8	-1.2	2.5	4.9
RoCE	NA	3.7	3.3	4.7
RoIC	5.8	1.4	5.1	7.5
Working Capital Ratios				
Asset Turnover (x)	0.6	0.6	0.6	0.7
Inventory (Days)	77	87	84	85
Debtor (Days)	99	93	85	87
Creditor (Days)	57	61	56	55
Leverage Ratio (x)				
Net Debt/Equity	0.5	0.8	0.5	0.5

Cons Cash flow statement

(INR m)

Y/E March	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	4,410	-1,675	2,891	5,315
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	-1,649	-4,014
CF from Operations	7,664	4,839	11,285	10,694
Others	0	0	0	0
CF from Operating incl EO	7,664	4,839	11,285	10,694
(Inc)/Dec in FA	-8,571	-9,451	-7,923	-8,897
Free Cash Flow	-907	-4,612	3,362	1,797
(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	-7,923	-8,897
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	-4,085	-3,403
Dividend Paid	-500	-670	0	0
CF from Fin. Activity	7,942	8,178	-3,581	-3,403
Inc/Dec of Cash	-2,515	-371	-219	-1,606
Opening Balance	2,620	3,290	3,076	2,857
Closing Balance	105	2,919	2,857	1,251
Unrealised loss / (gain) on forex	747	52	0	0
Term Deposit with Banks	2,438	105		
Total Cash & Cash Eq	3,290	3,076	2,857	1,251

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