MOTILAL OSWAL

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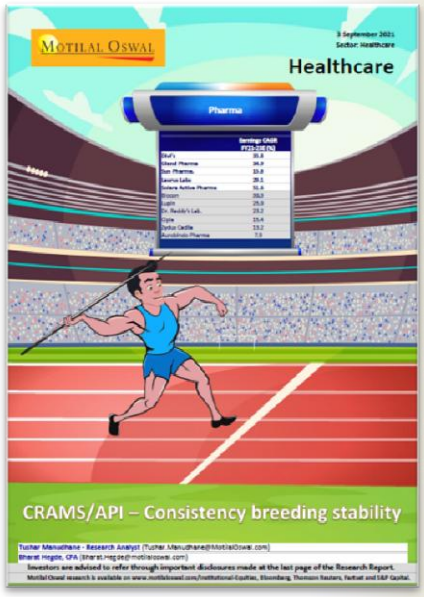
Sector: Healthcare

Healthcare

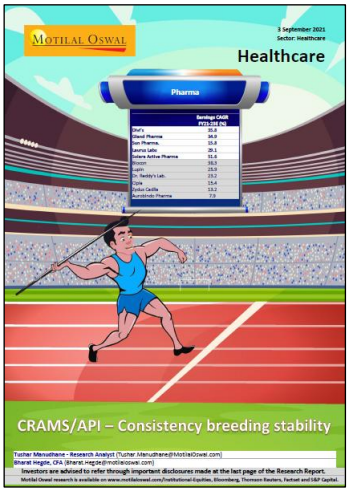
CRAMS/API – Consistency breeding stability

Tushar Manudhane - Research Analyst (Tushar.Manudhane@MotilalOswal.com)
Bharat Hegde, CFA (Bharat.Hegde@motilaloswal.com)

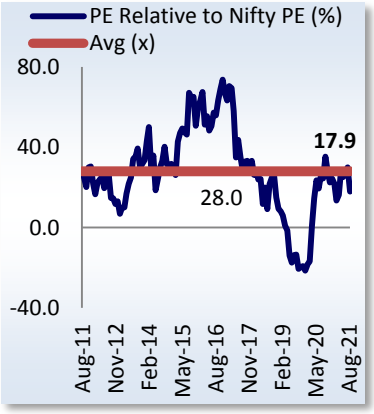


Healthcare: CRAMS/API – Consistency breeding stability

Healthcare



Healthcare	Rating
Alembic Pharma.	Neutral
Alkem Labs.	Buy
Ajanta Pharma	Buy
Aurobindo Pharma	Buy
Biocon	Neutral
Cadila Health.	Buy
Cipla	Neutral
Divi's Labs.	Buy
Dr. Reddy's Labs.	Neutral
Gland Pharma	Buy
Glenmark Pharma.	Neutral
Granules India	Buy
GSK Pharma.	Neutral
IPCA Labs.	Buy
Jubilant Pharmova	Buy
Laurus Labs	Buy
Lupin	Neutral
Solara	Buy
Strides Pharma	Buy
Sun Pharma.	Buy
Torrent Pharma.	Neutral



CRAMS/API – Consistency breeding stability

- **Indian Pharma companies are looking at a sustainable growth opportunity in the coming decade as the lack of differentiation in Generics has chipped away at margins due to increased competition.**
- **While companies with a large US Generics exposure are looking at niche opportunities like Complex Generics/Specialty drugs, Contract Research and Manufacturing Services (CRAMS) for API/Formulation has emerged as a successful opportunity for companies with a sound technical, manufacturing, and regulatory expertise.**
- **The branded Domestic Formulation space remains a high return ratio segment, with a moderation in growth, excluding COVID-19, due to the reduced burden of Acute diseases.**
- **We believe DIVI, GLAND, SUNP, and LAURUS are suitably positioned in this framework for a superior business trajectory. DIVI/GLAND is expected to continue to outperform among Contract Development and Manufacturing Organization (CDMO) players. We expect SUNP to turn the tide in US sales with its Specialty business, albeit with a longer gestation period. We expect LAURUS to outperform the industry in APIs and Formulations in the near term, with Biologics/Fermentation CDMOs acting as a key trigger over the next 3-5 years.**

CRAMS – Rising prospects in Biologics and Synthesis segments

CRAMS has emerged as a niche segment, offering a high growth potential. The global CRAMS segment is expected to clock 6.2% CAGR over CY21-26E to touch ~USD170b. **Biologics-based CRAMS** is expected to witness 11% CAGR over CY20-26E, led by ever-rising number of products under development for targeted action and limited manufacturing skill set of respective companies. With ~6,000 molecules in the pipeline, **'small molecules'** constitute a dominant share within the CRAMS segment.

With the ease of access to capital for emerging Pharma companies, there is a surge in Biopharma companies focusing on R&D and outsourcing manufacturing at the research/commercial level. This, along with cost consciousness of larger Pharma companies, is providing a fillip to this segment. Indian CRAMS players are uniquely positioned to outperform the industry in this segment.

US Generics – The search for greener pastures

After sales declined to USD56b in CY19 from USD66b in CY16, the Generics industry in the US clocked a steady YoY growth in CY20. The improved launch pace was sufficient enough to counter the price erosion in the base business. However, the annual pace of filings has slowed to ~800/230 in FY21/4MFY22 from more than 1,000 in FY17. This is partly due to increased filings for complex products and COVID-related hurdles. Indian companies are working on different strategies such as: a) building Complex Generics, NCEs (New Chemical Entity), and branded Generics, or b) in-licensing/partnering to augment capabilities.

Most potential products are spread over the development/approval stage, and are sometime away from commercialization. This has made companies vulnerable to higher competition in their base business, the result of which manifested in a sequential sales decline of 5% in 1QFY22. Although we like the move of Generic companies to niche segments, we expect US sales to remain under pressure over the near to medium term.

A gradual recovery in Domestic Formulations (DFs), excluding COVID-related therapies

The DF market showed remarkable (12.8% YoY) growth on a MAT basis in Jul'21 after exhibiting a downtrend in growth from Jul'15 to Jul'20. This is due to a spike in consumption of COVID-related medicines. The enhanced usage of digital tools has started transforming marketing in the DF segment.

The product launch pace was elevated with Anti-infectives (17), Cardiac (11), Anti-Neoplastics (9), and Anti-Diabetic (9) witnessing the highest number of launches over the past 12 months. While the COVID-related offtake is subsiding with lower cases, we expect core therapies to revive gradually going forward.

Supply disruption and Complex APIs are key levers of growth in API

Global API sales are expected to exhibit ~6% CAGR over CY21-26E to touch USD259b (v/s 3.6% CAGR witnessed over CY18-20), given the rising prevalence of Chronic disorders and growing development trend in innovative therapeutic drugs. In addition to increasing demand and re-consideration of the API source by formulators, shutdown of API factories in China is expected to drive better business opportunities for Indian API companies. As a result, the Indian API sector is expected to outperform other countries, with an estimated CAGR of 9.6% over CY21-26E. Focus on Complex Formulations/Generics by Innovators/Generic companies is expected to drive faster growth for Complex APIs, at 9.3% CAGR over CY21-26E, and is expected to account for 62% of global API sales in CY26E.

Remain positive on DIVI, GLAND, SUNP, and LAURUS

- We remain positive on DIVI, GLAND, SUNP, and LAURUS based on our analysis of their strengths in one or more areas.
- CRAMS/custom synthesis remains the fastest growing opportunity. Based on its relationships and execution track record, **DIVI** is best placed among Indian Pharma companies to outshine in this space.
- We like **GLAND** due to its presence in one of the most sought after segments for Formulations companies – Injectables, and its unabashed compliance record.
- **SUNP** has taken the bold and decisive step to venture into the US Specialty segment. Given its experience in commercialization, expansion in the offing, and ramp-up in sales, SUNP's specialty business has the potential to add a high margin business over the next 5-7 years. Its strength in DFs can continue to support its efforts to succeed in the Specialty segment.
- After a multi-year journey to transform from an ARV API player to a Formulations player, **LAURUS** is progressing towards a differentiated Pharma company. Its current strength lies in the ARV segment. It is reaping growth in custom synthesis on strong execution, and is building its US Generics pipeline. It has ventured into Biologics/Fermentation CDMO through the acquisition of Richore Lifesciences. Strong backward integration bodes well for its multi-year growth journey.
- With the Aurore Life Sciences (ALS) acquisition, **SOLARA** is embarking on its next journey in both Generic APIs as well as CDMO. While backward integration in Ibuprofen gives it a distinct advantage to weather the pricing pressure, the ALS acquisition accelerates its CRAMS aspirations, with an upside from synergies and new inorganic opportunities.

Valuation metrics

Exhibit 1: Valuations of companies in our coverage universe

Company	EPS (INR)			RoE (%)		P/E		EV/EBITDA	
	FY21	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Sun Pharma.	25.0	29.5	33.6	14.4	14.4	26.7x	23.5x	18.1x	16.0x
Divi's	75.6	104.8	139.4	27.1	29.5	49.6x	37.3x	34.8x	26.5x
Cipla	30.0	35.4	39.9	13.8	13.6	26.6x	23.6x	16.3x	14.4x
Zydus Cadila	19.8	24.3	25.4	16.5	14.3	22.9x	21.9x	14.7x	13.7x
Aurobindo Pharma	54.0	56.3	62.8	14.0	13.8	13.5x	12.1x	7.5x	6.3x
Dr. Reddy's Lab.	143.6	191.3	218.1	16.8	16.6	25.6x	22.5x	15.6x	12.9x
Gland Pharma	60.9	86.7	110.9	21.4	22.0	46.1x	36.0x	33.2x	26.1x
Biocon	5.5	6.9	10.6	10.5	14.7	52.5x	34.4x	22.3x	16.5x
Lupin	26.0	30.6	41.2	9.6	11.9	31.7x	23.5x	16.6x	12.5x
Torrent Pharma.	74.9	80.4	95.2	22.1	23.0	39.7x	33.5x	19.9x	17.2x
Alkem	134.1	145.5	164.4	21.6	20.8	26.4x	23.3x	22.6x	20.0x
Ipca	88.7	88.2	100.2	21.6	20.5	28.8x	25.3x	20.8x	17.7x
Alembic	59.9	40.8	50.8	15.4	17.0	19.0x	15.3x	12.4x	9.8x
Ajanta	73.9	80.3	97.9	21.7	22.4	27.5x	22.6x	19.6x	17.0x
Laurus Labs	18.3	24.1	30.5	41.0	37.3	27.1x	21.4x	18.1x	14.4x
Granules India	22.3	23.4	27.4	23.7	22.3	14.6x	12.4x	10.9x	7.9x
Strides	22.2	(8.1)	38.3	(2.7)	12.3	NM	16.0x	17.7x	7.0x
Jubilant Life.	54.1	48.8	56.2	15.0	15.0	13.2x	11.5x	7.0x	6.3x
Glenmark Pharma.	35.0	39.6	44.9	14.7	14.6	13.5x	11.9x	7.7x	6.7x
GSK Pharma.	29.4	34.7	38.0	34.3	32.8	43.8x	39.9x	30.8x	29.1x
Solara Active Pharma	45.0	82.4	103.4	23.1	24.0	20.0x	16.0x	10.0x	7.9x

Source: MOFSL, Bloomberg

CRAMS – Rising prospects in Biologics and Synthesis segments

Expect emerging Biopharma companies, with a focus on R&D and access to capital, to drive growth in the Biologics CDMO sector

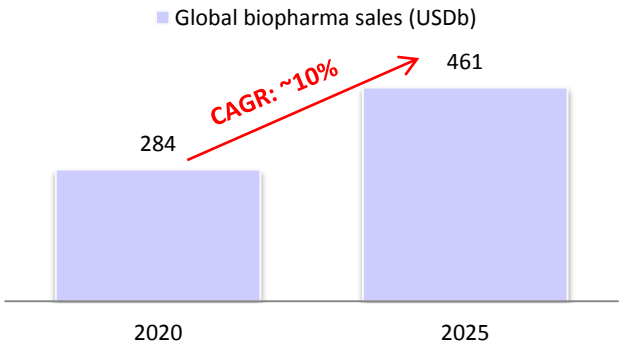
- **CDMO is the most promising segment in the Pharma space. Indian companies are building their skill set to cater to Biologics and Synthesis-based CDMO.**
- **With a spurt of emerging Biopharma companies, developing ~3,500 recombinant proteins/antibodies and having limited manufacturing capabilities/capacity, it provides the right ingredient to partner with CDMO companies.**
- **Small molecules are still a dominant play in the CDMO segment, with ~6,000 molecules in the pipeline providing business opportunities across the value chain of product development to commercial manufacturing.**

Huge product pipeline/lookout for manufacturing partners bodes well for Biologics-based CDMO players

CDMO opportunities in Biologics are restricted not just to Formulation manufacturers. Fermentation-based CDMO opportunities to supply the drug substance for Biologics are evolving quickly

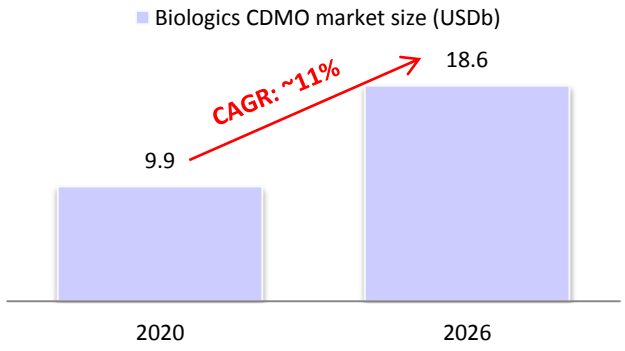
- Global Biopharma sales are expected to clock 10% CAGR and touch USD461b over CY20-25E. Biologics are gaining popularity in Oncology and Autoimmune segments, with their better targeted action mechanism. Biologics protects innovators from generic competition to a greater extent than small molecules, given their complexity to develop and manufacture and limited/no mandatory substitution requirements for Biologics in developed markets.
- The global Biologics CDMO market is expected to touch USD19b, with 11% CAGR over CY20-26E. This represents 3-5% of the total Biologics market. There are ~3,500 recombinant proteins/antibodies in R&D and commercial stages.
- Biologics CDMO is expected to be driven by: a) small/emerging Biopharma, with minimal manufacturing capabilities, and b) Big Pharma looking for additional manufacturing partners. The number of Biologics under development by small and emerging Pharma companies is rising. They have been supported by VC funding, especially to emerging Pharma companies that are more focused on R&D and not manufacturing. Such companies constitute ~80% of the current development pipeline. Around 70% of their development and manufacturing requirements are outsourced, with smaller Biotech companies outsourcing their entire development and manufacturing services.
- With an increasing number of products from such emerging Biopharma getting approved, the need for Biologics CMO partners will also increase.

Exhibit 2: Sales of Biologics are growing faster than drug spending



Source: MOFSL, IQVIA

Exhibit 3: Biologics CDMO market size to almost double over CY20-26E

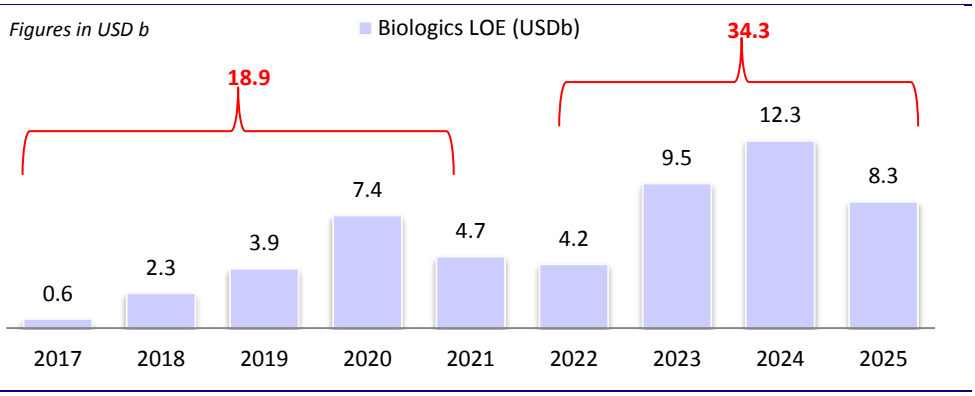


Source: MOFSL, Mordor Intelligence

- Biologics CDMO still constitutes a small proportion of total Biologics sales. This is mainly due to two reasons: a) Biopharma sales are estimated using the price of the end-product, whereas the CDMO market is estimated using revenue realized by CDMO players, roughly equal to COGS of branded Biopharma drugs, and b) large innovators still manufacture a big chunk of the drugs themselves, especially those targeted at regulated markets, to minimize the risk from disruption.
- Loss of exclusivity (LoE) in Biologics provides an additional opportunity to CDMO players as there is a higher focus on the COGS for Biosimilars due to their lower pricing as compared to branded Biologics.

See healthy opportunity for CDMO players from LoE in Biologics over the next four years due to the cost consciousness of Biosimilar players

Exhibit 4: LoE opportunity in Biologics to double over the next five years v/s that in the last five years

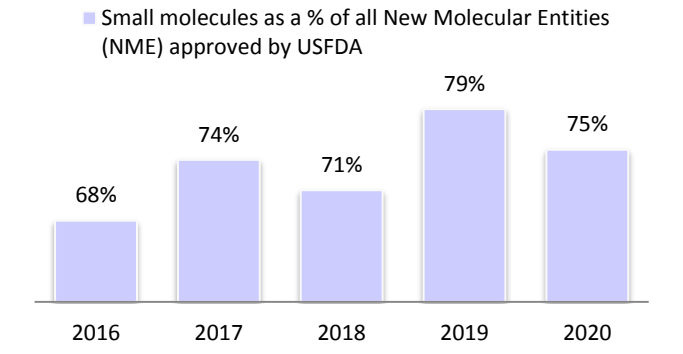


Source: MOFSL, Industry

Small molecules still dominate new approvals/overall CDMO opportunity

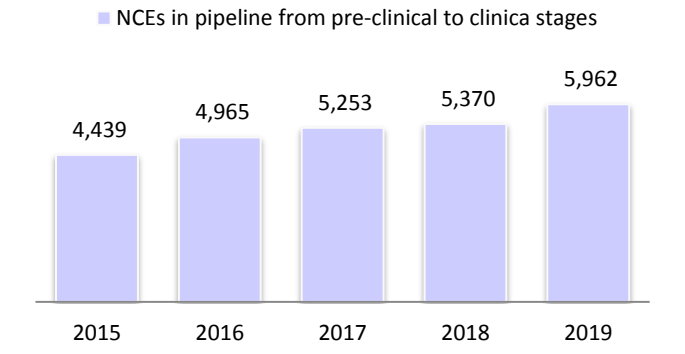
- Despite the strides made in Biologics, small molecules continue to dominate drug approvals and products under development.

Exhibit 5: Small molecules constitute ~73% of drugs in the pipeline



Source: MOFSL, USFDA

Exhibit 6: Growing number of NCEs in the pipeline



Source: MOFSL, Company

Innovation and expansion of the R&D pipeline in small molecules to support CDMO opportunities from pre-clinical to commercial supplies

- With better funding available to emerging Pharma companies, and with CDMOs available to cater to their needs (right from pre-clinical to commercial stages), a number of research-focused Pharma companies are fast emerging, especially in developed countries.
- There were ~6,000 small molecules in the pipeline in CY19, up from ~4,500 in CY15. The outsourced market in small molecules was estimated at USD70-80b

across preclinical, clinical, and commercial stages, and is expected to continue to grow at 5-6% over the next 5-6 years.

- High Potency APIs (HPAPI) has emerged as another niche segment in small molecule APIs, constituting ~30% of chemical compounds in the pipeline. They are characterized by better targeting and higher efficacy, and are increasingly being used in Oncology, Anti-Diabetics, and Autoimmune applications.
- CRAMS includes CRO (Contract Research Organization) and CDMO. Companies offering CRO services focus on research and drug discovery phases, with an offering in biochemistry, biology, data and statistical analysis, and regulatory filing services.
- Manufacture of low volume and clinical quantities of APIs and Formulations is sufficient for clinical trials, but substantially lower than commercial quantities.

Exhibit 7: Small molecules have a market size of more than USD70-80b for CDMO players, growing at 5-6% annually

	Drug discovery and pre-clinical development	Development	Commercial manufacturing
Outsourced market size	USD12-18b	USD23-35b	USD67-80b
CAGR (%)	5-6%	5-6%	4-5%
Small molecules, outsourced market	USD8-12b	USD17-22b	USD50-60b
		~USD120b; 6-7% CAGR	

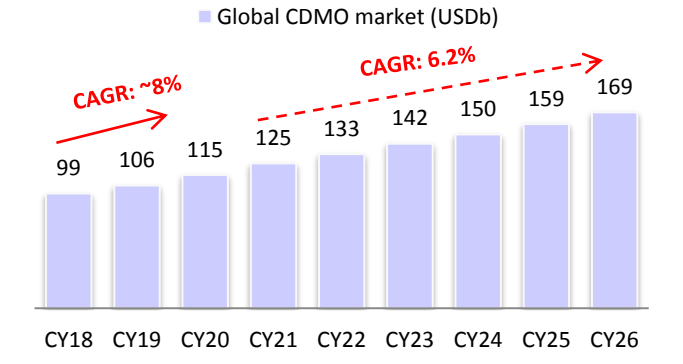
Source: MOFSL, Company

Healthy mix of innovator and generic API CDMO provide a two-fold opportunity

CDMO market to witness 6% CAGR over CY20-26E

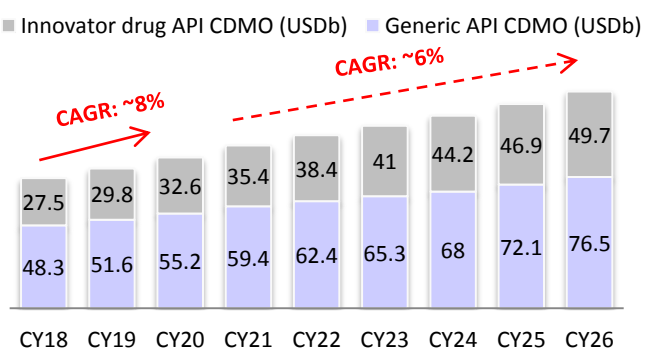
- The global CDMO outsourcing market is expected to grow at 6.2% CAGR over the next five years. A similar pace of growth is expected in the Global API CDMO market.
- API CDMO accounts for ~75% of the global CDMO market. This is due to a focus on cost by both Generic and Innovator Pharma companies. Many innovators have divested their API facilities to concentrate on the manufacture of Formulations. This has resulted in a larger CDMO opportunity for API manufacturers.

Exhibit 8: Total CDMO market to grow at 6.2% CAGR…



Source: MOFSL, IQVIA

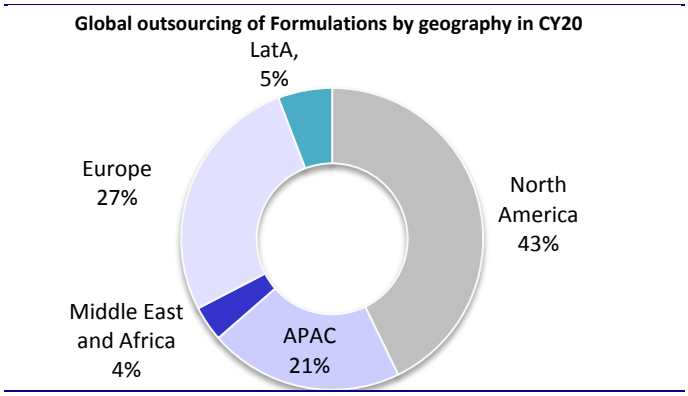
Exhibit 9: …and API CDMO market to grow at a similar pace



Source: MOFSL, IQVIA

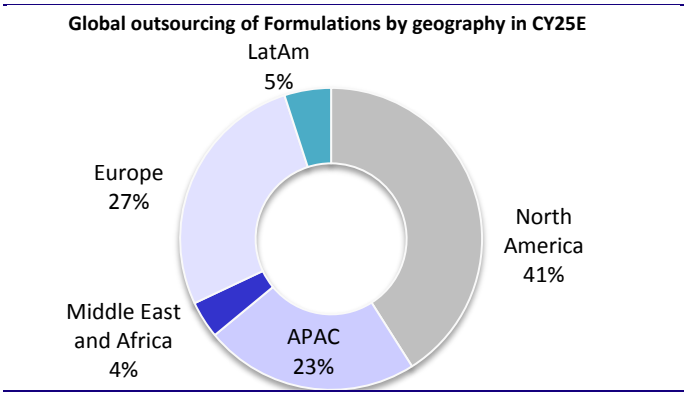
- North America and Europe are the major markets for CDMO and account for ~70% of the outsourcing in global Formulations. This is expected to remain almost unchanged over the next five years.

Exhibit 10: US was the biggest market for outsourcing in CY20…



Source: MOFSL, IQVIA

Exhibit 11: …and will continue to remain so till CY25



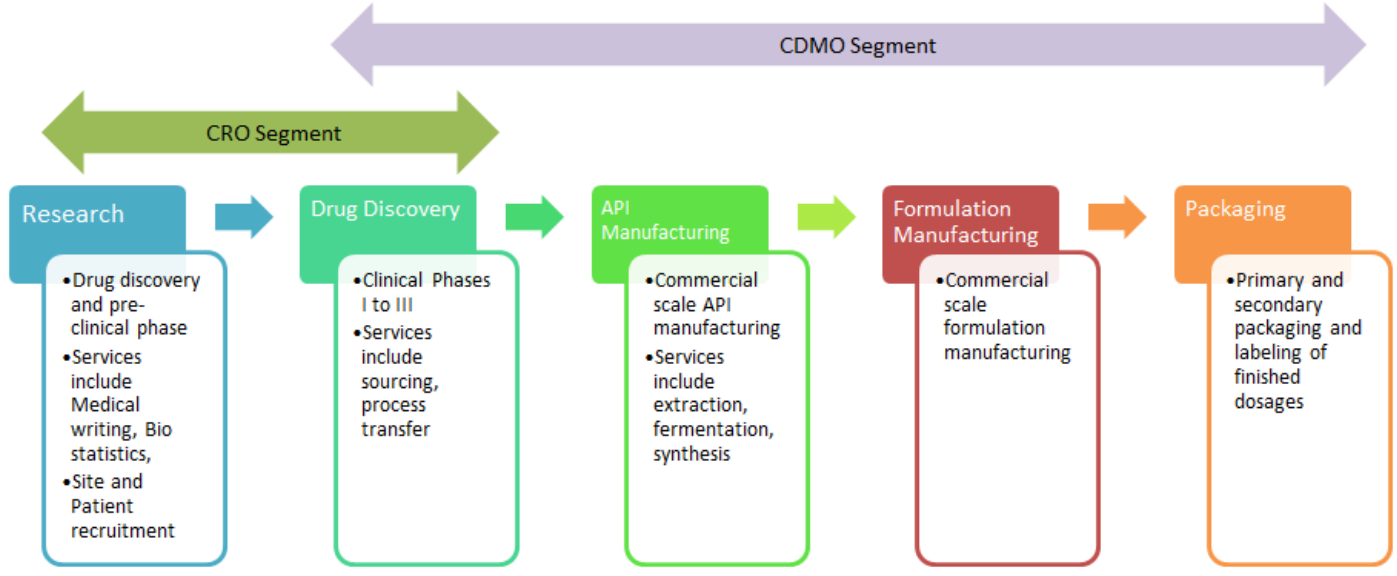
Source: MOFSL, IQVIA

Low cost, technical know-how, end-to-end capabilities, and customer relations put India in a strong position to succeed in the CDMO segment

India has the right mix of skill set and manufacturing capability/capacity

- CRAMS players in India offer end-to-end services, right from pre-clinical trials to manufacturing finished dosages. India has abundant high-quality, lower cost talent to support the drug discovery and research processes. The cost of setting up a facility in India is up to 50% lower v/s that in the US and Europe.
- India's CRAMS segment posted a 48% CAGR over FY15-18 to touch a market size of USD17b. It is expected to post a strong CAGR (25%) over FY20-24.

Exhibit 12: CRO and CDMO offer their services from the drug discovery stage to commercial manufacturing



Source: CRISIL, MOFSL

US Generics: The search for greener pastures

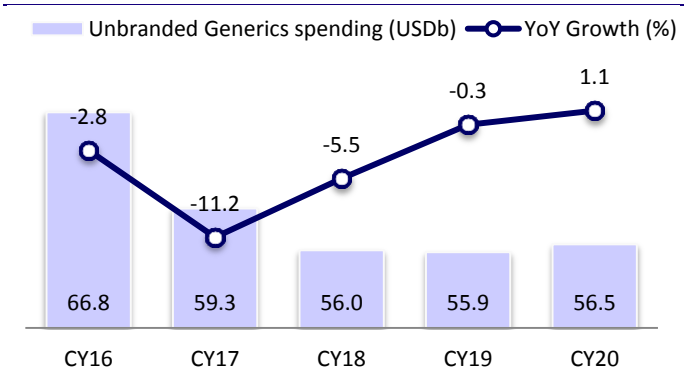
- **While price erosion stabilized by the end of CY20, the performance of companies in the past six months indicates increased competitive intensity dragging overall profitability.**
- **The complex product pipeline remains a key lever for growth. However, evolving regulatory aspects creates a near to medium term volatility in earnings.**
- **A few recent inspections imply a rise in regulatory risk with the ease of travelling.**

Generics sales grew for the first time on a YoY basis in the last five years in CY20

Decline in the sales of Generics stabilized in CY20

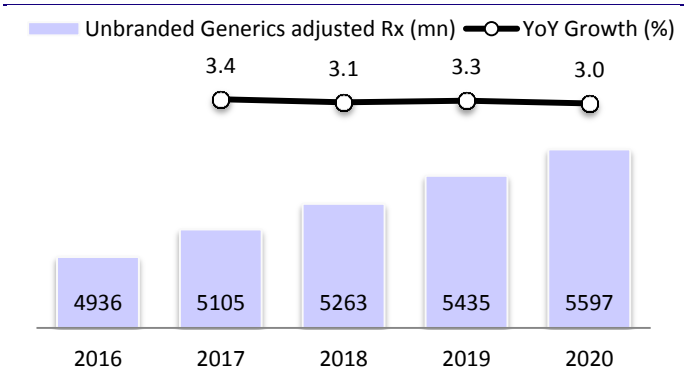
- Spending on Generics fell to USD57b in CY20 from USD67b in CY16. While the volume offtake increased considerably, the decline in value terms is largely attributed to steep competition in Generics, especially in oral solids.
- Unbranded Generics prescriptions (adjusted) saw a 3.2% CAGR over CY16-20, reaching 5.6b prescriptions in CY20.

Exhibit 13: Spending on unbranded generics in the US is picking up



Source: MOFSL, IQVIA

Exhibit 14: Generic Rx growth stable ~3% YoY

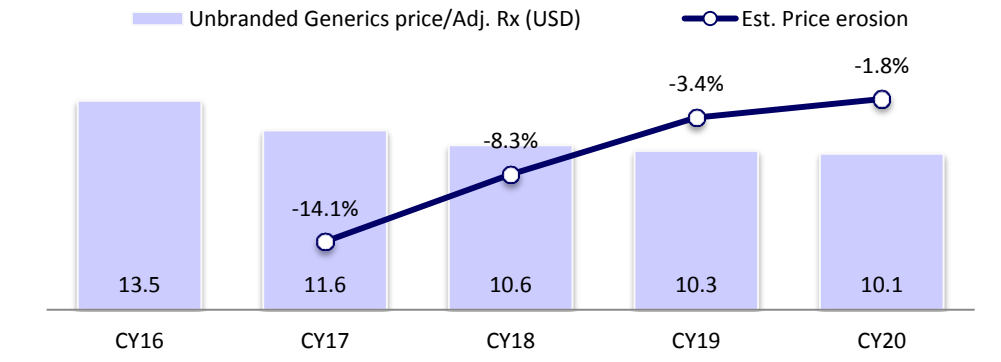


Source: MOFSL, IQVIA

- Increased generic competition led to a 14% decline in spending per prescription in CY17. While competition remains intense, the extent of price erosion has reduced till CY20.

Price erosion at the Rx level in the US had stabilized in CY20

Exhibit 15: Price erosion (at the Rx level) stabilized in CY20



Source: MOFSL, IQVIA

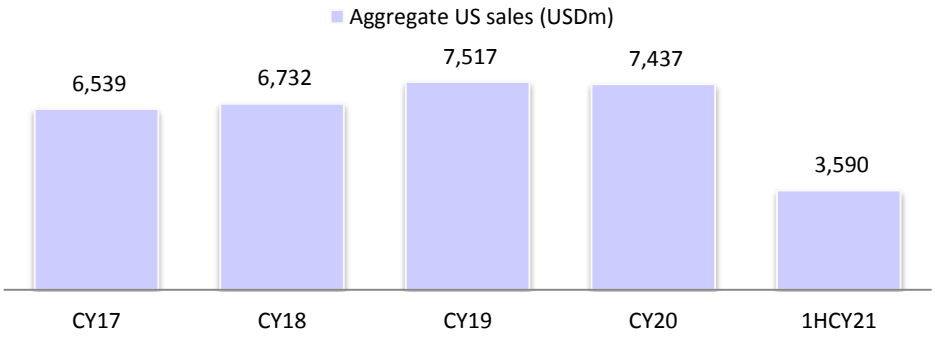
- We expect gross/net spending to grow at 3.1%/1.8% CAGR over CY21-25E. The growth drivers over CY21-25 are expected to be: a) an aging US population, b) higher spending on new branded drugs, c) price increases in branded drug, and d) rising affordability of drugs going generic.
- Over CY16-20, drugs worth ~USD70b lost their exclusivity. During the 10-year (CY16-25) period, CY20/CY21 have been two of the slowest years in terms of LoE, hindering growth of generics to some extent.

Trend reversal seen in companies under our coverage during 1HCY21

- CY20 sales for companies under coverage (Exhibit 15) have also been steady in line with industry trends.

US sales impacted by fewer launches seen in 1QFY22

Exhibit 16: US sales run-rate slows down in 1H, with a 5% QoQ sales decline in 2QCY21



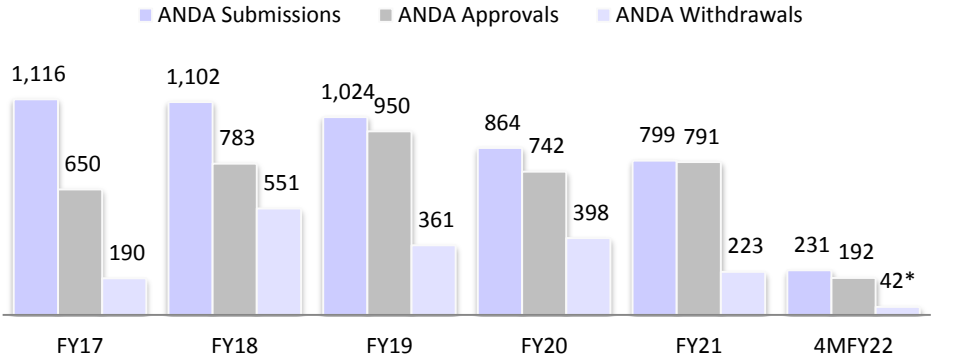
Source: MOFSL, Company

- Aggregate US sales for our coverage companies slowed down in 1H, due to a sharp rise in competition, which led to a 5% QoQ decline in the US sales in 2QCY21.

The slowdown in filings/approvals moderated incremental business

- The USFDA approved a record number of ANDAs in FY19, up from 783 in FY18. ANDA filings and approvals saw a slight decline with the onset of the COVID-19 pandemic towards the end of FY20. The pace of ANDA filings as well as approvals slowed down in FY21. However, ANDA approvals increased to 791, as approvals for products filed in previous years flowed through in FY21.
- We expect ANDA filings and approvals to improve slightly going forward as normalcy returns around the world given the pace of vaccination.
- Number of ANDAs are expected to slow down on a normalized basis as more and more Generic companies focus on Complex Generic products and differentiated dosage forms, moving away from me-too Generics.

Exhibit 17: ANDA submissions and approvals slow down over the last two years due to COVID-19 pandemic



**ANDA withdrawal data in FY22 available only for three months* Source: MOFSL, USFDA

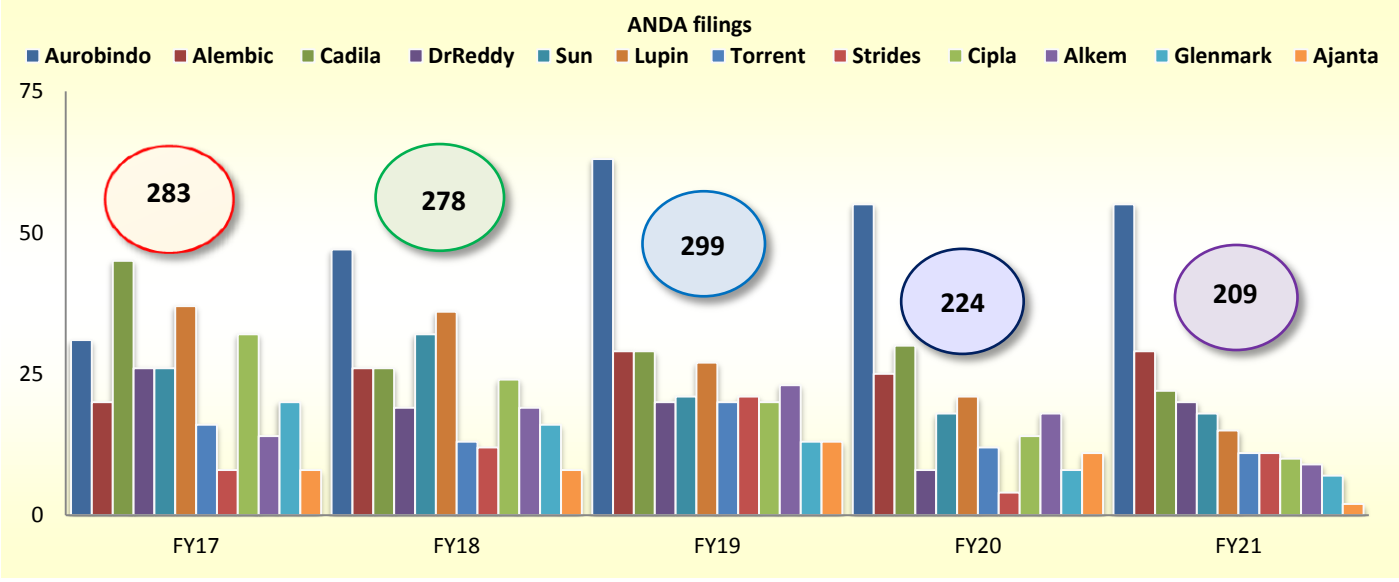
USFDA ANDA approvals rose in FY21 on a YoY basis

Indian Pharma companies have reduced the pace of filings and approvals

The slowing pace of filings and approvals are keeping new launches in check

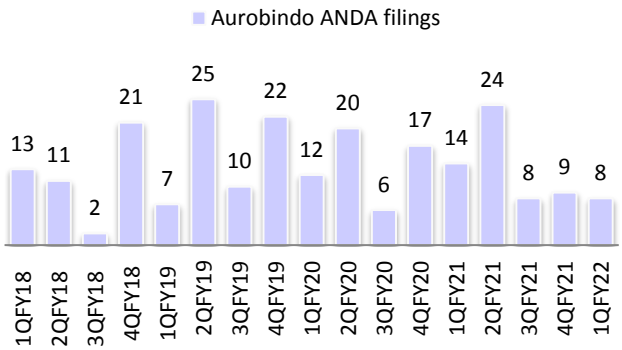
- Although USFDA's approval pace increased in FY21, the pace of filings by Indian Pharma companies and approvals have slowed down.
- Total ANDA approvals declined marginally for our coverage companies to 209 in FY21 from 217 in FY20.
- Barring ARBP, which has kept pace with its filing history, all companies under our coverage saw a lower number of ANDA filings/approvals over the past 12 months.
- The slower rate of new launches has resulted in higher competition in the base business, especially in me-too Generic products.
- All the aforementioned factors have led to a decline in US sales for Indian Pharma companies, which declined by 5% QoQ to USD1.7b on an aggregate basis in 1QFY22.
- Given the pace of filings, we expect new launches to remain muted in the US over the near to medium term.

Exhibit 18: Aggregate annual ANDA filings for our coverage companies fell by ~8% YoY in FY21 and by ~30% from FY19 levels



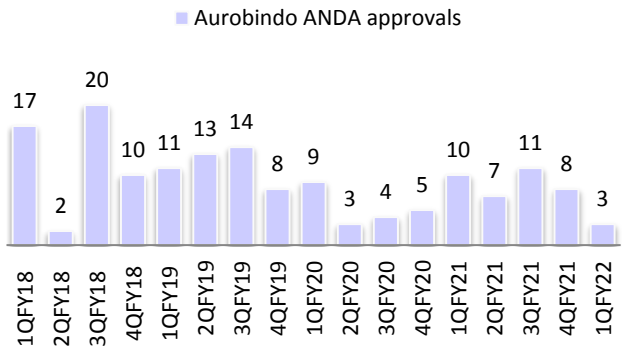
Source: MOFSL, Company

Exhibit 19: Filings for ARBP least impacted by the COVID-19 outbreak



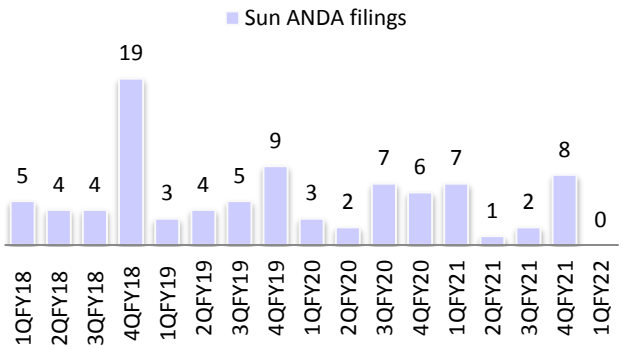
Source: MOFSL, USFDA

Exhibit 20: Approval pace picks up after a slow FY20



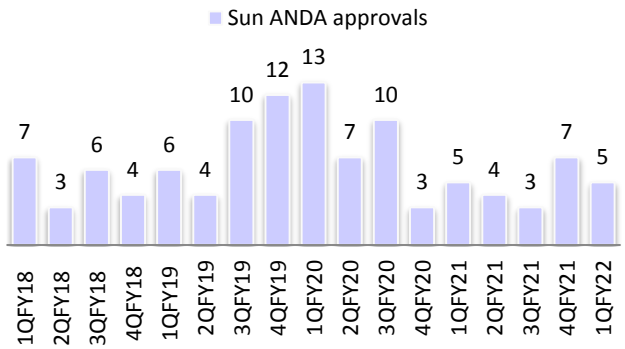
Source: MOFSL, USFDA

Exhibit 21: SUNP's filing pace tapers over the last two years



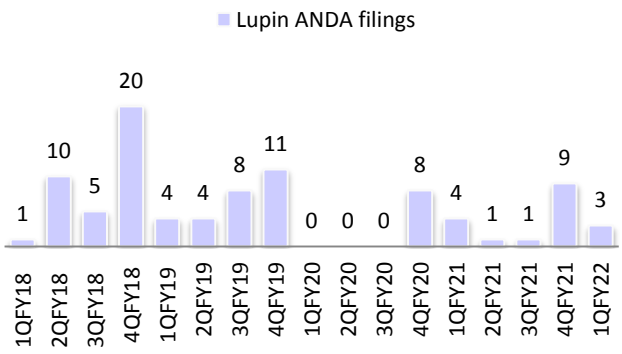
Source: MOFSL, USFDA

Exhibit 22: The pace of approvals has also slowed down



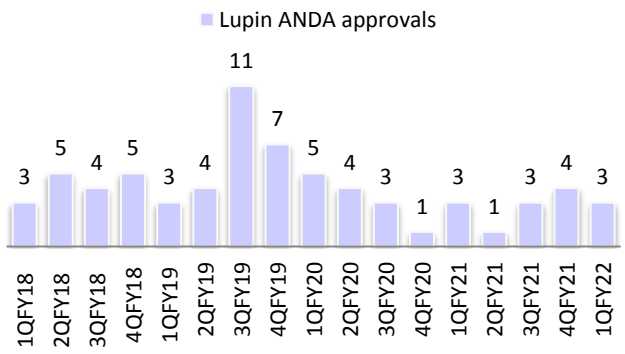
Source: MOFSL, USFDA

Exhibit 23: LPC's filings have slowed down over the last nine quarters



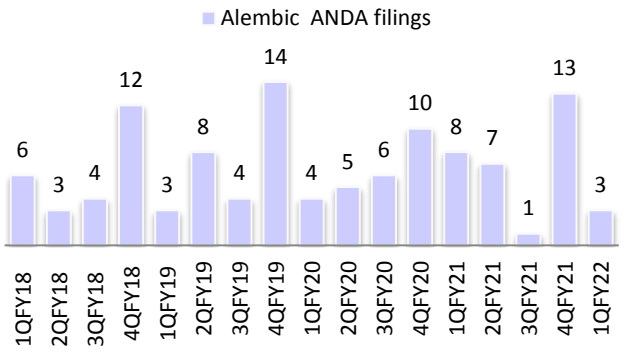
Source: MOFSL, USFDA

Exhibit 24: Lack of filings reflects in low approvals



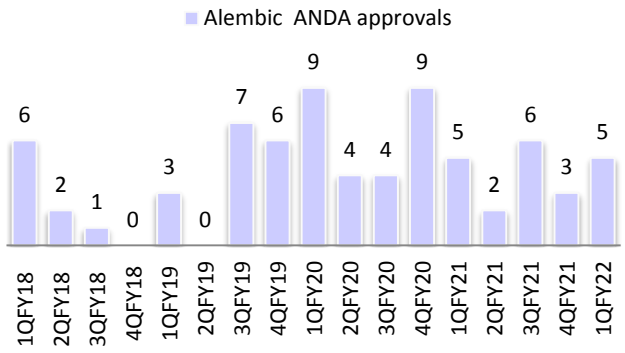
Source: MOFSL, USFDA

Exhibit 25: ALPM's filing pace revives in FY21



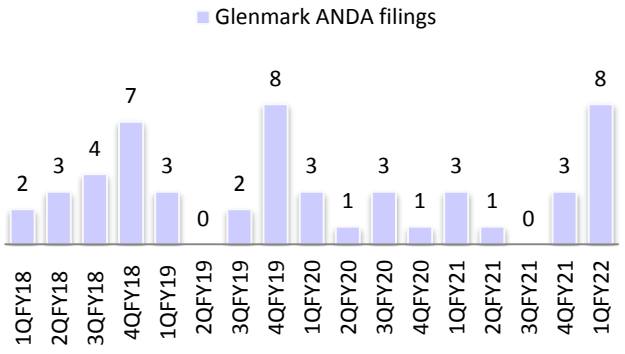
Source: MOFSL, USFDA

Exhibit 26: Approvals have kept pace with filings



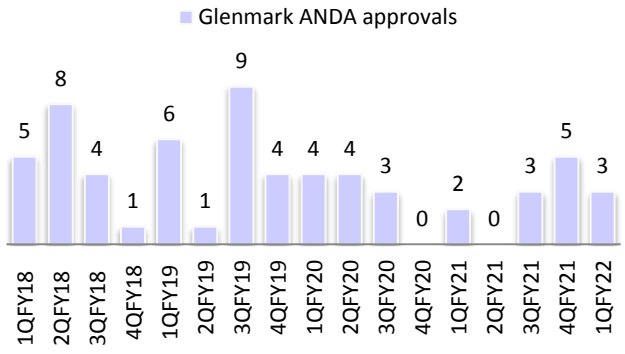
Source: MOFSL, USFDA

Exhibit 27: Filing pace revives in 1QFY22 after a slow FY21



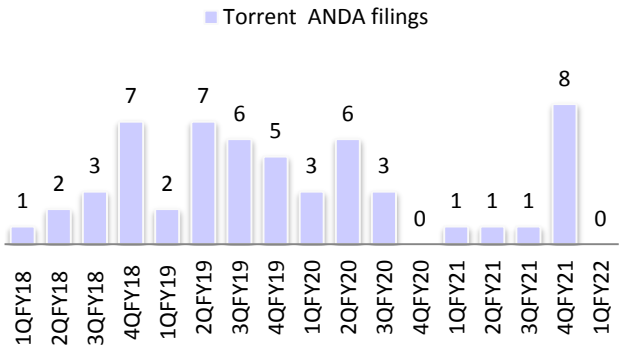
Source: MOFSL, USFDA

Exhibit 28: Approvals slows down for GNP in FY21



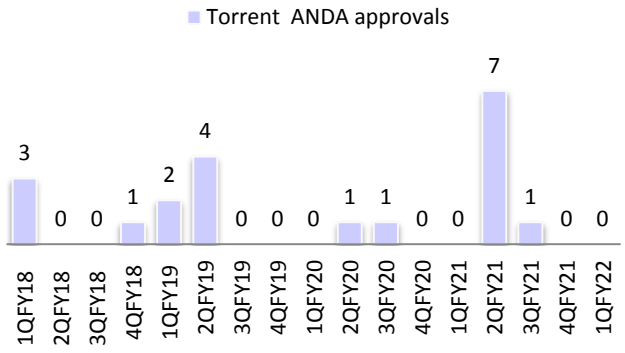
Source: MOFSL, USFDA

Exhibit 29: Regulatory headwinds impacts filings for TRP



Source: MOFSL, USFDA

Exhibit 30: Approvals have been difficult to come by



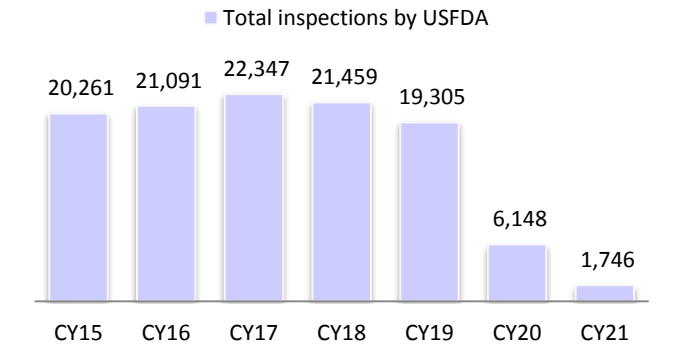
Source: MOFSL, USFDA

Compliance risk could increase as the USFDA begins physical inspections in India

USFDA conducts three inspections in India since Feb'21 v/s zero in CY20 after the onset of the COVID-19 pandemic

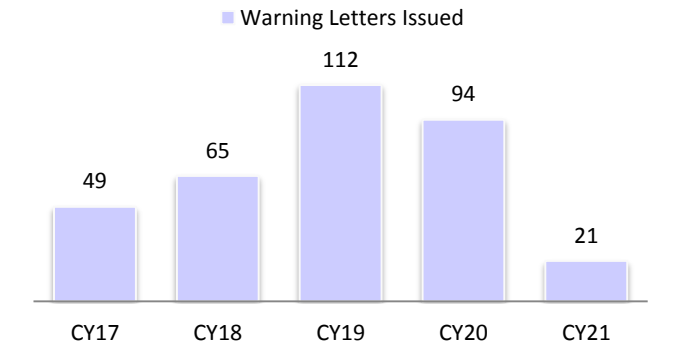
- USFDA inspections have considerably slowed down since the onset of the COVID-19 pandemic due to safety concerns and travel restrictions across the world. The USFDA conducted more than 19,000 inspections across all divisions and geographies in CY19. This fell to ~6,100/~1,750 in CY20/1HCY21.
- Of the ~1,750 inspections conducted in CY21 till date, 1,699 were in the US, 43 in China, and only one in India (JOL's Roorkee plant).
- Issuance of warning letters to Pharma companies for aspects related to drug quality has also reduced to 21 in CY21 from 112 in CY19 due to lower number of inspections conducted by the USFDA
- The slowdown in inspections has had a mixed outcome on Indian Pharma companies. While it has reduced the risk of an adverse regulatory outcome to facilities, which are currently under compliance, it has delayed the resolution of facilities under USFDA sanctions (OAI/warning letters). The delay in inspections has led to a deferral in commercialization from new sites for companies like SOLARA.
- Companies severely impacted by the delay are TRP (two plants under sanctions), LPC (two warning letters in India awaiting resolution), IPCA (awaiting resolution of the Import Alert and warning letter).
- Companies with a strong compliance record such as GLAND/DIVI/PIEL remain unaffected.

Exhibit 31: COVID-19 impacts USFDA inspections from CY20



Source: MOFSL, USFDA

Exhibit 32: Lower number of inspections keeps warning letters in check



Source: MOFSL, USFDA

Recent outcomes of USFDA inspections in India have been underwhelming

Exhibit 33: Physical inspections by USFDA in India are slowly returning

Company	Facility	Current status before inspection	Time	Outcome
Alembic Pharma.	Kharkadi, general Injectables facility	Pre-approval inspection for product in shortage in the US	Feb'21	Not characterized; Form 483 with five observations
Jubilant Pharmova	Roorkee, Formulations facility	Warning letter	Mar'21	Import alert
Aurobindo Pharma	Unit 1 API facility, Telangana	Warning letter	Aug'21	Not characterized; Form 483 with seven observations

Source: MOFSL, USFDA

- The USFDA has started to conduct physical inspections in India through its local office, albeit at a slower pace. Inspections would be prioritized at mission-critical facilities, while inspections at other facilities may still be some time away. The USFDA had said that inspections of US facilities have normalized now.
- None of the three facilities, which were inspected by the USFDA in CY21, have cleared their inspections. JOL received an import alert, while the outcome of the other two inspections is awaited.
- Resumption of inspections in India will increase regulatory risk for companies with a large number of facilities and those with a checkered regulatory past. However, it will offer a chance for companies like IPCA and TRP to get their facilities cleared.

Growth levers in US Generics a work-in-progress

- **Large Generic companies are trying myriad routes to expand in low competition, but high complexity, product segments.**
- **Most Generic companies are focusing on internal abilities in their areas of strength, while opting for in-licensing/partnering to add capabilities/products**.

Efforts towards building a niche product pipeline

- Generic Pharma companies are focusing on differentiated product offerings to navigate higher competition in the Generics space in the US.
- Indian Pharma companies have a presence in different categories of Complex products, including NCEs/NBEs.

Me-too generics just won't cut it any longer for the US Generics segment

Exhibit 34: Generic companies are now focusing on differentiated and complex products

Company	Differentiated product pipeline categories for US
SUNP	❖ US Specialty Pharma and Biosimilars
LPC	❖ Partnered for peptide products, Inhalers, iron colloids, depot injectables and liposomal products, and Specialty women's health
CIPLA	❖ Peptide products, injectables, and inhalers, including partnered products
CDH	❖ Complex injectables, orphan drugs, NCEs (Saroglitazar and Desidustat), Biosimilars, and Complex OSDs
DRRD	❖ Complex OSDs and injectables
ARBP	❖ Biosimilars, inhalers, nasal sprays, depot injections, and vaccines
GLAND	❖ Peptides, long-acting injectables, suspensions, hormones, vaccines, and Biologics CDMO
BIOS	❖ US pipeline – Pertuzumab, two products in Immunology, Glargine 300U and one more product in Diabetes, and two more Biosimilars in other therapies

Source: MOFSL, Companies

Exhibit 35: Next two years may see some key launches

Company	Key product launches in the next two years
SUNP	❖ Illumya, Cequa, Winlevi key products in the Specialty segment, and g-Revlimid
LPC	❖ Ramp-up in g-Albuterol and g-Brovana, and upside from g-Spiriva in FY23
CIPLA	❖ Ramp-up in g-Albuterol, expected launch of g-Advair in FY23, and g-Revlimid
CDH	❖ In-licensed products, including g-Enoxaparin, and g-Revlimid
DRRD	❖ g-Kuvan launch in 2HFY22, ramp-up in g-Vascepa, and g-Revlimid
ARBP	❖ Ramp-up in injectable sales, and potential Biosimilar launches in the US in FY24
GLAND	❖ Single-source supply contract for g-Enoxaparin
BIOS	❖ b-Insulin Aspart, b-Bevacizumab, and ramp up in b-Insulin Glargine

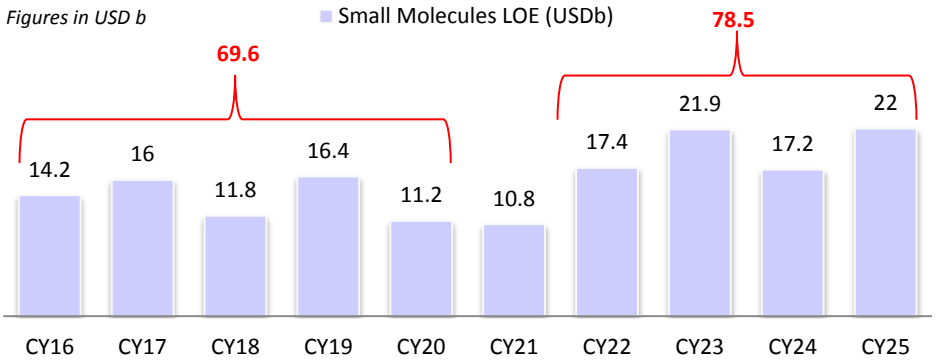
Source: MOFSL, Companies

Cumulative opportunity from the LoE in small molecules is ~USD80b over CY22-25E

LoEs in small molecules provides a ray of hope

- There is a 10-year window (CY16-25) in terms of LoE opportunities in small molecules. This has resulted in difficult times for Generic Pharma companies in the US. However, LoE opportunities are expected to increase significantly, providing a fillip to the US sales of Generic companies.

Exhibit 36: LoEs from small molecules in CY22 to support growth for Generic companies



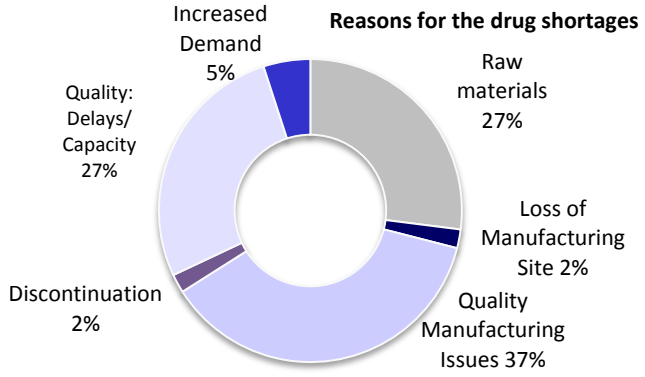
Source: MOFSL, IQVIA

Drug shortages offer another growth opportunity

Drug shortages provide opportunities for companies with a wide product portfolio and for those with a strong compliance record

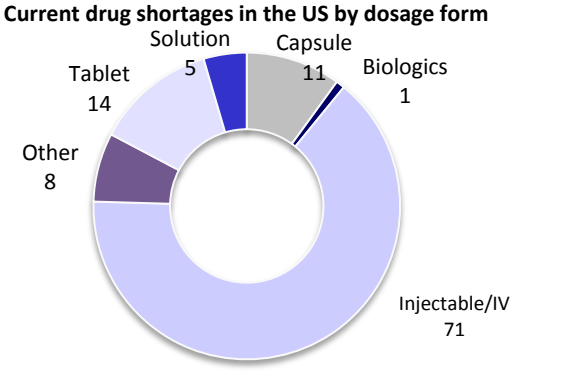
- Quality issues were the main reason for the shortage of drugs in the US (64%), followed by raw material issues (27%).
- Companies under import alert are banned from exporting drugs to the US. Even regulatory action (such as a warning letter/OAI) by the USFDA may require corrective measures, temporarily impacting production and disrupting supply to the US market. At times, this results in a shortage of drugs in the US. The timeline to resolve compliance issues varies from at least a year to more than three years, leading to disruptions in the supply of live saving and maintenance drugs.

Exhibit 37: Around 65% of shortages is due to quality issues



Source: MOFSL, USFDA

Exhibit 38: Drug shortages are the highest in Injectable products



Source: MOFSL, USFDA

- About 65% of drugs currently in shortage are seen in Injectables and other related dosage forms such as IVs. Manufacturing facilities for Injectables find it hard to maintain compliance with regulatory norms due to the requirement of sterile processing of drugs. This has led to continued shortages in Injectables, despite considerable efforts towards automation and removal of human intervention.
- Despite being one of the biggest markets for Generics in the world, characterized by high competition among Pharma companies, the US continues to experience drug shortages at an alarming rate. Around 166 drugs were facing a shortage in the US in CY19. Injectables account for 40-65% of drugs in shortage annually.

- To mitigate the impact of drug shortages, the USFDA has taken numerous actions in the past. These include:
  - Identifying the extent of the shortfall to determine if other manufacturers can increase production to make up for the deficit in supply.
  - Expediting inspections and priority reviews of submissions from affected manufacturers and trying to restore production.
  - Expedite inspections and/or reviews of submissions by other companies wanting to start or increase production of products in shortage.
  - Reviewing requests for extensions of expiration dates.
  - Flexibility in obtaining medically necessary drugs from new/alternate sources.
  - Working with the affected manufacturers to identify root causes of shortages.
  - Developing risk mitigation measures to allow individual batches of drugs in shortage to be made available to patients, even when quality requirements are not met.
- Despite these mitigating and reactive measures taken by the USFDA to minimize the impact of shortages, the same continues to reoccur in the US each year. Shortages provide Generic companies with opportunities to benefit from the short term increase in demand. Companies with a wider product portfolio and strong compliance record, especially in Injectables, fare better than others. Such contracts also offer better than industry margins due to the short-term nature and necessity of those drugs.

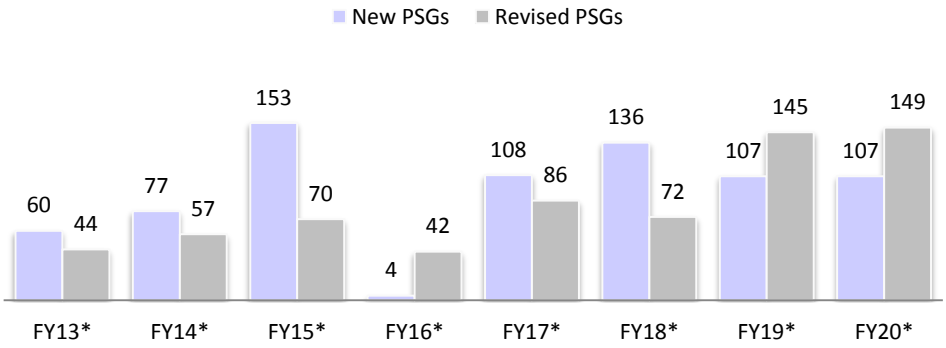
USFDA's support for Complex Generics a win-win for Pharma companies and patients

USFDA's efforts to support Generic companies in developing Complex Generic products to reduce the cost burden of branded products for patients bode well for those companies with strong R&D capabilities

- A Complex Generic product is defined by USFDA as one with: a) complex active ingredient(s) (for instance, peptides, polymeric compounds, complex mixtures of APIs, naturally sourced ingredients, etc.), b) a complex formulation (e.g., liposomes and colloids), c) a complex route of delivery (for instance, locally acting drugs such as dermatological products, complex Ophthalmological products, etc.), d) a complex dosage form (for example, transdermal, metered dose inhalers, and extended release injectables), e) complex drug device combination products (for example, auto-injectors and metered dose inhalers), and f) products for which developers/manufacturers can benefit from USFDA's early support with regard to product complexity or uncertainty concerning the approval pathway or possible alternative approaches.
- USFDA publishes product-specific guidance (PSG) for Complex Generic products every quarter and on a need basis to aid in their development. PSG assists Generic Pharma companies in identifying the most suitable approaches for generic drug development, including BE/BA studies, various waivers available to Pharma companies, and testing methods.
- USFDA issues PSG at least two years before the earliest ANDA submission date and has issued PSG for 90% of non-complex NCEs since Oct'17. For complex products, USFDA issues PSGs as soon as the scientific recommendation is available.
- USFDA aids in the development of Complex Generics by simplifying the pathway to regulatory approval, shortens the approval timeline, and also lowers the cost

of development and expense incurred in development, improving profitability in these segments, and also attracting new Generic companies to develop Complex Generic products. With competition in the Generic space, patients benefit from lower expenses on drugs.

Exhibit 39: Increasing trend in the number of PSGs (new or revised)



*For USFDA, FY13 begins on 1st Oct'12 and ends on 30th Sep'13 Source: USFDA

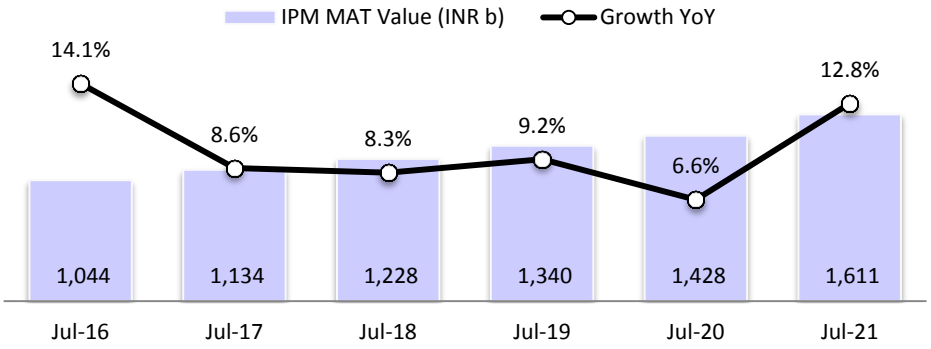
- The number of new and revised PSGs issued by the USFDA indicates greater propensity of Pharma companies to develop complex products and increasing support from the regulator to the Pharma industry to introduce generic products in the US as and when they are allowed.
- The base business continues to deteriorate at a higher pace as compared to incremental business from new launches over the near to medium term. The efforts of companies to arrest the decline and grow and improve return ratios in the US Generics segment are expected to drive growth over the next 4-5 years. This would be led by timely approval for niche products and minimal regulatory risk.

Growth in DFs accelerates post the second COVID wave

Overall growth in DFs sees a strong uptick in Jul'21

- The growth rate in DFs has been on a downtrend over the last seven years, from mid-teens to a low of 5.3% in Jul'20.
- However, strong demand for COVID-related products and stability of Chronic and sub-Chronic segments pushed growth to 12.8% on a MAT basis in Jul'21.
- Growth in the Indian Pharma market (IPM) was driven by price growth (5.4% YoY) and new product launches (4.1%), while volume growth picked up to 3.3%.

Exhibit 40: IPM growth accelerates with strong offtake of COVID-related products



Source: MOFSL, AIOCD

- According to an analysis by AIOCD, sale of drugs used in COVID-related treatments (see Exhibit 2) constituted ~37% of IPM on a MAT basis in Jul'21.
- The abnormal growth over the last 12 months is an aberration, driven by strong offtake of COVID-related products. As the second COVID wave recedes in India, volumes have started normalizing once again.

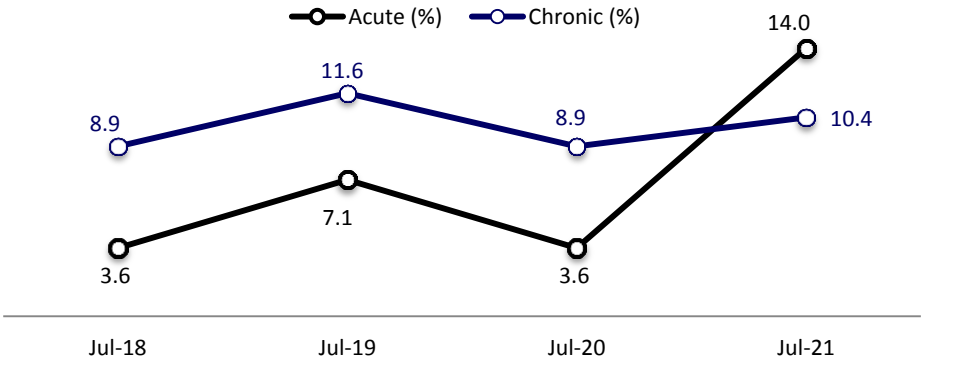
Exhibit 41: COVID-related products in IPM

Therapy	Drugs used in COVID-related treatments
Anti-Infectives	❖ Favipiravir, Remdesivir, Azithromycin, Hospital Anti-infectives, Amphotericin B, Ivermectin, Posaconazole, and Voriconazole
Gastrointestinal	❖ PPIs, Probiotics, Hepatic Protectors, Oral Electrolytes, Anti-Nausea agents, Anti-Spasmodic, and Anti-Diarrheals
Cardiac	❖ Heparins, platelet aggregation inhibitors, Rivaroxaban, Apixaban, Dabigatran, Ivabradine, Fondaparinux, Lipid lowering agents, and Antihypertensives
Anti-Diabetics	❖ Insulin
Anti-Neoplastics	❖ Tocilizumab and Baricitinib
Dermatology and Stomatological	❖ Povidone Iodine mouthwashes and Disinfectants
Hormones	❖ Corticosteroids like Prednisolone, Methylprednisolone, and Dexamethasone
Antimalarials	❖ Hydroxychloroquine
Neurology/CNS	❖ Anti-Depressants and Tranquilizers
Pain	❖ Anti-Inflammatory and Anti-Rheumatics
Respiratory	❖ Cough and cold, Antitussives, and Bronchodilators
VMN	❖ Multivitamins, Antioxidants, calcium, vitamin D3, appetite stimulants, and protein supplements

Source: MOFSL, AIOCD

- Some of the largest contributors include Favipiravir, Remdesivir, Hydroxychloroquine, Tocilizumab, Dexamethasone and multi-vitamins.
- Upcoming products to aid the fight against COVID-19 include CIPLA's antibody cocktail of Casirivimab and Imdevimab, and Baricitinib; Zydus CDH's Virafin; DRRD's 2DG; and Merck's Molnupiravir.

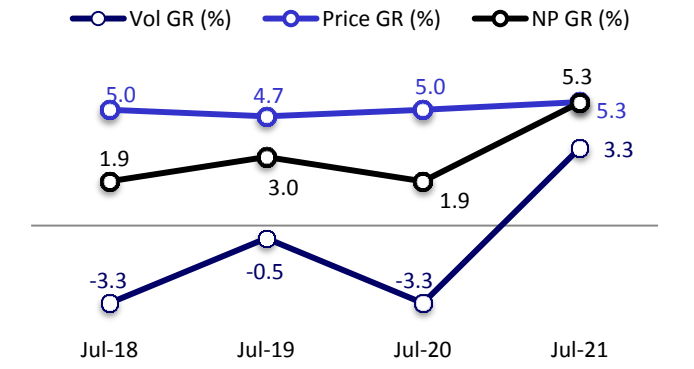
Exhibit 42: Growth in Acute therapies accelerates YoY in Jul'21



Source: MOFSL, AIOCD

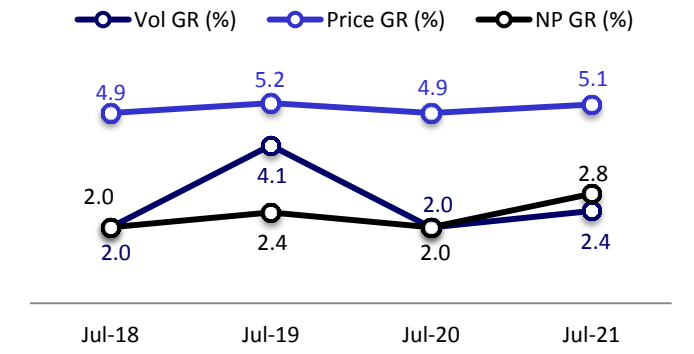
- Growth of Chronic therapies in IPM remained steady at 10.4% YoY on a MAT basis in Jul'21, while Acute therapies saw a strong surge, accelerating to 14% in Jul'21 from 3.6% YoY in Jul'20. The strong recovery in Anti-Infectives and VMN contributed to this supernormal growth for Acute therapies.

Exhibit 43: Growth drivers for Acute therapies



Source: MOFSL, AIOCD

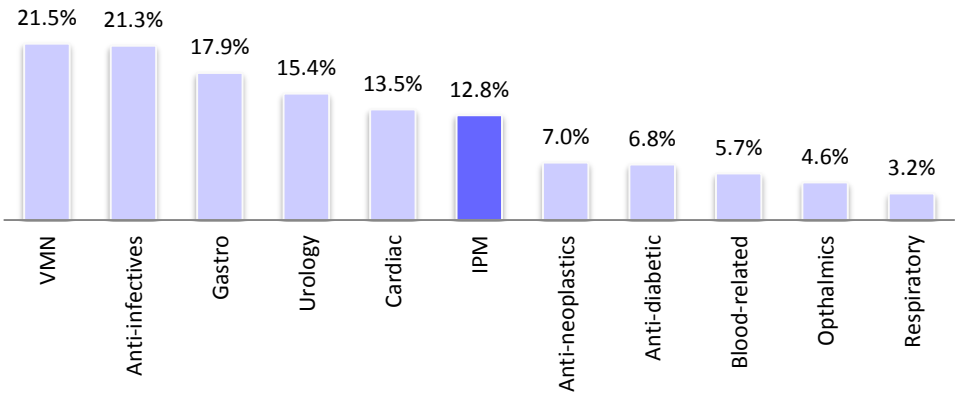
Exhibit 44: Growth drivers for Chronic therapies



Source: MOFSL, AIOCD

- The YoY growth in Acute therapies has been largely driven by new product launches (5.3%) and price growth (5.3%), while volume growth recovered to 3.3% YoY on a MAT basis in Jul'21.
- However, the YoY growth in Chronic therapies was driven by strong price growth (5.1%) and a steady growth in new launches (2.8%) and volumes (2.4%).

Exhibit 45: VMN, Anti-Infectives, and Gastrointestinal outperform IPM on a MAT basis in Jul'21



Source: MOFSL, AIOCD

- Strong outperformances by VMN (~22% YoY) and Anti-Infectives (~21%) helped push overall growth in IPM to 12.8% on a MAT basis in Jul'21. Both therapies had slightly underperformed IPM on a MAT basis in Jul'20, suggesting robust demand for COVID-related drugs during the last 12 months.
- Anti-Neoplastics (7% YoY), Anti-Diabetic (6.8%), and Respiratory (3.2%) therapies saw slower growth v/s IPM on a MAT basis in Jul'21.

Exhibit 46: IPM saw the launch of 69 new molecules over the last 36 months

Therapy	New molecules launched	Sales of over INR50m on a MAT basis in Jun'21
Anti-Infectives	17	10
Cardiac	11	1
Anti-Diabetic	9	7
Anti-Neoplastics	9	4
Ophthalmic	7	0
Pain/Analgesics	4	3
Gastrointestinal	3	2
Respiratory	3	2
Urology	3	1
Gynecological	3	2

Source: MOFSL, AIOCD

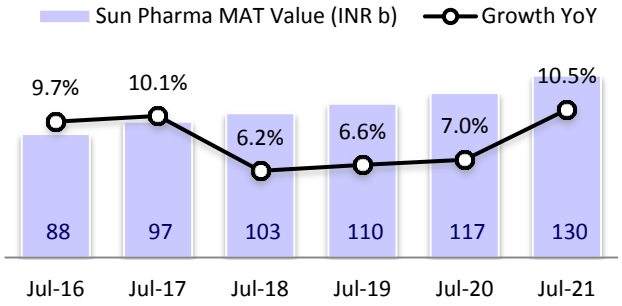
- Over the last 36 months, 69 new molecules were launched in IPM. Around 32 of these molecules saw strong traction, with sales exceeding INR50m over the last 12 months.
- Anti-Infectives (17), Cardiac (11), Anti-Neoplastics (nine), and Anti-Diabetic (nine) saw the highest number of new launches. Anti-Infectives accounted for 10 launches, with strong traction, followed by Anti-Diabetic with seven successful launches.
- Anti-Infectives like Favipiravir (INR12.4b), Remdesivir (INR9.3b), and Remogliflozin (INR1.2b) were the biggest new launches. Respiratory drug Bilastine saw robust traction as well, recording sales of INR700m on a MAT basis in Jul'21.
- Upcoming new Generic launches in Anti-Diabetics include Sitagliptin and Remogliflozin in CY22 and Empagliflozin and Linagliptin in CY23, with a combined expected market size of INR22b.

- Sacubitril + Valsartan (CY23) and Apixaban (CY26) in Cardiac, and Perampanel (CY21) in CNS are the other upcoming and significant Generic launches.

Company-wise MAT growth

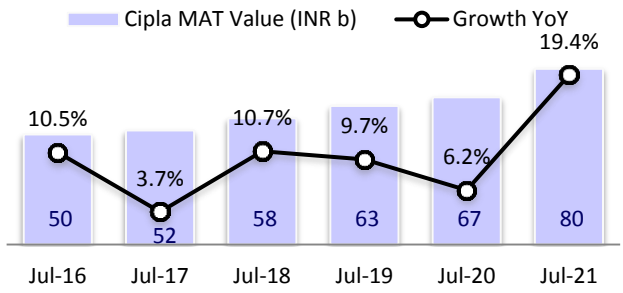
- During the past five years, TRP/DRRD/GNP/LPC has outperformed IPM, growing 15.8%/14.5%/12.9%/12.4% v/s a growth of 9.1% in the latter.
- GLXO/ALPM/SUNP underperformed IPM, growing by 4.2%/4.9%/8.1%.

Exhibit 47: SUNP underperforms IPM due to lower growth in Acute therapies



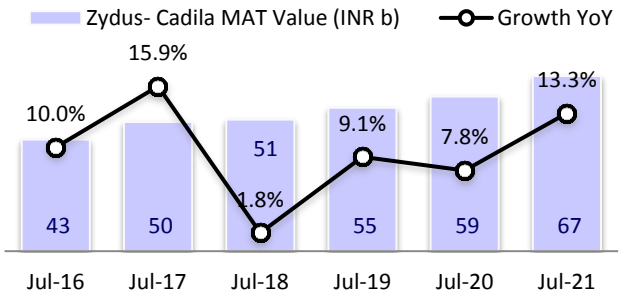
Source: MOFSL, AIOCD

Exhibit 48: CIPLA outperforms IPM, led by its top 25 brands



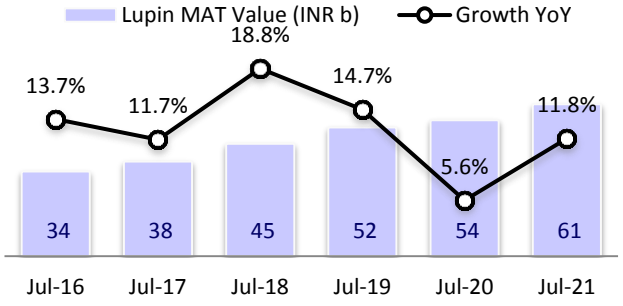
Source: MOFSL, AIOCD

Exhibit 49: Growth in CDH driven by RSP and P/A



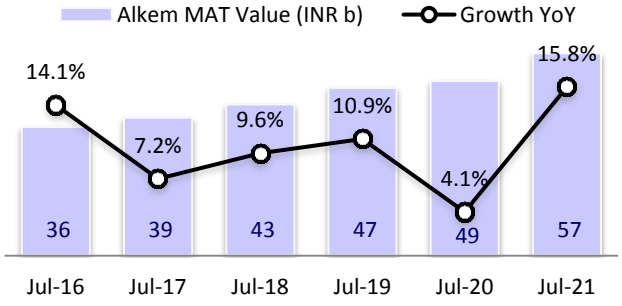
Source: MOFSL, AIOCD; Note: RSP: Respiratory, P/A: Pain/Analgesics

Exhibit 50: LPC outgrew IPM led by AD, RSP, and Cardiac



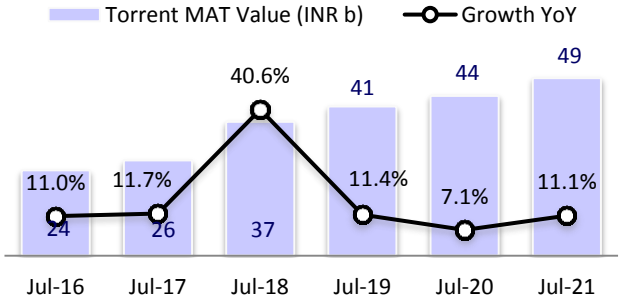
Source: MOFSL, AIOCD; Note: AD: Anti-Diabetic

Exhibit 51: Growth in ALKEM driven by VMN and GI



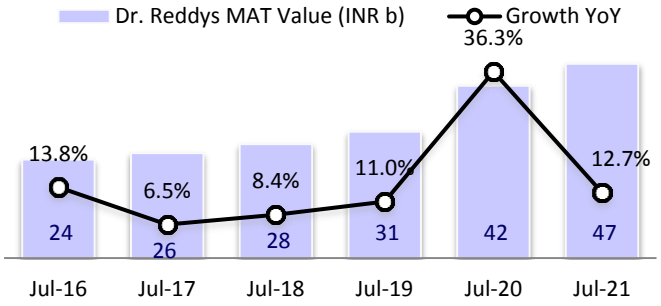
Source: MOFSL, AIOCD; Note: GI: Gastrointestinal

Exhibit 52: TRP outperforms IPM, driven by Cardiac and CNS



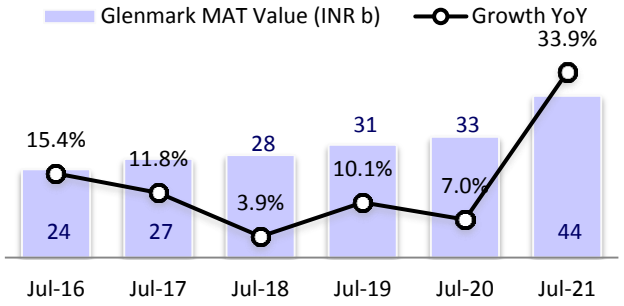
Source: MOFSL, AIOCD

Exhibit 53: WPL's portfolio acquisition drives growth



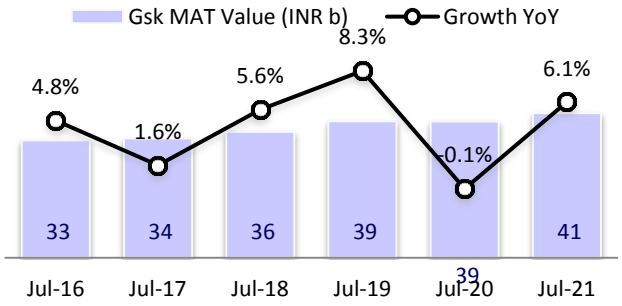
Source: MOFSL, AIOCD

Exhibit 54: GNP outperforms IPM led by COVID-related sales



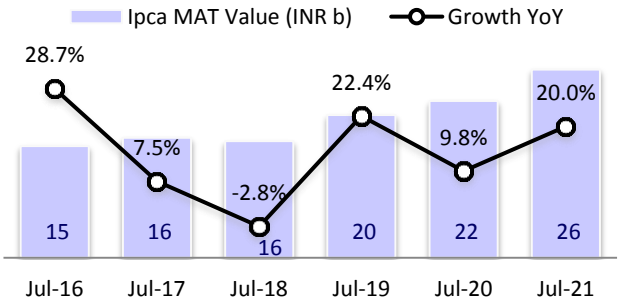
Source: MOFSL, AIOCD

Exhibit 55: GLXO's smaller brands impacts its sales



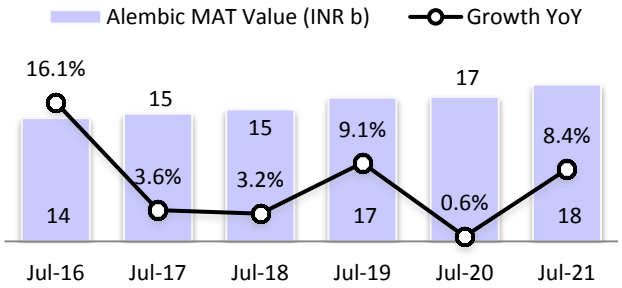
Source: MOFSL, AIOCD

Exhibit 56: Growth in IPCA led by Pain/Analgesic therapy



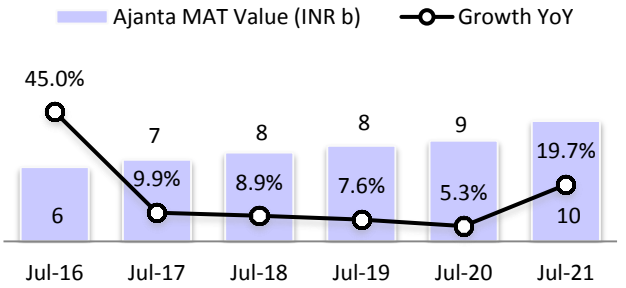
Source: MOFSL, AIOCD

Exhibit 57: ALPM grew slower due to growth stagnating in the top 10 brands



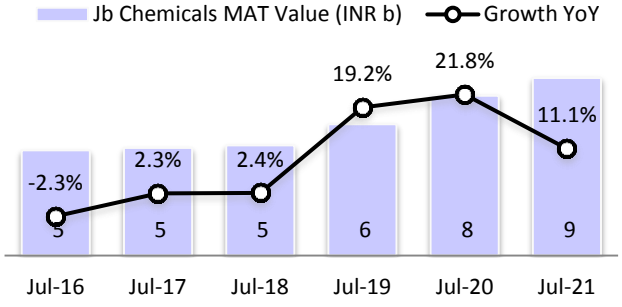
Source: MOFSL, AIOCD

Exhibit 58: Growth in AJP driven by Cardiac and OP



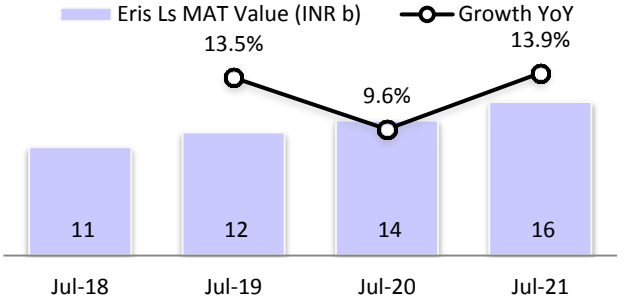
Source: MOFSL, AIOCD; Note: OP: Ophthalmology

Exhibit 59: Growth in JBCP driven by Cardiac and GI



Source: MOFSL, AIOCD; Note: GI: Gastrointestinal

Exhibit 60: Growth in ERIS driven by AD and Cardiac



Source: MOFSL, AIOCD; ; Note: AD: Anti-Diabetic

Look out for structural changes in the DFs segment

- Stringent localized and nationwide lockdowns over the last 15 months have brought into focus digital marketing and virtual interactions with doctors. Pharma companies in the IPM space are increasing leveraging these technologies to overcome the challenges thrown up by the COVID-19 pandemic and to improve the patient-doctor-MR connect.
- e-pharmacies are looking to upend the market of Retail pharmacies, leveraging technology, and burning cash to quickly expand and capture market share. Prominent players like PharmEasy, 1MG, Medlife, and Netmeds are trying to improve affordability and accessibility of medicines for their customers. PharmEasy has recently announced its acquisition of Thyrocare Technologies, marking its entry into Diagnostics as well.
- The increasing share of trade generics and government initiatives like Janaushadhi Kendras, which provide medicines at lower cost, are expected to increase affordability of quality medicines and widen the reach of IPM.
- The second COVID wave saw aggressive prescription of corticosteroids as an Anti-Inflammatory drug for the treatment of COVID-induced symptoms. Excessive use of these drugs in some cases has resulted in infections caused by opportunistic fungi like mucormycosis. Prolonged use of corticosteroids can sometimes induce diabetes in patients with no diabetic history.

API: Supply disruption/Complex APIs are key growth levers

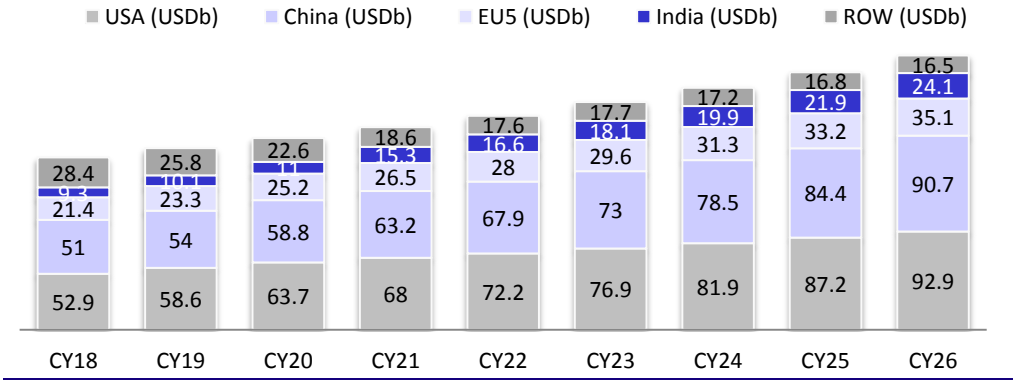
- **The API segment in India is in a sweet spot, with rising demand for novel therapeutics as well as a reshuffle in the share of Chinese manufacturers.**
- **Shutdown of manufacturing facilities on account of environmental concerns is driving business opportunities for Indian API manufacturers.**
- **The focus on Complex Formulations from innovators and Complex Generics by generic Pharma companies is expected to drive faster growth for Complex APIs.**

Multiple factors at play to drive API demand

Higher demand for medicines from the US and from emerging countries to drive global API sales

- The size of the global API industry was estimated at USD180b in CY20. At an estimated CAGR of 6.2% over the next five years, it would reach a market size of USD260b by CY26E, led by: a) higher demand for medicines, especially in the US, given its aging population, b) greater demand for medicines in developing countries such as India, China, and Brazil due to increased affordability, and c) loss of exclusivity of patented drugs during this period, leading to availability of generics that are cheaper, yet more effective than existing drugs.
- India API sales have grown at 18% CAGR over CY18-20 on a small base. India API sales are expected to continue their outperformance (9.5% CAGR) over CY20-26E.

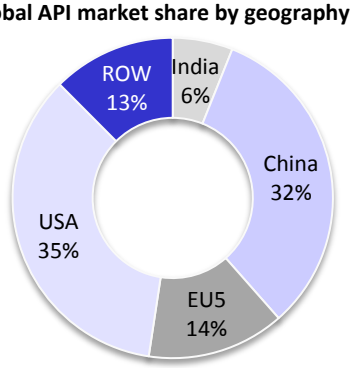
Exhibit 61: Expect global API sales to grow at 6.2% CAGR over CY21-26E to USD260b



Source: MOFSL, IQVIA

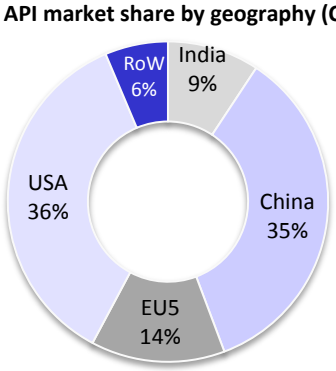
- US has been the biggest API market globally in CY20 and is expected to continue to remain the biggest market in CY26, closely followed by China. This is mainly due to the higher proportion of domestic consumption of APIs in the US.

Exhibit 62: US and China dominate the API market currently



Source: MOFSL, IQVIA

Exhibit 63: India and China to grow at the expense of the RoW



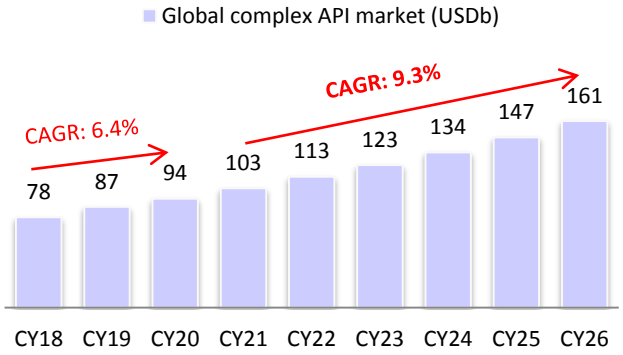
Source: MOFSL, IQVIA

Focus on Complex Generics and Complex Formulations in branded drugs to drive faster growth in Complex APIs

Complex API space to witness sustainable growth as well as profitability

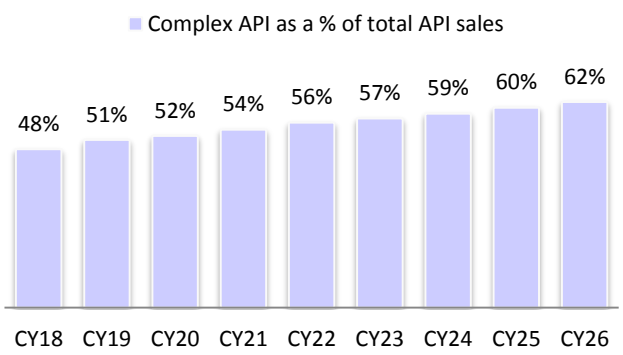
- Another interesting aspect is the fast growth (~9% CAGR) in Complex APIs over CY21-26E v/s 6% for the industry. Complex APIs includes Injectable APIs, Peptides, Oncology drugs, etc. Growth in this segment was mainly on account of: a) innovators focusing on Complex Formulations in small molecules to avoid generic competition even after losing exclusivity and/or patent expiry, and b) focus on complex drugs by Generic companies to steer away from higher competition and high erosion in traditional me-too drugs.
- In the Complex API segment, Oncology APIs is expected to clock the fastest growth (12.6% CAGR) over the next five years. Peptides/Injectable APIs are expected to grow at 10.7%/6.4% CAGR.
- As a result, proportion of Complex API sales in total API sales are expected to increase to 62% in CY26E from 48% in CY18.

Exhibit 64: Complex API market to grow at a faster rate than the API market



Source: MOFSL, IQVIA

Exhibit 65: Estimate Complex APIs to account for ~62% of total API sales in CY26E v/s 48% in CY18

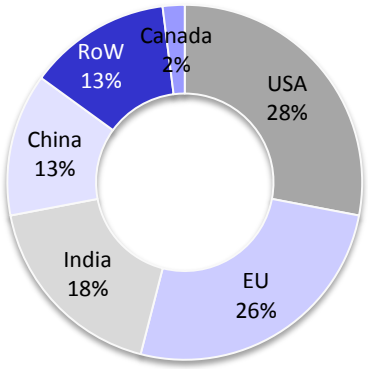


Source: MOFSL, IQVIA

China's cost advantage depleting over the past two years

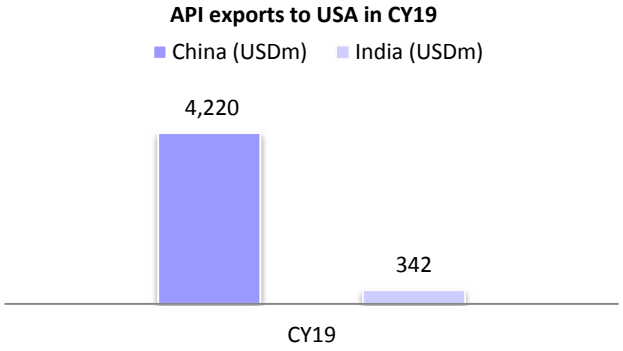
- The value of APIs exported to the US from China was estimated ~USD4.2b – a multi-fold increase ahead of India's API exports to the US, which stood at USD342m in CY19.

Exhibit 66: India has more USFDA-compliant facilities than China (Aug'19)…



Source: MOFSL, USFDA

Exhibit 67: …yet China's API exports to the US were 12x those of India in CY19



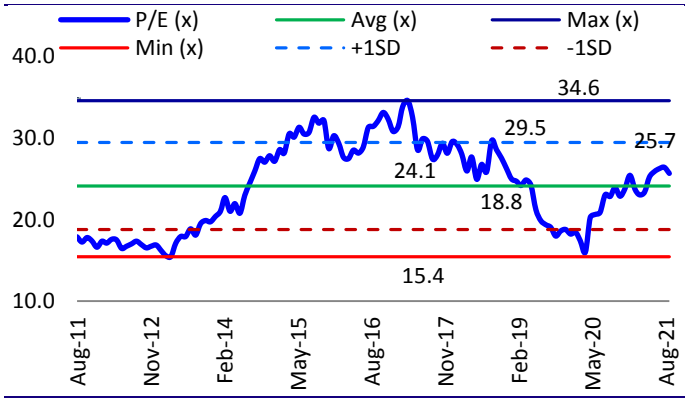
Source: MOFSL, Company

- Experts said that formulators are inclined to look at suppliers, excluding those from China. Radical environmental policies are being implemented by China to curb the high levels of pollution in the country.
- This has led to the closure of almost 150 facilities, creating a vacuum in global supply. This has translated to a price increase in commonly sourced API/intermediates from China. The outbreak of the COVID-19 pandemic has further intensified the disruption of supplies from China.

Sector slightly above its 10-year valuation multiple

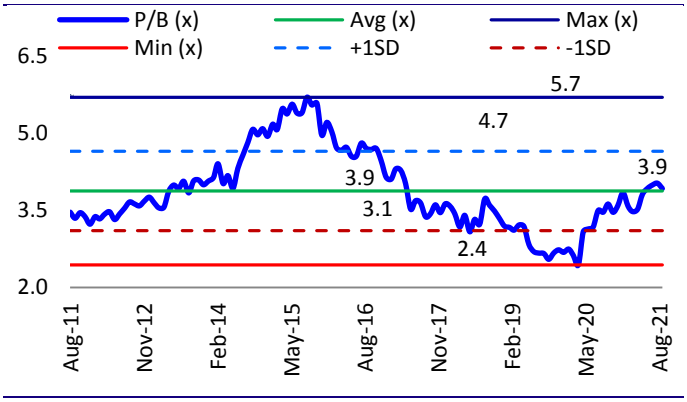
- Indian Pharma companies saw their peak valuation of ~35x during the rally of FY15-17. The rally was fueled by a boom in the US Generics market, with faster approvals brought about by GDUFA.
- With an increase in competition brought about by faster approvals, valuations started to cool off beginning FY17. Increased regulatory risk in FY18-20 dealt a blow to valuations, which bottomed out around Apr-May'21, exacerbated by the uncertainties brought about by the COVID-19 pandemic.
- Pharma companies were the least affected during the COVID-19 outbreak, owing to their essential service status. The pandemic led to an increase in margin, with savings on marketing, promotion, and travel expense in DFs due to the lockdowns. This fuelled the rally in Pharma companies in FY21 and pushed valuations slightly above their 10-year average of ~24x. Valuations also expanded during this period due to low (non-existent) regulatory risk from plant inspections, especially from the USFDA, as it halted all overseas inspections due to COVID-related travel restrictions.
- With USFDA slowly, but gradually, resuming plant inspections in India, we expect some regulatory risk creeping in for companies with a presence in the US Generics space. We expect a pick-up in higher margin non-COVID sales in the DF segment, with a decline in cases countering the increase in regulatory risk.

Exhibit 68: Pharma companies are trading at an 7% premium to their long-term average



Source: MOFSL, Bloomberg

Exhibit 69: P/B ratios are in line with their 10-year average



Source: MOFSL, Bloomberg

Capability matrix

- **Based on our analysis of companies' strength and their efforts towards niche/differentiated product segments, we rank DIVI, GLAND, and SUNP at the top.**
- **DIVI's strength in Generic APIs and Custom Synthesis is unparalleled. It is already working on six engines for sustainable growth.**
- **GLAND ranks well on compliance, capabilities, and differentiated offering in the Injectables and Sterile segment.**
- **SUNP draws strength from its dominant position in DFs, and differentiated offering in the global Specialty drugs segment.**

Exhibit 70: DIVI, GLAND, and SUNP standout amongst peers in terms of differentiated offering

Companies	India sales	US Generics	Differentiated offering for the US	APIs	Custom Synthesis/CDMO (API/Formulations)	Compliance
SUNP	☺ ☺ ☺ ☺	☺ ☺	☺ ☺ ☺	☺	☺	☺ ☺ ☺
DIVI				☺ ☺ ☺ ☺ ☺	☺ ☺ ☺ ☺ ☺	☺ ☺ ☺ ☺
DRRD	☺ ☺ ☺	☺ ☺	☺ ☺	☺ ☺		☺ ☺ ☺
GLAND	☺ ☺ ☺	☺ ☺ ☺ ☺	☺ ☺ ☺ ☺	☺	☺ ☺ ☺	☺ ☺ ☺ ☺ ☺
CIPLA	☺ ☺ ☺	☺ ☺ ☺	☺ ☺ ☺	☺		☺ ☺ ☺
CDH	☺ ☺ ☺	☺ ☺ ☺	☺ ☺ ☺	☺		☺ ☺ ☺
ALKEM	☺ ☺ ☺ ☺	☺	☺	☺	☺	☺ ☺ ☺ ☺
LPC	☺ ☺	☺ ☺ ☺	☺ ☺ ☺	☺		☺ ☺
ARBP		☺ ☺ ☺	☺ ☺ ☺	☺ ☺ ☺	☺	☺ ☺
BIOS	☺ ☺	☺	☺ ☺	☺ ☺	☺ ☺ ☺	☺ ☺ ☺
LAURUS		☺	☺ ☺ ☺	☺ ☺ ☺	☺ ☺ ☺	☺ ☺ ☺ ☺
SOLARA				☺ ☺ ☺	☺ ☺	☺ ☺ ☺

Source: MOFSL

Divi's Laboratories

BSE SENSEX	S&P CNX
58,130	17,324

CMP: INR 5,210 TP: INR6,070 (+17%) Buy

Six cylinder growth engine

- **DIVI is a strong player in Generic APIs, with a market leading position for ~60% of its portfolio of ~30 molecules. In Custom Synthesis (CS), it works with innovators and big Pharma companies right from the clinical stage to commercial production.**
- **It is working on 16 new molecules in Generic APIs, which are at various stages of development and will provide new growth opportunities in this segment. Capex of ~INR7b and new capex of ~INR6b at the Kakinada site will enable it to cater to the increasing demand across all segments.**
- **We expect 29% revenue CAGR over FY21-23E, with a growth of 21%/39% in Generic APIs/CS over this period, and 36% earnings CAGR, aided by EBITDA margin expansion of 270bp over FY21-23E.**

Six growth engines for sustainable growth

- After mastering Generic APIs, DIVI is now deploying six growth engines for long-term sustained growth. These are as follows:
- A) **Capacity expansion** is in line with industry growth for **established products**, where DIVI has a leading **(60-70%) market share**. These are products where it has legacy strength and constitute a substantial portion of its Generic APIs.
- B) DIVI would **ramp up sales**, along with increasing capacity, in **generic molecules,** where it has **20-30% market share**. It would leverage its business development expertise and manufacturing efficiency to grow this segment.
- C) **Sartans**: With KSMs being made in-house to tackle the NDMA impurity issue, DIVI would be in a strong position to gain market share through increased capacity and from the addition of more Sartans molecules. Complemented by scale, this would help the company gain market share in Sartans.
- D) It has increased traction in the **Contrast Media** space in CS and Generic API segments. It already has a few products in this space and is working with an innovator on another Iodine-based Contrast Media product, leveraging its chemistry skill sets.
- E) **Two new CS projects** (in addition to Molnupiravir), which are large long-term contracts, and scale-up in the same would provide further business opportunities. DIVI is working on these projects on a fast-track basis.
- F) There are opportunities in **new generic products**, whose patents are expiring over FY23-25, which require differentiated technology/process innovations. DIVI has already developed these and would launch the same post patent expiry.
- In addition to development, DIVI is also investing in creating capacities for these six engines, some of which are currently underway. These growth engines, along with investments, would aid in sustainable growth over the medium term.
- Its strength and scale are expected to drive 21%/39% sales CAGR in the Generic API/CS segment to INR53b/INR55b over FY21-23E.

Stock Info

Bloomberg	DIVI IN
Equity Shares (m)	265
M.Cap.(INRb)/(USDb)	1383 / 18.9
52-Week Range (INR)	5269 / 2987
1, 6, 12 Rel. Per (%)	-4/33/10
12M Avg Val (INR M)	3460
Free float (%)	48.1

Financials Snapshot (INR b)

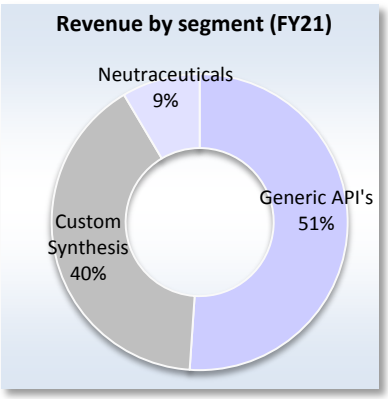
Y/E MARCH	2021	2022E	2023E
Sales	69.7	89.6	115.0
EBITDA	29.0	38.9	50.6
Adj. PAT	20.1	27.8	37.0
EBIT Margin (%)	37.9	40.0	41.1
Adj. EPS (INR)*	75.6	104.8	139.4
EPS Gr. (%)	54.4	38.6	33.0
BV/Sh. (INR)	350.1	424.1	521.9
Ratios			
Net D:E	-0.2	-0.2	-0.3
RoE (%)	24.2	27.1	29.5
RoCE (%)	24.2	27.1	29.5
Payout (%)	32.3	29.8	29.8
Valuations			
P/E (x)	68.8	49.6	37.3
EV/EBITDA (x)	46.8	34.8	26.5
Div. Yield (%)	0.4	0.5	0.7
FCF Yield (%)	1.0	1.0	2.3
EV/Sales (x)	19.5	15.1	11.6

* Cons.

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	52.0	52.0	52.0
DII	16.6	16.7	16.8
FII	20.6	19.9	18.2
Others	10.9	11.5	13.1

FII Includes depository receipts



Capex benefits kicking in, new growth capex for future opportunities

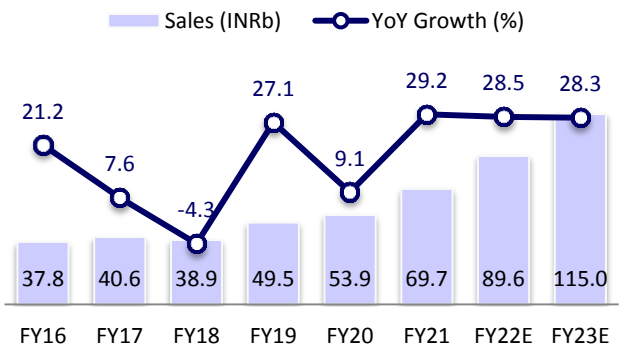
- DIVI has spent ~INR25b on capex since FY18. Capex worth INR5b is currently in progress and will be completed in FY22.
- Legal hurdles are now behind at the Kakinada site. It expects construction to begin in 2QFY22, with an initial outlay of INR6b and an expected total outlay of INR10-20b over the next 2-3 years.
- The Kakinada expansion is for products, in addition to the six growth levers. DIVI intends to be future ready, with the timely deployment of capital.

Valuation and view

- We expect 36% earnings CAGR over FY21-23E, led by higher business prospects from CS and Generics, benefit from Molnupiravir supply to the innovator, improved growth in Nutraceuticals, new product additions in the near term, and ~240bp margin expansion on process and productivity improvements.
- We continue to value DIVI at 36x 12-month forward earnings to arrive at our TP of INR6,070. We reiterate our BUY rating.

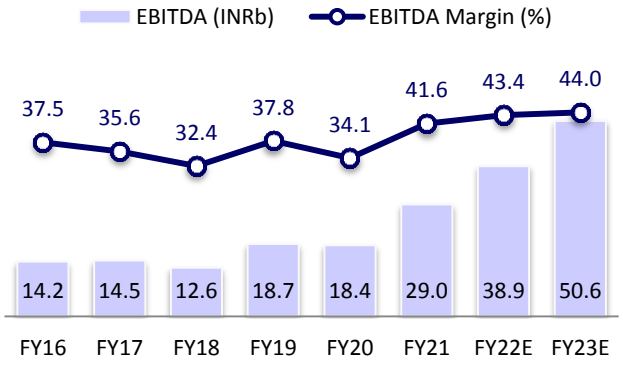
Story in charts

Exhibit 71: Expect ~28% revenue CAGR over FY21-23E



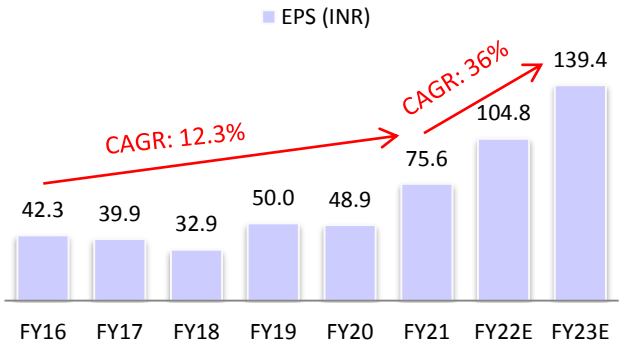
Source: Company, MOFSL

Exhibit 72: Expect margin to expand by 240bp over FY21-23E



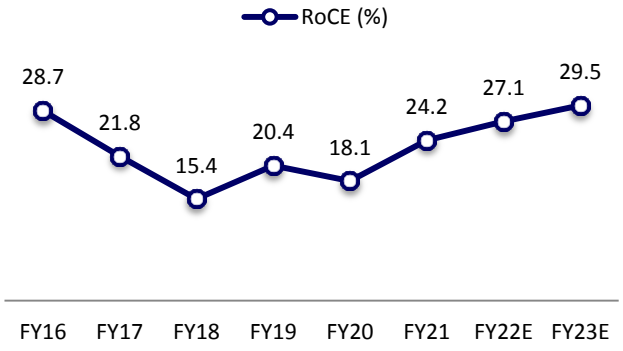
Source: Company, MOFSL

Exhibit 73: Expect 36% earnings CAGR over FY21-23E



Source: Company, MOFSL

Exhibit 74: Expect RoCE to continue to improve over FY21-23E



Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Total Income from Operations	**40,643**	**38,915**	**49,463**	**53,944**	**69,694**	**89,584**	**114,965**
Change (%)	7.6	-4.3	27.1	9.1	29.2	28.5	28.3
Total Expenditure	**26,183**	**26,298**	**30,744**	**35,523**	**40,711**	**50,704**	**64,380**
% of Sales	64.4	67.6	62.2	65.9	58.4	56.6	56.0
EBITDA	**14,460**	**12,617**	**18,719**	**18,422**	**28,983**	**38,879**	**50,585**
Margin (%)	35.6	32.4	37.8	34.1	41.6	43.4	44.0
Depreciation	1,233	1,425	1,689	1,862	2,556	3,054	3,370
EBIT	**13,227**	**11,192**	**17,030**	**16,559**	**26,427**	**35,825**	**47,215**
Int. and Finance Charges	23	13	35	61	9	5	0
Other Income	737	1,090	1,220	1,075	626	896	1,150
PBT bef. EO Exp.	**13,942**	**12,269**	**18,215**	**17,573**	**27,044**	**36,716**	**48,364**
EO Items	12	44	336	-621	-384	196	0
PBT after EO Exp.	**13,953**	**12,313**	**18,551**	**16,952**	**26,660**	**36,912**	**48,364**
Total Tax	3,349	3,543	5,023	4,429	6,818	8,970	11,366
Tax Rate (%)	24.0	28.8	27.1	26.1	25.6	24.3	23.5
Reported PAT	**10,604**	**8,770**	**13,527**	**12,523**	**19,843**	**27,943**	**36,999**
Adjusted PAT	**10,595**	**8,739**	**13,282**	**12,991**	**20,062**	**27,808**	**36,992**
Change (%)	-5.7	-17.5	52.0	-2.2	54.4	38.6	33.0
Margin (%)	26.1	22.5	26.9	24.1	28.8	31.0	32.2

Balance Sheet							
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Equity Share Capital	531	531	531	531	531	531	531
Total Reserves	53,043	58,717	69,041	72,568	92,415	112,034	138,012
Net Worth	**53,574**	**59,248**	**69,572**	**73,099**	**92,946**	**112,565**	**138,542**
Total Loans	357	631	1,056	389	4	4	4
Deferred Tax Liabilities	1,228	1,917	2,188	2,696	3,348	3,348	3,348
Capital Employed	**55,160**	**61,796**	**72,816**	**76,184**	**96,298**	**115,917**	**141,894**
Gross Block	17,940	23,735	26,339	35,143	46,919	56,604	65,941
Less: Accum. Deprn.	2,348	3,773	5,462	7,324	9,880	12,934	16,304
Net Fixed Assets	**15,592**	**19,962**	**20,878**	**27,819**	**37,039**	**43,670**	**49,637**
Capital WIP	4,436	1,198	4,919	9,197	7,106	5,421	6,084
Total Investments	16,307	18,893	19,456	9,714	0	0	0
Curr. Assets, Loans & Adv.	**25,215**	**27,796**	**35,106**	**38,584**	**63,563**	**81,188**	**104,047**
Inventory	13,199	13,507	17,723	18,639	21,452	29,172	29,985
Account Receivables	9,009	10,144	11,634	14,134	16,765	22,089	27,403
Cash and Bank Balance	787	1,125	1,153	1,226	21,560	25,061	40,415
Loans and Advances	2,220	3,021	4,597	4,586	3,786	4,866	6,245
Curr. Liability & Prov.	**6,390**	**6,053**	**7,543**	**9,130**	**11,411**	**14,362**	**17,874**
Account Payables	4,713	4,327	5,320	6,626	7,632	9,505	11,641
Other Current Liabilities	1,511	1,540	2,039	2,174	3,501	4,500	5,775
Provisions	166	186	185	329	278	357	458
Net Current Assets	**18,825**	**21,743**	**27,563**	**29,455**	**52,153**	**66,826**	**86,173**
Appl. of Funds	**55,160**	**61,796**	**72,816**	**76,184**	**96,298**	**115,917**	**141,894**

Financials and valuations

Ratios							(INR m)
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Basic (INR)							
EPS	**39.9**	**32.9**	**50.0**	**48.9**	**75.6**	**104.8**	**139.4**
Cash EPS	44.6	38.3	56.4	56.0	85.2	116.3	152.0
BV/Share	201.8	223.2	262.1	275.4	350.1	424.1	521.9
DPS	10.0	10.0	10.0	16.0	20.0	26.0	34.4
Payout (%)	30.1	36.4	23.7	40.9	32.3	29.8	29.8
Valuation (x)							
P/E	130.2	157.8	103.8	106.2	68.8	49.6	37.3
Cash P/E	116.6	135.7	92.1	92.9	61.0	44.7	34.2
P/BV	25.7	23.3	19.8	18.9	14.8	12.3	10.0
EV/Sales	33.9	35.4	27.9	25.6	19.5	15.1	11.6
EV/EBITDA	95.4	109.3	73.7	74.8	46.8	34.8	26.5
Dividend Yield (%)	0.2	0.2	0.2	0.3	0.4	0.5	0.7
FCF per share	29.1	18.9	8.3	1.2	39.1	41.2	95.0
Return Ratios (%)							
RoE	22.0	15.5	20.6	18.2	24.2	27.1	29.5
RoCE	21.8	15.4	20.4	18.1	24.2	27.1	29.5
RoIC	30.3	21.5	28.3	23.7	31.8	35.4	39.9
Working Capital Ratios							
Asset Turnover (x)	0.7	0.6	0.7	0.7	0.7	0.8	0.8
Inventory (Days)	119	127	131	123	112	119	95
Debtor (Days)	81	95	86	96	88	90	87
Creditor (Days)	42	41	39	45	40	39	37
Leverage Ratio (x)							
Net Debt/Equity	-0.3	-0.3	-0.3	-0.1	-0.2	-0.22	-0.3

Cash Flow Statement							(INR m)
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
OP/(Loss) before Tax	13,953	12,313	18,551	16,952	26,660	36,912	48,364
Depreciation	1,233	1,425	1,689	1,862	2,556	3,054	3,370
Interest & Finance Charges	-32	-30	-40	-6	-564	-891	-1,149
Direct Taxes Paid	-3,017	-2,686	-4,844	-4,452	-6,443	-8,970	-11,366
(Inc)/Dec in WC	-371	-2,191	-4,998	-2,183	-2,641	-11,173	-3,993
CF from Operations	**11,766**	**8,831**	**10,357**	**12,174**	**19,569**	**18,933**	**35,226**
Others	-262	-1,073	-814	-14	-100	0	0
CF from Operating incl EO	**11,504**	**7,759**	**9,543**	**12,160**	**19,469**	**18,933**	**35,226**
(Inc)/Dec in FA	-3,767	-2,738	-7,331	-11,829	-9,101	-8,000	-10,000
Free Cash Flow	**7,737**	**5,021**	**2,213**	**331**	**10,368**	**10,933**	**25,226**
(Pur)/Sale of Investments	-8,289	-2,559	-291	10,336	9,740	0	0
Others	659	513	767	658	112	896	1,150
CF from Investments	**-11,396**	**-4,784**	**-6,854**	**-835**	**751**	**-7,104**	**-8,850**
Inc/(Dec) in Debt	0	0	776	-612	-333	0	0
Interest Paid	-23	-13	-35	-61	-9	-5	0
Dividend Paid	0	-3,192	-3,200	-10,241	0	-8,324	-11,021
CF from Fin. Activity	**24**	**-3,142**	**-2,459**	**-10,914**	**-349**	**-8,329**	**-11,021**
Inc/Dec of Cash	**132**	**-167**	**230**	**411**	**19,871**	**3,500**	**15,354**
Opening Balance	734	787	1,124	1,153	1,227	21,560	25,061
Closing Balance	**866**	**620**	**1,354**	**1,564**	**21,097**	**25,061**	**40,415**
Forex and other adjustments	-79	504	-201	-337	463		
Total Cash & Cash Eq	**787**	**1,124**	**1,153**	**1,227**	**21,560**	**25,061**	**40,415**

Gland Pharma

BSE SENSEX	S&P CNX
58,130	17,324

Stock Info

Bloomberg	GLAND IN
Equity Shares (m)	164
M.Cap.(INRb)/(USDb)	654.7 / 9
52-Week Range (INR)	4350 / 1701
1, 6, 12 Rel. Per (%)	-/-/-
12M Avg Val (INR M)	1225
Free float (%)	41.9

Financials Snapshot (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	34.6	48.7	59.8
EBITDA	13.0	18.2	22.7
Adj. PAT	10.0	14.2	18.1
EBIT Margin (%)	34.8	35.1	35.8
Adj. EPS (INR)*	60.9	86.7	110.9
EPS Gr. (%)	29.0	42.2	28.0
BV/Sh. (INR)	360.9	447.5	558.4
Ratios			
Net D:E	-0.5	-0.5	-0.5
RoE (%)	20.9	21.4	22.0
RoCE (%)	20.9	21.5	22.1
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	65.5	46.0	36.0
EV/EBITDA (x)	47.8	34.0	26.8
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	0.6	0.3	1.3
EV/Sales (x)	18.0	12.7	10.2

*Cons.

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	58.1	58.3	0.0
DII	12.1	11.3	0.0
FII	10.4	11.9	0.0
Others	19.3	18.6	0.0

FII Includes depository receipts

CMP: INR3,994 TP: INR4,630 (+16%) Buy

Expanding niche portfolio/reach

- **Its core markets (US, Europe, Canada, and Australia) are expected to perform on the back of volume growth and new launches.**
- **India and RoW markets are gaining traction, with additional capacities and geographic expansion.**
- **China and Vaccine/Biologics are the new levers of growth in the existing business.**
- **We expect 35% earnings CAGR over FY21-23E, led by 18%/44%/48% sales CAGR in its core markets/India/RoW and a 40bp margin expansion. We value GLAND at a P/E multiple of 35x to arrive at our TP of INR4,630. We reiterate our BUY rating.**

Niche products/capacity expansion to drive growth in core markets

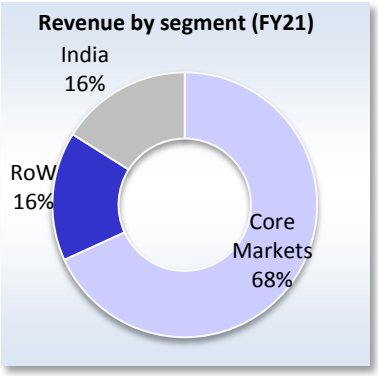
- In 1QFY21, growth in core markets was driven by key products such as Micafungin, Enoxaparin, Heparin, Dexmedetomidine, and new launches, especially Penems like Ertapenem and Meropenem. Benefits from the single source supply contract with the distributor for Enoxaparin, by replacing the innovator, would start from 4QFY22 onwards. Other recently launched products are expected to be ramped up in the remaining part of FY22.
- GLAND is strengthening its product pipeline of peptides, long acting injectables, suspensions, and Hormones. While it is working on 14 products currently, it intends to enhance the pipeline by 20-25 products over the next 2-3 years.
- Given the launch momentum and better traction in existing products, we expect 18% sales CAGR in core markets to INR29b over FY21-23E.

Enhanced geographic reach/new products to aid RoW market prospects

- GLAND has had the benefit of faster entry into many RoW countries, due to the ongoing pandemic, via its COVID-19 portfolio of products. While the entry into newer countries was on the back of its COVID-19 product portfolio, GLAND has launched its non-COVID portfolio as well in these markets.
- In China, it has filed six products, with a total market size of USD550m. Approval for the first product is expected at the end of FY22, with revenue kicking in from 1QFY23E. We expect sales from new markets and product launches in existing markets to drive 48% sales CAGR to INR12b over FY21-23E in the RoW segment.

Vaccine on track; Biopharma CDMO expansion on the horizon

- GLAND is on track with respect to scale-up of Sputnik V vaccine. With process improvements and changes, it is working to increase yields on both vaccine doses.



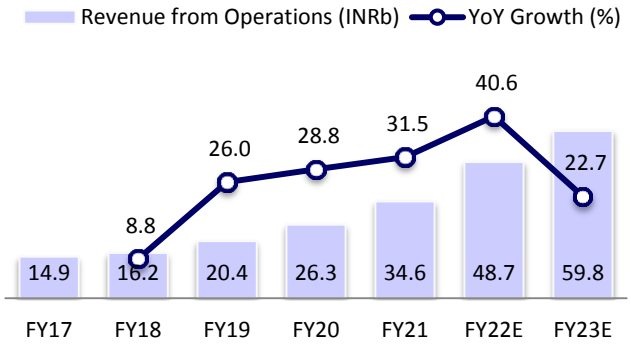
- It is in discussions with Fosun's other subsidiaries for CDMO contracts in Biologics/Biosimilars for global markets. GLAND's move to expand into the Biologics CDMO space, through the vaccine contract, by leveraging parent Fosun's relations and its strong compliance track record would add a new lever of growth to its existing business and provide further upside from our current estimates.

Valuation and view

- We expect 35% earnings CAGR over FY21-23E, led by 18%/44%/48% sales CAGR in its core markets/India/RoW and a 40bp margin expansion. We value GLAND at a P/E multiple of 35x to arrive at our TP of INR4,630. We remain positive on GLAND on the back of: a) continued growth momentum in its core markets, b) geographical expansion and new product launches in the RoW segment, c) operating cost efficiency, d) consistent compliance, and e) an adequate war chest to tap inorganic opportunities. We reiterate our BUY rating.

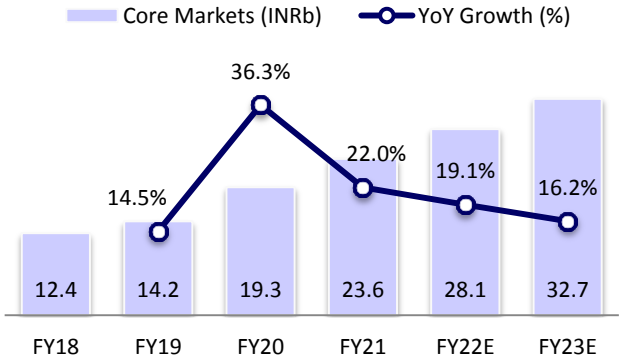
Story in charts

Exhibit 75: Expect 31% revenue CAGR over FY21-23E



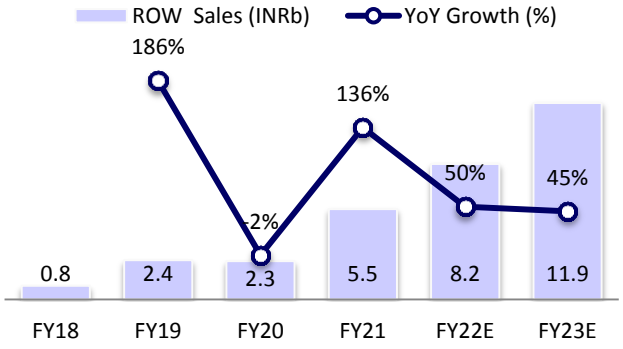
Source: Company, MOFSL

Exhibit 76: Expect 18% sales CAGR in core markets over FY21-23E



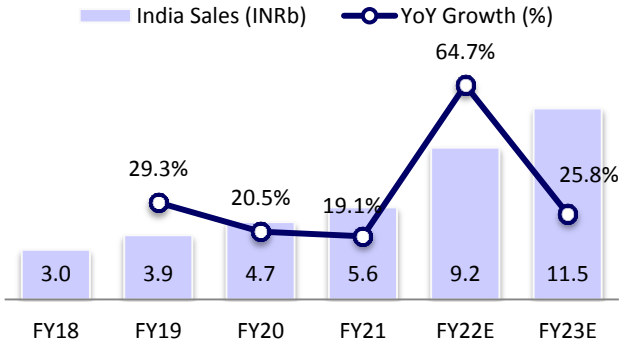
Source: Company, MOFSL

Exhibit 77: Expect 48% CAGR in RoW sales over FY21-23E



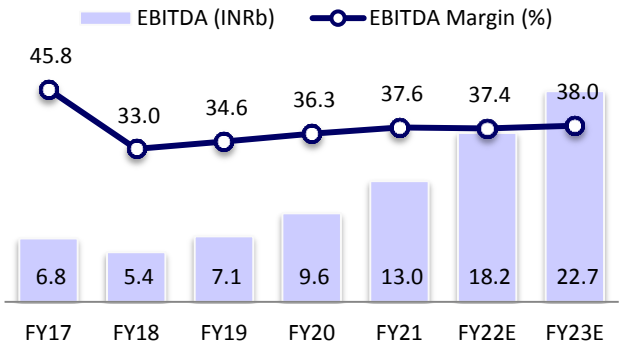
Source: Company, MOFSL

Exhibit 78: Expect 48% CAGR in India sales over FY21-23E



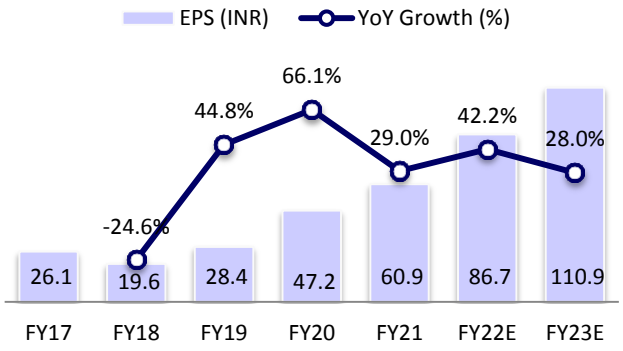
Source: Company, MOFSL

Exhibit 79: Expect EBITDA margin to remain ~38% over FY21-23E



Source: Company, MOFSL

Exhibit 80: Expect ~35% EPS CAGR over FY21-23E



Source: Company, MOFSL

Financials and valuations

Consolidated Income Statement (INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Total Income from Operations	**14,916**	**16,229**	**20,442**	**26,332**	**34,629**	**48,697**	**59,767**
Change (%)	9.9	8.8	26.0	28.8	31.5	40.6	22.7
Total Expenditure	**8,542**	**10,876**	**13,376**	**16,778**	**21,607**	**30,484**	**37,055**
As a percentage of Sales	57.3	67.0	65.4	63.7	62.4	62.6	62.0
EBITDA	**6,374**	**5,353**	**7,066**	**9,554**	**13,022**	**18,213**	**22,711**
Margin (%)	42.7	33.0	34.6	36.3	37.6	37.4	38.0
Depreciation	742	782	820	946	988	1,112	1,330
EBIT	**5,633**	**4,571**	**6,246**	**8,608**	**12,034**	**17,101**	**21,382**
Int. and Finance Charges	64	41	36	72	34	47	43
Other Income	336	488	856	1,392	1,348	1,948	2,690
PBT bef. EO Exp.	**5,905**	**5,017**	**7,067**	**9,928**	**13,348**	**19,002**	**24,028**
EO Items	0	0	-200	0	0	0	0
PBT after EO Exp.	**5,905**	**5,018**	**6,867**	**9,928**	**13,348**	**19,002**	**24,028**
Total Tax	1,643	1,804	2,345	2,200	3,378	4,826	5,887
Tax Rate (%)	27.8	36.0	34.1	22.2	25.3	25.4	24.5
Reported PAT	**4,262**	**3,213**	**4,522**	**7,728**	**9,970**	**14,175**	**18,141**
Adjusted PAT	**4,262**	**3,213**	**4,654**	**7,728**	**9,970**	**14,175**	**18,141**
Change (%)	28.1	-24.6	44.8	66.1	29.0	42.2	28.0
Margin (%)	28.6	19.8	22.8	29.3	28.8	29.1	30.4

Consolidated Balance Sheet (INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	155	155	155	155	164	164	164
Preference Capital	63	63	63	63	0	0	0
Total Reserves	20,743	23,949	28,466	36,307	58,869	73,044	91,185
Net Worth	**20,898**	**24,104**	**28,621**	**36,462**	**59,032**	**73,208**	**91,349**
Total Loans	64	59	55	50	39	39	39
Deferred Tax Liabilities	854	958	1,076	741	739	739	739
Capital Employed	**21,816**	**25,121**	**29,752**	**37,252**	**59,810**	**73,985**	**92,126**
Gross Block	10,055	10,545	12,196	13,478	14,327	19,880	24,450
Less: Accum. Deprn.	1,339	2,118	2,908	3,797	4,785	5,897	7,227
Net Fixed Assets	**8,716**	**8,426**	**9,288**	**9,681**	**9,542**	**13,983**	**17,224**
Goodwill on Consolidation	0	0	0	0	0	0	0
Capital WIP	1,612	1,989	1,232	1,885	3,378	3,526	2,455
Curr. Assets, Loans, and Adv.	**14,410**	**18,868**	**24,707**	**29,295**	**52,040**	**63,738**	**81,293**
Inventory	3,787	5,128	9,119	7,563	12,752	15,451	18,274
Account Receivables	4,179	4,752	5,061	6,018	6,710	11,074	13,755
Cash and Bank Balance	5,331	6,511	7,534	13,252	30,058	33,668	44,913
Loans and Advances	1,113	2,476	2,994	2,462	2,521	3,546	4,351
Curr. Liability and Prov.	**2,922**	**4,163**	**5,473**	**3,608**	**5,150**	**7,261**	**8,845**
Account Payables	2,003	3,057	4,568	2,677	4,007	5,654	6,872
Other Current Liabilities	896	956	765	649	892	1,254	1,539
Provisions	22	150	139	282	251	353	434
Net Current Assets	**11,488**	**14,706**	**19,234**	**25,687**	**46,890**	**56,477**	**72,448**
Appl. of Funds	**21,816**	**25,121**	**29,752**	**37,252**	**59,810**	**73,985**	**92,126**

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)							
EPS	**26.1**	**19.6**	**28.4**	**47.2**	**60.9**	**86.7**	**110.9**
Cash EPS	32.3	25.8	35.3	56.0	67.0	93.4	119.0
BV/Share	134.8	155.5	184.7	235.2	360.9	447.5	558.4
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)							
P/E	153.2	203.1	140.3	84.5	65.5	46.0	36.0
Cash P/E	123.6	154.8	113.0	71.3	59.6	42.7	33.5
P/BV	29.6	25.7	21.6	17.0	11.1	8.9	7.1
EV/Sales	41.1	37.7	29.9	23.0	18.0	12.7	10.2
EV/EBITDA	96.2	114.3	86.5	63.3	47.8	34.0	26.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	23.3	7.5	3.2	34.2	23.0	10.5	52.6
Return Ratios (%)							
RoE	22.6	14.3	17.7	23.7	20.9	21.4	22.0
RoCE	22.1	14.4	17.7	23.9	20.9	21.5	22.1
RoIC	28.4	18.7	21.9	31.2	37.1	40.4	39.6
Working Capital Ratios							
Asset Turnover (x)	1.5	1.5	1.7	2.0	2.4	2.4	2.4
Inventory (Days)	93	115	163	116	134	116	112
Debtor (Days)	102	107	90	83	71	83	84
Creditor (Days)	49	69	82	37	42	42	42
Leverage Ratio (x)							
Net Debt/Equity	-0.3	-0.3	-0.3	-0.4	-0.5	-0.46	-0.5

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
OP/(Loss) before Tax	5,780	5,016	6,864	9,929	13,348	19,002	24,028
Depreciation	742	782	820	946	988	1,112	1,330
Interest and Finance Charges/ (Income)	-128	-240	-408	-452	28	-1,901	-2,646
Direct Taxes Paid	-1,614	-1,571	-2,235	-2,441	-3,114	-4,826	-5,887
(Inc.)/Dec. in WC	-109	-1,934	-3,540	-799	-4,358	-5,977	-4,726
CF from Operations	**4,671**	**2,052**	**1,501**	**7,181**	**6,893**	**7,410**	**12,099**
Others	94	-32	350	-172	-843	0	0
CF from Operations incl. EO	**4,765**	**2,019**	**1,851**	**7,009**	**6,049**	**7,410**	**12,099**
(Inc.)/Dec. in FA	-1,161	-850	-1,352	-1,708	-2,283	-5,700	-3,500
Free Cash Flow	**3,604**	**1,169**	**499**	**5,302**	**3,766**	**1,710**	**8,599**
(Pur.)/Sale of Investments	0	0	0	0	-13,576	0	0
Others	159	-2,736	-1,834	-5,902	619	1,948	2,690
CF from Investments	**-1,002**	**-3,587**	**-3,186**	**-7,610**	**-15,240**	**-3,752**	**-810**
Issue of Shares	0	3,977	0	0	12,250	0	0
Inc./(Dec.) in Debt	-1,107	-5	-4	-7	-9	0	0
Interest Paid	-58	-31	-25	-62	-23	-47	-43
Dividend Paid	0	0	0	0	0	0	0
CF from Fin. Activity	**-1,164**	**-36**	**-29**	**-69**	**12,386**	**-47**	**-43**
Inc./Dec. in Cash	**2,599**	**-1,603**	**-1,364**	**-669**	**3,195**	**3,610**	**11,245**
Opening Balance	2,732	5,331	3,728	2,363	1,694	4,889	8,499
Closing Balance	**5,331**	**3,728**	**2,363**	**1,694**	**4,889**	**8,499**	**19,745**
Term Deposit with Banks	0	2,784	5,170	11,558	25,168	25,168	25,168
Total Cash and Cash Eq.	**5,331**	**6,512**	**7,533**	**13,252**	**30,057**	**33,667**	**44,913**

Sun Pharma

BSE SENSEX	S&P CNX
58,130	17,324

CMP: INR789 **TP: INR920 (+17%)** **Buy**

In a different league for the US brand market

- **Consistent marketing efforts as well as increased reach for Illumya are driving its performance in the Specialty business. It is also adding products to tide over generic competition in Absorica.**
- **Increased MR strength in the DF space and enhanced marketing efforts bodes well for superior growth in the Branded Generics segment.**
- **Taro sales declined by 15% YoY in FY21. However, steady sales for the past three quarters implies limited impact on the overall profitability of SUNP.**

Marketing efforts in the Specialty business, stable Taro sales, and new launches to drive US sales growth

- After the adverse impact of the COVID-19 outbreak on the Specialty business at the start of FY21, product sales bounced back strongly to USD148m in 1QFY22 from USD78m in 1QFY21. The ongoing marketing effort for Illumya would drive incremental prescription/higher off take from existing patients and lead to higher operating leverage, driving overall profitability. The generic launch of another product (Absorica) in the Specialty portfolio may put some pressure on overall growth prospect over the near term for SUNP. This could be offset to some extent by the in-licensed Dermatology product Winlevi, albeit at a lower margin. SUNP can leverage its existing marketing infrastructure for Winlevi as well.
- In addition to superior execution of the existing portfolio, SUNP intends to develop Illumya for additional indication (Psoriatic Arthritis). A drop in the number of COVID-19 cases would increase the pace of recruiting patients for clinical trials.
- In the Generics segment, SUNP has 86 ANDAs pending approval. Considering: a) new launches in Generics, b) stabilizing Taro sales, and c) better traction in the Specialty portfolio, we expect 15% CAGR in US sales to USD1.8b over FY21-23E.

DF: Core therapies recover; COVID-related products aid growth to an extent

- SUNP has recorded a 10.5% growth in the DF segment on a MAT basis in Jul'21, with a slight underperformance to IPM over the last six months, due to delayed launches of COVID-19 products v/s its peers. With a decline in COVID-19 cases in India from Jun'21, SUNP saw 17% YoY growth in Jul'21 v/s 13% for IPM.
- Based on strong brand recall, market leading presence in the Chronic category, loss of exclusivity opportunities in DF in FY22, and the expanded field force reaching optimum productivity, SUNP is well-placed to outperform the industry over the next 2-3 years. We expect 13% CAGR in India sales to INR132b over FY21-23E.

Stock Info

Bloomberg	SUNP IN
Equity Shares (m)	2,399
M.Cap.(INRb)/(USDb)	1893.4 / 25.9
52-Week Range (INR)	804 / 453
1, 6, 12 Rel. Per (%)	-9/13/2
12M Avg Val (INR M)	4916
Free float (%)	45.5

Financials Snapshot (INR b)

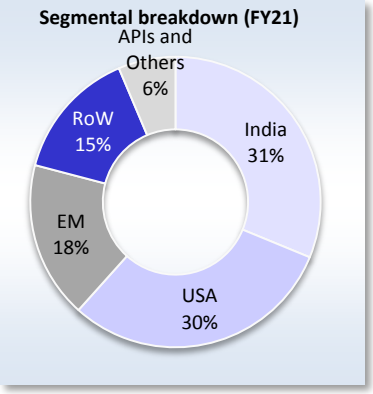
Y/E MARCH	2021	2022E	2023E
Sales	331.6	382.2	425.6
EBITDA	81.3	99.6	109.9
Adj. PAT	60.2	71.0	80.8
EBIT Margin (%)	18.2	20.6	20.7
Adj. EPS (INR)*	25.0	29.5	33.6
EPS Gr. (%)	52.6	17.9	13.8
BV/Sh. (INR)	193.1	218.2	247.3
Ratios			
Net D:E	-0.07	-0.06	-0.13
RoE (%)	13.1	14.4	14.4
RoCE (%)	9.9	11.5	11.5
Payout (%)	43.0	15.2	12.7
Valuations			
P/E (x)	31.5	26.7	23.5
EV/EBITDA (x)	22.1	18.1	16.0
Div. Yield (%)	0.4	0.5	0.5
FCF Yield (%)	4.0	0.4	3.2
EV/Sales (x)	5.4	4.7	4.1

*Cons.

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	54.5	54.5	54.7
DII	22.0	21.6	20.1
FII	11.5	11.7	12.7
Others	12.1	12.2	12.5

FII Includes depository receipts

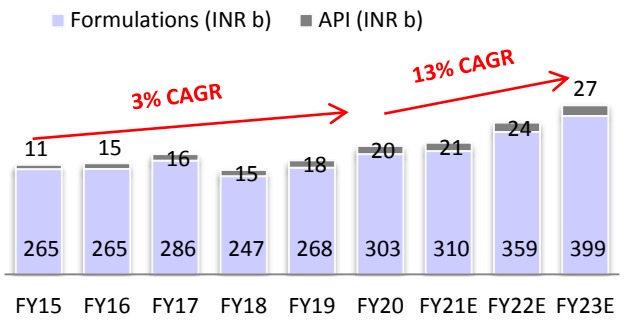


Valuation and view

- We remain positive on SUNP due to: a) investments in the global Specialty portfolio improving overall profitability, b) a robust pipeline of NDAs/ANDAs, and c) revival in the Branded Generics segment.
- We value SUNP at a P/E multiple of 25x to arrive at our TP of INR920. We reiterate our BUY rating.

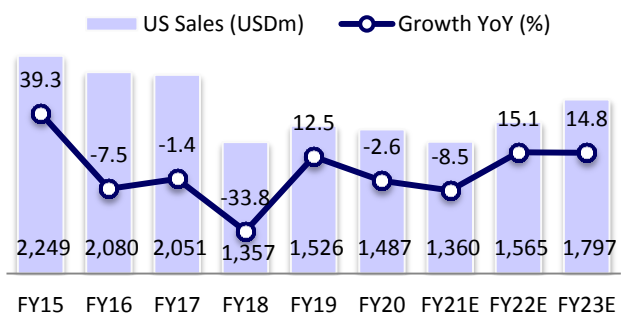
Story in charts

Exhibit 81: Expect 13% revenue CAGR over FY21-22E



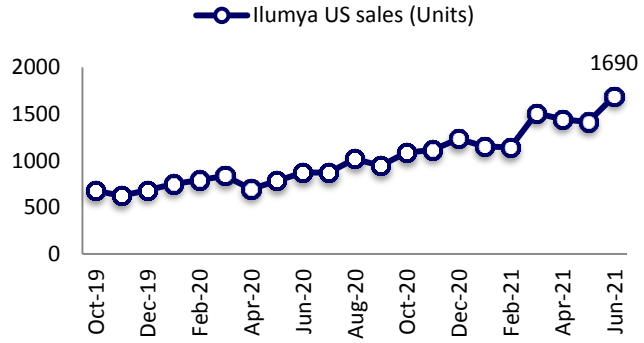
Source: Company, MOFSL

Exhibit 82: Expect 15% CAGR in US sales over FY21-23E



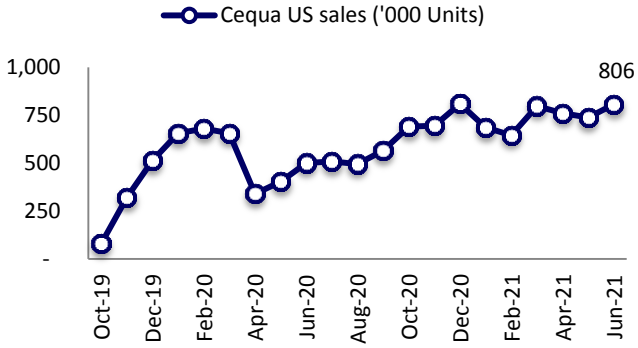
Source: Company, MOFSL

Exhibit 83: Ilumya sales in the US on an uptrend



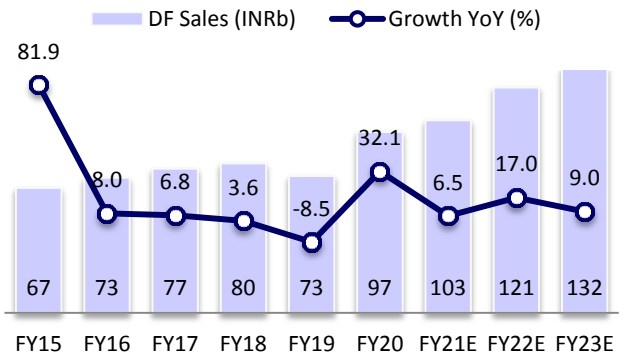
Source: Company, Bloomberg

Exhibit 84: Cequa is showing a growth in the US



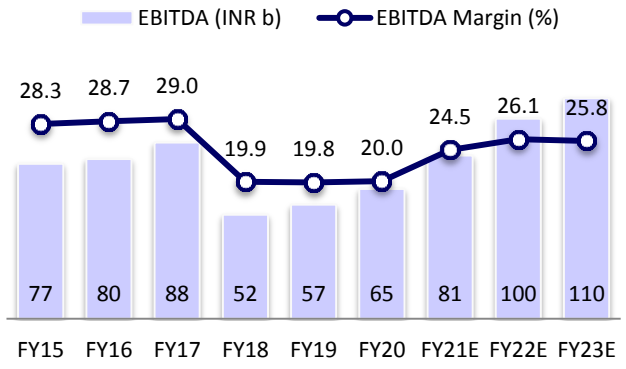
Source: Company, Bloomberg

Exhibit 85: Expect DF sales CAGR of 12% over FY21-23E



Source: Company, MOFSL

Exhibit 86: Expect EBITDA margin to improve to ~26% by FY23E



Source: Company, MOFSL

Financials and valuations

Income Statement (INR b)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net Sales	**277.4**	**302.6**	**260.7**	**286.9**	**323.3**	**331.6**	**382.2**	**425.6**
Change (%)	1.7	9.1	-13.9	10.1	12.7	2.6	15.3	11.3
Total Expenditure	197.9	214.9	208.8	230.1	258.6	250.3	282.6	315.7
As a percentage of Sales	71.3	71.0	80.1	80.2	80.0	75.5	73.9	74.2
EBITDA	**79.6**	**87.8**	**51.8**	**56.8**	**64.6**	**81.3**	**99.6**	**109.9**
Margin (%)	28.7	29.0	19.9	19.8	20.0	24.5	26.1	25.8
Depreciation	10.1	12.6	15.0	17.5	20.5	20.8	20.8	21.6
EBIT	**69.4**	**75.1**	**36.8**	**39.3**	**44.1**	**60.5**	**78.8**	**88.3**
Int. and Finance Charges	4.8	4.0	5.2	5.6	3.0	1.4	0.9	0.7
Other Income - Rec.	9.8	19.4	12.6	14.1	11.5	11.8	9.9	11.0
Extra-ordinary Exp.	6.9	0.0	9.5	9.7	2.5	42.8	5.5	0.0
PBT	67.7	90.5	34.8	38.1	50.1	28.0	82.3	98.6
Tax	9.3	12.1	8.5	6.0	8.2	5.1	12.3	14.8
Tax Rate (%)	13.8	13.4	24.3	15.8	16.4	18.4	14.9	15.0
Profit after Tax	**58.3**	**78.4**	**26.3**	**32.1**	**41.9**	**22.8**	**70.0**	**83.8**
Change (%)	6.2	34.4	-66.4	21.9	30.5	-45.4	206.5	19.7
Margin (%)	21.0	25.9	10.1	11.2	13.0	6.9	18.3	19.7
Less: Minority Interest	11.1	8.7	4.7	5.4	4.2	-6.2	-1.0	3.0
Reported PAT	**47.2**	**69.6**	**21.6**	**26.7**	**37.6**	**29.0**	**71.0**	**80.8**
Adjusted PAT (excl. Ex. Items)	**47.1**	**62.9**	**32.4**	**36.3**	**39.5**	**60.2**	**71.0**	**80.8**

Balance Sheet (INR b)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Total Reserves	327.4	364.0	378.6	411.7	450.2	462.2	522.6	592.7
Net Worth	**329.8**	**366.4**	**381.0**	**414.1**	**452.6**	**464.6**	**525.0**	**595.1**
Minority Interest	40.9	37.9	38.8	33.1	38.6	30.2	30.2	30.2
Deferred Liabilities	-30.5	-21.8	-19.7	-24.5	-31.2	-35.1	-35.1	-35.1
Total Loans	83.2	80.9	97.5	98.9	75.8	33.4	24.3	17.7
Capital Employed	**423.4**	**463.4**	**497.6**	**521.7**	**535.9**	**493.1**	**544.3**	**607.9**
Gross Block	123.0	134.0	155.6	181.8	207.8	225.2	254.6	284.6
Less: Accum. Deprn.	47.2	49.0	64.0	81.6	102.1	122.9	143.7	165.3
Net Fixed Assets	**75.8**	**85.0**	**91.6**	**100.3**	**105.7**	**102.3**	**110.9**	**119.3**
Capital WIP	12.0	15.6	14.3	9.1	6.6	9.4	10.3	11.3
Goodwill	92.6	104.2	107.2	123.1	128.4	119.5	119.5	119.5
Investments	11.2	9.6	30.5	39.5	52.5	64.8	64.8	64.8
Curr. Assets	**332.2**	**374.8**	**377.4**	**349.4**	**357.6**	**345.1**	**378.3**	**445.5**
Inventory	64.2	68.3	68.8	78.9	78.7	90.0	101.3	106.9
Account Receivables	67.8	72.0	78.2	88.8	94.2	90.6	118.1	133.7
Cash and Bank Balance	131.8	151.4	99.3	72.8	64.9	64.5	53.0	92.5
L&A and Others	68.4	83.0	131.1	108.9	119.8	100.0	105.9	112.4
Curr. Liability and Prov.	**100.4**	**125.7**	**123.5**	**99.7**	**114.9**	**148.0**	**139.5**	**152.5**
Account Payables	51.7	73.5	68.3	66.1	70.1	98.9	83.0	87.6
Provisions	48.7	52.3	55.1	33.6	44.8	49.1	56.5	64.9
Net Current Assets	**231.7**	**249.1**	**253.9**	**249.7**	**242.7**	**197.1**	**238.8**	**292.9**
Appl. of Funds	**423.4**	**463.4**	**497.6**	**521.7**	**535.9**	**493.1**	**544.3**	**607.9**

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Adjusted EPS	**19.6**	**26.1**	**13.5**	**15.1**	**16.4**	**25.0**	**29.5**	**33.6**
Cash EPS	23.8	34.2	15.2	18.4	24.2	20.7	38.2	42.5
BV/Share	137.1	152.3	158.4	172.1	188.1	193.1	218.2	247.3
DPS	3.0	1.0	3.3	2.0	3.5	3.5	3.8	3.8
Payout (%)	14.9	3.7	36.5	18.0	23.5	43.0	15.2	12.7
Valuation (x)								
P/E	40.3	30.2	58.7	52.3	48.1	31.5	26.7	23.5
P/BV	5.8	5.2	5.0	4.6	4.2	4.1	3.6	3.2
EV/Sales	6.6	6.0	7.1	6.6	5.7	5.4	4.7	4.1
EV/EBITDA	23.0	20.7	35.9	33.1	28.7	22.1	18.1	16.0
Dividend Yield (%)	0.4	0.1	0.4	0.3	0.4	0.4	0.5	0.5
Return Ratios (%)								
RoE	16.1	18.1	8.7	9.1	9.1	13.1	14.4	14.4
RoCE	18.3	19.0	8.1	9.1	8.9	9.9	11.5	11.5
RoIC	26.2	23.4	8.7	8.8	9.1	12.9	17.4	17.5
Working Capital Ratios								
Asset Turnover (x)	0.7	0.7	0.5	0.5	0.6	0.7	0.7	0.7
Fixed Asset Turnover (x)	3.8	3.8	3.0	3.0	3.1	3.2	3.6	3.7
Debtor (Days)	89	87	109	113	106	100	113	115
Creditor (Days)	291	330	336	307	277	415	296	296
Inventory (Days)	84	82	96	100	89	99	97	92
Leverage Ratio								
Debt/Equity (x)	0.3	0.2	0.3	0.3	0.0	-0.1	-0.1	-0.1

Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
OP/(Loss) bef. Tax	72.7	87.8	42.3	47.1	62.2	38.5	94.1	109.9
Int./Dividends Recd.	9.8	19.4	12.6	14.1	11.5	11.8	9.9	11.0
Direct Taxes Paid	-22.3	-3.4	-6.4	-10.8	-14.9	-9.1	-12.3	-14.8
(Inc.)/Dec. in WC	-39.1	2.3	-57.0	-22.3	-1.0	45.2	-53.2	-14.6
CF from Operations	**21.2**	**106.0**	**-8.4**	**28.1**	**57.8**	**86.3**	**38.5**	**91.5**
(inc.)/dec. in FA	-43.4	-36.9	-23.4	-36.8	-28.7	-11.3	-30.3	-31.0
Free Cash Flow	**-22.2**	**69.0**	**-31.8**	**-8.7**	**29.1**	**75.0**	**8.2**	**60.4**
(Pur.)/Sale of Invest.	16.0	1.6	-20.9	-9.0	-12.9	-12.4	0.0	0.0
CF from investments	**-27.4**	**-35.4**	**-44.3**	**-45.8**	**-41.7**	**-23.7**	**-30.3**	**-31.0**
Change in net worth	36.2	-41.8	-1.2	1.1	12.0	-9.5	1.0	-3.0
(Inc.)/Dec. in Debt	5.3	-2.3	16.6	1.4	-23.2	-42.4	-9.1	-6.6
Interest Paid	-4.8	-4.0	-5.2	-5.6	-3.0	-1.4	-0.9	-0.7
Dividend Paid	-8.7	-2.9	-9.6	-5.8	-9.8	-9.8	-10.7	-10.7
CF from Fin. Activity	**28.0**	**-51.0**	**0.6**	**-8.9**	**-24.0**	**-63.1**	**-19.7**	**-21.0**
Inc./Dec. in Cash	**21.8**	**19.6**	**-52.1**	**-26.5**	**-7.9**	**-0.4**	**-11.5**	**39.5**
Add: Beginning Balance	110.0	131.8	151.4	99.3	72.8	64.9	64.5	53.0
Closing Balance	**131.8**	**151.4**	**99.3**	**72.8**	**64.9**	**64.5**	**53.0**	**92.5**

Laurus Labs

BSE SENSEX	S&P CNX
58,130	17,324

Stock Info

Bloomberg	LAURUS IN
Equity Shares (m)	532
M.Cap.(INRb)/(USDb)	350.1 / 4.8
52-Week Range (INR)	724 / 226
1, 6, 12 Rel. Per (%)	-7/66/125
12M Avg Val (INR M)	1851
Free float (%)	72.7

Financials Snapshot (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	48.1	62.7	75.9
EBITDA	15.5	20.1	25.0
Adj. PAT	9.8	12.9	16.4
EBIT Margin(%)	28.0	28.1	28.9
Adj. EPS (INR)*	18.3	24.1	30.5
EPS Gr. (%)	285.4	31.3	26.8
BV/Sh. (INR)	48.7	69.2	95.2
Ratios			
Net D:E	0.5	0.4	0.2
RoE (%)	45.0	41.0	37.3
RoCE (%)	30.6	30.3	30.7
Payout (%)	15.1	15.1	15.1
Valuations			
P/E (x)	35.6	27.1	21.4
EV/EBITDA (x)	23.4	18.0	14.3
Div. Yield (%)	0.4	0.5	0.6
FCF Yield (%)	0.1	0.8	1.9
EV/Sales (x)	7.5	5.8	4.7

*Cons.

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	27.3	27.5	32.1
DII	4.2	3.6	8.8
FII	21.5	20.7	16.1
Others	47.0	48.3	43.0

FII Includes depository receipts

CMP: INR652 TP: INR800 (+23%) Buy

Gearing up for the next phase of growth

- **The Custom Synthesis business, built on the firm foundation of its chemistry skill set and execution, is set for the next leg of growth, supported by capacity expansion. Incorporation of two new subsidiaries, a dedicated R&D facility, and two manufacturing facilities will aid the Custom Synthesis business.**
- **The developed market Generics business is set to grow meaningfully from FY23E, supported by backward integration, making LAURUS a full-fledged Pharma company. Laurus Bio is currently at the nascent stage and provides long-term opportunities for LAURUS in the Biologics CDMO space.**
- **We expect 29% earnings CAGR over FY21-23E, led by a 30%/42%/19% sales CAGR in the FDF/Synthesis/API segment and ~80bp margin expansion.**

Laurus Bio – additional lever for growth and diversification

- Laurus Bio marks LAURUS' entry into the Biotechnology space. It is looking to explore CDMO opportunities to expand this division. New fermentation capacities are partially commercialized currently and will be fully commercialized by Sep'21.
- It is in the process of finalizing plans to add a new facility, taking the total fermentation capacity to 1m liters from 0.18m liters currently.

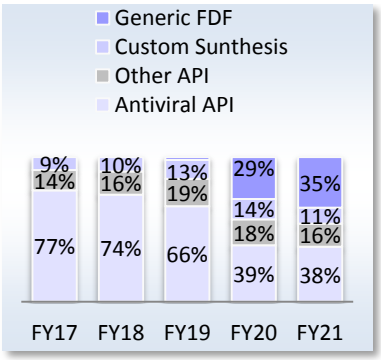
New projects/client additions to drive the Synthesis business

- LAURUS is working with global innovators across clinical development and commercial supplies. It is working on 50 projects currently in the CDMO segment, up from 40 in FY20.
- It is among the top five companies in reactor capacity in the CDMO space globally. Its chemistry skill set, manufacturing efficiency, and consistent compliance make it one of the preferred partners in the CDMO segment.
- We expect 42% sales CAGR in the CDMO segment to INR10.5b over FY21-23E.

FDF – product buildup in the non-ARV space

- On the non-ARV product front, LAURUS is building an ANDA pipeline in therapeutic areas such as Cardiac/Diabetic and other non-ARV segments (28 filed/10 awaiting approval). It has 66 products under development for the US/EU market, 80% of which are in the non-ARV category, with an addressable market size of USD37b.
- LAURUS is also investing in a greenfield expansion program, which will add a 4b unit capacity by FY22-end. Around 75% of this greenfield capacity would be used for non-ARV products.
- Based on this, we expect a 42% sales CAGR in FDF over FY21-23E, reaching INR33.5b by FY23E.

Revenue break-up by segments



API – new additions and market share gains to drive medium-term growth

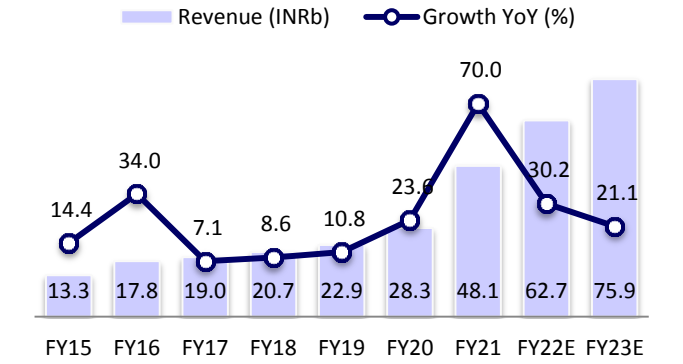
- LAURUS is building a portfolio of non-ARV APIs and has now filed 66 DMFs in the US to date. It has a healthy order book in the CVS, Cardiac, and Diabetic therapies in the other API segment, for which it is also undertaking capacity expansions.
- We expect 9% CAGR in API sales over FY21-23E, with a ramp-up in non-ARV API sales from FY23E.

Expect 29% EPS CAGR over FY21-23E

- We expect a 29% earnings CAGR over FY21-23E, led by a 42%/42%/9% sales CAGR in the FDF/Synthesis/API segment and ~80bp margin expansion. We value LAURUS at 24x its 12-month forward earnings to arrive at our TP of INR800.
- We remain positive on LAURUS on the back of: a) its venture into Biologics CDMO, b) scale up in Synthesis CDMO, c) product development/addition capacity in the non-ARV segment, especially for the US market, and d) a healthy order book for the non-ARV API business, and e) low-cost based market leadership in the ARV segment. **We reiterate our BUY rating**.

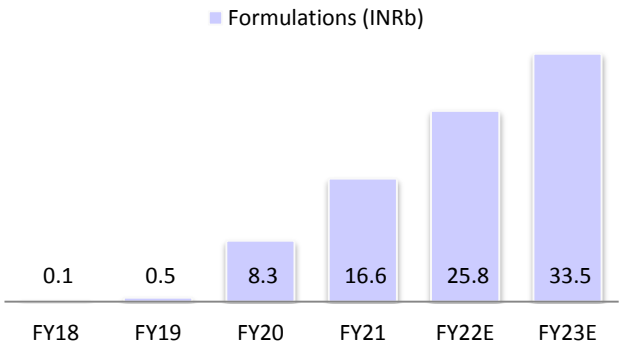
Story in charts

Exhibit 87: Expect 26% revenue CAGR over FY21-23E



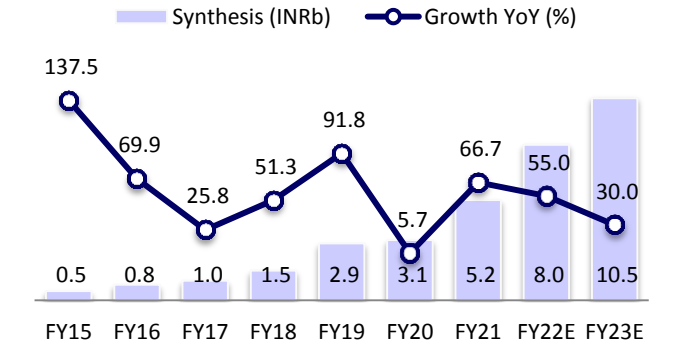
Source: MOFSL, Company

Exhibit 88: FDF contribution to overall sales on the rise



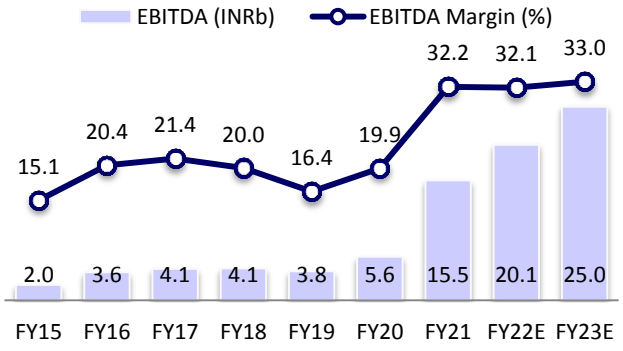
Source: MOFSL, Company

Exhibit 89: Expect Synthesis business to post 42% CAGR over FY21-23E



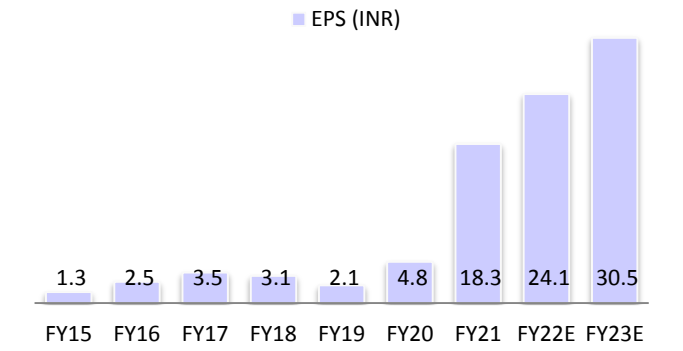
Source: MOFSL, Company

Exhibit 90: Expect EBITDA margin to stabilize over FY21-23E



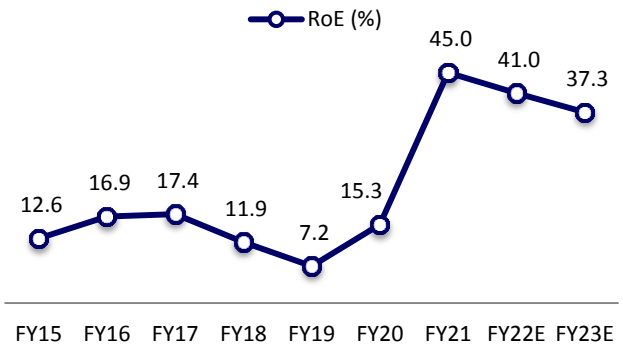
Source: MOFSL, Company

Exhibit 91: Expect 29% EPS CAGR over FY21-23E



Source: MOFSL, Company

Exhibit 92: RoE to moderate, but remain healthy



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Total Income from Operations	**17,776**	**19,046**	**20,690**	**22,919**	**28,317**	**48,135**	**62,650**	**75,864**
Change (%)	34.0	7.1	8.6	10.8	23.6	70.0	30.2	21.1
Total Expenditure	**14,154**	**14,970**	**16,557**	**19,155**	**22,672**	**32,628**	**42,539**	**50,829**
% of Sales	79.6	78.6	80.0	83.6	80.1	67.8	67.9	67.0
EBITDA	**3,622**	**4,076**	**4,133**	**3,764**	**5,645**	**15,507**	**20,111**	**25,035**
Margin (%)	20.4	21.4	20.0	16.4	19.9	32.2	32.1	33.0
Depreciation	864	1,060	1,255	1,642	1,873	2,051	2,533	3,099
EBIT	**2,758**	**3,016**	**2,879**	**2,122**	**3,773**	**13,456**	**17,578**	**21,936**
Int. and Finance Charges	1,111	999	796	882	896	682	1,047	954
Other Income	44	334	292	162	59	237	251	303
PBT bef. EO Exp.	**1,690**	**2,352**	**2,374**	**1,402**	**2,936**	**13,011**	**16,782**	**21,286**
EO Items	0	0	0	-204	0	0	0	0
PBT after EO Exp.	**1,690**	**2,352**	**2,374**	**1,198**	**2,936**	**13,011**	**16,782**	**21,286**
Total Tax	349	439	698	260	383	3,173	3,860	4,896
Tax Rate (%)	20.6	18.7	29.4	21.7	13.1	24.4	23.0	23.0
Minority Interest	4	11	0	0	0	0	0	0
Reported PAT	**1,337**	**1,903**	**1,676**	**938**	**2,553**	**9,838**	**12,922**	**16,390**
Adjusted PAT	**1,337**	**1,903**	**1,676**	**1,097**	**2,553**	**9,838**	**12,922**	**16,390**
Change (%)	95.7	42.3	-11.9	-34.5	132.6	285.4	31.3	26.8
Margin (%)	7.5	10.0	8.1	4.8	9.0	20.4	20.6	21.6

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	158	1,058	1,060	1,064	1,069	1,073	1,073	1,073
Total Reserves	7,744	12,247	13,766	14,520	16,629	24,902	35,878	49,800
minority interest						32	32	32
Net Worth	**8,568**	**13,304**	**14,826**	**15,584**	**17,698**	**26,007**	**36,983**	**50,904**
Total Loans	10,277	8,417	9,649	10,030	10,123	13,871	13,671	10,171
Deferred Tax Liabilities	-549	-699	-529	-534	-739	192	192	192
Capital Employed	**18,296**	**21,023**	**23,946**	**25,081**	**27,081**	**40,070**	**50,846**	**61,267**
Gross Block	11,063	14,088	17,851	20,976	23,821	27,949	34,597	41,926
Less: Accum. Deprn.	853	1,886	3,141	4,783	6,655	8,706	11,239	14,338
Net Fixed Assets	**10,210**	**12,202**	**14,711**	**16,193**	**17,166**	**19,243**	**23,357**	**27,588**
Goodwill on Consolidation	0	97	97	97	97	2,463	2,463	2,463
Capital WIP	696	1,433	1,632	1,096	672	3,622	4,474	4,645
Total Investments	**70**	**34**	**34**	**34**	**34**	**34**	**34**	**34**
Curr. Assets, Loans&Adv.	**10,710**	**12,069**	**13,165**	**15,357**	**18,589**	**32,145**	**41,856**	**51,456**
Inventory	4,871	5,090	5,848	6,819	9,052	15,755	20,890	25,378
Account Receivables	4,449	5,676	5,706	7,099	7,914	13,061	16,993	21,200
Cash and Bank Balance	288	41	31	30	17	485	271	395
Loans and Advances	1,103	1,262	1,580	1,408	1,605	2,845	3,703	4,484
Curr. Liability & Prov.	**3,390**	**4,812**	**5,692**	**7,697**	**9,477**	**17,437**	**21,339**	**24,919**
Account Payables	2,476	2,631	3,123	4,883	6,156	11,787	13,986	16,014
Other Current Liabilities	770	1,988	2,316	2,449	2,753	4,894	6,369	7,712
Provisions	144	193	253	365	568	757	985	1,192
Net Current Assets	**7,320**	**7,257**	**7,473**	**7,660**	**9,112**	**14,708**	**20,516**	**26,537**
Appl. of Funds	**18,296**	**21,023**	**23,946**	**25,081**	**27,081**	**40,070**	**50,845**	**61,267**

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)								
EPS	**2.5**	**3.5**	**3.1**	**2.1**	**4.8**	**18.3**	**24.1**	**30.5**
Cash EPS	4.1	5.5	5.5	5.1	8.3	22.2	28.9	36.5
BV/Share	16.0	24.9	27.7	29.2	33.1	48.7	69.2	95.2
DPS	0.1	0.3	0.0	0.3	0.6	2.3	3.0	3.8
Payout (%)	4.4	10.0	0.0	20.4	15.1	15.1	15.1	15.1
Valuation (x)								
P/E	265.3	185.6	208.3	318.1	137.3	35.6	27.1	21.4
Cash P/E	160.1	118.7	119.1	127.4	78.9	29.4	22.6	17.9
P/BV	40.7	26.2	23.5	22.4	19.7	13.4	9.4	6.9
EV/Sales	20.2	18.8	17.3	15.7	12.7	7.5	5.8	4.7
EV/EBITDA	99.1	87.7	86.8	95.4	63.6	23.4	18.0	14.3
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.1	0.4	0.5	0.6
FCF per share	-2.7	1.0	-1.0	0.7	2.0	0.9	5.1	12.6
Return Ratios (%)								
RoE	16.9	17.4	11.9	7.2	15.3	45.0	41.0	37.3
RoCE	13.0	13.4	9.7	7.1	12.5	30.6	30.3	30.7
RoIC	14.6	13.5	9.7	7.2	13.0	32.7	33.0	33.0
Working Capital Ratios								
Inventory (Days)	100	98	103	109	117	119	122	122
Debtor (Days)	91	109	101	113	102	99	99	102
Creditor (Days)	51	50	55	78	79	89	81	77
Leverage Ratio (x)								
Current Ratio	3.2	2.5	2.3	2.0	2.0	1.8	2.0	2.1
Interest Cover Ratio	2.5	3.0	3.6	2.4	4.2	19.7	16.8	23.0
Net Debt/Equity	1.2	0.6	0.6	0.6	0.6	0.5	0.4	0.2

Consolidated - Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
OP/(Loss) before Tax	1,690	2,352	2,374	1,198	2,936	13,011	16,782	21,286
Depreciation	864	1,060	1,255	1,642	1,873	2,051	2,533	3,099
Interest & Finance Charges	1,038	931	505	720	837	579	796	650
Direct Taxes Paid	-333	-501	-698	-260	-383	-2,285	-3,860	-4,896
(Inc)/Dec in WC	-1,544	-525	-226	-187	-1,465	-5,941	-6,023	-5,897
CF from Operations	**1,716**	**3,317**	**3,209**	**3,113**	**3,797**	**7,415**	**10,228**	**14,243**
Others	103	3	216	-136	-323	-85	0	0
CF from Operating incl EO	**1,820**	**3,320**	**3,425**	**2,977**	**3,474**	**7,330**	**10,228**	**14,243**
(Inc)/Dec in FA	-3,262	-2,774	-3,962	-2,589	-2,421	-6,839	-7,500	-7,500
Free Cash Flow	**-1,443**	**546**	**-537**	**387**	**1,053**	**491**	**2,728**	**6,743**
(Pur)/Sale of Investments	140	-113	0	0	0	-2,584	0	0
Others	0	0	120	60	210	13	251	303
CF from Investments	**-3,122**	**-2,887**	**-3,842**	**-2,529**	**-2,211**	**-9,410**	**-7,249**	**-7,197**
Issue of Shares	3	2,860	3	4	5	74	0	0
Inc/(Dec) in Debt	2,063	-2,387	1,278	429	139	3,804	-200	-3,500
Interest Paid	-1,033	-950	-796	-882	-896	-580	-1,047	-954
Dividend Paid	0	-59	0	-191	-384	-750	-1,946	-2,468
CF from Fin. Activity	**1,033**	**-536**	**422**	**-448**	**-1,277**	**2,547**	**-3,193**	**-6,922**
Inc/Dec of Cash	**-269**	**-103**	**6**	**0**	**-14**	**467**	**-214**	**124**
Opening Balance	**394**	**127**	**23**	**29**	**28**	**15**	**483**	**269**
Closing balance	**127**	**23**	**29**	**28**	**15**	**483**	**269**	**393**
Bank balance	161	18	2	2	2	2	2	2
Total Cash and Cash equivalent	**288**	**41**	**31**	**30**	**17**	**485**	**271**	**395**

Solara Active Pharma Sciences

BSE SENSEX	S&P CNX
58,130	17,324

Stock Info

Bloomberg	SOLARA IN
Equity Shares (m)	36
M.Cap.(INRb)/(USDb)	59.3 / 0.8
52-Week Range (INR)	1859 / 887
1, 6, 12 Rel. Per (%)	-15/14/19
12M Avg Val (INR M)	213
Free float (%)	58.9

Financials Snapshot (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	16.2	26.0	30.7
EBITDA	3.9	6.4	7.8
Adj. PAT	2.2	4.1	5.1
EBIT Margin (%)	17.1	19.4	20.5
Adj. EPS (INR)*	45.0	82.4	103.4
EPS Gr. (%)	93.2	83.1	25.4
BV/Sh. (INR)	442.2	534.7	647.3
Ratios			
Net D:E	0.2	0.3	0.13
RoE (%)	16.6	23.1	24.0
RoCE (%)	15.7	21.2	21.6
Payout (%)	13.3	21.4	20.5
Valuations			
P/E (x)	36.7	20.0	16.0
EV/EBITDA (x)	16.2	13.6	10.9
Div. Yield (%)	0.4	0.9	1.1
FCF Yield (%)	(0.3)	(2.9)	9.1
EV/Sales (x)	3.9	3.4	2.75

*Cons.

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	41.1	44.1	41.9
DII	6.4	4.0	6.7
FII	16.6	13.7	16.7
Others	35.9	38.3	34.7

FII Includes depository receipts

CMP: INR1,652 TP: INR2,050 (+24%) Buy

Solara 2.0 to target faster growth

- **Backward integration in Ibuprofen, at the Visakhapatnam facility, makes SOLARA one of the only two fully backward integrated API players in the world.**
- **The recently acquired ALS will enhance its Generic APIs capabilities and move SOLARA ahead in the competitive landscape in CDMO.**
- **Solara 2.0 lays down a path for accelerated growth, better profitability by FY25, and aims to grow the CDMO segment faster than what it has done previously**.

Generic APIs – healthy traction in 'other markets'

- With backward integration in the Ibuprofen manufacturing process, SOLARA has become one of the only two fully backward integrated Ibuprofen manufacturers in the world. It will start accruing commercial benefits in coming quarters. This will help it gain market share, improve margin, and navigate price volatility in Ibuprofen.
- It is on track to file 10-12 DMFs in the US in FY22. The acquired portfolio of AURORE is expected to increase the breadth of SOLARA's offerings due to minimum overlap. The acquisition also adds an Anti-Viral product portfolio to its offerings. The management expects to launch 25 products in FY22, leveraging its ALS capabilities. We expect 31% CAGR in API sales to INR27b over FY21-23E.

CRAMS adds differentiated capabilities to fast-track growth

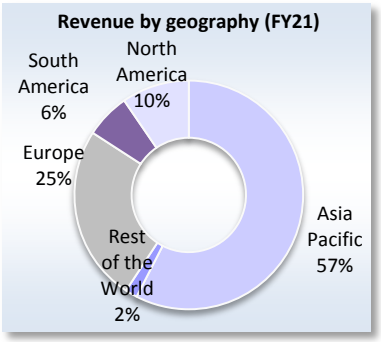
- SOLARA grew the opportunity pipeline by 40% QoQ. The management is now focusing on increasing projects in the R&D stage. It intends to build its CRAMS business through strong expertise in chemistry, and adds science-based differentiation and technological capabilities. We expect CRAMS sales to expand 4.5x to INR3.6b over FY21-23E.

Synergy benefits from the ALS acquisition to aid margin expansion

- SOLARA expects INR1.5-2.2b in synergy benefits in the first year of operations post the merger. It estimates savings of INR500-750m in overhead costs, INR250-350m from R&D cost rationalization, INR250-300m in procurement, and INR500-750m in additional gross profit from cross-selling opportunities.

Solara 2.0 aims at faster growth and better margin

- SOLARA unveiled its goal of being among the top 10 global pure-play API players. It is targeting 25% sales CAGR over FY21-25, 23-25% EBITDA margin, and a 30% revenue contribution from CRAMS by FY25. Growth is expected to be achieved through organic and inorganic expansion, including the recently announced ALS acquisition.

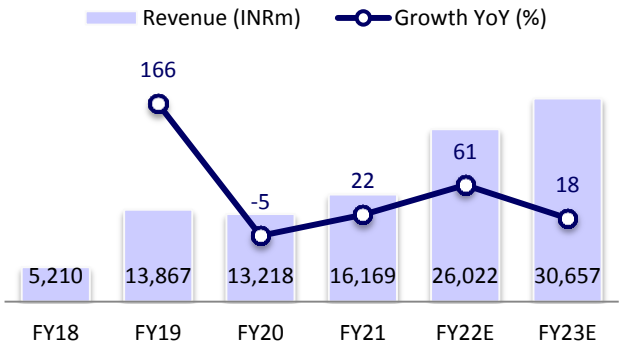


Valuation and View

We continue to value SOLARA at 13x its 12-month forward EV/EBITDA to arrive at our TP of INR2,050. We expect 38% revenue CAGR over FY21-23E, led by a 31%/112% CAGR in API/CRAMS revenue. With operating leverage and synergy benefits, we expect EBITDA to grow at 42% CAGR over FY21-23E.

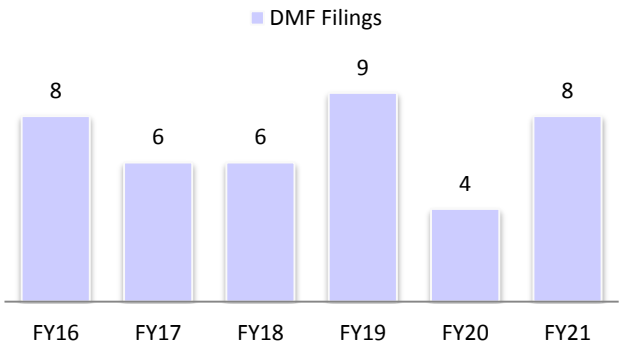
Story in charts

Exhibit 93: Revenue to grow by ~38% CAGR over FY21-23E



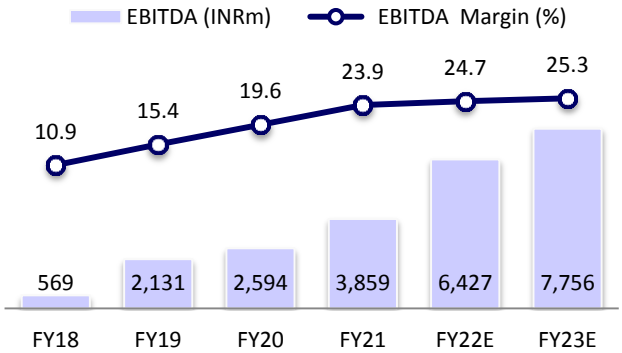
Source: MOFSL, Company

Exhibit 94: DMF filings to improve with the ALS acquisition



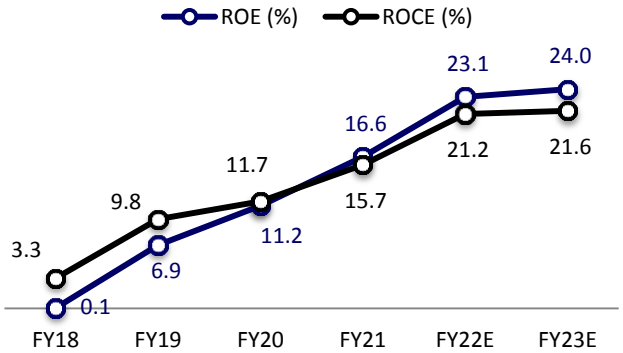
Source: MOFSL, Company

Exhibit 95: Expect 150bp margin expansion over FY21-23E



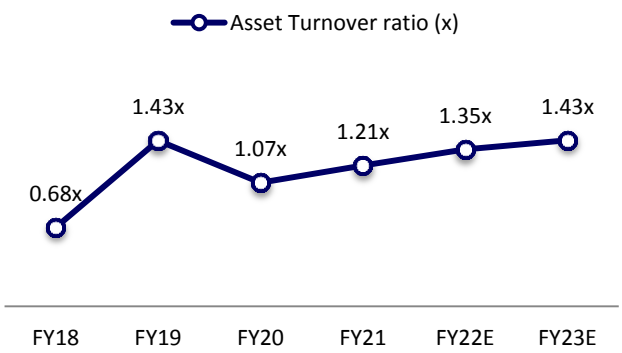
Source: MOFSL, Company

Exhibit 96: Return ratios to improve over the next two years



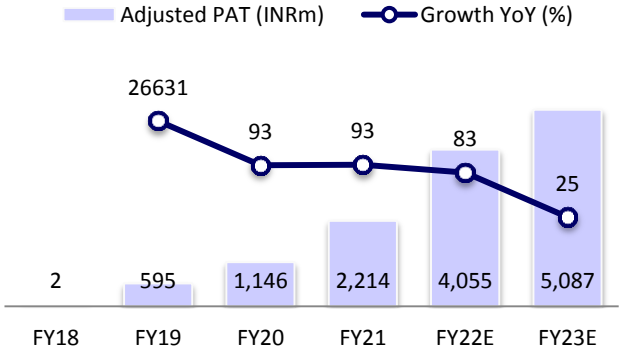
Source: MOFSL, Company

Exhibit 97: Asset turnover ratio on the uptrend



Source: MOFSL, Company

Exhibit 98: Expect 52% earnings CAGR over FY21-23E



Source: MOFSL, Company

Financials and valuations

Consolidated Income Statement INR m

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
Total Income from Operations	**5,210**	**13,867**	**13,218**	**16,169**	**26,022**	**30,657**
Change (%)	NA	166.2	-4.7	22.3	60.9	17.8
Total Expenditure	**4,641**	**11,736**	**10,623**	**12,310**	**19,595**	**22,901**
As a percentage of Sales	89.1	84.6	80.4	76.1	75.3	74.7
EBITDA	**569**	**2,131**	**2,594**	**3,859**	**6,427**	**7,756**
Margin (%)	10.9	15.4	19.6	23.9	24.7	25.3
Depreciation	340	831	942	1,087	1,383	1,462
EBIT	**229**	**1,300**	**1,653**	**2,772**	**5,045**	**6,294**
Int. and Finance Charges	251	824	779	845	1,089	1,193
Other Income	25	124	275	288	312	368
PBT bef. EO Exp.	**2**	**600**	**1,149**	**2,215**	**4,268**	**5,469**
EO Items	-18	-6	3	0	0	0
PBT after EO Exp.	**-16**	**594**	**1,152**	**2,215**	**4,268**	**5,469**
Total Tax	-1	6	4	2	213	383
Tax Rate (%)	8.7	1.0	0.3	0.1	5.0	7.0
Minority Interest	0	-1	-1	-1	-1	-1
Reported PAT	**-14**	**589**	**1,149**	**2,214**	**4,055**	**5,087**
Adjusted PAT	**2**	**595**	**1,146**	**2,214**	**4,055**	**5,087**
Change (%)	NA	NA	92.6	93.2	83.1	25.4
Margin (%)	0.0	4.3	8.7	13.7	15.6	16.6

Consolidated Balance Sheet (INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	247	258	269	359	492	492
Total Reserves	7,393	8,261	9,631	15,526	18,714	22,760
Net Worth	**7,640**	**9,559**	**10,859**	**15,885**	**19,206**	**23,252**
Minority Interest	45	44	43	42	42	42
Total Loans	6,329	5,381	7,068	5,157	7,657	7,257
Deferred Tax Liabilities	484	328	118	-256	-256	-256
Capital Employed	**14,497**	**15,311**	**18,088**	**20,829**	**26,649**	**30,295**
Gross Block	7,641	9,697	12,384	13,317	19,221	21,402
Less: Accum. Deprn.	367	1,170	2,066	3,152	4,535	5,997
Net Fixed Assets	**7,274**	**8,527**	**10,319**	**10,165**	**14,686**	**15,404**
Goodwill on Consolidation	3,586	3,651	3,651	3,651	3,651	3,651
Capital WIP	715	404	405	880	1,476	1,295
Total Investments	**8**	**4**	**3**	**4**	**4**	**4**
Curr. Assets, Loans, and Adv.	**6,633**	**7,014**	**7,157**	**11,180**	**14,547**	**18,673**
Inventory	1,877	2,139	2,797	2,950	4,724	5,333
Account Receivables	2,625	2,888	2,265	4,839	6,416	6,719
Cash and Bank Balance	470	765	568	1,985	1,324	4,168
Loans and Advances	1,661	1,222	1,527	1,406	2,082	2,453
Curr. Liability and Prov.	**3,718**	**4,289**	**3,447**	**5,051**	**7,714**	**8,732**
Account Payables	3,207	2,532	2,262	3,093	4,563	5,019
Other Current Liabilities	390	1,624	1,053	1,826	2,939	3,463
Provisions	121	133	132	132	212	250
Net Current Assets	**2,915**	**2,725**	**3,711**	**6,129**	**6,832**	**9,941**
Appl. of Funds	**14,497**	**15,311**	**18,088**	**20,829**	**26,649**	**30,295**

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)						
EPS	**0.1**	**12.1**	**23.3**	**45.0**	**82.4**	**103.4**
Cash EPS	9.5	39.7	58.1	91.9	151.4	182.3
BV/Share	212.7	266.1	302.3	442.2	534.7	647.3
DPS	NA	NA	0.0	7.0	15.0	18.0
Payout (%)	0.0	0.0	0.0	13.3	21.4	20.5
Valuation (x)						
P/E	26,656.6	136.6	70.9	36.7	20.0	16.0
Cash P/E	173.5	41.6	28.4	18.0	10.9	9.1
P/BV	7.8	6.2	5.5	3.7	3.1	2.6
EV/Sales	1.1	0.3	3.8	3.9	3.4	2.8
EV/EBITDA	10.3	2.2	19.6	16.2	13.6	10.9
Dividend Yield (%)	NA	NA	0.0	0.4	0.9	1.1
FCF per share	NA	NA	-8.7	-4.4	-33.5	103.8
Return Ratios (%)						
RoE	0.1	6.9	11.2	16.6	23.1	24.0
RoCE	3.3	9.8	11.7	15.7	21.2	21.6
RoIC	3.1	9.4	10.5	15.8	22.9	24.1
Working Capital Ratios						
Fixed Asset Turnover (x)	0.7	1.4	1.1	1.2	1.4	1.4
Asset Turnover (x)	0.4	0.9	0.7	0.8	1.0	1.0
Inventory (Days)	131	56	77	67	66	63
Debtor (Days)	184	76	63	109	90	80
Creditor (Days)	225	67	62	70	64	60
Leverage Ratio (x)						
Current Ratio	1.8	1.6	2.1	2.2	1.9	2.1
Interest Cover Ratio	0.9	1.6	2.1	3.3	4.6	5.3
Net Debt/Equity	0.8	0.5	0.6	0.2	0.3	0.1

Consolidated Cash Flow Statement (INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
OP/(Loss) before Tax	2	578	1,149	2,215	4,268	5,469
Depreciation	367	837	942	1,087	1,383	1,462
Interest and Finance Charges	226	749	723	703	777	825
Direct Taxes Paid	-29	-144	-243	-334	-213	-383
(Inc.)/Dec. in WC	-108	-253	-165	-2,057	-1,364	-265
CF from Operations	**458**	**1,767**	**2,406**	**1,613**	**4,850**	**7,108**
Others	35	-103	36	-58	0	0
CF from Operations incl. EO	**492**	**1,663**	**2,442**	**1,556**	**4,850**	**7,108**
(Inc.)/Dec. in FA	-347	-582	-2,676	-1,715	-6,500	-2,000
Free Cash Flow	**145**	**1,081**	**-234**	**-160**	**-1,650**	**5,108**
Others	-497	-546	-906	653	312	368
CF from Investments	**-844**	**-1,124**	**-3,581**	**-1,063**	**-6,188**	**-1,632**
Issue of Shares	0	440	298	2,982	133	0
Inc./(Dec.) in Debt	528	-881	1,618	-1,002	2,500	-400
Interest Paid	-220	-775	-810	-832	-1,089	-1,193
Dividend Paid	0	0	-129	-197	-867	-1,041
Others	369	982	-27	-26	1	1
CF from Fin. Activity	**677**	**-234**	**949**	**925**	**677**	**-2,633**
Inc./Dec. in Cash	**326**	**305**	**-189**	**1,417**	**-661**	**2,843**
Opening Balance	145	460	757	568	1,985	1,324
Closing Balance	**470**	**765**	**568**	**1,985**	**1,324**	**4,168**

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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