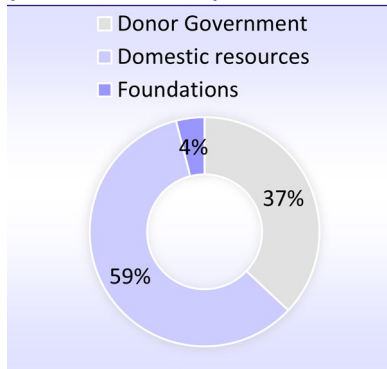
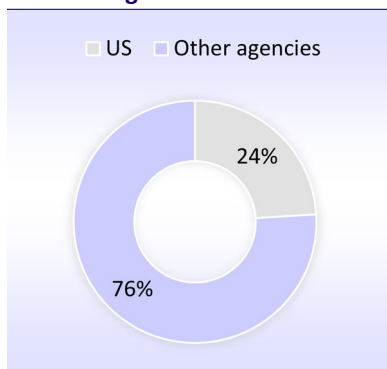


Healthcare

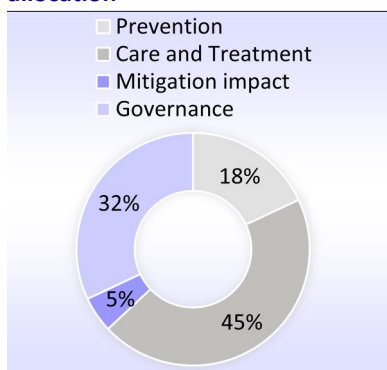
Domestic resources formed 59% of the global HIV funding (USD19.8b in CY23)



US accounts for 24% of the global HIV funding



Care and treatment accounts for 45% of the total HIV fund allocation



Disproportionate reaction to US freeze on foreign aid

The US State Department has frozen all existing and new foreign assistance for 90 days to reevaluate if the aid is aligned with President Donald Trump’s foreign policy, according to [news reports](#). In this report, we have analyzed the total funding assistance by the US for certain indications, such as human immunodeficiency virus (HIV), anti-malaria, tuberculosis (TB), etc. globally..

- The US provided 27% of global funds available (USD19.8b) for antiretroviral (ARV)- related health initiatives in FY24 through multiple channels of assistance. Domestic resources of respective countries meet about 59% of the total funding requirement.
- About 45% of the total spending is related to treatment/medicines, implying the maximum US assistance of ~USD2.6b.
- Notably, the US contributed USD12.3b across indications in CY23.
- Considering the chronic nature of HIV and the maximum shortage of funds (USD2.6b if the temporary freeze turns into a complete stoppage), the recipient countries will have to look for alternatives to continue the treatment program, implying a business opportunity for ARV medicine manufacturers.
- **Interestingly, Mr. Trump is considering U-turn with respect to withdrawal of US from WHO as per [news reports](#). While we await clarity on changes in the funding structure, we highlight, in this note, the proportion of business from institutional agencies to certain companies across indications.**

Limited scope for recipient countries to stop HIV treatment programs despite US review of financial aid

- Globally, spending on ARV-HIV indication has been stable for the past five years at ~USD20b. The funding gap for HIV responses has also been steady at USD8b. The financial resources are used for prevention (18% of total funding), care & treatment (~45% of total funding), and governance (32%) and mitigation impact (5%).
- The US has been a major contributor in bridging the funding gap; hence, the reduction of assistance from the US will affect the ARV-HIV program.
- Having said this, the care and treatment would be the least impacted, based on the resource reprioritization by recipient countries. Effectively, the funding gap for medication can be maximum about USD2.6b at the global level.
- Given that there is no effective cure for HIV and that ARV medications are used to slow the progress of the disease and prevent secondary infections/complications, respective countries would continue to re-prioritize the allocation for healthcare expenditure toward HIV program.

US provides ~USD12b in financial aid across health programs

- We have analyzed the total funding of USD12b by the US for other health initiatives, with USD5.4b for HIV, USD1.7b for a global fund, USD1.3b for mother and child health, and USD1b for malaria.
- The financial assistance by the US has been at the similar level (USD12b) across therapy level on an annual basis for the past decade, except in FY21, when it rose to USD21b due to Covid-19.

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Gradual de-focus across companies for HIV/ARV/anti-malaria business

- With potential growth levers being added/scaled up by companies, the dependency on HIV/ARV/anti-malaria has reduced for companies like Laurus/lpca/Ajanta Pharma/Cipla/Aurobindo Pharma.
- Specifically for Laurus, given that ARV accounts for 45% of sales, PEPFAR-related ARV business would be ~INR5b, forming 9% of consolidated sales.
- ARV business is relatively less profitable than other segments of Laurus. We believe that if the pause turns into a complete closure, the maximum impact on EBITDA could be 4-5% of FY26E EBITDA. During 9MFY25, the contribution from institutional anti-malaria business stood at 3.5% for Ajanta, 5% for Ipca, 2.4% for Cipla, and 2.8% for Aurobindo Pharma. Given that profitability is lower than the corporate level, EBITDA contribution would be further lower than revenue contribution.

Exhibit 1: Valuation table

| Company | Reco | MCap (USD B) | EPS (INR) | | | EPS Gr. YoY (%) | | PE (x) | | EV/EBITDA (x) | | ROE (%) | | |
|-------------------|---------|-----------------|-----------|-------|-------|-----------------|-------|--------|-------------|---------------|-------|---------|-------|-------|
| | | | FY25E | FY26E | FY27E | FY26E | FY27E | FY26E | FY27E | FY26E | FY27E | FY25E | FY26E | FY27E |
| Ajanta Pharma | Buy | 4.1 | 72.4 | 82.4 | 97.0 | 13.7 | 17.8 | 32.3 | 27.5 | 24.2 | 21.3 | 23.5 | 22.6 | 22.5 |
| Alembic Pharma | Neutral | 2.2 | 31.7 | 37.9 | 47.5 | 19.6 | 25.4 | 24.8 | 19.8 | 15.7 | 13.0 | 12.1 | 13.1 | 14.5 |
| Alkem Lab | Neutral | 7.0 | 183.8 | 204.8 | 231.2 | 11.4 | 12.9 | 24.2 | 21.4 | 21.6 | 18.9 | 19.7 | 18.9 | 18.4 |
| Aurobindo Pharma | Neutral | 8.2 | 61.7 | 70.8 | 81.1 | 14.8 | 14.5 | 16.6 | 14.5 | 8.8 | 7.6 | 11.5 | 11.8 | 12.1 |
| Biocon | Buy | 5.4 | 2.0 | 4.7 | 9.6 | 139.9 | 105.6 | 79.0 | 38.4 | 16.3 | 13.3 | 1.2 | 2.7 | 5.4 |
| Cipla | Neutral | 13.2 | 57.1 | 62.6 | 66.0 | 9.6 | 5.5 | 22.3 | 21.1 | 14.1 | 12.8 | 15.0 | 14.3 | 13.3 |
| Divi's Lab. | Neutral | 17.7 | 74.8 | 97.1 | 119.6 | 29.8 | 23.2 | 57.4 | 46.6 | 42.9 | 35.3 | 13.9 | 16.3 | 17.8 |
| Dr Reddy's Labs | Neutral | 11.8 | 64.7 | 74.4 | 68.2 | 15.0 | -8.3 | 16.1 | 17.6 | 9.0 | 8.9 | 17.6 | 17.3 | 13.7 |
| Eris Lifescience | Neutral | 1.9 | 28.6 | 40.1 | 54.2 | 40.4 | 35.1 | 28.5 | 21.1 | 13.6 | 11.5 | 14.3 | 17.6 | 20.1 |
| Gland Pharma | Buy | 3.0 | 46.2 | 58.7 | 70.0 | 26.9 | 19.4 | 24.6 | 20.6 | 15.6 | 13.3 | 8.4 | 9.7 | 10.5 |
| Glenmark Pharma | Buy | 4.7 | 47.3 | 60.7 | 70.6 | 28.2 | 16.3 | 23.1 | 19.9 | 13.6 | 11.5 | 15.7 | 17.0 | 16.7 |
| Glaxosmit Pharma | Neutral | 4.1 | 50.2 | 56.2 | 64.6 | 12.1 | 14.9 | 36.7 | 31.9 | 26.9 | 23.6 | 39.3 | 36.0 | 33.4 |
| Granules India | Buy | 1.6 | 19.5 | 26.5 | 33.4 | 35.7 | 26.0 | 20.5 | 16.3 | 13.1 | 10.8 | 13.7 | 16.2 | 17.3 |
| Ipca Labs. | Buy | 4.5 | 33.1 | 44.3 | 55.5 | 33.8 | 25.1 | 32.5 | 26.0 | 19.0 | 15.6 | 12.6 | 14.9 | 16.4 |
| Laurus Labs | Buy | 3.8 | 5.1 | 10.7 | 14.9 | 110.2 | 39.5 | 50.0 | 35.9 | 25.0 | 20.7 | 6.5 | 12.5 | 15.5 |
| Lupin | Neutral | 11.2 | 68.9 | 75.7 | 83.9 | 9.8 | 10.9 | 27.5 | 24.8 | 16.6 | 14.3 | 19.8 | 18.2 | 17.0 |
| Mankind Pharma | Buy | 12.0 | 50.1 | 55.0 | 72.1 | 9.9 | 31.1 | 44.7 | 34.1 | 25.0 | 21.6 | 17.8 | 15.4 | 17.8 |
| Piramal Pharma | Buy | 3.6 | 2.0 | 4.7 | 7.1 | 132.9 | 52.1 | 47.8 | 31.4 | 19.1 | 15.4 | 3.3 | 7.3 | 10.2 |
| Sun Pharma.Inds. | Buy | 50.6 | 49.3 | 59.3 | 67.4 | 20.2 | 13.7 | 30.1 | 26.5 | 24.8 | 21.2 | 17.2 | 17.8 | 17.1 |
| Torrent Pharma. | Neutral | 12.7 | 57.3 | 75.3 | 94.3 | 31.4 | 25.3 | 44.3 | 35.4 | 24.5 | 20.6 | 26.0 | 28.7 | 29.8 |
| Zydus LifeScience | Neutral | 11.1 | 44.6 | 49.4 | 43.6 | 10.8 | -11.7 | 18.7 | 21.2 | 12.0 | 12.9 | 19.8 | 18.1 | 14.0 |

Source: MOFSL, Company

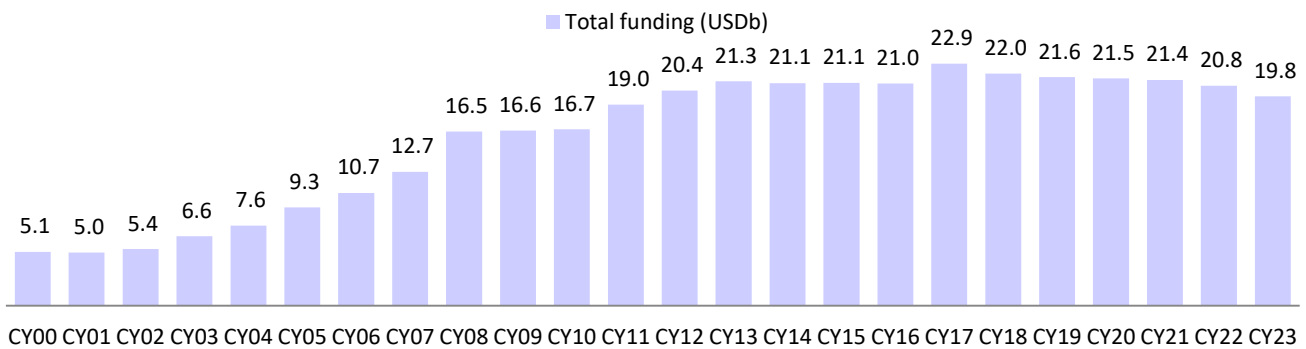
Limited scope for recipient countries to stop HIV treatment program

- The global HIV funding for lower- and middle-income countries (LMIC) was USD19.8b in CY23, of which ~27% was contributed by the US (~USD5.7b) and nearly 59% came from domestic resources.
- US funding has been quite stable for over 13 years at around USD5.5b, accounting for 73% of the total funding by the Donor Government.
- About 45% of the fund (~USD2.6b) is used for care and treatment of HIV/AIDs, which is the focus area for ARV API/formulation manufacturers.
- If the US freezes its financial assistance to LMICs for HIV/AIDs, then this gap needs to be potentially filled by other government agencies, domestic resources or private foundations.

Consistent flow of funds for HIV programs for almost a decade

- The global HIV funding for patients in LMICs has increased from USD5.1b in 2,000 to USD19.8b in 2023 (measured in terms of 2019 constant USD).

Exhibit 2: USD234b spent on HIV program on cumulative basis over past decade

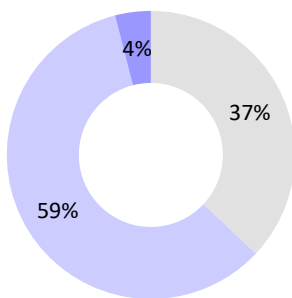


*Note: Figures are measured in terms of 2019 constant USD, Source: MOFSL, Industry

- Of this funding, ~37% (USD7.3b) came from the donor government, while almost 59% came from domestic resources and 4% from foundations. Of the total global funding, the US accounts for 27% (USD5.7b in CY23).

Exhibit 3: Domestic resources formed 59% of the global HIV funding (USD19.8b in CY23)

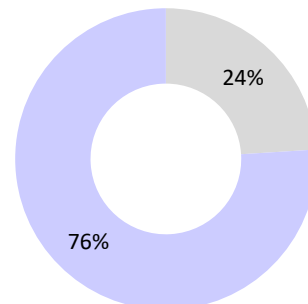
■ Donor Government ■ Domestic resources ■ Foundations



Source: MOFSL, Industry, kff.org

Exhibit 4: US accounts for 24% of the global HIV funding

■ US ■ Other agencies

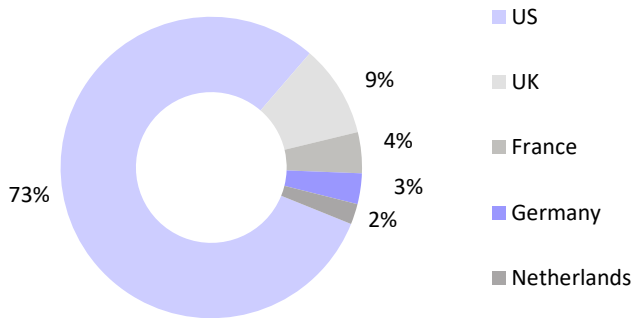


Source: MOFSL, Industry

US funding has remained stable over last 13 years

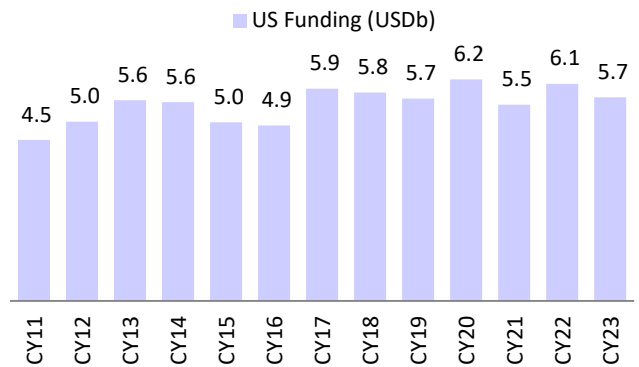
- The US has been the largest donor to HIV efforts, providing USD5.7b and accounting for 73% of total donor government funding in 2023.
- The second largest donor was the UK (USD714m, 9%), followed by France (USD320m, 4%), Germany (USD228m, 3%), and the Netherlands (USD187m, 2%). In 2023, 91% of total donor government funding for HIV was provided by these five donors.

Exhibit 5: US accounts for 73% of donor government funding



Source: MOFSL, Industry,kff.org

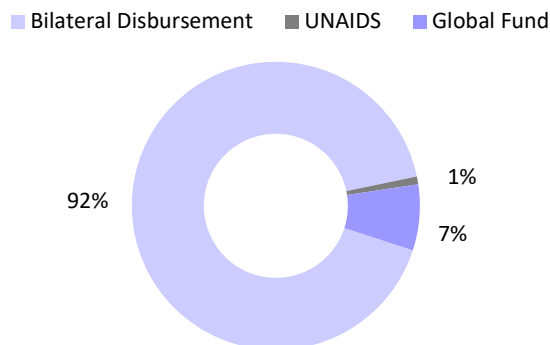
Exhibit 6: US aid for HIV was USD62b for past decade



Source: MOFSL, Industry,kff.org

- For last 13 years (2011-2023), US funding has remained stable around USD5.5b. However, in the last seven years, US funding has increased to an average of USD5.9b.

Exhibit 7: US disburses 92% of its grants through bilateral disbursements

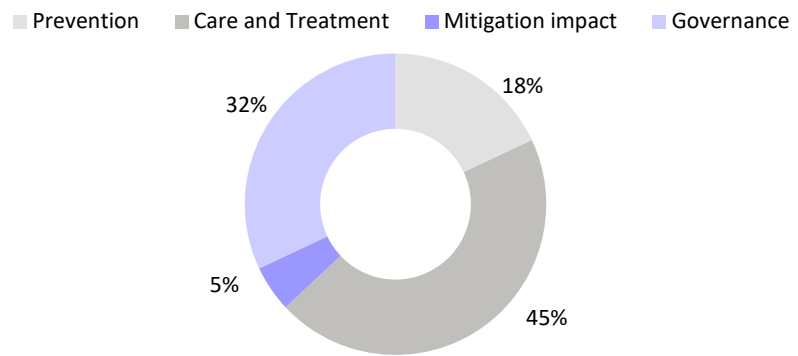


Source: MOFSL, Industry, KFF.org

- The US has multiple channels of disbursement of HIV aid to LMICs such as bilateral disbursements (92%), global fund (7%), and UNAIDS (1%).

About USD9b used for care & treatment part of HIV program in CY23

- HIV/AIDs funds have four areas of intervention: prevention, care and treatment, impact mitigation, and governance.
- Of the total funding, ~45% is allocated for care and treatment, 32% for governance, 18% for prevention (those intended to deliver information, training (education of the population) as well as attitudes and behaviors to adopt in the face of the pandemic), and 5% for mitigation impact.

Exhibit 8: Care and treatment accounts for 45% of the total HIV fund allocation

Source: MOFSL, Industry

- Accordingly, care and treatment accounts for USD8.9b out of the total global fund of USD 19.8b. Of this, the US contribution is around USD2.6b.

LMICs may have to reallocate financial resources in case US funds stop

- HIV is a virus that targets cells vital to the body's defense against infections, leaving individuals more susceptible to other illnesses and diseases. It is a chronic condition, and without proper treatment, it progresses to AIDS, the final stage where the immune system is severely compromised.
- Antiretroviral therapy (ART) can effectively control HIV, preventing its progression to AIDS.
- If the US ceases funding, LMICs may face a drug shortage amounting to USD2.6b and will have to think of alternate resources (internal or external) to continue to fund HIV program.
- This gap could potentially be addressed through increased contributions from other government agencies, domestic resources, or private foundations.

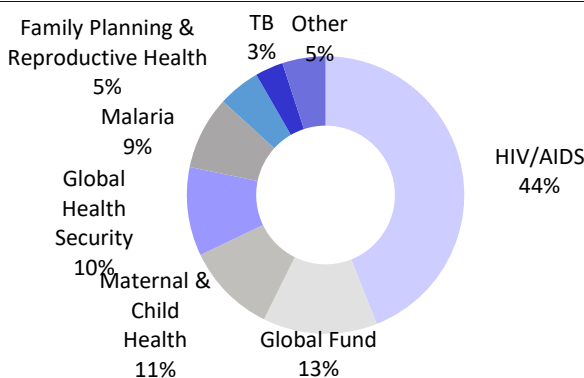
Gradual de-focus across companies for HIV/ARV/anti-malaria business

- As of FY24, HIV/AIDS commands 44% of US global health funding (USD5.4b out of USD12.3b), followed by global fund, mother and child health, and malaria.
- While Laurus Labs leads in revenue contribution from ARV/anti-malaria therapies at 46% (USD17.5b), PEPFAR-related ARV business would be ~INR5b, forming 9% of consolidated sales.
- We have highlighted the quantum and the respective share of institutional business for companies under our coverage.
- Cipla has the lowest share at 2.3% (USD4.9b) as of 9MFY25. Ipca, Ajanta Pharma, and Aurobindo Pharma also have exposure to this business.
- Given the strong growth potential in other areas, companies have already shifted their focus away from institutional business.
- Accordingly, we believe the impact of a prolonged US freeze on foreign aid will be minimal on the companies under our coverage.

HIV/AIDS funding commands highest share in US funding

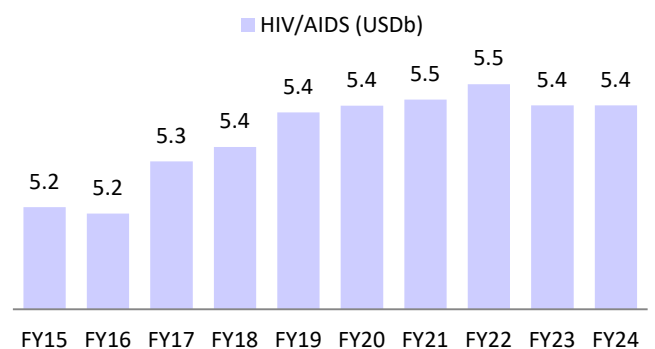
- As of FY24, total US funding stood at USD12.3b, of which 44% (USD5.4b) is allocated for HIV/AIDS.
- After peaking at 49.6% in FY19, the share of HIV/AIDS has been in the range of 43-47%, with the additional funding provided in response to emergencies, such as Ebola, Zika, and Covid-19, in certain years.
- The share of Global Health Security has increased significantly over the years, from 3.8% in FY15 to 10.3% in FY24 (a CAGR of 12.8% to USD1.3b by FY24).
- As of FY24, the cumulative share of global fund and Global Health Security stood at 23.6%.

Exhibit 9: Share of HIV, TB and Malaria was ~56% of total support from US in FY24



Source: MOFSL, Industry

Exhibit 10: Share of HIV/AIDS has been stable over the years



Source: MOFSL, Industry

Gradual de-focus across companies for HIV/ARV/anti-malaria

- Laurus Labs has the highest contribution from ARV/anti-malaria/HIV therapies at ~46% (INR17.5b) as of 9MFY25, while Cipla has the lowest contribution at ~2.3% (INR4.9b).
- For Aurobindo Pharma, due to stronger growth in other segments like generics, the ARV business share has reduced to a mere 2.8% of total sales. Similarly, for Cipla, the share of ARV business stood at just 2.4% of total sales in 9MFY25.

- Ajanta Pharma's institutional business in Africa caters to anti-malaria. It accounted for ~3.5% of total revenue in 9MFY25. Revenue growth has been flat over FY20-24.
- While Laurus has the highest revenue contribution from ARV, its PEPFAR-related ARV business would be ~INR5b, forming 9% of consolidated sales.

Exhibit 11: Snapshot of exposure to institutional business

| Company | Therapy | Revenue (INR m) | | | | | | % of sales | | CAGR | |
|------------------|--------------|-----------------|--------|--------|--------|--------|--------|------------|------|-----------|-----------|
| | | FY20 | FY24 | TTM | FY25E | FY26E | FY27E | 9MFY25 | FY27 | FY20-FY24 | FY24-FY27 |
| Laurus Labs | ARV | 18,330 | 25,060 | 24,462 | 22,731 | 22,677 | 22,657 | 46% | 31% | 8.1% | -3.3% |
| Ajanta Pharma | Anti Malaria | 2,440 | 2,497 | 2,320 | 1,748 | 1,695 | 1,797 | 3.5% | 2.7% | 0.6% | -10.4% |
| IPCA | Anti Malaria | 1,763 | 2,670 | 3,280 | 3,337 | 3,538 | 3,750 | 5% | 3.1% | 10.9% | 12.0% |
| Aurobindo Pharma | ARV | 12,515 | 8,680 | 8,390 | 8,854 | 9,473 | 10,136 | 2.8% | 2.8% | -8.7% | 5.3% |
| Cipla | ARV/HIV | 6,174 | 5,504 | 6,010 | 6,605 | 7,002 | 7,422 | 2.4% | 2.3% | -2.8% | 10.5% |

Source: MOFSL, Company

- Laurus has stopped investments in ARV business almost a year ago and continues to focus on CDMO business related to human health, animal health and crop science.
- Thus, we expect the share of ARV for Laurus to reduce from 46% in 9MFY25 to 31% in FY27E.
- Given that the share of institutional business is small for companies and that recipient countries are required to continue their health programs for ARV/anti-malaria/TB, we believe that the adverse impact on the business will be minimal even if the US freeze on foreign aid continues for a longer period.

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|----------------------------------|--|
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| 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 |

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