

13 May 2024

India | Equity Research | Q4FY24 results review

Piramal Pharma

Pharma

Solid Q4 result; grim near-term outlook

Piramal Pharma had a strong Q4FY24 with better-than-expected performance on all fronts. Better traction in CDMO business in FY24 drove a turnaround in operations with margins expanding 400bps YoY to ~14.6% (21.8% in Q4FY24). Outlook for CDMO business remains robust while investment in additional capacities and clinical studies for CHG molecules may restrict EBITDA margin expansion in FY25E to ~50bps YoY. Capex for new capacities may restrict its ability to generate free cashflow and repayment of debt in near further. Management guides for an early teen growth in revenue and EBITDA in FY25E, while better order inflow of clinical molecules in innovative CDMO business may surprise positively. The stock trades at 13.1x FY26E EV/EBITDA. Maintain **BUY**; raise target price to INR 190.

Steady quarter, beat on all fronts

Revenue grew 16.4% YoY (30.3% QoQ) to INR 25.5bn (l-Sec: INR 24.7bn), driven by CDMO and India consumer health (ICH) segment. However, gross margin was down 214bps YoY (-527bps QoQ) to 60.3% due to inventory adjustments. Operating leverage drove EBITDA growth of 172% YoY (97.5% QoQ) at INR 5.3bn, (l-Sec: INR 3.9bn), margin expanded 1,190bps YoY (710bps QoQ) at 20.8% (l-Sec: 15.8%). Adjusting for one-off charge of INR 305mn, PAT stood at INR 1.1bn (l-Sec: INR 1.7bn).

CDMO outlook intact, investment in CHG business on rise

CDMO business registered 28.3% growth YoY (45.4% QoQ) at INR 16.5bn backed by strong execution in commercial innovation segment. Share of commercial innovative products has jumped from 10% of CDO sales in FY23 to 20% in FY24 (USD 116mn, up 123% YoY). CDMO business is likely to grow faster at 18.5% CAGR over FY24-26E. Complex hospital generics (CHG) business declined 5% YoY (+15.8% QoQ) due to supply constraints from third-party manufacturers. To compete better on price and safeguard its volume share, the company is increasing its inhalation aesthetic capacity in India and plans to incur capex of INR 7-7.5bn in FY25E. We expect a nominal 6% CAGR over FY24-26E in its CHG segment. ICH grew 15.5% YoY (-5.6% QoQ) at INR 2.4bn. Lacto Calamine, Little's, Polycrol, Tetmosol and i-range grew ~15% YoY in Q4FY24. 27 new products and 24 new SKUs were launched in FY24. Promotional spends came down by 200bps YoY to 13% of ICH revenue for FY24. We expect 17% CAGR in ICH's revenue over FY24-26E.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	70,816	81,712	93,143	1,07,689
EBITDA	7,523	11,963	14,065	18,415
EBITDA Margin (%)	10.6	14.6	15.1	17.1
Net Profit	168	241	2,210	5,161
EPS (INR)	0.1	0.2	1.7	3.9
EPS % Chg YoY	(95.7)	43.3	818.6	133.5
P/E (x)	(109.4)	1,144.8	92.3	39.5
EV/EBITDA (x)	33.2	20.1	17.2	12.9
RoCE (%)	2.7	0.5	3.3	5.7
RoE (%)	0.2	0.3	2.8	6.2

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Market Data

Market Cap (INR)	204bn
Market Cap (USD)	2,443mn
Bloomberg Code	PIRPHARM IN
Reuters Code	PIRM.BO
52-week Range (INR)	167 /70
Free Float (%)	46.0
ADTV-3M (mn) (USD)	8.2

Price Performance (%)	3m	6m	12m
Absolute	14.4	28.3	110.4
Relative to Sensex	12.7	16.2	93.1

Earnings Revisions (%)	FY25E	FY26E
Revenue	(0.5)	1.0
EBITDA	2.2	7.9
EPS	(54.3)	(31.6)

Previous Reports

01-02-2023: [Q3FY24 results review](#)21-12-2023: [Re-initiating coverage](#)

Valuation and risks

FY24 marked a strong turnaround in operations of Piramal Pharma driven by 123% YoY growth in its commercial innovation portfolio while discovery and development portfolio sales were flat YoY. Better inflow of early-stage molecules, coupled with scaling up of late phase 3 products (33 molecules in phase 3) to ensure faster growth of the segment ahead. CHG business has faced a hurdle due to limited supplies from third party contract manufacturers and price erosion, owing to which the company is expanding capacities (USD 85-90mn capex in FY25E) in India to better tackle competition and is also conducting additional studies (opex of USD 8-9mn in FY25E) to improve product acceptability. Momentum in ICH business will be maintained; the company has forayed into men's grooming segment and its brand CIR is has been well received in adults' hygiene segment. The management has curbed advertisement expenditure at 3% of ICH revenue and profitability improvement is the key focus for this segment. While FY24 thesis has played out as per expectation, further scope of improvement in margins and profitability may be possible only in FY26E as investments in CHG business may limit its ability to expand margins and generate free cashflow in FY25E.

We raise our FY25/26E EBITDA by 2%/8% but cut PAT estimates by 54%/32% due to higher tax rate assumptions. Steady new order inflow in CDMO business and commercialisation of pipeline projects may drive revenue/EBITDA/PAT CAGR of ~15%/24%/363% over FY24-26E with 250bps improvement in margin to ~17.1% in FY26E. The stock is trading at 17.6x/13.1x for FY25/26E EV/EBITDA, respectively. We maintain **BUY** rating on the stock with a revised SoTP-based target price of INR 190 per share (vs INR 180 earlier). **Key Risks** - Failure of products, to move to the next stage of development for innovative pipeline, Regulatory lapses at plants could disrupt manufacturing operations and delay commercialisation of new projects.

Q4FY24 concall highlights

CDMO

- Share of innovation portfolio in CDMO business increased from 45% in FY23 to 50% in FY24.
- Revenue from commercial manufacturing rose to USD 116mn in FY24 vs USD 52mn YoY.
- Revenue contribution from differentiated offerings increased from 37% in FY23 to 44% in FY24.
- Big pharma clients accounted for 38% of segmental revenue as against 33% YoY.
- Nearly 50% of CDMO revenue in FY24 came from five facilities situated at Digwal, Pithampur, Riverview, Lexington and Sellersville.
- Small molecules will continue to drive growth in near term while biologics is currently a small contributor revenue and will see meaningful increase in medium to long term.
- Going ahead, management expects the innovation in CDMO business to grow faster than overall growth of the company. Improvement in R&D funding environment will further accelerate CDMO business growth.
- Growth in generic portfolio will be driven by addition of new products in FY25.

CHG

- Growth in segment was mainly driven by good uptick in volumes in the US and RoW markets, benefit of it was partly offset by pricing pressure in overall portfolio.
- Decline in Q4 was due to supply constraints from third-party vendors. To mitigate the risk, the company is investing in setting up fresh capacities in FY25.
- In FY24, it launched four new injectable products in the US and Europe.
- New product pipeline consists of 24 products with current addressable market size of over USD 2bn.
- The company is setting up Sevoflurane manufacturing lines at Digwal and KSM manufacturing capacity at Dahej to increase vertical integration.

ICH

- Power brands comprising Lacto Calamine, Little's, Polycrol, Tetmosol and i-range grew 15% YoY in Q4FY24 and 13% YoY in FY24.
- Little's, Lacto Calamine and Polycrol grew in double-digit in FY24.
- In FY24, it launched 27 new products and 24 new SKUs.
- E-commerce sales grew over 36% in FY24 and contributed 20% to segmental revenue.
- Promotional spend was curbed to 13% of segmental revenue in FY24 as against 15% last year.

Guidance

- Management pegs FY25 revenue and EBITDA growth at 13-14%.
- CDMO revenue growth will outperform overall growth. India consumer business to focus on margin improvement.
- It will incur additional opex of USD 8-9mn in complex hospital generics business to ensure supply stability in long term.
- FY25 capex is pegged at USD 85-90mn (similar to FY24).
- Effective tax rate for FY25 will be ~50%.
- Management aspires to achieve EBITDA margin of ~24-25% in 3-5 years.
- H1 is usually weaker for the company vs H2 and a similar trend will be followed in FY25.

Q4FY24 performance

- Gross margin in Q4 was weak due to movements in inventory.
- Overall improvement in financial performance was mainly driven by better revenue growth in CDMO business, favourable revenue mix, normalisation of raw material cost and cost optimisation initiatives.

Exhibit 1: Q4FY24 quarter review

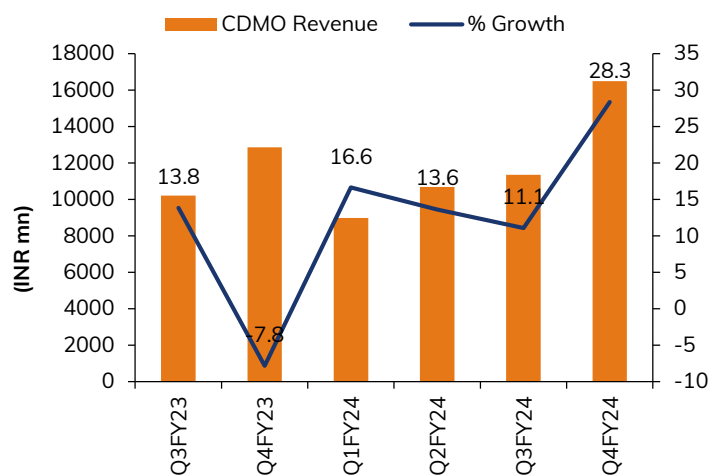
Particular (INR mn)	Q4FY24	Q4FY23	YoY % Chg	Q3FY24	QoQ % Chg	FY24	FY23	YoY % Chg
Net Sales	25,524	21,930	16.4	19,586	30.3	81,712	71,110	14.9
EBITDA	5,299	1,947	172.1	2,684	97.5	11,963	4,717	153.6
EBITDA margins (%)	20.8	8.9	1190bps	13.7	710bps	14.6	6.6	800bps
Other income	264	245	7.7	615	(57.1)	1,754	2,251	(22.1)
PBIDT	5,563	2,192	153.7	3,299	68.6	13,717	6,968	96.8
Depreciation	1,961	1,677	16.9	1,863	5.3	7,406	6,600	12.2
Interest	1,142	965	18.3	1,059	7.9	4,485	3,365	33.3
Share of profit of associate	120	159	(24.2)	140	(13.7)	595	624	(4.7)
Extraordinary income/ (exp.)	(305)	-		(323)		(628)	(70)	
PBT	2,275	(291)	(880.6)	194	1,075.0	1,793	(2,442)	(173.4)
Tax	1,262	(15)	(8,761.8)	93	1,264.4	1,615	201	704.4
Minority Interest	-	-		-		-	-	
Reported PAT	1,013	(277)	(465.8)	101	901.7	178	(2,643)	(106.7)
Adjusted PAT	1,149	(277)	(514.9)	350	228.6	241	(2,567)	(109.4)

Source: I-Sec research, Company data

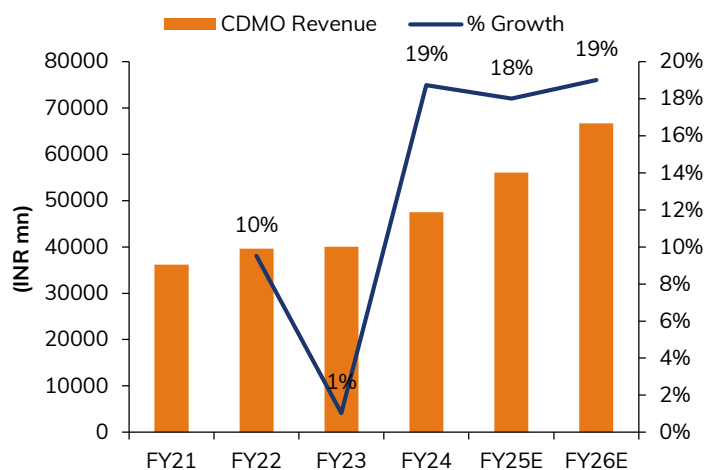
Exhibit 2: Segmental breakup

Business segments (INR mn)	Q4FY24	Q4FY23	YoY % Chg	Q3FY24	QoQ % Chg	FY24	FY23	YoY % Chg
CDMO	16,490	12,850	28.3	11,340	45.4	47,490	40,160	18.3
CHG	6,670	7,020	(5.0)	5,760	15.8	24,490	22,850	7.2
Consumer healthcare (OTC)	2,380	2,060	15.5	2,520	(5.6)	9,850	8,580	14.8
Total	25,540	21,930	16.5	19,620	30.2	81,830	71,590	14.3

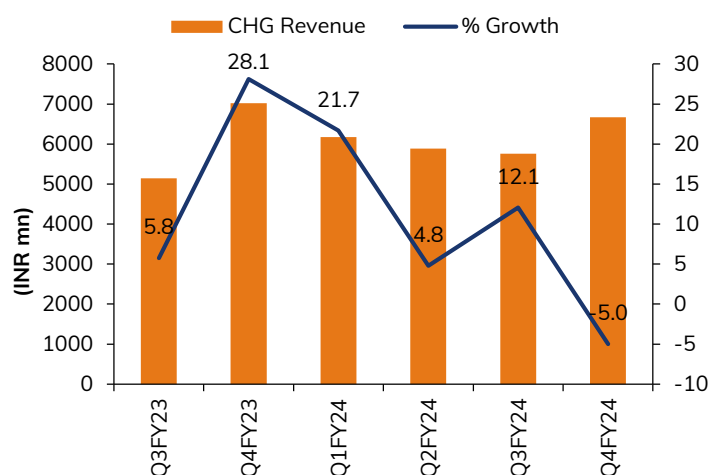
Source: I-Sec research, Company data

Exhibit 3: Growth driven by innovative commercial products

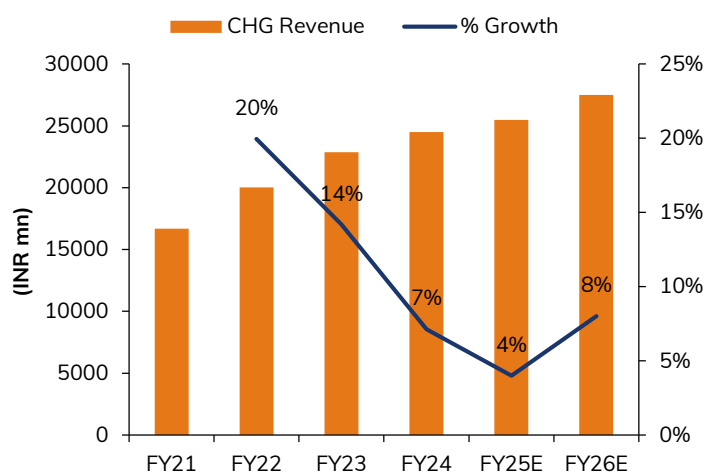
Source: I-Sec research, Company data

Exhibit 4: Innovative business to scale up CDMO revenue to ~INR 67bn by FY26E

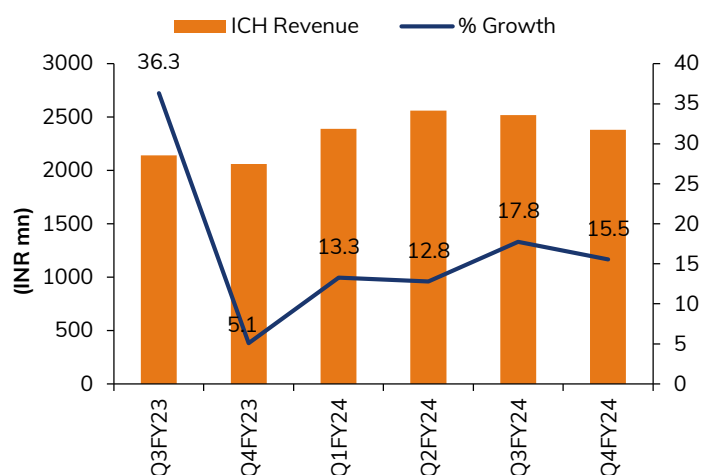
Source: I-Sec research, Company data

Exhibit 5: Supply constraints impacted growth in Q4FY24


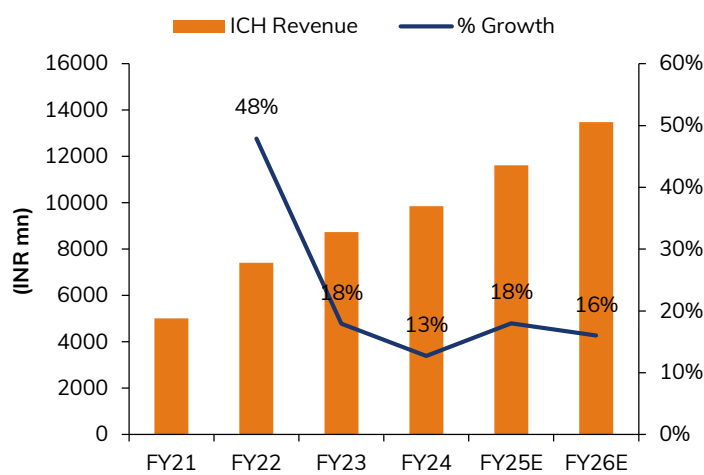
Source: I-Sec research, Company data

Exhibit 6: CHG business may grow at nominal 5% CAGR from FY24-26E


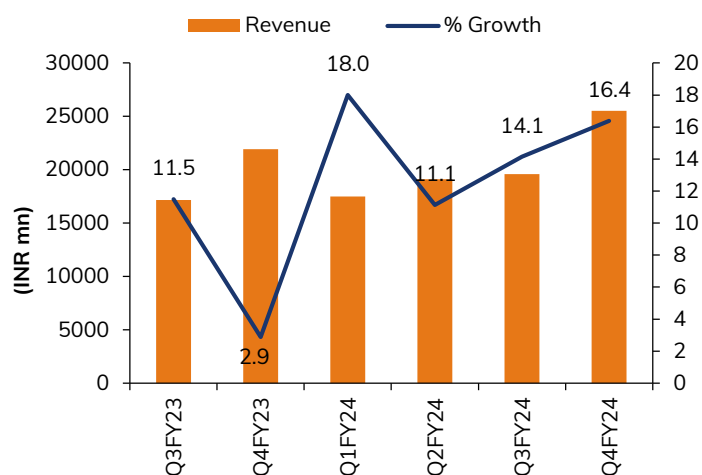
Source: I-Sec research, Company data

Exhibit 7: Growth driven by strong performance of power brands and e-commerce business


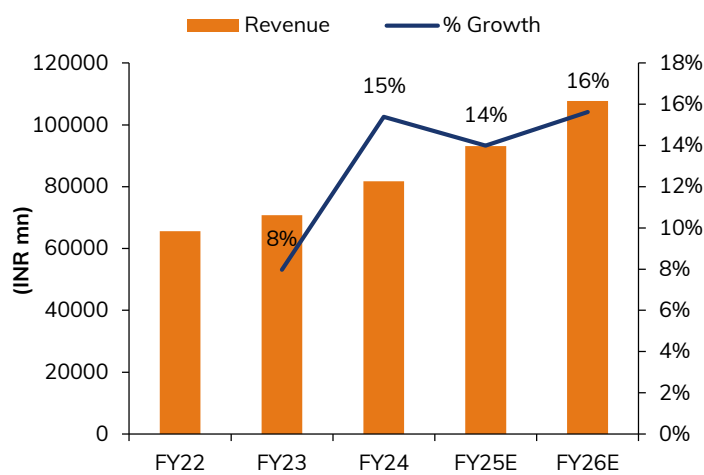
Source: I-Sec research, Company data

Exhibit 8: New launches and better brand recall to drive growth


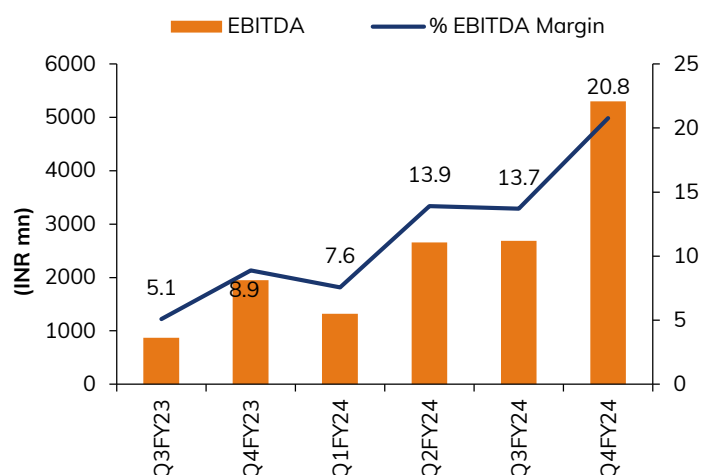
Source: I-Sec research, Company data

Exhibit 9: Growth driven by CDMO and ICH verticals


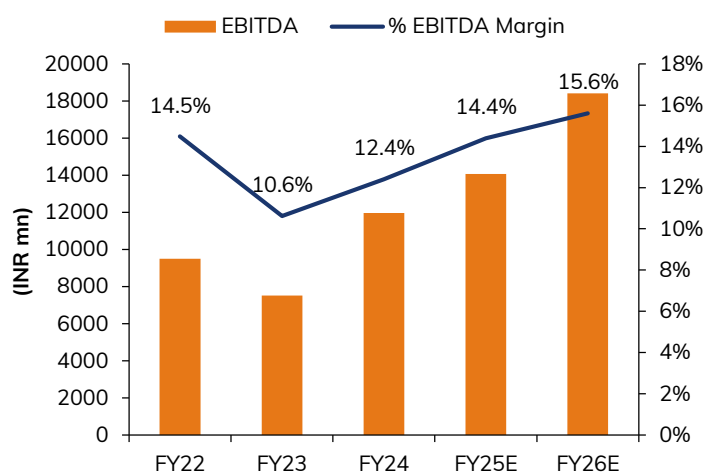
Source: I-Sec research, Company data

Exhibit 10: Revenue is likely to touch INR 108bn by FY26E


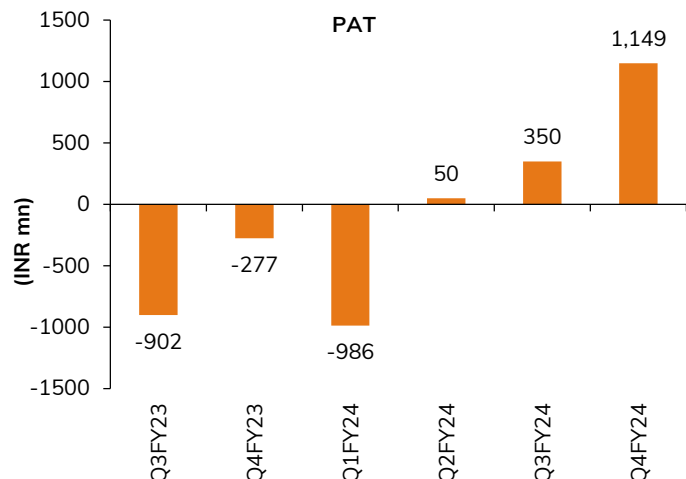
Source: I-Sec research, Company data

Exhibit 11: Operating leverage drives surge in EBITDA


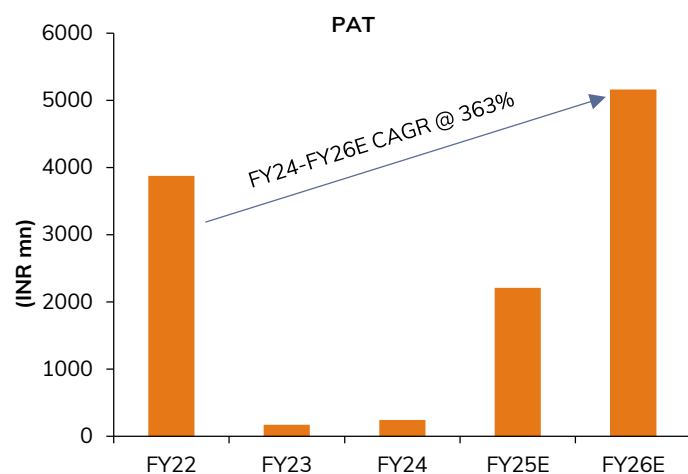
Source: I-Sec research, Company data

Exhibit 12: EBITDA margin may expand 250bps to ~17% over FY24-26E


Source: I-Sec research, Company data

Exhibit 13: Profit was constrained by higher tax rate


Source: I-Sec research, Company data

Exhibit 14: On a low base, PAT may grow at a faster pace


Source: I-Sec research, Company data

Exhibit 15: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	35.0	35.0	35.0
Institutional investors	40.4	42.2	42.7
MFs and others	3.8	6.3	9.0
FIs/Banks	0.0	0.0	0.0
Insurance	3.8	2.9	2.6
FIIIs	32.8	33.1	33.1
Others	24.6	22.8	22.3

Source: Bloomberg

Exhibit 16: Price chart


Source: Bloomberg

Financial Summary

Exhibit 17: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	70,816	81,712	93,143	1,07,689
Operating Expenses	36,260	40,209	45,360	51,045
EBITDA	7,523	11,963	14,065	18,415
EBITDA Margin (%)	10.6	14.6	15.1	17.1
Depreciation & Amortization	6,767	7,406	7,906	8,414
EBIT	756	4,557	6,158	10,001
Interest expenditure	3,442	4,485	4,239	4,059
Other Non-operating Income	2,251	1,754	1,842	1,934
Recurring PBT	(1,745)	1,198	3,761	7,875
Profit / (Loss) from Associates	543	595	660	726
Less: Taxes	663	1,615	2,210	3,441
PAT	(2,408)	(417)	1,550	4,435
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	(1,865)	178	2,210	5,161
Net Income (Adjusted)	168	241	2,210	5,161

Source Company data, I-Sec research

Exhibit 18: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	43,160	53,039	58,544	67,739
of which cash & cash eqv.	3,076	4,826	3,719	5,024
Total Current Liabilities & Provisions	17,218	22,942	25,118	27,467
Net Current Assets	25,941	30,097	33,426	40,272
Investments	6,390	3,850	3,850	3,850
Net Fixed Assets	33,630	38,726	38,820	34,406
ROU Assets	2,255	3,776	3,776	3,776
Capital Work-in-Progress	14,186	11,158	10,158	9,158
Total Intangible Assets	38,801	37,397	37,397	37,397
Other assets	2,387	1,149	1,149	1,149
Deferred Tax Assets	3,493	3,865	3,865	3,865
Total Assets	1,28,007	1,30,176	1,32,621	1,34,081
Liabilities				
Borrowings	55,048	45,589	45,589	41,589
Deferred Tax Liability	2,193	2,292	2,292	2,292
provisions	207	323	323	323
other Liabilities	1,806	1,679	1,914	2,213
Equity Share Capital	11,933	13,230	13,230	13,230
Reserves & Surplus	55,802	65,884	68,094	73,255
Total Net Worth	67,735	79,114	81,324	86,485
Minority Interest	-	-	-	-
Total Liabilities	1,28,007	1,30,176	1,32,621	1,34,081

Source Company data, I-Sec research

Exhibit 19: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	4,839	10,045	10,133	12,364
Working Capital Changes	(4,841)	(2,343)	(3,721)	(4,631)
Capital Commitments	(9,451)	(7,104)	(7,000)	(3,000)
Free Cashflow	14,290	17,150	17,133	15,364
Other investing cashflow	(3,937)	2,764	-	-
Cashflow from Investing Activities	(13,388)	(4,340)	(7,000)	(3,000)
Issue of Share Capital	-	-	-	-
Interest Cost	(2,710)	(4,618)	(4,239)	(4,059)
Inc (Dec) in Borrowings	11,558	394	-	(4,000)
Dividend paid	(670)	-	-	-
Others	-	-	0	0
Cash flow from Financing Activities	8,178	(4,224)	(4,239)	(8,059)
Chg. in Cash & Bank balance	(371)	1,482	(1,106)	1,305
Closing cash & balance	2,919	4,557	3,719	5,024

Source Company data, I-Sec research

Exhibit 20: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	(1.4)	0.1	1.7	3.9
Adjusted EPS (Diluted)	0.1	0.2	1.7	3.9
Cash EPS	5.2	5.8	7.6	10.3
Dividend per share (DPS)	0.5	-	-	-
Book Value per share (BV)	51.2	59.8	61.5	65.4
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	8.0	15.4	14.0	15.6
EBITDA	(20.8)	59.0	17.6	30.9
EPS (INR)	(95.7)	43.3	818.6	133.5
Valuation Ratios (x)				
P/E	(109.4)	1,144.8	92.3	39.5
P/CEPS	29.4	26.7	20.2	15.0
P/BV	3.0	2.6	2.5	2.4
EV / EBITDA	33.2	20.1	17.2	12.9
P / Sales	2.9	2.5	2.2	1.9
Dividend Yield (%)	0.3	-	-	-
Operating Ratios				
Gross Profit Margins (%)	61.8	63.8	63.8	64.5
EBITDA Margins (%)	10.6	14.6	15.1	17.1
Effective Tax Rate (%)	(38.0)	134.8	58.8	43.7
Net Profit Margins (%)	0.2	0.3	2.4	4.8
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.7	0.5	0.5	0.4
Net Debt / EBITDA (x)	6.1	3.1	2.7	1.8
Profitability Ratios				
RoCE (%)	2.7	0.5	3.3	5.7
RoE (%)	0.2	0.3	2.8	6.2
RoIC (%)	2.8	0.5	3.4	6.0
Fixed Asset Turnover (x)	2.3	2.3	2.4	2.9
Inventory Turnover Days	90	104	103	101
Receivables Days	96	102	102	102
Payables Days	64	74	73	72

Source Company data, I-Sec research

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