

25 September 2024

India | Equity Research | Company Update

## Piramal Pharma

Pharma

### Setting precedence for profitable growth

Piramal Pharma (Piramal) has laid down a pathway for achieving 13%/23% revenue/EBITDA CAGR over FY24–30E driven by its CDMO and complex hospital generics (CHG) businesses. It expects the innovative CDMO business to grow faster driven by supplies for a cholesterol lowering drug, other 16 commercial molecules and 33 projects under phase 3. Piramal is also among the top three companies manufacturing antibody-drug conjugate (ADC) products and is collaborating with clients to add more products. CHG business is likely to grow at a steady pace of ~13% over FY24–30E with stable margins of 25%; consumer health business' focus is to improve scale (revenue CAGR of 9%) and achieve double-digit margins by curbing marketing/other overhead cost. We lower our rating to **ADD**, and raise TP to INR 245.

### Innovative CDMO to grow fastest

The innovative CDMO business accounted for 50% of CDMO segment revenue and grew 31.9% YoY in FY24. Sales of the 17 commercial molecules rose 123% YoY to USD 116mn and the company has further 151 projects under development including 33 projects in phase 3 which could be commercialised in next 2–3 years. In innovative CDMO, the company has superior margins; this, along with healthy revenue traction in commercial and development molecules, will likely drive 13% CAGR in overall CDMO revenue to USD 1.2bn over FY24–30E with EBITDA margins of over 25%.

### New facilities in India to reinvigorate growth in CHG business

The CHG business saw sales of USD 300mn and margins of 25% in FY24. Piramal ranks among the top four companies in the global inhalation anaesthesia market. The market is tightly held – the top four companies command ~90% market share. Ahead, Piramal aims to grow its revenue from this segment by ~13% to USD 600mn in FY30 with margins of ~25%.

### Stronger profitability on the cards in consumer health business

Piramal's India Consumer Healthcare is set for a turnaround, as the company aims to scale up its revenue at a 9% CAGR to USD 200mn in the next six years and achieve double-digit EBITDA margins. Power brands (45% of sales) grew at a faster pace of 32% CAGR over FY21–24; ahead, it will likely outperform overall market growth. Piramal is also focusing on improving its network (add 1,000 cities), aiming to make its big brands bigger and driving operating leverage by curbing overhead and marketing cost.

### Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	70,816	81,712	93,143	1,07,689
EBITDA	7,523	11,963	14,530	19,276
EBITDA Margin (%)	10.6	14.6	15.6	17.9
Net Profit	168	241	2,253	5,394
EPS (INR)	0.1	0.2	1.7	4.1
EPS % Chg YoY	(95.7)	43.3	836.4	139.4
P/E (x)	(154.4)	1,616.0	127.8	53.4
EV/EBITDA (x)	44.3	27.2	22.4	16.8
RoCE (%)	2.7	0.5	3.3	5.8
RoE (%)	0.2	0.3	2.8	6.4

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#### Market Data

Market Cap (INR)	289bn
Market Cap (USD)	3,449mn
Bloomberg Code	PIRPHARM IN
Reuters Code	PIRM.BO
52-week Range (INR)	244 /88
Free Float (%)	46.0
ADTV-3M (mn) (USD)	18.9

Price Performance (%)	3m	6m	12m
Absolute	38.7	79.5	121.8
Relative to Sensex	28.9	62.9	93.1

Earnings Revisions (%)	FY25E	FY26E
Revenue	-	-
EBITDA	-	1.7
EPS	(0.4)	3.4

#### Previous Reports

28-07-2024: [Q1FY25 results review](#)

13-05-2024: [Q4FY24 results review](#)

### FY30 guidance sets good growth visibility

Management has laid a roadmap to achieve 13% revenue CAGR over FY24–30 driven by the CDMO and CHG businesses. It also targets for over 1,000bps EBITDA margin improvement over the next six years to ~25%, driven by better utilisation in overseas plants and higher sales share from the innovative portfolio. Lower tax rate may potentially elevate PAT margins to 13–14%; Piramal also aims to pare its net debt to EBITDA at ~1x by FY30 as against less than 3x currently. It also aims for a RoCE between 14–16% by FY30.

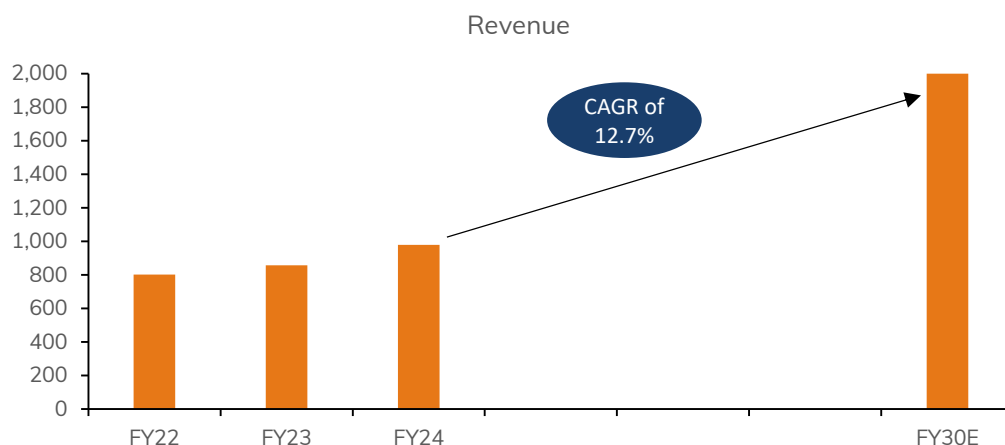
### Valuation and risks

Piramal's innovative CDMO segment is seeing early signs of improvement in biotech funding and the management is focusing on improving capacity utilisation of existing sites and scale up innovation CDMO business. Better inflow of early-stage molecules, coupled with scaling up of late phase three products (33 molecules in phase 3) to ensure faster growth of the segment ahead. CHG business has faced a hurdle due to limited supplies from third party contract manufacturers and price erosion, owing to which the company is expanding capacities (USD 85–90mn capex in FY25E) in India to better tackle competition and is also conducting additional studies (opex of USD 8–9mn in FY25E) to improve product acceptability. Momentum in ICH business will be maintained; the company has forayed into men's grooming segment and its brand CIR is has been well received in adults' hygiene segment. Management has curbed advertisement expenditure at 13% of ICH revenue and profitability improvement is the key focus for this segment. The company also aims to incur maintenance capex of INR 3–3.5bn while net debt to EBITDA will be reduced from less than 3x currently to ~1x by FY30.

We raise our FY26E EBITDA and PAT estimates by ~2%/3% each, respectively. Steady new order inflow in CDMO business and commercialisation of pipeline projects may drive revenue/EBITDA/PAT CAGR of ~15%/27%/373% over FY24–26E with 326bps improvement in margin to ~17.9% in FY26E. The stock is trading at 22.7x/17x for FY25E/FY26E EV/EBITDA. The stock has risen ~30% in the last two months; hence, we lower our rating to **ADD** (from Buy) with a revised SoTP-based target price of INR 245 per share (INR 200 earlier).

**Key downside risks:** Failure to commercialise innovative products; regulatory hurdle; and high product concentration.

### Exhibit 1: Targets to achieve USD 2bn revenue by FY30

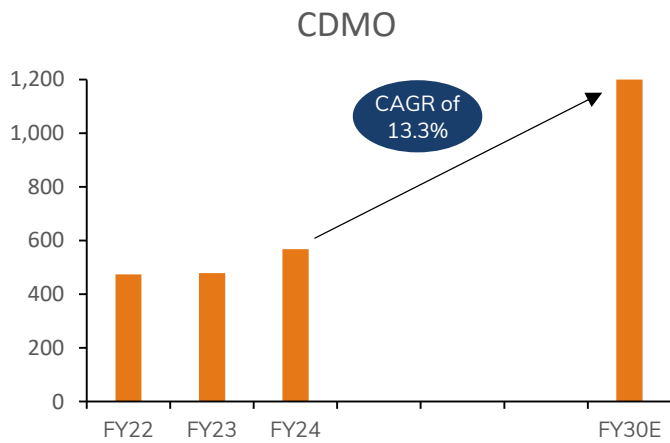


Source: I-Sec research, Company data

## Innovative CDMO poised for strong growth ahead

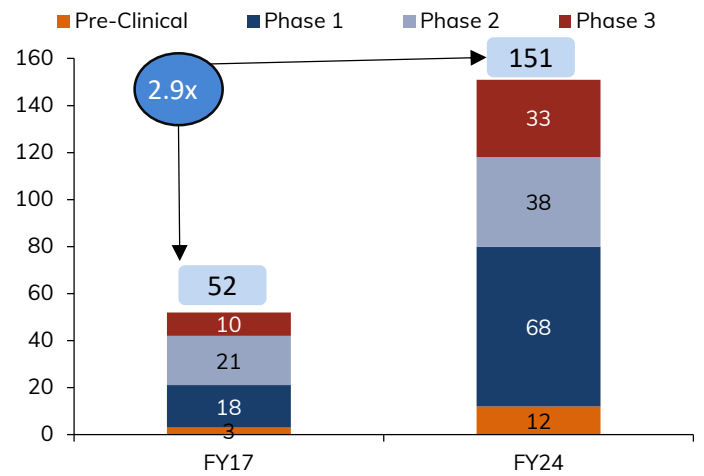
The global CDMO market is expected to grow at a CAGR of 7–8% as per industry reports supported by increasing chronic and age-related disorders, rising investments in R&D to develop advance therapeutic, evolving regulations and increasing demand for generic drugs. Piramal has a deep development pipeline of 151 projects across multiple phases of molecule life cycle. Over 50% of its revenue comes from innovation related work. Contribution of differentiated offerings to CDMO revenue increased from 27% in FY21 to 44% in FY24. Focus on differentiated offerings with lower competition and higher margins, increase in integrated orders with higher value proposition and increased contribution from innovation related work will likely drive margins. Management aims to achieve sales of USD 1.2bn (13% CAGR) with over 25% margin in FY30 mainly driven by its innovative business.

**Exhibit 2: CDMO revenue to grow at a CAGR of 13.3% over FY24-30**



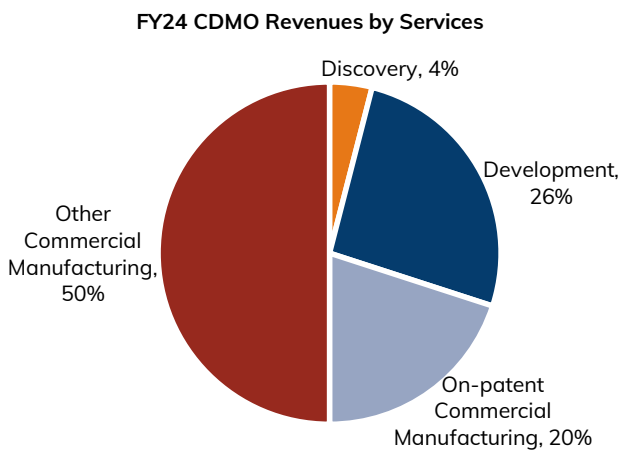
Source: I-Sec research, Company data

**Exhibit 3: Deep development pipeline across clinical phases**



Source: I-Sec research, Company data

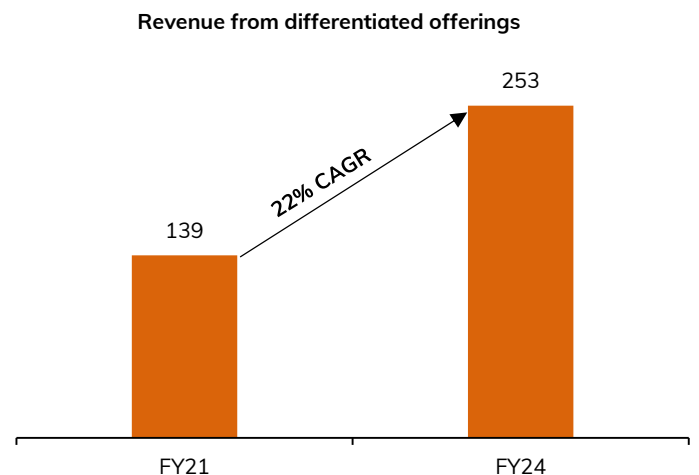
**Exhibit 4: Innovation CDMO accounts for 50% of CDMO revenue**



Source: Company data, I-Sec research

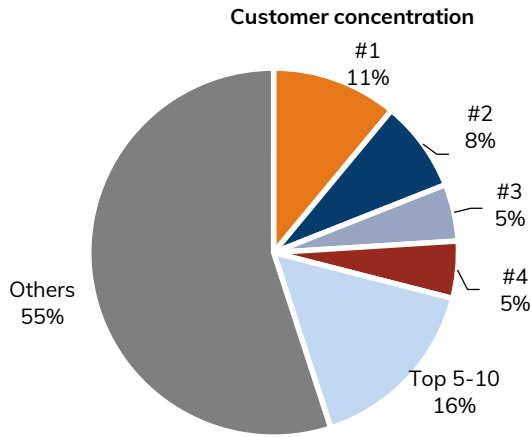
Note- 50% of revenues from Innovation related work

**Exhibit 5: Differentiated offerings account for 44% of CDMO revenue**



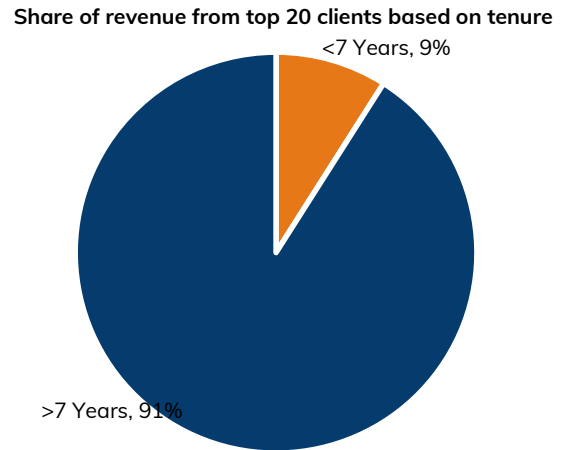
Source: Company data, I-Sec research

**Exhibit 6: Relatively low customer concentration**



Source: Company data, I-Sec research

**Exhibit 7: Long standing relationships with top 20 clients**



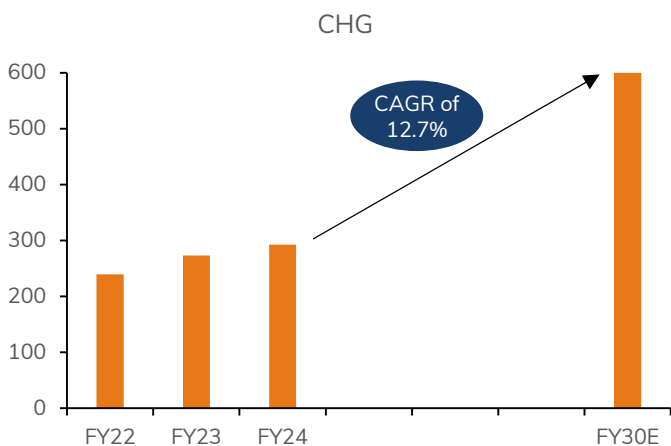
Source: Company data, I-Sec research

**Dominance in complex hospital generics to drive steady growth**

Piramal’s CHG portfolio consists of differentiated offerings, which are complex and have high entry barrier due to higher capex requirement deriving 70% of the revenue from regulated markets of US, Europe and Japan. The company aims to defend its dominant position in US and expand presence in Europe and other emerging markets.

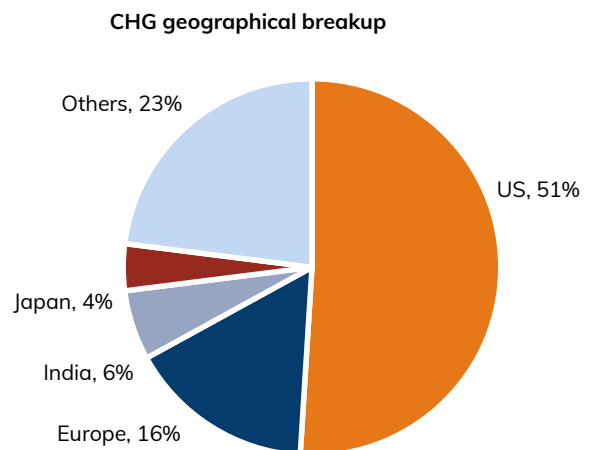
The company is building on its experience with differentiated and specialty products in its existing portfolio (e.g. Gablofen, Mitigo, Neoatricon). Neoatricon is an orphan drug with 10-year exclusivity and is likely to be launched in Europe and UK by end-FY24. Sevoflurane has peaked out in US; however, it has opportunity to grow in Europe, Latam, Brazil and APAC to grow the business. CHG segment had sales of USD 300mn with healthy EBITDA margins of 25% in FY24 and the company aims to achieve revenue of USD 600mn (13% CAGR) by FY30.

**Exhibit 8: CHG revenue to grow at a CAGR of 12.7% over FY24-30**



Source: I-Sec research, Company data

**Exhibit 9: Regulated markets contribute over 70% of revenue**



Source: I-Sec research, Company data

**Exhibit 10: 24 products are under various stages of pipeline**



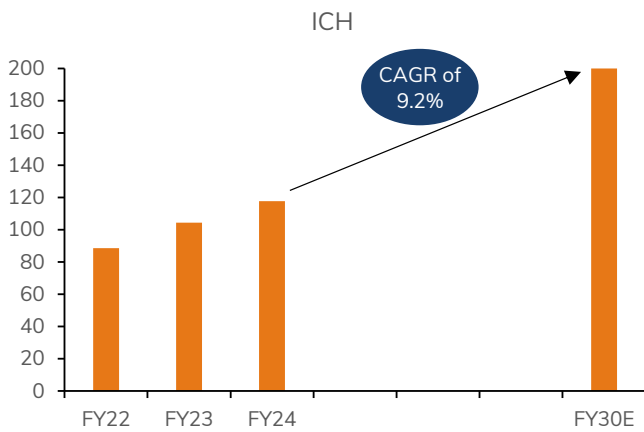
Source: Company data, I-Sec research

**Consumer health focus – big brands bigger, enhance profitability**

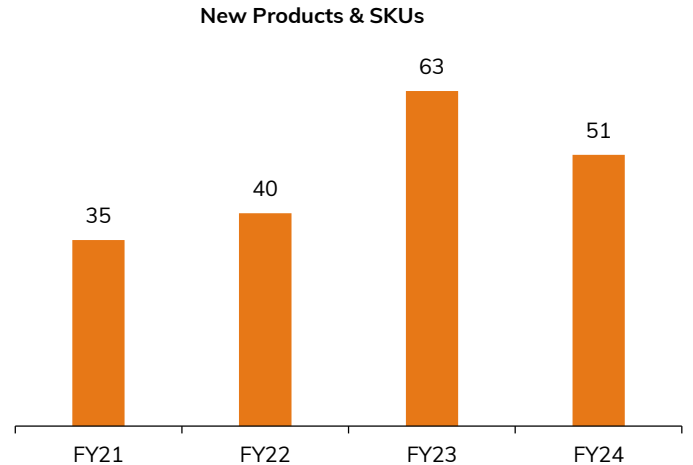
Piramal’s ICH portfolio sales have almost trebled in the last five years at a CAGR of 23%. Power brands, such as Little's, Lacto Calamine, i-range, CIR, Tetmosol, and Polycrol, contributed 45% to the ICH revenue. E-commerce channel provides good platform for new product launches and contributed ~20% to ICH revenues in FY24 versus 10% in FY21. ICH had revenue of USD 118mn in FY24 which the management aims to scale up to USD 200mn (9% CAGR) with double-digit EBITDA margins by FY30.

**Exhibit 11: ICH revenue to grow at a CAGR of 9.2% over FY24-30**

**Exhibit 12: Healthy new product addition in last few years**



Source: Company data, I-Sec research



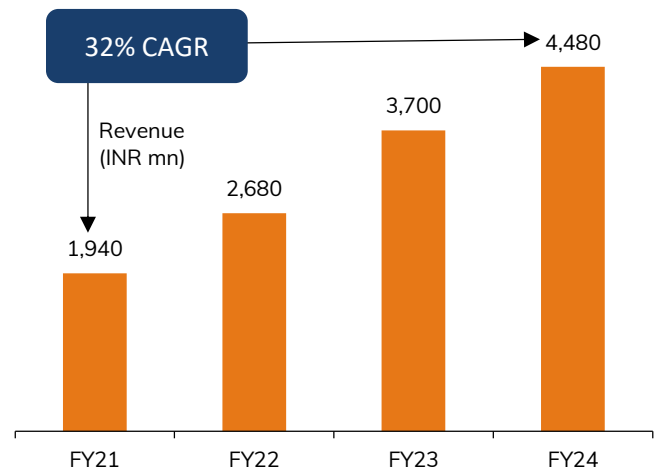
Source: Company data, I-Sec research

**Exhibit 13: Power brands account for 45% of ICH revenue**

**Exhibit 14: Power brands have grown faster at 32% over FY21-24**



Source: Company data, I-Sec research



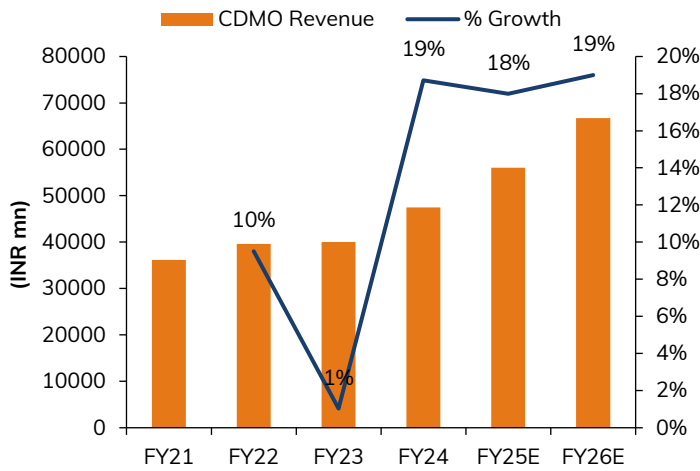
Source: Company data, I-Sec research

**Exhibit 15: Diversified portfolio of over 25 brands**

Category	Skin Care	Kids Wellness	Adult Incontinence	Women Intimate Health & Hygiene	Digestives	VMS	Analgesics	Cold & Flu
Market Size (US\$ Mn)	2000	1740	140	450	430	1400	820	1500
Category Growth	13%	9%	8%	10%	10%	8%	12%	15%
Core Brands	Lacto Calamine	Littles	CIR	i-range	Polycrol	Supradyn	Saridon	Alaspan
	6	5	1	2	2	5	1	
Market Positioning and Ranking	40-years heritage synonymous with 'calamine' segment under Face lotions category	Wide range of Wipes, Diapers, Toys, Feeding & Personal care products	1st in Adult Diapers on Amazon	Synonymous with creating emergency contraceptive category in India	Antacid Liquid 23% Share (East)	Strong brand heritage	50-years heritage and household name	

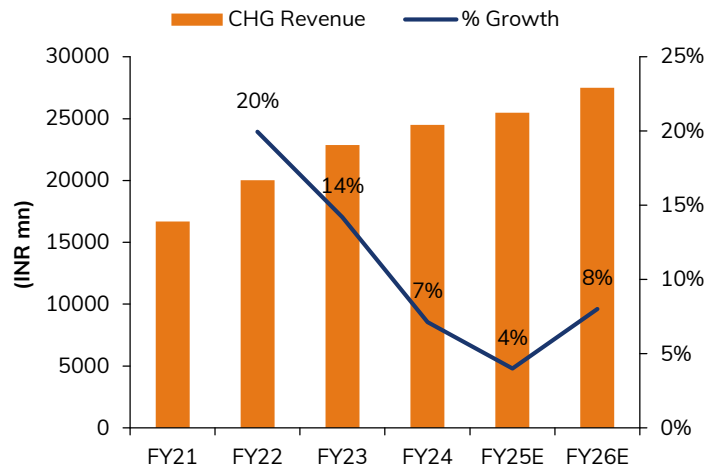
Source: Company data, I-Sec research

**Exhibit 16: Innovative business to scale up CDMO revenue to ~INR 67bn by FY26E**



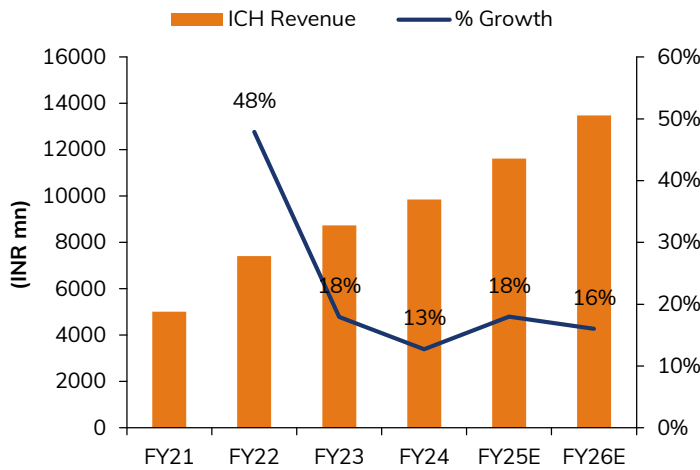
Source: I-Sec research, Company data

**Exhibit 17: CHG business may grow at nominal 6% CAGR over FY24-26E**



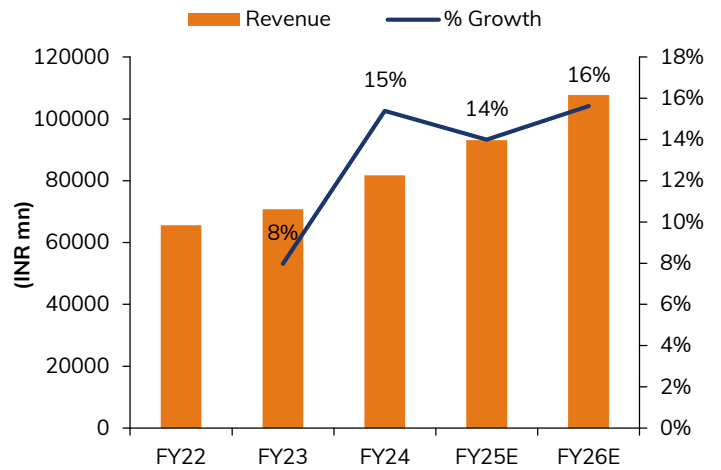
Source: I-Sec research, Company data

**Exhibit 18: New launches and better brand recall to drive growth**



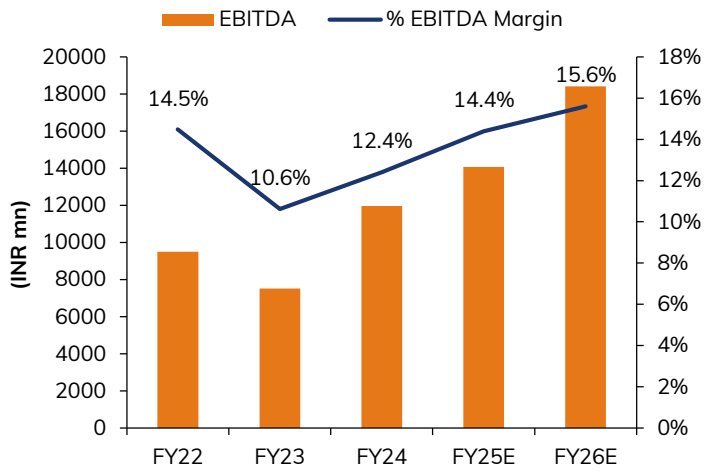
Source: I-Sec research, Company data

**Exhibit 19: Revenue likely to touch INR 108bn by FY26E**



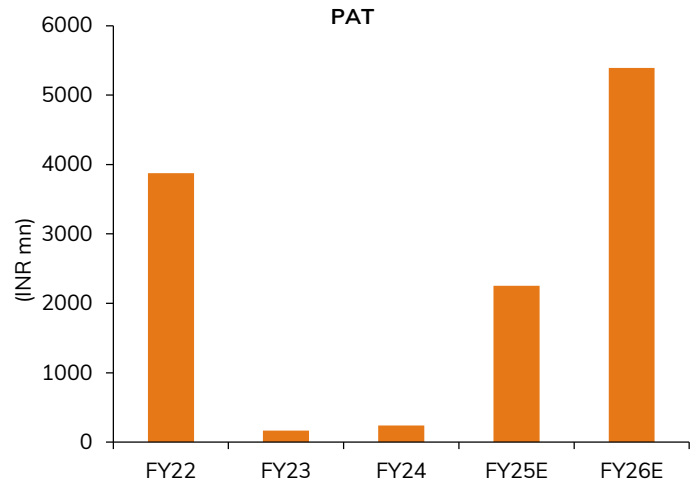
Source: I-Sec research, Company data

**Exhibit 20: EBITDA margin may expand 326bps to ~18% over FY24-26E**



Source: I-Sec research, Company data

**Exhibit 21: On a low base, PAT may grow at a faster pace**



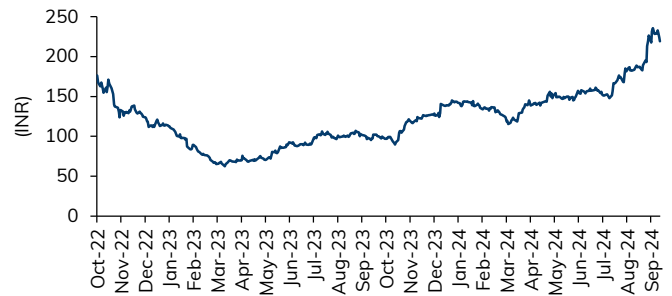
Source: Company data, I-Sec research

**Exhibit 22: Shareholding pattern**

%	Dec'23	Mar'24	Jun'24
Promoters	35.0	35.0	35.0
Institutional investors	42.2	42.7	44.3
MFs and others	6.3	9.0	10.1
FIs/Banks	0.0	0.0	0.0
Insurance	2.9	2.6	2.4
FIIIs	33.1	33.1	31.8
Others	22.8	22.3	20.7

Source: Bloomberg

**Exhibit 23: Price chart**



Source: Bloomberg

## Financial Summary

### Exhibit 24: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	70,816	81,712	93,143	1,07,689
<b>Operating Expenses</b>	<b>36,260</b>	<b>40,209</b>	<b>45,174</b>	<b>50,506</b>
EBITDA	7,523	11,963	14,530	19,276
<b>EBITDA Margin (%)</b>	<b>10.6</b>	<b>14.6</b>	<b>15.6</b>	<b>17.9</b>
Depreciation & Amortization	6,767	7,406	7,801	8,430
EBIT	756	4,557	6,729	10,846
Interest expenditure	3,442	4,485	4,239	4,004
Other Non-operating Income	2,251	1,754	1,403	1,473
Recurring PBT	(1,745)	1,198	3,893	8,316
<b>Profit / (Loss) from Associates</b>	<b>543</b>	<b>595</b>	<b>613</b>	<b>674</b>
<b>Less: Taxes</b>	<b>663</b>	<b>1,615</b>	<b>2,253</b>	<b>3,596</b>
PAT	(2,408)	(417)	1,640	4,720
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	(1,865)	178	2,253	5,394
<b>Net Income (Adjusted)</b>	<b>168</b>	<b>241</b>	<b>2,253</b>	<b>5,394</b>

Source Company data, I-Sec research

### Exhibit 25: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	43,160	53,039	58,335	68,757
of which cash & cash eqv.	3,076	4,826	3,656	6,311
Total Current Liabilities & Provisions	17,218	22,942	24,972	27,299
<b>Net Current Assets</b>	<b>25,941</b>	<b>30,097</b>	<b>33,363</b>	<b>41,458</b>
Investments	6,390	3,850	3,850	3,850
Net Fixed Assets	33,630	38,726	38,926	37,496
ROU Assets	2,255	3,776	3,776	3,776
Capital Work-in-Progress	14,186	11,158	10,158	9,158
Total Intangible Assets	38,801	37,397	37,397	37,397
Other assets	2,387	1,149	1,149	1,149
Deferred Tax Assets	3,493	3,865	3,865	3,865
<b>Total Assets</b>	<b>1,28,007</b>	<b>1,30,176</b>	<b>1,32,664</b>	<b>1,38,357</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>55,048</b>	<b>45,589</b>	<b>45,589</b>	<b>45,589</b>
<b>Deferred Tax Liability</b>	<b>2,193</b>	<b>2,292</b>	<b>2,292</b>	<b>2,292</b>
provisions	207	323	323	323
other Liabilities	1,806	1,679	1,914	2,213
Equity Share Capital	11,933	13,230	13,230	13,230
Reserves & Surplus	55,802	65,884	68,137	73,531
<b>Total Net Worth</b>	<b>67,735</b>	<b>79,114</b>	<b>81,367</b>	<b>86,761</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>1,28,007</b>	<b>1,30,176</b>	<b>1,32,664</b>	<b>1,38,357</b>

Source Company data, I-Sec research

### Exhibit 26: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	<b>4,839</b>	<b>10,045</b>	<b>10,070</b>	<b>12,658</b>
Working Capital Changes	(4,841)	(2,343)	(3,721)	(4,530)
Capital Commitments	(9,451)	(7,104)	(7,000)	(6,000)
<b>Free Cashflow</b>	<b>14,290</b>	<b>17,150</b>	<b>17,070</b>	<b>18,658</b>
<b>Other investing cashflow</b>	<b>(3,937)</b>	<b>2,764</b>	-	-
Cashflow from Investing Activities	(13,388)	(4,340)	(7,000)	(6,000)
Issue of Share Capital	-	-	-	-
Interest Cost	(2,710)	(4,618)	(4,239)	(4,004)
Inc (Dec) in Borrowings	11,558	394	-	-
Dividend paid	(670)	-	-	-
Others	-	-	0	0
Cash flow from Financing Activities	8,178	(4,224)	(4,239)	(4,004)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(371)</b>	<b>1,482</b>	<b>(1,169)</b>	<b>2,655</b>
Closing cash & balance	2,919	4,557	3,656	6,311

Source Company data, I-Sec research

### Exhibit 27: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	(1.4)	0.1	1.7	4.1
Adjusted EPS (Diluted)	0.1	0.2	1.7	4.1
Cash EPS	5.2	5.8	7.6	10.4
Dividend per share (DPS)	0.5	-	-	-
Book Value per share (BV)	51.2	59.8	61.5	65.6
Dividend Payout (%)	-	-	-	-
<b>Growth (%)</b>				
Net Sales	8.0	15.4	14.0	15.6
EBITDA	(20.8)	59.0	21.5	32.7
EPS (INR)	(95.7)	43.3	836.4	139.4
<b>Valuation Ratios (x)</b>				
P/E	(154.4)	1,616.0	127.8	53.4
P/CEPS	41.5	37.7	28.6	20.8
P/BV	4.3	3.6	3.5	3.3
EV / EBITDA	44.3	27.2	22.4	16.8
P / Sales	4.1	3.5	3.1	2.7
Dividend Yield (%)	0.2	-	-	-
<b>Operating Ratios</b>				
Gross Profit Margins (%)	61.8	63.8	64.1	64.8
EBITDA Margins (%)	10.6	14.6	15.6	17.9
Effective Tax Rate (%)	(38.0)	134.8	57.9	43.2
Net Profit Margins (%)	0.2	0.3	2.4	5.0
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.7	0.5	0.5	0.4
Net Debt / EBITDA (x)	6.1	3.1	2.6	1.8
<b>Profitability Ratios</b>				
RoCE (%)	2.7	0.5	3.3	5.8
RoE (%)	0.2	0.3	2.8	6.4
RoC (%)	2.8	0.5	3.5	6.0
Fixed Asset Turnover (x)	2.3	2.3	2.4	2.8
Inventory Turnover Days	90	104	102	100
Receivables Days	96	102	102	102
Payables Days	64	74	73	72

Source Company data, I-Sec research



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**BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return**

#### ANALYST CERTIFICATION

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