18TH NOV 2022

5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

PIRAMAL PHARMA LTD

WHAT WE LIKE

3-PRONGED MODEL WITH MARKET LEADING POSITION

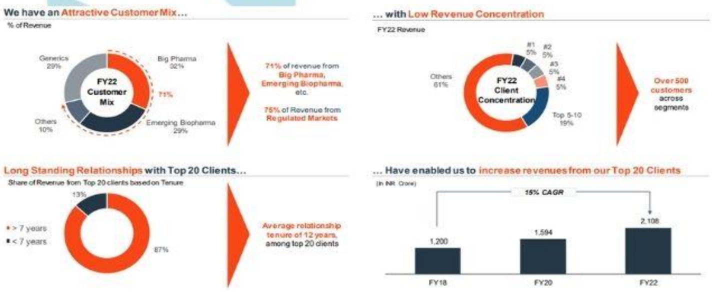
PPL includes Piramal Pharma Solutions (PPS), an integrated Contract Development and Manufacturing Organisation (CDMO), Piramal Critical Care (PCC), a Complex Hospital Generics (CHG) business, and the India Consumer Healthcare (ICH) business selling over-the-counter products.

Three Pillars of the Business[1]	Top 3 CDMO in India (Top 13th Globally)	Top 4 in Inhalation Anesthesia Globally	Top 10 in OTC in India
Diversified Manufacturing Footprint with Best-in-class Quality Track Record	15 Manufacturing Sites Globally	36 Successful USFDA Inspections[2]	Nil Official Action Indicated issued[2]
Growth and Profitability	3.5x Revenue Growth in last 10 yrs.[3]	8.6x EBITDA Growth in last 10 yrs.[3]	1100 bps EBITDA Margin Expansion[3]

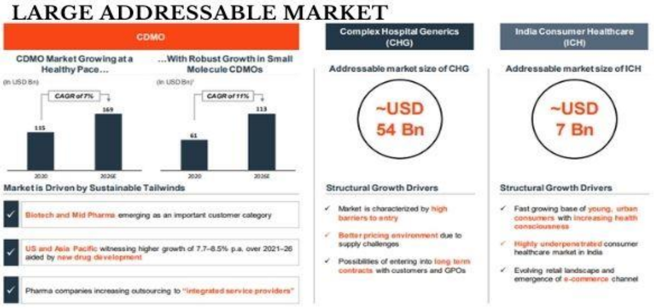
DIFFERENTIATED OFFERING IN CDMO VS INDIAN PEERS

Others	Piramal Pharma
Divi's Syngene, & Suven are India Based	Globally diversified manufacturing base
Divi's- only in API	Both in API & Formulation
Gland- only injectables	Injectables +OSD

DIVERSIFIED BLUE CHIP CUSTOMER BASE IN CDMO



LARGE ADDRESSABLE MARKET



ATTRACTIVE VALUATION VS PEERS

- Like to Like comparison not possible as Piramal is diversified but others are pureplay CDMO players. Carlyle Group invested in Piramal Pharma at ~17,500 Cr valuation in 2020. Today's market cap is **16000 Cr**

Name	Market Cap (INR Cr)	Operating Margin	EV/EBITDA
Piramal	16,203	14%	16
Syngene	24,152	30%	28
Divi's	87,265	40%	22
Suven	12,190	43%	18

WHAT WE DON'T LIKE

US FDA/ REGULATORY RISK

For any Pharma company catering to the US, the foremost risk that is clearly evident is the US FDA inspection risk. PPL is present in multiple countries across the world. Thus, infringement in any of the laws, and any significant adverse changes in the import/export policy or environmental/regulatory policies in the area of the operations of the company, can have an impact on its operations. **However, we at SSS believe that the fact that NIL official action has been issued against them by FDA since 2012 does give some comfort.**

HIGH DOMESTIC & GLOBAL COMPETITION

PPL battles with intense competition and pricing pressure both in the domestic and international markets.

The generic players around the world are facing
-severe price erosions
-govt pressures to reduce prices
-intense increasing competition
-increasing regulation
-increased sensitivity towards product performance.

ACQUISITION LED BUSINESS MODEL

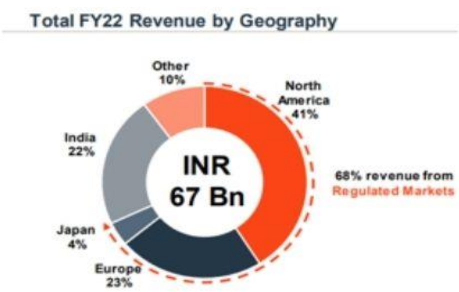
Ajay Piramal built his pharma empire from scratch by acquiring low-cost assets at cheap valuation and then turning it around to create value. In the last decade (2011-2021), PPL has done a dozen acquisitions across the space of CDMO, ICH & CHG. It has also successfully integrated them and created synergies that helped them in increasing the margins. However, M&As carry a lot of risk. If one M&A goes bad, it can create a substantial loss for the company.

RAW MATERIAL PRICE RISK

In the CDMO business where the customer ensures that there is no raw-material risk on PPL. Apart from that, 35% of the company's total raw material requirements are met through imports across the globe. That makes it vulnerable to raw material fluctuations around the globe.

FOREIGN CURRENCY RISK

78% of FY22 revenue was from exports. That makes PPL vulnerable to foreign currency risk. It is not just restricted to US Dollars but also Euro and Japanese Yen.



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