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Top Sector Ideas: Pharmaceutical

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Pharma Sector: Q1FY25 Review

Q1FY25 Pharma Review – Robust Revenue with Higher Profitability, Cost Optimization

✓ *Key Highlights & Financial Performance*

- **Q1FY25 Pharma Coverage Performance:** In Q1FY25, the Pharma Coverage universe posted robust revenue growth of 11%/4% YoY/QoQ, driven by a strong domestic market, new launches (especially Darunavir, DDR D, gMyrbetriq, and gSpiriva), lower price erosion, gross margin expansion through cost optimization, and growth in the US base business portfolio. EBITDA margin improved by a healthy ~250bps/120bps YoY/QoQ amidst normalizing cost inflation and stabilizing prices.

- **US Base Business Momentum:** The US base business maintained healthy momentum, with new product launches offsetting single-digit price erosion. There is increasing focus on complex molecules as Indian companies move up the value chain.

- **Strong Domestic Market Performance:** India's growth exceeded expectations, driven by field force expansion that fueled volume growth. Softening input costs and lower freight expenses contributed to improved margins. Hospitals experienced seasonally lower occupancies but saw a continuous YoY increase in ARPOB.

Pharma Sector: Outlook

Pharma Back on Growth Track

- **High single-digit domestic growth is expected in FY25E.** Growth in the US market is projected to remain robust, driven by price normalization in the base business, continued ramp-up of gRevlimid, and new product launches, including Darunavir, gMyrbetriq, DRR D, and gSpiriva.
- **In the US business,** supply constraints have led to a significant reduction in price erosion, which is anticipated to stay low for the rest of FY25E.
- **In India, growth has primarily** been fueled by price increases and strong performance in chronic therapies, with most major companies forecasting high single-digit growth for FY25E.
- **Margins are expected to improve as raw material and freight costs stabilize, US price erosion** moderates, and a better product mix is achieved. However, USFDA inspections remain a risk factor, and price erosion in the US could accelerate once supply constraints ease.
- **Given these dynamics, the focus remains on companies launching niche products in the US market and those with a strong chronic portfolio in the Indian market.**
- **Top Sector Ideas :** LUPIN, KIMS, and Aurobindo are the preferred selections within the Pharma sector.

Short and Medium-term Outlook

Short Term

Trend in price erosion after the normalization of drug shortages supply in the US

India: Weak acute season and NLEM impacted growth

Medium Term

Better sales growth was led by gRevlimid and the launch of new products Darunavir, gMyrbetriq, DDR D and gSpiriva

Field force expansion to drive growth in India

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

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

Top Sector Ideas: KIMS

Stock	Reco.	TP	Recommendation Rationale
KIMS	BUY	Rs 2,500*	✓ **Consolidated occupancies declined by 340bps YoY and 160bps QoQ, settling at 49.8% in Q1FY25.** Despite this drop, ARPOB saw a significant increase of 21.3% YoY and 12.2% QoQ to Rs 38,458, driven by a reduction in ALOS to 3.6 and a favorable shift in the payer mix towards cash and insurance. ✓ **The company reported EBITDA margins of 26.1%, an improvement of 15bps YoY,** though still constrained due to fixed costs associated with upcoming capacities. Reported PAT stood at Rs 95 Cr, marking a 27.6% YoY growth, supported by improved operating profitability and lower depreciation costs. ✓ **Therapeutic Area Performance:** Revenue in key therapeutic areas such as Oncology, Ortho, and Gastric surged by 36%, 14%, and 28% YoY, respectively. Mature assets in Telangana and Andhra Pradesh saw ARPOB rise to Rs 61,245 (up 25% YoY) and Rs 19,774 (up 25.6% YoY), driven by a better payer mix and reduced ALOS. ✓ **Outlook:** The outlook remains positive, primarily driven by increasing ARPOB and incremental bed supply, which are expected to boost cash flows. Therefore, the company continues to be an attractive long-term investment opportunity.

** Note: Target Price is based on our Q1FY25 Result Update Report*

Top Sector Ideas: Lupin

Stock	Reco.	TP	Recommendation Rationale
Lupin Ltd	BUY	Rs 2,200*	✓ **US revenue showed robust growth, reaching $227 Mn, up 25.4% YoY.** The company's India business grew by 17.3%, outpacing industry growth at 1.2x IPM growth, with core therapies like cardio and respiratory treatments surpassing market growth at 10.5% against the IPM growth of 8%. Other markets also performed well during the last quarter. ✓ **Financial Performance:** Lupin reported strong financial results, largely in line with expectations. Revenue increased by 16.3%, driven by notable improvements in EBITDA margins, leading to a reported PAT of Rs 802 Cr. **Positive Outlook:** Several growth drivers support the optimistic outlook: 1. New launches in the US market, such as Darunavir and gSpiriva, have gained MS of up to 30% and 32%, respectively. 2. Recent approvals for Tolvaptan (MS $287 Mn) and Xyway (MS $958 Mn with 180 days exclusivity) could contribute significantly in the second half. 3. Double-digit growth in the India business is expected as the company expands its MR count to 1,000. 4. The API business is witnessing a demand revival, indicating an uptick in growth. These factors position Lupin for continued strong performance across key markets, making it a compelling investment prospect.

** Note: Target Price is based on our Q1FY25 Result Update Report*

Top Sector Ideas: Aurobindo

Stock	Reco.	TP	Recommendation Rationale
Aurobindo Pharma Ltd	BUY	Rs 1,612*	✓ **Aurobindo Pharma's Q1FY25 results fell below expectations.** US revenue stood at $426 Mn, showing minimal QoQ growth. Revenue gains in the European market were offset by declines in growth markets and API segments. The US injectable sales segment saw a decline of $102 Mn, reflecting a 1.8% QoQ drop due to significant price erosion, despite an additional $30 Mn contribution from gRevlimid. Gross margins contracted by 23bps QoQ, while EBITDA margins dipped by 67bps QoQ. The reported profit was Rs 919 Cr. ✓ **The injectable business, representing $500 Mn in revenue (30% of US sales), remains a key contributor with the highest gross margins.** However, the issuance of an OAI for injectable segments could hinder new launches, posing a risk to future growth. Additionally, ongoing price erosion within the injectable portfolio may further pressure gross margins in the upcoming quarters. ✓ On a positive note, **the recently operationalized Vizag plant could be pivotal for launching new injectable products.** The company has invested Rs 7,000 Cr in Capex over the past two years, primarily targeting segments like Biosimilars and Pen-G (API). ✓ **The company's valuation in the coming years will heavily depend on the ROIC generated** from these substantial Capex investments. Given these mixed factors, Aurobindo Pharma's near-term growth will be contingent on its ability to navigate challenges in the injectable business while maximizing returns from its Capex initiatives.

*** Note: Target Price is based on our Q1FY25 Result Update Report***

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