

ICICI Securities Limited  
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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

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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

Please refer to important disclosures at the end of this report

**Table 1: Q2FY23 performance***(Rs mn, year ending March 31)*

	Q2FY23	Q2FY22	YoY % Chg	Q1FY23	QoQ % Chg
<b>Net Sales</b>	<b>17,200</b>	<b>15,775</b>	<b>9.0</b>	<b>14,820</b>	<b>16.1</b>
EBITDA	1,726	1,966	(12.2)	171	910.3
Other income	462	179	157.9	719	(35.7)
<b>PBIDT</b>	<b>2,188</b>	<b>2,145</b>	<b>2.0</b>	<b>889</b>	<b>146.0</b>
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)	-	-	-	-
<b>PBT</b>	<b>(263)</b>	<b>436</b>	<b>(160.3)</b>	<b>(1,151)</b>	<b>(77.2)</b>
Tax	111	70	57.8	(61)	(281.9)
Minority Interest	-	-	-	-	-
<b>Reported PAT</b>	<b>(373)</b>	<b>366</b>	<b>(202.1)</b>	<b>(1,091)</b>	<b>(65.8)</b>
<b>Adjusted PAT</b>	<b>(274)</b>	<b>366</b>	<b>(175.1)</b>	<b>(1,091)</b>	<b>(74.8)</b>
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
<b>Net sales</b>	<b>17,290</b>	<b>15,780</b>	<b>9.6</b>	<b>14,880</b>	<b>16.2</b>

Source: Company data, I-Sec research

## Valuations

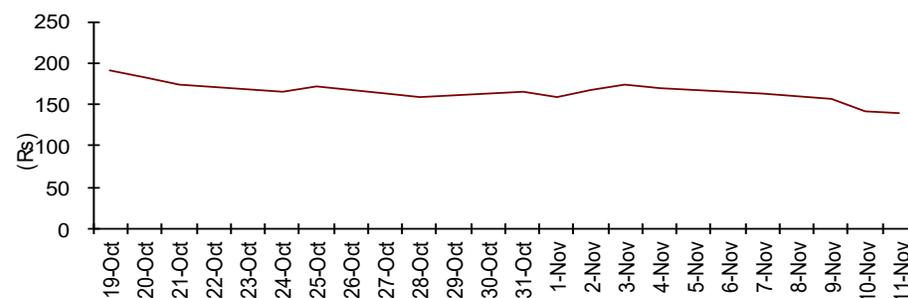
The stock currently trades at valuations of 31.4x FY23E and 25.1x FY24E earnings and EV/EBITDA multiples of 17.6x FY23E and 14.6x FY24E. We remain positive on Piramal Pharma considering the growing requirement for development services, especially with complex regulatory processes for newer drugs, high 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
<b>Total EV</b>					<b>254,026</b>
Less: Net Debt (Sep'24E)					35,152
Minority Interest					-
Allergan JV - PAT (Sep'24E)	1,614	25.0	40,361	49%	19,777
<b>Implied M-Cap</b>					<b>238,651</b>
<b>Value per share (Rs)</b>					<b>200</b>

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
<b>Total Net Revenue</b>	<b>65,591</b>	<b>76,341</b>	<b>86,661</b>	<b>98,528</b>
YoY Growth%		16.4	13.5	13.7
<b>Total Op. Exp.</b>	<b>56,094</b>	<b>64,585</b>	<b>72,622</b>	<b>81,679</b>
<b>EBITDA</b>	<b>9,497</b>	<b>11,757</b>	<b>14,039</b>	<b>16,848</b>
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
<b>EBIT</b>	<b>3,635</b>	<b>5,564</b>	<b>7,184</b>	<b>9,367</b>
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)	-	-	-
<b>PBT</b>	<b>4,850</b>	<b>7,153</b>	<b>8,968</b>	<b>11,386</b>
Tax	1,090	1,802	2,260	2,869
Tax Rate (%)	22.5	25.2	25.2	25.2
Minority Interest	-	-	-	-
<b>Reported PAT</b>	<b>3,760</b>	<b>5,350</b>	<b>6,708</b>	<b>8,517</b>
<b>Adj PAT</b>	<b>3,877</b>	<b>5,350</b>	<b>6,708</b>	<b>8,517</b>
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
<b>Total Equity</b>	<b>66,966</b>	<b>72,390</b>	<b>79,098</b>	<b>87,615</b>
Minority Interest	-	-	-	-
<b>Total Debt</b>	<b>41,279</b>	<b>42,279</b>	<b>41,279</b>	<b>40,279</b>
Deferred Liabilities	(1,053)	(1,053)	(1,053)	(1,053)
<b>Capital Employed</b>	<b>107,193</b>	<b>113,617</b>	<b>119,325</b>	<b>126,841</b>
Current Liabilities	17,805	20,121	22,370	24,905
<b>Total Liabilities</b>	<b>124,998</b>	<b>133,738</b>	<b>141,694</b>	<b>151,746</b>
<b>Net Fixed Assets</b>	<b>80,515</b>	<b>83,322</b>	<b>85,467</b>	<b>85,986</b>
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
<b>Total Cur. Assets</b>	<b>42,315</b>	<b>48,248</b>	<b>54,060</b>	<b>63,593</b>
<b>Total Assets</b>	<b>124,998</b>	<b>133,738</b>	<b>141,694</b>	<b>151,746</b>

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
<b>CFO</b>		<b>9,971</b>	<b>12,211</b>	<b>14,138</b>
Capex		(9,000)	(9,000)	(8,000)
Net Investments made		-	-	-
Others		-	-	-
<b>CFI</b>		<b>(9,000)</b>	<b>(9,000)</b>	<b>(8,000)</b>
Change in Share capital		-	-	-
Change in Debts		1,000	(1,000)	(1,000)
Div. & Div Tax		-	-	-
Others		(1,908)	(2,007)	(2,007)
<b>CFF</b>		<b>(908)</b>	<b>(3,007)</b>	<b>(3,007)</b>
<b>Total Cash Generated</b>		<b>63</b>	<b>205</b>	<b>3,131</b>
<b>Cash Opening Balance</b>		<b>3,290</b>	<b>3,353</b>	<b>3,558</b>
<b>Cash Closing Balance</b>		<b>3,353</b>	<b>3,558</b>	<b>6,689</b>

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

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