



Top Sector Ideas: *Pharmaceutical*

Q2FY24 Pharma Review – Higher Profitability with Easing Price Erosion, New Launches, and Lower RM Prices

✓ *Key Highlights & Financial Performance*

- In Q2FY24, the Pharma Coverage universe posted robust revenue growth of 14.3%/1.7% YoY/QoQ on account of volume ramp-up, new launches (especially gRevlimid, gSpiriva, gPrezista), and stabilizing pricing pressure in the US base business.
- EBITDA margin improved by a healthy 210bps/50bps YoY/QoQ amidst normalizing cost inflation and stabilizing prices.
- The US sales were robust, aided by the new launches comprising gRevlimid, gSpiriva, and gPrezista and increased demand for resilient suppliers amid drug shortages.
- US price erosion is stabilizing due to benefits from drug shortages which are currently at an all-time high.
- Field force expansion is expected to drive volume growth in India. Moreover, growth picked up in Oct'23 and continues to remain strong in Nov'23.
- Softening input costs and lower freights are improving margins
- Hospitals – Seasonally strong quarter. Brownfield expansion to fuel growth without much dilution in RoCE.

Pharma Back on Growth Track

- **High Single-digit domestic growth is expected in FY24.** Moreover, growth in the US market will remain robust, thanks to the normalization of prices in the base business and the continued ramp-up of gRevlimid and new product launches (gSpiriva, gPrezista).
- In the US business, **supply constraints have led most business leaders to point to a sharp decline in price erosion**, which is expected to remain low for the remainder of FY24.
- In India, growth has been driven mainly by price increases and strong growth in chronic therapies and **all major companies forecast high single-digit growth in FY24.**
- **Margins will also improve as RM and freight costs normalize, US price erosion eases, and a better mix is achieved.**
- However, **USFDA inspections remain an overhang and price erosion in the US is expected to increase once supplies normalize.**
- Therefore, we continue to eye on companies that are focused on launching niche products in the U.S. market and a strong product mix (Chronic Portfolio) in the Indian market.
- **LUPIN, CIPLA, and Aurobindo are our top picks in the Pharma universe.**

Short and Medium-term Outlook

Short Term

Trend in Price Erosion after the normalization of drug shortages supply in the US

India: Weak acute season and NLEM impacted growth

Better sales growth was led by gRevlimid and the launch of new products gSpiriva, gPrtezista


Field force expansion to drive growth in India

Better margins for full year due to normalized cost inflation and moderation in US Price Erosion

Medium Term

Key monitorables – Price Erosion, Margins Expansion, and Launch of New Products

Top Sector Ideas: Lupin

| Stock | Reco. | TP | Recommendation Rationale |
|--|------------|------------------|---|
|  <p>Lupin Ltd</p> | BUY | Rs 1,325* | <ul style="list-style-type: none"> ✓ The company's US business posted revenue of \$211 Mn (+17% QoQ) and continues to see encouraging traction in new launches Darunavir and gSpiriva. ✓ The India business (+7% YoY) outperforms IPM on growth in key therapies such as CVS and anti-diabetic. The other segments reported EMEA (+19.6% YoY), and API business (+32.1% YoY). The Indian business is outperforming IPM, thanks to growth in key therapies such as CVS and antidiabetics. ✓ The company's gross margins were up 30bps QoQ to 66.2% due to a better product mix and strong growth in the US and Indian markets. Steady staff (+1.9% QoQ) and R&D (+6% QoQ) offset by higher SG&A (+5.5% QoQ) led to an EBITDA of Rs 918 Cr (+7.2% QoQ) and a margin of 18.2%. ✓ We have confidence in Lupin's business, supported by the following factors: 1) More revenue with new launches in the US market like Darunavir and gSpiriva; 2) Recent approvals for Tolvaptan (MS \$287 MN) and Xyway (MS \$958 Mn), which could add business in the second half; 3) Strong pipeline of Cynocobalamin, Diazepam Gel, Vereniciline, Bromfenac, Glucagen, Risperidone, etc., and 4) Double-digit growth in India business as the company has already increased MR numbers to 1,000. |

* Note: Target Price is based on our Q2FY24 Result Update Report

Top Sector Ideas: CIPLA


Stock
Reco.
TP
Recommendation Rationale

CIPLA LTD
BUY
Rs 1,350*

- ✓ Cipla reported the highest-ever US business of \$229 Mn (+3.7% QoQ), which was majorly driven by better execution in the base business and higher-than-expected revenue contribution from gRevlimid.
- ✓ Gross margins improved by 243bps YoY to 65.4% due to a high proportion of gRevlimid along with low other expenses, while stable R&D expenses led to EBITDA margins of 26%.
- ✓ The company's India business (excluding Covid-19) grew 11%, driven by chronic therapies, which performed better than expected.
- ✓ gAdvair and gAbraxane may add revenue in FY25E despite current regulatory challenges. gSynbicort and one Peptide (\$300-400 Mn) product to be launched in H2FY24 and the company has planned to launch two more peptides in FY25E. Cipla already has proved successful in launching peptides in the last year. Furthermore, the addition of 1,000 new MR led to a total strength of 7,000, which would drive incremental revenue for India's business going forward.

* Note: Target Price is based on our Q2FY24 Result Update Report

Top Sector Ideas: Aurobindo

| Stock | Reco. | TP | Recommendation Rationale |
|--|-------------------|-------------------------|---|
|  <p>Aurobindo Pharma Ltd</p> | <p>BUY</p> | <p>Rs 1,080*</p> | <ul style="list-style-type: none"> ✓ The US revenue at \$409 Mn was up 7.1% QoQ. Injectable businesses in the US reported 2.5% QoQ growth, driven by strong underlying business growth as price erosion was negligible during the last quarter. ✓ European business de-grew by 3.7% QoQ. The Growth markets grew by 16% QoQ. ✓ ARV sales increased by 31.6% QoQ to Rs 190 Cr. API sales were up 12.98% QoQ at Rs 1,166 Cr. The company's European business grew by 10.7% QoQ while the growth markets de-grew by 17.8% QoQ. ✓ ABRP has several growth levers in place. These are 1) Generic injectibles, Eugia (\$520 Mn sales) that could grow by low double-digit growth based on value-added approval, 2) The launch of Trastuzumab biosimilars in 2FY24E, 3) The launch of Pen-G injectible in Q1FY25E, and 4) One-time opportunity in gRevlimid in the next 2-3 years. |

* Note: Target Price is based on our Q2FY24 Result Update Report

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