

15 April 2014

Pharma

Sector Update

Anti-infective to lead domestic market

We expect the domestic pharma market to grow at 12-14% in FY15 compared to 6.2% in FY14. We expect anti-infective to lead the domestic pharma market with ~17%MS. We expect lifestyle segments – CVS, CNS, anti-diabetic and gastro intestinal – to drive future growth. The domestic market is characterized by brands with top 100 brands commanding ~15%MS. MNC pharma companies have been able to create and nurture brands in the domestic market. Notable among them are Glaxo SmithKline Pharma (GSK), Sanofi India, Abbott India, Pfizer and Wyeth.

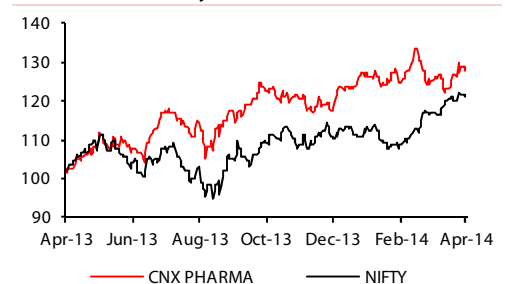
- **Anti-infective to lead domestic market:** As per AIOCD AWACS MAT-Feb'14 data, the domestic pharma market was placed at Rs751.5bn and grew at 5.9%. Anti-infective emerged as the top segment with ~17% MS in the domestic market. Anti-cancer was the fastest growing segment which grew at 24.9%. Some other fast growing segments were respiratory 9.3%, anti-diabetic at 14.6% and dermatology 10.6%. The top five therapeutic segments contributed ~57% to total domestic revenues.
- **Top 100 brands generated ~15% revenues:** As per our analysis of the domestic pharma market data, top 100 brands generated ~15% of revenues in the Rs751.5bn domestic pharma market. Anti-infective and anti-diabetes segments had 16 brands each in the top 100 brands followed by gastro intestinal with 14 brands. On an average, vitamin segment generated the highest revenues of Rs1.58bn per brand followed by anti-infective with Rs1.31bn of revenues.
- **MNC pharma - pioneers in brand building:** Our analysis reveals that 10 MNC pharma companies had 42 brands in the list of top 100 brands. Glaxo SmithKline Pharma had nine brands followed by Abbott India and Sanofi India with seven brands each. This indicates that MNC pharma companies have been highly successful in brand building and nurturing in the domestic pharma market. Human Mixtard of Novo Nordisk is the largest selling product in the domestic market with revenues of Rs3.49bn per annum.
- **Positive outlook for the pharma sector:** We continue our positive outlook for the pharma sector due to expected improvement in performance in FY15. Our top picks for the pharma sector includes Lupin, Aurobindo Pharma (APL) and Pfizer. Lupin's strong presence in the US and Japanese markets will generate good revenue growth. APL is likely to report strong growth in the US and European markets due to the acquisition of Actavis generic business. Pfizer is likely to benefit from the merger with Wyeth and field force rationalization. These companies are expected to give over 30% returns over CMP in one year.

Price Performance* (%)

	1M	3M	6M	1Yr
Abbott India	6.4	6.1	31.3	30.3
Aurobindo Pharma	10.5	41.2	164.2	214.7
Biocon	2.3	(4.0)	30.7	51.1
Cipla	5.7	0.7	(6.3)	(0.9)
Dishman	4.7	(11.3)	48.7	32.1
Dr. Reddy's Labs	(5.5)	(1.9)	7.3	35.4
Glaxo SK Pharma	0.1	(14.5)	2.3	15.2
Lupin	(0.0)	1.2	2.9	43.7
Merck	15.6	22.6	10.2	7.5
Pfizer	5.9	12.1	17.8	24.2
Ranbaxy Labs	32.1	1.1	17.5	6.2
Sanofi India	9.5	8.5	19.8	11.6
Sun Pharma	9.6	3.1	0.4	44.4
Nifty Index	4.4	9.8	11.2	22.6

Source: Bloomberg, Centrum Research *as on 14th April'14

CNS Pharma vs Nifty



Source: Bloomberg

Ranjit Kapadia, ranjit.kapadia@centrum.co.in
+91 22 4215 9645

Summary Estimates

Particulars (Y/E March)	Rating	Target Price Rs	CMP Rs	Mkt Cap Rs mn	EPS Rs			P/E(x)			EV/EBIDTA(x)			P/BV(x)		
					FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E
Abbott India	Hold	1,870	1,800	38,250	63.3	97.8	91.1	28.5	18.4	19.8	17.3	12.0	12.3	5.9	4.8	4.1
Aurobindo Pharma	Buy	730	550	160,050	10.1	38.1	52.6	54.4	14.5	10.5	21.6	9.1	7.4	6.1	4.4	3.1
Biocon	Buy	580	438	87,600	15.2	20.0	26.2	28.8	21.9	16.7	15.4	12.5	9.8	3.3	3.0	2.6
Cipla	Buy	540	402	322,766	18.7	18.1	20.5	21.4	22.2	19.6	15.1	14.6	12.3	3.6	3.2	2.8
Dishman	Buy	140	92	7,424	12.4	13.7	14.6	7.4	6.7	6.3	5.3	4.8	3.9	0.7	0.7	0.6
Dr. Reddy's Labs	Buy	3,980	2,577	438,605	101.4	136.0	148.3	25.4	18.9	17.4	17.2	13.5	11.9	6.0	4.7	3.9
Glaxo SK Pharma *	Sell	2,160	2,536	214,799	83.8	53.8	68.4	30.2	47.2	37.1	26.1	40.7	30.5	10.7	10.8	10.9
Lupin	Buy	1,370	948	424,230	29.4	40.5	50.2	32.3	23.4	18.9	4.5	3.8	3.1	8.2	6.2	4.8
Merck *	Hold	760	672	11,155	47.2	33.7	42.2	14.2	20.0	15.9	8.7	12.1	9.4	2.3	2.1	1.9
Pfizer	Buy	1,670	1,245	37,151	38.9	70.8	76.7	32.0	17.6	16.2	12.2	11.9	12.0	2.2	15.1	9.0
Ranbaxy Labs	Sell	260	469	198,387	27.2	-5.5	7.5	17.3	-85.1	62.5	12.9	27.2	20.3	4.8	4.8	4.4
Sanofi India *	Buy	3,890	2,954	68,031	76.6	104.2	131.7	38.6	28.4	22.4	21.8	17.1	14.3	5.7	5.1	4.5
Sun Pharma	Buy	780	628	1,300,714	17.2	25.9	25.6	36.5	24.2	24.6	13.3	17.9	15.4	3.9	7.3	6.0

Source: Company, Centrum Research Estimates, *Year End December

Performance of major products

Therapeutic category-wise performance

Our analysis of therapeutic category-wise performance of major segments during nine months, June'13 to February'14 (shown in Appendix) as per AIOCD AWACS MAT data reveals the following:

- On an average, the domestic pharma market during the last 9 months was placed at Rs731.2bn and grew at 6.9%.
- Among the 19 leading therapeutic segments, anti-infective was the largest therapeutic category with revenues of Rs126.2bn (17% of total) and grew at 3.7% during the period.
- Anti-cancer was the fastest growing category which grew at 22.3% and accounted for 1.3% of revenues.
- Some of the fast growing segments were anti-cancer 22.3%, CVS 9.4%, anti-diabetic 12.3%, CNS 9.1%, dermatology 9.2%, ophthalmology 9.1% and sex stimulants 9.8%.
- The top 5 therapeutic segments – anti-infective, CVS, gastro intestinal, vitamins and respiratory – reported 57% of total domestic revenues.

Major brands and performance

We analyzed the performance of top 100 pharma brands in the domestic market based on AIOCD AWACS MAT-Feb'14 data and came out with interesting findings:

- Anti-infective and anti-diabetic segments had 16 brands each in the top 100 domestic brands followed by gastro intestinal segment with 14 brands. Hence, the top three therapeutic segments consist of 46 brands among the top 100 brands.
- The average sale was Rs1.16bn per brand for the top 100 domestic brands.
- Vitamin segment had the highest sale of at Rs1.58bn followed by analgesic at Rs1.32bn per brand.

The details of the same are shown in the following table:

Exhibit 1: Therapeutic category-wise performance

TH.CATEGORY (Rs mn)	NO.OF BRANDS	SALES	AVERAGE SALES
Anti-infectives	16	20,918	1,307
CVS	10	9,299	930
Gastro intestinal	14	14,073	1,005
Vitamins,Minerals	6	9,454	1,576
Respiratory	13	15,425	1,187
Analgesic/pain mgt	7	9,296	1,328
Anti diabetic	16	19,295	1,206
CNS	3	2,511	837
Gynaecological	2	2,297	1,149
Dermatology	4	4,112	1,028
Ophthalmology	0	-	NA
Hormones	2	2,276	1,138
Vaccines	4	4,183	1,046
Anticancer	1	805	805
Others	1	1,660	1,660
Blood related	1	787	787
Antimalarials	0	-	NA
Sex stimulants	0	-	NA
Mouth & teeth	0	-	NA
Total	100	1,16,390	1,164

Source: AIOCD AWACS-MAT February'14, Centrum Research

Company wise performance

Our analysis of 100 major brands as per AIOCD AWACS MAT data-February'14 reveals that 42 out of top 100 brands were from MNC pharma companies and 58 from domestic pharma companies. Glaxo SmithKline Pharma (GSK) had nine brands among the top 100 domestic brands followed by Abbott India, Sanofi India and Sun Pharma with 7 brands each. The top 100 brands have been distributed among 38 pharma companies. It is evident that MNC pharma companies have been successful in creating and nurturing brands. Company-wise detail of the top 100 brands and their therapeutic category are shown in the following table:

Exhibit 2: Company wise brands

Company	No. of brands	Therapeutic categories
Abbott Healthcare	1	Respiratory
Abbott India	7	Gastro intestinal, CNS, gynaecological, hormones
Alembic	2	antiinfectives
Alkem	5	antiinfectives, Gastro intestinal
Apex Pharma	1	vitamins
Aristo Pharma	4	antiinfectives, Gastro intestinal
Bharat Serum	1	vaccines
Cadila Pharma	1	Gastro intestinal
Centaur	1	Respiratory
Cipla	6	Respiratory
Dr. Reddy's Labs	1	Gastro intestinal
Elder Pharma	1	vitamins
Eli Lilly	1	Anti diabetic
Emcure	2	Vitamins, anticancer
FDC	1	antiinfectives
Franco Indian	1	Vitamins
Glaxo SmithKline Ph.	9	antiinfectives, Gastro intestinal, analgesic, dermatology, Hormones
Glenmark Pharma	3	CVS, respiratory
Himalaya Drugs	1	Ayurvedic
Intas Pharma	1	Anti diabetic
J B Chemicals	1	Gastro intestinal
Johnson & Johnson	1	Analgesic
Lupin	2	CVS, anti diabetic
MSD	3	antiinfectives, anti diabetic
Mankind	1	antiinfectives
Micro Labs	1	Analgesic
Novartis	4	Analgesic, anti diabetic, vaccines
Novo Nordisk	3	Anti diabetic
Pfizer	6	antiinfectives, CVS, Gastro intestinal, vitamins, respiratory, analgesic
Ranbaxy Labs	4	CVS, vitamins, analgesic
Sanofi India	7	CVS, respiratory, analgesic, anti diabetic, vaccines, blood related
Sun Pharma	7	CVS, Gastro intestinal, anti diabetic, CNS, gynaecological
USV	2	Anti diabetic
Unichem	1	CVS
VHB Pharma	1	vaccines
Win Medicare	1	antiinfectives
Wockhardt	1	respiratory
Zydus Cadila	4	CVS, Gastro intestinal, respiratory, dermatology
Total	100	

Source: AIOCD AWACS-MAT February'14, Centrum Research

Conclusion

- We expect anti-infective to emerge as the largest segment with ~17%MS due to unhygienic conditions, high pollution levels and low immunity prevailing across India.
- We expect life style segments – CVS, CNS, anti-diabetic, gastro intestinal – to drive the future growth of the domestic market.
- The top 100 brands formed ~15% of the total domestic revenues.
- Vitamin segment had the highest average sales of Rs1.58bn per brand.
- MNC pharma companies had 42 brands among top 100 brands in the domestic market.
- GSK had nine brands appearing in the list of top 100 brands.

Annexure

Exhibit 3: Therapeutic category wise performance

PARTICULARS	MONTH	June'13	July'13	Aug'13	Sept'13	Oct'13	Nov'13	Dec'13	Jan'14	Feb'14	Average (9m)
Pharma market	Rs mn	720,690	724,440	725,000	723,430	723,810	727,720	738,930	744,900	751,490	731,157
	Gr. Rate%	9.8	9.3	8.2	6.8	5.1	5.3	6.0	5.9	5.9	6.9
THERAPEUTIC CATEGORIES											
Anti-infectives	Rs mn	127,000	128,220	127,290	126,340	124,840	125,050	125,600	125,290	125,910	126,171
	Gr. Rate%	8.1	8.7	7.9	4.5	0.9	1.1	1.4	0.3	0.7	3.7
CVS	Rs mn	87,540	87,720	88,030	88,660	89,270	89,750	90,840	92,770	92,910	89,721
	Gr. Rate%	11.5	10.5	9.6	9.5	8.7	8.6	8.5	9.0	8.3	9.4
Gastro intestinal	Rs mn	81,950	82,260	81,880	81,520	82,250	82,780	83,200	84,440	84,670	82,772
	Gr. Rate%	10.4	9.5	7.3	5.8	4.6	5.2	5.4	5.9	5.7	6.6
Vitamins,Minerals	Rs mn	63,410	63,660	63,500	63,400	63,930	64,020	64,870	66,060	67,170	64,447
	Gr. Rate%	9.3	8.1	6.7	5.3	3.6	4.1	4.6	5.0	4.8	5.7
Respiratory	Rs mn	54,950	55,930	56,310	55,890	55,920	56,460	57,720	58,390	59,110	56,742
	Gr. Rate%	8.2	10.0	9.8	7.4	5.6	6.7	8.4	8.9	9.3	8.3
Analgesic/pain mgt	Rs mn	53,180	53,240	53,870	52,600	52,260	52,390	52,890	53,560	54,170	53,129
	Gr. Rate%	7.3	6.9	5.6	4.4	3.0	3.5	4.1	3.6	3.7	4.7
Anti diabetic	Rs mn	48,770	48,880	49,150	49,640	50,070	50,310	53,160	51,630	52,600	50,468
	Gr. Rate%	14.4	12.6	11.3	11.0	10.0	9.2	14.2	13.8	14.6	12.3
CNS	Rs mn	44,030	44,360	44,540	44,780	44,940	45,510	46,260	46,710	47,030	45,351
	Gr. Rate%	11.0	10.3	9.6	9.5	8.5	8.4	8.5	8.0	7.8	9.1
Gynaecological	Rs mn	46,430	46,540	46,480	46,430	46,390	46,500	46,490	46,700	46,610	46,508
	Gr. Rate%	6.6	6.0	5.2	4.6	3.2	3.5	2.9	2.5	1.2	4.0
Dermatology	Rs mn	37,740	38,070	38,260	38,600	38,820	39,380	39,940	40,700	41,590	39,233
	Gr. Rate%	9.8	9.2	8.3	8.4	7.6	8.7	9.8	10.4	10.6	9.2
Ophthalmology	Rs mn	12,900	12,880	12,940	13,030	13,070	13,210	13,330	14,170	13,600	13,237
	Gr. Rate%	10.1	8.8	7.9	8.1	6.8	7.9	9.3	14.2	8.6	9.1
Hormones	Rs mn	12,470	12,540	12,500	12,470	12,410	12,420	12,360	12,560	12,810	12,504
	Gr. Rate%	14.9	13.8	11.7	9.5	6.5	5.9	4.8	5.3	5.9	8.7
Vaccines	Rs mn	8,750	8,670	8,540	8,490	8,410	8,350	10,870	10,950	11,150	9,353
	Gr. Rate%	4.8	2.5	-	(0.8)	(2.6)	(3.3)	(3.8)	(3.6)	(2.4)	(1.0)
Anticancer	Rs mn	9,210	9,410	9,560	9,600	9,730	9,800	9,980	9,420	10,090	9,644
	Gr. Rate%	20	21.8	22.4	22.3	24.3	23.5	24.2	16.8	24.9	22.3
Others	Rs mn	9,840	9,730	9,820	9,830	9,350	9,520	9,130	9,110	9,230	9,507
	Gr. Rate%	15	12.0	9.0	8.2	3.7	3.1	2.2	1.8	5.5	6.7
Blood related	Rs mn	8,650	8,680	8,680	8,710	8,750	8,750	8,760	8,780	8,980	8,749
	Gr. Rate%	4.4	3.4	2.7	3.3	2.6	2.7	2.4	1.6	3.1	2.9
Antimalarials	Rs mn	6,570	6,290	6,200	5,970	5,880	5,980	6,040	6,110	6,210	6,139
	Gr. Rate%	12.1	10.9	5.4	(1.9)	(5.2)	(2.2)	0.3	0.3	1.0	2.3
Sex stimulants	Rs mn	4,130	4,150	4,230	4,220	4,240	4,230	4,180	4,210	4,280	4,208
	Gr. Rate%	15.5	14.4	12.7	11.2	10.3	7.8	5.8	5.4	5.4	9.8
Mouth & teeth	Rs mn	3,170	3,210	3,220	3,250	3,280	3,310	3,310	3,340	3,370	3,274
	Gr. Rate%	10.1	8.9	7.6	7.5	6.7	7.3	7.5	7.6	7.5	7.9
Total	Rs.mn	720,690	724,440	725,000	723,430	723,810	727,720	738,930	744,900	751,490	731,158
	Gr. Rate%	9.8	9.3	8.2	6.8	5.1	5.3	6.0	5.9	5.9	6.9
PARTICULARS	MONTH	June'13	July'13	Aug'13	Sept'13	Oct'13	Nov'13	Dec'13	Jan'14	Feb'14	Average (9m)

Source: AIOCD AWACS-MAT data (with bonus units), Centrum Research

Appendix A

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Rating Criteria

Rating	Market cap < Rs20bn	Market cap > Rs20bn but < 100bn	Market cap > Rs100bn
Buy	Upside > 25%	Upside > 20%	Upside > 15%
Hold	Upside between -25% to +25%	Upside between -20% to +20%	Upside between -15% to +15%
Sell	Downside > 25%	Downside > 20%	Downside > 15%

Member (NSE, BSE, MCX-SX), Depository Participant (CDSL) and SEBI registered Portfolio Manager

Registration Nos.

CAPITAL MARKET SEBI REGN. NO.: BSE: INB011454239, NSE: INB231454233

DERIVATIVES SEBI REGN. NO.: NSE: INF231454233 (TRADING & SELF CLEARING MEMBER)

CDSL DP ID: 12200. **SEBI REGISTRATION NO.:** IN-DP-CDSL-661-2012

PMS REGISTRATION NO.: INP000004383

MCX – SX (Currency Derivative segment) REGN. NO.: INE261454230

Website: www.centrum.co.in

Investor Grievance Email ID: investor.grievances@centrum.co.in

Compliance Officer Details:

Mr. K. Sandeep Nayak; Tel: (022) 4215 9000; Email ID: compliance@centrum.co.in

Centrum Broking Limited

Registered Office Address

Bombay Mutual Building ,
2nd Floor,
Dr. D. N. Road,
Fort, Mumbai - 400 001

Correspondence Address

Centrum House
6th Floor, CST Road, Near Vidya Nagari Marg, Kalina,
Santacruz (E), Mumbai 400 098.
Tel: (022) 4215 9000