



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

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Institutional Equities

## Orchid Pharma

25 May 2024

## Foray into Branded Formulations

## RESULT UPDATE

Sector: Pharmaceuticals Rating: BUY

CMP: Rs 1016 Target Price: Rs 1,247

## Stock Info

Sensex/Nifty 75,410/22,957

Bloomberg ORCP IN

Equity shares 50.7mn

52-wk High/Low Rs 1,229/407.5

Face value Rs 10

M-Cap Rs 52bn/ USD 0.6bn

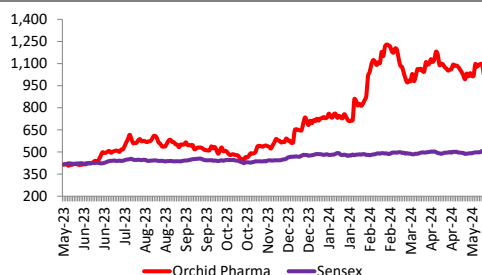
## Financial Snapshot (Rs mn)

Y/E March	FY24	FY25E	FY26E
Revenue	8,194	10,463	18,759
Gross profit	3,349	4,620	7,255
Gross Margin (%)	41%	44%	39%
EBITDA	1,107	1,858	2,455
Margin (%)	14%	18%	13%
PAT	922	1,416	1,867
EPS	18.2	27.9	31.2
ROCE (%)	9.9	11.4	13.2
P/E (x)	61	39	35
EV/EBITDA (x)	49.2	31.1	29.8

## Shareholding pattern (%)

	Sept-23	Dec-23	Mar-24
Promoter	72.40	69.84	69.84
-Pledged	-	-	-
FII	8.08	4.14	1.96
DII	12.47	14.51	17.73
Others	7.05	11.51	10.47

## Stock Performance (1-year)



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Orchid Pharma (ORCP IN) Q4FY24 revenue were in line with our expectation, but 14% lower than consensus expectations. Q4/FY24 revenue and EBITDA grew 3.4% / 23% and -27% / 31% YoY respectively. The YoY decline in Q4 EBITDA numbers was on account of a lower gross margin (237bps). Going forward, we expect ORCP to deliver high teen's revenue growth in FY25, led by improved utilization of the recently commercialized sterile block. In 2H-FY25, the company will also be commercializing new capacities on the oral API front, which should incrementally add to growth in FY25 and FY26. On top of these capacity driven opportunities, royalties from commercialization of recently approved NCE - Enmetazobactam in US and Europe should also start coming in. Enmetazobactam launch in EU and US is expected from 2QFY25. ORCP is also preparing to forward integrate into the hospital focused antibiotic branded formulation market in India with its own sales force (expected Q2FY25 onwards). The company has lined up a few products for the initial launch and it would include their inhouse NCE – Cefepime + Enmetazobactam. Company has received a waiver for conducting Phase 3 trials from the drug regulator on Cefepime + Enmetazobactam and hence ORCP can launch it imminently in India (post marketing trial will be conducted). On the 7-ACA (backward integration) project, the company has closed the land acquisition, completed technology transfer and has successfully produced trial batches. However, commercialization timelines for the plant have been deferred to March 2026 (FY27) owing to delay in land acquisition. We revise our forecasts on ORCP to incorporate contribution from the forward integration initiative (branded formulation) and the delay in commercialization of the 7-ACA project. Based on our revised forecasts, we assign a 40x PE multiple (33x earlier) to FY26E EPS to arrive at a PT of Rs. 1247. We upgrade to buy from hold. The higher valuation multiple is to account for the foray into branded formulation space and successful execution of pilot batches on 7-ACA.

## 4QFY24 earnings highlights

Orchid Pharma (ORCP IN) reported revenues at Rs 2,171 mn in 4QFY24, up 3.4% YoY and down 1.6% QoQ. EBITDA stood at Rs 289mn, down 27.1% YoY and 18.3% QoQ. EBITDA margin for the quarter stood at 13.3%, was down 559 bps YoY and 272 bps QoQ. PAT stood at Rs 330mn, down 44.3% YoY and 12% QoQ. PAT margin was 15.2%, down 1,300 bps YoY and up 184 bps QoQ.

## 4QFY24 earnings call highlights

## • Operational Highlights:

- ✓ Employee expenses have decreased from 9.8% of sales in FY23 to 8.5% in FY24. Other expenses have decreased from 19.9% to 18.9%. Gross margins have remained stable at 41%.
- ✓ Revenue break up: 40% regulated markets and 60% unregulated markets. 75% revenue from oral business and 25% from sterile.

- ✓ Base business to grow at 20% CAGR for the next 2 years.
- ✓ Hospitals division to start in Q2FY25. ORCP has established a team of 40-50 professionals and major products of the division would be antibiotics.
- **Margins**
  - ✓ GM should remain in the guided range of 40% +/- 2% going forward.
  - ✓ Long term EBITDA margin is expected to be in the high teens.
- **7-ACA project**
  - ✓ Jammu project advancing steadily. Almost completed the land acquisition which was a hurdle in the past. Key government permissions to start construction have been obtained. Commissioning to start from March'26.
  - ✓ Technology transfer is complete and trial batches have been successfully produce at the Chennai plant.
  - ✓ Significant progress made on project of downstream products of 7ACA.
- **Enmetazobactam**
  - ✓ Received approval from US FDA and and European Medical Agencies.
  - ✓ This approval will open doors to royalties from dislocated markets.
  - ✓ In India, waiver has been granted for Phase 3 clinical trials. Phase 4 trials will be conducted after launching the product.
  - ✓ Sales expected to start by next quarter.
  - ✓ ORCP will partner with a third party with comprehensive hospital coverage and utilize the newly formed AMS division for product distribution in India.
- **Filed ANDA for a new drug – Ceftazidime Avibactam** in the USA. This application is expected to contribute to future growth, rebuilding ORCP's position in the US market.
- **Ceftazidime + Avibactum** – FY23 sales stood at INR 120 Mn. FY24 sales stood at INR 640 Mn.
- **Cefiderocol** – Currently in R&D phase to develop the API. Designing the injection manufacturing facility for the API. Investments to start construction to begin from Q2FY25 with an expected capex of USD 15 Mn.
- Beyond cephalosporin- started R&D in peptide related products.
- Dhanuka Lab- revenue of 5,500Mn in FY24. Expected merger to take more 12 months.

## Exhibit 1: Quarterly performance

Financial Summary (Rsmn)	Q4FY23	Q3FY24	Q4FY24	YoY (%)	QoQ(%)	FY23	FY24	YoY (%)
<b>Total Revenues</b>	<b>2,099</b>	<b>2,206</b>	<b>2,171</b>	<b>3.4</b>	<b>(1.6)</b>	<b>6,659</b>	<b>8,194</b>	<b>23.0</b>
Total material costs	1,189	1,219	1,281	7.8	5.1	3,846	4,845	26.0
% of revenue	56.6	55.3	59.0	237 bps	374 bps	57.8	59.1	137 bps
Staff costs	164	191	176	7.4	(8.2)	654	696	6.6
% of revenue	7.8	8.7	8.1	30 bps	(59) bps	9.8	8.5	(131) bps
Other expenses	350	441	425	21.6	(3.7)	1,316	1,546	17.4
% of revenue	16.7	20.0	19.6	292 bps	(43) bps	19.8	18.9	(90) bps
<b>EBITDA</b>	<b>397</b>	<b>354</b>	<b>289</b>	<b>(27.1)</b>	<b>(18.3)</b>	<b>843</b>	<b>1,107</b>	<b>31.3</b>
<b>EBITDA margin (%)</b>	<b>18.9</b>	<b>16.0</b>	<b>13.3</b>	<b>(559) bps</b>	<b>(272) bps</b>	<b>12.7</b>	<b>13.5</b>	<b>85 bps</b>
Other income	17	76	134	672.6	75.4	194	309	58.8
Interest costs	75	35	35	(53.6)	(2.0)	329	164	(50.3)
Depreciation	72	93	84	16.7	(9.2)	548	332	(39.3)
<b>PBT before exceptionals</b>	<b>267</b>	<b>302</b>	<b>304</b>	<b>13.7</b>	<b>0.6</b>	<b>160</b>	<b>919</b>	<b>473.3</b>
Exceptional Items	392	0	0	-	-	392	0	-
<b>PBT</b>	<b>659</b>	<b>302</b>	<b>304</b>	<b>(53.9)</b>	<b>0.6</b>	<b>552</b>	<b>919</b>	<b>66.4</b>
Tax	0	0	-31	-	-	0	-31	-
Tax rate (%)	0.0	0.0	(10.3)	(1027) bps	(1027) bps	0.0	(3.4)	(339) bps
Share of Profit and Minority interest	(67.9)	(7.6)	(5.5)	(92.0)	(28.2)	-89	-29	(67.5)
<b>Reported PAT</b>	<b>591</b>	<b>294</b>	<b>330</b>	<b>(44.3)</b>	<b>12.0</b>	<b>463</b>	<b>922</b>	<b>99.0</b>

Source: Company, Systematix Institutional Research

## Exhibit 2: Margin Summary

Particulars (%)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Gross Profit	42.8%	46.7%	39.3%	40.2%	43.4%	38.7%	38.5%	44.7%	41.0%
EBITDA	14.5%	9.5%	10.8%	8.5%	18.9%	12.1%	11.7%	16.0%	13.3%
EBIT	-0.5%	-7.0%	0.0%	3.4%	15.5%	7.9%	7.8%	11.8%	9.4%
PAT	-3.7%	-11.5%	-3.3%	4.7%	28.2%	5.1%	10.0%	13.3%	15.2%

Source: Company, Systematix Institutional Research

## Exhibit 3: Change in estimates

Particulars (Rs mn)	New estimates		Old estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net sales	10,463	18,759	8,248	10,907	26.9	72.0
EBITDA	1,858	2,455	1,129	1,556	64.5	57.7
Margin (%)	17.8%	13.1%	13.7	14.3	405 bps	(122) bps
PAT	1,416	1,867	878	972	61.3	92.0
Margin (%)	13.5	10.0	10.6	8.9	293 bps	105 bps
EPS	27.9	31.2	17.3	18.3	61.4	70.3

Source: Systematix Institutional Research

## Exhibit 4: Actual vs Estimates

Particulars (Rs mn)	Actuals	Systematix	Var(%)	Cons.	Var(%)
Net sales	2,171	2,225	(2.4)	2,524	(14.0)
EBITDA	289	320	(9.6)	404	(28.4)
Margin (%)	13.3	14.4	(106) bps	16.0	(269) bps
PAT	330	268	23.0	339	(2.8)
Margin (%)	15.2	12.0	313 bps	13.4	175 bps

Source: Company, Systematix Institutional Research

## FINANCIALS

### Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
<b>Net Revenues</b>	<b>5,596</b>	<b>6,659</b>	<b>8,194</b>	<b>10,463</b>	<b>18,759</b>
YoY gr. (%)	24%	19%	23%	28%	79%
Cost of Goods Sold	3,136	3,846	4,845	5,844	11,504
Gross Profit	2,460	2,813	3,349	4,620	7,255
Margin (%)	44%	42%	41%	44%	39%
Employee Cost	633	654	696	774	1,236
Other Expenses	1,281	1,316	1,546	1,988	3,564
<b>EBITDA</b>	<b>546</b>	<b>843</b>	<b>1,107</b>	<b>1,858</b>	<b>2,455</b>
YoY gr. (%)	8%	54%	31%	68%	32%
Margin (%)	10%	13%	14%	18%	13%
Depreciation & Amortization	870	548	332	524	567
EBIT	-324	295	774	1,333	1,887
Margin (%)	-6%	4%	9%	13%	10%
Net Interest	335	329	164	167	167
Other Income	90	194	309	250	146
Exceptional Items	-	392	-	-	-
Profit Before Tax	-569	552	919	1,416	1,867
Margin (%)	-10%	8%	11%	14%	10%
Total Tax	-	-	-31	-	-
Effective tax rate (%)	0%	0%	-3%	0%	0%
Share of Associate	-35	-22	-29	-	-
Discontinued operations	585	-68	-	-	-
<b>Profit after tax</b>	<b>-20</b>	<b>463</b>	<b>922</b>	<b>1,416</b>	<b>1,867</b>
EPS	-0	11	18	28	31
YoY gr. (%)	-98%	-2474%	60%	54%	12%

Source: Company, Systematix Institutional Research

### Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	-20	463	890	1,416	1,867
Depreciation	870	548	332	524	567
Interest	320	322	164	167	167
Others	-823	-356	-54	-250	-146
Working capital	596	-791	-78	-837	-2,489
Direct tax	-19	-3	6	-	-
Net CFO activities	925	183	1,260	1,021	-34
Net Capital expenditures	1,451	-264	-648	-4,396	-5,362
Others	-322	-48	-2,472	250	146
Net CFI activities	1,129	-312	-3,120	-4,146	-5,215
Issue of share cap. / premium	-	-	3,919	-	92
Debt changes	-1,848	634	-2,085	-	-
Dividend paid	-	-	-	-	-
Others	-320	-322	-164	1,833	3,333
Net CFF activities	-2,168	312	1,670	1,833	3,425
Net change in cash	-114	183	-190	-1,293	-1,825

Source: Company, Systematix Institutional Research

### Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	408	408	507	507	599
Reser. & Surplus (Ex OCI)	6,066	6,478	11,187	12,604	14,470
<b>Net Worth</b>	<b>6,474</b>	<b>6,886</b>	<b>11,695</b>	<b>13,111</b>	<b>15,069</b>
Debt	2,310	2,898	1,345	3,345	6,845
Trade payables	1,677	1,818	2,296	2,616	4,690
Other Provisions	140	161	57	57	57
Other liabilities	505	489	146	146	146
<b>Total Liabilities</b>	<b>11,106</b>	<b>12,252</b>	<b>15,539</b>	<b>19,275</b>	<b>26,807</b>
Net block	5,837	5,731	6,202	6,238	7,033
CWIP	98	465	307	4,143	8,143
Other Non-current asset	739	602	664	664	664
Investments	455	444	458	458	458
Cash and Cash Equivalents	81	306	2,666	1,373	-452
Debtors	1,706	2,152	1,955	2,616	4,690
Inventories	1,727	2,287	2,642	3,139	5,628
Other current asset	464	265	644	644	644
<b>Total Assets</b>	<b>11,106</b>	<b>12,252</b>	<b>15,539</b>	<b>19,275</b>	<b>26,807</b>

Source: Company, Systematix Institutional Research

### Key Financial Metrics

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Per Share(Rs)					
EPS	-0.5	11.3	18.2	27.9	31.2
CEPS	20.8	24.8	24.7	38.3	40.6
BVPS	158.6	168.7	230.6	258.5	251.7
DPS	-	-	-	-	-
Return Ratio(%)					
RoCE	3.1	7.6	11.0	13.2	12.7
RoE	NM	6.9	9.9	11.4	13.2
Balance Sheet					
Net Debt : Equity (x)	0.3	0.4	-0.1	0.2	0.5
Net Working Capital (Days)	128	130	122	107	94
Valuation(x)					
PER	NM	97	61	39	35
EV/EBITDA	86.3	56.3	49.2	31.1	29.8
EV/Sales	8.4	7.1	6.6	5.5	3.9

Source: Company, Systematix Institutional Research

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## DISCLOSURES/APPENDIX

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I, **Vishal Manchanda, Rushank Mody**; hereby certify that (1) views expressed in this research report accurately reflect my/our personal views about any or all of the subject securities or issuers referred to in this research report, (2) no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report by **Systematix Shares and Stocks (India) Limited (SSSIL)** or its group/associate companies, (3) reasonable care is taken to achieve and maintain independence and objectivity in making any recommendations.

Disclosure of Interest Statement	Update
Analyst holding in the stock	No
Served as an officer, director or employee	No

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