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Initiating Coverage

PHARMACEUTICALS

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Pharmaceuticals

US generic growth to stay, selective on structural play

The pharmaceutical sector, emerging from the volatility of the past two post-pandemic and geopolitically tumultuous years, is now on a recovery path in CY23. Overall costs are stabilizing and there are green shoots in the US business. This positive momentum has led to the BSE Healthcare index outperforming the Sensex by ~15/25% in the past 6/12 months. We remain constructive on US generics, led by factors such as moderating price erosion and regulatory issues (USFDA) in the US, successful approval and launches of complex products, opportunities arising from the loss of exclusivity, softening input costs, volume growth due to drug shortages, and steady growth in India. In light of these factors, we initiate coverage with a BUY rating for SUNP (TP of Rs 1,600) and ZYDUSLIF (TP of Rs 850), ADD for ARBP (TP of Rs 1,250), and REDUCE on LPC (TP of Rs 1,400) and DRRD (TP of Rs 5,650).

Visible green shoots in the US generics market: We see the US generics maintaining steady growth momentum on moderating price erosion amid lower competition, drug shortage-led volume growth, USFDA clearances for key plants, and generic launches. Also, traction from key products (like gRevlimid, gSpiriva) provides visibility of near-to-mid-term growth. More so, the LOE-led opportunity of USD 100+ bn over the next five years could drive growth for generic companies.

Specialty and complex portfolio for long-term growth: The shift in focus towards specialty business will create differentiating pipelines targeting chronic and niche therapies. While we note that SUNP has already cracked the code for specialty business with its key specialty products (Ilumya, Winlevi, and Cequa among them), other companies like ZYDUS (saroglitazar), ARBP (CMO – biosimilars, peptides), DRRD (biosimilars, cell gene therapy), and LPC (partnered products like MALT1, injectables, biosimilars) are also on the path to create specialty franchises.

Steady domestic formulation growth: Despite various disruptions (GST, NLEM, Covid), IPM has seen steady ~10% growth in the last 10 years, led by steady volume and price (3-year CAGR at ~10% and 9MFY24 growth at 8% YoY, as per IQVIA). We believe domestic formulations will see steady growth led by volume recovery, price growth, and new launches. Leading companies (SUNP, LPC) could outperform IPM.

Improving profitability to strengthen balance sheet: Spike in cost structure (started in Sep'21—input costs, supply chain disruptions, inflation) had hit profitability in FY23. But costs have started to moderate in the past few months (correction in crude oil, freight) and the scale-up in US generics lifted margins in H1FY24. We see profitability remaining stable and improving in the near term. With healthy balance sheets, leading companies are looking for M&As (specialty assets, fill portfolio gaps).

Outlook and valuation: We are positive on the US growth for the next few years on visible green shoots (new launches, moderating price erosion, and LOE). However, the outperformance of the BSEHC index vs Sensex which led to index valuation at ~30x (+2 standard deviation) provides limited scope for further rerating. Hence, we are cautious about valuations and see some structural and near-term opportunities. For structural growth, we initiate coverage with a BUY for SUNP on steady growth led by scale-up in specialty and ZYDUSLIF with visibility of US growth/R&D allocation for niche pipeline. For near-term performance, we initiate coverage with an ADD for ARBP, expecting growth in the US market and margin improvement. We initiate coverage with REDUCE stance on LPC as key triggers are factored-in and on DRRD due to constraints on growth/margin in core business (excluding gRevlimid).

YE March (INR bn)	Rec.	TP (Rs/share)
ARBP	ADD	1,250
DRRD	REDUCE	5,650
LPC	REDUCE	1,400
SUNP	BUY	1,600
ZYDUSLIF	BUY	850

Coverage snapshot

YE March (INR bn)	Rec.	TP (Rs/share)	EPS CAGR FY23-26E	PE (x)		EV/ EBITDA (x)	
				FY25E	FY26E	FY25E	FY26E
ARBP	ADD	1,250	26	18.8	17.0	10.5	9.7
DRRD	REDUCE	5,650	10	19.5	19.8	11.6	11.8
LPC	REDUCE	1,400	89	30.0	25.1	16.7	14.6
SUNP	BUY	1,600	15	27.6	24.1	20.6	18.3
ZYDUSLIF	BUY	850	17	21.4	19.4	14.5	13.3

Source: Companies, HSIE Research, Note: EPS adjusted for one-offs, Target price on Dec'25 EPS

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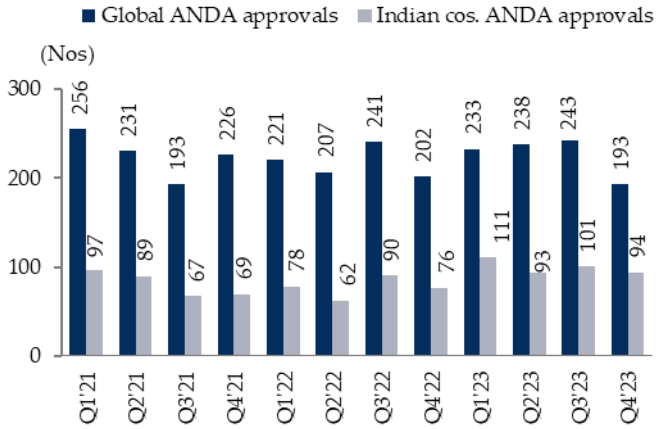
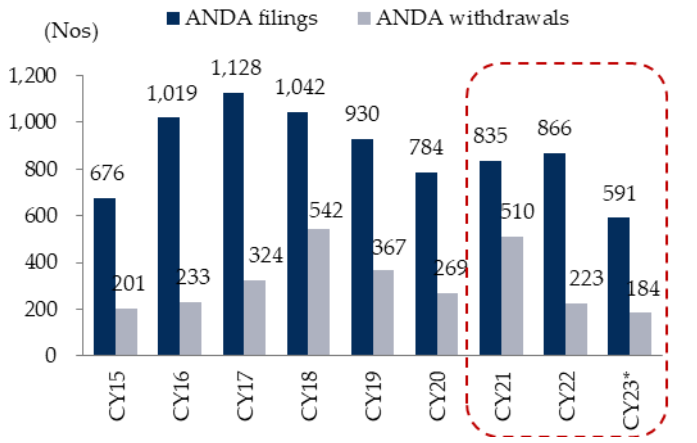
Key charts: US generic – tailwinds emerging

Exhibit 1: ANDA approval rate gradually improving



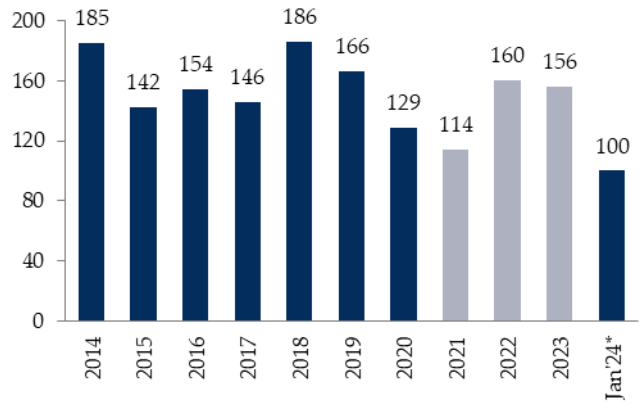
Source: HSIE Research, USFDA

Exhibit 2: Filing rate slowing amid focus on complex filing



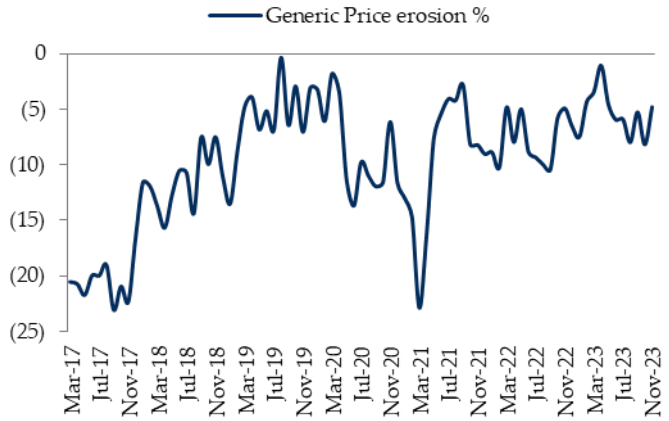
Source: HSIE Research, USFDA; note: CY23 updated as of Nov'23

Exhibit 3: Drug shortage opportunity to remain steady



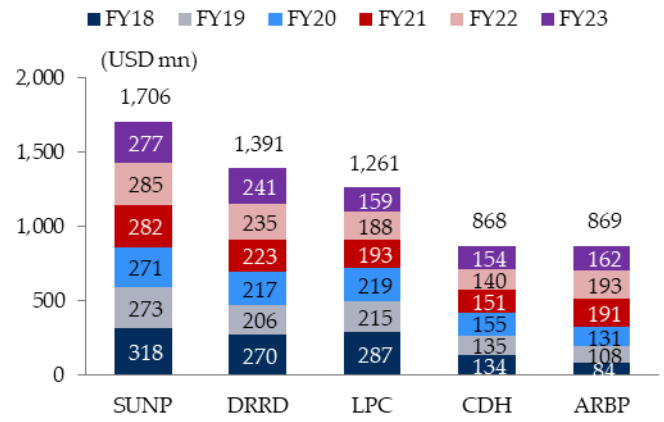
Source: HSIE Research, USFDA; note: CY23 updated as of 21 Jan'24

Exhibit 4: Overall price erosion is softening since last few quarters



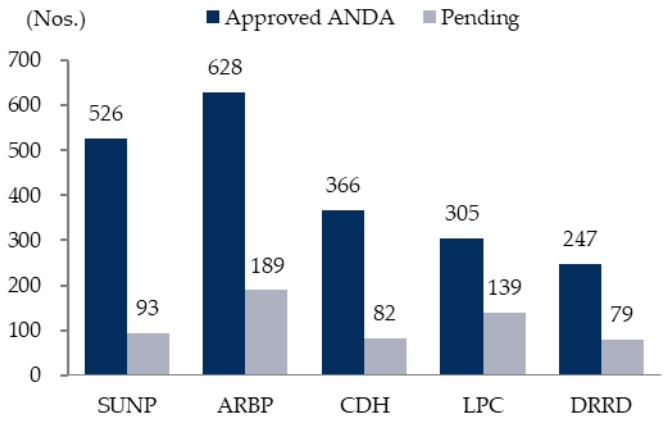
Source: HSIE Research, Bloomberg

Exhibit 5: Large caps – cumulative R&D over FY17-23



Source: Companies, HSIE Research

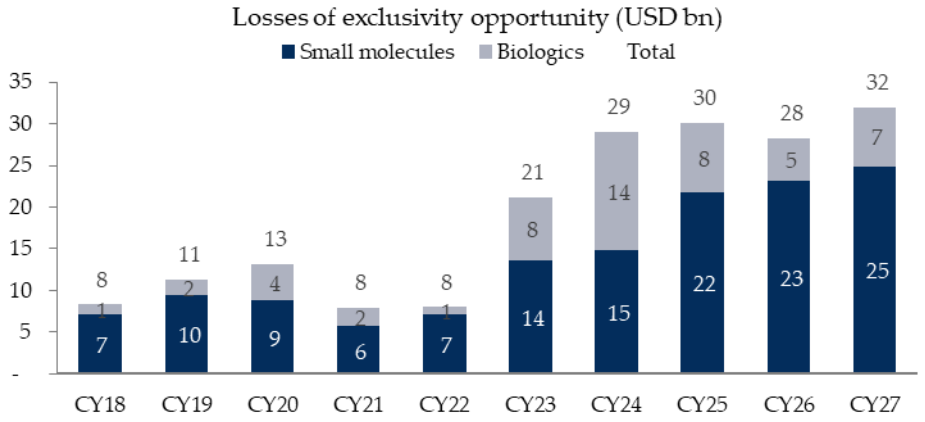
Exhibit 6: Large caps – substantial portfolio/ pipeline



Source: Companies, HSIE Research, As of Sep'23

Key charts: LOE and GLP-1 opportunities

Exhibit 7: LOE to create USD 100+ bn opportunity over next few years



Source: IQVIA, HSIE Research

Exhibit 8: Obesity clinical pipeline

Pre-clinical	Phase 1	Phase 2	Phase 3
YH34160^@ (Yuhan)	PF-07081532*# (Pfizer)	S-237648*# (Shionogi)	Tirzepatide^# (Lilly)
ENT-03^# (Enterin)	Enavogliflozin + DWC202010*# (Daewoong)	Retatrutide, Orforglipron^*@ (Lilly)	Cagrilintide + Semaglutide*@ (Novo Nordisk)
ZP 6590@ (Zealand Pharma)	LY3841136^# (Lilly)	Danuglipron*# (Pfizer)	Semaglutide*@ (Novo Nordisk)
HM15136 + Efpeglenatide@ (HANMI)	Dacra QW II# (Lilly)	Mazdutide^@ (Innovent Biologics)	
Oral peptides*@ (Adocia)	ZP 8396,Dapiglutide^@ (Zealand pharma)	Pemvidutide^@ (Altimmune)	
LR19020; LR19156# (LG Chem)	AMG 786, AMG 133^# (Amgen)	NN9775^@ (Novo Nordisk)	
Exenatide + Glucagon + Pramlintide @ (Adocia)	NN9215^@ (Novo Nordisk)	BI 456906^@ (BI; Zealand Pharma)	
	LB54640*# (LG Chem)	MBL949^# (Novartis)	
	SCO-267, SCO-094*# (Scohia Pharma)	Leucine + SildenafiL*# (Nusirt)	
	GL0034*# (Sun Pharma)		

Source: IQVIA, Companies, HSIE Research. Note: ^ pre-filled syringe, * oral, # non-biologic, @ Biologic

Performance of coverage companies

Exhibit 9: US business, post weak FY18-22, expect strong growth in FY24; steady in FY25/26

US revenue (USD mn)	FY11	FY16	5-yr CAGR	FY18	FY23	FY18-23 CAGR	FY24E	(YoY %)	FY25E	(YoY %)	FY26E	(YoY %)	FY23-26E CAGR
Large Caps													
SUNP	494	2,066	33	1,357	1,684	4	1,835	9	2,013	10	2,198	9	9
DRRD	416	1,153	23	928	1,265	6	1,530	21	1,460	-5	1,413	-3	4
LPC	456	906	15	914	674	-6	845	25	922	9	982	6	13
ARBP	261	929	29	1,155	1,450	5	1,697	17	1,759	4	1,800	2	7
ZYDUSLIF	209	614	24	898	926	1	1,042	12	1,086	4	1,135	4	7
Total	**1,836**	**5,668**	**25**	**5,252**	**5,999**	**3**	**6,949**	**16**	**7,240**	**4**	**7,528**	**4**	**8**

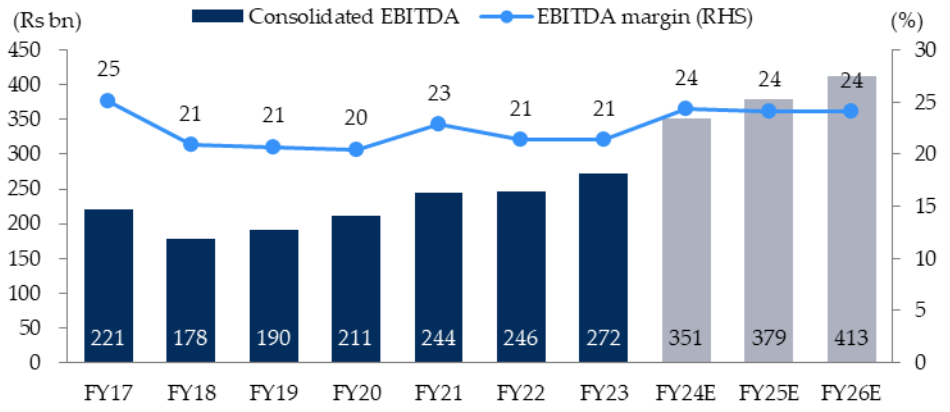
Source: Companies, HSIE Research

Exhibit 10: Company wise growth trend for India formulation business

(Rs bn)	FY11	FY16	5-yr CAGR	FY17	FY23	YoY %	5-yr CAGR	FY24E	YoY %	FY25E	YoY %	FY26E	YoY %	FY23-26E CAGR
Dr. Reddys	12	21	13%	23	49	17%	16%	47	-3%	53	12%	59	11%	6%
Lupin	16	34	17%	38	61	1%	8%	66	8%	73	12%	82	11%	10%
Sun Pharma	24	71	25%	77	136	7%	11%	149	10%	165	11%	184	11%	10%
Zydus Life	16	30	13%	32	49	2%	8%	53	7%	58	10%	64	10%	9%
Total	**67**	**157**	**18%**	**171**	**295**	**0**	**11%**	**315**	**7%**	**350**	**11%**	**388**	**11%**	**10%**

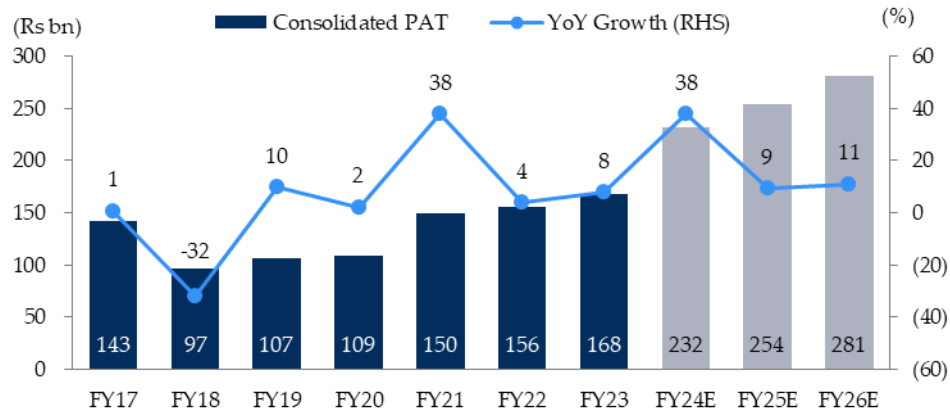
Source: Companies, HSIE Research

Exhibit 11: Margin to remain steady



Source: Companies, HSIE Research

Exhibit 12: PAT growth to improve



Source: Companies, HSIE Research

Exhibit 13: Return ratios to improve from FY24/25E

RoCE (%)	FY11	FY16	5-yr avg	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
India Pharma												
SUNP	22	19	28	10	11	10	13	17	16	17	18	19
DRRD	20	19	24	8	13	20	19	18	26	26	20	18
LPC	24	23	31	10	9	8	10	3	5	15	16	17
ARBP	19	27	21	23	18	18	18	13	9	13	14	14
ZYDUSLIF	29	27	23	18	15	11	14	12	13	20	17	17
Average	**23**	**23**	**21**	**14**	**13**	**14**	**15**	**13**	**14**	**18**	**17**	**17**

Source: Companies, HSIE Research

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Executive summary

US business was volatile post-Covid; recovering from FY24

Coming out of the COVID phase, most of the Indian pharmaceutical companies have demonstrated strong resilience for growth in FY22. This resilience is attributed to enhanced supply chains, adept management of demand peaks, and sustained approval/launch momentum. However, FY23 was volatile due to escalating input costs (resulting from geopolitical disruptions), pricing pressures in the US (lined to phasing out/de-stocking of inventories) and regulatory issues from the USFDA (some companies experienced adverse outcomes during inspections).

Indian pharma companies started FY24 on a strong mark (strong revenue/ EBITDA/ margin in H1FY24), led by moderating price pressures and US regulatory issues (USFDA), complex product approval/launches, softening input costs, drug shortage-led volume growth, and steady India growth (acute was muted but steady traction in the chronic segment).

US generics—tailwinds emerging with improved pricing, shortages

The US generics is expected to see steady growth in the next few years, led by

- new ANDA approvals/launches,
- improving pricing dynamics in the generic space (most of the companies expect price erosion in the mid-single digits),
- increasing shortages post-pandemic and the exit of a few key generic companies in the US, which would support volume growth,
- focus on complex generic (peptides, injectables, etc.), limited competition drugs, specialty focus, and biosimilars,
- a positive outcome from plant inspection by the USFDA for many companies leading to key new launches,
- the loss of exclusivity (~USD 98-100 bn) opportunity over the next five years, which could drive growth for the generic companies.

Coverage universe

We initiate coverage with a

(1) BUY rating: For SUNP with TP of Rs 1,600 (30x Dec'25E) and ZYDUSLIF with TP of Rs 850 (24x Dec'25E).

(2) ADD rating: ARBP with TP of Rs 1,250 (19x Dec'25E).

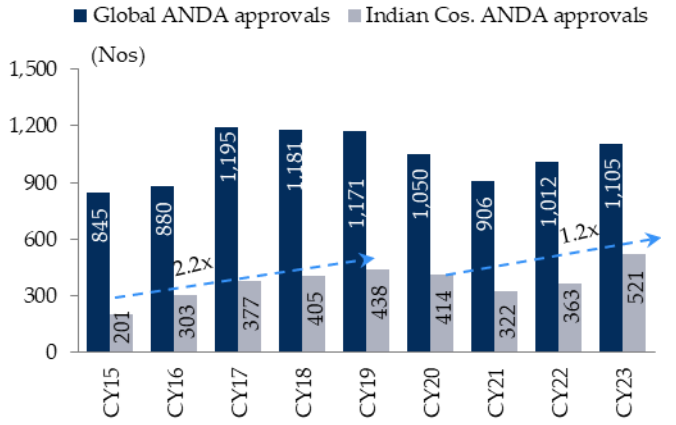
(3) REDUCE rating: For LPC with TP of Rs 1,400 (26x Dec'25E) and DRRD with TP of Rs 5,650 (24x Dec'25E and Rs 150/ share from gRevlimid).

ANDA approval rate steady over the last few quarters

New drug approvals were up by ~2.2x over CY15-19, led by GDUFA (Generic Drug User Fee Amendments; push to clear backlogs) but there has been moderation in approval rate from CY20 onwards (lower in CY21/22 due to Covid-led travel restriction). Post pandemic, the approval rate is gradually improving.

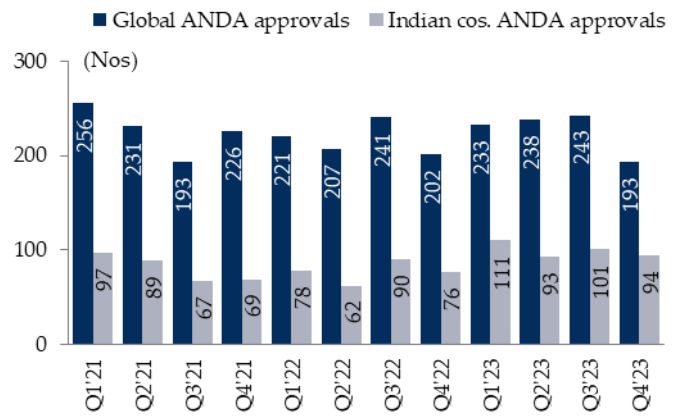
The approval rate for Indian companies has improved in the last few quarters, starting from Q4CY21, on revocation of travel restriction (inspection requirement for specific products before approval), and this has made these companies launch a greater number of products in the US generic market.

Exhibit 14: ANDA approval rate gradually improving



Source: HSIE Research, USFDA

Exhibit 15: ANDA approval rate gradually improving

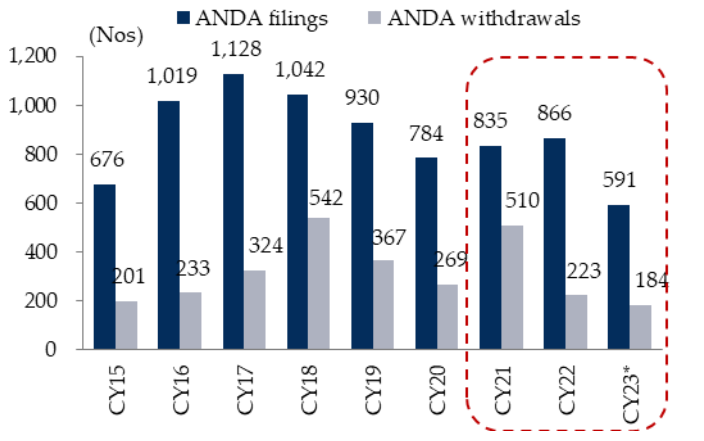


Source: HSIE Research, USFDA

Filing is slowing down as focus shifts towards complex products

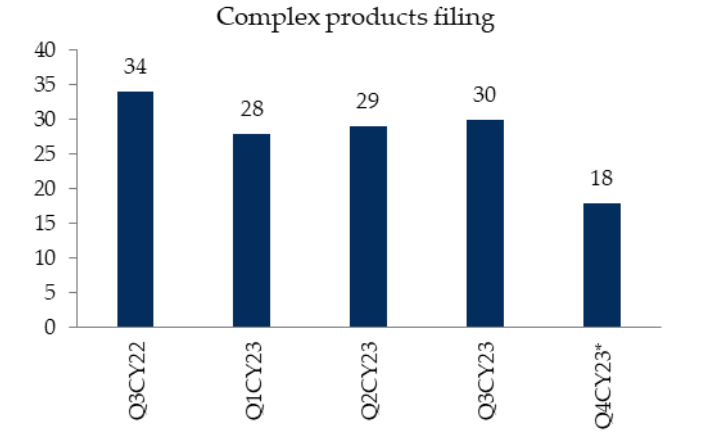
Filing rate has slowed down in the last 2-3 years as most of the pharma companies have started focusing on complex product filing and are avoiding competitive products. R&D allocation has shifted more towards development of limited-competition, difficult-to-manufacture, and drug-device combinations.

Exhibit 16: Filing rate slowing amid…



Source: HSIE Research, USFDA; note: CY23 updated as of Nov'23

Exhibit 17: … focus on complex products



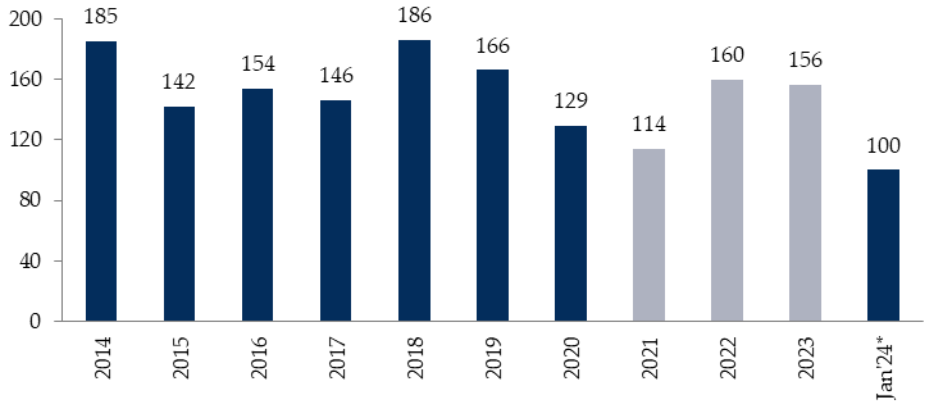
Source: HSIE Research, USFDA; note: CY23 updated as of Nov'23

Drug shortages to drive volume growth

Faced with price depletion over the last few years, a few companies have existed or discontinued some of the generic products. This has led to a significant increase in demand for a few products. As per IQVIA, shortages are more common in drugs with very low list prices at < USD 1 per extended unit compared to those priced > USD 500 per unit.

The key reasons for shortages were (1) active or inactive ingredient supply issues as well as disruptions to packaging materials such as vials; (2) regulatory oversight, where USFDA inspections have triggered shutdowns of some plants; and (3) exits of a few leading companies from the market due to financial crises as well as exits from products due to non-viability (given their focus on improving profitability).

Exhibit 18: Drug shortage opportunity to remain steady

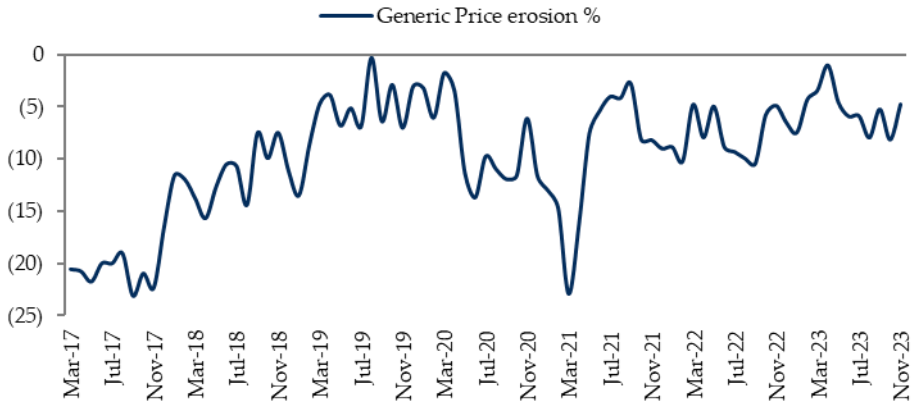


Source: HSIE Research, USFDA; note: CY23 updated as of 21 Jan'24

Pricing of the drugs in the US is improving

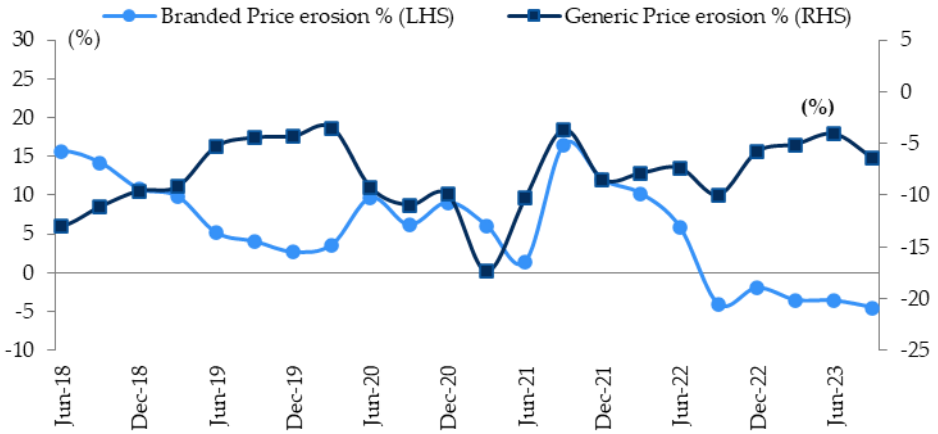
In the past, the higher number of approvals, new entrants, and channel consolidation were the key reasons for steep price erosion in generic drugs. However, post-pandemic, factors like generic drug shortages in the US market, exits by a few large companies from the low-price generic medicine, and increased demand have led to the moderation in drug price erosion in the last few quarters.

Exhibit 19: Overall price erosion is softening since last few quarters



Source: HSIE Research, Bloomberg

Exhibit 20: Steady price for branded products and moderating for generics

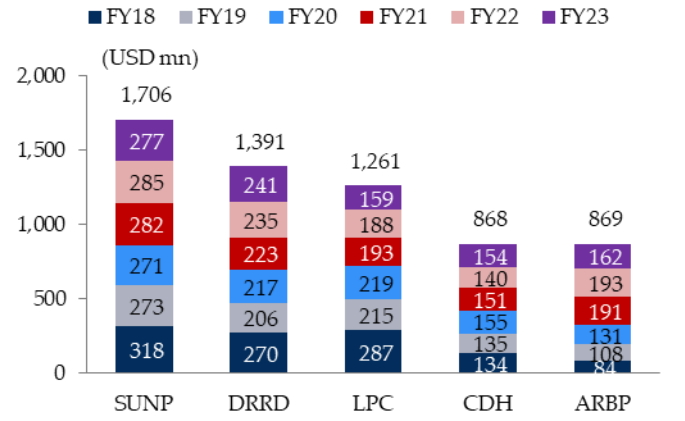


Source: HSIE Research, Bloomberg

R&D spend to create a product pipeline

Indian pharma companies' R&D spending over FY18-23 is declining due to a shift in focus towards complex generics like SUNP (derma, ophthalmology, biosimilars), LPC (complex generics in respiratory and injectables, biosimilars), ZYDUSLIF (NCE, injectables, transdermal, injectables, biosimilars), ARBP (injectable, peptides, biosimilars), and DRRD (cell gene therapy, complex generics, biosimilars).

Exhibit 21: Large caps – cumulative R&D over FY17-23



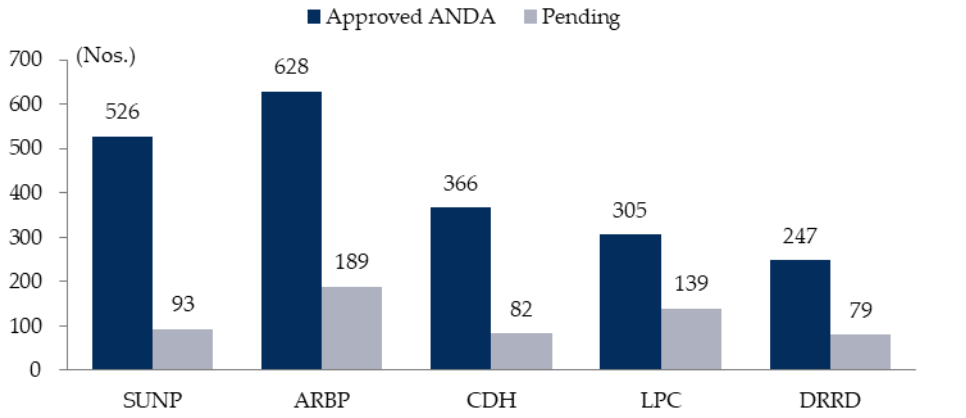
Source: Companies, HSIE Research

Exhibit 22: Specialty focus for leading companies

Segment	Injectables	Derma	Ophthalmic	Transdermal	Respiratory	Biologics/ biosimilars
SUNP	✓	✓	✓		✓	✓
DRRD	✓	✓		✓	✓	✓
LPC	✓	✓	✓		✓	✓
ARBP	✓	✓	✓	✓	✓	✓
CDH	✓	✓		✓	✓	✓

Source: Companies, HSIE Research

Exhibit 23: Large caps – substantial portfolio/ pipeline



Source: Companies, HSIE Research, As of Sep'23

Exhibit 24: Large caps – snapshot of specialty initiatives

Companies	Key specialty assets and comments
SUNP	- **Ilumya** - Launched in Q2FY19 for the moderate-to-severe plaque psoriasis in US market; followed by launch across multiple countries like Japan, Europe, and received approval in China during May'23. - Undertaking clinical trials for psoriatic arthritis; currently in Phase 3. - Recorded global sales of USD 477 mn in FY23 - **Deuruxolitinib** - In Jan'23 acquired Concert Pharma for late Phase asset Deuruxolitinib - oral selective inhibitor of Janus kinases JAK1 and JAK2, for the treatment of adults with moderate to severe alopecia areata. - Filed 8 mg strength for USFDA review process for approval in Oct'23 - **SCD-044** - Clinical trials ongoing in Phase 2 for Psoriasis - **MM-II** - Molecule for Treatment of pain in osteoarthritis is in Phase 2 - **GL0034** - GLP-1 molecule for Type 2 Diabetes and obesity; in Phase 1 - initial studies had ~10% weight loss - **Winlevi** - Winlevi received USFDA approval in Aug'20 as a novel drug with a unique mechanism of action for the topical treatment of acne in patients 12 years and older. Sun Pharma launched Winlevi in Nov'21 .
DRRD	25+ complex products across drug-device combinations, peptides, long-acting injectable & RTUs (Ready-to-Use) Advanced stage on multiple platform technologies like particulate system, Microsphere, Liposomal, Peptide platforms, Emulsions and suspensions technologies **Biosimilars** - Launched Pegfilgrastim in US with partner Fresenius Kabi during FY23 end. - Rituximab filing accepted by USFDA, EMA and MHRA for review process Immuno-Oncology NCEs, Biologics and CGT (Cell and Gene therapy)
LPC	- Recently received approval for respiratory product gSpiriva; launched in Q2FY24 and expects to see strong traction over next few years. - Focus is on multiple drug-device combination product development like Elipta, Respimat, and (3) few products in green propellant inhaler space. Also working on few more nasal sprays. - **MALT1 inhibitor program** - Partnered with AbbVie; trials are ongoing for the treatment across a range of haematological cancers - **MEK inhibitor compound** - Partnered with Boehringer Ingelheim; oncology molecules - **Injectables** - Multiple assets are under development
ARBP	Focus on **Oncology & Hormones, Derma (both tropical and transdermal), Respiratory, Peptides, and injectables (m**ultiple products under development) - **Biosimilars** - 14 biosimilars in two phase (first and second wave) under development - 3 biosimilars pegfilgrastim, Filgrastim, Trastuzumab to be filed by Jan'24. - Partnership with MSD: to set up a large mammalian cell culture facility with 2x15kL bioreactor capacity and a vial filling line in Phase 1; in-licensed ustekinumab (bStelara) that completed a Phase 1 trial and expected to be launched in the second-wave of launches in 2026/27; BP11 (bXolair) in global Phase-3 study for chronic spontaneous urticaria. - **Vaccines** - Through its subsidiary Tergene Biotech, developing a 15 serotype PCV (Pneumococcal Conjugate Vaccine). Concluded 1 Phase 3 clinical study for PCV.
ZYDUSLIF	Focus on Transdermal, injectables and other complex generics - **Saroglitizar** - Already launched in India. - Expects to complete recruitment for PBC by FY24 end. NASH Phase-2B to still recruit 120-150 patients and not likely to be commercial in medium-long-term. Focus remains on PBC and NAFLD indications. - **Desidustat** - Launched in India. - In US, filed for Myelodysplastic Anemia; pursued for Chemotherapy Induced Anemia (CIA) - **Specialty assets** - ZYIL1 – initiated PH-1 trials for ALS patients. - PSCK9 inhibitor - Received approval from the CDSCO to initiate Phase I clinical trials. - **Sitagliptin NDAs** - 2 NDA approvals received for Zituvio and ZituvioMet. Also filed NDA for Sitagliptin + Metformin ER tablet - **Biosimilars** - Completed trials for 1 mAb and completed recruitment of patients for trials of another mAb. Received approval for Ph-3 for 1 more product.

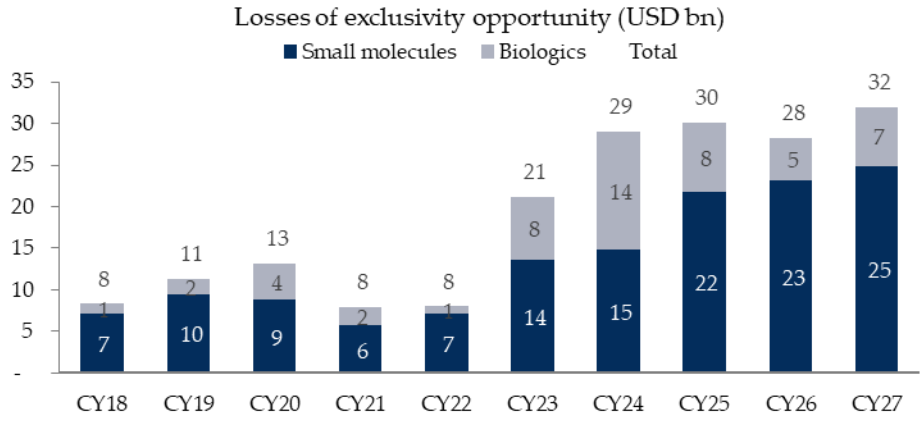
Source: Companies, HSIE Research

Comprehensive Generic Therapy (CGT) is also one of the key opportunities to capture limited/ no competition products (not more than one actively generic approval for the drug; applicants are eligible for a 180-day marketing exclusivity). USFDA has approved 251 CGT-designated products till Mar'23.

Loss of exclusivity provides visibility of growth over the next few years

- A patent cliff over the next four to five years would create a large opportunity for Indian pharma companies. With several blockbuster drugs expected to go off-patent in the US market, there is a significant opportunity for Indian pharma companies to launch generic versions of these drugs.
- The contribution from losses of exclusivity (LOE) is expected to increase dramatically by ~3x to USD 141 bn (over CY23-27) from ~USD 49 bn in the prior five years (over CY18-22) as exposure of both small molecule and biologic products to LOE has increased substantially.

Exhibit 25: LOE to create USD 100+ bn opportunity over next few years



Source: IQVIA, HSIE Research

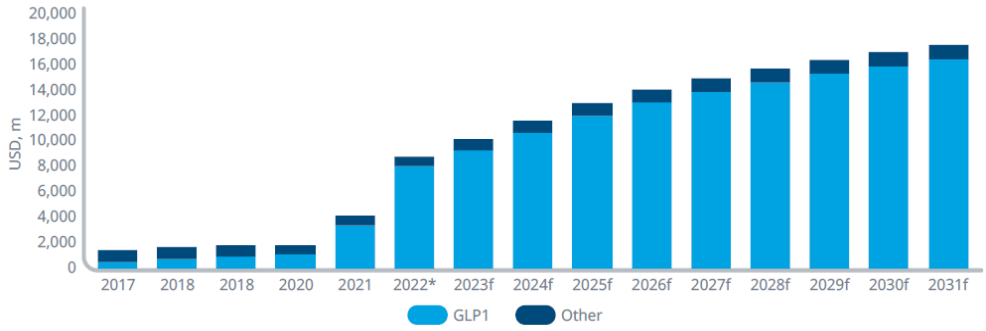
- Further to breakdown, LOE for small molecules may increase by ~2.6x to USD 98 bn (over CY23-27) bn from ~USD 38 bn (over CY18-22), which will include the impact of high-profile products like Xarelto (Rivaroxaban; USD 2.5 bn), Entresto (Sacubitril and valsartan; ~USD 1.7 bn), Xeljanz XR (Tofacitinib citrate; USD 1.13 bn), Sprycel (Dasatinib; USD 1.5 bn), Kyprolis (Carfilzomib; ~USD 1 bn), Otezla (Apremilast; USD 1.89 bn), and Ozempic (Semaglutide; USD 5.5 bn).
- Biosimilar opportunity could increase by ~4x to USD 42 bn (over CY23-27) bn from ~USD 10 bn (over CY18-22) with key products going off patent are Stelara (Ustekinumab; ~USD 6.38 bn), Eylea (Aflibercept; USD 6.3 bn), and Prolia (Denosumab; USD 2.5 bn).
- Indian pharma companies with their para IV filing are well-placed to capture the LOE opportunity over the next few years.

New hype around obesity GLP-1 drug related opportunity

As per IQVIA, the development of obesity medicines has historically been challenging and fraught with many failures, even after regulatory approval. In most of these drugs, the failures were due to cardiovascular side effects, increased suicidal risk or increased risk of drug dependence and abuse. The newer GLP-1 (Glucagonlike peptide 1) agonist drugs are not only safer but also cardioprotective in nature, which is very relevant considering the cardiovascular risk factors that are generally present in obesity patients.

According to IQVIA projections, sales of GLP-1 inhibitors could exceed USD 17 bn by 2031. Currently, only 2% of individuals with obesity are undergoing prescription drug treatment, leaving an estimated patient pool of around 3.1 mn across seven major markets in 2022.

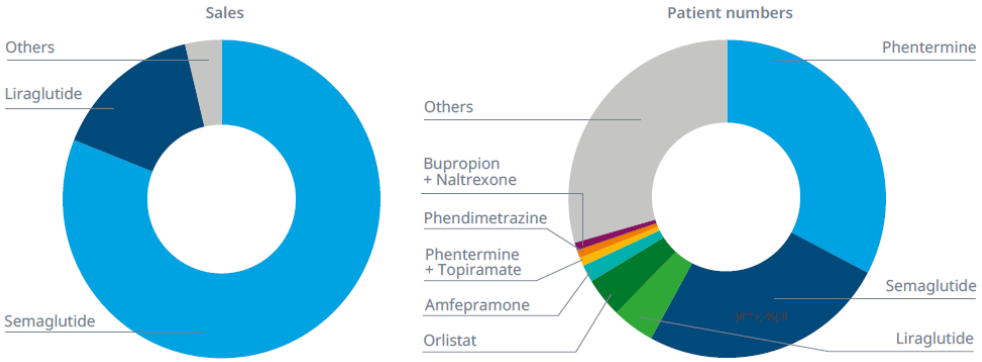
Exhibit 26: Global obesity sales, by target, 2017–2031 initiatives



Source: IQVIA, HSIE Research, *2022 sales include sales to Q3CY22, IQVIA

The first approval was granted to Novo Nordisk for its drug Saxenda (Liraglutide) in 2014 in the US, requiring a once-daily injection. This was followed by the launch of Ozempic (semaglutide), initially for type 2 diabetes. The launch of Wegovy in June 2021, specifically indicated for obesity, increased GLP-1 usage significantly. Semaglutide has shown better efficacy in not only weight-loss endpoints but also in addressing cardiovascular comorbidities.

Exhibit 27: Sales versus drug treated patient proportions, 7mm, 2022



Source: IQVIA, HSIE Research

Development in GLP-1 space—global innovators and Indian companies

Eli Lilly and Novo are the key players in the obesity drug category (that is they have seen significant uptick in recent quarters). The focus of the indication is currently largely towards peptides—GLP1 drugs in the injectable form.

Novo Nordisk

- **Three approved drugs—(1) Wegovy (Semaglutide, weight loss):** Weekly injection, mimics GLP-1, 15% weight loss, USD 6.1 bn in sales in 2022; **(2) Saxenda (liraglutide, weight loss):** Once daily injection, USD 4.4 bn in sales in 2022; and **(3) Ozempic (semaglutide, diabetes):** Once weekly injectable, GLP-1 segment, USD 5.5 bn in sales in 2022.
- **Few under products are development – (1) Rybelsus (oral semaglutide, diabetes):** Phase 3 / OASIS 1 (for weight loss) – oral semaglutide 50 mg; ~15.1% weight loss. (2)

Pioneer Plus – oral semaglutide (for weight loss and HBA1c reduction): Phase 3 completed; 9.5% weight reduction.

- **Other pipeline: (1) Phase 3 initiated (REDEFINE 2/3) with CagriSema (Sameglutide + cagrilintide);** Phase 1/2 showed 17% weight loss, and **(2) Oral amycretin** is in Phase 1**, (3) PYY 1875 analogue** is in Phase 2, and **(3) Cagrisema, Semaglutide 7.2 mg** in Phase 3.

Eli Lilly

- **Mounjaro (weight loss/ diabetes) – tirzepatide:** Approved for type 2 diabetes in May'22 by the USFDA; Launched in mid-2022 and reported sales of USD 367 mn in 2022 and witnessed multifold growth with sales of USD 2.7 bn in 9MCY23.; Weekly injection, mimics GLP-1 and GIP (gastric inhibitory polypeptide).
  - **Clinical update**: SURMOUNT-2/ Phase-3 (for weight reduction in obese with type 2 diabetes) results out. Granted USFDA Fast Track designation in 2022. Initiated a rolling submission in the US in 2022. Phase III trials are ongoing: 15% weight loss in trials.
- **Retatrutide (weight loss):** Phase 2 results for 338 adults out, recruiting for Phase 3; weekly injection – mimics GLP-1, GIP, Glucagon and reduces appetite; 12 mg dose – 17.5% weight reduction in 6 months, 24% weight loss in 12 months; Phase 3/ TRIUMPH3 expected to be completed by 2025 end with total enrolment of 1,800 subjects.
- **Orforglipron (weight loss); non-peptide oral GLP-1 receptor agonist:** Phase 2 data out; 15% weight loss.

GLP-1 - India Pharma companies

- **Sun Pharma:** It has one molecule GL0034, Utreglutide (long-acting GLP-1R: Glucagon-Like Peptide-1 Receptor agonist) under clinical development; current under Phase 1 trials for the treatment of type 2 diabetes and obesity. Initial Phase 1 studies – GL0034 administered at multiple ascending doses once weekly for up to 8 weeks was well tolerated and resulted in meaningful pharmacodynamic effects in healthy individuals with normal body weight. In this study, marked dose dependent reductions in body weight of up to -10.7% were observed following GL0034 treatment of relatively low doses for 4 to 8 weeks. The clinical trials could take 2-5 years to complete followed by approval from the USFDA.
- **Divi's Lab:** Talked about a few products that are under validation and targeting weight loss/anti-diabetic drug category.
- **Other pharma companies:** Some of the drugs like Semaglutide and Liraglutide are under Para IV litigation (in the US patent infringement litigation) with Indian companies like Natco Pharma, Dr Reddy's, Aurobindo, Zydus, and Sun Pharma; their launch timeline could be CY26-31, given the products have multiple patent protection.

Exhibit 28: Obesity clinical pipeline

Pre-clinical	Phase 1	Phase 2	Phase 3
YH34160^@ (Yuhan)	PF-07081532*# (Pfizer)	S-237648*# (Shionogi)	Tirzepatide^# (Lilly)
ENT-03^# (Enterin)	Enavogliflozin + DWC202010*# (Daewoong)	Retatrutide, Orforglipron^*@ (Lilly)	Cagrilintide + Semaglutide*@ (Novo Nordisk)
ZP 6590@ (Zealand Pharma)	LY3841136^# (Lilly)	Danuglipron*# (Pfizer)	Semaglutide*@ (Novo Nordisk)
HM15136 + Efpeglenatide@ (HANMI)	Dacra QW II# (Lilly)	Mazdutide^@ (Innovent Biologics)	
Oral peptides*@ (Adocia)	ZP 8396, Dapiglutide^@ (Zealand pharma)	Pemvidutide^@ (Altimmune)	
LR19020; LR19156# (LG Chem)	AMG 786, AMG 133^# (Amgen)	NN9775^@ (Novo Nordisk)	
Exenatide + Glucagon + Pramlintide @ (Adocia)	NN9215^@ (Novo Nordisk)	BI 456906^@ (BI; Zealand Pharma)	
	LB54640*# (LG Chem)	MBL949^# (Novartis)	
	SCO-267, SCO-094*# (Scohia Pharma)	Leucine + SildenafiL*# (Nusirt)	
	GL0034*# (Sun Pharma)		

Source: IQVIA, Companies, HSIE Research. Note: ^ pre-filled syringe, * oral, # non-biologic, @ Biologic

Notable USFDA inspections

Exhibit 29: USFDA clearance to multiple plants – to ease approval flow…

Company	Inspection Date	Facility	No. of observations	Facility Status
Alembic	Mar-23	F-3 (Karkhadi) - injectable/ opthalmic	2	-
	Mar-23	Karkhadi (Derma)	0	Concluded without any observations
Alkem	Dec-23	Mandva (API)	3	-
Aurobindo	Dec-23	Eugia new injectable facility at New Jersey, US	10 (PAI)	The observations are procedural in nature.
	Nov-23	APL HC - Unit 1/3, Telangana	0 (PAI)	NAI
	Aug-23	Unit-7 (formulations) - Telangana	0 (PAI)	NAI
	Aug-21	Unit-1 (API)	7	WL (Jan-22) OAI (Nov-21)

Source: Companies, HSIE Research, USFDA

Exhibit 30: …USFDA clearance to multiple plants – to ease approval flow…

Company	Inspection Date	Facility	No. of observations	Facility Status
Biocon	Jul-23	Malaysia insulin facility	6+2	OAI (Oct'23) CRL for Insulin Aspart (Oct'23) 6 observations to DS, DP and QC labs 2 observations to delivery device unit
	Aug-22	Malaysia Insulin facility	6	- PAI for bBevacizumab, Insulin Aspart, rh-Insulin and capacity expansion for bTrastuzumab.
		Bengaluru BBL site 1/2	11 each	
Cipla	Oct-23	Invagen -U1/2- Hauppauge, Long Island, NY	0	-
	Feb-23	Indore (formulations)	8 (cGMP)	**WL (Nov'23),** OAI (Aug'23) EIR (Sep'22) for Jul'22 inspection (2 observations)
	Aug-22	Goa	6	OAI maintained (Nov'22), Few repeat observations Under WL (Feb-20); OAI (Jan-20) after Sep-19 inspection
Gland	Aug-23	Pashamylaram	2	EIR (Nov'23) Pre-market inspection + cGMP for medical device - PEN device filed
	Jul-23	Dundigal	1	EIR (Aug'23)

Source: Companies, HSIE Research, USFDA

Exhibit 31: …USFDA clearance to multiple plants – to ease approval flow…

Company	Inspection Date	Facility	No. of observations	Facility Status
Glenmark	May-22	Monroe	17	**WL in Jun'23**
	May-22	Goa	5	**WL in Nov'22**; OAI in Aug'22
Dr Reddy's	Dec-23	IPDO R&D center (Bachupally)	3 (GMP and PAI)	-
	Oct-23	FTO 3 - Bachupally	10	-
	Oct-23	Biologics - Hyderabad	9 (PAI)	-
	Jul-23	Srikakulam (API) - CTO6	0 (PAI/ GMP)	NAI
IPCA	Jun-23	Pithampur (form.)	8	EIR + VAI (Oct'23)
	Jun-23	Ratlam (API)	11	EIR + VAI (Oct'23)
	Apr'23	Silvassa (Piparia)	3	VAI (Aug'23)
	Aug'19	Ratlam (API), Silvassa and Pithampur (Formulations)	3	Import Alert since Mar-15 (Ratlam in Jan-15); Silvassa OAI in Nov'19; Exempted for HCQS in Mar'20

Source: Companies, HSIE Research, USFDA

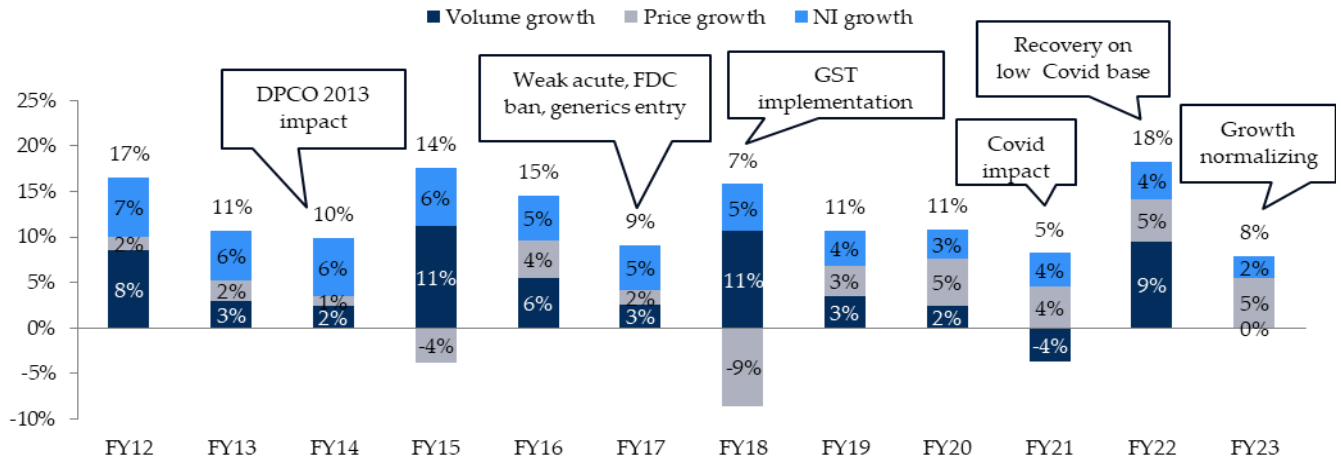
Exhibit 32: …USFDA clearance to multiple plants – to ease approval flow

Company	Inspection Date	Facility	No. of observations	Facility Status
Lupin	Aug-23	Mandideep (Unit-2)	0	EIR + NAI (Oct'23)
	Nov-22	Mandideep (Unit-1)	16	8 observations each in API and DP facility
	Oct-22	**Nagpur (Unit 2) injectable**	**5 (PAI)**	**EIR in Feb'23**
	Oct-22	Biotech manufacturing (Pune)	17 (PAI)	-
	Mar-23	Pithampur (Unit-2)	10	EIR (Jul-23) with VAI status OAI (May-19) **WL (since Nov-17)** - resolved Jul'23
	Dec-18	Mandideep (Unit-1)	18	WL (Sep-19) OAI (Mar-19)
Natco	Nov-23	Pharmacovigilance Dept., Hyderabad	0	-
	Oct-23	Kothur (Formulation)	8	-
Sun Pharma	May-22	Halol	10	**Import Alert and WL in Dec'22** OAI in Aug'22
	Aug-22	Mohali	6	**Consent decree correspondence/ Non-compliance letter in Apr'23** OAI in Nov'22`
Syngene	Nov-22	Bangalore (Biologics)	Nil (PAI)	-
Torrent	Dec-23	Bileshwarpura, Gujarat (oral-onco)	5 (PAI)	-
	May-23	Dahej	2	EIR + VAI (Aug'23) OAI (Jul-19)
	Sep-22	Indrad	3	OAI (Jan'23) 4 observations (Apr'19)-> OAI (Aug'19) -> WL (Oct-19)
Zydus	Dec-23	API site, Changodar, Ahmedabad	6 (PAI + cGMP)	EIR (Sep'23)
	Jul-23	Pharmez (SEZ-2), Ahmedabad	0 (PAI)	EIR (Sep'23)
	Jun-23	Zydus Biotech-injectables (Ahmedabad)	0 (cGMP)	EIR (Sep'23)

Source: Companies, HSIE Research, USFDA

Domestic formulation business to see steady growth

Exhibit 33: Steady volume/ price growth over last 10 years despite disruptions



Source: IQVIA, HSIE Research

Exhibit 34: Chronic growth is steadier; acute segment to recover

Value YoY growth %	% FY23 share	FY20	FY21	FY22	FY23	9M'24	Q3'24	Dec-23
Cardiac	12%	12	13	11	9	10	9	8
Anti-Infectives	12%	13	(12)	35	6	7	9	1
Gastro Intestinal	11%	9	6	17	12	8	9	6
Anti Diabetic	9%	12	9	8	7	6	5	5
Respiratory	9%	15	(8)	44	7	5	5	(2)
Pain / Analgesics	8%	12	(1)	22	12	9	8	5
Vitamins/Minerals/Nutrients	8%	10	11	16	3	7	8	5
Derma	7%	9	6	10	6	6	3	5
Neuro / Cns	6%	10	10	11	12	9	9	6
Gynaec.	5%	9	3	16	16	6	6	5
IPM	**100%**	**11**	**5**	**18**	**8**	**8**	**8**	**5**

Source: IQVIA, HSIE Research

Exhibit 35: Company wise growth trend

Value YoY growth %	FY20	FY21	FY22	FY23	9M'24	Q3'24	Dec'23
India Pharma							
Alkem	17	0	28	13	8	9	6
Alembic Pharma	6	1	23	8	6	6	1
Cipla	8	7	16	7	8	9	9
Dr Reddy's	7	5	22	2	7	6	3
Eris Life	7	7	10	8	7	8	7
Glenmark	15	14	26	(4)	8	11	8
IPCA	19	11	20	14	13	14	8
Lupin	10	3	15	6	6	6	5
Sun Pharma	10	5	16	11	9	9	5
Torrent Pharma	8	8	11	13	8	9	5
Zydus	8	5	15	7	6	6	5
Aristo Pharma	20	6	25	7	11	12	6
Ajanta Pharma	13	7	18	16	10	6	5
Emcure	12	5	22	4	6	7	3
Intas Pharma	14	6	18	16	12	13	11
JB Chemical	15	9	27	22	12	13	13
Macleods	10	(0)	25	12	10	10	4
Mankind	13	11	18	11	9	9	9
Micro Labs	13	(2)	37	3	3	1	(3)
USV	10	10	13	9	8	8	5
MNC Pharma							
Abbott	8	3	14	10	9	9	5
GSK Pharma	6	(1)	14	7	1	(0)	(4)
IPM	**11**	**5**	**18**	**8**	**8**	**8**	**5**

Source: IQVIA, HSIE Research

Exhibit 36: Company wise market share trend gainer and losers

Market share (value)	FY23 Rank	FY19	FY20	FY21	FY22	FY23	9M'24	Q3'24	Dec'23	FY19-FY23 (bps)
Gained market share										
Alkem*	5	3.6%	3.8%	3.6%	3.9%	4.1%	4.1%	4.1%	3.9%	51
Mankind	4	4.0%	4.1%	4.3%	4.3%	4.4%	4.4%	4.5%	4.5%	40
Aristo Pharma*	11	2.5%	2.7%	2.8%	2.9%	2.9%	3.0%	3.0%	2.7%	38
Intas Pharma*	7	3.1%	3.2%	3.2%	3.2%	3.4%	3.5%	3.6%	3.6%	35
Ipca Labs	17	1.5%	1.6%	1.7%	1.7%	1.9%	2.0%	2.0%	2.0%	34
Jb Pharma*	24	0.8%	0.8%	0.8%	0.9%	1.0%	1.0%	1.0%	1.1%	24
Macleods Pharma	9	3.2%	3.1%	3.0%	3.2%	3.3%	3.4%	3.4%	3.3%	15
Glenmark Pharma	15	1.9%	2.0%	2.2%	2.3%	2.0%	2.0%	2.1%	2.2%	13
Ajanta Pharma	27	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.8%	8
Sun*	1	7.6%	7.5%	7.6%	7.4%	7.7%	7.7%	7.7%	7.8%	6
Emcure*	14	2.0%	2.0%	2.1%	2.1%	2.0%	2.0%	2.0%	1.9%	2
Lost market share										
Torrent Pharma*	8	3.4%	3.3%	3.4%	3.2%	3.4%	3.4%	3.4%	3.4%	(1)
Alembic	21	1.6%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	(6)
Eris Lifesciences*	23	1.1%	1.1%	1.1%	1.0%	1.0%	1.0%	1.0%	1.1%	(9)
Zydus Cadila*	12	3.0%	3.0%	3.0%	2.9%	2.9%	2.8%	2.8%	2.8%	(16)
Cipla	3	5.5%	5.3%	5.4%	5.3%	5.3%	5.3%	5.7%	6.0%	(17)
Dr Reddys Labs	10	3.1%	3.0%	3.0%	3.1%	2.9%	2.9%	2.9%	2.9%	(18)
Lupin Limited	6	3.7%	3.7%	3.6%	3.5%	3.5%	3.4%	3.4%	3.5%	(23)
Abbott*	2	6.6%	6.4%	6.3%	6.1%	6.2%	6.2%	6.1%	6.1%	(37)
Glaxosmithkline*	13	3.0%	2.9%	2.7%	2.6%	2.6%	2.4%	2.4%	2.3%	(44)

Source: IQVIA, HSIE Research

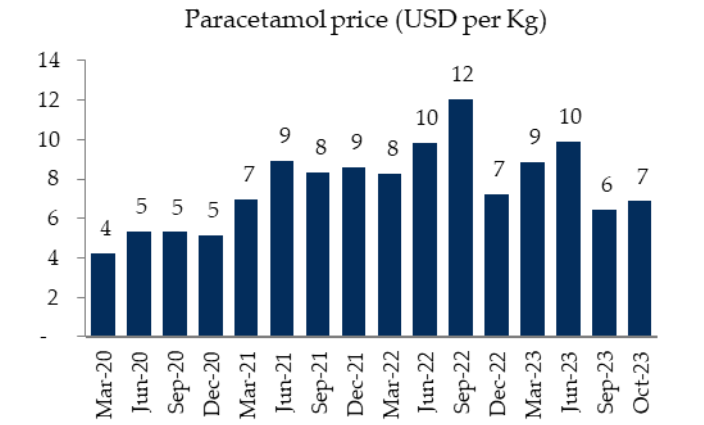
Exhibit 37: Company wise growth trend for India formulation business

(Rs bn)	FY11	FY16	5-yr CAGR	FY17	FY23	YoY %	5-yr CAGR	FY24E	YoY %	FY25E	YoY %	FY26E	YoY %	FY23-26E CAGR
Dr. Reddys	12	21	13%	23	49	17%	16%	47	-3%	53	12%	59	11%	6%
Lupin	16	34	17%	38	61	1%	8%	66	8%	73	12%	82	11%	10%
Sun Pharma	24	71	25%	77	136	7%	11%	149	10%	165	11%	184	11%	10%
Zydus Life	16	30	13%	32	49	2%	8%	53	7%	58	10%	64	10%	9%
Total	**67**	**157**	**18%**	**171**	**295**	**0**	**11%**	**315**	**7%**	**350**	**11%**	**388**	**11%**	**10%**

Source: Companies, HSIE Research

Trend in select input and other cost items

Exhibit 38: Paracetamol (import) prices softening in last few months

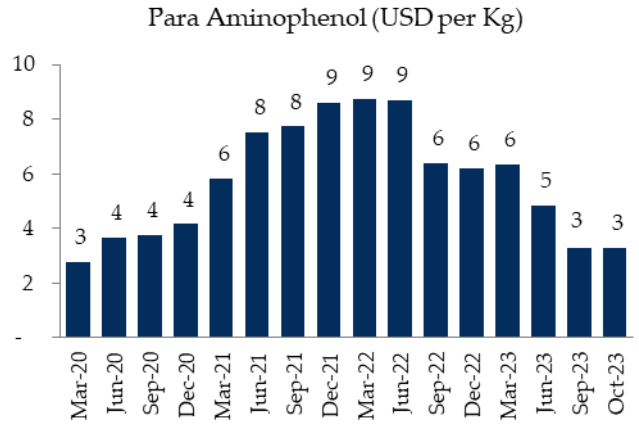


Source: HSIE Research, Ministry of commerce and Industry

Exhibit 39: Penicillin price stabilizing

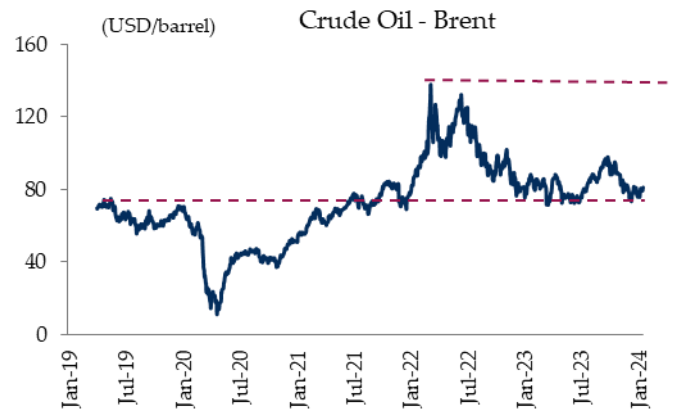
Source: HSIE Research, Ministry of commerce and Industry

Exhibit 40: Para aminophenol price normalized at pre-Covid level



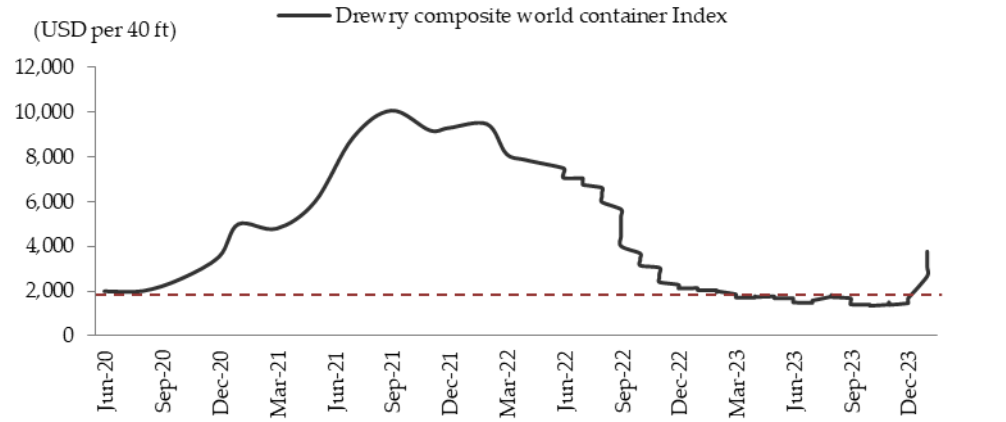
Source: HSIE Research, Ministry of commerce and Industry

Exhibit 41: Cude oil price steady at 77-80 USD / barrel



Source: HSIE Research, Bloomberg

Exhibit 42: Container cost reached at pre-Covid level, increasing from Jan'24



Source: HSIE Research, Drewry, USD per 40 ft container; latest data as of 18 Jan 2024

Exhibit 43: Global currency movement reflect no major benefits

Currency vs. INR	(Q3'24) (Avg)	% chg		(Q3'24) (Spot)	% chg	
		YoY	QoQ		YoY	QoQ
USD	83.3	1	1	83.2	1	0
RUB	0.7	1	1	0.7	1	0
BRL	16.8	8	-1	17.1	9	4
ZAR	4.4	-5	0	4.5	-7	3
EUR	89.6	7	-0	91.9	4	5
YEN	0.6	-3	-1	0.6	-6	6
AUD	54.2	0	0	56.7	1	6
CAD	61.2	1	-1	62.8	3	3

Source: HSIE Research, Bloomberg, latest data as of 31 Dec 2023

Exhibit 44: Recent M&A

Date (announced)	Acquirer	Target business/ portfolio/ company	Acquisition cost (mn)	Sales (mn)	EV/ sales (x)	Description/ Details
31-10-2023	**Zydus (USD mn)**	**100% of LiqMeds group, UK**	**68**	**4.5**	15.1	It has capabilities and specialisation in development, manufacturing and supply of oral liquids for global markets (US, UK, EU, Canda, RoW), which it currently commercializes through partners on milestone/ profit share basis. Sales CY22: GBP 5.3 mn; CY21: 7.4, CY20: 4.5. GBP 45.8 mn to sellers, rest to settle debt + milestone income over next 3 CYs.
12-09-2023	Aurobindo (USD mn)	15 branded products for Indonesia	48	30.5	1.6	Entry platform into fast growing pharmaceutical market of Indonesia. To be completed by Feb'24.
23-06-2023	Zydus Life (INR mn)	6.5% of Mylab	1,060	**950**	17.2	Mylab is engaged in researching, developing, manufacturing, marketing and selling in-vitro diagnostics kits, equipment, reagents and related products that are linked to its diagnostic portfolio and providing portfolio solutions to other labs and hospitals. Acquired to participate in growing diagnostics space which is expected to witness increased penetration through in-clinic solutions with Point of Care Testing ("POCT") devices.
05-May-23	Lupin (USD mn)	100% acquisition of Medisol (France)	18	7	2.5	completely acquire; specializes in generic injectable made in France; gain access to hospital injectable space in France and 7 injectable products. Completed on 1 Sep'23.
27-Feb-23	Dr Reddy's (USD mn)	US retail generics business	90	111	0.8	portfolio of 85 generic products (45 commercial + 40 approved non-marketed) and 4 generic pipeline products; includes gNuvaring
19-Feb-23	Sun Pharma (INR mn)	27.4% in Remidio Innovative Solutions	1,499	266	20.6	Company provides innovative products enabling early detection of eye diseases. Registered Bangalore.
19-Jan-23	Sun Pharma (USD mn)	Concert Pharma	576	33	17.7	Strengthens its global derma franchise by adding late-stage Deuruxolitinib for treatment of Alopecia Areata (autoimmune disease) **Contingent value right** - USD 1.0/ share, payable if between first commercial sale of Deuruxolitinib in US and FY27 net sales of Deuruxolitinib is >= USD 100 mn and - an additional USD 2.5/ share, payable in any period of 4 consecutive fiscal quarters between the time of first commercial sale of Deuruxolitinib in US and Dec'29, net sales of Deuruxolitinib is >= $500 mn
20-Oct-22	Lupin (USD mn)	Brovana & Xopenex HFA brands/US	75	60	1.3	expands inhalation portfolio; expected to be EPS accretive from Year 1
14-Jul-21	Zenex Animal Health India (INR mn)	Zydus Animal Health & Investments Ltd	29,210	5,133	5.7	Zydus will continue to pursue business opportunities in US and certain European countries through Animal Healthcare Emerging Markets undertaking.
17-Oct-20	Aurobindo Pharma (INR mn)	100% MViyeS Pharma Ventures	2,742	Nil	NA	MViyeS was holding 32.18% share in Eugia Pharma Specialities, a JV (rest with Auro). Eugia - developing, manufacturing and marketing hormonal and oncology generic formulations.

Source: Companies, HSIE Research

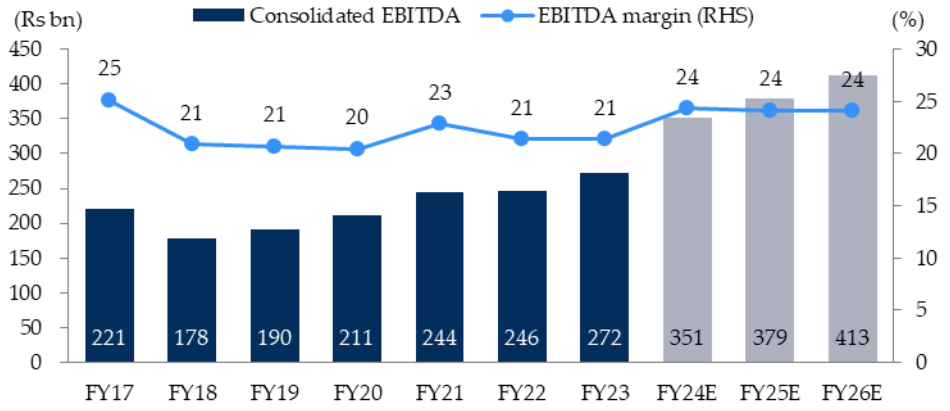
Performance of coverage companies

Exhibit 45: Post weak FY18-22, expect strong growth in FY24; steady in FY25/26

US revenue (USD mn)	FY11	FY16	5-yr CAGR	FY18	FY23	FY18-23 CAGR	FY24E	(YoY %)	FY25E	(YoY %)	FY26E	(YoY %)	FY23-26E CAGR
Large Caps													
SUNP	494	2,066	33	1,357	1,684	4	1,835	9	2,013	10	2,198	9	9
DRRD	416	1,153	23	928	1,265	6	1,530	21	1,460	-5	1,413	-3	4
LPC	456	906	15	914	674	-6	845	25	922	9	982	6	13
ARBP	261	929	29	1,155	1,450	5	1,697	17	1,759	4	1,800	2	7
ZYDUSLIF	209	614	24	898	926	1	1,042	12	1,086	4	1,135	4	7
Total	**1,836**	**5,668**	**25**	**5,252**	**5,999**	**3**	**6,949**	**16**	**7,240**	**4**	**7,528**	**4**	**8**

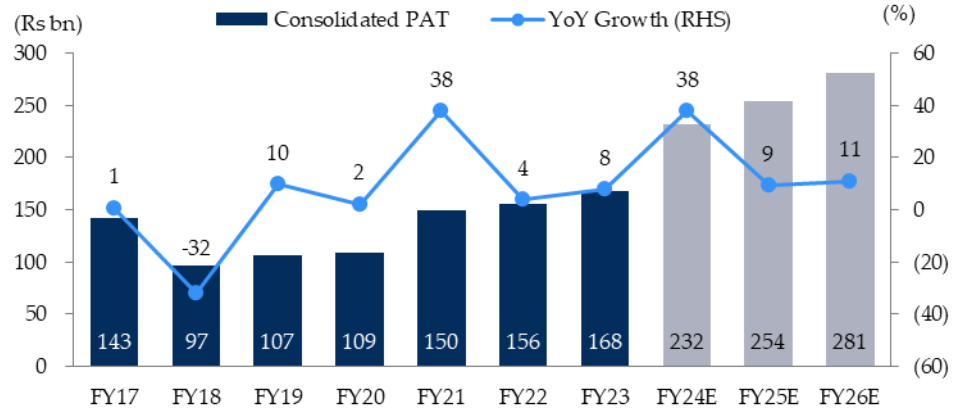
Source: Companies, HSIE Research

Exhibit 46: Margin to remain steady



Source: Companies, HSIE Research

Exhibit 47: PAT growth to improve



Source: Companies, HSIE Research

- FY17-18 – challenging years with pressure, led by
  - Weak US generics business and lower growth in domestic business.
- FY19 - 23 PAT has been volatile due to Covid impact.
- FY24/25/26 – expect earnings to see normalize growth.
  - recovery in domestic business, improvement in US generics business.
  - cost rationalization, depreciating currency.

- Improving return ratios as negative operating leverage reversing:
  - Factors like slower approvals on USFDA issues/ pricing pressure on channel consolidation, high capex and R&D had compressed return ratios during FY18-20 and Covid impact kept return ratios suppressed.
  - With faster monetization of complex R&D pipeline, potential launches post USFDA clearance despite higher inspections (for few companies), moderation in pricing, and shortages led volume growth opportunities etc., the return ratios expected to improve from FY24/26.

Exhibit 48: Return ratios to improve from FY24/25E

RoCE (%)	FY11	FY16	5-yr avg	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
India Pharma												
SUNP	22	19	28	10	11	10	13	17	16	17	18	19
DRRD	20	19	24	8	13	20	19	18	26	26	20	18
LPC	24	23	31	10	9	8	10	3	5	15	16	17
ARBP	19	27	21	23	18	18	18	13	9	13	14	14
ZYDUSLIF	29	27	23	18	15	11	14	12	13	20	17	17
Average	**23**	**23**	**21**	**14**	**13**	**14**	**15**	**13**	**14**	**18**	**17**	**17**

Source: Companies, HSIE Research

Exhibit 49: Coverage companies – valuation snapshot

Companies	MCAP (USD bn)	Rating	TP Multiple	CMP (Rs)	TP (Rs)	EPS (Rs)				P/E (x)				EV/EBITDA (x)				RoCE (%)			
						FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Aurobindo	8.1	ADD	19x	1,145	1,250	33	54	61	67	34	21	19	17	18	12	11	10	9	13	14	14
Dr. Reddy's	11.3	REDUCE	24x	5,633	5,650	211	318	289	284	27	18	20	20	14	11	12	12	26	26	20	18
Lupin	7.7	REDUCE	26x	1,410	1,400	8	40	47	56	168	35	30	25	39	19	17	15	5	15	16	17
Sun Pharma	38.3	BUY	30x	1,326	1,600	36	40	48	55	37	33	28	24	26	24	21	18	16	17	18	19
Zydus Life	8.6	BUY	24x	703	850	23	33	33	36	31	21	21	19	20	14	15	13	13	20	17	17
Large Cap										**49**	**28**	**25**	**22**	**24**	**19**	**17**	**15**	**15**	**18**	**18**	**18**

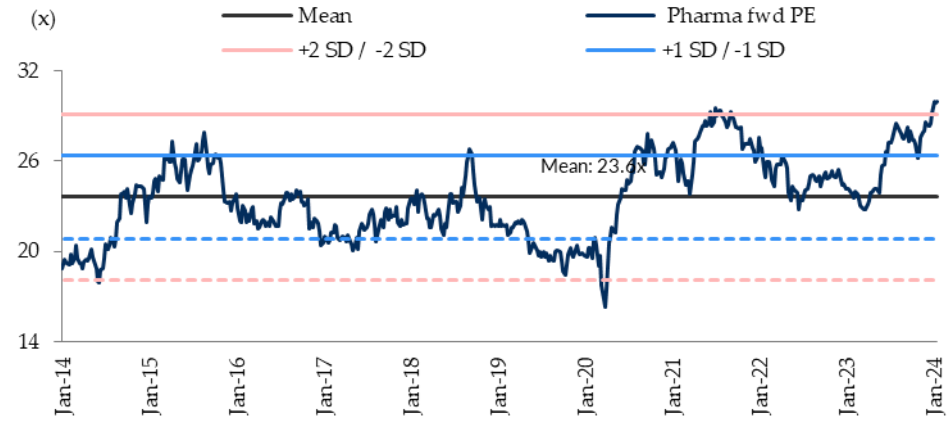
Source: Companies, HSIE Research, Bloomberg, Note: Price as on 20-Jan-2024, Target multiples at Dec'25E. Dr Reddy's TP includes Rs 150/ share for gRevlimid

Exhibit 50: BSE Healthcare outperformed Sensex by 10/18% in past 6/12 month

Companies	Price (Rs)	Absolute performance (%)					
		1 month	3 months	6 months	1 year	3 years	5 years
Pharmaceuticals							
Alembic	945	25%	18%	33%	70%	-4%	60%
Alkem	4,879	0%	36%	32%	62%	58%	156%
Aurobindo	1,144	11%	32%	48%	157%	23%	47%
Biocon	274	13%	19%	3%	12%	-39%	-17%
Cipla	1,316	6%	10%	25%	25%	58%	158%
Divis	3,650	1%	3%	0%	9%	1%	144%
Dr Reddy's	5,635	1%	1%	6%	30%	11%	117%
Eris Lifesciences	894	2%	3%	21%	42%	42%	27%
Gland	1,940	7%	24%	57%	40%	N. A	N. A
Glenmark	875	11%	12%	18%	109%	72%	35%
IPCA	1,078	2%	15%	37%	25%	3%	176%
Lupin	1,411	15%	20%	49%	87%	30%	63%
Mankind	2,169	15%	21%	15%	NA	NA	NA
Natco Pharma	829	8%	1%	10%	55%	-9%	23%
Piramal Pharma	144	16%	44%	47%	NA	NA	NA
Sun Pharma	1,326	8%	16%	21%	29%	123%	233%
Syngene	683	-1%	-4%	-13%	13%	12%	139%
Torrent	2,532	18%	34%	31%	60%	86%	170%
Zydus Lifesciences	704	6%	22%	14%	61%	45%	104%
Healthcare services							
Apollo	6,123	13%	23%	18%	43%	129%	362%
Aster DM	434	12%	32%	39%	97%	173%	164%
Max Health	749	15%	28%	23%	71%	N.A.	N.A.
Medplus	726	-4%	-8%	-21%	16%	N.A.	N.A.
DLPL	2,425	-2%	-3%	3%	15%	6%	138%
Metropolis	1,583	-1%	5%	10%	21%	-29%	N.A.
BSE HC	**32,645**	**6%**	**17%**	**22%**	**43%**	**49%**	**136%**
Sensex	**71,424**	**0%**	**9%**	**7%**	**18%**	**43%**	**95%**

Source: HSIE Research, Bloomberg, Price as of 20 Jan 2024

Exhibit 51: Pharma sector (BSEHC) PE (vs 10-year mean)



Source: HSIE Research, Bloomberg, Price as of 20 Jan 2024, SD = standard deviation

Company section

INSTITUTIONAL RESEARCH

Aurobindo Pharma

US steady, injectable/specialty to unlock value

ADD

CMP *(as on 20 Jan 2024)*	**INR 1,144**
Target Price	**INR 1,250**
NIFTY	**21,572**

KEY STOCK DATA	
Bloomberg code	ARBP IN
No. of Shares (mn)	586
MCap (INR bn) / ($ mn)	670/8,197
6m avg traded value (INR mn)	2,041
52 Week high / low	INR 1,164/397

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	32.1	48.1	157.3
Relative (%)	22.9	41.0	139.4

SHAREHOLDING PATTERN (%)	Sep-23	Dec-23
Promoters	51.83	51.83
FIs & Local MFs	18.29	20.60
FPIs	22.45	20.72
Public & Others	7.43	6.85
Pledged Shares	19.56	18.9

Source : BSE

Aurobindo (ARBP) has emerged as one of the leading generic companies over the last decade in the US market (in oral solid, injectable, and complex spaces). It has expanded its presence through multiple M&As (in Europe, RoW, and India). We believe ARBP is well-positioned to grow its US business, led by new launches (200+ pending ANDA) and traction in the base business. Europe's business could outperform market growth with a focus on margin improvement. We see steady growth and margin improvement over the next few years. We initiate coverage with an ADD rating and a target price of INR 1,250, based on a 19x Dec'25E EPS. Over the last three years, ARBP has made significant investments (cumulative R&D was at ~INR 45 bn) for specialty initiatives like complex/differentiated products (launched gRevlimid in Oct'23), injectables (integrated under Eugia to unlock value), Biosimilars, respiratory, peptides, transdermal, and vaccines—all are underappreciated in our view as monetization remains key.

Well positioned to grow US business: The US business has seen steady traction in the last few years, led by new launches, shortage-led supply opportunities, volume gain in key baseline products, and moderation in price erosion. We expect steady growth in US business, led by new launches (200+ pending approvals), traction in recent launches (gRevlimid, gVimpat, gLexiscan), and continued shortage opportunities.

Scaling-up injectable business: ARBP has integrated its injectable business under one umbrella in Eugia to improve operational synergy and value unlocking via alliances with partners. It expects to sustain steady growth and targets Eugia global sales of USD 560 mn in FY24 on volume growth, new launches (20+ products; incl. gRevlimid), and commercialization of plants at Vizag and US (10 PAI observations in Dec'23).

Traction in Europe, RoW, API, and China plant to support growth: Europe business is expected to outperform market growth and the focus is on improving the margin. In RoW, Canada, Brazil, Mexico, and South Africa are the key markets. It has also entered India with the Veritaz acquisition in Mar'22 and acquired 15 brands (sales base of USD 31 mn) from Viatris/Pfizer in Dec'23 in the Indonesian market. Capex for Pen-G API capacity (~15,000 tonnes) will materialise in FY25. Entry into the China market with six approvals and a plant is expected to commercialise by FY24 end.

R&D assets to create long-term value: Over the last three years, ARBP has stepped-up R&D (cumulative spent of ~INR 45 bn) for specialty initiatives like complex/generic injectables (depot injection, oncology, hormones), scale-up in branded oncology space (USFDA approval for in-licensing drug Ryzneuta – Efbemalenograstim alfa and initiated 2 phase-III studies for the topical product MM36 in-licensed from Otsuka), biosimilars (15+ product under development and expects to file 3 product by FY24 end; CMO partnership with MSD), respiratory (4+ nasal and 10+ inhalers), peptides, transdermal, and vaccines (15+ under development)—monetization remains key.

Outlook and valuation: We expect ARBP to see 10/22/26% sales/EBITDA/PAT CAGRs over FY23-26E, led by steady US growth/improving margin. Monetization of mid-to-long-term drivers (biosimilars, respiratory, value unlocking in injectables) can rerate the stock further. Initiate coverage with an ADD and a TP of INR 1,250, based on 19x Dec'25E EPS, which is still at a 25%+ discount to its large-cap peers.

Financial Summary

YE March (INR bn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
US sales (USD mn)	1,620	1,660	1,492	1,450	1,697	1,759	1,800
Net Sales	231	248	235	249	288	311	334
EBITDA	49	53	44	38	55	63	68
APAT	29	32	27	20	32	36	39
Diluted EPS (INR)	49.4	54.9	46.0	33.4	53.8	61.0	67.4
P/E (x)	23.2	20.9	24.9	34.3	21.3	18.8	17.0
EV / EBITDA (x)	14.3	12.5	14.9	17.6	11.9	10.2	9.0
RoCE (%)	17	18	13	9	13	14	14

Source: Company, HSIE Research

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Exhibit 1: Revenue, EBITDA and PAT assumptions

(INR mn)	% of FY23 sales	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
US (USD mn)		1,155	1,291	1,620	1,660	1,492	1,450	1,697	1,759	1,800
% growth		13	12	25	2	(10)	(3)	17	4	2
US	47	74,421	90,307	1,14,835	1,23,245	1,11,221	1,16,544	1,40,885	1,47,769	1,53,014
% growth		9	21	27	7	(10)	5	21	5	4
Europe	26	43,544	49,602	59,218	60,608	64,803	64,256	70,745	76,771	83,318
% growth		33	14	19	2	7	(1)	10	9	9
RoW	7	8,971	11,937	13,551	14,379	15,039	17,462	20,026	24,859	30,308
% growth		19	33	14	6	5	16	15	24	22
India	1	-	-	-	-	-	2,268	2,472	2,769	3,101
% growth								9	12	12
ARV	4	8,396	9,725	12,515	18,628	8,330	9,544	9,258	9,721	10,109
% growth		(29)	16	29	49	(55)	15	(3)	5	4
Total Formulations	85	1,35,332	1,61,571	2,00,119	2,16,860	1,99,393	2,10,074	2,43,387	2,61,888	2,79,850
% growth		12	19	24	8	(8)	5	16	8	7
API business	15	29,622	34,030	30,834	30,859	35,156	38,478	44,912	48,955	53,702
% growth		(3)	15	(9)	0	14	9	17	9	10
Others	0	44	35	32	27	6	2	18	18	18
Total revenues	**100**	**1,64,998**	**1,95,636**	**2,30,985**	**2,47,746**	**2,34,555**	**2,48,554**	**2,88,317**	**3,10,861**	**3,33,570**
% growth		**9**	**19**	**18**	**7**	**(5)**	**6**	**16**	**8**	**7**
Gross profit		**97,471**	**1,08,509**	**1,33,633**	**1,48,722**	**1,33,152**	**1,35,621**	**1,60,881**	**1,77,191**	**1,90,135**
Gross margin %		**59.1**	**55.5**	**57.9**	**60.0**	**56.8**	**54.6**	**55.8**	**57.0**	**57.0**
EBITDA		**37,885**	**39,519**	**48,643**	**53,334**	**43,868**	**37,582**	**55,357**	**62,794**	**68,382**
EBITDA margin %		**23.0**	**20.2**	**21.1**	**21.5**	**18.7**	**15.1**	**19.2**	**20.2**	**20.5**
Adj PAT		**24,357**	**24,782**	**28,952**	**32,153**	**26,937**	**19,567**	**31,526**	**35,755**	**39,477**
% growth		**8**	**2**	**17**	**11**	**(16)**	**(27)**	**61**	**13**	**10**

Source: Company, HSIE Research, EBITDA/ PAT adjusted for forex and one-offs, India formulation through acquisition of Veritaz Pharma in Mar'22, Includes sales from Brand acquisition from Viatris/ Pfizer in growth market from Dec'23.

The overall outlook for ARBP

- We expect growth to be driven by new initiatives and capex commercialisation, PLI capacity commercialisation by Apr'24, facility commercialisation in India and China, debottlenecking activities, and ANDA acquisitions and market authorisations across markets.
- EBITDA margins are expected to be at 20% in FY24 and margins should continue to improve in the following years.
- We expect overall Eugia global sales to reach USD 560 mn (vs USD 411 mn in FY23, ~USD 249 mn in H1FY24); US generic injectables are stable at USD 80 mn and can reach USD 85-90 mn, led by new approvals.
- Plant capex updates: (1) China: installation done, received EU approval and to be commercialised in late FY24/early FY25, (2) PLI plant to be commercialised in Apr'24, (3) Vizag in FY25, (4) biosimilar plant expected in FY26, (5) Aurolife and Eugia plant capex by FY26.

Strategic priorities for future growth

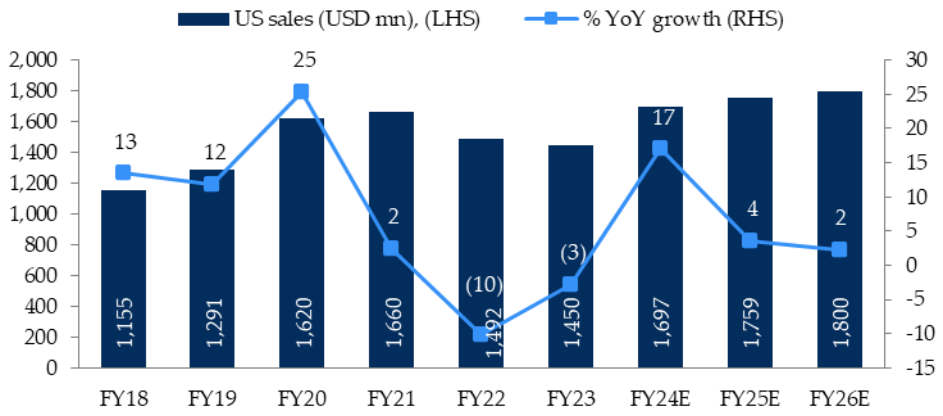
- **Accelerating biosimilars**
  - Continued to advance Phase 3 clinical trials of two oncology and one ophthalmic biosimilar product. Intend to file trastuzumab biosimilar in India, select EMs, Europe and the US in FY24. The ongoing Phase 3 trial for Bevacizumab is progressing as planned. Another focused biosimilar Omalizumab (Xolair) has completed Phase 1 in FY23 and there are plans to initiate a Phase 3 global clinical study in FY24. The company expects permission for one more immunology biosimilar in FY24.
  - To support future product launches, ARBP has incurred a capacity expansion in both the microbial and mammalian drug substance manufacturing facilities.

- **Growing API business**
  - To streamline operations and enhance focus, ARBP transferred the API business to Apitoria Pharma (a wholly owned subsidiary) and appointed a CEO to lead this business vertical.
  - Looking to strengthen its portfolio and expand capacity for small to medium-range molecules. Also adding a new unit for highly potent molecules. As of Sep'23, ARBP has ~280 DMF filing in the US.
- **Leveraging PLI scheme**
  - Starting a project for ~15,000 tons of Penicillin G at Kakinada, Andhra Pradesh. Expects the project to be completed by FY24 end.
  - Till FY23, spending for the PLI project was USD 121 mn and by H1FY24 it was USD 188 mn.
- **Expanding presence in China**
  - Construction of a facility for oral formulation aimed at Chinese, European, and EMs has been completed. The company intends to transfer a few products from Europe to the China facility.
  - Filed 30 products in China, with six approvals received (Pantoprazole, Sildenafil, Levetiracetam, Mirtazapine, Aripiprazole, and Amlodipine). Manufacturing from China facility to start by FY24 end.

Strong growth visibility in the US

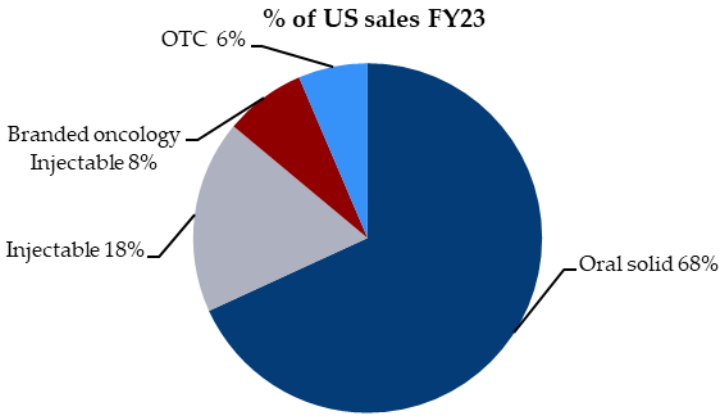
ARBP expects to maintain the growth momentum in the base business given demand visibility for a few key products, moderation in price erosion, volume growth, and new launches.

Exhibit 2: US sales to see steady growth



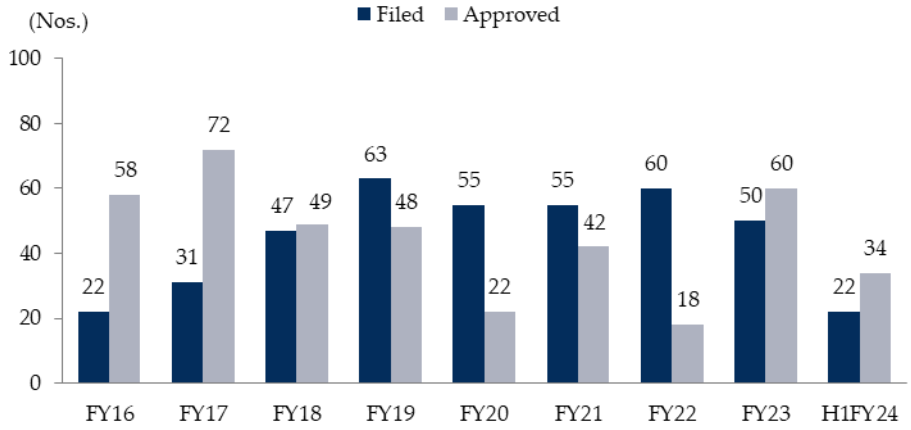
Source: Company, HSIE Research

Exhibit 3: US sales mix for FY23



Source: Company, HSIE Research

Exhibit 4: Filling and approval momentum to continue



Source: Company, HSIE Research, USFDA

Exhibit 5: Plant-wise filing and approval update

Facility	Filed		Approved		Pending	
	Sep'22	Sep'23	Sep'22	Sep'23	Sep'22	Sep'23
Total Orals	**487**	**501**	**333**	**383**	**127**	**95**
Unit III	130	127	114	117	7	8
Unit VI B (Cephalosporins)	13	15	11	11	2	4
Unit VII (SEZ)	173	172	134	151	26	14
Unit X	105	116	40	60	62	45
Aurolife	36	35	23	24	12	11
APL Healthcare	30	36	11	20	18	13
Total Injectables	**132**	**142**	**89**	**107**	**42**	**35**
Unit IV (Inj. and ophthalmic)	130	140	87	105	40	31
Auronext (Penems)	2	2	2	2	-	-
Others	**81**	**91**	**30**	**32**	**23**	**21**
Eugia (Oncology/Hormones)	51	55	30	32	21	18
Total	**750**	**817**	**563**	**660**	**193**	**157**

Source: Company, HSIE Research, USFDA

Exhibit 6: Key plants are now out of USFDA issues

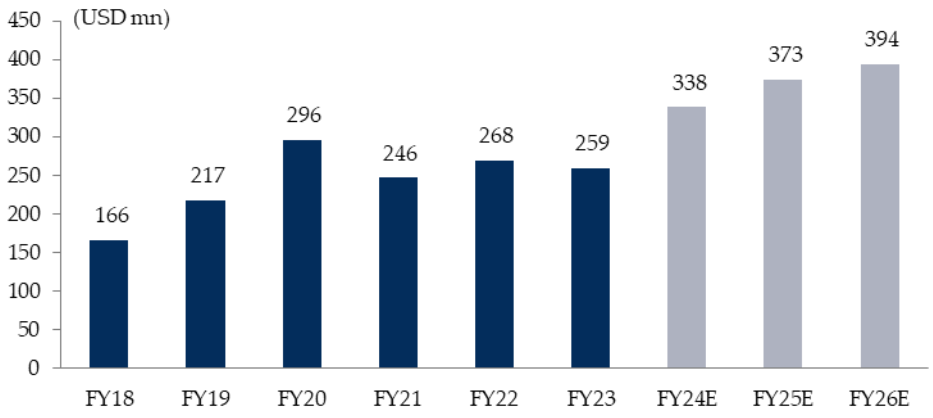
Inspection date	Facility	No. of observations	Facility status
Dec-23	Eugia new injectable facility at New Jersey, US	10 (PAI)	The observations are procedural in nature.
Nov-23	APL HC - Unit 1/3, Telangana	0 (PAI)	NAI
Sep-23	Unit VI-B (formulations), Telangana	1	VAI (Jan'24)
Sep-23	APL HC - Unit IV, Tirupati, AP	1	VAI (Dec'23)
Aug-23	Unit-7 (formulations) - Telangana	0 (PAI)	NAI
Jul-23	Eugia Unit-1 (formulations), Telangana	0	closed with NAI status
Jul-23	Unit-3 (formulation), Bachupally, Telangana	3	EIR + VAI (Sep'23)
May-23	Unit-14 (non-antibiotic API), Andhra	4	EIR + VAI (Jul'23)
Jan-23	APL HC U-I, III (Orals, Derma)	2	VAI in Feb'23
Aug-22	Aurolife: Raleigh (Derma, MDI)	1	EIR in Sep'22 (with VAI)
May-22	**Unit-7 (oral)**	**6**	**EIR in Aug'22 (with VAI)**
Feb-22	Unit-5 (API)	5	EIR in May'22
Aug-21	Unit-1 (API)	7	WL (Jan-22) OAI (Nov-21)
Feb-19	Units-1, 9 and 11	6 (Unit-1) 5 (Unit-9) 3 (Unit-11)	**Unit 1: OAI (May-19)** **Unit 9:** OAI (May'19); **VAI (Feb'23) after 10 obs (Nov'22)** **Unit 11**: WL (Jun'19); **Nov'22: EIR + VAI** (Aug'22 - 3 obs)

Source: Company, HSIE Research, USFDA

Unlocking value in injectable business

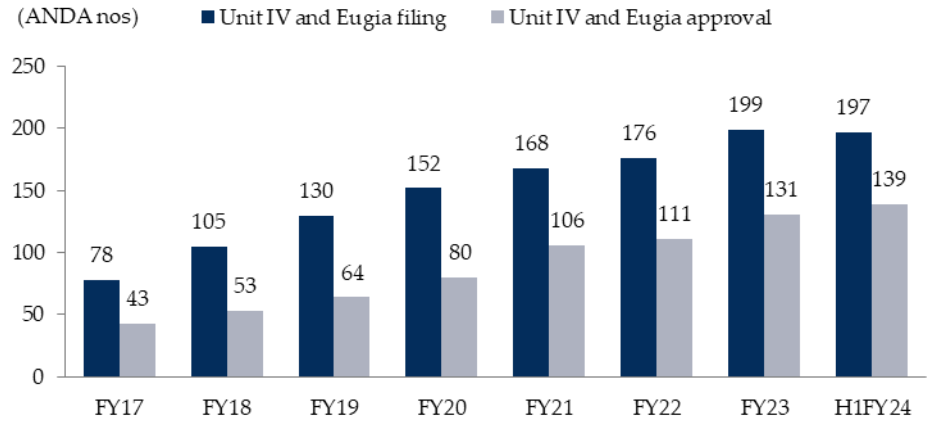
- ARBP has integrated its injectable business by (1) acquiring the remaining ~32% stake in Eugia Pharma Specialty for INR 2.74 bn in Oct'20, (2) merged business of Unit-10 and Auro Cure with Eugia in May'21 for a consideration of INR 3.81 bn (sales: ~INR 3.9 bn) and (3) merger of Unit-4 with Eugia in Jul'21 for INR 8.76 bn (sales: ~INR 9 bn).
- Combined entity Eugia Specialties has ~139 approved (105 Unit-4, 32 Eugia, 2 penem injectables) and 49 pending (31 Unit-4, 18 Eugia) ANDAs in the US.
- Integration of injectable business to improve (1) operational synergy and focus, (2) operational efficiency via lean, competitive organization for faster decision-making and dedicated management team, and (3) value creation opportunities like alliances with focused partners to enhance capabilities/growth prospects.
- It expects to sustain double-digit ex-Revlimid growth in Eugia (USD 411 mn in FY23, flat YoY) on the back of healthy approvals in generic injectables, with GMs in the 60-70% range and EBITDA margin of ~25-35% supported by commercialization of a new plant in the US and Vizag facility (commissioned), capacity expansion in Unit 4, commercial ramp-up in Eugia Pharma. Including gRevlimid, the company targets to achieve Eugia sales of ~USD 560 mn in FY24.

Exhibit 7: Injectable sales to see strong traction



Source: Company, HSIE Research

Exhibit 8: Filing and approval momentum to continue



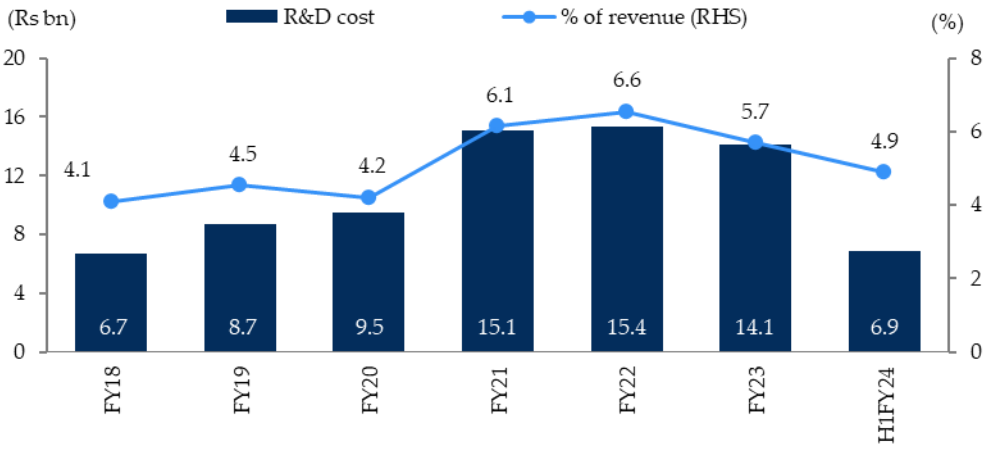
Source: Company, HSIE Research, USFDA

Exhibit 9 Ex-injectable business at attractive valuations

(INR mn)	FY23		FY24E		FY25E		FY26E	
Global Injectable sales (A)	**33,034**	**33,034**	**41,879**	**41,879**	**46,765**	**46,765**	**50,619**	**50,619**
EBITDA (Approx.) (B)	**9,910**	**9,910**	**12,564**	**12,564**	**14,030**	**14,030**	**15,186**	**15,186**
EBITDA margin	**30%**	**30%**	**30%**	**30%**	**30%**	**30%**	**30%**	**30%**
EV/EBITDA multiple (x)	**15**	**20**	**15**	**20**	**15**	**20**	**15**	**20**
Global Injectable business EV* (C)	**1,48,655**	**1,98,206**	**1,88,455**	**2,51,274**	**2,10,444**	**2,80,592**	**2,27,784**	**3,03,712**
Overall Market cap (D)	6,70,665	6,70,665	6,70,665	6,70,665	6,70,665	6,70,665	6,70,665	6,70,665
Ex-injectable business market cap (C-D) ;(E)	**5,22,011**	**4,72,459**	**4,82,210**	**4,19,391**	**4,60,221**	**3,90,073**	**4,42,881**	**3,66,953**
Consolidated Sales (F)	2,48,554	2,48,554	2,88,317	2,88,317	3,10,861	3,10,861	3,33,570	3,33,570
Consolidated EBITDA (G)	37,582	37,582	55,357	55,357	62,794	62,794	68,382	68,382
EBITDA margin	**15.1%**	**15.1%**	**19.2%**	**19.2%**	**20.2%**	**20.2%**	**20.5%**	**20.5%**
Ex-injectable business sales (F-A)	2,15,519	2,15,519	2,46,438	2,46,438	2,64,095	2,64,095	2,82,952	2,82,952
Ex-injectable business EBITDA (G-B)	27,672	27,672	42,793	42,793	48,764	48,764	53,196	53,196
Ex-injectable business EBITDA margin	**12.8%**	**12.8%**	**17.4%**	**17.4%**	**18.5%**	**18.5%**	**18.8%**	**18.8%**
Net debt (assuming in Ex-injectable business business) (H)	(9,490)	(9,490)	(10,467)	(10,467)	(30,795)	(30,795)	(52,635)	(52,635)
Ex-injectable business EV (E+H)	5,12,521	4,62,969	4,71,743	4,08,925	4,29,426	3,59,278	3,90,246	3,14,318
Ex-injectable business EV/EBITDA	**18.5**	**16.7**	**11.0**	**9.6**	**8.8**	**7.4**	**7.3**	**5.9**

Source: Company, HSIE Research, * Global injectable EV calculated considering zero net debt for injectables business; Market cap as of 20 Jan 2024. Global injectable sales excluding gRevlimid.

Exhibit 10: R&D increasing to support niche product pipeline



Source: Company, HSIE Research

Exhibit 11: Complex portfolio under development

Key areas	Product pipeline	Product portfolio (Filed/ Under development)	Filing/Monetization timeline	Market opportunity
Oncology & Hormones	- Eugia's portfolio comprises 79 products that fall under oncology, hormone and immunosuppressant indications. In FY22, Eugia filed 8 ANDAs in the US, of which 4 were injectables and in Europe filed 8 dossiers, of which 5 were for injectables. - Current hormonal portfolio includes 10 products. - Addressable market for portfolio (oncology – USD 28 bn and hormones USD 0.5 bn) is ~USD 29 bn.	90+	Oncology: Pipeline of 64 products in cancer and immunosuppressant – till FY22, filed 56 ANDAs and approvals for 25 products (tentative approvals for 5 ANDAs), 24 dossiers filed in the EU and approvals for 16 products, 23 dossiers filed in EMs and approvals for 9 products; revenue started from Q1'20.	~USD 29 bn
Depot Injections	- 3 depot injections products under development using its own microsphere and nano suspension technology platform. - Effectively scaled up sterile API conversion, completed product manufacturing exhibit batches in FY23. Currently finalizing clinical strategy. - Other two products are in the advanced stages of development. - Eugia secured approvals for long-acting injectable suspension products like gKenalog and gDepo-Provera.	3	Target to file the first product in FY25/26	USD 3.3 bn
Dermatology (Topicals)	- 48 topicals products are under development. - Filed 4 new and 2 supplemental ANDAs in FY23. Received approval for 2 ANDA filed from US facility. - 29 products are under development. - Clinical or BE (bioequivalence) investigations are required for at least 30% of the products in development. Also developed in-house capabilities to carry out in-vitro studies which serve as a surrogate to clinical endpoint studies to reduce the filing timelines and cost of development.	48	In FY23, Filed 4 ANDA and approval for 2 ANDA	~USD 4.4 bn
Dermatology (Transdermal)	- 9 transdermal patches and 1 oral film products are under development. - The total addressable market size for the products under development exceeds USD 3 bn+.	10	Completed pivotal pharmacokinetic studies and expect to file ANDA in FY24. Plans to complete 2 new products exhibit batches including one OTC monograph product.	USD 3 bn+
Respiratory (Nasals)	- Filed a complex new ANDA suspension product in a new line where in bigger batch size can be taken to meet the anticipated commercial demand. -To strengthen portfolio, ARBP has expanded its development to unit dose new device-based Nasal products including medication for emergency use. - It has 12 Nasal products in portfolio, including 1 ANDA awaiting approval.	12	Received ANDA approval for one OTC product.	USD 0.5 bn+
Respiratory (Inhalers)	- Manufacturing facility in the US, with a new high-speed filling machine was commissioned in CY23. - Working on 4 MDIs including 1 filed ANDA and two DPIs.	5	Filed 1 MDIs	USD 11 bn+
Peptides	- AuroPeptides develops a range of peptide-based generics for use as pharma drugs with a focus on oncology, muscoskeletal and anti-diabetes segments. - Till FY23, it has submitted 14 DMFs with the USFDA. - 3 ANDA filing backed by own peptide DMFs.	22	Filing started from FY21 onwards	USD 20 bn+

Key areas	Product pipeline	Product portfolio (Filed/ Under development)	Filing/Monetization timeline	Market opportunity
Vaccines	Through its JV partner Tergene Biotech, developing a 15 serotype PCV (Pneumococcal Conjugate Vaccine). - Completed a successful 3+0 trial in 1,130 paediatric subjects and is being tested in a 2+1 dosing regimen in another ongoing clinical study. Based on the outcome of the 3+0 clinical study, the vaccine received a recommendation from the Subjects Expert Committee of CDSCO for a grant of permission to Tergene to manufacture and market the vaccine with a three-dose schedule in the paediatric age group of 6, 10 and 14 weeks. - The vaccine will be manufactured at Auro Vaccines facility.	5+	Expects manufacturing license for PCV15 vaccine in FY24/25.	USD 6.2 bn (Global)

Source: Company, HSIE Research

Exhibit 12: Biosimilar pipeline for mid-to-long-term growth

Key areas	Product pipeline	Product portfolio (Filed/ Under development)	Filing/Monetization timeline	Market opportunity
Biosimilars	- CuraTeQ Biologics (a wholly owned subsidiary of ARBP) focused on developing biosimilars for the treatment of various cancers and autoimmune diseases. - 14 biosimilars in two phase (first and second wave) under development. - In FY22, filed 2 oncology biosimilars with the EMA. - In FY22, added a production line for microbial products bulk drug substance manufacturing facility to support commercialisation post regulatory approvals. - In FY23, completed licensure clinical trials for 3 biosimilars including Herceptin biosimilar and had filed its biosimilars with EMA, MHRA and Health Canada. Two more products from CuraTeQ's pipeline, 1 an oncology biosimilar and another an ophthalmic biosimilar, are in global Phase 3 clinical studies. Expects all 3 biosimilars (pegfilgrastim, Filgrastim, Trastuzumab) to be filed by FY24 end. Another immunology biosimilar has received the necessary clearances for advancing to Phase 3 clinical studies in chronic spontaneous urticaria patients. - Signed letter of intent with MSD to set up a large mammalian cell culture facility with 2x15kL bioreactor capacity and a vial filling line in Phase 1. - In-licensed ustekinumab (bStelara) that completed a Phase 1 trial and expected to be launched in the second wave of launches in 2026/27. - BP11 (bXolair) in global Phase-3 study for chronic spontaneous urticaria.	5 (first wave) 14 (overall)	- Filed 2 products in EU during FY22	USD 50 bn USD 20 bn for 5 initial biosimilars

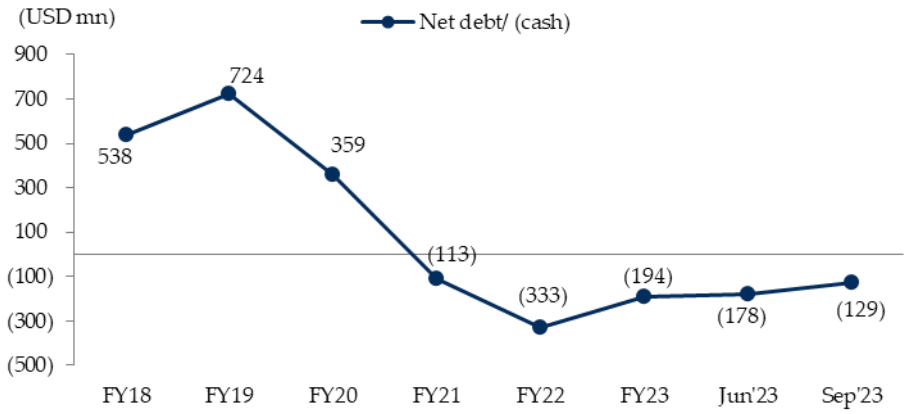
Source: Company, HSIE Research

Exhibit 13: Oncology and immunology biosimilar pipeline

Key products	Market size (USD bn)	Therapy	Status
BP01	6.2	Oncology	Phase 1 PK/PD clinical study completed. Multi center and multi country Phase 3 study in NSCLC patients is in progress
BP02	5.2	Oncology	Phase 3 clinical study completed in 690 metastatic breast cancer subjects and met the clinical end points successfully. Filing process has begun and will be completed in all major markets in the next 8 to 10 weeks
BP05	4.2	Ophthalmology	Phase 3 multi-country and multi-center trial is in progress
BP08	3.5	Immunology	Phase 3 clinical study will be completed in Apr/May 2024
BP16	5.7	Immunology/Oncology	Phase 1 clinical study is in progress. Phase 3 trials first subject dosing expected in next Quarter
BP11	4.0	Respiratory	Phase 1 clinical study was completed, and Phase 3 clinical study is on-going in Europe in chronic spontaneous urticaria patients
BP13	1.5	Oncology	Completed licensure trials and is filed with EMEA
BP14	4.6	Oncology	Completed licensure trials and is in filings phase. We expect to make an FDA filing in the next Quarter, depending on scientific advice from the Agency

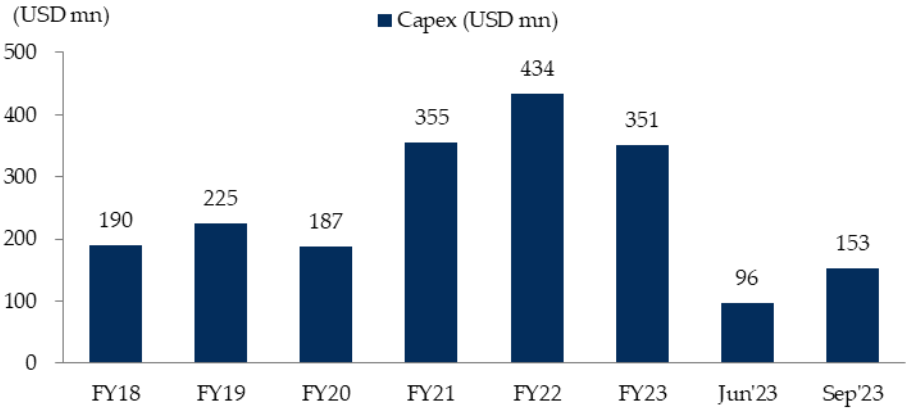
Source: Company, HSIE Research

Exhibit 14: ARBP remains net cash despite…



Source: Company, HSIE Research

Exhibit 15: …increasing capex over same period



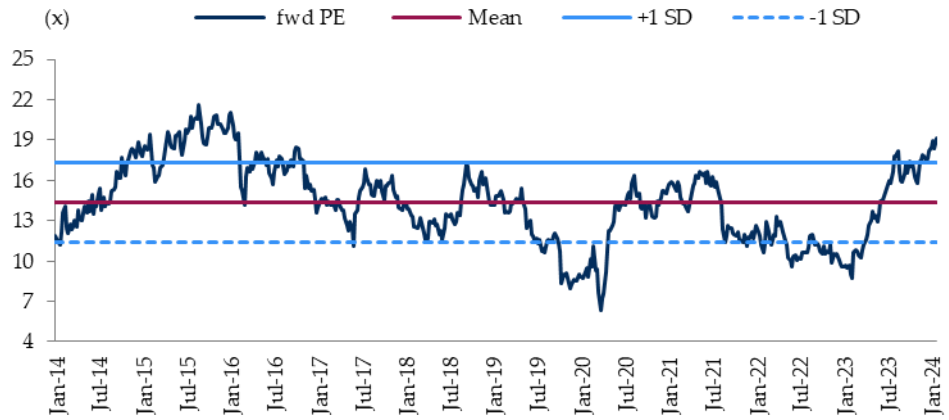
Source: Company, HSIE Research

Outlook and valuation

ARBP is well positioned to grow its US business led by new launches (~200+ pending ANDA) and traction in the base business. Europe business to outperform market growth with focus on margin improvement. Over the last 3 years ARBP has made significant investment (cumulative R&D was at ~INR 45 bn) for specialty initiatives like complex/ differentiated products (launched gRevlimid in Oct'23), injectables (integrated business under Eugia to unlock value), Biosimilars (to file 3 product by FY24 end; CMO partnership with MSD), respiratory, peptides, transdermal, and vaccines – all are underappreciation as monetization remains key. We expect ARBP to see 10/22/26% Sales/EBITDA/PAT CAGR over FY23-26E (on low base of FY23) led by steady US growth/ improving margin. Monetization of mid-to-long-term drivers (biosimilars, respiratory, value unlocking in injectables) can re-rate stock further.

Initiate coverage with an ADD and a TP of INR 1,250, based on 19x Dec'25E EPS, which is still at a 25%+ discount to its large-cap peers.

Exhibit 16: PE chart



Source: Bloomberg, HSIE Research

Financials (Consolidated)

Profit & loss (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	**1,92,259**	**2,27,380**	**2,45,579**	**2,33,666**	**2,46,171**	**2,88,317**	**3,10,861**	**3,33,570**
Other operating income	3,376	3,606	2,167	889	2,383	0	0	0
Total operating income	**1,95,636**	**2,30,985**	**2,47,746**	**2,34,555**	**2,48,554**	**2,88,317**	**3,10,861**	**3,33,570**
Cost of goods sold	-87,126	-97,352	-99,025	-1,01,403	-1,12,933	-1,27,436	-1,33,670	-1,43,435
Gross profit	1,08,509	1,33,633	1,48,722	1,33,152	1,35,621	1,60,881	1,77,191	1,90,135
Gross margin (%)	55	58	60	57	55	56	57	57
Total operating expenses	-68,990	-84,990	-95,388	-89,284	-98,039	-1,05,524	-1,14,397	-1,21,753
EBITDA	**39,519**	**48,643**	**53,334**	**43,868**	**37,582**	**55,357**	**62,794**	**68,382**
EBITDA margin (%)	20.2	21.1	21.5	18.7	15.1	19.2	20.2	20.5
Depreciation	-6,680	-9,667	-10,554	-11,265	-12,446	-14,532	-15,457	-16,756
EBIT	**32,840**	**38,976**	**42,780**	**32,603**	**25,136**	**40,825**	**47,337**	**51,626**
Net interest	-2,626	-3,051	-745	-486	-1,405	-2,597	-1,969	-1,346
Other income	1,157	862	2,773	2,504	2,906	5,776	3,730	3,917
Profit before tax	**30,887**	**37,582**	**73,990**	**34,040**	**26,242**	**43,385**	**49,098**	**54,197**
Total taxation	-7,269	-8,994	-20,098	-7,256	-6,849	-12,134	-13,243	-14,620
Tax rate (%)	24	24	27	21	26	28	27	27
Profit after tax	23,618	28,589	53,892	26,784	19,393	31,251	35,855	39,577
Minorities	-2	-15	-10	-10	2	120	50	50
Profit/ Loss associate co(s)	27	-152	-554	-313	-117	-50	-50	-50
Adjusted net profit	**24,782**	**28,952**	**32,153**	**26,937**	**19,567**	**31,526**	**35,755**	**39,477**
Adj. PAT margin (%)	13	13	13	12	8	11	12	12
Net non-recurring items	-1,135	-500	21,195	-455	-292	-445	0	0
Reported net profit	**23,647**	**28,451**	**53,348**	**26,482**	**19,275**	**31,081**	**35,755**	**39,477**

Balance sheet (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Paid-up capital	586	586	586	586	586	586	586	586
Reserves & surplus	1,38,322	1,67,661	2,18,713	2,45,174	2,67,813	2,94,335	3,24,830	3,58,489
Net worth	1,38,924	1,68,248	2,19,290	2,45,741	2,68,519	2,95,161	3,25,706	3,59,415
Borrowing	67,532	54,223	53,391	28,513	52,862	66,588	50,495	38,443
Other non-current liabilities	3,812	7,387	8,785	5,101	6,428	8,277	8,924	9,624
Total liabilities	**2,64,544**	**2,89,277**	**3,38,540**	**3,39,217**	**3,98,900**	**4,54,803**	**4,77,334**	**5,06,376**
Gross fixed assets	96,651	1,15,253	1,27,587	1,50,491	1,75,472	1,96,572	2,18,272	2,39,972
Less: Depreciation	-20,228	-30,448	-38,141	-49,925	-71,195	-85,728	-1,01,184	-1,17,941
Net fixed assets	76,423	84,805	89,447	1,00,567	1,04,276	1,10,844	1,17,087	1,22,031
Add: Capital WIP	16,685	19,859	30,615	37,472	53,900	68,170	65,270	65,270
Total fixed assets	93,108	1,04,665	1,20,062	1,38,039	1,58,176	1,79,014	1,82,357	1,87,301
Total Investment	3,602	5,547	5,910	9,972	5,427	4,347	4,368	4,389
Inventory	72,456	76,999	90,266	75,539	85,112	92,902	1,01,030	1,08,410
Debtors	34,150	43,152	35,033	40,123	44,664	46,451	50,083	53,742
Cash & bank	19,572	28,422	54,743	41,900	60,842	76,280	80,515	90,304
Loans & advances	167	195	216	190	180	194	207	221
Current liabilities	54,276	59,420	57,074	59,863	71,092	84,778	92,209	98,893
Total current assets	1,53,361	1,64,026	1,95,920	1,74,802	2,13,246	2,40,219	2,58,132	2,80,893
Net current assets	99,085	1,04,606	1,38,846	1,14,939	1,42,154	1,55,441	1,65,923	1,82,000
Other non-current assets	6,147	5,881	12,359	11,651	16,089	25,295	26,548	27,864
Total assets	**2,64,544**	**2,89,277**	**3,38,540**	**3,39,217**	**3,98,900**	**4,54,803**	**4,77,334**	**5,06,376**

Source: Company, HSIE Research

Cash flow (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	30,887	37,582	73,990	34,040	26,242	43,385	49,098	54,197
Depreciation & Amortisation	-6,680	-9,667	-10,554	-11,265	-12,446	-14,532	-15,457	-16,756
Chg in working capital	-14,845	3,079	-10,667	15,578	-10,950	-6,046	-7,339	-7,402
CF from operations	**16,510**	**43,813**	**33,291**	**50,165**	**23,868**	**38,845**	**44,432**	**48,591**
Capital expenditure	-28,790	-14,311	-21,480	-32,860	-28,893	-21,100	-21,700	-21,700
CF from investing	**-29,026**	**-15,676**	**5,987**	**-32,116**	**-39,778**	**-7,207**	**-24,579**	**-21,679**
Equity raised/ (repaid)	1	2	0	0	0	0	0	0
Debt raised/ (repaid)	22,304	-15,300	-9,590	-25,539	24,576	13,726	-16,093	-12,052
Dividend paid	-1,603	-1,886	-2,344	-2,637	-4,395	-4,662	-5,363	-5,922
CF from financing	**19,191**	**-19,472**	**-13,649**	**-29,693**	**18,144**	**9,064**	**-21,456**	**-17,974**
Net chg in cash	6,674	8,665	25,628	-11,644	2,234	40,701	-1,604	8,939

Key ratios

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OPERATIONAL								
FDEPS (INR)	42.3	49.4	54.9	46.0	33.4	53.8	61.0	67.4
CEPS (INR)	51.8	65.1	109.1	64.4	54.1	77.9	87.4	96.0
DPS (INR)	2.7	3.2	4.0	4.5	7.5	8.0	9.2	10.1
Dividend payout ratio (%)	6.8	6.6	4.4	10.0	22.8	15.0	15.0	15.0
GROWTH								
Net sales (%)	18.4	18.3	8.0	(4.9)	5.4	17.1	7.8	7.3
EBITDA (%)	4.3	23.1	9.6	(17.7)	(14.3)	47.3	13.4	8.9
Adj net profit (%)	1.7	16.8	11.1	(16.2)	(27.4)	61.1	13.4	10.4
FDEPS (%)	1.7	16.8	11.1	(16.2)	(27.4)	61.1	13.4	10.4
PERFORMANCE								
RoE (%)	19.4	17.2	16.6	11.6	7.6	11.2	11.5	11.5
RoCE (%)	18.1	17.3	17.8	12.5	9.2	13.4	13.5	14.0
EFFICIENCY								
Asset turnover (x)	2.3	2.1	2.0	1.7	1.5	1.5	1.5	1.5
Sales/ total assets (x)	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.7
Working capital/ sales (x)	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Receivable days	65	69	52	63	66	59	59	59
Inventory days	169	154	169	145	147	146	149	149
Payable days	60	52	52	52	67	70	72	73
FINANCIAL STABILITY								
Total debt/ equity (x)	0.5	0.4	0.3	0.1	0.2	0.2	0.2	0.1
Net debt/ equity (x)	0.4	0.2	(0.0)	(0.1)	(0.0)	(0.0)	(0.1)	(0.2)
Current ratio (x)	2.8	2.8	3.4	2.9	3.0	2.8	2.8	2.8
Interest cover (x)	12.5	12.8	57.4	67.0	17.9	15.7	24.0	38.4
VALUATION								
PE (x)	27.1	23.2	20.9	24.9	34.3	21.3	18.8	17.0
EV/ EBITDA (x)	18.2	14.3	12.5	14.9	17.6	11.9	10.2	9.0
EV/ Net sales (x)	3.7	3.1	2.7	2.8	2.7	2.3	2.1	1.9
PB (x)	4.8	4.0	3.1	2.7	2.5	2.3	2.1	1.9
Dividend yield (%)	0.2	0.3	0.3	0.4	0.7	0.7	0.8	0.9
Free cash flow yield (%)	(1.8)	4.4	1.8	2.6	(0.7)	2.6	3.4	4.0

Source: Company, HSIE Research

INSTITUTIONAL RESEARCH

Dr Reddy's Laboratories

Core growth/margin (ex-Revlimid) under check

Over the last seven years, Dr Reddy's Lab (DRRD) has focused on diversifying its presence in key markets (the US, India, China, and Europe) and improving profitability (margin expanded ~530 bps over FY19-23). While recent growth momentum in the US business led by the gRevlimid launch may continue over the next two years, we believe ex-gRevlimid, the business will remain muted despite the integration of Mayne's generic business and new launches; this is due to intense competition in key baseline products (gVascepa, gVasostrict, gDoxil), which should keep the base business margin under pressure. Its India business is likely to see steady growth, led by in-licensing and scaling up in the chronic space (CVS, anti-diabetes, CNS, oncology). We believe the gRevlimid opportunity will play out, but we are cautious about base business performance due to intense competition and escalating costs (especially R&D). We initiate coverage with a REDUCE rating and target price of INR 5,650 (24x Dec'25E of a core EPS + Rs 150/ share from gRevlimid).

US growth on traction in gRevlimid; base business to be muted: We expect near-to-mid-term growth in the US business on continued traction in gRevlimid (until Jan 2026). The integration of Mayne Pharma's generic business (acquired in Apr'23 for consideration of ~USD 105 mn; sales of ~USD 100 mn), moderation in price erosion, supply opportunity, traction from biosimilar (bPegfilgrastim; partner Fresenius Kabi), and new launches (expects ~20 launches p.a. for the next few years) could help maintain growth in the near term. However, increasing competition in key products (gVascepa, gLexiscan, gVasostrict, gDoxil) will lead to volume and market share loss over the next few quarters and to keep base business growth under pressure.

India business to see steady growth: We expect FY24 to decline YoY due impact of non-core branded generic portfolio divestment (brand sale ~INR 2.3 bn to Torrent and J B Chemical and ~INR 2.64 bn to Eris); ex-brand divestment H1FY24 growth was steady in high-single digit. We see steady growth from FY25 led by led by in-licensing/ partnership, focus on existing portfolio, and scale-up in Chronic space (CVS, anti-diabetes, CNS, and oncology) as well as looking for M&A.

Steady growth in other businesses: Its Russia and the CIS market has demonstrated steady market growth, led by successful launches of biosimilars and new products. We expect it to see strong growth in Europe attributed to upcoming launches and strategic geographical expansion. The PSAI segment is experiencing steady growth, fueled by stable demand and API pricing. DRRD is focusing on scaling up operations in China, led by new launches (having secured approvals for six products in H1FY24).

R&D-led transition over the next few years: DRRD's R&D allocation strategy to create pipeline for long-term growth is largely focused on immuno-oncology NCEs, biosimilars, cell and gene therapy, disease management. Also looking at Nutraceuticals, D2C (Direct-to-customers), CDMO (for large, small molecules) and digital services to improve efficiency and better reach.

Outlook and valuation: While DRRD is on track to achieve its 25% EBITDA margin/RoCE target in the near term, we are cautious about its core earnings, given the increasing costs and intense competition in its key products in the US. Initiate coverage with a **REDUCE** rating and a TP of INR 5,650.

Financial Summary

YE March (INR bn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
US sales (USD mn)	912	949	1,005	1,265	1,530	1,460	1,413
Net Sales	175	190	215	247	279	291	308
EBITDA	41	45	47	64	80	77	76
APAT	18	26	24	35	53	48	47
Diluted EPS (INR)	108.1	153.3	145.2	211.2	318.5	288.7	284.3
P/E (x)	52.1	36.7	38.8	26.7	17.7	19.5	19.8
EV / EBITDA (x)	22.5	20.6	19.8	13.9	10.8	10.8	10.5
RoCE (%)	20	19	18	26	26	20	18

Source: Company, HSIE Research

REDUCE

CMP *(as on 20 Jan 2024)*	INR 5,633
Target Price	INR 5,650
NIFTY	21,572

KEY STOCK DATA

Bloomberg code	DRRD IN
No. of Shares (mn)	167
MCap (INR bn) / ($ mn)	940/11,194
6m avg traded value (INR mn)	2,692
52 Week high / low	INR 5,990/4,175

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.2	5.5	29.5
Relative (%)	(8.0)	(1.6)	11.7

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	26.66	26.65
FIs & Local MFs	21.04	18.65
FPIs	42.21	43.96
Public & Others	10.09	10.74
Pledged Shares	-	-

Source : BSE

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Exhibit 1: Revenue, EBITDA and PAT assumptions

(INR mn)	% of FY23 sales	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
North America (USD mn)^^		928	857	912	949	1,005	1,265	1,530	1,460	1,413
% growth		(2)	(8)	6	4	6	26	21	(5)	(3)
North America	41	59,822	59,957	64,659	70,494	74,915	1,01,704	1,27,031	1,22,608	1,20,134
% growth		(6)	0	8	9	6	36	25	(3)	(2)
India	20	23,322	26,179	28,946	33,419	41,957	48,932	47,464	53,160	59,007
% growth		1	12	11	15	26	17	(3)	12	11
Europe	7	8,217	7,873	11,707	15,404	16,631	17,603	21,476	24,697	28,649
% growth		8	(4)	49	32	8	6	22	15	16
EMs (Russia + CIS/ Romania + RoW)	19	22,653	28,894	32,812	35,087	45,667	45,529	49,031	53,997	60,010
% growth		8	28	14	7	30	(0)	8	10	11
Total Global generics	**87**	**1,14,014**	**1,22,903**	**1,38,124**	**1,54,404**	**1,79,170**	**2,13,768**	**2,45,002**	**2,54,461**	**2,67,800**
% growth		**(1)**	**8**	**12**	**12**	**16**	**19**	**15**	**4**	**5**
PSAI^	12	21,992	24,140	25,747	31,982	30,740	29,069	29,941	32,636	35,899
% growth		3	10	7	24	(4)	(5)	3	9	10
Others	1	6,022	6,808	10,730	3,336	4,481	3,042	3,072	3,103	3,134
Gross sales	**100**	**1,42,028**	**1,53,851**	**1,74,601**	**1,89,722**	**2,14,391**	**2,45,879**	**2,78,016**	**2,90,200**	**3,06,834**
% growth		**1**	**8**	**13**	**9**	**13**	**15**	**13**	**4**	**6**
Other operating income		782	631	569	753	1,061	818	834	871	921
% growth		(32)	(19)	(10)	32	41	(23)	2	4	6
Total revenues		**1,42,810**	**1,54,482**	**1,75,170**	**1,90,475**	**2,15,452**	**2,46,697**	**2,78,850**	**2,91,071**	**3,07,754**
% growth		**1**	**8**	**13**	**9**	**13**	**15**	**13**	**4**	**6**
Gross profit		**1,02,415**	**1,09,534**	**1,19,626**	**1,29,686**	**1,41,030**	**1,70,120**	**1,96,868**	**2,02,003**	**2,09,581**
Gross margin margin %		**71.7**	**70.9**	**68.3**	**68.1**	**65.5**	**69.0**	**70.6**	**69.4**	**68.1**
EBITDA		**23,565**	**31,898**	**41,471**	**45,467**	**46,981**	**64,189**	**79,751**	**76,843**	**75,707**
EBITDA margin %		**16.5**	**20.6**	**23.7**	**23.9**	**21.8**	**26.0**	**28.6**	**26.4**	**24.6**
Adj PAT		**9,653**	**16,524**	**18,039**	**25,572**	**24,214**	**35,229**	**53,123**	**48,151**	**47,415**
% growth		**(25)**	**71**	**9**	**42**	**(5)**	**45**	**51**	**(9)**	**(2)**

Source: Company, HSIE Research, EBITDA/ PAT adjusted for forex and one-offs, ^PSAI - Pharmaceutical Services and Active Ingredients

Exhibit 2: Core business assumptions excluding gRevlimid

Ex-Revlimid performance	FY22	FY23	FY24E	FY25E	FY26E
Sales	2,15,452	2,22,695	2,48,006	2,69,815	2,94,217
% growth		3	11	9	9
EBITDA	46,981	44,988	55,076	59,838	65,554
EBITDA margin	21.8	20.2	22.2	22.2	22.3
Adj PAT	24,214	20,060	33,630	34,716	39,394
% growth		(17)	68	3	13

Source: Company, HSIE Research, EBITDA/ PAT adjusted for forex and one-offs

The overall outlook for DRRD

- **US business:** The company expects the filing rate to accelerate in H2FY24 (vs six in H1FY24). It plans to launch 25 in FY24 and maintain this launch momentum over the next few years. DRRD has identified 25-30 material products to be launch over FY25-30.
- **India formulations:** Targets to improve India growth momentum QoQ and achieve double-digit YoY exit growth rate in FY24 supported by in-licensing/partnership (~10 signed) and focus on existing portfolio.
- **Biosimilars:** The company expects to see better traction in bPegfilgrastim (launched by Fresenius Kabi) in the next few quarters and expects bRituximab to be launched (by partner) in FY25 post the clearance of the DRRD's biologics plant in Hyderabad (the USFDA inspection was in Oct'23 with nine PAI observations; CAPA submission

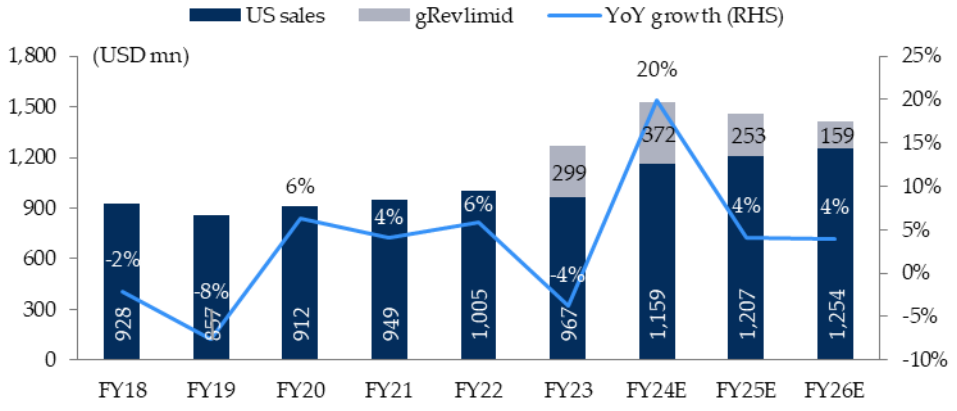
in H2FY24). The company expects biosimilars to be meaningful by FY27 with ~5 biosimilars to be available for global launch (by own in the US) in the next 2-3 years.

- **Europe:** Growth to be driven by new launches, base business volume growth, tenders and traction in injectables.
- **China:** To file 15 products p.a. Most products are in the first wave. China to meaningfully contribute from FY25 itself.
- **PSAI:** It expects growth to improve in the next few quarters on higher volumes, new launches, and new collaborations.
- Expects EBITDA margin in the near term to be above the long-term guidance of 25% on limited competition product launches and volume growth in base business opportunities. For the long term, it reiterated the target of 25% margin/RoCE.
- Looking for complementary portfolios in the US, India, Europe, and other markets (net cash of ~INR 59.1 bn).

US growth to be led by gRevlimid, base business to be muted

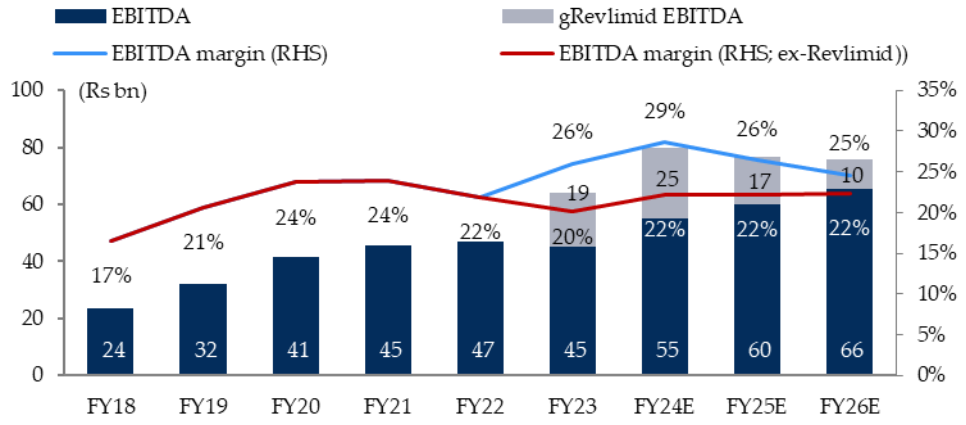
DRRD expects the filing rate to accelerate in H2FY24 (vs six in H1FY24). Plans to launch 25 in FY24 and to maintain a similar launch run rate over the next few years. DRRD has identified 25-30 material product launches for FY25-30. It sees the Mayne portfolio scaling up and gaining volume (based on the time of discussions/product cycles) in H2FY24. Traction from biosimilar (bPegfilgrastim; partner Fresenius Kabi), and new launches (expects ~20 launches p.a. for next few years) to help maintain growth in the near term. gRevlimid to remain a meaningful opportunity till Jan'26 (could fluctuate QoQ). Price erosion in the US to moderate to low-to-mid single digit. However, increasing competition in key products (gVascepa, gLexiscan, gVasostrict, gDoxil) will lead to volume and market share loss over the next few quarters and keep base business growth under pressure.

Exhibit 3: Ex-gRevlimid sales to remain muted



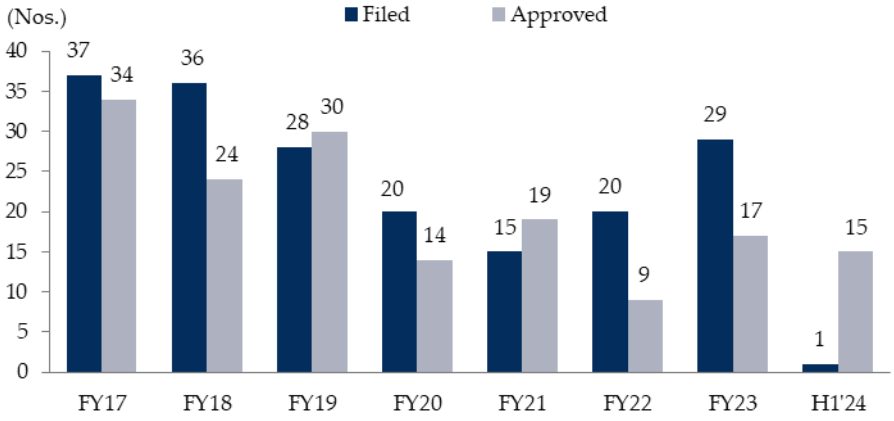
Source: Company, HSIE Research

Exhibit 4: ex-gRevlimid margin to see gradual improvement



Source: Company, HSIE Research, USFDA

Exhibit 5: Expects to increase filing momentum



Source: Company, HSIE Research, USFDA

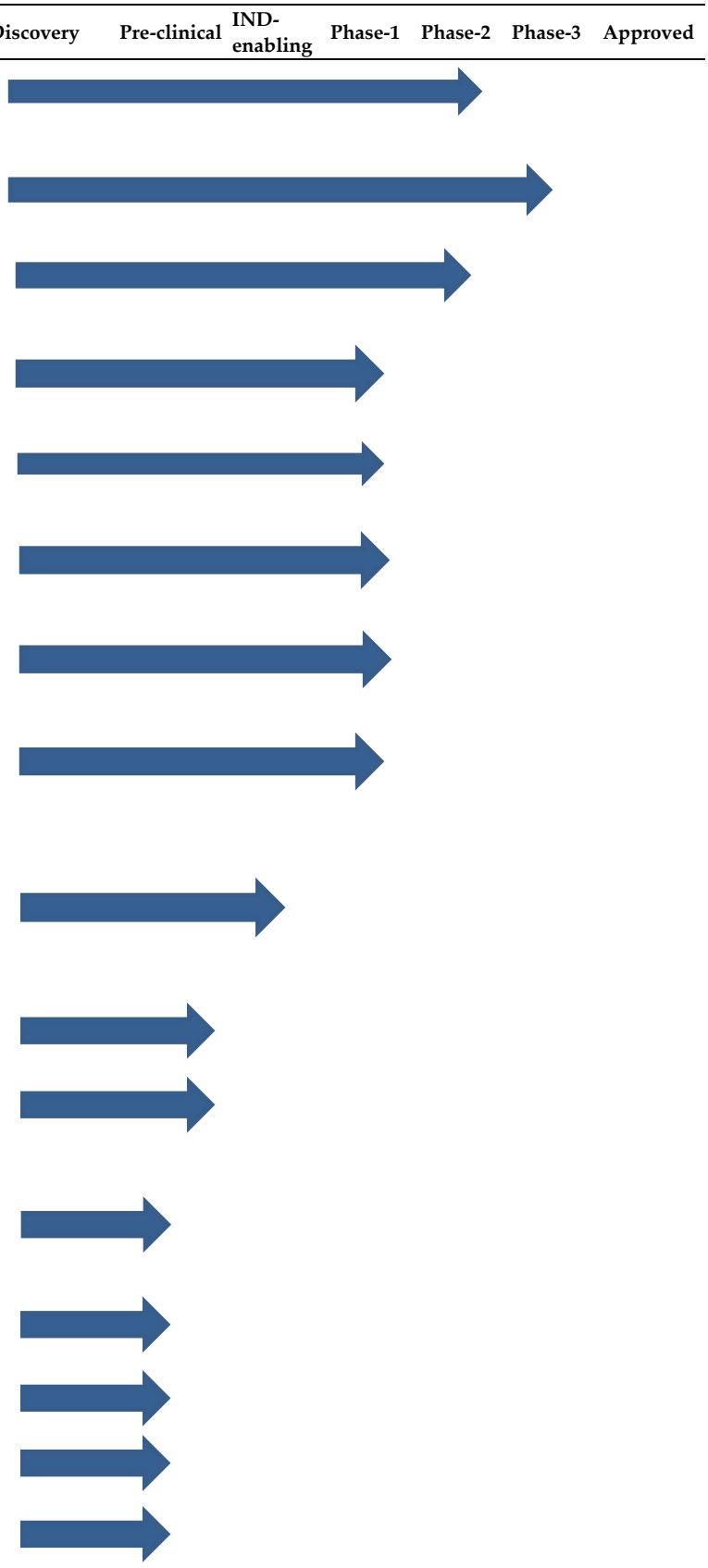
Exhibit 6: Key plants are now out of USFDA issues

Inspection Date	Facility	No. of observations	Facility Status
Dec-23	IPDO R&D center (Bachupally)	3 (GMP and PAI)	-
Oct-23	FTO 3 – Bachupally	10	-
Oct-23	Biologics – Hyderabad	9 (PAI)	-
Jul-23	Srikakulam (API) - CTO6	0 (PAI/ GMP)	NAI
Jun-23	CTO-3: Bollaram (Hyd) - API	0 (GMP)	closed
May-23	Srikakulam formulations (FTO SEZ PU2)	4	EIR + VAI (Jun'23)
May-23	Bollaram (Hyd) CTO 1 - API	1	EIR + VAI (Aug'23)

Source: Company, HSIE Research, USFDA

Exhibit 7: Key R&D assets under development

Molecule/Asset	Indication	Rights	Mechanism of Action
AUR-101	Psoriasis, Psoriatic arthritis, Ankylosing spondylitis	Global	RORgt inverse agonist
CA-170*	NSCLC, bladder & kidney cancers	Asia	Dual inhibitor of PDL1 and VISTA#
AUR-109	Cancers of bladder, lung, breast, ovary, kidney, liver & lung fibrosis	Global	Spectrum selective kinase inhibitor
AUR-108	Leukaemia and lymphoma	Global	DHODH inhibitor
AUR-103*	Leukaemia, lymphom in osteoarthritis	Global	CD47 antagonist
AUR-105	Leukaemia, lymphoma and multiple solid tumours	Global	PRMT5 inhibitor
AUR-106	Multiple cancers	Global	Dual inhibitor of TIGIT and PDL1
AUR-107	NSCLC, lymphomas, leukaemia's, bladder cancers and prostate cancers	Global	CBP/p300 inhibitor
Selective SMARCA2	SMARCA-4 mutant lung cancers, medulloblastoma; and Burkitt's lymphoma	Global	SMARCA2
NA	Lymphoma, R/R NHL, CLL	Global	MALT1 Inhibitor
NA	Breast, Ovarian and Prostate cancers	Global	CDK 12/13 Inhibitor
NA	Prostate cancer, leukaemia, lymphoma and myeloma	Global	SMARCA 2/4 dual
NA	Breast and prostate cancers	Global	CBP/p300 degrader
NA	Multiple cancers	Global	PDL1/A2AR dual
NA	Multiple cancers	Global	CD73-A2AR dual
NA	Atopic dermatitis and Asthma	Global	CCR4



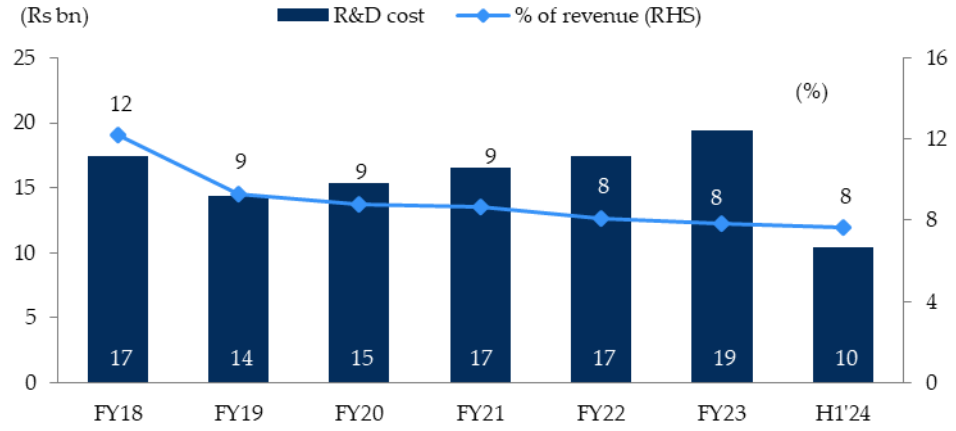
Source: Company, HSIE Research, * Aurigene will be advancing these programs till marketing approval, # Co-development programs with Aurigene leading clinical trials in India

Exhibit 8: Key R&D assets under development with partners

Partnered Programs	Target & compound	Pre-clinical	Phase-1	Phase-2	Phase-3	Approved
Novartis (licensed to Laekna)	CYP17, CFG920					
Orion	BET, ODM 207					
Astellas	PPARδ modulator, ASP0367					
	PPARδ modulator, ASP1128					
Asana Biosciences	SYK/JAK, ASN002					
	BRAK/PI3K, ASN003					
Japanese Pharma	Not disclosed					
H3 Biomedicine	ESR1, H3B-6545					
Curis	PD- L1/VISTA, CA170					
	IRAK4, CA4948					
Exelixis	CDK7, XL102					

Source: Company, HSIE Research

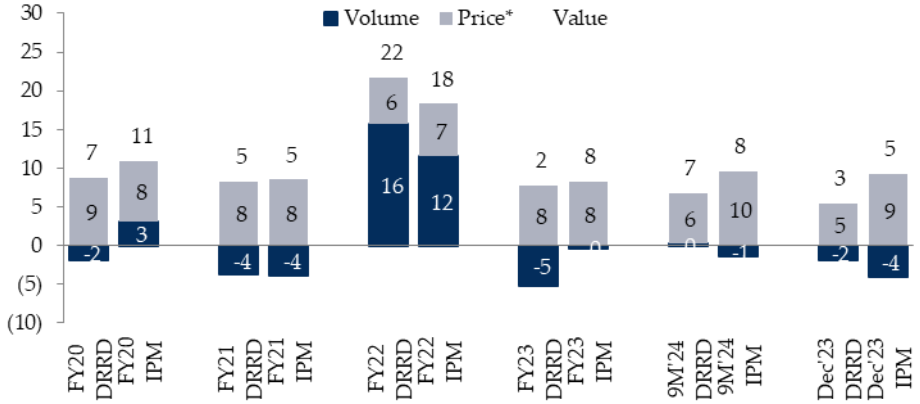
Exhibit 9: R&D spend to create long-term pipeline of complex generics



Source: Company, HSIE Research

Steady India growth despite impact of brand divestment

Exhibit 10: Weak volume growth continue in 9M'24



Source: HSIE Research, IQVIA, *Price growth = Value growth – Volume growth

Exhibit 11: Recovery in Gastro and respiratory; derma and anti-infective continue to maintain growth momentum; CVS growth was weak

Dr Reddy's therapy YoY %	% of FY23 sales	FY20	FY21	FY22	FY23	9M'24	Q3'24	Dec-23
Gastro Intestinal	16%	9%	4%	21%	4%	11%	1%	-1%
Respiratory	15%	11%	-8%	48%	-2%	10%	14%	3%
Cardiac	12%	14%	18%	11%	8%	-14%	-23%	-14%
Pain / Analgesics	11%	1%	4%	11%	6%	8%	8%	12%
Derma	8%	8%	-2%	15%	11%	14%	12%	13%
Vitamins/Minerals/Nutrients	6%	-1%	6%	29%	2%	3%	15%	9%
Anti Diabetic	6%	9%	15%	16%	7%	10%	10%	12%
Neuro / Cns	5%	0%	8%	19%	3%	0%	6%	4%
Anti-Infectives	5%	3%	-15%	48%	-6%	16%	18%	5%
Antineoplast/Immunomodulator	4%	26%	-13%	43%	13%	-1%	-11%	-24%
Dr Reddy's total	**100%**	**7%**	**5%**	**22%**	**2%**	**7%**	**6%**	**3%**

Source: HSIE Research, IQVIA

Exhibit 12: Muted growth in top tier brands

DRRD brands YoY	Therapy	% of FY23 sales	FY23 sales (Rs bn)	FY20	FY21	FY22	FY23	9M'24	Q3'24	Dec-23
Voveran	Pain / Analgesics	4%	2.2	-10%	2%	0%	7%	-3%	-1%	11%
Omez	Gastro Intestinal	3%	2.0	15%	18%	13%	-5%	6%	-7%	-6%
Cidmus	Cardiac	3%	2.0	92%	48%	14%	41%	-50%	-65%	-52%
Atarax	Respiratory	3%	1.9	15%	3%	21%	21%	4%	-1%	3%
Econorm	Gastro Intestinal	3%	1.7	3%	-15%	53%	32%	13%	-1%	-3%
Omez-D	Gastro Intestinal	3%	1.5	16%	12%	17%	-17%	-5%	-33%	-56%
Practin	Vitamins/Minerals/Nutrients	3%	1.5	1%	13%	51%	2%	-20%	-4%	-13%
Zedex	Respiratory	3%	1.5	14%	17%	62%	-6%	1%	5%	-12%
Ketorol	Pain / Analgesics	2%	1.4	20%	30%	21%	16%	16%	9%	13%
Bro-Zedex	Respiratory	2%	1.4	7%	9%	60%	-20%	5%	9%	-11%
Top 10 brands		**29%**	**16.9**	10%	12%	26%	5%	6%	-1%	-4%
11-25 brands		**24%**	**14.0**	13%	10%	28%	4%	-2%	-6%	-5%
26-50 brands		**16%**	**9.3**	9%	-2%	24%	3%	11%	12%	9%
Above 50 brands		**31%**	**18.4**	1%	-1%	13%	-2%	13%	18%	14%
Dr Reddy's total		**100%**	**58.7**	**7%**	**5%**	**22%**	**2%**	**7%**	**6%**	**3%**

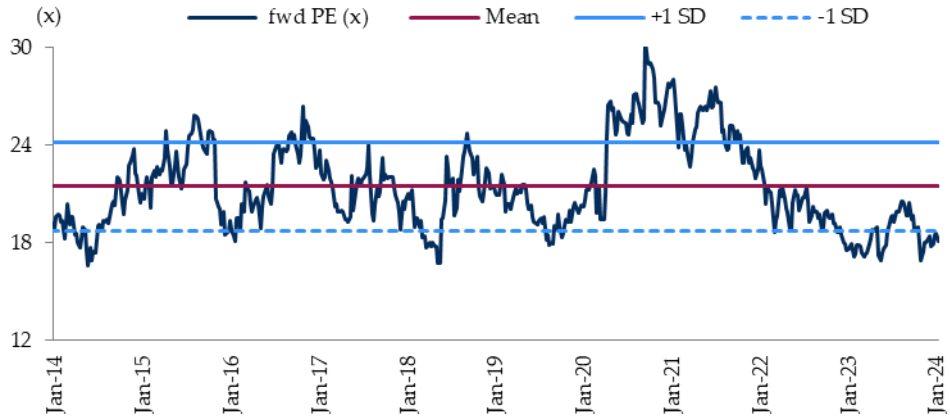
Source: HSIE Research, IQVIA

Outlook and valuation

DRRD is expected to maintain growth momentum in the US business, led by traction in gRevlimid for the next two years; we believe that ex-gRevlimid, the business will remain muted despite the integration of Mayne's generic business and new launches. It is expected to be muted due to increasing competition in key baseline products (gVascepa, gLexiscan, gVasostrict, gDoxil), which will stress the base business margin. Its India business may see steady growth, led by in-licensing/partnership, focus on the existing portfolio, and scaling up in the chronic space (CVS, anti-diabetes, CNS, and oncology). DRRD has outlined its long-term R&D strategy with a focus on immuno-oncology NCEs, biosimilars, cell and gene therapy, and disease management. We see the gRevlimid opportunity playing out but are cautious about the performance of the company's base business, which should remain stressed under enhanced competition in key products in the US and escalating costs (especially the R&D costs).

We initiate coverage with a REDUCE rating and target price of INR 5,650 (24x Dec'25E core business EPS + Rs 150/share from gRevlimid).

Exhibit 13: PE chart



Source: Bloomberg, HSIE Research

Financials (Consolidated)

Profit & loss (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	**1,53,851**	**1,74,600**	**1,89,722**	**2,14,391**	**2,45,879**	**2,78,016**	**2,90,200**	**3,06,834**
Other operating income	631	570	753	1,061	818	834	871	921
Total operating income	**1,54,482**	**1,75,170**	**1,90,475**	**2,15,452**	**2,46,697**	**2,78,850**	**2,91,071**	**3,07,754**
Cost of goods sold	-44,948	-55,544	-60,789	-74,422	-76,577	-81,982	-89,068	-98,174
Gross profit	1,09,534	1,19,626	1,29,686	1,41,030	1,70,120	1,96,868	2,02,003	2,09,581
Gross margin (%)	71	68	68	65	69	71	69	68
Total operating expenses	-77,636	-78,155	-84,219	-94,049	-1,05,931	-1,17,117	-1,25,161	-1,33,873
EBITDA	**31,898**	**41,471**	**45,467**	**46,981**	**64,189**	**79,751**	**76,843**	**75,707**
EBITDA margin (%)	20.6	23.7	23.9	21.8	26.0	28.6	26.4	24.6
Depreciation	-11,348	-11,631	-12,288	-11,652	-12,502	-15,007	-16,072	-17,045
EBIT	**20,550**	**29,840**	**33,179**	**35,329**	**51,687**	**64,744**	**60,771**	**58,663**
Net interest	-889	-983	-970	-958	-1,428	-1,460	-1,326	-1,203
Other income	3,375	6,206	2,914	4,844	10,555	7,930	4,546	5,550
Profit before tax	**22,920**	**18,296**	**28,355**	**29,911**	**60,115**	**71,147**	**63,991**	**63,010**
Total taxation	-3,858	1,403	-9,319	-8,789	-15,412	-17,126	-16,050	-15,805
Tax rate (%)	17	-8	33	29	26	24	25	25
Profit after tax	19,062	19,699	19,036	21,122	44,703	54,021	47,941	47,205
Minorities	0	0	0	0	0	0	0	0
Profit/ Loss associate co(s)	438	561	480	703	370	210	210	210
Adjusted net profit	**16,524**	**18,039**	**25,572**	**24,214**	**35,229**	**53,123**	**48,151**	**47,415**
Adj. PAT margin (%)	11	10	13	11	14	19	17	15
Net non-recurring items	2,976	2,221	-6,056	-2,389	9,844	1,108	0	0
Reported net profit	**19,500**	**20,260**	**19,516**	**21,825**	**45,073**	**54,231**	**48,151**	**47,415**

Balance sheet (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Paid-up capital	830	831	832	832	833	834	834	834
Reserves & surplus	1,39,406	1,55,157	1,75,585	1,91,292	2,32,028	2,78,125	3,19,053	3,59,355
Net worth	1,40,236	1,55,988	1,76,417	1,92,124	2,32,861	2,78,959	3,19,887	3,60,189
Borrowing	34,125	17,836	30,308	33,845	13,472	13,275	12,633	12,027
Other non-current liabilities	2,835	2,647	3,294	7,125	4,935	6,881	6,922	7,293
Total liabilities	**2,24,656**	**2,32,253**	**2,66,168**	**2,97,469**	**3,22,851**	**3,73,691**	**4,16,455**	**4,60,905**
Gross fixed assets	1,45,327	1,56,169	1,79,958	1,92,388	2,15,006	2,38,706	2,55,406	2,72,106
Less: Depreciation	-78,076	-92,579	-1,03,500	-1,16,646	-1,28,289	-1,43,296	-1,59,368	-1,76,413
Net fixed assets	67,251	63,590	76,458	75,742	86,717	95,410	96,038	95,693
Add: Capital WIP	29,335	15,351	15,651	12,934	10,301	12,109	11,109	11,109
Total fixed assets	96,586	78,941	92,109	88,676	97,018	1,07,519	1,07,147	1,06,802
Total Investment	25,871	26,778	22,118	26,159	49,858	44,574	44,655	44,738
Inventory	33,579	35,067	45,412	50,884	48,670	58,094	60,640	64,115
Debtors	39,982	52,015	49,759	66,818	72,485	71,262	76,810	81,213
Cash & bank	2,228	2,053	20,788	24,192	17,302	50,589	83,192	1,17,909
Loans & advances	360	1,105	1,218	1,906	1,232	731	1,455	1,539
Current liabilities	47,460	55,782	56,149	64,375	71,583	74,576	77,014	81,395
Total current assets	88,685	1,04,041	1,31,836	1,57,704	1,59,759	2,03,625	2,46,052	2,90,104
Net current assets	41,225	48,259	75,687	93,329	88,176	1,29,049	1,69,039	2,08,709
Other non-current assets	8,855	17,580	14,506	19,457	10,742	12,563	13,191	13,851
Total assets	**2,24,656**	**2,32,253**	**2,66,168**	**2,97,469**	**3,22,851**	**3,73,691**	**4,16,455**	**4,60,905**

Source: Company, HSIE Research

Cash flow (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	22,920	18,296	28,355	29,911	60,115	71,147	63,991	63,010
Depreciation & Amortisation	-11,348	-11,631	-12,288	-11,652	-12,502	-15,007	-16,072	-17,045
Chg in working capital	1,837	-7,536	-8,288	-18,407	-7,855	1,462	-7,388	-7,271
CF from operations	**28,704**	**29,841**	**35,703**	**28,108**	**58,875**	**69,238**	**56,519**	**55,833**
Capital expenditure	-8,376	-6,115	-28,075	-19,375	-18,866	-23,700	-16,700	-16,700
CF from investing	**-7,727**	**-4,923**	**-22,660**	**-26,387**	**-41,373**	**-21,394**	**-17,619**	**-16,617**
Equity raised/ (repaid)	-535	-470	-924	334	368	0	0	0
Debt raised/ (repaid)	-15,182	3,753	6,037	2,735	-20,397	-197	-642	-606
Dividend paid	-4,002	-3,916	-4,147	-4,146	-4,979	-8,135	-7,223	-7,112
CF from financing	**-21,326**	**-25,159**	**-298**	**-2,422**	**-26,861**	**-8,332**	**-7,864**	**-7,718**
Net chg in cash	-349	-241	12,745	-701	-9,359	39,512	31,036	31,498

Key ratios

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OPERATIONAL								
FDEPS (INR)	99.1	108.1	153.3	145.2	211.2	318.5	288.7	284.3
CEPS (INR)	184.9	191.2	190.7	200.7	345.2	415.1	385.0	386.4
DPS (INR)	24.0	23.5	24.9	24.9	29.9	48.8	43.3	42.6
Dividend payout ratio (%)	20.5	19.3	21.2	19.0	11.0	15.0	15.0	15.0
GROWTH								
Net sales (%)	8.3	13.5	8.7	13.0	14.7	13.1	4.4	5.7
EBITDA (%)	35.4	30.0	9.6	3.3	36.6	24.2	(3.6)	(1.5)
Adj net profit (%)	71.2	9.2	41.8	(5.3)	45.5	50.8	(9.4)	(1.5)
FDEPS (%)	71.2	9.2	41.8	(5.3)	45.5	50.8	(9.4)	(1.5)
PERFORMANCE								
RoE (%)	12.4	11.6	15.4	13.1	16.6	20.8	16.1	13.9
RoCE (%)	13.3	20.4	18.7	18.1	25.7	26.4	20.5	17.9
EFFICIENCY								
Asset turnover (x)	1.1	1.2	1.1	1.2	1.2	1.2	1.2	1.2
Sales/ total assets (x)	0.7	0.8	0.8	0.8	0.8	0.8	0.7	0.7
Working capital/ sales (x)	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Receivable days	95	109	96	114	108	94	97	97
Inventory days	100	96	114	110	97	107	103	101
Payable days	41	42	46	49	45	51	48	47
FINANCIAL STABILITY								
Total debt/ equity (x)	0.3	0.1	0.2	0.2	0.1	0.1	0.0	0.0
Net debt/ equity (x)	0.1	(0.1)	(0.0)	(0.1)	(0.2)	(0.3)	(0.4)	(0.4)
Current ratio (x)	1.9	1.9	2.3	2.4	2.2	2.7	3.2	3.6
Interest cover (x)	23.1	30.4	34.2	36.9	36.2	44.3	45.8	48.8
VALUATION								
PE (x)	56.9	52.1	36.7	38.8	26.7	17.7	19.5	19.8
EV/ EBITDA (x)	29.7	22.5	20.6	19.8	13.9	10.8	10.8	10.5
EV/ Net sales (x)	6.2	5.3	4.9	4.3	3.6	3.1	2.9	2.6
PB (x)	6.7	6.0	5.3	4.9	4.0	3.4	2.9	2.6
Dividend yield (%)	0.4	0.4	0.4	0.4	0.5	0.9	0.8	0.8
Free cash flow yield (%)	2.2	2.5	0.8	0.9	4.3	4.8	4.2	4.2

Source: Company, HSIE Research

INSTITUTIONAL RESEARCH

Lupin

All triggers: gSpiriva, US/India growth priced-in

Lupin (LPC) has demonstrated a strong recovery in overall performance over the past 1-2 years. This has followed a challenging period from FY19-22 when various plant issues under USFDA scrutiny impacted execution and operations. The recovery is marked by noteworthy developments, including (1) traction in gSpiriva (launched in Aug'23), (2) increased momentum in other respiratory franchise products (Albuterol, Brovana, Xopenex HFA), (3) recent launches gaining traction, and (4) enhanced visibility for new launches across ophthalmology, injectables, and respiratory segments, supported by key plant clearances from USFDA. The India business is expected to see steady growth (+8% YoY in H1FY24), driven by new launches, MR additions, and market share gains in chronic therapies, offsetting the impact from patent expiry of in-licensing products. We expect EBITDA margins to improve by 50-100 bps over the next two years (ex-NCE licensing margin was at ~16% in H1FY24), driven by sales growth and operating leverage. Despite the positive outlook for steady growth and margin improvement, the recent run-up in stock price (85%+ in the last year) limits further upside. Hence, we initiate coverage with a REDUCE rating and set a TP of INR 1,400, based on 26x Dec'25E EPS.

Strong growth visibility in the US business: The US business has seen strong traction in the last few quarters, led by new launches, moderation in price erosion, and margin improvement, driven by restructuring (in Q1FY23 discontinued sizable portfolio). The growth momentum is expected to continue on the back of the following factors: (1) traction in gSpiriva (launched in Aug'23) with gradual scale-up in market share. The company is targeting to improve substitution rate; it will be a sizable product over the next two years given no visible competition; (2) ex-Spiriva, US growth will be supported by traction in recent launches (gPrezista, gPennsaid); (3) traction in respiratory franchise products; (4) visibility of new launches in ophthalmology/ respiratory (gNascobal nasal spray, Diazepam gel, Bromfenac), injectables (partnered with Caplin point, Ganirelix, Famotidine, Glucagon) and a few FTF opportunities.

India business on a steady growth path: Despite the impact of parent expiry of in-licensing products (Sitagliptin, Cidmus, Linagliptin, and one more product to go off patent in 2025), India growth is expected to be at par with IPM in FY24 and could outperform IPM in FY25/26, led by traction in the key chronic segment (CVS and anti-diabetes), MR addition (added 1,000+ MRs across six new divisions), new launches and M&As (mid-size companies or brands).

R&D allocation on niche portfolio: LPC's R&D focus is on injectable portfolio (40+ pipeline), respiratory (20+ inhalers and nasal spray like Elipta, Respimat, and few products in green propellant inhaler space), biosimilar (Etanercept filed with USFDA, Pegfilgrastim filing struct with USFDA due plant observations, ranibizumab under clinical trials), few 505(b)(2) product opportunities and implants/devices space.

Outlook and valuation: We expect LPC to see a steady 13% sales CAGR over FY23-26E and recovery in overall business would lead to strong growth in EBITDA/PAT. We believe the visibility of strong growth and improving margin are already factored in the price (recent run-up in stock price)—execution is the key monitorable for LPC over the next few quarters. Initiate coverage with **REDUCE** and TP of INR 1,400.

Financial Summary

YE March (INR bn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
US sales (USD mn)	821	748	772	674	845	922	982
Net Sales	154	152	164	166	197	217	239
EBITDA	24	27	21	17	35	40	46
APAT	8	13	7	4	18	21	26
Diluted EPS (INR)	17.4	28.2	15.9	8.4	40.3	47.0	56.2
P/E (x)	81.2	50.0	88.4	168.2	35.0	30.0	25.1
EV / EBITDA (x)	27.1	24.6	31.7	39.0	18.6	16.2	13.9
RoCE (%)	9	10	3	5	15	16	17

Source: Company, HSIE Research

REDUCE

CMP *(as on 20 Jan 2024)*	INR 1,411
Target Price	INR 1,400
NIFTY	21,572

KEY STOCK DATA	
Bloomberg code	LPC IN
No. of Shares (mn)	455
MCap (INR bn) / ($ mn)	642/7,856
6m avg traded value (INR mn)	1,517
52 Week high / low	INR 1,449/628

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	19.6	49.1	86.9
Relative (%)	10.4	42.0	69.0

SHAREHOLDING PATTERN (%)	Sep-23	Dec-23
Promoters	47.06	47.04
FIs & Local MFs	29.42	29.73
FPIs	14.99	16.11
Public & Others	8.53	7.12
Pledged Shares	-	-

Source : BSE

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Exhibit 1: Revenue, EBITDA and PAT assumptions

(INR mn)	% of FY23 sales	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
US	**36**	**58,939**	**55,924**	**58,212**	**55,520**	**57,556**	**54,173**	**70,172**	**77,452**	**83,459**
% growth		(29)	(5)	4	(5)	4	(6)	30	10	8
US (USD mn)		**914**	**800**	**821**	**748**	**772**	**674**	**845**	**922**	**982**
% growth		(26)	(13)	3	(9)	3	(13)	25	9	6
India	**38**	**41,253**	**46,382**	**51,385**	**52,712**	**60,042**	**60,759**	**65,620**	**73,494**	**81,578**
% growth		8	12	11	3	14	1	8	12	11
Growth market	**8**	**31,515**	**11,258**	**12,212**	**11,964**	**14,019**	**17,258**	**17,172**	**19,406**	**21,896**
% growth		16	(64)	8	(2)	17	23	(0)	13	13
EMEA	**9**	**11,252**	**11,906**	**12,364**	**12,781**	**13,592**	**15,514**	**18,517**	**20,712**	**23,183**
% growth		11	6	4	3	6	14	19	12	12
RoW	**2**	**1,708**	**2,143**	**2,815**	**2,470**	**3,081**	**3,904**	**7,613**	**8,679**	**9,720**
% growth		(2)	25	31	(12)	25	27	95	14	12
Total formulation sales	**94**	**1,44,667**	**1,27,613**	**1,36,988**	**1,35,447**	**1,48,290**	**1,51,608**	**1,79,093**	**1,99,743**	**2,19,837**
% growth		(9)	(12)	7	(1)	9	2	18	12	10
API	**6**	**10,931**	**13,465**	**12,999**	**13,823**	**9,904**	**11,092**	**12,090**	**13,178**	**14,364**
% growth		(4)	23	(3)	6	(28)	12	9	9	9
Gross sales		**1,55,598**	**1,41,078**	**1,49,987**	**1,49,270**	**1,58,194**	**1,62,700**	**1,91,183**	**2,12,921**	**2,34,201**
% growth		**(9)**	**(9)**	**6**	**(0)**	**6**	**3**	**18**	**11**	**10**
NCE Licensing Income		-	2,103	1,441	-	3,734	-	2,053	-	-
Total sales		**1,55,598**	**1,43,181**	**1,51,428**	**1,49,270**	**1,61,928**	**1,62,700**	**1,93,236**	**2,12,921**	**2,34,201**
% growth		**(9)**	**(8)**	**6**	**(1)**	**8**	**0**	**19**	**10**	**10**
Other operating income		2,443	3,465	2,320	2,360	2,127	3,717	3,575	4,046	4,450
% growth		(35)	42	(33)	2	(10)	75	(4)	13	10
Total revenues		**1,58,042**	**1,46,646**	**1,53,748**	**1,51,630**	**1,64,055**	**1,66,417**	**1,96,811**	**2,16,967**	**2,38,651**
% growth		**(10)**	**(7)**	**5**	**(1)**	**8**	**1**	**18**	**10**	**10**
Gross profit		**1,05,298**	**97,185**	**99,442**	**98,007**	**99,242**	**98,619**	**1,29,895**	**1,43,415**	**1,57,987**
Gross margin %		66.6	66.3	64.7	64.6	60.5	59.3	66.0	66.1	66.2
EBITDA		**31,475**	**25,607**	**23,548**	**26,578**	**20,972**	**17,206**	**35,426**	**40,139**	**45,821**
EBITDA margin %		19.9	17.5	15.3	17.5	12.8	10.3	18.0	18.5	19.2
Adj PAT		**11,936**	**9,510**	**7,907**	**12,831**	**7,260**	**3,816**	**18,344**	**21,379**	**25,569**
% growth		(54)	(20)	(17)	62	(43)	(47)	381	17	20

Source: Company, HSIE Research, EBITDA/ PAT adjusted for forex and one-offs

The overall outlook for LPC

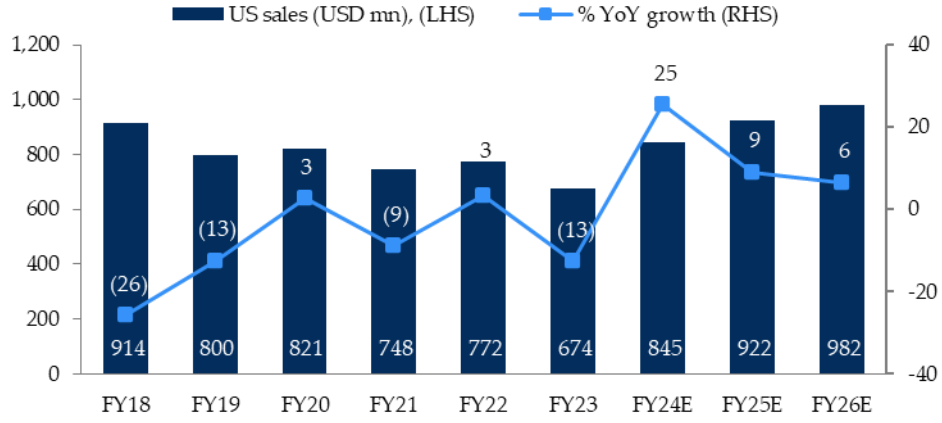
- The US business will sustain growth momentum, led by gSpiriva and other new launches as well as moderation in price erosion and the focus is to improve profitability in the US business.
- The India formulation business will continue to outperform IPM, led by productivity improvement (in recent MR expansion), new launches (20+ in FY24), biosimilars, and chronic focus. Also looking for mid-sized companies/brands for M&A.
- Expects H2FY24 margin to remain steady at ~18%. The long-term profitability focus remains on reaching a 20% EBITDA margin.
- SG&A (including R&D) spending to remain at ~30% of sales (30.7% in H1FY24). FY24 R&D spend to be at INR 15-16 bn.

Strong growth visibility in the US

LPC expects to maintain growth momentum and to sustain a quarterly sales run-rate of USD 200 mn, led by gSpiriva and other new launches. It is expected to improve quarter sales run-rate to USD 250 mn in FY26E, led by new launches. In the US focus on increasing complex share (inhalation, injectables, biosimilars, ophthalmic) with a strong pipeline of 40+ injectables and 20+ inhalation.

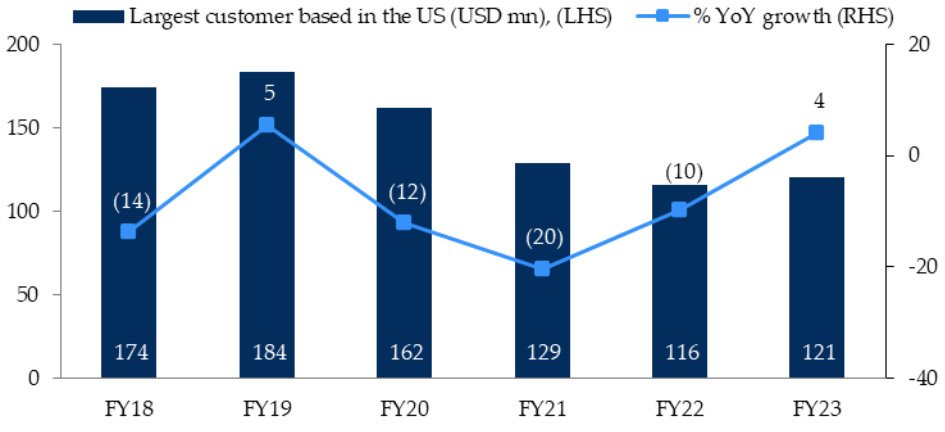
- gSpiriva: Pipeline build present in Q2 and still building in Q3, but to level off. The initial % share is in line with expectations at 25% of the Handihaler market and is expected to build up to 35-40% in a year. No competition is seen in the near term.
- To launch gNascobal and gDiastat to scale up in H2FY24.
- 5-6 ophthal launches in H2FY24 and FY25 given Pithampur-2 clearance (Bromsite, Bromday, Prolensa, etc)
- Injectable launches of Ganirelix, Famotidine in FY24, Glucagon in FY25.
- Launches like Liraglutide (subjected to favourable litigation outcome) and Risperdal Consta are expected in FY26.
- Select FTF oral solids over the next two years; Tolvaptan, Oracea, and Myrbetriq.
- gRevlimid launch in FY26.

Exhibit 2: US sales recovery in FY24 and to sustain in FY25/26



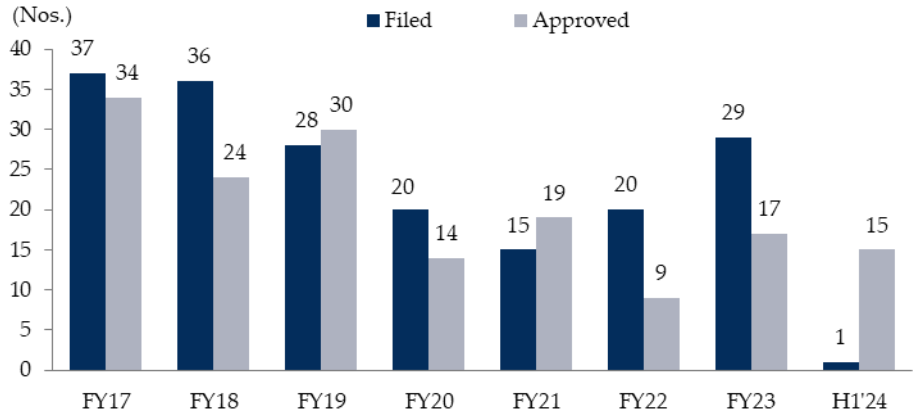
Source: Company, HSIE Research

Exhibit 3: US top 10 client contribution



Source: Company, HSIE Research, USFDA

Exhibit 4: Expects to increase filing momentum



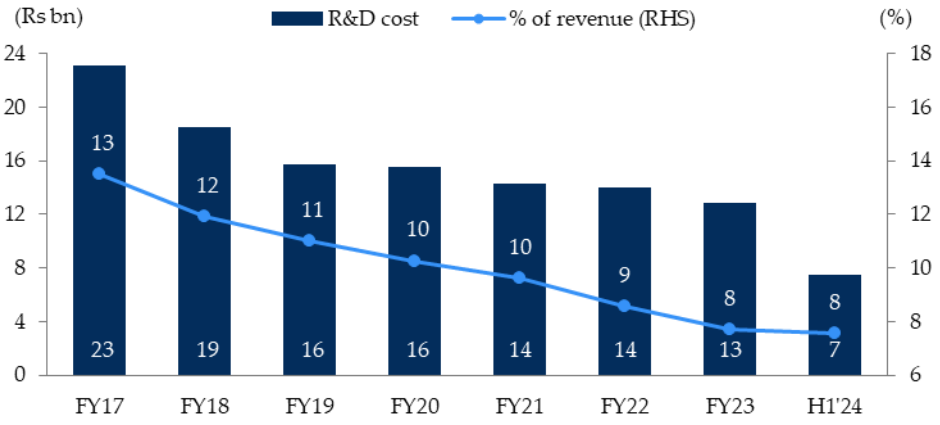
Source: Company, HSIE Research, USFDA

Exhibit 5: Key plants are now out of USFDA issues

Facility	Type	Inspection Date	Update	Comments
Goa	Formulation	Mar'16	Form 483 with 9 observations	
		Apr'17	Re-inspection; Form 483 with 3 observations	Repeat observations of invalidating OOS results without thorough investigations
		Nov'17	Warning Letter	**resolved in Jul'23**
		Feb'19	Re-inspection; Form 483 with 2 observations	Repeat observations of invalidating OOS results without thorough investigations
		Sep'21	**Re-inspection; Form 483 with 7 observations**	**Received EIR in Dec'21 (with VAI)**
Pithampur Unit-2 (Indore)	Formulation	Jan'15	Form 483 with 6 observations	
		May'17	Re-inspection; Form 483 with 6 observations	Repeat observations of invalidating OOS results without thorough investigations
		Nov'17	Warning Letter	**resolved in Jul'23**
		Jan'19	Re-inspection; Form 483 with 6 observations	Repeat observations of invalidating OOS results without thorough investigations
		Mar'23	Re-inspection; Form 483 with 10 observations	EIR (Jul-23) with VAI status
Mandideep Unit-1	API/ Formulation	Dec'18	Form 483 with 10 (API) and 8 (Formulation) observations	Received Warning Letter in Sep'19; Official Action Indicated (OAI) classification in Mar'19
Mandideep Unit-1	API/ Formulation	Nov'22	**Form 483 with 8 (API) and 8 (Formulation) observations**	-
Mandideep Unit-2	API	Aug'23	No observations	Received EIR in Oct'23 with NAI
Novel Labs (Somerset, US)	Formulation	Dec'18	Form 483 with 6 observations	Received OAI classification in Mar'19 from USFDA which might escalate to a Warning Letter
		Sep'20	Form 483 with 13 observations; issued in Jan'21; Warning letter in Jun'21	Observations are largely procedural in nature
		Mar'22	**Form 483 with 13 observations**	**EIR with VAI received in Jul'22**
Tarapur	API	Sep'19	Form 483 with 3 observations	OAI classification in Jan'20
		Apr'22	**Form 483 with 4 observations**	**Warning Letter in Sep'22**
Pune	Biotech Mfg	Oct'22	Form 483 with 17 observations (PAI)	
	Bioresearch	Mar'23	closed without any observations	
Vizag	API	Jan'20	Form 483 with 5 observations	EIR in May'20
		Mar'23	GMP/ PAI inspection closed without any observations	
Nagpur	OSD formulation	Jul'23	Form 483 with 2 observations	EIR in Sep'23
Nagpur Unit-2	Injectables	**Oct'22**	**Form 483 with 5 observations (PAI)**	**EIR in Feb'23**
Ankleshwar	API	Aug'22	**-**	**EIR in Oct'22**
Aurangabad	Formulation	May'19	Form 483 with 3 observations	EIR in Aug'19
Pithampur Unit-3 (Indore)	Formulation	Oct'18	Form 483 with 5 observations	EIR in Apr'19
Inhalation Center, Florida	Formulation	Feb'20	Nil	EIR (Mar-20); on behalf of UKMHRA for gFostair

Source: Company, HSIE Research, USFDA

Exhibit 6: R&D as % of sales declining given focus on developing complex product pipeline



Source: Company, HSIE Research

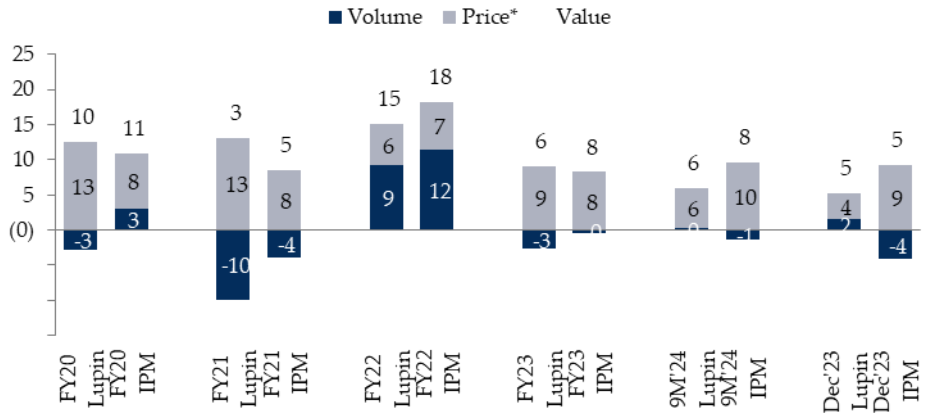
Exhibit 7: Complex portfolio under development

Complex pipeline	Comments
Respiratory	- Developing portfolio with focus across MDIs, DPIs, Soft-Mist Inhalers, Nasal Sprays and Nebules. - 20+ inhaler under pipeline. - Elipta made significant progress and update on one of the products is expected by FY4-end. - Respimat trials are under progress and expects further development in FY25. - Few products in green propellant inhaler space. - Working on few more nasal sprays
Injectables	- Developing portfolio with 40+ products under development. - ForDoz pharma: In- licensed 2 complex injectables. - Partnered with Caplin point for generic injectable products. - Filed Liraglutide and launch is subjected to outcome of para IV litigation in the US. - Glucagon is key product in the near term expects approval/ launch in FY25. - Expects 2-3 launched in FY24. - Completed clinical trials for Risperdal Consta (Risperidone) and expects to file in FY24 and approval/ launch in two years from filing.
Biosimilar	- Etanercept (with Viatris) progressing well to enter the US, under review with the USFDA. - Pegfilgrastim filed with the USFDA for review; struck with observations at Pune plant; expects to reply to USFDA by Mar'24. - Ranibizumab is under clinical trials; recently completed patient recruitment; expects to file with the USFDA in FY25/26.
Licensing deals	- **MALT1 inhibitor program** - Partnered with AbbVie; trials are ongoing for the treatment across a range of haematological cancers. - USD 30 mn up-front payment in Q3FY19; rest are commercial milestones of up to USD 947 mn. - Received licensing income of USD 25 mn in Q1FY24 as part of successful achievement of key milestones in Phase 1. - **MEK inhibitor compound** - Partnered with Boehringer Ingelheim; oncology molecules. - USD 20 mn up-front payment in Q2FY20; eligible for total milestones of >USD 700 mn and royalties on product sales. - Received licensing income of USD 50 mn in Q1FY22 for achievement of key milestones.
Long-term goals	- **Complex generics launches in regulated markets by 2028:** 20+ complex product launches in the areas of inhalation, injectables, amongst others. - **Biosimilar and Novel complex products by 2028**: Complete 3 biosimilar filings in regulated markets; Launch 10 novel complex pipeline products in India.

Source: Company, HSIE Research

Steady India growth despite impact of in-licensed products patent expiry

Exhibit 8: India business growth was largely led by the price



Source: HSIE Research, IQVIA, *Price growth = Value growth – Volume growth

Exhibit 9: Cardiac, gastro and respiratory saw steady growth; anti-diabetic was muted

Lupin therapy YoY %	% of FY23 sales	FY20	FY21	FY22	FY23	9M'24	Q3'24	Dec-23
Cardiac	22%	8%	13%	13%	7%	8%	8%	11%
Anti Diabetic	21%	18%	13%	8%	1%	-1%	0%	1%
Respiratory	15%	14%	-1%	33%	8%	9%	7%	4%
Gastro Intestinal	9%	8%	4%	17%	15%	9%	10%	9%
Anti-Infectives	7%	5%	-19%	12%	-2%	8%	8%	4%
Gynaec.	5%	7%	-4%	27%	27%	11%	7%	6%
Vitamins/Minerals/Nutrients	5%	8%	2%	20%	-6%	3%	8%	8%
Neuro / Cns	5%	10%	12%	9%	9%	5%	1%	-1%
Pain / Analgesics	4%	8%	-12%	12%	11%	3%	1%	1%
Anti-Tb	3%	-6%	-9%	11%	13%	3%	3%	2%
Lupin total	**100%**	10%	3%	15%	6%	6%	6%	5%

Source: HSIE Research, IQVIA

Exhibit 10: Weak Ondero, Huminsulin, Ajaduo offset by growth in Budamate, Ivabrad and Rablet-D

Lupin brands YoY	Therapy	% of FY23 sales	FY23 sales (Rs bn)	FY20	FY21	FY22	FY23	9M'24	Q3'24	Dec-23
Gluconorm-G	Anti Diabetic	4%	3.1	9%	11%	9%	5%	5%	6%	9%
Budamate	Respiratory	3%	2.2	20%	3%	22%	11%	22%	17%	13%
Huminsulin	Anti Diabetic	3%	2.1	2%	2%	5%	1%	-8%	-11%	-13%
Ivabrad	Cardiac	2%	1.3	13%	24%	22%	11%	9%	6%	7%
Ajaduo	Anti Diabetic	2%	1.1	389%	41%	22%	8%	-8%	-13%	-11%
Tonact	Cardiac	2%	1.1	3%	9%	-1%	4%	-7%	-4%	-2%
Ondero	Anti Diabetic	2%	1.1	32%	13%	6%	-10%	-27%	-42%	-44%
Rablet-D	Gastro Intestinal	2%	1.1	2%	5%	10%	12%	11%	7%	3%
Telekast-L	Respiratory	1%	1.0	7%	-5%	39%	15%	-8%	-12%	-12%
Gibtulio	Anti Diabetic	1%	1.0	27%	14%	-12%	-18%	-13%	-9%	-8%
Top 10 brands		**22%**	**15.0**	16%	10%	10%	4%	2%	1%	1%
11-25 brands		**15%**	**10.2**	10%	5%	13%	10%	3%	-1%	-2%
26-50 brands		**16%**	**10.9**	9%	5%	12%	4%	6%	8%	9%
Above 50 brands		**48%**	**33.6**	7%	-1%	19%	7%	9%	9%	8%
Lupin total		**100%**	**69.7**	**10%**	**3%**	**15%**	**6%**	**6%**	**1%**	

Source: HSIE Research, IQVIA

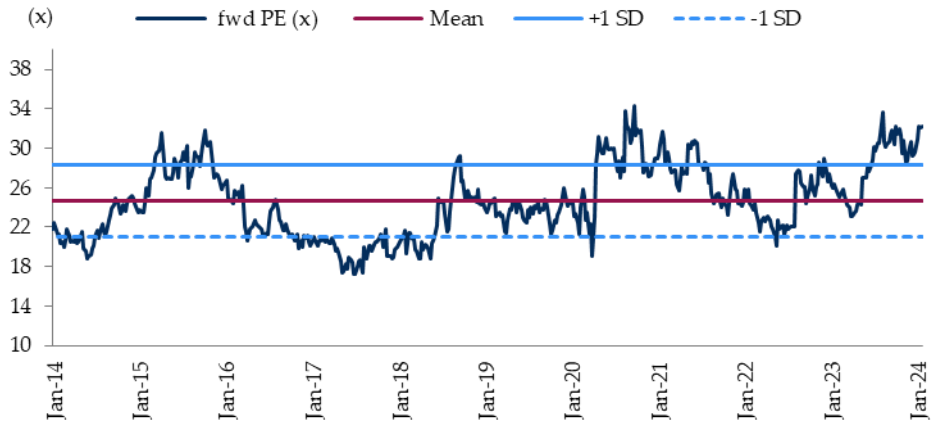
Outlook and Valuation

LPC is expected to see growth in the US business, led by (1) traction in gSpiriva (launched in Aug'23), (2) enhanced momentum in other respiratory franchise products (Albuterol, Brovana, Xopenex HFA), (3) traction in recent launches, and (4) improving new launch visibility (across ophthal, injectable, and respiratory), supported by key plant clearance from USFDA. India business to see steady growth (+8% YoY in H1FY24) on new launches, MR additions, and market share gain in chronic therapies to offset the price/ volume impact from patent expiry in its in-licensing products.

We expect LPC to see a steady 13% sales CAGR over FY23-26E and recovery in overall business would lead to strong growth in EBITDA/PAT and EBITDA margin could improve by 50-100 bps over the next two years (ex-NCE licensing margin was at ~16% in H1FY24), driven by sales growth and operating leverage. While steady growth and margin visibility remain, the recent run-up in the stock price (85%+ in the last year) limits any further upside. Execution is a key monitorable for LPC over the next few quarters.

We initiate coverage with REDUCE rating and target price of INR 1,400, based on 26x Dec'25E EPS.

Exhibit 11: PE chart



Source: Bloomberg, HSIE Research

Financials (Consolidated)

Profit & loss (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	**1,43,181**	**1,51,428**	**1,49,270**	**1,61,928**	**1,62,700**	**1,93,236**	**2,12,921**	**2,34,201**
Other operating income	3,465	2,320	2,360	2,127	3,717	3,575	4,046	4,450
Total operating income	**1,46,646**	**1,53,748**	**1,51,630**	**1,64,055**	**1,66,417**	**1,96,811**	**2,16,967**	**2,38,651**
Cost of goods sold	-49,461	-54,306	-53,622	-64,812	-67,798	-66,916	-73,552	-80,664
Gross profit	97,185	99,442	98,007	99,242	98,619	1,29,895	1,43,415	1,57,987
Gross margin (%)	66	65	65	60	59	66	66	66
Total operating expenses	-71,578	-75,894	-71,429	-78,270	-81,413	-94,469	-1,03,276	-1,12,166
EBITDA	**25,607**	**23,548**	**26,578**	**20,972**	**17,206**	**35,426**	**40,139**	**45,821**
EBITDA margin (%)	17.5	15.3	17.5	12.8	10.3	18.0	18.5	19.2
Depreciation	-8,461	-9,702	-8,874	-16,587	-8,807	-9,867	-10,495	-11,214
EBIT	**17,147**	**13,846**	**17,704**	**4,385**	**8,399**	**25,559**	**29,644**	**34,607**
Net interest	-3,025	-3,630	-1,406	-1,428	-2,743	-3,209	-2,400	-1,809
Other income	1,840	2,916	1,363	1,417	734	1,396	1,504	1,540
Profit before tax	**14,052**	**7,533**	**16,751**	**-13,726**	**7,165**	**23,690**	**28,747**	**34,338**
Total taxation	-8,879	-11,571	-4,485	-1,372	-2,688	-5,212	-7,187	-8,585
Tax rate (%)	63	154	27	-10	38	22	25	25
Profit after tax	5,173	-4,039	12,266	-15,097	4,477	18,478	21,560	25,754
Minorities	89	-4	114	187	176	178	181	185
Profit/ Loss associate co(s)	38	39	13	4	0	0	0	0
Adjusted net profit	**9,510**	**7,907**	**12,831**	**7,260**	**3,816**	**18,344**	**21,379**	**25,569**
Adj. PAT margin (%)	7	5	9	4	2	9	10	11
Net non-recurring items	-3,445	-10,601	-666	-22,541	485	-43	0	0
Reported net profit	**6,066**	**-2,694**	**12,165**	**-15,280**	**4,301**	**18,301**	**21,379**	**25,569**

Balance sheet (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Paid-up capital	905	906	907	909	910	911	911	911
Reserves & surplus	1,36,517	1,24,461	1,37,124	1,20,624	1,23,735	1,38,479	1,55,685	1,76,243
Net worth	1,37,891	1,25,812	1,38,581	1,22,220	1,25,428	1,40,350	1,57,738	1,78,481
Borrowing	82,219	42,860	51,291	41,584	45,415	38,200	32,003	25,837
Other non-current liabilities	10,598	13,761	8,488	10,401	10,158	11,322	12,230	13,212
Total liabilities	**2,79,494**	**2,49,839**	**2,36,104**	**2,18,212**	**2,29,560**	**2,42,151**	**2,59,403**	**2,80,500**
Gross fixed assets	1,33,516	1,23,090	1,27,643	1,38,662	1,58,586	1,73,286	1,84,986	1,96,686
Less: Depreciation	-46,452	-62,224	-68,460	-86,087	-97,222	-1,07,089	-1,17,584	-1,28,798
Net fixed assets	87,064	60,866	59,183	52,575	61,365	66,197	67,402	67,888
Add: Capital WIP	16,397	9,396	10,663	11,463	12,380	9,432	9,432	9,432
Total fixed assets	1,03,461	70,263	69,846	64,038	73,745	75,629	76,834	77,320
Total Investment	22,955	23,743	24,549	9,000	5,169	1,908	1,913	1,919
Inventory	38,368	34,569	40,920	46,307	44,918	48,656	53,639	59,000
Debtors	51,498	54,459	44,743	42,619	44,807	47,016	51,831	57,011
Cash & bank	9,872	24,543	17,425	10,981	12,931	19,647	23,682	31,381
Loans & advances	1,063	846	16	25	62	60	65	69
Current liabilities	48,785	67,405	37,745	44,008	48,558	52,279	57,432	62,970
Total current assets	1,17,955	1,30,920	1,16,040	1,15,970	1,19,789	1,32,699	1,48,309	1,68,462
Net current assets	69,170	63,515	78,295	71,962	71,230	80,420	90,877	1,05,491
Other non-current assets	11,320	6,398	6,046	7,963	8,670	8,999	9,431	9,884
Total assets	**2,79,494**	**2,49,839**	**2,36,104**	**2,18,212**	**2,29,560**	**2,42,151**	**2,59,403**	**2,80,500**

Source: Company, HSIE Research

Cash flow (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	14,052	7,533	16,751	-13,726	7,165	23,690	28,747	34,338
Depreciation & Amortisation	-8,461	-9,702	-8,874	-16,587	-8,807	-9,867	-10,495	-11,214
Chg in working capital	-5,002	-7,296	-1,925	-150	3,265	-7,370	-8,466	-9,127
CF from operations	**16,660**	**14,688**	**18,218**	**3,673**	**18,972**	**23,361**	**25,065**	**28,694**
Capital expenditure	-9,854	-6,731	-6,776	-10,519	-17,906	-14,700	-11,700	-11,700
CF from investing	**-32,825**	**11,070**	**-12,396**	**12,922**	**-12,868**	**-16,884**	**-11,695**	**-11,694**
Equity raised/ (repaid)	1	1	2	2	1	0	0	0
Debt raised/ (repaid)	12,922	-1,504	-13,677	-10,787	1,728	-7,216	-6,197	-6,166
Dividend paid	-2,726	-2,728	-2,719	-2,951	-1,819	-3,660	-4,276	-5,114
CF from financing	**7,441**	**-8,906**	**-18,853**	**-15,723**	**-3,373**	**-10,876**	**-10,472**	**-11,280**
Net chg in cash	-8,724	16,853	-13,031	872	2,732	-4,398	2,898	5,720

Key ratios

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OPERATIONAL								
FDEPS (INR)	20.9	17.4	28.2	15.9	8.4	40.3	47.0	56.2
CEPS (INR)	31.9	15.4	46.2	2.9	28.8	61.9	70.0	80.8
DPS (INR)	6.0	6.0	6.0	6.5	4.0	8.0	9.4	11.2
Dividend payout ratio (%)	44.9	(101.3)	22.3	(19.3)	42.3	20.0	20.0	20.0
GROWTH								
Net sales (%)	(8.0)	5.8	(1.4)	8.5	0.5	18.8	10.2	10.0
EBITDA (%)	(18.6)	(8.0)	12.9	(21.1)	(18.0)	105.9	13.3	14.2
Adj net profit (%)	(20.3)	(16.9)	62.3	(43.4)	(47.4)	380.7	16.5	19.6
FDEPS (%)	(20.3)	(16.9)	62.3	(43.4)	(47.4)	380.7	16.5	19.6
PERFORMANCE								
RoE (%)	7.0	6.3	9.7	5.6	3.1	13.9	14.4	15.3
RoCE (%)	8.5	9.2	10.0	3.1	5.1	14.5	15.9	17.2
EFFICIENCY								
Asset turnover (x)	1.2	1.2	1.2	1.2	1.1	1.2	1.2	1.2
Sales/ total assets (x)	0.5	0.6	0.6	0.7	0.7	0.8	0.8	0.9
Working capital/ sales (x)	0.4	0.3	0.3	0.4	0.4	0.3	0.3	0.3
Receivable days	131	131	109	96	101	89	89	89
Inventory days	116	97	119	118	110	110	111	112
Payable days	75	68	59	58	62	61	61	61
FINANCIAL STABILITY								
Total debt/ equity (x)	0.6	0.3	0.4	0.3	0.4	0.3	0.2	0.2
Net debt/ equity (x)	0.4	(0.0)	0.1	0.2	0.2	0.1	0.0	(0.0)
Current ratio (x)	2.4	1.9	3.1	2.6	2.5	2.5	2.6	2.7
Interest cover (x)	5.7	3.8	12.6	3.1	3.1	8.0	12.4	19.1
VALUATION								
PE (x)	67.5	81.2	50.0	88.4	168.2	35.0	30.0	25.1
EV/ EBITDA (x)	27.1	27.1	24.6	31.7	39.0	18.6	16.2	13.9
EV/ Net sales (x)	4.8	4.2	4.4	4.1	4.1	3.4	3.1	2.7
PB (x)	4.7	5.1	4.7	5.3	5.2	4.6	4.1	3.6
Dividend yield (%)	0.4	0.4	0.4	0.5	0.3	0.6	0.7	0.8
Free cash flow yield (%)	1.1	1.2	1.8	(1.1)	0.2	1.3	2.1	2.6

Source: Company, HSIE Research

INSTITUTIONAL RESEARCH

Sun Pharmaceutical Industries

Sector leader: specialty scale-up, steady India key

Sun Pharma (SUNP) is one of the largest generic players in the US and a leader in domestic formulation (ranked No. 1 in IPM) as well as it has created strong differentiating positioning over the last 6-7 years through its specialty business. We expect specialty scale-up (traction in Ilumya, Winlevi, Cequa, expected launch of Concert's Deuruxolitinib – filed with USFDA with PDUFA date in Jul'24), traction in US generics (gPentasa, gRevlimid, 80+ pending ANDA) and India (MR addition, new launches) to drive growth and lead to a steady margin (as growth offsets the increasing R&D spend). We initiate coverage with a BUY rating and a target price of INR 1,600, based on a 30x Dec'25E EPS.

Global specialty growth momentum to continue: SUNP's global specialty sales (markets 26 products) jumped 2.5x to USD 871 mn (~16% of sales in FY23 from ~7% in FY18; +29% YoY) in FY23. Ilumya' global sales grew +51% YoY to USD 477 mn in FY23. It expects momentum to continue in the near term with traction in existing products like Ilumya (China approval in May'23; included in category B of China's National reimbursement drug list in Dec'23), Winlevi, Cequa (prescription growth in H1FY24) and the recently launched Sezaby (neonatal seizures). Its pipeline (five molecules under clinical phase), Concert acquisition (deuruxolitinib, filed 8 mg strength with USFDA; PDUFA date in Jun'24), M&A (strong balance sheet), and in-licensing (has commercial infrastructure in a few large markets) will drive long-term growth.

Growth visibility improving in US generic business: SUNP expects US business (31% of FY23 sales) to see steady growth, led by new launches, market share gains in base business (few shortages opportunity), and ramp-up in recent launches (gPentasa, gRevlimid, 80+ pending approvals). Muted growth in Taro (~78% stake) on pricing pressure in base business could be partially offset by traction in Proactiv (Alchemee). The USFDA import alert at Halol (in Dec'22) and non-compliance at Mohali (in Apr'23; resumed supplies from Q2FY24) plants remain an overhang.

Steady growth momentum in India: SUNP continues to focus on (1) productivity improvement (MR at 12,692, productivity at INR 10.7 mn), (2) niche product offerings to ensure high brand equity with prescribers (well-balanced acute – 49% of sales and chronic –51% mix), and (3) evaluating in-licensing opportunities. More so, the specialty business expansion in India (launched Cequa during FY23) would add to the growth over the next few years.

R&D focus on specialty and complex generics: SUNP's cumulative R&D over the last decade was ~USD 2.8 bn (5-7% of sales) and it expects R&D at 7-8% of sales in FY24, led by an increase in clinical trials for specialty products like Ilumya (Phase-3, psoriatic arthritis), MM-II (Phase-2b, knee pain), SCD-044 (Phase-2, atopic dermatitis/plaque psoriasis), GLP-1R (Phase-1, diabetes, weight loss), Nidlegy (Phase-3, skin cancer; partnered with Philogen), and Deuruxolitinib (open-label studies) in FY24.

Outlook and valuation: We expect SUNP to see 11/13/14% sales/EBITDA/PAT CAGR over FY23-26E, led by scale-up in specialty and steady growth in India. Margins to remain at 27-28% despite higher R&D. Strong balance sheet enable its M&A activity (strong track record of M&A execution). Also, it has reduced debt by ~USD 580 mn in H1FY24. Initiate coverage with a BUY and TP of INR 1,600, based on a 30x Dec'25E.

Financial Summary

YE March (INR bn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
US sales (USD mn)	1487	1359	1526	1,684	1,835	2,013	2,198
Net Sales	328	335	387	439	487	545	608
EBITDA	70	85	102	118	132	150	170
APAT	40	59	76	86	96	115	132
Diluted EPS (INR)	16.5	24.6	31.7	36.0	39.9	48.0	55.1
P/E (x)	80.1	53.9	41.8	36.8	33.3	27.6	24.1
EV / EBITDA (x)	45.6	37.2	30.2	26.6	23.3	19.9	17.2
RoCE (%)	10	13	17	16	17	18	19

Source: Company, HSIE Research

BUY

CMP *(as on 20 Jan 2024)*	INR 1,326
Target Price	INR 1,600
NIFTY	21,572

KEY STOCK DATA

Bloomberg code	SUNP IN
No. of Shares (mn)	2,399
MCap (INR bn) / ($ mn)	3,182/38,906
6m avg traded value (INR mn)	2,464
52 Week high / low	INR 1,347/922

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	16.1	20.8	28.7
Relative (%)	6.9	13.7	10.9

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	54.48	54.48
FIs & Local MFs	19.67	19.52
FPIs	16.79	17.07
Public & Others	9.06	8.93
Pledged Shares	1.33	2.44

Source : BSE

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Exhibit 1: Revenue, EBITDA and PAT assumptions

(Rs mn)	% of FY23 sales	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
India	31	80,293	73,483	97,102	1,03,432	1,27,593	1,36,031	1,48,954	1,65,339	1,83,526
% growth		4	(8)	32	7	23	7	10	11	11
US (USD mn)		1,357	1,526	1,487	1,359	1,526	1,684	1,835	2,013	2,198
% growth		(34)	12	(3)	(9)	12	10	9	10	9
Taro (USD mn)		549	537	496	384	377	363	396	407	415
% growth		(30)	(2)	(8)	(23)	(2)	(4)	9	3	2
Specialty business (USD mn)*		345	321	404	442	594	785	871	992	1,120
% growth		(0)	(7)	26	9	34	32	11	14	13
Generics ex-Taro/ Specialty (USD mn)		463	668	587	533	555	536	567	613	663
% growth		(50)	44	(12)	(9)	4	(3)	6	8	8
US	31	87,466	1,06,713	1,05,425	1,00,921	1,13,737	1,35,353	1,52,265	1,69,066	1,86,819
% growth		(36)	22	(1)	(4)	13	19	12	11	11
Specialty business (USD mn)		345	321	429	475	673	871	970	1,106	1,251
% growth		(0)	(7)	33	11	42	29	11	14	13
Exports (ex-US)	32	78,132	88,178	1,00,253	1,06,796	1,21,976	1,39,402	1,56,316	1,77,529	2,01,626
% growth		10	13	14	7	14	14	12	14	14
Emerging markets	18	48,392	53,625	55,044	57,840	67,432	78,977	89,244	1,01,738	1,15,981
% growth		7	11	3	5	17	17	13	14	14
RoW	14	29,740	34,554	45,210	48,956	54,545	60,426	67,072	75,792	85,645
% growth		15	16	31	8	11	11	11	13	13
API	5	13,993	17,303	19,159	19,504	18,354	19,724	20,118	21,727	23,466
% growth		(12)	24	11	2	(6)	7	2	8	8
Others	1	775	1,185	1,312	1,679	2,604	2,279	2,576	2,833	3,116
% growth		71	53	11	28	55	(12)	13	10	10
Total sales	**100**	**2,60,659**	**2,86,863**	**3,23,252**	**3,32,331**	**3,84,264**	**4,32,789**	**4,80,228**	**5,36,495**	**5,98,553**
% growth		**(14)**	**10**	**13**	**3**	**16**	**13**	**11**	**12**	**12**
Other operating income		4,235	3,796	5,123	2,651	2,281	6,068	7,203	8,584	9,577
% growth		(68)	(10)	35	(48)	(14)	166	19	19	12
Total revenues		**2,64,895**	**2,90,659**	**3,28,375**	**3,34,981**	**3,86,545**	**4,38,857**	**4,87,432**	**5,45,079**	**6,08,130**
% growth		**(16)**	**10**	**13**	**2**	**15**	**14**	**11**	**12**	**12**
Gross profit		**1,90,648**	**2,11,969**	**2,36,071**	**2,48,081**	**2,83,030**	**3,32,235**	**3,75,322**	**4,20,801**	**4,69,476**
Gross margin		**72.0**	**72.9**	**71.9**	**74.1**	**73.2**	**75.7**	**77.0**	**77.2**	**77.2**
EBITDA		**56,164**	**64,008**	**69,742**	**84,677**	**1,02,438**	**1,17,729**	**1,31,607**	**1,50,442**	**1,69,668**
EBITDA margin		**21.2**	**22.0**	**21.2**	**25.3**	**26.5**	**26.8**	**27.0**	**27.6**	**27.9**
Adjusted PAT		**33,324**	**37,668**	**39,697**	**59,022**	**76,048**	**86,481**	**95,642**	**1,15,200**	**1,32,219**
% growth		**(50)**	**13**	**5**	**49**	**29**	**14**	**11**	**20**	**15**

Source: Company, HSIE Research, EBITDA/ PAT adjusted for forex and one-offs

The overall outlook provided by SUNP

SUNP expects all its businesses to be well-positioned and has guided for a high-single-digit top-line growth for FY24 (H1FY24 grew at 11% YoY). The expansion of its global specialty business is expected to continue (H1FY24 sales were at USD 472 mn, up 21% YoY). It sees overall expenses increasing, given business operations have normalized globally (H1FY24 EBITDA margin was at 27.1%). Further, it expects R&D spending at 7-8% of sales in FY24 (R&D was at ~6% of sales in H1FY24), with an increasing share of spending expected in clinical trials for specialty products.

SUNP has set out top priorities for FY24, which are"

- Sustainable and profitable business growth
- Supply chain continuity along with a focus on inventory optimization
- Continued focus on cost and operational efficiencies
- Increased investments in IT and digital transformation
- Focus on improving overall return ratios
- Embedding sustainability practices within its operations

Scaling up specialty business

SUNP's global specialty business (marketed 26 products) has more than doubled to ~16% of sales in FY23, from ~7% in FY18. In FY23, global specialty revenue saw ~29% YoY growth to ~USD 871 mn and global Ilumya sales grew +51% YoY to USD 477 mn in FY23.

Exhibit 2: Global specialty contribution to total revenue trend

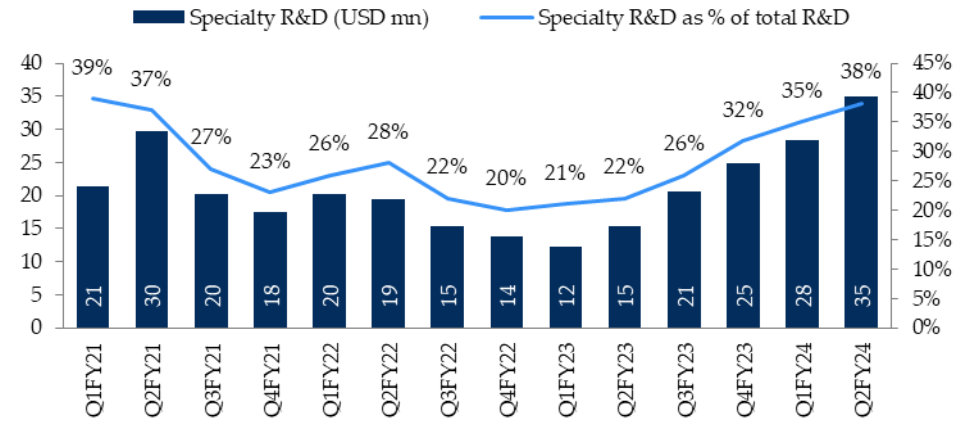
Source: Company, HSIE Research, Excluding USD 12.5/ 6.8 mn milestone income sales contribution was ~16.5%/ 18.2% in Q3/ Q4'23

Exhibit 3: US sales from multiple specialty assets can scale up

Specialty Business	Indication	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Absorica (Ranbaxy/Cipher)	Treat acne	220	170	150	140	115	75	45	40	40
Levulan	Thick actinic keratoses	100	80	70	45	40	40	45	45	45
Ilumya (Merck)	Plaque psoriasis, trials are ongoing for new indications of psoriatic arthritis (analyzing ankylosing spondylitis)	-	16	90	148	268	405	451	482	531
Bromsite (In-Site)	Treat inflammation and prevent ocular pain during/post cataract surgery	20	20	50	35	45	50	55	55	55
Cequa (Ocular Tech)	Dry eye condition	-	-	9	29	56	64	74	84	102
Odomzo (Novartis)	Oncology/dermatology	5	5	15	20	25	20	20	20	20
Yonsa (Churchill Pharma)	Metastatic prostate cancer	-	30	20	25	30	30	35	40	45
Winlevi (Cassiopea)	Acne vulgaris	-	-	-	-	15	100	147	226	283
Total Specialty Sales in US		**345**	**321**	**404**	**442**	**594**	**785**	**871**	**992**	**1,120**
Specialty Sales in RoW		-	0	25	33	79	86	99	114	131
Global Specialty Sales		**345**	**321**	**429**	**475**	**673**	**871**	**970**	**1,106**	**1,251**

Source: Company, HSIE Research

Exhibit 4: R&D towards specialty business increasing



Source: Company, HSIE Research

Exhibit 5: SUNP's currently marketed specialty portfolio

Specialty products	Description
Ilumya/ Ilumetri	For treatment of adults with moderate-to-severe plaque psoriasis who are candidates for systemic therapy or phototherapy. Long term clinical data shows that the significant response rate seen in 52 & 64 weeks were maintained over five years. Ongoing Phase-3 trials for Psoriatic Arthritis. Current Markets: US, Australia, Japan, Canada, Europe (by partner Almirall). Out licensed to CMS for Greater China where it received approval in May 2023 and to Hikma for Middle East & North Africa. Included in category B of China's National reimbursement drug list in Dec'23
Winlevi	Topical treatment of acne vulgaris in patients 12 years of age and older. Results from two pivotal clinical trials showed favourable safety and efficacy data for WINLEVI in patients with acne aged 12 years and older. Current Markets: US
Levulan Kerastick + BLU-U	For photodynamic therapy (treatment) of minimally to moderately thick actinic keratoses of the face or scalp, or actinic keratoses of the upper extremities. First and only PDT approved to treat the face and scalp as well as the upper arms, forearms, and hands. Current Markets: US
Absorica LD	Treatment of severe recalcitrant nodular acne in non-pregnant patients 12 years of age and older with multiple inflammatory nodules with a diameter of 5 mm or greater. After one 20-week course of ABSORICA therapy, 95% of patients didn't require additional isotretinoin treatment up to two years posttreatment. Current Markets: US
Odomzo	Treatment of adult patients with locally advanced Basal Cell Carcinoma (BCC) that has recurred following surgery or radiation therapy, or those who are not candidates for surgery or radiation therapy. Odomzo was shown to shrink laBCC in almost 6 out of 10 patients (56%) in a clinical study. laBCC Patients were treated with Odomzo and followed for at least 18 months. Currently marketed in US, Canada, Germany, France, Denmark, Switzerland, Spain, Italy, Australia and Israel
Cequa	To increase tear production in patients with keratoconjunctivitis sicca (dry eye). Phase 3 confirmatory study observed clinically and statistically significant improvements in tear production and ocular surface integrity in patients. Current Markets: US, Canada. Out licensed to CMS for Greater China in June 2019.
Bromsite	Treatment of postoperative inflammation and prevention of ocular pain in patients undergoing cataract surgery. More than 2x as many patients treated with Bromsite were inflammation-free at day 15 than those treated with vehicle and nearly 80% of patients treated with Bromsite were pain free at day 1 post surgery. Current Markets: US
Xelpros	Reduction of elevated intraocular pressure (IOP) in patients with open-angle glaucoma or ocular hypertension. In clinical trials, Xelpros demonstrated reductions from baseline in intraocular pressure (IOP) in patients with open-angle glaucoma or ocular hypertension. Current Markets: US
Yonsa	In combination with methylprednisolone for the treatment of patients with metastatic castration resistant prostate cancer (CRPC). Yonsa was shown in clinical studies to be an effective form of abiraterone acetate, and can be taken with or without food, in combination with methylprednisolone. Current Markets: US
Sezaby	First and only product approved in the US for treating seizures in neonatal patients. NEOLEV2 study compared phenobarbital to levetiracetam in the first-line treatment of neonatal seizures. 24 hours following the administration, 73% vs. 25% were seizure-free in the respective groups. Current Markets: US
Sprinkle portfolio	For therapeutic solutions for long-term care (LTC) patients. Products using sprinkle technology for patients who have difficulty swallowing. Sprinkle versions of metoprolol (cardiology), rosuvastatin (cardiology) & duloxetine (neuropsychiatry). Current Markets: US

Source: Company, HSIE Research

Exhibit 6: SUNP's specialty R&D pipeline

Molecule/Asset	Indication	Route of Administration	Mechanism of Action	Pre-clinical	Ph-1	Ph-2	Ph-3	Registration	Approved
CTP-543 (deuruxolitinib)	Alopecia Areata	Oral	JAK Inhibitor						
Ilumya (tildrakizumab)	Psoriatic Arthritis	Injection	IL-23 Antagonist						
Nidlegy	Skin cancer	Injection	Immunocytokines						
SCD-044	Psoriasis, Atopic Dermatitis	Oral	Selective SIPR1 Agonist						
MM-II	Treatment of pain in osteoarthritis	Injection	Liposomal intra-articular lubrication						
GL0034	Type 2 Diabetes	Injection	GLP-1R Agonist						

Source: Company, HSIE Research

Exhibit 7: SUNP's specialty R&D pipeline – current update

Candidate	Indication	Current phase	Next milestone
Deuruxolitinib	Alopecia areata	Filed with US FDA	PDUFA date in Jul-24
Nidlegy	Skin cancer	First Phase-3 topline reported	Partner Philogen to disclose at appropriate time
Ilumya	Psoriatic arthritis	Phase-3	First topline data by late-25
MM-II	Pain in osteoarthritis	Phase-2 completed	Phase-3 to start in early-24
SCD-044	Psoriasis, atopic dermatitis	Phase 2	First topline data by end-24 (atopic dermatitis)
GL0034	Type-2 diabetes	Phase-1 completed	Phase-2 to start by early-24

Source: Company, HSIE Research

Concert acquisition – Deuruxolitinib

- SUNP in Jan'23 signed an agreement to acquire all outstanding shares of Concert Pharma (Nasdaq listed) through a tender offer for an upfront payment of USD 8.0/share amounting to an equity value of USD 576 mn (market cap/CY21 sales of 17.7x). Concert's shareholders will also receive a Contingent Value Right (CVR) entitling them to an additional USD 3.5/ share payable upon Deuruxolitinib achieving certain milestones.
- The acquisition was completed in Mar'23 with 75.2% of Concert's outstanding common stock having been tendered. As of Dec'22, net cash was at USD 621 mn (ex-Taro) and USD 1.8 bn (consolidated).
- Conditions for CVR: (1) USD 1.0/ share, payable if between first commercial sale of Deuruxolitinib in US and FY27 net sales of Deuruxolitinib is >= USD 100 mn and (2) an additional USD 2.5/ share, payable in any period of four consecutive fiscal quarters between the time of first commercial sale of Deuruxolitinib in the US and Dec'29, net sales of Deuruxolitinib are >= USD 500 mn.
- The molecule was discovered by applying Concert's deuterium chemistry technology—Deuruxolitinib is an oral selective inhibitor of Janus kinases JAK1 and JAK2 that we are developing for the treatment of moderate-to-severe alopecia areata.
- **Alopecia areata**: As per company filing, the market opportunity to treat alopecia areata within the US is estimated at ~1.5 mn persons. The FDA has granted Deuruxolitinib Breakthrough Therapy designation for the treatment of adult patients with moderate to severe alopecia areata and Fast Track designation for the treatment of alopecia areata.
- In May'23, the USFDA put on partial clinical hold for Deuruxolitinib (CTP-543) due to a pulmonary embolism i.e., blood clot in the lung occurring at the 12 mg twice

daily dose in one of the long-term open-label extensions (OLE) studies. No thrombotic events were reported for the 8 mg twice daily dose.

- In Oct'23, SUNP filed an NDA for deuruxolitinib 8mg twice daily regimen of deuruxolitinib for USFDA review. PUDFA date is in Jul'24.

US generic business to see steady growth

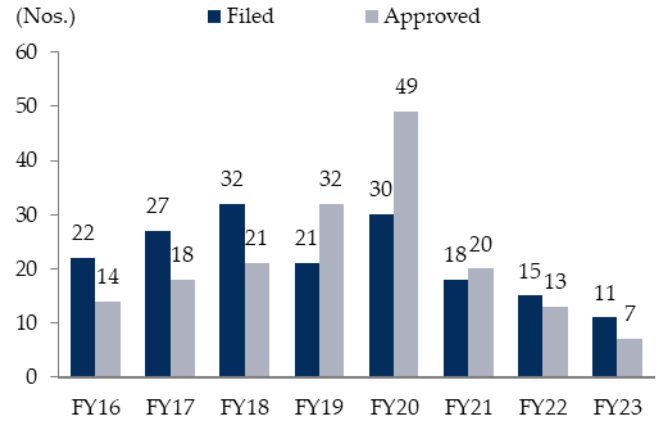
SUNP expects negative impact of import alert at Halol facility and supply disruption due to OAI at Mohali plant to be partly offset by moderation in price erosion (to support base business growth), new launches (80+ ANDA pending filings; few interesting launches such as gAsachol HD, gOnglyza, gForteo, gVictoza/ gSaxenda—all subject to final approval or patent litigation settlement) and traction from recently-launched products (gPentasa, gRevlimid).

Exhibit 8: US generic: Halol impact in FY23; FY24 growth on new launches

(USD mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY25E
Sun US generics sales	463	668	587	533	555	536	567	613	663
% YoY growth	-50%	44%	-12%	-9%	4%	-3%	6%	8%	8%
Taro US sales	549	537	496	384	377	363	396	407	415
% YoY growth	-30%	-2%	-8%	-23%	-2%	-4%	9%	3%	2%
US specialty	345	321	404	442	594	785	871	992	1,120
% YoY growth	0%	-7%	26%	9%	34%	32%	11%	14%	13%
US total	**1,357**	**1,526**	**1,487**	**1,359**	**1,526**	**1,684**	**1,835**	**2,013**	**2,198**
% YoY growth	-34%	12%	-3%	-9%	12%	10%	9%	10%	9%

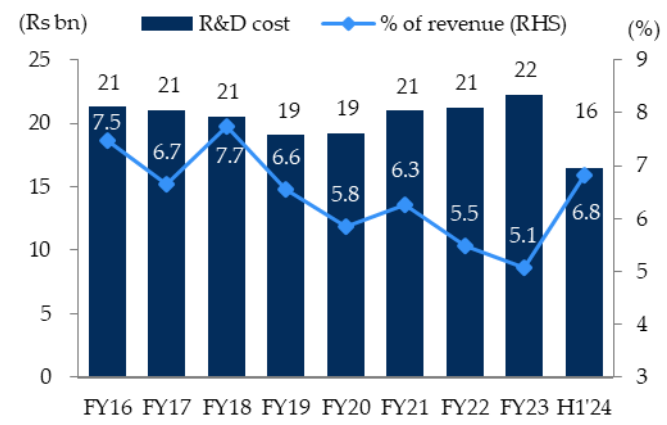
Source: Company, HSIE Research, assumed 83%/80%/77%/70%/67%/63%/65%/65%/65% of Taro sales as US in FY18/19/20/21/22/23/24/25/26; US specialty sales assumed ~86% of global sales

Exhibit 9: Filing/approval lower in last 2 years on focus shift towards specialty



Source: Company, HSIE Research, USFDA

Exhibit 10: R&D to inch-up to 7-8% of sales in FY24



Source: Company, HSIE Research

Exhibit 11: Import alert at Halol and Consent decree/OAI for Mohali key concerns

Inspection Date	Facility	No. of observations	Facility Status
May-22	Halol	10	**Import Alert and WL in Dec'22** OAI in Aug'22
Aug-22	Mohali	6	**Consent decree correspondence/ Non-compliance letter in Apr'23** OAI in Nov'22`
Mar-19	Dadra	11	-

Source: Company, HSIE Research, USFDA

- **Halol plant:** The May'22 USFDA inspection of the Halol facility was classified as OAI—Official Action Indicated. The Halol facility was put under import alert in Dec'22 with certain products exempted from import alert. The company is continuing its communication with the USFDA to resolve outstanding issues like the OAI status and import alert. The overall impact was ~3% of total sales and one of the NDA Xelpros was filed from Halol and expects a delay in launch.
- **Mohali plant:** The Aug'22 USFDA inspection of the Mohali facility was classified as OAI (Official Action Indicated). In Apr'23, the USFDA directed the company to take certain corrective actions at the Mohali facility before releasing further final product batches in the US. These actions include, among others, retaining an independent CGMP expert to conduct batch certifications of drugs manufactured at the Mohali facility. The company is taking the required corrective steps. It started supplies from Q2FY24 and expects gradual scale-up and a few quarters for supplies to normalize.

Exhibit 12: Taro Pharma – price erosion in base business led to margin decline

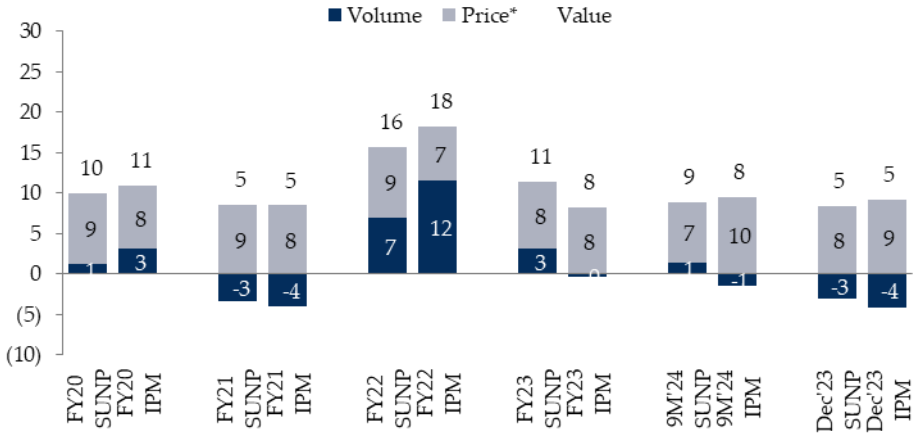
Taro business mix	FY18	FY19	FY20	FY21	FY22	FY23
US	549	537	496	384	377	363
% of total	83%	80%	77%	70%	67%	63%
YoY growth	-7%	-3%	-4%	-9%	-4%	-6%
Canada	67	84	98	110	130	136
% of total	10%	13%	15%	20%	23%	24%
Israel	38	40	43	47	48	46
% of total	6%	6%	7%	8%	9%	8%
Others	7	9	8	8	7	28
% of total	1%	1%	1%	2%	1%	5%
Total sales	662	670	645	549	561	573
YoY growth	-25%	1%	-4%	-15%	2%	2%
Adj EBITDA	321	311	268	169	151	50
YoY growth	-39%	-3%	-14%	-37%	-11%	-67%
EBITDA margin	48.6%	46.4%	41.6%	30.8%	26.9%	8.7%
Sun Pharma holding %	75%	77%	77%	78%	79%	79%

Source: Company, HSIE Research, EBITDA adjusted for one-offs

In Jan'24, SUNP has entered into a definitive merger agreement with Taro Pharma, pursuant to which SUNP has agreed to acquire all of the outstanding ordinary shares (~8.1 mn share constituting balance 21.52% stake) of Taro not currently held by SUNP at share price of USD 43/ share – USD 347.73 mn (INR 28.9 bn). This would allow the company to have better control over business operations and future growth strategies. More so, the acquisition of the entire stake will help SUNP improve profitability on the elimination of minority interest—it will be EPS accretive. Indicative time period for completion of the acquisition is in FY25.

India on steady growth path

Exhibit 13: In-line with IPM on price growth and some volume uptick



Source: HSIE Research, IQVIA, *Price growth = Value growth – Volume growth

Exhibit 14: Steady growth in top 3 therapies, anti-infectives, derma, and VMN were muted in 9M'24

SUNP therapy YoY %	% of FY23 sales	FY20	FY21	FY22	FY23	9M'24	Q3'24	Dec-23
Neuro / Cns	17%	9%	11%	8%	11%	10%	10%	6%
Cardiac	17%	10%	7%	11%	12%	10%	8%	3%
Gastro Intestinal	13%	11%	8%	20%	16%	11%	12%	8%
Anti-Infectives	9%	11%	-12%	33%	15%	4%	6%	-3%
Anti Diabetic	7%	13%	4%	2%	-2%	9%	17%	15%
Pain / Analgesics	7%	8%	7%	12%	13%	9%	12%	11%
Respiratory	5%	18%	3%	45%	15%	10%	12%	3%
Derma	5%	0%	1%	12%	5%	1%	1%	0%
Vitamins/Minerals/Nutrients	4%	10%	13%	21%	5%	3%	9%	5%
Gynaec.	4%	16%	2%	21%	14%	4%	4%	1%
SUNP total	**100%**	**10%**	**5%**	**16%**	**11%**	**9%**	**9%**	**5%**

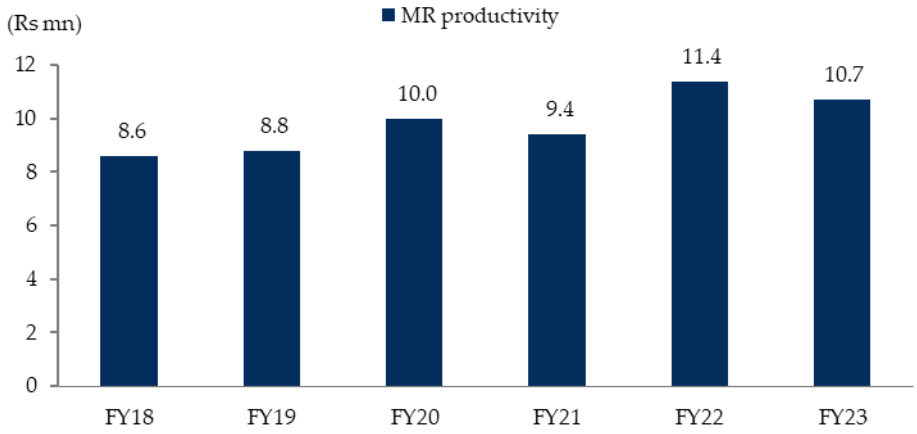
Source: HSIE Research, IQVIA

Exhibit 15: Steady growth in top tier 10 brands

SUNP brands YoY	Therapy	% of FY23 sales	FY23 sales (Rs bn)	FY20	FY21	FY22	FY23	9M'24	Q3'24	Dec-23
Levipil	Neuro / Cns	2%	3.6	16%	13%	6%	7%	12%	14%	10%
Rosuvas	Cardiac	2%	3.5	10%	10%	18%	20%	22%	19%	14%
Volini	Pain / Analgesics	2%	3.5	6%	19%	7%	0%	-1%	3%	5%
Gemer	Anti Diabetic	2%	3.1	15%	10%	14%	9%	7%	1%	1%
Susten	Gynaec.	2%	2.8	12%	7%	11%	10%	5%	8%	2%
Pantocid	Gastro Intestinal	2%	2.6	12%	11%	15%	10%	10%	13%	7%
Pantocid-D	Gastro Intestinal	2%	2.5	14%	11%	8%	8%	7%	10%	7%
Montek-Lc	Respiratory	1%	2.3	18%	11%	35%	14%	11%	16%	11%
Moxclav	Anti-Infectives	1%	2.3	20%	-18%	42%	42%	-2%	-2%	-10%
Sompraz-D	Gastro Intestinal	1%	1.9	24%	29%	27%	24%	18%	18%	24%
Top 10 brands		**17%**	**25.4**	**14%**	**11%**	**16%**	**13%**	**9%**	**10%**	**7%**
11-25 brands		**12%**	**18.2**	**13%**	**7%**	**11%**	**7%**	**8%**	**12%**	**8%**
26-50 brands		**13%**	**20.5**	**13%**	**7%**	**16%**	**14%**	**8%**	**8%**	**4%**
Above 50 brands		**58%**	**89.5**	**8%**	**3%**	**17%**	**11%**	**9%**	**9%**	**4%**
Sun Pharma total		**100%**	**153.6**	**10%**	**5%**	**16%**	**11%**	**9%**	**9%**	**5%**

Source: HSIE Research, IQVIA

Exhibit 16: MR productivity in FY23 declined due to ~10% MR addition



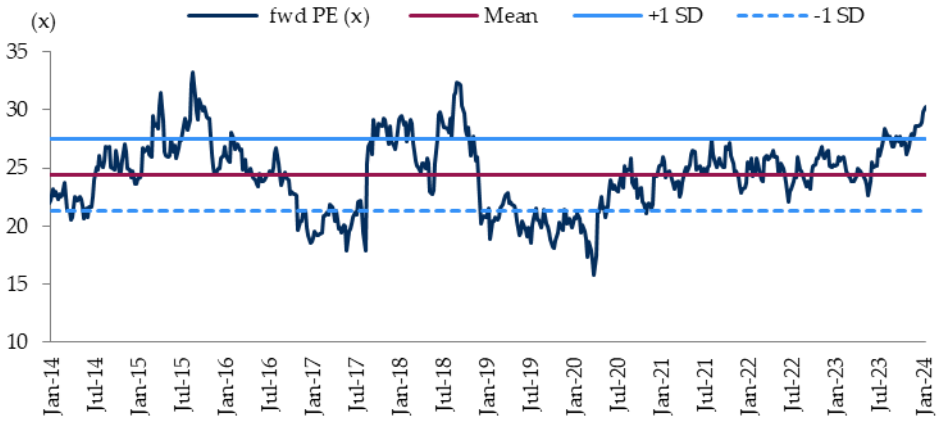
Source: Company, HSIE Research

Outlook and Valuation

We expect SUNP's specialty scale-up (traction in Ilumya, Winlevi, Cequa, Concert's Deuruxolitinib—filed with USFDA with PDUFA date in Jul'24), traction in US generics (gPentasa, gRevlimid, 80+ pending ANDA) and India (MR addition, new launches) to drive growth and a steady margin (growth to offset increasing R&D spend). We expect SUNP to see 11/13/14% Sales/EBITDA/PAT CAGR over FY23-26E. Margins could remain at 27-28% despite higher R&D. The company reduced debt by ~USD 580 mn in H1FY24 and now the gross debt stands at USD 170 mn. It holds a strong cash position of USD 1.9 bn (ex-Taro cash at USD 660 mn). It has a strong balance sheet and FCF enabling M&A activity (strong track record of M&A execution).

We initiate coverage with a BUY rating and target price of INR 1,600, based on a 30x Dec'25E.

Exhibit 17: PE chart



Source: Bloomberg, HSIE Research

Financials (Consolidated)

Profit & loss (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	**2,86,863**	**3,23,252**	**3,32,331**	**3,84,264**	**4,32,789**	**4,80,228**	**5,36,495**	**5,98,553**
Other operating income	3,796	5,123	2,651	2,281	6,068	7,203	8,584	9,577
Total operating income	**2,90,659**	**3,28,375**	**3,34,981**	**3,86,545**	**4,38,857**	**4,87,432**	**5,45,079**	**6,08,130**
Cost of goods sold	-78,690	-92,305	-86,901	-1,03,515	-1,06,622	-1,12,109	-1,24,278	-1,38,654
Gross profit	2,11,969	2,36,071	2,48,081	2,83,030	3,32,235	3,75,322	4,20,801	4,69,476
Gross margin (%)	72.9	71.9	74.1	73.2	75.7	77.0	77.2	77.2
Total operating expenses	-1,47,962	-1,66,329	-1,63,403	-1,80,592	-2,14,506	-2,43,716	-2,70,359	-2,99,808
EBITDA	**64,008**	**69,742**	**84,677**	**1,02,438**	**1,17,729**	**1,31,607**	**1,50,442**	**1,69,668**
EBITDA margin (%)	22.0	21.2	25.3	26.5	26.8	27.0	27.6	27.9
Depreciation	-17,533	-20,528	-20,800	-21,437	-25,294	-25,880	-25,990	-26,514
EBIT	**46,475**	**49,214**	**63,878**	**81,000**	**92,435**	**1,05,727**	**1,24,452**	**1,43,154**
Net interest	-5,553	-3,027	-1,414	-1,274	-1,720	-2,217	-913	-719
Other income	10,255	6,360	8,355	9,215	6,345	9,099	9,725	10,461
Profit before tax	**38,102**	**50,096**	**27,994**	**44,813**	**94,084**	**1,09,060**	**1,33,264**	**1,52,896**
Total taxation	-6,009	-8,228	-5,147	-10,755	-8,476	-15,268	-17,324	-19,877
Tax rate (%)	16	16	18	24	9	14	13	13
Profit after tax	32,093	41,868	22,847	34,058	85,608	93,792	1,15,939	1,33,020
Minorities	5,424	4,070	-6,315	1,166	394	847	684	746
Profit/ Loss associate co(s)	-15	-148	-123	-165	-479	-355	-55	-55
Adjusted net profit	**37,668**	**39,697**	**59,022**	**76,048**	**86,481**	**95,642**	**1,15,200**	**1,32,219**
Adj. PAT margin (%)	13	12	18	20	20	20	21	22
Net non-recurring items	-11,014	-2,048	-29,984	-43,321	-1,745	-3,052	0	0
Reported net profit	**26,654**	**37,649**	**29,038**	**32,727**	**84,736**	**92,590**	**1,15,200**	**1,32,219**

Balance sheet (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Paid-up capital	2,399	2,399	2,399	2,399	2,399	2,399	2,399	2,399
Reserves & surplus	4,11,691	4,50,245	4,62,229	4,77,713	5,57,555	6,22,470	7,03,214	7,95,870
Net worth	4,47,226	4,91,247	4,94,798	5,10,661	5,93,155	6,58,917	7,40,345	8,33,747
Borrowing	98,934	75,783	38,686	12,903	68,859	22,166	18,270	14,376
Other non-current liabilities	8,055	10,835	9,951	8,581	9,270	10,213	11,094	12,046
Total liabilities	**6,46,938**	**6,82,525**	**6,76,667**	**6,98,078**	**8,07,436**	**8,24,988**	**9,18,958**	**10,26,426**
Gross fixed assets	2,57,313	2,86,345	2,92,914	3,21,161	3,47,419	3,67,919	3,88,419	4,08,919
Less: Depreciation	-98,505	-1,22,691	-1,40,260	-1,60,422	-1,90,345	-2,16,225	-2,42,215	-2,68,729
Net fixed assets	1,58,808	1,63,655	1,52,653	1,60,739	1,57,074	1,51,694	1,46,205	1,40,191
Add: Capital WIP	14,112	12,203	15,668	12,868	49,732	56,172	52,172	52,172
Total fixed assets	1,72,919	1,75,858	1,68,322	1,73,607	2,06,806	2,07,867	1,98,377	1,92,363
Total Investment	79,025	1,01,431	96,125	1,28,486	1,48,301	1,28,684	1,28,758	1,28,834
Inventory	78,860	78,750	89,970	89,251	1,05,131	1,00,194	1,12,044	1,25,004
Debtors	88,842	94,212	90,614	1,04,846	1,14,385	1,13,734	1,27,185	1,41,897
Cash & bank	72,756	64,876	64,455	50,334	57,703	92,858	1,64,090	2,42,461
Loans & advances	3,264	1,492	567	1,707	419	494	552	615
Current liabilities	92,723	1,04,660	1,33,232	1,65,933	1,36,152	1,33,691	1,49,249	1,66,257
Total current assets	2,71,355	2,67,576	2,73,127	2,72,314	3,05,113	3,39,451	4,39,846	5,50,114
Net current assets	1,78,632	1,62,916	1,39,895	1,06,381	1,68,961	2,05,759	2,90,597	3,83,857
Other non-current assets	64,081	72,845	76,217	57,759	60,089	59,787	62,776	65,915
Total assets	**6,46,938**	**6,82,525**	**6,76,667**	**6,98,078**	**8,07,436**	**8,24,988**	**9,18,958**	**10,26,426**

Source: Company, HSIE Research

Cash flow (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	38,102	50,096	27,994	44,813	94,084	1,09,060	1,33,264	1,52,896
Depreciation & Amortisation	-17,533	-20,528	-20,800	-21,437	-25,294	-25,880	-25,990	-26,514
Chg in working capital	-26,960	8,986	25,641	15,591	-56,618	2,806	-28,306	-30,831
CF from operations	**21,965**	**65,548**	**61,704**	**89,845**	**49,593**	**1,16,816**	**1,06,094**	**1,20,305**
Capital expenditure	-32,356	-15,420	-12,317	-22,346	-67,714	-20,500	-20,500	-20,500
CF from investing	**-6,813**	**-25,888**	**5,362**	**-57,247**	**-79,437**	**-13,989**	**-24,426**	**-20,424**
Debt raised/ (repaid)	8,902	-33,419	-41,992	-27,431	52,602	-46,693	-3,896	-3,894
Dividend paid	-5,777	-16,624	-15,591	-21,589	-25,193	-27,777	-34,560	-39,666
CF from financing	**-27,305**	**-57,151**	**-59,805**	**-51,935**	**23,761**	**-74,469**	**-38,456**	**-43,560**
Net chg in cash	-12,153	-17,492	7,261	-19,337	-6,083	28,358	43,212	56,321

Key ratios

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OPERATIONAL								
FDEPS (INR)	15.7	16.5	24.6	31.7	36.0	39.9	48.0	55.1
CEPS (INR)	18.4	24.2	20.8	22.6	45.9	49.4	58.8	66.2
DPS (INR)	2.4	6.9	6.5	9.0	10.5	11.6	14.4	16.5
Dividend payout ratio (%)	21.7	44.2	53.7	66.0	29.7	30.0	30.0	30.0
GROWTH								
Net sales (%)	10.1	12.7	2.8	15.6	12.6	11.0	11.7	11.6
EBITDA (%)	14.0	9.0	21.4	21.0	14.9	11.8	14.3	12.8
Adj net profit (%)	13.0	5.4	48.7	28.8	13.7	10.6	20.4	14.8
FDEPS (%)	13.0	5.4	48.7	28.8	13.7	10.6	20.4	14.8
PERFORMANCE								
RoE (%)	9.4	8.8	12.9	16.1	16.6	16.1	17.3	17.6
RoCE (%)	10.5	9.6	12.9	16.8	16.4	16.9	18.4	18.8
EFFICIENCY								
Asset turnover (x)	1.2	1.2	1.1	1.3	1.3	1.3	1.4	1.5
Sales/ total assets (x)	0.4	0.5	0.5	0.6	0.6	0.6	0.6	0.6
Working capital/ sales (x)	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Receivable days	113	106	100	100	96	86	87	87
Inventory days	127	111	131	115	119	103	104	104
Payable days	67	51	58	58	65	58	59	59
FINANCIAL STABILITY								
Total debt/ equity (x)	0.2	0.2	0.1	0.0	0.1	0.0	0.0	0.0
Net debt/ equity (x)	(0.0)	(0.1)	(0.1)	(0.2)	(0.1)	(0.2)	(0.3)	(0.4)
Current ratio (x)	2.9	2.6	2.1	1.6	2.2	2.5	2.9	3.3
Interest cover (x)	8.4	16.3	45.2	63.6	53.7	47.7	136.2	199.2
VALUATION								
PE (x)	84.5	80.1	53.9	41.8	36.8	33.3	27.6	24.1
EV/ EBITDA (x)	50.0	45.6	37.2	30.2	26.6	23.3	19.9	17.2
EV/ Net sales (x)	11.2	9.8	9.5	8.1	7.2	6.4	5.6	4.9
PB (x)	7.7	7.0	6.8	6.6	5.7	5.1	4.5	4.0
Dividend yield (%)	0.2	0.5	0.5	0.7	0.8	0.9	1.1	1.2
Free cash flow yield (%)	(0.3)	1.6	1.6	2.1	(0.6)	3.0	2.7	3.1

Source: Company, HSIE Research

INSTITUTIONAL RESEARCH

Zydus Lifesciences

Poised for steady growth; R&D monetization key

Zydus Life (ZYDUS) has strengthened its position in the US and India markets in the last few years with differentiated products and a strong R&D focus. ZYDUS appears to be on a steady growth path, given (1) it has growth visibility in the US (despite +18% YoY FY23 and +26% YoY in H1FY23), led by traction in recent launches, new launches (REMS product, transdermal), and shortage opportunities (which will partly be offset by competition in gAsacol HD) and (2) it has steady growth visibility in India formulation (new launches, MR additions) and wellness. We expect margins to sustain at 23-24% (to come off from ~27% in H1FY24) despite the 7-8% R&D spend (6.8% in H1FY24), driven by sales growth and operating leverage. Its progress in novel molecules, biosimilars, vaccines, etc. provides long-term growth visibility. We initiate coverage with a BUY rating and target price of INR 850 based on 24x Dec'25E EPS.

US business to maintain growth momentum: The US is on a steady growth path with near-to-mid-term visibility led by (1) a scale-up in key products (a) gRevlimid sales (vary QoQ) but large opportunity until FY26, (b) scale-up in REMS products from H2FY24, and (c) transdermal (Moraiya plant clearance in May'22) and suppository (few with exclusivity) and (2) volume share gain through supply opportunities (no major plant related issues). Mid-to-long-term growth drivers are differentiated launches including rare disease management (acquired LiqMeds; 505-b2 pipeline with few FTF) as well as the injectables pipeline (in Dec'23, the company partnered with Daewoong Pharma for development of Leuprolide long-acting injectable; market size of USD 671 mn). Competition in Asacol HD (in H2FY24) could dent the base business.

R&D focus on creating niche pipeline, monetization key: In the last five years, ZYDUS has invested ~INR 54 bn (7-8% of sales) in R&D for the complex generic, novel molecules—Saroglitazar: PBC (primary biliary cholangitis), NAFLD (non-alcoholic fatty liver disease); Desidustat: anemia; CUTX-101 (NDA molecule, for Menkes disease acquired by US subsidiary Sentynl in Dec'23), transdermal, injectable, vaccines, biosimilars – providing long-term growth visibility. ZYDUS expects R&D to be at ~8% over the next few years (~6.8% in H1FY24), favouring its specialty portfolio.

Steady growth in India: The India business is expected to grow at par with IPM in the near term and outperform from FY25 onwards. The growth will be led by market share gains in key therapies (gynaecology, diabetic and nutra), new first-to-market launches, specialty/ biosimilar launches, and volume expansion in key therapies. ZYDUS plans to expand its field force strategically. More so, it has out-licensed its specialty assets—Saroglitazar to Torrent Pharma and Lupin and Desidustat to Sun Pharma—to expand market coverage and accelerate sales over the next few years.

Debt reduction to strengthen balance sheet: In Feb'19, ZYDUS acquired the Heinz India business (for ~INR 47 bn) led to a spike in net debt at ~INR 71 bn (gross debt at ~INR 79 bn). Over the last few years, ZYDUS was able to reduce debt and turned net cash at INR 16.4 bn as of Sep'23, led by strong cash generation – enabling M&A.

Outlook and valuation: We expect ZYDUS to see 9/10/16% sales/EBITDA/PAT CAGR over FY23-26E, led by steady US/India growth and steady margins. Its R&D assets (injectables, biosimilar, NCE) are an option value in the mid-long term. Initiate coverage with a **BUY** and TP of INR 850, based on 24x Dec'25E EPS.

Financial Summary

YE March (INR bn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
US sales (USD mn)	882	856	780	926	1,042	1,086	1,135
Net Sales	142	144	151	172	192	208	226
EBITDA	27	34	32	36	49	49	54
APAT	14	21	22	23	33	33	37
Diluted EPS (INR)	14.2	20.3	21.3	22.9	33.0	32.8	36.3
P/E (x)	49.5	34.7	33.0	30.7	21.3	21.4	19.4
EV / EBITDA (x)	28.6	22.5	23.2	20.6	14.5	14.1	12.5
RoCE (%)	11	14	12	13	20	17	17

Source: Company, HSIE Research

BUY

CMP *(as on 20 Jan 2024)*	INR 703
Target Price	INR 840
NIFTY	21,572

KEY STOCK DATA	
Bloomberg code	ZYDUSLIF IN
No. of Shares (mn)	1,012
MCap (INR bn) / ($ mn)	712/8,710
6m avg traded value (INR mn)	828
52 Week high / low	INR 728/421

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	21.6	14.0	60.6
Relative (%)	12.4	6.9	42.8

SHAREHOLDING PATTERN (%)	Sep-23	Dec-23
Promoters	74.98	74.98
FIs & Local MFs	13.09	13.03
FPIs	4.86	5
Public & Others	7.07	6.99
Pledged Shares	-	-

Source : BSE

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Exhibit 1: Revenue, EBITDA and PAT assumptions

(Rs mn)	% of FY23 sales	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Domestic formulations	29	33,324	35,090	37,141	40,429	48,125	49,111	52,549	57,804	63,584
% growth		3	5	6	9	19	2	7	10	10
Zydus Wellness*	13	4,920	8,075	17,379	18,409	19,788	22,338	23,008	25,079	27,336
% growth		7	64	115	6	7	13	3	9	9
Total India sales	42	38,244	43,165	54,520	58,838	67,913	71,449	75,557	82,883	90,920
% growth		3	13	26	8	15	5	6	10	10
Export formulations	53	68,371	73,374	73,224	75,947	72,582	90,245	1,05,402	1,13,040	1,21,518
% growth		45	7	(0)	4	(4)	24	17	7	7
US (USD mn)		898	899	882	856	780	926	1,042	1,086	1,135
% growth		62	0	(2)	(3)	(9)	19	12	4	4
US	44	58,348	62,794	62,514	63,505	58,138	74,451	86,450	91,245	96,453
% growth		57	8	(0)	2	(8)	28	16	6	6
Emerging Markets and Europe	9	10,023	10,580	10,710	12,442	14,444	15,794	18,953	21,796	25,065
% growth		(1)	6	1	16	16	9	20	15	15
Animal Healthcare	-	4,444	5,129	5,149	-	-	-	-	-	-
% growth		11	15	0						
JV	1	1,593	1,571	698	844	2,079	1,611	1,627	1,790	1,969
% growth		0	(1)	(56)	21	146	(23)	1	10	10
API	3	3,656	4,245	4,530	5,621	5,702	5,473	6,020	6,562	7,153
% growth		(4)	16	7	24	1	(4)	10	9	9
Gross revenue	**100**	**1,16,308**	**1,27,484**	**1,38,121**	**1,41,250**	**1,48,276**	**1,68,778**	**1,88,607**	**2,04,275**	**2,21,560**
% growth		**24**	**10**	**8**	**2**	**5**	**14**	**12**	**8**	**8**
Other operating revenues		**3,055**	**3,518**	**3,898**	**2,785**	**2,823**	**3,596**	**3,772**	**4,085**	**4,431**
% growth		**54**	**15**	**11**	**(29)**	**1**	**27**	**5**	**8**	**8**
Total revenues		**1,19,363**	**1,31,002**	**1,42,019**	**1,44,035**	**1,51,099**	**1,72,374**	**1,92,379**	**2,08,360**	**2,25,991**
% growth		**25**	**10**	**8**	**1**	**5**	**14**	**12**	**8**	**8**
Gross margin^		**77,648**	**83,838**	**92,819**	**96,033**	**95,732**	**1,09,068**	**1,28,289**	**1,37,101**	**1,48,702**
Gross margin (%)		**65.1**	**64.0**	**65.4**	**66.7**	**63.4**	**63.3**	**66.7**	**65.8**	**65.8**
EBITDA^		**28,294**	**29,181**	**27,322**	**33,871**	**35,239**	**39,802**	**49,800**	**48,965**	**53,560**
EBITDA margin (%)		**23.7**	**22.3**	**19.2**	**23.5**	**23.3**	**23.1**	**25.9**	**23.5**	**23.7**
Adj PAT		**17,782**	**18,094**	**14,394**	**20,526**	**21,579**	**23,200**	**33,405**	**33,223**	**36,689**
% growth		**21**	**2**	**(20)**	**43**	**5**	**8**	**44**	**(1)**	**10**

Source: Company, HSIE Research, EBITDA/ PAT adjusted for forex and one-offs, *Zydus Wellness sales includes Kraft Heinz acquisition from FY19, Animal health business divested in FY22, LiqMed included from Dec'23

The overall outlook for ZYDUS

- It expects the US business to grow in double-digits in FY24, given new launches and limited competition products, and it expects to continue to grow post FY24, driven by both its specialty and generic pipelines.
- Its India business is expected to grow in line with the market, led by base business growth and growth booster/innovation brands including Ujjvira, Oxemia, Lipaglyn + new launches (like dydrogesterone). The company is expected to add MRs in FY25 (~6,500 currently) in a measured manner. It continues to look for innovative brands development and M&A.
- Targeting 24%+ EBITDA margin in FY24 (27.3% in H1FY24).
- R&D reiterated at 7-8% for FY24 and ~8% for the next 2-3 years. Excluding R&D, other expenses base will be at Rs 8.5-9.0 bn/ quarter.
- R&D spend mix at 55: 45 for generics: NCEs/biologics/vaccines. Mix to move towards NCEs going ahead.
- M&A: Looking to acquire niche assets in late stage/near commercial ultra-rare products for the US markets (to expand to the EU as well).

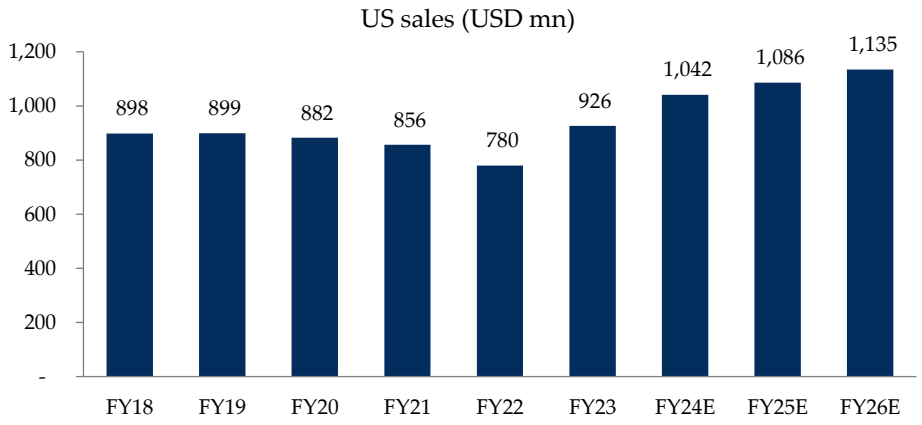
US business continues to maintain growth momentum

ZYDUS expects double-digit growth in FY24 for its US business and it expects to maintain growth momentum despite a higher growth base.

Key products to help maintain growth.

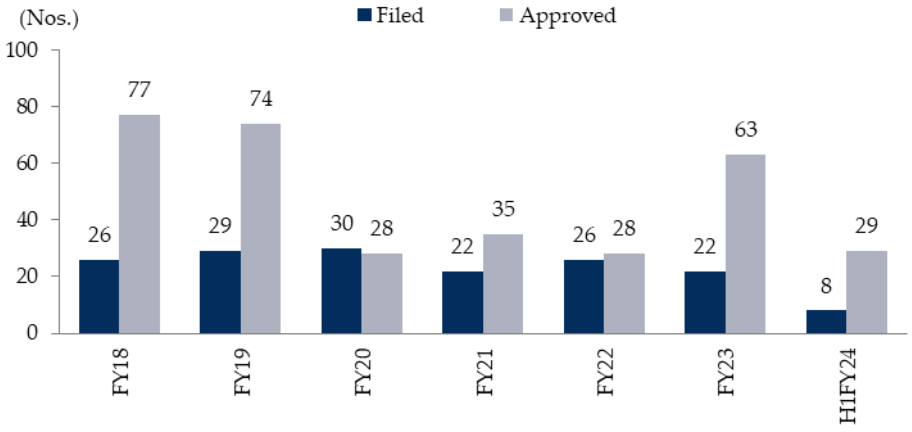
- gRevlimid sales to be cyclical until Jan'26—in Q4/Q1. Expect increased market share from next year to generate higher sales.
- Launched 1 REMs product (Isotretinoin) already and 1 more to be launched by Q4FY24.
- Includes assumption of gAsacol competition (1 in H1FY24, 1 more by CY24 end).
- To launch Sitagliptin NDAs in next FY25. Aspire for 8-10% market share.
- Expects to have 30-40 product launches per year for net couple of years.
- Expect mid-high single digit price erosion in the US, depending on portfolio.

Exhibit 2: US sales continue to see growth despite high base



Source: Company, HSIE Research, LiqMed included from Dec'23

Exhibit 3: Strong approval momentum, launches to follow



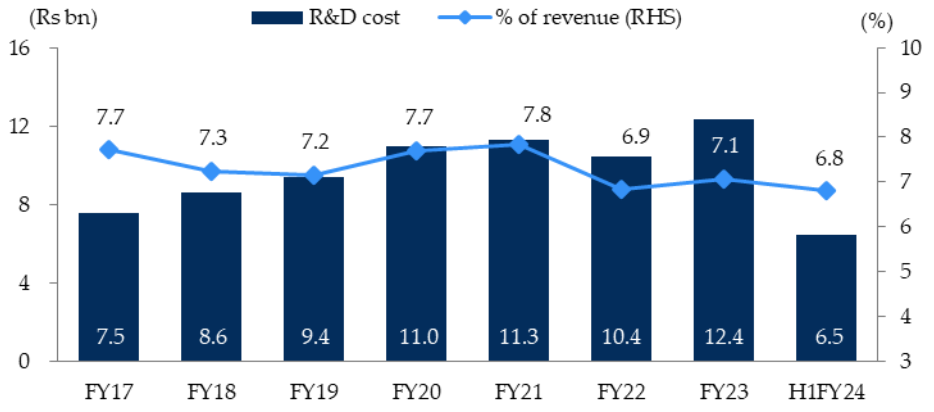
Source: Company, HSIE Research, USFDA

Exhibit 4: No major USFDA issues

Inspection Date	Facility	No. of observations	Facility Status
Dec-23	API site, Changodar, Ahmedabad	6 (PAI + cGMP)	EIR (Sep'23)
Jul-23	Pharmez (SEZ-2), Ahmedabad	0 (PAI)	EIR (Sep'23)
Jun-23	Zydus Biotech-injectables (Ahmedabad)	0 (cGMP)	EIR (Sep'23)
Mar-23	Pharmez (SEZ-1), Ahmedabad	3	PAI and GMP inspection EIR with VAI
Jun-23	Animal Health facility (Ahmedabad SEZ)	0	closed
Jan-23	Moraiya	Nil (PAI)	EIR (May'23)

Source: Company, HSIE Research, USFDA

Exhibit 5: Steady R&D for developing complex product pipeline



Source: Company, HSIE Research

Exhibit 6: R&D pipeline for long-term growth

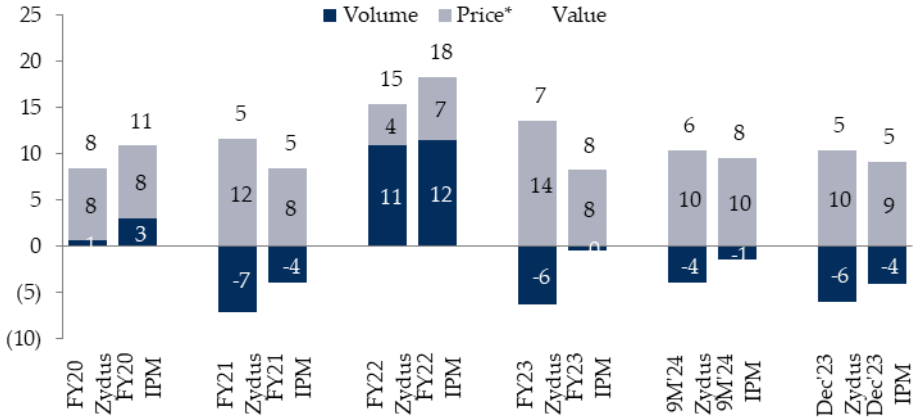
Molecule	Geography	Launched/ Under development	Indications	Update/ comment
Saroglitazar	India	Launched under the brand names Lipaglyn and Bilypsa	Diabetic Dyslipidaemia, Hypertriglyceridemia, NAFLD, NASH, Type II Diabetes	- Lipaglyn was the 62 largest brands in the IPM by FY23. 37% increase in the patient base in FY23. - In Nov'23, out- licensed to Torrent Pharma and Lupin. - Bilypsa included in recent INASL guidelines for NAFLD and NASH.
	US	Under development	Primary biliary cirrhosis (PBC)	- Phase II(b)/ III clinical trials under progress. - Orphan Drug Designation status from USFDA and EMA. - Fast-Track designation from USFDA.
			Non-alcoholic Steatohepatitis (NASH)	- Phase II(b) trials under progress.
			Polycystic ovary syndrome (PCOS)	- Clinical trials under progress. - Only trial in the world for these indications.
Desidustat	India	Launched under the brand name Oxemia	Chronic Kidney Disease (CKD) induced anaemia	- First novel oral alternative to injectable Erythropoietin Stimulating Agent (ESA). - Provided relief to over 25,000 patients during the year from injections. In Oct'23, out- licensed to Sun Pharma.
	US	Under development	Chemotherapy Induced Anaemia (CIA)	- Completed Phase I(b) trials in USA for CIA
	China	Under development	Management of CKD	- In Jan'20, entered into a license agreement with China Medical System Holdings for development and commercialization in Greater China
ZYIL1 (NLRP3 inhibitor)	Global	Under development	Cryopyrin Associated Periodic Syndrome (CAPS)	- Achieved a positive Proof-of-Concept (POC) in Phase II trials in CAPS patients. - Received Orphan Drug Designation from the USFDA.
			Amyotrophic Lateral Sclerosis (ALS)	- Initiated Phase II clinical trials in patients with ALS. - ALS is a rare, progressive and fatal neurodegenerative disease, with an average life expectancy of 3 to 5 years from the time of symptom onset.
			Parkinson's disease	- Received USFDA approval to initiate the Phase II clinical study.

Molecule	Geography	Launched/ Under development	Indications	Update/ comment
ZY19489 (Potential single dose anti-malarial drug)	Global	Under development	Malaria	- Phase II clinical trials in progress in India. - Received Orphan Drug Designation from USFDA. - A potential single-dose cure for Malaria being developed in collaborative with Medicines for Malaria Venture (MMV).
PCSK9 inhibitor	Global	Under development	Dyslipidemia	- In Q2FY24, received approval from the CDSCO to initiate Phase I clinical trials to evaluate the safety and tolerability. - The molecule will be administered subcutaneously in healthy human volunteers. - Dyslipidemia patients with high LDL cholesterol are at a high risk of ASCVD such as heart attack and stroke. - This PCSK9 inhibitor will regulate the levels of LDL receptors, which are responsible for the uptake and clearance of cholesterol from the blood.
Biologics	NA	NA	NA	- Currently marketing 13 molecules (including 1 novel biologic and 1 antibody drug conjugate) in India and EMs. - 17 projects under development (7 novel biologics and 10 biosimilars). Targeted therapy areas: oncology, autoimmune disease, nephrology, inflammation, rheumatology, hepatology and infectious illnesses. Launched Ujvira in India, the first biosimilar of an antibody drug conjugate (ADC) Trastuzumab emtansine in FY22.
Specialty and Complex Generics	NA	NA	NA	- In-house portfolio consists of 10 products. - Focused therapies: pain management, neurology, metabolic disorders and liver diseases. - Received final approvals from the USFDA for two New Drug Applications (NDAs) viz. Sitagliptin tablets (ZITUVIO) and Sitagliptin and Metformin IR tablets (ZITUVIMET) in the area of metabolic disorder management. - Filed one more NDA viz. Sitagliptin and Metformin ER tablets in the area of metabolic disorder management.
CUTX - 101 (Copper histidinate)	Global	Under development	Menkes disease	- Jointly developed by ZYDUS's US based subsidiary Sentynl and Fortress Biotech (Cyprium Therapeutics). - In Dec'23, Sentynl acquired worldwide proprietary rights of development and commercialization. - Under a rolling NDA submission with USFDA. - Orphan Drug and Fast-Track Designation by USFDA.
NULIBRY (Fosdenopterin) for Injection	Global	Launched	Molybdenum Cofactor Deficiency (MoCD) Type A	- Orphan drug designation by USFDA. - Received marketing authorization in EU. Only treatment available in EU to treat MoCD Type A.
Vaccines	NA	NA	NA	- Received marketing approval for 17 vaccines in India so far. - The pipeline includes vaccines such as the Hepatitis E vaccine, Hepatitis A vaccine, MMRV vaccine, and Bivalent HPV vaccine, as well as a few vaccines in the early development stage. - Launched MMR vaccine in India FY23. Became the second Indian Company to develop and launch the product indigenously. - To serve the global markets, submitted the dossier of Typhoid Conjugate Vaccine to WHO for pre-qualification.

Source: Company, HSIE Research

India to see steady growth momentum

Exhibit 7: India business growth was largely led by the price



Source: HSIE Research, IQVIA, *Price growth = Value growth – Volume growth

Exhibit 8: Strong growth in pain, moderate in respiratory (weak Acute season) offset by decline in cardiac and gastro therapies

Zydus Life therapy YoY %	% of FY23 sales	FY20	FY21	FY22	FY23	9M'24	Q3'24	Dec-23
Respiratory	14%	10%	-2%	32%	10%	8%	4%	0%
Anti-Infectives	13%	10%	-15%	37%	0%	9%	16%	9%
Cardiac	11%	5%	10%	4%	5%	4%	5%	8%
Gastro Intestinal	11%	8%	3%	14%	9%	-2%	-2%	-3%
Pain / Analgesics	8%	8%	-2%	11%	12%	11%	8%	9%
Gynaec.	8%	6%	1%	22%	16%	1%	1%	-2%
Derma	7%	5%	1%	5%	5%	0%	4%	6%
Antineoplast/Immunomodulator	5%	26%	19%	47%	30%	33%	23%	18%
Anti Diabetic	5%	21%	30%	38%	25%	7%	7%	8%
Vitamins/Minerals/Nutrients	4%	7%	6%	4%	-7%	-2%	-5%	-6%
Zydus Life total	**100%**	8%	5%	15%	7%	6%	6%	5%

Source: HSIE Research, IQVIA

Exhibit 9: Lipaglyn, Amicin, Thrombophob continue to see strong growth, muted growth across other top brands

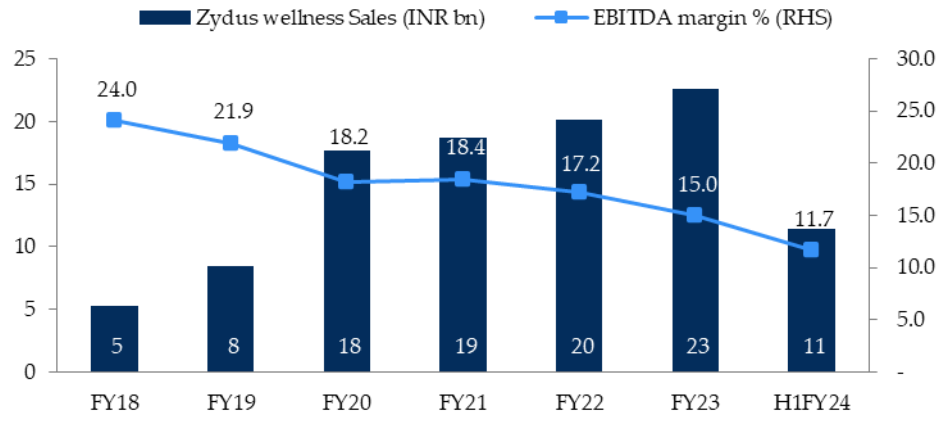
Zydus Life brands YoY	Therapy	% of FY23 sales	FY23 sales (INR bn)	FY20	FY21	FY22	FY23	9M'24	Q3'24	Dec-23
Deriphyllin	Respiratory	4%	2.1	12%	-1%	28%	4%	6%	6%	-1%
Atorva	Cardiac	3%	1.8	11%	19%	9%	18%	-5%	-5%	3%
Thrombophob	Others	2%	1.4	12%	13%	24%	17%	18%	18%	13%
Skinlite	Derma	2%	1.3	-6%	-3%	-2%	6%	-15%	-9%	-10%
Amicin	Anti-Infectives	2%	1.3	4%	-35%	40%	25%	14%	12%	2%
Formonide	Respiratory	2%	1.1	11%	11%	19%	5%	7%	0%	-3%
Dexona	Hormones	2%	1.1	22%	4%	43%	10%	4%	1%	-4%
Lipaglyn	Anti Diabetic	2%	1.0	18%	32%	43%	52%	32%	29%	25%
Deca Durabolin	Hormones	2%	0.9	4%	0%	12%	-12%	-2%	-8%	15%
Pantodac	Gastro Intestinal	2%	0.9	11%	3%	-5%	2%	-13%	-10%	-13%
Top 10 brands		**19%**	**11.1**	**8%**	**-1%**	**20%**	**10%**	**7%**	**8%**	**5%**
11-25 brands		**17%**	**9.9**	**13%**	**4%**	**24%**	**18%**	**4%**	**0%**	**-3%**
26-50 brands		**16%**	**9.2**	**11%**	**6%**	**21%**	**0%**	**8%**	**8%**	**8%**
Above 50 brands		**48%**	**27.8**	**7%**	**6%**	**10%**	**6%**	**6%**	**7%**	**5%**
Zydus Life total		**100%**	**58.0**	**8%**	**5%**	**15%**	**7%**	**6%**	**6%**	**5%**

Source: HSIE Research, IQVIA

Zydus consumer wellness to see moderate growth

- In Oct'18, Zydus Wellness jointly (with Zydus Life) acquired the consumer business of Heinz India (sales/EBITDA margin of ~INR 11.50 bn/20%) for a consideration of ~INR 47 bn. The transaction completed in Jan'19.
- With the acquisition of Heinz India, Zydus Wellness has got access to brands like Complan, Glucon D, Nycil and Sampriti Ghee, two manufacturing facilities, a field force of ~1,000, a distribution network of over 800 distributors covering 29 states, ~1.7 mn retailers, and 21 warehouses.
- Over the last few quarters, the gross margin has been impacted by increases in key raw material prices, impacting overall operating performance. From Q1FY24 onwards, the gross margin for the non-dairy portfolio continued to improve with calibrated price increases across the portfolio.

Exhibit 10: Growth and margin to recover



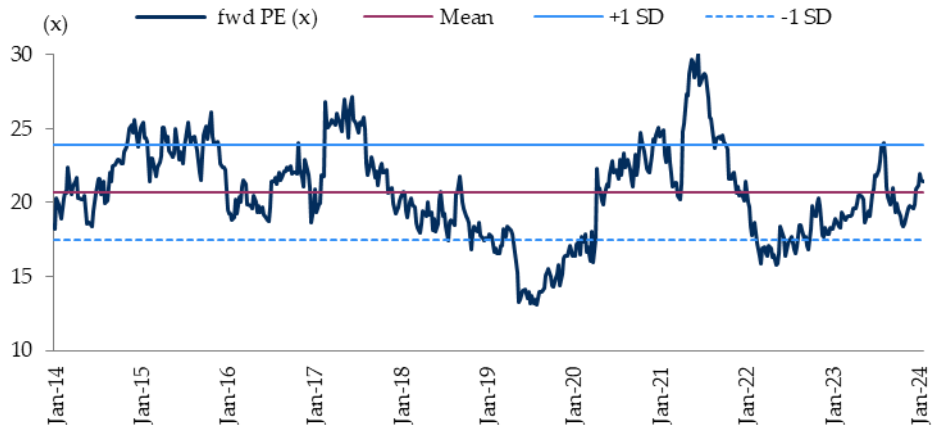
Source: Company, HSIE Research

Outlook and valuation

ZYDUS is on a steady growth path, given (1) growth visibility in the US (despite +18% YoY FY23 and +26% YoY in H1FY23), led by traction in recent launches, new launches (REMS product, transdermal), and shortage opportunities which would be partly offset by competition in gAsacol HD, and (2) steady growth in India formulation (new launches, MR additions) and stable growth in wellness. We expect ZYDUS to see 9/10/16% Sales/EBITDA/PAT CAGR over FY23-26E, led by steady US/India growth and steady margins. Its R&D assets (injectables, biosimilar, NCE) are an option value in mid-long term. We expect margins to sustain at 23-24% (to come off from ~27% in H1FY24) despite 7-8% R&D spend (6.8% in H1FY24), driven by sales growth and operating leverage. Its progress in novel molecules, biosimilars, vaccines, etc. provides long-term growth visibility.

We initiate coverage with a **BUY** rating and a target price of INR 850, based on 24x Dec'25E EPS.

Exhibit 11: PE chart



Source: Bloomberg, HSIE Research

Financials (Consolidated)

Profit & loss (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	**1,27,484**	**1,38,121**	**1,41,250**	**1,48,276**	**1,68,778**	**1,88,607**	**2,04,275**	**2,21,560**
Other operating income	3,518	3,898	2,785	2,823	3,596	3,772	4,085	4,431
Total operating income	**1,31,002**	**1,42,019**	**1,44,035**	**1,51,099**	**1,72,374**	**1,92,379**	**2,08,360**	**2,25,991**
Cost of goods sold	-47,164	-49,200	-48,002	-55,367	-63,306	-64,090	-71,259	-77,289
Gross profit	83,838	92,819	96,033	95,732	1,09,068	1,28,289	1,37,101	1,48,702
Gross margin (%)	64.0	65.4	66.7	63.4	63.3	66.7	65.8	65.8
Total operating expenses	-54,591	-65,370	-61,998	-63,793	-73,518	-79,068	-88,136	-95,142
EBITDA	**29,247**	**27,449**	**34,035**	**31,939**	**35,550**	**49,221**	**48,965**	**53,560**
EBITDA margin (%)	22.3	19.3	23.6	21.1	20.6	25.6	23.5	23.7
Depreciation	-5,986	-6,965	-6,696	-7,130	-7,227	-7,560	-7,893	-8,363
EBIT	**23,261**	**20,484**	**27,339**	**24,809**	**28,323**	**41,661**	**41,071**	**45,197**
Net interest	-1,958	-3,326	-1,641	-1,199	-1,298	-400	-161	-148
Other income	2,011	1,139	335	1,601	1,608	1,650	1,487	1,684
Profit before tax	**23,821**	**14,954**	**23,992**	**28,381**	**25,897**	**43,345**	**42,397**	**46,732**
Total taxation	-5,303	-3,198	-1,936	-5,117	-5,878	-9,102	-8,903	-9,814
Tax rate (%)	22	21	8	18	23	21	21	21
Profit after tax	18,518	11,756	22,056	23,264	20,019	34,242	33,494	36,919
Minorities	499	278	514	1,310	1,316	1,347	1,250	1,356
Profit/ Loss associate co(s)	469	288	474	462	946	851	979	1,126
Adjusted net profit	**18,094**	**14,394**	**20,526**	**21,579**	**23,200**	**33,405**	**33,223**	**36,689**
Adj. PAT margin (%)	14	10	15	15	14	18	16	17
Net non-recurring items	394	-2,628	1,490	837	-3,551	342	0	0
Reported net profit	**18,488**	**11,766**	**22,016**	**22,416**	**19,649**	**33,747**	**33,223**	**36,689**

Source: Company, HSIE Research

Balance sheet (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Paid-up capital	1,024	1,024	1,024	1,024	1,012	1,012	1,012	1,012
Reserves & surplus	1,02,839	1,02,733	1,28,899	1,68,972	1,74,146	2,01,144	2,27,722	2,57,073
Net worth	1,16,792	1,17,104	1,49,296	1,90,538	1,96,883	2,25,227	2,53,056	2,83,763
Borrowing	71,466	70,411	46,076	42,209	11,949	2,052	1,894	1,740
Other non-current liabilities	3,813	2,861	2,481	2,408	4,026	4,017	4,336	4,683
Total liabilities	**2,34,831**	**2,36,866**	**2,38,847**	**2,77,954**	**2,57,564**	**2,72,498**	**3,02,720**	**3,36,274**
Gross fixed assets	1,04,032	1,13,345	1,19,882	1,22,760	1,29,350	1,38,150	1,47,150	1,56,150
Less: Depreciation	-35,285	-44,955	-52,019	-54,521	-62,185	-69,745	-77,638	-86,001
Net fixed assets	68,747	68,390	67,863	68,239	67,165	68,405	69,512	70,149
Add: Capital WIP	8,372	7,415	7,832	7,259	12,007	12,711	12,711	12,711
Total fixed assets	77,119	75,805	75,695	75,498	79,172	81,116	82,223	82,860
Total Investment	6,735	7,650	8,301	32,880	15,466	16,747	16,837	16,929
Inventory	26,880	27,890	32,362	37,194	34,133	34,735	37,621	40,804
Debtors	39,508	36,632	31,273	33,403	44,168	40,079	43,408	47,081
Cash & bank	5,489	9,649	8,883	11,069	5,731	18,720	39,391	63,044
Loans & advances	100	0	0	0	24	29	31	34
Current liabilities	42,760	46,490	40,994	42,799	44,706	41,201	43,433	46,088
Total current assets	82,682	85,026	85,171	99,082	93,991	1,05,668	1,33,556	1,65,172
Net current assets	39,922	38,536	44,177	56,283	49,285	64,467	90,123	1,19,085
Other non-current assets	15,405	14,470	16,215	16,848	20,891	20,922	22,059	23,269
Total assets	**2,34,831**	**2,36,866**	**2,38,847**	**2,77,954**	**2,57,564**	**2,72,498**	**3,02,720**	**3,36,274**

Source: Company, HSIE Research

Cash flow (INR mn)

March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	23,821	14,954	23,992	28,381	25,897	43,345	42,397	46,732
Depreciation & Amortisation	-5,986	-6,965	-6,696	-7,130	-7,227	-7,560	-7,893	-8,363
Chg in working capital	-9,717	2,638	1,911	-3,360	-2,358	-2,233	-5,803	-6,172
CF from operations	**12,819**	**29,315**	**32,939**	**21,045**	**26,888**	**38,858**	**34,803**	**38,125**
Capital expenditure	-10,574	-9,041	-8,540	-12,026	-10,309	-8,800	-9,000	-9,000
CF from investing	**-42,387**	**-10,123**	**-7,246**	**-10,003**	**11,712**	**-10,854**	**-9,090**	**-9,092**
Equity raised/ (repaid)	0	0	0	0	-8,632	0	0	0
Debt raised/ (repaid)	18,081	-7,855	-15,817	-6,744	-8,408	-9,897	-158	-154
Dividend paid	-4,314	-8,569	-15	-3,720	-2,665	-6,749	-6,645	-7,338
CF from financing	**18,846**	**-15,282**	**-25,477**	**-8,683**	**-44,004**	**-16,646**	**-6,803**	**-7,492**
Net chg in cash	-10,722	3,910	216	2,359	-5,404	11,358	18,910	21,542

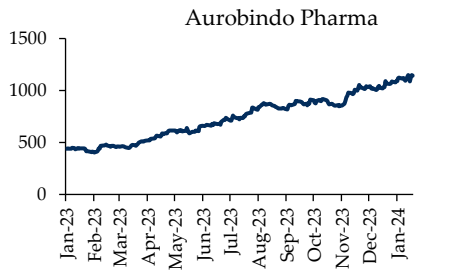
Source: Company, HSIE Research

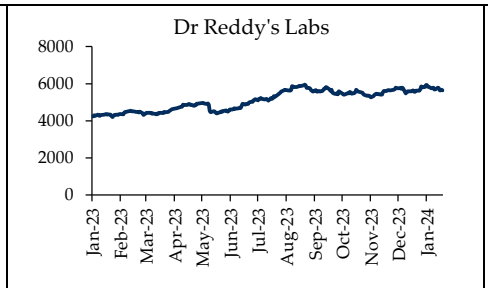
Key ratios

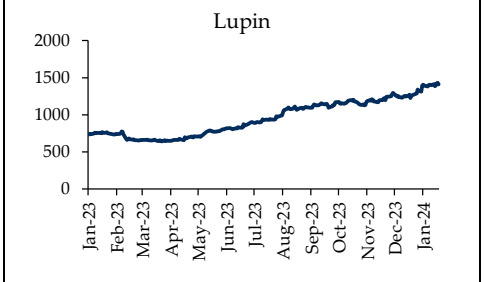
March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OPERATIONAL								
FDEPS (INR)	17.9	14.2	20.3	21.3	22.9	33.0	32.8	36.3
CEPS (INR)	24.2	18.5	28.4	29.2	26.6	40.8	40.6	44.5
DPS (INR)	4.3	8.5	0.0	3.7	2.6	6.7	6.6	7.3
Dividend payout ratio (%)	23.3	72.8	0.0	16.6	13.6	20.0	20.0	20.0
GROWTH								
Net sales (%)	9.6	8.3	2.3	5.0	13.8	11.7	8.3	8.5
EBITDA (%)	2.8	(6.1)	24.0	(6.2)	11.3	38.5	(0.5)	9.4
Adj net profit (%)	1.8	(20.4)	42.6	5.1	7.5	44.0	(0.5)	10.4
FDEPS (%)	1.8	(20.4)	42.6	5.1	7.5	44.0	(0.5)	10.4
PERFORMANCE								
RoE (%)	18.9	13.9	17.6	14.4	13.4	17.7	15.4	15.1
RoCE (%)	15.0	11.4	14.3	12.2	13.4	19.5	17.4	17.1
EFFICIENCY								
Asset turnover (x)	1.4	1.3	1.2	1.2	1.3	1.4	1.4	1.5
Sales/ total assets (x)	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7
Working capital/ sales (x)	0.3	0.2	0.2	0.3	0.3	0.2	0.2	0.2
Receivable days	113	97	81	82	96	78	78	78
Inventory days	96	89	107	114	91	89	86	86
Payable days	69	65	73	65	57	44	42	43
FINANCIAL STABILITY								
Total debt/ equity (x)	0.7	0.6	0.3	0.2	0.1	0.0	0.0	0.0
Net debt/ equity (x)	0.6	0.5	0.3	0.0	0.0	(0.1)	(0.2)	(0.3)
Current ratio (x)	1.9	1.8	2.1	2.3	2.1	2.6	3.1	3.6
Interest cover (x)	11.9	6.2	16.7	20.7	21.8	104.1	255.1	305.6
VALUATION								
PE (x)	39.3	49.5	34.7	33.0	30.7	21.3	21.4	19.4
EV/ EBITDA (x)	27.0	28.6	22.5	23.2	20.6	14.5	14.1	12.5
EV/ Net sales (x)	6.2	5.7	5.4	5.0	4.3	3.8	3.4	3.0
PB (x)	6.9	6.9	5.5	4.2	4.1	3.5	3.1	2.8
Dividend yield (%)	0.6	1.2	0.0	0.5	0.4	0.9	0.9	1.0
Free cash flow yield (%)	0.3	2.8	3.4	1.3	2.3	4.2	3.6	4.1

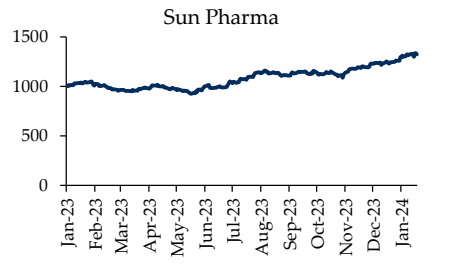
Source: Company, HSIE Research

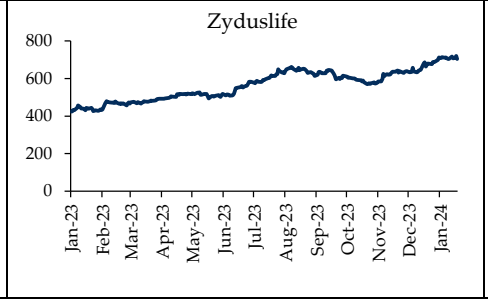
1 Yr Price history











Rating Criteria

BUY:	>+15% return potential
ADD:	+5% to +15% return potential
REDUCE:	-10% to +5% return potential
SELL:	> 10% Downside return potential

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