

ICICI Securities Limited
is the author and
distributor of this report

Q2FY23 result review
and initiating coverage

Pharmaceuticals

Target price: Rs200

Shareholding pattern

| | Sep '22 |
|-------------------------|---------|
| Promoters | NA |
| Institutional investors | |
| MFs and others | NA |
| FIs/Banks | NA |
| FIIIs | NA |
| Others | Na |

Source: BSE India

ESG disclosure score

| Year | 2020 | 2021 | Chg |
|-------------|------|------|-----|
| ESG score | NA | NA | NA |
| Environment | NA | NA | NA |
| Social | NA | NA | NA |
| Governance | NA | NA | NA |

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Research Analysts:

Vinay Bafna

vinay.bafna@icicisecurities.com
+91 22 6807 7339

Rohan John

rohan.john@icicisecurities.com
+91 22 6807 7453

INDIA

 **ICICI Securities**

Piramal Pharma

BUY

Expect stronger H2 driven by CDMO

Rs141

Piramal Pharma's (PPL) Q2FY23 performance was driven by growth across its business segments. Revenue grew 9.0% YoY (+16% QoQ) to Rs17.2bn. CDMO grew 6.1% YoY, complex hospital generics (CHG) was up 12.4% YoY and consumer healthcare (OTC) 18.2% YoY. EBITDA margin was low at 10.0% due to low sales from CDMO, revenues from which are concentrated more in H2 of every year. We remain positive on Piramal Pharma considering the growing requirement for development services, especially with complex regulatory processes for newer drugs, high entry barriers, limited competition for the complex hospital generics (provides sustainable growth over the longer term) and the rising contribution from the fast growing consumer segment. We initiate coverage post demerger with a BUY rating and an SoTP-based target price of Rs200/share.

- **Business review:** Revenue grew 16.1% QoQ despite a modest 9.0% YoY growth. This was driven by 22.1% QoQ rise in the CDMO segment to Rs9.4bn. Historically, PPL has onboarded and initiated projects in CDMO in H2 of any given fiscal. Thus, the revenue is highly concentrated towards the latter half of each year. We expected CDMO revenue CAGR at 14.9% over FY22-FY25E (including the recent Hemmo acquisition) driven by rising order contracts and expanding capacities (US\$157mn capex for next 12-18 months). CHG grew 12.4% YoY and 10.8% QoQ to Rs5.6bn with increasing demand for complex surgeries as the environment normalises. We expect CHG revenue to CAGR at 10.0% over FY22-FY25E led by new launches and gradual market share gains. OTC segment posted healthy growth of 18.2% YoY to Rs2.3bn led by consistent traction in key products. EBITDA margin declined 250bps YoY to 10.0% due to elevated spend towards marketing in the OTC segment and lower sales in CDMO.
- **Concall highlights: 1) Guidance:** i) Expect 15% revenue growth in the next 3-5 years; ii) target is to reach EBITDA margins of ~25-26% over the next few years across all the businesses of the company; iii) debt levels to be ~4-4.5x EBITDA over FY23 and FY24. **2) Capex:** i) Company has committed growth-oriented capex of ~US\$157mn, expected to be completed in the next 18-24 months (the spend will be largely towards the ongoing expansion at Riverview, Michigan, and Grangemouth, UK, facilities).
- **Outlook:** We expect revenue, EBITDA and PAT CAGRs at 14.5%, 21.1% and 30.0% over FY22-FY25E with margins expanding 260bps to ~17% led by growth in CDMO and reducing expenses in OTC segment. PPL will generate FCF of ~Rs10bn over FY23E-FY25E, which will be used to gradually pare down the debt-equity ratio to ~0.4 by FY25E.
- **Valuations and risks:** We initiate coverage on PPL post demerger with a **BUY** rating and an SoTP-based target price of Rs200/share, implying 19.7x FY24E EV/EBITDA. **Key downside risks:** Slowdown in orders in the CDMO segment, decline in complex surgeries, and forex volatility.

| | |
|-------------------------|-------------------|
| Market Cap | Rs168bn/US\$2.1bn |
| Reuters/Bloomberg | PIRPHARM IN |
| Shares Outstanding (mn) | 1,193.3 |
| 52-week Range (Rs) | 190/141 |
| Free Float (%) | NA |
| FII (%) | NA |
| Daily Volume (USD/'000) | NA |
| Absolute Return 3m (%) | NA |
| Absolute Return 12m (%) | NA |
| Sensex Return 3m (%) | 4.4 |
| Sensex Return 12m (%) | 4.4 |

| Year to Mar | FY22 | FY23E | FY24E | FY25E |
|--------------------|--------|--------|--------|--------|
| Revenue (Rs mn) | 65,591 | 76,341 | 86,661 | 98,528 |
| Net Income (Rs mn) | 3,877 | 5,350 | 6,708 | 8,517 |
| EPS (Rs) | 3.2 | 4.5 | 5.6 | 7.1 |
| % Chg YoY | | 38.0 | 25.4 | 27.0 |
| P/E (x) | 43.4 | 31.4 | 25.1 | 19.8 |
| CEPS (Rs) | 8.2 | 9.7 | 11.4 | 13.4 |
| EV/E (x) | 21.7 | 17.6 | 14.6 | 12.0 |
| Dividend Yield (%) | - | - | - | - |
| RoCE (%) | | 5.9 | 6.8 | 7.8 |
| RoE (%) | | 7.7 | 8.9 | 10.2 |

Table 1: Q2FY23 performance

(Rs mn, year ending March 31)

| | Q2FY23 | Q2FY22 | YoY % Chg | Q1FY23 | QoQ % Chg |
|-------------------------------|---------------|---------------|----------------|----------------|---------------|
| Net Sales | 17,200 | 15,775 | 9.0 | 14,820 | 16.1 |
| EBITDA | 1,726 | 1,966 | (12.2) | 171 | 910.3 |
| Other income | 462 | 179 | 157.9 | 719 | (35.7) |
| PBIDT | 2,188 | 2,145 | 2.0 | 889 | 146.0 |
| Depreciation | 1,662 | 1,381 | 20.4 | 1,617 | 2.8 |
| Interest | 830 | 492 | 68.8 | 623 | 33.2 |
| Share of profit of associate | 111 | 163 | (32.0) | 199 | (44.2) |
| Extra ordinary income/ (exp.) | (70) | - | - | - | - |
| PBT | (263) | 436 | (160.3) | (1,151) | (77.2) |
| Tax | 111 | 70 | 57.8 | (61) | (281.9) |
| Minority Interest | - | - | - | - | - |
| Reported PAT | (373) | 366 | (202.1) | (1,091) | (65.8) |
| Adjusted PAT | (274) | 366 | (175.1) | (1,091) | (74.8) |
| EBITDA margins (%) | 10.0 | 12.5 | (250)bps | 1.2 | 880bps |

Source: Company data, I-Sec research

Table 2: Sales breakup

(Rs mn, year ending March 31)

| | Q2FY23 | Q2FY22 | YoY % Chg | Q1FY23 | QoQ % Chg |
|--------------------------|---------------|---------------|------------|---------------|-------------|
| CDMO | 9,400 | 8,860 | (5.7) | 7,700 | 22.1 |
| CHG | 5,620 | 5,000 | (11.0) | 5,070 | 10.8 |
| Consumer Healthcare(OTC) | 2,270 | 1,920 | (15.4) | 2,110 | 7.6 |
| Net sales | 17,290 | 15,780 | 9.6 | 14,880 | 16.2 |

Source: Company data, I-Sec research

Valuations

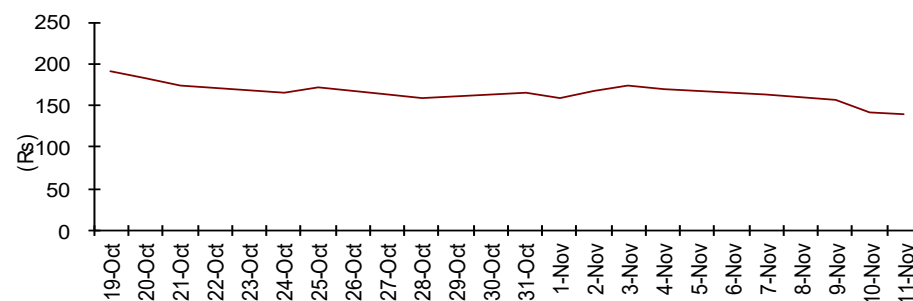
The stock currently trades at valuations of 31.4x FY23E and 25.1x FY24E earnings and EV/EBITDA multiples of 17.6x FY23E and 14.6x FY24E. We remain positive on Piramal Pharma considering the growing requirement for development services, especially with complex regulatory processes for newer drugs, high entry barriers, limited competition for the complex hospital generics (provides sustainable growth over the longer term) and the rising contribution from the fast-growing consumer segment. We initiate coverage post de-merger with a **BUY** rating and an SoTP based target price of Rs200/share.

Table 3: Sum of the parts (SoTP) valuation

| Segments | Rs mn | (x) | Value (Rs mn) | PPL's stake | Value (Rs mn) |
|----------------------------------|--------|------|---------------|-------------|----------------|
| Global Pharma - EBITDA (Sep'24E) | 15,004 | 14.0 | 210,055 | 100% | 210,055 |
| Consumer (OTC) - Sales (Sep'24E) | 10,993 | 4.0 | 43,971 | 100% | 43,971 |
| Total EV | | | | | 254,026 |
| Less: Net Debt (Sep'24E) | | | | | 35,152 |
| Minority Interest | | | | | - |
| Allergan JV - PAT (Sep'24E) | 1,614 | 25.0 | 40,361 | 49% | 19,777 |
| Implied M-Cap | | | | | 238,651 |
| Value per share (Rs) | | | | | 200 |

Source: Company data, I-Sec research

Price chart



Source: Bloomberg

Financial summary (consolidated)

Table 4: Profit and Loss statement
(Rs mn, year ending March 31)

| | FY22 | FY23E | FY24E | FY25E |
|--------------------------|---------------|---------------|---------------|---------------|
| Total Net Revenue | 65,591 | 76,341 | 86,661 | 98,528 |
| YoY Growth% | | 16.4 | 13.5 | 13.7 |
| Total Op. Exp. | 56,094 | 64,585 | 72,622 | 81,679 |
| EBITDA | 9,497 | 11,757 | 14,039 | 16,848 |
| Margins % | 14.5 | 15.4 | 16.2 | 17.1 |
| YoY Growth% | | 23.8 | 19.4 | 20.0 |
| Depreciation | 5,862 | 6,193 | 6,855 | 7,481 |
| EBIT | 3,635 | 5,564 | 7,184 | 9,367 |
| Other Income | 2,758 | 2,896 | 3,041 | 3,193 |
| Interest | 1,983 | 1,983 | 2,007 | 2,007 |
| Share in profit of Asso. | 590 | 676 | 750 | 832 |
| EO Items | (151) | - | - | - |
| PBT | 4,850 | 7,153 | 8,968 | 11,386 |
| Tax | 1,090 | 1,802 | 2,260 | 2,869 |
| Tax Rate (%) | 22.5 | 25.2 | 25.2 | 25.2 |
| Minority Interest | - | - | - | - |
| Reported PAT | 3,760 | 5,350 | 6,708 | 8,517 |
| Adj PAT | 3,877 | 5,350 | 6,708 | 8,517 |
| Net Margins (%) | 5.9 | 7.0 | 7.7 | 8.6 |

Source: Company data, I-Sec research

Table 5: Balance sheet
(Rs mn, year ending March 31)

| | FY22 | FY23E | FY24E | FY25E |
|--------------------------|----------------|----------------|----------------|----------------|
| Paid-up Capital | 11,859 | 11,933 | 11,933 | 11,933 |
| Reserves & Surplus | 55,107 | 60,457 | 67,165 | 75,681 |
| Total Equity | 66,966 | 72,390 | 79,098 | 87,615 |
| Minority Interest | - | - | - | - |
| Total Debt | 41,279 | 42,279 | 41,279 | 40,279 |
| Deferred Liabilities | (1,053) | (1,053) | (1,053) | (1,053) |
| Capital Employed | 107,193 | 113,617 | 119,325 | 126,841 |
| Current Liabilities | 17,805 | 20,121 | 22,370 | 24,905 |
| Total Liabilities | 124,998 | 133,738 | 141,694 | 151,746 |
| Net Fixed Assets | 80,515 | 83,322 | 85,467 | 85,986 |
| Investments | 2,168 | 2,168 | 2,168 | 2,168 |
| Inventory | 13,888 | 15,990 | 17,980 | 20,222 |
| Debtors | 17,853 | 20,779 | 23,588 | 26,818 |
| Other Current Assets | 6,780 | 7,622 | 8,430 | 9,360 |
| Cash and Equivalents | 3,794 | 3,857 | 4,062 | 7,193 |
| Total Cur. Assets | 42,315 | 48,248 | 54,060 | 63,593 |
| Total Assets | 124,998 | 133,738 | 141,694 | 151,746 |

Source: Company data, I-Sec research

Table 6: Cashflow statement
(Rs mn, year ending March 31)

| | FY22 | FY23E | FY24E | FY25E |
|------------------------------|------|----------------|----------------|----------------|
| PBT (Adj. for Extraordinary) | | 7,153 | 8,968 | 11,386 |
| Depreciation | | 6,193 | 6,855 | 7,481 |
| Net Chg in WC | | (3,465) | (3,273) | (3,768) |
| Taxes | | (1,802) | (2,260) | (2,869) |
| Others | | 1,893 | 1,921 | 1,908 |
| CFO | | 9,971 | 12,211 | 14,138 |
| Capex | | (9,000) | (9,000) | (8,000) |
| Net Investments made | | - | - | - |
| Others | | - | - | - |
| CFI | | (9,000) | (9,000) | (8,000) |
| Change in Share capital | | - | - | - |
| Change in Debts | | 1,000 | (1,000) | (1,000) |
| Div. & Div Tax | | - | - | - |
| Others | | (1,908) | (2,007) | (2,007) |
| CFF | | (908) | (3,007) | (3,007) |
| Total Cash Generated | | 63 | 205 | 3,131 |
| Cash Opening Balance | | 3,290 | 3,353 | 3,558 |
| Cash Closing Balance | | 3,353 | 3,558 | 6,689 |

Source: Company data, I-Sec research

Table 7: Key ratios
(Year ending March 31)

| | FY22 | FY23E | FY24E | FY25E |
|------------------------|------|-------|-------|-------|
| Adj. EPS | 3.2 | 4.5 | 5.6 | 7.1 |
| YoY Growth% | | 38.0 | 25.4 | 27.0 |
| Cash EPS | 8.2 | 9.7 | 11.4 | 13.4 |
| EBITDA - Core (%) | 14.5 | 15.4 | 16.2 | 17.1 |
| NPM (%) | 5.9 | 7.0 | 7.7 | 8.6 |
| Net Debt to Equity (x) | 0.6 | 0.5 | 0.5 | 0.4 |
| P/E (x) | 43.4 | 31.4 | 25.1 | 19.8 |
| EV/EBITDA Core (x) | 21.7 | 17.6 | 14.6 | 12.0 |
| P/BV (x) | 2.5 | 2.3 | 2.1 | 1.9 |
| EV/Sales (x) | 3.1 | 2.7 | 2.4 | 2.0 |
| RoCE (%) | | 5.9 | 6.8 | 7.8 |
| RoE (%) | | 7.7 | 8.9 | 10.2 |
| RoIC (%) | | 6.1 | 7.0 | 8.2 |
| Book Value (Rs) | 56.1 | 60.7 | 66.3 | 73.4 |
| DPS (Rs) | - | - | - | - |
| Dividend Payout (%) | - | - | - | - |
| Div Yield (%) | - | - | - | - |
| Asset Turnover Ratio | | 0.9 | 1.0 | 1.1 |
| Avg Collection days | | 92 | 93 | 93 |
| Avg Inventory days | | 84 | 85 | 85 |

Source: Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
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

I/We, Vinay Bafna, MBA; Rohan John; MBA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, as far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.