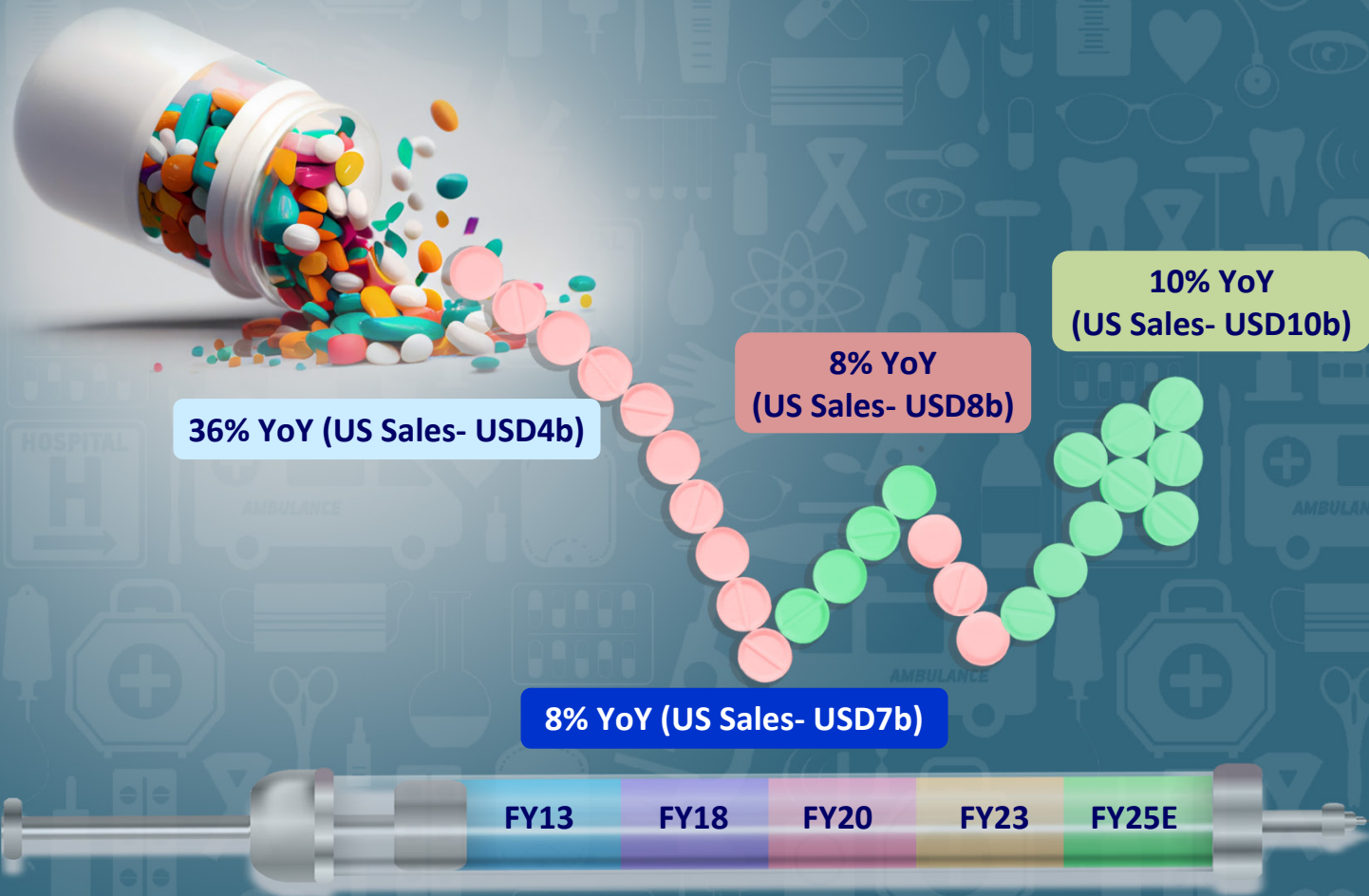


Healthcare



US generics – turning the tide?

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.



Is the US generics market back on growth path?

Pg 3



Key Charts

Pg 6

Slowdown in industry-level approvals unlikely

Pg 7



Reduced pace of filings by our coverage companies

Pg 10



Companies



Cipla

Growth levers in place in the US generics

Pg. 22



Dr.Reddy's

Dr Reddy's Labs

Creating a pipeline to sustain growth beyond g-Revlimid

Pg. 27



Zydus Lifescience

The US growth prospects revive

Pg. 32



Torrent Pharma

The US added as a growth lever along with India/Brazil

Pg. 37



Aurobindo Pharma

Multiple projects under way to fuel growth

Pg. 42



Lupin

Earnings growth likely to recover sharply

Pg. 47

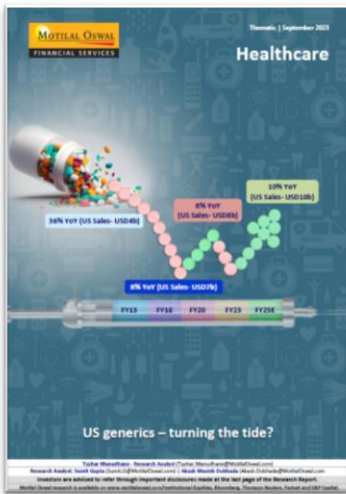


Sun Pharma

Reduced filings for the US generics

Pg. 52

Healthcare

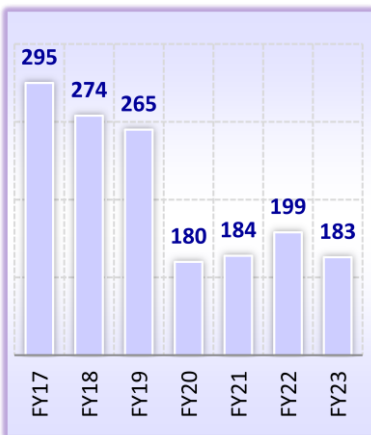


US generics – turning the tide?

Product-specific opportunities remain the key at company level

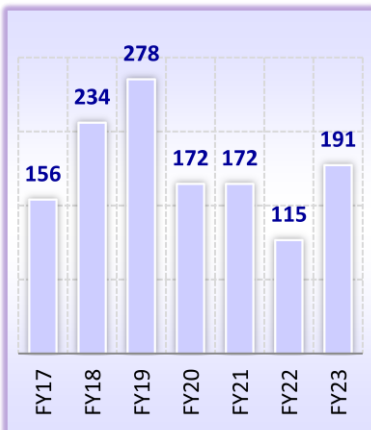
- **Resurgence in optimism...:** The prospect of the US generics market has experienced a revival in the recent past. This has been driven by price stability in the base portfolio and lesser competition due to financial and/or regulatory constraints of some companies.
- **...though restrained...:** However, our analysis of industry-level approvals showcases a cautious stance on this optimism. The USFDA has approved ~420 products in 7MCY23 (~725 annualized) vs. pre-Covid annual run-rate of 670 (CY17-CY19). The pace of inspection – while yet to reach pre-Covid levels – is on the rise, implying mounting regulatory risk.
- **...would propel growth contingent on product-specific executions:** We believe that the US generics market remains a product-specific play from the incremental business perspective. This would not only offset the erosion in base portfolio but also deliver growth effectively.
- **Upgrade CIPLA to BUY under this backdrop:** CIPLA’s robust ANDA pipeline with complex products (inhalers, peptides, injectable, etc.) should drive consistent growth in the US generics segment. This along with a steady outperformance in branded generics market (of India/SA) would enable 16% earnings CAGR over FY23-25. Accordingly, we raise our P/E multiple to 25x (from 22x earlier; in line with its three-year/five-year average) on 12M forward earnings and add g-Revlimid’s NPV (INR30) to arrive at our TP of INR1,420. Upgrade to BUY.

Decelerating pace of filings by coverage companies



Source: MOFSL, Company

Approval rate revives in the past two years for coverage companies



Source: MOFSL, Company

Slowdown in industry-level approvals unlikely

- ANDA approval rate has been on a steady rise post-Covid, from the low of 540 in CY21 to ~700+ annual approvals in CY23E, backed by a reduction in approval timeline and clearance of the backlog. Particularly, the tablets/ capsules have witnessed the highest number of approvals (dosage-wise). Despite stringency in compliance requirement and gradual moderation in travelling for inspection, approvals of injectable products have been steady at ~100 on an annual basis. In fact, approvals have already reached 83 in CY23’TD. Even inhalers have seen a healthy increase in annual approvals to 14 over CY21-23 from average 10 approvals over CY17-19.

Filings of coverage companies reduce; but approvals recover smartly

- Over the past seven years, filings by pharma companies under our coverage have decreased to 183 in FY23 from 295 in FY17, as companies revisited the economic viability for certain products due to intensified competition as well as high cost of filings. SUNP, DRRD, ALKEM and AJP have reduced filings in the US generics space over the past two years. However, ARPB, ZYDUSLIF, LPC and CIPLA have witnessed a stable-to-increasing filing pace during the same period. ARBP has the highest filings in the US among pharma companies under our coverage with ~50 filings per year.
- Interestingly, the approval rates have improved to 191 in FY23 from 115 in FY22, partly due to clearance of backlog by the USFDA. With reduced aggregate filings, we expect subsequent aggregate approvals to be on a downtrend eventually. ZYDUSLIF and ARBP have seen a spike in approval rate in FY23 with 58 and 60 final approvals, respectively. With reduction in filings, the approvals have also reduced for SUNP/DRRD/Cipla/LPC to 5/2/2/2 in 7MCY23.

The US sales on a recovery track

- The US sales grew 9% YoY in FY23 vs. stable-to-declining trend witnessed over FY13-FY22 at an aggregate level. Company wise, CIPLA/DRRD delivered strong 23%/25% YoY sales growth in the US generics, followed by ZYDUSLIF with 19% YoY growth in FY23. g-Revlimid, Sorafenib, and Pemetrexed injections were the key products driving sales growth during the period. ARBP's sales were almost flat YoY, while LPC's US generics sales declined 14% YoY owing to price erosion in the base portfolio and delay in potential niche launches.
- Going forward, we expect the US generics sales growth to be on an uptrend with 13% sales CAGR over FY23-25. While CIPLA and DRRD are expected to deliver consistent growth, niche launches by LPC and ARBP are likely to improve the sales growth in the US generics segment at an aggregate level.

The USFDA inspection at India sites on an uptrend

- From an average of 2,600 global inspections conducted by the USFDA annually during FY13-FY19 (12M ending Sep), the number of inspections reduced to ~1,100 only over the past four years. The inspections at India sites reached a peak of 334 (FY19; 12M ending Sep) from 112 in FY13. The inspection declined to eight during Covid period (FY21; 12M ending Sep). Post-Covid, however, there has been a healthy revival in inspections at India sites. Inspections are likely to reach 139 over 12M ending Sep'23. With a backlog of inspections from good manufacturing practices and/or pre-approval perspective, we expect the USFDA inspections at India sites to surge over the next 2-3 years. Thus, the inspection-related risks remain elevated for the US generics business.

Industry scan: Players under this backdrop

While industry outlook is likely to remain competitive, we expect product-specific opportunities to be the key growth drivers over the next 3-4 years.

- **CIPLA:** The company delivered ~22% US sales CAGR over the past 10 years consistently. Even during the next 2-3 years, we expect niche launches such as g-Abraxane, g-Advair and peptides would put CIPLA in a good position. These launches are likely to drive 15% sales CAGR over FY23-25 to reach ~USD1b in the US generics. Further, CIPLA's strategy of filing complex products from alternate site would enable reduced regulatory risk and have better visibility for the US generics business. The strong respiratory franchise, higher chronic share at 60% of DF sales (vs. 40% at industry level) and healthy growth potential across prescription, trade generics and consumer healthcare segments would drive industry outperformance in the DF segment. We value CIPLA at 25x 12M forward earnings and add NPV of INR30 related to g-Revlimid to arrive at our TP of INR1,420. **Upgrade to BUY.**
- **DRRD:** After almost three years (FY19-22) of mid-single digit YoY growth, DRRD delivered a strong 25%/69% YoY growth in the US sales for FY23/1QFY24. While it has only two approvals in FY24'TD, management has guided for 20-25 annual launches (six in 1QFY24) over the next two years. We expect 15% sales CAGR for DRRD over FY23-25 to reach USD1.7b, driven by market share gain in g-Revlimid and new approvals. We value DRRD at 22x 12M forward earnings and add NPV of INR140 related to g-Revlimid to arrive at our TP of INR5,240. Retain **Neutral.**
- **ZYDUSLIF:** The company reported a strong 19%/48% YoY US sales growth for FY23/1QFY24 – after three years (FY20-22) of downtrend – propelled by g-

Cipla



Dr.Reddy's

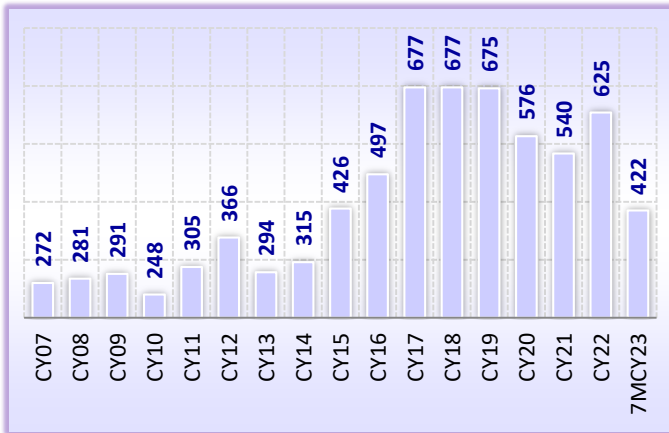


Revlimid/g-Trokendi. ZYDUSLIFE enjoys a decent pipeline (transdermals/REMS product) – both in the near term as well as longer term – by building its injectable portfolio. However, because of the high base (due to g-Asacol/g-Revlimid), we expect only 9% sales CAGR over FY23-25 to reach USD1b. Overall, we expect 16% earnings CAGR during FY23-25, fueled by healthy traction in the US and branded generics and supported by 110bp margin expansion in FY25. We value ZYDUSLIF at 20x 12M forward earnings to arrive at our TP of INR610. However, we reiterate our **Neutral** rating on ZYDUSLIF as its current valuation adequately factors in the upside in earnings.

- **LPC:** The company's US generics sales posted a compounded 5% decline over FY19-23 to reach the lowest annual sales of USD0.6b in FY23. The steep price erosion in its base portfolio, inventory correction along with regulatory issues at its manufacturing sites impacted the US sales adversely. However, LPC had made a good progress on the regulatory front. To date, it has successfully complied with five out of eight facilities that had adverse regulatory issues. Further, its niche launches (g-Spiriva, g-Prolensa, Brimonidine, and Prednisone) are expected to drive 28% sales CAGR over FY23-25 in the US generics segment. Likewise, we expect 2x earnings CAGR over FY23-25. Having said this, its return ratio would remain in low-double digit despite robust earnings CAGR. Reiterate **Sell** with a TP of INR830 (premised on 22x 12M forward earnings).
- **ARBP:** The company delivered a modest 2.4% sales CAGR over FY19-23 to USD1.5b. In fact, it reported a 2% YoY decline in the US sales in FY23. However, the company's growth prospect is quite promising over the next 3-4 years. We expect ARBP's US sales to register a 14% CAGR over FY23-25 to reach USD1.9b fueled by shortages of the drugs, moderating competition, reduction in pricing erosion, and consistent pace of approvals. In addition to the US sales prospects, the commercialization of Pen-G project is anticipated to improve profitability and drive overall earnings CAGR to 20% over FY23-25. We value ARBP at 15x 12M forward earnings to arrive at our TP of INR910. Considering the return ratio of 10% each in FY24/FY25 along with ARBP's reasonable valuation, we reiterate our **Neutral** rating on the stock.
- **TRP:** After four years of effort towards resolving regulatory issues, TRP recently received an EIR with VAI classification at its Dahej site. In addition to the base business (USD138m in FY23), we expect product approvals from Dahej to scale-up the US generics business over FY23-25. We expect 34% earnings CAGR over FY23-25, led by promising growth in the US/DF/Brazil (at +10%/15%/21%). Better operating leverage in these markets would drive margin expansion of 270bp over FY23-25. We value TRP at 28x 12M forward earnings to arrive at our TP of INR1,960. Reiterate **Neutral** due to limited upside from current levels.
- **SUNP:** After reporting strong annual sales of USD2b over FY5-17, SUNP's US sales declined to an annual run-rate of USD1.45b over FY18-21. However, over the past two years, there has been a healthy revival in the US sales, led by the enhanced specialty portfolio. The pace of filings/approvals for generics has significantly reduced over the past two years though. Despite this, we expect 10.5% sales CAGR over FY23-25 owing to increased prescription sales in specialty portfolio and addition of indication for Illumya. Overall, we project 15% earnings CAGR fueled by a steady traction in specialty portfolio, superior execution across branded generics market, and 160bp margin expansion. We reiterate our **BUY** rating with a TP of INR1,310 (based on 26x 12M forward earnings).

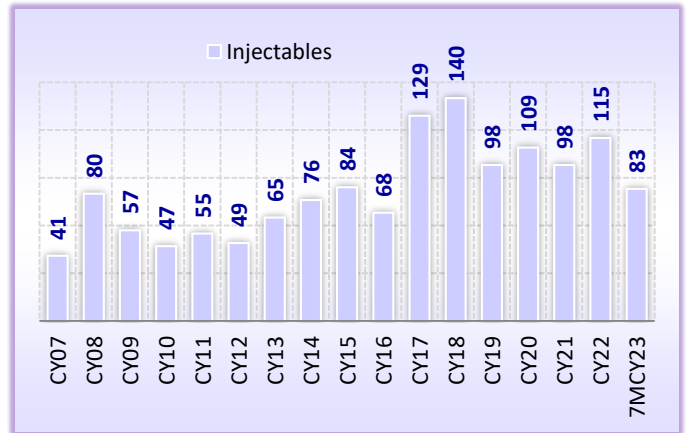
STORY IN CHARTS

Revival of the approval rate post-Covid at global level



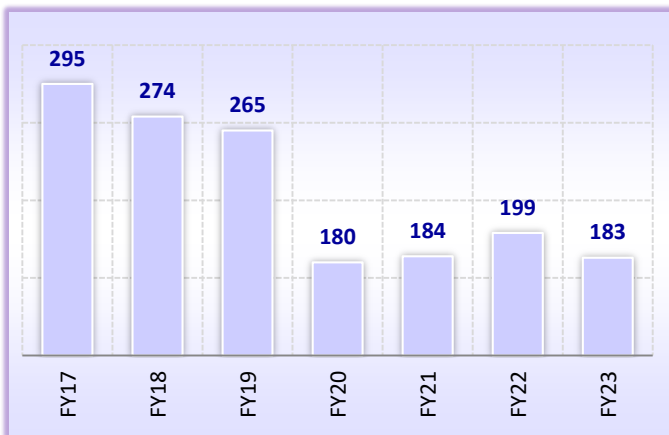
Source: MOFSL, USFDA

Approvals for injectable are also rising for industry



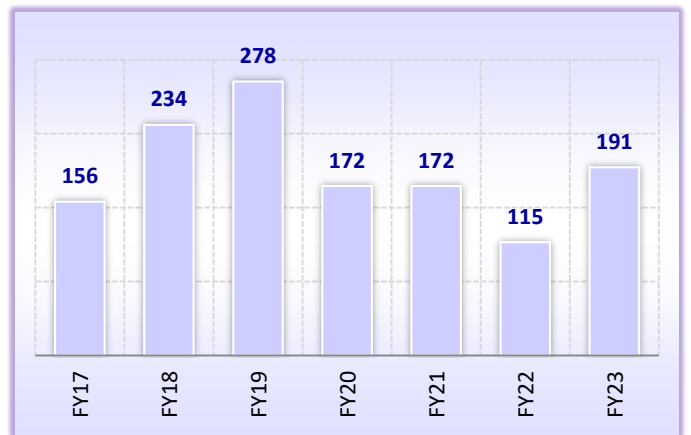
Source: MOFSL, USFDA

Decelerating pace of filings by coverage companies



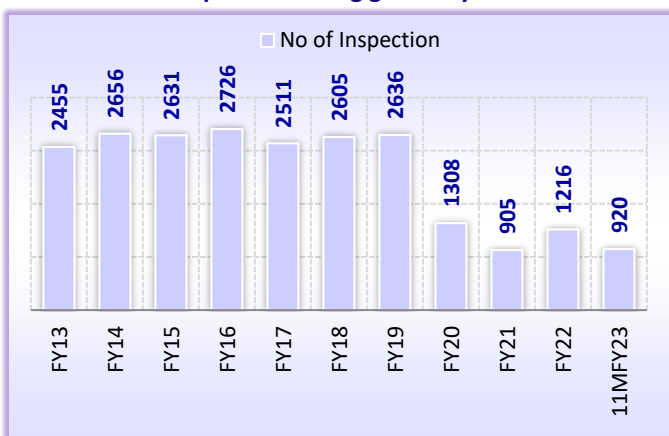
Source: MOFSL, Company

Approval rate revives in the past two years for coverage companies



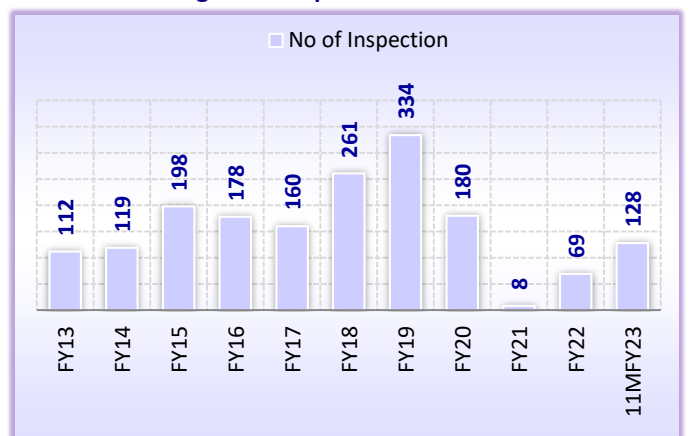
Source: MOFSL, Company

Global USFDA inspections rising gradually...



Note: 11MFY23 is ending on August, Source: MOFSL, USFDA

...while it is rising at faster pace in India



Note: 11MFY23 is ending on August, Source: MOFSL, USFDA

Slowdown in industry-level approvals unlikely

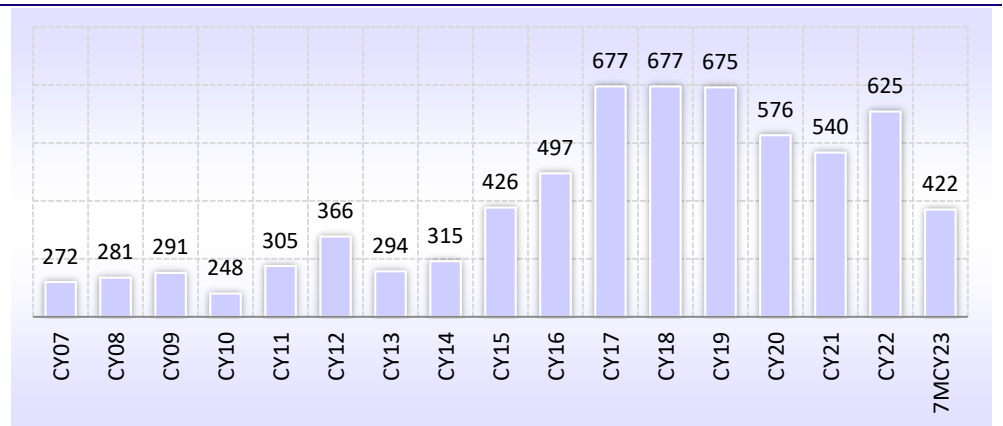
- The ANDA approval rate is improving steadily post-Covid to ~700+ annual approvals in CY23 from the low of 540 in CY21 led by improvement in efficiency of the approval process, reduction in approval timeline and clearance of the backlog.
- During CY20-21, the approval rate decreased to 540 because of the severe impact of Covid-19. The USFDA’s approval rate was the highest during pre-Covid (670+ annual approval rate) phase driven by implementation of the GDUFA Act.
- While tablets/capsules and injectable have higher approval rate vs. other dosage forms, we expect the approval rates for tablet/capsules and injectable to be ~400/140 in CY23 – at all-time highs.
- The approval rates in inhalation/solution/cream segments would be stable in CY23E while powder and gel categories would register a decline in approvals during the year.

Approvals on an uptrend

- The ANDA approval rate is improving steadily post-Covid to ~700+ annual approvals in CY23 from the low of 540 in CY21 led by improvement in efficiency of the approval process, reduction in approval timeline, increase in inspection pace and clearance of the backlog.
- During CY20-21, the approval rate decreased to 540 because of the severe impact of Covid-19 (the USFDA inspections were stopped temporarily).

The overall approval rate in CY23 would be more than 700, signifying rising approval trend.

Exhibit 1: Revival of the approval rate post-Covid



Source: MOFSL, USFDA

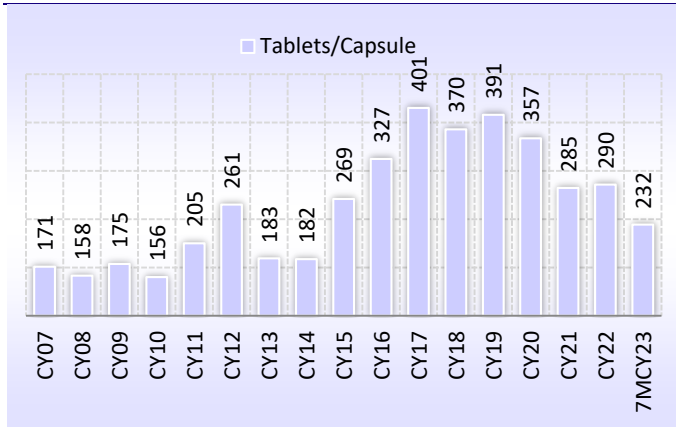
- The pace of ANDA approvals started accelerating from CY12. The USFDA’s approval rate was the highest during pre-Covid (670+ annual approval rate) phase driven by implementation of the GDUFA Act as the requirement for stability data changed to 1 exhibit batch from 3 exhibit batch. Further, the standard review time for an ANDA application reduced to 15 months in CY13-14 from 26 months earlier.
- Extrapolating 7MCY23 approvals, we expect CY23 approvals to be 723 that will easily surpass the number of CY22 ANDA approvals.

Tablets/capsules/injectable approvals are on the rise

Tablet/Capsules/Injectable have the highest approval rates.

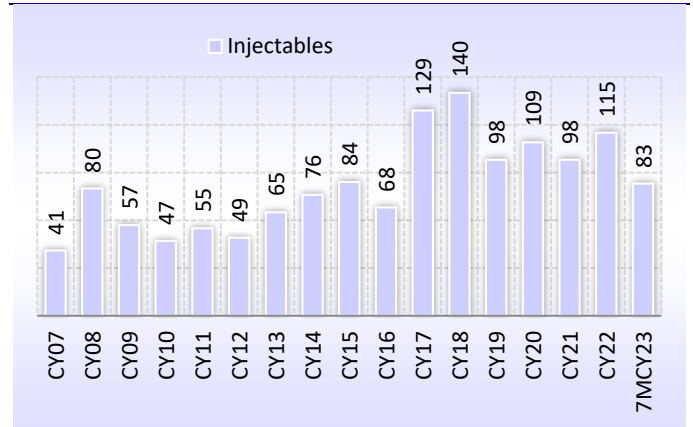
- Tablets/Capsules have the highest approval rates among all the dosage forms. Their rate of approvals surged to ~400 in CY19 from 182 in CY14.
- However, the trend declined to 290 approvals in CY22 from 357 in CY20 led by the pandemic. However, there is revival in the approval rate in CY23.
- During 7MCY23, the approvals are close to the CY22 level. It is expected that the annual approvals would recover to an all-time high of 400.

Exhibit 2: CY23 may end with ~400 approvals



Source: MOFSL, USFDA

Exhibit 3: Approvals for injectable are also rising

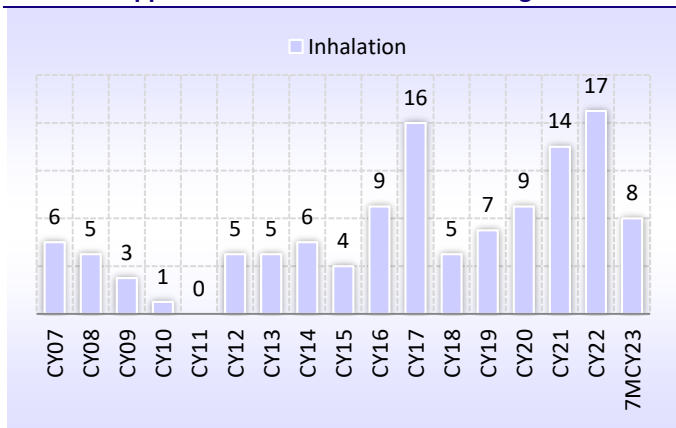


Source: MOFSL, USFDA

Inhalation and Solution approval rate has no impact of COVID-19.

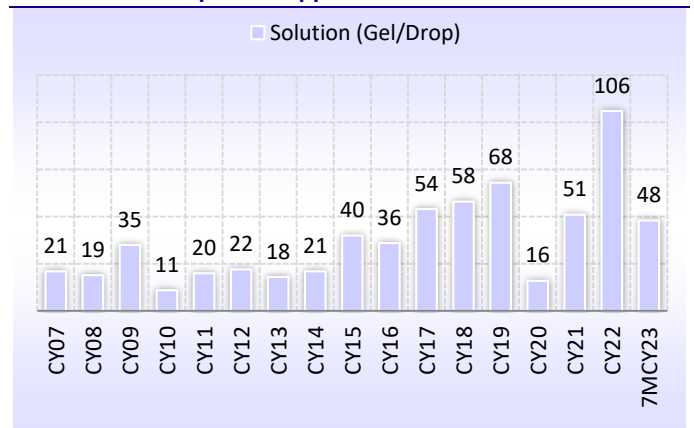
- In the injectable space, the approvals during CY18-20 had been steady around 100. However, injectable approvals were not much affected by Covid-19.
- The approval rate in the injectable space increased to ~115 in CY22 while in 7MCY23, the approvals stand at 80+. Hence, we expect the approval rate to increase going forward with annual approvals of 140 in CY23.
- In the inhalation category, the approval rate had increased consistently to 17 annually in CY22 from five only in CY18. Hence, we infer that the Covid impact on the approvals of inhalation products has been negligible.

Exhibit 4: Approval rate to be in low-double digit in CY23



Source: MOFSL, USFDA

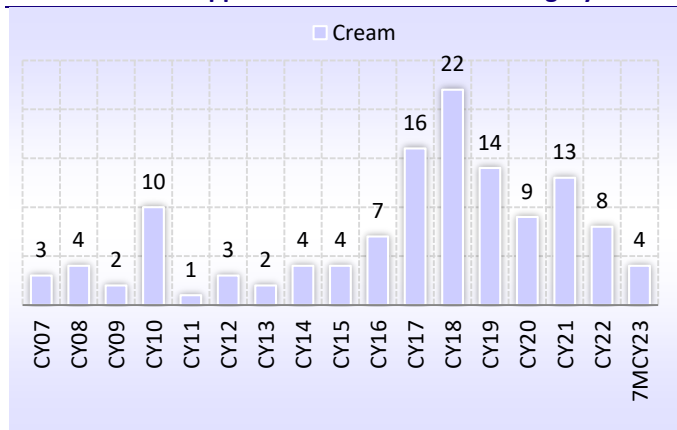
Exhibit 5: Lower pace of approvals in CY23 vs. CY22



Source: MOFSL, USFDA

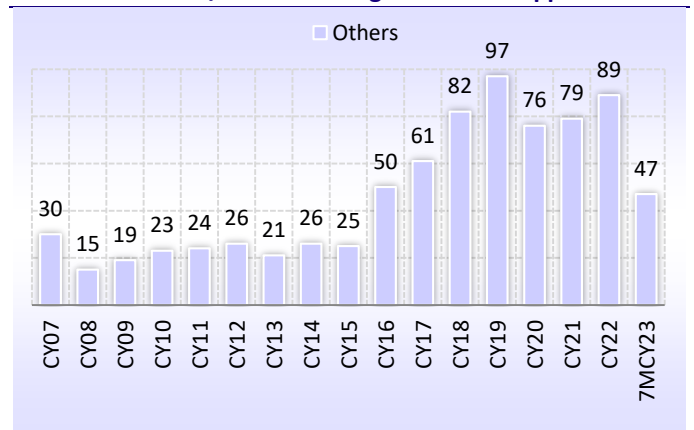
- In the Solution category, the annual approval rate has been in the range of 50-60 over CY17-21 except for CY20 where the rate declined to 16 annually.
- In CY22, the approvals reached an all-time high of 106. Considering the number of approvals in 7MCY23, the approval pace is likely to be moderate in CY23.

Exhibit 6: Stable approval rate in the Cream category



Source: MOFSL, USFDA

Exhibit 7: Powder/Gel witnessing a decline in approvals



Source: MOFSL, USFDA

- In the Cream category, the overall approval trend is decelerating from CY18 onwards as depicted in Exhibit 6. The approvals further declined to eight in CY22 from 13 in CY21.
- We expect the approval rate in Cream category to be stable around seven in CY23.
- In Others category, the pace of approvals of suspension has been stable YoY, but the Powder and Gel categories are witnessing a decline.

Reduced pace of filings by our coverage companies

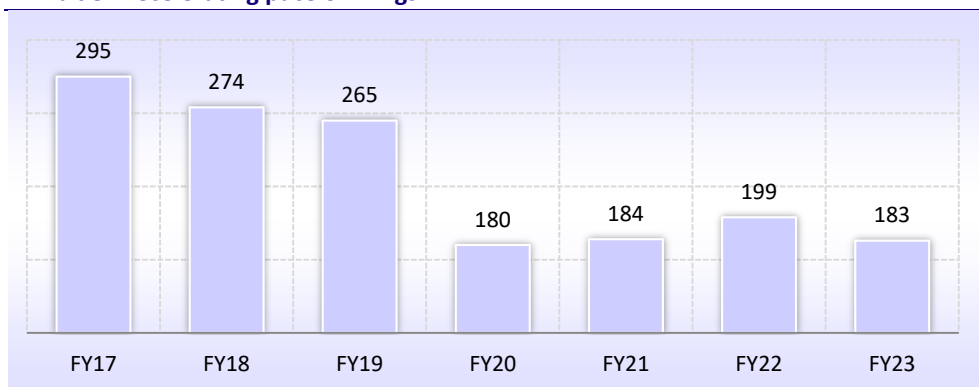
- Over the past seven years, the filings by Pharma companies under our coverage had been declining to reach 183 in FY23 from 295 in FY17. The drop was owing to high cost of filings, mounting price erosion, intensified competition and challenges on the compliance front.
- SUNP, DRRD and ALKEM are consciously reducing the filings in the US due to the aforementioned factors.
- ARBP and ZYDUSLIF, however, have maintained an aggressive filing pace despite headwinds in the US, as they intend to capture the market share in the US as well as increase the share of complex specialty products.

The pace of filings decelerating

- From FY17 onwards, the pace of filings of Indian Pharma companies under our coverage decelerated to reach 183 in FY23 from 295 filings in FY17.
- We believe this was due to: a) intensified competition that questioned the viability of the business at product level and b) higher regulatory filing cost. Companies indicated that selective filings would improve the growth prospects and reduce the pressure on profitability.
- Besides these, several Indian pharma companies are facing OAI classifications or warning letters (or import), which are hampering the future prospects of the business as the approvals/filings get delayed.

Our coverage companies have reduced the pace of filings to 183 in FY23 from 295 in FY17.

Exhibit 8: Decelerating pace of filings

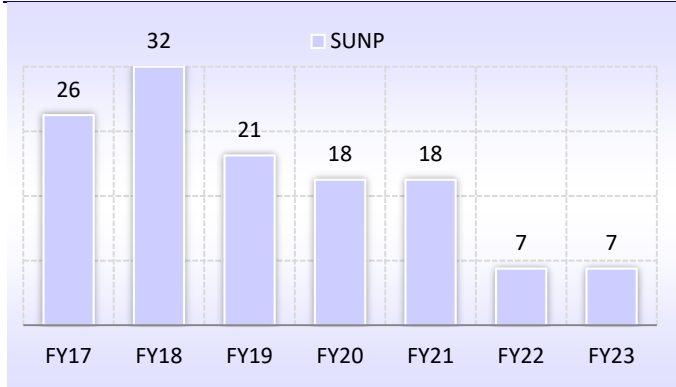


Source: MOFSL, Company

SUNP, DRRD, ALPM, AJP, and ALKEM's pace of filings moderates

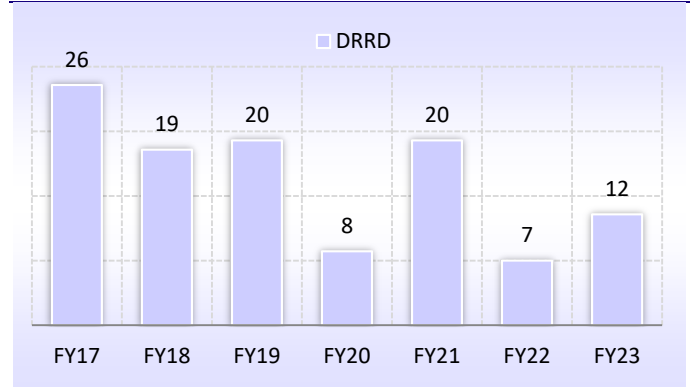
- SUNP's pace of filings has been tapering from the FY19 level of 21 filings, since the company is facing pricing and competitive pressures as well as compliance issues at certain manufacturing plants. Filings have decreased sharply to seven each in FY22 and FY23 from 18 filings in FY21.
- This sharp decline is partly because of an import alert issued at its Halol plant and cGMP issue at its Mohali plant. However, despite this, SUNP continues to focus on complex molecules in the US generics space.
- DRRD filed around 20 products over FY17-19. During the past three years, however, the pace of filings has been reducing with only 12 filings in FY23.

Exhibit 9: A sharp decline in filings over FY22-23



Source: MOFSL, Company

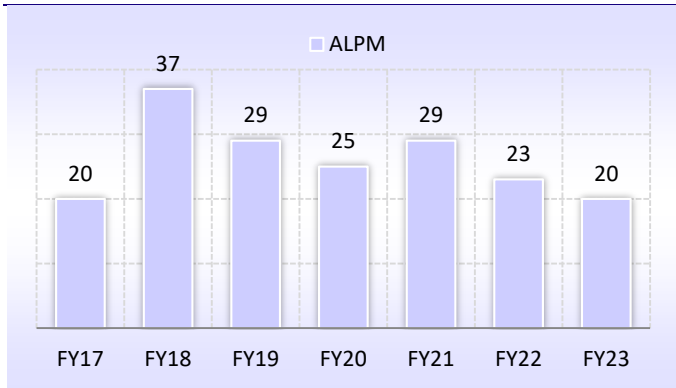
Exhibit 10: DRRD has reduced its filings over the years



Source: MOFSL, Company

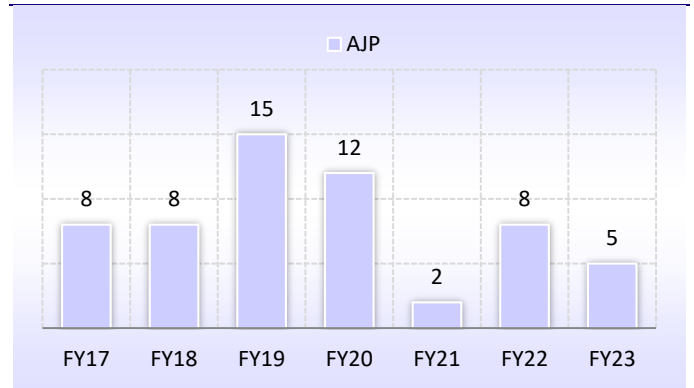
- During FY18, the filing rate of ALPM was 37; however, filings declined gradually to 20 in FY23. This was largely due to delayed regulatory approvals for the new manufacturing sites.
- With compliance in place, ALPM has guided to file mid-to-high digit ANDAs on an annual basis.

Exhibit 11: A decline in filings in FY22 and FY23



Source: MOFSL, Company

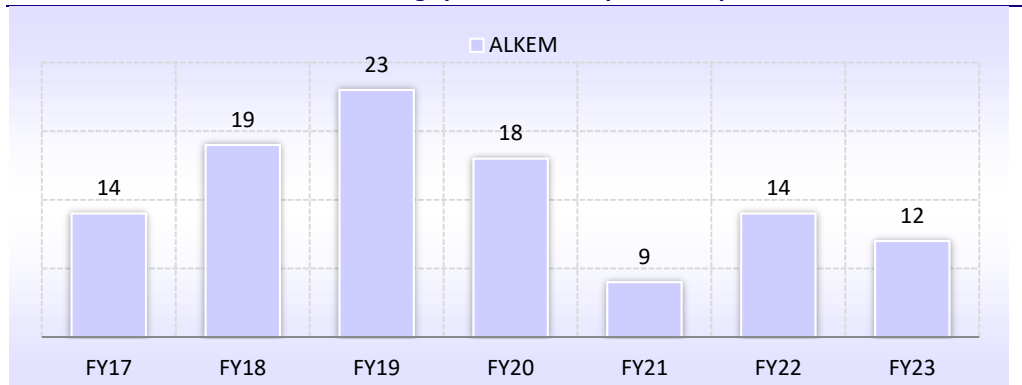
Exhibit 12: Slowdown in ANDA filings over past three years



Source: MOFSL, Company

- In FY19/FY20, AJP filed 15/12 products; however, in FY21 the company filed only two products due to the Covid-led delays in R&D activities.
- Additionally, AJP filed eight and five products in FY22 and FY23, respectively. Intense price erosion in base portfolio and steep competition in the US generics industry have compelled the management to reconsider its US generics strategy.
- AJP guided for eight ANDA filings in FY24.

Exhibit 13: Moderation in ANDA filings post-Covid vs. pre-Covid phase



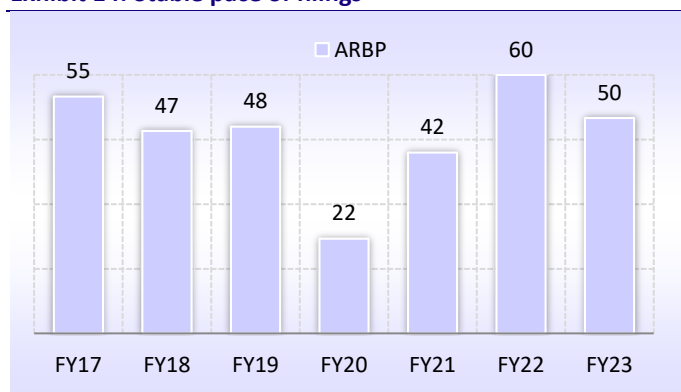
Source: MOFSL, Company

- ALKEM’s pace of filings has moderated to 12 in FY23 from the high of 23 filings in FY19.
- During FY21, the annual filings plummeted to nine due to the pandemic.
- However, ALKEM intends to keep the filing pace consistent at low double digit.

ARBP, ZYDUSLIF, LPC, and CIPLA’s pace of filings is stable-to-increasing

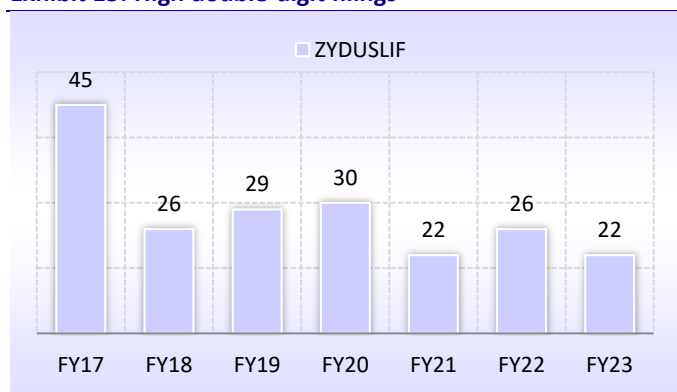
- ARBP has the highest filings in the US with ~50 filings per year, among pharma companies under our coverage.
- However, its filing pace in FY20 decelerated to 22 partly because of the OAI classifications at its three manufacturing facilities.
- After remediation of the regulatory issues, the company gradually accelerated its pace of filings to reach 50 again in FY23.
- ARBP guided to file 60 products (20 injectable and 40 other products) annually owing to the double-digit YoY growth in the US generics segment. Moreover, it is focusing on the injectable space owing to lesser price erosion as compared to tablets/capsules.
- ZYDUSLIF is second behind ARBP with respect to filings. In FY17, it has filed 45 products in the US market.

Exhibit 14: Stable pace of filings



Source: MOFSL, Company

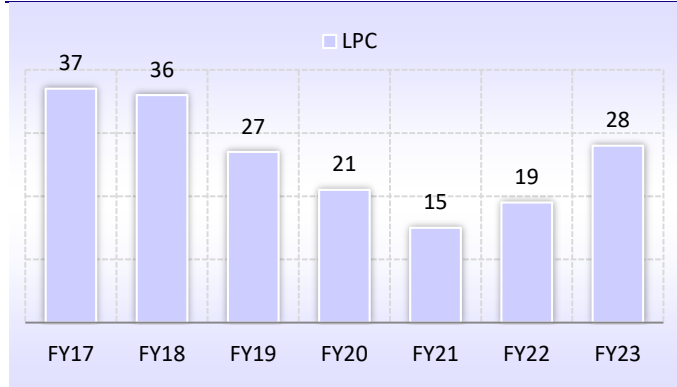
Exhibit 15: High double-digit filings



Source: MOFSL, Company

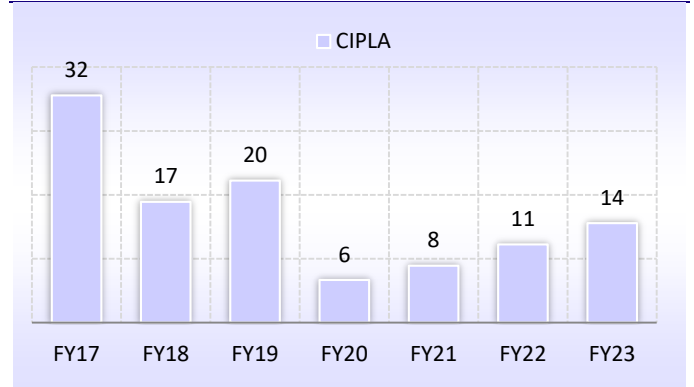
- During FY21, ZYDUSLIF’s filing pace decelerated to 22 partly because of the OAI classification at its Moraiya facility owing to Covid-related constraints.
- ZYDUSLIF is expected to retain the filing pace at 32-35 in FY24 as well.
- During FY18, LPC filed 36 products. However, the filings declined to 15 products in FY21 from 27 in FY19.
- LPC’s pace of filings has accelerated since FY22 with 28 filings in FY23.

Exhibit 16: Increasing filing pace post-Covid



Source: MOFSL, Company

Exhibit 17: Mid-teens filings in FY23



Source: MOFSL, Company

- In FY23, the pace of filings was back to pre-Covid level for LPC and going forward the pace would remain steady as the company is focusing on complex products in ophthalmics, inhalers and injectable domains.
- In FY20, the filings by CIPLA dropped notably to six products from 20 in FY19.
- However, CIPLA gradually raised the number of ANDA filings to 14 in FY23 in the categories of inhalers, peptides, and injectable.

ANDA approvals recover for pharma companies under our coverage

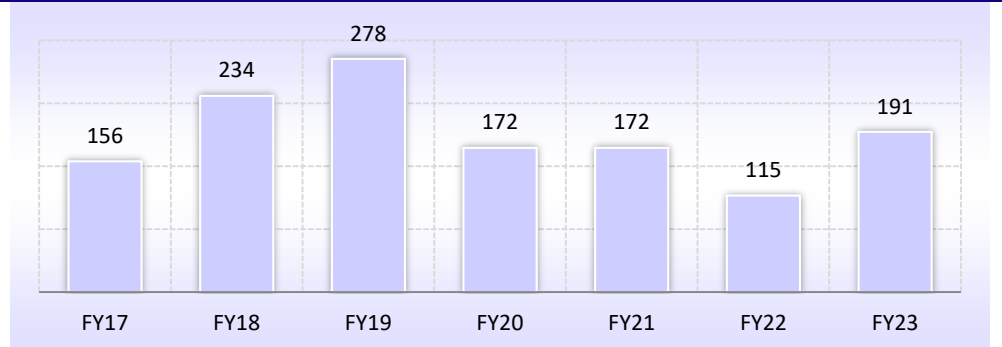
- The approval rate rose to 191 in FY23 partly due to clearance of backlog by the USFDA.
- However, it has been observed that the overall approval rate has decreased to 191 in FY23 from 278 in FY19.
- With reduced aggregate filings, we expect subsequent aggregate approvals to be on a downtrend from FY24 onwards.
- However, certain dosages such as injectable, inhalers, and peptides may witness a rise in approval rates.

The rate of approval is reviving for the Indian Pharma companies

- The ANDA approval rate has revived for pharma companies under our coverage with 191 approvals effected in FY23.
- Successful compliance post-Covid as well as clearance of backlog post-implementation of the GDUFA III Act has led to ~70% YoY increase in the number of approvals.
- However, it has been observed that the overall approval rate has declined from 278 in FY19.

Within our coverage companies, there has been a steady rise in approval rate post-covid.

Exhibit 18: Approval rate revives in the past two years



Source: MOFSL, Company

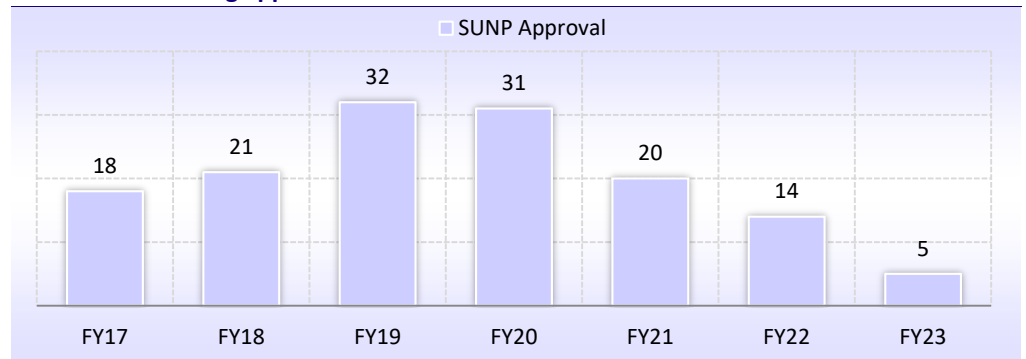
- The approvals increased to 278 in FY19 from 156 in FY17, as the filings during the same period were high.

SUNP’s approvals decreasing rapidly

- SUNP’s approvals have been declining at a faster rate to just five approvals in FY23 from 31 in FY20.
- This was partly due to an import alert at Halol and higher focus on differentiated products.

Regulatory hurdles hampered the approval rate in FY23.

Exhibit 19: Declining approval rate for SUNP



Source: MOFSL, Company

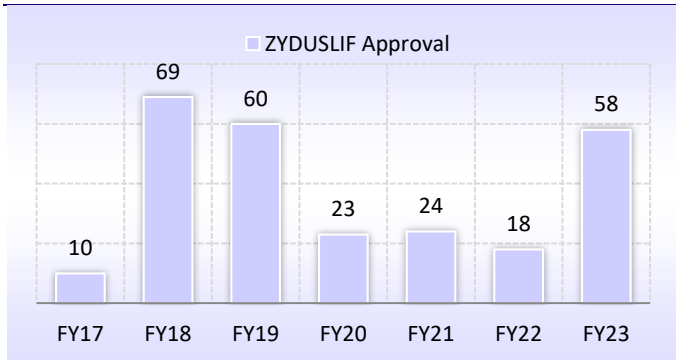
- In the generics segment, SUNP concentrates more on the tablets/capsules dosage form. It has the highest approvals in tablets/capsules.
- After tablets/capsules, the company is focusing on the suspensions dosage form, which has the highest approvals of 10 to date.
- SUNP is working on resolving the regulatory issue, which would aid higher number of product approvals. With security issue being addressed, the filing rate is expected to improve gradually, thereby driving approval pace as well.

ZYDUSLIF is focusing on increasing approvals in the injectable space.

ZYDUSLIF’s approval rate revives

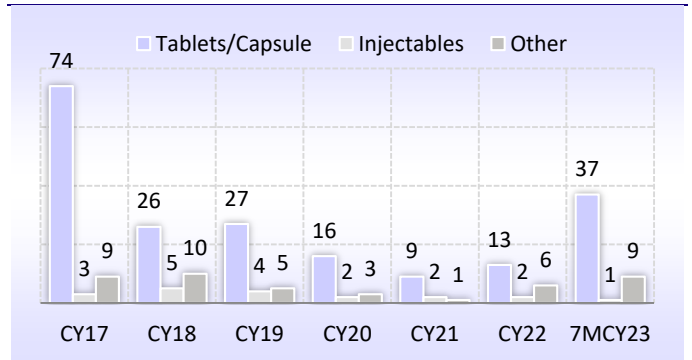
- ZYDUSLIF has seen a spike in approval rate in FY23 with 58 final approvals during the year.
- During FY20-22, the approval rate for the company decreased to ~20 per year due to Covid-19, warning letter at Moraiya facility and delay in the USFDA inspection.

Exhibit 20: Revival of approval rate to earlier level



Source: MOFSL, Company

Exhibit 21: Tablets/capsules have the highest approval rates



Source: MOFSL, USFDA

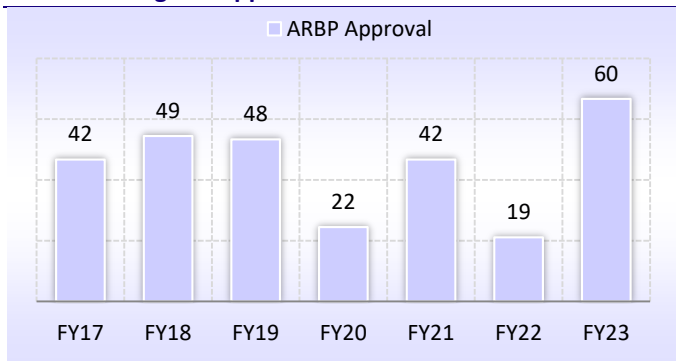
- ZYDUSLIF had a couple of injectable ANDA approvals over the past 2-3 years. With enhanced efforts towards product development of this dosage and availability of facilities to cater to manufacturing requirement, we expect injectable to grow meaningfully over the next 2-3 years.
- ZYDUSLIF has the highest approval rates in tablets/capsules in all the years. In FY23, it received ~37 approvals in tablets/capsules.

ARBP has the highest approvals in injectable within our coverage

ARBP’s approval rate steady

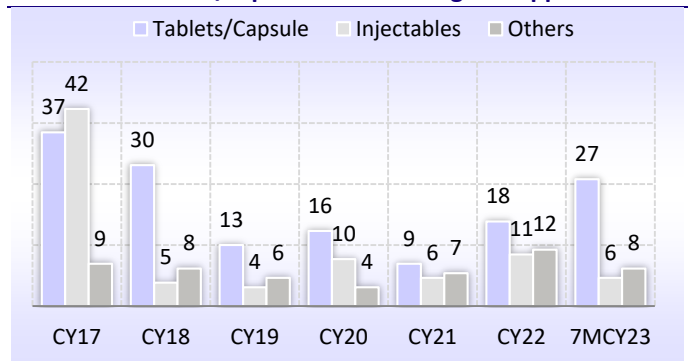
- ARBP has been receiving approvals aggressively over the years. In FY23, it received the highest approval of 60 products.
- While certain raw material sourcing and regulatory issues affected FY22 ANDA approvals, ARBP has seen a sharp recovery in the number of approvals in FY23.

Exhibit 22: Highest approvals received in FY23



Source: MOFSL, Company

Exhibit 23: Tablets/capsules have the highest approvals



Note: CY17 injectable includes prior period approval of Eugia, Source: MOFSL, USFDA

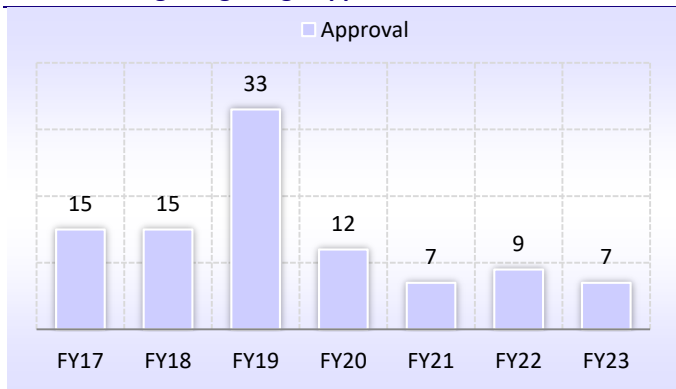
- ARBP has the highest approval rates in tablets/capsules in the US. During FY23, it had 27 approvals in tablets/capsules.
- Further, it is filing aggressively in the injectable space. In FY23, it had received around six approvals in injectable.
- ARBP had filed 215 injectable (Eugia) of which it received 153 final approvals and 62 are awaiting final approval.

Regulatory issues are hurting the approval rate for CIPLA

CIPLA’s approvals are lower due to regulatory issues

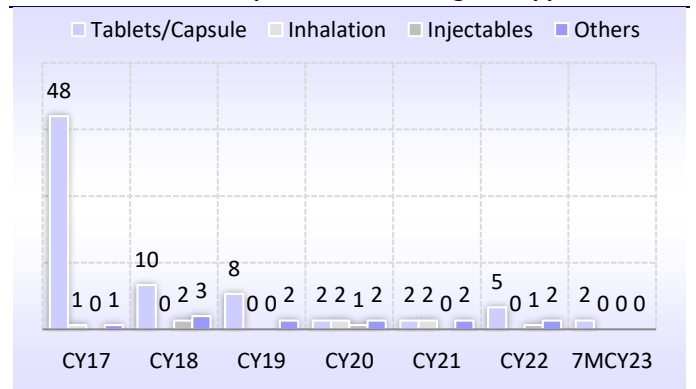
- CIPLA’s approval rates have been tapering since FY19 to high-single digit.
- This was due to a delay in pre-approval inspection by the USFDA on account of Covid-19 and adverse classification of its Goa plant. The Feb’23 inspection at Indore site led the USFDA issue Form 483 with eight observations. Subsequently, the site was issued an OAI classification. This also affected ANDA approval run-rate for CIPLA in the recent past.

Exhibit 24: High single-digit approval in FY23



Source: MOFSL, Company

Exhibit 25: Tablets/capsules have the highest approval rates



Note: CY17 tablet/capsule includes prior period approval of Invagen, Source: MOFSL, USFDA

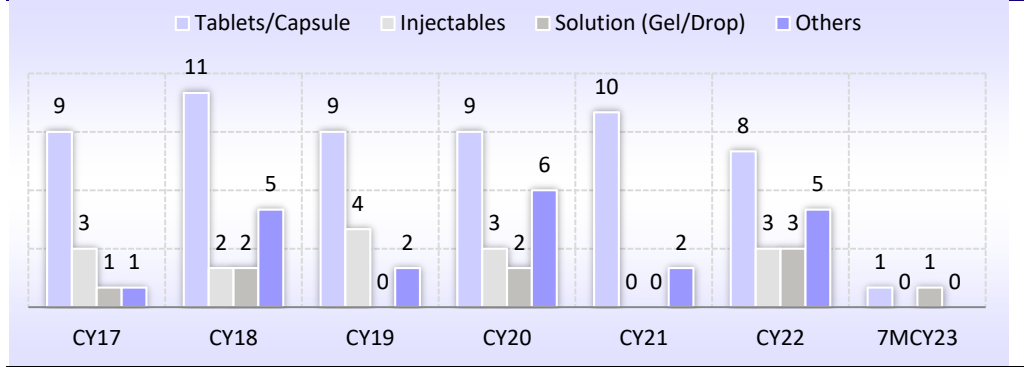
- CIPLA received the highest approvals of 33 products in FY19 due to higher filings in the previous year.
- It has the highest approvals in Tablets/Capsules at ~77 to date; while the company is increasing its focus on complex inhalation and injectable categories.
- The approvals in injectable and inhalation are in low-single digit, but the company is focusing on expanding its offerings in this segment.
- With de-risking of critical products to alternate site and a healthy pipeline of products pending approvals, we expect the approval pace to revive to some extent.

DRRD’s pace of approval decelerated; it is focusing on niche products

- DRRD’s approval rate has been declining on a steady basis from CY18 onwards.
- DRRD is focusing on limited competition product; hence, the filing and approval rates have moderated.

DRRD’s approvals have declined as it is focusing on niche approvals.

Exhibit 26: Declining pace of filings



Source: MOFSL, USFDA

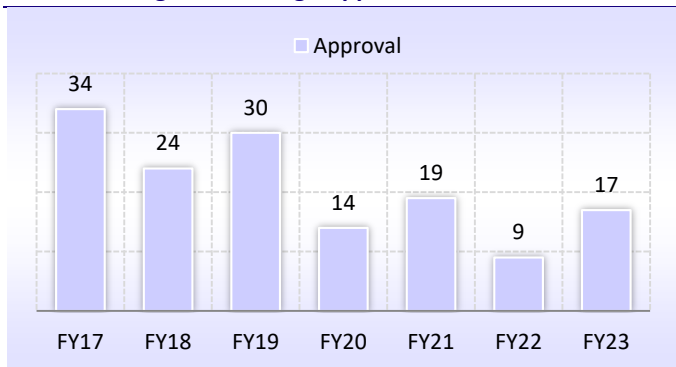
- DRRD has the highest approvals in tablets and capsules at 57 to date; however, the company is also focusing on complex injectable. DRRD has low-single digit approval rate in injectable business. To date, DRRD has received 15 approvals in the injectable space.
- Going forward, we expect DRRD to continue to file ANDAs and receive approvals. Moreover, it expects to receive approvals for biosimilars (for Rituximab) in the next 12-18M.

LPC is building the inhalation/injectable/bio-similar pipeline.

LPC’s product approval rate reviving post-Covid

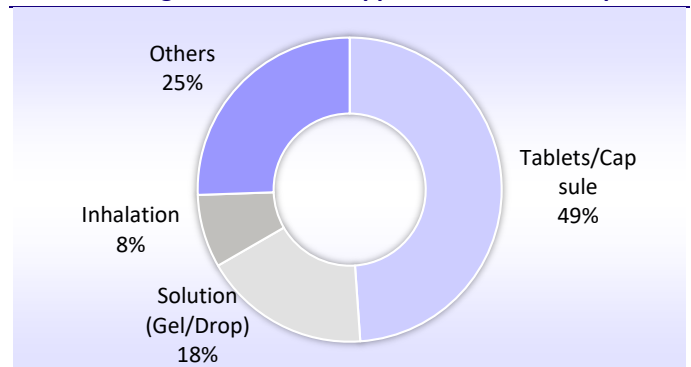
- Covid-19 and regulatory issues at multiple sites affected the pace of approvals for LPC over FY20-22. The number of approvals reduced to the lowest at nine in FY22 on an annual basis.
- In FY19, LPC received OAI classifications at its four plants (viz, Tarapur, Vasco Da Gama, Pithampur and Mandideep). These resulted in a sharp deterioration in approval pace in FY19.
- LPC’s approvals have increased in FY23 to 17 products post-significant effort to meet the USFDA compliance requirements and clear the backlog of filed products in the US generics market.

Exhibit 27: High double-digit approvals in FY23



Source: MOFSL, Company

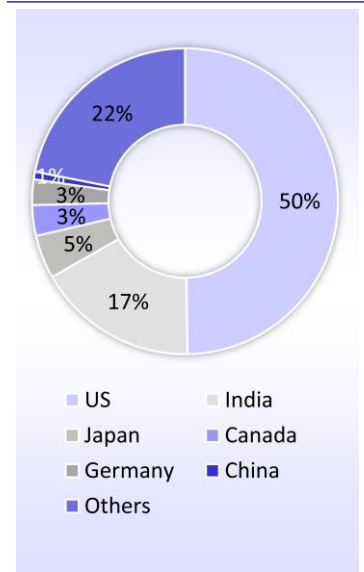
Exhibit 28: Highest number of approvals in tablets/capsules



Source: MOFSL, USFDA

- LPC has the highest approvals in Tablets/Capsules, which account for 49% of the total approvals. These are followed by Solutions and Inhalation.
- LPC is working on building the inhalation pipeline along with injectable and biosimilar pipeline. Hence, we expect an increase in the approval rate in these areas going forward.
- With compliance in place and increase in filings in complex products, we expect the approval pace to be at high double digit.

India accounted for 17% of total inspection in 11MFY23



Source: MOFSL, USFDA

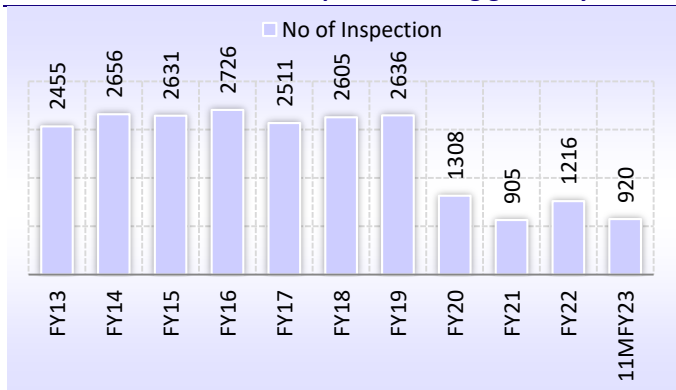
The USFDA inspections on the rise

- The USFDA inspections are rising steadily in India post-Covid to 128 over 11MFY23, higher than FY22 (full-year) inspections.
- During FY18-19, the USFDA inspections were at their peak, which decreased to eight in FY21 due to Covid-induced travel restrictions.
- The Indian Pharma companies have intensified their focus on implementing cGMP at their facilities, resulting in increased NAI to 45% over the last 10 years while OAI classification has decreased to 6% over the same period.
- We expect the USFDA inspections to increase further. Even the requirement to meet compliance is likely to increase given the improved share of complex filings by pharma companies under our coverage.

Indian Pharma companies facing higher USFDA inspections

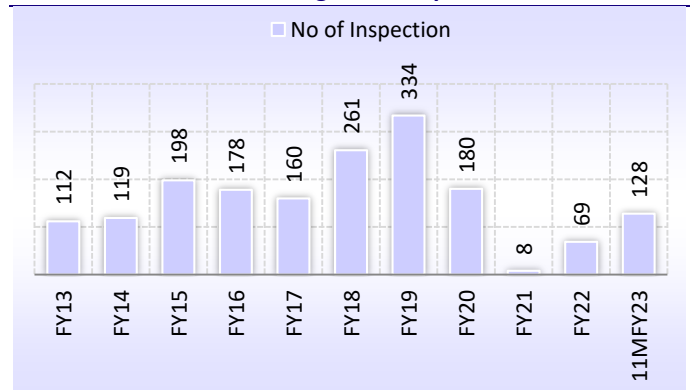
- During FY21, the inspections of the Indian Pharma companies had gone down to eight due to Covid-19.
- However, with moderation in Covid-related restrictions, the Indian Pharma companies are experiencing a spike in inspections to 69/128 in FY22/11MFY23.
- Overall, the inspections in India have increased vs. inspections worldwide.
- However, the inspections of Indian Pharma companies are still below the pre-Covid levels.
- The annual pace of inspections increased notably to 334 in FY19 from 112 in FY13 on the back of cGMP requirement as well as pre-approval inspections.

Exhibit 29: Global USFDA inspections rising gradually...



Note 11MFY23 is ending on August, Source: MOFSL, USFDA

Exhibit 30: ...while it is rising at faster pace in India



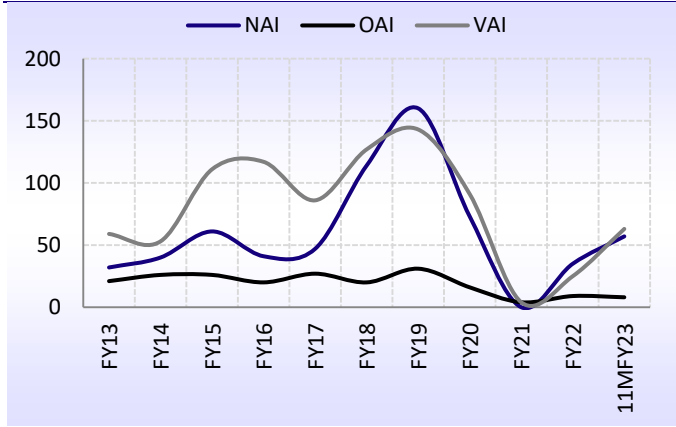
Note: 11MFY23 is ending on August, Source: MOFSL, USFDA

Approval pace to increase as the Indian pharma companies are focusing on good manufacturing practices.

Reducing share of OAI in total classifications at India sites

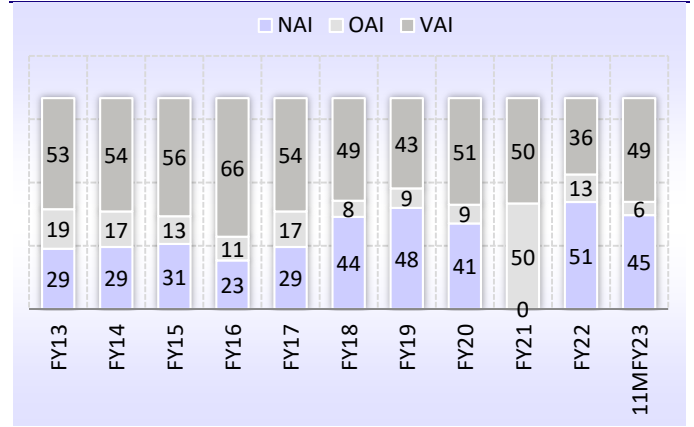
- The trend in inspection classifications has been slightly divergent with classifications tending more towards no action indicated (NAI) and voluntary action indicated (VAI). This implies that the probability of regulatory approval for the product would improve.
- The overall share of NAI classification has gone up to 45% in 11MFY23 from 29% in FY13, while the VAI classification has gone down to 49% in 11MFY23 from 53% in FY13. These indicate that the Indian pharma companies are focusing on the quality of manufacturing.

Exhibit 31: OAI classification is tapering gradually...



Note: 11MFY23 is ending on August, Source: MOFSL, USFDA

Exhibit 32: ...at just 6% of overall classification (%)



Note: 11MFY23 is ending on August, Source: MOFSL, USFDA

- The share of OAI classification for the Indian pharma companies has gone down significantly to 6% in 11MFY23 from 19% in FY13, indicating a likely improvement in product approval and filing pace going forward.

Exhibit 33: Recent USFDA inspection history of Indian pharma companies

Company	City	Classification	Inspection End Date
Torrent Pharma	Dahej	VAI	Aug-23
Cipla	Pithampur	OAI	Aug-23
Zydus Hospira Oncology	Matoda	VAI	Jun-23
Zydus Lifesciences	Ahmedabad	NAI	Jun-23
Zydus Animal Health and Investments	Matoda	NAI	Jun-23
Aurobindo Pharma	Anakapalli	VAI	May-23
Dr. Reddy's Labs	Sangareddy	VAI	May-23
Invagen (Subsidiary of Cipla)	Fall River	NAI	May-23
Zydus Lifesciences	Matoda	VAI	Mar-23
Lupin	Paravada	NAI	Mar-23
Lupin Bioresearch Center	Pune	NAI	Mar-23
Sun Pharma	Kanchipuram	NAI	Feb-23
Aurobindo Pharma	Doultabad	VAI	Nov-22
Sun Pharma	Mohali	OAI	Aug-22

Source: MOFSL, USFDA

- CIPLA has received an OAI classification at its Pithampur plant despite implementing corrective action plan. This update came after the plant was inspected on Feb'23 and it received eight observations.
- TRP's Dahej plant received EIR with VAI classifications in Aug'23, which indicated that TRP will receive approvals of the products filed. This plant was first inspected on Mar'19 with OAI classification; subsequently, it was re-inspected in May'23 and received two observations.
- Going forward, we expect that the inspections of the Indian pharma companies to rise and reach pre-Covid levels. Further, the USFDA has elevated stringency of the inspection that would intensify the regulatory risk notably on the US business.

The US sales on recovery path

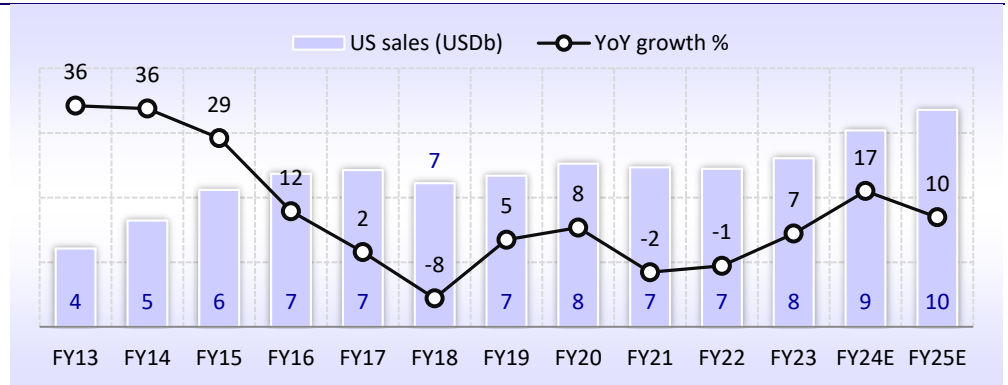
- The US sales of Indian companies under our coverage recovered with 7% YoY growth in FY23 led by inventory rationalization at the customer’s end.
- However, during FY18-FY22, the US sales of our coverage companies registered a mere 3% CAGR due to excess price erosion because of intense competition.
- We expect the US sales to report a 13% CAGR over FY23-25 aided by niche launches and market share gains.

The US sales of Indian Pharma companies rebound

- The aggregate US sales had been stable at USD7b over FY16-FY22 for companies under our coverage.
- However, FY23 witnessed a healthy recovery with 7% YoY growth to USD6.7b at an aggregate level.
- While the intensity of price erosion remained elevated in FY23 as well, traction in limited-competition/high-value products (g-Revlimid/g-Trokendi/Sorafenib/Pemetrexed injection) led YoY growth during the period.

The US sales on an upward trajectory with market share gains and new launches.

Exhibit 34: The US sales trajectory on an uptrend



Source: MOFSL, Company

- Among the companies under our coverage, sales of DRRD/CIPLA/ZYDUS/AJP/SUNP outperformed overall sales growth by 18%/16%/12%/5%/3% YoY. This was fueled by launches of niche products such as g-Revlimid, Sorafenib, and Pemetrexed injection, market share gains in existing portfolio and higher sales of seasonality-related products.
- Conversely, sales of LPC/ALPM/GNP/TRP/ARBP declined 14%/12%/11%/3%/2% YoY due to intensified price erosion, delay in niche launches, high base effect of FY22 and regulatory hurdles.
- We expect sales of Indian Pharma companies under our coverage to record 13% CAGR over FY23-25 and reach USD10b aided by new launches, normalization of conditions (post-Covid), products going off-patent and moderating price erosion.



Companies



Cipla

Growth levers in place in the US generics

Pg. 22



Dr.Reddy's

Dr Reddy's Labs

Creating a pipeline to sustain growth beyond g-Revlimid

Pg. 27



Zydus Lifescience

The US growth prospects revive

Pg. 32



Torrent Pharma

The US added as a growth lever along with India/Brazil

Pg. 37



Aurobindo Pharma

Multiple projects under way to fuel growth

Pg. 42



Lupin

Earnings growth likely to recover sharply

Pg. 47



Sun Pharma

Reduced filings for the US generics

Pg. 52

Cipla

BSE SENSEX
67,839S&P CNX
20,192

Cipla

Bloomberg	CIPLA IN
Equity Shares (m)	805
M.Cap.(INRb)/(USD\$b)	997.4 / 12
52-Week Range (INR)	1278 / 852
1, 6, 12 Rel. Per (%)	-4/22/7
12M Avg Val (INR M)	2003

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	227.5	250.1	274.2
EBITDA	51.1	56.9	64.4
Adj. PAT	30.5	35.6	41.2
EBIT Margin (%)	17.3	18.5	19.4
Cons. Adj. EPS (INR)	37.8	44.1	51.1
EPS Gr. (%)	6.8	16.8	15.8
BV/Sh. (INR)	284.2	322.1	367.2

Ratios

Net D:E	0.0	-0.1	-0.2
RoE (%)	13.3	13.7	13.9
RoCE (%)	13.5	14.4	14.6
Payout (%)	10.3	10.9	11.7

Valuations

P/E (x)	32.6	27.9	24.1
EV/EBITDA (x)	19.2	16.9	14.6
Div. Yield (%)	0.2	0.3	0.4
FCF Yield (%)	1.0	2.5	2.6
EV/Sales (x)	4.3	3.8	3.4

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	33.4	33.4	33.4
DII	24.3	22.0	21.2
FII	25.6	27.7	28.1
Others	16.7	16.9	17.3

FII Includes depository receipts

CMP: INR1236

TP: INR1420 (+15%)

Upgrade to BUY

Growth levers in place in the US generics

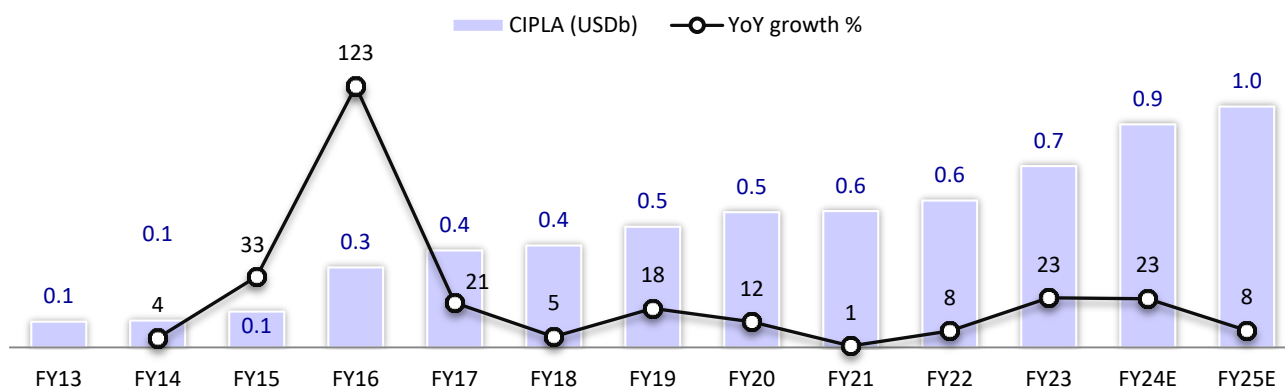
Expanding portfolio by adding Peptides/Injectable/Inhalers

- During FY13-FY23, CIPLA's US sales clocked a 21.6% CAGR to reach USD733m in FY23 (26% of sales). This was the highest growth rate among our coverage companies. Despite higher price erosion in FY23 at industry level, CIPLA recorded a sales growth of 8% YoY backed by g-Revlimid launch and market share gains in lanreotide, Albuterol and Arformoterol.
- While CIPLA is focusing on its efforts towards resolving regulatory issues at Goa/Pithampur plants, it is simultaneously filing critical products such as g-Abraxane, g-Advair from alternate site and de-risking the opportunity.
- Further, it is expanding its offerings in peptides, inhalation, and injectable categories, which are complex in nature.
- With better outlook in base business, niche launches over medium term, and de-risking of products, we expect a 15% sales CAGR to reach USD1b over FY23-25.

DF – superior execution to sustain the growth momentum

- During FY13-23, CIPLA's DF business reported 10.4% CAGR led by superior execution in key therapies, strong brand recall and increase in volumes. Even in FY23, DF sales rose 13% YoY (ex-Covid) to INR99b (43% of sales).
- In FY23, CIPLA's overall DF sales stood flat due to high base effect of Covid. Excluding Covid, DF sales grew 13% YoY.
- CIPLA is continuously launching new products in the trade generics market and increasing the penetration in tier-2 and below markets.
- Additionally, in the Consumer Healthcare (CH) business, management expects to improve revenue and profitability through strong brand recall.
- We expect CIPLA to deliver 9.5% sales CAGR in DF to reach INR118b over FY23–25.

Exhibit 35: The US sales on an uptrend consistently (on an absolute basis)



Source: MOFSL, Company

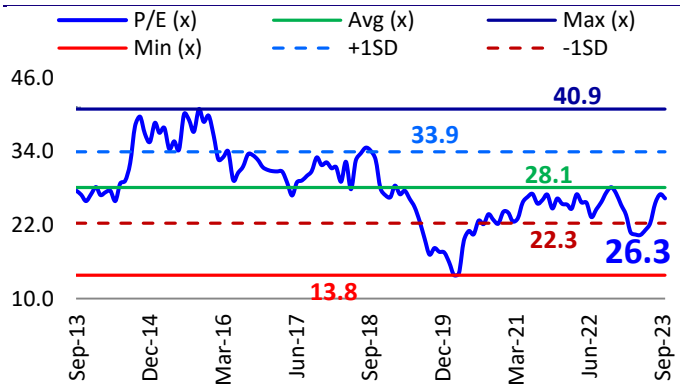
SAGA: Focus on private/OTC market to drive growth

- CIPLA has outperformed the private market in SAGA region with 8.9% three-year CAGR vs. industry growth of 4.4% over the same period.
- However, the global supply chain disruption and increased pricing pressure in the tender market segment dragged CIPLA’s performance in FY23 (down 20% YoY to USD394m; 14% of sales).
- With strong pace of launches in the private market across therapies and increased efforts towards OTC portfolio, we expect CIPLA to offset the impact of reduced tender business and deliver stable sales of INR32b over FY23–25.

Robust ANDA pipeline with complex products to drive growth; Upgrade to BUY

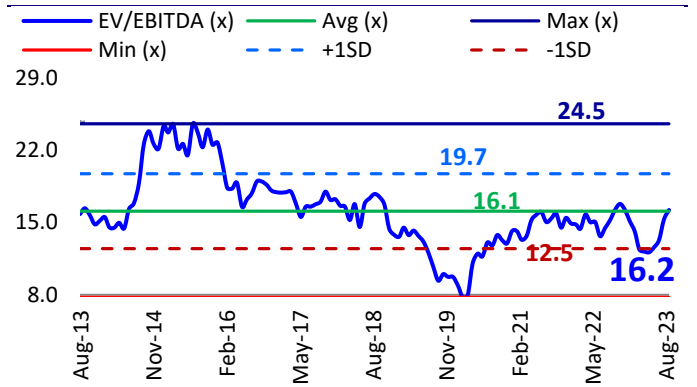
- Over FY17-23, CIPLA delivered 20% earnings CAGR led by superior product mix that drove 570bp margin expansion. The return ratio improved to 13% in FY23 from 10% in FY17. Going forward, we expect 16% PAT CAGR over FY23-25 factoring in: a) new launches in the US and higher off-take in base business, b) superior execution across prescription, trade generics and consumer healthcare segments in India, and c) its focus on private/ OTC market in SAGA.
- **CIPLA’s robust ANDA pipeline with complex products (inhalers, peptides, injectables, etc.) should drive consistent growth in the US generics segment. This along with a steady outperformance in branded generics market (of India/SA) would enable 16% earnings CAGR over FY23-25. Accordingly, we raise our P/E multiple to 25x (from 22x earlier; in line with its three-year/five-year average) on 12M forward earnings and add g-Revlimid’s NPV (INR30) to arrive at our TP of INR1,420. Upgrade to BUY.**

Exhibit 36: P/E chart



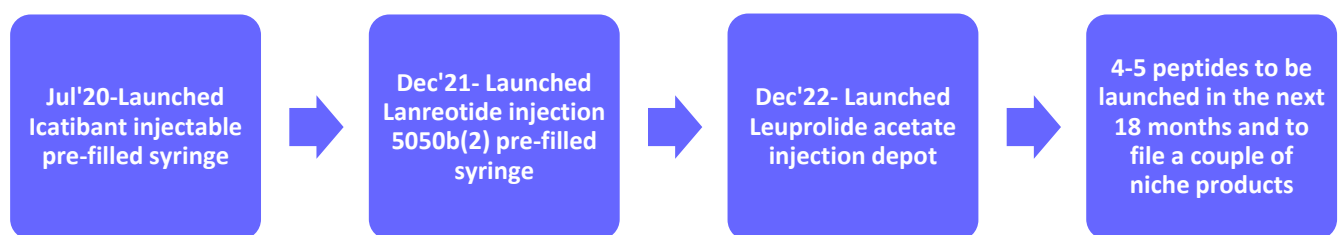
Source: MOFSL, Company, Bloomberg

Exhibit 37: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

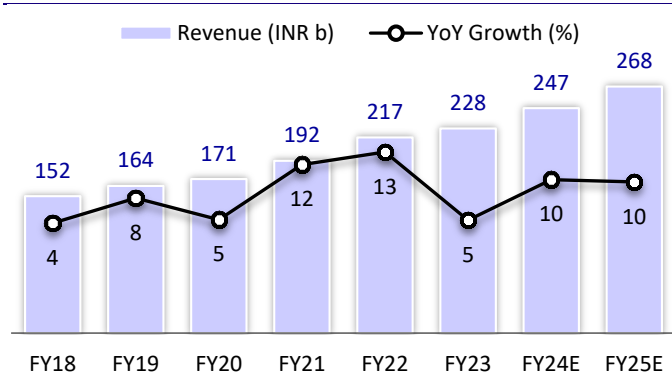
Exhibit 38: Launches and filing pipeline



Source: MOFSL, Company

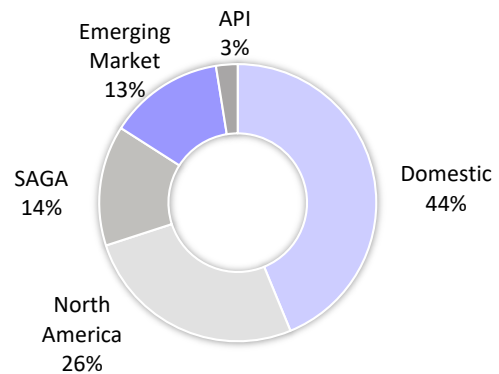
STORY IN CHARTS

Exhibit 39: Revenue to clock 10% CAGR over FY23-25



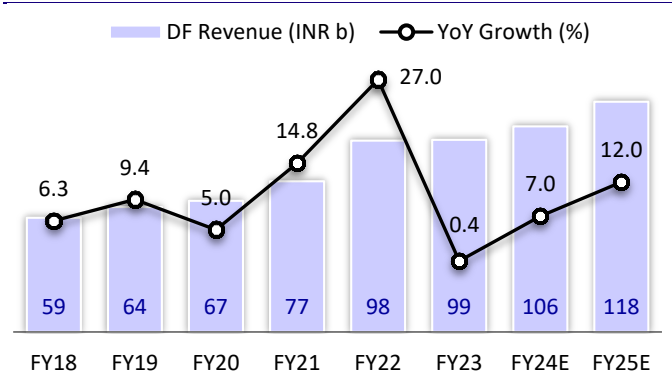
Source: MOFSL, Company

Exhibit 40: DF business has the highest share in FY23



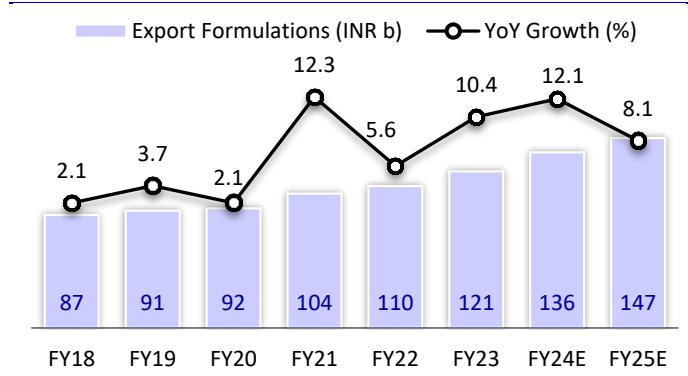
Source: MOFSL, Company

Exhibit 41: Expect 9% DF sales CAGR...



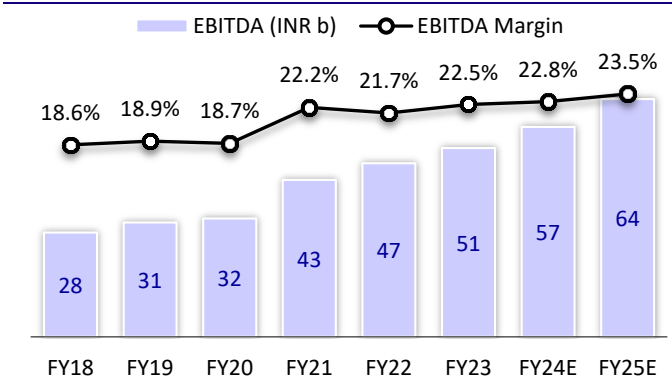
Source: MOFSL, Company

Exhibit 42: ...and 10% export sales CAGR over FY23-25



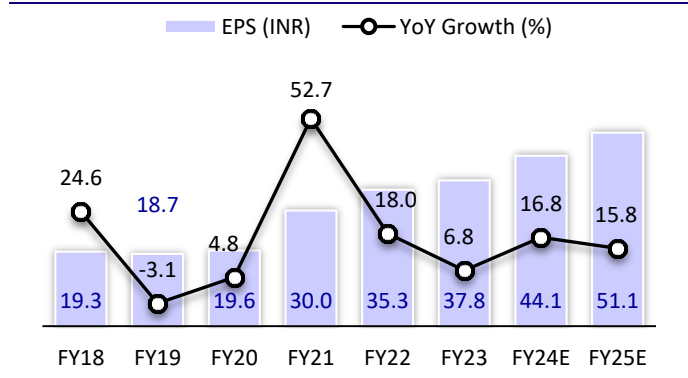
Source: MOFSL, Company

Exhibit 43: EBITDA margin to expand 100bp over FY23-25E



Source: MOFSL, Company

Exhibit 44: Expect 16% earnings CAGR over FY23-25



Source: MOFSL, Company

Financials and valuations

Income Statement									(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Income	146.0	152.2	163.6	171.3	191.6	217.1	227.5	250.1	274.2
Change (%)	6.7	4.3	7.5	4.7	11.8	13.3	4.8	9.9	9.7
EBITDA	24.4	28.3	31.0	32.1	42.5	47.0	51.1	56.9	64.4
Change (%)	-2.3	15.7	9.6	3.5	32.6	10.6	8.8	11.2	13.3
Margin (%)	16.7	18.6	18.9	18.7	22.2	21.7	22.5	22.8	23.5
Depreciation	9.2	11.5	11.2	11.4	10.7	10.5	11.7	10.7	11.3
EBIT	15.2	16.8	19.8	20.6	31.8	36.5	39.4	46.2	53.1
Int. and Finance Charges	1.6	1.1	1.7	2.0	1.6	1.1	1.1	0.7	0.7
Other Income - Rec.	2.3	3.6	2.8	3.4	2.7	2.8	4.5	4.7	4.8
PBT before EO Items	15.9	19.2	20.9	22.1	32.9	38.2	42.8	50.2	57.3
One-time (Expense)/Income	0.0	-2.5	-0.1	0.3	0.0	3.3	2.5	0.0	0.0
PBT but after EO Exp.	15.9	16.7	20.8	21.8	32.9	34.9	40.4	50.2	57.3
Tax	3.1	2.5	5.7	6.3	8.9	9.3	12.0	14.2	16.3
Tax Rate (%)	19.5	15.0	27.4	29.0	27.0	26.7	29.8	28.2	28.5
Minority Interest	0.3	0.1	-0.4	-0.5	-0.2	0.3	0.3	0.4	-0.3
Income from associates	-0.1	0.0	-0.2	-0.5	-0.1	-0.1	0.0	-0.1	0.0
Reported PAT	12.4	14.1	15.3	15.5	24.1	25.2	28.0	35.6	41.2
Adj PAT	12.4	15.5	15.0	15.8	24.1	28.4	30.5	35.6	41.2
Change (%)	-17.7	24.6	-3.1	4.8	52.7	18.0	7.4	16.8	15.8
Margin (%)	8.5	10.2	9.2	9.2	12.6	13.1	13.4	14.2	15.0

Balance Sheet									(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Reserves	123.6	140.7	152.3	157.6	179.3	201.5	232.5	258.4	294.8
Net Worth	125.3	142.3	150.1	157.6	183.3	208.4	234.1	260.0	296.4
Loans	41.1	41.0	43.2	28.2	15.4	9.0	5.9	5.9	5.9
Deferred Liabilities	5.9	3.2	2.2	1.3	-0.2	-2.0	-2.9	-2.9	-2.9
Minority Interest	4.4	3.5	3.3	2.9	2.6	2.8	3.1	3.1	3.1
Capital Employed	176.7	190.0	198.8	190.0	201.0	218.1	240.1	266.1	302.5
Gross Block	114.6	120.5	126.4	138.5	147.5	160.1	166.8	172.8	181.0
Less: Accum. Deprn.	10.2	16.3	27.4	38.9	49.5	60.1	71.8	82.4	93.8
Net Fixed Assets	104.4	104.2	98.9	99.6	97.9	100.1	95.0	90.3	87.2
Capital WIP	7.2	5.1	3.3	4.2	5.7	3.8	6.9	5.1	5.1
Investments	0.1	0.1	3.0	3.6	3.5	4.2	6.3	6.3	6.3
Curr. Assets	96.2	117.3	132.4	126.8	141.2	158.3	177.1	210.5	252.5
Inventory	34.9	40.4	39.6	43.8	46.7	53.5	51.6	60.1	65.2
Account Receivables	25.0	31.0	41.5	38.9	34.5	34.2	40.6	42.3	50.5
Cash and Bank Balance	6.2	9.7	6.2	10.0	14.0	19.3	15.6	34.1	54.9
Others	30.1	36.2	45.1	34.1	46.1	51.3	69.3	74.0	82.1
Curr. Liability & Prov.	31.2	36.8	38.8	44.2	47.3	48.4	49.9	46.2	48.7
Account Payables	28.0	30.5	31.4	34.8	36.5	36.2	37.1	33.4	35.8
Provisions	3.2	6.3	7.4	9.5	10.8	12.2	12.9	12.9	12.9
Net Current Assets	65.0	80.5	93.7	82.6	93.9	109.9	127.2	164.3	203.8
Appl. of Funds	176.6	190.0	198.8	190.0	201.0	218.1	240.1	266.1	302.5

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)									
EPS	15.5	19.3	18.7	19.6	30.0	35.3	37.8	44.1	51.1
Cash EPS	26.9	33.5	32.5	33.7	43.1	48.2	52.3	57.3	65.1
BV/Share	155.7	176.7	186.3	195.5	227.2	258.1	284.2	322.1	367.2
DPS	2.0	2.0	3.0	2.5	2.5	3.0	3.0	4.0	5.0
Payout (%)	15.6	13.4	18.6	15.6	10.0	11.5	10.3	10.9	11.7
Valuation (x)									
P/E	79.4	63.7	65.7	62.7	41.1	34.8	32.6	27.9	24.1
Cash P/E	45.7	36.7	37.8	36.5	28.6	25.5	23.5	21.5	18.9
P/BV	7.9	7.0	6.6	6.3	5.4	4.8	4.3	3.8	3.3
EV/Sales	7.0	6.7	6.3	5.9	5.2	4.5	4.3	3.8	3.4
EV/EBITDA	41.9	36.1	33.1	31.4	23.3	20.8	19.2	16.9	14.6
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.4
FCF per Share	21.5	6.7	15.9	24.0	33.7	27.9	11.9	30.6	32.2
Return Ratios (%)									
RoE	10.4	11.6	10.3	10.2	14.1	14.5	13.3	13.7	13.9
RoCE	7.9	9.4	8.4	8.8	12.9	13.7	13.5	14.4	14.6
RoIC	7.5	8.4	8.0	8.2	13.3	14.5	13.8	15.4	16.6
Working Capital Ratios									
Fixed Asset Turnover (x)	1.3	1.3	1.3	1.3	1.3	1.4	1.4	1.5	3.1
Debtor (Days)	62	74	93	83	66	58	65	62	67
Inventory (Days)	87	97	88	93	89	90	83	88	87
Working Capital (Days)	162	193	209	176	179	183	202	237	269
Leverage Ratio (x)									
Current Ratio	3.1	3.2	3.4	2.9	3.0	3.3	3.5	4.6	5.2
Debt/Equity	0.3	0.2	0.2	0.1	0.0	0.0	0.0	-0.1	-0.2

Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INR b)									
EBITDA	24.4	28.3	31.0	32.1	42.5	47.0	51.1	56.9	64.4
Interest/Dividends Recd.	2.3	3.6	2.8	3.4	2.7	2.8	4.5	4.7	4.8
Direct Taxes Paid	-6.2	-5.2	-6.6	-7.3	-10.3	-11.2	-12.9	-14.2	-16.3
(Inc)/Dec in WC	-3.9	-12.2	-16.6	14.9	-7.4	-10.7	-20.9	-18.6	-18.8
CF from Operations	16.6	14.4	10.6	43.1	27.5	27.9	21.8	28.8	34.1
others	7.2	-2.3	6.2	-10.5	10.1	8.6	0.0	0.0	0.0
CF from Oper. incl EO Expense	23.8	14.6	16.9	32.3	37.6	33.3	19.3	28.8	34.1
(inc)/dec in FA	-6.5	-9.2	-4.1	-13.0	-10.5	-10.8	-9.8	-4.2	-8.2
Free Cash Flow	17.3	5.4	12.8	19.3	27.1	22.5	9.6	24.6	25.9
(Pur)/Sale of Investments	1.6	0.0	-2.9	-0.6	0.1	-0.7	-2.2	0.0	0.0
others	-8.2	0.7	-9.7	14.7	-13.5	-7.3	0.0	0.0	0.0
CF from Investments	-13.1	-8.5	-16.7	1.0	-23.9	-18.7	-11.9	-4.2	-8.2
Inc/(Dec) in Debt	-10.8	-0.1	2.2	-15.0	-12.8	-6.4	-3.0	0.0	0.0
Interest Paid	-1.6	-1.1	-1.7	-2.0	-1.6	-1.1	-1.1	-0.7	-0.7
Dividend Paid	-1.9	-1.9	-2.8	-2.4	-2.4	-2.9	-2.9	-3.9	-4.8
Others	1.1	-0.7	-1.1	-11.7	3.5	-0.4	-5.5	-3.0	-1.2
CF from Fin. Activity	-13.3	-3.9	-3.5	-31.1	-13.3	-10.7	-12.5	-7.6	-6.7
Inc/Dec of Cash	-2.5	2.2	-3.3	2.2	0.4	3.8	-5.1	17.0	19.3
Add: Beginning Balance	8.7	6.2	9.7	6.2	10.0	14.0	19.3	15.6	34.1
Bank balances	0.0	1.0	0.0	-1.1	3.6	1.5	1.5	1.5	1.5
Bank balances and FX impact	0.1	1.2	-0.2	1.6	3.6	1.5	1.5	1.5	1.5
Closing balance	6.2	9.7	6.2	10.0	14.0	19.3	15.6	34.1	54.9

Dr Reddy's Labs

BSE SENSEX
67,839

S&P CNX
20,192



Bloomberg	DRRD IN
Equity Shares (m)	166
M.Cap.(INRb)/(USD\$b)	970.6 / 11.7
52-Week Range (INR)	5990 / 3996
1, 6, 12 Rel. Per (%)	-4/13/27
12M Avg Val (INR M)	2082

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	240.9	270.8	298.1
EBITDA	62.1	73.6	77.5
Adj. PAT	40.8	47.1	49.5
EBITDA Margin (%)	25.8	27.2	26.0
Cons. Adj. EPS (INR)	244.7	282.8	297.1
EPS Gr. (%)	39.2	15.5	5.1
BV/Sh. (INR)	1,387	1,643	1,915

Ratios

Net D:E	-0.3	-0.3	-0.5
RoE (%)	19.3	18.7	16.7
RoCE (%)	15.9	17.5	15.9
Payout (%)	9.0	8.9	8.4

Valuations

P/E (x)	23.5	20.3	19.3
EV/EBITDA (x)	14.5	12.1	10.9
Div. Yield (%)	0.4	0.4	0.4
FCF Yield (%)	2.1	1.2	4.4
EV/Sales (x)	3.7	3.3	2.8

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	26.7	26.7	26.7
DII	22.0	23.1	25.2
FII	39.8	38.8	26.2
Others	11.6	11.5	22.0

FII Includes depository receipts

CMP: INR5,820

TP: INR5,240 (-10%)

Neutral

Creating a pipeline to sustain growth beyond g-Revlimid

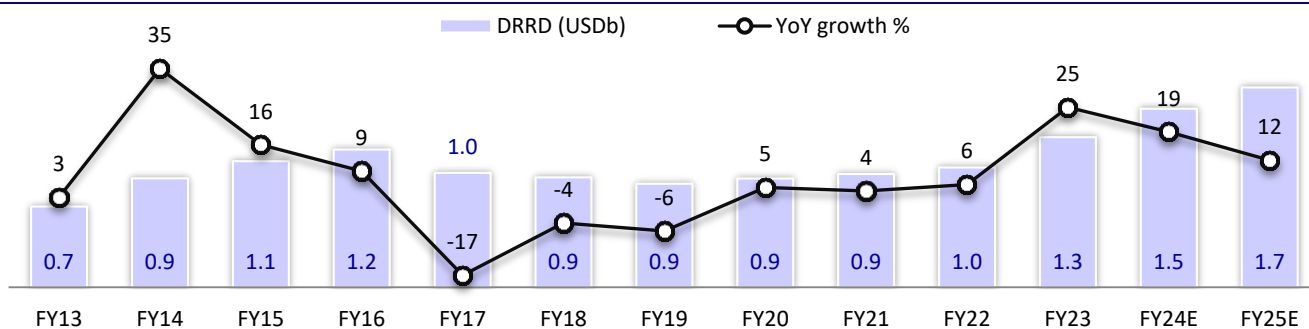
Witnessing some slowdown in approvals over recent past

- After stable North America (NA) sales of ~USD900m over FY18-20, DRRD has scaled NA sales to USD1.2b in FY23 (42% of sales). Over the past 12-18M, DRRD has effected various interesting launches such as g-Revlimid, g-Nexavar and Pemetrexed injection.
- Management is focused on sustaining the launch momentum to 20-25 products on an annual basis in FY24E (six launched in 1QFY24). It has 82 ANDAs pending for approval on a cumulative basis. However, the pace of approvals has moderated over the past six months with only two approvals achieved in FY24'TD.
- Additionally, DRRD is focusing on products with limited competition including semaglutide, teriparatide, liraglutide, et al.
- With higher volume off-take of g-Revlimd, better traction in g-Lexiscan and new launches, we expect DRRD to post 15% sales CAGR over FY23-25 to reach USD1.7b.

DF – new product launches to fuel growth

- During FY19-23, DF sales rose 14% to reach INR44b (18% of FY23 sales) led by market share gains in key therapies. DRRD delivered 13% YoY sales growth in FY23 (adj. for Covid-related sales). Divestment of brands and reduction in prices of products under NLEM dragged YoY growth to 4% in 1QFY24.
- In FY23, key therapies such as Derma/cardiac registered 11%/8% YoY growth. These propelled the overall growth in DF segment, which was offset by a 2% YoY decline in respiratory therapy. Additionally, prices grew 7% YoY and supported overall growth. However, this was offset by 5.5% YoY decline in volumes.
- Management is implementing the following strategies of new launches, acquiring brands (acquired Cidmus for USD61m) and taking inflation-linked price hikes in its portfolio under NLEM.
- Additionally, it is focusing on biosimilar, OTC as well as nutraceutical products that would drive long-term growth.
- We expect DF to clock a 10% CAGR in revenue to reach INR53b over FY23-25.

Exhibit 45: The US sales growing steadily



Source: MOFSL, Company

EM: Robust product pipeline/geographical expansion to boost growth

- Over FY19-23, the EM sales registered 10% CAGR to reach INR30b (12% of FY23 sales) due to market share gains in existing products, new launches, expansion in newer geographies and favorable forex rate.
- Due to the Russia-Ukraine conflict, competition from the EU/US has reduced thereby driving better growth prospects for DRRD in Russia. During FY23/1QFY24, DRRD reported a 9%/50% YoY growth in Russia.
- Additionally, the company is focusing on differentiated product pipeline including oncology and expanding the biosimilar portfolio.
- We expect a sales CAGR of 8% to reach INR35b over FY23-25.

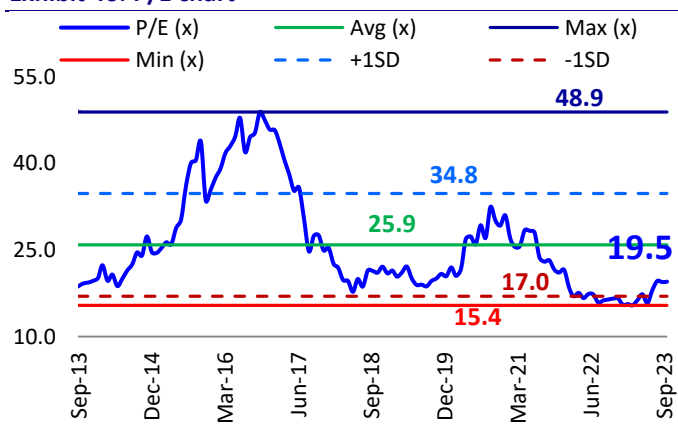
PSAI: Moderating industry-level inventory to drive long-term growth

- PSAI segment registered a 5% CAGR over FY19-23 to INR29b. Particularly, the company posted flat PSAI sales in FY23 due to a drop in prices, decline in volumes and normalization of inventory.
- With outlook yet to improve, we expect a 4% CAGR for DRRD to reach INR31b over FY23-25.

Valuation priced in; reiterate Neutral

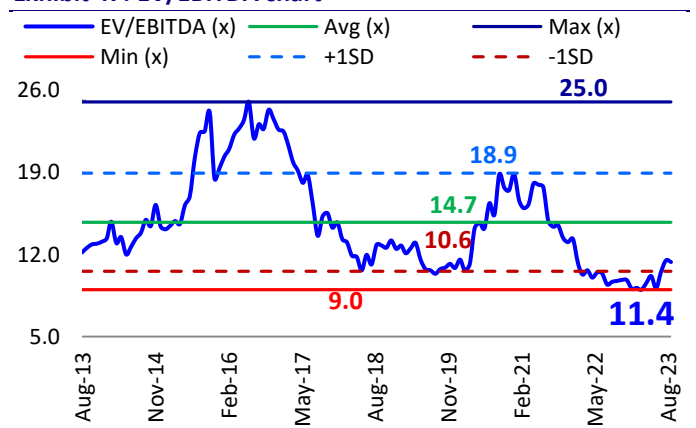
- During FY17-22, DRRD’s earnings recorded a 25% CAGR propelled by EBITDA margin expansion of 400bp. Additionally, Adj. PAT jumped 40% YoY and margin further expanded 460bp YoY in FY23, primarily led by g-Revlimid opportunity. Going forward, we expect DRRD’s EPS to register a 10% CAGR led by 15% sales CAGR in NA, 10% sales CAGR in DF/EU segment, and consistent profitability across the company’s operations.
- We value DRRD at 22x 12M forward earnings and add NPV of INR140 related to g-Revlimid to arrive at our TP of INR5,240.
- **The current valuation adequately factors in the upside potential in earnings; hence, we reiterate our Neutral rating on the stock.**

Exhibit 46: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 47: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

STORY IN CHARTS

Exhibit 48: Expect sales CAGR of ~11% over FY23–25

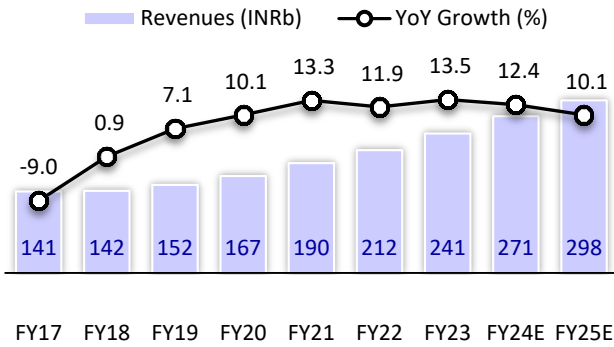


Exhibit 49: NA sales to witness ~15% CAGR over FY23–25

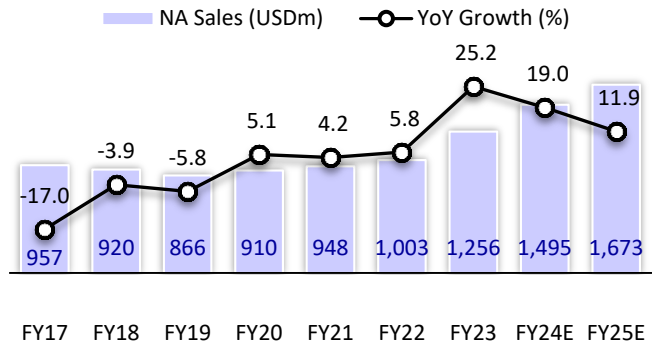


Exhibit 50: DF sales to exhibit 10% CAGR over FY23–25

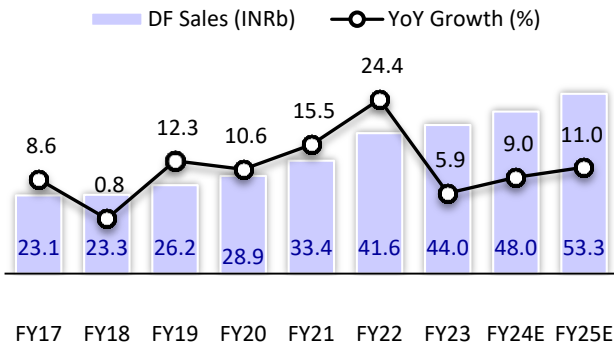


Exhibit 51: PSAI to report 4% sales CAGR over FY23–25

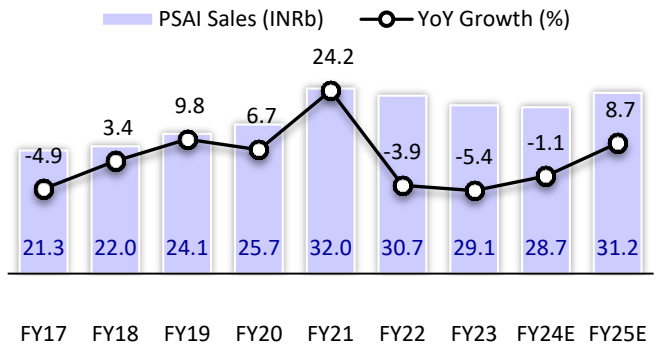


Exhibit 52: EBITDA margin to be stable over FY23–25

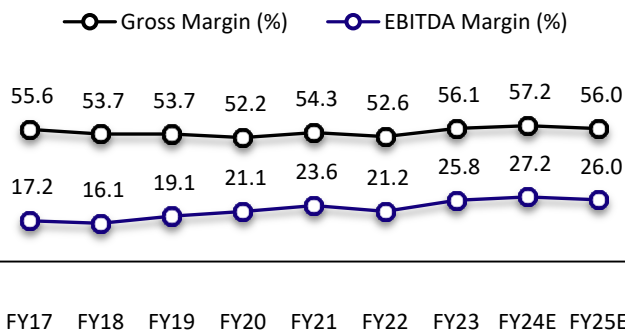


Exhibit 53: Expect EBITDA CAGR of ~12% over FY23–25

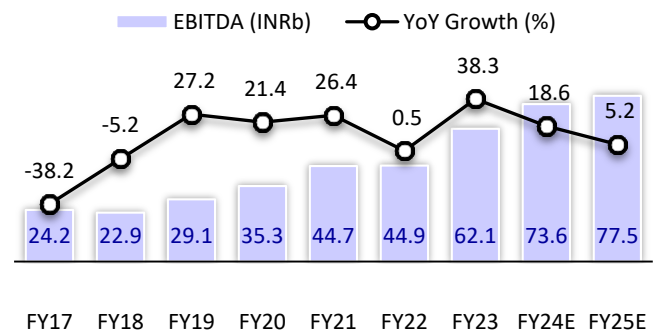


Exhibit 54: R&D expense to settle at ~8% of sales by FY25

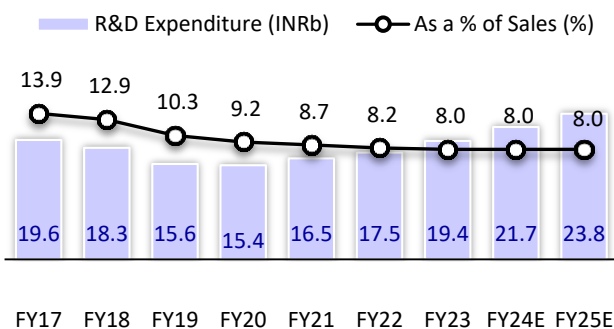
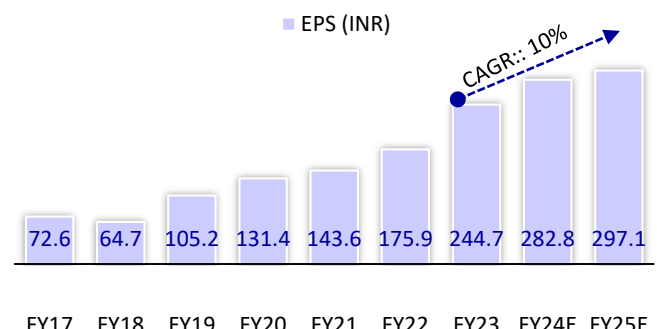


Exhibit 55: Expect EPS CAGR of 10% over FY23–25



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Income Statement									(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	141	142	152	167	190	212	241	271	298
Change (%)	-9.0	0.9	7.1	10.1	13.3	11.9	13.5	12.4	10.1
Total Expenditure	117	119	123	132	145	167	179	197	221
EBITDA	24	23	29	35	45	45	62	74	78
Change (%)	-38.2	-5.2	27.2	21.4	26.4	0.5	38.3	18.6	5.2
Margin (%)	17.2	16.1	19.1	21.1	23.6	21.2	25.8	27.2	26.0
Depreciation & Amort.	12	12	12	12	13	12	13	15	16
EBIT	12	11	17	23	32	33	49	59	62
Net Interest Exp	0	1	1	1	-2	-2	-3	-1	-1
One-off (Gains)/Losses	0	0	-2	8	8	6	-5	0	0
PBT before EO Expense	12	10	18	14	26	29	58	60	63
Change (%)	-46.0	-2.1	56.5	14.7	35.9	10.5	39.5	16.1	3.7
PBT after EO Expense	12	10	18	14	26	29	58	60	63
Tax	3	5	4	-1	9	9	15	16	15
Tax Rate (%)	21.0	44.0	20.5	-10.3	35.5	30.3	26.5	26.2	24.5
Reported PAT	12	10	19	19	18	24	44	47	49
Adjusted Net Profit	12	11	17	22	24	29	41	47	49
Change (%)	-46.7	-10.8	62.6	24.9	9.3	22.8	39.3	15.5	5.1
Margin (%)	8.5	7.6	11.5	13.0	12.6	13.8	16.9	17.4	16.6

Balance Sheet									(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	1	1	1	1	1	1	1	1	1
Reserves	122	125	139	155	176	190	230	273	318
Net Worth	123	126	140	156	176	191	231	274	319
Loans	49	51	34	18	29	34	13	12	11
Deferred Liabilities/Tax	-5	-3	-4	-12	-10	-13	-6	-6	-6
Capital Employed	167	173	171	162	195	212	238	280	324
Gross Block	93	99	115	126	144	161	178	191	200
Less: Accum. Deprn.	42	50	62	74	87	99	111	126	142
Net Fixed Assets	56	57	54	52	57	62	66	65	58
Investments	26	29	31	33	33	38	62	62	62
Goodwill/Intangibles	46	47	47	32	41	32	35	35	35
Curr. Assets	83	87	88	103	125	152	151	165	223
Inventory	29	29	34	35	45	51	49	51	59
Account Receivables	38	41	40	52	50	67	72	75	82
Cash and Bank Balance	4	3	2	2	15	15	6	15	54
Others	12	14	13	14	15	19	24	24	27
Curr. Liability & Prov.	45	47	50	58	60	72	77	47	54
Account Payables	11	13	14	15	18	26	26	19	21
Other Current Liabilities	34	34	36	43	42	47	50	29	32
Net Current Assets	38	40	39	45	65	79	74	118	169
Appl. of Funds	167	173	171	162	195	212	238	280	324

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)									
EPS	72.6	64.7	105.2	131.4	143.6	175.9	244.7	282.8	297.1
Cash EPS	143.3	135.5	177.3	206.5	220.7	246.9	320.8	372.1	390.1
BV/Share	739.6	757.3	844.8	939.7	1,062.8	1,145.0	1,386.5	1,643.5	1,915.4
DPS	20.0	20.0	20.0	23.6	25.0	20.4	20.4	21.4	21.4
Payout (%)	33.1	40.7	21.3	23.5	26.8	16.9	9.0	8.9	8.4
Valuation (x)									
P/E	79.1	88.8	54.6	43.7	40.0	32.6	23.5	20.3	19.3
PEG (x)	NA	-8.2	0.9	1.8	4.3	1.4	0.6	1.3	3.8
Cash P/E	40.1	42.4	32.4	27.8	26.0	23.2	17.9	15.4	14.7
P/BV	7.8	7.6	6.8	6.1	5.4	5.0	4.1	3.5	3.0
EV/Sales	6.9	6.8	6.3	5.6	4.9	4.4	3.7	3.3	2.8
EV/EBITDA	40.2	42.5	32.8	26.5	20.9	20.8	14.5	12.1	10.9
Dividend Yield (%)	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Return Ratios (%)									
ROIC	8.9	5.8	10.8	21.9	17.0	18.0	23.1	25.1	24.3
RoE	9.7	8.6	13.1	14.7	14.3	16.0	19.3	18.7	16.7
RoCE	6.4	4.8	8.9	17.4	11.8	12.3	15.9	17.5	15.9
Working Capital Ratios									
Fixed Asset Turnover (x)	1.6	1.5	1.4	1.4	1.4	1.4	1.4	1.5	1.5
Debtor (Days)	103	101	97	100	98	100	106	99	96
Inventory (Days)	70	74	75	75	77	83	75	67	67
Leverage Ratio									
Current Ratio (x)	1.8	1.8	1.8	1.8	2.1	2.1	2.0	3.5	4.2
Net Debt/Equity (x)	0.1	0.1	0.0	-0.1	-0.2	-0.2	-0.3	-0.3	-0.5

Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INR b)									
Op. Profit/(Loss) before Tax	15	14	22	26	35	39	54	63	65
Depreciation	12	12	12	12	13	12	13	15	16
Interest/Dividends Recd.	-2	-4	-6	5	6	3	-7	-3	-2
Direct Taxes Paid	-3	-5	-4	1	-9	-9	-15	-16	-15
(Inc)/Dec in WC	0	-3	1	-6	-7	-15	-4	-34	-12
CF from Operations	21	14	25	38	38	30	40	25	51
EO Expense	0	0	0	0	-6	-5	0	0	0
CF from Operations	21	18	29	39	44	34	40	25	51
(inc)/dec in FA	-41	-14	-9	5	-27	-8	-20	-13	-9
Free Cash Flow	-20	1	16	43	11	22	20	12	42
(Pur)/Sale of Investments	18	1	3	-2	0	-5	-24	0	0
Others	5	-3	-2	-7	0	-13	0	0	0
CF from Investments	-18	-15	-8	-5	-27	-26	-44	-13	-9
Change in net worth	-11	-3	0	1	2	-5	0	0	0
(Inc)/Dec in Debt	16	2	-17	-16	12	4	-20	-1	-1
Other Items	-4	1	-1	-5	-13	9	1	2	2
Dividend Paid	-4	-4	-4	-5	-5	-4	-4	-4	-4
CF from Fin. Activity	-4	-4	-21	-25	-5	4	-23	-3	-3
Inc/Dec of Cash	-1	-1	0	8	13	12	-27	9	39
Add: Beginning Balance	5	4	3	2	2	15	15	6	15
Closing Balance	4	3	2	11	15	27	-12	14	54
FX Impact	0	0	0	0	0	0	0	0	0
FX impact net of bank balances	0	0	0	-9	0	-12	18	1	0
Closing Balance	4	3	2	2	15	15	6	15	54

Zydus Lifescience

BSE SENSEX
67,839

S&P CNX
20,192



Bloomberg	ZYDUSLIF IN
Equity Shares (m)	1024
M.Cap.(INRb)/(USD\$b)	653.2 / 7.9
52-Week Range (INR)	669 / 350
1, 6, 12 Rel. Per (%)	-3/17/61
12M Avg Val (INR M)	589

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	172.4	191.9	208.0
EBITDA	37.4	47.0	47.5
Adj. PAT	22.9	31.4	31.1
EBIT Margin (%)	17.5	20.6	19.0
Cons. Adj. EPS (INR)	22.4	30.7	30.4
EPS Gr. (%)	3.9	36.8	-1.0
BV/Sh. (INR)	171.1	203.5	226.9

Ratios

Net D:E	0.1	-0.1	-0.1
RoE (%)	13.3	16.4	14.1
RoCE (%)	12.1	15.6	13.5
Payout (%)	26.8	17.6	19.1

Valuations

P/E (x)	28.6	20.9	21.1
EV/EBITDA (x)	17.4	13.2	12.9
Div. Yield (%)	0.9	0.8	0.9
FCF Yield (%)	3.4	4.4	2.7
EV/Sales (x)	3.8	3.2	2.9

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	75.0	75.0	74.9
DII	13.5	13.6	12.0
FII	4.0	3.4	2.9
Others	7.5	8.0	10.2

FII Includes depository receipts

CMP: INR645

TP: INR610 (-5%)

Neutral

The US growth prospects revive

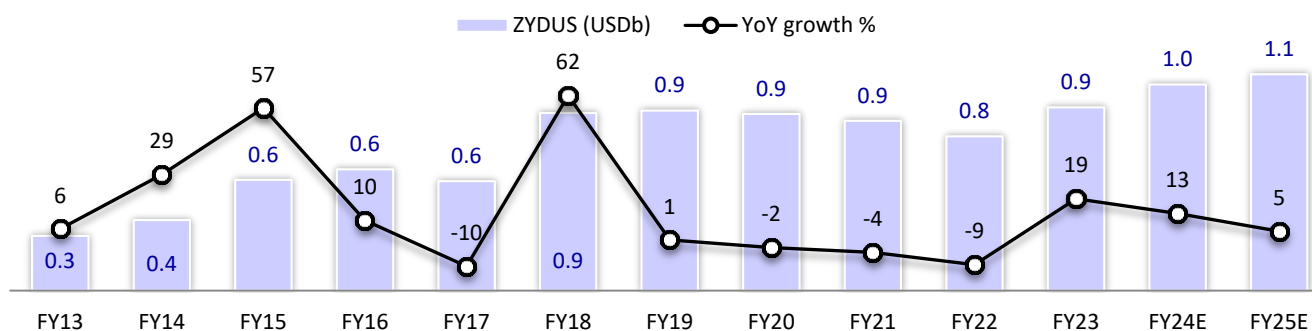
Competition in the US base portfolio to reduce FY25E earnings growth

- ZYDUSLIF delivered 19% YoY growth in US sales to USD926m in FY23 (43% of sales) vs. 3.5% compounded decline to USD780m over FY17-22. The growth was fueled by niche launches like g-Revlimid/g-Tronkendi and market share gains in existing products despite intensified price erosion.
- In 1QFY24, ZYDUSLIF clocked 48% YoY growth to reach USD298m led by strong off-take in base business, good traction in gRevlimid and new launches.
- ZYDUSLIFE enjoys a decent pipeline (g-Vascepa, transdermals/REMS product) – both in the near term as well as longer term – by building its injectable portfolio.
- Further, the company is working on NCE molecules and it has filed two NDA products to date with one likely to be filed soon. Additionally, ZYDUSLIFE is also working on shortage opportunities such as Methotrexate tablet.
- However, because of the high base (due to g-Asacol/g-Revlimid), we expect only 9% sales CAGR over FY23-25 to reach USD1b. Increased competition in g-Asacol/g-Revlimid would moderate the business prospects.

Niche launches to drive growth in DF segment

- ZYDUSLIF's DF business has grown 8% over FY17-22. In FY23, DF revenue rose 2% YoY because of strong pain/gastro growth (16%/12% YoY), which was offset by muted performances in anti-infective/gynae therapies (5% YoY growth each). Additionally, its overall growth was aided by price/new launches (+7.6%/3.1% YoY), offset by a 3.3% YoY decline in volumes.
- We expect ZYDUSLIF to clock an 8% sales CAGR in DF to reach INR57b over FY23–25. This growth will be driven by an increase in chronic share, investments in biosimilar and vaccines and acquisition of brands.
- The Consumer Healthcare (CH) business reported a 29% CAGR over FY19-23 due to strong brand recall, dominant market share of key brands and superior execution on the ground.
- We expect the CH business to clock a 10% CAGR over FY23-25.

Exhibit 56: The US sales growth revived in FY23

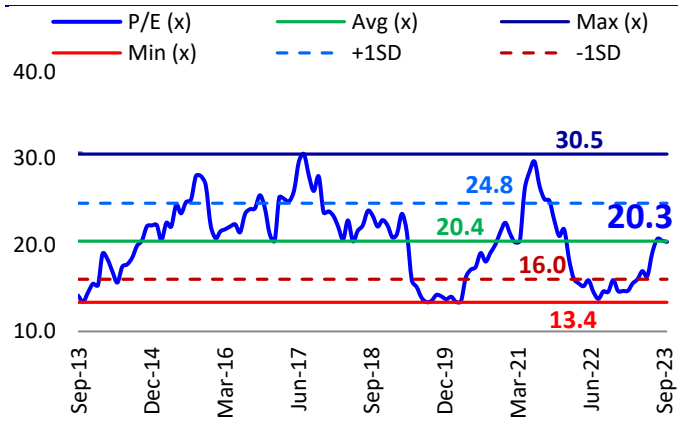


Source: MOFSL, Company

Return ratio improvement limited; reiterate Neutral

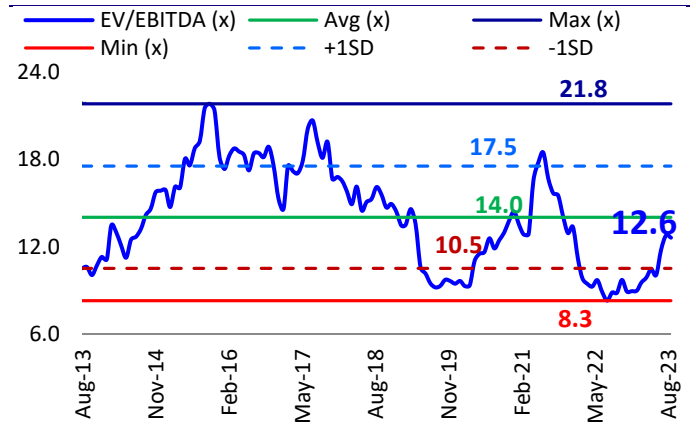
- ZYDUSLIF registered a modest 8%/6%/5% CAGR in revenue/EBITDA/PAT over the past five years. With ongoing investments and subdued earnings growth, its return ratio also witnessed a drag.
- Going forward, we expect its PAT to post a CAGR of 16% over FY23-25 factoring in: a) niche launches in the US segment, b) rising focus on chronic segment in DF and c) strong brand recall in CH business. We value ZYDUSLIF at 20x 12M forward earnings to arrive at our TP of INR610.
- The strong pace of approvals comprising limited competition products provides promising growth prospects in its US generics business. Discovery-based products, biosimilar, as well as other branded generics are expected to improve the outlook of DF segment as well. **However, we reiterate our Neutral rating on ZYDUSLIF as its current valuation adequately factors in the earnings upside.**

Exhibit 57: P/E chart



Source: MOFSL, Company, Bloomberg

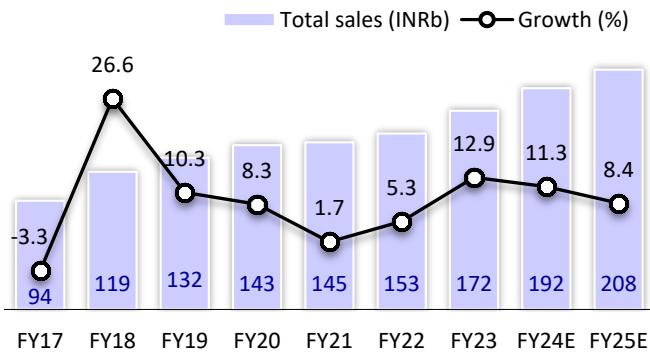
Exhibit 58: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

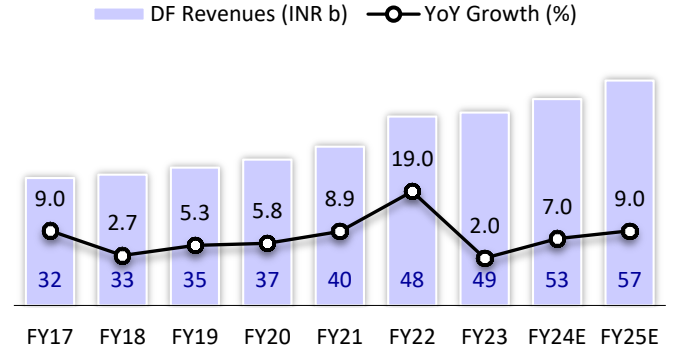
STORY IN CHARTS

Exhibit 59: Revenue to post 10% CAGR over FY23–25



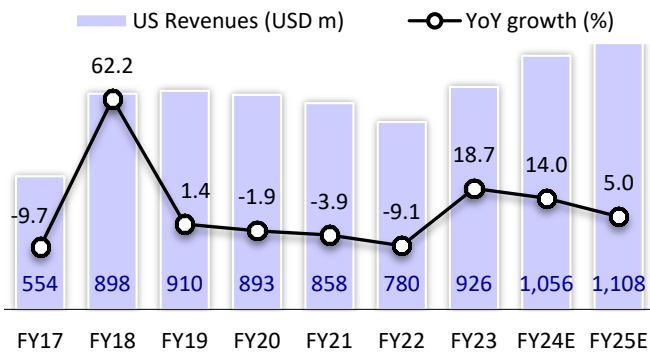
Source: Company, MOFSL

Exhibit 60: DF to clock 8% sales CAGR over FY23–25



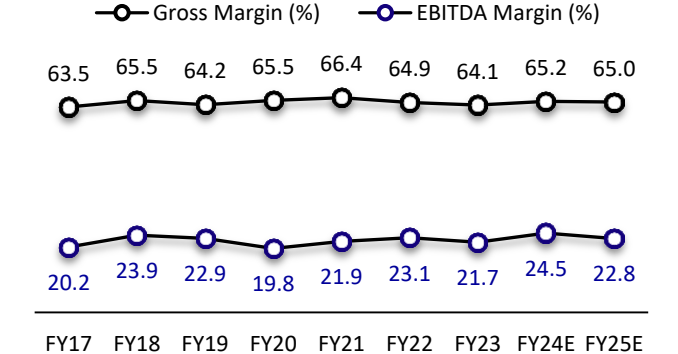
Source: Company, MOFSL

Exhibit 61: The US sales to witness 9.4% CAGR over FY23-25



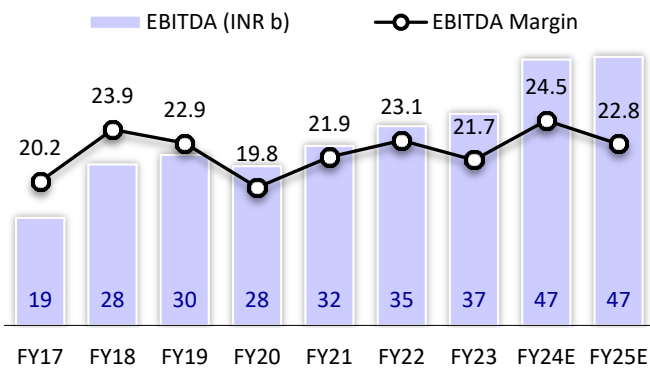
Source: Company, MOFSL

Exhibit 62: EBITDA margin to be stable over FY23-25



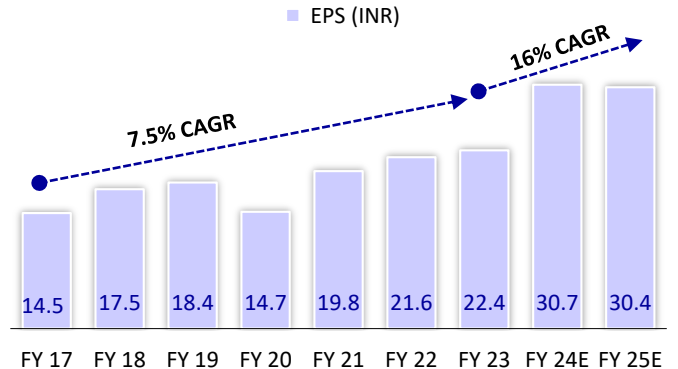
Source: Company, MOFSL

Exhibit 63: Expect 13% CAGR in EBITDA over FY23-25



Source: Company, MOFSL

Exhibit 64: Expect 16% CAGR in adj. EPS over FY23-25



Source: Company, MOFSL

Financials and valuations

Income Statement										(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	
Net Sales	94.3	119.4	131.7	142.5	145.0	152.7	172.4	191.9	208.0	
Change (%)	-3.3	26.6	10.3	8.3	1.7	5.3	12.9	11.3	8.4	
Total Expenditure	75.3	90.9	101.5	114.4	113.2	117.4	135.0	144.9	160.5	
% of Sales	79.8	76.1	77.1	80.2	78.1	76.9	78.3	75.5	77.2	
EBITDA	19.0	28.5	30.1	28.2	31.8	35.2	37.4	47.0	47.5	
Margin (%)	20.2	23.9	22.9	19.8	21.9	23.1	21.7	24.5	22.8	
Depreciation	3.8	5.4	6.0	7.0	7.1	7.1	7.2	7.6	7.9	
EBIT	15.3	23.1	24.2	21.2	24.7	28.1	30.2	39.4	39.6	
Int. and Finance Charges	0.5	0.9	1.9	3.4	1.6	1.3	1.3	1.2	1.0	
Other Income - Rec.	1.3	1.1	2.0	1.1	0.5	2.2	1.9	1.8	1.9	
PBT before EO Expense	16.1	23.3	24.2	18.9	23.5	29.1	30.7	40.1	40.5	
EO Expense/(Income)	0.0	0.0	0.4	4.0	0.0	0.7	4.8	0.4	0.0	
PBT after EO Expense	16.1	23.3	23.8	15.0	23.5	28.4	25.9	39.7	40.5	
Current Tax	1.3	5.6	5.3	3.2	1.1	5.1	5.9	8.3	9.3	
Deferred Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Tax	1.3	5.6	5.3	3.2	1.1	5.1	5.9	8.3	9.3	
Tax Rate (%)	8.0	24.2	22.3	21.4	4.8	18.0	22.7	21.0	23.0	
Reported PAT	14.8	18.3	18.5	11.8	22.4	23.3	20.0	31.4	31.2	
Less: Minority Interest	0.3	0.3	0.0	0.0	2.1	0.8	0.4	0.3	0.1	
Net Profit	14.5	17.9	18.5	11.8	21.3	44.9	19.6	31.1	31.1	
PAT Adj for EO Items	14.9	17.9	18.8	15.0	20.3	22.1	22.9	31.4	31.1	
Change (%)	-5.8	20.6	4.8	-20.0	34.8	8.9	3.9	36.8	-1.0	
Margin (%)	15.8	15.0	14.3	10.6	14.0	14.5	13.3	16.4	14.9	

Balance Sheet										(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	
Equity Share Capital	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	
Total Reserves	68.6	86.4	102.8	102.7	128.9	169.0	174.1	207.3	231.2	
Net Worth	69.6	87.4	103.9	103.8	129.9	170.0	175.2	208.3	232.3	
Minority Interest	1.6	1.9	12.9	13.3	19.4	20.5	21.7	21.7	21.7	
Deferred liabilities	-4.0	-6.4	-7.2	-6.4	-9.5	-9.4	-10.7	-10.7	-10.7	
Total Loans	51.7	53.3	74.1	73.2	40.5	45.8	17.0	16.0	16.0	
Capital Employed	118.8	136.3	183.7	183.9	180.2	226.9	203.2	235.4	259.4	
Gross Block	75.2	87.7	150.5	158.2	164.3	172.6	173.2	186.7	194.7	
Less: Accum. Deprn.	17.5	22.9	28.9	35.8	42.9	50.1	57.3	64.7	72.5	
Net Fixed Assets	57.7	64.8	121.6	122.3	121.3	122.5	115.9	121.9	122.2	
Capital WIP	15.4	15.3	8.4	7.4	7.8	6.6	11.3	6.2	3.6	
Investments	3.9	4.7	6.7	7.7	8.3	32.9	15.5	15.5	15.5	
Curr. Assets	70.2	86.6	88.4	91.0	90.6	105.0	104.2	151.0	184.8	
Inventory	18.0	23.9	26.9	27.9	32.4	37.2	34.1	48.1	57.8	
Account Receivables	22.8	32.1	39.5	36.6	31.3	33.4	44.2	48.5	63.0	
Cash and Bank Balance	15.4	13.1	5.5	9.6	8.9	11.1	5.7	34.2	43.8	
Loans & Advances	13.9	17.5	16.5	16.8	18.1	23.3	20.2	20.2	20.2	
Curr. Liability & Prov.	28.3	35.1	41.5	44.4	47.9	40.1	43.6	59.1	66.7	
Account Payables	27.7	34.1	40.1	42.0	44.6	36.4	40.0	55.4	63.1	
Provisions	0.6	1.0	1.4	2.4	3.3	3.7	3.7	3.7	3.7	
Net Current Assets	41.9	51.5	46.9	46.5	42.7	64.9	60.5	91.9	118.1	
Appl. of Funds	118.8	136.3	183.7	183.9	180.2	226.9	203.2	235.4	259.4	

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EPS	14.5	17.5	18.4	14.7	19.8	21.6	22.4	30.7	30.4
Cash EPS	17.9	22.8	23.9	18.3	27.8	50.8	26.3	37.7	38.1
BV/Share	68.0	85.4	101.5	101.4	126.9	166.1	171.1	203.5	226.9
DPS	3.6	3.6	3.6	3.6	3.6	4.6	6.0	5.4	5.8
Payout (%)	24.8	20.5	19.6	24.5	18.2	21.3	26.8	17.6	19.1
Valuation (x)									
P/E	44.0	36.5	34.8	43.5	32.3	29.7	28.6	20.9	21.1
Cash P/E	35.8	28.1	26.8	35.0	23.1	12.6	24.4	17.0	16.8
P/BV	9.4	7.5	6.3	6.3	5.0	3.9	3.7	3.1	2.8
EV/Sales	7.3	5.8	5.4	5.0	4.7	4.3	3.8	3.2	2.9
EV/EBITDA	36.1	24.3	23.8	25.2	21.4	18.6	17.4	13.2	12.9
Dividend Yield (%)	0.6	0.6	0.6	0.6	0.6	0.7	0.9	0.8	0.9
Return Ratios (%)									
RoE	23.0	22.9	19.3	11.3	17.4	14.7	13.3	16.4	14.1
RoCE	15.2	14.0	12.8	9.9	13.8	12.9	12.1	15.6	13.5
RoIC	19.6	18.7	14.1	10.3	15.0	13.9	13.4	17.8	16.2
Working Capital Ratios									
Asset Turnover (x)	0.8	0.9	0.7	0.8	0.8	0.7	0.8	0.8	0.8
Fixed Asset Turnover (x)	2.0	1.9	1.4	1.2	1.2	1.3	1.4	1.6	1.7
Debtor (Days)	76	84	99	97	82	77	82	88	98
Inventory (Days)	61	64	70	70	76	83	76	78	93
Working Capital T/O (Days)	102	117	115	94	85	129	116	110	130
Leverage Ratio (x)									
Net Debt/Equity	0.5	0.5	0.8	0.7	0.3	0.2	0.1	-0.1	-0.1

E: MOFSL Estimates

Cash Flow Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Oper. Profit/(Loss) bef. Tax	19.0	28.5	30.1	28.2	31.8	35.2	37.4	47.0	47.5
Interest/Dividends Recd.	1.3	1.1	2.0	1.1	0.5	2.2	1.9	1.8	1.9
Direct Taxes Paid	-1.3	-5.6	-5.3	-3.2	-1.1	-5.1	-5.9	-8.3	-9.3
(Inc)/Dec in WC	-4.1	-11.8	-3.1	4.6	3.0	-20.0	-1.0	-2.9	-16.6
CF from Operations	14.9	12.1	23.7	30.7	34.1	12.4	32.4	37.6	23.5
EO Expense / (Income)	0.0	0.0	0.4	4.0	0.0	0.7	4.8	0.4	0.0
Others	-1.8	-2.9	-10.5	-1.6	0.0	0.0	0.0	0.0	0.0
CF from Operating incl EO Exp.	13.1	9.2	12.8	25.1	34.1	11.7	27.6	37.2	23.5
(inc)/dec in FA	-29.9	-12.4	-55.9	-6.7	-6.5	-7.1	-5.3	-8.4	-5.6
Free Cash Flow	-16.8	-3.2	-43.1	18.4	27.6	4.6	22.3	28.8	17.9
(Pur)/Sale of Investments	-1.7	-0.9	-2.0	-0.9	-0.7	-24.6	17.4	0.0	0.0
Others	2.9	3.5	15.5	-2.5	0.0	0.0	0.0	0.0	0.0
CF from Investments	-28.7	-9.7	-42.4	-10.1	-7.2	-31.7	12.1	-8.4	-5.6
Inc/(Dec) in Debt	29.3	2.0	31.7	-0.4	-26.8	6.5	-27.6	-1.0	0.0
Interest Paid	-0.5	-0.9	-1.9	-3.4	-1.6	-1.3	-1.3	-1.2	-1.0
Dividend Paid	-4.4	-4.4	-3.7	-4.3	-4.4	-5.7	-7.4	-6.7	-7.2
Others	-1.2	3.9	-7.3	-2.8	5.1	22.6	-8.7	8.5	-0.1
CF from Fin. Activity	23.2	0.5	18.8	-10.9	-27.7	22.2	-45.0	-0.3	-8.3
Inc/Dec of Cash	7.6	0.0	-10.7	4.0	-0.8	2.2	-5.3	28.5	9.6
Add: Beginning Balance	8.4	15.9	15.9	7.8	11.8	11.0	13.2	7.9	36.3
Closing Balance	15.9	15.9	7.8	11.8	11.0	13.2	7.9	36.3	45.9
Cash and bank balances	0.5	2.7	2.3	2.1	2.1	2.1	2.1	2.1	2.1
Total Cash & Cash Eq	15.4	13.1	5.5	9.6	8.9	11.1	5.7	34.2	43.8

E: MOFSL Estimates

Torrent Pharma

BSE SENSEX
67,839

S&P CNX
20,192



Bloomberg	TRP IN
Equity Shares (m)	338
M.Cap.(INRb)/(USD\$b)	631.9 / 7.6
52-Week Range (INR)	2100 / 1446
1, 6, 12 Rel. Per (%)	-9/9/10
12M Avg Val (INR M)	569

Financials & Valuations(INR b)

Y/E March	FY23	FY24E	FY25E
Sales	95.8	107.9	123.0
EBITDA	28.3	33.7	39.6
Adjusted PAT	12.6	17.7	22.4
EBIT Margin (%)	22.1	24.1	25.7
Cons. Adj EPS (INR)	37.2	52.4	66.3
EPS Gr. (%)	8.3	41.0	26.5
BV/Sh. (INR)	183.1	247.8	495.6

Ratios

Net D-E	0.9	0.5	0.4
RoE (%)	20.7	24.3	26.8
RoCE (%)	13.9	16.4	20.1
Payout (%)	36.8	36.1	36.1

Valuation

P/E (x)	50.6	35.9	28.4
EV/EBITDA (x)	24.2	19.4	16.4
Div. Yield (%)	0.6	0.8	1.1
FCF Yield (%)	3.1	4.1	4.1
EV/Sales (x)	7.1	6.1	5.3

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	71.3	71.3	71.3
DII	8.3	9.0	10.0
FII	12.8	12.0	10.8
Others	7.6	7.7	8.0

FII Includes depository receipts

CMP: INR1,872

TP: INR1,960 (+4%)

Neutral

The US added as a growth lever along with India/Brazil

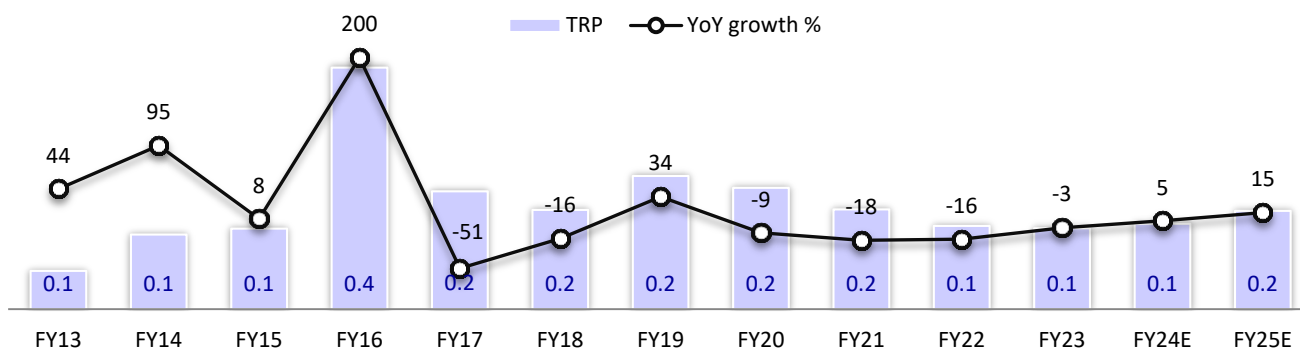
Germany yet to see better outlook | US – Successful compliance to revive growth prospects

- Due to compliance issues and severe price erosion in the base portfolio, TRP's US business deteriorated and reduced to USD138m in FY23 from USD227m in FY19.
- Post-implementing remediation measures at its site, the USFDA inspection had a favourable outcome with receipts of Establishment Inspection Report (EIR) and Voluntary Action Indicated (VAI). These provide a gateway for new approvals from the Dahej site.
- TRP has 46 ANDAs pending for approval. We expect the filing pace to pick-up with resolution of the USFDA issues at Dahej.
- Considering the above factors, we expect a 10% sales CAGR over FY23-25 to USD168m. We await clarity on niche launches from Dahej post-resolution of the regulatory issues.

DF – Strong chronic-focused brand franchise

- Over FY17-23, the company's DF business posted a 17% CAGR with strong growth in its key therapies including Anti-Diabetic, Neuro, Gastro-intestinal, etc.
- TRP remains focused on enhancing its chronic portfolio with ~75% of sales originating from this category.
- Interestingly, strong brand franchise has enabled TRP to grow backed by price hikes (~7% on an average over the past two years) in addition to volume growth.
- Management is executing a plan to grow TRP's trade generics and consumer healthcare businesses. Inspired by the success of its pilot project in consumer healthcare segment (for Shelcal 500), TRP intends to scale-up the business to the national level.
- The faster improvement in growth as well as profitability of the acquired portfolio would further aid better overall growth in the DF segment.
- Accordingly, we expect a 15% sales CAGR in DF to INR66.5b over FY23-25.

Exhibit 65: The US sales to revive from FY24 onwards



Source: MOFSL, Company

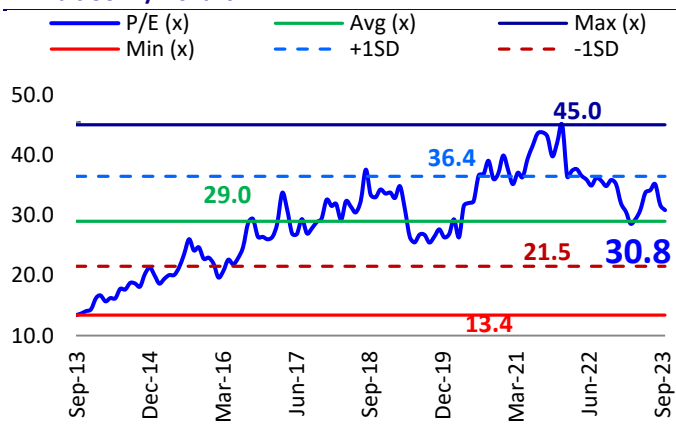
Brazil/Germany on growth trajectory

- Over FY20-FY23, the Brazil revenue registered 12% CAGR to reach INR9.4b (in CC terms; 14% CAGR to reach BRL598m) due to TRP’s focused approach on product launch, faster pace of approvals in CNS, diabetic and cardio segments, and market share gains in the existing products.
- Backed by an increase in the number of MRs in Brazil and new launches in Cardiac/CNS therapies, we expect a 21% CAGR over FY23-25 to reach INR13.6b.
- Germany business saw a slight decline during FY20-23 due to muted demand and increased competition in tender business. However, the recent tender wins and new tender offerings are expected to drive superior growth at 9% sales CAGR to reach INR13.7b over FY23-25.

Valuation priced in; reiterate Neutral

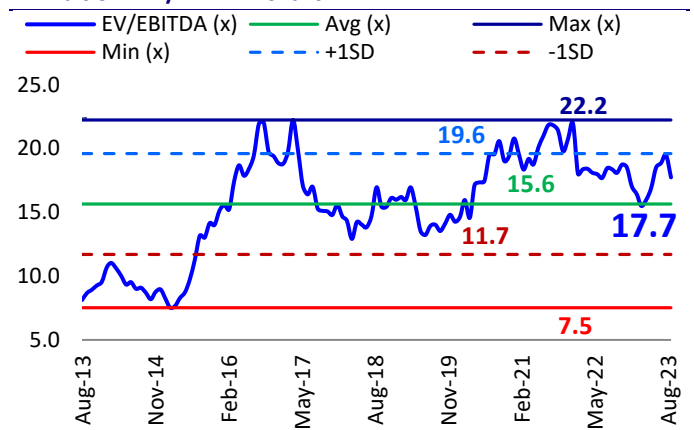
- During FY17-23, TRP exhibited 10%/14% sales/EBITDA CAGR due to improved sales momentum in DF/Brazil, offset to some extent by business headwinds in the US/Germany.
- However, we estimate earnings to report 34% CAGR going forward on the back of: a) new launches from Dahej plant, b) increasing focus on the chronic side, c) new launches in Brazil and d) winning new contracts in Germany. We value TRP at 28x 12M forward earnings to arrive at our TP of INR1,960.
- TRP would launch new products in the US business, outperform in DF through price hikes, increase its reach and enhance the brand value by building a consumer healthcare franchise. A faster pace of launches in Brazil should help TRP sustain its growth momentum.
- **However, its valuation at 28x FY25E EPS of INR66 adequately captures the earnings upside. Reiterate Neutral.**

Exhibit 66: P/E chart



Source: MOFSL, Company, Bloomberg

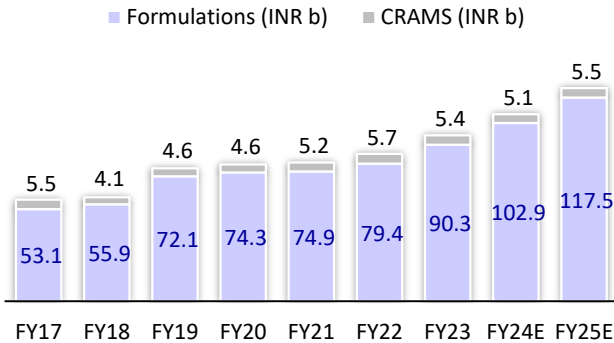
Exhibit 67: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

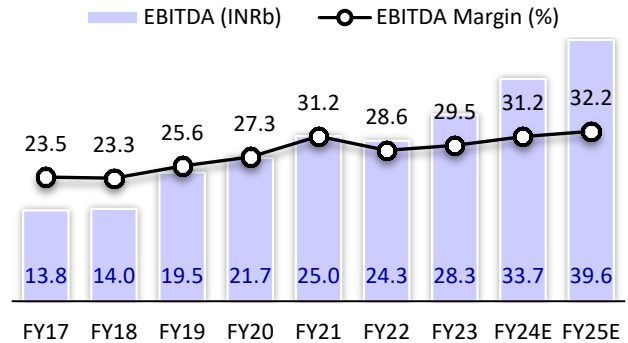
STORY IN CHARTS

Exhibit 68: Expect Formulations CAGR of 13% over FY23-25



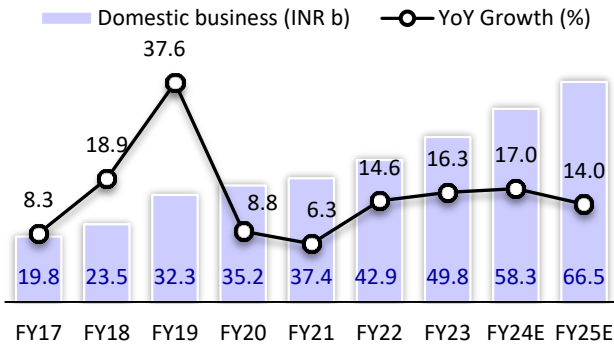
Source: Company, MOFSL

Exhibit 69: Expect EBITDA margin expansion of 270bp over FY23-25



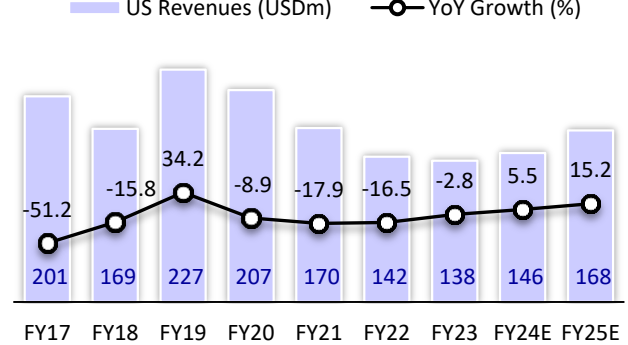
Source: Company, MOFSL

Exhibit 70: Expect 15.5% DF sales CAGR over FY23-25



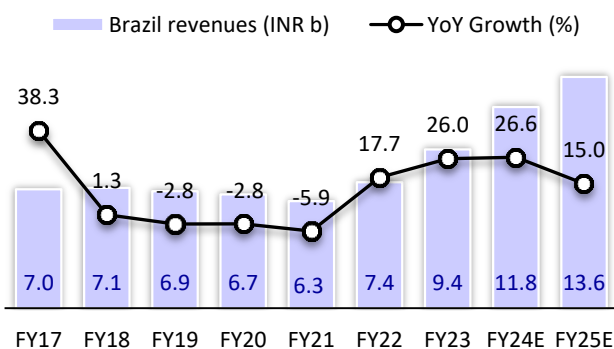
Source: Company, MOFSL

Exhibit 71: The US revenue to pick-up from 2HFY24 onwards



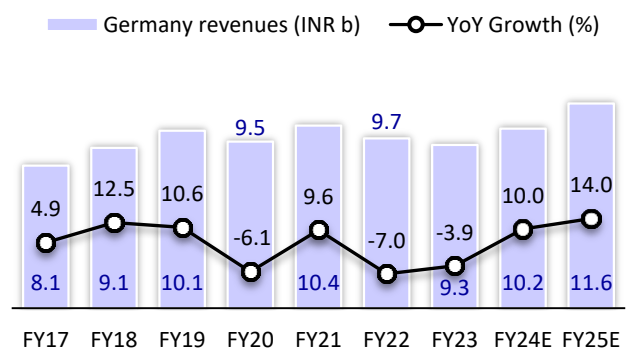
Source: Company, MOFSL

Exhibit 72: Expect ~21% Brazil sales CAGR over FY23-25



Source: Company, MOFSL

Exhibit 73: Expect ~12% Germany sales CAGR over FY23-25



Source: Company, MOFSL

Financials and valuations

Income Statement									(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	59	60	76	79	80	85	96	108	123
Change (%)	-12.3	2.5	26.8	4.3	0.8	6.3	12.6	12.6	13.9
EBITDA	14	14	19	22	25	24	28	34	40
Margin (%)	23.5	23.3	25.6	27.3	31.2	28.6	29.5	31.2	32.2
Depreciation	1	2	2	2	2	7	7	8	8
EBIT	12	12	18	19	23	18	21	26	32
Int. and Finance Charges	2	3	5	5	4	3	3	2	2
Other Income - Rec.	2	3	1	1	1	2	1	1	2
PBT before EO Expense	12	12	13	16	20	17	19	25	31
EO Expense/(Income)	0	1	3	0	0	5	0	0	0
PBT after EO Expense	12	12	10	16	19	12	18	25	31
Current Tax	2	3	1	2	3	4	6	7	9
Deferred Tax	0	0	0	0	0	0	0	0	0
Tax	2	3	1	2	3	4	6	7	9
Tax Rate (%)	12.3	20.6	9.7	10.1	14.0	26.2	32.6	29.0	28.4
Reported PAT	11	9	9	14	17	8	12	18	22
Adj PAT	11	8	7	9	13	12	13	18	22

Balance Sheet									(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	1	1	1	1	1	1	2	2	2
Total Reserves	43	45	46	47	58	59	60	82	82
Net Worth	44	46	47	48	58	60	62	84	84
Deferred liabilities	-2	-3	-4	-4	-4	-5	-5	-5	-5
Total Loans	22	57	49	44	36	40	53	38	31
Capital Employed	64	101	92	88	91	95	110	116	109
Gross Block	44	92	100	103	103	105	127	130	133
Less: Accum. Deprn.	7	11	18	24	31	37	44	52	60
Net Fixed Assets	37	81	82	79	72	67	83	78	73
Capital WIP	5	4	5	7	9	7	8	8	8
Investments	0	0	0	0	0	0	0	0	0
Curr. Assets	56	55	50	50	55	52	53	72	79
Inventory	16	20	19	21	27	25	22	24	29
Account Receivables	13	13	14	16	15	16	19	23	27
Cash and Bank Balance	9	9	8	7	6	4	6	20	16
Loans & Advances	18	14	9	5	7	7	6	6	7
Curr. Liability & Prov.	34	39	45	48	46	31	35	42	51
Account Payables	30	33	38	40	38	23	27	32	39
Provisions	4	6	7	8	8	8	8	10	12
Net Current Assets	22	16	5	2	9	20	18	30	28
Appl. of Funds	64	101	92	88	91	95	110	116	109

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EPS	32.3	23.0	21.4	28.1	37.5	34.3	37.2	52.4	66.3
Cash EPS	36.6	32.1	31.1	49.6	56.4	42.5	57.4	75.1	179.8
BV/Share	128.5	136.6	139.6	142.5	172.5	175.9	183.1	247.8	495.6
DPS	5.0	6.5	9.0	16.0	11.2	10.3	11.2	15.7	19.9
Payout (%)	18.7	28.7	43.0	45.1	27.4	54.0	36.8	36.1	36.1
Valuation (x)									
P/E	58.2	81.8	88.0	67.0	50.2	54.8	50.6	35.9	28.4
Cash P/E	51.3	58.5	60.4	37.9	33.3	44.2	32.7	25.0	10.5
P/BV	14.6	13.8	13.5	13.2	10.9	10.7	10.3	7.6	3.8
EV/Sales	11.1	11.4	8.9	8.5	8.3	7.9	7.1	6.1	5.3
EV/EBITDA	47.2	49.0	34.7	31.0	26.7	27.7	24.2	19.4	16.4
Return Ratios (%)									
RoE	27.9	17.3	15.5	19.9	23.8	19.7	20.7	24.3	26.8
RoCE	21.3	14.4	16.4	19.7	21.3	14.9	13.9	16.4	20.1
RoIC	25.3	14.2	18.9	22.7	26.0	16.4	16.0	20.2	26.3
Working Capital Ratios									
Asset Turnover (x)	0.9	0.6	0.8	0.9	0.9	0.9	0.9	0.9	1.1
Fixed Asset Turnover (x)	1.8	1.0	0.9	1.0	1.1	1.2	1.3	1.3	1.6
Debtor (Days)	87	79	65	71	72	68	68	71	74
Inventory (Days)	97	120	93	99	122	106	85	80	86
Working Capital Turnover (Days)	80	43	-15	-21	15	70	47	34	36
Leverage Ratio (x)									
Interest Cover Ratio	6.0	4.0	3.5	4.3	6.3	6.9	6.4	10.8	17.3
Debt/Equity	0.5	1.2	1.0	0.9	0.6	0.7	0.9	0.5	0.4

Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Oper. Profit/(Loss) before Tax	14	13	12	18	18	19	26	33	39
Interest/Dividends Recd.	1	2	8	2	3	7	2	1	0
Direct Taxes Paid	-4	-3	-3	-3	-2	-4	-4	-7	-9
(Inc)/Dec in WC	-1	-4	1	-4	-3	-4	0	2	-2
CF from Operating incl EO Expense	10	9	18	14	16	18	24	28	29
(inc)/dec in FA	-5	-8	-7	-4	-3	-2	-4	-3	-3
Free Cash Flow	5	1	11	10	13	16	20	26	26
(Pur)/Sale of Investments	-3	-39	4	3	-1	0	-20	0	0
CF from Investments	-8	-47	-2	-2	-4	-2	-24	-3	-3
Issue of shares	0	0	0	0	0	0	0	0	0
(Inc)/Dec in Debt	2	40	-5	-3	-9	-8	12	-4	-21
Interest Paid	-2	-3	-5	-5	-4	-3	-3	-1	0
Dividend Paid	-2	-3	-3	-7	-3	-7	-9	-6	-8
CF from Fin. Activity	-2	34	-13	-15	-12	-14	1	-12	-30
Inc/Dec of Cash	0	-4	2	-3	-1	2	0	14	-4
Opening Balance	10	11	7	9	7	6	4	6	20
Add/(less) Forex in Cash/Cash eq	0	0	0	0	0	-4	1	0	0
Closing Cash and Cash Eq.	11	7	9	7	6	4	6	20	16
Bank balances*	-2	2	-1	0	0	0	0	0	0
Total Cash and Cash Eq.	9	9	8	7	6	4	6	20	16

(INR b)

Aurobindo Pharma

BSE SENSEX
67,839

S&P CNX
20,192



Bloomberg	ARBP IN
Equity Shares (m)	586
M.Cap.(INRb)/(USDb)	526.7 / 6.3
52-Week Range (INR)	908 / 397
1, 6, 12 Rel. Per (%)	-1/77/51
12M Avg Val (INR M)	1127

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	248.6	281.8	299.5
EBITDA	40.3	51.3	56.6
Adj. PAT	22.5	29.0	32.5
EBIT Margin (%)	11.2	13.3	14.0
Cons. Adj. EPS (INR)	38.4	49.5	55.6
EPS Gr. (%)	-12.9	28.8	12.3
BV/Sh. (INR)	458.4	503.4	552.9

Ratios

Net D:E	0.0	0.0	-0.1
RoE (%)	8.7	10.3	10.5
RoCE (%)	8.0	9.2	9.8
Payout (%)	10.9	10.0	10.8

Valuations

P/E (x)	23.4	18.2	16.2
EV/EBITDA (x)	12.3	9.9	8.6
Div. Yield (%)	0.4	0.6	0.7
FCF Yield (%)	-1.6	-2.6	4.8
EV/Sales (x)	2.0	1.8	1.6

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	51.8	51.8	51.8
DII	15.7	15.1	17.3
FII	24.1	23.0	20.7
Others	8.3	10.1	10.2

FII Includes depository receipts

CMP: INR900

TP: INR910 (+1%)

Neutral

Multiple projects under way to fuel growth

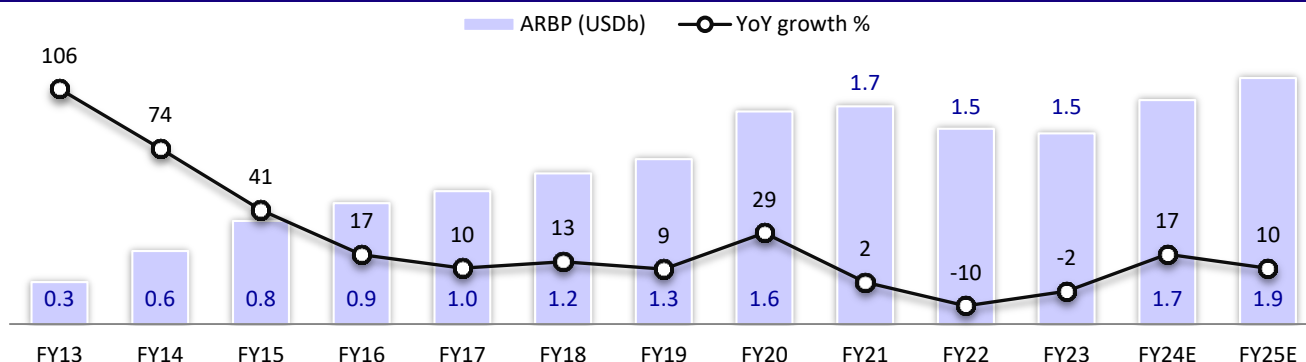
Valuation provides limited upside | US – well-placed to gain from peer issue/drug shortage

- On a formidable base of USD1.2b (FY18) along with ongoing price erosion in the base portfolio, ARBP has been able to manage 5% sales CAGR in the US generics to USD1.5b (FY23; 47% of sales) over FY18-23.
- New business opportunities and softening of price erosion led the US sales to rise to USD400m in 1QFY24.
- With strong pace of approvals/launches (19/15 in 1QFY24) along with g-Revlimid (2QFY24/3QFY24 launch), we expect the US generics sales to further scale-up going forward.
- ARBP is focusing on the complex pipeline in peptides, inhalation, transdermal, vaccines and Biosimilars.
- Besides this, ARBP has about seven products under shortage which would have a meaningful impact on the US sales.
- We expect US sales to register 13% CAGR to USD1.9b over FY23-25.

EU – On track to better sales growth as well as profitability

- EU sales registered a 7% CAGR over FY19-23 to INR64b due to volume growth, new product launches, market share gain in existing markets and expanding in newer markets within EU.
- Further, with an improvement in market share due to shortages, the company has been able to expand the EBITDA margin to mid-teen level.
- With commercialization of the China plant and intensified focus on the biosimilar and injectable domains, the company aims to expand its operations in Europe.
- Accordingly, we expect a 12% sales CAGR over FY23-25 to INR80b.

Exhibit 74: The US sales to rise from FY24 onwards



Source: MOFSL, Company

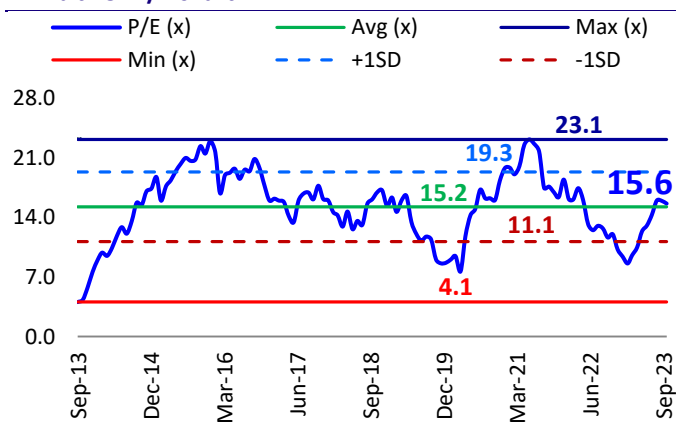
Building additional drivers – Pen-g, Biosimilars and peptides

- ARBP has invested USD160m to date in the Pen-G project, which is likely to be completed by Mar’24 and the benefit would accrue from FY25 onwards.
- ARBP is focusing on oncology and anti-diabetic peptides. It has filed DMF for Liraglutide and would file one more GLP-1 analogue by end of FY24.
- ARBP has been working towards development of biosimilar globally. It has filed b-Herceptin in India in Jul’23, followed by a filing in the EU in Sep’23 and the US in 4QFY24. It is focusing on immunology products such as b-Xolair and another immunology biosimilar for India/Ems.

Valuation priced in; reiterate Neutral

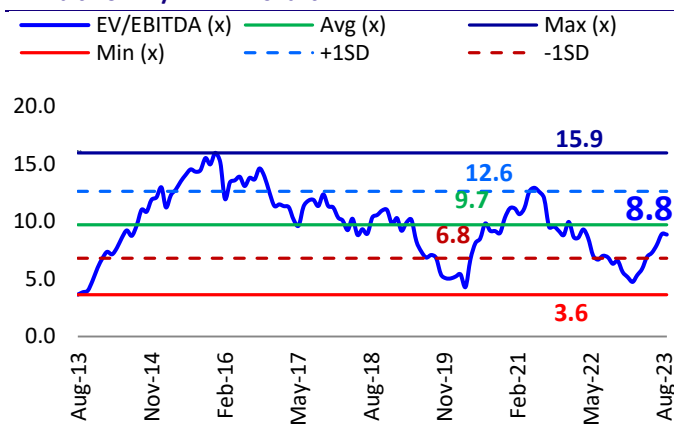
- With favorable macro environment and its broad portfolio offerings, we believe ARBP is well-placed to capitalize on the opportunity related to the US generics. The better margins of the EU segment further support its overall profitability.
- We expect 20% earnings CAGR led by healthy traction in its key markets and 270bp margin expansion. We value ARBP at 15x 12M forward earnings to arrive at our TP of INR910.
- **However, its current valuation provides limited upside. Reiterate Neutral.**

Exhibit 75: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 76: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

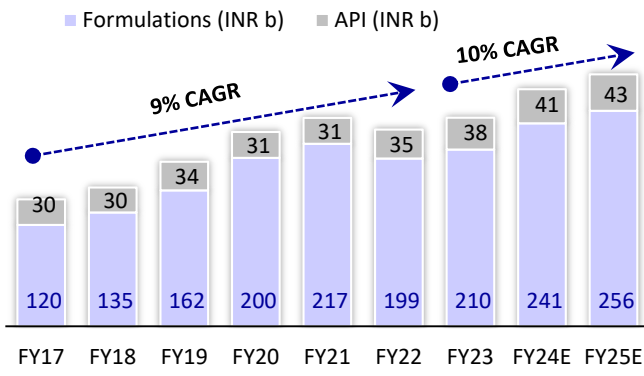
Exhibit 77: Snapshot of drugs under shortage

Date of Update	Generic Name	Company	Reason for Shortage	Availability Information	Status	Market Opportunity (USDm)
Jul-23	Bupivacaine Hydrochloride Injection	Eugia Pharma	Demand increase for the drug	Available	Current	56
Jul-23	Dexamethasone Sodium Phosphate Injection	Eugia Pharma	Demand increase for the drug	Available	Current	70
Jul-23	Dexmedetomidine Injection	Eugia Pharma	Demand increase for the drug	Available	Current	68
Jul-23	Pantoprazole Sodium for Injection	Eugia Pharma	Available	Available	Current	68
Jul-23	Rocuronium Bromide Injection	Eugia Pharma	Available	Available	Current	55
Jul-23	Capecitabine Tablets	Eugia Pharma	Demand increase for the drug	On allocation	Current	55

Source: MOFSL, USFDA, Company

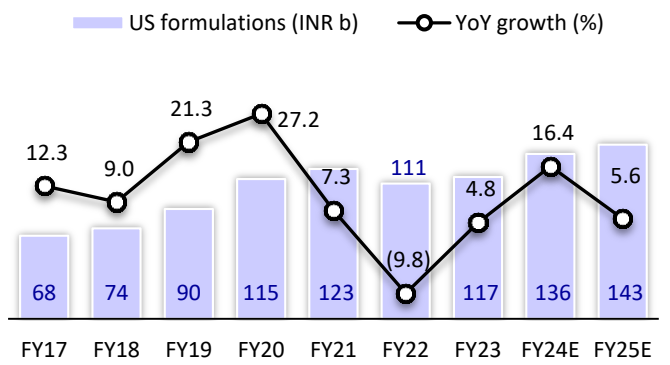
STORY IN CHARTS

Exhibit 78: Expect sales CAGR of 10% over FY23-25



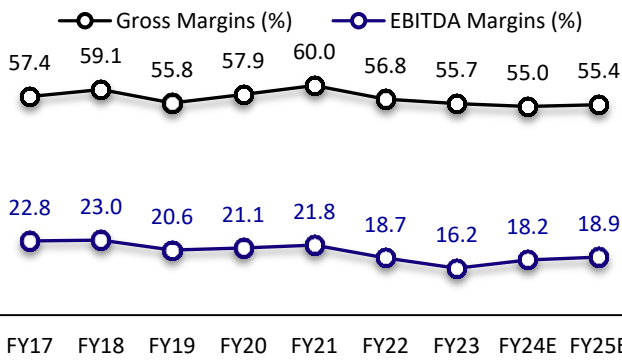
Source: Company, MOFSL

Exhibit 79: The US sales to clock 11% CAGR over FY23-25



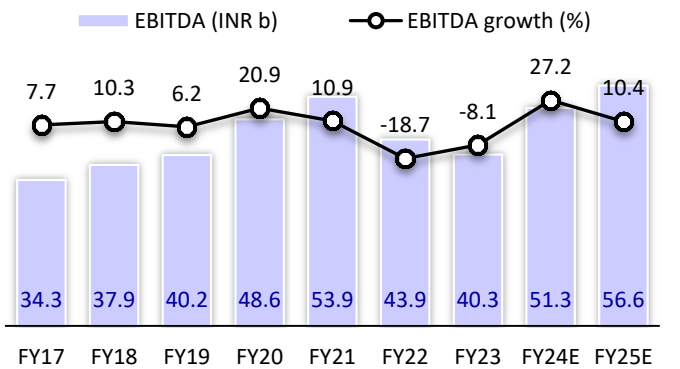
Source: Company, MOFSL

Exhibit 80: EBITDA margin to expand over FY23-25



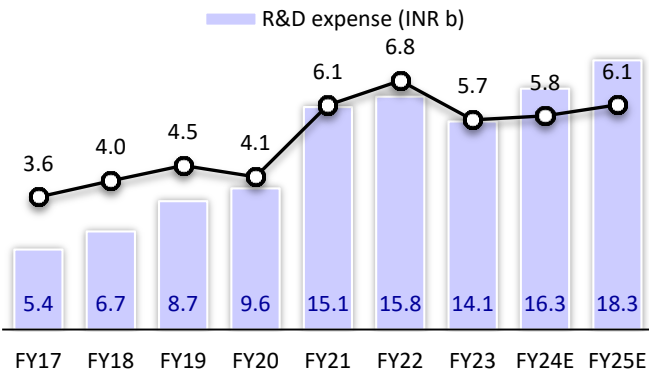
Source: Company, MOFSL

Exhibit 81: EBITDA to clock an 18% CAGR over FY23-25



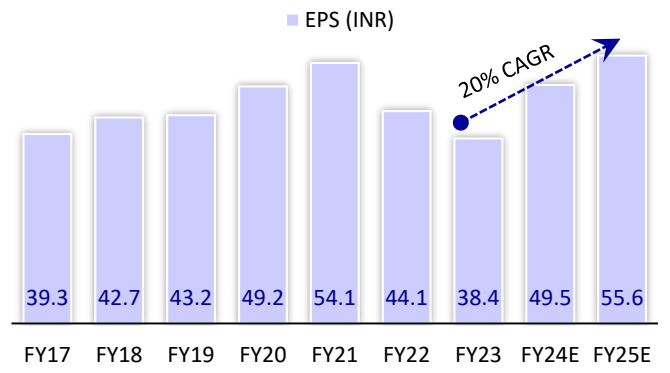
Source: Company, MOFSL

Exhibit 82: R&D expense to increase over FY23-25



Source: Company, MOFSL

Exhibit 83: Expect EPS CAGR of 20% over FY23-25



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	150.9	165.0	195.6	231.0	247.7	234.6	248.6	281.8	299.5
Change (%)	8.1	9.3	18.6	18.1	7.3	-5.3	6.0	13.4	6.3
Total Expenditure	116.6	127.1	155.4	182.3	193.8	190.7	208.2	230.5	242.9
EBITDA	34.3	37.9	40.2	48.6	53.9	43.9	40.3	51.3	56.6
Margin (%)	22.8	23.0	20.6	21.1	21.8	18.7	16.2	18.2	18.9
Depreciation	4.3	5.6	6.7	9.7	10.6	11.3	12.4	13.9	14.6
EBIT	30.1	32.3	33.5	39.0	43.4	32.6	27.9	37.4	42.0
Int. and Finance Charges	0.7	0.8	1.6	1.6	0.7	0.5	1.4	1.8	1.4
Other Income	0.5	1.0	1.2	0.9	2.4	2.5	2.9	3.3	3.5
PBT bef. EO Exp.	29.9	32.5	33.1	38.2	45.0	34.6	29.4	38.9	44.1
EO Items	0.6	-0.2	-2.2	-0.7	29.0	-0.6	-1.0	1.1	0.0
PBT after EO Exp.	30.6	32.4	30.9	37.6	74.0	34.0	28.4	40.0	44.1
Current Tax	7.6	8.2	7.3	9.1	20.1	7.3	6.8	10.6	11.5
Tax Rate (%)	24.9	25.3	23.5	24.3	27.2	21.3	24.1	26.5	26.0
Less: Mionrity Interest	-0.1	0.0	0.0	0.1	0.6	0.3	-0.1	0.1	0.1
Reported PAT	23.0	24.2	23.6	28.3	53.3	26.5	21.4	29.2	32.5
Adjusted PAT	23.0	25.0	25.3	28.8	31.7	25.8	22.5	29.0	32.5
Change (%)	13.6	8.7	1.1	13.9	9.9	-18.5	-12.9	28.8	12.3
Margin (%)	15.3	15.2	12.9	12.5	12.8	11.0	9.0	10.3	10.9

Consolidated - Balance Sheet

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Total Reserves	93.1	116.2	138.3	167.5	218.7	245.2	267.8	294.1	323.2
Net Worth	93.7	116.8	138.9	168.1	219.3	245.8	268.4	294.7	323.7
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Deferred Liabilities	-1.2	0.8	1.0	1.4	1.2	1.2	-2.9	-2.9	-3.0
Total Loans	30.8	44.8	67.5	54.2	49.7	23.7	48.6	38.6	30.6
Capital Employed	123.4	162.4	207.4	223.7	270.2	270.7	314.3	330.5	351.5
Gross Block	53.6	70.7	98.0	116.4	134.3	158.4	175.4	195.9	208.9
Less: Accum. Deprn.	7.2	11.8	18.3	28.0	38.5	49.8	62.2	76.2	90.7
Net Fixed Assets	46.5	58.9	79.7	88.4	95.8	108.7	113.2	119.8	118.2
Goodwill on Consolidation	4.1	8.2	8.3	9.2	4.3	4.8	6.0	6.0	6.0
Capital WIP	12.4	14.0	13.4	16.2	24.3	29.4	45.0	45.0	45.0
Total Investments	2.5	3.1	3.6	5.5	5.9	10.0	5.4	5.4	5.4
Curr. Assets, Loans&Adv.	95.4	125.3	157.7	168.3	203.8	183.6	222.6	220.0	245.0
Inventory	43.3	58.6	72.5	77.0	90.3	75.5	85.1	104.6	110.5
Account Receivables	35.0	38.7	34.1	43.2	35.0	40.1	44.7	52.5	56.6
Cash and Bank Balance	5.1	12.6	19.6	28.4	54.7	41.9	60.8	36.1	51.1
Loans and Advances	12.0	15.4	31.5	19.7	23.7	26.0	31.9	26.8	26.8
Curr. Liability & Prov.	37.4	47.1	55.3	63.9	63.8	65.6	77.9	65.7	68.1
Account Payables	24.9	26.3	25.5	25.4	27.9	27.0	38.7	35.0	37.5
Other Current Liabilities	11.4	18.2	26.1	33.5	32.6	35.2	35.4	30.0	30.0
Provisions	1.1	2.6	3.6	4.9	3.3	3.4	3.7	0.6	0.6
Net Current Assets	58.0	78.3	102.4	104.3	140.0	117.9	144.7	154.3	176.9
Deferred Tax assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Misc Expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Appl. of Funds	123.4	162.4	207.4	223.7	270.2	270.7	314.3	330.5	351.5

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)									
EPS	39.3	42.7	43.2	49.2	54.1	44.1	38.4	49.5	55.6
Cash EPS	46.6	52.2	54.6	65.7	72.0	63.3	59.7	73.3	80.5
BV/Share	160.0	199.4	237.1	286.9	374.3	419.5	458.4	503.4	552.9
DPS	1.9	3.7	2.5	2.5	2.5	3.5	4.0	5.0	6.0
Payout (%)	6.0	10.9	6.8	5.2	2.7	7.7	10.9	10.0	10.8
Valuation (x)									
P/E	22.9	21.1	20.8	18.3	16.6	20.4	23.4	18.2	16.2
Cash P/E	19.3	17.2	16.5	13.7	12.5	14.2	15.1	12.3	11.2
P/BV	5.6	4.5	3.8	3.1	2.4	2.1	2.0	1.8	1.6
EV/Sales	3.5	3.3	2.8	2.3	2.0	2.1	2.0	1.8	1.6
EV/EBITDA	15.5	14.2	13.8	11.0	9.3	11.2	12.3	9.9	8.6
Dividend Yield (%)	0.2	0.4	0.3	0.3	0.3	0.4	0.4	0.6	0.7
FCF per share	27.0	7.2	1.6	50.4	12.5	35.7	-13.5	-22.4	41.9
Return Ratios (%)									
RoE	27.6	23.8	19.8	18.8	16.3	11.1	8.7	10.3	10.5
RoCE	19.0	17.4	14.4	14.1	13.6	10.3	8.0	9.2	9.8
RoIC	22.5	20.4	16.9	17.1	17.6	13.7	10.8	12.3	12.6
Working Capital Ratios									
Fixed Asset Turnover (x)	2.8	2.3	2.0	2.0	1.8	1.5	1.4	1.4	1.4
Inventory (Days)	238	275	277	280	308	298	266	273	294
Debtor (Days)	98	82	68	61	58	58	62	63	66
Creditor (Days)	140	138	109	96	98	99	109	106	99
Working Cap. (Days)	196	219	235	246	267	258	219	230	261
Leverage Ratio (x)									
Current Ratio	2.6	2.7	2.9	2.6	3.2	2.8	2.9	3.4	3.6
Interest Cover Ratio	45	42	21	24	58	67	20	21	30
Net Debt/Equity	0.3	0.3	0.3	0.2	0.0	-0.1	0.0	0.0	-0.1

Consolidated - Cash Flow Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	30.6	32.4	30.9	37.4	45.0	34.6	29.4	38.9	44.1
Depreciation	4.3	5.6	6.7	9.7	10.6	11.3	12.4	13.9	14.6
Interest / Dividend recieved	0.4	0.5	1.4	1.2	-1.6	-2.0	-1.5	-1.5	-2.1
Direct Taxes Paid	-7.7	-7.0	-7.7	-7.3	-20.1	-7.3	-6.8	-10.6	-11.5
(Inc)/Dec in WC	5.3	-10.4	-14.8	2.8	-9.3	9.2	-7.8	-34.4	-7.6
CF from Operations	32.9	21.2	16.4	43.8	24.5	45.8	25.7	6.3	37.5
Others	-0.1	-1.6	0.1	0.0	8.7	4.4	-1.0	1.1	0.0
CF from Operating incl EO	32.8	19.5	16.5	43.8	33.3	50.2	24.7	7.4	37.5
(inc)/dec in FA	-16.9	-15.3	-15.6	-14.3	-26.0	-29.2	-32.6	-20.5	-13.0
Free Cash Flow	15.8	4.2	0.9	29.5	7.3	20.9	-7.9	-13.1	24.5
(Pur)/Sale of Investments	-0.9	-4.0	-13.4	-1.4	0.4	4.1	-4.5	0.0	0.0
CF from Investments	-17.9	-19.3	-29.0	-15.7	6.0	-32.1	-39.8	-20.5	-13.0
Inc/(Dec) in Debt	-17.3	2.9	26.2	-13.1	-4.5	-26.0	25.0	-10.0	-7.9
Interest Paid	-0.6	-0.7	-1.5	-1.3	-0.7	-0.5	-1.4	-1.8	-1.4
Dividend Paid	-1.4	-2.6	-1.6	-1.9	-1.5	-2.1	-2.3	-2.9	-3.5
Others	1.5	7.7	-3.4	-2.8	-6.9	-1.2	12.8	3.1	3.3
CF from Fin. Activity	-17.7	7.2	19.8	-19.1	-13.6	-29.7	34.0	-11.6	-9.5
Inc/Dec of Cash	-2.8	7.5	7.3	9.1	25.6	-11.6	18.9	-24.7	15.0
Opening Balance	7.9	5.1	12.6	19.6	28.4	54.7	41.9	60.8	36.1
Others incl. impact of fx	0.0	0.0	-0.3	-0.2	0.7	-1.2	0.0	0.0	0.0
Closing Balance	5.1	12.6	19.6	28.4	54.7	41.9	60.8	36.1	51.1

Lupin

BSE SENSEX
67,839S&P CNX
20,192

CMP: INR1150

TP: INR830 (-28%)

SELL



Bloomberg	LPC IN
Equity Shares (m)	453
M.Cap.(INRb)/(USDb)	512.8 / 6.2
52-Week Range (INR)	1149 / 623
1, 6, 12 Rel. Per (%)	2/57/56
12M Avg Val (INR M)	967

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	166.4	190.2	213.0
EBITDA	17.6	29.5	34.9
Adj. PAT	3.9	12.6	16.1
EBIT Margin (%)	5.3	10.4	11.8
Cons. Adj. EPS (INR)	8.6	27.7	35.4
EPS Gr. (%)	-55.0	221.5	27.8
BV/Sh. (INR)	273.9	302.7	335.1

Ratios

Net D:E	0.3	0.2	0.2
RoE (%)	3.2	9.6	11.1
RoCE (%)	3.5	8.9	9.9
Payout (%)	24.7	9.3	8.3

Valuations

P/E (x)	133.6	41.6	32.5
EV/EBITDA (x)	25.1	14.9	12.4
Div. Yield (%)	0.2	0.2	0.2
FCF Yield (%)	-0.3	1.3	2.8
EV/Sales (x)	2.6	2.3	2.0

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	47.1	47.1	47.1
DII	29.4	29.2	27.2
FII	13.9	13.3	14.3
Others	9.6	10.4	11.5

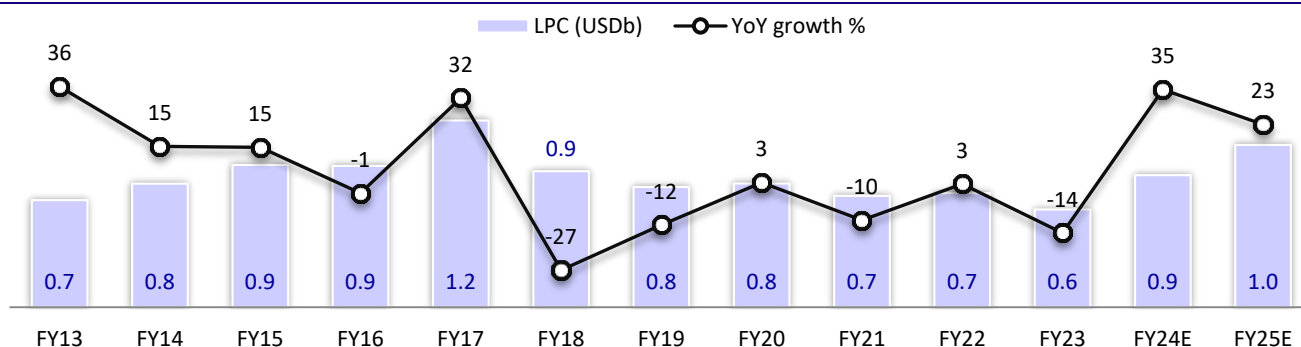
FII Includes depository receipts

Earnings growth likely to recover sharply**The US generic sales to revive aided by niche launches | US – back on growth track**

- LPC's US sales declined over the past five years to USD632m in FY23 (33% of sales) due to intensified competition in the base portfolio, delay in niche launches and limited success in prescription products.
- The company's FY23 US sales declined 14% YoY, which was the lowest in last 10 years, as inventory normalization adversely affected the performance.
- Having said this, its US sales run-rate has stabilized over the past three quarters and stood at USD181m in 1QFY24.
- We expect its US sales to increase in the coming years underpinned by niche launches such as g-Spiriva. LPC is also working on g-Respimat/g-Ellipta and is on track to file the same in FY25E. Management is also focusing on differentiated therapies such as inhalation and injectable.
- To date, LPC has successfully complied with five out of eight facilities that had adverse regulatory issues.
- Accordingly, we expect a 29% CAGR in US sales to USD1b over FY23-25.

DF – Enhanced marketing efforts/addition of MRs to augment outlook

- LPC registered a 10% CAGR in DF business to reach INR60b over FY18-22 aided by market share gains in key therapies and increasing reach.
- In FY23, its DF sales stood flat YoY at INR60.8b, due to the underperformance of acute therapies (anti-infectives) vs. IPM. Additionally, the performance of diabetes therapy (23% of DF sales) was hit by increased competition.
- LPC has added almost 1,000 MRs with five new divisions to enhance its marketing efforts and expand reach. Moreover, LPC's performance has been better than industry in certain therapies such as cardiac, gastro-intestinal, respiratory and gynecology.
- Further, its anti-diabetes therapy is recovering from the impact of patent expiries.
- Hence, we expect a 9% CAGR in DF sales to reach INR72.5b over FY23-25.

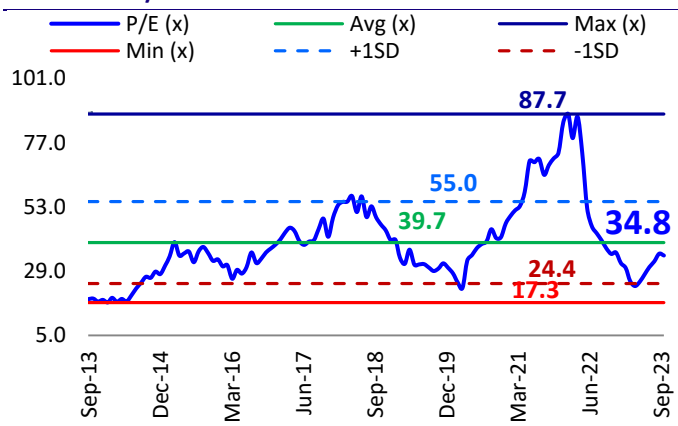
Exhibit 84: The US sales bottomed out in FY23

Source: MOFSL, Company

Reiterate Sell

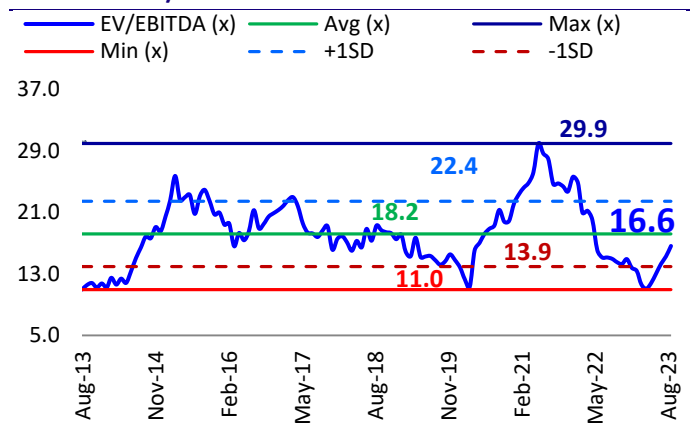
- LPC’s earnings declined 27% during FY17-23 due to disruption in the US generics segment, subdued performance in ROW/API segments and reduced profitability. However, we expect 4x growth in earnings over FY23-25 fueled by: a) potential niche launches in the US, and b) revival in its key therapies.
- We value LPC at 22x12M forward earnings to arrive at our TP of INR830.
- The earnings outlook is expected to improve going forward with niche launches having limited competition and huge market opportunity. However, the return ratio remained low (~10% for FY25E). Further, the valuations at 42x FY24E EPS of INR28 and 33x FY25E EPS of INR35 are expensive. We reiterate our SELL rating on the stock.

Exhibit 85: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 86: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

STORY IN CHARTS

Exhibit 87: Revenue mix in 1QFY24

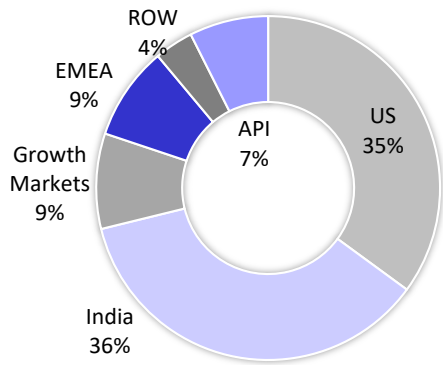


Exhibit 88: Expect 14% sales CAGR over FY23-25

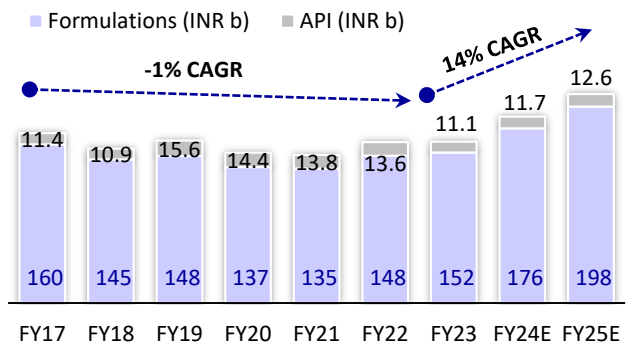


Exhibit 89: R&D spend as a % of sales to moderate

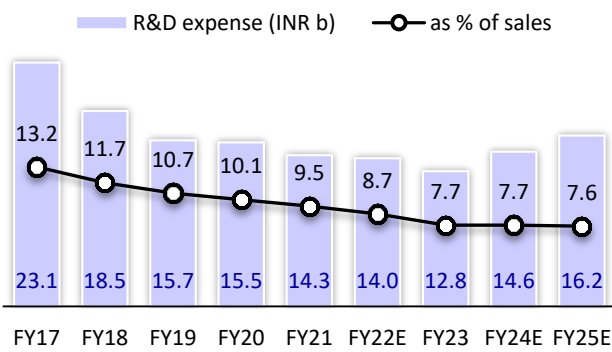


Exhibit 90: EBITDA margin to expand 580bp over FY23-25

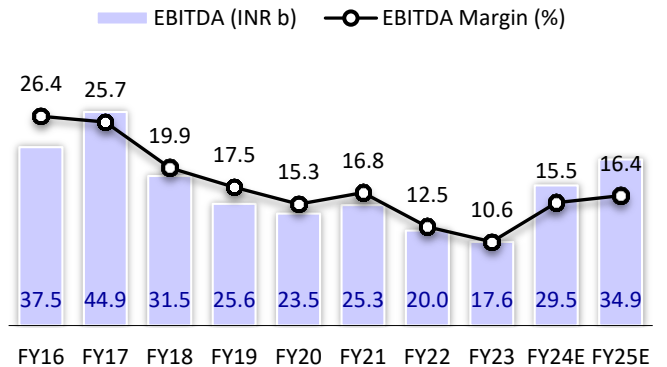


Exhibit 91: Expect EPS to be ~4x over FY23-25

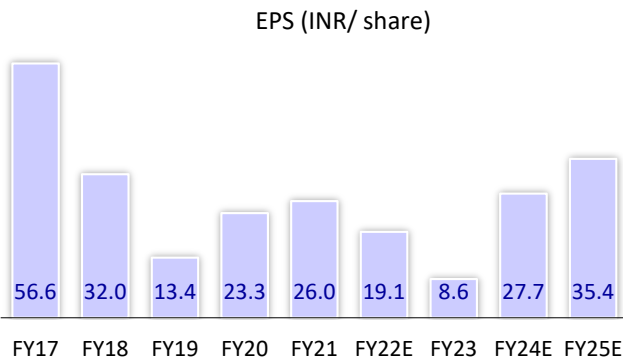
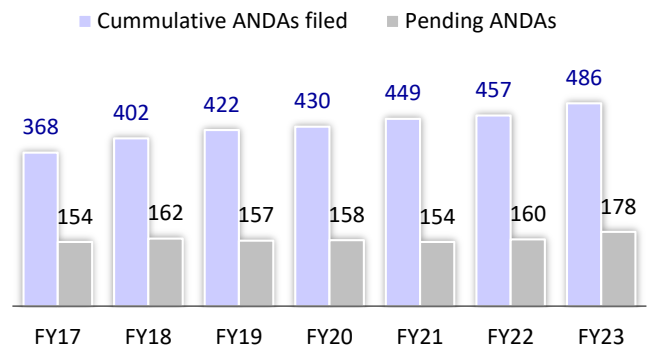


Exhibit 92: Rich ANDA pipeline



Source: MOFSL, Company,

Financials and valuations

Income Statement									(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	175	158	147	154	151	160	166	190	213
Change (%)	23.1	-9.7	-7.2	4.8	-1.8	6.2	3.8	14.3	12.0
EBITDA	45	31	26	24	25	20	18	29	35
Margin (%)	25.7	19.9	17.5	15.3	16.8	12.5	10.6	15.5	16.4
Depreciation	9	11	8	10	9	8	9	10	10
EBIT	36	21	17	14	16	12	9	20	25
Int. and Finance Charges	2	2	3	4	1	1	3	4	3
Other Income - Rec.	1	2	3	4	1	2	1	1	1
PBT before EO item	35	20	17	14	17	12	7	17	22
EO Expense/(Income)	0	15	3	6	0	26	0	-2	0
PBT after EO item	35	5	14	8	17	-14	7	19	22
Tax	10	3	9	12	4	1	3	5	6
Tax Rate (%)	27.7	53.1	63.2	153.6	26.8	-10.0	37.5	24.1	28.0
Less: Minority Interest	0	0	0	0	0	0	0	0	0
Reported PAT	26	3	5	-4	12	-15	4	14	16
PAT Adj for EO items	26	14	6	11	12	9	4	13	16
Change (%)	12.6	-43.5	-58.0	74.3	11.5	-26.2	-55.0	221.1	27.8
Margin (%)	14.6	9.1	4.1	6.9	7.8	5.4	2.4	6.6	7.5
Adj Net Profit	26	14	6	11	12	9	4	13	16

Consolidated Balance Sheet									(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	1	1	1	1	1	1	1	1	1
Total Reserves	134	135	137	124	137	121	124	137	151
Net Worth	135	136	137	125	138	122	125	138	152
Minority Interest	0	0	0	0	1	1	1	1	1
Deferred liabilities	-1	-4	-4	0	0	1	1	1	1
Secured Loan	61	68	71	25	6	6	4	2	0
Unsecured Loan	23	5	16	25	30	37	42	42	42
Total Loans	84	72	86	50	37	43	46	44	42
Capital Employed	219	204	220	176	176	166	172	183	196
Gross Block	55	64	72	76	85	95	105	113	120
Less: Accum. Deprn.	9	15	23	33	42	50	59	68	78
Net Fixed Assets	46	49	49	44	44	45	46	45	42
Capital WIP	7	10	10	8	9	8	9	8	7
Investments	21	14	23	24	25	9	5	5	5
Goodwill & Intangibles	78	71	68	38	37	31	41	41	41
Curr. Assets	108	112	122	136	120	122	127	140	166
Inventory	36	37	38	35	41	46	45	47	57
Account Receivables	43	52	51	54	45	43	45	56	66
Cash and Bank Balance	7	2	10	25	17	11	13	13	18
Others	22	21	22	22	17	22	24	24	24
Curr. Liability & Prov.	42	52	52	72	59	50	56	55	64
Account Payables	35	44	41	60	47	42	47	46	56
Provisions	8	8	11	12	11	8	9	9	9
Net Current Assets	66	60	70	64	62	72	71	85	102
Appl. of Funds	219	204	220	176	176	166	172	183	196

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EPS (Fully Diluted)	56.6	32.0	13.4	23.3	26.0	19.1	8.6	27.7	35.4
Cash EPS (Fully Diluted)	76.8	56.0	32.1	44.8	45.5	37.2	28.0	49.2	57.0
BV/Share	298.9	300.3	303.7	276.7	304.2	267.4	273.9	302.7	335.1
DPS	7.5	5.0	5.0	9.0	7.0	9.0	2.0	2.5	2.5
Payout (%)	15.9	108.5	53.3	-119.0	30.4	-31.3	24.7	9.3	8.3
Valuation (x)									
P/E (Fully Diluted)	19.4	34.4	82.1	47.2	42.3	57.5	127.8	39.8	31.1
Cash P/E (Fully Diluted)	14.3	19.6	34.3	24.6	24.2	29.5	39.3	22.3	19.3
P/BV	3.7	3.7	3.6	4.0	3.6	4.1	4.0	3.6	3.3
EV/Sales	2.8	3.0	3.3	2.8	2.8	2.7	2.6	2.3	2.0
EV/EBITDA	10.8	15.2	18.9	18.4	16.8	22.0	25.1	14.9	12.4
Return Ratios (%)									
RoE	20.9	10.7	4.4	8.0	9.0	6.7	3.2	9.6	11.1
RoCE	13.3	4.9	3.5	4.8	7.5	8.6	3.5	8.9	9.9
RoIC	14.9	5.4	3.6	5.1	9.8	9.8	3.9	9.9	11.2
Working Capital Ratios									
Asset Turnover (x)	0.8	0.8	0.7	0.9	0.9	1.0	1.0	1.0	1.1
Fixed Asset Turnover (x)	4.4	3.3	3.0	3.3	3.5	3.6	3.6	4.2	4.9
Debtor (Days)	90	120	128	129	108	97	98	106	114
Creditor (Days)	189	178	184	162	137	129	136	135	139
Inventory (Days)	76	85	95	82	99	105	99	91	98
Leverage Ratio									
Current Ratio	2.5	2.2	2.3	1.9	2.1	2.4	2.3	2.6	2.6
Interest Cover Ratio	23.5	10.1	5.7	3.8	11.7	8.2	3.2	5.2	7.2
Debt/Equity (x)	0.6	0.5	0.6	0.2	0.1	0.3	0.3	0.2	0.2

Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EBITDA	45	31	26	24	25	20	18	29	35
Interest/Dividends Recd.	1	2	3	4	1	2	1	1	1
Direct Taxes Paid	-12	-6	-9	-7	-4	-1	-3	-5	-6
(Inc)/Dec in WC	-1	1	-2	21	-5	-17	2	-14	-11
CF from Operations	33	28	18	41	17	4	18	12	18
Others	8	4	2	-20	1	25	9	0	0
EO expense	0	15	3	6	0	26	0	-2	0
CF from Op. incl EO Exp.	41	18	17	15	18	4	28	14	18
(inc)/dec in FA	-25	-9	-6	29	-10	-4	-19	-7	-6
Free Cash Flow	8	19	12	70	8	0	-1	5	12
(Pur)/Sale of Investments	-21	7	-9	-1	-1	16	4	0	0
Others	21	6	-18	-17	-4	1	-9	0	0
CF from Investments	-25	5	-33	11	-15	13	-25	-7	-6
Change in Net Worth	4	1	-1	-3	4	4	0	0	0
Inc/(Dec) in Debt	13	-12	14	-36	-13	7	3	-2	-2
Interest Paid	-2	-2	-3	-4	-1	-1	-3	-4	-3
Dividend Paid	-4	-3	-3	-5	-4	-5	-1	-1	-1
Others	-7	1	0	39	-5	-20	0	0	0
CF from Fin. Activity	4	-15	7	-9	-19	-16	-1	-7	-7
Inc/Dec of Cash	20	7	-9	17	-15	1	2	0	5
Add: Beginning Balance	8	28	14	5	22	7	8	10	10
Cash and Eq. on acquisition	0	-21	0	0	0	0	0	0	0
Cash/Cash Eq. at end of the year	28	14	5	22	7	8	10	10	15
Forex/Bank	-21	-12	4	2	10	3	3	3	3
Closing Balance	7	2	10	25	17	11	13	13	18

(INR b)

Sun Pharma

BSE SENSEX
67,839S&P CNX
20,192

Bloomberg	SUNP IN
Equity Shares (m)	2399
M.Cap.(INRb)/(USD\$)	2727.7 / 32.9
52-Week Range (INR)	1170 / 857
1, 6, 12 Rel. Per (%)	-3/4/16
12M Avg Val (INR M)	2595

Financials & valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	432.3	490.0	546.5
EBITDA	111.1	129.6	149.2
Adj. PAT	86.1	97.2	113.4
EBIT Margin (%)	19.9	21.1	22.1
Cons. Adj. EPS (INR)	35.8	40.4	47.1
EPS Gr. (%)	14.4	13.0	16.7
BV/Sh. (INR)	232.7	266.2	306.6

Ratios

Net D:E	0.02	-0.03	-0.13
RoE (%)	16.6	16.2	16.5
RoCE (%)	11.5	12.5	13.5
Payout (%)	12.5	14.2	14.2

Valuations

P/E (x)	32.1	28.5	24.4
EV/EBITDA (x)	24.4	20.7	17.5
Div. Yield (%)	0.3	0.4	0.5
FCF Yield (%)	-1.5	1.7	3.4
EV/Sales (x)	6.3	5.5	4.8

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	54.5	54.5	54.5
DII	19.8	19.3	19.7
FII	16.5	16.9	15.0
Others	9.3	9.4	10.9

FII Includes depository receipts

CMP: INR1,150

TP: INR1,310 (+14%)

Buy

Reduced filings for the US generics

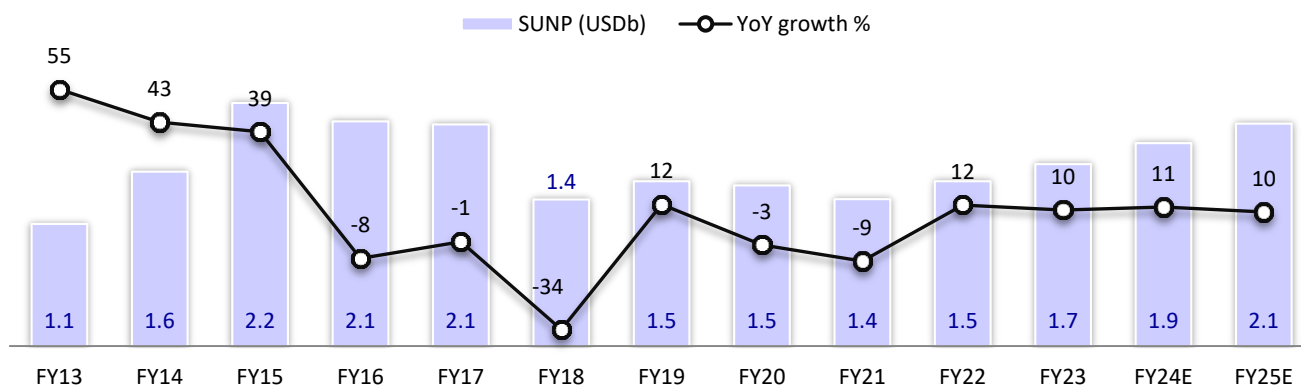
Specialty portfolio to drive growth | US – Expanding offerings of differentiated products

- The company's US sales had been growing for the past two years despite high competitive intensity and reduced pace of generic launches.
- This was largely driven by robust traction in specialty portfolio, propelling sales to USD673m in FY23 (from USD91m in 1QFY20).
- The higher price erosion in generics portfolio and regulatory issues at Halol/Mohali plants impacted the US generics sales adversely. Assuming considerable sales of specialty portfolio in the US market, the US generics sales declined 6% over FY20-23 to USD920m. Heightened competition in derma products hurt Taro's performance as well during FY20-23.
- With enhanced focus on specialty products, SUNP is working towards adding one more indication for Illumya.
- Further, SUNP is exploring possibilities with respect to filing the 8mg/12mg strength of Concert Pharma's product (deuroxolitinib).
- Accordingly, we expect SUNP to register overall US sales CAGR of 11% to reach USD2b over FY23-FY25.

DF – efforts to grow in line with the industry

- SUNP posted an 11% sales CAGR in DF segment to INR136b (32% of FY23 sales), over the past five years. In FY23, SUNP grew 10.2% YoY (ex-Covid) aided by double-digit growth in key therapies (except in gastro/ortho).
- While patent expiry in sitagliptin and reduction in prices for products under NLEM hit its 1QFY24 growth (5% YoY), addition of MRs (~1,000 in FY23) and increased reach would drive growth for SUNP going forward. Accordingly, we expect the DF business to clock a 10% CAGR over FY23-25.
- Management intends to remain focused on prescription-based business model unlike some of its peers, which have added trade generics business as well in their DF segment.

Exhibit 93: The US sales on an uptrend (on absolute basis) after declining in FY21



Source: MOFSL, Company

EM: Established presence, new offerings to augment outlook

- The robust demand tailwind on the back of favorable macro environment –aided by extensive basket offerings and marketing efforts by almost 2,300 representatives – is likely to sustain the growth momentum in EMs going forward. SUNP posted 10% sales CAGR over FY18-23. It reported superior growth of 17% YoY to INR79b for FY23 (18 % of sales), led by strong traction in markets such as Brazil/Romania. We expect 14% sales CAGR to reach INR101b over FY23-25.

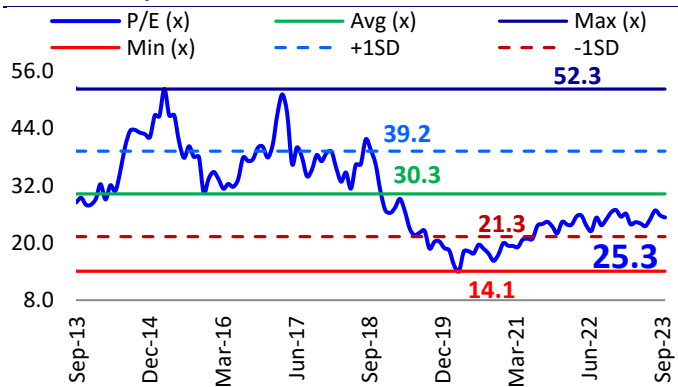
ROW: Dual business model to cater to a wider customer base

- SUNP exhibited 15% sales CAGR over FY18-23 in ROW markets to INR60b (14% of FY23 sales).
- SUNP has implemented both distribution-led business model (for hospitals) and sales force-led business model to promote specialty/retail products.
- With increased traction in specialty portfolio in existing geographies as well as expansion to newer geographies, we expect ROW sales to deliver 13% CAGR over FY23-25.
- SUNP continues to optimize profitability in ROW market through a combination of manufacturing at India as well as local manufacturing.

Innovative product franchise and superior execution; reiterate BUY

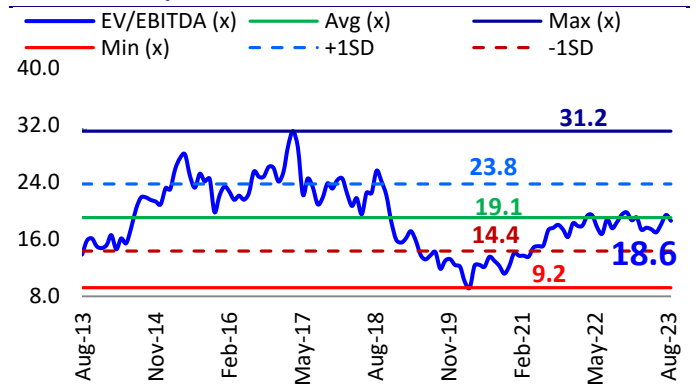
- After reporting a sharp earnings decline YoY in FY18, SUNP has more than doubled its earnings over FY18-23 fueled by robust traction in specialty as well as branded generics markets.
- We value SUNP at 26x 12M forward earnings to arrive at our TP of INR1,310.
- We remain positive on SUNP backed by its: a) robust innovative products franchise targeted for global markets and b) superior execution in branded generics markets. **Reiterate BUY.**

Exhibit 94: P/E chart



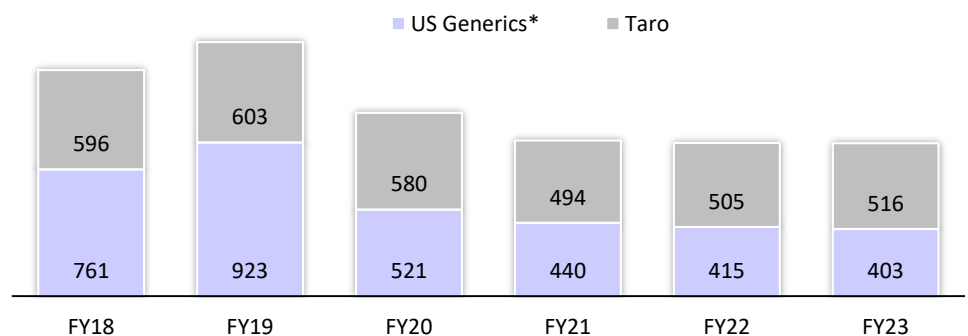
Source: MOFSL, Company, Bloomberg

Exhibit 95: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

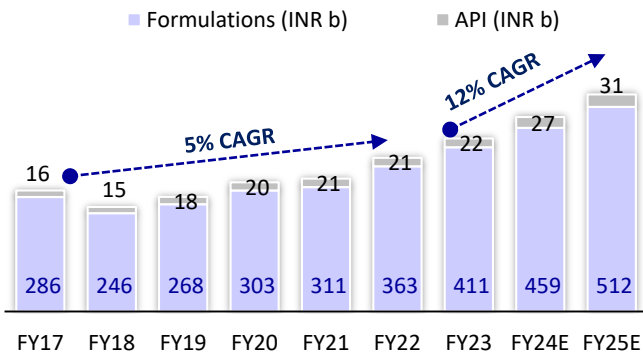
Exhibit 96: The US generic sales stable over FY21-23



*Note: Ex-Taro and Ex-Specialty sales, Source: MOFSL, Company

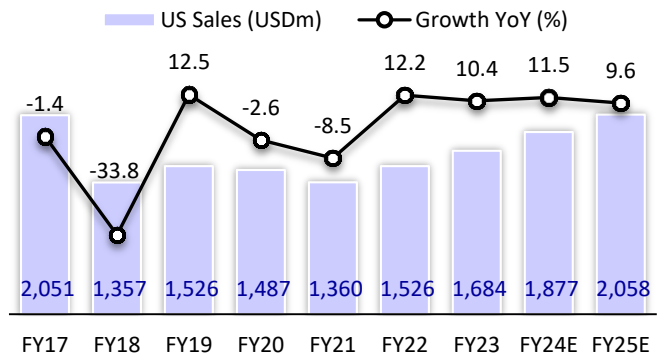
STORY IN CHARTS

Exhibit 97: Expect 12% revenue CAGR over FY23-25



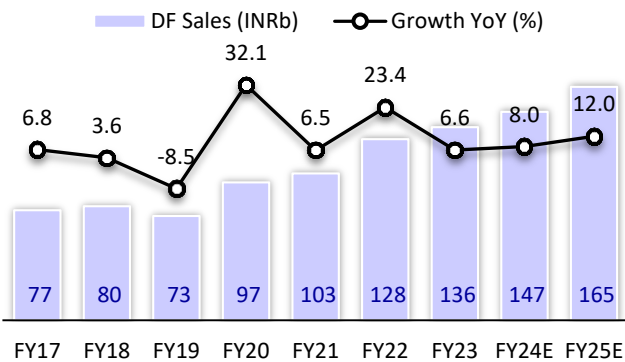
Source: Company, MOFSL

Exhibit 98: Expect 11% CAGR in the US sales over FY23-25



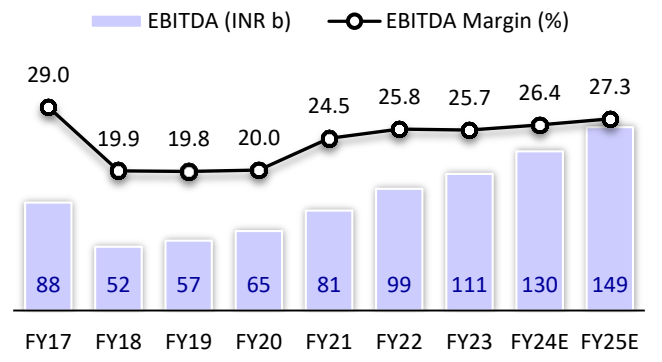
Source: Company, MOFSL

Exhibit 99: Expect DF sales CAGR of 10% over FY23-25



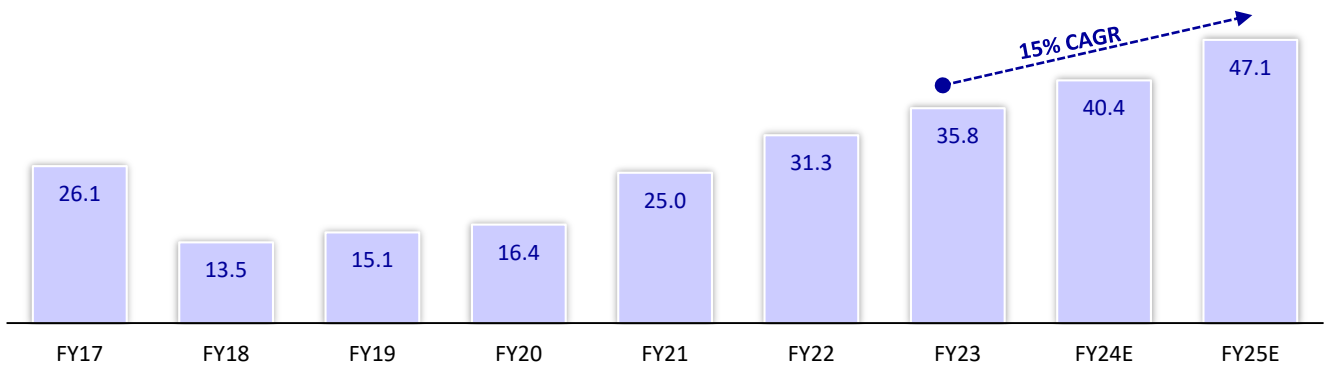
Source: Company, MOFSL

Exhibit 100: EBITDA margin to improve to ~27% by FY25E



Source: Company, MOFSL

Exhibit 101: Expect 15% EPS CAGR over FY23-25



Source: Company, MOFSL

Financials and valuations

Income Statement									(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	302.6	260.7	286.9	323.3	331.6	383.1	432.3	490.0	546.5
Change (%)	9.1	-13.9	10.1	12.7	2.6	15.5	12.8	13.4	11.5
Total Expenditure	214.9	208.8	230.1	258.6	250.3	284.1	321.1	360.5	397.4
% of Sales	71.0	80.1	80.2	80.0	75.5	74.2	74.3	73.6	72.7
EBITDA	87.8	51.8	56.8	64.6	81.3	99.0	111.1	129.6	149.2
Margin (%)	29.0	19.9	19.8	20.0	24.5	25.8	25.7	26.4	27.3
Depreciation	12.6	15.0	17.5	20.5	20.8	21.4	25.3	26.4	28.3
EBIT	75.1	36.8	39.3	44.1	60.5	77.6	85.8	103.2	120.8
Int. and Finance Charges	4.0	5.2	5.6	3.0	1.4	1.3	1.7	3.3	3.2
Other Income - Rec.	19.4	12.6	14.1	11.5	11.8	10.2	11.3	11.7	11.5
Extra-ordinary Exp	0.0	9.5	9.7	2.5	42.8	43.2	1.4	3.2	0.0
PBT	90.5	34.8	38.1	50.1	28.0	43.3	94.1	108.4	129.2
Tax	12.1	8.5	6.0	8.2	5.1	10.8	8.5	13.4	14.5
Tax Rate (%)	13.4	24.3	15.8	16.4	18.4	24.8	9.0	12.4	11.2
Profit after Tax	78.4	26.3	32.1	41.9	22.8	32.6	85.6	95.0	114.7
Change (%)	34.4	-66.4	21.9	30.5	-45.4	42.5	162.9	10.9	20.8
Margin (%)	24.3	9.6	10.7	12.5	6.7	8.3	19.3	18.9	20.6
Less: Minority Interest	8.7	4.7	5.4	4.2	-6.2	1.3	-0.9	0.4	1.3
Reported PAT	69.6	21.6	26.7	37.6	29.0	31.2	84.7	94.6	113.4
Adjusted PAT (excl. Ex. Items)	62.9	32.4	36.3	39.5	60.2	75.3	86.1	97.2	113.4

Balance Sheet									(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Total Reserves	364.0	378.6	411.7	450.2	462.2	477.7	557.6	638.0	735.2
Net Worth	366.4	381.0	414.1	452.6	464.6	480.1	560.0	640.4	737.6
Minority Interest	37.9	38.8	33.1	38.6	30.2	30.5	33.2	33.6	34.8
Deferred Liabilities	-21.8	-19.7	-24.5	-31.2	-35.1	-28.6	-31.3	-31.3	-31.3
Total Loans	80.9	97.5	98.9	75.8	33.4	11.8	67.6	47.9	34.0
Capital Employed	463.4	497.6	521.7	535.9	493.1	493.8	629.4	690.5	775.0
Gross Block	134.0	155.6	181.8	207.8	225.2	248.1	273.5	314.6	344.6
Less: Accum. Deprn.	49.0	64.0	81.6	102.1	122.9	144.3	169.6	196.0	224.3
Net Fixed Assets	85.0	91.6	100.3	105.7	102.3	103.7	103.9	118.6	120.3
Capital WIP	15.6	14.3	9.1	6.6	9.4	8.0	9.6	12.5	13.7
Goodwill	104.2	107.2	123.1	128.4	119.5	125.8	180.4	180.4	180.4
Investments	9.6	30.5	39.5	52.5	64.8	52.1	54.6	54.6	54.6
Curr. Assets	374.8	377.4	349.4	357.6	345.1	379.4	427.3	478.7	585.7
Inventory	68.3	68.8	78.9	78.7	90.0	90.0	105.1	113.4	126.3
Account Receivables	72.0	78.2	88.8	94.2	90.6	105.9	114.4	135.4	155.4
Cash and Bank Balance	151.4	99.3	72.8	64.9	64.5	50.3	57.7	67.7	128.5
L & A and Others	83.0	131.1	108.9	119.8	100.0	133.2	150.1	162.2	175.5
Curr. Liability & Prov.	125.7	123.5	99.7	114.9	148.0	175.2	146.4	154.3	179.6
Account Payables	73.5	68.3	66.1	70.1	98.9	80.0	89.4	88.8	104.3
Provisions	52.3	55.1	33.6	44.8	49.1	95.2	57.0	65.5	75.3
Net Current Assets	249.1	253.9	249.7	242.7	197.1	204.2	280.9	324.4	406.0
Appl. of Funds	463.4	497.6	521.7	535.9	493.1	493.8	629.4	690.5	775.0

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Adjusted EPS	26.1	13.5	15.1	16.4	25.0	31.3	35.8	40.4	47.1
Cash EPS	34.2	15.2	18.4	24.2	20.7	21.9	45.7	50.3	58.9
BV/Share	152.3	158.4	172.1	188.1	193.1	199.6	232.7	266.2	306.6
DPS	1.0	3.3	2.0	3.5	3.5	3.8	3.8	4.8	5.8
Payout (%)	3.7	36.5	18.0	23.5	43.0	32.8	12.5	14.2	14.2
Valuation (x)									
P/E	44.0	85.5	76.2	70.1	45.9	36.8	32.1	28.5	24.4
P/BV	7.6	7.3	6.7	6.1	6.0	5.8	4.9	4.3	3.8
EV/Sales	8.9	10.5	9.6	8.4	8.0	7.0	6.3	5.5	4.8
EV/EBITDA	30.5	52.6	48.3	42.1	32.8	27.0	24.4	20.7	17.5
Dividend Yield (%)	0.1	0.3	0.2	0.3	0.3	0.3	0.3	0.4	0.5
Return Ratios (%)									
RoE	18.1	8.7	9.1	9.1	13.1	15.9	16.6	16.2	16.5
RoCE	19.0	8.1	9.1	8.9	9.9	11.5	11.5	12.5	13.5
RoIC	23.4	8.7	8.8	9.1	12.9	15.8	17.5	17.0	18.9
Working Capital Ratios									
Asset Turnover (x)	0.7	0.5	0.5	0.6	0.7	0.8	0.7	0.7	0.7
Fixed Asset Turnover (x)	3.8	3.0	3.0	3.1	3.2	3.7	4.2	4.4	4.6
Debtor (Days)	87	109	113	106	100	101	97	101	104
Creditor (Days)	330	336	307	277	415	282	306	288	292
Inventory (Days)	82	96	100	89	99	86	89	84	84
Leverage Ratio									
Debt/Equity (x)	0.2	0.3	0.3	0.0	-0.1	-0.1	0.0	0.0	-0.1

Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) bef. Tax	87.8	42.3	47.1	62.2	38.5	55.8	109.8	126.4	149.2
Int./Dividends Recd.	19.4	12.6	14.1	11.5	11.8	10.2	11.3	11.7	11.5
Direct Taxes Paid	-3.4	-6.4	-10.8	-14.9	-9.1	-4.3	-11.2	-13.4	-14.5
(Inc)/Dec in WC	2.3	-57.0	-22.3	-1.0	45.2	-21.3	-69.3	-33.5	-20.9
CF from Operations	106.0	-8.4	28.1	57.8	86.3	40.5	40.6	91.2	125.3
(inc)/dec in FA	-36.9	-23.4	-36.8	-28.7	-11.3	-27.7	-81.8	-43.9	-31.2
Free Cash Flow	69.0	-31.8	-8.7	29.1	75.0	12.8	-41.1	47.2	94.1
(Pur)/Sale of Invest.	1.6	-20.9	-9.0	-12.9	-12.4	12.7	-2.4	0.0	0.0
CF from investments	-35.4	-44.3	-45.8	-41.7	-23.7	-15.0	-84.2	-43.9	-31.2
Change in networth	-41.8	-1.2	1.1	12.0	-9.5	-6.0	7.6	0.0	0.0
(Inc)/Dec in Debt	-2.3	16.6	1.4	-23.2	-42.4	-21.6	55.8	-19.7	-13.9
Interest Paid	-4.0	-5.2	-5.6	-3.0	-1.4	-1.3	-1.7	-3.3	-3.2
Dividend Paid	-2.9	-9.6	-5.8	-9.8	-9.8	-10.7	-10.7	-13.5	-16.3
CF from Fin. Activity	-51.0	0.6	-8.9	-24.0	-63.1	-39.6	50.9	-36.5	-33.4
Inc/Dec of Cash	19.6	-52.1	-26.5	-7.9	-0.4	-14.1	7.4	10.7	60.7
Add: Beginning Balance	131.8	151.4	99.3	72.8	64.9	64.5	50.3	57.7	67.7
Closing Balance	151.4	99.3	72.8	64.9	64.5	50.3	57.7	67.7	128.5

(INR b)

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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RECENT STRATEGY/THEMATIC REPORTS

MOTILAL OSWAL FINANCIAL SERVICES

July 2023

India Strategy

EASING INFLATION
CORPORATE EARNINGS
ABUNDANT LIQUIDITY

Clouds of Joy!

Caustum Duggal - Research Analyst (Caustum.Duggal@MotilalOswal.com)

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MOTILAL OSWAL FINANCIAL SERVICES

April 2023

India Strategy

FY23 SCORECARD	
MOTILAL UNIDEX earnings growth (15%)	
Auto	30%
Bank	30%
FMCG	30%
Healthcare	30%
IT	30%
Metals	30%
Oil & Gas	30%
Real Estate	30%
Retail	30%
Technology	30%

RETAIL
METALS
TECHNOLOGY
BFSI
AUTOMOBILES
CAPITAL GOODS

Indian Performers League

Caustum Duggal - Research Analyst (Caustum.Duggal@MotilalOswal.com)

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MOTILAL OSWAL FINANCIAL SERVICES

January 2023

India Strategy

Stem the Game!

Caustum Duggal - Research Analyst (Caustum.Duggal@MotilalOswal.com)

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MOTILAL OSWAL FINANCIAL SERVICES

July 2023

Microfinance Industry

Strong loan growth
NIM expansion
Benign credit costs
Healthy RoA/RoE

Unlocking growth; empowering lives!

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MOTILAL OSWAL FINANCIAL SERVICES

3 July 2023

Vehicle Finance

MONSOONS MAY PLAY SPOILSPORT
ANY FURTHER REPO RATE HIKE NEGATIVE FOR NIM
MARGIN COMPRESSION TO MODERATE

Margin compression nearing end

SERIES II

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MOTILAL OSWAL FINANCIAL SERVICES

Thematic | September 2022

Retail - Footwear

Putting the best FOOT forward

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MOTILAL OSWAL FINANCIAL SERVICES

Thematic | September 2022

Real Estate

Reboot time for IT (vs September 2022)
Highest share of IT/ITe in office allocation (2022)
Export market for office space (10 year avg. leasing mix)
Best in class affordability (per capita multiplier)

Opportunities (Ban)Galore

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MOTILAL OSWAL FINANCIAL SERVICES

January 2022
Sector: Real Estate

Real Estate

- Steep price rise
- Worsening affordability
- Focus on land acquisition
- Execution challenges

From dust to glory

- Lower interest rates
- Rising income and demand
- Consolidation
- Execution focus

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MOTILAL OSWAL FINANCIAL SERVICES

December 2022
Sector: Retail

Food Service Industry

Bon Appétit

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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