

CDMO growth momentum likely to persist...

About the stock: Piramal Pharma Limited (PPL) is part of the Piramal group of companies. The company operates in 3 major segments.

- Contract development and manufacturing organisations (CDMO)
- Complex hospital generics (critical care)
- Consumer healthcare (OTC).

PPL owns 17 development and manufacturing facilities across India, US and UK with capabilities in sterile, API, formulations, drug discovery and manufacturing of nutrition products. The company holds 49% stake in AbbVie Therapeutics, JV with Allergan, and 33.33% in Yapan Bio which operates in the biologics / bio-therapeutics and vaccine segments.

Investment Rationale:

- Q2FY25 results- CDMO continues to provide strong momentum- Revenues grew ~17% YoY to ₹ 2242 crore on the back of ~24% growth in the CDMO business (59% of sales) to ₹ 1324. Complex Hospitals Generics (29% of sales) on the other hand grew 9% to ₹ 643 crore and India Consumer Business (12% of sales) grew ~8% to ₹ 277 crore. EBITDA grew ~29% YoY to ₹ 342 crore with 134 bps margin expansion to 15.2% driven by better operating leverage and despite 216 bps de-growth in GPM.
- CDMO business was driven by order inflows, especially for on-patent commercial manufacturing. The company also witnessed good demand for differentiated offerings with increase in customer enquiries and visits. In India Consumer Business, growth was driven by new launches and 18% growth in power brands. In Complex Hospitals Generics, the growth was driven by volume growth in inhalation anaesthesia portfolio in the US and emerging markets.
- Biosecure Act enactment postponed, but other growth levers intact- Despite likely delay in the enactment of US Biosecure Act for want of passage in the US Senate, we do not see growth related issues as the China rebalancing drive (which was started way before the Biosecure build-up) by global innovators is likely to continue. Other levers such as global consolidation in the CDMO space, improving US biotech funding and extended focus on some of the blockbuster themes (GLP-1, ADCs) are likely to maintain the orderbook momentum. The guidance for FY30E for US\$ 2 billion revenues and around 25% EBITDA margins is irrespective of the positive implications of the Biosecure Act and hence provide better visibility. We roll forwards our estimates by introducing FY27E.

Rating and Target price

We now value PPL at ₹ 320 based on SoTP valuations, i.e. 21x FY27E CDMO EBITDA, 17x FY27E CHG EBITDA, 1.5x FY27E Consumer Healthcare Sales (earlier 1x), and 10x PAT from AbbVie JV.



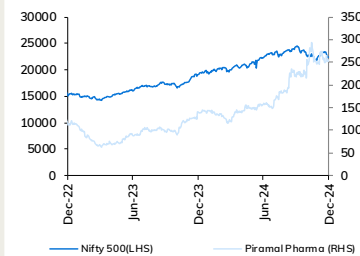
Particulars

Particular	Amount
Market Capitalisation	₹ 33338 crore
Debt (FY24)	₹ 4710 crore
Cash (FY24)	₹ 357 crore
EV	₹ 37692 crore
52 week H/L	308/114
Equity capital	₹ 1323 crore
Face value	₹ 10

Shareholding pattern

Particular	Dec-23	Mar-24	Jun-24	Sep-24
Promoters	35.0	35.0	34.9	34.9
FII's	32.5	30.6	31.4	31.7
DII's	9.7	12.1	13.0	13.8
Others	22.8	22.3	20.7	19.5

Price Chart



Key risks

- Higher sensitivity of CDMO business towards overall performance.
- Price Erosion and supply issues in CHG

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Key Financial Summary

(₹ Crore)	FY22	FY23	FY24	CAGR FY22-25 (%)	FY25E	FY26E	FY27E	CAGR FY25-27 (%)
Revenues	6559.1	7081.6	8171.2	12.4	9312.6	10575.7	11820.8	12.7
EBITDA	949.7	628.2	1196.3	13.0	1369.1	1830.9	2273.4	28.9
EBITDA Margins (%)	14.5	8.9	14.6		14.7	17.3	19.2	
Net Profit	376.0	-186.5	17.8	-41.6	75.0	457.4	746.5	215.5
Adjusted EPS (₹)	3.0	-1.4	0.6		0.6	3.5	5.7	
PE (x)	88.5	-178.4	1866.7		443.5	72.7	44.6	
EV/EBITDA (x)	39.1	60.9	31.3		27.6	20.2	15.9	
RoCE (%)	5.9	1.4	5.0		5.6	8.1	11.1	
RoE (%)	5.8	-2.7	1.0		0.9	5.5	8.2	

Exhibit 1: Quarterly Summary

(? crore)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
Net Sales	1577.5	1539.1	2131.4	1482.0	1720.0	1716.0	2163.6	1748.9	1911.4	1958.6	2552.4	1951.1	2241.8	17.3	14.9
Other Operating Income	1577.5	1539.1	2131.4	1482.0	1720.0	1716.0	2163.6	1748.9	1911.4	1958.6	2552.4	1951.1	2241.8	17.3	14.9
Variable Cost of Sales	606.0	547.4	840.0	574.3	663.9	625.3	839.7	626.7	637.7	675.2	1014.4	674.4	796.5	24.9	18.1
% of Revenue	38.4	35.6	39.4	38.8	38.6	36.4	38.8	35.8	33.4	34.5	39.7	34.6	35.5	216 bps	97 bps
Gross Profit	971.6	991.7	1291.3	907.7	1056.1	1090.7	1323.9	1122.1	1273.7	1283.4	1538.0	1276.8	1445.3	13.5	13.2
Gross Profit Margin (%)	61.6	64.4	60.6	61.2	61.4	63.6	61.2	64.2	66.6	65.5	60.3	65.4	64.5	-216 bps	-97 bps
Employee Expenses	400.0	396.2	402.9	460.5	470.1	492.2	473.5	495.5	516.0	523.8	494.2	579.7	559.5	8.4	-3.5
% of Revenue	25.4	25.7	18.9	31.1	27.3	28.7	21.9	28.3	27.0	26.7	19.4	29.7	25.0	-204 bps	-475 bps
Other Expenditure	375.0	370.0	490.5	430.0	413.5	511.1	499.1	494.3	492.0	491.3	513.9	492.6	544.1	10.6	10.5
% of Revenue	23.8	24.0	23.0	29.0	24.0	29.8	23.1	28.3	25.7	25.1	20.1	25.2	24.3	-147 bps	-97 bps
Total Operating Expendit	1381.0	1313.5	1733.4	1464.9	1547.5	1628.6	1812.3	1616.5	1645.7	1690.2	2022.4	1746.7	1900.1	15.5	8.8
% of Revenue	87.5	85.3	81.3	98.8	90.0	94.9	83.8	92.4	86.1	86.3	79.2	89.5	84.8	-134 bps	-476 bps
Operating Profit (EBITDA)	196.6	225.6	398.0	17.1	172.6	87.3	351.3	132.3	265.6	268.4	529.9	204.5	341.6	28.6	67.1
EBITDA Margin (%)	12.5	14.7	18.7	1.2	10.0	5.1	16.2	7.6	13.9	13.7	20.8	10.5	15.2	134 bps	476 bps
Depreciation	138.1	147.2	165.2	161.7	166.2	164.4	184.4	173.6	184.5	186.3	196.1	184.6	192.2	4.2	4.2
Interest	49.2	50.1	57.1	62.3	83.0	94.7	104.3	118.5	109.9	105.9	114.2	107.0	107.6	-2.0	0.6
Other Income	17.9	160.6	78.1	71.9	46.2	82.5	24.5	38.3	49.2	61.5	26.4	19.5	61.1	24.2	212.7
PBT	27.3	188.9	253.9	-135.0	-37.4	-89.2	87.1	-121.5	20.5	5.4	215.4	-67.5	102.9	403.0	-252.4
Total Tax	7.0	34.7	68.9	-6.1	11.1	16.5	44.8	-8.5	34.5	9.3	126.2	43.6	97.5	182.4	123.9
Tax rate (%)	25.8	18.4	27.1	4.5	-29.7	-18.5	51.4	7.0	168.9	171.0	58.6	-64.6	94.8	-7408 bps	15937 bps
PAT	36.6	163.4	204.1	-109.1	-37.3	-90.2	50.1	-98.6	5.0	10.1	101.3	-88.6	22.6	350.0	-125.5
PAT Margin (%)	2.3	10.6	9.6	-7.4	-2.2	-5.3	2.3	-5.6	0.3	0.5	4.0	-4.5	1.0	75 bps	555 bps

Source: Company, ICICI Direct Research

Exhibit 2: Valuation Summary

Particulars	FY27E (₹ cr)	Multiple (x)	EV (₹ cr)
CDMO EBITDA	1365.9	21.0	28,684
CHG EBITDA	828.3	17.0	14,081
Consumer Healthcare Sales	1318.7	1.5	1,978
AbbVie PAT(49%)	79.2	10	792
Net Debt FY27E (₹ cr)			2909.9
Targeted MCap (₹ cr)			42,625
No of shares (cr)			132.3
Per Share Value (₹)			320

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement					₹ crore
(Year-end March)/ (₹ crore)	FY24	FY25E	FY26E	FY27E	
Total Operating Income	8,171.2	9,312.6	10,575.7	11,820.8	
Growth (%)	15.4	14.0	13.6	11.8	
Raw Material Expenses	1,976.8	1,865.3	1,692.1	1,891.3	
Gross Profit	5,217.2	6,050.9	6,990.5	7,813.6	
Gross Profit Margins (%)	63.8	65.0	66.1	66.1	
Employee Expenses	2,029.5	2,265.0	2,448.4	2,736.6	
Other Expenditure	1,991.4	2,416.8	2,711.2	2,803.6	
Total Operating Expenditure	6,974.9	7,943.4	8,744.8	9,547.4	
EBITDA	1,196.3	1,369.1	1,830.9	2,273.4	
Growth (%)	90.4	14.5	33.7	24.2	
Interest	448.5	446.7	415.8	367.3	
Depreciation	740.6	793.1	882.1	916.1	
Other Income	175.4	133.5	109.3	122.2	
PBT before Exceptional Items	182.6	262.8	642.4	1,112.2	
Less: Exceptional Items	62.8	0.0	0.0	0.0	
PBT after Exceptional Items	119.8	262.8	642.4	1,112.2	
Total Tax	161.5	253.2	256.9	444.9	
PAT before MI	-41.7	9.6	385.4	667.3	
PAT	17.8	75.0	457.4	746.5	
Growth (%)	-109.6	320.9	509.9	63.2	
EPS (Adjusted)	0.6	0.6	3.5	5.7	
Other income as % of (Cash+inv	24%	26%	13%	11%	

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement					₹ crore
(Year-end March)/ (₹ crore)	FY24	FY25E	FY26E	FY27E	
Profit/(Loss) after taxation	-37.0	75.0	457.4	746.5	
Add: Depreciation & Amortizati	702.6	793.1	882.1	916.1	
Net Increase in Current Assets	-880.4	-138.0	-967.3	-632.1	
Net Increase in Current Liabilitie	646.1	-166.6	562.8	237.2	
Others	573.3	446.7	415.8	367.3	
CF from Operating activities	1,004.5	1,010.3	1,350.7	1,635.0	
Investments	274.0	143.9	0.0	0.0	
(Purchase)/Sale of Fixed Assets	-712.0	-775.4	-500.0	-500.0	
Others	4.0	-18.4	400.7	2.8	
CF from Investing activities	-434.0	-649.9	-99.3	-497.2	
(inc)/Dec in Loan	-971.5	76.3	-500.0	-500.0	
Dividend & Dividend tax	0.0	0.0	0.0	0.0	
Other	549.2	-446.6	-415.8	-367.3	
CF from Financing activities	-422.4	-370.3	-915.8	-867.3	
Net Cash Flow	166.0	-86.5	335.6	270.6	
Cash and Cash Equivalent	53.2	356.8	270.3	605.9	
Cash	219.2	270.3	605.9	876.5	
Free Cash Flow	292.5	234.9	850.7	1,135.0	

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet					₹ crore
(Year-end March)	FY24	FY25E	FY26E	FY27E	
Equity Capital	1,323.0	1,323.1	1,323.1	1,323.1	
Reserve and Surplus	6,588.4	6,584.0	7,037.8	7,780.7	
Total Shareholders funds	7,911.4	7,907.2	8,360.9	9,103.8	
Total Debt	4,710.2	4,786.4	4,286.4	3,786.4	
Deferred Tax Liability	229.2	233.3	238.0	242.8	
Long-Term Provisions	32.3	41.9	42.7	43.6	
Other Non Current Liabilities	167.9	178.6	182.2	185.8	
Source of Funds	13,051	13,147	13,110	13,362	
Gross Block - Fixed Assets	9,415.9	10,177.4	10,577.4	10,977.4	
Accumulated Depreciation	2,548.5	3,341.6	4,223.7	5,139.8	
Net Block	6,867.4	6,835.8	6,353.7	5,837.6	
Capital WIP	1,115.8	1,129.7	1,229.7	1,329.7	
Fixed Assets	7,983.2	7,965.4	7,583.4	7,167.3	
Investments	385.0	241.0	241.0	241.0	
Goodwill on Consolidation	1,122.6	1,130.4	1,130.4	1,130.4	
Other non-Current Assets	114.9	135.6	138.3	141.1	
Deferred Tax Assets	386.5	397.9	0.0	0.0	
Inventory	2,175.9	2,447.4	2,462.8	2,752.8	
Debtors	2,134.4	1,827.1	2,762.5	3,087.8	
Other Current Assets	652.7	826.4	842.9	859.8	
Cash	356.8	270.3	605.9	876.5	
Total Current Assets	5,319.8	5,371.3	6,674.2	7,576.8	
Creditors	1,538.4	1,335.7	1,883.3	2,105.1	
Provisions	43.6	51.0	52.0	53.0	
Other Current Liabilities	678.9	707.6	721.8	736.2	
Total Current Liabilities	2,260.9	2,094.3	2,657.1	2,894.3	
Net Current Assets	3,058.9	3,277.0	4,017.1	4,682.6	
Application of Funds	13,051	13,147	13,110	13,362	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY24	FY25E	FY26E	FY27E
Per share data (₹)				
Reported EPS	0.1	0.6	3.5	5.7
Cash EPS	0.6	0.6	3.5	5.7
BV per share	59.9	59.9	63.3	69.0
Cash per Share	2.7	2.0	4.6	6.6
Dividend per share	0.0	0.0	0.0	0.0
Operating Ratios (%)				
Gross Profit Margins	63.8	65.0	66.1	66.1
EBITDA margins	14.6	14.7	17.3	19.2
PAT Margins	1.0	0.8	4.3	6.3
Cash Conversion Cycle	124	115	115	115
Asset Turnover	0.9	0.9	1.0	1.1
EBITDA conversion Rate	84.0	73.8	73.8	71.9
Return Ratios (%)				
RoE	1.0	0.9	5.5	8.2
RoCE	5.0	5.6	8.1	11.1
RoIC	4.1	5.1	8.4	12.2
Valuation Ratios (x)				
P/E	1,866.7	443.5	72.7	44.6
EV / EBITDA	31.3	27.6	20.2	15.9
EV / Net Sales	4.6	4.1	3.5	3.1
Market Cap / Sales	4.1	3.6	3.1	2.8
Price to Book Value	4.2	4.2	4.0	3.7
Solvency Ratios				
Debt / EBITDA	3.9	3.5	2.3	1.7
Debt / Equity	0.6	0.6	0.5	0.4
Current Ratio	2.2	2.4	2.3	2.3
Quick Ratio				
Inventory days	97	96	85	85
Debtor days	95	72	95	95
Creditor days	69	52	65	65

Source: Company, ICICI Direct Research

ANALYST CERTIFICATION

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