Asit C. Mehta
INVESTMENT INTERRMEDIATES LTD.

PANTOMATH
Financial Services Group

Piramal Pharma Ltd.

Piramal

Initiating Coverage

Rating: BUY
Target: Rs.171 (+32%)

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Outlook & Valuation

Piramal Pharma was demerged from Piramal Enterprises in October 2022 , hence we derive at valuation by EV/EBITDA. Growth will be driven by: 1. Increase in CDMO business led by innovative discovery, 2. Focus on power brand with continued promotional spends in ICH category, 3. Strong pipeline in CHG along with direct GPO relationships. Despite challenges the company faces such as forex rate fluctuation and dependence on third party manufacturers, we see its revenue to expand at CAGR of 14.5% in FY23–FY26E. **We initiate coverage on the stock with a BUY recommendation** and a target price of Rs 171/- indicating a upside of 32%. Considering its high debt burden and execution risk that may arise due to uncertainty in the global outsourcing environment we assign a EV/EBITDA multiple of 13x for FY26E.

Particulars (₹ mn)	FY23A	FY24E	FY25E	FY26E	CAGR (FY23-26E)
Revenue	7,082	8,009	9,219	10,621	14.5%
EBITDA	628	1,121	1,567	2,018	47.5%
EBITDA Margin	9%	14%	17%	19%	27.96%
Net Profit for Shareholders	-186	308	605	915	~
EPS (₹ per share)	-1.56	2.33	4.58	6.91	~

Source: Company, ACMIIL institutional research

Key Market Data

Bloomberg code:	PIRPHARMA
Date	01-04-2024
Target price (₹)	171
CMP (₹) (29-03-24)	129
Upside	32%
Rating	**BUY**
Mkt cap (₹ mn)	1,71,650
52 Wk High/Low (₹)	149/67.1

Price Performance

1 month	-1.83%
6 months	26.37%
12 months	83.93%

Shareholding Pattern (31/12/2023)

Promoters	35.02%
DIIs	9.68%
FIIs	32.51%
Public	22.69%

Source: NSE

Analyst

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Investment Rationale

Diversified product offering: PPL experienced a significant growth in its patented product portfolio. In FY23, the company nearly doubled its number of commercially-available patented products, reaching 18 as compared to its FY19 figure. This expansion translated into $52 million in revenue generated from these products in FY23.

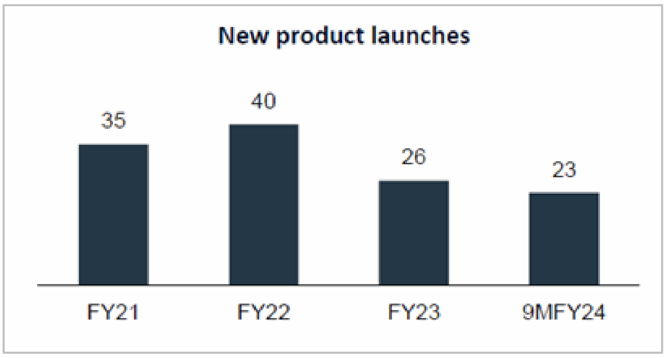
In its hospital generic category, PPL maintained a leading market share (38.92%) in the US for Sevoflurane. PPL is the fourth-largest inhalation anaesthesia company globally as per US$ value for a combined market of Sevoflurane, Desflurane, Isoflurane and Halothane. The company is focussed on developing and commercialising a strong pipeline of 25+ products in niche areas with unique characteristics. In the intrathecal segment, PPL continues to command a leading market share in the US and its brand Gablofen retains the number one brand in Baclofen prefilled syringe and vial category.

In the consumer healthcare category in India, the company launched 100 products in the last three years. New products that came out since April 2020 have contributed 18% to consumer business revenues in FY23.

Diversified products

Source: Company PPT

PRODUCTS LAUNCHED IN LAST FEW YEARS



Source: Company PPT

The company launched its own D2C platform, Wellify.in, to strengthen its e-commerce presence. Ecommerce sales grew at over 40% YoY rate and contributed 6% to ICH revenues.

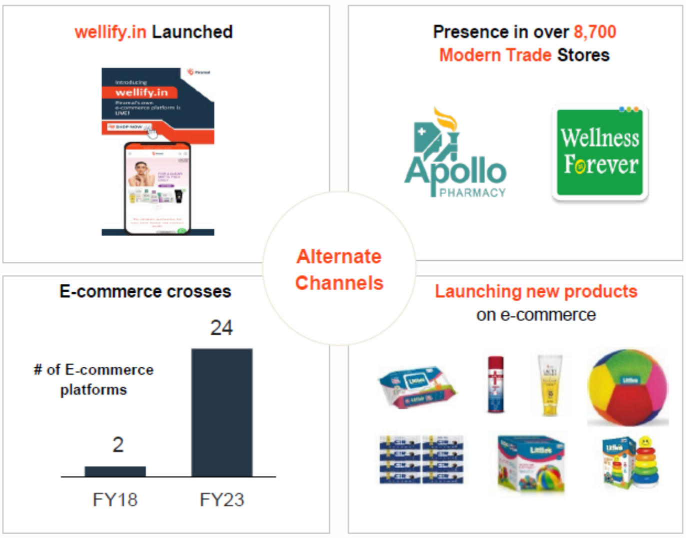
Pursuing organic and inorganic growth opportunities: The company is focussed on expanding its existing manufacturing capacities as in FY23, PPL went live with capacity expansion at Riverview facility in the US and peptide facility at Turbhe in India. The company also opened a new in-vitro laboratory at PDS Ahmedabad facility. Further, the capacity expansion at Grangemouth facility in the UK will help it to strengthen its position in the anti-body drug conjugate segment. These capacity expansions are expected be an important driver of revenue growth in the near term. They will help in improving profitability, driven by operating leverage, favourable revenue mix, normalisation of raw material cost and cost optimisation initiatives.

In hospital generic category, the company has direct sales force in the US having relationship with Group Purchase Organisations (GPOs)

To drive power brand growth in ICH segment, the company invests heavily in media. Promotional spends during 9MFY24 was 13% of its ICH segment revenue. Launched Multiple New Products and Brand Extensions: 26 new products and 37 new SKUs launched in FY 23.

Strong distribution network in OTC products: PPL has well established commercial infrastructure with multi-channel distribution strategy. The company infused 1,310 mn which is 15% of ICH revenue on media and trade spends, resulting in ~37% year on year revenue growth in FY23 for the power brands in the ICH business. Products of Piramal Pharma have presence in ~180K chemists and cosmetics stores and 10K+ kids, toys and gift shops. PPL leverages analytics and sales automation to optimise processes and invest in technology to empower sales force. The company has built its presence in over 100 countries and has also strengthened presence in alternative channels with over 8700 modern trade stores. The company set up its D2C platform 'Wellify' for direct connection with customers. Also, it has presence across 24 e-commerce platforms in this category. PPL plans to build additional high-performing brands in the future.

Multi- channel distribution



Source: Annual Report, Company PPT

High entry barriers in hospital generic space: In the hospital generic segment, the entry of newcomers/competitors is difficult due to high initial capital requirement for supplying medical devices such as vaporises as well as dedicated production facilities for raw materials and finish dosage products. The competition is in inhalation anaesthesia market is limited as compared to traditional generics. Other barriers such as strict quality assurance system, requirement of extensive regulatory experience in establishing marketing and distribution relationships such as with Group Purchasing Orgainisations (GPOs) act as barriers for less experienced new entrants.

High-entry barriers in inhalation anaesthesia due to need for specific vaporizers for administration and large capex investments

Source: Company annual report

Continued focus on quality and compliance: The company strives to build a system to ensure continuous compliance. The facilities audited recently by USFDA have an EIR. It continues to maintain the best-in-class track record. PPL has cleared 23 regulatory inspection and 141 customer audits in 9MFY24. The company ensures consistent quality across all facilities and suppliers through a company-wide quality framework and strict internal policies. Beyond manufacturing and quality compliance, the Company also focuses on post-marketing pharmacovigilance to ensure the patient safety element of the products. It has an established regulatory services and a pharmacovigilance team with considerable experience in filing regulatory applications, receiving approvals and monitoring post marketing safety.

Company Brief

Piramal Pharma Limited (PPL) is a prominent player in the pharmaceutical industry. It offers a comprehensive range of products and services across the drug development lifecycle. PPL operates under three business verticals - (i) Piramal Pharma Solutions ("PPS"), an integrated contract development and manufacturing organisation ("CDMO"); (ii) Piramal Critical Care ("PCC"), a complex hospital generic ("CHG") business; and (iii) India consumer healthcare ("ICH") business, selling over-the-counter ("OTC") products. Alongside established brands, PPL is among the leading players in the self-care domain in India.

PPL PHARMA has following strengths:

- **Diversified business divisions:** It has diversified revenue base from three segments :

  Contract Development and Manufacturing Organization (CDMO): This division provides integrated services for drug discovery, development and manufacturing. It handles everything from active ingredients (APIs) to final formulations. The company operates from 13 CDMO sites with major presence in North America, Europe and India. It is amongst the top 3 CMDO players in India and works with ~ 500 CDMO customers globally.

  Complex Hospital Generics (CHG): PPL is a major player in the complex hospital generics market, specialising in essential categories, such as inhalation anaesthesia, anaesthesia & pain management, intrathecal therapy, and various injectable drugs. Its portfolio of over 40 products caters to a wide range of critical care needs. The company ranks as the fourth-largest player globally in the inhalation anaesthesia segment. Company has vast network exceeding 6,000 hospitals as customers.

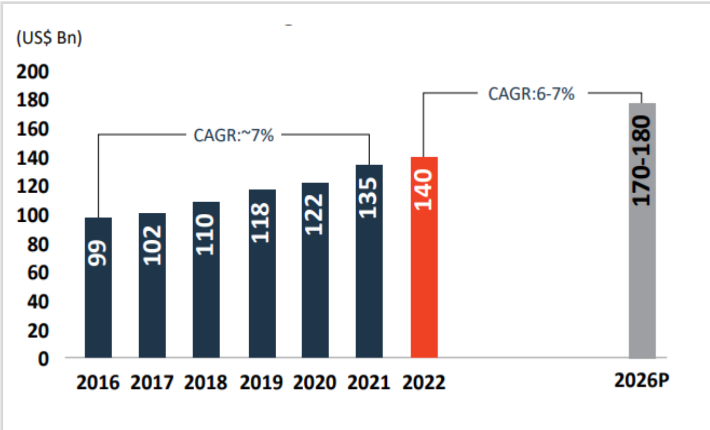
- **Indian Consumer Healthcare (ICH):** Consumer Healthcare division is a significant player in Over-The-Counter (OTC) market. The company has diversified OTC portfolio across key categories like Analgesic, Skin Care, Women's health, Digestives, Health & Hygiene. In this division company caters to many power brands like : Littles, Saridon, Lacto Calamine, polycrol, tetmosol and I –range.

- **Global Reach and Expertise:** Company boasts a significant global presence with 17 manufacturing facilities spread across India, North America, and Europe. Their extensive distribution network covers over 100 countries, allowing them to serve a diverse clientele, including major pharmaceutical companies, biotech firms, hospitals, and institutions.

- **Strategic Partnership & Joint Venture:** The company owns a 49% stake in the joint venture with Allergan India Pvt. Ltd which is a leader in Ophthalmology formulations in the Indian market. Piramal Pharma holds a 28% stake in Hyderabad-based Yapan Bio which will help expand its CDMO footprint in biologics. Yapan Bio provides process development, scale-up, cGMP compliant manufacturing of vaccines and biologics/bio-therapeutics.

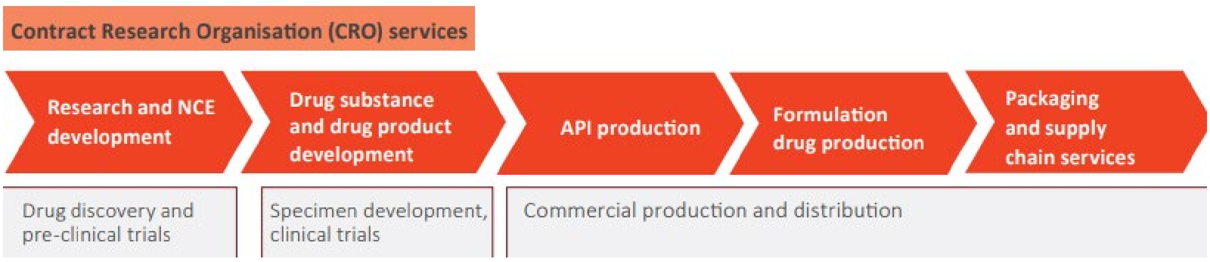
Industry Outlook

Global CDMO market to expand at a 6–7% CAGR from 2022 to 2026



Source: Annual Report, Company PPT

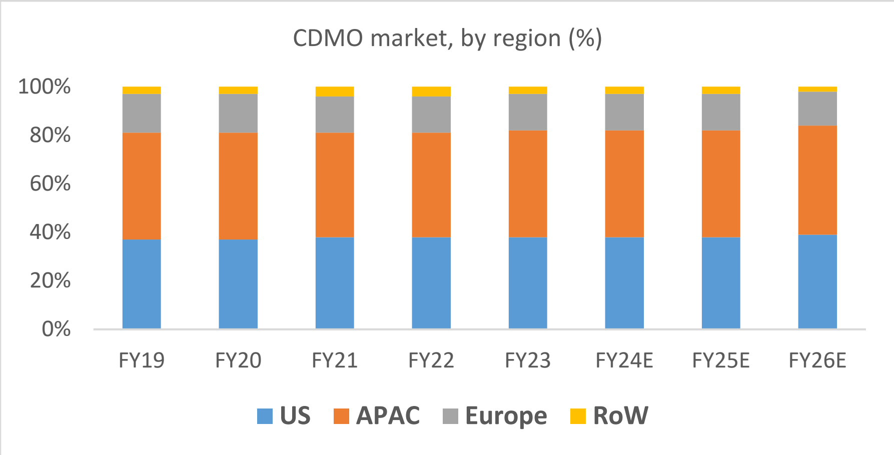
Contract Development and Manufacturing Organisation (CDMO) has emerged as a viable model for the global pharmaceutical industry. With increase in globalisation, focus of large players on cutting costs and optimising operations, CDMOs have seen significant acceptance in the industry over the past few years. With the growth in demand for generic medicines and biologics, focus on reducing time to market (TTM), the capital-intensive nature of the business and the complex manufacturing requirements, a number of pharmaceutical companies have identified the potential benefits of contract development and outsourcing manufacturing activities



Source: Company annual report

- The global CDMO market was estimated to be ~USD 140 billion in 2022. The market is expected to reach USD 170–180 billion by 2026 owing to robust growth in the outsourcing domain, aided by pharma players outsourcing their research and manufacturing to specialised contract manufacturing players

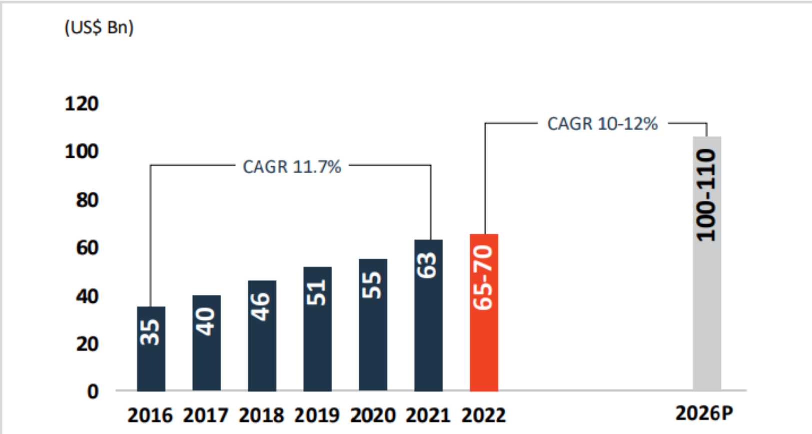
- API production is the largest segment of the CDMO market, accounting for 75–80% in global revenue in 2022. A number of established CDMOs are active in the API development and manufacturing space. Regional manufacturing hubs, such as India and China, have established themselves as the preferred destinations for outsourcing API development and manufacturing.



Source: Company, ACMIIL institutional research

- As per IQVIA data, CDMO revenue in the APAC region which includes India and China, is expected to expand at CAGR of ~8.5% from FY21–26E. The US is anticipated to expand at a CAGR of ~7.7% from 2021 to 2026, mainly from new drug development. The Europe and RoW countries are expected to expand at a CAGR of ~5% during the same period.

Global complex generics market to expand at a healthy ~10–12% CAGR from 2021 to 2026



Source: Annual Report, PPT

As per the definition by USFDA, complex generics are products that have complex active ingredients, formulations, dosage forms or routes of administration or are complex drug-device combination products. Generics of complex brand name drugs (i.e., reference listed drugs) are usually difficult to develop and require a deep understanding and development process. This has often acted as a key barrier for players entering the complex generic space. Specialty rugs are high-cost prescription medication used to treat complex, chronic conditions such as cancer, rheumatoid arthritis and multiple sclerosis. It can be used in rare or orphan disease indications. It may have unique storage or shipment requirements and might require additional patient education, adherence and support beyond traditional dispensing activities.

Complex generics drug overview

Parameters	Details
Complex active ingredients	Complex mixtures of APIs, polymeric compounds, peptides, naturally sourced ingredients
Complex formulations	Liposomes, suspensions, emulsions, gels, parenteral microspheres, colloids
Complex routes of delivery	Locally acting such as ophthalmic, dermatological, locally acting GI drugs and inhalational drugs
Complex dosage forms	Long acting injectables and implant
Complex drug device combinations	Metered Dose Inhalers, nasal sprays, dry powder inhalers and transdermal

Source: Company

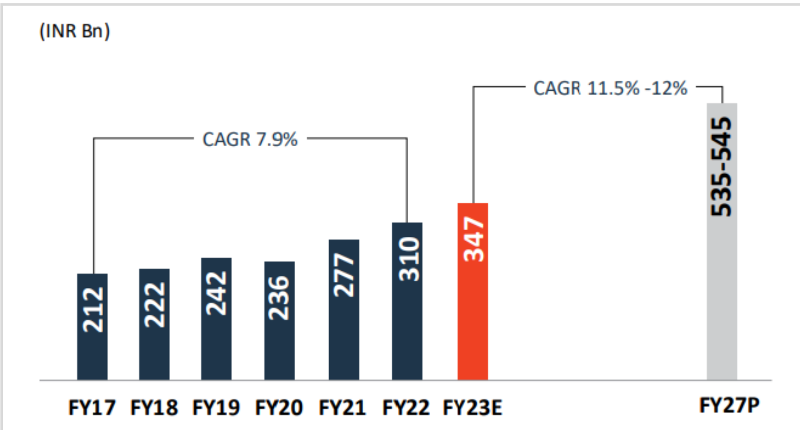
The global complex generics market was valued at USD 65-70 billion in 2022, expanding at 11.7% CAGR from 2016 to 2022. It is expected to reach USD 100–110 billion by 2026, registering a CAGR of ~10–12% during the 2022–2026 period. In the global complex generics market, the complex hospital generics constitutes majority of the market with share of approximately 70–80% and retail forming the remainder. Anaesthesia, pain management, blood-related, anti-infective are some of the key therapy areas in the complex hospital generics market.

Overview of inhalation anaesthesia and intrathecal therapy areas

Inhalation anaesthetics (halothane, isoflurane, desflurane, sevoflurane, most used agents in practice today) are used for induction and maintenance of general anaesthesia. Inhalation anaesthesia is one of the key therapy areas catered in the global complex generics market. Development of these molecules in the generics space has been a challenge owing to need for specific vaporizers for administration and large capex investments.

Intrathecal therapy area has gained prominence over the recent years for the treatment in which drugs are injected into the fluid-filled space between the thin layers of tissue that cover the brain and spinal cord. Some of the key molecules which has the complex generic available in the market includes baclofen injection and morphine sulfate injection. The development of generics in this critical therapy area has been important in terms of providing affordable healthcare to patients.

Indian OTC market is expected to expand at 11.5-12% CAGR between FY22–27 and reach at INR 535–545 billion.



Source: AnnuaL Report, PPT

As per the definition of USFDA, over-the-counter (OTC) medicines are drugs which are legally allowed to be sold without the need for a prescription. Consumers can purchase them from an online or offline pharmacy, retail store or supermarket without a prescription of registered medical practitioner. Retailers also do not need a drug licence to sell these medicines.

The usage of OTC drugs has grown steadily in India in the last few years. This development was mainly due to the factors, such as easy availability of OTC drugs, affordability and increased awareness. These drugs allow faster and cheaper access to healthcare; however, their misuse and adverse health effects are a matter of concern.

Therapeutic areas	Key product types offered
Skincare/ derma	Skin lotion/sun cream/ wipes Skin infection Skin allergy Antiseptic cream/ diabetic foot ulcers
Women's health	Menstrual care Emergency contraceptive pills Pregnancy test kits Hygiene
Analgesics	Cream, balm, spray, pills
Digestives/gastro	Pills, syrups
Respiratory	Pills, syrups
Vitamins/minerals/supplement	Speciality supplements Weight management, Protein supplements Calcium and minerals Multi – vitamins Biotin Immunity Boosters
Others	Artificial sweetener Self-diagnostics kits Wound- healing

Source: Company PPT

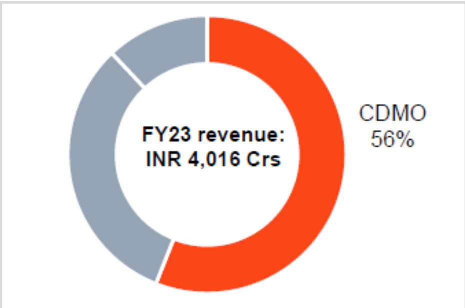
The OTC market in India is expected to expand at 11.5–12% CAGR between FY22–27 and reach at INR 535 –545 billion. With the increase in the number of online pharmacies, the availability of OTC drugs on e-commerce platforms is going to further boost this medicine market. In addition to easy availability and affordability, increased awareness are the major drivers for the production of new and efficacious OTC drugs in India.

OPHTHALMOLOGY BRANDED PRODUCTS

Piramal Pharma also owns 49% stake in a Joint Venture, Allergan India Pvt limited which is a leader in Ophthalmology formulations in the Indian market. Piramal Pharma manufactures medication for diseases, such as glaucoma, dry eye, infections, and inflammations for Allergan India.

Piramal Pharma Business Verticals

Contract Development and Manufacturing Organisations (CDMO): Piramal Pharma Solutions (PPS) is PPL's Contract Development and Manufacturing Organisation (CDMO) arm. PPS is a leading global CDMO company offering end-to-end development and manufacturing solutions across the entire drug lifecycle, from drug discovery to commercial manufacturing of drug substances and drug products. Its clientele includes pharmaceutical and biotechnology companies, ranging from established players to emerging innovators. PPS has a global presence, with operations in North America, Europe and Asia. This enables it to provide it clients with a geographically diverse supply chain and expertise in fulfilling various regulatory requirements.

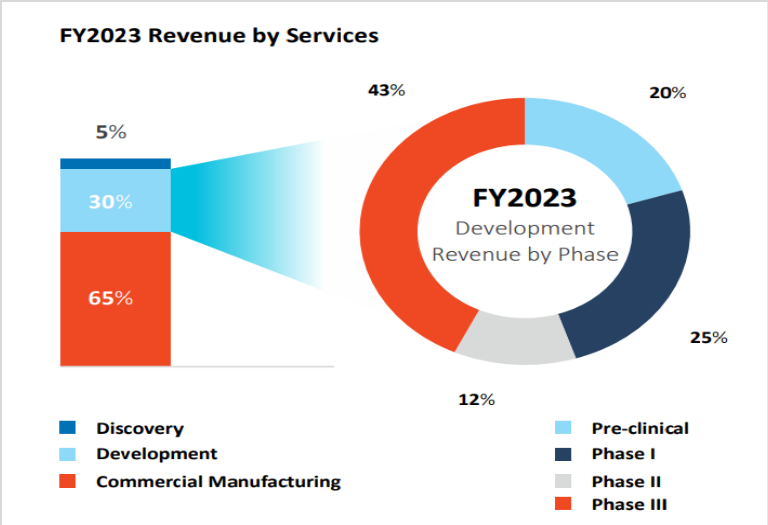


Source: Company PPT

As of FY23, CDMOs contributed 56% to the revenue of Piramal Pharma

Services: PPS offers a comprehensive range of services including:

- Drug discovery and development
- Preclinical and clinical development
- Formulation development
- Analytical development
- Commercial manufacturing of drug substances and drug products
- Packaging and labelling



Source: Annual Report, Company PPT

In the CDMO vertical, as on FY23, 65% of revenue comes from **commercial manufacturing**. PPS offers manufacturing capabilities for both:

- **Active Pharmaceutical Ingredients (APIs):** These are the core medicinal components in a drug. PPS has expertise in manufacturing a wide range of APIs, including complex and potent molecules. PPS have over 40 APIs across therapeutic areas
- **Dosage Forms:** After the API is manufactured, PPS can convert it into various final forms, such as tablets, capsules and injectables, depending on the drug's properties and the method of administration.
  PPS has more than 70 finished dosage forms (FDF) across therapeutic areas and dosage forms

  Development contributes 30% of revenue to this vertical. PPS extends its presence beyond commercial manufacturing and plays a significant role in the **drug development** phase as well. The company has 166 pipeline of molecules across Phase 1 , 2 and 3, of which 43% of development revenue comes from Phase 3 molecules.

  Discovery contributes: 5% of revenue in CDMO, more than 90% of sales is from repeat clients and 95% of sales from North America and Europe.

  The company has also acquired 100% stake in Hemmo Pharmaceuticals, a leading global player solely focussed on Peptide APIs. This move, costing Rs.7,750 mn upfront with additional payments tied to performance, grants the company access to Hemmo's expertise in developing and manufacturing these crucial components, thus enabling PPS's expansion into the Peptide API market

  PPS has a 28% stake in Hyderabad-based Yapan Bio, an India-based CDMO providing expertise in biologics and vaccines which helps them increase their presence

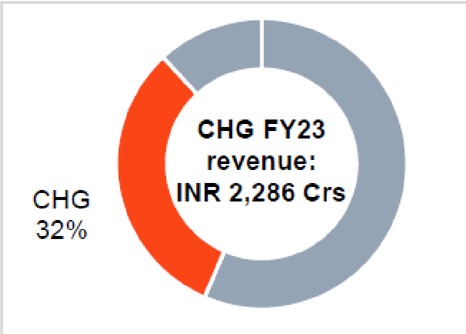
  PPS bridges the gap between drug development and large-scale commercial production. It provides pharmaceutical companies with expertise, facilities and global reach necessary to bring their drugs to market, efficiently and effectively.

COMPLEX HOSPITAL GENERIC (CHG)

Piramal Pharma has a division dedicated to hospital generics, known as **Piramal Critical Care (PCC)**.

It is a **leading player** in this area, particularly known for manufacturing:

- **Inhaled Anaesthetics:** It is a medication used to induce and maintain general anaesthesia during surgery
- **Intrathecal Therapies:** These are drugs delivered directly into the cerebrospinal fluid around the spinal cord for pain management and treatment of spasticity
- **Injectable Pain and Anaesthetics:** This category includes pain relievers and medication used for local anaesthesia
- **Injectable Anti-infective:** These are antibiotics and drugs administered through injection to combat infection.
- **Other therapies:** They also offer a range of essential hospital medication



Source: Annual Report, Company PPT

As of FY23, 32% of revenue was generated from this segment
The company has a strong product pipeline of over 25 products in niche areas with unique characteristics. It is focussed on increasing its market share in inhalation anaesthia.

The company has a unique range of products and extensive global reach in over 100 countries. By fostering strong customer relationship, PPS is aiming to leverage these advantages to deliver solutions which cater to diverse needs across the globe.

The company is increasing its control of inhalation anaesthesia production process by vertically integrating its operations. This strategic move involves expanding manufacturing capacity to satisfy the rise in demand for these vital medical supplies.

Product-wise portfolio diversification

Inhalation Anesthesia (64%[1])

Intrathecal Therapy (15%[1])

Injectable Anesthesia and pain management (11%[1])

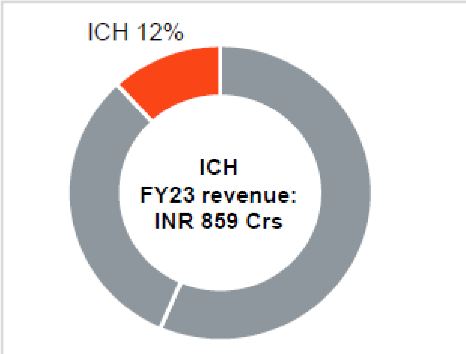
Other Products (9%[1])

Source: Annual Report, Company PPT

The company has over 6000 hospital networks and a distribution reach in more than 100 countries across the globe.

INDIAN CONSUMER HEALTHCARE

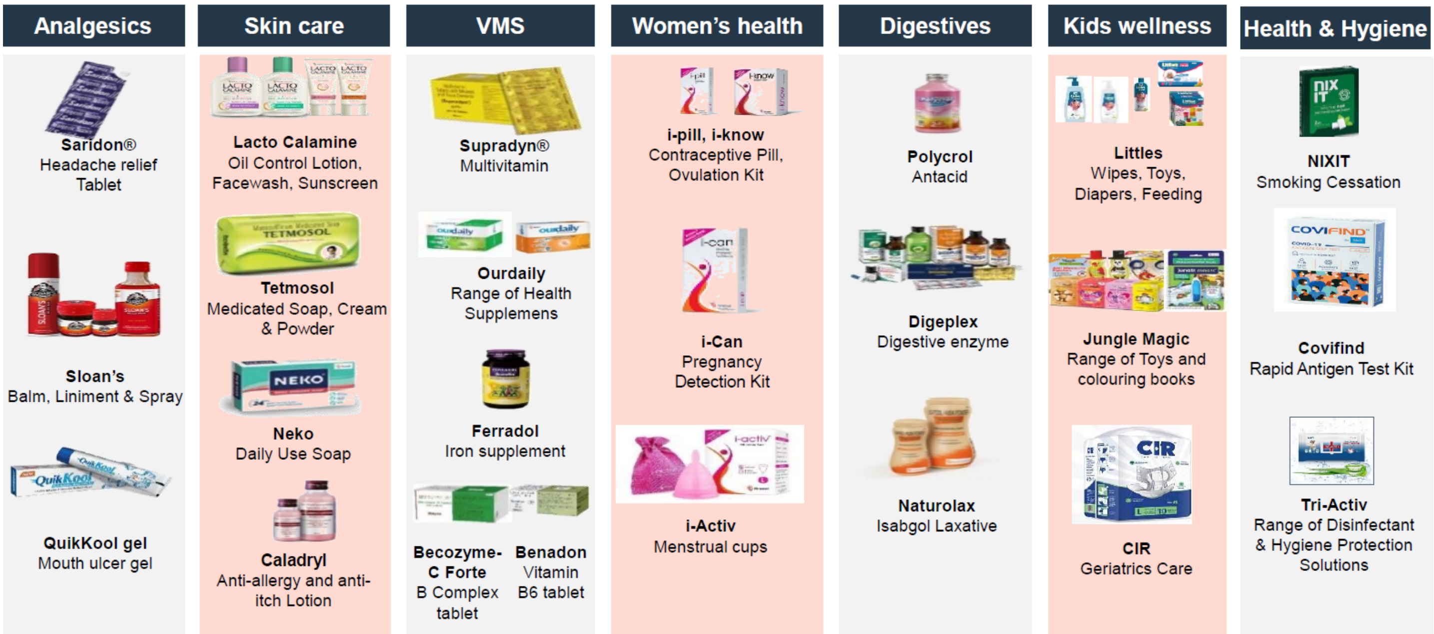
Piramal's Indian consumer healthcare is a significant player within India's over-the-counter drugs market. It offers a variety of consumer-facing products addressing common health-related issues. The company has diversified its OTC portfolio across key categories, such as analgesic, skin care, VMS, women's health, digestives, kids wellness, health & hygiene.



Source: Annual Report, Company PPT

This segment contributes 12% to the total revenue of Piramal Pharma

DIVERSIFIED PRODUCT PORTFOLIO



Source:Company PPT

Company has strong focus on E-commerce sales which contributed 16% of CHG revenues in H1FY24.

The company's focus is on alternative distribution channels and tech-enablement which is helping Piramal to drive growth.

Manufacturing Facilities

Units	Comments	Products	Regulatory Standards
Unit I - Lexington , USA	The facility has fully integrated site which offers analytical, formulation development, and manufacturing services facility with an emphasis on clinical trial to commercial-scale manufacturing of sterile liquid and lyophilized injectables.	Sterile Development and Manufacturing	USDFA and PDMA inspected
Unit II - Riverview , USA	This facility specializes in manufacturing active pharmaceutical ingredients (APIs), the essential components of medications. They have particular expertise in handling high potency APIs (HPAPIs) and a proven track record of bringing them from initial development stages to full-scale commercial production.	HPAPI Development and Manufacturing	USFDA, PMDA, HC
Unit III- Sellersville, USA	This site offers product and process development, clinical supply and commercial manufacturing and packaging of solid oral dosage forms, liquids, creams, and ointments.	Formulation manufacturing and development	USFDA inspected and EMA certified
Unit IV- Bethlehem , USA	This plant has been manufacturing anaesthesia and comprises a state-of-art automated packaging line, stability chambers, and a large warehouse. Functioning 24/7, the facility manufactures products that are sold in more than 100 countries.	Anaesthesia Manufacturing	USFDA,MHRA,PMDA
Unit V- Aurora , Canada	This facility offers development, preclinical to commercial GMP manufacturing of Active Pharmaceutical Ingredients (APIs) for complex pharmaceutical NCEs.	API manufacturing and development	USFDA , Health Canada and PMDA inspected
Unit VI- Grangemouth, UK	This facility offers development, clinical & commercial scale manufacture of bio-conjugates including Antibody Drug Conjugates (ADCs) The site provides full process & analytical development services to support proof-of-concept & Toxicology studies with commercial manufacture of ADCs	ADC development and manufacturing	USFDA, MHRA & PMDA Japan inspected
Unit VII- Morpeth, UK	This is fully integrated site which offers Active Pharmaceutical Ingredients (APIs) and oral solid drug product development, clinical supply, commercial manufacturing and packaging services to both innovators and generic pharmaceutical companies.	API and Formulation manufacturing	USFDA and MHRA inspected
Unit VIII- Ahemdabad PPDS, India	This site offers GMP manufacturing of clinical batches of Solid Oral Dosage forms	Formulation Development	MPA Sweden and FIMEA Finland inspected
Unit IX- Ahemdabad PDS, India	This site provides a comprehensive range of early-stage drug discovery services to globally recognized BioPharma companies, biotech companies as well as academic institutions.	R&D - Discovery services	

Unit X-Ennore, India	This facility offers chemistry services that range from intermediate, RSM synthesis to development and supply of early phase API's up to phase II.	API and Intermediates manufacturing	WHO-GMP
Unit XI- Digwal, India	This facility offers development and commercial GMP manufacturing of Active Pharmaceutical Ingredients (APIs) / key intermediates. Site is equipped with R&D lab, pilot plant, commercial blocks, quality control lab, utility system and centralized Zero Liquid Discharge plant.	API and Intermediates manufacturing	USFDA, UK MHRA, PMDA JAPAN and ANVISA
Unit XII- Pithampur , India	This facility offers commercial manufacturing and packaging services for oral solids.	Formulation Manufacturing	USFDA,EU GMP , Brazil ANVISA , TGA Australia
Unit XIII-Mahad, India	This facility manufactures a range of oral solids, liquid drug products, human and animal nutrition premixes & straight vitamins, both solids & liquids in bulk and sachets, and spray dried vitamin powders.	Nutrition and pharma products	USFDA, WHO-GMP
Unit XIV-Rabale, India	This facility is dedicated to innovation in new product development, cost optimization, and novel route scouting projects for generic APIs. The R&D team develops novel/non-infringing process for APIs and is supported by state-of-the-art, best in class, analytical research capabilities.	R&D - API Development	
Unit XV- Turbhe, India	This facility has been focused on peptide APIs for the last 40 years, offering a legacy of strong capabilities in peptide chemistry. It is one of the few pure-play peptide API companies in the world.	API manufacturing - Peptide API Development and Manufacturing	USFDA , EDQM and KFDA approved
Unit XVI- Thane, India	This facility focuses on activities related to research and development of Active Pharmaceutical Ingredients (APIs) specifically made up of peptides.	R&D- Peptide API	
Unit XVII- Dahej , India	Situated near Vadodara, India, this facility is an 11-acre premise equipped with high-quality advanced fluorination equipment and a state-of-the-art manufacturing facility for key starting raw materials and specialty chemicals	Intermediates manufacturing - Anaesthesia Manufacturing	WHO-GMP

Source: Company

The company has 17 development and manufacturing facilities across the globe with capabilities in sterile development and manufacturing, API development and manufacturing, formulation development and manufacturing, drug discovery and 121 manufacturing of nutrition products

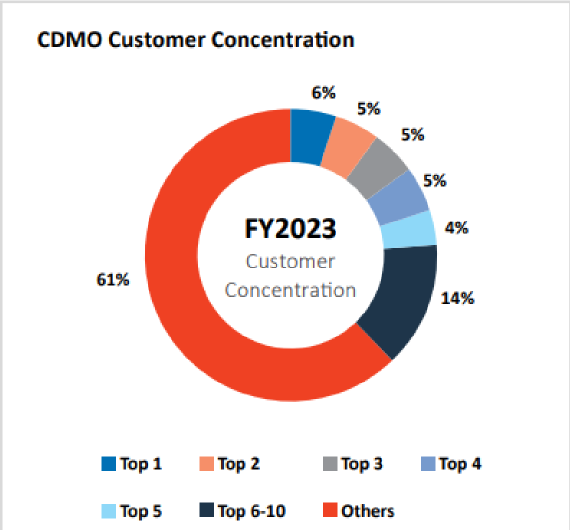
Key materials and suppliers

Piramal Pharma procures essential raw material from a broad base of domestic and international suppliers. The also relies on third parties for manufacturing of finished goods. The key raw material used by the company include: API for formulations, key starting material and intermediaries for internally manufactured API and other material, such as excipients, manufacturing consumables, lab chemicals and packaging material. For its ICH business, main products, such as baby diapers, baby wipes, medicated soap, lacto lotions and antacid liquids the are manufactured by third parties. Most of the suppliers are primarily located in India, US, Europe and China specially for Raw materials, packaging and finished goods are sourced from these countries Suppliers are chosen on the basis of their ability to adhere to stringent quality standards in accordance with regulations. Despite inflationary pressures, Piramal contributes around 23% of revenue on raw material in FY23.

Piramal Pharma's worldwide customer reach with robust distribution network

CDMO

The company has 500 customers in CDMO owing to its extensive network of facilities across North America, the UK and India providing global delivery capabilities. This helps the company to cater to a large, diversified customer base across geographies.

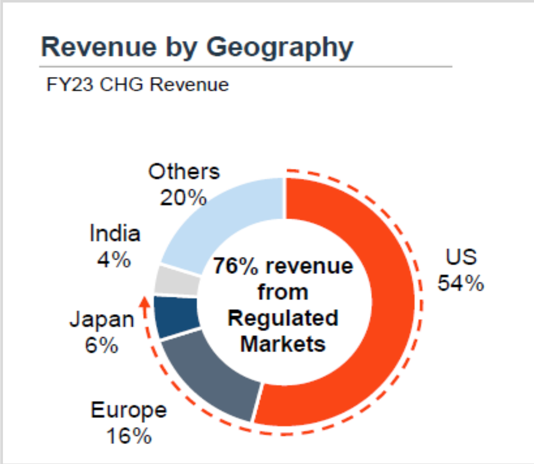


Source: Company PPT

PPL enjoys long-standing relationship with top 20 clients, where the average relationship tenure is 12 years.

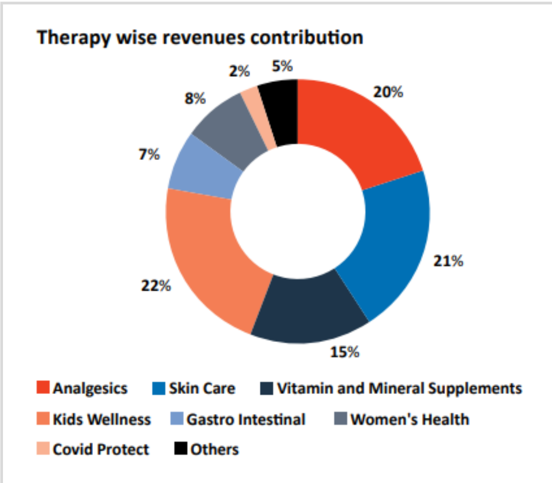
PPL is focused on offering a one-stop shop for developing and manufacturing drugs, all under one roof. This way, they can better tailor their services to what their customers need.

CHG Business: Its CHG business is present in over 100 countries and the products are sold to hospitals, surgical centres, and veterinary clinics. PPL has direct sales force in the US and with strong GPO relationships. It also has direct-to-market access in key European countries and has local marketing partnerships in Japan and South Africa.



Source: Company PPT

ICH business: The company's OTC products are distributed through a wide network, where it partners with various distributors. They, in turn, supply it to several chemists, grocers, modern trade and kids stores across the country. These distributors are listed on several e-commerce portals. The business operates on an asset-light model with products being manufactured at the third parties PPL has also launched its direct-to-customer platform, wellify.in and has also entered into agreements with media houses to manage its social media platforms and promote its brands-through celebrity endorsements and trade promotions. The media spends are mainly for the power brands which comprise of brands such as Lacto Calamine, Little's, Polycrol, Tetmosol and I-range.

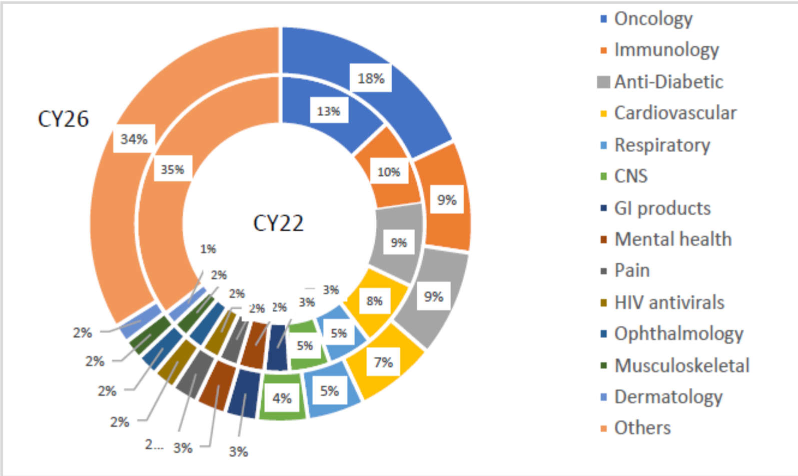


Source: Company PPT

Driving innovation through continued focus on R&D

Significant R&D spend and penetration of specialty drugs to continue to boost pharmaceutical growth across major markets, such as the US and Europe. Rise in chronic illnesses and a growing number of clinical trials worldwide further drive the market. Additionally, the increase in the popularity of biologics, the need for rare-disease drugs (orphan drugs) and advancements in clinical trial technology contribute to this positive outlook. Notably, emerging economies, such as China and India are experiencing a surge in pharmaceutical research and development, potentially shifting the industry's focus from traditional markets.

Therapeutic segment of pharma market



Source:Annual Report, Company PPT

PPL conducts research and development to find new sustainable chemical routes for pharmaceutical products. It is undertaking development activities for oral solids and sterile injectables, in addition to other API. PPL has research and development centres in Mumbai, Ennore, Ahmedabad and Thane.

In FY21-22, the company spent 6.86% of its revenue for R&D, which has increased to 8.06% in FY22-23. This increase suggests a strong commitment to innovation and development of products and technologies.

Key structural trends driving growth

Contract development and manufacturing

- The COVID-19 pandemic posed operational challenges for the pharmaceuticals industry. Also, it offered opportunities for the industry in terms of providing COVID-19 vaccines and vaccines. A number of CDMOs signed vaccine manufacturing agreements with vaccine development companies to scale up the manufacturing process and fast-track global vaccine delivery
- Drug regulators are driving a shift towards diversified sourcing in pharmaceutical production. This emphasises use of multiple manufacturers, such as CDMOs., Diversified sourcing will lead to stability in supply.
- India's robust chemistry skills, talented workforce and cost-effectiveness are making it a leader in pharmaceutical R&D outsourcing. Not only are R&D costs lower, but the country boasts of the most FDA-approved plants globally. Also, India has a large and diverse population which allows for testing across a wide range of genetic variations, giving a better picture of a drug's safety and efficacy. Furthermore, highly skilled professionals come at a fraction of the cost compared to the US and Europe.

Complex hospital generic

- There has been increase in research activities in complex generic space. In the recent years, pharmaceutical companies have been streamlining their R&D activities to focus on more value-added drugs, such as complex generics. Industry players have been focusing their R&D activities to cater to these types of products in specialty and complex drugs.
- The complex generics have seen higher traction in recent years, especially in the regulated markets, such as the US and Europe because of increase in the share of complex ANDAs.
- Pharmaceuticals players across the globe track patent exclusivity of key drugs as their R&D activity starts well in advance. The time-to-market of new products is an important factor of pharmaceutical player’s competitive advantage. Generic pharmaceutical companies in particular tend to improve their market position by being first in the market when a patent on an original product expires. The expiry (for original products) presents an opportunity for generic companies to launch their generic versions. The number of products going off-patent in the United States are set out below :

Sr.No	Year	Number of products going off patent
1	2023	346
2	2024	406
3	2025	253
4	2026	183
5	2027	118

Source: USFDA orange book files, CRISIL MI&A

Indian consumer healthcare

- Increase in focus on personal health and the convenience of self-care options facilitate the option among people towards OTC medication for minor ailments
- The rise in conditions, such as digestive issues, cough and pain is driving the demand for OTC drugs as a readily available solution for self-treatment
- In areas where medical infrastructure is inadequate or resources are lacking, readily available OTC medication offers a convenient alternative for common health concerns

Recent Quarter Result update

- In Q3FY24, the company posted consolidated revenue of Rs19,590 mn compared to Rs17,160 mn in the corresponding quarter last year, indicating a rise of 14%. The revenue growth was lower than expected because of slowdown in biotech funding, delayed decision making by CDMO customers and a muted demand in Vitamins and Generic API portfolio.

- The earnings before interest, tax, depreciation and amortisation (EBITDA) grew by 94% Y-o-Y owing to a reduction in raw material cost and energy prices, operating leverage, cost optimisation and PPL's operational initiatives . The profitability of the CDMO business was significantly impacted by inflationary pressures caused by higher utility cost, raw materials prices and wage inflation, along with sub-optimal utilization levels at some of its facilities leading to under absorption of fixed costs.

- In Q3FY24, the CDMO segment achieved a growth of 12% Y-o-Y, largely owing to receiving new orders, specifically in the commercial manufacturing of on-patent molecules. CDMO also saw a good demand for the company's differentiated offering

- The CHG segment witnessed a growth of 12% Y-o-Y, which was attributed to the volume expansion in the inhalation anaesthesia portfolio in the US market
- The ICH segment also grew by 12% Y-o-Y due to the launch of six new products and three new Stock Keeping Units (SKUs) during Q3 FY24

- The company declared a net profit of Rs 101.1 mn. The company provided for INR 322.7 mn of exceptional expenses related to product recall by one of its suppliers, which reduced its consolidated net profit

Financials (Consolidated)

Profit and loss statement

Particulars (in mn)	FY23	FY24E	FY25E	FY26E	CAGR (FY23-FY26E)
Revenue from operations	70,820	80,090	92,190	106,210	14.5%
Gross Profit	43,780	49,520	57,000	65,670	14.4%
Gross Margin (%)	*62%*	*62%*	*62%*	*62%*	~
EBITDA	6,280	11,210	15,670	20,180	47.5%
EBITDA Margin (%)	*9%*	*14%*	*17%*	*19%*	1.82bps
Depreciation	6,770	6,930	7,430	7,960	5.5%
Other income	2,250	2,000	1,750	1,500	12.6%
Finance cost	3,440	2,720	2,720	2,720	7.5%
Share of net profit of associates	540	540	540	540	0
Profit before tax	-1,200	4,110	7,810	1,155	~
Tax	660	1,030	1,950	289	63.6%
PAT	-1,860	3,080	5,860	866	~
Reported EPS (in rs)	-1.6	2.3	4.4	6.5	~

Balance sheet

Balance Sheet (in mn)	Mar-22	Mar-23	Mar-24E	Mar-25E	Mar-26E
Fixed asset	37,160	44,410	46,920	48,510	49,670
Intangible asset	43,360	44,460	42,700	41,160	39,820
Other non current asset	67,80	8,000	8,000	8,000	8,000
Inventories	13,890	16,810	10,970	12,630	14,550
Investments	500	4,270	5,270	6,,270	7,270
Trade Receivables	17,850	17,990	18,650	21,970	21,820
Cash & Cash equivalent	2,280	1,960	4,660	5,550	11,730
Bank balances other	1,010	1,120	1,120	1,120	1,120
Other current asset	5,140	6,200	6,200	6,200	6,200
TOTAL ASSETS	**127,970**	**145,220**	**144,490**	**151,410**	**160,180**
Equity share capital	66,970	67,740	82,070	87,380	95,500
Total debt	41,280	56,370	40,950	40,950	40,950
other non current liability	3,460	4,000	4,000	4,000	4,000
Provisions	470	600	600	600	600
Trade Payables	10,260	11,930	12,290	13,890	14,550
Other Current Liability	5,540	4,600	4,600	4,600	4,600
Total Equity & Liability	**127,970**	**145,220**	**144,490**	**151,410**	**160,180**

Key Ratios

Particulars	Mar-22	Mar-23	Mar-24E	Mar-25E	Mar-26E
RoE(%)	6%	-3%	4%	7%	9%
RoCE(%)	5%	-1%	5%	9%	13%
Net debt / EBITDA (X)	4	8	4	3	2
Receivables days	99	93	85	87	75
Inventory days	77	87	50	50	50
Payable days	57	61	56	55	50

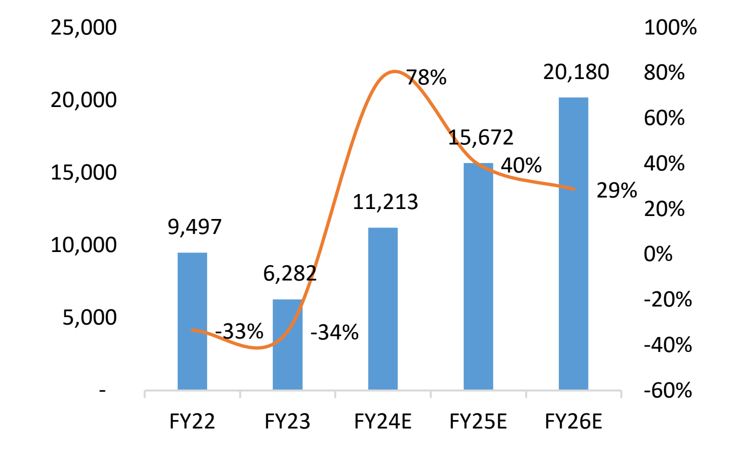
Cash Flow

Cash flow (in mn)	Mar-22	Mar-23	Mar-24E	Mar-25E	Mar-26E
Profit/ (Loss) before share of net profit of associates, exceptional items and tax	4,410	-1,680	3,560	7,270	11,000
Cash Generated from Operations	12,280	9,680	11,210	15,670	20,180
Cash generated from investing	-18,120	-13,390	-6,480	-6,530	-7,080
Cash Generated from Financing Activities	7,940	8,180	-6,350	-2,720	-2,720
NET CASH	**2,280**	**1,960**	**4,660**	**5,550**	**11,730**

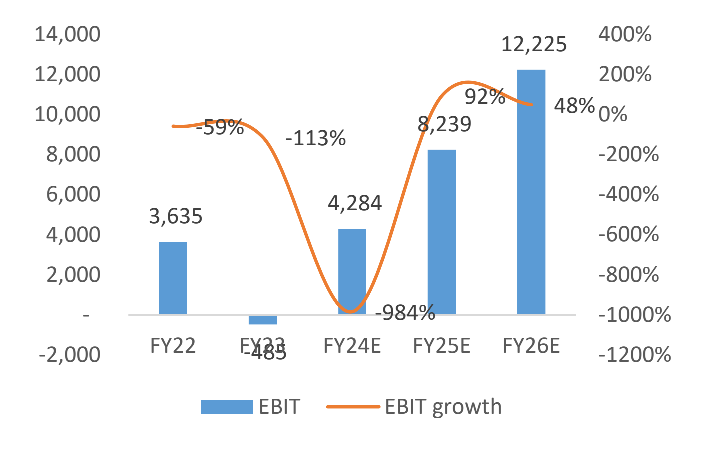
Source: Company, ACMIIL institutional research

Story in Charts

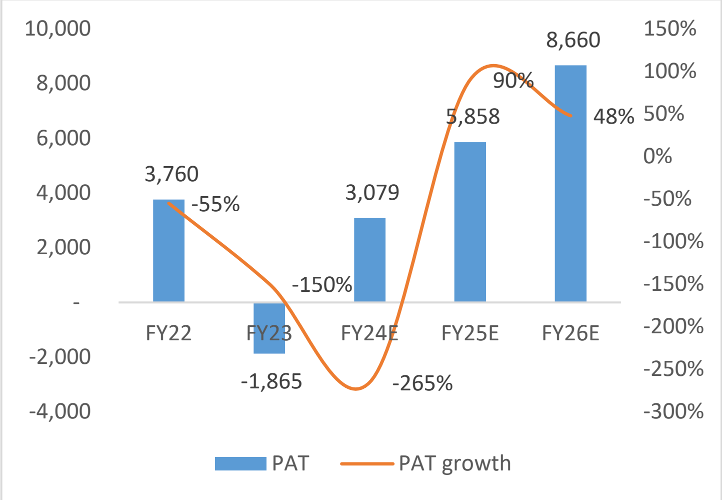
EBITDA and EBITDA growth



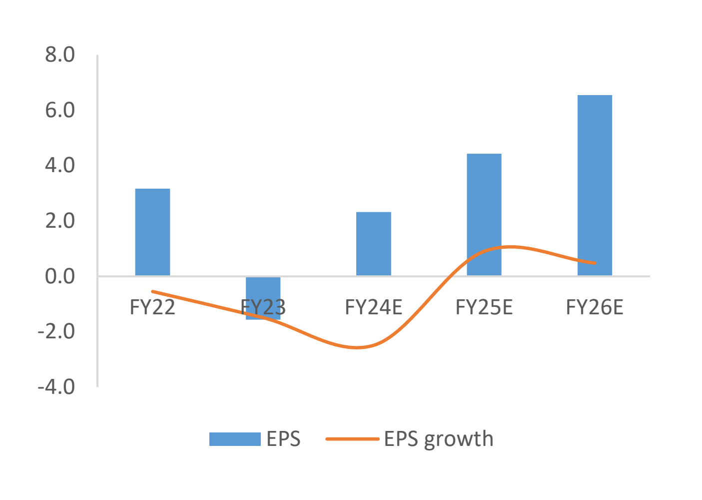
EBIT and EBIT growth



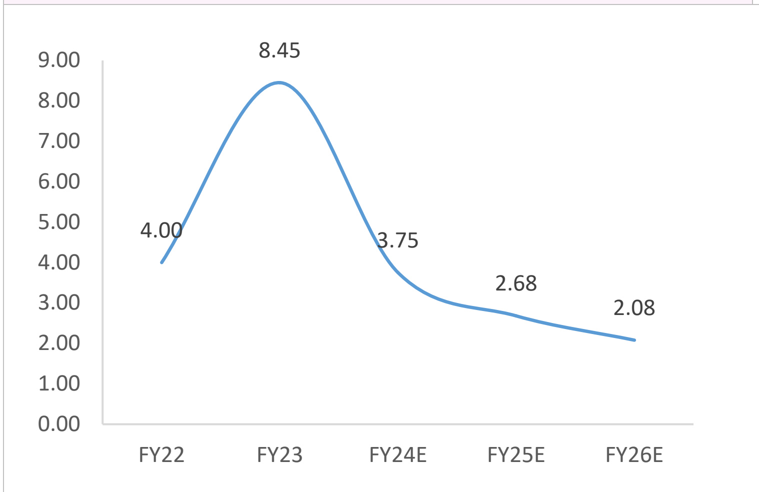
PAT and PAT growth



EPS



Net debt to EBITDA (x)



Source: Company, ACMIIL institutional research

PEERS

Piramal Vs Peers in CDMO business:

Particulars	Revenue (₹mn)	EBITDA (₹mn)	EBITDA Margin (%)	PAT (₹ mn)	EPS (₹ per share)	PE (x)
Divis Lab	77,675	23,641	30.40%	18,233	68.69	64.8
Laurus Lab	60,405	16,059	26.60%	7,901	14.69	116
Syngene	31,929	9,594	30%	4,644	11.59	55.8

Source: Company, ACMIIL institutional research

While Piramal Pharma holds the third-largest position in revenue generation for innovative CDMO services. However, its EBITDA margins falls short as compared to its competitors. Its EBITDA was mainly hit due to reduction in funding environment for biotech and regulatoy attrition at the customer's end. The company expects to see revival in this driven by expected stability in interest rate policies, favourable revenue mix, normalisation of raw material cost and cost-optimisation initiatives.

Piramal Vs Peers in CHG business:

Particulars	Revenue (₹ mn)	EBITDA (₹ mn)	EBITDA Margin (%)	PAT (₹ mn)	EPS (₹ per share)	PE (x)
Glenmark	1,29,901	19,578	15.10%	2,972	10.53	214
Alkem	1,15,993	15,893	13.70%	9,842	82.31	34.4
Strides	36,884	3,403	9%	-2,123	-22.49	~

Source: Company, ACMIIL institutional research

Piramal's US business is growing faster than its peers. This segment enjoys margins higher than traditional generics owing to few competitors and complex products.

Piramal Vs Peers in ICH business:

Particulars	Revenue (₹ mn)	EBITDA (₹ mn)	EBITDA Margin (%)	PAT (₹ mn)	EPS (₹ per share)	PE (x)
Mankind	87,494	19,051	21.80%	12,819	32	53.4
Sanofi	28,511	8,037	28.20%	6,029	261.78	29.8
Cipla	2,24,732	49,190	22%	28,019	34.72	30.1

Source: Company, ACMIIL institutional research

Compared to its peers, Piramal is poised for fast-growing consumer health care business. Its focus on alternative distribution channels and tech-enablement is expected to drive growth.

Management

Nandini Ajay Piramal : She is the Chairperson and Executive Director of our Company. She holds a bachelor's of arts (honours) degree in philosophy, politics and economics from Hertford College, University of Oxford and a master's degree in business administration from the Leland Stanford Junior University, USA. She heads the human resources function, the information technology function and handles the quality unit of our Company.

Peter Daniel DeYoung : He is an Executive Director of our Company and the Chief Executive Officer of Piramal Global Pharma. He holds a bachelor's degree in science (engineering) from Princeton University, USAHe has spearheaded several leadership mandates at the Piramal group, including as the chief executive officer of Piramal Critical Care and President, Piramal Life Sciences. Previously he worked at Mckinsey & Company and at Blackstone Advisors India Private Limited, in its private equity business group.

Vivek Valsaraj : He is an Executive Director and the Chief Financial Officer of the Company. He holds a bachelor's degree in commerce from University of Bombay and he is an associate member of Institute of Cost Accountants of India. He is currently overseeing the finance and shared services functions of the Company. He has been associated with the Piramal group for over 22 years and has served various roles across corporate and the domestic formulations business.

Neeraj Bharadwaj is a Non-Executive Director of our Company. He holds a bachelor's degree in science (economics) from University of Pennsylvania, USA, where he graduated summa cum laude and a master's degree in business administration from Harvard University, USA. He is currently the managing director of Carlyle India Advisors Private Limited which is focused on growth capital and buyout opportunities across sectors in India.

Nathalie Ann Leitch is a Non-Executive Director of our Company. She holds a bachelor's degree in science from Trinity College, University of Toronto, and a master's degree in business administration from Queen's University, Kingston Canada. Previously, she has held senior positions with Actavis, Inc., Teva Pharmaceuticals Industries Limited and Fresenius Kabi USA, LLC and has several years of experience in the pharmaceutical markets.

Jairaj Manohar Purandare is a Non-Executive Independent Director of our Company. He holds a bachelor's degree in science from University of Bombay and is a qualified chartered accountant. He has several years of experience in taxation. He has advised clients across various industries such as financial services, infrastructure, power, telecom, media, pharma and auto sectors.

Peter Andrew Stevenson is a Non-Executive Independent Director of our Company. He holds a bachelor's degree in arts from Gettysburg College, USA. He currently serves on the board of Uniting to Combat Neglected Tropical Diseases. In 2019, he retired from Pfizer from the role of Vice President, General Manager, Pfizer CenterOne.

Ramadorai Subramanian is a Non-Executive Independent Director of our Company. He holds a bachelor's degree in science (physics- honours) from University of Delhi, India and a bachelor's degree in electrical communication engineering from the India Institute of Science, Bangalore, India

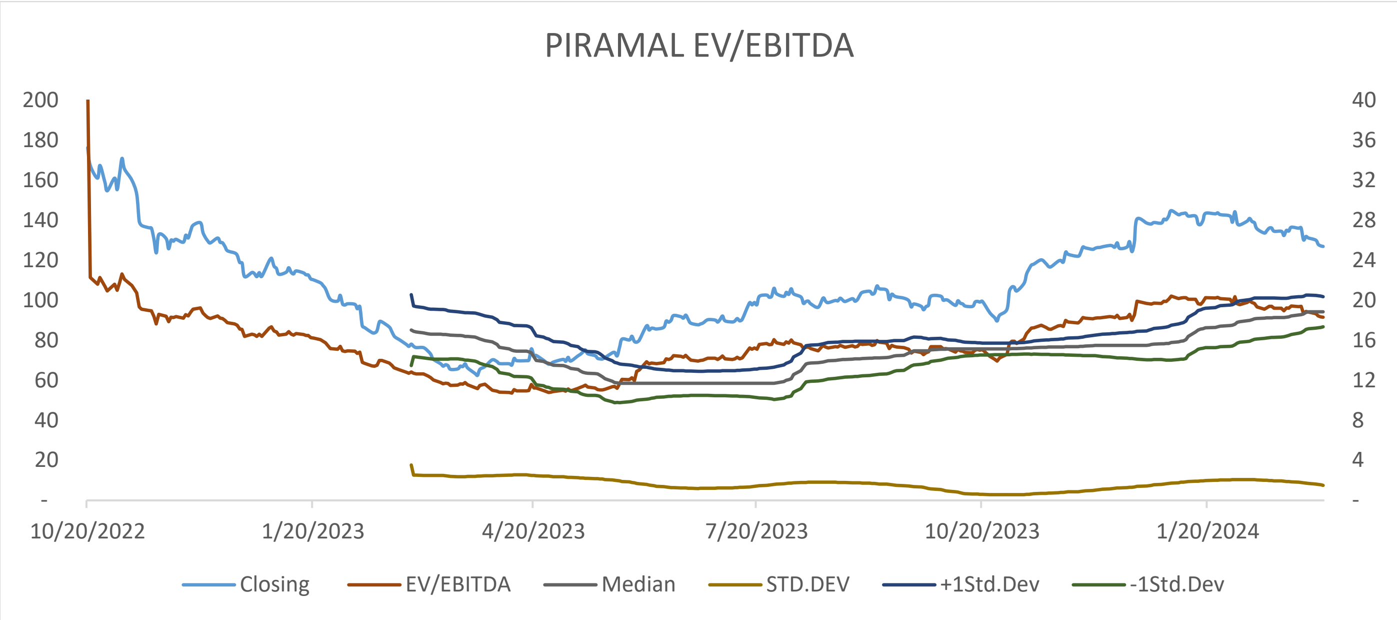
Sridhar Gorthi is a Non-Executive Independent Director of our Company. He holds a bachelor's degree in arts and law (honours) from the National Law School of India University, Bengaluru, India and is registered as an advocate with Bar Council of Maharashtra & Goa.

Vibha Paul Rishi is a Non-Executive Independent Director of our Company. She holds a bachelor's degree in economics from Lady Sri Ram College, University of Delhi, India and holds a master's degree in business administration from Faculty of Management Studies, University of Delhi.

Valuation Table

Valuation	
EBITDA for the year ending 2026	2,018
EV/EBITDA multiple	13
Target EV	26,235
Gross debt as in Sept 2023	3,823
Cash as in Sept 2023	252
Target Value of Equity	22,663
Value per share	**171**
CMP	129
Potential upside	32%

Source: Acmiil institutional equities



Source: ACMIIL Institutional research

Corporate Governance

Piramal Pharma was demerged from Piramal Enterprise and was listed in October, 2022

Related-party transactions

V. Related-party Transactions			
Sr	Subject	Compliance status (Yes/No/NA)	If status is 'No,' details of non-compliance may be given here
1	Whether prior approval of audit committee obtained	Yes	-
2	Whether shareholder approval obtained for material RPT	NA	-
3	Whether details of RPT entered into pursuant to omnibus approval have been reviewed by audit committee	Yes	-
Disclosure of notes on related-party transactions			-
Disclosure of notes of material transaction with related party			-

Managerial remuneration

Particulars (₹ mn)	FY23	FY22
Ms. Nandini Piramal	51.38	47.38
Mr. Peter DeYoung	51.62	51.14
Mr. Vivek Valsaraj	29.47	25.82
Mr. S. Ramadorai	4.5	4.5
Mr. Jairaj Purandare	4.35	4.35
Mr. Sridhar Gorthi	0.75	0.75
Mr. Neeraj Bharadwaj	-	N.A
Mr. Peter Stevenson	0.35	0.35
Ms. Nathalie Leitch*	0.35	0.35
Ms. Vibha Paul Rishi**	0.45	0.45
Ms. Tanya Sanish	3.24	0.71
Total	146.46	135.8
Total Remuneration as % of Sales	2%	2%
Total Remuneration as % of PBT	~	28%

Source: Annual report FY23

Insider Trading

As per BSE, there is no record of insider trading.

Risks

High dependence on CDMO business: A significant portion of the company's income is dependent on CDMO business. Around 56% of revenue of FY23 was derived from CDMO. Increase in competition, pricing pressure or fluctuation in general demand or supply of these products and services might have a huge impact on its sales and margins. This,in turn, will have an adverse effect on its business, financial condition, cash flows and results of operations.

Cost of raw material and third-party manufacturing: The company's cost of material constitutes one of the largest components of its expenses. In the FY22, FY23 and 9MFY24, its cost of raw material consumed was ₹15,670 mn ₹16,820 mn and ₹15,770 mn, respectively, representing 25%, 23% and 27% of the total expenses. PPL also depends on third-party suppliers for certain raw material and finished products. The company typically does not enter into long-term supply contracts with any of its suppliers and, instead, negotiated and places purchase orders with them from time to time. Hence, the company is exposed to fluctuations in availability and prices of raw material.

Forex fluctuation risk: The company derived about 80% of its overall revenue in FY23 from exports, thus it is exposed to the foreign currency fluctuation risk. PPL's offshore pharma operations are in USD, Euro and GBP. The currencies in which these transactions are primarily denominated are US dollars, Euro, Yen and other currencies. As a result, there is a natural hedge for the company to an extent.

High debt burden: Acquisitions funded by debt have led to a moderately high debt structure for Piramal Pharma. This can be risky if interest rates rise or cash flow weakens, making it difficult to service debt. A majority of company's debt is dollar-denominated; any policy change by FOMC, such as rate hike, will affect financials of the company. Around 78% of its debt is from foreign sources.

Regulatory risk: Owing to its global presence and focus on regulated markets, such as the US and the UK, Piramal Pharma faces constant scrutiny. Non-compliance with continuous change in regulations or issues during inspections could lead to production halts, product recalls and hefty fines. Not only this disrupts operations and finances, but it also affects PPL's reputation, potentially impacting future sales and partnerships.

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	<-10%
HOLD	<-10% to 15%

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CIN: U65990MH1993PLC075388

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