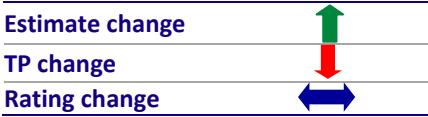


Piramal Pharma



Bloomberg	PIRPHARM IN
Equity Shares (m)	114
M.Cap.(INRb)/(USDb)	93.5 /1.1
52-Week Range (INR)	202 / 63

Financials & Valuations (INR b)			
Y/E MARCH	FY23	FY24E	FY25E
Sales	70.8	78.7	88.7
EBITDA	7.3	10.3	12.1
Adj. PAT	(0.8)	1.8	3.6
EBIT Margin (%)	0.7	4.3	5.4
Cons. Adj. EPS (INR)	(0.7)	1.5	3.0
EPS Gr. (%)	NA	NA	100.3
BV/Sh. (INR)	56.8	58.2	61.2
Ratios			
Net D:E	0.8	0.7	0.7
RoE (%)	(1.2)	2.6	5.0
RoCE (%)	3.7	3.5	4.4
Payout (%)	NA	106.7	63.8
Valuations			
P/E (x)	NA	52.8	26.3
EV/EBITDA (x)	20.2	14.3	12.2
Div. Yield (%)	1.6	2.0	2.4
FCF Yield (%)	(0.0)	0.0	0.0
EV/Sales (x)	2.1	1.9	1.7

Shareholding pattern (%)		
As On	Mar-23	Dec-22
Promoter	34.8	34.8
DII	25.0	25.3
FII	19.7	21.7
Others	20.6	18.3

FII Includes depository receipts

CMP: INR79
TP: INR95 (+21%)
Buy

4Q - A beat; signs of recovery visible

Further uptick in sales in CDMO/CHG segment remains the key

- Piramal Pharma (PIRPHARMA) delivered better-than-expected 4QFY23 performance, on revived traction in the Contract development and manufacturing operations (CDMO)/complex hospital generics (CHG) segment. PIRPHARMA is witnessing healthy increase in purchase orders in the CDMO segment and improved momentum in inhalation anesthesia (IA)/intrathecal portfolio within the CHG segment, which would enhance sales prospects over the medium term.
- We raise our earnings estimate by 7%/3% for FY24/FY25 to factor in a) capacity expansion in the CDMO segment, b) increased production of CHG products by CMO partners, and c) increase in interest outgo.
- After a sharp deceleration in performance over 9MFY23, PIRPHARMA has shown reasonable progress in profitability in 4QFY23. With increased demand and efficient production management, we expect PIRPHARMA to strengthen its performance over the medium term.
- We value PIRPHARMA on an SOTP basis (10x EV/EBITDA of CDMO business, 10x EV/EBITDA for CHG, and 12x India consumer products (ICP)) to arrive at a price target of INR95. We reiterate our BUY rating on the stock.

Uptrend in EBITDA margin continues for fourth consecutive quarter

- PIRPHARMA's revenues grew 2% YoY to INR21.6b (our est: INR18b).
- CDMO segment (59% of sales) revenues declined 15% YoY to INR13b. CHG segment (31% of sales) revenues grew 29% YoY to INR7b. ICH segment (10% of sales) revenues grew 12% YoY to INR2b.
- Gross margin expanded 60bp YoY to 61.2%, due to change in product mix.
- However, EBITDA margin contracted at by 550bp YoY to 16.2% (our est: 10.1%), largely due to higher other expenses/employee cost (up 310bp/300bp as a percentage of sales).
- As a result, EBITDA was down 24% YoY to INR3.5b (our est: INR1.8b).
- Moreover, 'other income' too declined 70% YoY to INR245m.
- PAT declined 81% to INR501m (our est. Loss after tax of INR157m), due to higher interest expense (85% YoY).
- For FY23, sales grew 8% YoY to INR71b, while EBITDA decreased 23%YoY to INR7.3b. Moreover, there was a loss after tax of INR798m.

Highlights from the management commentary

- The increased capacity at Riverview (US), peptide facility (Turbhe), and Ahmedabad to drive better business prospects in the CDMO segment.
- PIRPHARMA expects to repay debt through rights issue. Out of INR48b debt, 69% is overseas debt.
- The share of innovation-related work stood at 45% of CDMO sales in FY23.

Consolidated - Quarterly Earnings Model											(INRm)	
PPL Income statement	FY22				FY23				FY22	FY23	FY23E	% var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Revenues	13,111	15,775	15,391	21,314	14,820	17,200	17,160	21,636	65,591	70,816	18,162	19%
growth YoY(%)					13.0	9.0	11.5	1.5		8.0	(14.8)	
Expenses	11,816	13,810	13,135	17,334	13,969	15,475	15,962	18,123	56,094	63,529	16,335	
CDMO	6,450	8,860	9,220	15,070	7,700	9,400	10,210	12,850	39,600	40,160	9,518	35%
CHG	4,680	5,000	4,910	5,430	5,080	5,620	5,140	7,020	20,020	22,860	5,782	21%
ICP	2,080	1,820	1,670	1,840	2,110	2,270	2,140	2,060	7,410	8,590	2,372	-13%
EBITDA*	1,295	1,966	2,256	3,980	851	1,726	1,197	3,513	9,497	7,286	1,827	92%
margin (%)	9.9	12.5	14.7	18.7	5.7	10.0	7.0	16.2	14.5	10.3	10.1	
growth YoY(%)					(34.3)	(12.2)	(46.9)	(11.7)		(23.3)	(54.1)	
Depreciation	1,358	1,381	1,472	1,652	1,617	1,662	1,644	1,844	5,862	6,767	1,642	
EBIT	-63	585	784	2,328	-766	64	-447	1,669	3,635	520	184	805%
Other income	192	179	1,606	781	719	462	825	245	2,758	2,251	688	
Interest expense	419	492	501	571	623	830	947	1,043	1,983	3,442	958	
Share from Asso. Co	145	163	92	191	199	111	156	78	590	543	135	
PBT	-145	436	1,981	2,729	-471	-193	-412	949	5,001	-128	48	1863%
EO Expenses/(gain)	151	-	-	-	680	70	324	-	151	1,074	-	
Taxes	-16	70	347	689	-61	111	165	448	1,090	663	205	
Tax Rate (%)	5.3	16.1	17.5	25.2	5.3	(42.2)	(22.5)	47.2	22.5	(55.2)	424.4	
Reported PAT	-280	366	1,634	2,041	-1,091	-373	-902	501	3,760	-1,865	-157	NA
Adj. PAT	-137	366	1,634	2,041	-446	-274	-578	501	3,902	-798	-157	
Change (%)					NA	NA	NA	-75.4		NA	NA	

E: MOFSL Estimates



Key takeaways from the management commentary

- PIRPHARMA witnessed softer demand for APIs/vitamin portfolio and delay in decision making by customers due to macro-economic issues in the CDMO segment till 9MFY23. However, in 4QFY23, there was a notable increase in order book and the company expects this to reflect over the medium term.
- About 43% of development phase revenue within the CDMO segment is from products in phase III clinical trials.
- The order book of integrated projects in the CDMO segment stood at USD67m in FY23.
- PIRPHARMA has witnessed an increased demand for Sevoflurane, driving higher market share (~39%) till date.
- PIRPHARMA launched three new products (10 SKUs) in the CHG segment in FY23.
- PIRPHARMA expects demand for CHG products to normalize to pre-Covid levels in FY24.
- E-commerce sales grew 40% YoY in FY23 and contributed 16% to India consumer health (ICH) revenues.
- Power brands within ICH have exhibited 38% sales CAGR and form about 42% of ICH sales in FY23.

Valuation and view

Sales revival to drive better operating leverage

CDMO: Strong order book boosts confidence over the medium term

- In FY23, PIRPHARMA's CDMO sales were flat YoY to INR40b. PIRPHARMA plans to increase revenue share and attract customers with differentiated product offerings such as High Potent APIs, and Peptides.
- Additionally, to increase profitability, it is undertaking cost-optimization measures, such as hiring high-quality talent only, strategizing procurement and operational excellence measures to mitigate adverse macro-economic environment.
- It is witnessing healthy demand from customers with the successful launch of new facilities at Riverview (US), peptide facility (Turbhe, India), and Ahmedabad PDS. Furthermore, it expects the expansion at the Grangemouth facility in H2FY24 to further strengthen its position in the anti-body drug conjugate segment.
- We expect 10% sales CAGR over FY23-25 to INR49b in this segment.

CHG: Production ramp-up and SKUs launch to drive growth

- In FY23, PIRPHARMA's CHG sales grew 14% YoY to INR23b, led by strong sales in Inhalation Anesthesia (IA) in the US and the non-US market along with market share gains. It is also expanding capacities at Dahej and Digwal.
- With the ease of supply constraints, it would be able to meet the increased demand for its CHG products.
- Due to a strong product pipeline with 37 SKUs at various development stages and more SKUs expected to be launched over the near term, we expect the CHG segment to exhibit 13% revenue CAGR to INR29b over FY23-25.

ICH: Superior execution to sustain growth prospects

- In FY23, PIRPHARMA's ICH sales increased 16% YoY to INR8.6b. The growth was led by 26 new launches/37 SKUs, supported by growth momentum in existing brands.
- New products launched since April 2020 contributed to 18% of the total ICH sales in FY23. Moreover, E-commerce grew by more than 40% YoY and contributed 16% to ICH revenues in FY23.
- Considering new launches and continued investments in media and expenditures that contribute to the growth of power brands, we expect the CHG segment to exhibit 10% revenue CAGR to INR10b over FY23-25.

Maintain BUY

- We raise our earnings estimate by 7%/3% for FY24/FY25 to factor in a) capacity expansion in the CDMO segment, b) increased production of CHG products by CMO partners, and c) increase in interest outgo.
- After a sharp deceleration in performance over 9MFY23, PIRPHARMA has registered reasonable progress in profitability in 4QFY23. With increased demand and efficient production management, we expect PIRPHARMA to strengthen its performance over the medium term.
- We value PIRPHARMA on an SoTP basis (10x EV/EBITDA of CDMO business, 10x EV/EBITDA for CHG, and 12x India consumer products (ICP)) to arrive at a price target of INR95. We reiterate our BUY rating on the stock.

Story in charts

Exhibit 1: Expected 10% sales CAGR in CDMO over FY23-25

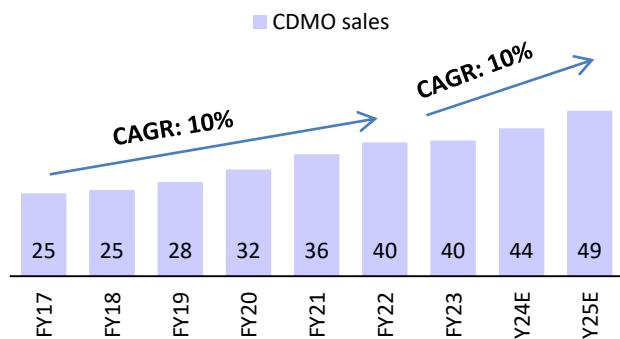
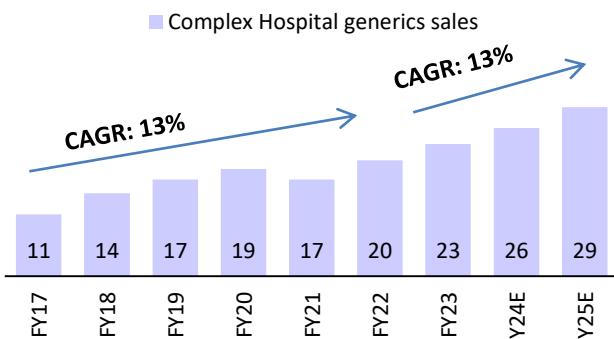


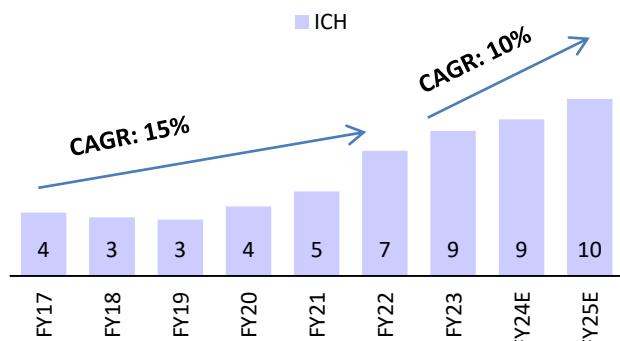
Exhibit 2: Expected 13% sales CAGR in CHG over FY23-25



Source: MOFSL, Company

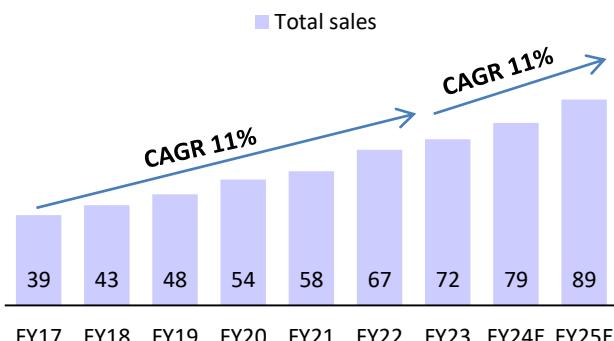
Source: MOFSL, Company

Exhibit 3: Expected 10% sales CAGR in ICH over FY23-25



Source: MOFSL, Company

Exhibit 4: Expected 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	78,655	88,698
Change (%)		NA	8.0	11.1	12.8
EBITDA		9,497	7,286	10,331	12,124
Margin (%)		14.5	10.3	13.1	13.7
Depreciation		5,862	6,767	6,970	7,318
EBIT		3,635	520	3,361	4,806
Int. and Finance Charges		1,983	3,442	3,968	3,265
Other Income		2,758	2,251	2,350	2,484
Share of net profit of associates		590	543	560	588
PBT bef. EO Exp.		5,001	-128	2,302	4,612
EO Items		151	1,074	0	0
PBT after EO Exp.		4,850	-1,202	2,302	4,612
Total Tax		1,090	663	530	1,061
Tax Rate (%)		22.5	-55.2	23.0	23.0
Minority Interest		0	0	0	0
Reported PAT		3,760	-1,865	1,773	3,551
Adjusted PAT		3,879	-798	1,773	3,551
Change (%)		NA	NA	NA	100.3
Margin (%)		5.9	-1.1	2.3	4.0

Consolidated - Balance Sheet		(INR m)			
Y/E March		FY22	FY23	FY24E	FY25E
Equity Share Capital		11,859	11,933	11,933	11,933
Other equity		55,107	55,802	57,575	61,126
Net Worth		66,966	67,735	69,508	73,059
Minority Interest		0	0	0	0
Total Loans		41,283	56,421	56,421	56,421
Deferred Tax Liabilities		1,920	2,193	2,193	2,193
Capital Employed		110,169	126,349	128,121	131,673
Gross Block		36,288	42,652	43,751	45,651
Less: Accum. Deprn.		5,862	6,767	6,970	7,318
Net Fixed Assets		30,426	35,885	36,781	38,332
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	44,311	47,697
Inventory		13,888	16,814	19,653	20,504
Account Receivables		17,853	17,993	17,239	19,441
Cash and Bank Balance		3,290	3,076	2,223	2,557
Loans and Advances		1,013	5,195	5,195	5,195
Curr. Liability & Prov.		13,172	13,600	13,956	15,342
Account Payables		10,264	11,927	12,283	13,669
Other Current Liabilities		2,445	1,074	1,074	1,074
Provisions		464	599	599	599
Net Current Assets		22,871	29,478	30,355	32,355
Deferred Tax assets		2,973	3,493	3,493	3,493
Misc Expenditure		687	2,172	2,172	2,172
Appl. of Funds		110,169	126,349	128,121	131,673

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY22	FY23	FY24E	FY25E
Basic (INR)				
EPS	3.3	-0.7	1.5	3.0
Cash EPS	8.2	5.0	7.3	9.1
BV/Share	56.1	56.8	58.2	61.2
DPS	0.7	1.3	1.6	1.9
Payout (%)	21.7	NA	106.7	63.8
Valuation (x)				
P/E	24.1	NA	52.8	26.3
Cash P/E	9.6	15.7	10.7	8.6
P/BV	1.4	1.4	1.3	1.3
EV/Sales	2.0	2.1	1.9	1.7
EV/EBITDA	13.9	20.2	14.3	12.2
Dividend Yield (%)	0.9	1.6	2.0	2.4
FCF per share	0.0	0.0	0.0	0.0
Return Ratios (%)				
RoE	5.8	-1.2	2.6	5.0
RoCE	NA	3.7	3.5	4.4
RoIC	5.8	1.4	4.5	6.3
Working Capital Ratios				
Asset Turnover (x)	0.6	0.6	0.6	0.7
Inventory (Days)	77	87	91	84
Debtor (Days)	99	93	80	80
Creditor (Days)	57	61	57	56
Leverage Ratio (x)				
Net Debt/Equity	0.5	0.8	0.7	0.7

Consolidated - Cash Flow Statement

Y/E March	FY22	FY23	FY24E	FY25E	(INR m)
OP/(Loss) before Tax					
OP/(Loss) before Tax	4,410	-1,675	2,302	4,612	
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	-1,730	-1,666	
CF from Operations	7,664	4,839	10,981	12,468	
(Inc)/Dec in FA	-8,571	-9,451	-7,865	-8,870	
Free Cash Flow	-907	-4,612	3,116	3,599	
(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	-7,865	-8,870	
Issue of Shares	0	0	0	0	
Inc/(Dec) in Debt	9,830	11,558	0	0	
Interest Paid	-1,388	-2,710	-3,968	-3,265	
Dividend Paid	-500	-670	0	0	
CF from Fin. Activity	7,942	8,178	-3,968	-3,265	
Inc/Dec of Cash	-2,515	-371	-852	334	
Opening Balance	2,620	3,290	3,076	2,223	
Closing Balance	105	2,919	2,223	2,557	
Unrealised loss / (gain) on forex	747	52	0	0	
Term Deposit with Banks	2,438	105			
Total Cash & Cash Eq	3,290	3,076	2,223	2,557	

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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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