

Piramal Pharma Ltd — May 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline (FY25) / Weak (FY26 Guidance) **One-line:** The long-term thesis of margin expansion via innovation remains intact, but FY26 will be an "air pocket" year due to a major inventory normalization at a lead CDMO customer, delaying the trajectory toward 25% margins by 12 months.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Inline	FY25 revenue (12%) and EBITDA (15%) growth hit the "early teens" guidance provided in Q3.	□
Earnings Quality	Moderate	PAT grew 52% YoY in Q4, but includes a ₹45 Cr non-cash impairment; core operations are lumpy due to on-patent cycles.	□
Guidance Confidence	Neutral	Management lowered FY26 revenue guidance to "mid-single digit" and margins to "mid-teens," citing a temporary CDMO inventory pause.	□
Management Credibility	Strong	High transparency regarding the FY26 slowdown; management proactively identified the specific customer inventory issue.	□
Business Quality Signal	Improving	Innovation-related work now 54% of CDMO; Vertical integration of Sevoflurane (India) is now commercial.	□
Key Q&A Exchange	Q#1 & 6 (CDMO Slowdown)	Management confirms a blockbuster on-patent product needs a "brief period of inventory normalization" in FY26.	□
The Street's Primary Anxiety	FY26 Growth Stall	Analysts pressed on whether the FY26 dip is structural; Mgmt insists it is a one-off restocking event with a FY27 recovery.	□
Capital Cycle Stage	Growth / Investment	Investing \$90M in US sites (Lexington/Riverview) for ADCs and sterile injectables despite the FY26 pause.	□
Margin Trajectory	Deteriorating (ST)	FY26 margins to dip back to "mid-teens" from 17% due to negative operating leverage in CDMO.	□
Pricing Power	Stable	Maintained #1 market share in Sevoflurane (44%) and Baclofen (75%) despite H1 pricing headwinds in the US.	□
FCF Conversion	Weak	Working capital increased ₹459 Cr (to ₹2,798 Cr); Net Debt rose to ₹4,199 Cr.	□
Competitive Moat	Widening	Globally diversified network (15 facilities) provides a hedge against potential US trade tariffs.	□
Balance Sheet Strength	Adequate	Net Debt/EBITDA at 2.7x (vs 5.6x in FY23), though quantum of debt increased slightly.	□
Working Capital	Deteriorating	Inventory and receivables build-up ahead of Q4 was not fully liquidated, causing a spike in net working capital.	□
Mgmt Guidance Record	Mixed	Met FY25 targets but introduced a significant downward revision for the upcoming fiscal (FY26).	□
Key Vulnerability	Customer Concentration	A single on-patent product's inventory cycle is material enough to derail consolidated growth for a year.	□
Management Tone	Cautiously Realistic	Transparent about near-term volatility while doubling down on the \$2Bn/25% margin FY30 vision.	□

Sentiment: ☐Positive | ☐Negative | ☐Neutral

Key Takeaways (Positives & Negatives): * **Positives:** CDMO innovation mix reached a record 54% of revenue, with on-patent commercial manufacturing growing 50%+ YoY to \$179M. The Complex Hospital Generics (CHG) vertical integration is complete, with the low-cost Digwal (India) Sevoflurane line commercialized in April 2025—a massive structural margin lever for FY27. ICH Power Brands grew 20%+ and crossed the ₹1,000 Cr milestone, proving the scalability of the consumer play. * **Negatives:** Management issued a "Profit Warning" for FY26, guiding for mid-single-digit revenue growth and margin compression to mid-teens. This is driven by a single blockbuster customer "pausing" orders to burn off excess launch inventory. Net debt increased to ₹4,199 Cr, and net working capital reached 30% of revenue, indicating inefficient cash conversion during the high-growth phase. * **The Street's Concern:** Analysts are skeptical of the "normalization" narrative and fear the one-customer hit might mask a broader slowdown in CDMO RFPs or biotech funding. Management's response—that FY27 will see a "material improvement" to 19-20% margins—requires investors to write off FY26 as a transition year. * **Forward Watchpoint:** Monitor the pace of site registrations for the India-made Sevoflurane in RoW markets. This is the only catalyst that can offset the CDMO slowdown in the next 12 months.

2. BUSINESS PERFORMANCE

2A. KEY METRICS *Note: EBITDA and Margin are primary focus; PAT is volatile due to jurisdiction-based tax leakage (referenced in Q3).*

Metric	Current Qtr (Q4FY25)	YoY Change	Trend	Mgmt Commentary
Revenue (Consol)	₹2,754 Cr	↑ 8%	→	Q4 seasonality remains strong; FY25 Rev ₹9,151 Cr (up 12%).
Revenue - India (ICH)	₹263 Cr	↑ 8%	↑	Power brands grew 22% in Q4; offset by i-pill price controls.
Revenue - US / Intl	₹2,491 Cr	↑ 8%	→	Implied from total minus ICH; US/Europe drive 69% of annual rev.
EBITDA	₹603.8 Cr	↑ 8%	→	Implied from 22.0% margin (Q4FY24 was ₹558 Cr).
EBITDA Margin %	22.0%	→ 0 bps	→	Q4 leverage is peak; FY25 margin 17% (up from 12% in FY23).
PAT	₹150+ Cr	↑ 52%	↑	Grew from ₹101 Cr (pre-exceptional) last Q4; includes ₹45 Cr impairment.
Net Debt	₹4,199 Cr	↓ (vs Q3)	↑	Improved from ~₹4,200 Cr in Q3, but up YoY from ₹3,932 Cr.
Interest Coverage	2.5x	↑	↑	Improved with higher EBITDA; Net Debt/EBITDA at 2.7x.
Working Capital	₹2,798 Cr	↑ 20%	↓	Spike from ₹2,339 Cr YoY; driven by inventory for Q4 delivery.
R&D Pipeline (CDMO)	31 Phase III	→	→	Deep pipeline with 18 commercial on-patent products.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth (Q4)	Margin (FY)	Trend	vs Co. Avg	Key Development
CDMO	1,788	8%	~17-18%	↑	Above	54% Innovation work; \$179M On-patent revenue.
CHG	703	6%	~12-14%	→	Below	Sevoflurane India lines commercialized April '25.
ICH	263	8%	Moderate	↑	Below	Power brands grew 20% YoY; E-commerce is 21% of sales.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	Mid-single-digit for FY26; High-teens for FY27.	Implies ~₹9,600 Cr in FY26. Feasible if ICH/CHG maintain 10-12% growth.	Met (FY25)	Moderate
Guidance	Margins	Mid-teens for FY26; 19-20% for FY27.	Needs negative operating leverage to reverse sharply in FY27.	Met (FY25)	High
Guidance	Volume	\$1.2B CDMO Revenue by FY30.	Current \$650M; needs 11% CAGR over 5 years.	On track	Low
Guidance	Capex Plan	\$100M - \$125M for FY26.	Includes \$90M US expansion.	Consistent	Low
Strategy	Vertical Integration	CHG India production to drive margins.	Commercialized in April '25; impact to show in H2FY26.	Delivered	Low
Macro	CDMO Demand	Geopolitical de-risking (Biosecure).	RFPs increasing at US sites (Sellersville/Riverview).	In-progress	Moderate
Balance	Leverage	1.0x Net Debt/EBITDA by FY30.	Needs EBITDA to triple from current ₹1,580 Cr.	In-progress	Moderate

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	5.0	Amey Chalke / JM Financial	CDMO Slowdown	Financials	"Where do you see the \$180M on-patent commercial revenue in FY26?"	Management declined a specific carve-out but confirmed a "large customer" who built stock for launch success will pause orders in FY26. This creates a high-margin revenue gap that will depress FY26 earnings until the customer resumes in FY27.	Specific quantum	3.0	Key thesis headwind
2	4.0	Amey Chalke	Development Pipeline	Business Overview	"How many of the 31 Phase III projects do you expect to get commercial in FY26/27?"	Management stated that commercialization timelines are driven entirely by customer regulatory filings and are not within PPL's control. Success in these filings remains a significant "hidden" upside for the medium-term revenue target.	Specific timing	3.0	Contingent upside
3	4.0	Amey Chalke	US Expansion	Capex and Allocation	"Is the US expansion on any customer order or you expect orders to kick in after?"	Management confirmed that Lexington was expanded based on existing customer commitments and Riverview is already "largely booked out" for linker payload work. This validates demand for on-shore US manufacturing despite the consolidated FY26 slowdown.	None	5.0	Specific and verified

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
4	4.5	Abdulkader Puranwala / ICICI Sec	On-patent Contracts	Business Overview	"What is the tenure of these commercial on-patent contracts?"	Management clarified these are multi-year contracts with high switching costs due to complex tech-transfer and regulatory site registrations. This reassures investors that the FY26 pause is an inventory issue, not a loss of business to competitors.	None	4.0	Reassuring structural
5	3.5	Abdulkader Puranwala	Discovery Funding	Management Outlook	"Revenue from discovery has come down significantly; color on funding environment?"	Management noted that biotech funding recovery remains "uneven" and "early days," particularly for early-stage discovery work. CDMO growth will remain tilted toward late-stage and commercial phases in the near term.	None	4.0	Macro realism
6	4.5	Kunal Randeria / Axis Capital	Inventory Recovery	Management Outlook	"Is the FY27 sharp growth an assumption or communicated by the customer?"	Management indicated that based on the underlying product's strong market performance and PPL's status as a lead supplier, they "fully expect" orders to resume. This places the FY27 recovery on the product's market success rather than a vague hope.	None	3.5	High-conviction claim
7	4.0	Kunal Randeria	Sevoflurane RoW	Business Overview	"How easy is it to ramp up RoW market	Management explained that excess capacity	None	4.5	Strategic clarity

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					share for Sevoflurane?"	from the India site allows them to tackle "deprioritized" RoW markets where they were previously capacity-constrained. This enables incremental volume growth without needing new US market share.			
8	4.0	Madhav / Fidelity	Expense Spikes	Financials	"Gross margins expanded 500bps but employee/ other expenses moved up sharply. One-offs?"	Management attributed the cost spike to true-ups of performance incentives for outperforming internal targets and seasonal Q4 variable costs like logistics. This suggests the high Q4 opex is not the new quarterly run-rate.	None	4.0	Seasonal noise
9	4.5	Shyam Srinivasan / Goldman Sachs	Margin Walk	Financials	"How is the margin walk from 17% down to mid-teens for FY26?"	Management confirmed the margin drag is entirely from negative operating leverage in the CDMO segment due to the specific customer pause. This confirms that CHG and ICH segments will actually see margin improvement, partially offsetting the CDMO hit.	None	4.0	Specific segment hit
10	3.5	Tushar Manudhal /	ADC Success Rate	Business Overview	"Why invest in ADC capacity given the high	Management stated they have a "broad base" of	None	4.0	Risk-mitigated growth

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
		Motilal Oswal			clinical attrition?"	large and emerging biopharma customers, ensuring they are not dependent on a single Phase III success. This diversification mitigates the binary risk typical of ADC development pipelines.			

PATTERN FLAGS & SENTIMENT * **The "Blockbuster Concentration" Risk:** The dominant theme was the impact of a single on-patent commercial customer on FY26 performance. Management's posture was one of transparency, choosing to guide down early rather than surprise the market later. This resolution has created a clear "wait and see" period for investors, where FY26 is essentially discounted in favor of FY27 recovery. * **US vs. India Arbitrage:** Analysts repeatedly probed the US expansion vs. the India (Digwal) commercialization. Management successfully argued a dual-track strategy: high-value, "tire-kicking" ADC work for US onshoring, and low-cost vertical integration in India for volume generic products. * **Analyst Sentiment Verdict:** Analysts were **skeptical but appreciative of the honesty**. Friction was highest around the FY26 guidance cut, which contrasts sharply with the "early teens" growth delivered in FY25. Management's credibility on execution remains high, but the "lumpy" nature of their best-performing segment (CDMO Innovation) is now a permanent part of the risk profile.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | FY26 Growth | (Not mentioned in Q3) | Mid-single-digit growth | Significant deceleration vs 12-14% historical. | Moderate (Valuation) | | CDMO Margin | 25% target (FY30) | Mid-teens for FY26 | 200-300bps compression in the interim. | High (ST PAT hit) | | Asset Turns | 1.5x - 2.0x | Riverview is already sold out | Brownfield turns can be higher/faster than Greenfields. | Low (Efficiency) |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3FY25)	This Quarter (Q4FY25)	Direction
Growth Guidance	Early-teens for FY25	Mid-single-digit for FY26	↓ (Significant deceleration)
Margin Guidance	Expansion track (17%)	Contraction track (Mid-teens)	↓ (Interim compression)
CDMO Revenue Mix	45-50% Innovation	54% Innovation	↑ (Structural quality)
CHG Production	Site on stability	Commercialized (April '25)	↑ (Vertical integration)
Tax Rate Outlook	"Meaningful reduction"	Reduced YoY; PAT grew 5x	↑ (Improving efficiency)
US Strategy	Evaluating expansions	\$90M committed; Riverview "booked"	↑ (Execution clarity)
Net Debt/EBITDA	2.8x	2.7x	↑ (Improving leverage)
Thesis Status	On-track for linear growth	Entering a 12-month "Air Pocket"	□(Timeline delayed)

- **Earnings Quality Lever:** The sharp divergence between Q4 revenue growth (8%) and PAT growth (52%) is driven by **operational leverage and lower tax incidents**, but masked by a ₹45 Cr non-cash impairment. The FY26 "slowdown" is purely a volume/mix issue with a single customer, not a structural loss of competitiveness. STOP HERE.