

Piramal Pharma

Estimate change



TP change



Rating change



Bloomberg	PIRPHARM IN
Equity Shares (m)	1326
M.Cap.(INRb)/(USDb)	339.2 / 4
52-Week Range (INR)	260 / 88
1, 6, 12 Rel. Per (%)	23/75/146
12M Avg Val (INR M)	1179
Free float (%)	65.1

Financials & Valuations (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	91.9	106.5	123.9
EBITDA	14.3	19.0	23.5
Adj. PAT	3.2	6.9	10.0
EBIT Margin (%)	7.3	10.4	12.2
Cons. Adj. EPS (INR)	2.4	5.2	7.5
EPS Gr. (%)	471.2	114.7	45.2
BV/Sh. (INR)	69.0	74.7	83.1

Ratios

Net D:E	0.5	0.4	0.4
RoE (%)	4.0	8.0	10.6
RoCE (%)	3.8	6.4	8.0
Payout (%)	17.6	17.6	17.6

Valuations

P/E (x)	105.9	49.3	33.9
EV/EBITDA (x)	26.7	20.0	16.2
Div. Yield (%)	0.1	0.3	0.4
FCF Yield (%)	0.0	0.0	0.0
EV/Sales (x)	4.2	3.6	3.1

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	35.0	35.0	35.0
DII	13.8	31.0	26.1
FII	32.2	13.9	14.7
Others	19.1	20.2	24.2

FII Includes depository receipts

CMP: INR256
TP: INR310 (+21%)
Buy

Operating performance above est.; FY25 guidance intact

- Piramal Pharma (PIRPHARM) delivered better-than-expected operational performance in 2QFY25 fueled by superior traction in the CDMO segment (59% of sales). Following earnings deterioration in FY23/FY24, PIRPHARM is exhibiting healthy recovery in 1HFY25. Considering the advancement in clinical development of certain CDMO projects, the company is investing USD80m to double its sterile fill-finish capacities at the Lexington site.
- We trim our FY25/FY26/FY27 estimates by 6%/3%/4% to factor in: 1) higher financial leverage, and 2) ongoing supply-chain issues in the injectable pain management segment. Compared to 15%/37% YoY revenue/EBITDA growth for 1HFY25, we expect 11%/15% YoY growth in revenue/EBITDA to INR50b/INR9b in 2HFY25.
- We value PIRPHARM on an SOTP basis (20x EV/EBITDA for the CDMO business, 12x EV/EBITDA for the complex hospital generics (CHG) business, and 13x EV/EBITDA for the India consumer products (ICP) business) to arrive at our TP of INR310. With enhanced inquiries on the CDMO front at industry level in India, we believe PIRPHARM is well poised to benefit from its differentiated capabilities and capacities. Further, it is increasing its offerings in the CHG segment through an established global network. Accordingly, we expect its PAT to scale up to INR7b by FY26 from INR560m in FY24. **Reiterate BUY.**

Segmental mix impact more than offset by higher operating leverage

- PIRPHARM's revenue rose 17% YoY to INR22.4b (our est.: INR22.1b) for the quarter. The CDMO segment's (59% of total sales) revenue rose 24% YoY to INR13.2b. The CHG (29% of total sales) revenue rose 9% YoY to INR6.4b. The ICP (12% of total sales) revenue grew 8% YoY to INR2.8b.
- Gross margin contracted 220bp YoY to 64.5% due to product mix change.
- However, EBITDA margin expanded 130bp YoY to 15.2% (our est: 11.8%), due to lower staff costs/other expenses (down 200/150bp as a % of sales).
- EBITDA grew 28.6% YoY to INR3.4b (our est.: INR2.6b) for the quarter.
- Adj profit came in at 4.5x YoY to INR226m (our est: INR255m) for the quarter, fueled by improved EBITDA and higher other income.
- For 1HFY25, its revenue/EBITDA grew 15%/37% YoY to INR42b/INR5.5b, while adj. loss for 1HFY25 declined 29% YoY to INR662m.

Highlights from the management commentary

- The company has reiterated its full-year guidance of early-teen growth in revenue and EBITDA.
- The company expects 2H to be better than 1H. Having said this, 3QFY25 margins could get hit due to a one-off opex in CHG business.
- PIRPHARM is seeing a rise in order inquiries and site visits, driven by the Biosecure Act and supply chain diversification efforts. This is expected to help the company gradually secure more business over the medium term.

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Income statement

(INR m)

	FY24				FY25E				FY24	FY25E	FY25E	% var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	
Revenues	17,489	19,114	19,586	25,524	19,511	22,418	21,956	27,950	81,712	91,835	22,119	1%
growth YoY(%)	18.0	11.1	14.1	18.0	11.6	17.3	12.1	9.5	15.4	12.4	15.7	
Expenses	16,165	16,457	16,902	20,224	17,467	19,001	19,137	21,954	69,749	77,558	19,519	
CDMO	8,980	10,680	11,340	16,490	10,570	13,240	12,701	17,865	47,490	54,376	12,816	3%
CHG	6,170	5,890	5,760	6,770	6,310	6,430	6,509	7,308	24,590	26,557	6,538	-2%
ICP	2,390	2,560	2,520	2,380	2,640	2,770	2,747	2,777	9,850	10,934	2,765	0%
EBITDA*	1,323	2,657	2,684	5,299	2,044	3,416	2,820	5,997	11,963	14,276	2,600	31%
margin (%)	7.6	13.9	13.7	20.8	10.5	15.2	12.8	21.5	14.6	15.5	11.8	
growth YoY(%)	55.5	54.0	124.1	50.9	54.5	28.6	5.1	13.2	64.2	19.3	-2.1	
Depreciation	1,736	1,845	1,863	1,961	1,846	1,922	1,900	1,886	7,406	7,554	1,850	
EBIT	-413	812	821	3,338	198	1,494	920	4,110	4,557	6,722	750	99%
Other income	383	492	615	264	195	611	700	694	1,754	2,200	430	
Interest expense	1,185	1,099	1,059	1,142	1,070	1,076	980	794	4,485	3,920	962	
Share from Asso. Co	144	191	140	120	224	173	210	193	595	800	162	
PBT	-1,071	396	516	2,580	-452	1,201	850	4,203	2,421	5,802	380	216%
EO Expenses/(gain)	-	-	323	310	-	-	-	-	633	-	-	
Taxes	-85	345	93	1,262	436	975	280	920	1,615	2,611	125	
Tax Rate (%)	8.0	87.3	47.8	55.6	-96.4	81.2	33.0	21.9	90.3	45.0	33.0	
Reported PAT	-986	50	101	1,008	-888	226	569	3,284	173	3,191	255	-11%
Adj. PAT	-986	50	350	1,146	-888	226	569	3,284	560	3,191	255	-11%
Change (%)	NA	LP	LP	128.6	NA	348.2	62.7	186.6	NA	469.7	405.0	

E: MOFSL Estimates

Key takeaways from the management commentary

- The tax rate for 2QFY25 has been elevated due to higher taxes in some jurisdictions.
- Overall, the biotech funding has improved over the last one year; however, the same has remained uneven across the months.
- PIRPHARM is expanding the capacity at its Lexington unit to more than double from its current size. This expansion is expected to be commercialized by the end of FY27.
- The entire capex of USD80m for the Lexington facility would be funded by the company.
- In ICH business, the growth in i-range was adversely impacted due to regulatory-mandated price reductions.
- PIRPHARM is looking to widen its distribution network, transitioning from a pharmacy dominant to an omnichannel in the consumer healthcare business. Further, it is planning to expand its presence in smaller towns and rural areas.
- In CHG business, the injectable pain management growth remained subdued due to supply chain issues.
- The company expects the ETR for the full year to be over 50%.

Efforts across segments underway to further boost earnings

CDMO: Positive industry outlook/differentiated offerings to sustain growth momentum

- In 1HFY25, CDMO sales grew 21% YoY to INR23.8b, driven by steady order inflows mainly for commercial manufacturing of on-patent molecules and YoY improvement in demand for API business.
- With improving biotech funding and a shift in sourcing from China due to the Bio-secure Act, medium- to long-term opportunities will be created. To capitalize on this, PIRPHARM is building differentiated capabilities.
- Further, to improve profitability, the company is increasing the contribution from innovation-related work and differentiated offerings and improving operational efficiency.
- Additionally, the company is expanding its capacity at the Lexington facility by investing USD80m. It expects the same to commercialize by the end of FY27.
- We expect 18% sales CAGR over FY25-27 to INR75.7b in this segment.

CHG: Building niche pipeline/expanding reach to fuel growth

- In 1HFY25, CHG sales grew 6% YoY to INR12.7b, primary on account of volume-led growth in IA in the US and EM markets, partly offset by pricing pressure.
- PIRPHARM is launching new products, including 505(b)(2), complex and differentiated generics, in the US/EU markets in FY25, which would drive growth. Additionally, the company has 24 new products under various phases of development, with an addressable market of over USD2b.
- Moreover, the company intends to increase its IA market share in ROW in FY25. It plans to commercialize the additional line at the Digwal facility and KSM manufacturing facility at Dahej in FY26, supporting medium-term growth.
- EBITDA margin is improving due to a better product mix and cost optimization.
- We expect the CHG segment to post 13% sales CAGR to INR34b over FY25-27.

Expanding reach/investing in brands to drive growth in ICH

- In 1HFY25, ICH sales increased 9% YoY to INR5.4b. This was driven by strong growth in power brands (up 18% YoY), offset by an adverse regulatory impact of price reductions on i-range.
- Additionally, in 2QFY25, e-commerce sales grew 32% YoY and accounted for 20% of ICH revenues vs. 16% in 2QFY24.
- In addition to new launches, PIRPHARM is investing in power brands by increasing advertisement spending. Further, the company plans to expand its reach in smaller towns and rural areas.
- We expect the ICH segment to post 13% sales CAGR to INR14b over FY25-27.

Reiterate BUY

- We trim our FY25/FY26/FY27 estimates by 6%/3%/4% to factor in: 1) higher financial leverage, and 2) ongoing supply-chain issues in the injectable pain management segment. Compared to 15%/37% YoY revenue/EBITDA growth for 1H, we expect 11%/15% YoY growth in revenue/EBITDA to INR50b/INR9b in 2HFY25.
- We value PIRPHARM on an SOTP basis (20x EV/EBITDA for the CDMO business, 12x EV/EBITDA for the complex hospital generics (CHG) business, and 13x EV/EBITDA for the India consumer products (ICP) business) to arrive at our TP of INR310. With enhanced inquiries on the CDMO front at industry level in India, we believe PIRPHARM is well poised to benefit from its differentiated capabilities and capacities. Further, it is increasing its offerings in the CHG segment through an established global network. Accordingly, we expect its PAT to scale up to INR7b by FY26 from INR560m in FY24. **Reiterate BUY.**

Story in charts

Exhibit 1: Expect 18% sales CAGR in CDMO over FY25-27

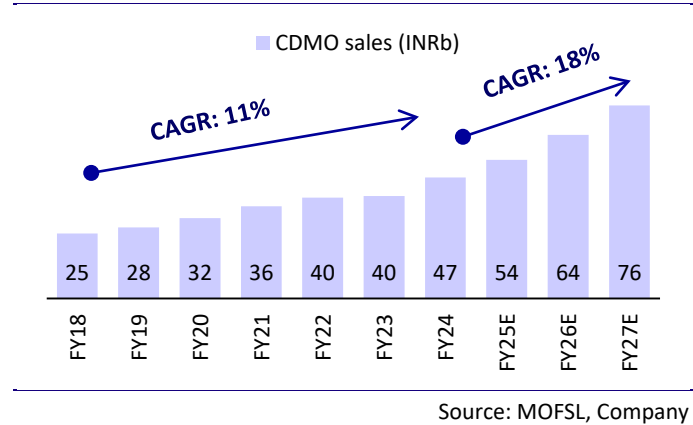


Exhibit 2: Expect 13% sales CAGR in CHG over FY25-27

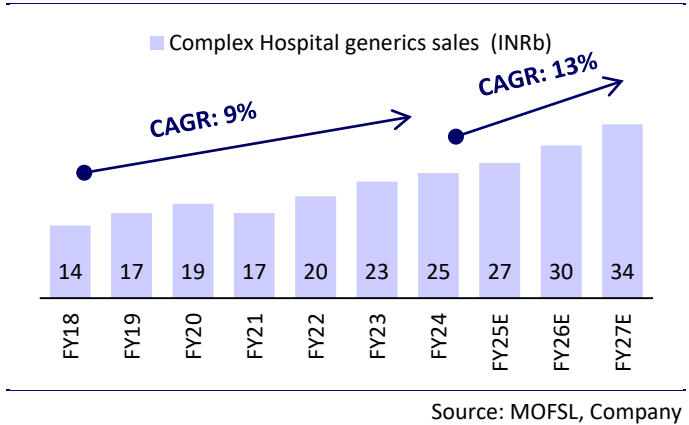


Exhibit 3: Expect 13% sales CAGR in ICH over FY25-27

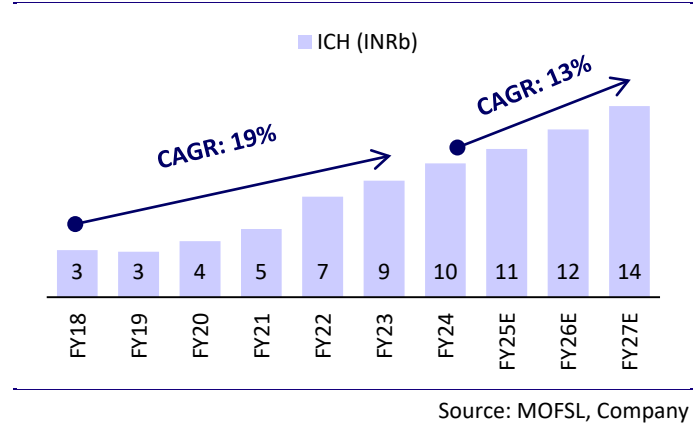
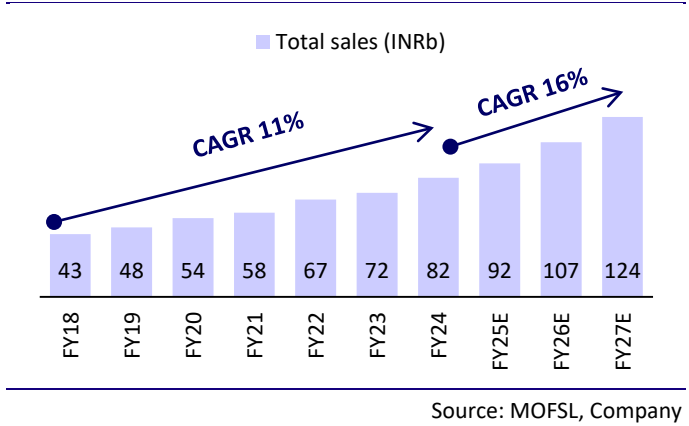


Exhibit 4: Expect 16% CAGR in total sales over FY25-27



Financials and valuations

Consolidated - Income Statement						(INR m)
Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	65,591	70,816	81,712	91,858	1,06,528	1,23,949
Change (%)	NA	8.0	15.4	12.4	16.0	16.4
EBITDA	9,497	7,286	11,963	14,291	19,012	23,463
Margin (%)	14.5	10.3	14.6	15.6	17.8	18.9
Depreciation	5,862	6,767	7,406	7,554	7,932	8,328
EBIT	3,635	520	4,557	6,737	11,080	15,134
Int. and Finance Charges	1,983	3,442	4,485	3,920	3,367	2,890
Other Income	2,758	2,251	1,754	2,200	2,350	2,210
Share of net profit of associates	590	543	595	800	840	895
PBT bef. EO Exp.	5,001	-128	2,421	5,817	10,903	15,349
EO Items	151	1,074	633	0	0	0
PBT after EO Exp.	4,850	-1,202	1,788	5,817	10,903	15,349
Total Tax	1,090	663	1,615	2,618	4,034	5,372
Tax Rate (%)	22.5	-55.2	90.3	45.0	37.0	35.0
Minority Interest	0	0	0	0	0	0
Reported PAT	3,760	-1,865	173	3,199	6,869	9,977
Adjusted PAT	3,879	-798	560	3,199	6,869	9,977
Change (%)	NA	NA	NA	471.2	114.7	45.2
Margin (%)	5.9	-1.1	0.7	3.5	6.4	8.0

Cons Balance sheet						(INR m)
Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	11,859	11,933	13,230	13,230	13,230	13,230
Other equity	55,107	55,802	65,884	69,084	75,953	85,929
Net Worth	66,966	67,735	79,114	82,313	89,182	99,159
Minority Interest	0	0	0	0	0	0
Total Loans	41,283	56,421	47,102	47,102	47,102	47,102
Deferred Tax Liabilities	1,920	2,193	2,292	2,292	2,292	2,292
Capital Employed	1,10,169	1,26,349	1,28,507	1,31,707	1,38,576	1,48,552
Gross Block	36,288	42,652	49,908	51,688	54,787	59,251
Less: Accum. Deprn.	5,862	6,767	7,406	7,554	7,932	8,328
Net Fixed Assets	30,426	35,885	42,503	44,135	46,856	50,923
Goodwill on Consolidation	10,305	11,075	11,226	11,226	11,226	11,226
Intangible assets	33,053	33,382	31,672	31,672	31,672	31,672
Capital WIP	6,732	8,529	5,657	5,657	5,657	5,657
Total Investments	3,123	2,334	2,611	2,611	2,611	2,611
Curr. Assets, Loans&Adv.	36,043	43,078	49,535	51,397	58,295	66,847
Inventory	13,888	16,814	21,759	22,667	26,312	30,243
Account Receivables	17,853	17,993	21,344	23,153	25,684	29,204
Cash and Bank Balance	3,290	3,076	4,826	3,971	4,694	5,794
Loans and Advances	1,013	5,195	1,606	1,606	1,606	1,606
Curr. Liability & Prov.	13,172	13,600	19,501	19,796	22,546	25,188
Account Payables	10,264	11,927	15,384	15,679	18,429	21,071
Other Current Liabilities	2,445	1,074	3,358	3,358	3,358	3,358
Provisions	464	599	759	759	759	759
Net Current Assets	22,871	29,478	30,034	31,601	35,749	41,659
Deferred Tax assets	2,973	3,493	3,865	3,865	3,865	3,865
Misc Expenditure	687	2,172	940	940	940	940
Appl. of Funds	1,10,169	1,26,349	1,28,507	1,31,707	1,38,576	1,48,552

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)						
EPS	2.9	-0.6	0.4	2.4	5.2	7.5
Cash EPS	8.2	5.0	6.7	9.0	12.4	15.3
BV/Share	56.1	56.8	66.3	69.0	74.7	83.1
DPS	0.4	0.5	0.1	0.4	0.8	1.1
Payout (%)	15.6	NA	57.0	17.6	17.6	17.6
Valuation (x)						
P/E	87.3	NA	604.6	105.9	49.3	33.9
Cash P/E	31.4	51.2	38.3	28.4	20.6	16.7
P/BV	4.6	4.5	3.9	3.7	3.4	3.1
EV/Sales	5.7	5.5	4.7	4.2	3.6	3.1
EV/EBITDA	39.7	53.8	31.8	26.7	20.0	16.2
Dividend Yield (%)	0.1	0.2	0.0	0.1	0.3	0.4
FCF per share	0.0	0.0	0.0	0.0	0.0	0.0
Return Ratios (%)						
RoE	5.8	-1.2	0.8	4.0	8.0	10.6
RoCE	9.2	3.7	0.5	3.8	6.4	8.0
RoIC	5.8	1.4	0.8	6.2	11.1	14.6
Working Capital Ratios						
Asset Turnover (x)	0.6	0.6	0.6	0.7	0.8	0.8
Inventory (Days)	77	87	97	90	90	89
Debtor (Days)	99	93	95	92	88	86
Creditor (Days)	57	61	69	62	63	62
Leverage Ratio (x)						
Net Debt/Equity	0.5	0.8	0.5	0.5	0.4	0.4

Cons Cash flow statement

(INR m)

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	4,410	-1,675	1,198	5,817	10,903	15,349
Depreciation	5,862	6,767	7,406	7,554	7,932	8,328
Interest & Finance Charges	1,983	1,983	1,983	1,983	1,983	1,983
Direct Taxes Paid	-1,694	-1,694	-1,694	-1,694	-1,694	-1,694
(Inc)/Dec in WC	-3,013	-2,710	-2,520	-2,422	-3,425	-4,810
CF from Operations	7,664	4,839	10,046	12,251	14,742	16,385
Others	0	0	0	0	0	0
CF from Operating incl EO	7,664	4,839	10,046	12,251	14,742	16,385
(Inc)/Dec in FA	-8,571	-9,451	-7,104	-9,186	-10,653	-12,395
Free Cash Flow	-907	-4,612	2,941	3,066	4,089	3,990
(Pur)/Sale of Investments	-485	-3,751	2,724	0	0	0
Investment in Associate	-7,907	0	0	0	0	0
Others	-1,158	-186	40	0	0	0
CF from Investments	-18,121	-13,388	-4,340	-9,186	-10,653	-12,395
Issue of Shares	0	0	10,359	0	0	0
Inc/(Dec) in Debt	9,830	11,558	-9,965	0	0	0
Interest Paid	-1,388	-2,710	-4,618	-3,920	-3,367	-2,890
Dividend Paid	-500	-670	0	0	0	0
CF from Fin. Activity	7,942	8,178	-4,224	-3,920	-3,367	-2,890
Inc/Dec of Cash	-2,515	-371	1,482	-854	722	1,100
Opening Balance	2,620	3,290	3,076	4,825	3,971	4,693
Closing Balance	105	2,919	4,557	3,971	4,693	5,793
Unrealized loss / (gain) on forex	747	52	178	0	0	0
Term Deposit with Banks	2,438	105	90			
Total Cash & Cash Eq	3,290	3,076	4,825	3,971	4,693	5,793

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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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