

## COMMENT

**Piramal Healthcare (PIRA.BO) Rs411.75**


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**Piramal pops the 'i-pill', strengthens OTC portfolio; reiterate C-Buy**


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**News**

Piramal Healthcare announced today the signing of a definitive agreement for the purchase of all intellectual property rights in India related to the "i-pill" brand of Cipla (CIPL.BO, Sell, Rs333.50) for an aggregate consideration of Rs950 mn. The "i-pill", which is an emergency contraceptive pill, features in the top-300 pharmaceutical products in India and had sales of Rs309.2 mn in the last twelve months, as per ORG IMS data.

**Analysis**

This follows acquisitions in the last two years including K-Labs' and RxElite's brands. In our view, this latest brand acquisition reflects Piramal's growing strength in the OTC business, which is worth \$1.8bn as per Piramal's management. We estimate Piramal's FY10E revenues from the OTC products to be around Rs1300 mn. We expect this to reach around Rs1910 mn for FY11E (including i-pill sales), constituting 4.5% of its FY11 revenues.

We estimate the revenue contribution from the "i-pill" to be around Rs370mn for FY2011E (1% of our FY11E sales). However, we note management comments that the profit contribution would be neutral in the near-term owing to interest costs (short-term loans taken to partially fund the acquisition) and depreciation. We maintain our revenue and earnings estimates for the stock. Lastly, while the acquisition price at 3X LTM sales is higher than what Piramal paid earlier (1.7X for K-Labs' brands), we believe this is justified owing to the growth potential of the i-pill and Piramal obtaining a stronger foothold in the fast growing OTC market.

**Implications**

We reiterate our Buy rating (on Conviction list) of the stock with a 12-month Director's Cut-based target price of Rs523, implying 27% potential upside. The stock is currently trading at 13.5X on 1-year forward P/E and 10.0X EV/EBITDA multiples – discounts of 27% and 22% to its Indian peers, respectively. Key risks include inability to realize margin expansion from Huddersfield closure, and adverse drug pricing measures by the NPPA.

**INVESTMENT LIST MEMBERSHIP**

Asia Pacific Buy List

Asia Pacific Conviction Buy List

**Coverage View:** Neutral

India:

Pharmaceuticals

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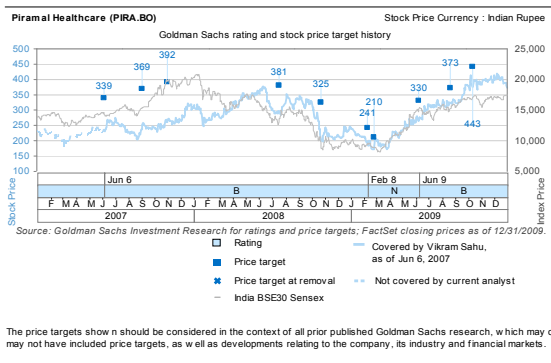
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Goldman Sachs Investment Research global coverage universe

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## Price target and rating history chart(s)



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