

## India healthcare

### Weathered storms to emerge stronger

#### US generics: Near-term green shoots though macro unchanged; stay selective

The generic pharma business model in the US is undergoing a gradual shift and companies with specialised R&D skillsets will likely be able to tide over the transformation better. Windfall from gRevlimid and slowdown in intensity of pricing pressures have helped US sales of India companies to grow 6% in 9MFY23, while rationalisation of R&D spend (savings of 100bps in past 3 years) has aided margins. gRevlimid and exit of competition from a few products could potentially boost the sales run-rate in FY24. We are cautious about US prospects beyond FY24 owing to limited FTF opportunities. Hence, we prefer companies that are diversifying their offerings in the US and have pipeline visibility. We expect the overall US generics business to post a modest 7% revenue CAGR over FY23-FY25E. **Sun Pharmaceuticals (SUNP), Cipla (CIPLA), Zydus Lifesciences (ZYDUSLIF)** are our top picks in the US generics space.

#### India branded formulations: Steady compounder; growth to pick up from Q2FY24

India pharma market is tightly held with the top-25 companies commanding a lion's share of 58%. Strong brand recall, asset-light business model and low R&D investments ensure best-in-class EBITDA margins. Companies operating in India are therefore well positioned to benefit by virtue of their lean balance sheet with steady cashflow. India business profitability has been temporarily disrupted due to mandated price cuts on NLEM products and raw material inflation. From Apr'23, pharma companies may start taking ~12% price hike on products under price control and up to 10% on the rest, thereby improving their margins. Better diagnosis and access to quality healthcare services are likely to boost volumes in India in the near term. Expect a 11% CAGR over FY23E-FY25E in India formulations. Our India-centric top picks are **Ajanta Pharma (AJP), Abbott India (BOOT)**

#### Hospitals: Post-covid winner

Hospitals constitute the only segment in healthcare that has been able to grow their revenue and improve margins over the inflated base of COVID-19 windfall. Aging population (~13% of the population is aged >60 years), high life-expectancy (>70 years currently) and surge in demand for quality healthcare post covid have led to improvement of 50-100bps in occupancy across our coverage universe and a 2% CAGR in in-patient count over Q3FY20-FY23. Ahead, addition of new beds, higher count of specialty surgeries, reduction in length of stay and better payer mix will likely drive growth in hospital business. We expect our coverage universe to register an EBITDA CAGR of 17% over FY23-FY25E. Prefer **Krishna Institute of Medical Sciences (KIMS), Fortis Healthcare.**

#### Diagnostics – Attractive industry, firefighting for market share

The diagnostics industry has been one of the fastest growing (FY16-FY22 CAGR at 13%) and profitable industries in India. Organised players have increased their market share from 15% in CY16 to 17% currently. The threat of online competition is restricted to certain high-volume tests while entry of new players (e.g. Lupin, Torrent) may impact volumes of the organised sector. The listed diagnostic companies have been quite disciplined in maintaining balance sheet strength and have started to grow inorganically only post covid as valuations have cooled off. Better brand recall with patients and prescriber reach, precise outcome and quality of tests, and continued focus on network expansion, have helped companies safeguard their market share in key regions. We expect our diagnostic coverage universe to register a PAT CAGR of 24% over FY23-FY25E. Prefer **Dr Lal PathLabs.**

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**TABLE OF CONTENT**


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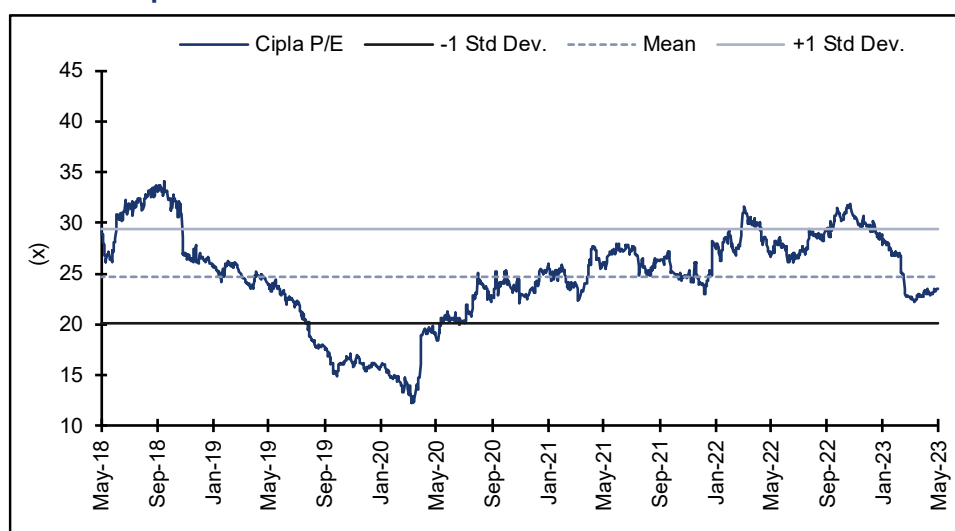
<b>Top picks .....</b>	<b>3</b>
<b>Valuation Summary .....</b>	<b>8</b>
<b>Industry .....</b>	<b>9</b>
India: Steady compounder, growth to pick up from Q2FY24 .....	15
Hospitals: Low bed density and aging population warrant demand for hospital infrastructure .....	18
Overview of diagnostics business .....	22
<b>Index of Tables and Charts .....</b>	<b>27</b>
<b>Company section .....</b>	<b>28</b>
Ajanta Pharma .....	29
Cipla .....	39
Zydus Lifesciences .....	43
Sun Pharmaceutical Industries .....	47
Abbott India .....	51
Krishna Institute of Medical Sciences .....	55
Fortis Healthcare .....	59
Dr Lal Pathlabs .....	63
Alembic Pharma .....	67
Alkem Labs .....	71
Aurobindo Pharma .....	75
Biocon .....	79
Divi's Laboratories .....	83
Dr. Reddy's Laboratories .....	87
Glenmark Pharmaceuticals .....	91
GSK Pharmaceuticals .....	95
JB Chemicals .....	99
Lupin .....	103
Natco Pharma .....	107
Pfizer .....	111
Sanofi .....	115
Strides Pharma Sciences .....	119
Torrent Pharma .....	123
Apollo Hospitals .....	127
Healthcare Global Enterprises .....	131
Metropolis .....	135
Vijaya Diagnostic .....	139

## Top picks

### Cipla – Advair delay factored, pipeline potential ignored

Cipla has proved its mettle in the respiratory segment in US through launch of complex products like gPulmicort, gProventil, Albuterol and Aformoterol. Monetization of pipeline assets will aid the company's US business touch new heights, while better traction in India and cost curtailment efforts will likely sweeten margin profile by 50-80bps every year. Better performance in key geographies of US and India may aid a revenue CAGR of 11.2% over FY23-25E while EBITDA and PAT will grow at 17.6%/21.5% over FY23-25E. Given earnings sustainability, better visibility in the US and robust free cashflow generation, we reinitiate coverage on Cipla with a **BUY** rating and target price of Rs1,169, based on 22x FY25E P/E.

Chart 1: Cipla – P/E chart

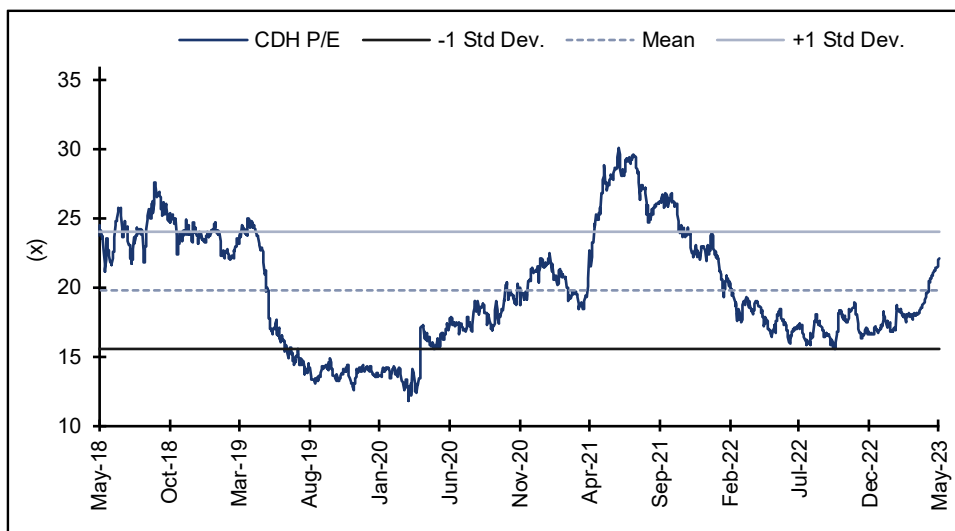


Source: I-Sec research, Bloomberg

### Zydus Lifesciences – US traction to aid delta in margins

Zydus Lifesciences (Zydus) is on track to monetise its US pipeline post clearance of Moraiya plant. Near-term performance will be driven by products like gTrokendi, REMS products, gRevlimid and other 30-35 launches annually. Company has an annual R&D budget for specialty products development at Rs3.75bn (33% of R&D expenses) and is on track to monetise its NCE assets like Saroglitazar (FY25). Trials for Desidustat and ZYIL1 are also progressing well. We believe Zydus can register revenue growth of 10.1% over FY23E-FY25E backed by ~9% CAGR in US and 10% CAGR in India. Traction in US is expected to drive a 300bps improvement in margins till FY25E even after inching up of R&D spending on NCE and specialty products. We recommend a **BUY** on the stock for a price target of Rs610, valuing it at 20x FY25E EPS, including Rs30 for gRevlimid.

Chart 2: Zydus – P/E chart

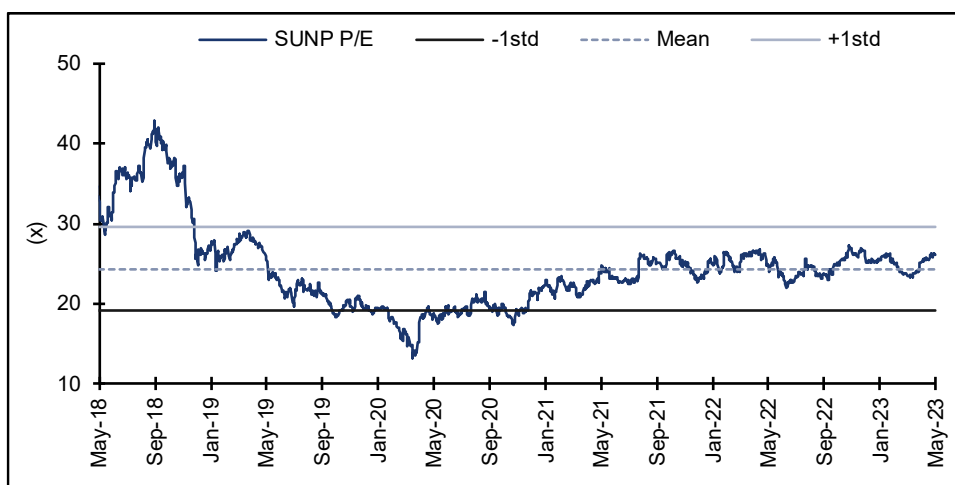


Source: I-Sec research, Bloomberg

### Sun Pharma – Stepping ahead in specialty game

Sun Pharma (Sun) provides a steady combination of a matured branded generics and fast-growing new-age businesses. Branded generics ensure steady cashflow while Sun is ahead of most of its India peers in the US specialty race. Sun's specialty business revenue is growing on the back of traction in Ilumya and Winlevi. Sun has acquired Concert Pharma to gain access to NCE drug deuruxolitinib, which is likely to be used in treatment of alopecia areata (for which there is significant unmet need). We expect US launch of this product in FY25E and likely account for 5-7% of Sun's global specialty sales by FY27E. Sun has launched 81 new products and increased medical representative (MR) count by 10% for better penetration in metros and tier-1 cities. We expect FY23E-FY25E India sales CAGR at ~8%. Company has restored its R&D investments for specialty business, which may hurt margins in the near term. At CMP of Rs956, the stock trades at 20.6x FY25E earnings. We value Sun at 25x FY25E EPS and reinitiate coverage with a **BUY** rating.

Chart 3: Sun Pharma – P/E chart

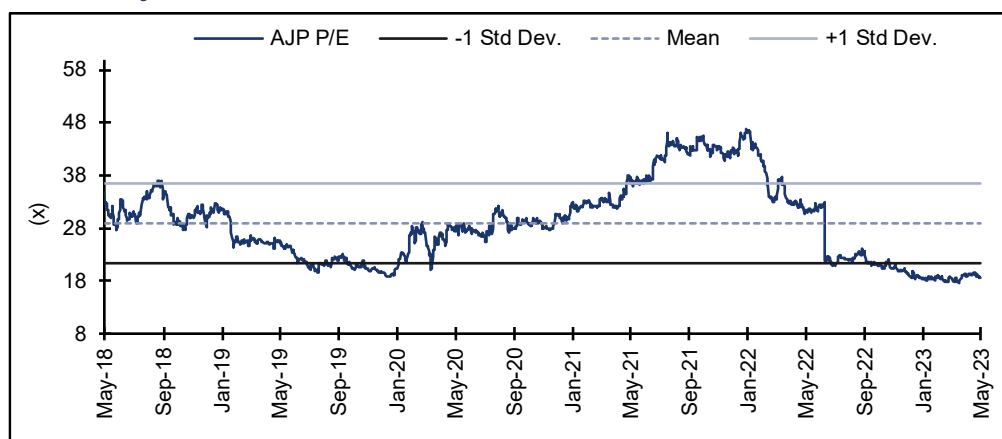


Source: I-Sec research, Bloomberg

### Ajanta Pharma – Niche play on branded generics

Ajanta Pharma (AJP) has a discerning management, prudent fiscal discipline and a brand-driven business model. This is reflected in its historical performance, based on which the company has commanded premium valuations (~30x P/E). While historical growth has been superlative, we believe, current valuations are attractive as the stock is trading close to 36% discount to its historical multiple. Traction in branded generic portfolio and improved utilisation in Dahej and Guwahati plants may ensure that margins sustain within 25-26%, going ahead. At the current market price of Rs1,263, the stock trades at 20x / 17x FY24E / FY25E EPS of Rs63 / Rs 75, respectively. We initiate coverage on AJP with a **BUY** rating and target price of Rs1,580 (21x FY25E earnings), implying a 25% return from the current levels.

**Chart 4: Ajanta – P/E chart**

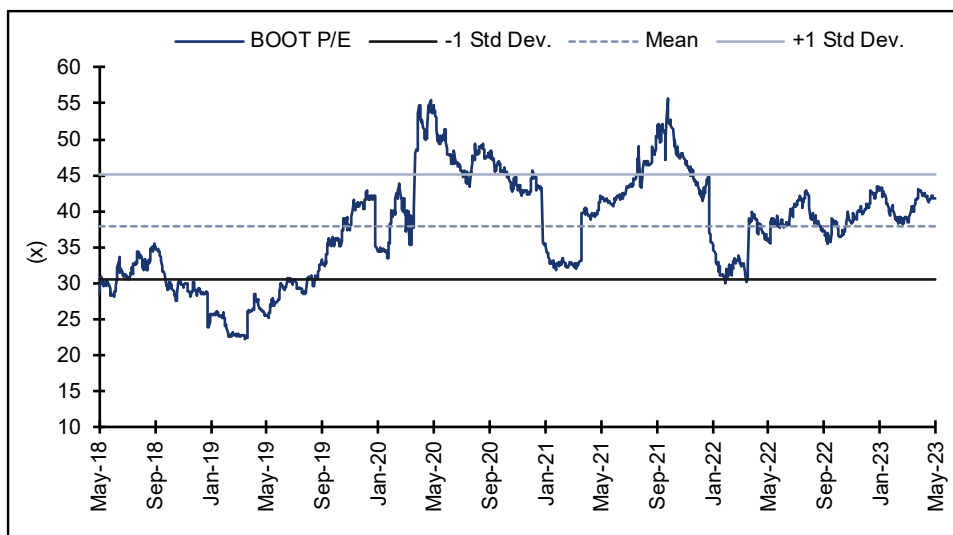


Source: I-Sec research, Bloomberg

### Abbott – MNC with traits of Indian pharma

Despite various hurdles, Abbott has grown its revenues in each of the last 22 quarters. Management has laid down a roadmap for driving growth in each of the segments it operates and is eyeing 15 new launches every year, of which 3-5 would be products that are about to go off patent every year. Management aspires for a revenue CAGR of 13% to US\$1bn by FY26 while profits will likely grow faster. Abbott showcases a balance sheet trait of an MNC and growth profile of an Indian company. Its strong set of brands, efficient field-force and patient-centric approach have helped it overcome threat from generics in its key brands. At a CMP of Rs21,202, the stock trades at 40x FY24E P/E and 35x FY25E P/E. Reiterate **BUY** and a target price of Rs27,000 based on 45x FY25E P/E.

Chart 5: Abbott – P/E chart

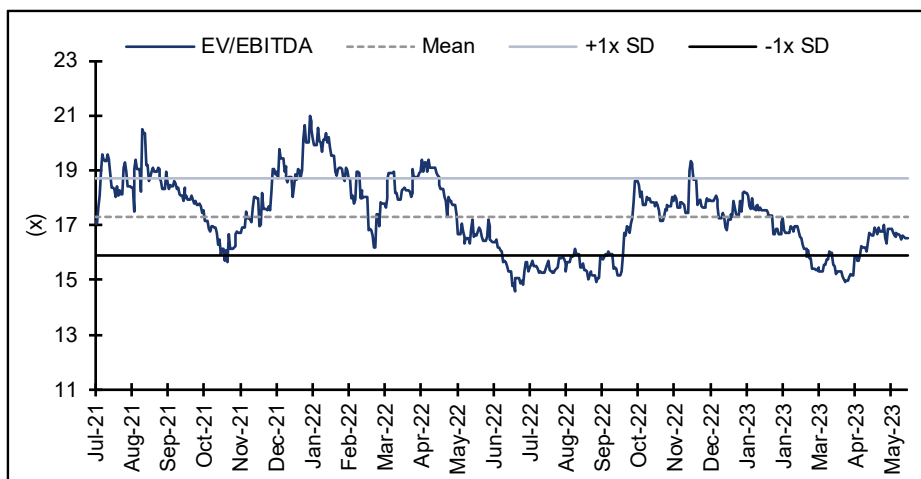


Source: I-Sec research, Bloomberg

**Krishna Institute of Medical Sciences (KIMS) – Quasi play on tier-2 healthcare story**

KIMS has a strong acquisitive history with a proven track record of execution. With recent acquisitions in Nashik and Nagpur, and proposed expansion in Bangalore and Maharashtra, KIMS has found a new growth lever in addition to its strong foothold in its home markets of Andhra Pradesh and Telangana. We are positive on the company's long-term outlook considering strong brand recall in its home markets, expansion in adjacent geographies, strong execution, prudent capital allocation and healthy margins. Consolidation of Sunshine Hospitals and Kingsway Hospitals, Nagpur, will drive a revenue CAGR of 16.3% over FY23E-FY25E. EBITDA margin however may decline by 50bps to ~26-27% Reinitiate coverage with a **BUY** and a target price of Rs1,795/share

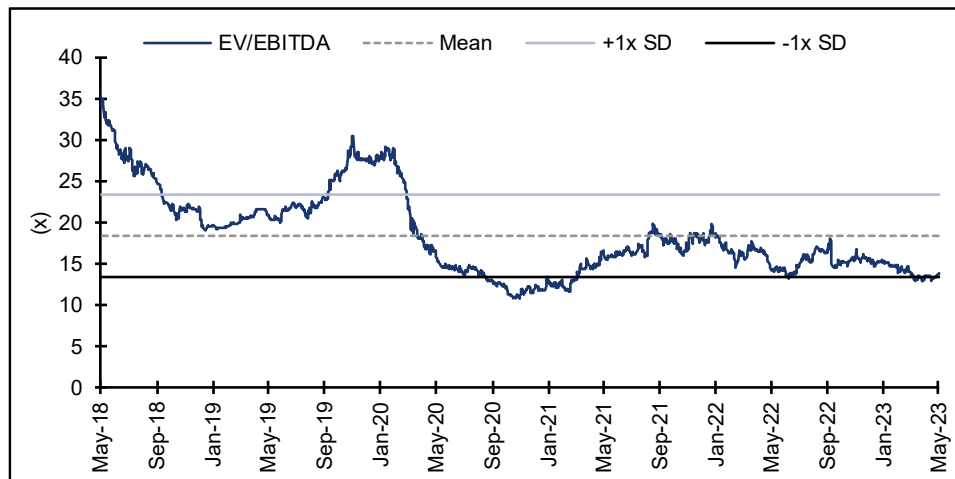
Chart 6: KIMS – EV/EBITDA



Source: I-Sec research, Bloomberg

**Fortis Healthcare – Multiple triggers for growth**

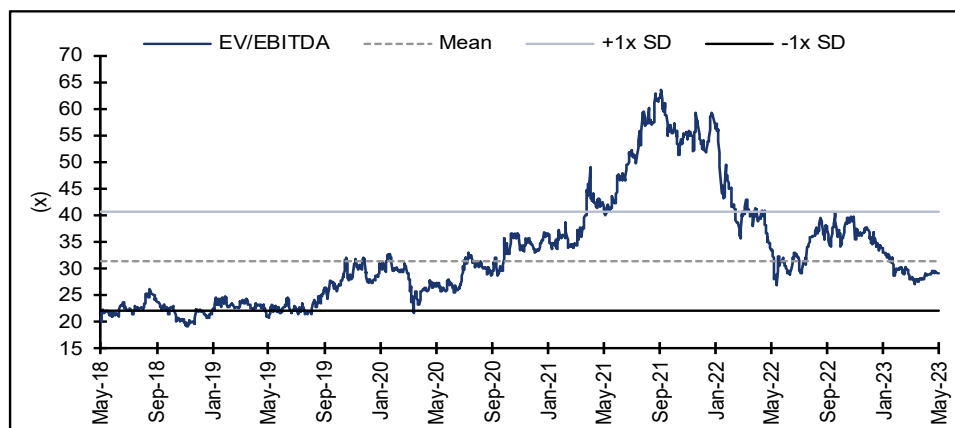
Fortis is amongst the few hospital-chains in India to have >75% share of operational beds in metro cities. Company will add 1,300 beds in the next four years in metros, which will provide strong impetus for future growth. Value unlocking in SRL (IPO/private placement) and resolution of outstanding litigation will lead to a rerating in the stock. We expect an 11% revenue CAGR over FY23E-FY25E and margins of 18% by FY25E. We reinitiate coverage with a **BUY** rating and target price of Rs375, and value the diagnostics business at 25x FY25E EV/EBITDA and hospital business at 18x FY25E EV/EBITDA.

**Chart 7: Fortis – EV/EBITDA**

Source: I-Sec research, Bloomberg

**Dr Lal PathLabs - Striking the right balance**

Dr Lal PathLabs (DLPL) has shifted its focus towards more specialised tests due to the increasing competition from online aggregators in routine tests. A pan-India player like DLPL is able to grow its volumes faster despite constant competitive threat due to strong brand equity, focus on geographical expansion, mix shift towards high-realisation tests and strong return ratios with healthy FCF. We expect revenue, EBITDA and PAT CAGRs of 16.2%, 20% and 33.3% respectively, from DLPL over FY23-FY25E, driven largely by volume growth. The stock trades at 40x FY25 P/E. We reinitiate coverage on the stock with **BUY** and a target price of Rs2,385/share.

**Chart 8: Dr Lal PathLabs – EV/EBITDA**

Source: I-Sec research, Bloomberg

## Valuation Summary

Table 1: Valuation Summary

Company	Mkt. Cap (Rs bn)	Target Price (Rs)	CMP (Rs)	Upside (%)	Rating	EPS (Rs)			ROCE (%)			P/E (x)			EV/ EBITDA (x)		
						FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Pharma																	
Sun	2,294	1,160	956	21.4	BUY	34.9	41.1	46.5	14.9	15.4	15.4	27.4	23.3	20.6	18.1	15.0	12.8
Dr Reddy's	741	5,000	4,466	12.0	ADD	238.4	273.9	291.4	16.7	17.4	16.8	18.7	16.3	15.3	12.3	9.8	8.7
Aurobindo	357	625	609	2.6	HOLD	32.8	39.1	46.3	7.4	8.2	9.1	18.5	15.6	13.2	8.8	7.5	6.3
Lupin	352	630	774	-18.6	SELL	8.4	21.6	26.1	3.5	7.0	8.0	92.1	35.8	29.7	21.9	14.7	12.8
Cipla	757	1,169	937	24.7	BUY	36.3	43.9	53.6	13.3	14.3	15.4	25.9	21.4	17.5	14.2	11.9	9.5
Zydus Lifesciences	520	610	514	18.7	BUY	19.3	26.7	30.1	8.9	11.6	12.1	27.2	19.6	17.4	17.0	12.7	11.1
Glenmark	173	540	613	-12.0	REDUCE	33.9	40.2	46.7	10.5	11.4	11.9	18.1	15.2	13.1	8.5	7.4	6.4
Torrent	559	1,630	1,652	-1.3	HOLD	37.1	44.7	53.1	14.1	15.1	17.2	44.8	37.1	31.2	21.5	18.5	16.2
Alkem	408	3,650	3,409	7.1	ADD	100.0	114.9	130.6	12.0	12.7	13.2	34.1	29.7	26.1	24.7	21.1	18.3
Biocon	294	265	245	8.2	ADD	5.8	13.0	16.1	3.1	4.5	5.1	41.6	18.6	15.1	19.4	12.4	10.4
Ajanta	159	1,580	1,263	25.1	BUY	49.2	63.4	75.2	19.0	22.0	21.8	25.6	19.9	16.8	18.3	14.3	11.5
Alembic	112	590	563	4.8	HOLD	17.4	22.1	28.7	7.0	8.2	9.6	32.9	25.8	19.9	16.3	12.3	9.9
Strides	34	390	367	6.2	ADD	11.3	20.7	34.8	-0.9	6.5	8.8	-16.8	17.7	10.5	14.7	9.7	7.9
JB Chemicals	158	2,200	2,040	7.9	ADD	57.2	78.6	94.5	18.3	20.6	21.8	36.2	26.3	21.9	21.8	16.5	13.8
Natco	114	635	623	1.9	HOLD	34.9	32.1	34.4	13.1	11.1	10.9	17.9	19.4	18.2	12.7	13.3	12.3
Abbott India	451	27,000	21,202	27.3	BUY	454.2	530.9	599.4	31.4	30.1	27.9	46.7	39.9	35.4	32.2	27.2	23.3
Pfizer India	173	4,200	3,772	11.3	ADD	129.5	146.3	162.0	19.8	19.4	18.7	29.3	25.9	23.4	18.7	16.1	14.0
Sanofi India	148	6,500	6,444	0.9	HOLD	228.6	259.6	277.2	41.2	37.7	33.4	28.2	24.8	23.2	19.6	17.8	16.2
GSK Pharma	216	1,295	1,276	1.5	HOLD	37.7	37.5	41.8	25.1	25.2	27.9	33.9	34.1	30.6	22.9	22.9	20.4
Divi's	880	3,560	3,315	7.4	ADD	65.2	78.2	92.8	13.8	15.5	17.0	50.9	42.4	35.8	35.2	29.3	24.6
Hospitals																	
Apollo	641	5,000	4,605	8.6	ADD	55.2	81.4	105.2	9.5	12.1	13.6	83.4	56.6	43.8	32.9	25.7	21.0
KIMS	119	1,795	1,491	20.4	BUY	39.0	45.9	51.3	17.4	16.9	16.0	38.2	32.5	29.0	20.0	16.7	14.5
Fortis	204	375	270	38.8	BUY	7.9	10.0	11.9	6.3	7.2	7.9	34.2	27.0	22.6	17.1	14.3	12.1
HCG	39	330	278	18.7	BUY	3.6	5.9	8.8	7.1	8.7	10.3	74.7	45.0	30.3	14.8	12.6	10.7
Diagnostics																	
Dr Lal	169	2,385	2,041	16.8	BUY	28.6	38.9	50.9	12.9	15.6	17.9	71.3	52.5	40.1	33.6	27.0	22.2
Metropolis	69	1,345	1,351	-0.4	HOLD	27.9	32.0	38.5	11.9	13.3	15.6	48.4	42.2	35.1	24.1	22.1	19.3
Vijaya	38	435	374	16.4	BUY	7.5	9.5	11.9	13.1	14.0	15.0	48.4	38.6	30.6	19.9	16.5	13.5

Source: I-Sec research

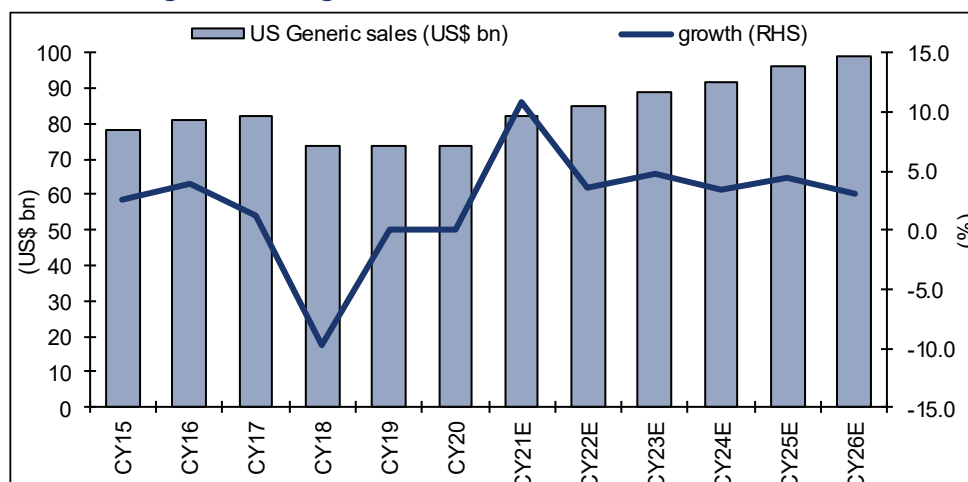


## Industry

### US – Near-term green shoots visible though macro unchanged; stay selective

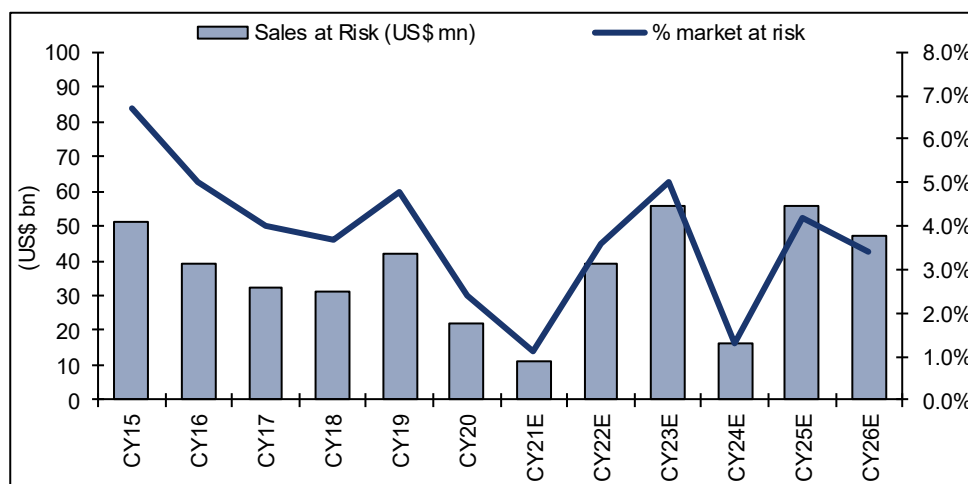
The US generic drug market was pegged at US\$74bn in CY20. The market has been flat in the previous 2-3 headwinds such as price erosion, rise in competition and stringent regulatory framework. Companies have tweaked their models such that they have constantly been able to enhance shareholders' wealth. Launches like gRevlimid coupled with favourable season have helped companies to grow their US business at 6% in 9MFY23; however, with more players entering gRevlimid, price erosion in the base business and limited exclusive opportunities may not allow any changes in the broad operating macros in US pharma market. FY22 was a challenging year for most pharma companies due to higher supplies in FY21.

**Chart 9: US generics to grow at a meek rate of 3.8% over CY21-CY26**



Source: Evaluate Pharma

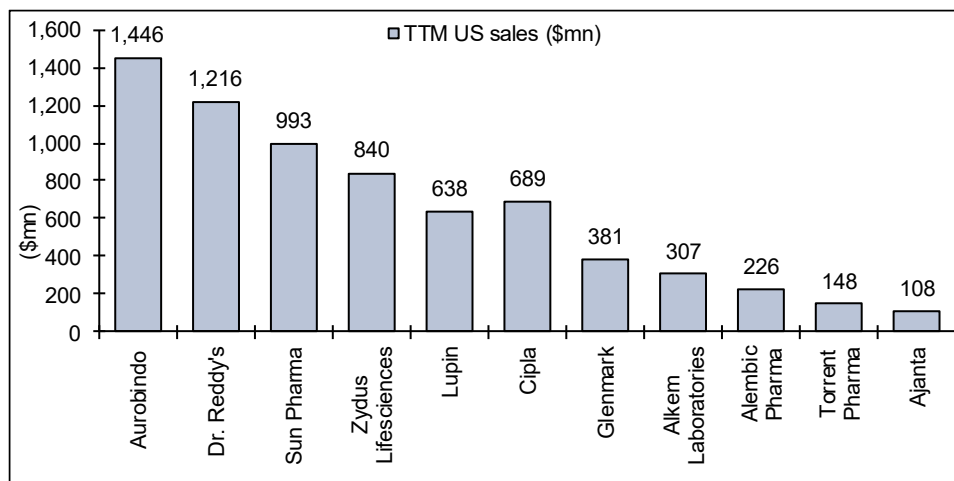
**Chart 10: Branded sales worth US\$214bn at risk over CY22-CY26 E**



Source: Evaluate Pharma

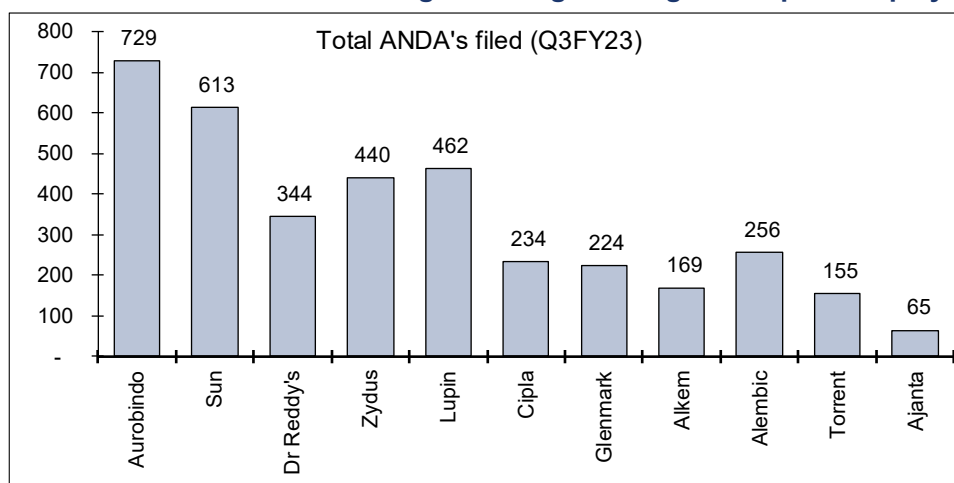
US sales for the Indian companies had largely remained flattish over FY20-FY22 before picking up in 9MFY23. Among the Indian companies, Aurobindo Pharma is the largest player in the US with TTM sales of US\$1.4bn and has so far filed 729 ANDAs with the USFDA. Dr Reddy's has seen a windfall of gRevlimid launch and its US run-rate for last 12 months has surpassed US\$1.2bn.

**Chart 11: Aurobindo continues to be the largest Indian generic player in the US**



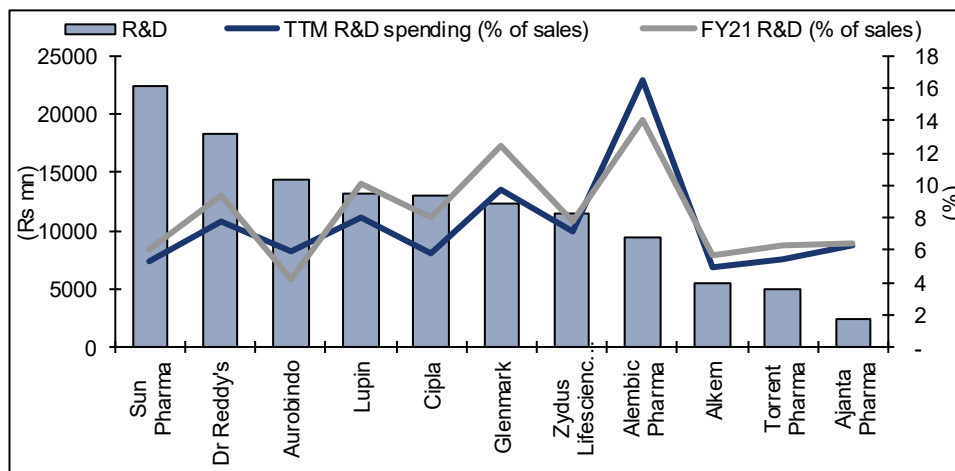
Source: Company, I-Sec research

**Chart 12: Aurobindo has the highest filings among Indian pharma players in US**



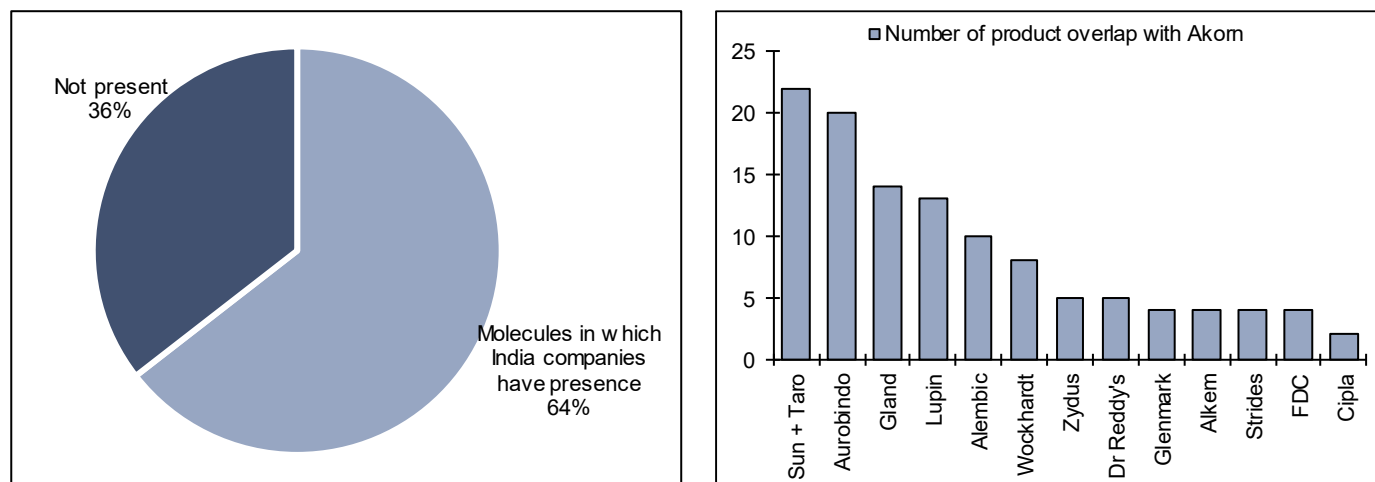
Source: Company, I-Sec research

Owing to the turbulence in past few years, Indian companies have tweaked their US strategy and are now exploring newer opportunities in complex products such as injectables, biosimilars and specialty products. Industry-wide ANDA filings peaked in CY18, with 274 products filed with the USFDA, but the run-rate has been sliding thereafter. Companies have also exited products that faced higher price erosion and manufacturing of which is no longer economical. To further safeguard margins and reduce cash burn, companies are trying to optimise their R&D costs by 70-200bps vs FY21 levels.

**Chart 13: R&D spend has been optimised by most companies**

Source: Company, I-Sec research

Recently, Akorn Pharma filed for bankruptcy and subsequently has exited all the products it used to sell in US [Link](#). This event could be positive of Indian generics players who are well positioned to fill the supply gap. Of the 107 products that Akorn used to sell, Sun Pharma and Aurobindo have the maximum overlap with 22 and 20 products respectively. If the product pricing deteriorates further than we may further witness exit of a few players as manufacturing would become unviable.

**Chart 14: Exit of Akorn a positive for Sun Pharma and Aurobindo**

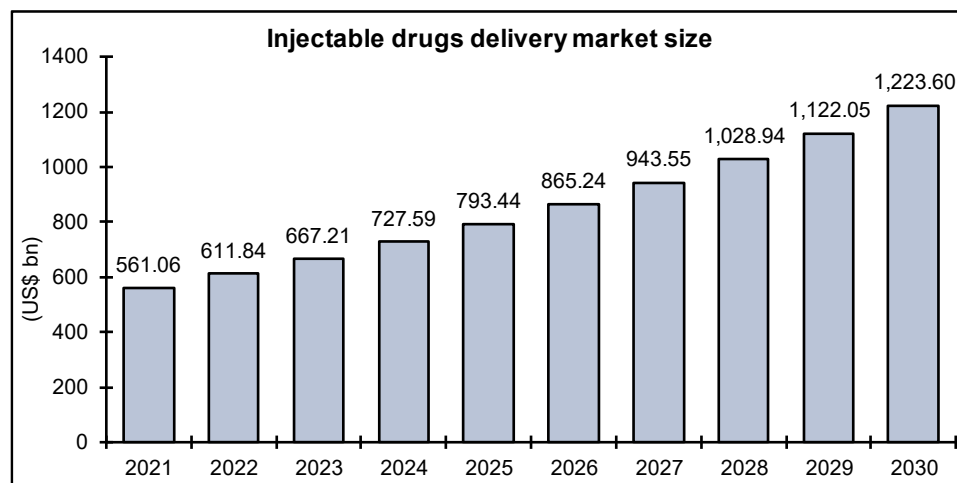
Source: USFDA, I-Sec research.

**Table 2: Key US-centric plants struggling with regulatory compliance**

Company	Unit	Location	Nature of facility	FDA action	Status	Inspection date	Warning Letter date
Aurobindo	Unit I, Borpatla	Telangana	API	OAI	Pending	Feb-19	Jun-19
Aurobindo	Unit XI, Srikakulam	AP	API	WL	Pending	Feb-19	Jun-19
Aurobindo	Unit IX, Sangareddy	Telangana	Intermediates	OAI	Pending	Feb-19	Jun-19
Cipla	Goa	Goa	Formulations	WL	Pending	Sep-19	Feb-20
Indoco Remedies	Unit I, Verna	Goa	Formulations	WL	Pending	Jan-19	Jul-19
Lupin	Pithampur (Unit 2)	MP	Formulations	WL	Pending	May-17	Nov-17
Lupin	Mandideep (Unit 1)	MP	Integrated	OAI	Pending	Dec-18	Sep-19
Lupin	Tarapur	Maharashtra	API	WL	Pending	Apr-22	Sep-22
Strides	Pondicherry	Pondicherry	API	WL	Pending	Feb-19	Jul-19
Sun Pharma	Mohali	Punjab	Formulations	OAI	Pending	Aug-22	Nov-22
Sun Pharma	Halol	Gujarat	Sterile	IA	Pending	May-22	Dec-22
Torrent	Indrad	Gujarat	Integrated	WL	Pending	Apr-19	Nov-19
Torrent	Dahej	Gujarat	Formulations	OAI	Pending	Apr-19	Nov-19

Source: USFDA, I-Sec research

Global injectables market has grown at a higher pace compared to overall global pharmaceutical market over the last five years from CY16 to CY20; the segment grew at approximately 9% CAGR during the corresponding period to reach ~US\$502bn in CY20. It is expected to grow at approximately 8% CAGR over the next five years to reach US\$700bn-800bn. Rising adoption of injectable drugs for individuals suffering from chronic diseases such as cardiovascular diseases, autoimmune and inflammatory diseases, cancer, and infectious diseases is expected to increase the market growth rate.

**Chart 15: Injectable drugs delivery market to witness healthy growth**

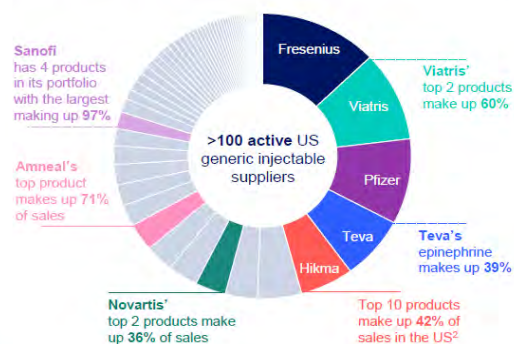
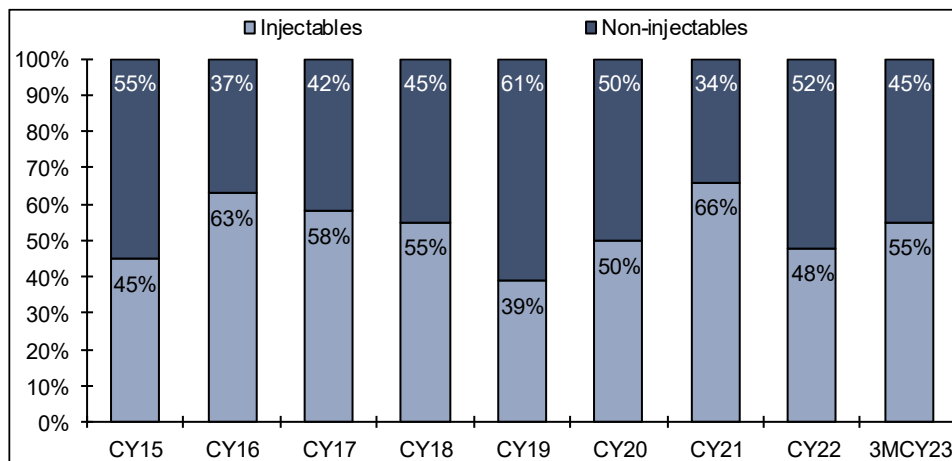
Source: Prudence research

The generic injectables market in US is concentrated towards only a few players. The top-3 players account for 57% of the volumes of the top-7 players, and make up for more than 50% of value market share. Frequent manufacturing-related issues have created shortages of injectable products in US. Nearly 66% of the total drug shortages in US are of injectable products.

**Chart 16: US generic injectables market dominated by a few players**US generic injectables market share by volume<sup>1</sup>

<sup>1</sup> IQVIA FY 2020, Gx only. Excludes Grifols, Henry Schein and Becton-Dickinson  
<sup>2</sup> Based on actual revenues

Source: Hikma

US generic injectables market share by sales<sup>1</sup>**Chart 17: Maximum drug shortages in US are of injectables**

Source: ASHP

According to IQVIA's, global biosimilar sales witnessed a CAGR of 78% between CY15-20 to ~US\$17.9bn. Biosimilar sales are estimated to continue growing at a CAGR of 15% between 2020-30 to reach US\$75bn. Between CY21-CY30, loss of patents is likely to impact brands, which collectively accounted for global sales of approximately US\$144bn in CY20.

**Chart 18: Biosimilars space is fast evolving**

Source: IQVIA

At 127, India has highest number of biosimilars approved globally. US and Germany has ~71 applications approved. Oncology and autoimmune diseases are the therapies in which most biosimilars are launched in US. The USFDA has approved 11 biosimilars of Adalimumab and 8 each for Infliximab, Rituximab and Trastuzumab.

**Table 3: Biologic products targeted by Indian companies**

Biologic	Innovator	Global Market Size (US\$ bn)	Biocon	Dr Reddy's	Lupin	Aurobindo
Adalimumab	Humira (Abbvie)	34.6	Hulio			
Aflibercept	Eylea (Regeneron)	9.4	MYL-1701P Filed			
Bevacizumab	Avastin (Genentech)	6.1	Bmab-100 Filed			
Denosumab	Prolia (Amgen)	5.8	BMAB-1000 (Phase 3)			
Etanercept	Enbrel (Amgen)	15.5			YLB113 Phase 3 trials	
Insulin Aspart	Novolog (Novo Nordisk)	7.1	Filed			
Insulin glargine	Lantus (Sanofi)	6.2	Semglee			
Omalizumab	Xolair (Genentech)	3.7				Phase 1
Pegfilgrastim	Neulasta syringe (Amgen)	1.3	Fulphila	(In partnership with Fresenius Kabi)		
Pegfilgrastim (On Body Device)	Neulasta (Amgen)	-			Lupifil-P OBI (Filed)	
Ranibizumab	Lucentis (Genentech)	3.4			LUBT010 (Filed)	
Recombinant human insulin	Eli Lilly (Humulin)	-	Filed			
Rituximab	Rituxan (Genetech)	2		(Filed)in partnership with Fresenius Kabi		
Tocilizumab	Actemra (Genentech)	3.7		Phase 1 trial completed		
Trastuzumab	Herceptin (Genetech)	2.1	Ogivri			
Ustekinumab	Stelaara (Janssen)	14.1	BMAB-1200 (Phase 3)			
Abatacept				in pipeline		

Source: Company, USFDA, I-Sec research

**Table 4: Indian pharma players' US business snapshot**

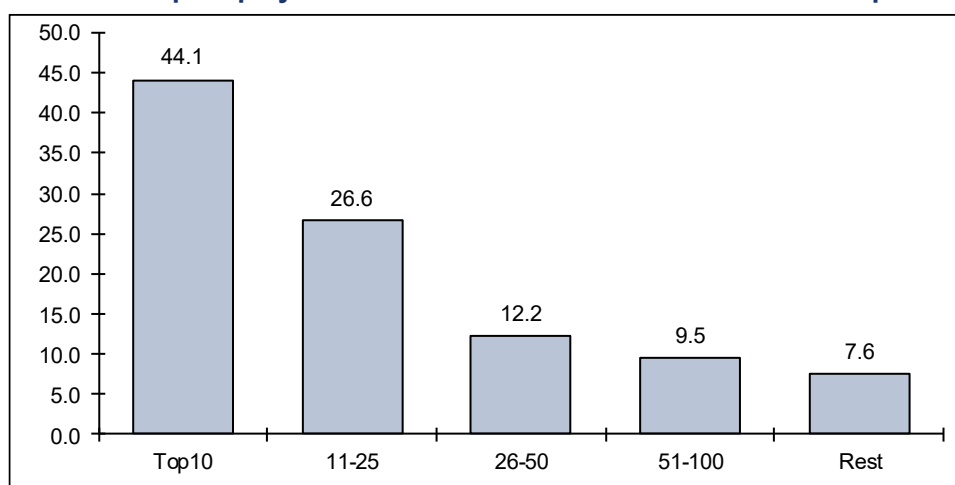
Companies	Aurobindo	Sun	Dr Reddy's	Zydus	Lupin	Cipla	Glenmark	Alkem	Alembic	Torrent	Ajanta
US generic sales - FY22 (US\$ mn)	1,494	995	1,003	856	738	594	408	318	225	137	94
US biz % of sales	47	31	38	46	36	28	24	26	29	12	22
US sales growth CAGR FY17-22(%)	7	-6	0	8	-9	9	-6	11	10	-8	27
Total ANDA's filed (Q3FY23)	729	613	344	440	462	234	224	169	256	155	65
Total ANDA's approved (Q3FY23)	542	517	269	341	295	160	178	129	178	107	43
ANDA's pending approval (Q3FY23)	187	96	75	99	167	74	46	40	78	48	22
R&D - FY22 (Rs mn)	15,810	26,851	17,482	11,332	14,024	11,293	12,387	5,674	8,384	1,192	2,040
R&D % of sales	5.7	6.9	8.2	7.0	7.5	5.8	10.0	4.5	15.8	5.2	6.0
Pre R&D EBITDA margins - FY22 (%)	25.4	33.4	21.3	28.5	26.1	26.1	28.9	33.2	32.3	34.6	33.9
Number of units with F483/IA/WL	5	2	1	-	3	2	1	1	1	2	-

Source: Company

## India: Steady compounder, growth to pick up from Q2FY24

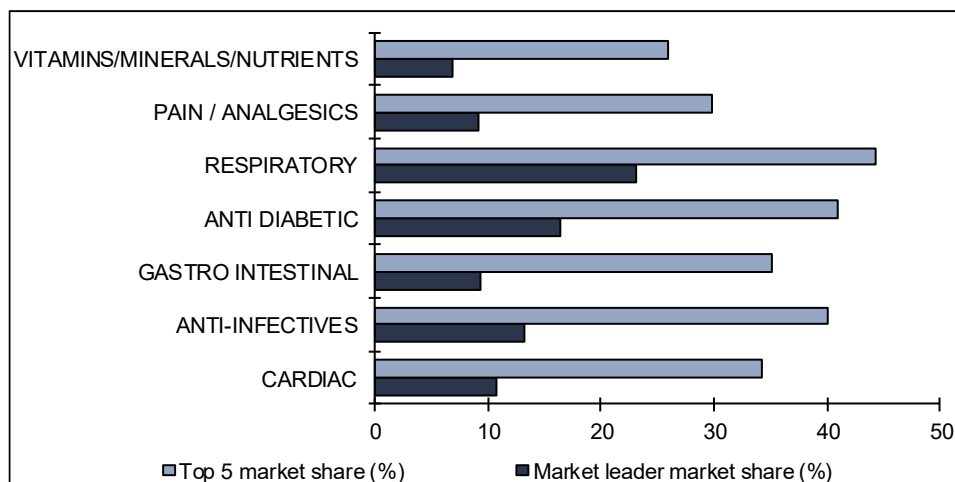
The Indian pharma market has been tightly held with the market leader Sun having a giant ~8% market share and top 25 companies accounting for 71% of the market [Source: IQVIA]. The industry is thus able to overcome multiple setback such as mandated price cuts (NLEM), FDC ban, GST implementation, outbreak of covid and, currently, the market is struggling with lack of volume growth and higher raw material prices. The revised list of NLEM 2022 will likely further exert pressure on margins for the next couple of quarters. However, starting Apr'23, companies are expected take up to 10% price hike on nearly 80% of their portfolio, while companies will be able to take ~12% price increase on the balance which is under price control. In the past, companies have taken an average price hikes between 5-8% in India.

**Chart 19: Top-25 players have a lion's share of ~71% of the India pharma market**



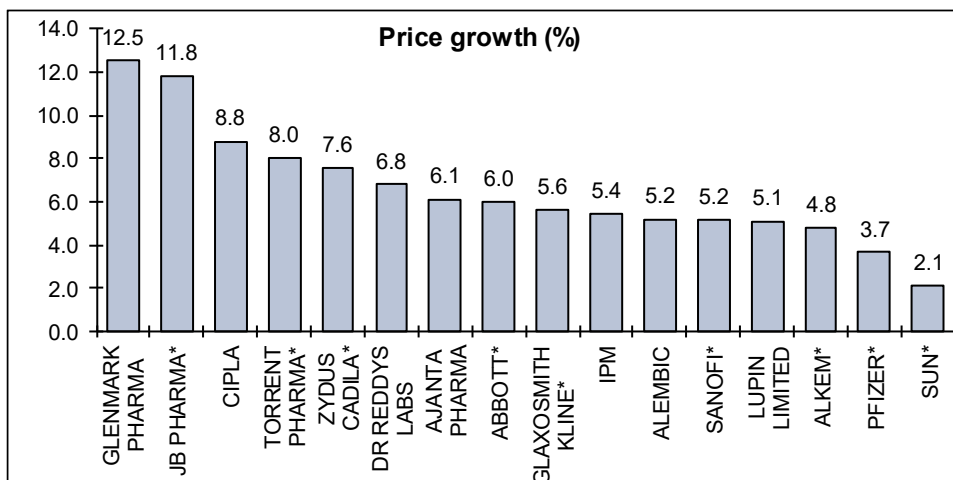
Source: IQVIA, I-Sec research

**Chart 20: Top-5 players in India control a dominant share in each therapy**



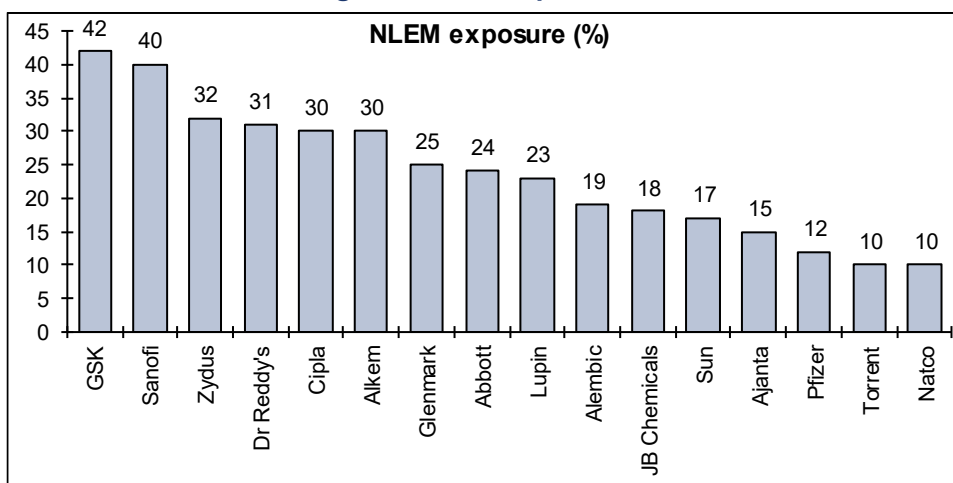
Source: IQVIA, I-Sec research

Companies with a higher reliance on chronic therapies and lower share of NLEM products will be able to take good price hikes in their India portfolio. Among the covered companies, Glenmark and JB Chemicals took the maximum price hike of 12.5% and 11.8% respectively for MAT ending Mar'23.

**Chart 21: Price growth for Glenmark and JB Pharma highest in FY23**

Source: IQVIA, I-Sec research

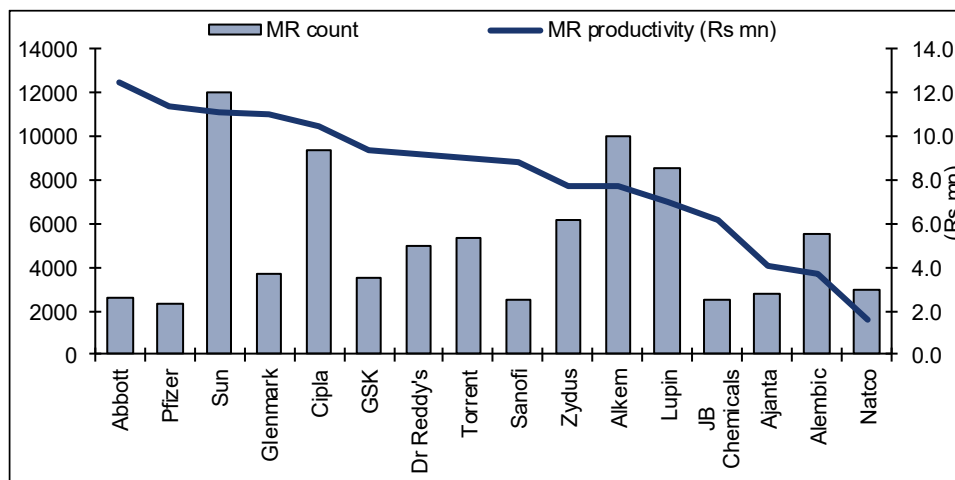
Rise in the WPI inflation is likely to help companies take a 12% price hike on the portfolio under price control in India. Among our covered companies, GlaxoSmithKline Pharmaceuticals (GSK) has the highest exposure of 42% to NLEM products followed by Sanofi India at 40% as Lantus have come under price control.

**Chart 22: GSK has the highest NLEM exposure in India**

Source: Company, I-Sec research

Sun Pharma has recently increased its fieldforce by 10% and, with 12,000 MRs, has one of the largest field forces among listed peers. Alkem with 10,000 and Cipla at 9,400 MRs also have substantial presence on the ground. Sun, Torrent, Lupin, JB Chemicals and Sanofi have increased their MR force in India by 8-20% and working towards improving their reach among prescribers in their target markets.



**Chart 23: Sun,Torrent,Lupin,JB Chemicals,Sanofi have increased their MR force in India**

Source: Company, I-Sec research

**Table 5: India branded snapshot**

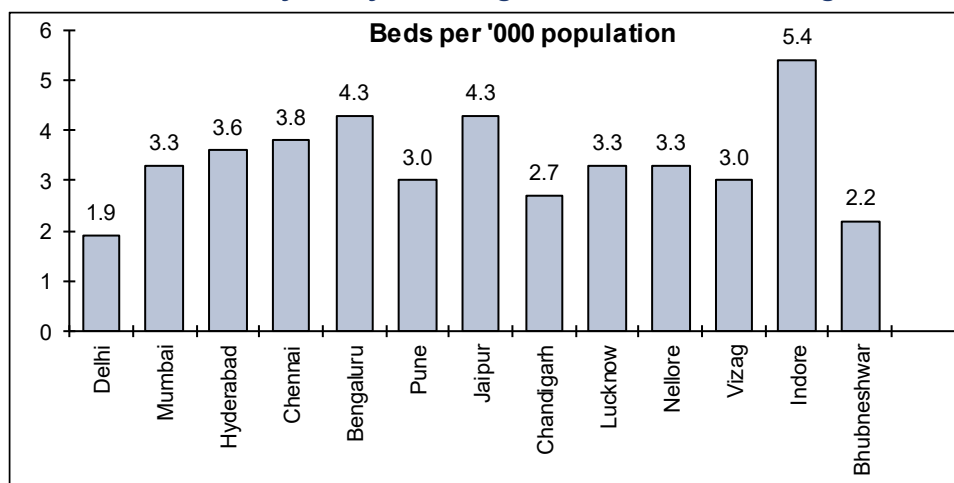
India business (FY22)	Sun	Cipla	Lupin	Dr Reddy's	Zydus	Torrent	Alkem	Alembic	Ajanta	JB Chemicals	Abbott	Sanofi	Pfizer	GSK
<b>Reported</b>														
India sales (Rs mn)	1,27,593	98,280	60,042	41,957	48,125	42,860	74,045	19,260	9,820	11,732	48,490	21,960	26,110	32,780
% contribution to overall sales	33.2	45.2	38.0	19.7	39.6	50.3	75.8	43.9	29.8	48.4	100.0	100.0	100.0	100.0
India sales CAGR 3 years (%)	20.2	15.3	9.0	17.0	11.0	22.8	14.8	11.6	12.4	20.0	9.9	3.2	7.8	1.6
India sales CAGR 5 years (%)	10.5	12.2	9.5	12.6	8.2	16.7	11.6	9.0	9.8	16.8	11.1	5.3	5.0	2.4
Acute:Chronic Mix (%)	42:58	43:57	35:65	55:45	53:47	25:75	61:39	57:43	40:60	26:74	40:60	44:56	59:41	70:30
NLEM (%)	17	30	23	31	32	10	30	19	15	18	24	40	12	30
<b>IQVIA (Mar'23)</b>														
Rank	1	3	6	10	12	8	5	21	27	24	2	20	19	13
Market share (%)	7.7	5.3	3.5	2.9	2.9	3.4	4.1	1.5	0.7	1.0	6.2	1.6	1.7	2.6
Top 10 brands contribution (%)	18.5	29	21.4	26.1	18.7	26.3	37.5	35.6	42.7	77.2	72.0	57.7	52.2	58.7
Number of brands with sales above Rs500 mn	45	32	24	15	35	27	24	4	4	6	13	20	23	21
Number of MRs	12000	9400	8550	5000	6200	5300	10000	5500	2800	2500	2622	2500	2300	3500
MR productivity (Rs mn)	10.6	7.5	7.0	8.4	7.8	8.1	7.4	3.5	3.5	4.7	11.1	8.8	11.4	9.4
<b>Therapeutic break up (%)</b>														
Anti-infective	11	16	7	14.7	13.0	3.1	34.5	21.9	2.8	0.7	-	2.2	17.4	26.6
Gastro	12	6	8	16.5	10.9	17.3	19.7	11.2	-	46.2	-	12.6	11.8	0.4
Cardio	17	12	24	12.2	15.7	27.3	3.4	16.3	40.6	41.2	-	14.6	11.9	0.4
Diabetes	8	5	23	11.3	2.4	8.6	5.1	7.2	2.5	0.6	36.9	33.1	-	-
CNS	16	3	4	3	1.1	15.1	5.0	0.5	2.1	-	8.6	6.7	6.2	-
Respiratory	5	37	14	2	10.4	0.3	2.4	13.2	1.9	0.9	-	13.3	7.2	5.5
Pain	7	2	4	11.3	7.7	6.3	7.4	4.2	6.5	0.5	2	7.1	5.3	11.5
Others	24.0	19.0	16.0	29.0	38.8	22.0	22.5	25.5	43.6	10.0	52.5	10.4	40.2	55.6

Source: IQVIA, I-Sec research

## Hospitals: Low bed density and aging population warrant demand for hospital infrastructure

Bed density in India stands at one of the lowest across the globe. However, bed counts are higher in urban areas than in rural due to better income levels and availability of medical staff.

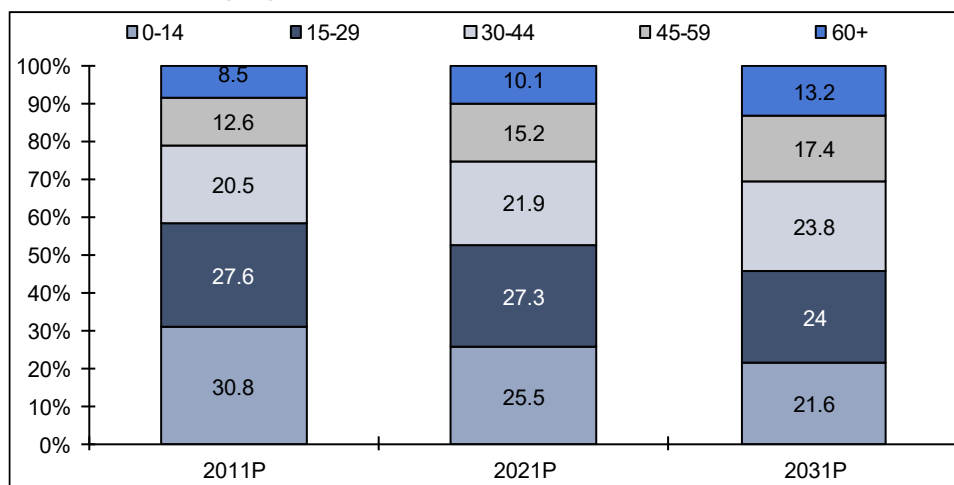
**Chart 24: Bed density in key cities higher than national average of 1.5 beds**



Source: CRISIL Research

Life expectancy in India is expected to surpass 70 years by CY31 as against ~50 years in 1973. Higher life expectancy is also leading to rise in the count of aging population (nearly 13% of the population is expected to be above the age of 60 years by CY31 as compared to only 8.5% in CY11).

**Chart 25: Fast-aging population would require better healthcare infrastructure**



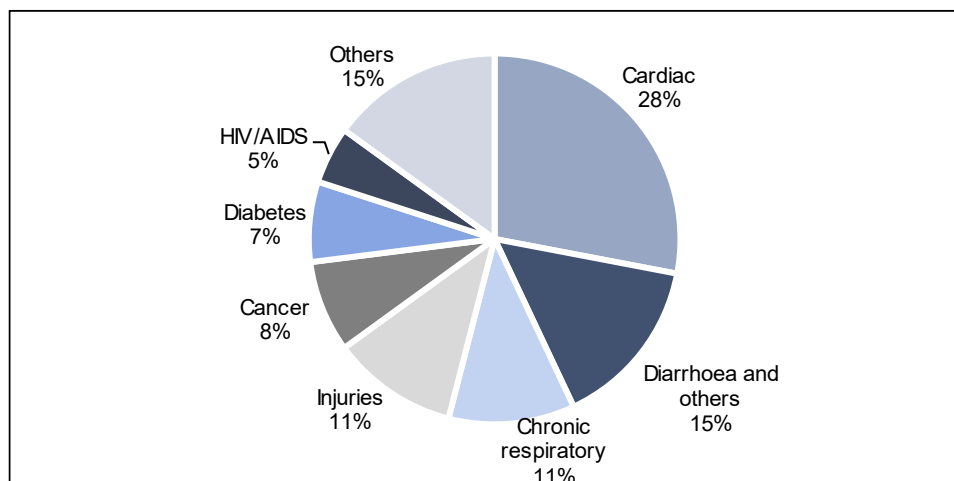
Source: National Commission of Population, Ministry of Health & Family Welfare, I-Sec research

## Lifestyle-related ailments are rising

Mortality due to non-communicable disease is on the rise in India in the last 10-15 years. Cardiac ailments (28% of deaths in CY21) has become the number one reason for deaths in India followed by diarrhea (15%) and respiratory ailments (11%).

### Cardiac accounts for nearly 19% admission for KIMS and 18% for FORH

**Chart 26: Cardiac ailments are on the rise**

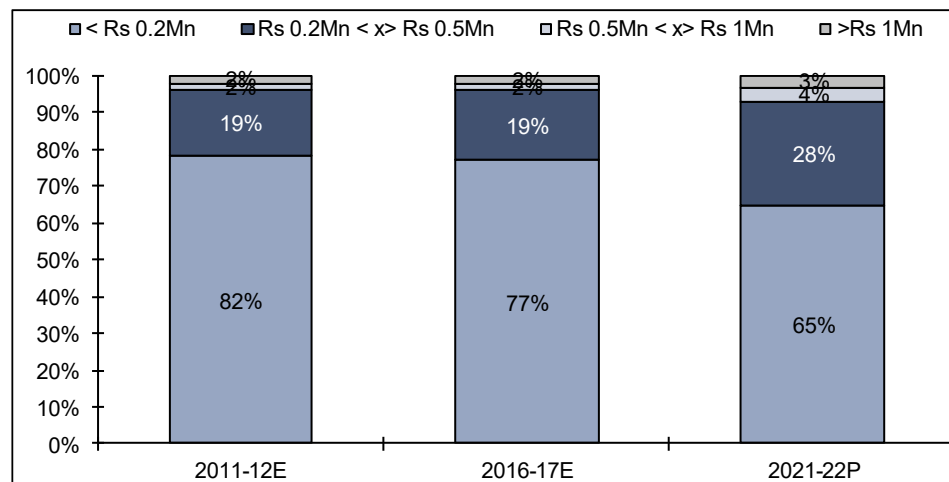


Source: Company, I-Sec research

### Rise in income levels and government schemes may make healthcare more affordable

- Nearly 35% of India's population is expected to have an annual income in excess of Rs0.2mn in CY21-22 as against mere 18% in CY11-12.
- Introduction of *Ayushman Bharat* and various Central and state government schemes have ensured that 70% of the population has a basic insurance cover and access to hospitals for treatment certain ailments. However, only 20% of population is actually availing benefits from these schemes.
- Availability of doctors, secondary and tertiary care, better medical infrastructure are few reasons for cost of healthcare services being higher at private hospitals compared to government and charitable hospitals.
- Though the treatment cost differential is higher, private hospitals ensure that quality healthcare is provided to all. They derive 16-22% of their total hospital revenue from scheme-based patients, cost of which is borne by Central / state governments.

**Chart 27: Income levels on the rise**

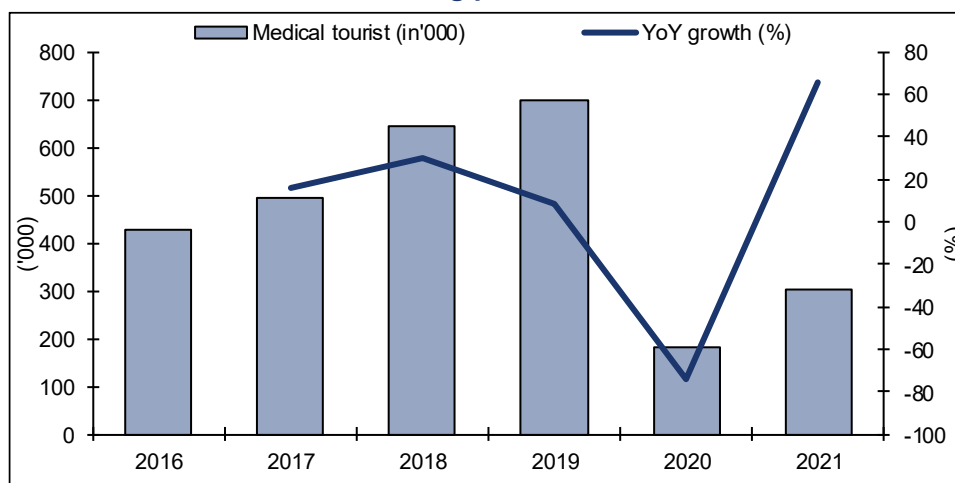


Source: CRISIL Research, I-Sec research

### International patient flow is improving

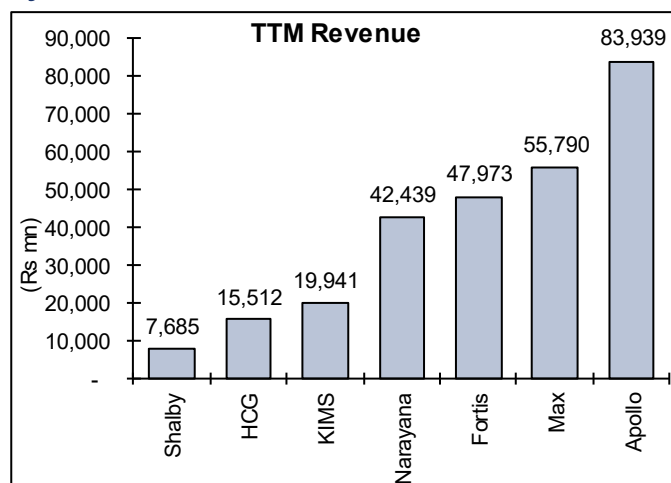
- Cost of treatment in India is lower by 70-80% compared to that in the US and also fares lower compared to other nations in South-East Asia.
- Medical tourist inflow surged 73% YoY to 324,000 patients at end of CY21 though it remains 54% lower than the peak arrivals of 697,000 in CY19.
- Bangladesh, Maldives and Afghanistan are the key countries from which patients travel to India for availing of medical treatment.
- International patients accounted for 10-11% of hospital revenue prior to the pandemic – and, at Q3FY23-end, they accounted for a mere 6-8%.

**Chart 28: Medical tourism reviving post covid**



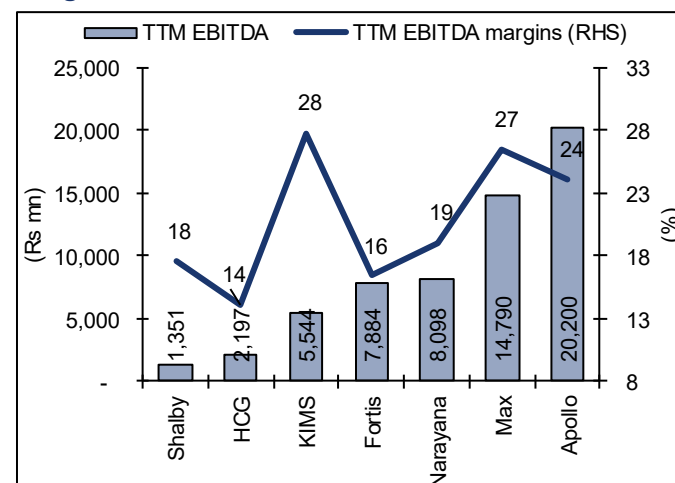
Source: Niti Ayog

**Chart 29: Apollo is India's largest hospital chain by revenue**

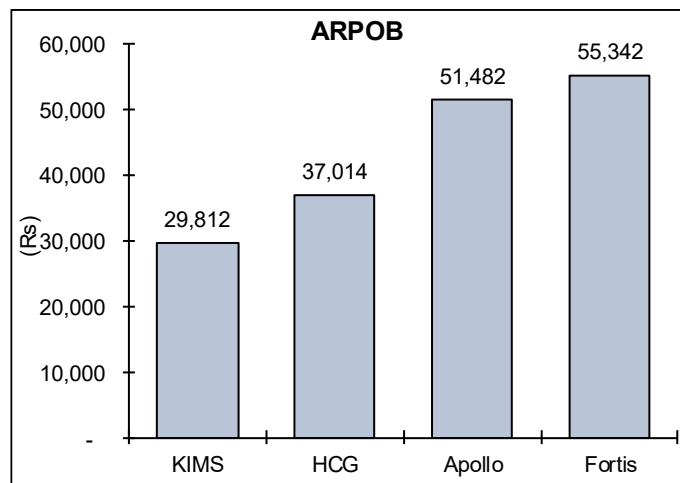


Source: Company data, I-Sec research

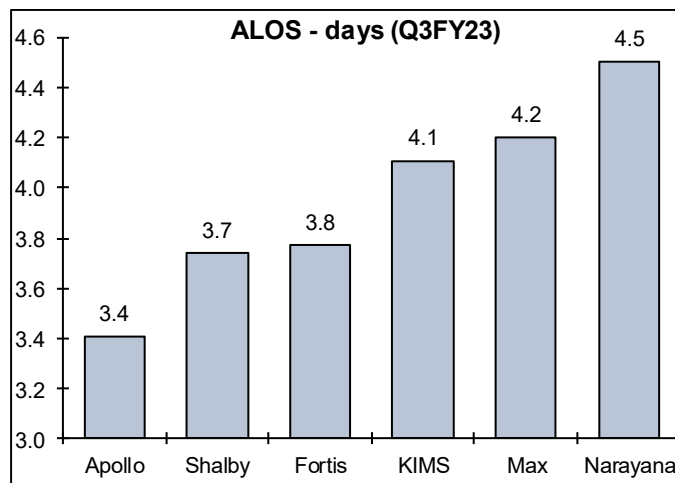
**Chart 30: KIMS/Max have the highest operating margin**



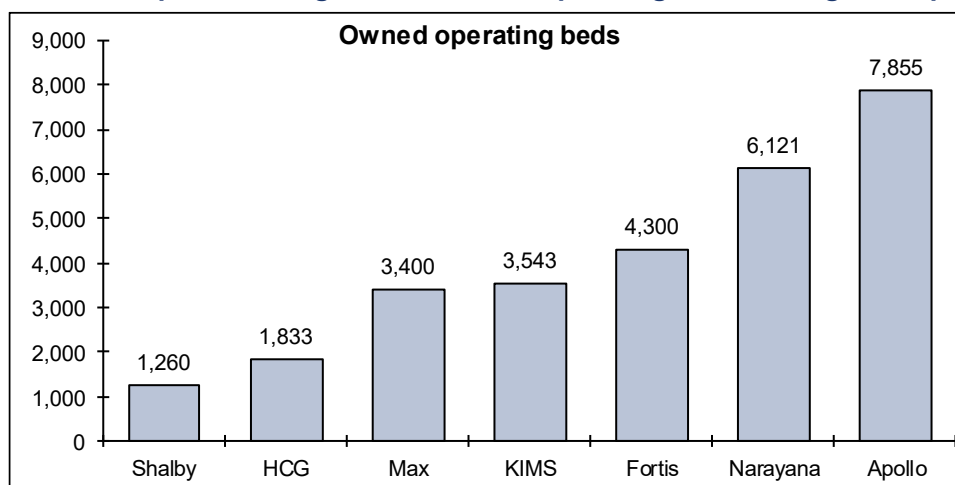
Source: Company data, I-Sec research

**Chart 31: Fortis has the highest ARPOB\* among coverage companies in India**

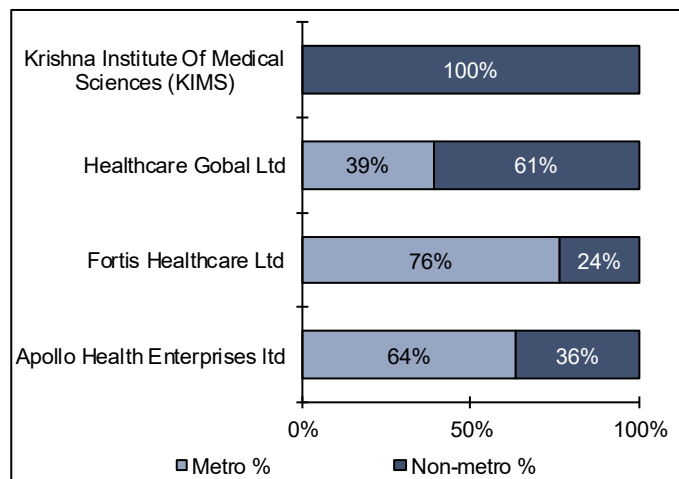
Source: Company data, I-Sec research \*ARPOB: Average revenue per occupied bed

**Chart 32: Apollo has the lowest ALOS\* among listed peers**

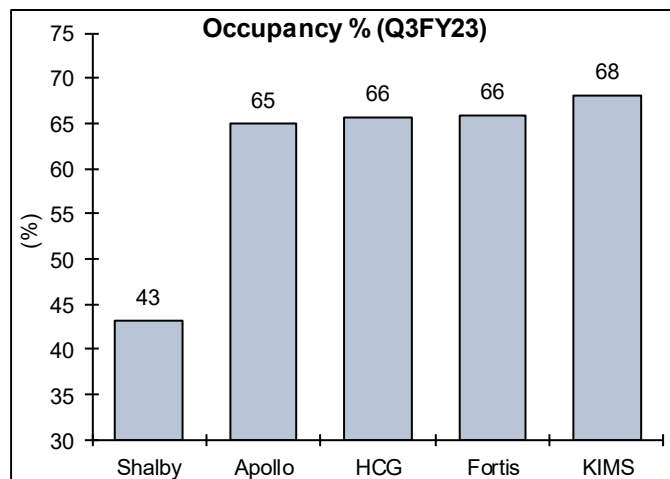
Source: Company data, I-Sec research \*ALOS: Average length of stay

**Chart 33: Apollo has highest number of operating beds among listed peers**

Source: Company data, I-Sec research

**Chart 34: Fortis has 76% of its beds in metros**

Source: Company data, I-Sec research

**Chart 35: KIMS has the highest occupancy**

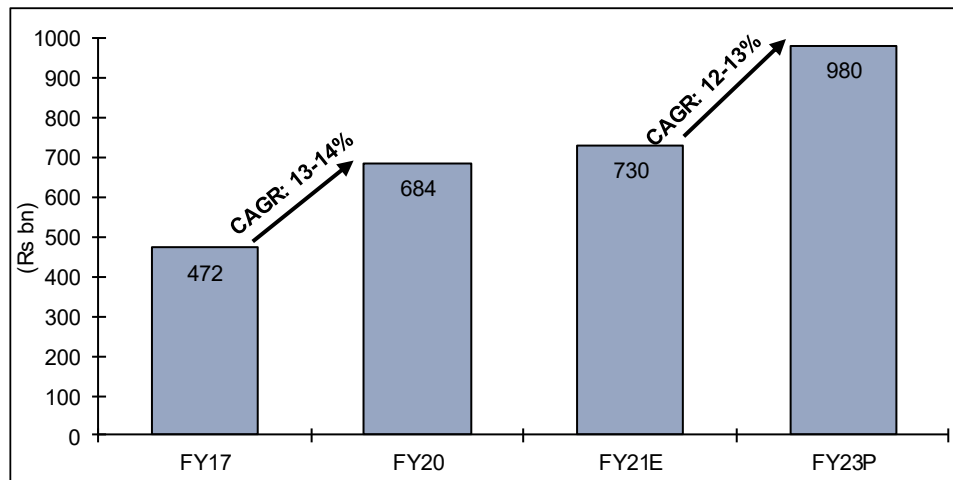
Source: Company data, I-Sec research

## Overview of diagnostics business

### Diagnostics: Attractive industry, firefighting for market share

The Indian diagnostics industry has been growing at over 13% over the past few years and is expected to have touched a market size of Rs980bn (US\$12bn) by FY23-end. The driving factors of this growth are: 1) rise in evidence-based treatment; 2) urbanization; 3) higher incidence of chronic ailments such as diabetes, cancer and cardiac; and 4) greater awareness towards preventive care in tier-I and tier-II cities.

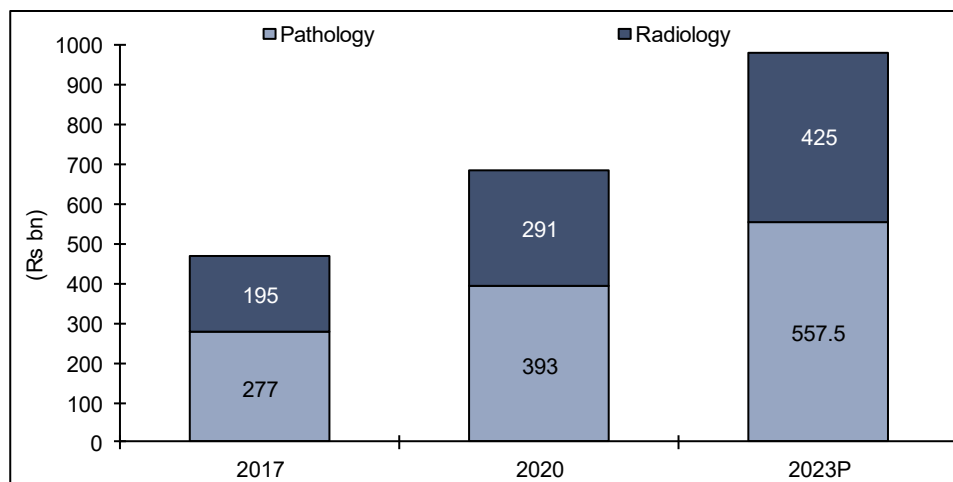
**Chart 36: Diagnostics continues to be a fast-growing segment**



Source: Vijaya Diagnostic RHP

Pathology segment accounts around 57% of the overall diagnostics market while the remaining 43% is from radiology segment in FY20 as per CRISIL research. Pathology market in India registered a CAGR of ~12% between FY17-FY20. The pathology market is projected to reach a value of Rs560bn in FY23, achieving a CAGR of 13% between FY20-FY23. The radiology market witnessed a CAGR of 14% between FY17 to FY20 and reached Rs291bn; it is estimated to reach ~Rs425bn by FY23, witnessing a CAGR of ~14%.

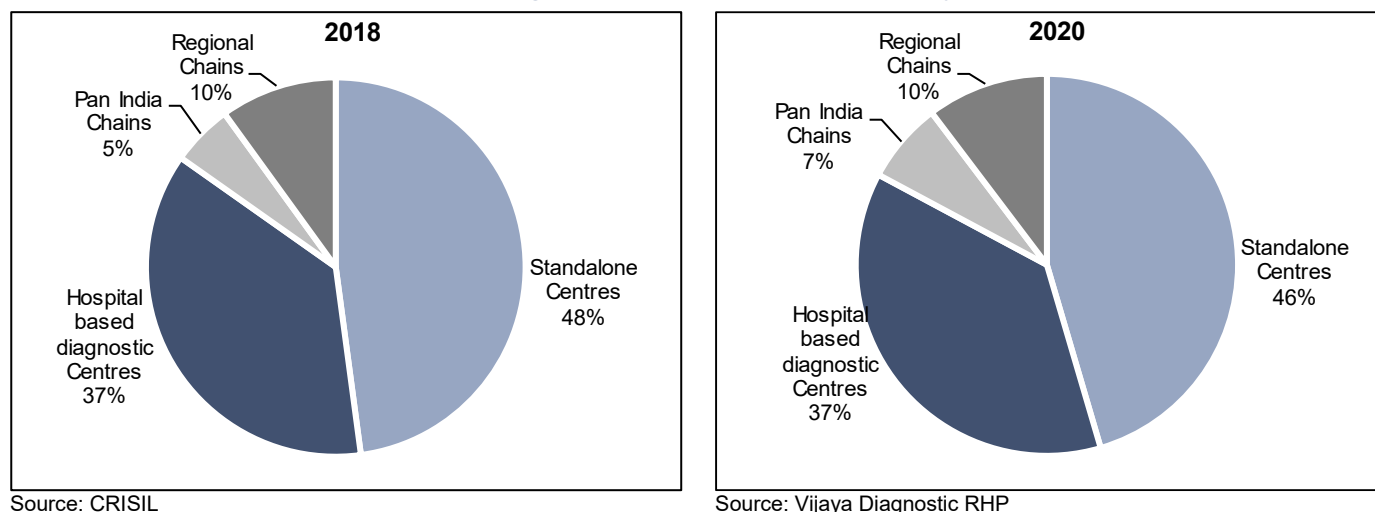
**Chart 37: Segmentation of diagnostics industry**



Source: Vijaya Diagnostic RHP

The diagnostics industry is highly unorganised with standalone centres and hospital-based centres together capturing ~82% of the total diagnostics market. New entrants and rapid expansion of existing chains have increased the market share of organised diagnostic chains from 15% in CY18 to ~17% at end of CY20. The large 8-10 pan-India diagnostic chains though enjoy ~35-40% share of the organised market. The organised players are expected to register a CAGR of ~23% and are likely to have ~22% market share at end of CY22.

**Chart 38: Market share of pan-India diagnostic chains has increased by 200bps between FY18-FY20**

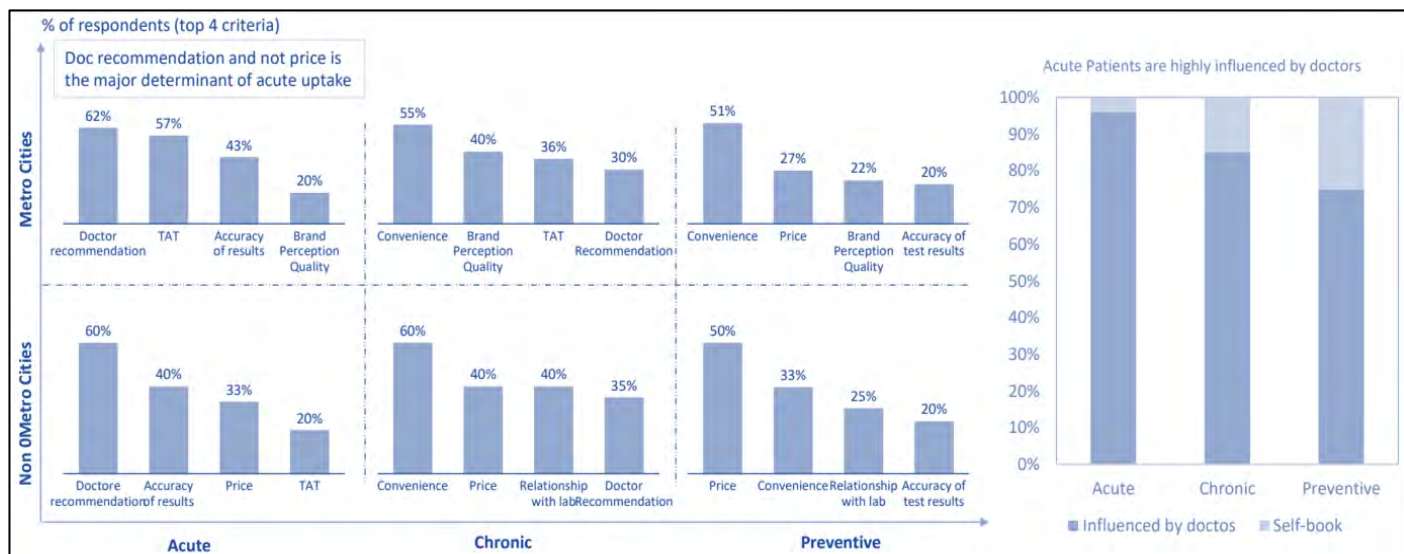


Entry of e-commerce and pharmaceutical companies has made the organised diagnostics segment highly competitive. However, the deep discounting model followed by e-commerce companies is generally preferred by patients for low-value routine tests and bundled preventive care tests. But the decision to choose a diagnostic centre for illness-based tests is still largely influenced by prescribers, and offline diagnostic chains are usually preferred for these tests.

**Table 6: New entrants in diagnostics sector increased in past few years**

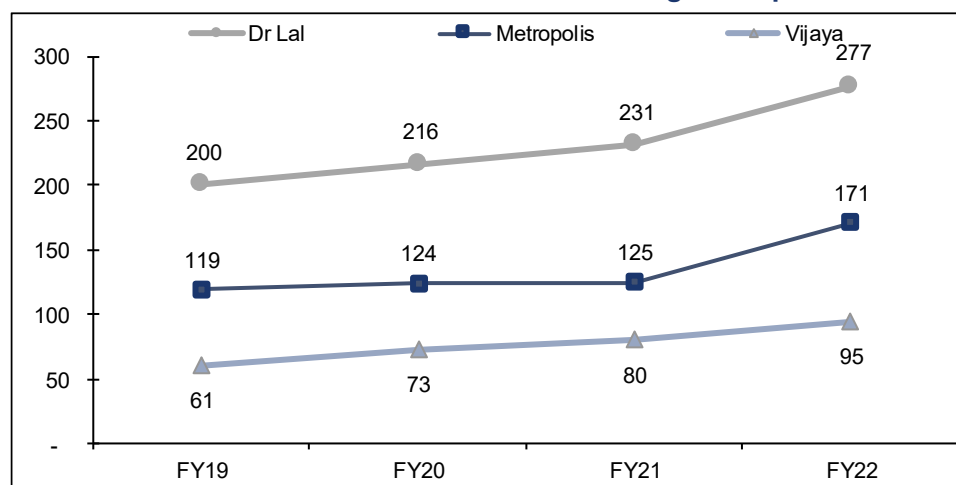
Year	New entrants & M&A in diagnostics
2014	1mg - India's first epharmacy player
2015	Netmeds & Pharmeasy forays in epharmacy
2017	Mankind Pharma launches diagnostic arm, Pathkind Labs
2019	Reliance Lifesciences enters market through franchise model
2020	Reliance acquires Netmeds
May'21	Pharmeasy acquires Medlife
Jun'21	Tata digital acquires majority stake in 1mg
Jun'21	Pharmeasy acquires controlling stake in Thyrocare
Dec'21	Lupin forays in diagnostics
Jul-22	Torrent forays in diagnostics
Jan-23	Cipla launches Cippoint, a point-of-care testing device

Source: Industry

**Chart 39: Major factors influencing decision to choose a diagnostic chain**

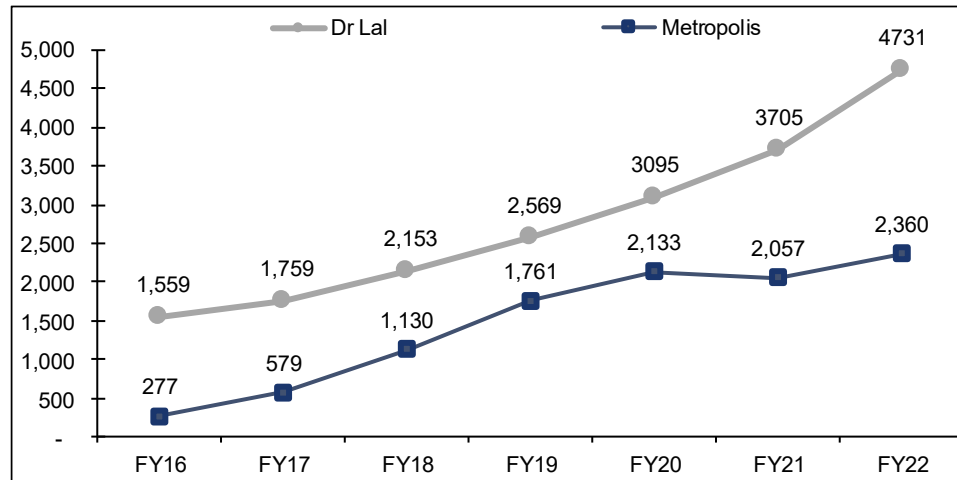
Source: Bain &amp; Company, Metropolis presentation

Dr Lal PathLabs (Dr Lal) continues to be the largest organised diagnostics company in India with revenues of around Rs21bn in FY22. It also has the largest network of 277 clinical labs and 4,731 patient service centres (PSCs) in India. Among the companies we cover, Vijaya has grown its clinical labs at a faster pace of 16% over FY19-FY22 while Metropolis and Dr Lal have grown at 13% and 11% respectively. Addition of clinical labs has helped diagnostic companies to improve turnaround time while addition of PSCs has ensured good volume growth despite threat of competition.

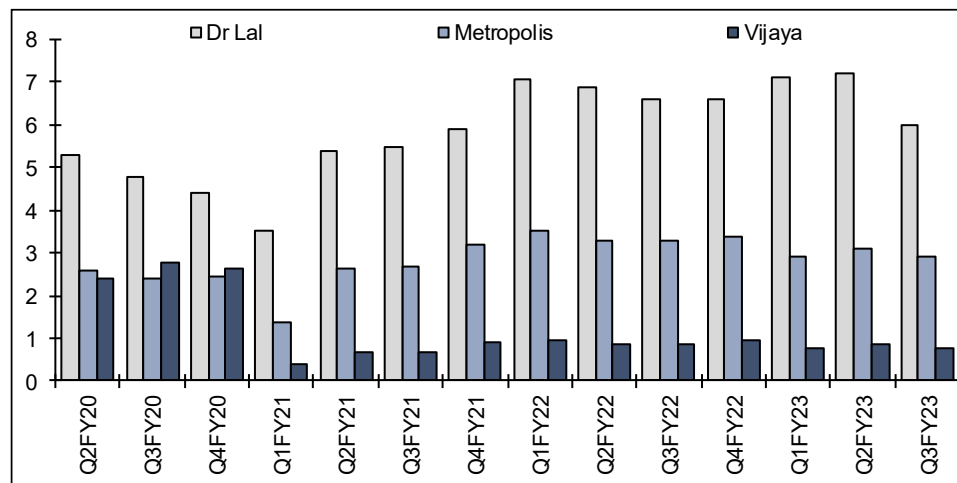
**Chart 40: Dr Lal has the widest lab network among listed peers**

Source: Company data, I-Sec research

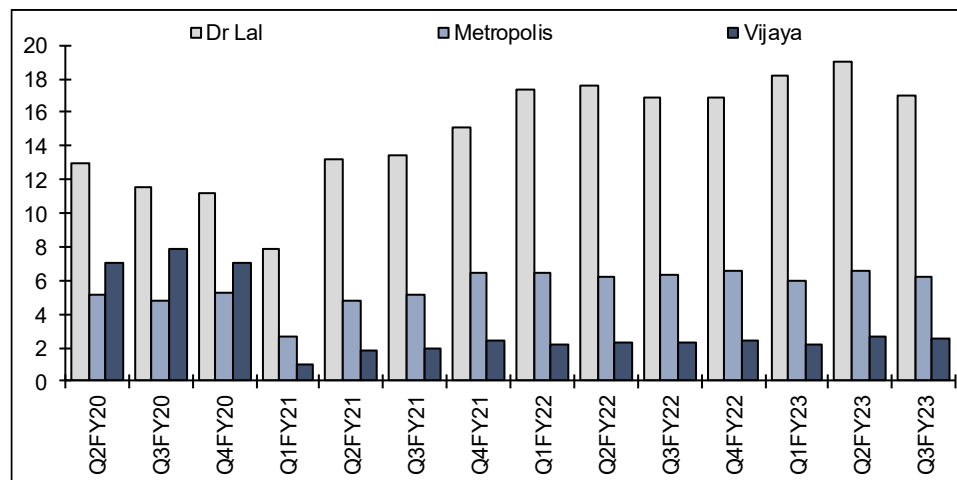


**Chart 41: Dr Lal has the highest patient service centres among listed peers**

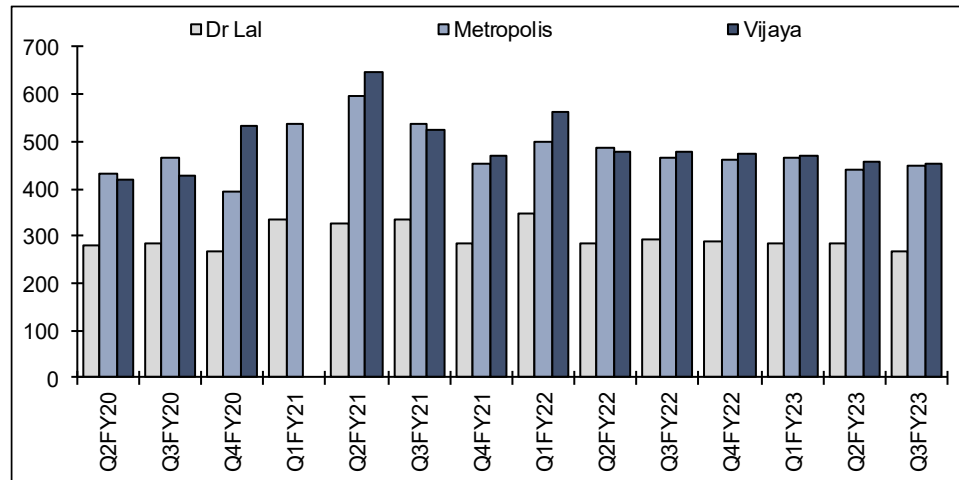
Source: Company data, I-Sec research

**Chart 42: 2x customer visits at Dr Lal as compared to Metropolis**

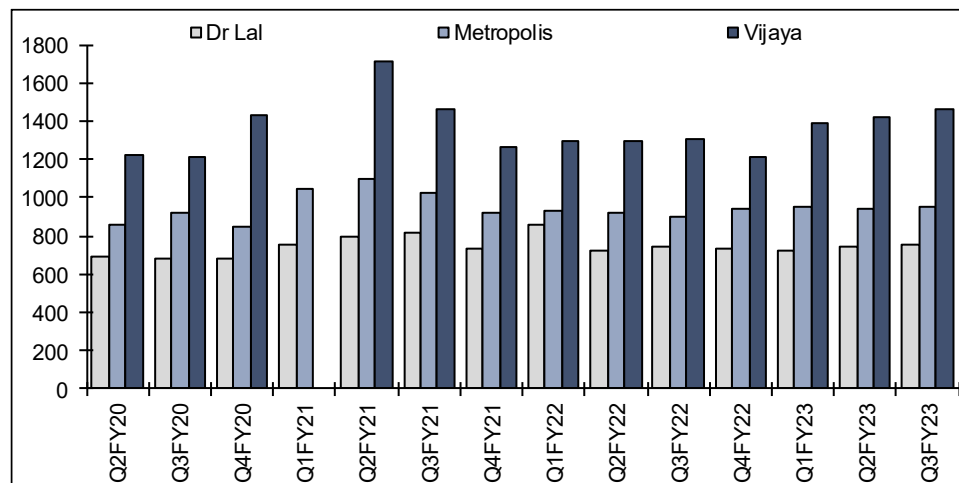
Source: Company data, I-Sec research

**Chart 43: 71mn tests performed by Dr Lal in past 12 months**

Source: Company data, I-Sec research

**Chart 44: Metropolis and Vijaya generate higher revenue per test**

Source: Company data, I-Sec research

**Chart 45: Higher B2C mix ensures better revenue per customer for Vijaya**

Source: Company data, I-Sec research

## Index of Tables and Charts

### Tables

Table 1: Valuation Summary.....	8
Table 2: Key US-centric plants struggling with regulatory compliance.....	12
Table 3: Biologic products targeted by Indian companies.....	14
Table 4: Indian pharma players' US business snapshot.....	14
Table 5: India branded snapshot.....	17
Table 6: New entrants in diagnostics sector increased in past few years.....	23

### Charts

Chart 1: Cipla – P/E chart.....	3
Chart 2: Zydus – P/E chart.....	4
Chart 3: Sun Pharma – P/E chart.....	4
Chart 4: Ajanta – P/E chart.....	5
Chart 5: Abbott – P/E chart.....	6
Chart 6: KIMS – EV/EBITDA.....	6
Chart 7: Fortis – EV/EBITDA.....	7
Chart 8: Dr Lal PathLabs – EV/EBITDA.....	7
Chart 9: US generics to grow at a meek rate of 3.8% over CY21-CY26.....	9
Chart 10: Branded sales worth US\$214bn at risk over CY22-CY26 E.....	9
Chart 11: Aurobindo continues to be the largest Indian generic player in the US.....	10
Chart 12: Aurobindo has the highest filings among Indian pharma players in US.....	10
Chart 13: R&D spend has been optimised by most companies.....	11
Chart 14: Exit of Akorn a positive for Sun Pharma and Aurobindo.....	11
Chart 15: Injectable drugs delivery market to witness healthy growth.....	12
Chart 16: US generic injectables market dominated by a few players.....	13
Chart 17: Maximum drug shortages in US are of injectables.....	13
Chart 18: Biosimilars space is fast evolving.....	13
Chart 19: Top-25 players have a lion's share of ~71% of the India pharma market.....	15
Chart 20: Top-5 players in India control a dominant share in each therapy.....	15
Chart 21: Price growth for Glenmark and JB Pharma highest in FY23.....	16
Chart 22: GSK has the highest NLEM exposure in India.....	16
Chart 23: Sun, Torrent, Lupin, JB Chemicals, Sanofi have increased their MR force in India.....	17
Chart 24: Bed density in key cities higher than national average of 1.5 beds.....	18
Chart 25: Fast-aging population would require better healthcare infrastructure.....	18
Chart 26: Cardiac ailments are on the rise.....	19
Chart 27: Income levels on the rise.....	19
Chart 28: Medical tourism reviving post covid.....	20
Chart 29: Apollo is India's largest hospital chain by revenue.....	20
Chart 30: KIMS/Max have the highest operating margin.....	20
Chart 31: Fortis has the highest ARPOB* among coverage companies in India.....	21
Chart 32: Apollo has the lowest ALOS*.....	21
Chart 33: Apollo has highest number of operating beds among listed peers.....	21
Chart 34: Fortis has 76% of its beds in metros.....	21
Chart 35: KIMS has the highest occupancy.....	21
Chart 36: Diagnostics continues to be a fast-growing segment.....	22
Chart 37: Segmentation of diagnostics industry.....	22
Chart 38: Market share of pan-India diagnostic chains has increased by 200bps between FY18-FY20.....	23
Chart 39: Major factors influencing decision to choose a diagnostic chain.....	24
Chart 40: Dr Lal has the widest lab network among listed peers.....	24
Chart 41: Dr Lal has the highest patient service centres among listed peers.....	25
Chart 42: 2x customer visits at Dr Lal as compared to Metropolis.....	25
Chart 43: 71mn tests performed by Dr Lal in past 12 months.....	25
Chart 44: Metropolis and Vijaya generate higher revenue per test.....	26
Chart 45: Higher B2C mix ensures better revenue per customer for Vijaya.....	26

## Company section

ICICI Securities Limited  
is the author and  
distributor of this report

Initiating coverage

## Pharmaceuticals

Target price Rs1,580

## Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	70.5	66.1	66.2
Institutional investors	21.3	25.9	26.0
MFs and others	11.1	13.6	13.7
FI/Banks	1.0	1.3	1.4
FII	9.2	11.0	10.9
Others	8.2	8.0	7.8

Source: NSE

## ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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INDIA


**ICICI Securities**

## Ajanta Pharma

BUY

## Attractive branded play

Rs1,263

Ajanta Pharma (AJP) boast a strong trait of well-bred management who is driving the brand-driven business with prudent fiscal discipline. Higher revenue share of branded generics (73% of total sales) has helped company maintain superior gross margins (72-75%) and the company use to command premium valuations (~30x P/E) earlier. Capacity addition and raw material cost pressure have impacted performance in last couple of years; however, management remains committed to improving its EBITDA margins by 350bps to ~25% in FY24 and further ~100bps to 26% in FY25. A mid-teen growth in its branded generic business will help to improve utilisation of Guwahati plant and drive operating leverage going ahead. At CMP of Rs1,263, the stock is trading at 16.8x FY25E EPS of Rs75. Expect AJP's earnings CAGR at 24% over FY23-25E. Initiate with BUY and target price of Rs1,580.

- **Branded business on robust footing:** AJP's prowess lies in its differentiated branded generics business, with impressive presence across the globe. Also, its branded formulations business (spread in India, rest of Asia and Africa) accounts for ~73% of its total sales. Enabled by its niche 'first to file' products, AJP has been able to retain industry-leading gross margins of ~76%. With expected ~14% growth in the overall branded generics business through wFY23-FY25E, AJP is poised to grow significantly.
- **India – Differentiated product basket aiding above-market growth:** AJP grew its India sales at 15.8% in FY20-FY23, led by strong traction in focused therapies such as cardiac (13% growth), ophthalmology (16%) and derma (26%). AJP has a track-record of launching differentiated products in India. Nearly 50% of the 300+ product portfolio consist of limited competition products. Cardiac and diabetes are preferred therapies for launches – AJP launched 23 products in these therapies through FY23. Expect FY23-FY25E domestic sales CAGR of ~14% (1.25x IPM growth), on strong product portfolio and focus on high-growth therapies.
- **US – Filings to pick pace:** AJP has a relatively smaller US base (US\$102mn sales in FY23) than India peers. It currently supplies 40 products to the US market. Also, 21 ANDAs are awaiting USFDA approval. Management aims to file 6-8 ANDAs every year (4 filed in FY23), which can propel the US business to generate US\$110mn in sales by FY25E.
- **Ambitious capex – Laying groundwork for growth:** AJP has invested ~Rs13bn to set up new manufacturing units at Dahej and Guwahati, primarily for the US and domestic markets. The fixed overhead cost (Rs1.3bn) of these plants has strained margins. Going forward, expect 400bps recovery in EBITDA margin to 26% in FY25E.
- **Valuations:** Surge in RM and freight costs continue to impact margins of AJP. Though the situation is expected to improve ahead, the management has maintained its EBITDA margin guidance of 25% for FY24. While FY23 was a washout on margins, we expect 12%/21%/24% surge in revenue/EBITDA/PAT over FY23-FY25E. We initiate coverage with a **BUY** rating and target price of Rs1,580 on 20x FY25E earnings of Rs75. **Key downside risks:** Slowdown in domestic growth and regulatory issues

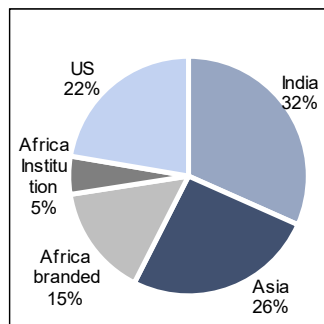
Market Cap	Rs159bn/US\$1.9bn
Reuters/Bloomberg	AJP IN /AJPH.BO
Shares Outstanding (mn)	125.9
52-week Range (Rs)	1417/1122
Free Float (%)	33.8
FII (%)	10.9
Daily Volume (US\$/'000)	1,355
Absolute Return 3m (%)	4.5
Absolute Return 12m (%)	11.5
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23	FY24E	FY25E
Revenue (Rs bn)	33,410	37,426	41,665	46,667
Net Income (Rs bn)	7,127	5,880	8,162	9,678
EPS (Rs)	55.3	49.2	63.4	75.2
% Chg YoY	9.0	(11.0)	28.7	18.6
P/E (x)	22.8	25.6	19.9	16.8
CEPS (Rs)	65.1	59.4	74.0	86.2
EV/E (x)	17.1	18.3	14.3	11.5
Dividend Yield (%)	0.8	0.6	0.9	1.1
RoCE (%)	22.7	19.0	22.0	21.8
RoE (%)	22.8	19.1	21.9	21.7

Please refer to important disclosures at the end of this report

## Branded Generics – Differentiated focus

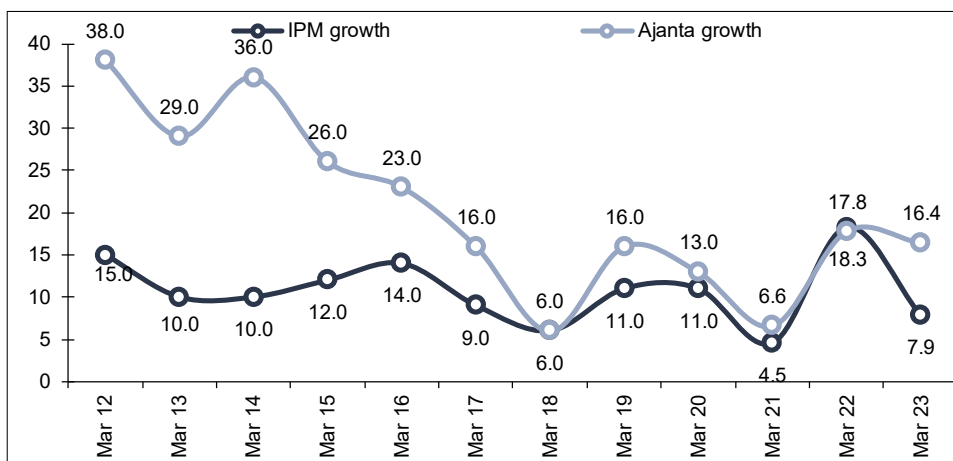
**Chart 1: Geography wise breakdown**



Source: Company data, I-Sec research

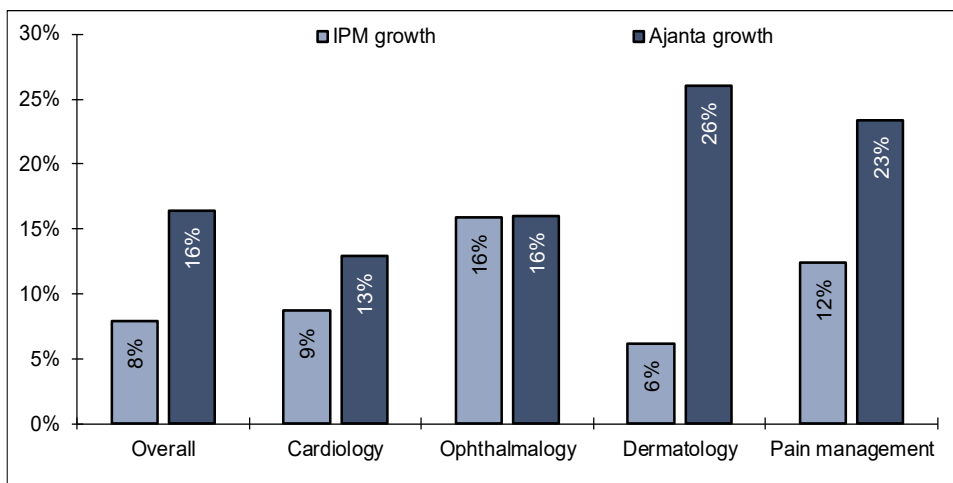
AJP enjoys strong branded generics focus and has a proven track record in India/Asia. In India, its first to file product strategy has helped it establish a niche in an otherwise competitive market. AJP has been able to command industry-leading margins due to proven R&D and execution capabilities. It has replicated its branded strategy in Asia/Africa. Branded generics now contribute >70% to its sales. Though AJP faces some turbulence in tender-related business in Africa, the impact may be largely absorbed by the branded business, in long term

**Chart 2: AJP v/s IPM**



Source: Industry data, I-Sec research

**Chart 3: Differentiated products AJP ahead of IPM**



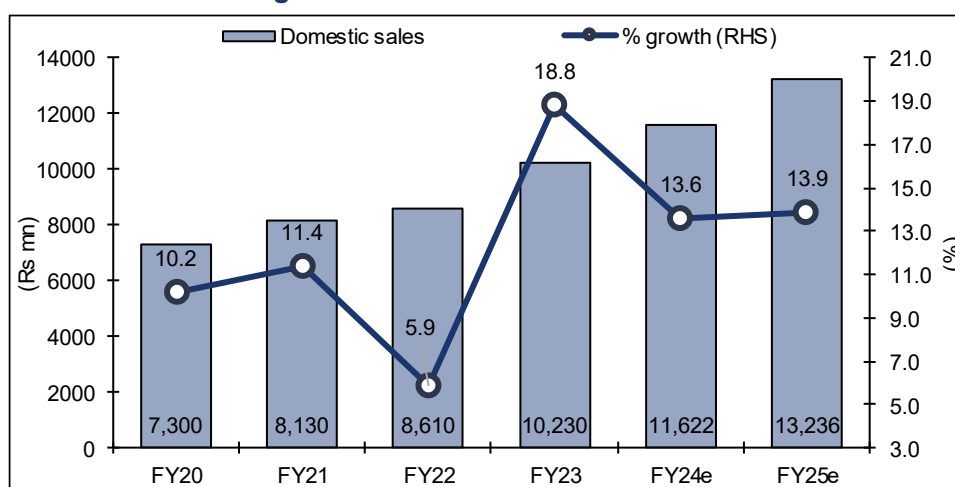
Source: Industry data, I-Sec research

## India – Expect FY23-FY25E CAGR to be 13.3%

In India, AJP has a portfolio of +300 products, spread in 15 divisions of four key therapeutic segments – Cardio, Ophthal, Derma and Pain. Over 50% of India portfolio consists of 'first to launch' products. Product additions are healthy – In FY23, AJP launched 23 products.

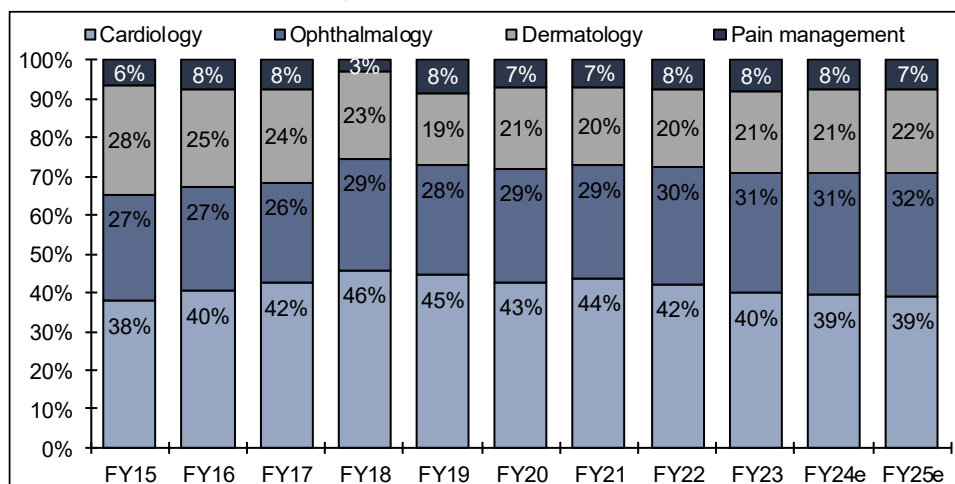
Growth in the domestic business was impacted in the past two years due to Covid outbreak and discontinuation of key derma brand, Melacare, given regulatory issues. AJP has restructured its domestic derma operations by setting up a new team and relaunched Melacare with a different ingredient. Most issues have now been resolved. Going ahead, we expect India portfolio CAGR to be 13.3% in FY23-25E.

**Chart 4: India sales growth faster at 13.3% in FY23-FY25E**



Source: Company data, I-Sec research

**Chart 5: Domestic therapy mix**



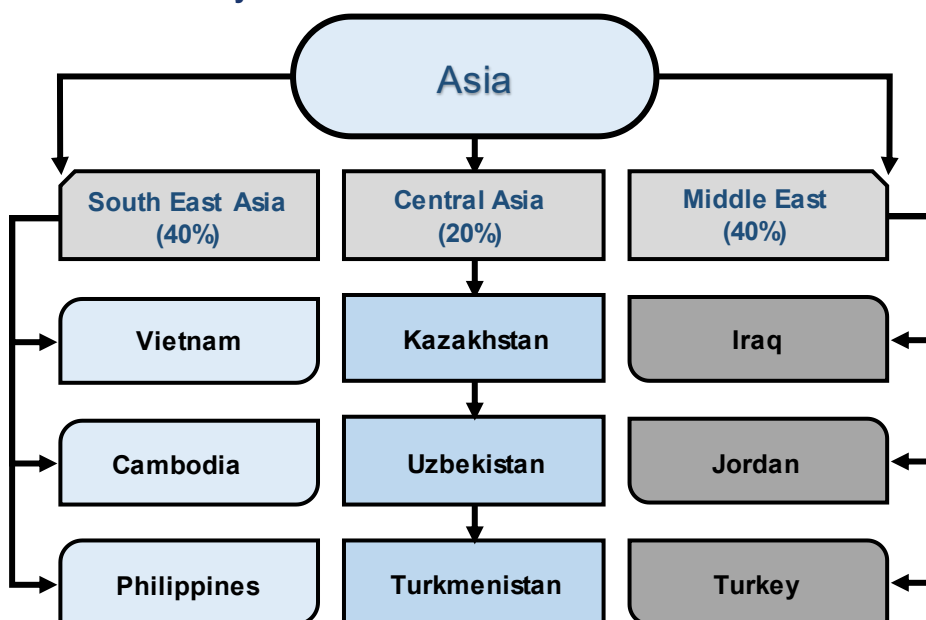
Source: Company data, I-Sec research

## Expect Asia to return to growth

The branded generics business in rest of Asia is spread in 10 countries through South-East Asia, Central Asia and the Middle East. Currency headwinds and repatriation concerns led to sales volatility from this region. With stability returning in most such countries, expect Asia to return to growth, led by strong performance in South-East Asia.

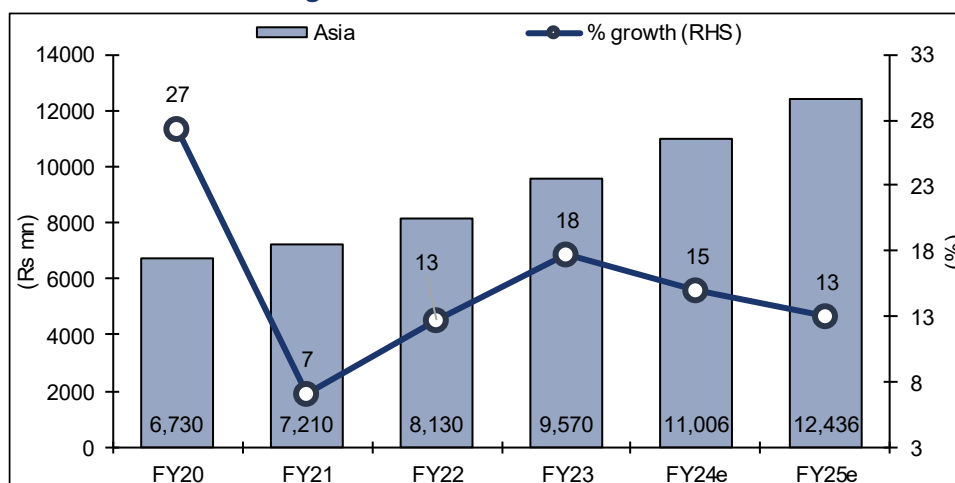
AJP has registered 375 products in Cardio, Pain, GI, anti-biotic, derma and anti-histamine therapies. With an MR strength of ~350 in the Philippines and stability returning in most of these countries, expect Asia CAGR to be 14% in FY23-25E.

**Chart 6: Asia -Key markets served**



Source: Company data, I-Sec research

**Chart 7: Asia revenue growth**



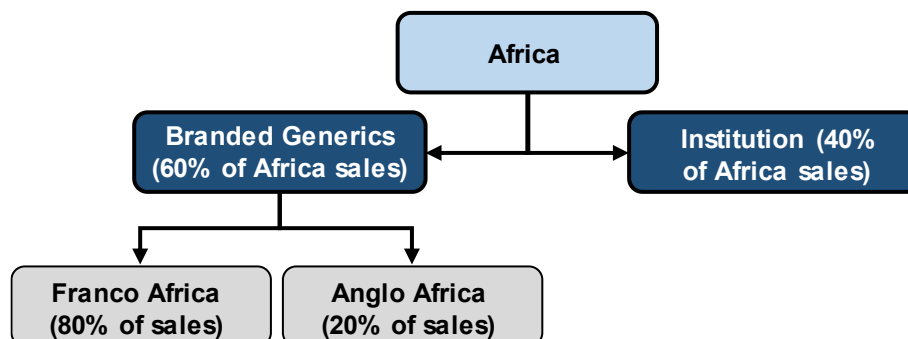
Source: Company data, I-Sec research



## Africa – Branded generics poised for growth

AJP is the third largest pharma company in Franco Africa (80% of Africa branded sales), with the market growing at 4%. It expects to grow 300-400bps above the market rate. Currency headwinds have led to sales volatility from Anglo African nations.

**Chart 8: Africa – Sales split**

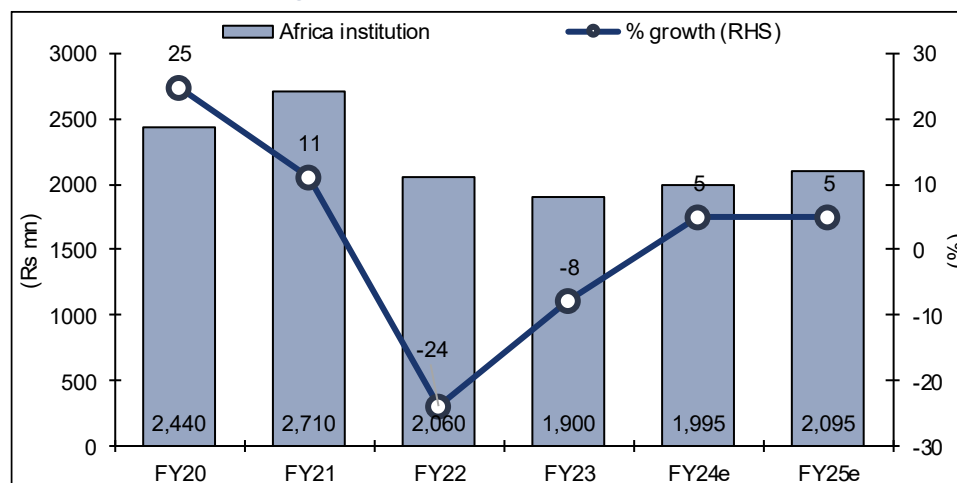


Source: Company data, I-Sec research

## Institution business – Turbulence anticipated

Decline in Global Fund's tender size (for counteracting Malaria) has impacted the overall institution business. At its peak in FY17, the tender business had generated Rs4.4bn in sales (23% of sales), which pared to Rs1.9bn in FY23. Though AJP could maintain its 20% market share in the tender market, contracting tender size, lack of clarity on allocation and subsequent order placement by Global Fund may strain this segment. We expect the institutional business to post a nominal growth of 5%, going ahead.

**Chart 9: Institutional growth**

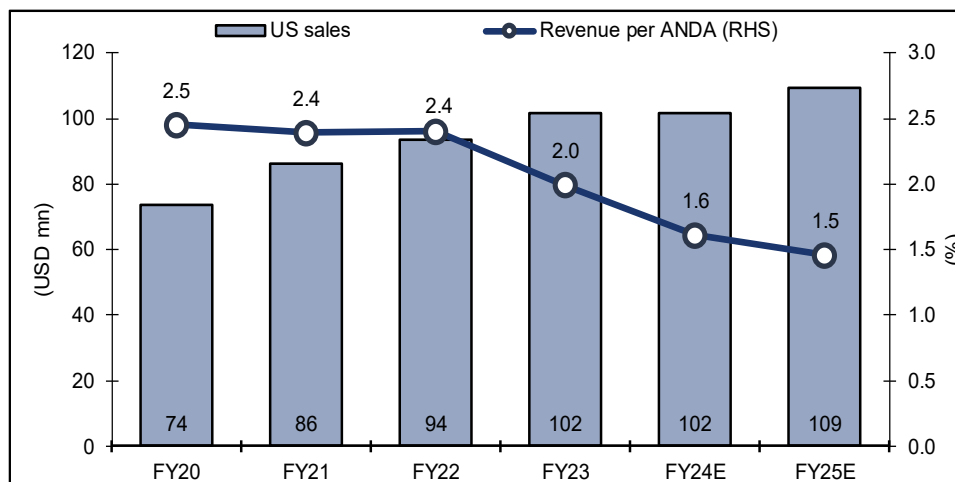


Source: Company data, I-Sec research

## US business – filings to pick pace

Being a late entrant in the US, current sales from the geography account for 21% of the overall topline (US\$ 102mn in FY23). Product launches have helped AJP's US base to grow 8.5% in FY23. We expect US sales to grow ~4% in FY23-25E as product filings and approval rates pick pace.

Chart 10: US sales



Source: Company data, I-Sec research

### Capex ambitious – Laying groundwork for growth

AJP has seven formulations facilities (six in India; one in Mauritius) and an API manufacturing facility. The company invested ~Rs13bn in capex in the past couple of years, to set up new manufacturing units at Dahej, Pithampur and Guwahati, primarily for the US and domestic market. Two of its formulations facilities – Dahej and Paithan – are approved by the USFDA.

Table 1: Manufacturing facilities - Overview

Plant	State/Country	Dosage forms	Regulatory approval
Dahej	Gujarat	Tablets, capsules and powder	USFDA & WHI cGMP
Savli, Guhawati	Assam	Tablets, Capsules, ointments, jelly and sterile eye drops	WHO cGMP
Formulations	Mauritius		WHO cGMP
Paithan, Aurangabad	Maharashtra	Tablets, capsules and dry powder	USFDA, UK MHRA, WHO
Chitegaon, Aurangabad	Maharashtra	Tablets, capsules, powder and jelly	WHO cGMP
Chikalthana, Aurangabad	Maharashtra	Liquid and Capsules	WHO cGMP
Pithampur	Madhya Pradesh	Tablets and capsules	WHO cGMP
Waluj, Aurangabad	Maharashtra	API	Captive consumption

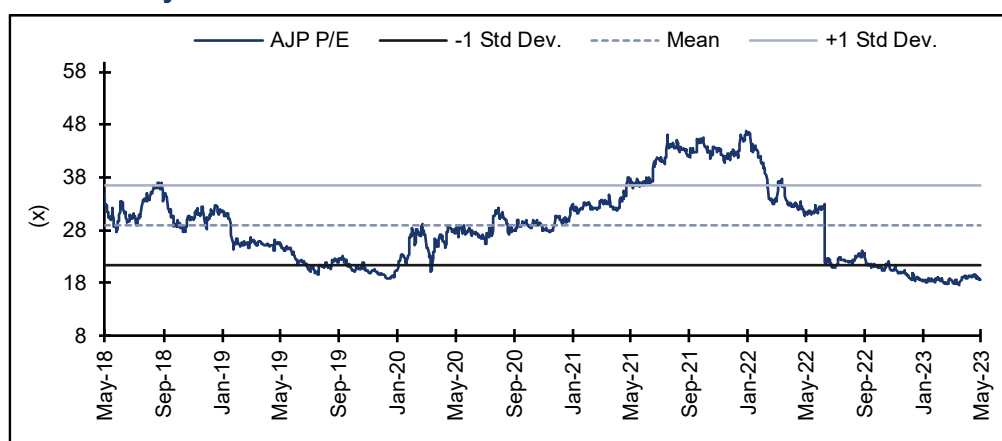
Source: Industry data, I-Sec research

## Valuations

Given AJP's proven track, it has always commanded premium valuations (~30x P/E). While its historical growth has been superlative, we believe, current valuation is attractive as AJP is trading close to ~43% discount to historical multiple, on transient margin strain. APJ's India-centric peer group commands a valuation of 22-24x FY24E P/E.

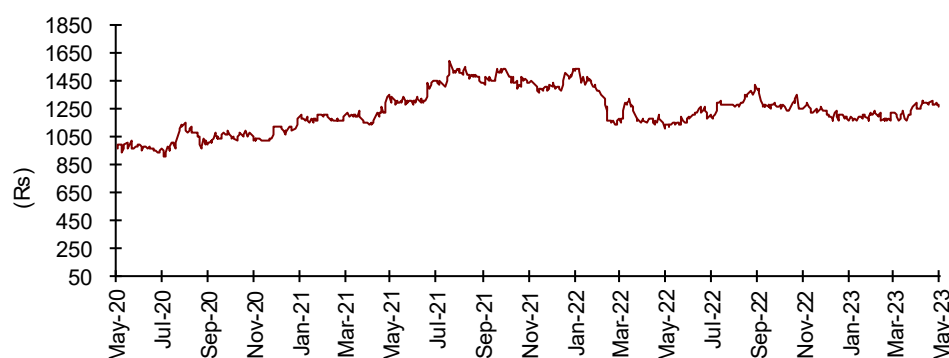
Traction in branded generics portfolio and improved utilization at Dahej and Guwahati plants may ensure that margins sustain within 25%, going ahead. At CMP of Rs 1,263, the stock is trading at ~17x FY25E EPS of Rs75. Expect AJP's earnings CAGR to be 23.4% in FY23-25E. Initiate with Buy and Rs1,580 TP, which implies a 25% return from the current levels.

**Chart 11: 1-year forward P/E**



Source: I-Sec research, Bloomberg

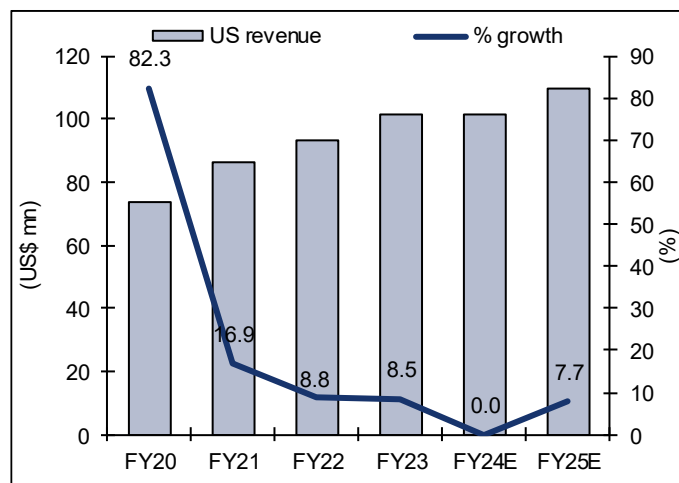
## Price chart



Source: Bloomberg

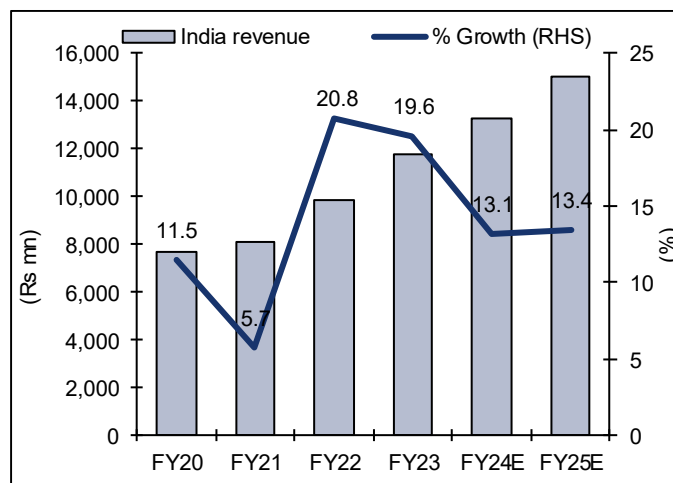
## Financial track record

**Chart 12: Launches to drive US growth**



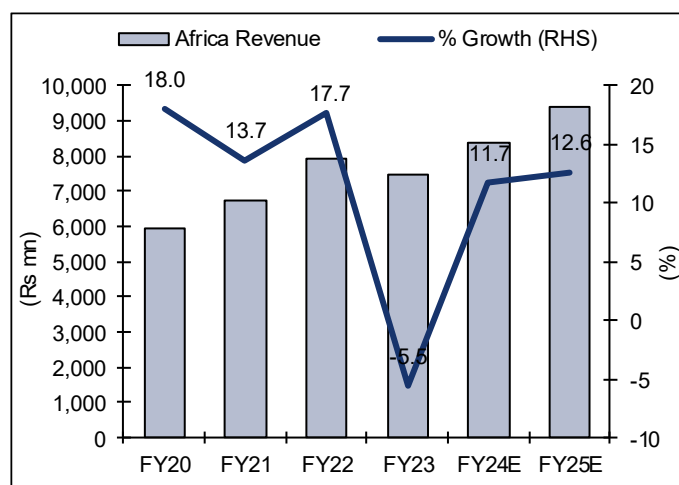
Source: Company data, I-Sec research.

**Chart 13: India business growth to outperform IPM**



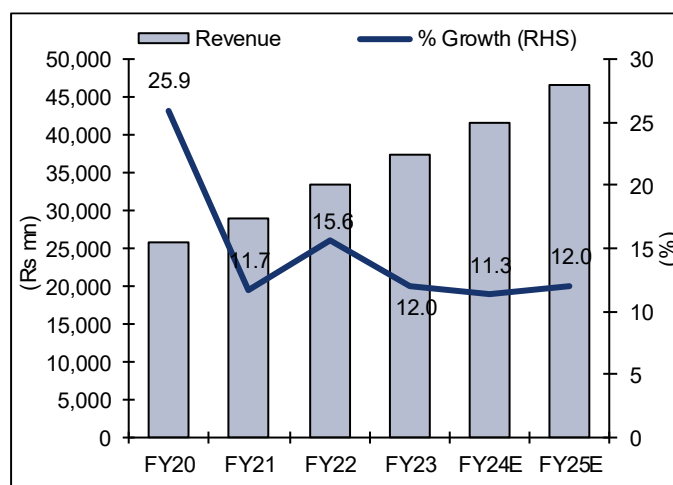
Source: Company data, I-Sec research.

**Chart 14: Expect healthy double digit growth in Africa**



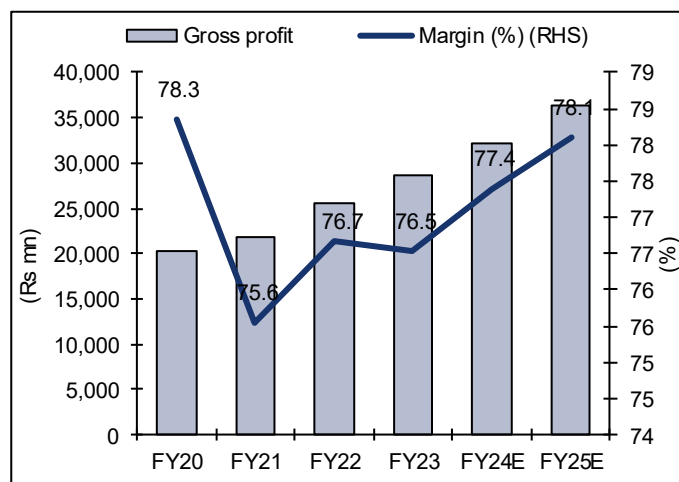
Source: Company data, I-Sec research.

**Chart 15: Revenues to grow 11.7% over FY23-FY25E**



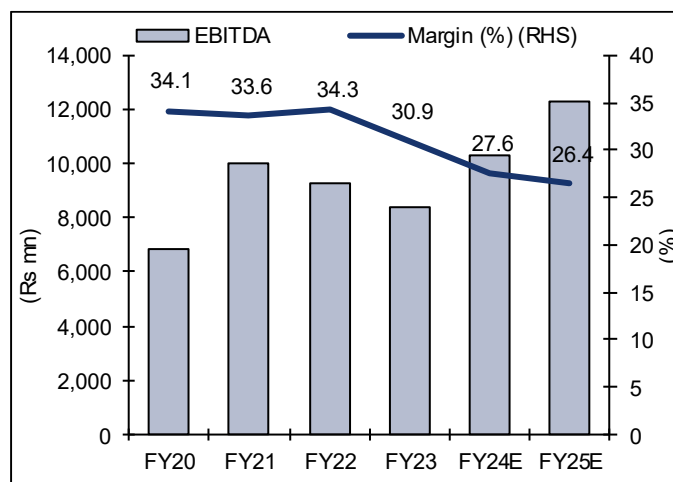
Source: Company data, I-Sec research.

**Chart 16: Gross margins on an upward trajectory with better mix**



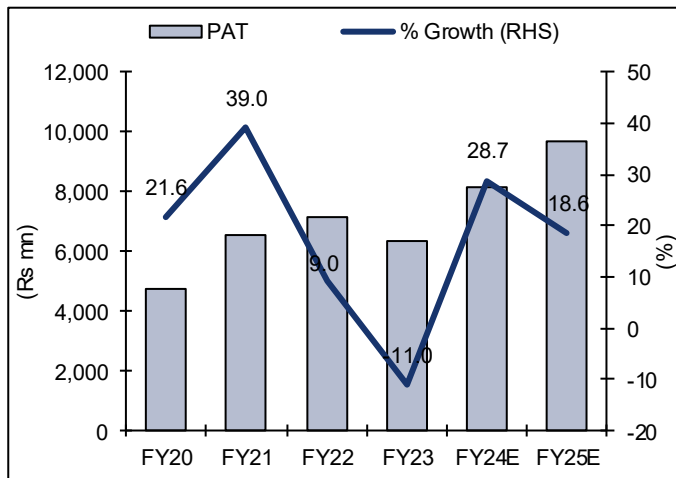
Source: Company data, I-Sec research.

**Chart 17: New plants to dent EBITDA margins in the near term**



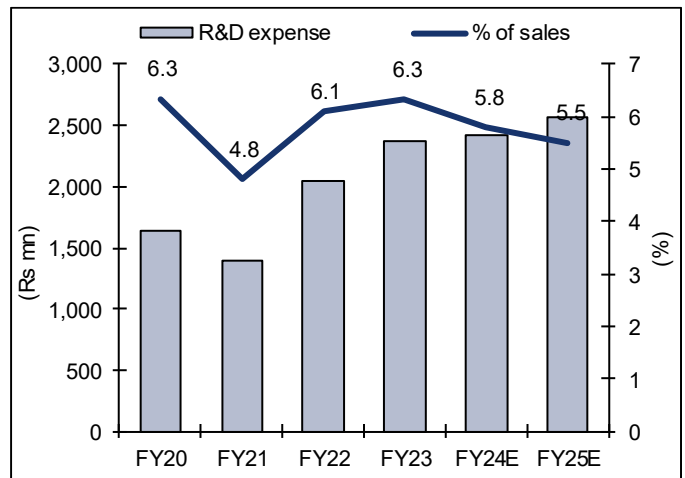
Source: Company data, I-Sec research.

Chart 18: PAT to grow 23.5% over FY23-FY25E



Source: Company data, I-Sec research.

Chart 19: R&amp;D spend to stand at 5.5% of sales



Source: Company data, I-Sec research.

## Financial summary

**Table 2: Profit and loss statement**
*(Rs mn, year ending March 31)*

	FY22	FY23	FY24E	FY25E
<b>Total Net Revenue</b>	<b>33,410</b>	<b>37,426</b>	<b>41,665</b>	<b>46,667</b>
yoy Growth%	16	12	11	12
<b>Total Op. Exp.</b>	<b>24,117</b>	<b>29,009</b>	<b>31,332</b>	<b>34,393</b>
<b>EBITDA</b>	<b>9,293</b>	<b>8,418</b>	<b>10,333</b>	<b>12,273</b>
Margins %	27.8	22.5	24.8	26.3
yoy Growth%				
Depreciation	1,253	1,308	1,361	1,418
<b>EBIT</b>	<b>8,040</b>	<b>7,110</b>	<b>8,972</b>	<b>10,855</b>
Other Income	1,157	986	1,423	1,464
Interest	102	58	63	68
EO Items	-	(585)	-	-
<b>PBT</b>	<b>9,095</b>	<b>7,453</b>	<b>10,332</b>	<b>12,251</b>
Tax	1,968	1,573	2,170	2,573
Tax Rate (%)	21.6	21.1	21.0	21.0
Minority Interest	-	-	-	-
<b>Reported PAT</b>	<b>7,127</b>	<b>5,880</b>	<b>8,162</b>	<b>9,678</b>
<b>Adj PAT</b>	<b>7,127</b>	<b>6,342</b>	<b>8,162</b>	<b>9,678</b>
Net Margins (%)	21.3	16.9	19.6	20.7

Source: Company data, I-Sec research

**Table 3: Balance sheet**
*(Rs mn, year ending March 31)*

	FY22	FY23	FY24E	FY25E
Paid up Capital	172	253	253	253
Reserves & Surplus	32,644	33,880	40,573	48,509
<b>Total Equity</b>	<b>32,815</b>	<b>34,133</b>	<b>40,826</b>	<b>48,762</b>
Minority Interest	-	-	-	-
<b>Total Debt</b>	<b>19</b>	<b>47</b>	<b>47</b>	<b>47</b>
Deferred Liabilities	463	10	10	10
<b>Capital Employed</b>	<b>33,125</b>	<b>33,936</b>	<b>40,629</b>	<b>48,566</b>
Current Liabilities & Prov	6,875	11,886	13,112	14,559
<b>Total Liabilities</b>	<b>40,000</b>	<b>45,823</b>	<b>53,742</b>	<b>63,125</b>
<b>Net Fixed Assets</b>	<b>16,649</b>	<b>17,059</b>	<b>16,697</b>	<b>16,279</b>
Investments	1,470	5,354	5,354	5,354
Inventory	7,911	8,156	9,080	10,170
Debtors	10,198	10,569	11,766	13,178
Other Current Assets	1,655	1,375	1,499	1,645
Cash and Equivalents	2,118	3,309	9,346	16,500
<b>Total Cur. Assets</b>	<b>23,352</b>	<b>28,763</b>	<b>37,045</b>	<b>46,846</b>
<b>Total Assets</b>	<b>40,000</b>	<b>45,823</b>	<b>53,742</b>	<b>63,125</b>

Source: Company data, I-Sec research

**Table 4: Cashflow statement**
*(Rs mn, year ending March 31)*

	FY22	FY23	FY24E	FY25E
Cash profit adjusted for non cash items	7,377	5,860	8,163	9,701
Add/Less : Working Capital Changes	(2,842)	4,675	(1,018)	(1,201)
Operating Cash Flow	4,534	10,535	7,145	8,499
Less:- Capex	1,409	1,719	999	1,000
Free Cash Flow	3,126	8,816	6,146	7,499
Financing Cash Flow	(938)	(4,804)	(1,469)	(1,742)
Investing Cash Flow	(2,168)	(2,740)	1,360	1,396
<b>Net change in Cash</b>	<b>19</b>	<b>1,272</b>	<b>6,037</b>	<b>7,154</b>

Source: Company data, I-Sec research

**Table 5: Key ratios**
*(Year ending March 31)*

	FY22	FY23	FY24E	FY25E
Adj EPS	55.3	49.2	63.4	75.2
yoy Growth%	9.0	(11.0)	28.7	18.6
Cash EPS	65.1	59.4	74.0	86.2
EBITDA (%)	27.8	22.5	24.8	26.3
NPM (%)	21.3	16.9	19.6	20.7
Net Debt to Equity (x)	(0.1)	(0.2)	(0.4)	(0.4)
P/E (x)	22.8	25.6	19.9	16.8
EV/EBITDA (x)	17.1	18.3	14.3	11.5
P/BV (x)	5.0	4.8	4.0	3.4
EV/Sales (x)	4.8	4.1	3.6	3.0
ROCE (%)	22.7	19.0	22.0	21.8
ROE (%)	22.8	19.1	21.9	21.7
ROIC (%)	24.2	25.0	31.4	36.1
Book Value (Rs)	253	263	315	377
DPS (Rs)	9.5	8.0	11.4	13.5
Dividend Payout (%)	17.2	17.5	18.0	18.0
Div Yield (%)	0.8	0.6	0.9	1.1
Asset Turnover Ratio	2.1	2.3	2.6	3.0
Avg Collection days	111	103	103	103
Avg Inventory days	86	80	80	80

Source: Company data, I-Sec research

ICICI Securities Limited  
is the author and  
distributor of this report

Re-initiating coverage

## Pharmaceuticals

Target price: Rs1,169

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	33.6	33.6	33.6
Institutional investors	47.6	49.3	49.5
MFs and UTI	13.8	14.1	15.0
Insurance Cos.	5.9	6.8	4.7
FII	27.9	28.4	29.8
Others	18.8	17.1	16.9

Source: CMIE

### ESG disclosure score

Year	2021	2022	Chg
<b>ESG score</b>	<b>64.3</b>	<b>63.6</b>	<b>(0.7)</b>
Environment	44.9	43.2	(1.7)
Social	56.7	56.5	(0.2)
Governance	91.1	91.1	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

Cipla

BUY

## Risk-reward attractive

Rs937

Cipla has proved its metal in the respiratory segment in the US through the launch of complex products like pulmicort, proventil, albuterol and aformoterol. Over FY18-22, it registered 10% CAGR sales in the US despite several hurdles. Regulatory issues at the Pithampur plant (in Madhya Pradesh) have created a potential hurdle in the launch of advair in the US, which in our view is adequately factored in the current price. The stock trades at attractive 17.5x FY25E EPS, adequately capturing the risk to near-term growth on account of advair delay. We re-initiate coverage on the stock with BUY rating and target price of Rs1,169/share.

- **US pipeline beyond advair is quite healthy:** Cipla's recent improvement in performance in the US is backed by its market share expansion in albuterol (+170bps YoY to 17.6% in 9MFY23), arformoterol (+1,000bps YoY to 38.5%), lanreotide (~17% in FY23) and the launch of revlimid. Regulatory issues at the Pithampur plant may delay the approval and the launch of advair. However, the pipeline continues to have multiple opportunities like abraxane (FY25E launch), peptide products and other respiratory assets which it will launch over FY24-25E. We factor the launch of advair in FY25E, and US sales of Cipla are likely to register 18.6% CAGR over FY23-25E.
- **Price hikes, volumes to support India profitability:** Cipla has grown at 12.2% in the past five years, in line with market growth, despite having low-product concentration (top-10 products account for 24% of sales) and an acute heavy portfolio. It has rationalised trade channels to optimise cost and drive growth in its entire portfolio. Strong traction in chronic therapies (59% of branded sales) will likely ensure market-linked growth, while new launches may boost trade generic and consumer business. India business is expected to post 9.6% CAGR in FY23-25E led by better pricing and higher volumes.
- **SAGA regions - slow road to recovery:** Cipla ranks third in South African private and OTC markets. It is the largest ARV supplier (by volumes) to South Africa private market and has seven brands, with sales higher than ZAR 100mn. However, SAGA sales have declined in recent times, largely owing to stagnant market growth and slowdown in private market sales. We believe the worst is over for the company and expect Cipla's South Africa business to post 7% CAGR in FY23-25E.
- **Outlook:** Better performance in key geographies of US and India may aid a revenue CAGR of 11.2% over FY23-25E while EBITDA and PAT will grow at 17.6%/21.5% over FY23-25E.
- **Valuation:** Regulatory concerns at Indore plant is likely to push Advair launch to FY25E. Management is filing all its critical products for US from multiple sites to mitigate from the regulatory risk. Ahead its ability to monetise pipeline assets, better traction in India and cost curtailment efforts will likely sweeten margin profile by 50-80bps every year. We re-initiate coverage on the stock with **BUY** rating and TP of Rs1,169, based on 22x FY25E P/E. **Key risks:** Incremental competition in niche products, delay in facility resolution.

Market Cap	Rs757bn/US\$9.2bn
Reuters/Bloomberg	CIPLA IN /CIPL.BO
Shares Outstanding (mn)	807.2
52-week Range (Rs)	1173/862
Free Float (%)	66.4
FII (%)	29.8
Daily Volume (US\$'000)	22,600
Absolute Return 3m (%)	(9.3)
Absolute Return 12m (%)	2.3
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23	FY24E	FY25E
Revenue (Rs mn)	2,17,633	2,27,531	2,50,588	2,81,192
Net Income (Rs mn)	25,168	28,020	35,397	43,276
EPS (Rs)	32.8	36.3	43.9	53.6
% Chg YoY	10.2	10.5	20.8	22.3
P/E (x)	28.6	25.9	21.4	17.5
CEPS (Rs)	44.3	49.3	58.5	69.4
EV/E (x)	15.9	14.2	11.9	9.5
Dividend Yield (%)	0.4	0.4	0.5	0.6
RoCE (%)	13.2	13.3	14.3	15.4
RoE (%)	12.7	12.5	13.4	14.3

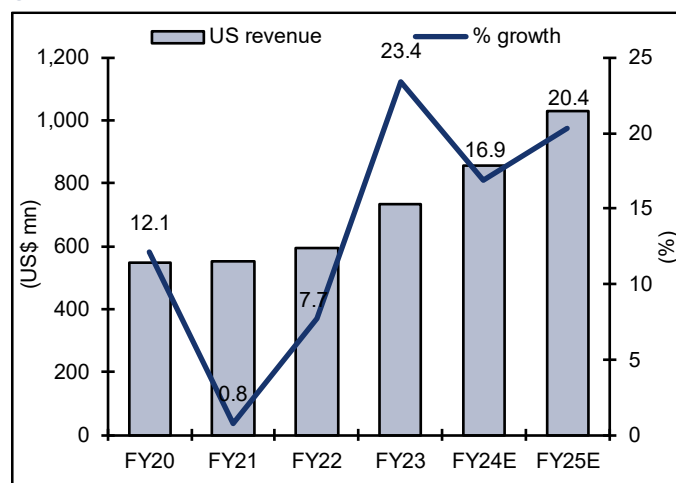
### Research Analysts:

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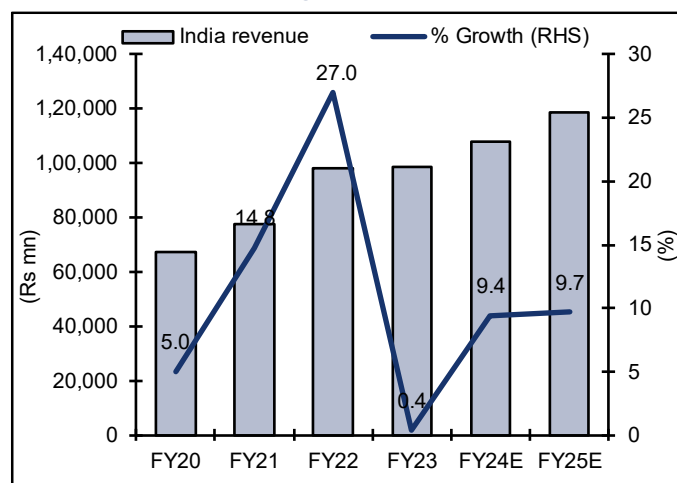
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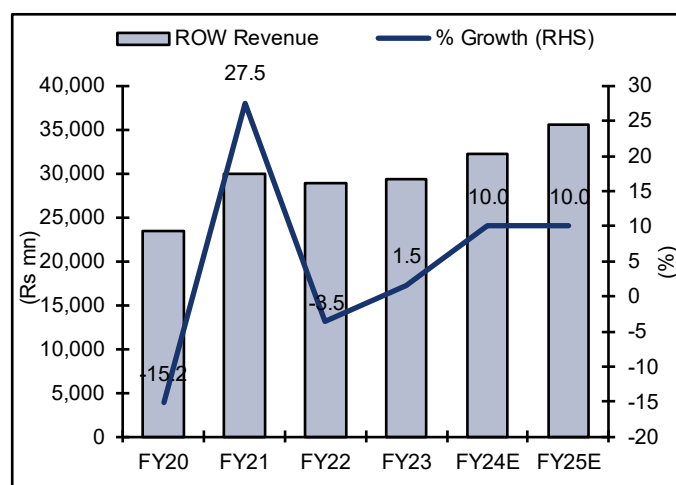
rohan.john@icicisecurities.com  
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**Chart 1: Advair and complex launches to aid growth in the US**

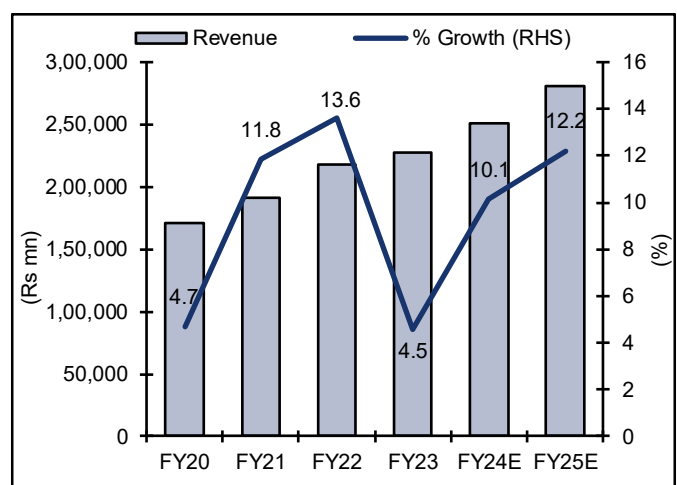
Source: Company data, I-Sec research.

**Chart 2: India revenues to be driven by healthy volume and price led growth**

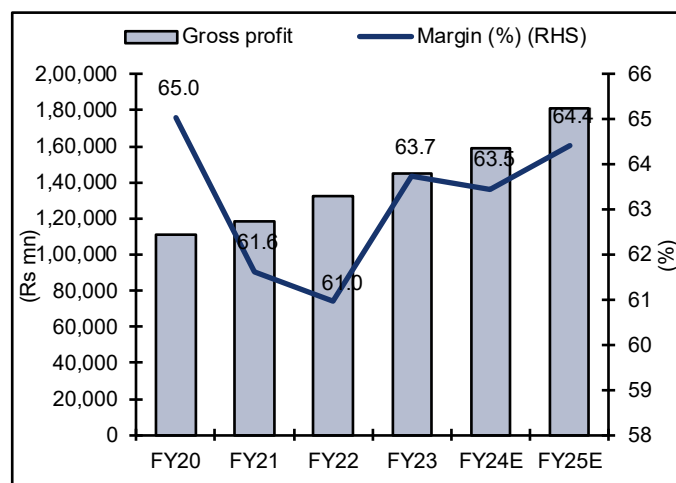
Source: Company data, I-Sec research.

**Chart 3: ROW revenues to grow with steady launches and market share increase**

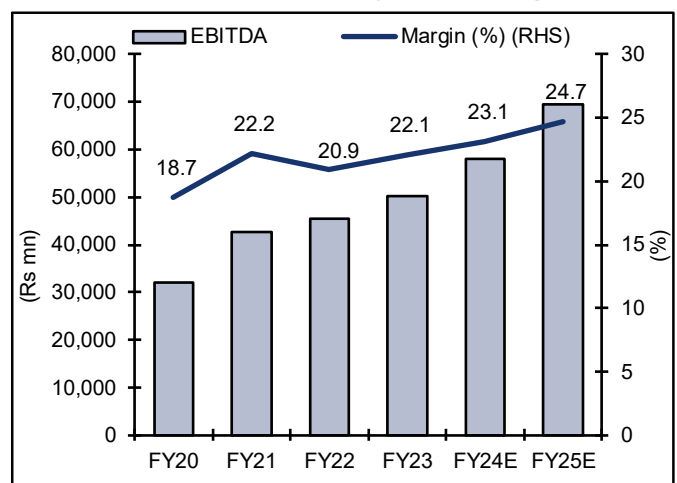
Source: Company data, I-Sec research.

**Chart 4: Revenues to grow 11.2% CAGR over FY23-FY25E**

Source: Company data, I-Sec research.

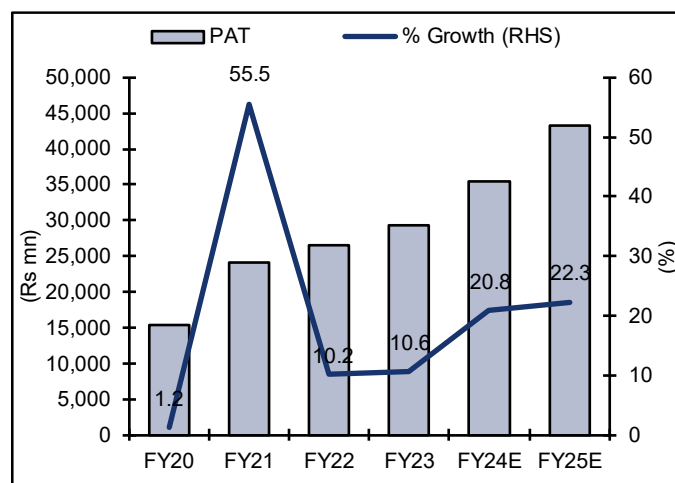
**Chart 5: Gross margins to improve with easing of RM prices**

Source: Company data, I-Sec research.

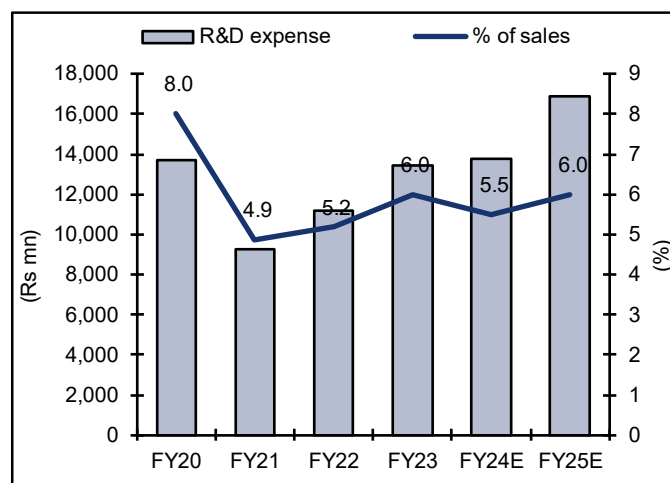
**Chart 6: EBITDA margins to expand 260bps with controlled costs and healthy domestic growth**

Source: Company data, I-Sec research.

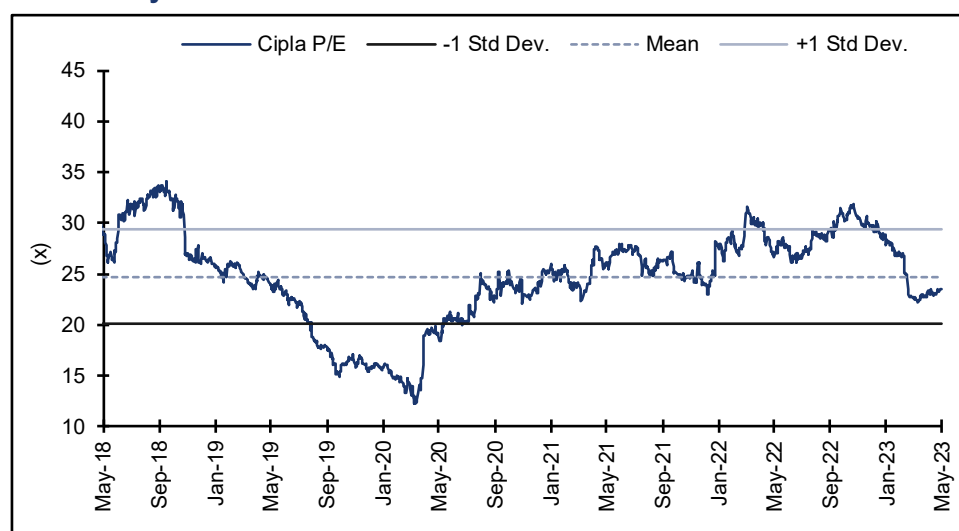


**Chart 7: Net Profit to grow 21.5% CAGR over FY23-FY25E**

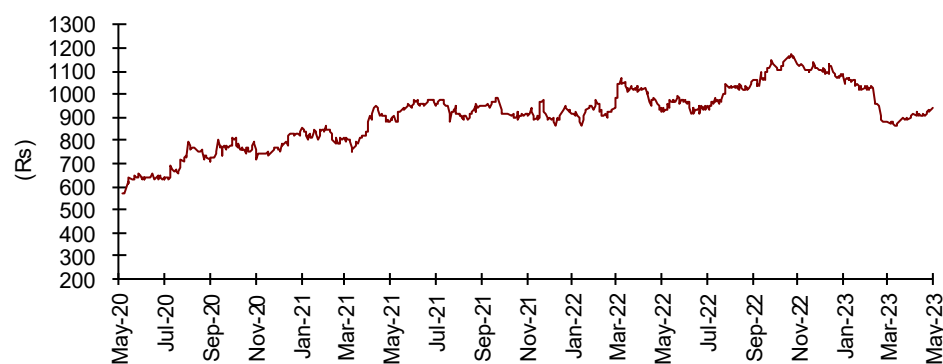
Source: Company data, I-Sec research.

**Chart 8: R&D to remain at ~6%**

Source: Company data, I-Sec research.

**Chart 9: 1-year forward P/E**

Source: Company data, I-Sec research

**Price chart**

Source: Bloomberg

## Financial summary (consolidated)

Table 1: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
<b>Total Net Revenue</b>	<b>2,17,633</b>	<b>2,27,531</b>	<b>2,50,588</b>	<b>2,81,192</b>
yoy Growth%	14	5	10	12
<b>Total Op. Exp.</b>	<b>1,72,106</b>	<b>1,77,262</b>	<b>1,92,629</b>	<b>2,11,699</b>
<b>EBITDA</b>	<b>45,528</b>	<b>50,270</b>	<b>57,958</b>	<b>69,493</b>
Margins %	20.9	22.1	23.1	24.7
yoy Growth%				
Depreciation	10,520	11,721	11,714	12,610
<b>EBIT</b>	<b>35,008</b>	<b>38,549</b>	<b>46,244</b>	<b>56,883</b>
Other Income	2,809	4,755	4,480	4,784
Interest	1,064	1,095	1,095	1,095
EO Items	(1,821)	(1,824)	-	-
<b>PBT</b>	<b>34,933</b>	<b>40,384</b>	<b>49,629</b>	<b>60,571</b>
Tax	9,338	12,029	13,896	16,960
Tax Rate (%)	26.7	29.8	28.0	28.0
Minority Interest	427	336	336	336
<b>Reported PAT</b>	<b>25,168</b>	<b>28,020</b>	<b>35,397</b>	<b>43,276</b>
<b>Adj PAT</b>	<b>26,502</b>	<b>29,300</b>	<b>35,397</b>	<b>43,276</b>
Net Margins (%)	12.2	12.9	14.1	15.4

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Paid up Capital	1,614	1,614	1,614	1,614
Reserves & Surplus	2,08,417	2,34,078	2,64,791	3,02,339
<b>Total Equity</b>	<b>2,10,031</b>	<b>2,35,692</b>	<b>2,66,405</b>	<b>3,03,954</b>
Minority Interest	2,757	3,058	3,058	3,058
<b>Total Debt</b>	<b>8,241</b>	<b>5,204</b>	<b>5,204</b>	<b>5,204</b>
Deferred Liabilities	(2,049)	(2,933)	(2,933)	(2,933)
<b>Capital Employed</b>	<b>2,17,367</b>	<b>2,39,406</b>	<b>2,70,119</b>	<b>3,07,668</b>
Current Liabilities & Prov	49,156	50,661	51,561	54,077
<b>Total Liabilities</b>	<b>2,66,523</b>	<b>2,90,067</b>	<b>3,21,680</b>	<b>3,61,745</b>
<b>Net Fixed Assets</b>	<b>1,03,881</b>	<b>1,01,940</b>	<b>1,05,773</b>	<b>1,05,163</b>
Investments	26,120	37,222	37,222	37,222
Inventory	53,502	51,564	61,765	67,345
Debtors	34,244	40,570	39,246	44,040
Other Current Assets	29,490	43,125	34,220	38,084
Cash and Equivalents	19,285	15,646	43,454	69,891
<b>Total Cur. Assets</b>	<b>1,62,642</b>	<b>1,88,128</b>	<b>2,15,907</b>	<b>2,56,583</b>
<b>Total Assets</b>	<b>2,66,523</b>	<b>2,90,067</b>	<b>3,21,680</b>	<b>3,61,745</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Cash profit adjusted for non cash items	37,935	41,901	47,447	56,221
Add/Less : Working Capital Changes	(13,514)	(17,325)	929	(11,722)
Operating Cash Flow	24,421	24,576	48,376	44,499
Less:- Capex	(9,467)	(11,320)	(15,548)	(12,000)
Free Cash Flow	14,954	13,256	32,828	32,499
Financing Cash Flow	(10,724)	(6,780)	(5,020)	(6,062)
Investing Cash Flow	2,198	(11,102)	-	-
<b>Net change in Cash</b>	<b>6,428</b>	<b>(4,626)</b>	<b>27,808</b>	<b>26,437</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23	FY24E	FY25E
Adj EPS	32.8	36.3	43.9	53.6
yoy Growth%	10.2	10.5	20.8	22.3
Cash EPS	44.3	49.3	58.5	69.4
EBITDA (%)	20.9	22.1	23.1	24.7
NPM (%)	12.2	12.9	14.1	15.4
Net Debt to Equity (x)	(0.6)	(0.6)	(0.6)	(0.7)
P/E (x)	28.6	25.9	21.4	17.5
EV/EBITDA (x)	15.9	14.2	11.9	9.5
P/BV (x)	3.6	3.2	2.9	2.5
EV/Sales (x)	3.3	3.1	2.7	2.3
ROCE (%)	13.2	13.3	14.3	15.4
ROE (%)	12.7	12.5	13.4	14.3
ROIC (%)	20.0	20.0	23.6	27.5
Book Value (Rs)	259	291	329	375
DPS (Rs)	3.4	3.8	4.8	5.9
Dividend Payout (%)	12.6	11.9	10.5	10.8
Div Yield (%)	0.4	0.4	0.5	0.6
Asset Turnover Ratio	2.1	2.2	2.4	2.7
Avg Collection days	57	65	57	57
Avg Inventory days	90	83	90	87

Source: Company data, I-Sec research

ICICI Securities Limited  
is the author and  
distributor of this report

Re-initiating coverage

## Pharmaceuticals

Target price: Rs610

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	75.0	75.0	75.0
Institutional investors	15.5	16.0	16.7
MFs and UTI	5.4	5.6	5.6
Insurance Cos.	7.3	7.9	7.7
FII	2.8	2.5	3.4
Others	9.5	9.0	8.3

Source: CMIE

### ESG disclosure score

Year	2021	2022	Chg
ESG score	37.5	64.6	27.1
Environment	1.8	48.5	46.7
Social	25.7	60.3	34.6
Governance	37.5	64.6	27.1

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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INDIA

 **ICICI Securities**

## Zydus Lifesciences

**BUY**

### US traction to aid delta in margins

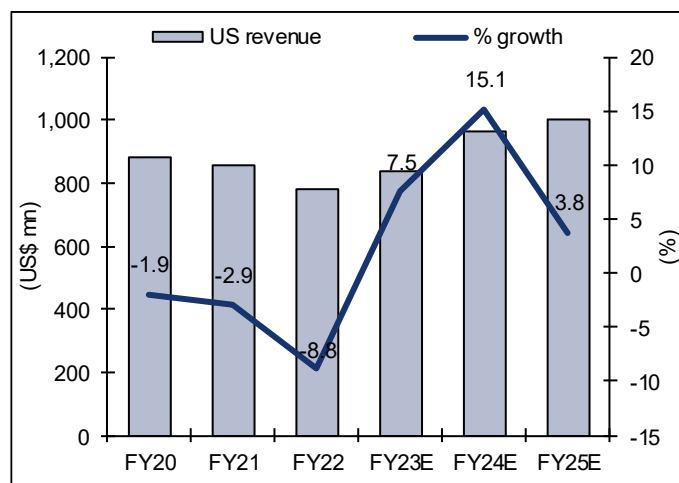
**Rs514**

Zydus Lifesciences (Zydus) is gearing up to launch key products in the US and is on track to achieve its FY25 sales guidance of US\$1bn. Approvals of limited-competition products such as transdermal, in-licensed complex injectables would drive near-term momentum in the US. It is expected to launch 3-4 transdermal, another 20-25 products from Moraiya facility (in Gujarat) and 1-2 complex injectables in FY24. Development of key specialty assets like Saroglitazar (FY25 filing for PBC) and Desidustat is on track and it has also in-licensed Nulibry from BridgeBio Pharma to strengthen its pediatric portfolio. We re-initiate coverage on the stock with BUY rating and target price of Rs610/share.

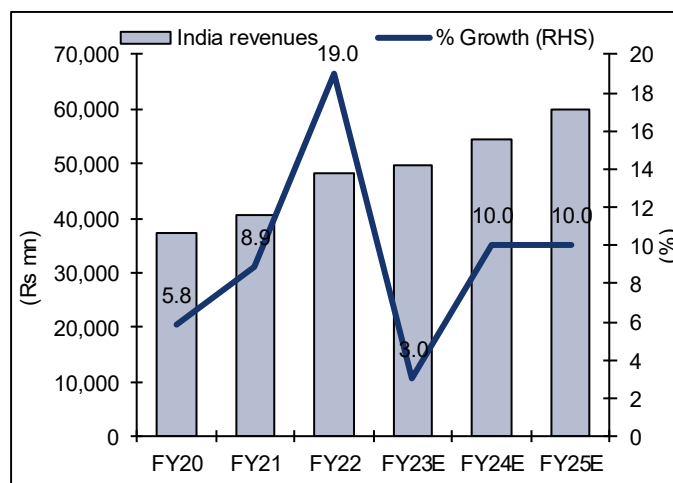
- **Launches to boost US run-rate:** Over 9MFY23, Zydus has launched 24 products (vs 10 in 9MFY22). We believe the company will continue with its healthy launch momentum, aided by higher approvals from Moraiya site. The recent launch of Revlimid, Trokendi and Mirabegron ER should support near term US run-rate. Competition in Asacol has been delayed and is unlikely to dent near-term earnings. In FY24, Zydus expects to launch two transdermal products from Moraiya. Driven by the launches of transdermal, soft gels, injectables and complex oral solid products, Zydus' US sales are likely to register ~9% CAGR over FY23E-25E to US\$1bn.
- **On track to monetise specialty/NCE portfolio:** Zydus' annual R&D budget for specialty at Rs4.2bn (30% of R&D) is one of the highest among peers. It is on track to file Saroglitazar for primary biliary cholangitis (PBC) indication by FY25 and non-alcoholic steatohepatitis (NASH) indication by FY27-28. Desidustat and ZYL1 are also progressing well in trials.
- **NCEs and biosimilars are driving India growth:** NCE brands like Lipaglyn and Oxemia have picked up well for Zydus. Lipaglyn has become the biggest brand for Zydus with annual sales of Rs963mn (as per IQVIA). Moreover, Bilypsa is the first approved product for NASH indication in India and is expected to ramp-up meaningfully. Key biosimilar brands like Vivtra and Bryxta are growing at a significant pace. Besides, Zydus has launched 22 more biosimilars in India and 9 more are in the pipeline. In 9MFY23, its India sales grew ~13% after adjusting for covid-led sales; we expect India branded formulations to register 10% CAGR over FY23E-25E.
- **Outlook:** We expect revenue / EBITDA / PAT CAGR of 10.1% / 20.4% / 24.8% over FY23E-FY25E on a high base and elevated costs, which would restrict margins. The company has reduced its debt through divestment of its animal health business and will further strengthen its balance sheet with ~Rs60bn of FCF generation over FY23E-FY25E.
- **Valuation and risks:** Zydus is gearing up to launch key products in the US and is on track to achieve its FY25 sales guidance of US\$1bn. The robust pipeline of NCE, biosimilars and orphan drugs would aid in sustaining strong performance in the long term. At CMP, the stock trades at 19x/17x FY24/25E P/E. We re-initiate coverage on Zydus with **BUY** rating and TP of Rs610/share based on 20x FY25E EPS. **Key downside risks:** Competition in the US and regulatory hurdles.

Market Cap	Rs520bn/US\$6.3bn		Year to Mar	FY22	FY23E	FY24E	FY25E
Reuters/Bloomberg	ZYDUSLIF IN		Revenue (Rs mn)	1,51,099	1,65,324	1,85,603	2,00,268
Shares Outstanding (mn)	1012.2		Net Income (Rs mn)	22,416	22,725	27,364	30,805
52-week Range (Rs)	526/332		EPS (Rs)	20.9	19.3	26.7	30.1
Free Float (%)	25.0		% Chg YoY	(9.3)	(7.4)	38.2	12.6
FII (%)	3.4		P/E (x)	24.6	26.5	19.2	17.1
Daily Volume (US\$'000)	6,020		CEPS (Rs)	27.8	26.4	34.2	38.0
Absolute Return 3m (%)	8.5		EV/E (x)	17.1	16.6	12.4	10.9
Absolute Return 12m (%)	55.2		Dividend Yield (%)	0.8	0.8	0.8	0.8
Sensex Return 3m (%)	2.3		RoCE (%)	10.5	8.9	11.6	12.1
Sensex Return 12m (%)	18.5		RoE (%)	14.2	11.1	14.0	14.2

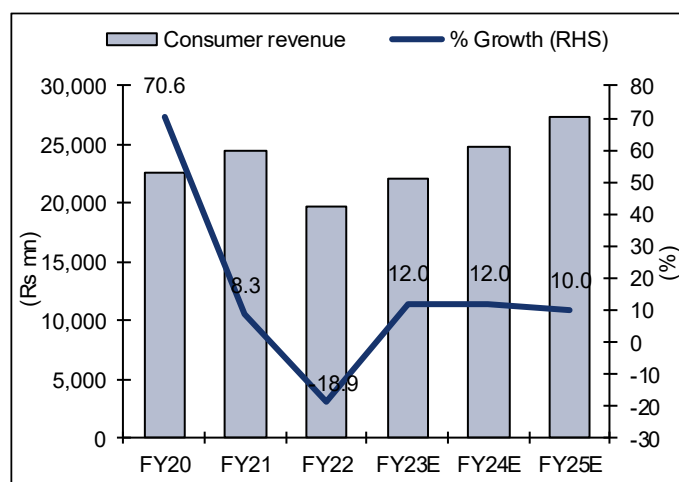
Please refer to important disclosures at the end of this report

**Chart 1: Healthy launch run rate to support US revenues**

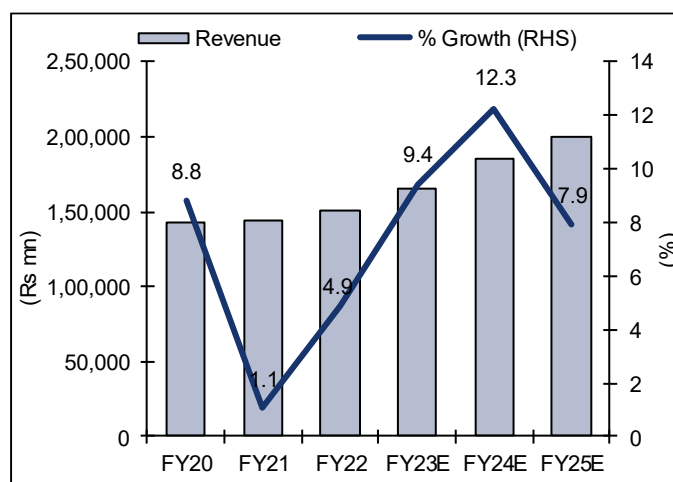
Source: Company data, I-Sec research.

**Chart 2: NCEs and Biosimilar to drive 10% CAGR in India over FY23E-FY25E**

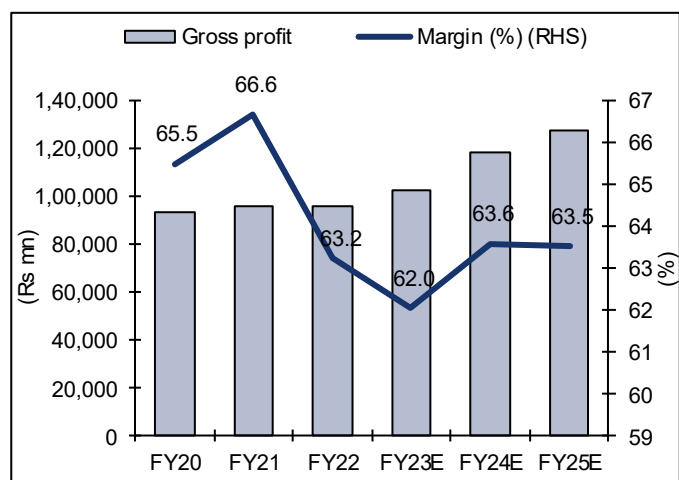
Source: Company data, I-Sec research.

**Chart 3: Consumer revenues to clock 11% over FY23E-FY25E**

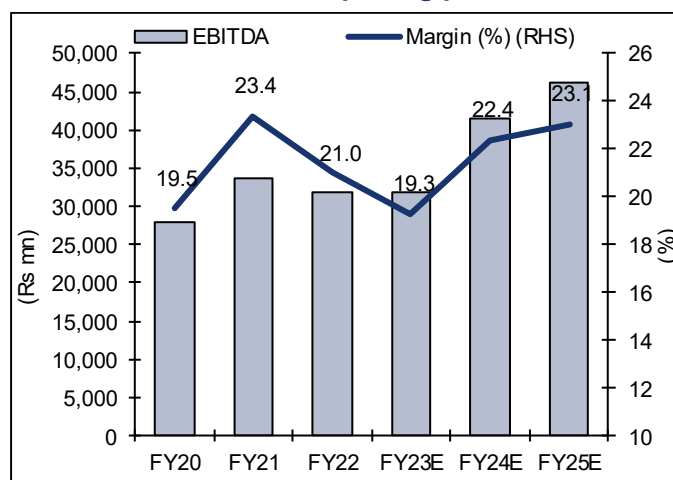
Source: Company data, I-Sec research.

**Chart 4: Total revenues to grow 10.1% over FY23E-FY25E**

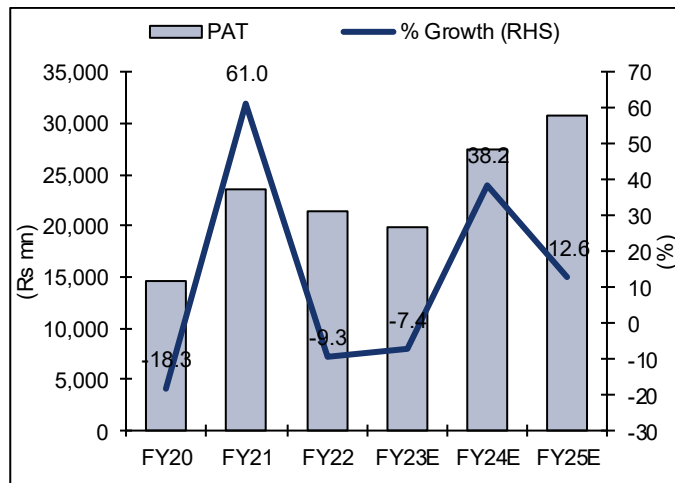
Source: Company data, I-Sec research.

**Chart 5: Gross margins to remain stable at ~64%**

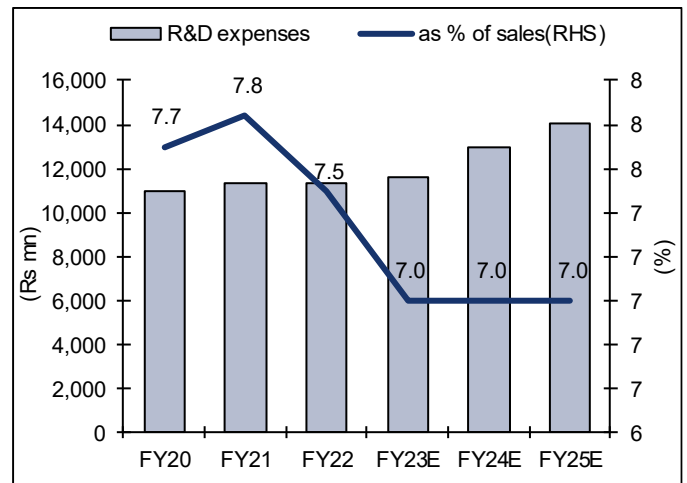
Source: Company data, I-Sec research.

**Chart 6: EBITDA margins to recover with moderation in costs and pricing pressures**

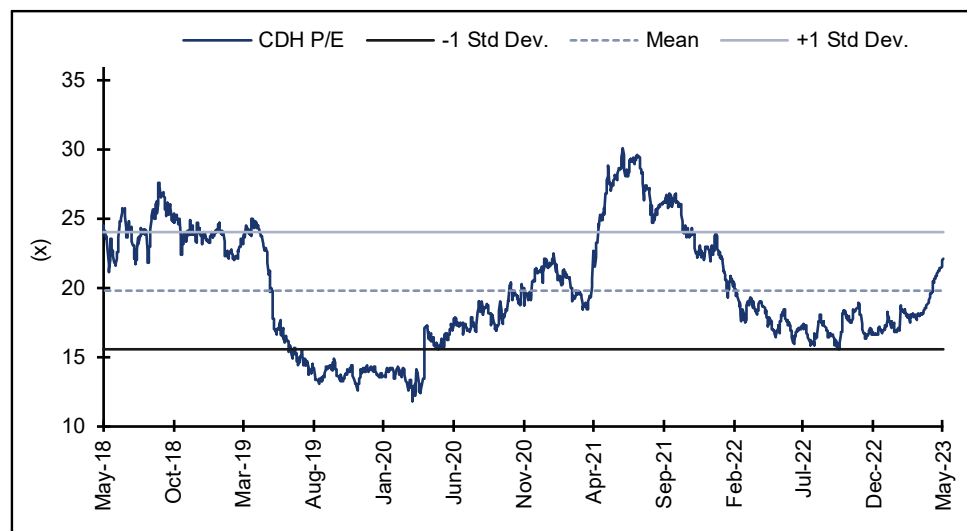
Source: Company data, I-Sec research.

**Chart 7: Net profits to grow 24.8% over FY23E-FY25E**

Source: Company data, I-Sec research.

**Chart 8: R&D as %age of sales**

Source: Company data, I-Sec research.

**Chart 9: 1-year forward P/E**

Source: Company data, I-Sec research

**Price chart**

Source: Bloomberg

## Financial summary (consolidated)

Table 1: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Total Net Revenue</b>	<b>1,51,099</b>	<b>1,65,324</b>	<b>1,85,603</b>	<b>2,00,268</b>
YoY Growth%	5	9	12	8
<b>Total Op. Exp.</b>	<b>1,19,330</b>	<b>1,33,435</b>	<b>1,44,031</b>	<b>1,54,075</b>
<b>EBITDA</b>	<b>31,769</b>	<b>31,889</b>	<b>41,572</b>	<b>46,194</b>
Margins %	21.0	19.3	22.4	23.1
YoY Growth%				
Depreciation	7,130	7,237	7,676	8,106
<b>EBIT</b>	<b>24,639</b>	<b>24,652</b>	<b>33,896</b>	<b>38,088</b>
Other Income	2,247	1,649	1,909	2,059
Interest	1,341	1,361	1,240	1,160
EO Items	2,836	3,663	-	-
<b>PBT</b>	<b>28,381</b>	<b>28,602</b>	<b>34,565</b>	<b>38,986</b>
Tax	5,117	5,720	6,913	7,797
Tax Rate (%)	18.0	20.0	20.0	20.0
Minority Interest	848	157	287	384
<b>Reported PAT</b>	<b>22,416</b>	<b>22,725</b>	<b>27,364</b>	<b>30,805</b>
<b>Adj PAT</b>	<b>21,367</b>	<b>19,794</b>	<b>27,364</b>	<b>30,805</b>
Net Margins (%)	14.1	12.0	14.7	15.4

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid up Capital	1,024	1,024	1,024	1,024
Reserves & Surplus	1,69,996	1,85,547	2,05,737	2,29,368
<b>Total Equity</b>	<b>1,71,020</b>	<b>1,86,571</b>	<b>2,06,761</b>	<b>2,30,392</b>
Minority Interest	20,542	20,542	20,542	20,542
<b>Total Debt</b>	<b>51,413</b>	<b>41,257</b>	<b>38,757</b>	<b>36,257</b>
Deferred Liabilities	(9,420)	(9,420)	(9,420)	(9,420)
<b>Capital Employed</b>	<b>2,32,531</b>	<b>2,37,926</b>	<b>2,55,616</b>	<b>2,76,747</b>
Current Liabilities & Prov	34,465	39,289	42,775	45,493
<b>Total Liabilities</b>	<b>2,66,996</b>	<b>2,77,215</b>	<b>2,98,391</b>	<b>3,22,240</b>
<b>Net Fixed Assets</b>	<b>1,29,144</b>	<b>1,32,069</b>	<b>1,32,393</b>	<b>1,32,286</b>
Investments	32,880	32,880	32,880	32,880
Inventory	37,194	38,084	41,670	46,781
Debtors	33,403	34,202	37,422	42,013
Other Current Assets	23,306	26,737	29,166	32,629
Cash and Equivalents	11,069	13,242	24,860	35,651
<b>Total Cur. Assets</b>	<b>1,37,852</b>	<b>1,45,146</b>	<b>1,65,998</b>	<b>1,89,954</b>
<b>Total Assets</b>	<b>2,66,996</b>	<b>2,77,215</b>	<b>2,98,391</b>	<b>3,22,240</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non-cash items	34,605	35,552	41,572	46,194
Add/Less : Working Capital Changes	20,198	297	5,749	10,446
Operating Cash Flow	9,992	29,535	28,910	27,951
Less:- Capex	7,114	10,162	8,000	8,000
Free Cash Flow	2,878	19,373	20,910	19,951
Financing Cash Flow	(692)	(17,200)	(9,293)	(9,159)
Investing Cash Flow	-	-	-	-
<b>Net change in Cash</b>	<b>2,186</b>	<b>2,173</b>	<b>11,618</b>	<b>10,792</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	20.9	19.3	26.7	30.1
YoY Growth%	(9.3)	(7.4)	38.2	12.6
Cash EPS	27.8	26.4	34.2	38.0
EBITDA (%)	21.0	19.3	22.4	23.1
NPM (%)	14.1	12.0	14.7	15.4
Net Debt to Equity (x)	0.1	0.0	(0.0)	(0.1)
P/E (x)	24.6	26.5	19.2	17.1
EV/EBITDA (x)	17.1	16.6	12.4	10.9
P/BV (x)	3.1	2.8	2.6	2.3
EV/Sales (x)	3.6	3.2	2.8	2.5
ROCE (%)	10.5	8.9	11.6	12.1
ROE (%)	14.2	11.1	14.0	14.2
ROIC (%)	11.1	10.5	13.8	14.8
Book Value (Rs)	166	181	201	224
DPS (Rs)	4.0	4.0	4.0	4.0
Dividend Payout (%)	18.3	18.0	15.0	13.3
Div Yield (%)	0.8	0.8	0.8	0.8
Asset Turnover Ratio	1.2	1.3	1.4	1.5
Avg Collection days	81	76	74	77
Avg Inventory days	90	84	82	85

Source: Company data, I-Sec research



ICICI Securities Limited  
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distributor of this report

Re-initiating coverage

## Pharmaceuticals

Target price Rs1,160

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	54.5	54.5	54.5
Institutional investors	34.6	35.0	36.1
MFs and UTI	12.2	12.5	12.9
Insurance Cos.	6.4	5.6	5.1
FII	16.0	16.9	18.1
Others	10.9	10.5	9.4

Source: CMIE

### ESG disclosure score

Year	2020	2021	Chg
ESG score	45.2	51.3	6.1
Environment	33.2	35.0	1.8
Social	23.6	27.6	4.0
Governance	78.6	91.1	12.5

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA



# Sun Pharmaceutical Industries

BUY

## Stepping ahead in specialty game

Rs957

Sun Pharmaceutical Industries (Sun) provides a steady combination of matured branded generics and fast-growing new-age businesses. Branded generics ensure steady cashflow while Sun is ahead of most of its India peers in the US specialty race. Company has restored its R&D investments for specialty business, which may hurt margins in the near term. We remain positive on Sun's long-term outlook considering its strong India franchise and scale-up in the specialty business. Recent correction in stock price (~5% in 3 months) has made valuations reasonable. Reinitiate coverage with BUY and a target price of Rs1,160/share.

- **Specialty portfolio – Illumya and Winlevi – to drive growth:** Sun, over the years, has turned its attention towards its specialty portfolio, which grew 25.9% in 9MFY23 to US\$223mn. Apart from traction in existing products like Illumya and Cequa, its acquired asset Winlevi is gaining healthy traction. Sun recently announced the acquisition of Concert Pharmaceuticals for an upfront payment of US\$576mn, which gives it access to the late-stage clinical molecule, deuruxolitinib (potential treatment for alopecia areata with no FDA-approved treatments). We expect Sun's specialty portfolio to grow at a healthy rate of 21% in FY23E-25E led by ramp-up in Illumya and Winlevi.
- **Deleveraging dependence on volatile generics:** Sun has 96 ANDAs awaiting approval and may launch 10 new products over the next two years. Price erosion in the business has softened to single digits while dependence on Halol plant is restricted to a mere 3% of US revenue. Given that branded generics contribute over 60% of Sun's revenue and substantially higher to EBITDA, the relative impact from any negative surprise in US generics may not materially dent Sun's earnings.
- **India business – Spreading wings via organic route:** Sun has maintained its leadership in the India pharma market, with its market share at 7.7%. India sales witnessed a 20.2% CAGR in FY19-FY22. In 9MFY23, the company launched 81 new products and increased medical representative (MR) count by 10%. Going forward, we expect the domestic business to report an 8.2% CAGR over FY23E-25E, supported by better pricing and MR addition.
- **Outlook:** We expect 8.3% revenue and 18.4% adj. PAT CAGRs for Sun over FY23E-FY25E. We expect the India business to outperform. We also expect ramp-up in its global specialty sales to continue supporting margins and profitability, which would likely be offset to some extent by rising R&D spend.
- **Valuations and risks:** Sun continues to strengthen its specialty portfolio by regularly adding products through internal R&D and M&As (Winlevi and Deuruxolitinib). Higher contribution from specialty products will help improve margins and help manage the burden of higher R&D. At CMP of 956, the stock trades at 21x FY25E EPS. We recommend **BUY** on the stock with a target price of Rs1,160/share based on 25x FY25E EPS. **Key downside risks:** Higher-than-expected pricing pressures in the US, and regulatory hurdles.

Market Cap	Rs2294bn/US\$27.9bn
Reuters/Bloomberg	SUNP IN /SUN.BO
Shares Outstanding (mn)	2,399.3
52-week Range (Rs)	1052/793
Free Float (%)	45.5
FII (%)	18.1
Daily Volume (US\$'000)	27,450
Absolute Return 3m (%)	(5.0)
Absolute Return 12m (%)	13.7
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	3,86,545	4,39,276	4,76,960	5,14,836
Net Income (Rs mn)	32,281	85,029	98,938	1,11,957
EPS (Rs)	27.8	34.9	41.1	46.5
% Chg YoY	12.4	25.6	17.7	13.2
P/E (x)	34.5	27.4	23.3	20.6
CEPS (Rs)	36.4	45.4	52.1	58.0
EV/E (x)	21.0	18.1	15.0	12.8
Dividend Yield (%)	0.4	0.9	1.1	1.2
RoCE (%)	12.6	14.9	15.4	15.4
RoE (%)	14.1	16.3	16.7	16.5

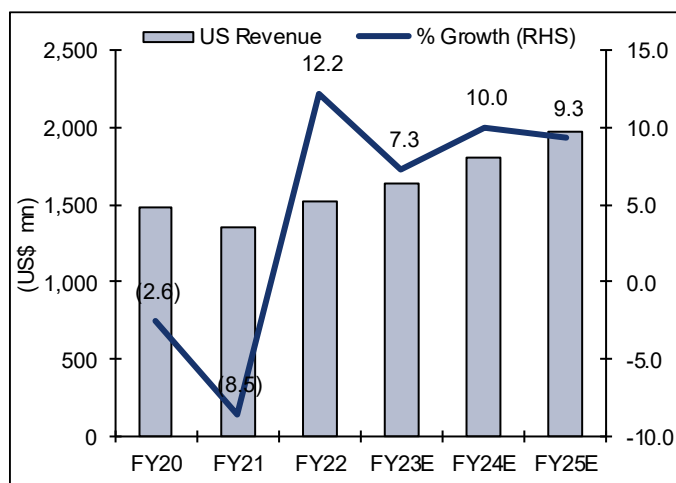
### Research Analysts:

Abdulkader Puranwala

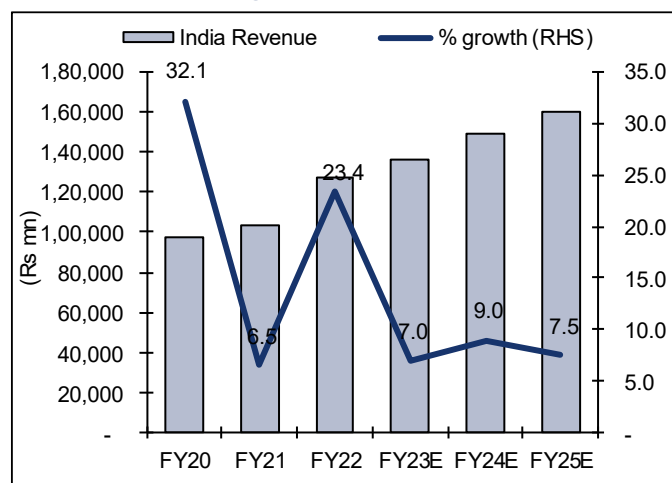
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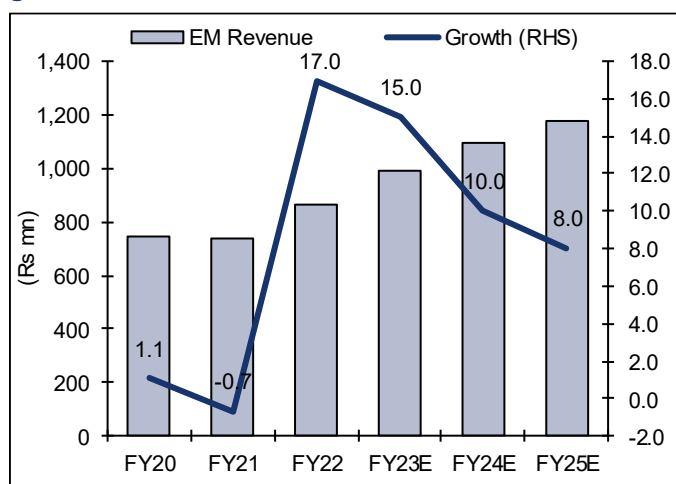
rohan.john@icicisecurities.com  
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**Chart 1: Illumya and Winlevi to drive US revenues**

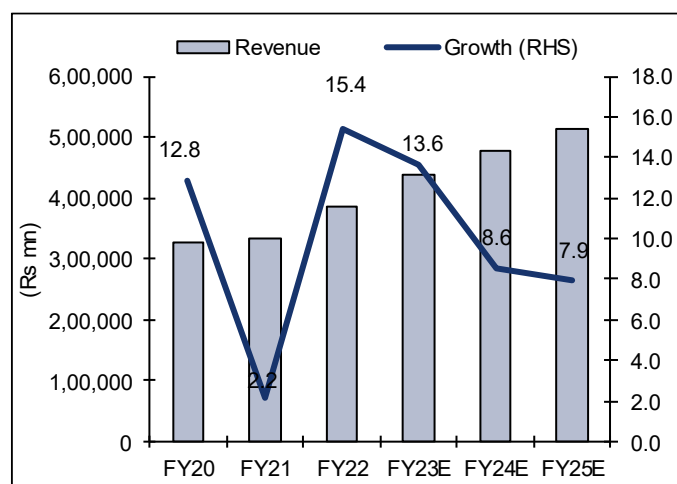
Source: Company data, I-Sec research.

**Chart 2: MR addition and calibrated pricing to drive 8.2% CAGR growth in India**

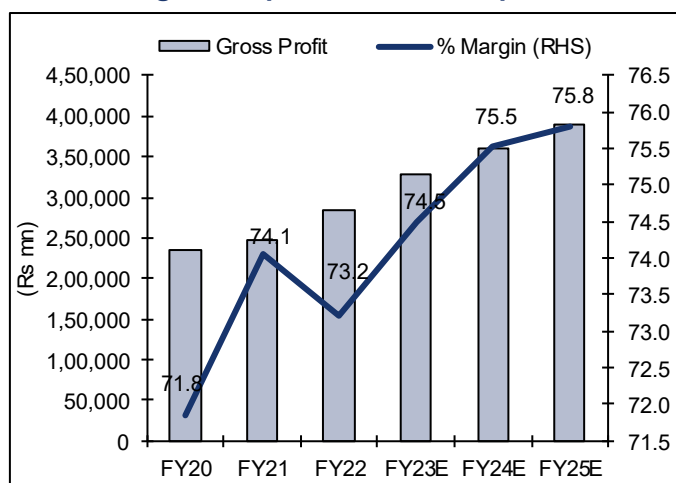
Source: Company data, I-Sec research.

**Chart 3: Emerging markets to maintain healthy growth**

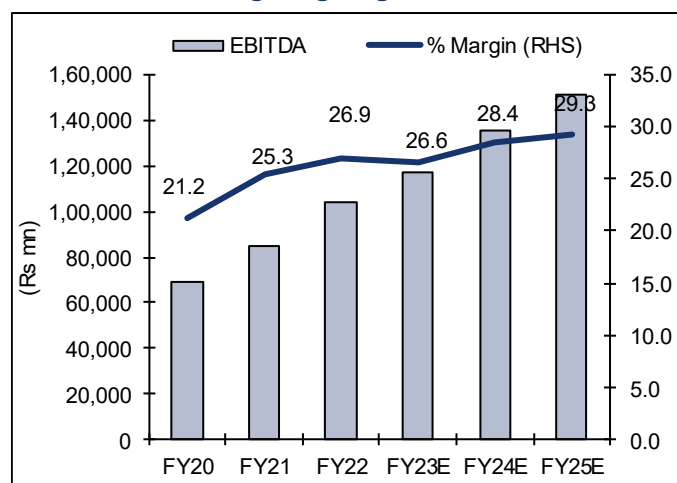
Source: Company data, I-Sec research.

**Chart 4: Total revenue to grow 8.3% over FY23E-FY25E**

Source: Company data, I-Sec research.

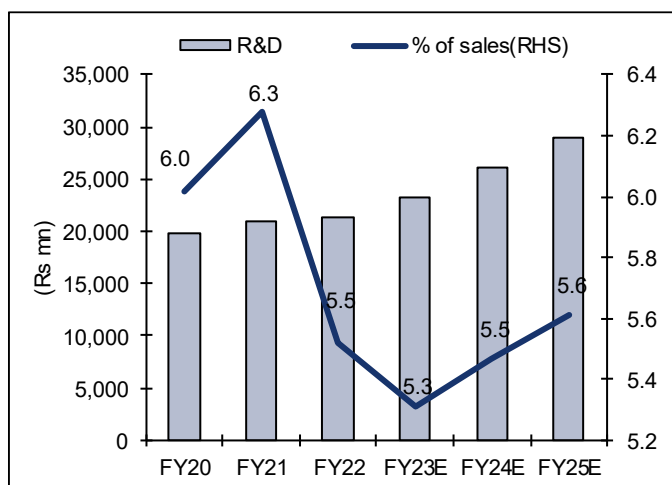
**Chart 5: Gross margins are expected to improve with cooling of RM prices and better product mix**

Source: Company data, I-Sec research.

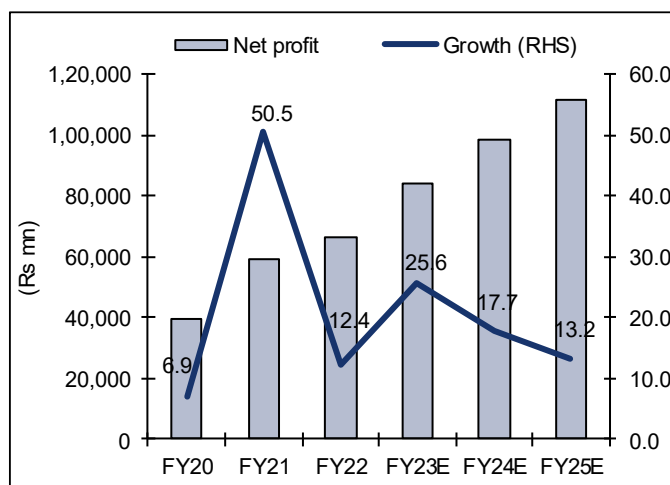
**Chart 6: Higher specialty sales contribution to drive EBITDA margins going forward**

Source: Company data, I-Sec research.

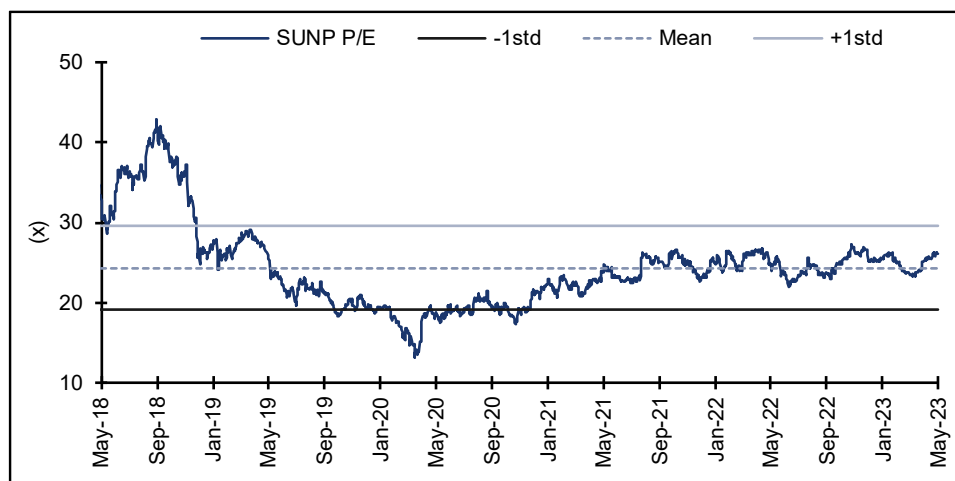


**Chart 7: Specialty R&D to increase going forward**

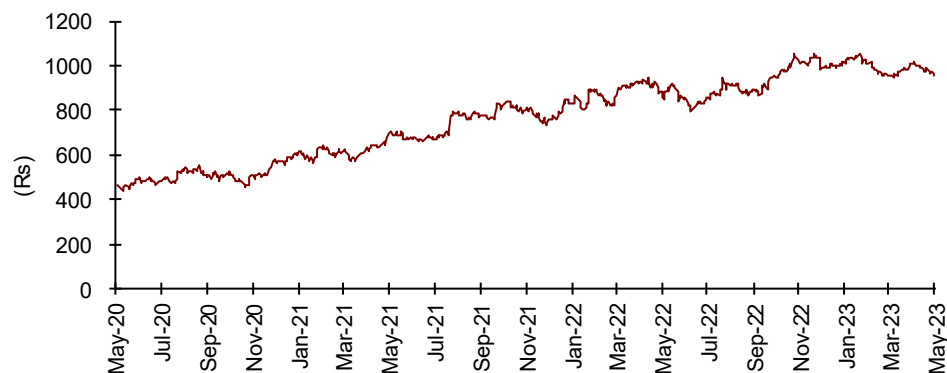
Source: Company data, I-Sec research.

**Chart 8: Net profits to grow 15.4% over FY23E-FY25E**

Source: Company data, I-Sec research.

**Chart 9: 1-year forward P/E**

Source: Company data, I-Sec research

**Price chart**

Source: Bloomberg

## Financial summary (consolidated)

Table 1: Profit and Loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Total Net Revenue</b>	<b>3,86,545</b>	<b>4,39,276</b>	<b>4,76,960</b>	<b>5,14,836</b>
yoy Growth%	15.4	13.6	8.6	7.9
<b>Total Op. Exp.</b>	<b>2,82,568</b>	<b>3,22,439</b>	<b>3,41,474</b>	<b>3,63,978</b>
<b>EBITDA</b>	<b>1,03,977</b>	<b>1,16,837</b>	<b>1,35,485</b>	<b>1,50,858</b>
Margins %	26.9	26.6	28.4	29.3
yoy Growth%	22.5	12.4	16.0	11.3
Depreciation	21,437	25,181	26,336	27,491
<b>EBIT</b>	<b>82,540</b>	<b>91,656</b>	<b>1,09,150</b>	<b>1,23,367</b>
Other Income	9,215	3,483	4,799	5,128
Interest	1,274	1,290	1,049	732
EO Items	(45,668)	1,027	-	-
<b>PBT</b>	<b>44,813</b>	<b>94,875</b>	<b>1,12,900</b>	<b>1,27,762</b>
Tax	10,755	9,488	13,548	15,331
Tax Rate (%)	24.0	10.0	12.0	12.0
Minority Interest	1,778	359	413	473
<b>Reported PAT</b>	<b>32,281</b>	<b>85,029</b>	<b>98,938</b>	<b>1,11,957</b>
<b>Adj PAT</b>	<b>66,658</b>	<b>83,731</b>	<b>98,564</b>	<b>1,11,584</b>
Net Margins (%)	17.2	19.1	20.7	21.7

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid up Capital	2,399	2,399	2,399	2,399
Reserves & Surplus	4,77,713	5,47,085	6,27,854	7,19,293
<b>Total Equity</b>	<b>4,80,112</b>	<b>5,49,484</b>	<b>6,30,254</b>	<b>7,21,692</b>
Minority Interest	30,549	31,095	31,695	32,355
<b>Total Debt</b>	<b>12,903</b>	<b>12,903</b>	<b>10,403</b>	<b>7,903</b>
Deferred Tax Liabilities	(28,649)	(28,649)	(28,649)	(28,649)
<b>Capital Employed</b>	<b>4,94,916</b>	<b>5,64,833</b>	<b>6,43,703</b>	<b>7,33,302</b>
Current Liabilities & Prov	1,74,116	1,94,564	2,08,567	2,23,981
<b>Total Liabilities</b>	<b>6,69,032</b>	<b>7,59,397</b>	<b>8,52,270</b>	<b>9,57,282</b>
<b>Net Fixed Assets</b>	<b>2,37,465</b>	<b>2,27,284</b>	<b>2,15,949</b>	<b>2,03,458</b>
Investments	53,406	53,406	53,406	53,406
Inventory	89,968	1,02,663	1,08,724	1,15,889
Debtors	1,05,929	1,20,379	1,30,706	1,41,086
Other Current & non-current Assets	55,591	59,354	62,043	64,747
Cash and Equivalents	1,26,673	1,96,311	2,81,442	3,78,698
<b>Total Cur. Assets</b>	<b>3,78,161</b>	<b>4,78,707</b>	<b>5,82,916</b>	<b>7,00,419</b>
<b>Total Assets</b>	<b>6,69,032</b>	<b>7,59,397</b>	<b>8,52,270</b>	<b>9,57,282</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
PBT	44,813	94,689	1,12,713	1,27,575
Depreciation	21,437	25,181	26,336	27,491
Net Chg in WC	15,591	(23,452)	(14,358)	(14,165)
Taxes	9,692	(9,488)	(13,548)	(15,331)
Others	(1,688)	14,281	10,333	10,063
<b>CFO</b>	<b>89,845</b>	<b>1,01,211</b>	<b>1,21,475</b>	<b>1,35,633</b>
Capex	(14,344)	(15,000)	(15,000)	(15,000)
Net Investments made	(34,485)	-	-	-
Others	(3,203)	-	-	-
<b>CFI</b>	<b>(52,032)</b>	<b>(15,000)</b>	<b>(15,000)</b>	<b>(15,000)</b>
Change in Share capital	-	-	-	-
Change in Debts	(28,718)	-	(2,500)	(2,500)
Div. & Div Tax	(21,589)	(15,284)	(17,795)	(20,145)
Others	(1,628)	(1,290)	(1,049)	(732)
<b>CFF</b>	<b>(51,935)</b>	<b>(16,574)</b>	<b>(21,343)</b>	<b>(23,377)</b>
<b>Total Cash Generated</b>	<b>(14,122)</b>	<b>69,638</b>	<b>85,132</b>	<b>97,256</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	27.8	34.9	41.1	46.5
yoy Growth%	12.4	25.6	17.7	13.2
Cash EPS	36.4	45.4	52.1	58.0
EBITDA (%)	26.9	26.6	28.4	29.3
NPM (%)	17.2	19.1	20.7	21.7
Net Debt to Equity (x)	(0.2)	(0.3)	(0.4)	(0.5)
P/E (x)	34.5	27.4	23.3	20.6
EV/EBITDA (x)	21.0	18.1	15.0	12.8
P/BV (x)	4.8	4.2	3.6	3.2
EV/Sales (x)	5.6	4.8	4.2	3.7
ROCE (%)	12.6	14.9	15.4	15.4
ROE (%)	14.1	16.3	16.7	16.5
ROIC (%)	14.9	19.5	23.2	26.7
Book Value (Rs)	200.1	229.0	262.7	300.8
DPS (Rs)	2.0	5.3	6.2	7.0
Dividend Payout (%)	15.0	15.0	15.0	15.0
Div Yield (%)	0.4	0.9	1.1	1.2
Asset Turnover Ratio	0.8	0.8	0.7	0.7
Avg Collection days	93	95	97	97
Avg Inventory days	116	109	113	113

Source: Company data, I-Sec research

ICICI Securities Limited  
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distributor of this report

Re-initiating coverage

## Pharmaceuticals

Target price: Rs27,000

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	75.0	75.0	75.0
Institutional investors	8.2	8.4	8.8
MFs and UTI	5.7	6.4	6.9
Insurance Cos.	2.0	1.8	1.6
FII	0.3	0.2	0.3
Others	16.8	16.6	16.2

Source: CMIE

### ESG disclosure score

Year	2021	2022	Chg
<b>ESG score</b>	<b>47.6</b>	<b>42.6</b>	<b>(5.1)</b>
Environment	26.7	20.8	(5.9)
Social	31.1	21.8	(9.3)
Governance	84.9	84.9	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

## Abbott India

BUY

### MNC with traits of an Indian pharma company **Rs21,202**

A strong set of brands, an efficient field force and patient-centric approach have helped Abbott India (BOOT) overcome the threat from generics in its key brands. The roadmap to drive growth in each segment is set out; BOOT plans to launch 3-5 products, which are about to lose patent in the next 3-4 years. Besides, it is focusing on adult vaccines and has identified five new products, with a market size of Rs11.3bn. The management targets a revenue CAGR of 13% to US\$1bn by FY26, while profit may grow faster. BOOT has been successful in taming its operating cost, which has led to a strong upsurge of 150bps in its EBITDA margin to 23% in 9MFY23. We re-initiate coverage on the stock with BUY rating.

- **FY26 revenue targeted at US\$1bn:** Despite various hurdles, Abbott India (BOOT IN) has grown its revenue in each of the past 22 quarters. BOOT has laid down a roadmap to drive growth in each of the segments it operates in and is eyeing 15 launches every year, of which 3-5 would be the products that are about to go off patent every year. The management aspires a revenue CAGR of 13% to US\$1bn by FY26.
- **Gastro therapy – striving to maintain leadership:** Led by its strong field force and marquee set of brands, BOOT is a market leader in gastro-intestinal segment in India. BOOT's recently-launched Digeraft and Digecaine brands are gaining good traction. BOOT is also launching a new division and adding medical representatives (MRs) to maintain dominance.
- **Women health – enhancing portfolio bandwidth:** Duphaston was a strong driver in FY22 but renewed competition took a toll on its FY23 growth. The impact of generic competition is now absorbed and a further dip in market share looks unlikely. BOOT is now targeting other areas of women health and has launched three promising brands, PreservGest, Femoston 2/10 and Riligol to improve portfolio bandwidth.
- **Vaccines – getting out of trough:** Influvac is the biggest brand in the portfolio and accounts for ~50% of segmental sales. BOOT is majorly focusing on adult vaccines and has identified five new products, which have a market size of Rs11.3bn.
- **Outlook:** We expect revenue, EBITDA and PAT CAGRs of 13.5%, 15.2% and 14.9% over FY23E-FY25E. A better product mix, productivity improvement and operating leverage may drive an 80bps EBITDA margin expansion to 23.9% over FY23E-25E.
- **Valuations and risks:** BOOT showcases a balance sheet trait of an MNC and growth profile of an Indian company. Its strong set of brands, efficient field force and patient-centric approach have helped it overcome the threat from generics in its key brands. At CMP of R21,202, the stock trades at 39.9x FY24E P/E and 35.4x FY25E P/E. We re-initiate coverage on the stock with BUY rating and TP of Rs27,000 based on 45x FY25E P/E. **Key downside risks:** Addition of key drugs in NLEM and government intervention.

Market Cap	Rs451bn/US\$5.5bn
Reuters/Bloomberg	BOOT IN /ABOT.BO
Shares Outstanding (mn)	21.2
52-week Range (Rs)	22881/16500
Free Float (%)	25.0
FII (%)	0.3
Daily Volume (US\$'000)	3,710
Absolute Return 3m (%)	2.2
Absolute Return 12m (%)	28.0
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	49,193	55,946	63,422	72,103
Net Income (Rs mn)	7,987	9,652	11,282	12,737
EPS (Rs)	375.9	454.2	530.9	599.4
% Chg YoY	15.6	20.8	16.9	12.9
P/E (x)	56.4	46.7	39.9	35.4
CEPS (Rs)	407.0	490.9	571.6	646.6
EV/E (x)	38.9	32.2	27.2	23.3
Dividend Yield (%)	1.3	0.8	0.8	0.8
RoCE (%)	30.2	31.4	30.1	27.9
RoE (%)	29.5	30.8	29.6	27.5

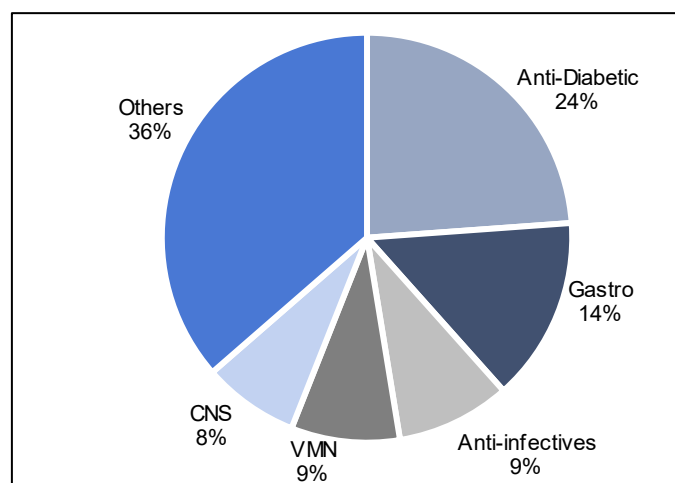
### Research Analysts:

**Abdulkader Puranwala**

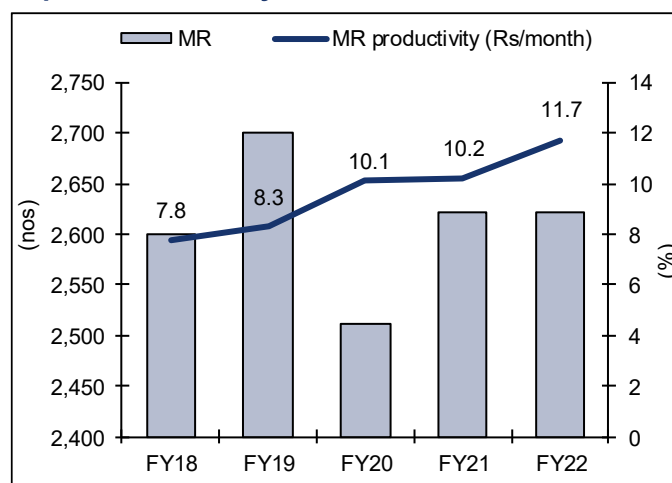
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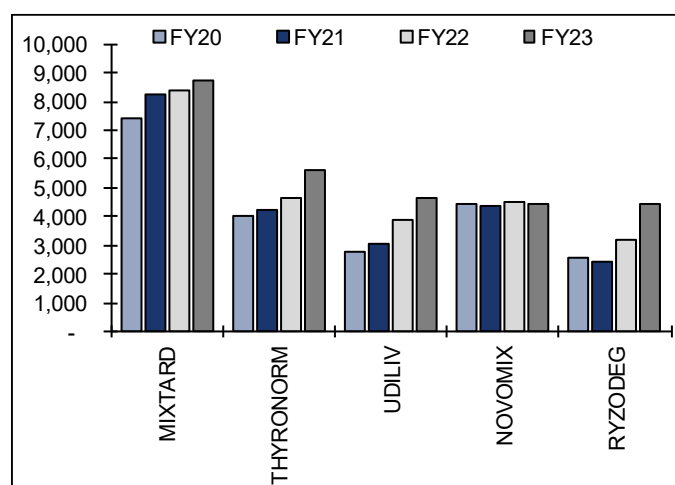
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**Chart 1: Chronic therapies contributes ~60% of the revenue mix**

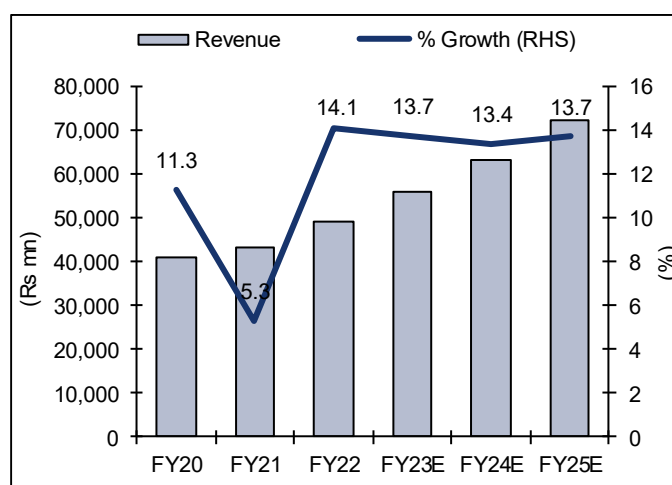
Source: IQVIA, I-Sec research.

**Chart 2: MR productivity has consistently improved over the years**

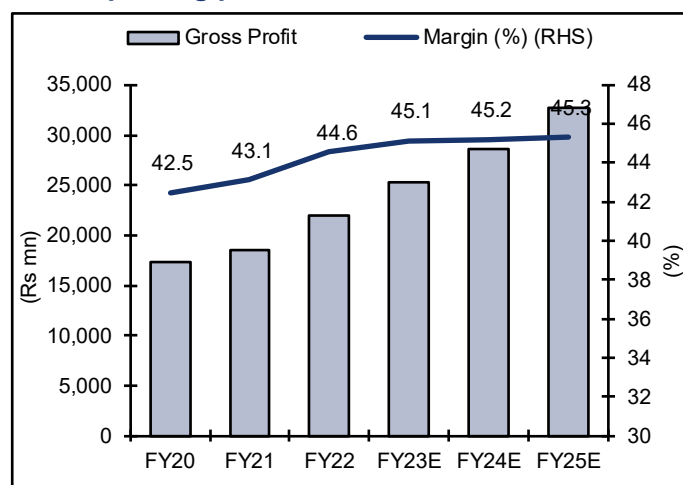
Source: Company data, I-Sec research.

**Chart 3: Growth in Top 5 brands**

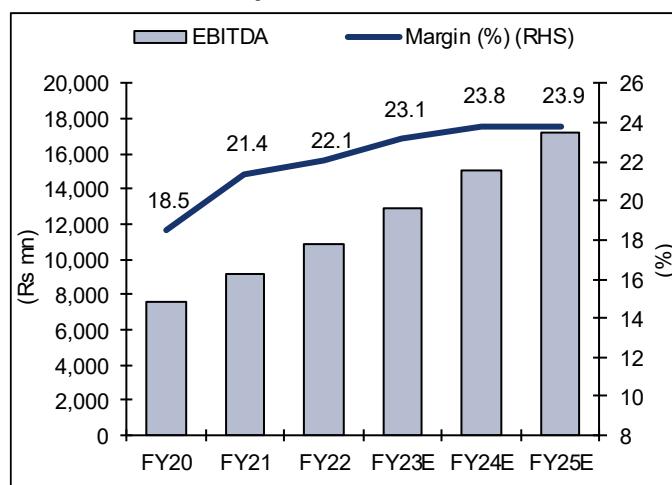
Source: IQVIA, I-Sec research.

**Chart 4: Revenue to grow 13.5% CAGR over FY23E-FY25E**

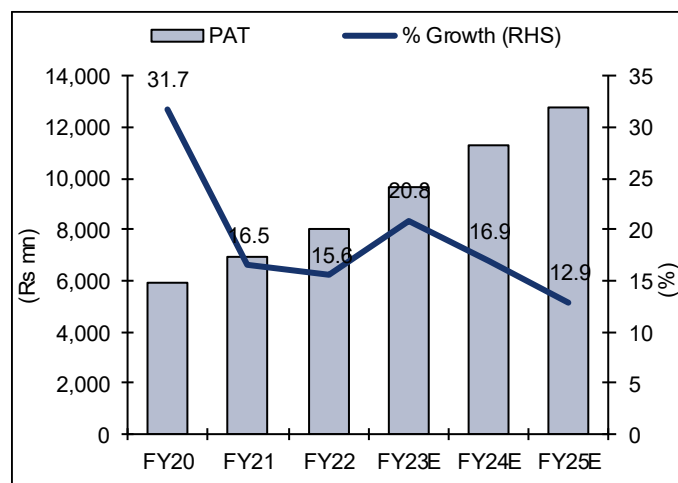
Source: Company data, I-Sec research.

**Chart 5: Gross margins to see steady increase with improving product mix**

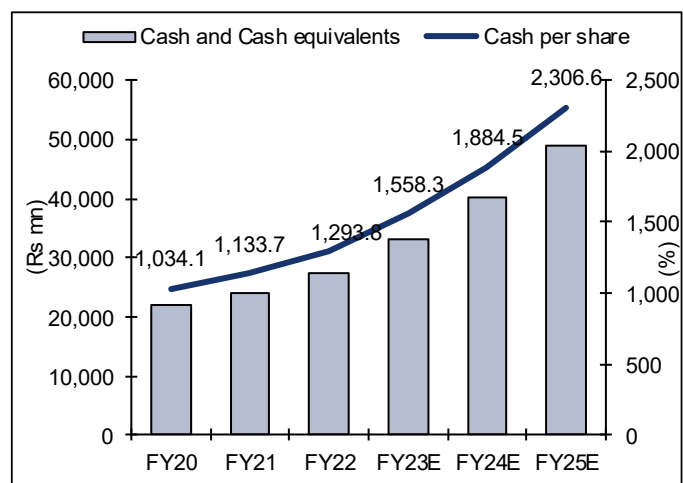
Source: Company data, I-Sec research.

**Chart 6: Expect margins to improve 80bps to 23.9% with better product mix**

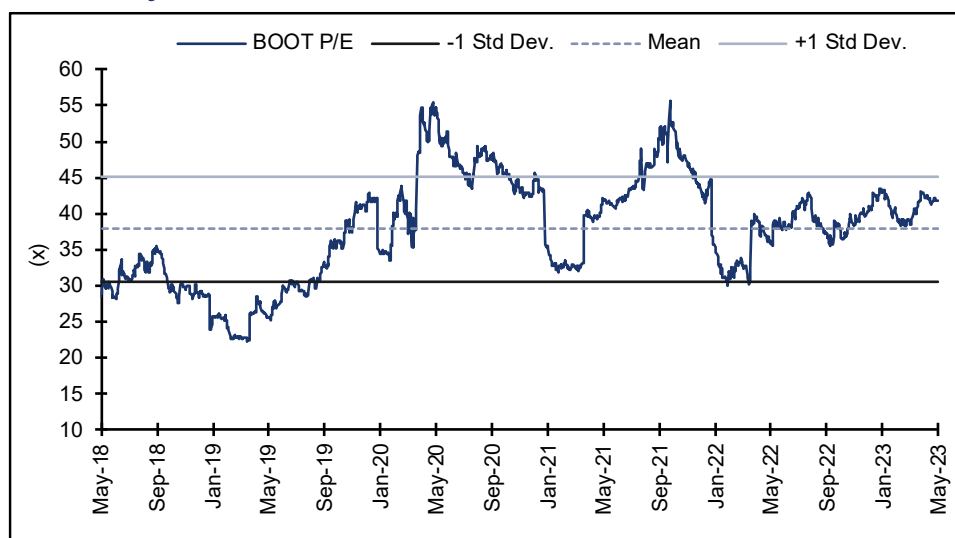
Source: Company data, I-Sec research.

**Chart 7: Net profit to grow 14.9% over FY23E-FY25E**

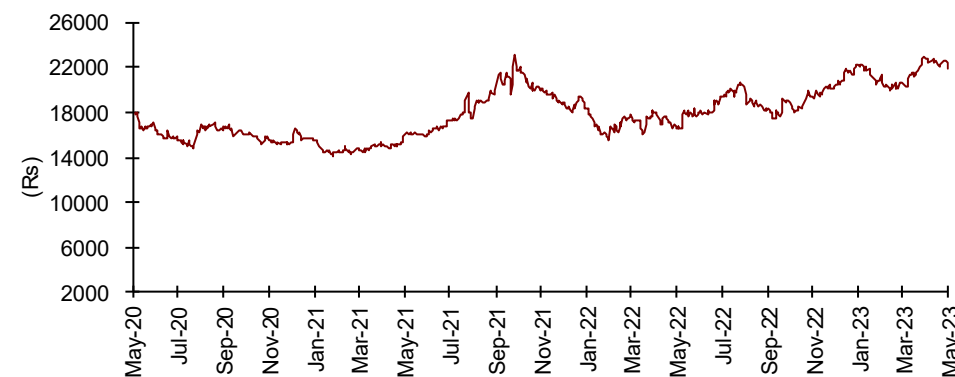
Source: Company data, I-Sec research.

**Chart 8: Healthy cash generation over the years**

Source: Company data, I-Sec research.

**Chart 9: 1-year forward P/E**

Source: Company data, I-Sec research

**Price chart**

Source: Bloomberg

## Financial summary (consolidated)

Table 1: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Total Net Revenue</b>	<b>49,193</b>	<b>55,946</b>	<b>63,422</b>	<b>72,103</b>
yoy Growth%	14	14	13	14
<b>Total Op. Exp.</b>	<b>38,316</b>	<b>42,995</b>	<b>48,308</b>	<b>54,905</b>
<b>EBITDA</b>	<b>10,877</b>	<b>12,951</b>	<b>15,113</b>	<b>17,198</b>
Margins %	22.1	23.1	23.8	23.9
yoy Growth%				
Depreciation	661	781	864	1,003
<b>EBIT</b>	<b>10,216</b>	<b>12,170</b>	<b>14,250</b>	<b>16,195</b>
Other Income	772	924	1,024	1,024
Interest	191	191	191	191
EO Items	-	-	-	-
<b>PBT</b>	<b>10,797</b>	<b>12,903</b>	<b>15,083</b>	<b>17,028</b>
Tax	2,810	3,252	3,801	4,291
Tax Rate (%)	26.0	25.2	25.2	25.2
Minority Interest	-	-	-	-
<b>Reported PAT</b>	<b>7,987</b>	<b>9,652</b>	<b>11,282</b>	<b>12,737</b>
<b>Adj PAT</b>	<b>7,987</b>	<b>9,652</b>	<b>11,282</b>	<b>12,737</b>
Net Margins (%)	16.2	17.3	17.8	17.7

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid up Capital	212	212	212	212
Reserves & Surplus	28,198	34,450	41,907	50,819
<b>Total Equity</b>	<b>28,410</b>	<b>34,662</b>	<b>42,119</b>	<b>51,031</b>
Minority Interest	-	-	-	-
<b>Total Debt</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Deferred Liabilities	(170)	(170)	(170)	(170)
<b>Capital Employed</b>	<b>28,028</b>	<b>34,280</b>	<b>41,737</b>	<b>50,649</b>
Current Liabilities & Prov	14,043	15,363	16,473	18,348
<b>Total Liabilities</b>	<b>42,072</b>	<b>49,643</b>	<b>58,210</b>	<b>68,997</b>
<b>Net Fixed Assets</b>	<b>2,717</b>	<b>2,848</b>	<b>2,896</b>	<b>2,805</b>
Investments	-	-	-	-
Inventory	6,878	8,188	9,195	10,460
Debtors	2,882	3,279	3,720	4,231
Other Current Assets	2,103	2,215	2,353	2,487
Cash and Equivalents	27,492	33,113	40,045	49,013
<b>Total Cur. Assets</b>	<b>39,355</b>	<b>46,795</b>	<b>55,314</b>	<b>66,191</b>
<b>Total Assets</b>	<b>42,072</b>	<b>49,643</b>	<b>58,210</b>	<b>68,997</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non cash items	8,107	9,699	11,313	12,907
Add/Less : Working Capital Changes	1,420	(500)	(477)	(35)
Operating Cash Flow	9,527	9,200	10,836	12,872
Less:- Capex	864	912	912	912
Free Cash Flow	8,663	8,288	9,924	11,960
Financing Cash Flow	(5,685)	(2,667)	(2,992)	(2,992)
Investing Cash Flow	-	-	-	-
<b>Net change in Cash</b>	<b>2,979</b>	<b>5,621</b>	<b>6,932</b>	<b>8,968</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	375.9	454.2	530.9	599.4
yoy Growth%	15.6	20.8	16.9	12.9
Cash EPS	407.0	490.9	571.6	646.6
EBITDA (%)	22.1	23.1	23.8	23.9
NPM (%)	16.2	17.3	17.8	17.7
Net Debt to Equity (x)	(1.0)	(1.0)	(1.0)	(1.0)
P/E (x)	56.4	46.7	39.9	35.4
EV/EBITDA (x)	38.9	32.2	27.2	23.3
P/BV (x)	16.0	13.1	10.8	8.9
EV/Sales (x)	8.6	7.5	6.5	5.6
ROCE (%)	30.2	31.4	30.1	27.9
ROE (%)	29.5	30.8	29.6	27.5
ROIC (%)	326.9	431.8	423.1	447.8
Book Value (Rs)	1,327	1,621	1,972	2,392
DPS (Rs)	275.0	160.0	180.0	180.0
Dividend Payout (%)	73.2	35.2	33.9	30.0
Div Yield (%)	1.3	0.8	0.8	0.8
Asset Turnover Ratio	1.2	1.2	1.2	1.1
Avg Collection days	21	21	21	21
Avg Inventory days	51	53	53	53

Source: Company data, I-Sec research



ICICI Securities Limited  
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Re-initiating coverage

## Healthcare

Target price Rs1,795

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	38.8	38.8	38.8
Institutional investors	35.8	46.4	46.7
MFs and UTI	20.5	20.4	21.7
Insurance Cos.	5.1	5.5	5.6
FII	10.2	20.5	19.4
Others	25.4	14.8	14.5

Source: CMIE

### ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA



Krishna Institute of Medical Sciences

BUY

## Quasi play on tier 2 healthcare story

Rs1,491

Krishna Institute of Medical Sciences (KIMS) is one of the leading multi-disciplinary integrated private healthcare services provider in Andhra Pradesh and Telangana. It operates a chain of multispecialty hospitals with focus on tertiary and quaternary healthcare. Company has a strong acquisitive history with a proven track record of execution. With recent acquisitions in Nashik and Nagpur, and proposed expansion in Bangalore and Maharashtra, KIMS has found a new growth lever in addition to strong foothold in its home markets. We are positive on the company's long-term outlook considering: 1) strong brand recall in its home markets of Andhra Pradesh and Telangana, ii) expansion in adjacent geographies, iii) strong execution and prudent capital allocation, and iv) healthy margins. Reinitiate with a BUY with a target price of Rs1,795/share.

- **Dominant presence in Andhra Pradesh and Telangana:** KIMS has nine multispecialty hospitals (excl. Sunshine) in its home markets of Andhra Pradesh and Telangana, and is recognised for its capabilities in specialty care. Company is currently the leading player in key micro markets of the two states. Moreover, through the acquisition of Sunshine Hospitals (three hospitals), we expect KIMS to further consolidate the market in Telangana. Company follows an affordable pricing strategy whereby its services are priced lower vs key competitors. KIMS intends to add ~700 beds over three years in its home markets, which would further provide incremental revenues in addition to the current base.
- **Working to expand its reach in adjacent geographies:** KIMS has identified Maharashtra, Bangalore and Central India as key regions to drive the next phase of its growth. It intends to enter these geographies through a series of partnerships with reputed doctors, to further scale the operations. KIMS has acquired majority stakes in Manavata Hospitals, Nashik (in partnership with Dr. Raj Nagarkar) and Kingsway Hospital, Nagpur. Company also intends to set up a 350-bed hospital in Bangalore and a 300-bed facility in central India, over the next 2-3 years to further expand its operations.
- **Hospital industry on a strong growth path:** India's overall healthcare market is expected to grow at a CAGR of ~15-17% between FY22 and FY25, driven by rising cases of non-communicable diseases, rising government expenditure towards healthcare (including Ayushman Bharat Yojana), growing awareness, increasing affordability and pent up demand due to the pandemic. Inpatients account for ~70% of the overall market for hospitals in value terms while remaining is from outpatients.
- **Outlook:** Consolidation of Sunshine hospitals and Kingsway Hospitals, Nagpur to drive a revenue CAGR of 16.3% over FY23E-FY25E while EBITDA margin may decline 50bps to ~26-27%. RoCE at ~16% to be impacted due to high capex investment and M&A.
- **Valuations and risks:** We reinitiate coverage on KIMS with a **BUY** rating and a target price of Rs1,795/share based on 18x FY25E EV/EBITDA. **Key downside risks:** slowdown in growth in south India, and delay in capacity addition

Market Cap	Rs119bn/US\$1.5bn
Reuters/Bloomberg	KIMS IN
Shares Outstanding (mn)	80.0
52-week Range (Rs)	1610/1123
Free Float (%)	61.2
FII (%)	19.4
Daily Volume (US\$'000)	1,484
Absolute Return 3m (%)	1.5
Absolute Return 12m (%)	21.1
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	16,508	22,183	25,509	29,997
Net Income (Rs mn)	3,327	3,122	3,670	4,105
EPS (Rs)	41.6	39.0	45.9	51.3
% Chg YoY	65.3	(6.2)	17.5	11.9
P/E (x)	35.8	38.2	32.5	29.0
CEPS (Rs)	50.7	55.3	66.0	75.4
EV/E (x)	23.4	20.0	16.7	14.5
Dividend Yield (%)	-	-	-	-
RoCE (%)	23.1	17.4	16.9	16.0
RoE (%)	29.6	20.2	19.4	18.0

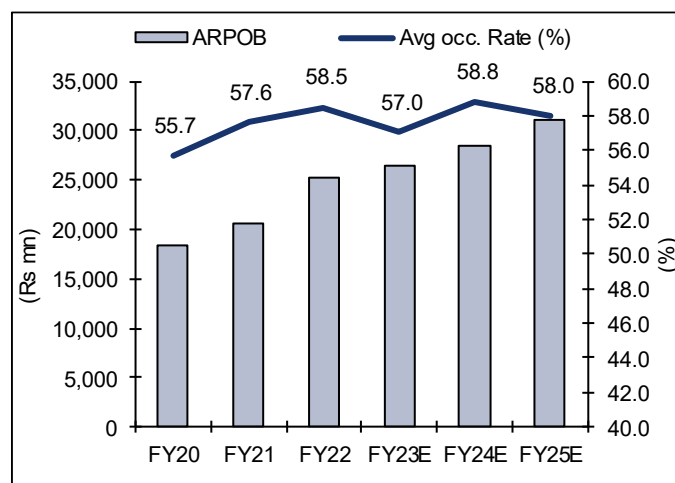
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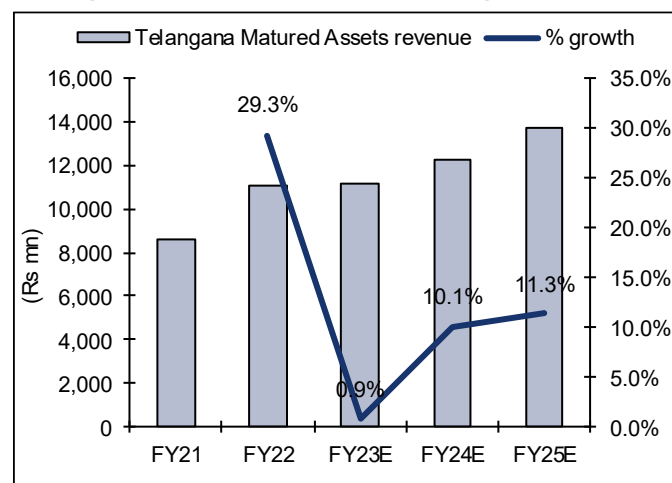
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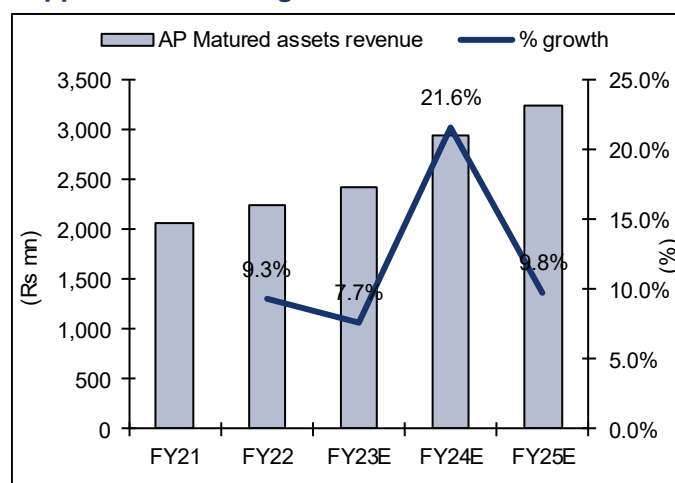
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**Chart 1: Occupancies to remain stable at ~58% with new hospitals and bed addition**

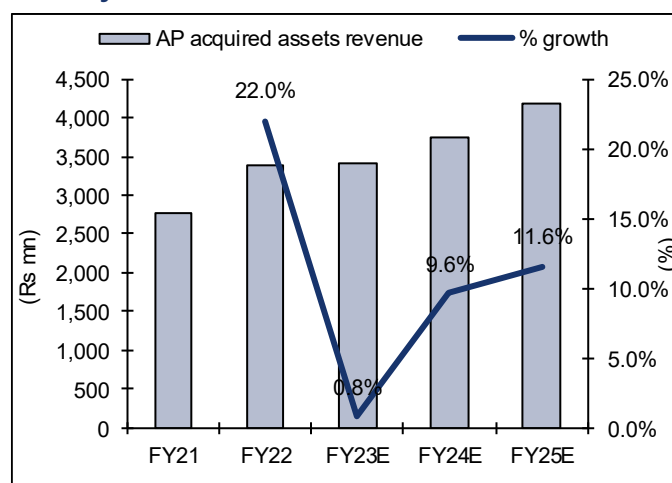
Source: Company data, I-Sec research.

**Chart 2: Improvement in occupancies in Telangana matured assets to drive growth**

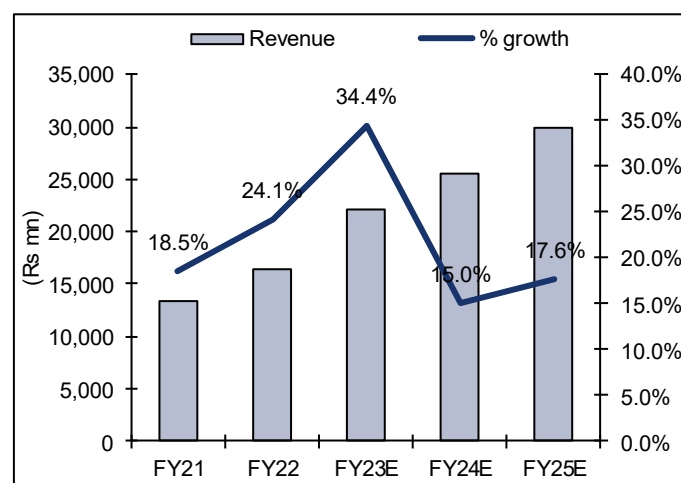
Source: Company data, I-Sec research.

**Chart 3: Bed additions in AP Matured assets to support 16% CAGR growth over FY23E-FY25E**

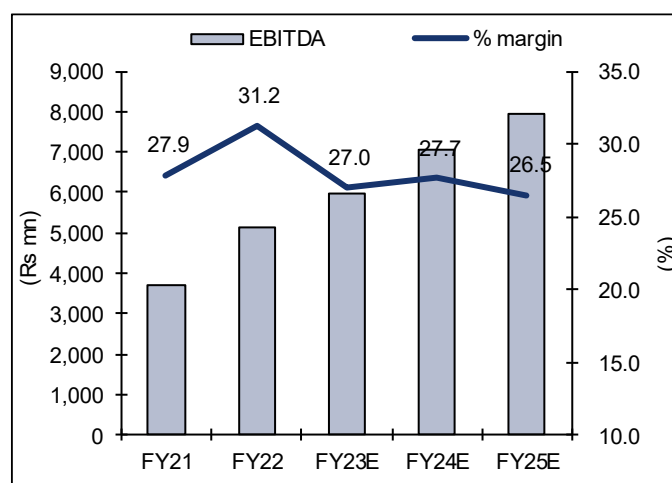
Source: Company data, I-Sec research.

**Chart 4: Andhra Pradesh acquired assets to grow steadily**

Source: Company data, I-Sec research.

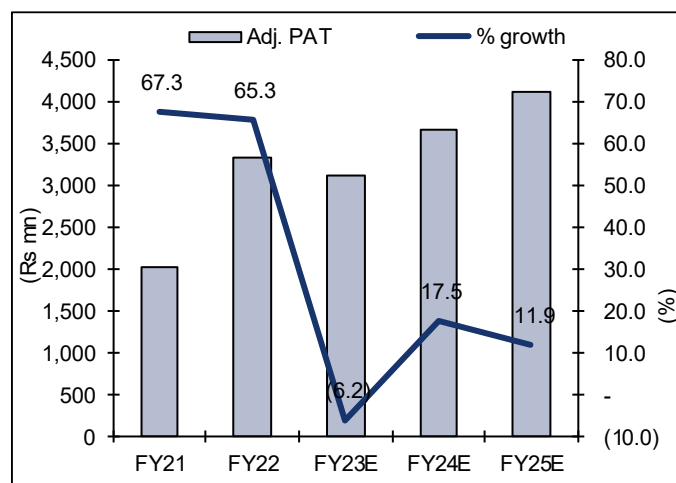
**Chart 5: Revenues to grow 16.3% over FY23E-FY25E**

Source: Company data, I-Sec research.

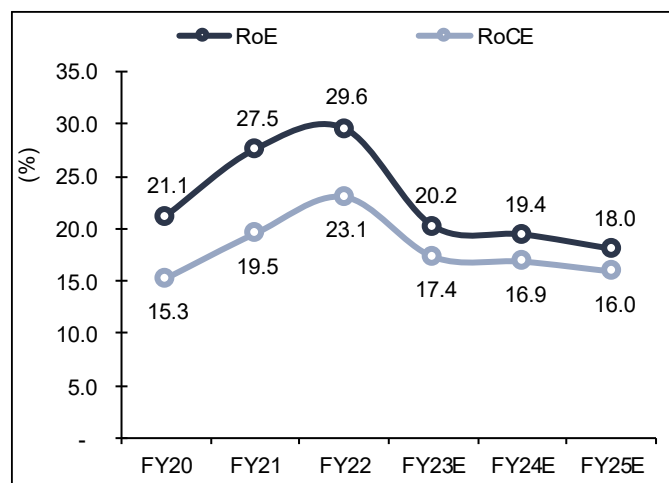
**Chart 6: EBITDA margins to remain stable at ~27%**

Source: Company data, I-Sec research.

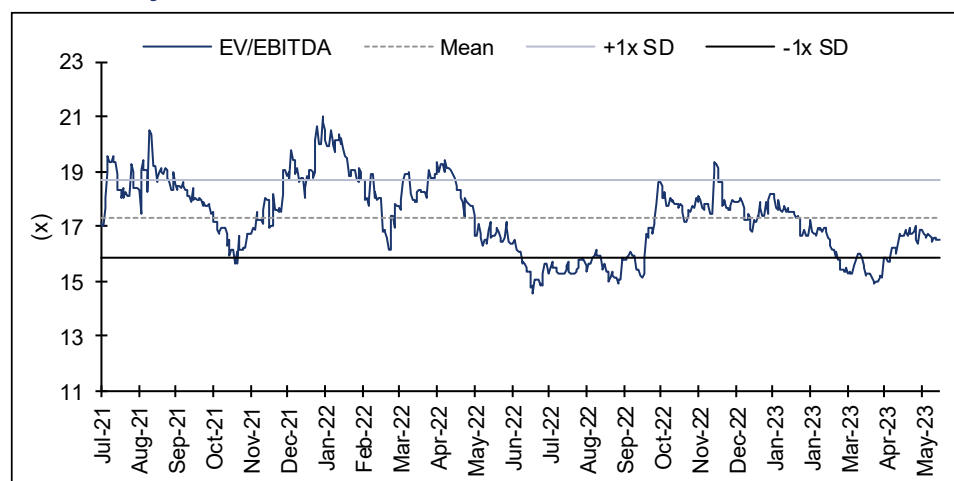


**Chart 7: Net Profits to grow 14.7% CAGR over FY23E-FY25E**

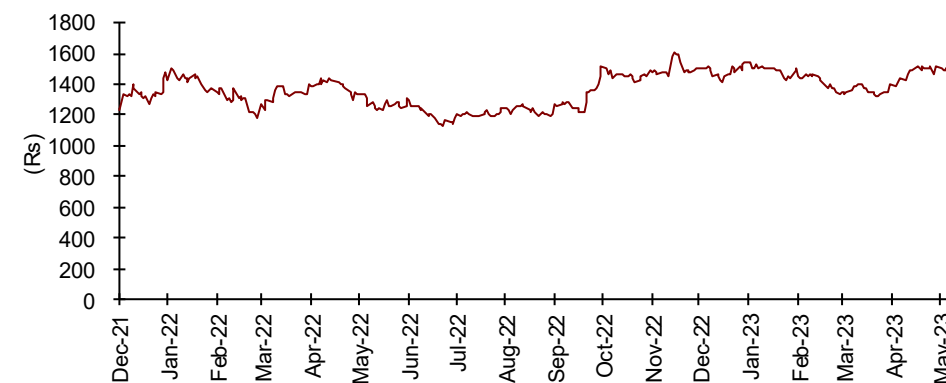
Source: Company data, I-Sec research.

**Chart 8: Return ratios to be impacted due to the recent acquisitions**

Source: Company data, I-Sec research.

**Chart 9: 1-year forward EV/EBITDA**

Source: Company data, I-Sec research

**Price chart**

Source: Bloomberg

## Financial summary (consolidated)

Table 1: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Total Net Revenue</b>	<b>16,508</b>	<b>22,183</b>	<b>25,509</b>	<b>29,997</b>
yoy Growth%	24.1	34.4	15.0	17.6
<b>Total Op. Exp.</b>	<b>11,350</b>	<b>16,193</b>	<b>18,455</b>	<b>22,048</b>
<b>EBITDA</b>	<b>5,158</b>	<b>5,989</b>	<b>7,053</b>	<b>7,949</b>
Margins %	31.2	27.0	27.7	26.5
yoy Growth%	39.1	16.1	17.8	12.7
Depreciation & Amortization	727	1,301	1,616	1,931
<b>EBIT</b>	<b>4,431</b>	<b>4,689</b>	<b>5,437</b>	<b>6,018</b>
Other Income	203	213	223	235
Interest	160	231	208	163
<b>PBT</b>	<b>4,473</b>	<b>4,819</b>	<b>5,452</b>	<b>6,089</b>
Tax	1,131	1,214	1,374	1,535
Tax Rate (%)	25.3	25.2	25.2	25.2
Share of profit/(loss) of associate	95	-	-	-
Minority Interest	111	371	409	449
<b>Adj PAT</b>	<b>3,327</b>	<b>3,122</b>	<b>3,670</b>	<b>4,105</b>
Net Margins (%)	20.2	14.1	14.4	13.7
EO Items	-	148	-	-
<b>Reported PAT</b>	<b>3,327</b>	<b>3,233</b>	<b>3,670</b>	<b>4,105</b>

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid up Capital	800	800	800	800
Reserves & Surplus	13,073	16,306	19,975	24,081
<b>Total Equity</b>	<b>13,873</b>	<b>17,106</b>	<b>20,776</b>	<b>24,881</b>
Minority Interest	233	605	1,013	1,463
<b>Total Debt</b>	<b>2,565</b>	<b>2,565</b>	<b>2,065</b>	<b>1,565</b>
Net Deferred Liabilities	347	347	347	347
<b>Capital Employed</b>	<b>17,019</b>	<b>20,623</b>	<b>24,202</b>	<b>28,257</b>
Other Liabilities & Prov	2,022	2,351	2,663	3,134
<b>Total Liabilities</b>	<b>19,041</b>	<b>22,974</b>	<b>26,865</b>	<b>31,390</b>
<b>Net Fixed Assets</b>	<b>13,584</b>	<b>15,784</b>	<b>17,668</b>	<b>19,237</b>
Investments	-	-	-	-
Inventory	364	520	592	708
Debtors	1,286	1,729	1,988	2,337
Other Current Assets	1,906	2,268	2,480	2,767
Cash and Equivalents	1,901	2,674	4,136	6,341
<b>Total Cur. Assets</b>	<b>5,457</b>	<b>7,190</b>	<b>9,197</b>	<b>12,153</b>
<b>Total Assets</b>	<b>19,041</b>	<b>22,974</b>	<b>26,865</b>	<b>31,390</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
PBT	4,569	4,819	5,452	6,089
Depreciation	727	1,301	1,616	1,931
Net Chg in WC	(255)	(85)	(75)	(69)
Taxes & others	(1,800)	(1,530)	(1,323)	(1,583)
<b>CFO</b>	<b>3,240</b>	<b>4,504</b>	<b>5,671</b>	<b>6,368</b>
Capex	(4,941)	(3,500)	(3,500)	(3,500)
Net Investments made	692	-	-	-
Others	134	-	-	-
<b>CFI</b>	<b>(4,115)</b>	<b>(3,500)</b>	<b>(3,500)</b>	<b>(3,500)</b>
Change in Share capital	1,917	-	-	-
Change in Debts	(1,190)	-	(500)	(500)
Div. & Div Tax	-	-	-	-
Others	(117)	(231)	(208)	(163)
<b>CFF</b>	<b>610</b>	<b>(231)</b>	<b>(708)</b>	<b>(663)</b>
<b>Total Cash Generated</b>	<b>(265)</b>	<b>774</b>	<b>1,462</b>	<b>2,205</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	41.6	39.0	45.9	51.3
yoy Growth%	65.3	(6.2)	17.5	11.9
Cash EPS	50.7	55.3	66.0	75.4
EBITDA (%)	31.2	27.0	27.7	26.5
NPM (%)	20.2	14.1	14.4	13.7
Net Debt to Equity (x)	0.0	0.0	(0.0)	(0.0)
P/E (x)	35.8	38.2	32.5	29.0
EV/EBITDA (x)	23.4	20.0	16.7	14.5
P/BV (x)	8.6	7.0	5.7	4.8
EV/Sales (x)	7.3	5.4	4.6	3.8
ROCE (%)	23.1	17.4	16.9	16.0
ROE (%)	29.6	20.2	19.4	18.0
ROIC (%)	23.7	18.0	18.3	18.5
Book Value (Rs)	173.4	213.8	259.6	310.9
DPS (Rs)	-	-	-	-
Dividend Payout (%)	-	-	-	-
Div Yield (%)	-	-	-	-
Asset Turnover Ratio	1.0	1.1	1.0	1.0
Avg Collection days	26	25	27	26
Avg Inventory days	10	10	11	11

Source: Company data, I-Sec research

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Re-initiating coverage

## Healthcare

Target price: Rs375

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	31.2	31.2	31.2
Institutional investors	47.3	51.4	51.9
MFs and UTI	16.9	17.5	17.4
Insurance Cos.	1.9	2.9	2.1
FII	28.6	31.0	32.4
Others	21.5	17.4	16.9

Source: CMIE

### ESG disclosure score

Year	2021	2022	Chg
ESG score	37.1	37.9	0.9
Environment	2.4	2.4	0.0
Social	23.7	26.3	2.6
Governance	84.9	84.9	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

# Fortis Healthcare

BUY

## Multiple triggers for growth

Rs270

Fortis Healthcare (Fortis) – an IHH Healthcare Berhad company – is the leading integrated healthcare service provider in India. It is one of the largest healthcare organisations in the country with 36 healthcare facilities (including projects under development), 4,300 operational beds and over 400 diagnostics centres (including JVs). Fortis is present in India, United Arab Emirates (UAE) & Sri Lanka. It will add 1,300 beds in the next four years in metro cities which will be of great impetus for future growth. It is amongst the few hospitals to have >75% share of operational beds in metro cities. Value unlocking in SRL (IPO/private placement) and resolution for outstanding litigation will likely lead to a rerating in the stock. We re-initiate coverage with BUY rating and a TP of Rs375, valuing diagnostics at 25x FY25E EV/EBITDA and hospitals at 18x FY25E EV/EBITDA

- **Flagship hospital performance improving:** Fortis Healthcare's performance in its top-10 hospitals has steadily improved. Related revenue CAGR was 10% through Q3FY20-23, and contribution stood at 80% of overall hospital revenue. FMRI, BG Road and Mohali hospitals have grown at a faster pace. About 50% of operating beds posted +20% EBITDA margin in 9MFY23.
- **Operational transformation propping margin:** Fortis' ARPOB touched a record level of Rs55,342 in Q3FY23 led by improved specialty mix. It is improving its therapy mix, with focus on oncology therapy (contributed 13.9% of sales in Q3FY23). The business mix has also improved post covid, with higher share of surgeries (59% of hospital sales) and international tourism growing above pre-covid level (8.4% of hospital sales). Fortis' EBITDA margin in hospitals segment has also spiked above the pre-covid level to 17.1% in Q3FY23.
- **New hospitals – ramp up to aid delta in growth:** Fortis' hospitals at Arcot Road, Vashi, FEHI and Jaipur are operating at 10% EBITDA margin, contributing 10% to hospital's revenue. The management has identified the reason for lower occupancy and an action plan is in place to boost performance of these hospitals. This may be resolved over the next 12 months. Subsequently, these hospitals are expected to touch +15% EBITDA margin in the next 12-18 months.
- **SRL – value unlocking on cards:** Existing private equity partner will have to be provided an exit by Mar'24 which will likely unlock value. Contribution from covid-led business has waned, and recovery in non-covid business is underway. We expect 11% revenue CAGR over FY23E-25E and margin of 23% by FY25E.
- **Valuations and risks:** Fortis' hospitals business is at an inflection point, as occupancy at 80% of operating beds has soared to +70% and margin of ~500 beds has improved to >25%. We re-initiate coverage on the stock with BUY rating and a TP of Rs375 (valuing diagnostics at 25x FY25E EV/EBITDA and hospitals at 18x FY25E EV/EBITDA). **Key downside risks:** Delay in margin recovery and non covid volumes in SRL

Market Cap	Rs204bn/US\$2.5bn
Reuters/Bloomberg	FORH IN /FOHE.BO
Shares Outstanding (mn)	755.0
52-week Range (Rs)	321/226
Free Float (%)	69.0
FII (%)	32.4
Daily Volume (US\$'000)	3,096
Absolute Return 3m (%)	(4.3)
Absolute Return 12m (%)	13.7
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	57,180	65,568	73,986	81,888
Net Income (Rs mn)	5,555	6,369	7,543	9,021
EPS (Rs)	4.0	7.9	10.0	11.9
% Chg YoY	(380.2)	96.5	26.6	19.6
P/E (x)	67.3	34.2	27.0	22.6
CEPS (Rs)	8.0	12.0	14.3	16.5
EV/E (x)	19.9	17.1	14.3	12.1
Dividend Yield (%)	-	-	-	-
RoCE (%)	4.0	6.3	7.2	7.9
RoE (%)	4.9	9.2	10.5	11.2

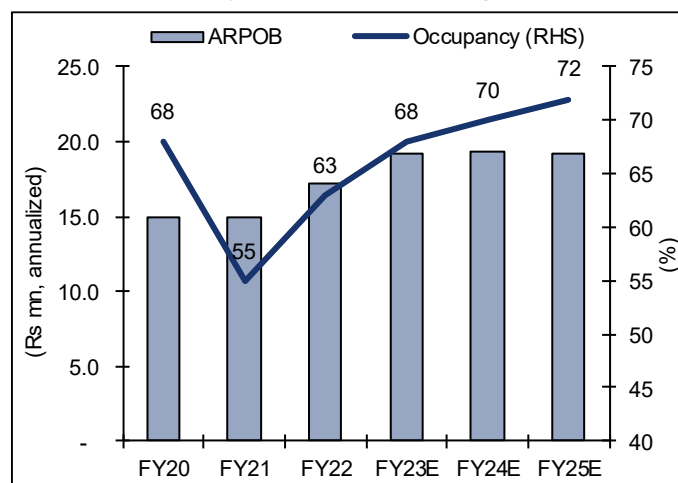
### Research Analysts:

Abdulkader Puranwala

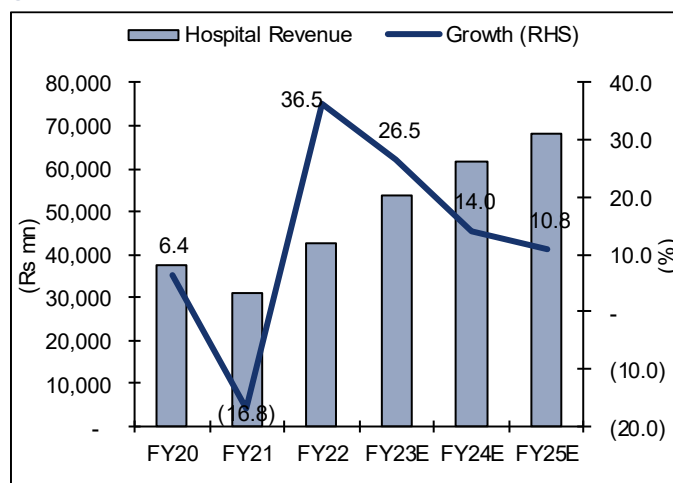
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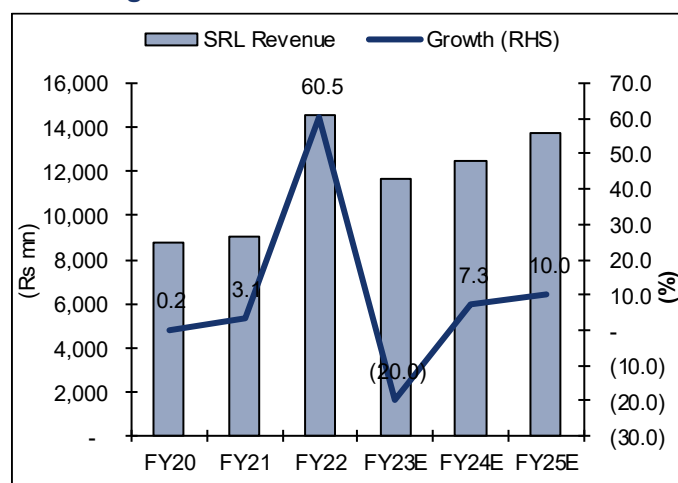
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+91 22 6807 7453

**Chart 1: Improved specialty mix and international patients recovery to boost ARPOB growth**

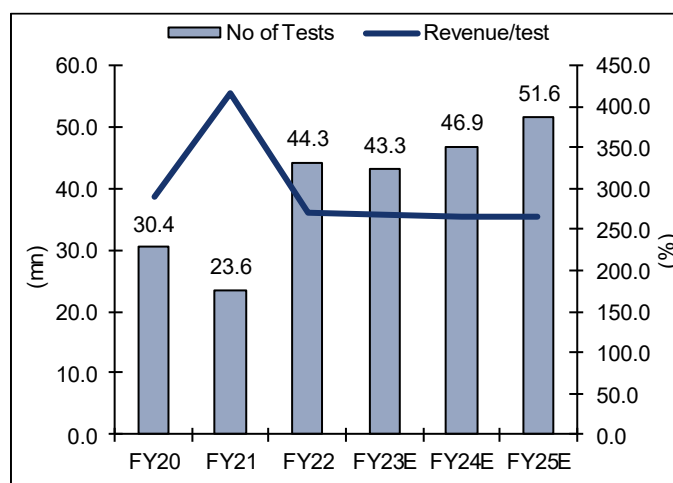
Source: Company data, I-Sec research.

**Chart 2: Hospital revenues to deliver healthy growth with improved occupancies**

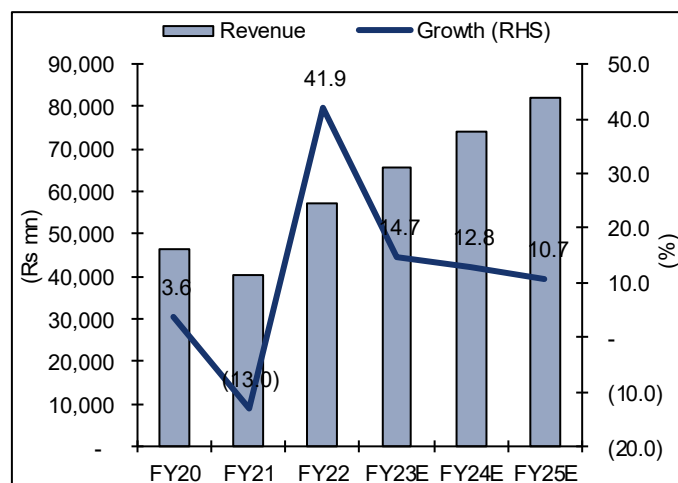
Source: Company data, I-Sec research.

**Chart 3: Non covid business recovery to boost revenue growth**

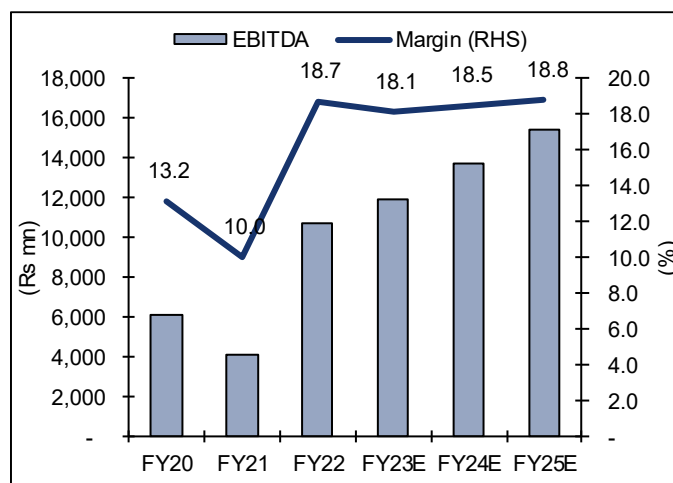
Source: Company data, I-Sec research.

**Chart 4: SRL test volumes to grow 10% CAGR over FY23E-FY25E**

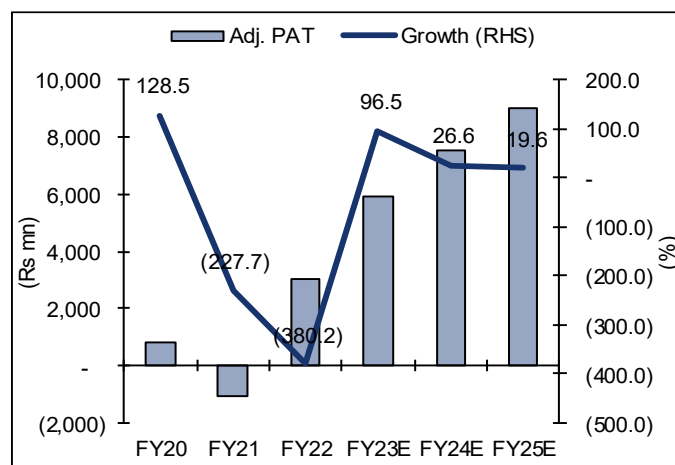
Source: Company data, I-Sec research.

**Chart 5: Revenue to grow 7.7% CAGR over FY23E-FY25E**

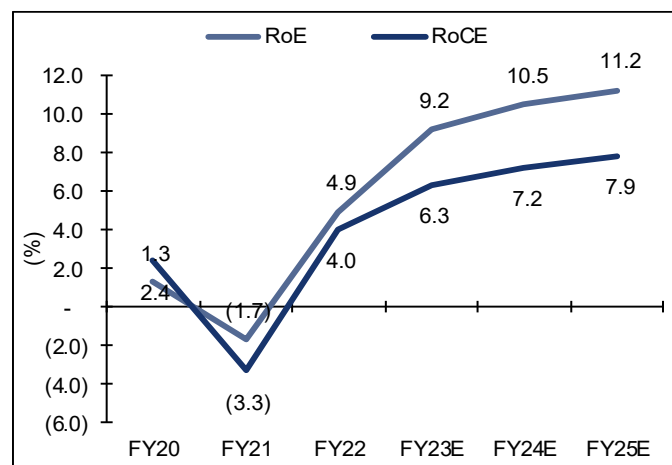
Source: Company data, I-Sec research.

**Chart 6: EBITDA margins to remain steady at 19%**

Source: Company data, I-Sec research.

**Chart 7: Net Profits to rise 23.1% CAGR over FY23E-FY25E**

Source: Company data, I-Sec research.

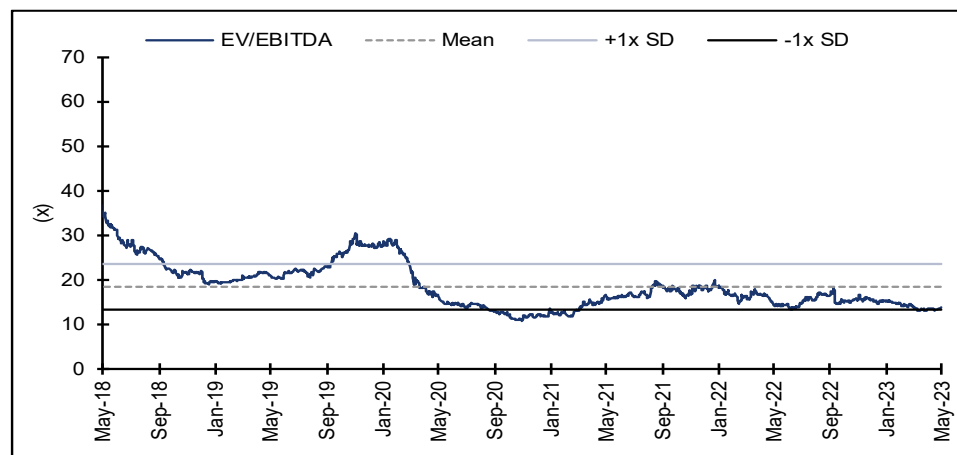
**Chart 8: Return ratios to improve from current levels**

Source: Company data, I-Sec research.

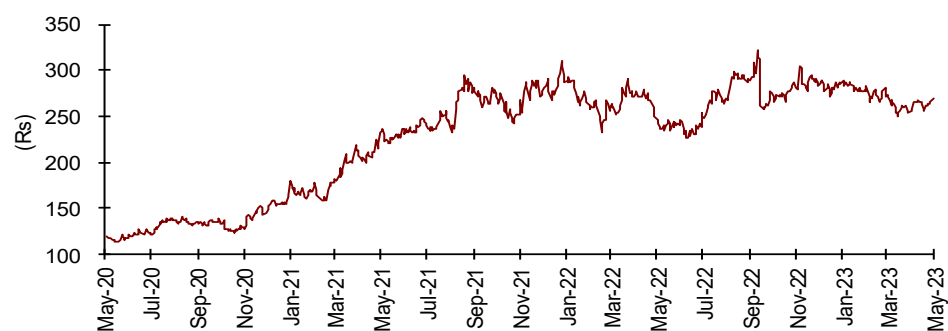
**Table 1: Sum of the parts (SoTP) valuation**

	FY25 EBITDA	(x)	Values (Rs mn)
Hospitals	12,064	18	2,20,775
SRL	3,295	25	47,712
EV			<b>2,68,487</b>
Less: Net debt			(14,377)
Implied Mkt Cap			<b>2,82,864</b>
<b>Total value per share</b>			<b>375</b>

Source: Company data, I-Sec research

**Chart 9: 1-year forward EV/EBITDA**

Source: Company data, I-Sec research

**Price chart**

Source: Bloomberg

## Financial summary (consolidated)

Table 2: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Hospitals	42,640	53,934	61,506	68,159
SRL	14,540	11,634	12,480	13,728
<b>Total Revenue</b>	<b>57,180</b>	<b>65,568</b>	<b>73,986</b>	<b>81,888</b>
yoy Growth%	41.9	14.7	12.8	10.7
<b>Total Op. Exp.</b>	<b>46,487</b>	<b>53,700</b>	<b>60,298</b>	<b>66,493</b>
<b>EBITDA</b>	<b>10,694</b>	<b>11,868</b>	<b>13,687</b>	<b>15,395</b>
Margins %	18.7	18.1	18.5	18.8
yoy Growth%	86.4	(3.2)	2.2	1.6
Depreciation	3,008	3,079	3,251	3,423
<b>EBIT</b>	<b>7,685</b>	<b>8,789</b>	<b>10,436</b>	<b>11,972</b>
Other Income	515	570	586	603
Interest	1,469	1,262	942	647
Exceptional Items (net)	3150	516	0	0
<b>PBT</b>	<b>9,882</b>	<b>8,613</b>	<b>10,081</b>	<b>11,928</b>
Tax	1,978	1,725	2,019	2,389
Tax Rate (%)	20.0	20.0	20.0	20.0
Profit from associates	-	-	-	-
Minority Interest	2,348	519	519	519
<b>Reported PAT</b>	<b>5,555</b>	<b>6,369</b>	<b>7,543</b>	<b>9,021</b>
<b>Adj PAT</b>	<b>3,036</b>	<b>5,957</b>	<b>7,543</b>	<b>9,021</b>
Net Margins (%)	9.7	9.7	10.2	11.0

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid up Capital	7,550	7,550	7,550	7,550
Reserves & Surplus	54,233	60,602	68,145	77,165
<b>Total Equity</b>	<b>61,782</b>	<b>68,152</b>	<b>75,695</b>	<b>84,715</b>
Minority Interest	8,300	8,819	9,337	9,856
<b>Total Debt</b>	<b>12,718</b>	<b>10,218</b>	<b>7,718</b>	<b>5,218</b>
Deferred Liabilities	121	121	121	121
<b>Capital Employed</b>	<b>82,922</b>	<b>87,310</b>	<b>92,871</b>	<b>99,910</b>
Current Liabilities & Prov	32,234	33,483	34,648	35,787
<b>Total Liabilities</b>	<b>1,15,156</b>	<b>1,20,793</b>	<b>1,27,519</b>	<b>1,35,697</b>
<b>Net Fixed Assets</b>	<b>96,092</b>	<b>97,013</b>	<b>97,762</b>	<b>98,339</b>
Investments	1,036	759	759	759
Inventory	1,229	1,409	1,590	1,760
Debtors	5,122	5,873	6,627	7,335
Other Current Assets	7,551	7,672	7,794	7,908
Cash and Equivalents	4,127	8,066	12,987	19,596
<b>Total Cur. Assets</b>	<b>19,065</b>	<b>23,780</b>	<b>29,758</b>	<b>37,358</b>
<b>Total Assets</b>	<b>1,15,156</b>	<b>1,20,793</b>	<b>1,27,519</b>	<b>1,35,697</b>

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

Year to March	FY22	FY23E	FY24E	FY25E
PBT	9,878	8,613	10,081	11,928
Depreciation	3,008	3,079	3,251	3,423
Net Chg in WC	154	(6)	(94)	(43)
Taxes	(2,114)	(1,725)	(2,019)	(2,389)
Others	(2,273)	1,463	1,144	836
<b>CFO</b>	<b>8,654</b>	<b>11,424</b>	<b>12,363</b>	<b>13,756</b>
Capex	(4,403)	(4,000)	(4,000)	(4,000)
Net Investments made	(1,122)	277	-	-
Others	381	-	-	-
<b>CFI</b>	<b>(5,144)</b>	<b>(3,723)</b>	<b>(4,000)</b>	<b>(4,000)</b>
Change in Share capital	-	-	-	-
Change in Debts	(3,703)	(2,500)	(2,500)	(2,500)
Div. & Div Tax	-	-	-	-
Others	154	(1,262)	(942)	(647)
<b>CFF</b>	<b>(3,549)</b>	<b>(3,762)</b>	<b>(3,442)</b>	<b>(3,147)</b>
<b>Total Cash Generated</b>	<b>(39)</b>	<b>3,939</b>	<b>4,921</b>	<b>6,609</b>

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	4.0	7.9	10.0	11.9
yoy Growth%	(380.2)	96.5	26.6	19.6
Cash EPS	8.0	12.0	14.3	16.5
EBITDA (%)	18.7	18.1	18.5	18.8
NPM (%)	9.7	9.7	10.2	11.0
Net Debt to Equity (x)	0.1	(0.0)	(0.1)	(0.2)
P/E (x)	67.3	34.2	27.0	22.6
EV/EBITDA (x)	19.9	17.1	14.3	12.1
P/BV (x)	3.3	3.0	2.7	2.4
EV/Sales (x)	3.7	3.1	2.6	2.3
ROCE (%)	4.0	6.3	7.2	7.9
ROE (%)	4.9	9.2	10.5	11.2
ROIC (%)	3.9	6.4	7.8	8.9
Book Value (Rs)	81.8	90.3	100.3	112.2
DPS (Rs)	-	-	-	-
Dividend Payout (%)	-	-	-	-
Div Yield (%)	-	-	-	-
Asset Turnover Ratio	0.5	0.5	0.6	0.6
Avg Collection days	6	7	7	7
Avg Inventory days	39	39	39	39

Source: Company data, I-Sec research



ICICI Securities Limited  
is the author and  
distributor of this report

Re-initiating coverage

## Pharmaceuticals

Target price: Rs2,385

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	55.1	55.1	55.0
Institutional investors	28.3	30.9	31.5
MFs and other	2.8	2.7	3.3
Insurance	2.3	2.4	2.3
FIIIs	23.2	25.8	25.9
Others	16.6	14.0	13.5

Source: CMIE

### ESG disclosure score

Year	2021	2022	Chg
<b>ESG score</b>	<b>27.2</b>	<b>32.4</b>	<b>5.2</b>
Environment	0.4	14.3	13.9
Social	17.4	19.3	1.8
Governance	63.6	63.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

# Dr Lal Pathlabs

BUY

## Striking the right balance

**Rs2,041**

Dr Lal Pathlabs (DLPL) is the largest organised player in the highly fragmented US\$10bn diagnostic market in India. With rapid expansion in the number of players in organised market, its share has improved from 15% to 17% in CY22. Pan-India player like DLPL is able to grow its volumes faster despite constant competitive threat due to its strong brand equity, focus on geographical expansion, mix shift towards high realisation tests and strong return ratios with healthy FCF. The recent correction in the stock price (~20% in last 6 months) has made valuations attractive at 40x FY25 P/E. We re-initiate coverage on the stock with BUY rating and TP of Rs2,385/share.

- **Volume growth steady; potential price hikes in the offing:** While the business has traditionally seen strong volume-led growth in the past, incremental competition from online players has led to slower-than-expected growth. In FY23, non-covid volumes grew at a CAGR of ~10%. Going forward, we project patient volumes to grow at 13.5% CAGR over FY23-FY25E, led by expansion in geographies and improvement in collection infrastructure, which should offset the business impact from online competitors.
- **Test mix shifting towards specialised and wellness test:** DLPL has shifted its focus towards more specialised tests on account of incremental competition posed by online aggregators on routine tests. The company currently offers 2,675 pathology tests and 1,947 radiology tests. Over the years, the company has added higher-end super specialty tests to the mix including genomic testing. Due to complexity in tests, this segment is likely to be insulated from competition in near-medium term and aid volumes. Apart from this, *Swasthfit's* (Wellness) revenue contribution has inched up from ~13% in FY19 to 22% in FY23. With favourable macro trends and improved preventive testing awareness, we believe the segment should support growth in coming years.
- **Geography expansion diversifies NCR concentration:** NCR contribution has seen a steady decline from ~40% in FY20 to ~35% in FY23E. To further diversify its revenue base, DLPL is looking to enter the markets of UP and Bihar and further strengthen its positioning in eastern markets to drive growth in near-medium term. Further, DLPL recently acquired Suburban Diagnostics to expand its presence in western markets.
- **Outlook:** We expect revenue, EBITDA and PAT CAGRs of 16.2%, 20% and 33.3%, respectively, over FY23-FY25E, driven largely by volume growth. RoE and RoCE are expected to be 20.5% and 17.9%, respectively, in FY25E.
- **Valuations and risks:** We are positive on the long-term outlook considering the company's strong brand franchise with sustainable growth, expansion potential, healthy FCFF generation and strong return ratios. We re-initiate coverage on the stock with **BUY** rating based on a DCF-based target price of Rs2,385/share, implying 46x FY25E EPS and 26.3x FY25E EV/EBITDA. **Key downside risks:** Higher-than-expected competition and regulatory hurdles.

Market Cap	Rs170bn/US\$2.1bn
Reuters/Bloomberg	DLPA.BO/DLPL IN
Shares Outstanding (mn)	83.4
52-week Range (Rs)	2694/1780
Free Float (%)	45.0
FII (%)	25.9
Daily Volume (US\$'000)	6,060
Absolute Return 3m (%)	3.8
Absolute Return 12m (%)	(10.8)
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23	FY24E	FY25E
Revenue (Rs mn)	20,874	20,169	23,640	27,234
Net Income (Rs mn)	3,448	2,389	3,241	4,243
EPS (Rs)	41.4	28.6	38.9	50.9
% Chg YoY	18.3	(30.8)	35.6	30.9
P/E (x)	49.3	71.3	52.5	40.1
CEPS (Rs)	54.4	46.7	57.1	67.6
EV/E (x)	29.7	33.6	27.0	22.2
Dividend Yield (%)	0.7	0.3	0.5	0.6
RoCE (%)	21.5	12.9	15.6	17.9
RoE (%)	25.0	15.1	18.1	20.5

Please refer to important disclosures at the end of this report

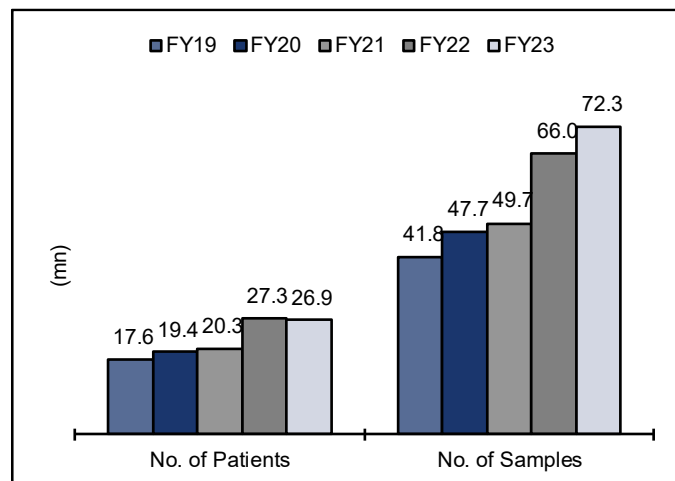
### Research Analysts:

#### Abdulkader Puranwala

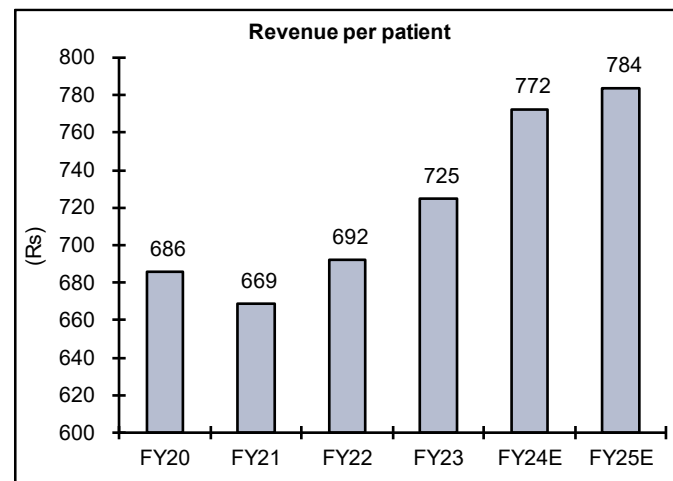
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#### Rohan John

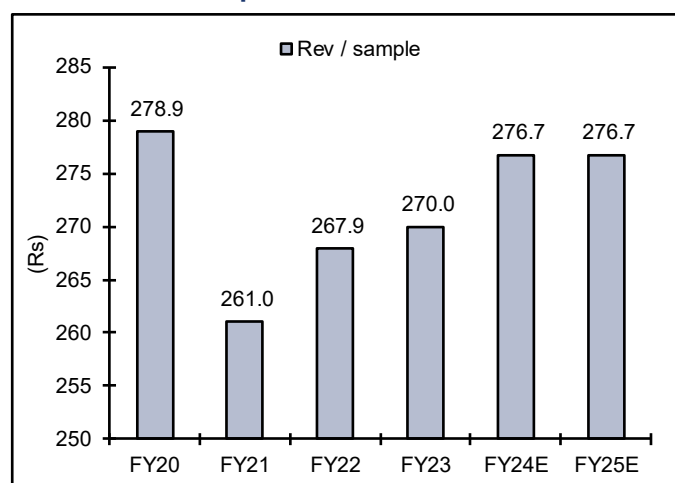
rohan.john@icicisecurities.com  
+91 22 6807 7574

**Chart 1: Healthy volume growth over the years**

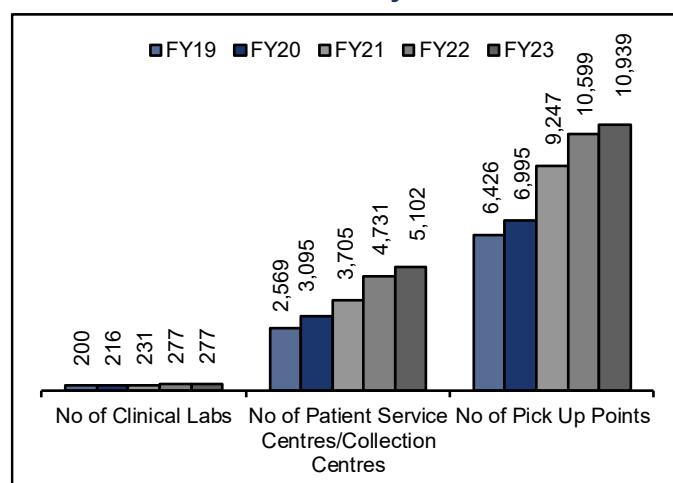
Source: Company data, I-Sec research.

**Chart 2: Rev/patient to increase with focus on specialized test**

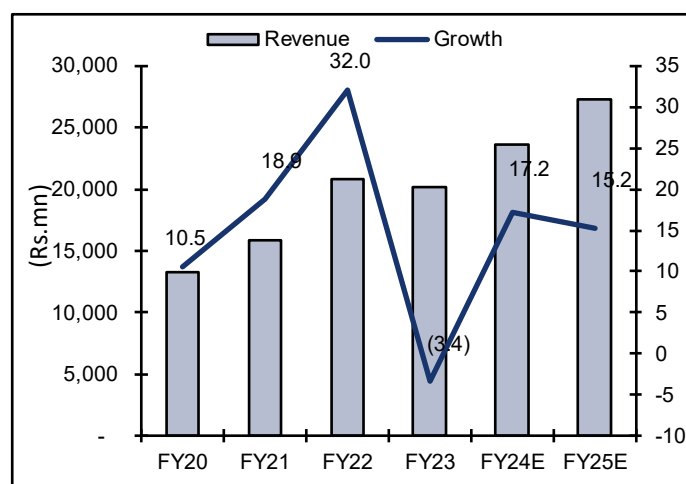
Source: Company data, I-Sec research.

**Chart 3: Rev/sample to remain stable**

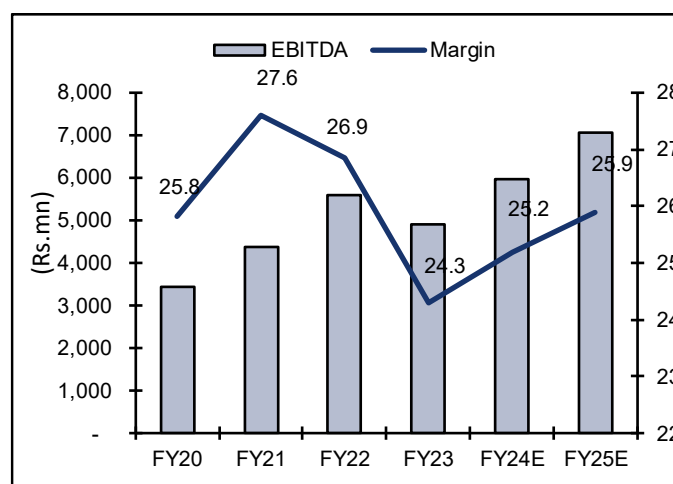
Source: Company data, I-Sec research.

**Chart 4: DLPL infra over the years**

Source: Company data, I-Sec research.

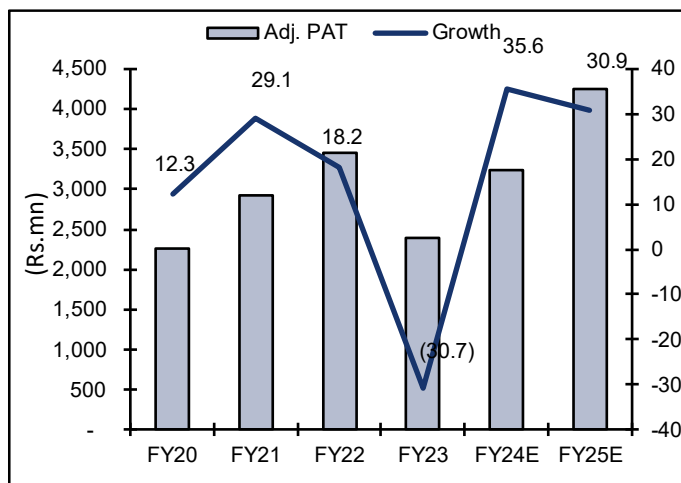
**Chart 5: Revenue to grow at a CAGR of 16.2% over FY23-FY25E**

Source: Company data, I-Sec research.

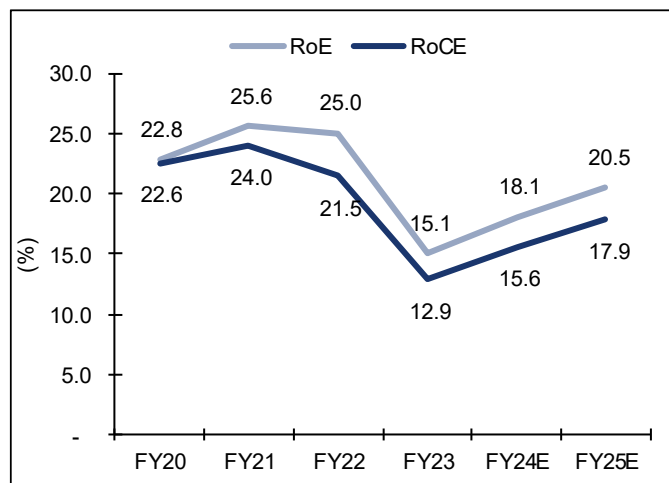
**Chart 6: EBITDA margins set to expand 160bps over FY23-FY25E**

Source: Company data, I-Sec research.

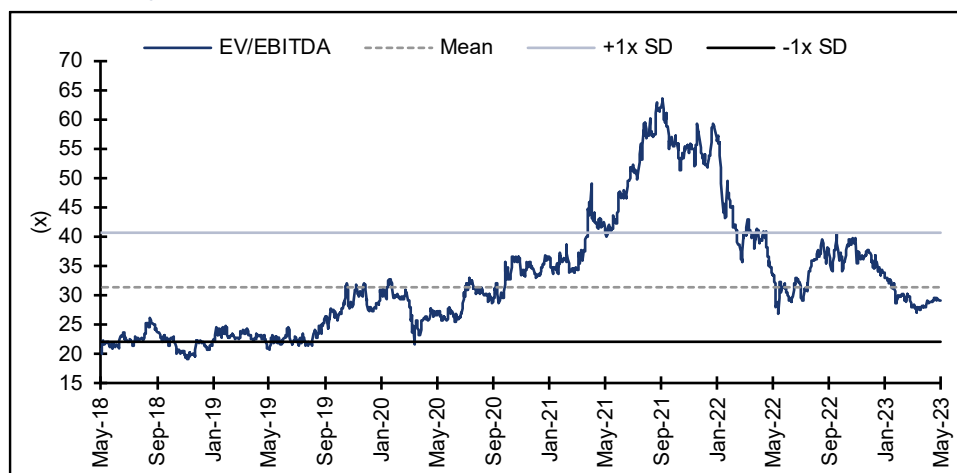


**Chart 7: Net Profit to grow 33.3% CAGR over FY23- FY25E**

Source: Company data, I-Sec research.

**Chart 8: Return ratios to remain healthy**

Source: Company data, I-Sec research.

**Chart 9: 1-year forward EV/EBITDA**

Source: Company data, I-Sec research

**Price chart**

Source: Bloomberg

## Financial summary (consolidated)

Table 1: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
<b>Total Gross Sales</b>	<b>20,874</b>	<b>20,169</b>	<b>23,640</b>	<b>27,234</b>
Excise duty	-	-	-	-
<b>Total Net Revenue</b>	<b>20,874</b>	<b>20,169</b>	<b>23,640</b>	<b>27,234</b>
yoy Growth%	32.0	(3.4)	17.2	15.2
<b>Total Op. Exp.</b>	<b>15,267</b>	<b>15,270</b>	<b>17,684</b>	<b>20,181</b>
<b>EBITDA</b>	<b>5,607</b>	<b>4,899</b>	<b>5,956</b>	<b>7,054</b>
Margins %	26.9	24.3	25.2	25.9
yoy Growth%	28.5	(12.6)	21.6	18.4
Depreciation & Amortization	1,081	1,502	1,520	1,393
<b>EBIT</b>	<b>4,526</b>	<b>3,397</b>	<b>4,436</b>	<b>5,661</b>
Other Income	525	417	489	707
Interest	302	375	260	260
EO Items	-	-	-	-
<b>PBT</b>	<b>4,749</b>	<b>3,439</b>	<b>4,665</b>	<b>6,108</b>
Tax	1,246	1,028	1,394	1,826
Tax Rate (%)	26.2	29.9	29.9	29.9
Minority Interest	55	22	30	39
<b>Reported PAT</b>	<b>3,448</b>	<b>2,389</b>	<b>3,241</b>	<b>4,243</b>
<b>Adj PAT</b>	<b>3,448</b>	<b>2,389</b>	<b>3,241</b>	<b>4,243</b>
Net Margins (%)	16.5	11.8	13.7	15.6

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Paid up Capital	833	834	834	834
Reserves & Surplus	14,247	15,829	18,259	21,441
<b>Total Equity</b>	<b>15,080</b>	<b>16,663</b>	<b>19,093</b>	<b>22,275</b>
Minority Interest	355	332	362	401
<b>Total Debt</b>	<b>3,457</b>	<b>2,366</b>	<b>2,366</b>	<b>2,366</b>
Deferred Liabilities	(370)	(404)	(404)	(404)
<b>Capital Employed</b>	<b>18,522</b>	<b>18,957</b>	<b>21,417</b>	<b>24,638</b>
Current Liabilities & Prov	4,640	4,494	5,017	5,558
<b>Total Liabilities</b>	<b>23,162</b>	<b>23,451</b>	<b>26,434</b>	<b>30,196</b>
<b>Net Fixed Assets</b>	<b>13,903</b>	<b>13,100</b>	<b>12,180</b>	<b>11,387</b>
Investments	-	-	-	-
Inventory	524	338	393	453
Debtors	854	708	830	956
Other Current Assets	1,050	1,152	1,243	1,338
Cash and Equivalents	6,831	8,153	11,788	16,063
<b>Total Cur. Assets</b>	<b>9,259</b>	<b>10,351</b>	<b>14,254</b>	<b>18,810</b>
<b>Total Assets</b>	<b>23,162</b>	<b>23,451</b>	<b>26,434</b>	<b>30,196</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
PBT	4,749	3,439	4,665	6,108
Depreciation	10,133	8,296	1,520	1,393
Net Chg in WC	(246)	312	70	69
Taxes	(1,300)	(1,065)	(1,394)	(1,826)
Others	(8,869)	(6,422)	445	451
<b>CFO</b>	<b>4,467</b>	<b>4,560</b>	<b>5,305</b>	<b>6,196</b>
Capex	(4,790)	(455)	(600)	(600)
Net Investments made	4,333	(2,560)	-	-
Others	(4,035)	142	-	-
<b>CFI</b>	<b>(4,492)</b>	<b>(2,873)</b>	<b>(600)</b>	<b>(600)</b>
Change in Share capital	2	9	-	-
Change in Debts	(621)	(342)	-	-
Div. & Div Tax	(1,167)	1,030	(810)	(1,061)
Others	3,150	(3,529)	(260)	(260)
<b>CFF</b>	<b>1,364</b>	<b>(2,832)</b>	<b>(1,070)</b>	<b>(1,321)</b>
<b>Total Cash Generated</b>	<b>1,339</b>	<b>(1,145)</b>	<b>3,635</b>	<b>4,275</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23	FY24E	FY25E
Adj EPS	41.4	28.6	38.9	50.9
yoy Growth%	18.3	(30.8)	35.6	30.9
Cash EPS	54.4	46.7	57.1	67.6
EBITDA (%)	26.9	24.3	25.2	25.9
NPM (%)	16.5	11.8	13.7	15.6
Net Debt to Equity (x)	(0.2)	(0.3)	(0.5)	(0.6)
P/E (x)	49.3	71.3	52.5	40.1
EV/EBITDA (x)	29.7	33.6	27.0	22.2
P/BV (x)	11.3	10.2	8.9	7.6
EV/Sales (x)	8.0	8.2	6.8	5.7
ROCE (%)	21.5	12.9	15.6	17.9
ROE (%)	25.0	15.1	18.1	20.5
ROIC (%)	38.0	18.2	25.8	36.3
Book Value (Rs)	181	200	229	267
DPS (Rs)	14.0	7.2	9.7	12.7
Dividend Payout (%)	33.8	25.0	25.0	25.0
Div Yield (%)	0.7	0.3	0.5	0.6
Asset Turnover Ratio	1.1	0.9	0.9	1.0
Avg Collection days	13	14	12	12
Avg Inventory days	11	10	8	8

Source: Company data, I-Sec research

ICICI Securities Limited  
is the author and  
distributor of this report

Re-initiating coverage

## Pharmaceuticals

Target price: Rs590

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	69.6	69.6	69.6
Institutional investors	18.1	17.5	17.6
MFs and UTI	5.4	5.9	6.5
Insurance Cos.	7.0	6.6	6.6
FIs	5.4	5.0	4.6
Others	12.3	12.9	12.8

Source: CMIE

### ESG disclosure score

Year	2021	2022	Chg
<b>ESG score</b>	<b>34.1</b>	<b>34.1</b>	<b>0.0</b>
Environment	2.1	2.1	0.0
Social	21.4	21.4	0.0
Governance	78.6	78.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

# Alembic Pharma

**HOLD**

Comfortable valuations, plants possibly getting a regulatory nod key positives

**Rs563**

Alembic Pharma has successfully transformed its domestic branded business (36% of sales in FY23) to fast-growing specialty segment, which now accounts for 55% of domestic branded formulations revenue (49% in FY13). Higher sales in India due to covid and limited competition in some products in the US had benefited Alembic last year. As covid situation normalised and it lost exclusivity in the US, there is a dent in its earnings now. In Mar'22, Alembic impaired assets worth Rs11.5bn in CWIP pertaining to new facilities viz facility 2 (for oncology injectables and oral), facility 3 (ophthalmic and general injectables) and facility 4 (for oral solid dosages) – this would likely reduce the P&L pressure on the commissioning of these facilities. Expenses of new plants are expected to limit scope for expansion in EBITDA margins and exert pressure in near term; however, we see limited downside from current levels considering the stock has fallen ~20% in last 1 year. We re-initiate coverage on the stock with HOLD rating and a target price of Rs590/share

- **India business- specialty segment to sustain growth:** In the past three years, domestic business witnessed healthy growth of 13.5%, largely driven by strong growth in specialty segment. Alembic Pharma has strong presence in the fast growing specialty segments of cardiac, anti-diabetic, gynaec segment. Going forward, we believe specialty segments would sustain growth momentum as these segments are growing faster than the industry itself. While acute segment growth in FY22 was impacted by high base of Azithral, we expect 11% CAGR for business over FY23-FY25E.
- **US business: Product launches key.** In the past three years, US business witnessed a decline in revenue (excluding one-off opportunities) with base business undergoing significant price erosion. However, we believe US business should ramp up from current base led by decent product launches on the back of the expected commissioning of oncology and injectables facilities. The company has currently filed 246 ANDAs, with 68 products pending approval. Alembic has recently written off ~Rs11.5bn of CWIP assets in 3 new facilities, namely facility 2 (onco injectables and oral), facility 3 (ophthalmic and general injectables) and facility 4 (oral solid dosages). We expect 9.2% CAGR for US business over FY23-FY25E.
- **Outlook:** Lower depreciation spend on account of the recent plant write offs and recalibration of R&D spend should partially offset the pricing pressures in the US and additional costs related to plant commissioning, boosting the overall profitability and return ratios going forward. We expect revenue/EBITDA/PAT at a CAGR of 10.4%/25.6%/28.4% for FY23-FY25E respectively.
- **Valuations and risks:** We re-initiate coverage on the stock with **HOLD** rating and a target price of Rs590/share based on 21x FY25E EPS. **Key upside risks:** Commercialization of high value launches **Key downside risks:** Delayed launches of new products and forex fluctuations.

Market Cap	Rs111bn/US\$1.3bn
Reuters/Bloomberg	ALPM IN /ALEM.BO
Shares Outstanding (mn)	196.6
52-week Range (Rs)	762/469
Free Float (%)	30.4
FII (%)	4.6
Daily Volume (US\$'000)	879
Absolute Return 3m (%)	7.2
Absolute Return 12m (%)	(21.5)
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23	FY24E	FY25E
Revenue (Rs mn)	53,058	56,526	62,578	68,927
Net Income (Rs mn)	5,457	3,420	4,351	5,642
EPS (Rs)	27.8	17.4	22.1	28.7
% Chg YoY	(53.7)	(37.3)	27.2	29.7
P/E (x)	20.6	32.9	25.8	19.9
CEPS (Rs)	42.4	31.4	37.5	45.8
EV/E (x)	13.4	16.3	12.3	9.9
Dividend Yield (%)	1.0	0.6	0.8	1.1
RoCE (%)	9.3	7.0	8.2	9.6
RoE (%)	10.5	6.4	7.7	9.4

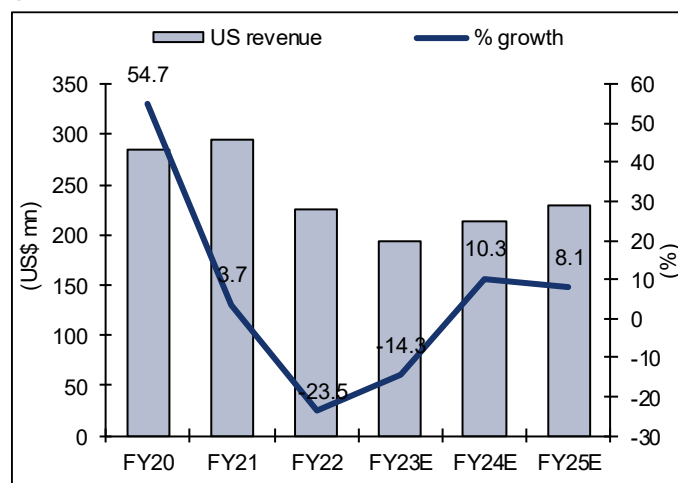
### Research Analysts:

**Abdulkader Puranwala**

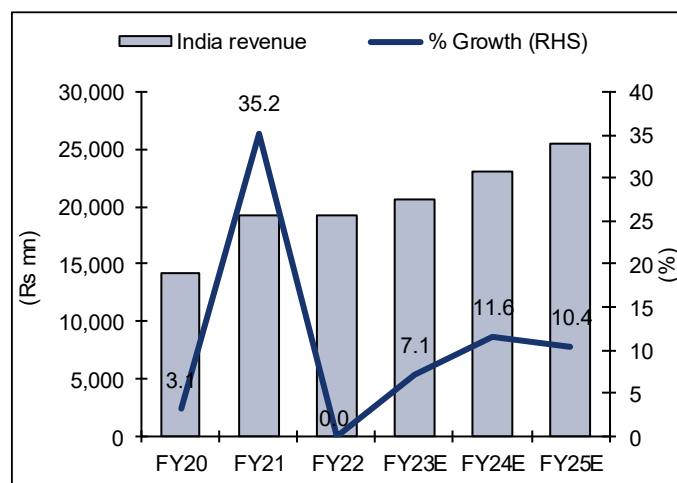
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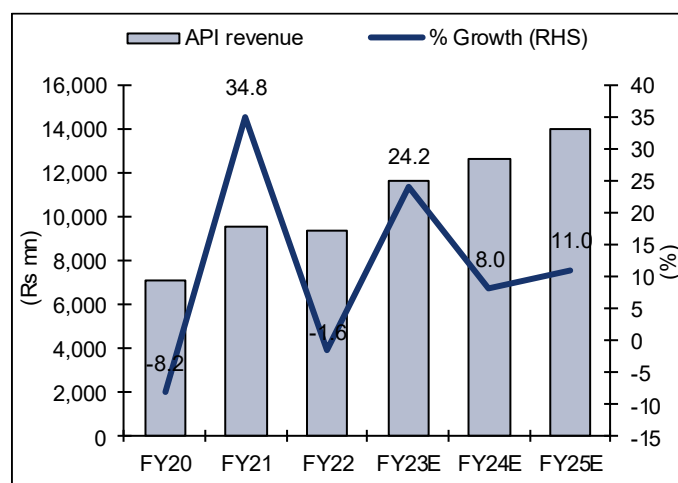
rohan.john@icicisecurities.com  
+91 22 6807 7453

**Chart 1: Market share loss has impacted US growth**

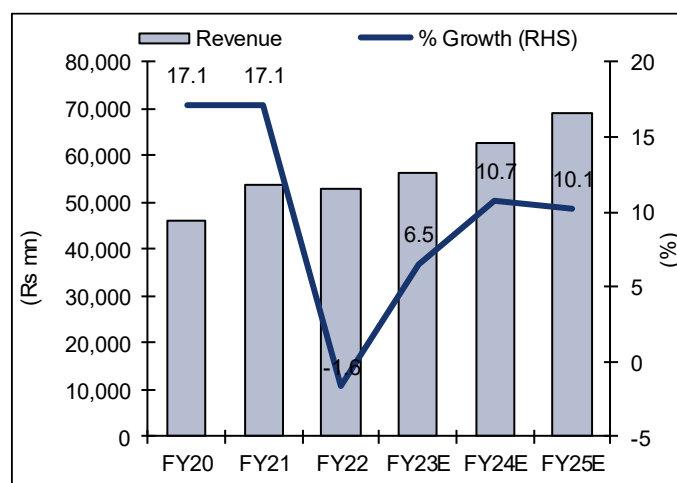
Source: Company data, I-Sec research.

**Chart 2: India growth to bounce back in FY24E**

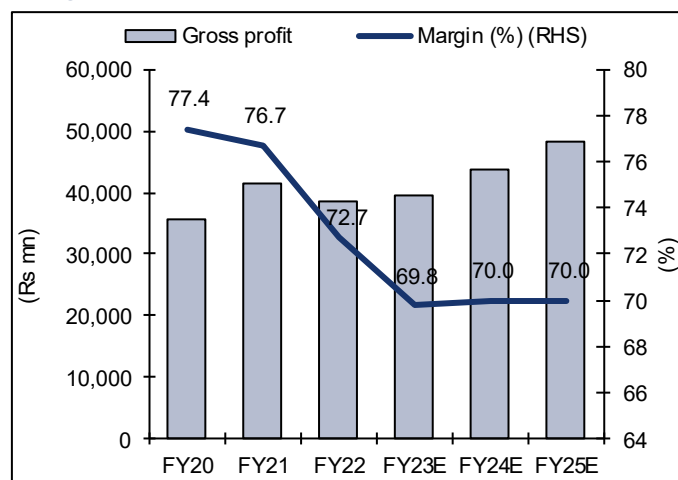
Source: Company data, I-Sec research.

**Chart 3: Healthy traction in APIs**

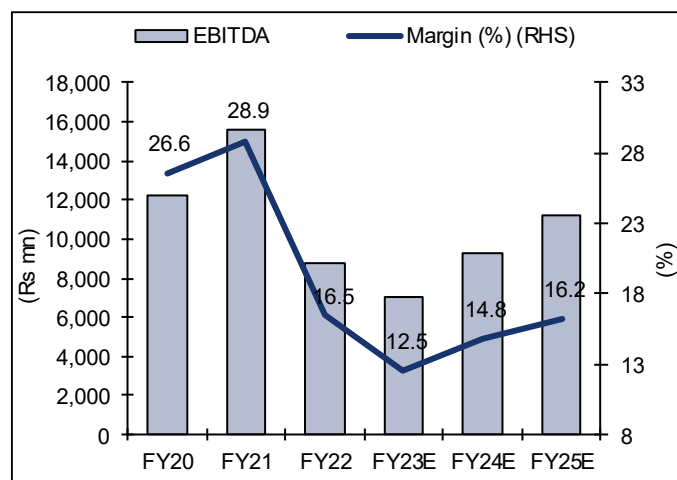
Source: Company data, I-Sec research.

**Chart 4: Revenues are expected to register 10.4% CAGR over FY23-25E**

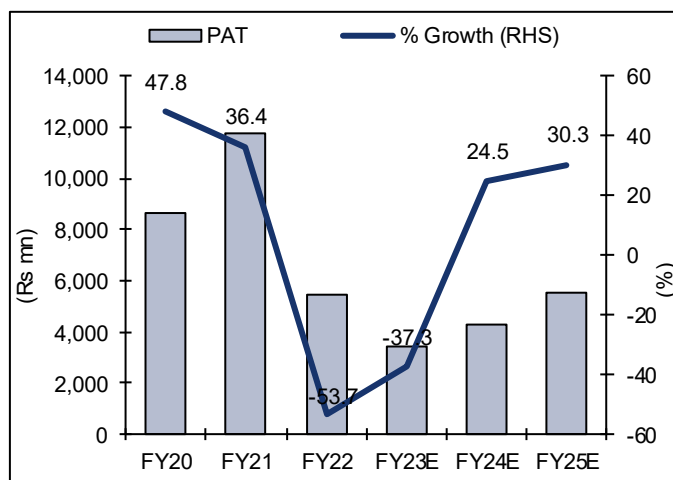
Source: Company data, I-Sec research.

**Chart 5: Stability in India and US to comfort margins**

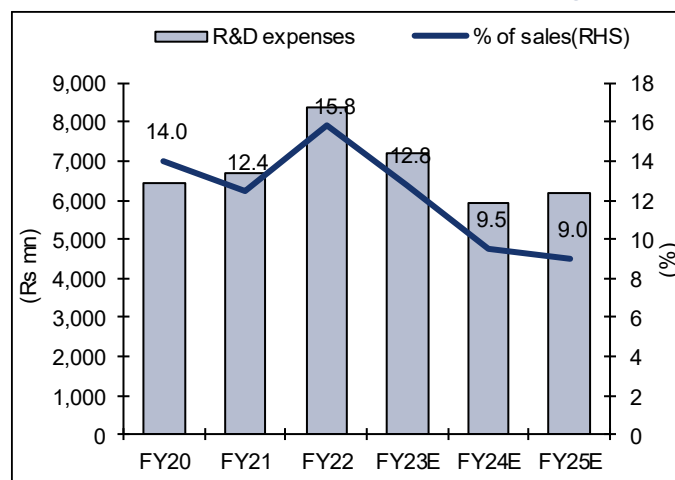
Source: Company data, I-Sec research.

**Chart 6: EBITDA margins to remain range bound**

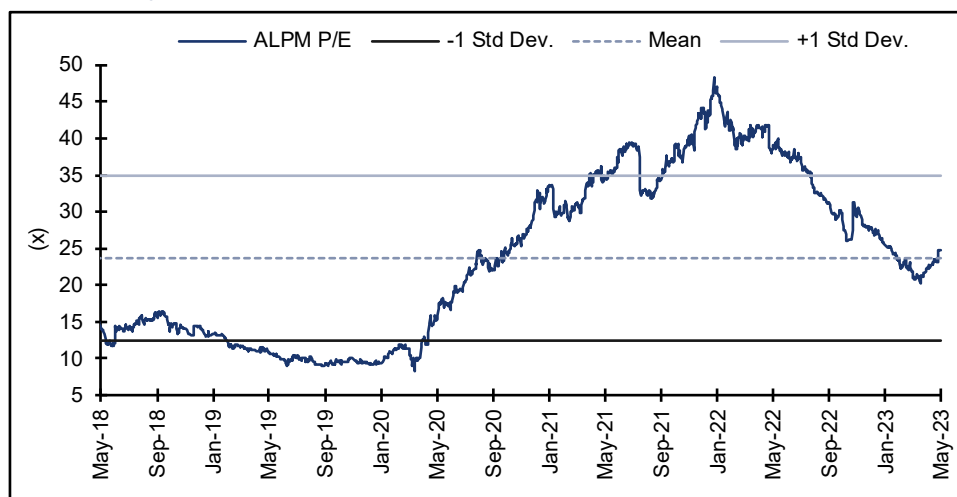
Source: Company data, I-Sec research.

**Chart 7: FY23-25E PAT CAGR at a robust 28.4%**

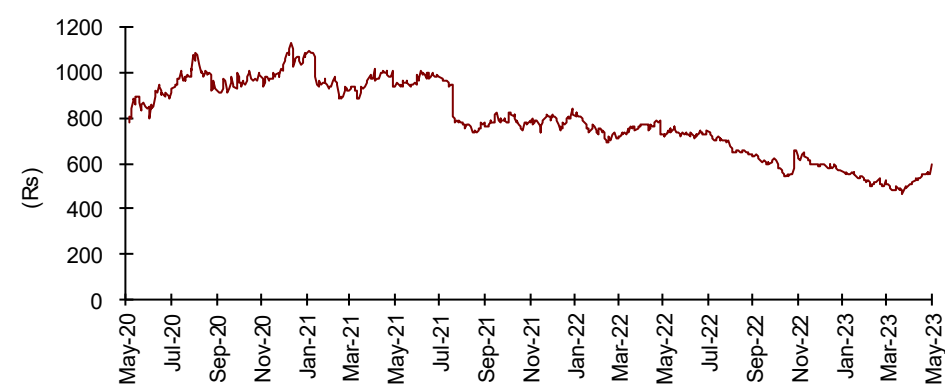
Source: Company data, I-Sec research.

**Chart 8: Considerable cut in R&D spending ahead**

Source: Company data, I-Sec research.

**Chart 9: 1-year forward P/E**

Source: Company data, I-Sec research

**Price chart**

Source: Bloomberg

## Financial summary (consolidated)

Table 1: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
<b>Total Net Revenue</b>	<b>53,058</b>	<b>56,526</b>	<b>62,578</b>	<b>68,927</b>
yoy Growth%	(2)	7	11	10
<b>Total Op. Exp.</b>	<b>44,316</b>	<b>49,443</b>	<b>53,316</b>	<b>57,761</b>
<b>EBITDA</b>	<b>8,742</b>	<b>7,083</b>	<b>9,261</b>	<b>11,166</b>
Margins %	16.5	12.5	14.8	16.2
yoy Growth%				
Depreciation	2,868	2,754	3,026	3,353
<b>EBIT</b>	<b>5,874</b>	<b>4,329</b>	<b>6,235</b>	<b>7,813</b>
Other Income	557	(282)	(282)	(295)
Interest	177	502	680	680
EO Items	-	-	-	-
<b>PBT</b>	<b>6,254</b>	<b>3,546</b>	<b>5,273</b>	<b>6,838</b>
Tax	1,045	126	923	1,197
Tax Rate (%)	16.7	3.6	17.5	17.5
Minority Interest	(248)	-	-	-
<b>Reported PAT</b>	<b>5,457</b>	<b>3,420</b>	<b>4,351</b>	<b>5,642</b>
<b>Adj PAT</b>	<b>5,457</b>	<b>3,420</b>	<b>4,351</b>	<b>5,642</b>
Net Margins (%)	10.3	6.0	7.0	8.2

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Paid up Capital	393	393	393	393
Reserves & Surplus	52,376	54,931	58,182	62,397
<b>Total Equity</b>	<b>52,769</b>	<b>55,324</b>	<b>58,575</b>	<b>62,790</b>
Minority Interest	-	-	-	-
<b>Total Debt</b>	<b>6,300</b>	<b>6,300</b>	<b>6,800</b>	<b>6,800</b>
Deferred Liabilities	-	92	92	92
<b>Capital Employed</b>	<b>58,675</b>	<b>61,323</b>	<b>65,074</b>	<b>69,289</b>
Current Liabilities & Prov	12,545	14,336	15,376	16,534
<b>Total Liabilities</b>	<b>71,220</b>	<b>75,659</b>	<b>80,450</b>	<b>85,823</b>
<b>Net Fixed Assets</b>	<b>41,021</b>	<b>41,917</b>	<b>41,390</b>	<b>40,537</b>
Investments	1,243	1,259	1,276	1,294
Inventory	16,097	17,149	18,985	20,911
Debtors	8,071	8,599	9,519	10,485
Other Current Assets	4,094	4,397	4,727	5,087
Cash and Equivalents	694	2,338	4,551	7,508
<b>Total Cur. Assets</b>	<b>30,199</b>	<b>33,742</b>	<b>39,059</b>	<b>45,286</b>
<b>Total Assets</b>	<b>71,220</b>	<b>75,659</b>	<b>80,450</b>	<b>85,823</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Cash profit adjusted for non cash items	7,503	6,740	8,017	9,635
Add/Less : Working Capital Changes	(3,139)	(91)	(2,047)	(2,095)
Operating Cash Flow	4,364	6,649	5,970	7,540
Less:- Capex	4,179	3,650	2,500	2,500
Free Cash Flow	185	2,999	3,470	5,040
Financing Cash Flow	<b>1,043</b>	<b>(881)</b>	<b>(617)</b>	<b>(1,443)</b>
Investing Cash Flow	(1,592)	(474)	(640)	(640)
<b>Net change in Cash</b>	<b>(364)</b>	<b>1,644</b>	<b>2,213</b>	<b>2,957</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23	FY24E	FY25E
Adj EPS	27.8	17.4	22.1	28.7
yoy Growth%				
Cash EPS	42.4	31.4	37.5	45.8
EBITDA (%)	16.5	12.5	14.8	16.2
NPM (%)	10.3	6.0	7.0	8.2
Net Debt to Equity (x)	0.1	0.1	0.0	(0.0)
P/E (x)	20.6	32.9	25.8	19.9
EV/EBITDA (x)	13.4	16.3	12.3	9.9
P/BV (x)	2.1	2.0	1.9	1.8
EV/Sales (x)	2.2	2.0	1.8	1.6
ROCE (%)	9.3	7.0	8.2	9.6
ROE (%)	10.5	6.4	7.7	9.4
Book Value (Rs)	266	279	296	317
DPS (Rs)	5.8	3.7	4.6	6.0
Dividend Payout (%)	27.8	25.3	25.3	25.3
Div Yield (%)	1.0	0.6	0.8	1.1
Asset Turnover Ratio	1.3	1.4	1.5	1.7
Avg Collection days	56	56	56	56
Avg Inventory days	111	111	111	111

Source: Company data, I-Sec research



ICICI Securities Limited  
is the author and  
distributor of this report

Re-initiating coverage

## Pharmaceuticals

Target price: Rs3,650

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	57.2	57.2	57.2
Institutional investors	19.9	20.6	21.1
MFs and UTI	9.4	10.2	10.2
Insurance Cos.	5.8	5.9	6.0
FII	4.7	4.6	4.9
Others	22.9	22.2	21.7

Source: CMIE

### ESG disclosure score

Year	2020	2021	Chg
ESG score	28.1	28.8	0.7
Environment	0.4	2.1	1.7
Social	17.9	18.1	0.2
Governance	66.1	66.1	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

# Alkem Labs

ADD

## Tackling growth challenges

Rs3,409

Alkem Labs (Alkem) commands a market share of 4.1% and is the 5th largest pharmaceutical company (as per IQVIA) in the India Pharma market (IPM). Traditionally, it had strong focus on acute set of therapies which contribute nearly 75% of domestic sales. India business got a boost in FY22 due to covid-infused demand in branded generics. Moreover, its leading position in trade generics on this high base may taper a bit in FY23 and thereby expect growth in the double digits. Marred by competition in US business and raw material price increases, Alkem's 9MFY23 EBITDA declined 27% YoY and margins dipped to ~14%. Better pricing in India, new launches in the US and stable RM pricing may ensure 80-100bps improvement in margins to 15%. We re-initiate coverage on the stock with ADD rating and a target price of Rs3,650/share.

- **Strong acute franchise:** The company has a leadership position in several acute therapies such as anti-infectives (rank 1 for over 15 years), gastrointestinal (rank 3), VMN (rank 2) and pain/analgics (rank 3). Acute therapies contribute ~88% of total domestic sales. Key brands such as Clavam, Taxim-O and Pan-D have led the market since past five years. While FY23 was impacted due to high covid-led base, we expect 10% CAGR in India revenue over FY23E-25E driven by the recent addition of field force in acute and chronic segments.
- **Chronic and biosimilars – future growth drivers:** Alkem has increasingly turned its focus towards chronic therapies such as anti-diabetic, neuro/CNS and cardiac segments. In 9MFY23, anti-diabetic and CNS segments grew at 26.8% and 15.2%, respectively. We expect chronic segment to sustain healthy double-digit growth over FY23E-FY25E, led by new product launches and market share gains. Alkem has also been investing heavily in biosimilars (Enzene Biosciences) and have invested ~Rs8.5bn till date, with a further outlay of ~Rs1bn expected in coming years. The company currently has approval for five products and has launched four in India.
- **US business is going through a trough:** US is the second largest revenue contributor (~22% of total revenues) and has grown steadily at a CAGR of 11.7% over the past five years, driven by new product launches. In 9MFY23, base business was under pressure with double-digit price erosion. However, we expect base business to stabilise in coming quarters. We expect a CAGR of 6.7% for US business over FY23E-FY25E, with base business erosion.
- **Outlook:** We expect Alkem to register 9.2% revenue and 12.4% EBITDA CAGRs over FY23E-FY25E with margin reaching ~15%. Consistent growth, coupled with limited capex requirement, would help in high free cashflow generation of ~Rs64bn over FY23E-FY25E. We remain positive on the stock considering the higher proportion of India sales with consistent outperformance and the potential for operating leverage.
- **Valuations and risks:** We re-initiate coverage on the stock with ADD rating and a target price of Rs3,650/share based on 28x FY25E earnings **Key downside risks:** Regulatory hurdles, addition of products in NLEM and delay in product approvals in the US.

Market Cap	Rs408bn/US\$5bn
Reuters/Bloomberg	ALPM IN
Shares Outstanding (mn)	119.6
52-week Range (Rs)	3618/2903
Free Float (%)	42.8
FII (%)	4.9
Daily Volume (US\$'000)	4,528
Absolute Return 3m (%)	4.8
Absolute Return 12m (%)	16.9
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	1,06,342	1,13,741	1,24,315	1,35,675
Net Income (Rs mn)	16,606	11,953	13,732	15,615
EPS (Rs)	138.8	100.0	114.9	130.6
% Chg YoY	4.7	(28.0)	14.9	13.7
P/E (x)	24.6	34.1	29.7	26.1
CEPS (Rs)	163.1	127.4	144.7	162.9
EV/E (x)	19.8	24.7	21.1	18.3
Dividend Yield (%)	1.0	0.7	0.8	1.0
RoCE (%)	19.1	12.0	12.7	13.2
RoE (%)	20.7	13.2	13.8	14.2

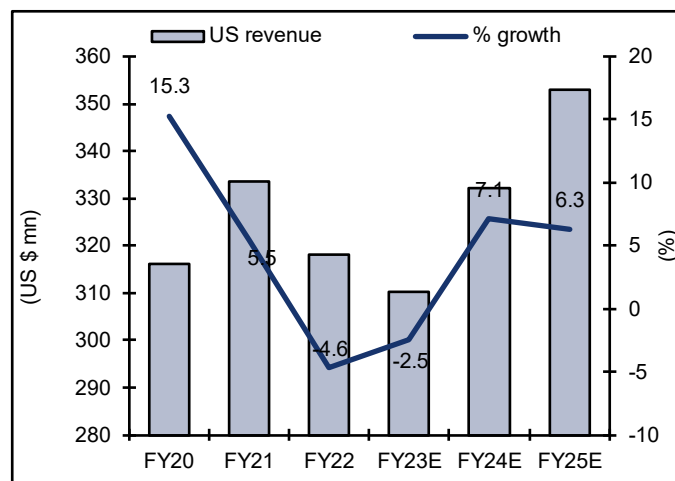
### Research Analysts:

Abdulkader Puranwala

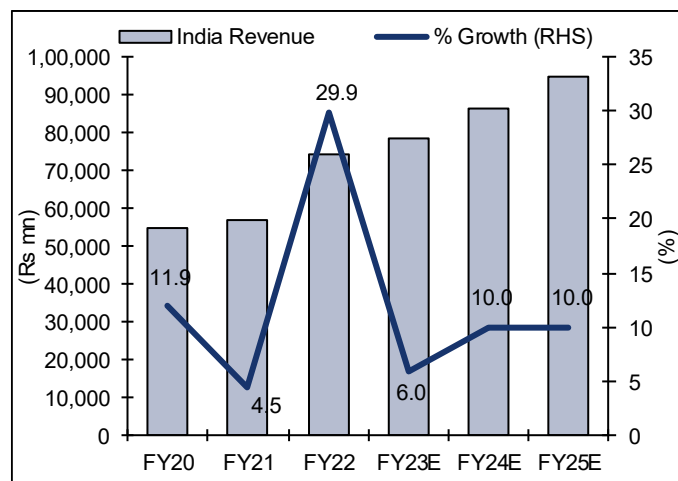
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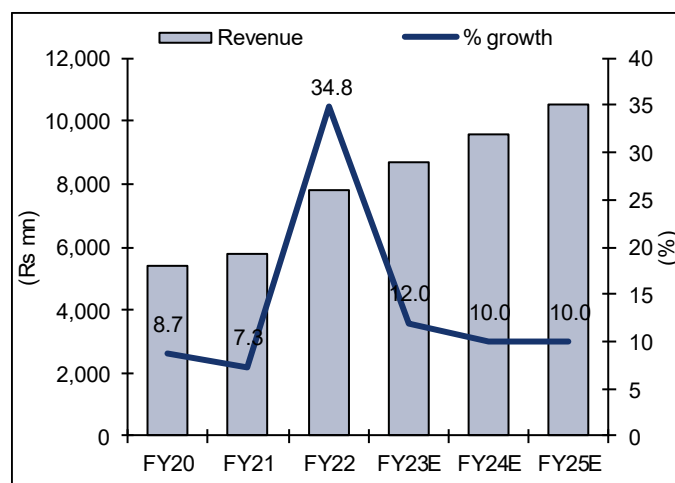
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**Chart 1: Launches to improve US run-rate**

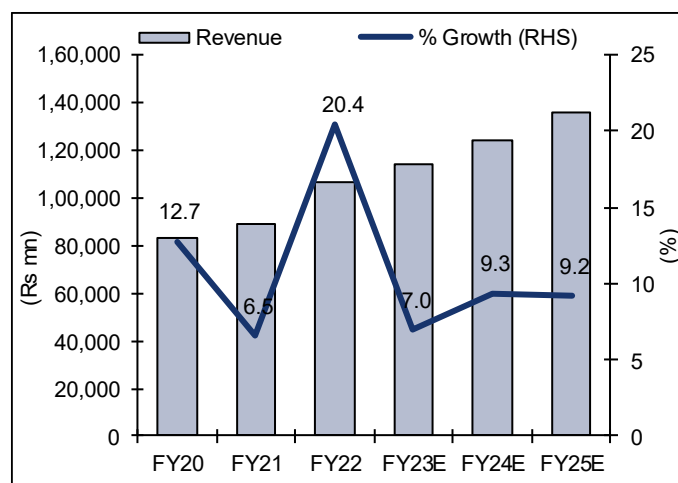
Source: Company data, I-Sec research.

**Chart 2: Branded generics to drive growth in India**

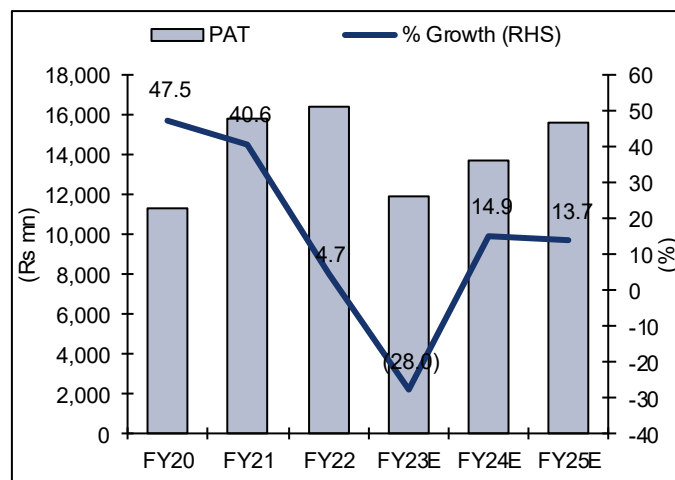
Source: Company data, I-Sec research.

**Chart 3: ROW revenues to grow at a steady pace**

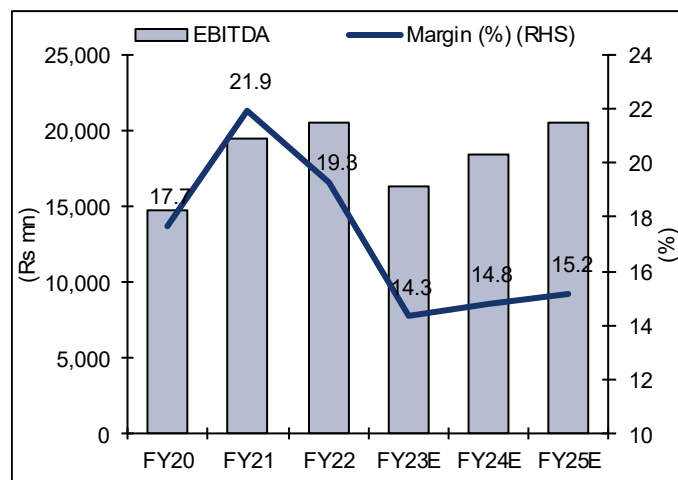
Source: Company data, I-Sec research.

**Chart 4: Revenues to register a 9.2% CAGR over FY23E-25E**

Source: Company data, I-Sec research.

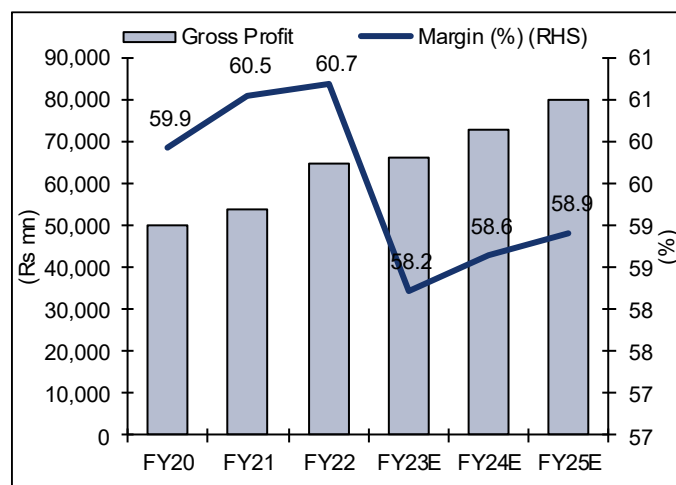
**Chart 5: RM cost to keep a check on gross margins**

Source: Company data, I-Sec research.

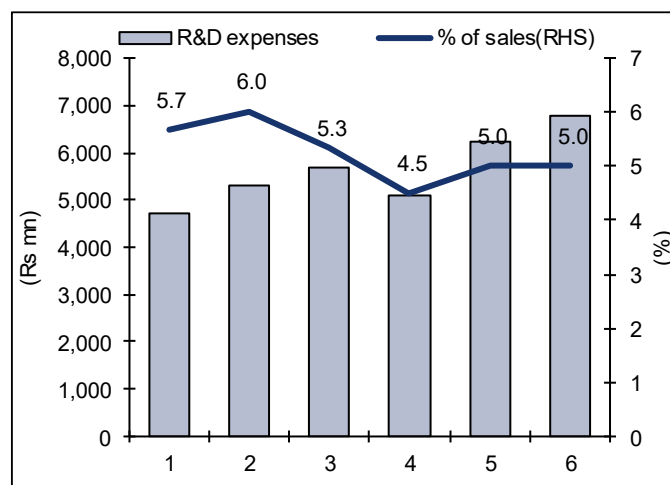
**Chart 6: Expect a 90bps expansion in margins over FY23E-25E**

Source: Company data, I-Sec research.

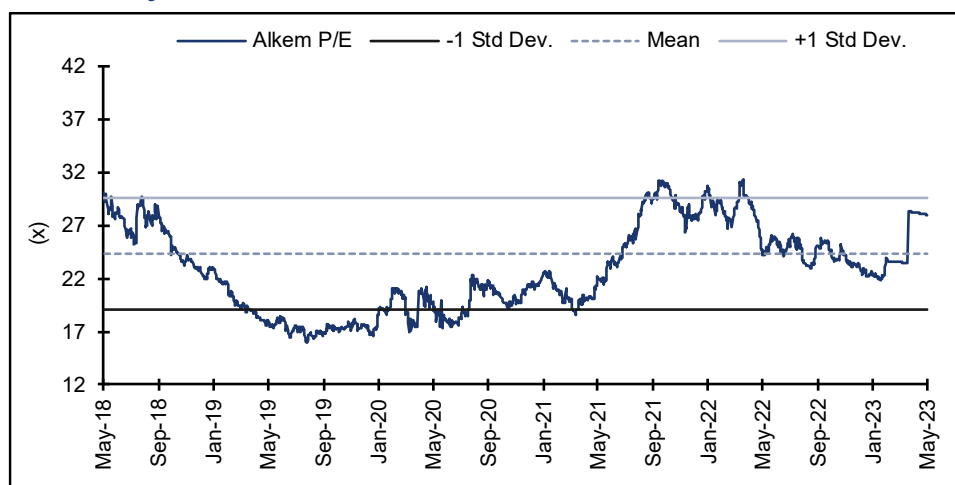


**Chart 7: Net Profit to register a 14.3% CAGR over FY23E-25E**

Source: Company data, I-Sec research.

**Chart 8: R&D spending to inch up slightly**

Source: Company data, I-Sec research.

**Chart 9: 1-year forward P/E**

Source: Company data, I-Sec research

**Price chart**

Source: Bloomberg

## Financial summary (consolidated)

Table 1: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Total Net Revenue</b>	<b>1,06,342</b>	<b>1,13,741</b>	<b>1,24,315</b>	<b>1,35,675</b>
yoy Growth%	20	7	9	9
<b>Total Op. Exp.</b>	<b>85,813</b>	<b>97,446</b>	<b>1,05,912</b>	<b>1,15,097</b>
<b>EBITDA</b>	<b>20,529</b>	<b>16,295</b>	<b>18,404</b>	<b>20,578</b>
Margins %	19.3	14.3	14.8	15.2
yoy Growth%				
Depreciation	3,040	3,283	3,571	3,858
<b>EBIT</b>	<b>17,490</b>	<b>13,012</b>	<b>14,833</b>	<b>16,719</b>
Other Income	1,627	1,580	1,854	2,182
Interest	524	524	524	524
EO Items				
<b>PBT</b>	<b>18,592</b>	<b>14,068</b>	<b>16,163</b>	<b>18,378</b>
Tax	1,640	1,829	2,101	2,389
Tax Rate (%)	8.9	13.0	13.0	13.0
Minority Interest	347	287	329	374
<b>Reported PAT</b>	<b>16,606</b>	<b>11,953</b>	<b>13,732</b>	<b>15,615</b>
<b>Adj PAT</b>	<b>16,592</b>	<b>11,953</b>	<b>13,732</b>	<b>15,615</b>
Net Margins (%)	15.6	10.5	11.0	11.5

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid up Capital	239	239	239	239
Reserves & Surplus	86,379	94,731	1,04,327	1,15,239
<b>Total Equity</b>	<b>86,618</b>	<b>94,971</b>	<b>1,04,567</b>	<b>1,15,478</b>
Minority Interest	2,094	2,094	2,094	2,094
<b>Total Debt</b>	<b>25,801</b>	<b>25,801</b>	<b>25,801</b>	<b>25,801</b>
Deferred Liabilities	(13,093)	(13,093)	(13,093)	(13,093)
<b>Capital Employed</b>	<b>1,01,182</b>	<b>1,09,534</b>	<b>1,19,130</b>	<b>1,30,042</b>
Current Liabilities & Prov	26,417	32,342	35,972	36,384
<b>Total Liabilities</b>	<b>1,27,599</b>	<b>1,41,877</b>	<b>1,55,102</b>	<b>1,66,426</b>
<b>Net Fixed Assets</b>	<b>32,412</b>	<b>32,628</b>	<b>32,558</b>	<b>32,199</b>
Investments	3,710	3,710	3,710	3,710
Inventory	30,055	28,046	28,046	28,046
Debtors	18,846	21,813	21,813	21,813
Other Current Assets	16,790	25,657	25,657	25,657
Cash and Equivalents	25,786	30,022	43,318	55,001
<b>Total Cur. Assets</b>	<b>95,187</b>	<b>1,09,248</b>	<b>1,22,544</b>	<b>1,34,227</b>
<b>Total Assets</b>	<b>1,27,599</b>	<b>1,41,877</b>	<b>1,55,102</b>	<b>1,66,426</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non cash items	16,760	14,466	16,302	18,189
Add/Less : Working Capital Changes	(12,798)	(3,900)	3,629	412
Operating Cash Flow	3,962	10,567	19,932	18,601
Less:- Capex	3,589	3,500	3,500	3,500
Free Cash Flow	373	7,067	16,432	15,101
Financing Cash Flow	<b>5,890</b>	<b>(2,831)</b>	<b>(3,135)</b>	<b>(3,419)</b>
Investing Cash Flow	(382)	-	-	-
<b>Net change in Cash</b>	<b>5,881</b>	<b>4,236</b>	<b>13,296</b>	<b>11,682</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	138.8	100.0	114.9	130.6
yoy Growth%	4.7	(28.0)	14.9	13.7
Cash EPS	163.1	127.4	144.7	162.9
EBITDA (%)	19.3	14.3	14.8	15.2
NPM (%)	15.6	10.5	11.0	11.5
Net Debt to Equity (x)	(0.0)	(0.1)	(0.2)	(0.3)
P/E (x)	24.6	34.1	29.7	26.1
EV/EBITDA (x)	19.8	24.7	21.1	18.3
P/BV (x)	4.7	4.3	3.9	3.5
EV/Sales (x)	3.8	3.5	3.1	2.8
ROCE (%)	19.1	12.0	12.7	13.2
ROE (%)	20.7	13.2	13.8	14.2
ROIC (%)	27.1	18.0	20.4	23.9
Book Value (Rs)	723	792	873	964
DPS (Rs)	35.0	25.0	28.7	32.7
Dividend Payout (%)	30.6	30.1	30.1	30.1
Div Yield (%)	1.0	0.7	0.8	1.0
Asset Turnover Ratio	3.5	3.5	3.8	4.2
Avg Collection days	65	70	64	59
Avg Inventory days	103	90	82	75

Source: Company data, I-Sec research

ICICI Securities Limited  
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distributor of this report

Re-initiating coverage

## Pharmaceuticals

Target price: Rs625

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	51.8	51.8	51.8
Institutional investors	37.9	37.0	37.8
MFs and UTI	9.0	7.5	7.6
Insurance Cos.	7.3	7.2	7.2
FII	21.6	22.3	23.0
Others	10.3	11.2	10.4

Source: CMIE

### ESG disclosure score

Year	2021	2022	Chg
ESG score	50.3	54.3	4.0
Environment	37.2	38.1	0.8
Social	29.8	41.0	11.2
Governance	83.6	83.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

# Aurobindo Pharma

HOLD

## Portfolio diversification on cards

Rs609

Aurobindo Pharma (ARBP) is set to embark on an ambitious journey to bolster its product portfolio in the next couple of years. It has filed over 767 generic products in the US of which 212 are injectables and 2 are biosimilars in the EU, while development of many more is under progress. Discerning R&D spend (5.4% of 9MFY23 revenue) and cost-effective leadership in products have been ARBP's key traits. It now aims to replicate this strategy in complex products such as injectables, inhalers, biosimilars etc. However, elevated overheads are likely to dent margins in the near term (9MFY23 EBITDA margin down 430bps to 15%). We re-initiate coverage on ARBP with HOLD rating and TP of Rs625/share.

- **US generics – healthy launch run rate to support growth:** Aurobindo has embarked on an ambitious journey to bolster its product portfolio via launches and filings. The company is developing 200 products, with +767 filings already done. ARBP is developing a slew of differentiated complex products, biosimilars, inhalers, topical, transdermal and vaccines for the US/EU. Given its healthy ANDA basket and pipeline, we expect the company to launch >25+ products. We see ARBP's US sales to clock US\$1.6bn by FY25E.
- **Injectables business – stellar portfolio:** ARBP has a strong portfolio of injectable products and has filed 212 injectable ANDAs with the USFDA, of which 143 have been approved. Nearly 30% of the pending pipeline in the US consists of injectables. While injectables business in the US witnessed pricing pressures and drop in volumes in Q2FY23, it has since normalised and reverted to its prior run rate. ARBP's annual global injectable sales stand at US\$400-440mn, which it aims to spike to US\$650-700mn by FY25E.
- **New projects on track, critical for growth FY25 onwards:** ARBP has filed 2 biosimilars in EU, 1 in UK and phase-3 trials for 3 products are ongoing. It is in the process of launching a biosimilar in the EU and is targeting entry in Canada and the US in FY24-25. New injectable plant at Vizag (in Andhra Pradesh) will be commercialised in Q4FY24 and for US it will launch products with shortages. Construction of 15,000ton Pen-G plant is on track (under PLI scheme), commercial operations to begin by the end of FY24.
- **Outlook:** We expect the company to register 7% revenue CAGR over FY23E-FY25E with EBITDA margins expanding to ~17%. It has been investing in creating capacity for injectables, biosimilars, dermatology, APIs, etc., which should help ensure long-term growth momentum.
- **Valuations and risks:** ARBP is likely to benefit in the near term led by improvement in US generic demand due to the exit of Akorn, besides being on track to launch Revlimid in Oct'23. Management is foraying in biosimilars and vaccines to replicate its success of US generics. At CMP, ARBP trades at 13x FY25E P/E. We re-initiate coverage on the stock with HOLD rating and TP of Rs625 on 14x FY25E P/E. **Key upside risks:** Strong complex launches in the US **Key downside risks:** Regulatory hurdles, currency volatility and delay in US launches.

Market Cap	Rs357bn/US\$4.3bn
Reuters/Bloomberg	ARBP IN/ARBN.BO
Shares Outstanding (mn)	585.9
52-week Range (Rs)	619/404
Free Float (%)	48.2
FII (%)	23.0
Daily Volume (US\$'000)	10,874
Absolute Return 3m (%)	30.8
Absolute Return 12m (%)	8.3
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	2,34,555	2,49,206	2,66,229	2,85,063
Net Income (Rs mn)	26,482	19,241	22,922	27,109
EPS (Rs)	46.9	32.8	39.1	46.3
% Chg YoY	(16.5)	(30.0)	19.1	18.3
P/E (x)	13.0	18.5	15.6	13.2
CEPS (Rs)	74.2	66.1	53.7	61.8
EV/E (x)	7.6	8.8	7.5	6.3
Dividend Yield (%)	0.5	0.4	0.4	0.5
RoCE (%)	10.4	7.4	8.2	9.1
RoE (%)	11.8	7.6	8.4	9.1

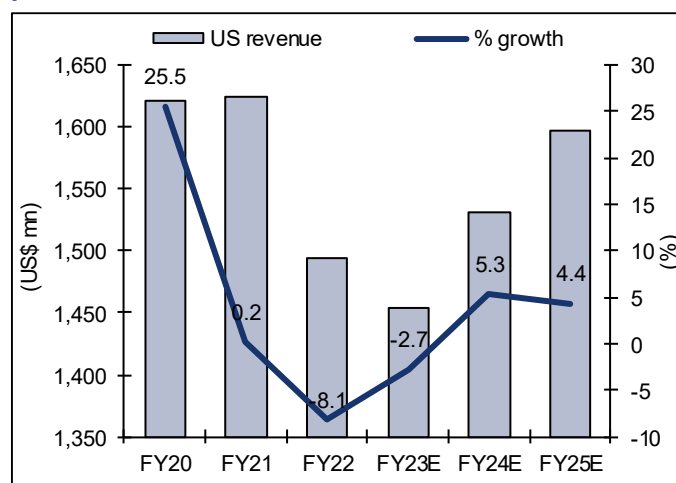
### Research Analysts:

**Abdulkader Puranwala**

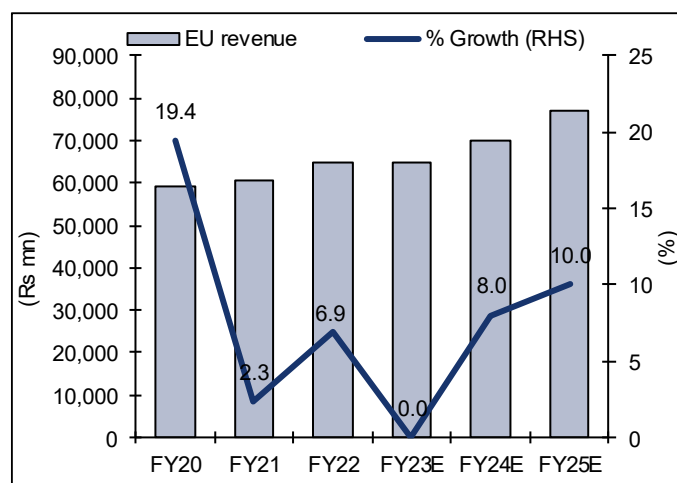
abdulkader.puranwala@icicisecurities.com  
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**Rohan John**

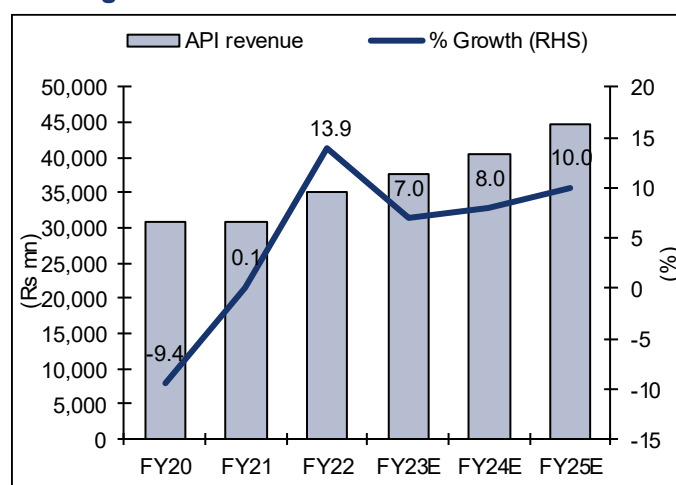
rohan.john@icicisecurities.com  
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**Chart 1: Healthy launch run rate and injectables portfolio to drive US revenues**

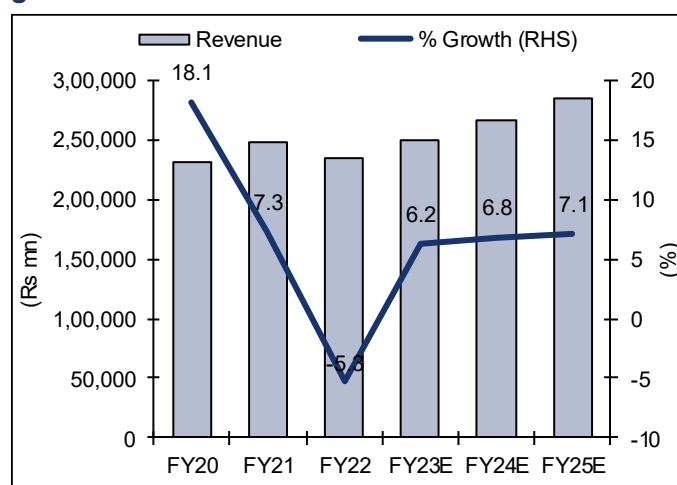
Source: Company data, I-Sec research.

**Chart 2: EU to register steady growth**

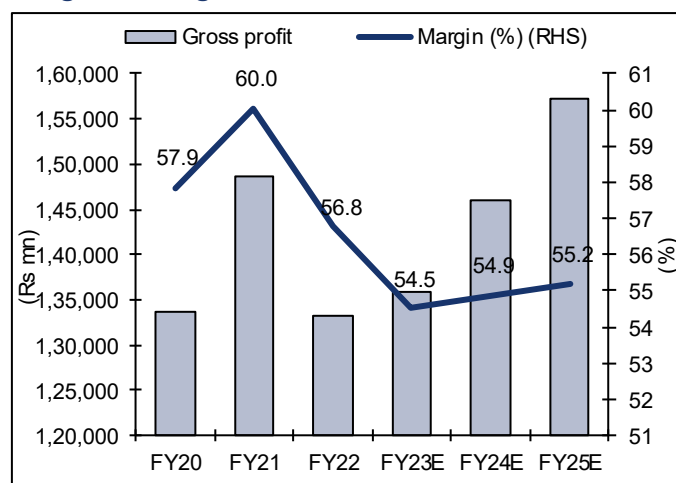
Source: Company data, I-Sec research.

**Chart 3: Steady demand in APIs should drive 9% CAGR growth over FY23E-FY25E**

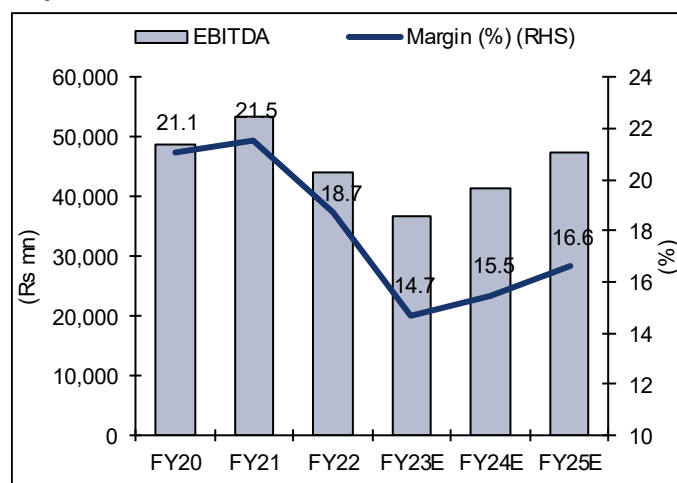
Source: Company data, I-Sec research.

**Chart 4: Total Revenues to register 7% CAGR growth over FY23E-FY25E**

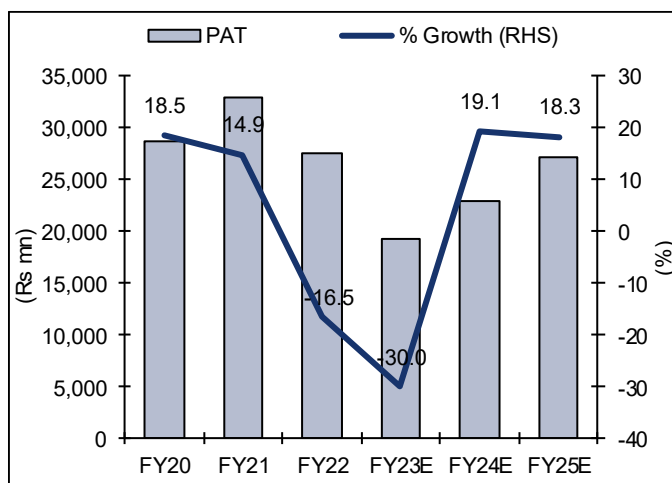
Source: Company data, I-Sec research.

**Chart 5: Easing of pricing pressures in the US to aid gross margins**

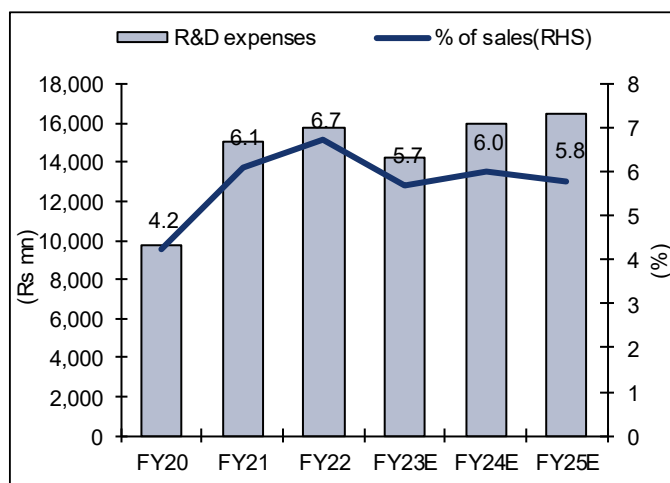
Source: Company data, I-Sec research.

**Chart 6: Expect EBITDA margins to recover with improvement in US business**

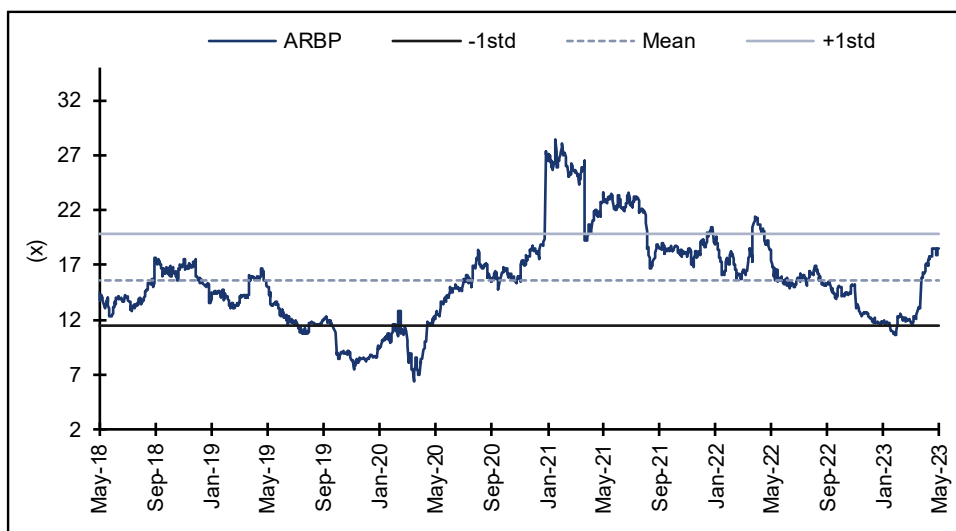
Source: Company data, I-Sec research.

**Chart 7: Net Profits to grow 18.7% CAGR over FY23E-FY25E**

Source: Company data, I-Sec research.

**Chart 8: R&D spend to remain stable at ~6%**

Source: Company data, I-Sec research.

**Chart 9: 1-year forward P/E**

Source: Company data, I-Sec research

**Price chart**

Source: Bloomberg

## Financial summary (consolidated)

Table 1: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Total Net Revenue</b>	<b>2,34,555</b>	<b>2,49,206</b>	<b>2,66,229</b>	<b>2,85,063</b>
yoy Growth%	(5)	6	7	7
<b>Total Op. Exp.</b>	<b>1,90,687</b>	<b>2,12,573</b>	<b>2,25,020</b>	<b>2,37,803</b>
<b>EBITDA</b>	<b>43,868</b>	<b>36,633</b>	<b>41,209</b>	<b>47,260</b>
Margins %	18.7	14.7	15.5	16.6
yoy Growth%				
Depreciation	11,265	12,221	13,271	14,321
<b>EBIT</b>	<b>32,603</b>	<b>24,412</b>	<b>27,938</b>	<b>32,939</b>
Other Income	2,891	2,463	2,946	3,529
Interest	486	1,235	335	335
EO Items	1,280	-	-	-
<b>PBT</b>	<b>33,727</b>	<b>25,640</b>	<b>30,549</b>	<b>36,132</b>
Tax	7,256	6,410	7,637	9,033
Tax Rate (%)	21.5	25.0	25.0	25.0
Minority Interest	(10)	(10)	(10)	(10)
<b>Reported PAT</b>	<b>26,482</b>	<b>19,241</b>	<b>22,922</b>	<b>27,109</b>
<b>Adj PAT</b>	<b>27,486</b>	<b>19,241</b>	<b>22,922</b>	<b>27,109</b>
Net Margins (%)	11.7	7.7	8.6	9.5

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid up Capital	586	586	586	586
Reserves & Surplus	2,45,760	2,63,726	2,85,130	3,10,445
<b>Total Equity</b>	<b>2,46,346</b>	<b>2,64,312</b>	<b>2,85,716</b>	<b>3,11,031</b>
Minority Interest	(19)	(30)	(40)	(51)
<b>Total Debt</b>	<b>23,728</b>	<b>13,728</b>	<b>3,728</b>	<b>3,728</b>
Deferred Liabilities	1,224	1,224	1,224	1,224
<b>Capital Employed</b>	<b>2,70,692</b>	<b>2,78,648</b>	<b>2,90,042</b>	<b>3,15,346</b>
Current Liabilities & Prov	65,639	69,489	73,963	71,636
<b>Total Liabilities</b>	<b>3,36,332</b>	<b>3,48,138</b>	<b>3,64,004</b>	<b>3,86,982</b>
<b>Net Fixed Assets</b>	<b>1,42,793</b>	<b>1,44,572</b>	<b>1,45,301</b>	<b>1,44,980</b>
Investments	9,972	9,972	9,972	9,972
Inventory	75,539	80,257	85,739	91,805
Debtors	40,123	42,629	45,541	48,762
Other Current Assets	26,006	27,213	28,615	30,167
Cash and Equivalents	41,900	43,496	48,837	61,297
<b>Total Cur. Assets</b>	<b>1,93,538</b>	<b>2,03,566</b>	<b>2,18,704</b>	<b>2,42,002</b>
<b>Total Assets</b>	<b>3,36,331</b>	<b>3,48,138</b>	<b>3,64,004</b>	<b>3,86,982</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non cash items	42,276	36,290	40,831	46,844
Add/Less : Working Capital Changes	(9,200)	4,582	5,323	13,165
Operating Cash Flow	44,847	25,298	27,871	24,646
Less:- Capex	29,707	14,000	14,000	14,000
Free Cash Flow	15,140	11,298	13,871	10,646
Financing Cash Flow	(29,693)	(12,510)	(11,853)	(2,131)
Investing Cash Flow	(32,116)	(14,000)	(14,000)	(14,000)
<b>Net change in Cash</b>	<b>(46,668)</b>	<b>(15,212)</b>	<b>(11,983)</b>	<b>(5,485)</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	46.9	32.8	39.1	46.3
yoy Growth%	(16.5)	(30.0)	19.1	18.3
Cash EPS	74.2	66.1	53.7	61.8
EBITDA (%)	18.7	14.7	15.5	16.6
NPM (%)	11.7	7.7	8.6	9.5
Net Debt to Equity (x)	(0.1)	(0.1)	(0.2)	(0.2)
P/E (x)	13.0	18.5	15.6	13.2
EV/EBITDA (x)	7.6	8.8	7.5	6.3
P/BV (x)	1.5	1.4	1.3	1.1
EV/Sales (x)	1.4	1.3	1.2	1.0
ROCE (%)	10.4	7.4	8.2	9.1
ROE (%)	11.8	7.6	8.4	9.1
ROIC (%)	15.0	11.4	12.8	14.4
Book Value (Rs)	419	450	487	530
DPS (Rs)	3.0	2.2	2.6	3.1
Dividend Payout (%)	6.6	6.6	6.6	6.6
Div Yield (%)	0.5	0.4	0.4	0.5
Asset Turnover Ratio	1.6	1.5	1.5	1.5
Avg Collection days	62	62	62	62
Avg Inventory days	118	118	118	118

Source: Company data, I-Sec research



ICICI Securities Limited  
is the author and  
distributor of this report

Re-initiating coverage

## Pharmaceuticals

Target price: Rs265

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	60.6	60.6	60.6
Institutional investors	24.2	22.9	22.1
MFs and other	3.2	4.0	7.2
FIs/Insurance	4.3	4.7	4.7
FII	16.7	14.2	10.2
Others	15.2	16.5	17.3

Source: BSE India

### ESG disclosure score

Year	2021	2022	Chg
<b>ESG score</b>	<b>62.1</b>	<b>65.7</b>	<b>3.7</b>
Environment	52.9	54.6	1.7
Social	43.4	52.7	9.3
Governance	89.9	89.9	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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INDIA

**ICICI Securities**

## Biocon Limited

**ADD**

### Valuation attractive despite challenges

**Rs245**

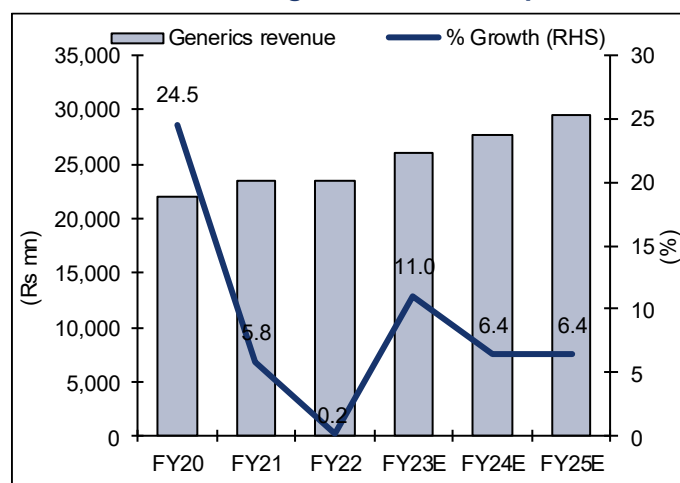
Biocon (BIOS) has a unique portfolio of 20 biosimilar assets spread across diabetes, oncology, immunology and ophthalmology. Early success in biosimilars like Trastuzumab, Pegfilgrastim, Etanercept and Filgrastim and insulin analogues like Glargine, Lispro and Aspart has made it a leading biosimilar player in India. While growth in biologics has so far fared better, the space has attracted competition, and volume ramp up in Semglee, Fulfilla and Ogiviri in the US may hit a hurdle. Viatris deal brings access to an established biosimilar front-end in developed markets, but it heavily weighs on near-term financials. The stock has corrected ~10% over the past 6 months which has made valuations attractive. We re-initiate coverage with ADD rating and a target price of Rs265/share.

- **Volume ramp up in existing products critical for growth:** Market share gain in Semglee post the approval of interchangeability as well as consistent performance of Ogiviri and Fulphila in the US has supported growth in the last couple of quarters. Biocon has submitted CAPA with respect to b-Aspart/bevacizumab. An interchangeability study has been initiated for adalimumab. Company remains on track to launch low strengths of b-adalimumab in Jul'23.
- **Acquisition of Viatris provides access to US front end:** Acquisition of Viatris has helped BIOS in forward integration in the biosimilar space. However, given its limited experience in managing a front end in developed market, commercialisation of new products from this unit will be critical ahead. At a price of US\$3.3bn, the deal will also weigh heavily on near-term financials.
- **Vaccine to be a potential growth driver:** BIOS has partnered with the Serum Institute of India to market 100m vaccine doses annually for 15 years, to be manufactured by the Serum Life Sciences (SILS). The business opportunity is likely to start after regulatory approvals, likely, in Q2FY24. The business potential from the deal is likely to be US\$300-400mn with healthy EBITDA margin of ~30%. The vaccine opportunity is for covid and other products in the development pipeline, such as malaria (phase 3 trials), dengue, chikungunya, etc. The company will focus on emerging markets first and later expand into developed markets.
- **Outlook:** We expect revenue / PAT CAGR of 30.2% / 66% over FY23E-FY25E mainly due to consolidation of Viatris business, coupled with new launches, including Adalimumab in the US. We expect EBITDA margin of ~24% in FY25E. Free cashflow is also expected to remain under pressure as a result of the acquisition. We estimate 'net debt / EBITDA' to increase ~0.5x in FY25E.
- **Valuation and risks:** BIOS' stock price has seen a sharp 10% correction in the last 6 months due to delay in the launch of Bevacizumab and insulin Aspart in the US, as well as increased spend towards R&D for future pipeline. We re-initiate coverage on the stock with **ADD** rating and an SoTP-based revised target price of Rs265/share. **Key downside risks:** Adverse regulations, higher competition in products, delay in launch of products.

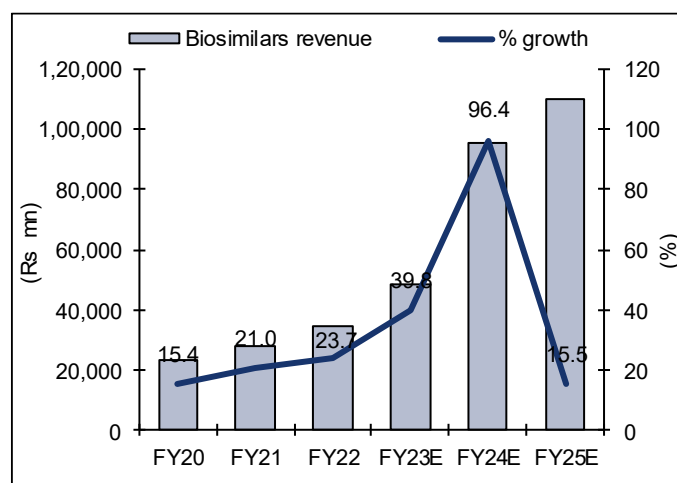
Market Cap	Rs294bn/US\$3.6bn
Reuters/Bloomberg	BIOS IN /BION.BO
Shares Outstanding (mn)	1,200.6
52-week Range (Rs)	340/199
Free Float (%)	39.4
FII (%)	10.2
Daily Volume (USD/'000)	12,286
Absolute Return 3m (%)	1.1
Absolute Return 12m (%)	(25.1)
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	81,840	1,01,235	1,52,108	1,71,745
Net Income (Rs mn)	7,356	7,008	15,645	19,310
EPS (Rs)	6.1	5.8	13.0	16.1
% Chg YoY	23.8	(4.7)	123.3	23.4
P/E (x)	39.7	41.6	18.6	15.1
CEPS (Rs)	12.9	13.6	21.0	24.9
EV/E (x)	16.4	19.4	12.4	10.4
Dividend Yield (%)	-	0.2	0.2	0.2
RoCE (%)	4.9	3.1	4.5	5.1
RoE (%)	9.2	4.5	6.7	7.7

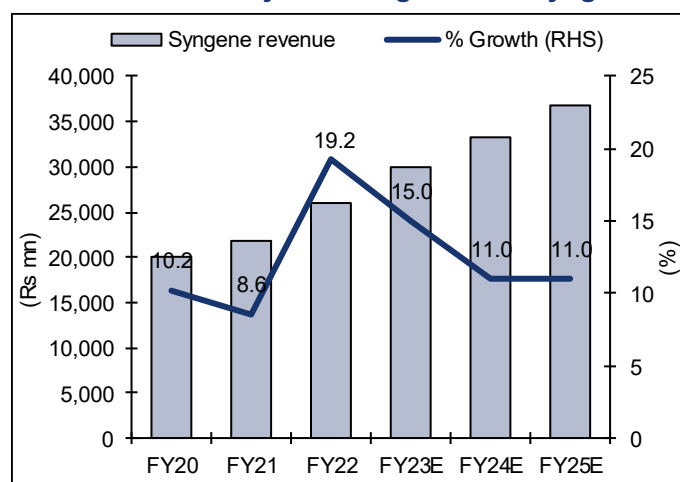
Please refer to important disclosures at the end of this report

**Chart 1: Generics to grow at a modest pace**

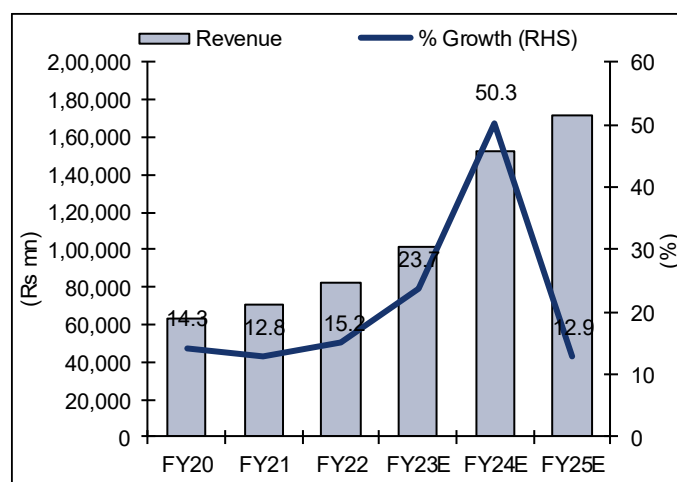
Source: Company data, I-Sec research.

**Chart 2: Launches to boost traction in Biosimilars**

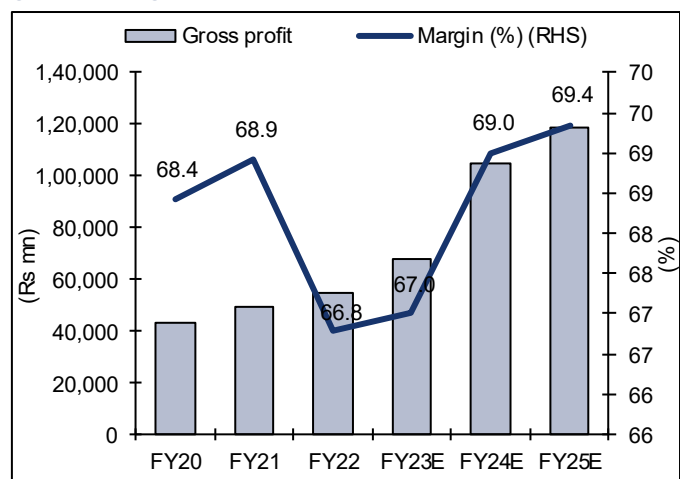
Source: Company data, I-Sec research.

**Chart 3: New facility to drive growth in Syngene**

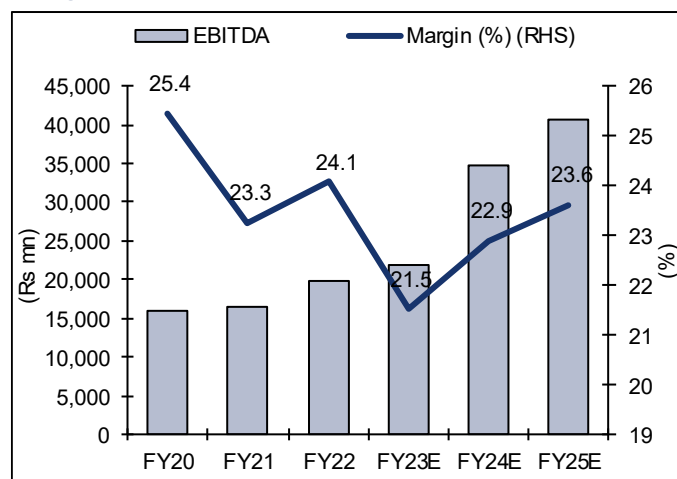
Source: Company data, I-Sec research.

**Chart 4: Revenues CAGR at 30% over FY23E-25E**

Source: Company data, I-Sec research.

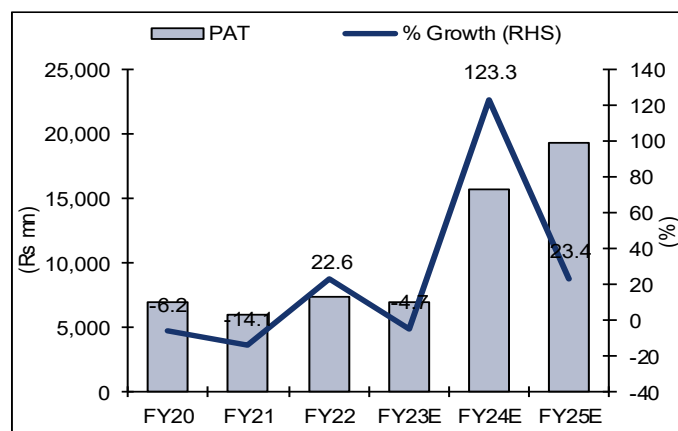
**Chart 5: New launches to aid improvement in gross margins**

Source: Company data, I-Sec research.

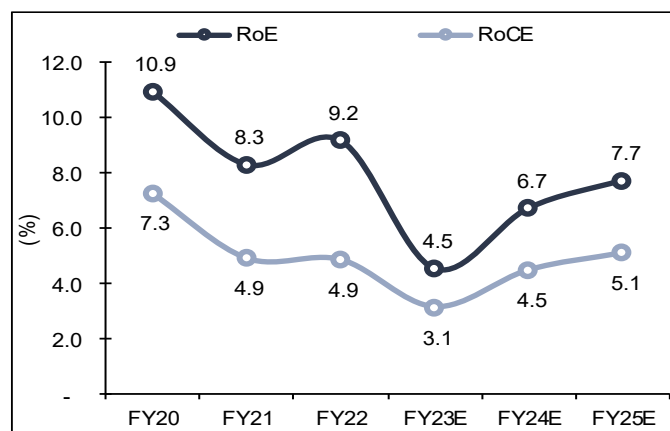
**Chart 6: Expect a 210bps expansion in EBITDA margins over FY23E-25E**

Source: Company data, I-Sec research.



**Chart 7: Net Profits to register a robust 66% CAGR over FY23E-25E**

Source: Company data, I-Sec research.

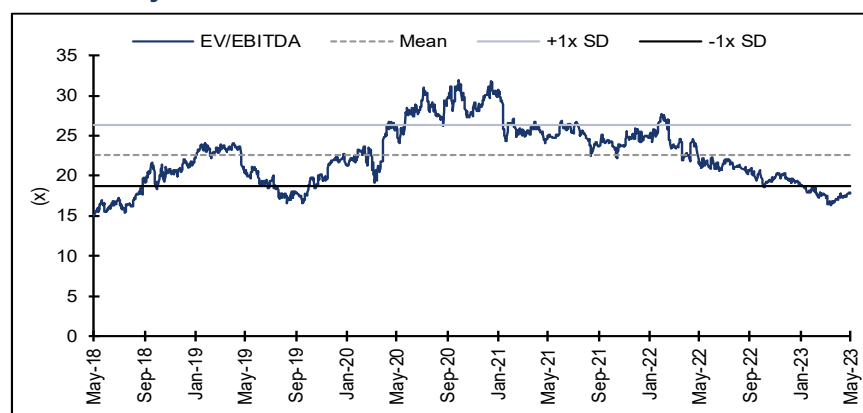
**Chart 8: Return ratios to remain in single digits**

Source: Company data, I-Sec research.

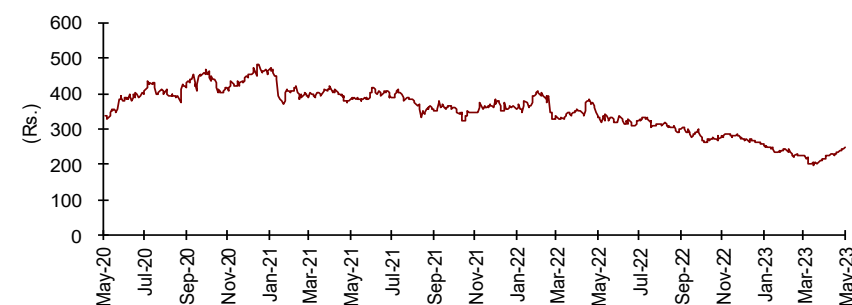
**Table 1: Sum of the parts (SoTP) valuation**

SoTP Valuation (EBITDA - FY24)	Rs mn	(x)	Biocon's stake	Value (Rs mn)
Generics	4,830	8	100%	38,639
Biosimilars	26,047	16	58%	2,38,059
Novel biologics	(2,146)	-	100%	-
Research Services	9,618	22	65%	1,37,236
<b>Total EV</b>				<b>4,13,935</b>
Less: Net Debt				1,21,720
Minority Interest (ex-Syngene)				3,605
<b>Implied M-Cap</b>				<b>2,88,610</b>
<b>Value per share (Rs)</b>				<b>240</b>
Vaccine NPV				25
<b>SOTP Valuation</b>				<b>265</b>

Source: I-Sec research

**Chart 9: 1-year forward EV/EBITDA**

Source: Company data, I-Sec research

**Price chart**

Source: Bloomberg

## Financial summary (consolidated)

Table 2: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Total Net Revenue</b>	<b>81,840</b>	<b>1,01,235</b>	<b>1,52,108</b>	<b>1,71,745</b>
yoy Growth%	15.2	23.7	50.3	12.9
<b>Total Op. Exp.</b>	<b>62,138</b>	<b>79,453</b>	<b>1,17,274</b>	<b>1,31,178</b>
<b>EBITDA</b>	<b>19,702</b>	<b>21,782</b>	<b>34,834</b>	<b>40,567</b>
Margins %	24.1	21.5	22.9	23.6
yoy Growth%	19.2	10.6	59.9	16.5
Depreciation & Amortization	8,142	9,300	9,548	10,538
<b>EBIT</b>	<b>11,560</b>	<b>12,481</b>	<b>25,286</b>	<b>30,028</b>
Other Income	58	1,422	1,650	1,896
Interest	676	2,987	4,472	4,560
EO Items	(1,111)	(170)	-	-
<b>PBT</b>	<b>9,831</b>	<b>10,747</b>	<b>22,464</b>	<b>27,364</b>
Tax	2,115	2,708	5,661	6,896
Tax Rate (%)	21.5	25.2	25.2	25.2
Minority Interest	1,232	1,158	1,158	1,158
<b>Reported PAT</b>	<b>6,484</b>	<b>6,880</b>	<b>15,645</b>	<b>19,310</b>
<b>Adj PAT</b>	<b>7,356</b>	<b>7,008</b>	<b>15,645</b>	<b>19,310</b>
Net Margins (%)	9.0	6.9	10.3	11.2

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid up Capital	6,003	6,003	6,003	6,003
Reserves & Surplus	78,322	2,19,572	2,34,587	2,53,267
<b>Total Equity</b>	<b>84,325</b>	<b>2,25,575</b>	<b>2,40,590</b>	<b>2,59,270</b>
Minority Interest	10,375	11,533	12,691	13,849
<b>Total Debt</b>	<b>51,561</b>	<b>1,47,561</b>	<b>1,50,561</b>	<b>1,53,466</b>
Deferred Liabilities	(2,410)	(2,410)	(2,410)	(2,410)
<b>Capital Employed</b>	<b>1,43,851</b>	<b>3,82,259</b>	<b>4,01,432</b>	<b>4,24,175</b>
Current Liabilities & Prov	57,156	63,519	78,684	84,739
<b>Total Liabilities</b>	<b>2,01,007</b>	<b>4,45,778</b>	<b>4,80,116</b>	<b>5,08,914</b>
<b>Net Fixed Assets</b>	<b>1,06,874</b>	<b>3,38,574</b>	<b>3,44,025</b>	<b>3,48,487</b>
Investments	3,622	3,622	3,622	3,622
Inventory	22,982	29,386	43,374	48,517
Debtors	20,582	25,460	38,254	43,192
Other Current Assets	17,295	19,809	26,402	28,947
Cash and Equivalents	29,652	28,928	24,438	36,149
<b>Total Cur. Assets</b>	<b>90,511</b>	<b>1,03,583</b>	<b>1,32,469</b>	<b>1,56,805</b>
<b>Total Assets</b>	<b>2,01,007</b>	<b>4,45,778</b>	<b>4,80,116</b>	<b>5,08,914</b>

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
PBT	9,831	10,747	22,464	27,364
Depreciation	8,142	9,300	9,548	10,538
Net Chg in WC	(11,776)	(7,599)	(18,649)	(6,835)
Taxes	(2,620)	(2,708)	(5,661)	(6,896)
Others	8,189	3,154	4,909	4,824
<b>CFO</b>	<b>11,766</b>	<b>12,893</b>	<b>12,612</b>	<b>28,996</b>
Capex	(19,227)	(2,41,000)	(15,000)	(15,000)
Net Investments made	(31,480)	-	-	-
Others	33,716	-	-	-
<b>CFI</b>	<b>(16,991)</b>	<b>(2,41,000)</b>	<b>(15,000)</b>	<b>(15,000)</b>
Change in Share capital	425	1,35,000	-	-
Change in Debts	3,092	96,000	3,000	2,905
Div. & Div Tax	-	(630)	(630)	(630)
Others	(971)	(2,987)	(4,472)	(4,560)
<b>CFF</b>	<b>2,546</b>	<b>2,27,383</b>	<b>(2,102)</b>	<b>(2,285)</b>
<b>Total Cash Generated</b>	<b>(2,679)</b>	<b>(724)</b>	<b>(4,490)</b>	<b>11,711</b>

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	6.1	5.8	13.0	16.1
yoy Growth%	23.8	(4.7)	123.3	23.4
Cash EPS	12.9	13.6	21.0	24.9
EBITDA (%)	24.1	21.5	22.9	23.6
NPM (%)	9.0	6.9	10.3	11.2
Net Debt to Equity (x)	0.3	0.5	0.5	0.5
P/E (x)	39.7	41.6	18.6	15.1
EV/EBITDA (x)	16.4	19.4	12.4	10.4
P/BV (x)	3.5	1.3	1.2	1.1
EV/Sales (x)	4.0	4.2	2.8	2.5
ROCE (%)	4.9	3.1	4.5	5.1
ROE (%)	9.2	4.5	6.7	7.7
ROIC (%)	6.0	3.5	4.8	5.5
Book Value (Rs)	70.2	187.9	200.4	216.0
DPS (Rs)	-	0.5	0.5	0.5
Dividend Payout (%)	-	0.1	0.0	0.0
Div Yield (%)	-	0.2	0.2	0.2
Asset Turnover Ratio	0.8	0.5	0.4	0.5
Avg Collection days	84	103	115	98
Avg Inventory days	122	120	113	128

Source: Company data, I-Sec research

ICICI Securities Limited  
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distributor of this report

Re-initiating coverage

## Pharmaceuticals

Target price: Rs3,560

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	51.9	51.9	51.9
Institutional investors	34.8	34.6	35.7
MFs and UTI	13.6	12.7	13.2
Insurance Cos.	5.8	6.8	6.8
FII	15.4	15.1	15.7
Others	13.3	13.5	12.4

Source: CMIE

### ESG disclosure score

Year	2021	2022	Chg
<b>ESG score</b>	<b>43.7</b>	<b>43.7</b>	<b>0.0</b>
Environment	20.5	20.5	0.0
Social	25.6	25.6	0.0
Governance	84.9	84.9	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

# Divi's Laboratories

ADD

## Outsourcing story is intact

Rs3,315

Divi's Laboratories (Divi's) is a dominant player in product categories such as Naproxen, Gabapentin, Dextromethorphan etc. Over the decade, astute product selection has helped Divi's grow its chemical-based generics business. Given its strong positioning in chemical synthesis, stellar execution track-record and continued aggression in capex, we believe Divi's is strongly positioned to disrupt market in the newly off-patented molecules. The stock price has been flat in last 6 months on near-term growth related concerns. The stock trades at 35.8x FY25E EPS. We re-initiate coverage with ADD rating and a target price of Rs3,560.

- **Process innovation, cost leadership to help mitigate headwinds in API:** Divi's API strategy hovers around the development of high-volume APIs, which involve complex chemistry, are high in cost and offer scope for process improvement. It has a concentrated portfolio of 30-32 products and is also adding 10-12 more products to its basket. In the last couple of quarters, Divi's is witnessing pricing pressure in commercialised API though it is mitigating the sales dip with better volumes. Commercialisation of new capacity and new launches are likely to drive 19% revenue CAGR over FY23E-25E in this segment.
- **CCS business is driven by strong relationship with innovators:** Custom chemical synthesis (CCS) is the most profitable segment for Divi's. In FY22, it had secured an exclusive contract from Merck to manufacture molnupiravir API which likely fetched it sales of ~US\$250mn. On normalised base in FY23, Divi's is targeting the launch of two fast-tracked projects and a couple of contrast media projects in FY24. The pipeline of new development molecules is also gaining fast traction. We expect the segment to post a revenue growth of 10% over FY23E-25E.
- **Carotenoids markets – uniquely positioned:** The global carotenoids market is valued at US\$1.5bn and is expected to grow 4% to US\$2bn by FY26E. Divi's' carotenoids business has grown at 21.5% over FY17-22 to Rs6.4bn. Carotenoids have limited competition and presence in larger products such as Astaxanthin; Beta-carotene offers immense growth potential. We build in 20% CAGR in carotenoids segment over FY23E-25E.
- **Outlook:** Revenue/EBITDA CAGR at 15.1%/13.2 over FY23E-FY25E, respectively. We expect ~Rs48bn of FCF over FY23E-FY25E; see RoE and RoCE each ~17% by FY25E.
- **Valuations and risks:** Lack of repeat sales of molnupiravir, coupled with price pressure in generics may haunt growth in Q4FY23. Divi's has added gross block of Rs35bn over FY18-22 which is expected to commence revenue generation in FY24, coupled with the clearance of Kakinada site (in Andhra Pradesh), ensuring sufficient capacities for growth over the next 5-6 years. We re-initiate coverage on the stock with **ADD rating** and a target price of Rs3,560/share based on 38x FY25E EPS. **Key Downside risks:** Higher competition in API space and regulatory hurdles.

Market Cap	Rs880bn/US\$10.7bn
Reuters/Bloomberg	DIVI IN /DIVI.BO
Shares Outstanding (mn)	265.5
52-week Range (Rs)	4367/2751
Free Float (%)	48.1
FII (%)	15.7
Daily Volume (US\$'000)	20,085
Absolute Return 3m (%)	17.9
Absolute Return 12m (%)	(21.1)
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	89,598	76,766	87,979	1,01,732
Net Income (Rs mn)	29,605	17,363	20,354	24,635
EPS (Rs)	110.3	65.2	78.2	92.8
% Chg YoY	47.3	(40.8)	19.9	18.7
P/E (x)	30.1	50.9	42.4	35.8
CEPS (Rs)	122.0	79.0	94.2	111.1
EV/E (x)	21.9	35.2	29.3	24.6
Dividend Yield (%)	0.9	1.1	1.3	1.3
RoCE (%)	27.2	13.8	15.5	17.0
RoE (%)	27.9	14.3	16.0	17.5

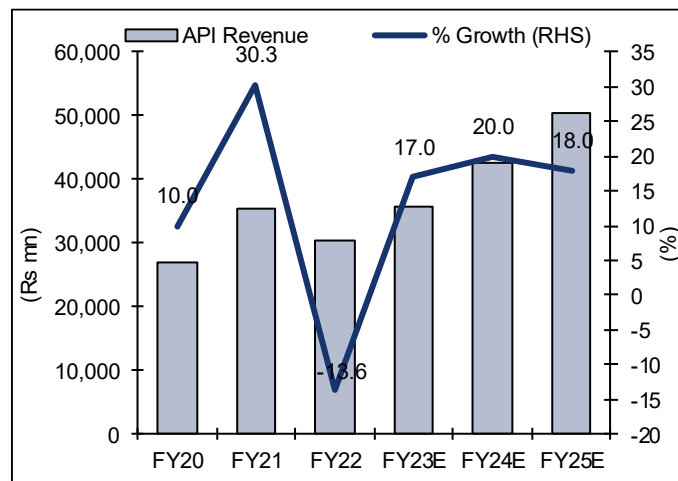
### Research Analysts:

**Abdulkader Puranwala**

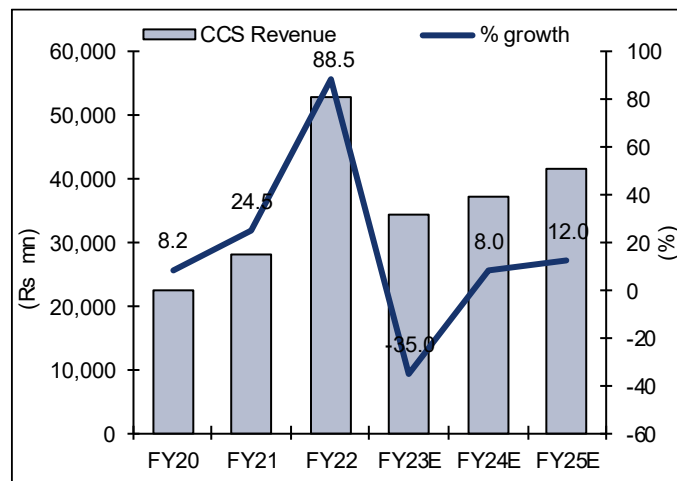
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**Rohan John**

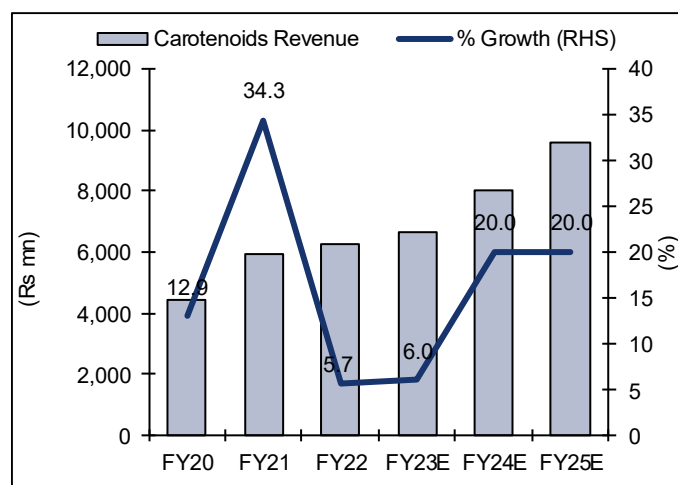
rohan.john@icicisecurities.com  
+91 22 6807 7453

**Chart 1: New launches and capacity addition to drive API revenues**

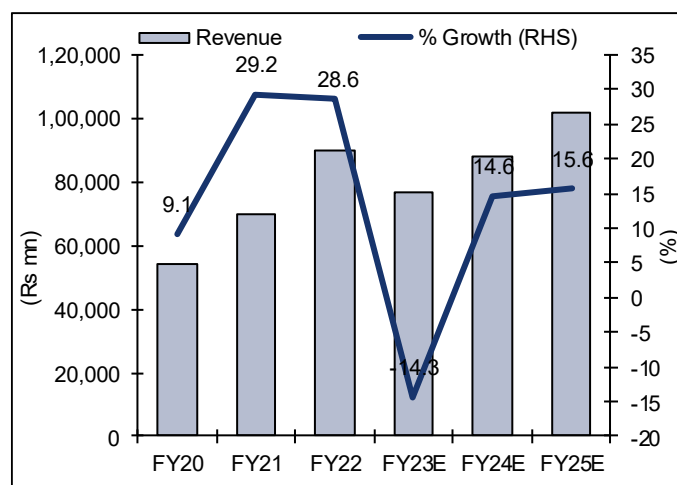
Source: Company data, I-Sec research.

**Chart 2: New projects and contrast media to support CCS growth of 10% over FY23E-FY25E**

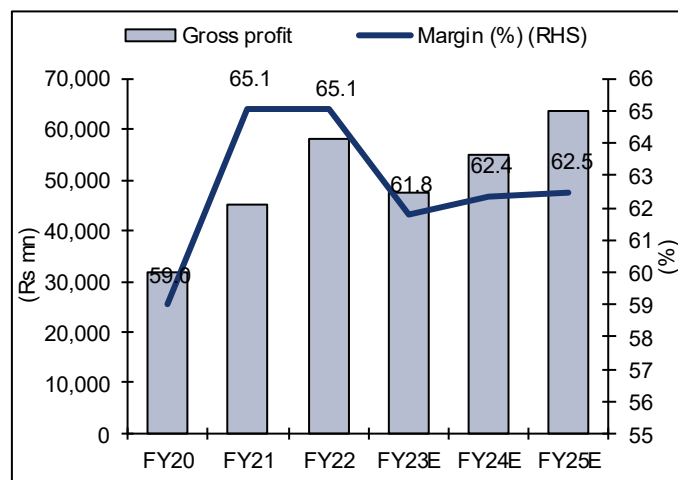
Source: Company data, I-Sec research.

**Chart 3: Steady demand in Carotenoids over FY23E-FY25E**

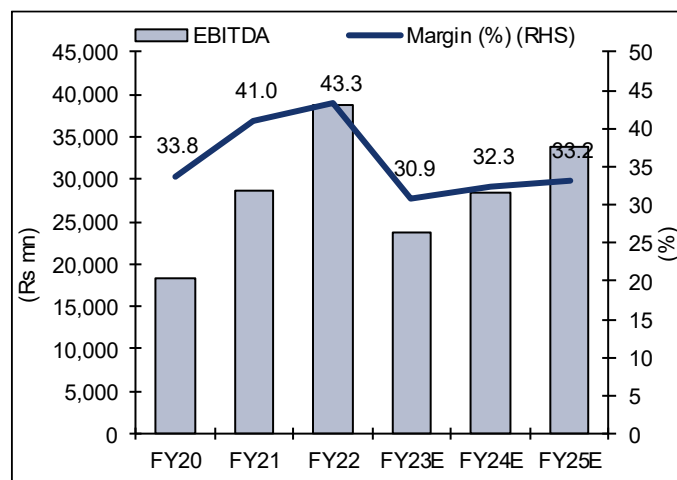
Source: Company data, I-Sec research.

**Chart 4: Total Revenues to grow 15.1% over FY23E-FY25E**

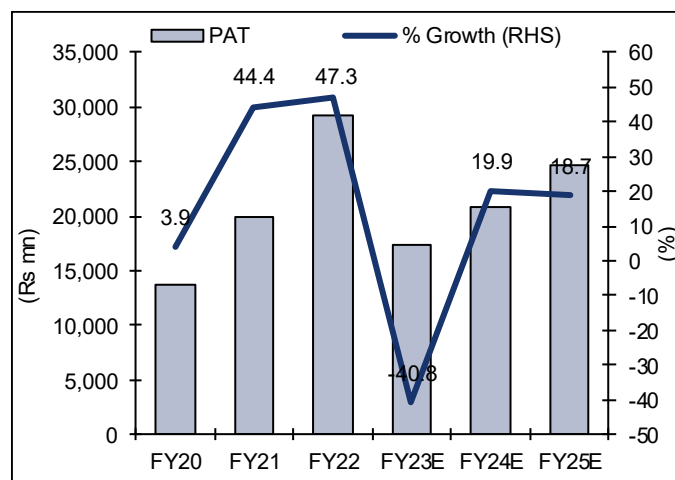
Source: Company data, I-Sec research.

**Chart 5: Normalizing pricing environment in API should support margins gross margins**

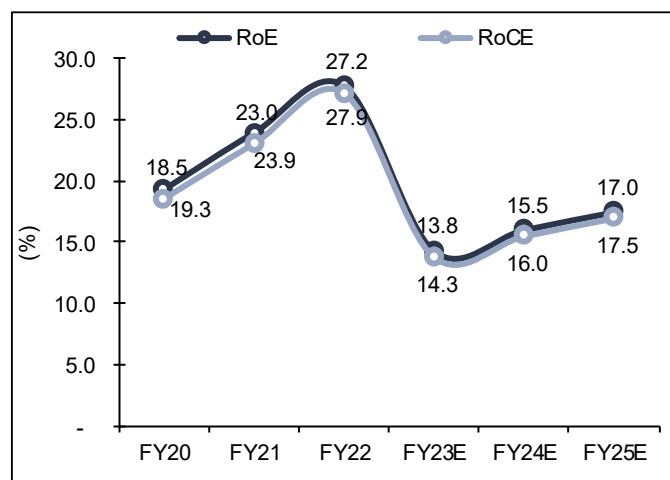
Source: Company data, I-Sec research.

**Chart 6: Expect 230bps margin expansion over FY23E-FY25E**

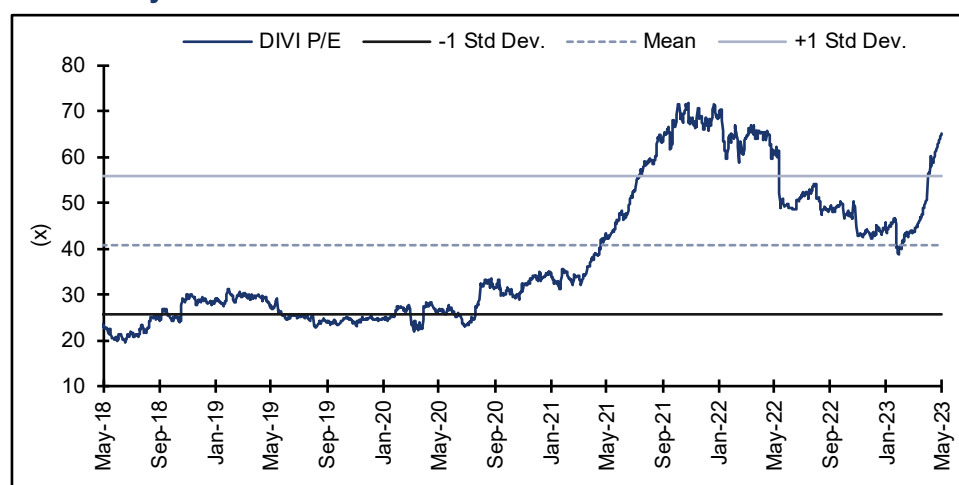
Source: Company data, I-Sec research.

**Chart 7: Net Profit to register 19.3% CAGR over FY23E-FY25E**


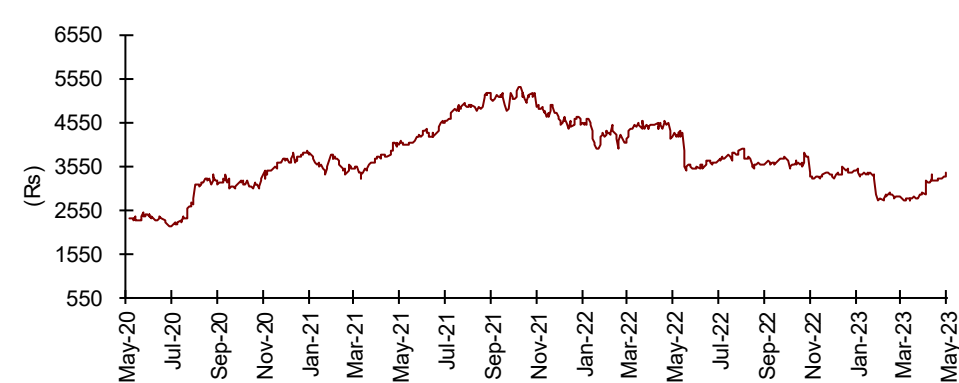
Source: Company data, I-Sec research.

**Chart 8: Return ratios to improve from a high base of FY22**


Source: Company data, I-Sec research.

**Chart 9: 1-year forward P/E**


Source: Company data, I-Sec research

**Price chart**


Source: Bloomberg

## Financial summary (consolidated)

Table 1: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Total Net Revenue</b>	<b>89,598</b>	<b>76,766</b>	<b>87,979</b>	<b>1,01,732</b>
yoy Growth%	29	(14)	15	16
<b>Total Op. Exp.</b>	<b>50,779</b>	<b>53,049</b>	<b>59,520</b>	<b>68,006</b>
<b>EBITDA</b>	<b>38,819</b>	<b>23,717</b>	<b>28,458</b>	<b>33,726</b>
Margins %	43.3	30.9	32.3	33.2
yoy Growth%				
Depreciation	3,115	3,655	4,255	4,855
<b>EBIT</b>	<b>35,704</b>	<b>20,061</b>	<b>24,203</b>	<b>28,871</b>
Other Income	1,139	1,594	1,754	1,929
Interest	8	6	6	6
EO Items	-	(44)	406	-
<b>PBT</b>	<b>36,835</b>	<b>21,693</b>	<b>25,544</b>	<b>30,794</b>
Tax	7,231	4,330	5,190	6,159
Tax Rate (%)	19.6	20.0	20.0	20.0
Minority Interest	-	-	-	-
<b>Reported PAT</b>	<b>29,605</b>	<b>17,363</b>	<b>20,354</b>	<b>24,635</b>
<b>Adj PAT</b>	<b>29,278</b>	<b>17,319</b>	<b>20,760</b>	<b>24,635</b>
Net Margins (%)	32.7	22.6	23.6	24.2

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid up Capital	531	531	531	531
Reserves & Surplus	1,17,282	1,25,178	1,34,523	1,47,744
<b>Total Equity</b>	<b>1,17,813</b>	<b>1,25,708</b>	<b>1,35,054</b>	<b>1,48,275</b>
Minority Interest	-	-	-	-
<b>Total Debt</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>
Deferred Liabilities	4,214	4,214	4,214	4,214
<b>Capital Employed</b>	<b>1,21,504</b>	<b>1,29,400</b>	<b>1,38,746</b>	<b>1,51,966</b>
Current Liabilities & Prov	12,243	9,768	16,858	17,787
<b>Total Liabilities</b>	<b>1,33,747</b>	<b>1,39,168</b>	<b>1,55,603</b>	<b>1,69,753</b>
<b>Net Fixed Assets</b>	<b>47,950</b>	<b>53,260</b>	<b>58,005</b>	<b>62,150</b>
Investments	1,298	1,298	1,298	1,298
Inventory	28,286	15,449	21,865	23,905
Debtors	24,239	21,452	24,586	28,429
Other Current Assets	3,786	3,466	3,930	4,499
Cash and Equivalents	28,189	44,243	45,920	49,473
<b>Total Cur. Assets</b>	<b>85,797</b>	<b>85,908</b>	<b>97,599</b>	<b>1,07,604</b>
<b>Total Assets</b>	<b>1,33,747</b>	<b>1,39,168</b>	<b>1,55,603</b>	<b>1,69,753</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non cash items	32,379	19,387	23,268	27,568
Add/Less : Working Capital Changes	(13,988)	13,469	(2,924)	(5,523)
Operating Cash Flow	18,391	32,856	20,344	22,045
Less:- Capex	6,920	8,966	9,000	9,000
Free Cash Flow	11,471	23,890	11,344	13,045
Financing Cash Flow	<b>(6,056)</b>	<b>(7,964)</b>	<b>(9,423)</b>	<b>(11,414)</b>
Investing Cash Flow	1,351	(663)	(244)	1,923
<b>Net change in Cash</b>	<b>6,766</b>	<b>15,264</b>	<b>1,677</b>	<b>3,553</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	110.3	65.2	78.2	92.8
yoy Growth%	47.3	(40.8)	19.9	18.7
Cash EPS	122.0	79.0	94.2	111.1
EBITDA (%)	43.3	30.9	32.3	33.2
NPM (%)	32.7	22.6	23.6	24.2
Net Debt to Equity (x)	(0.2)	(0.4)	(0.3)	(0.3)
P/E (x)	30.1	50.9	42.4	35.8
EV/EBITDA (x)	21.9	35.2	29.3	24.6
P/BV (x)	7.5	7.0	6.5	6.0
EV/Sales (x)	9.5	10.9	9.5	8.2
ROCE (%)	27.2	13.8	15.5	17.0
ROE (%)	27.9	14.3	16.0	17.5
ROIC (%)	34.9	22.8	23.7	25.6
Book Value (Rs)	442	472	507	557
DPS (Rs)	30.0	35.5	43.0	43.0
Dividend Payout (%)	17.9	46.0	45.4	46.3
Div Yield (%)	0.9	1.1	1.3	1.3
Asset Turnover Ratio	0.7	0.6	0.6	0.6
Avg Collection days	99	102	102	102
Avg Inventory days	115	73	91	86

Source: Company data, I-Sec research



ICICI Securities Limited  
is the author and  
distributor of this report

Re-initiating coverage

## Pharmaceuticals

Target price: Rs5,000

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	26.7	26.7	26.7
Institutional investors	50.9	61.1	61.5
MFs and UTI	12.8	10.9	9.9
Insurance Cos.	11.6	12.2	13.0
FII	26.5	38.0	38.6
Others	22.4	12.2	11.8

Source: CMIE

### ESG disclosure score

Year	2021	2022	Chg
<b>ESG score</b>	<b>67.2</b>	<b>65.6</b>	<b>(1.6)</b>
Environment	65.7	60.5	(5.2)
Social	46.1	46.3	0.2
Governance	89.9	89.9	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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INDIA

 **ICICI Securities**

**Dr. Reddy's Laboratories**

**ADD**

### Limited visibility post Revlimid launch

**Rs4,466**

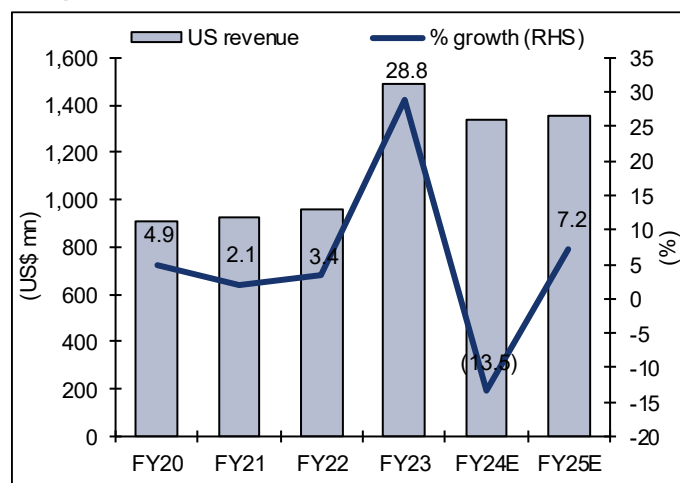
Dr Reddy's (DRL) recent performance has been fueled by new launches like Revlimid, improving its quarterly run-rate in global generics segment to US\$370mn in Q3FY23. The windfall has also improved net cash balance to Rs62bn in FY23 which DRL is utilising to pursue M&A. It has acquired 89 ANDAs of Mayne Pharma for US\$125mn. The acquired assets had sales of US\$111mn with low gross margin of 36% in FY22, and will also provide DRL access to limited competition products like Nuvaring and Cardiazem. Besides, DRL has lost exclusivity in certain dosages of Revlimid and competitive threat is looming. We re-initiate coverage on the stock with ADD rating and target price of Rs5,000/share.

- **US business – niche launches to drive growth:** Despite price pressures in the US in recent times, DRL has been able to weather the tide with products like Revlimid and Vassopressin. It will launch 25-30 products in FY24 which will fuel near-term momentum. Besides, it is also working on a couple of biosimilars like Rituximab (phase 3 clinical trials) and Tocilizumab (phase 1). We expect US sales to grow at a faster 8.5% through FY23-25E to be driven by complex launches and ramp up in Revlimid sales.
- **India business – aspires to be among the top 5:** DRL is the 10<sup>th</sup> largest company in the IPM (Source: IQVIA) and is predominantly present in gastro, respiratory and cardiac therapies. Post the acquisition of Wockhardt brands, India contribution increased to ~20% in FY23 from ~17% in FY20. In recent times, the company has entered into a distribution agreement with Novartis for Voveran/calcium ranges, Methergine and acquired cardiac brand, Cidmus. We expect India sales CAGR at ~11% over FY23-FY25E.
- **Prudent cost management and capital allocation:** DRL improved its FY17-23 EBITDA margin by +670bps to ~23%, led by R&D cost optimisation, controlled SG&A expenses, divestment of manufacturing assets, sale of proprietary products etc. While pricing pressures in the US and elevated raw material cost affected margins (ex-Revlimid) in FY23, the situation is expected to normalise. We expect margins to expand ~330bps to ~27% over FY23-FY25E supported by Revlimid and cost rationalisation.
- **Outlook:** We expect revenue/EBITDA/PAT CAGR of 7.8%/15.1%/15.7%, respectively, over FY23-FY25E.
- **Valuations and risks:** Launch of complex injectables in US, growing presence in India and China and continued cost optimisation are key catalysts for growth ahead. With limited visibility on material launches in the near term, we re-initiate coverage on the stock with ADD rating along with SoTP-based target price of Rs5,000/share based on 20x FY25E EPS and an additional Rs227/share for Revlimid. **Key downside risks:** Delay in launching new products, regulatory hurdles and higher-than-anticipated competition for Revlimid.

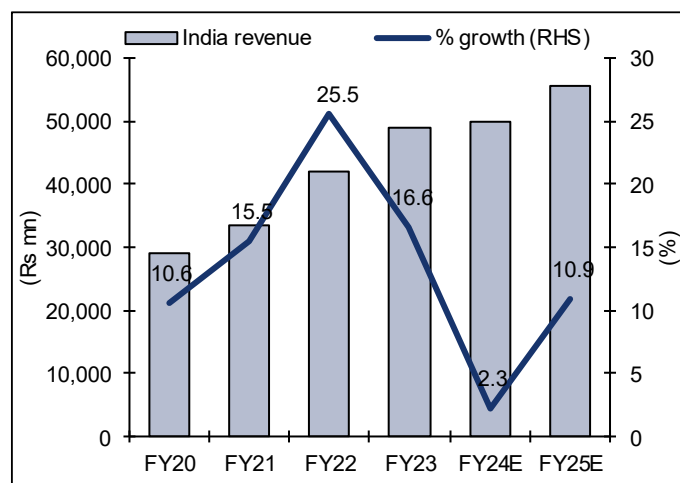
Market Cap	Rs743bn/US\$9.1bn
Reuters/Bloomberg	REDY.BO/DRRD IN
Shares Outstanding (mn)	166.5
52-week Range (Rs)	4987/3788
Free Float (%)	73.3
FII (%)	38.6
Daily Volume (US\$'000)	20938
Absolute Return 3m (%)	(0.7)
Absolute Return 12m (%)	15.1
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23	FY24E	FY25E
Revenue (Rs mn)	2,11,143	2,40,938	2,63,831	2,78,316
Net Income (Rs mn)	23,568	45,067	45,471	48,375
EPS (Rs)	165.1	238.4	273.9	291.4
% Chg YoY	6.1	44.4	14.9	6.4
P/E (x)	27.1	18.7	16.3	15.3
CEPS (Rs)	236.6	313.7	350.9	372.6
EV/E (x)	16.7	12.3	9.8	8.7
Dividend Yield (%)	0.6	0.7	1.3	1.4
RoCE (%)	12.7	16.7	17.4	16.8
RoE (%)	15.1	18.8	18.3	16.9

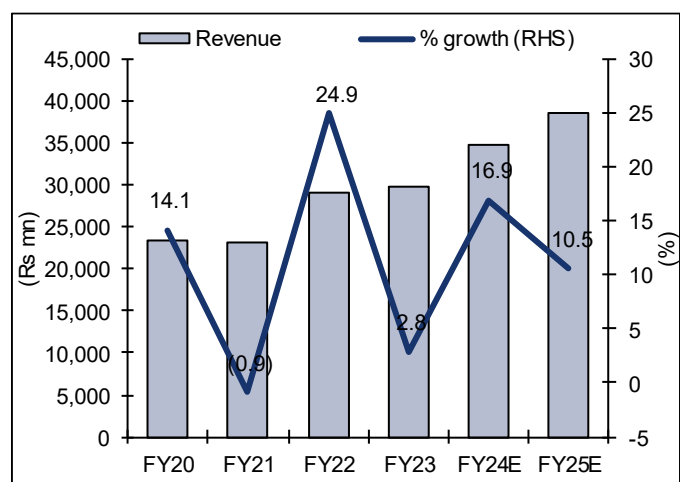
Please refer to important disclosures at the end of this report

**Chart 1: Complex launches and Revlimid to drive US growth**

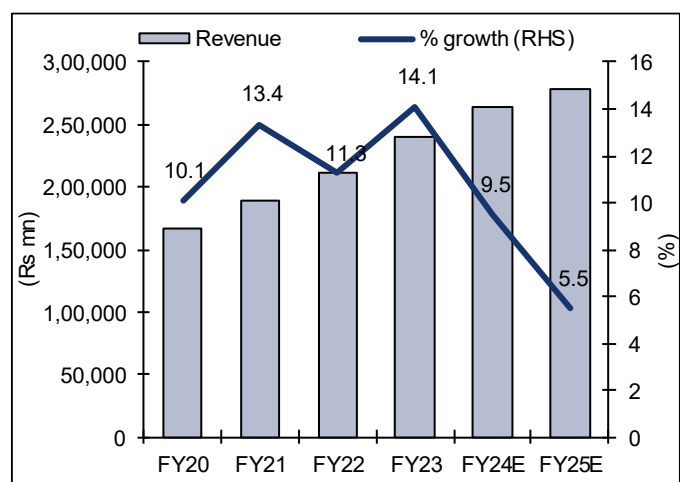
Source: Company data, I-Sec research.

**Chart 2: Increased focus towards India business**

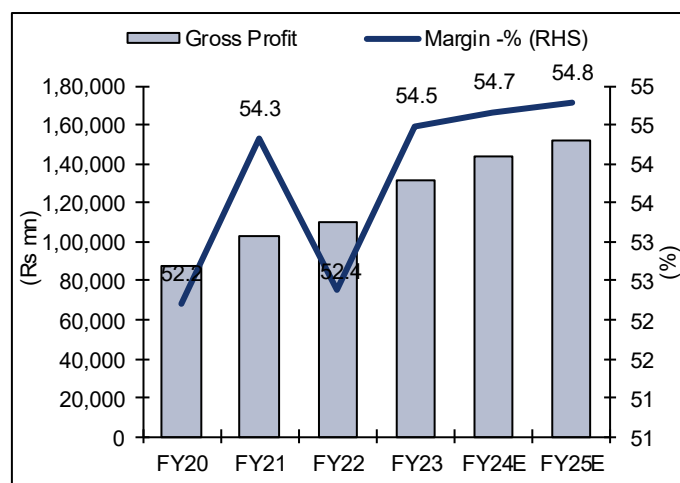
Source: Company data, I-Sec research.

**Chart 3: Russia + CIS revenues to grow 13.7% CAGR over FY23-FY25E**

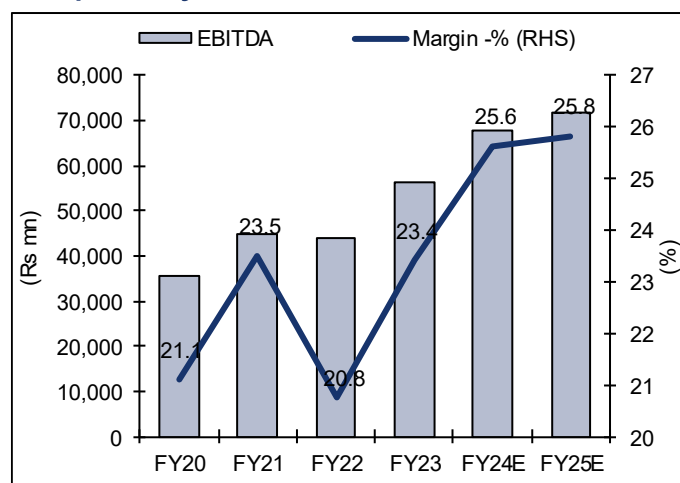
Source: Company data, I-Sec research.

**Chart 4: Total Revenues to grow 7.5% CAGR over FY23-FY25E**

Source: Company data, I-Sec research.

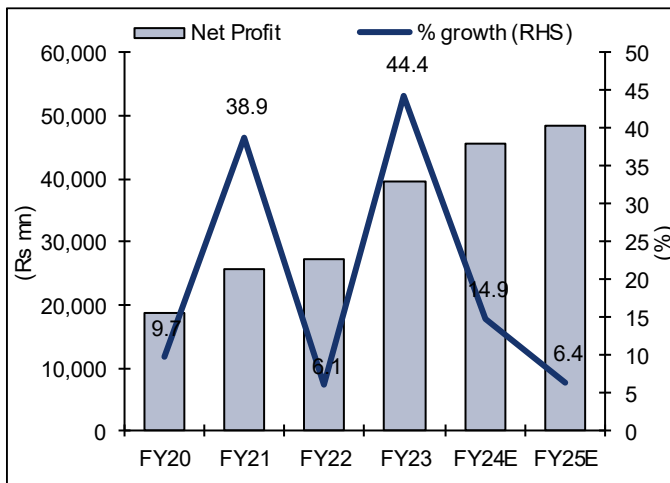
**Chart 5: Gross margins to improve with complex launches in US**

Source: Company data, I-Sec research.

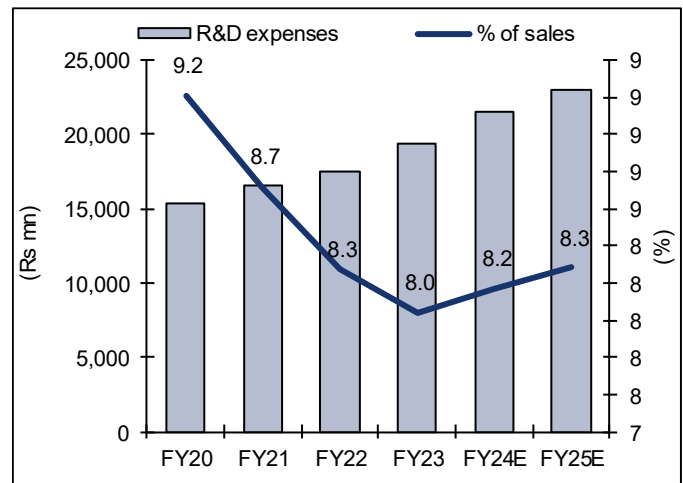
**Chart 6: Expect EBITDA margins to expand 230bps led by Revlimid**

Source: Company data, I-Sec research.

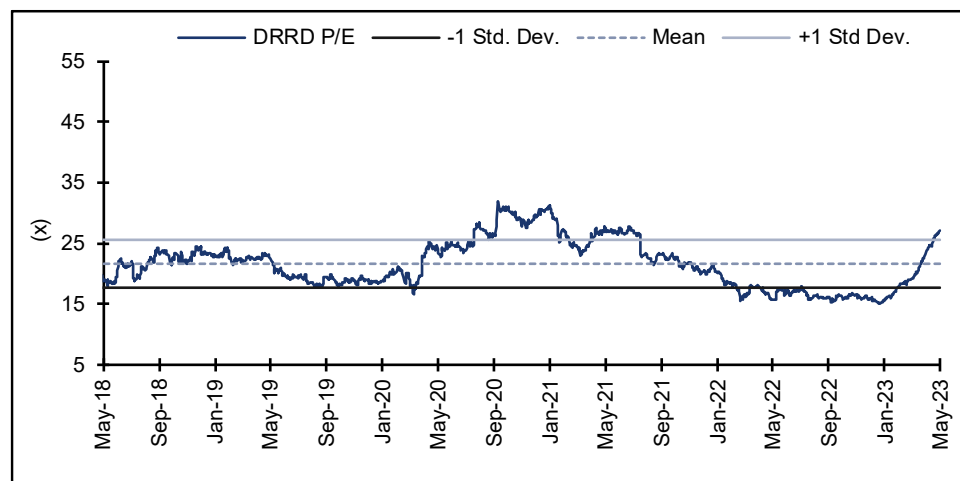


**Chart 7: Net Profits to grow 10.6% CAGR over FY23E-FY25E**

Source: Company data, I-Sec research.

**Chart 8: R&D spend to remain stable at ~8%**

Source: Company data, I-Sec research.

**Chart 9: 1-year forward P/E**

Source: Company data, I-Sec research

**Price chart**

Source: Bloomberg

## Financial summary (consolidated)

Table 1: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Global Generics	1,77,396	2,32,668	2,28,129	2,41,357
PSAI	30,740	29,069	30,610	32,140
Proprietary Products	1,611	0	0	0
Others	2,870	3,042	3,194	3,354
<b>Net Sales</b>	<b>2,12,617</b>	<b>2,64,779</b>	<b>2,61,933</b>	<b>2,76,851</b>
<b>Total Revenue</b>	<b>2,11,143</b>	<b>2,40,938</b>	<b>2,63,831</b>	<b>2,78,316</b>
yoy Growth%	11.3	14.1	9.5	5.5
<b>Total Op. Exp.</b>	<b>1,67,306</b>	<b>1,84,552</b>	<b>1,96,251</b>	<b>2,06,494</b>
<b>EBITDA</b>	<b>43,837</b>	<b>56,386</b>	<b>67,580</b>	<b>71,822</b>
Margins %	20.8	23.4	25.6	25.8
yoy Growth%	(1.7)	28.6	19.9	6.3
Depn. & Amortisation	11,872	12,502	12,777	13,482
<b>EBIT</b>	<b>31,965</b>	<b>43,884</b>	<b>54,803</b>	<b>58,340</b>
Other Inc/Interest (net)	5,583	9,130	5,825	6,160
Extraordinary Items	-5,250	7,353	0	0
<b>PBT</b>	<b>32,298</b>	<b>60,367</b>	<b>60,628</b>	<b>64,501</b>
Tax	8,730	15,300	15,157	16,125
Tax Rate (%)	27.0	25.3	25.0	25.0
Minority Interest & Prior period items	-	-	-	-
<b>Reported PAT</b>	<b>23,568</b>	<b>45,067</b>	<b>45,471</b>	<b>48,375</b>
<b>Adjusted PAT</b>	<b>27,399</b>	<b>39,578</b>	<b>45,471</b>	<b>48,375</b>
Net Margins (%)	13.0	16.4	17.2	17.4

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Paid-up Capital	832	833	833	833
Reserves & Surplus	1,89,695	2,30,158	2,66,021	3,04,174
<b>Total Equity</b>	<b>1,90,527</b>	<b>2,30,991</b>	<b>2,66,854</b>	<b>3,05,007</b>
<b>Total Debt</b>	<b>33,845</b>	<b>13,472</b>	<b>2,472</b>	<b>-5,528</b>
Other non-current liabilities	2,479	2,907	2,907	2,907
<b>Capital Employed</b>	<b>2,26,851</b>	<b>2,47,370</b>	<b>2,72,233</b>	<b>3,02,386</b>
Total Cur. Lia. & Prov.	69,743	73,651	77,770	81,983
<b>Total Liabilities</b>	<b>2,96,594</b>	<b>3,21,021</b>	<b>3,50,003</b>	<b>3,84,369</b>
<b>Net Fixed Assets</b>	<b>93,833</b>	<b>1,01,556</b>	<b>1,03,779</b>	<b>1,05,297</b>
Deferred tax asset	12,721	6,363	6,363	6,363
Investments	7,986	5,362	5,362	5,362
Inventory	50,884	48,670	54,372	57,357
Debtors	66,764	72,485	69,831	73,665
Other Current Assets	20,041	24,788	26,771	28,026
Cash and Equivalents	44,365	61,797	83,526	1,08,300
<b>Total Cur. Assets</b>	<b>1,82,054</b>	<b>2,07,740</b>	<b>2,34,499</b>	<b>2,67,347</b>
<b>Total Assets</b>	<b>2,96,594</b>	<b>3,21,021</b>	<b>3,50,003</b>	<b>3,84,369</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
PBT (Adj. for Extraordinary items)	32,298	60,367	60,628	64,501
Depreciation	11,872	12,502	12,777	13,482
Net Chg in WC	(17,929)	(2,635)	(3,505)	(5,464)
Taxes	7,437	(15,300)	(15,157)	(16,125)
Others	(6,540)	2,511	2,594	1,603
<b>CFO</b>	<b>27,138</b>	<b>57,445</b>	<b>57,337</b>	<b>57,996</b>
Capex	(16,059)	(20,225)	(15,000)	(15,000)
Net Investments made	(11,201)	(23,881)	(10,000)	(10,000)
Others	873	2,735	-	-
<b>CFI</b>	<b>(26,387)</b>	<b>(41,371)</b>	<b>(25,000)</b>	<b>(25,000)</b>
Change in Share capital	334	157	-	-
Change in Debts	2,735	(20,397)	(11,000)	(8,000)
Div. & Div Tax	(4,146)	(4,979)	(9,608)	(10,222)
Others	(375)	(214)	-	-
<b>CFF</b>	<b>(1,452)</b>	<b>(25,433)</b>	<b>(20,608)</b>	<b>(18,222)</b>
<b>Total Cash Generated</b>	<b>(701)</b>	<b>(9,359)</b>	<b>11,729</b>	<b>14,774</b>
<b>Cash Opening Balance</b>	<b>14,829</b>	<b>14,852</b>	<b>5,779</b>	<b>17,508</b>
<b>Cash Closing Balance</b>	<b>14,852</b>	<b>5,493</b>	<b>17,508</b>	<b>32,282</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23	FY24E	FY25E
Adj EPS (Rs)	165.1	238.4	273.9	291.4
yoy Growth%	6.1	44.4	14.9	6.4
Cash EPS (Rs)	236.6	313.7	350.9	372.6
EBITDA (%)	20.8	23.4	25.6	25.8
NPM (%)	13.0	16.4	17.2	17.4
Net Debt to Equity (x)	(0.1)	(0.2)	(0.3)	(0.4)
P/E (x)	27.1	18.7	16.3	15.3
EV/EBITDA (x)	16.7	12.3	9.8	8.7
P/BV (x)	3.9	3.2	2.8	2.4
EV/Sales (x)	3.5	2.9	2.5	2.3
ROCE (%)	12.7	16.7	17.4	16.8
ROE (%)	15.1	18.8	18.3	16.9
ROIC (%)	15.5	21.5	24.2	25.2
Book Value (Rs)	1,147.8	1,391.5	1,607.6	1,837.4
DPS (Rs)	25.0	30.0	57.9	61.6
Dividend Payout (%)	17.6	11.1	21.1	21.1
Div Yield (%)	0.6	0.7	1.3	1.4
Asset Turnover Ratio	0.8	0.8	0.8	0.8
Avg Collection days	97	97	97	97
Avg Inventory days	75	75	75	75

Source: Company data, I-Sec research

ICICI Securities Limited  
is the author and  
distributor of this report

Re-initiating coverage

## Pharmaceuticals

Target price Rs540

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	46.7	46.7	46.7
Institutional investors	33.9	33.9	32.9
MFs and UTI	6.3	5.6	5.4
Insurance Cos.	4.2	4.7	4.4
FII	23.4	23.6	23.1
Others	19.4	19.4	20.4

Source: CMIE

### ESG disclosure score

Year	2021	2022	Chg
ESG score	64.5	65.0	0.5
Environment	51.1	52.8	1.7
Social	51.0	51.0	0.0
Governance	91.1	91.1	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

# Glenmark Pharmaceuticals

REDUCE

## Balance sheet deleveraging on cards

Rs613

Glenmark Pharmaceuticals (GNP) has divested brands, such as Razel to JB Chemicals, and nine derma brands to Eris Lifesciences for Rs6.5bn in the past 9 months. The proceeds from these divestments were used for remediation of its US-based facilities and the company aims to reduce its net debt by Rs16bn in the near term. GNP is trying to optimise its R&D spend to 8-9% of sales, which may provide some breather. Management focus is to deleverage the balance sheet with strong free cashflow generation. Potential capital raise in ICHNOS Sciences (R&D arm) and continued out-licensing of innovative molecules (1-2 every year) would be positive triggers. Reinitiate coverage with Reduce and target price of Rs540/share.

- **Out-licensing income, capital infusion to bolster balance sheet:** Glenmark Pharmaceuticals (GNP) is recalibrating its product portfolio positioning with a set of strategic moves. It recently launched Ryaltris (GSP 301), its novel drug targeting seasonal allergic rhinitis (SAR) in the regulated markets, including the US. The product is expected to ramp up in the near-medium term led by launches in several key geographies and increase in insurance coverage in the US. Moreover, GNP has several innovative molecules in the pipeline {e.g. GBR 830 (an immunology product in phase-II trial), and GBR 310 (a biosimilar of Xolair)} and a few other growth triggers. Moreover, conjectures of further stake divestment of GNP's API unit and internal accruals may likely lead to a reduction of ~Rs7.5bn in net debt by FY24E.
- **India business – Momentum to sustain:** GNP is ranked second in dermatology, sixth in cardiology and fourth in respiratory therapies in India. In 9MFY23, the company registered double-digit growth (~11-15%) in the ex-covid business supported by healthy price hikes (~12%). GNP's top-10 brands feature among the top-300 pharma brands in India. Expect 7.7% CAGR in FY23E-FY25E in domestic revenues
- **US business – Regulatory troubles dent outlook:** GNP's recent performance in the US has been largely impacted by price erosion. Moreover, recent troubles in its manufacturing plants (WL in Dec'22 for Goa plant and IA for Baddi plant in May'22) are expected to slow down filings and product launches in the US. Expect US revenues to grow 3.8% CAGR over FY23E-FY25E (on a low base) led by ramp-up in Ryaltris.
- **Outlook:** We expect 7.1% revenue and 17.4% PAT CAGRs over FY23E-FY25E with EBITDA margin at ~18%. Out-licensing of innovative products are likely to provide additional funds to help deleverage the balance sheet.
- **Valuations and risks:** Enhanced free cash generation, debt reduction, prioritising R&D investments and capital expenditure are GNP's key strategic priorities. Company aims to close 1-2 licensing deals every year, which will meet ICHNOS' R&D requirements. Healthy outlook in India and debt reduction may aid a 17.4% PAT CAGR in FY23E-FY25E. We reinitiate coverage on GNP with a **Reduce** rating and target price of Rs540 based on 11.6x FY25E EPS. **Key upside risks:** Ramp-up in Ryaltris and further debt reduction.

Market Cap	Rs173bn/US\$2.1bn
Reuters/Bloomberg	GNP IN /GLEN.BO
Shares Outstanding (mn)	282.2
52-week Range (Rs)	613/352
Free Float (%)	53.3
FII (%)	23.1
Daily Volume (US\$'000)	6,763
Absolute Return 3m (%)	53.1
Absolute Return 12m (%)	58.0
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	1,23,049	1,31,908	1,39,644	1,51,176
Net Income (Rs mn)	9,417	9,775	11,348	13,183
EPS (Rs)	39.7	33.9	40.2	46.7
% Chg YoY	19.5	(14.7)	18.6	16.2
P/E (x)	15.4	18.1	15.2	13.1
CEPS (Rs)	57.0	56.0	64.0	72.2
EV/E (x)	8.4	8.5	7.4	6.4
Dividend Yield (%)	0.5	0.5	0.6	0.7
RoCE (%)	12.9	10.5	11.4	11.9
RoE (%)	13.9	10.0	10.8	11.3

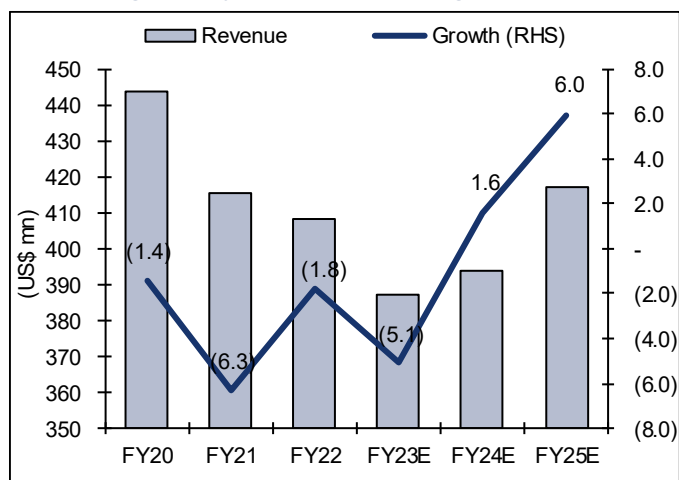
### Research Analysts:

Abdulkader Puranwala

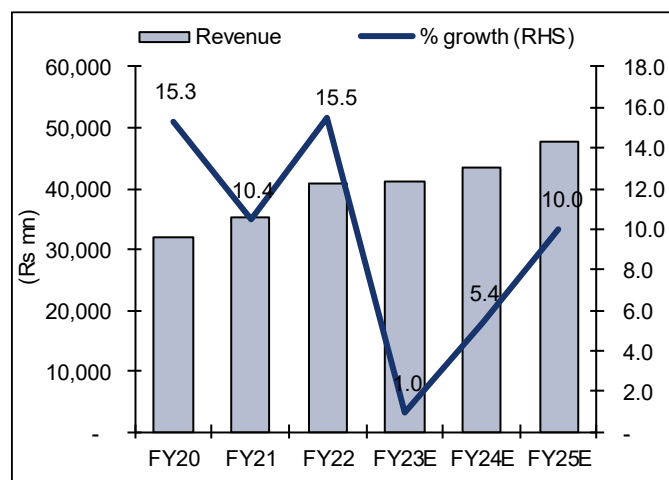
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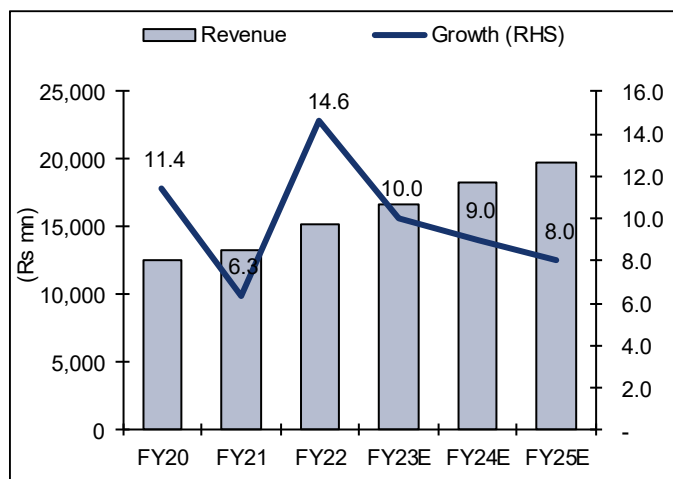
rohan.john@icicisecurities.com  
+91 22 6807 7453

**Chart 1: Slowdown in filing and product launches due to regulatory issues to taper growth in US**

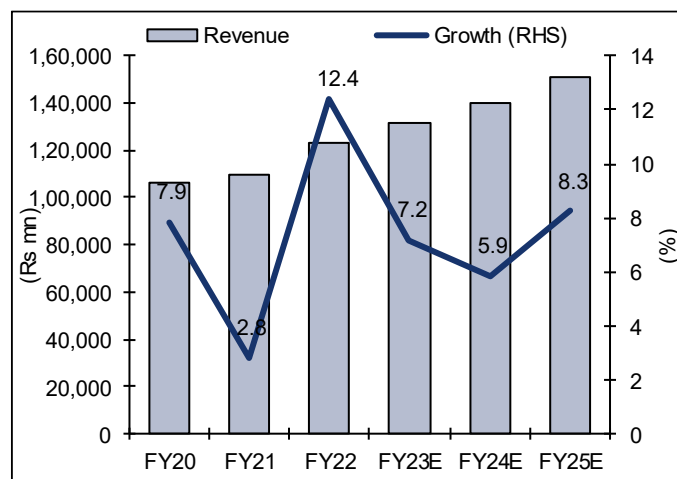
Source: Company data, I-Sec research.

**Chart 2: India to grow sustain healthy momentum**

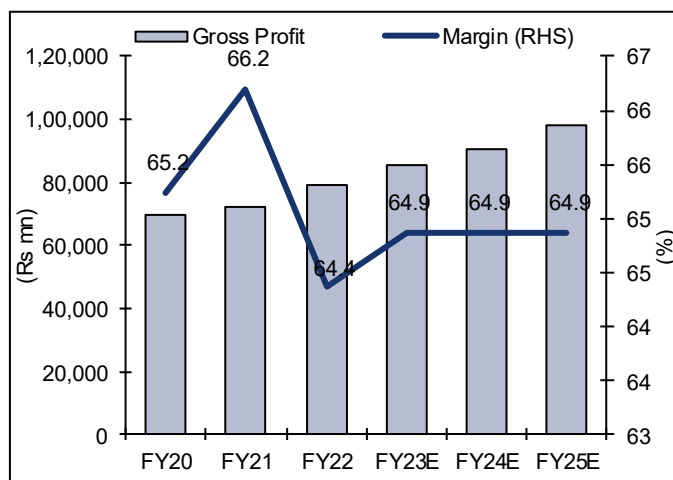
Source: Company data, I-Sec research.

**Chart 3: Ryaltis to support EU growth**

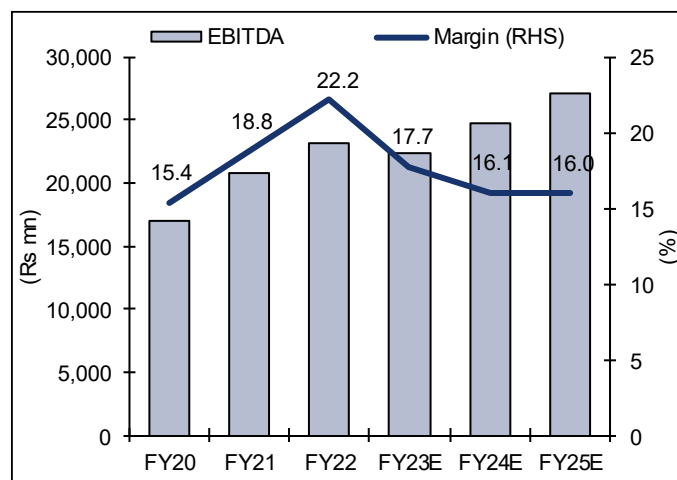
Source: Company data, I-Sec research.

**Chart 4: Revenues to grow 7.1% over FY23E-25E**

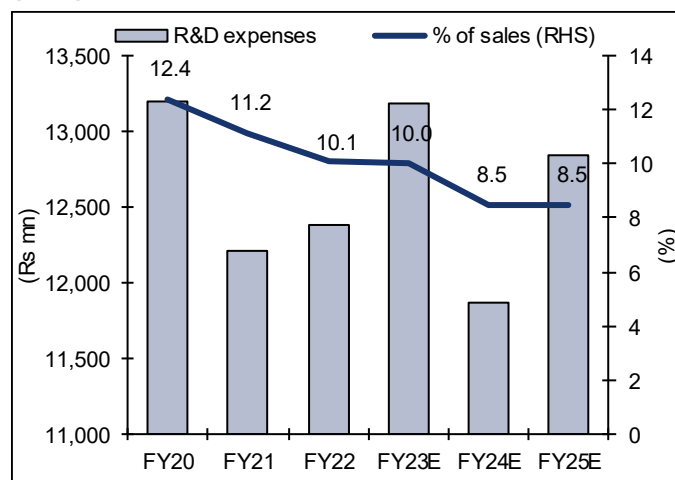
Source: Company data, I-Sec research.

**Chart 5: Gross margins to remain stable at ~65%**

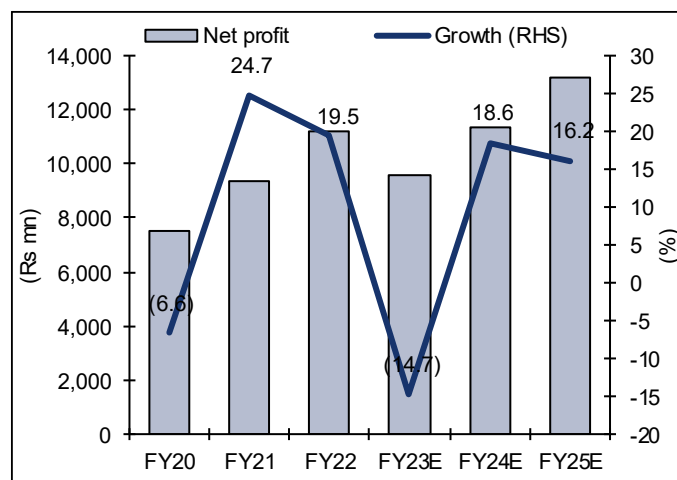
Source: Company data, I-Sec research.

**Chart 6: EBITDA margins to decline to ~16% due to remediation costs of their plants**

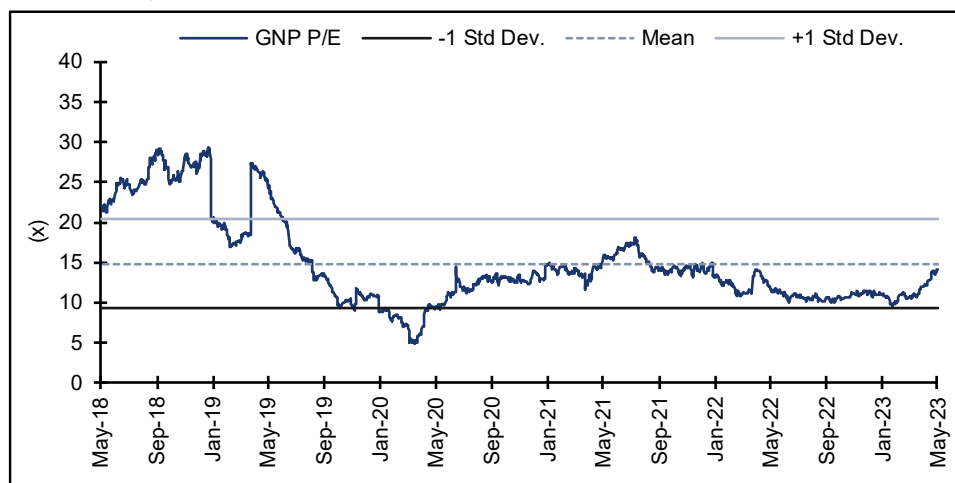
Source: Company data, I-Sec research.

**Chart 7: R&D spend is expected to be recalibrated going ahead**

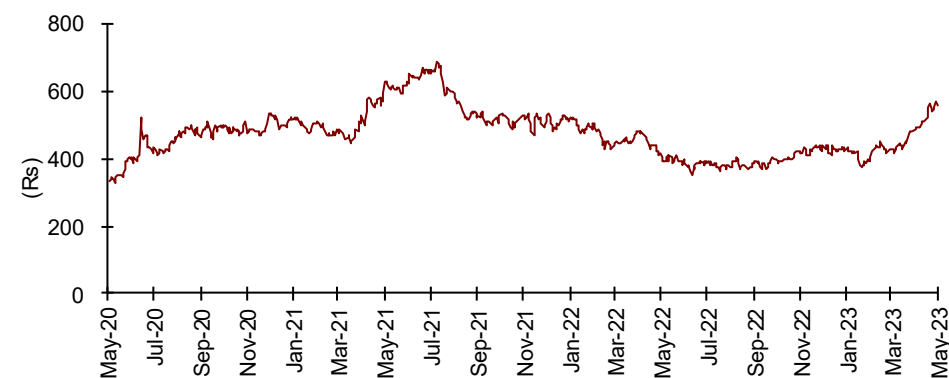
Source: Company data, I-Sec research.

**Chart 8: Net profit to grow 17.4% CAGR over FY23E-FY25E**

Source: Company data, I-Sec research.

**Chart 9: 1-year forward P/E**

Source: Company data, I-Sec research

**Price chart**

Source: Bloomberg

## Financial summary (consolidated)

Table 1: Profit and Loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Total Net Revenue</b>	<b>1,23,049</b>	<b>1,31,908</b>	<b>1,39,644</b>	<b>1,51,176</b>
YoY Growth%	12	7	6	8
<b>Total Op. Exp.</b>	<b>99,846</b>	<b>1,09,519</b>	<b>1,14,964</b>	<b>1,24,004</b>
<b>EBITDA</b>	<b>23,203</b>	<b>22,390</b>	<b>24,680</b>	<b>27,172</b>
Margins %	18.9	17.0	17.7	18.0
YoY Growth%				
Depreciation	4,867	6,229	6,710	7,191
<b>EBIT</b>	<b>18,336</b>	<b>16,160</b>	<b>17,970</b>	<b>19,981</b>
Other Income	1,667	4,334	3,467	3,814
Interest	2,981	3,329	2,804	2,279
EO Items	2,609	(339)	-	-
<b>PBT</b>	<b>14,412</b>	<b>17,504</b>	<b>18,633</b>	<b>21,515</b>
Tax	4,476	7,002	6,522	7,530
Tax Rate (%)	31.1	40.0	35.0	35.0
Minority Interest	519	727	763	802
<b>Reported PAT</b>	<b>9,417</b>	<b>9,775</b>	<b>11,348</b>	<b>13,183</b>
<b>Adj PAT</b>	<b>11,216</b>	<b>9,572</b>	<b>11,348</b>	<b>13,183</b>
Net Margins (%)	9.1	7.3	8.1	8.7

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid up Capital	282	282	282	282
Reserves & Surplus	90,866	1,00,117	1,10,462	1,22,481
<b>Total Equity</b>	<b>91,149</b>	<b>1,00,399</b>	<b>1,10,744</b>	<b>1,22,763</b>
Minority Interest	3,515	4,242	5,005	5,807
<b>Total Debt</b>	<b>36,703</b>	<b>31,703</b>	<b>26,703</b>	<b>21,703</b>
Deferred Liabilities	(16,546)	(16,546)	(16,546)	(16,546)
<b>Capital Employed</b>	<b>1,14,538</b>	<b>1,19,516</b>	<b>1,25,625</b>	<b>1,33,445</b>
Current Liabilities & Prov	39,433	41,852	43,963	47,111
<b>Total Liabilities</b>	<b>1,53,972</b>	<b>1,61,368</b>	<b>1,69,588</b>	<b>1,80,556</b>
<b>Net Fixed Assets</b>	<b>68,971</b>	<b>70,742</b>	<b>72,032</b>	<b>72,840</b>
Investments	496	496	496	496
Inventory	24,998	26,798	28,370	30,713
Debtors	31,011	33,244	35,194	38,100
Other Current Assets	14,389	15,425	16,330	17,679
Cash and Equivalents	14,105	14,662	17,167	20,728
<b>Total Cur. Assets</b>	<b>85,001</b>	<b>90,626</b>	<b>97,557</b>	<b>1,07,716</b>
<b>Total Assets</b>	<b>1,53,972</b>	<b>1,61,368</b>	<b>1,69,588</b>	<b>1,80,556</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non-cash items	16,699	20,399	21,626	23,455
Add/Less : Working Capital Changes	5,613	2,650	2,314	3,450
Operating Cashflow	11,087	17,749	19,311	20,005
Less:- Capex	(7,885)	(8,000)	(8,000)	(8,000)
Free Cash Flow	3,201	9,749	11,311	12,005
<b>Financing Cashflow</b>	<b>(5,205)</b>	<b>(9,192)</b>	<b>(8,806)</b>	<b>(8,444)</b>
Investing Cashflow	(3,333)	(8,000)	(8,000)	(8,000)
<b>Net change in Cash</b>	<b>2,549</b>	<b>557</b>	<b>2,505</b>	<b>3,562</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	39.7	33.9	40.2	46.7
YoY Growth%	19.5	(14.7)	18.6	16.2
Cash EPS	57.0	56.0	64.0	72.2
EBITDA (%)	18.9	17.0	17.7	18.0
NPM (%)	9.1	7.3	8.1	8.7
Net Debt to Equity (x)	0.2	0.2	0.1	0.0
P/E (x)	15.4	18.1	15.2	13.1
EV/EBITDA (x)	8.4	8.5	7.4	6.4
P/BV (x)	1.9	1.7	1.6	1.4
EV/Sales (x)	1.6	1.4	1.3	1.2
RoCE (%)	12.9	10.5	11.4	11.9
ROE (%)	13.9	10.0	10.8	11.3
ROIC (%)	17.3	19.9	19.8	21.1
Book Value (Rs)	322	355	391	434
DPS (Rs)	2.9	3.1	3.6	4.1
Dividend Payout (%)	8.8	8.8	8.8	8.8
Div Yield (%)	0.5	0.5	0.6	0.7
Asset Turnover Ratio	1.3	1.3	1.3	1.3
Avg Collection days	92	92	92	92
Avg Inventory days	74	74	74	74

Source: Company data, I-Sec research



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Re-initiating coverage

## Pharmaceuticals

Target price: Rs1,295

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	75.0	75.0	75.0
Institutional investors	14.0	14.1	12.6
MFs and UTI	3.8	4.1	4.0
Insurance Cos.	6.6	6.1	6.3
FII	2.2	2.3	2.2
Others	11.0	10.9	12.4

Source: CMIE

### ESG disclosure score

Year	2021	2022	Chg
<b>ESG score</b>	<b>44.5</b>	<b>50.3</b>	<b>5.8</b>
Environment	33.9	35.3	1.4
Social	21.0	36.9	15.8
Governance	78.6	78.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

# GSK Pharmaceuticals

HOLD

## Shingrix to boost vaccine portfolio

Rs1,276

GSK Pharma (GSKP) is the 7th largest pharma company in India with market share of 3.3%(Source:IQVIA). It is a market leader and the largest player in private channel vaccines segment with ~15 product offerings. In pharma segment, GSK has 6 brands featuring among the top 50 brands in India. GSK's focus on volume growth forms the crux of its market-approach strategy as pricing pressure forces companies to think differently. At the same time, GSK continues to be bullish on new launches from the parent pipeline (innovative products + vaccines). GSK has launched Shingrix (herpes zoster vaccine) in India, which will cater to adults (target population of 10mn) through a network of 100,000 prescribers and a dedicated team of 200 MRs. We re-initiate coverage on the stock with HOLD rating and a target price of Rs1,295/share.

- **Growth powered by key brands:** GSKP has strong brand equity with each of its top five products Augmentin, Calpol, T-Bact, Ceftum and Betnovate-N generating annual revenue of at least Rs2bn each. Collectively, they contribute ~44% of the company's portfolio and have a CAGR of 25% over FY20-FY23E, largely led by covid-driven sales of Calpol. Post the acquisition of vaccine portfolio from Novartis in 2015, GSKP has become the largest vaccine player in the country. However, most brands of the company have not performed up to their potential with covid affecting vaccination rates. However, we expect vaccines business to pick up going forward driven by key launches in adult vaccination segment such as Fluarix and Shingrix. New launches – Infanrix Hexa and Otrivin Oxy have scaled up well with each brand generating over Rs1.2bn annually within three years of their launch.
- **Innovating, but pipeline remains nascent:** GSK parent invests significant resources towards innovation with an aim to launch specific patient-focused drugs across global markets. Infanrix Hexa, a vaccine for infants, and Nucala, used for treating severe asthma in adults, are key drugs launched via this programme. However, these products are in a nascent stage with strong potential. In order to monetise such potential, the company has invested in increasing its field force and connect with the populace and healthcare professionals. It is also using data analytics to focus on key opportunities.
- **Outlook:** We expect 7.2% revenue and 5.3% PAT CAGRs over FY23E-FY25E driven by growth in power brands, traction in newly-launched products and recovery in key therapies. EBITDA is expected to remain at ~24-25% over FY23E-FY25E.
- **Valuations and risks:** We re-initiate coverage with **HOLD** rating and a target price of Rs1,295/share based on 31x FY25E earnings. **Key downside risks:** Addition of key drugs in NLEM and slow recovery in vaccine portfolio.

Market Cap	Rs216bn/US\$2.6bn
Reuters/Bloomberg	GLAX.BO/GLXO IN
Shares Outstanding (mn)	169.4
52-week Range (Rs)	1555/1231
Free Float (%)	25.0
FII (%)	2.2
Daily Volume (US\$'000)	841
Absolute Return 3m (%)	1.9
Absolute Return 12m (%)	(8.8)
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	32,780	32,125	34,534	36,951
Net Income (Rs mn)	3,808	6,311	6,353	7,077
EPS (Rs)	33.7	37.7	37.5	41.8
% Chg YoY	24.2	11.8	(0.5)	11.4
P/E (x)	37.9	33.9	34.1	30.6
CEPS (Rs)	38.4	41.3	41.9	46.6
EV/E (x)	24.7	22.9	22.9	20.4
Dividend Yield (%)	2.6	7.3	3.0	3.0
RoCE (%)	19.0	25.1	25.2	27.9
RoE (%)	27.4	24.1	24.1	26.7

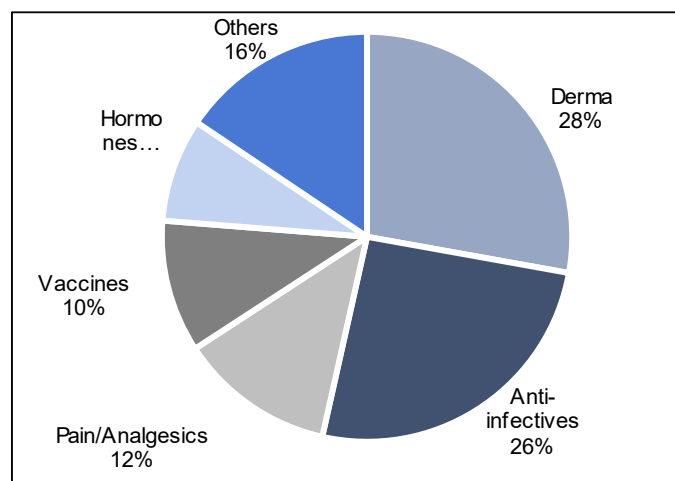
### Research Analysts:

**Abdulkader Puranwala**

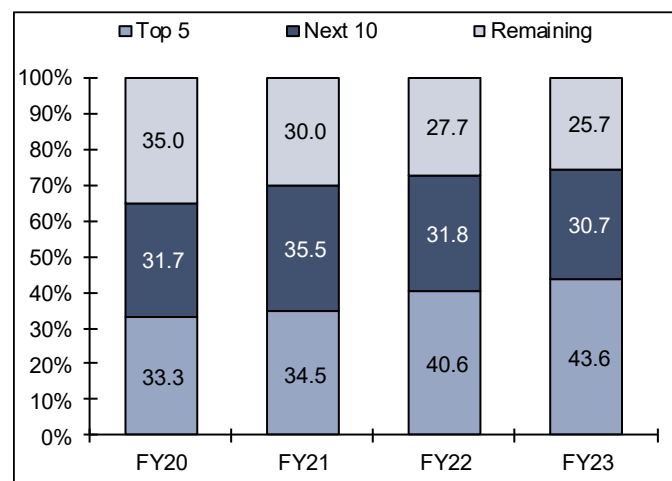
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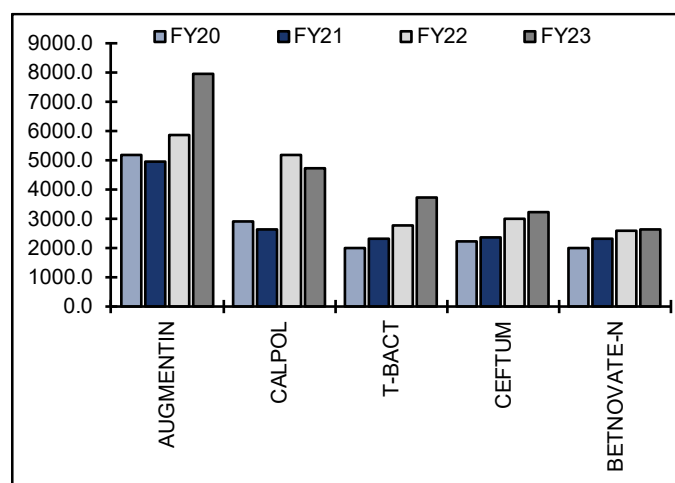
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**Chart 1: Acute therapies contributes ~70% of the revenue mix**

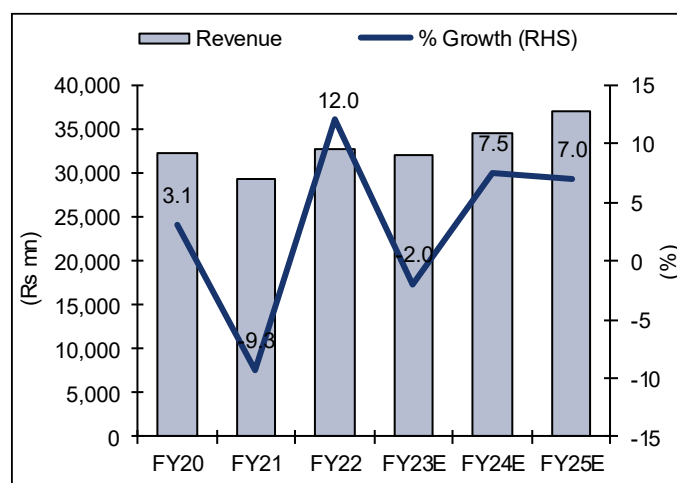
Source: IQVIA, I-Sec research.

**Chart 2: Top 15 brands account for ~70% of the revenues**

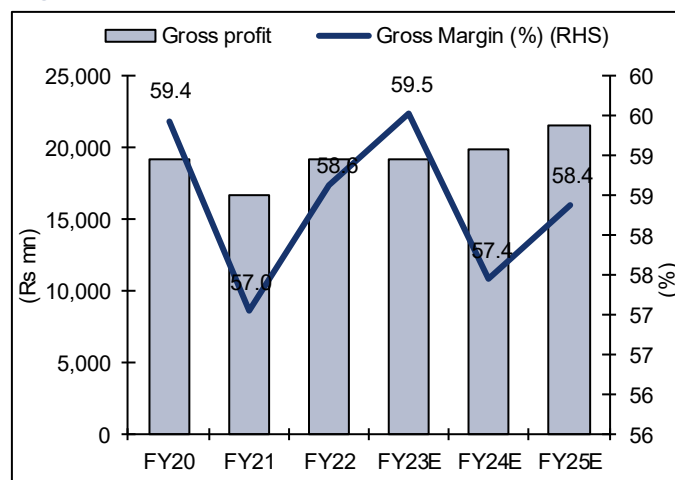
Source: IQVIA, I-Sec research.

**Chart 3: Growth in Top 5 brands**

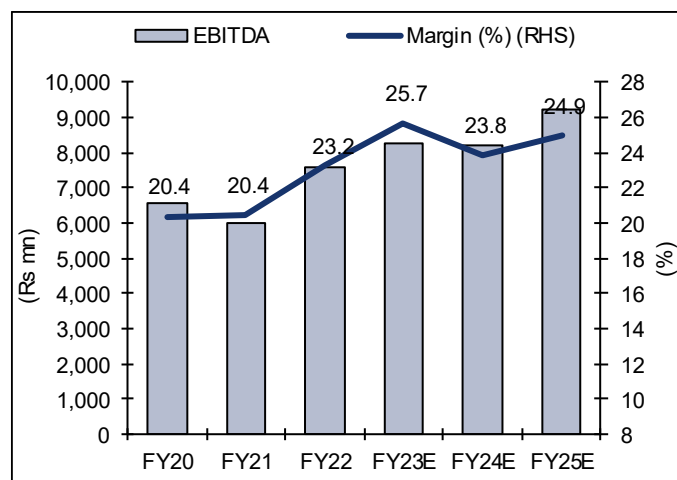
Source: IQVIA, I-Sec research.

**Chart 4: Revenues to grow at 7.2% CAGR over FY23E-FY25E**

Source: Company data, I-Sec research.

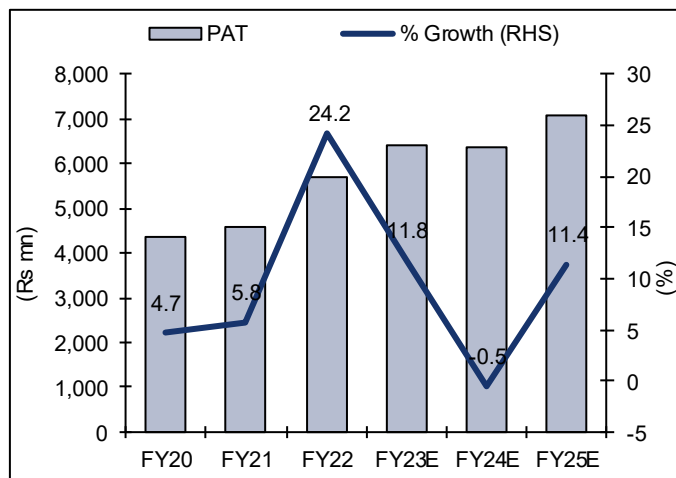
**Chart 5: Gross margins to stabilize at 58% from a high base**

Source: Company data, I-Sec research.

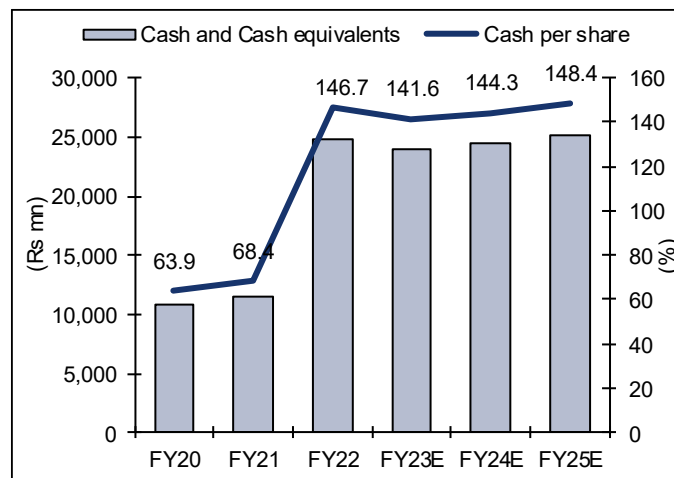
**Chart 6: Expect EBITDA margins to remain at ~25% over FY23E-FY25E**

Source: Company data, I-Sec research.

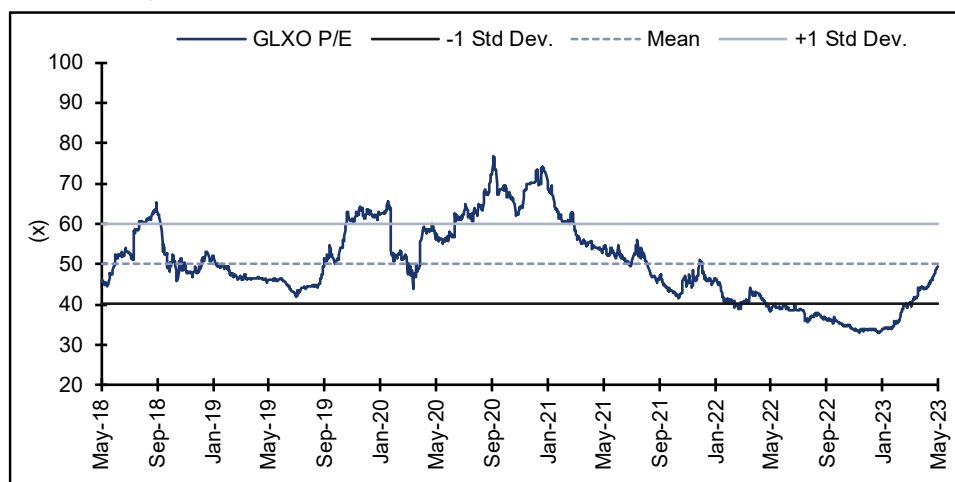


**Chart 7: Net Profit to grow 5.3% over FY23E-FY25E**

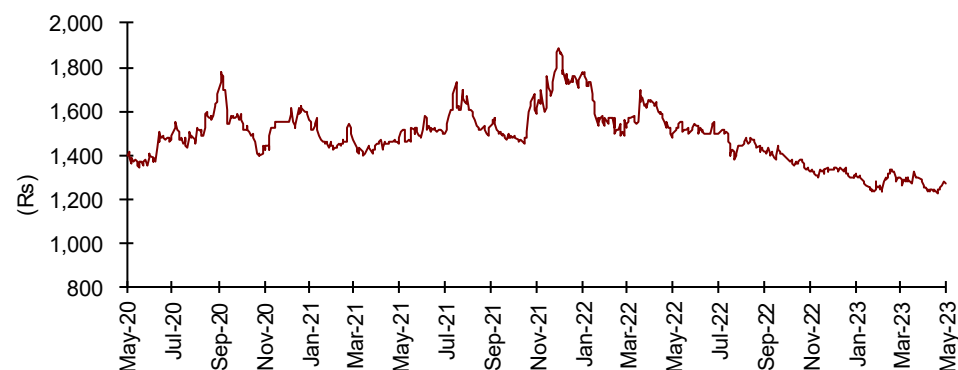
Source: Company data, I-Sec research.

**Chart 8: Healthy cash generation over the years**

Source: Company data, I-Sec research.

**Chart 9: 1-year forward P/E**

Source: Company data, I-Sec research

**Price chart**

Source: Bloomberg

## Financial summary (consolidated)

Table 1: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Total Net Revenue</b>	<b>32,780</b>	<b>32,125</b>	<b>34,534</b>	<b>36,951</b>
yoy Growth%	12	(2)	8	7
<b>Total Op. Exp.</b>	<b>25,162</b>	<b>23,875</b>	<b>26,303</b>	<b>27,734</b>
<b>EBITDA</b>	<b>7,619</b>	<b>8,250</b>	<b>8,231</b>	<b>9,217</b>
Margins %	23.2	25.7	23.8	24.9
yoy Growth%				
Depreciation	682	678	745	812
<b>EBIT</b>	<b>6,937</b>	<b>7,572</b>	<b>7,486</b>	<b>8,406</b>
Other Income	738	962	1,008	1,055
Interest	-	-	-	-
EO Items	(116)	72	-	-
<b>PBT</b>	<b>7,791</b>	<b>8,461</b>	<b>8,494</b>	<b>9,461</b>
Tax	3,983	2,150	2,140	2,384
Tax Rate (%)	51.1	25.4	25.2	25.2
Minority Interest	-	-	-	-
<b>Reported PAT</b>	<b>3,808</b>	<b>6,311</b>	<b>6,353</b>	<b>7,077</b>
<b>Adj PAT</b>	<b>5,712</b>	<b>6,383</b>	<b>6,353</b>	<b>7,077</b>
Net Margins (%)	17.4	19.9	18.4	19.2

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid up Capital	1,694	1,694	1,694	1,694
Reserves & Surplus	26,630	26,402	26,216	26,754
<b>Total Equity</b>	<b>28,324</b>	<b>28,096</b>	<b>27,910</b>	<b>28,449</b>
Minority Interest	-	-	-	-
<b>Total Debt</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Deferred Liabilities	(1,132)	(1,132)	(1,132)	(1,132)
<b>Capital Employed</b>	<b>25,498</b>	<b>25,270</b>	<b>25,085</b>	<b>25,623</b>
Current Liabilities & Prov	19,703	19,575	21,462	22,526
<b>Total Liabilities</b>	<b>45,202</b>	<b>44,846</b>	<b>46,547</b>	<b>48,149</b>
<b>Net Fixed Assets</b>	<b>3,599</b>	<b>4,263</b>	<b>4,268</b>	<b>4,206</b>
Investments	3,668	3,668	3,668	3,668
Inventory	5,347	4,518	5,049	5,297
Debtors	2,052	2,367	2,545	2,723
Other Current Assets	5,689	6,035	6,572	7,111
Cash and Equivalents	24,845	23,995	24,445	25,143
<b>Total Cur. Assets</b>	<b>41,602</b>	<b>40,583</b>	<b>42,279</b>	<b>43,943</b>
<b>Total Assets</b>	<b>45,202</b>	<b>44,846</b>	<b>46,547</b>	<b>48,149</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non cash items	7,619	8,250	8,231	9,217
Add/Less : Working Capital Changes	5,006	41	641	98
Operating Cash Flow	12,625	8,291	8,872	9,316
Less:- Capex	307	1,342	750	750
Free Cash Flow	12,318	6,949	8,122	8,566
Financing Cash Flow	<b>12,202</b>	<b>6,539</b>	<b>6,539</b>	<b>6,539</b>
Investing Cash Flow	(8,069)	(13,131)	(13,077)	(13,077)
<b>Net change in Cash</b>	<b>16,451</b>	<b>356</b>	<b>1,583</b>	<b>2,027</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	33.7	37.7	37.5	41.8
yoy Growth%	24.2	11.8	(0.5)	11.4
Cash EPS	38.4	41.3	41.9	46.6
EBITDA (%)	23.2	25.7	23.8	24.9
NPM (%)	17.4	19.9	18.4	19.2
Net Debt to Equity (x)	(1.1)	(1.0)	(1.1)	(1.1)
P/E (x)	37.9	33.9	34.1	30.6
EV/EBITDA (x)	24.7	22.9	22.9	20.4
P/BV (x)	8.1	8.2	8.3	8.1
EV/Sales (x)	5.7	5.9	5.5	5.1
ROCE (%)	19.0	25.1	25.2	27.9
ROE (%)	27.4	24.1	24.1	26.7
ROIC (%)	103.0	119.5	114.1	126.3
Book Value (Rs)	157	156	155	158
DPS (Rs)	33.6	93.6	38.6	38.6
Dividend Payout (%)	(422.7)	(102.7)	(102.9)	(92.4)
Div Yield (%)	2.6	7.3	3.0	3.0
Asset Turnover Ratio	0.7	0.7	0.7	0.7
Avg Collection days	23	27	27	27
Avg Inventory days	60	51	53	52

Source: Company data, I-Sec research

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distributor of this report

Re-initiating coverage

## Pharmaceuticals

Target price: Rs2,200

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	54.0	54.0	53.9
Institutional investors	26.8	27.3	27.7
MFs and UTI	15.4	15.6	16.2
Insurance Cos.	2.7	2.9	2.4
FII	8.7	8.8	9.1
Others	19.2	18.7	18.4

Source: CMIE

### ESG disclosure score

Year	2021	2022	Chg
<b>ESG score</b>	<b>39.6</b>	<b>48.6</b>	<b>9.0</b>
Environment	19.1	28.5	9.4
Social	21.0	38.5	17.5
Governance	78.6	78.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

# JB Chemicals

ADD

Committed to grow in India

Rs2,040

JB Chemicals' (JBCP) new management has chalked out a well-defined strategy to strengthen its operations in India. Through M&A and new launches, the company has reduced its reliance on the top 4 brands that contributed 80% to India sales earlier. The company is also a dominant player in the manufacturing of lozenges for cough and cold and has one of the biggest capacities for lozenges. International generics are also expected to grow in double digits, going ahead, led by robust demand in RoW markets. We re-initiate coverage on the stock with ADD rating and a target price of Rs2,200/share.

- **India business scaling faster:** JB Chemicals & Pharmaceuticals (JBCP IN) is the fastest growing company within the top 30 pharma companies in India. Going forward, JBCP aims to drive growth via annual MR productivity improvement, introduction of new products, brand in-licensing from MNCs and acquiring brands/mid-sized pharma companies. Acquisitions, steady volume traction and timely price increases may prop India sales CAGR to 19.9% through FY23E-25E.
- **India business – asset acquisition to bridge product gap:** JBCP is on an acquisition spree; in the last 2 years, it has acquired privately held Sanzyme (Rs6.28bn), 4 pediatric brands from Dr Reddy's (Rs980mn), Azmarda from Novartis (Rs2.46bn) and expanded its cardiac footprint by acquiring Razel brand from Glenmark for Rs3.8bn. These acquisitions have boosted India contribution to ~53% in FY23E vs 40% in FY21.
- **Exports – CDMO to support growth:** CDMO business delivered a robust growth of 85.5% YoY in 9MFY23 (albeit on a subdued base), led by strong uptick in new launches. JBCP is currently manufacturing 1.1bn lozenges annually and can raise output to 2.5bn. It expects to introduce new products in indications such as motion sickness and sleep disorder, which would raise its CDMO contribution to 20% sales over the next 3-5 years (12% currently). We expect 25% CAGR in CDMO segment over FY22-25E. In generic exports segment, JBCP aims to file 4-6 products every year. Generic exports may grow 10.7% over FY23E-25E.
- **Outlook:** We expect revenue/EBITDA/PAT CAGR of 15.6%/23%/28.6% over FY23E-25E. RoE / RoCE are likely to touch 23.4%/21.8%, respectively, by FY25E.
- **Valuations and risks:** JBCP is a strong play on domestic formulations wherein it is among the fastest-growing pharmaceuticals companies. The management seeks to lift sales contribution from India to 60% (from ~53% currently) in some years and improve the ranking in domestic market to top-20. Further, investments in launching brands, in-licensing products/brands and improved traction in CMO may also prop up growth. At current market price of Rs2,040, the stock trades at 26x/22x FY24E/25E estimated earnings. We re-initiate coverage on the stock with **ADD** rating and a target price of Rs2,200 valuing JBCP at 23x FY25E earnings. **Key downside risks:** Slowdown in India growth, pricing pressure and currency volatility.

Market Cap	Rs158bn/US\$1.9bn
Reuters/Bloomberg	JBCP IN /JBCH.BO
Shares Outstanding (mn)	77.4
52-week Range (Rs)	2166/1439
Free Float (%)	46.1
FII (%)	9.1
Daily Volume (US\$'000)	1,464
Absolute Return 3m (%)	3.1
Absolute Return 12m (%)	32.5
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	24,242	32,123	37,728	42,908
Net Income (Rs mn)	3,854	4,418	6,077	7,305
EPS (Rs)	49.9	57.2	78.6	94.5
% Chg YoY	(0.1)	0.1	0.4	0.2
P/E (x)	40.9	35.7	25.9	21.6
CEPS (Rs)	59.3	71.3	93.2	109.4
EV/E (x)	29.0	21.4	16.3	13.6
Dividend Yield (%)	0.8	0.8	1.2	1.4
RoCE (%)	19.0	18.3	20.6	21.8
RoE (%)	19.5	19.3	22.9	23.4

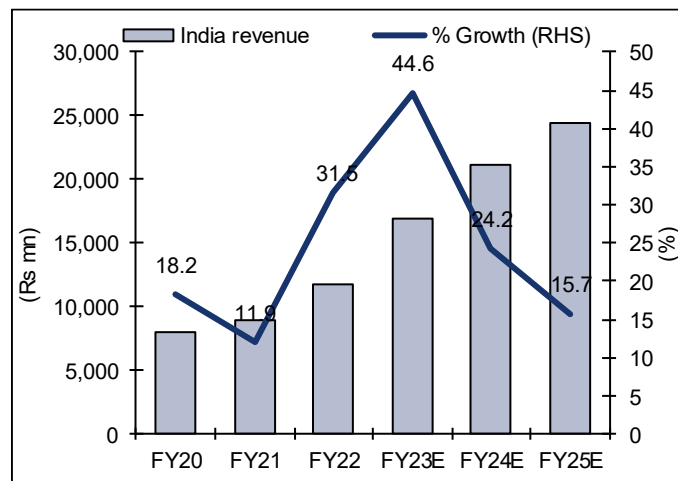
### Research Analysts:

**Abdulkader Puranwala**

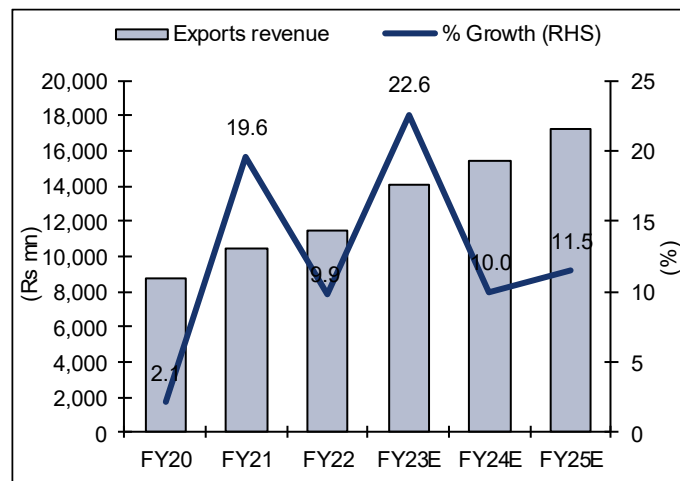
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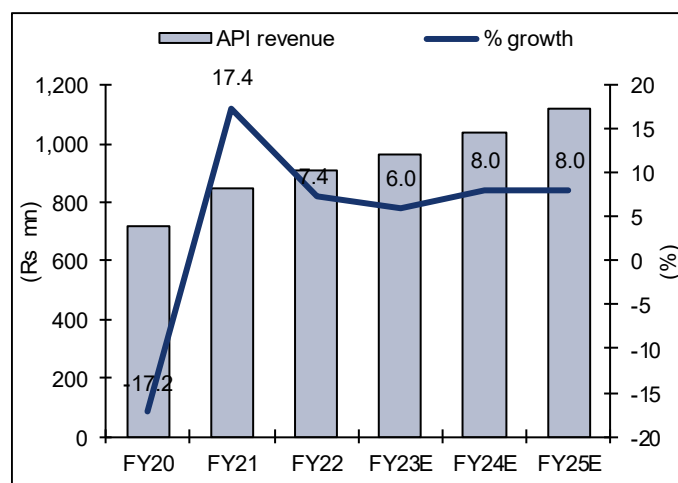
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**Chart 1: M&A and new launch to spur India growth**

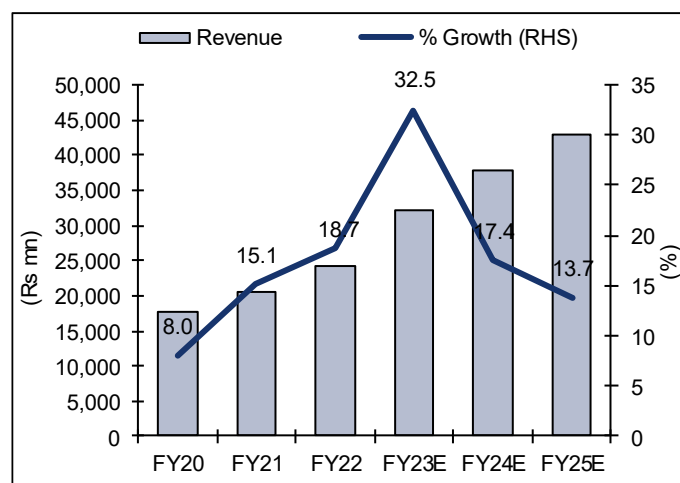
Source: Company data, I-Sec research.

**Chart 2: Healthy pipeline of CDMO projects to support Exports going forward**

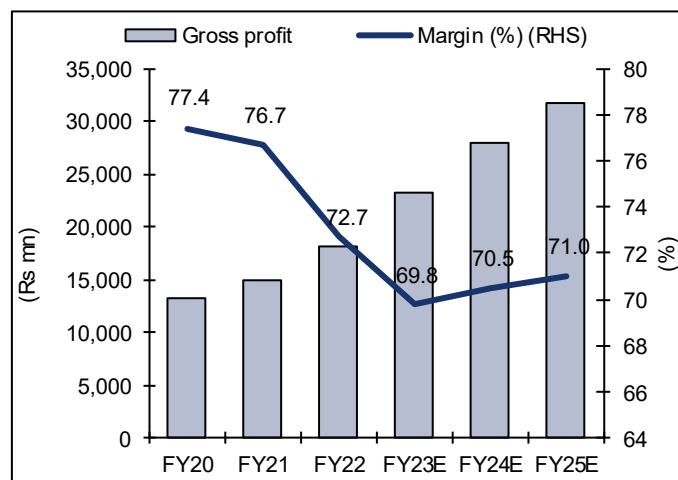
Source: Company data, I-Sec research.

**Chart 3: API revenues to grow 8% over FY23E-FY25E**

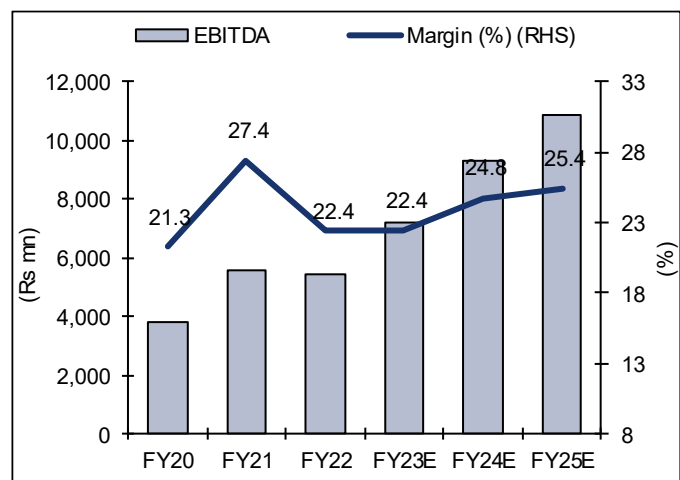
Source: Company data, I-Sec research.

**Chart 4: Revenues to grow 15.6% over FY23E-FY25E**

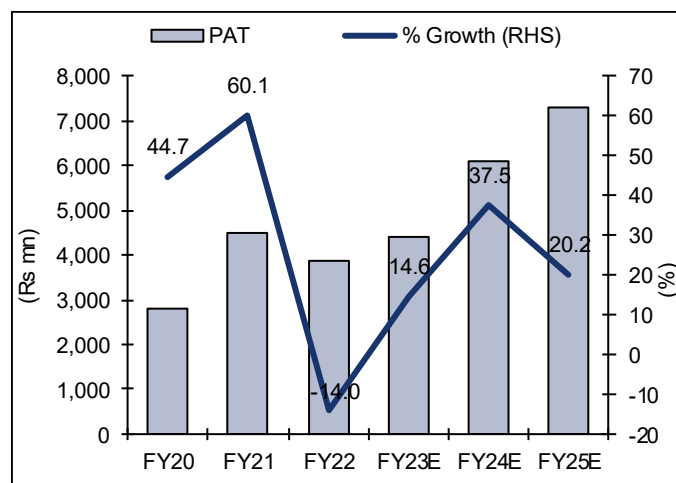
Source: Company data, I-Sec research.

**Chart 5: Gross margins to partially recover with easing of RM prices**

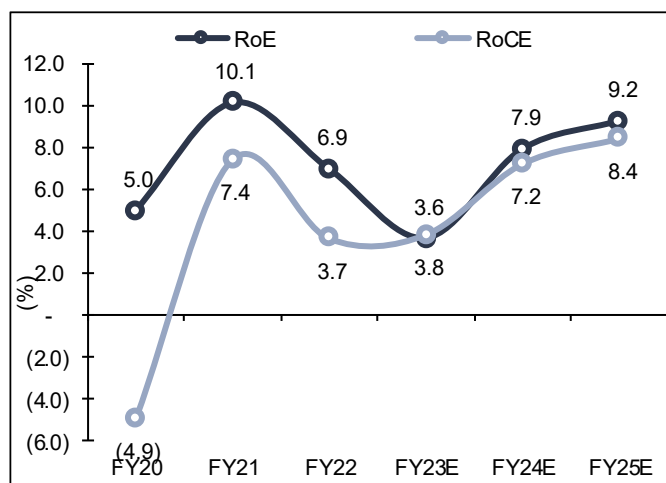
Source: Company data, I-Sec research.

**Chart 6: Expect 300bps margin expansion with better product mix**

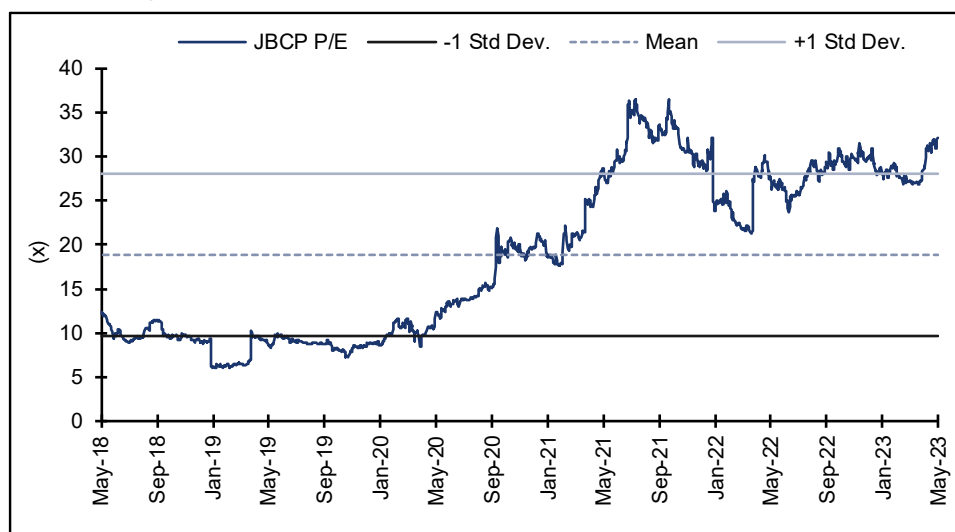
Source: Company data, I-Sec research.

**Chart 7: Net Profits to grow at a CAGR of 28.6% over FY23E-FY25E**

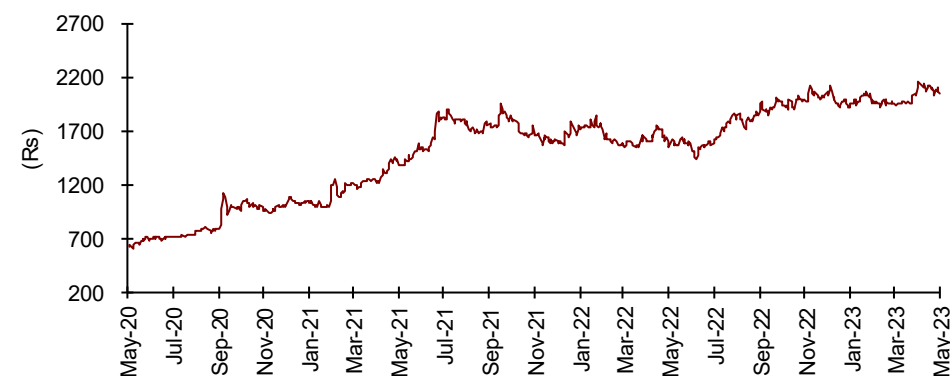
Source: Company data, I-Sec research.

**Chart 8: Return ratios to remain healthy at >20%**

Source: Company data, I-Sec research.

**Chart 9: 1-year forward P/E**

Source: Company data, I-Sec research

**Price chart**

Source: Bloomberg

## Financial summary (consolidated)

Table 1: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Total Net Revenue</b>	<b>24,242</b>	<b>32,123</b>	<b>37,728</b>	<b>42,908</b>
yoy Growth%	19	33	17	14
<b>Total Op. Exp.</b>	<b>18,808</b>	<b>24,916</b>	<b>28,384</b>	<b>32,008</b>
<b>EBITDA</b>	<b>5,435</b>	<b>7,207</b>	<b>9,344</b>	<b>10,900</b>
Margins %	22.4	22.4	24.8	25.4
yoy Growth%				
Depreciation	727	1,095	1,124	1,152
<b>EBIT</b>	<b>4,708</b>	<b>6,112</b>	<b>8,221</b>	<b>9,749</b>
Other Income	392	86	112	140
Interest	51	301	224	143
EO Items	-	-	-	-
<b>PBT</b>	<b>5,049</b>	<b>5,897</b>	<b>8,109</b>	<b>9,746</b>
Tax	1,189	1,474	2,027	2,437
Tax Rate (%)	23.5	25.0	25.0	25.0
Minority Interest	7	5	5	5
<b>Reported PAT</b>	<b>3,854</b>	<b>4,418</b>	<b>6,077</b>	<b>7,305</b>
<b>Adj PAT</b>	<b>3,854</b>	<b>4,418</b>	<b>6,077</b>	<b>7,305</b>
Net Margins (%)	15.9	13.8	16.1	17.0

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid up Capital	155	155	155	155
Reserves & Surplus	21,341	24,438	28,698	33,819
<b>Total Equity</b>	<b>21,496</b>	<b>24,593</b>	<b>28,853</b>	<b>33,973</b>
Minority Interest	45	50	55	60
<b>Total Debt</b>	<b>263</b>	<b>3,763</b>	<b>2,763</b>	<b>1,763</b>
Deferred Liabilities	411	411	411	411
<b>Capital Employed</b>	<b>22,061</b>	<b>28,663</b>	<b>31,928</b>	<b>36,053</b>
Current Liabilities & Prov	3,949	4,773	5,503	6,177
<b>Total Liabilities</b>	<b>26,010</b>	<b>33,436</b>	<b>37,430</b>	<b>42,230</b>
<b>Net Fixed Assets</b>	<b>12,957</b>	<b>12,962</b>	<b>12,938</b>	<b>12,886</b>
Investments	127	127	127	127
Inventory	4,100	4,752	5,788	6,583
Debtors	5,557	6,073	7,132	8,111
Other Current Assets	2,684	2,656	2,931	3,333
Cash and Equivalents	585	6,866	8,514	11,189
<b>Total Cur. Assets</b>	<b>13,053</b>	<b>20,474</b>	<b>24,492</b>	<b>29,344</b>
<b>Total Assets</b>	<b>26,010</b>	<b>33,436</b>	<b>37,430</b>	<b>42,230</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non cash items	4,246	5,733	7,317	8,464
Add/Less : Working Capital Changes	(3,112)	(316)	(1,641)	(1,502)
Operating Cash Flow	1,134	5,417	5,676	6,962
Less:- Capex	7,091	1,100	1,100	1,100
Free Cash Flow	(5,957)	4,317	4,576	5,862
Financing Cash Flow	<b>5,313</b>	<b>2,179</b>	<b>(2,817)</b>	<b>(3,184)</b>
Investing Cash Flow	921	(215)	(112)	(3)
<b>Net change in Cash</b>	<b>277</b>	<b>6,281</b>	<b>1,648</b>	<b>2,675</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	49.9	57.2	78.6	94.5
yoy Growth%	(14.0)	14.6	37.5	20.2
Cash EPS	59.3	71.3	93.2	109.4
EBITDA (%)	22.4	22.4	24.8	25.4
NPM (%)	15.9	13.8	16.1	17.0
Net Debt to Equity (x)	(0.0)	(0.1)	(0.2)	(0.3)
P/E (x)	40.9	35.7	25.9	21.6
EV/EBITDA (x)	29.0	21.4	16.3	13.6
P/BV (x)	7.4	6.5	5.5	4.7
EV/Sales (x)	6.5	4.8	4.0	3.5
ROCE (%)	19.0	18.3	20.6	21.8
ROE (%)	19.5	19.3	22.9	23.4
ROIC (%)	18.2	21.3	26.7	29.8
Book Value (Rs)	276	316	371	438
DPS (Rs)	16.5	17.1	23.5	28.3
Dividend Payout (%)	33.1	29.9	29.9	29.9
Div Yield (%)	0.8	0.8	1.2	1.4
Asset Turnover Ratio	2.5	2.5	2.9	3.3
Avg Collection days	84	69	69	69
Avg Inventory days	62	54	56	56

Source: Company data, I-Sec research



ICICI Securities Limited  
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distributor of this report

Re-initiating coverage

## Pharmaceuticals

Target price: Rs630

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	47.1	47.1	47.1
Institutional investors	41.2	43.4	42.5
MFs and UTI	16.4	16.5	17.0
Insurance Cos.	11.0	12.8	12.2
FII	13.7	14.1	13.3
Others	11.7	9.5	10.4

Source: CMIE

### ESG disclosure score

Year	2021	2022	Chg
<b>ESG score</b>	41.8	45.3	3.4
Environment	17.5	22.6	5.1
Social	29.3	34.4	5.1
Governance	78.6	78.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

Lupin



SELL

## Execution key to turnaround

**Rs774**

Lupin's (LPC) strategy of increasing market share in key US products like albuterol came at the cost of lower margins, coupled with additional pressure due to RM cost inflation further narrowing down its EBITDA margin to 10.3% in FY23. LPC is aiming to improve India presence by in-licensing brands; it has increased field force by 16% and has also forayed in diagnostic segment. Escalation in overhead costs has hit efforts to restore margin profile, while multiple delays in Spiriva launch and CRL for Dulera lead to concerns on pipeline monetisation. Hence, we remain cautious on the stock and re-initiate coverage with SELL rating and a target price of Rs630/share.

- **US growth contingent on complex launches:** LPC's recent performance in the US has improved on the back of launch of Suprep, market share gain in Performist and better flu season. LPC is likely to launch Darunavir, Diazepam Gel, and Nascobal spray in FY24. However, launch of Spiriva has been delayed by 4-6 months to H1FY24. Price erosion in base portfolio and delay in new launches will likely lead to 2% dip in its US business revenue to US\$631mn in FY23-25E.
- **Rebuilding trust with regulatory agencies being a major hurdle:** LPC has 4 plants viz Pithampur Unit 2, Somerset and Mandideep Unit 2&3 under OAI. The FDA had recently cleared the Goa plant while its Pithampur unit had received 10 observations in Mar'23 inspection of which 4 were repeat observations. Besides, FDA had sited similar observations at other sites like Somerset and Mandideep Unit 2&3 which are also under warning letter / Form 483 for these plants. The company has 167 ANDAs pending with the USFDA of which it has first to file (FTF) status in 55 products.
- **Striving to improve presence in India:** LPC has a chronic-led portfolio in India (65% of India sales). It recently acquired a portfolio of brands or Anglo French (sales of Rs950mn) which improved its ranking in vitamin nutrient mineral (VMN) therapy to 11th in India. However, discontinuation of in-licensed brand, Cidmus and competition in Gliptins is impacting LPC's India growth currently. In a bid to grow organically, it has increased field force by 16% to 7,100 MRs. We believe 12-13 new launches and MR addition will drive 10% sales CAGR in India over FY23-25E.
- **Outlook:** We expect revenue/EBITDA/PAT CAGR of 7.6%/28.8%/76.2% over FY23-FY25E. EBITDA margin is likely to improve by 450bps to ~15% in FY25E driven by launches in the US and cost-control initiatives. RoCE to remain weak at 8% in FY25E.
- **Valuations and risks:** Near-term growth momentum is highly dependent on the launch of Spiriva and Darunavir in the US market, hence, we remain cautious on the stock. We re-initiate coverage with **SELL rating** and a target price of Rs630/share based on 24x FY25E earnings. **Key upside risks:** Quick resolution of USFDA issues and ramp up of high-value launches in the US.

Market Cap	Rs352bn/US\$4.3bn
Reuters/Bloomberg	LPC IN /LUPN.BO
Shares Outstanding (mn)	455.0
52-week Range (Rs)	776/590
Free Float (%)	52.9
FII (%)	13.3
Daily Volume (US\$'000)	9,493
Absolute Return 3m (%)	4.9
Absolute Return 12m (%)	12.1
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23	FY24E	FY25E
Revenue (Rs mn)	1,64,055	1,66,417	1,82,571	1,92,628
Net Income (Rs mn)	9,015	3,824	9,835	11,869
EPS (Rs)	19.8	8.4	21.6	26.1
% Chg YoY	-32.4	-57.6	157.2	20.7
P/E (x)	39.0	92.1	35.8	29.7
CEPS (Rs)	56.3	27.8	41.8	47.4
EV/E (x)	17.7	21.9	14.7	12.8
Dividend Yield (%)	-	-	-	-
RoCE (%)	3.7	3.5	7.0	8.0
RoE (%)	6.9	3.1	7.7	8.7

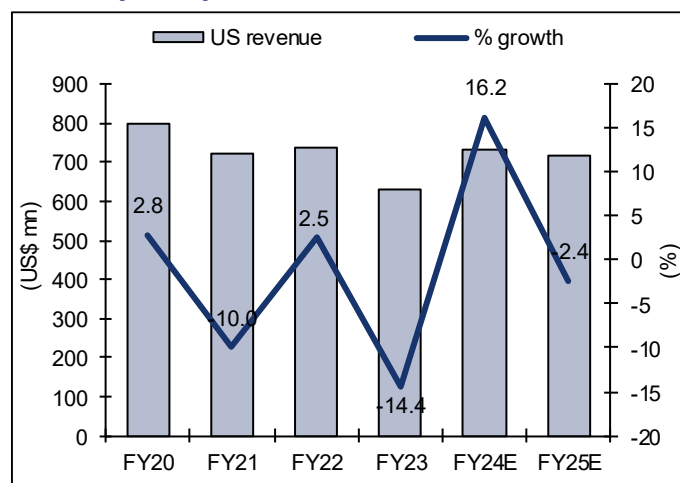
### Research Analysts:

**Abdulkader Puranwala**

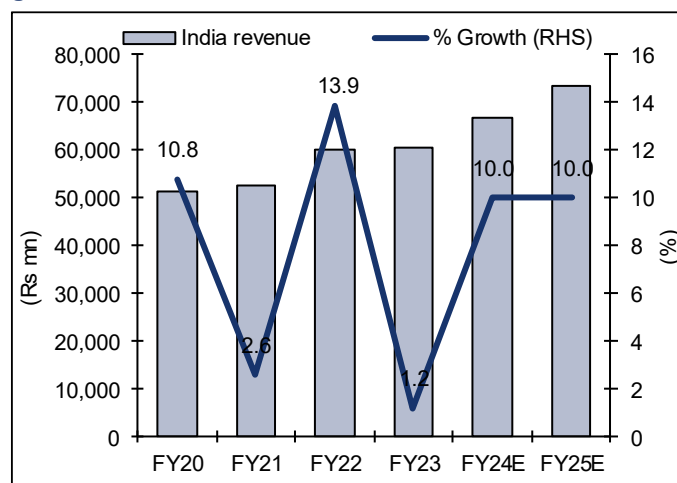
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**Rohan John**

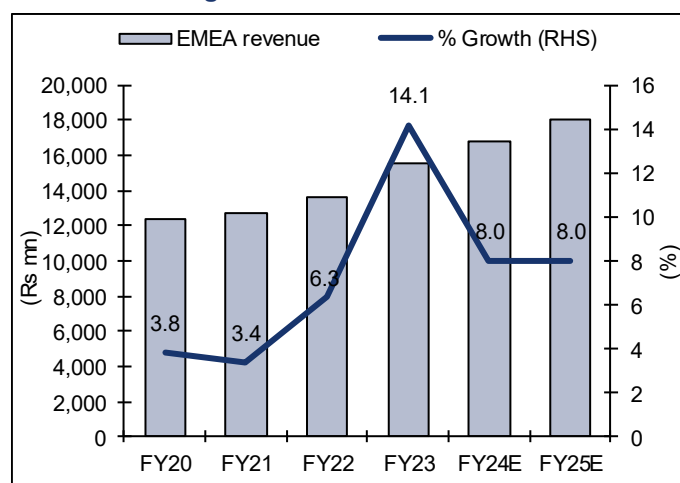
rohan.john@icicisecurities.com  
+91 22 6807 7453

**Chart 1: US sales to be muted with pricing pressures and delay in key launches**

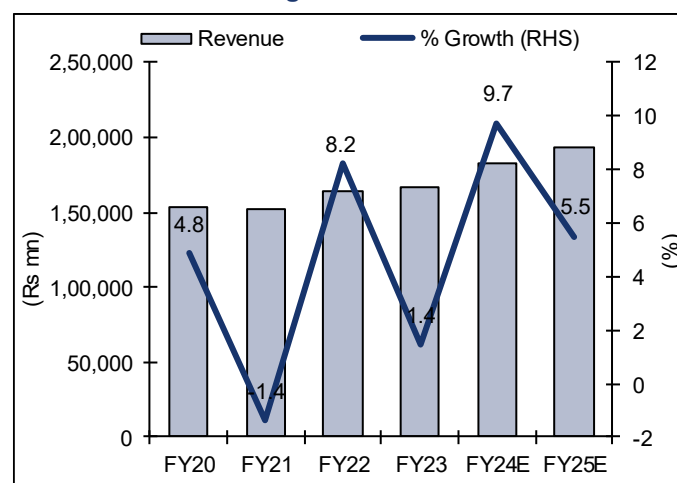
Source: Company data, I-Sec research.

**Chart 2: MR addition and launches to drive India growth**

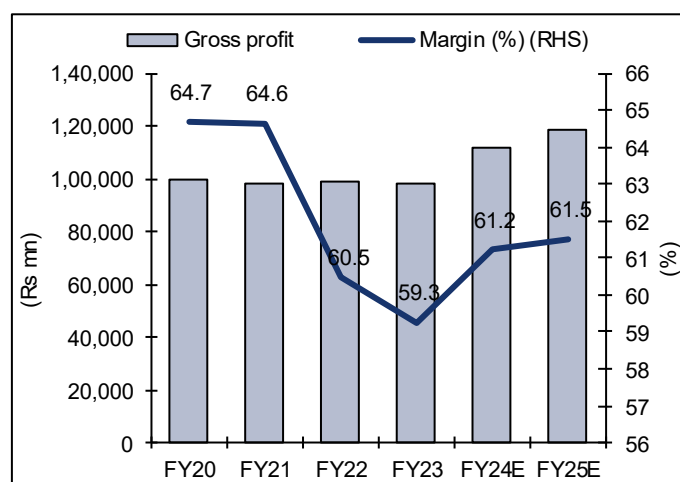
Source: Company data, I-Sec research.

**Chart 3: EMEA growth at 8% over FY23E-FY25E**

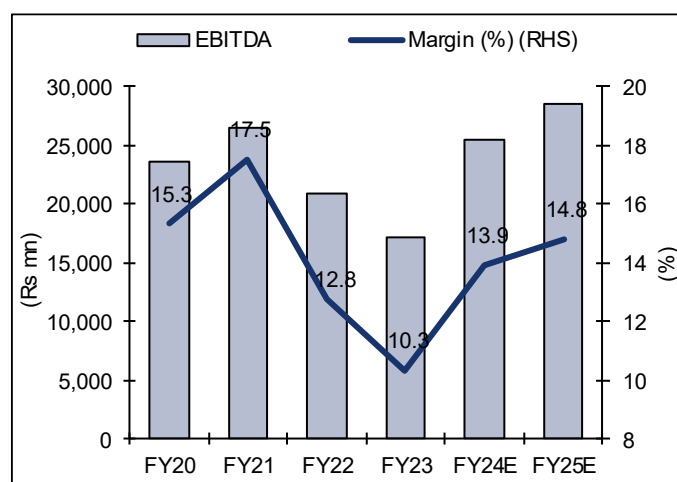
Source: Company data, I-Sec research.

**Chart 4: Revenues to grow 7.6% over FY23-FY25E**

Source: Company data, I-Sec research.

**Chart 5: Gross margins set to improve with recovery in US sales**

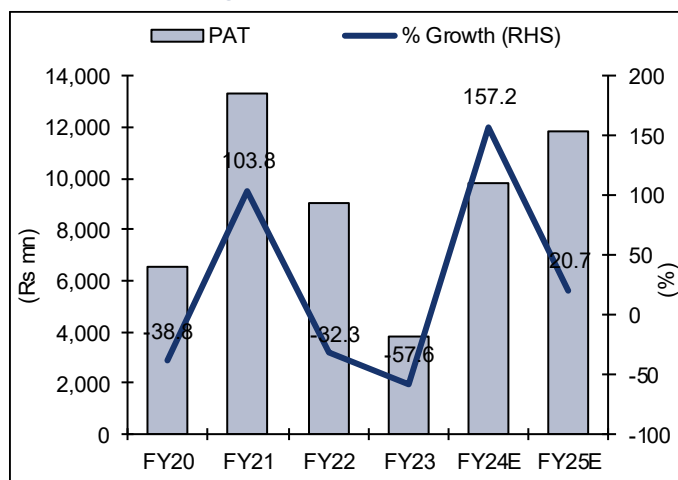
Source: Company data, I-Sec research.

**Chart 6: EBITDA margin to expand 450bps led by cost control initiatives**

Source: Company data, I-Sec research.

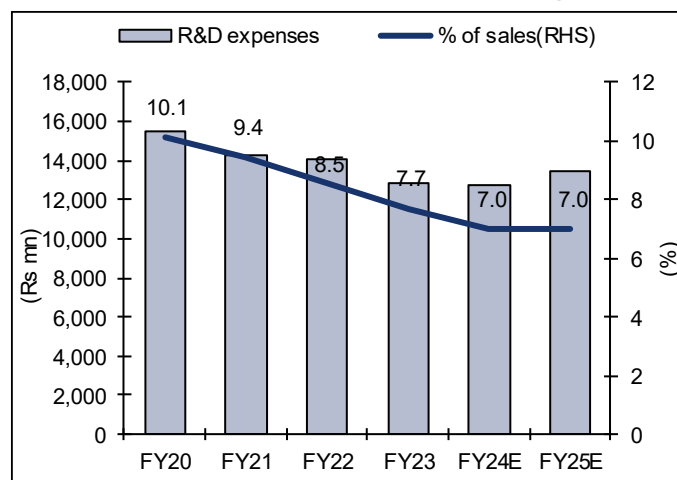


Chart 7: PAT to grow 15.4% over FY23E-FY25E



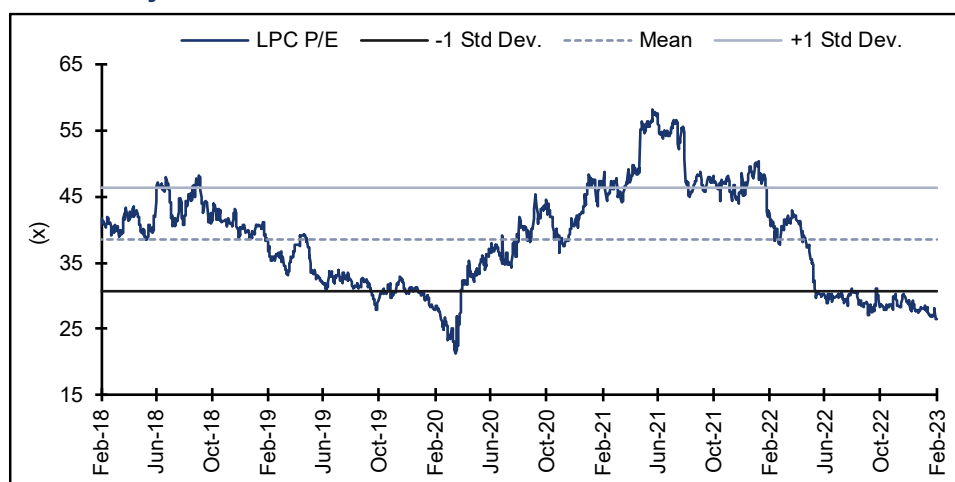
Source: Company data, I-Sec research.

Chart 8: R&amp;D spend towards US declining



Source: Company data, I-Sec research.

Chart 9: 1-year forward P/E



Source: Company data, I-Sec research

Price chart



Source: Bloomberg

## Financial summary (consolidated)

**Table 1: Profit and loss statement**
*(Rs mn, year ending March 31)*

	FY22	FY23	FY24E	FY25E
<b>Total Net Revenue</b>	<b>1,64,055</b>	<b>1,66,417</b>	<b>1,82,571</b>	<b>1,92,628</b>
yoy Growth%	8	1	10	6
<b>Total Op. Exp.</b>	<b>1,43,083</b>	<b>1,49,211</b>	<b>1,57,163</b>	<b>1,64,087</b>
<b>EBITDA</b>	<b>20,972</b>	<b>17,206</b>	<b>25,408</b>	<b>28,541</b>
Margins %	12.8	10.3	13.9	14.8
yoy Growth%				
Depreciation	16,587	8,807	9,170	9,682
<b>EBIT</b>	<b>4,385</b>	<b>8,399</b>	<b>16,238</b>	<b>18,859</b>
Other Income	1,417	734	807	888
Interest	1,428	2,743	2,420	2,097
EO Items	18,100	(776)	-	-
<b>PBT</b>	<b>(13,726)</b>	<b>7,165</b>	<b>14,625</b>	<b>17,650</b>
Tax	1,372	2,688	4,387	5,295
Tax Rate (%)	(10.0)	37.5	30.0	30.0
Minority Interest	187	176	403	486
<b>Reported PAT</b>	<b>(15,284)</b>	<b>4,301</b>	<b>9,835</b>	<b>11,869</b>
<b>Adj PAT</b>	<b>9,015</b>	<b>3,824</b>	<b>9,835</b>	<b>11,869</b>
Net Margins (%)	5.5	2.3	5.4	6.2

Source: Company data, I-Sec research

**Table 2: Balance sheet**
*(Rs mn, year ending March 31)*

	FY22	FY23	FY24E	FY25E
Paid up Capital	909	910	910	910
Reserves & Surplus	1,21,533	1,24,645	1,31,753	1,40,895
<b>Total Equity</b>	<b>1,22,442</b>	<b>1,25,555</b>	<b>1,32,663</b>	<b>1,41,805</b>
Minority Interest	687	783	1,186	1,672
<b>Total Debt</b>	<b>38,442</b>	<b>42,441</b>	<b>37,441</b>	<b>32,441</b>
Deferred Liabilities	711	738	738	738
<b>Capital Employed</b>	<b>1,61,372</b>	<b>1,68,607</b>	<b>1,71,117</b>	<b>1,75,745</b>
Current Liabilities & Prov	55,143	59,396	65,910	68,833
<b>Total Liabilities</b>	<b>2,16,515</b>	<b>2,28,003</b>	<b>2,37,027</b>	<b>2,44,579</b>
<b>Net Fixed Assets</b>	<b>85,279</b>	<b>95,932</b>	<b>95,762</b>	<b>95,080</b>
Investments	9,000	5,169	5,169	5,169
Inventory	46,307	44,918	48,344	51,007
Debtors	42,619	44,807	49,157	51,864
Other Current Assets	22,328	24,246	26,197	27,411
Cash and Equivalents	10,981	12,931	12,398	14,047
<b>Total Cur. Assets</b>	<b>1,31,236</b>	<b>1,32,071</b>	<b>1,41,265</b>	<b>1,49,499</b>
<b>Total Assets</b>	<b>2,16,515</b>	<b>2,28,003</b>	<b>2,37,027</b>	<b>2,44,579</b>

Source: Company data, I-Sec research

**Table 3: Cashflow statement**
*(Rs mn, year ending March 31)*

	FY22	FY23	FY24E	FY25E
Cash profit adjusted for non cash items	19,364	14,742	21,021	23,246
Add/Less : Working Capital Changes	(649)	1,538	(3,214)	(3,662)
Operating Cash Flow	18,715	16,280	17,807	19,585
Less:- Capex	12,396	19,460	9,000	9,000
Free Cash Flow	6,319	(3,181)	8,807	10,585
Financing Cash Flow	<b>3,211</b>	<b>6,006</b>	<b>(7,727)</b>	<b>(7,727)</b>
Investing Cash Flow	2,128	(1,650)	(1,613)	(1,209)
<b>Net change in Cash</b>	<b>11,658</b>	<b>1,176</b>	<b>(533)</b>	<b>1,649</b>

Source: Company data, I-Sec research

**Table 4: Key ratios**
*(Year ending March 31)*

	FY22	FY23	FY24E	FY25E
Adj EPS	19.8	8.4	21.6	26.1
yoy Growth%	(32.4)	(57.6)	157.2	20.7
Cash EPS	56.3	27.8	41.8	47.4
EBITDA (%)	12.8	10.3	13.9	14.8
NPM (%)	5.5	2.3	5.4	6.2
Net Debt to Equity (x)	0.2	0.2	0.2	0.1
P/E (x)	39.0	92.1	35.8	29.7
EV/EBITDA (x)	17.7	21.9	14.7	12.8
P/BV (x)	2.9	2.8	2.7	2.5
EV/Sales (x)	2.3	2.3	2.0	1.9
ROCE (%)	3.7	3.5	7.0	8.0
ROE (%)	6.9	3.1	7.7	8.7
ROIC (%)	(8.2)	6.4	10.7	12.2
Book Value (Rs)	267	274	290	310
DPS (Rs)	6.5	4.0	6.0	6.0
Dividend Payout (%)	(19.3)	42.4	27.7	23.0
Asset Turnover Ratio	1.2	1.1	1.1	1.1
Avg Collection days	95	98	98	98
Avg Inventory days	103	99	97	97

Source: Company data, I-Sec research

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Re-initiating coverage

## Pharmaceuticals

Target price: Rs635

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	48.8	48.8	48.8
Institutional investors	27.0	26.7	29.8
MFs and UTI	6.8	8.2	8.5
Insurance Cos.	7.5	6.2	6.4
FII	12.7	12.3	14.6
Others	24.2	24.5	21.4

Source: CMIE

### ESG disclosure score

Year	2021	2022	Chg
<b>ESG score</b>	<b>46.8</b>	<b>52.6</b>	<b>5.7</b>
Environment	31.2	31.2	0.0
Social	30.6	47.8	17.3
Governance	78.6	78.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

# Natco Pharma

HOLD

## Revlimid market expansion to boost growth

**Rs623**

Natco has a proven track record of achieving success in high-entry barrier products like Tamiflu, Copaxone, Doxil and now Revlimid. The company also has a robust pipeline of multiple limited-competition products like Imbruvica, Aubagio, Kyprolis and Pomalyst which could continue to drive US growth in the near term. To aid sustainable growth, the company is foraying in agrochemicals, wherein it is on the verge of launching CTPR in India and has a few products in the pipeline which will help it boost growth beyond FY24. Domestic business is likely to be driven by new launches and potential inorganic opportunities. We re-initiate coverage on Natco with HOLD rating due to muted near-term prospects and an SoTP-based target price of Rs635.

- **Exports- complex generics to fuel growth post Revlimid:** Exports business had strong growth (~3.6x in last 7 years; 57% of revenue) benefitting from R&D investments (7-9% of sales in the past few years) in complex generics. Natco's product portfolio includes 44 approved ANDA's with 19 pending PARA IVs filings. Apart from Revlimid, the company also has a robust pipeline of multiple limited-competition products like Imbruvica, Aubagio, Kyprolis and Pomalyst which could continue to drive US growth supported by traction in Afinitor, Sorafenib, etc.
- **India business- headwinds linger:** Natco's India business has faced the brunt of increased competition, pricing pressures and prolonged negative impact of covid-19 on the oncology portfolio. With 39 products, it has one of the widest oncology portfolio in India catering to diseases including breast, lung and ovarian cancers. It plans to scale up cardio and diabetic segments by launching products where it would be among the first handful entrants after patent expiry. It launched 14 new products in FY22 (highest since inception) and targets ~10-15% growth in the near term. Besides, it is also actively looking for avenues to grow inorganically. We expect domestic business to grow at 10.8% over FY23E-FY25E.
- **Agrochemicals – lever for future growth:** Natco has also ventured into organic agrochemicals (pesticides) business by leveraging the existing (pharma R&D) chemistry and manufacturing skills. It targets molecules going off patent over the next 3–5 years and has invested Rs1.5bn in a greenfield plant in Nellore. Post the favourable Delhi HC ruling, the company launched CTPR under the brand name NATGEN. We expect 140% CAGR for its CHS division over FY23E-FY25E on a small base, driven by ramp up in CTPR sales and new launches.
- **Outlook:** Ramp-up in Revlimid, recovery in domestic formulation market and uptick in revenue in limited-competition products will likely drive overall growth. We expect 8.7% revenue and -0.8% PAT CAGRs over FY23E-FY25E.
- **Valuations and risks:** We re-initiate coverage on Natco with **HOLD** rating and an SoTP-based target price of Rs635/share, including NPV of Rs206/share for Revlimid. **Key upside risks:** Delay in competition in Revlimid and healthy growth in domestic business. **Key downside risks:** Delay in US launches, increased competition in Copaxone and Revlimid.

Market Cap	Rs114bn/US\$1.4bn
Reuters/Bloomberg	NCPH IN /NATP.BO
Shares Outstanding (mn)	182.5
52-week Range (Rs)	781/524
Free Float (%)	51.2
FII (%)	14.6
Daily Volume (US\$'000)	2,321
Absolute Return 3m (%)	19.0
Absolute Return 12m (%)	(7.2)
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	19,448	25,890	27,876	30,614
Net Income (Rs mn)	1,700	6,372	5,863	6,270
EPS (Rs)	9.3	34.9	32.1	34.4
% Chg YoY	(61.5)	274.8	(8.0)	6.9
P/E (x)	67.0	17.9	19.4	18.2
CEPS (Rs)	17.1	42.8	41.0	44.2
EV/E (x)	42.7	12.7	13.3	12.3
Dividend Yield (%)	0.3	1.1	1.0	1.1
RoCE (%)	4.0	13.1	11.1	10.9
RoE (%)	4.1	14.1	11.8	11.5

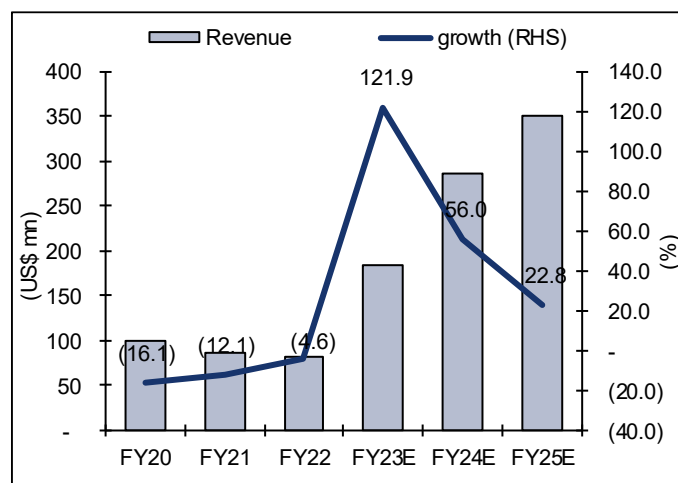
### Research Analysts:

**Abdulkader Puranwala**

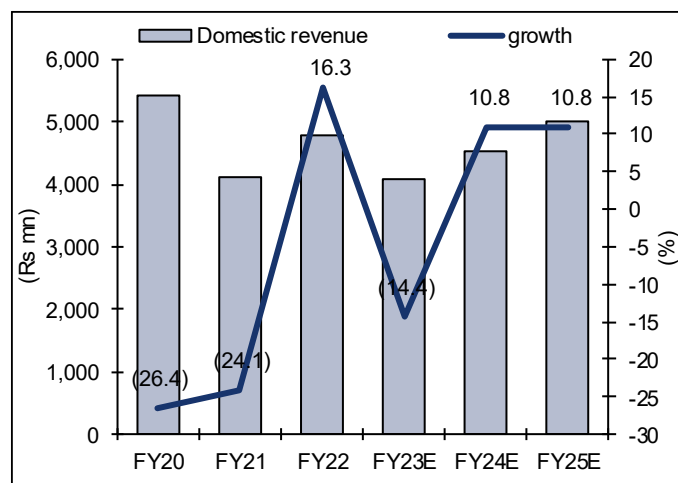
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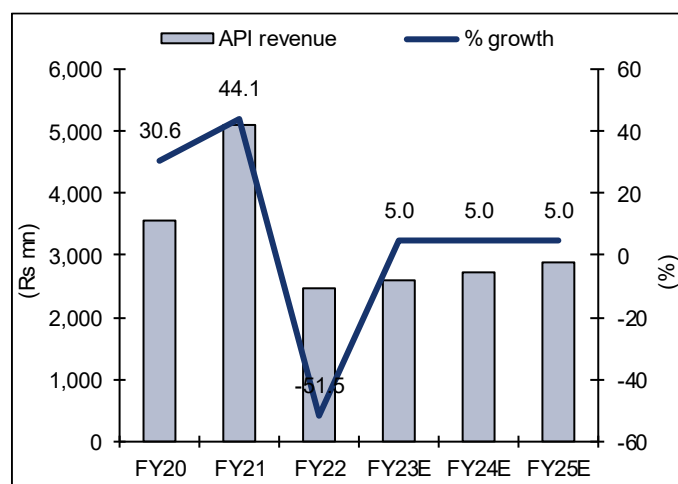
rohan.john@icicisecurities.com  
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**Chart 1: US growth to be supported by Revlimid and other limited competition products**

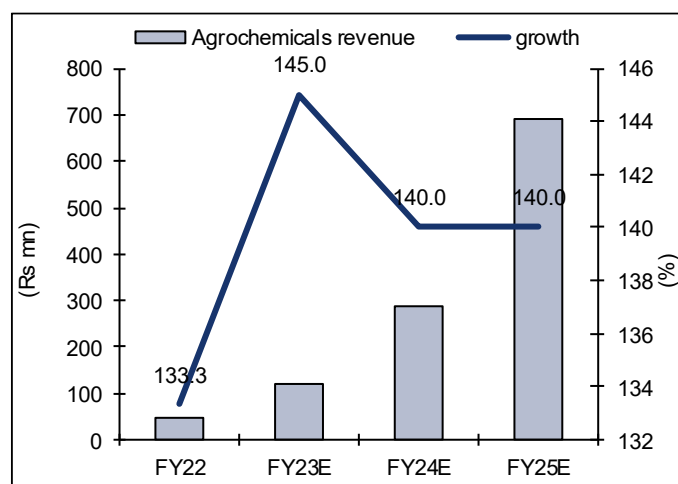
Source: Company data, I-Sec research.

**Chart 2: India to grow 10.8% CAGR over FY23E-25E**

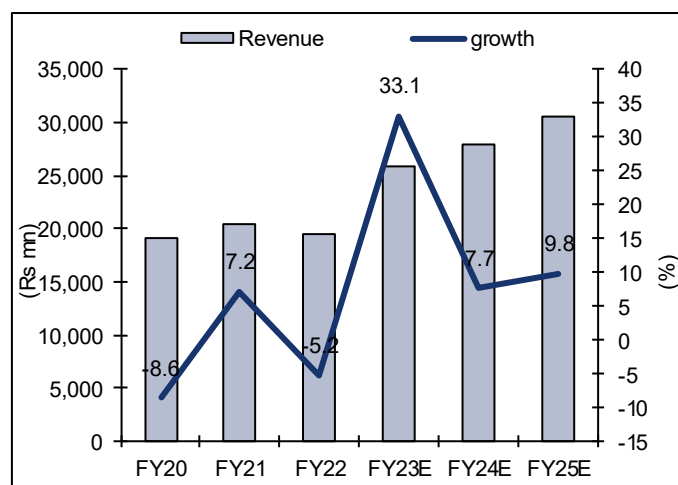
Source: Company data, I-Sec research.

**Chart 3: API to register 5% CAGR growth in FY23E-FY25E**

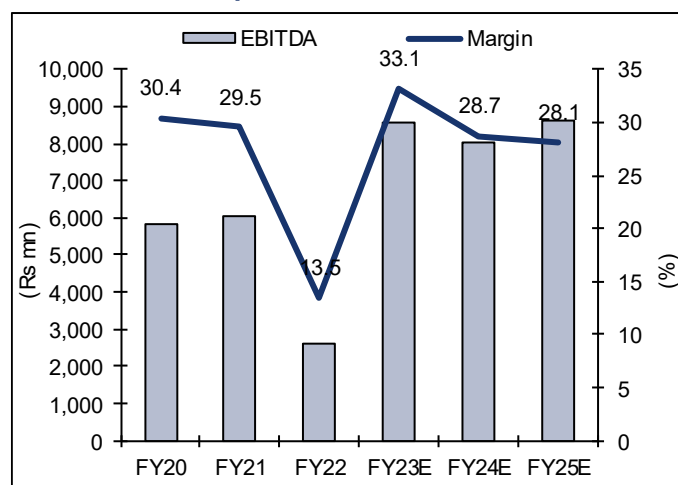
Source: Company data, I-Sec research.

**Chart 4: CTPR ramp up to drive agrochemicals revenues**

Source: Company data, I-Sec research.

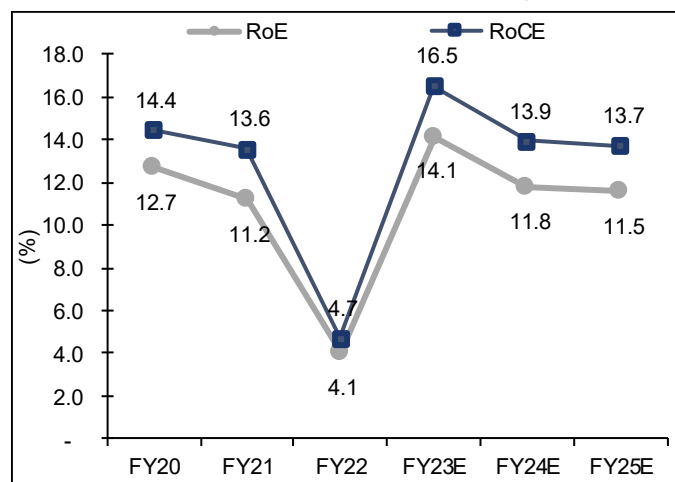
**Chart 5: Total revenue to grow 8.7% over FY23E-25E**

Source: Company data, I-Sec research.

**Chart 6: EBITDA margins to taper down with incremental competition in Revlimid**

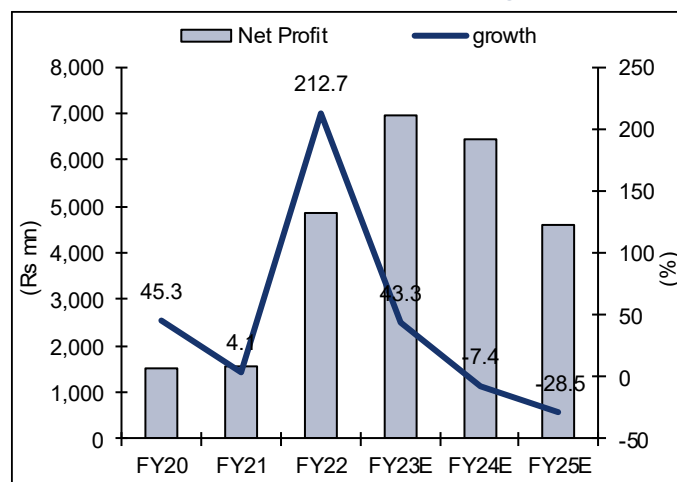
Source: Company data, I-Sec research.

Chart 7: Return ratios to remain healthy



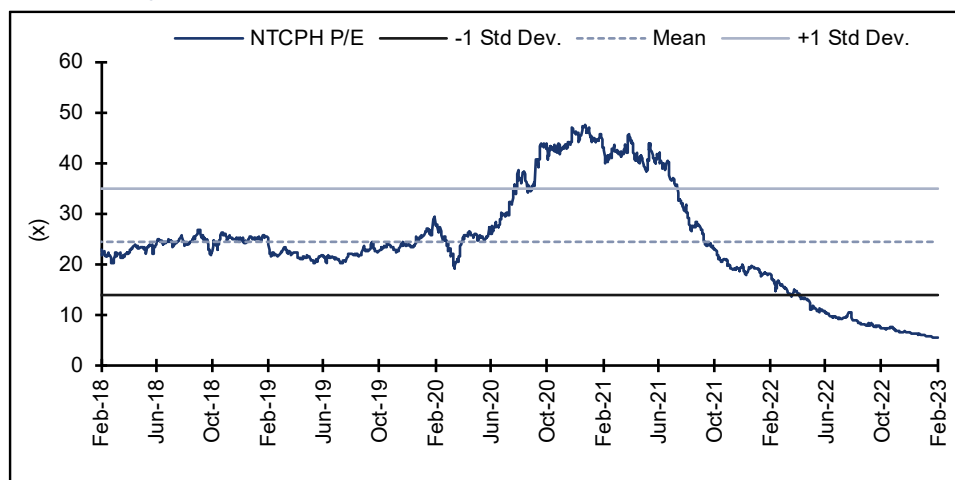
Source: Company data, I-Sec research.

Chart 8: Net profits to decline on a high base



Source: Company data, I-Sec research.

Chart 9: 1-year forward P/E



Source: Company data, I-Sec research

Price chart



Source: Bloomberg

## Financial summary (consolidated)

Table 1: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Total Net Revenue</b>	<b>19,448</b>	<b>25,890</b>	<b>27,876</b>	<b>30,614</b>
yoy Growth%	(5)	33	8	10
<b>Total Op. Exp.</b>	<b>16,813</b>	<b>17,315</b>	<b>19,866</b>	<b>22,003</b>
<b>EBITDA</b>	<b>2,635</b>	<b>8,575</b>	<b>8,010</b>	<b>8,612</b>
Margins %	13.5	33.1	28.7	28.1
yoy Growth%				
Depreciation	1,426	1,433	1,611	1,788
<b>EBIT</b>	<b>1,209</b>	<b>7,142</b>	<b>6,399</b>	<b>6,823</b>
Other Income	990	1,182	1,269	1,365
Interest	177	154	152	150
EO Items	-	-	-	-
<b>PBT</b>	<b>2,022</b>	<b>8,169</b>	<b>7,517</b>	<b>8,038</b>
Tax	322	1,797	1,654	1,768
Tax Rate (%)	15.9	22.0	22.0	22.0
Minority Interest	-	-	-	-
<b>Reported PAT</b>	<b>1,700</b>	<b>6,372</b>	<b>5,863</b>	<b>6,270</b>
<b>Adj PAT</b>	<b>1,700</b>	<b>6,372</b>	<b>5,863</b>	<b>6,270</b>
Net Margins (%)	8.7	24.6	21.0	20.5

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid up Capital	365	365	365	365
Reserves & Surplus	42,636	47,476	51,929	56,691
<b>Total Equity</b>	<b>43,001</b>	<b>47,841</b>	<b>52,294</b>	<b>57,056</b>
Minority Interest	-	-	-	-
<b>Total Debt</b>	<b>4,155</b>	<b>4,105</b>	<b>4,055</b>	<b>4,005</b>
Deferred Liabilities	301	301	301	301
<b>Capital Employed</b>	<b>47,092</b>	<b>51,882</b>	<b>56,285</b>	<b>60,997</b>
Current Liabilities & Prov	3,999	4,418	4,670	5,017
<b>Total Liabilities</b>	<b>51,091</b>	<b>56,300</b>	<b>60,955</b>	<b>66,014</b>
<b>Net Fixed Assets</b>	<b>24,413</b>	<b>26,480</b>	<b>28,369</b>	<b>30,080</b>
Investments	3,081	3,081	3,081	3,081
Inventory	7,620	7,399	7,393	8,175
Debtors	6,206	4,256	4,582	5,032
Other Current Assets	7,710	9,118	9,817	10,781
Cash and Equivalents	2,061	5,967	7,713	8,864
<b>Total Cur. Assets</b>	<b>26,678</b>	<b>29,820</b>	<b>32,586</b>	<b>35,934</b>
<b>Total Assets</b>	<b>51,091</b>	<b>56,300</b>	<b>60,955</b>	<b>66,014</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non cash items	2,157	6,778	6,357	6,843
Add/Less : Working Capital Changes	(1,552)	1,182	(768)	(1,849)
Operating Cash Flow	605	7,960	5,589	4,994
Less:- Capex	3,373	3,500	3,500	3,500
Free Cash Flow	(2,768)	4,460	2,089	1,494
Financing Cash Flow	<b>1,027</b>	<b>(1,582)</b>	<b>(1,460)</b>	<b>(1,558)</b>
Investing Cash Flow	967	1,028	1,117	1,215
<b>Net change in Cash</b>	<b>(774)</b>	<b>3,906</b>	<b>1,746</b>	<b>1,151</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	9.3	34.9	32.1	34.4
yoy Growth%	(61.5)	274.8	(8.0)	6.9
Cash EPS	17.1	42.8	41.0	44.2
EBITDA (%)	13.5	33.1	28.7	28.1
NPM (%)	8.7	24.6	21.0	20.5
Net Debt to Equity (x)	(0.0)	(0.1)	(0.1)	(0.1)
P/E (x)	67.0	17.9	19.4	18.2
EV/EBITDA (x)	42.7	12.7	13.3	12.3
P/BV (x)	2.7	2.4	2.2	2.0
EV/Sales (x)	5.8	4.2	3.8	3.5
ROCE (%)	4.0	13.1	11.1	10.9
ROE (%)	4.1	14.1	11.8	11.5
Book Value (Rs)	234	260	285	311
DPS (Rs)	1.9	7.0	6.4	6.9
Dividend Payout (%)	24.0	24.0	24.0	24.0
Div Yield (%)	0.3	1.1	1.0	1.1
Asset Turnover Ratio	0.7	0.8	0.8	0.8
Avg Collection days	116	60	60	60
Avg Inventory days	143	104	97	97

Source: Company data, I-Sec research



ICICI Securities Limited  
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Re-initiating coverage

## Pharmaceuticals

Target price: Rs4,200

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	63.9	63.9	63.9
Institutional investors	17.3	17.7	17.7
MFs and UTI	6.5	6.0	6.0
Insurance Cos.	8.3	8.9	8.9
FII	2.5	2.8	2.8
Others	18.8	18.4	18.4

Source: CMIE

### ESG disclosure score

Year	2021	2022	Chg
<b>ESG score</b>	<b>40.4</b>	<b>40.9</b>	<b>0.5</b>
Environment	16.8	21.9	5.1
Social	25.7	22.2	-3.5
Governance	78.6	78.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

Pfizer

ADD

## Strong balance sheet, deep cash reserves key positives

**Rs3,772**

Pfizer (PFL) is the 3<sup>rd</sup> largest MNC in India with a portfolio of 142 products across 15 therapeutic segments. Majority of Pfizer's revenue is derived from Global Established Pharma products. Its top brands include a number of household names like Becosules, Gelusil and Folvite, among others. We remain positive on PFL's growth visibility with exposure only in domestic formulations and strong balance sheet with deep cash reserves. We believe PFL's near-term growth would be muted due to high base of VMN and cardiac segments but recovery in vaccines could support growth. Its reasonable valuations enhance our positive view, hence, we re-initiate coverage on PFL with ADD rating and target price of Rs4,200/share.

- **Covid, brand divestment took a toll on growth:** PFL's top 5 brands generate ~38% of overall revenue while its top 20 products contribute ~83%. Over the past couple of years, growth in Becosules, Prevenar-13, Magnex and Dolonex, declined 3.3% lagging the industry and dragging the company's overall revenue growth to ~1% over FY20-FY23E. Prevenar-13, its pneumococcal conjugate vaccine's revenue declined 6.5% in the last three years as covid affected vaccination volumes. As a part of Mylan Upjohn merger, Pfizer India divested six brands (Lyrica, Amlogard, Daxid, Dilantin, Viagra and Fumycin). These had annual sales of Rs800m and accounted for ~3% of sales.
- **Building the next set of power brands:** PFL has segmented its brands into three broad categories – innovative global brands (Prevenar 13, Ativan, Viagra, Zosyn, Minipress XL, Meronem, Enbrel, etc.), brands with global linkage (Dolonex, Magnex, Amlogard, Trulimax, Daxid, Nexium, etc.) and local brands (Becosules, Gelusil, Mucaine, Folvite, Autrin, Citralka, Corex, etc). This has helped PFL identify products with latent potential to become power brands. Corex DX and Eliquis are a few such brands, which have grown 11.1% and 17.5%, respectively, over FY20-FY23E.
- **Healthy financials and returns profile:** We expect revenue and PAT CAGRs at 10.5% and 11.8%, respectively, over FY23E-FY25E with high marketing costs restricting EBITDA margin to ~33%. This would help PFL generate healthy free cashflow of ~Rs19bn over FY23E-FY25E. Its RoIC and RoCE profiles are very strong at ~43% and 20% in FY23E with minimal capex requirement.
- **Valuations and risks:** Pfizer's recent performance has been marred by brand divestments and a slowdown in therapies like VMN and cardiac. However, growth in brands like Zaficefta, Magnex and Minipres-XL continues to remain robust. Besides, the company can take healthy price hikes in non-NLEM portfolio (~ 87% of sales). Cash balance of Rs21bn in FY23E provides an opportunity to reward shareholders or M&A activity (brand acquisitions). We re-initiate coverage on PFL with **ADD** rating and target price of Rs4,200/share (based on 26x FY25E earnings). **Key downside risks:** Addition of key drugs in NLEM, product concentration, government intervention, and presence of unlisted promoter company.

Market Cap	Rs173bn/US\$2.1bn
Reuters/Bloomberg	PFIZ.BO/PFIZ IN
Shares Outstanding (mn)	45.7
52-week Range (Rs)	4599 / 3443
Free Float (%)	36.1
FII (%)	2.8
Daily Volume (US\$'000)	598
Absolute Return 3m (%)	(5.0)
Absolute Return 12m (%)	(9.0)
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	26,110	24,377	26,829	29,763
Net Income (Rs mn)	6,126	5,926	6,695	7,412
EPS (Rs)	143.1	129.5	146.3	162.0
% Chg YoY	23.7	(9.5)	13.0	10.7
P/E (x)	28.3	29.3	25.9	23.4
CEPS (Rs)	147.4	152.0	170.0	187.0
EV/E (x)	18.8	18.7	16.1	14.0
Dividend Yield (%)	1.0	0.9	1.1	1.2
RoCE (%)	23.9	19.8	19.4	18.7
RoE (%)	23.3	19.3	18.9	18.3

### Research Analysts:

**Abdulkader Puranwala**

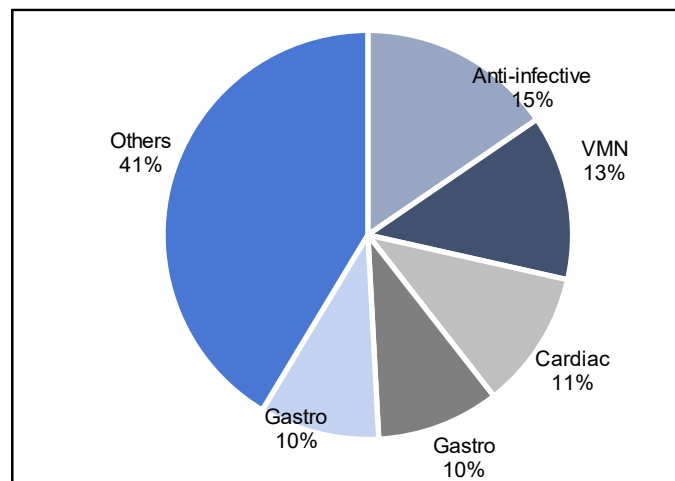
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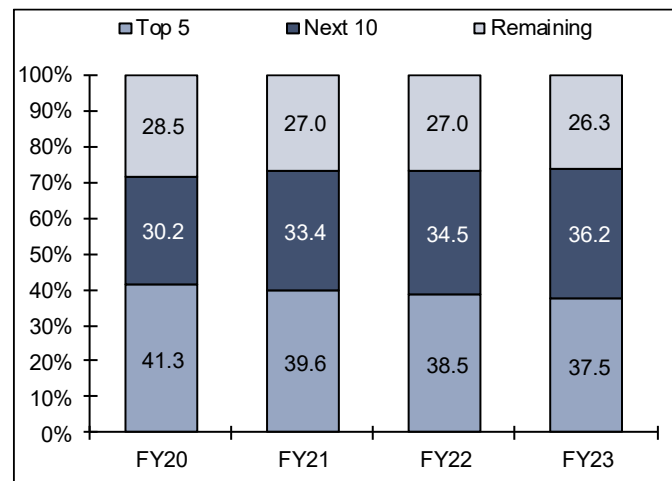


Chart 1: Acute heavy portfolio mix



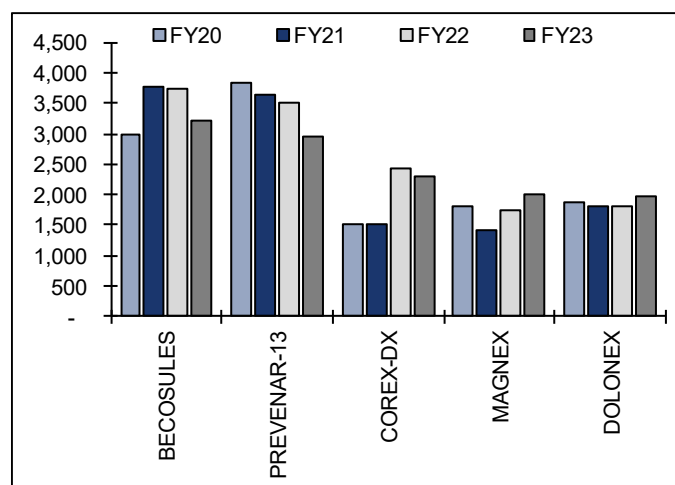
Source: IQVIA, I-Sec research.

Chart 2: Top 15 brands account for ~70% of the revenues



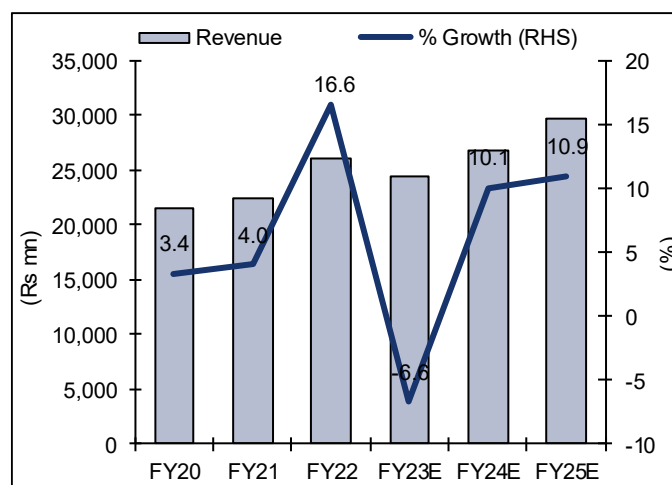
Source: IQVIA, I-Sec research.

Chart 3: Growth in Top 5 brands



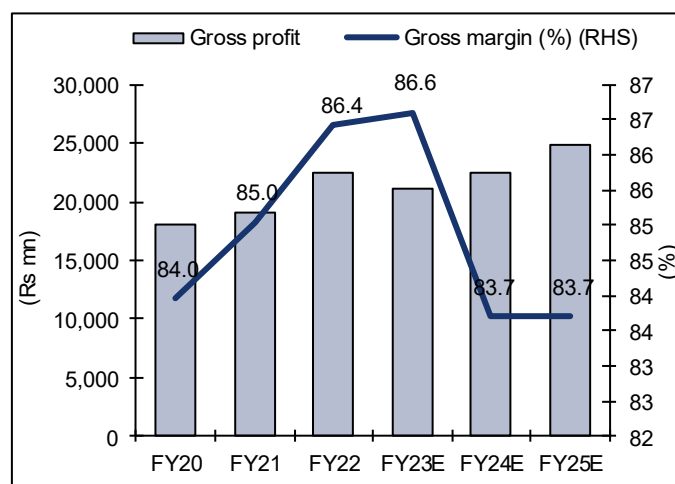
Source: IQVIA, I-Sec research.

Chart 4: Revenues to grow at 10.5% CAGR over FY23E-FY25E



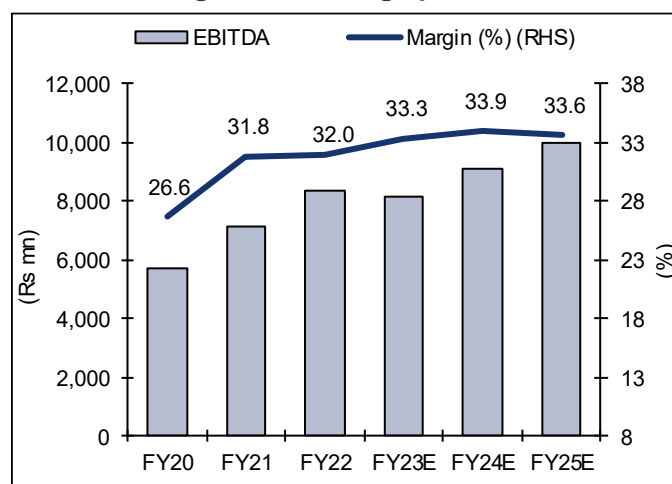
Source: Company data, I-Sec research.

Chart 5: Gross margins to decline on a high base

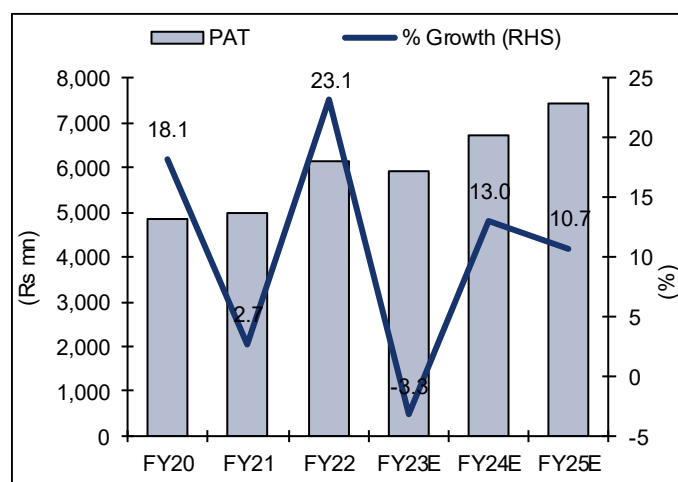


Source: Company data, I-Sec research.

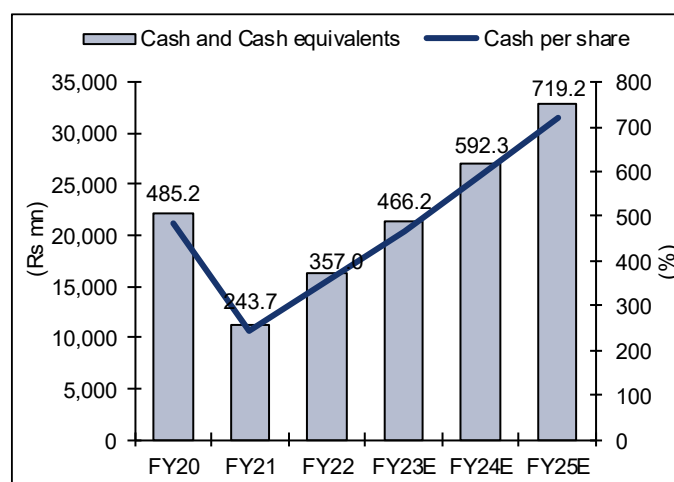
Chart 6: EBITDA margins to stabilize at ~33% by FY25E with higher marketing spend



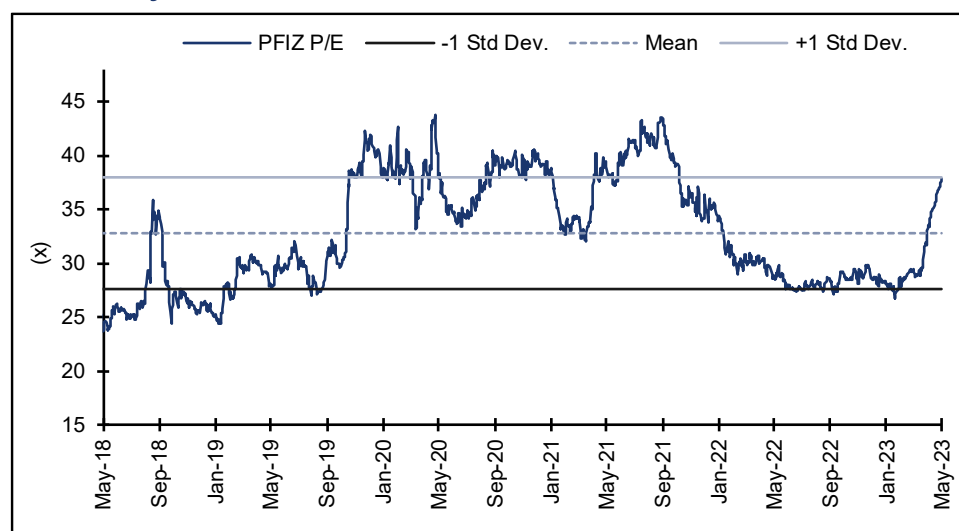
Source: Company data, I-Sec research.

**Chart 7: Net Profit to grow 11.8% over FY23E-FY25E**

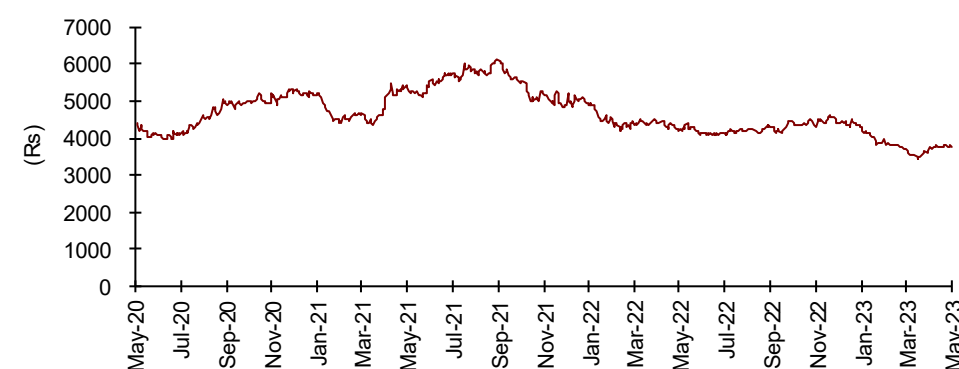
Source: Company data, I-Sec research.

**Chart 8: Healthy cash generation over the years**

Source: Company data, I-Sec research.

**Chart 9: 1-year forward P/E**

Source: Company data, I-Sec research

**Price chart**

Source: Bloomberg

## Financial summary (consolidated)

Table 1: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Total Net Revenue</b>	<b>26,110</b>	<b>24,377</b>	<b>26,829</b>	<b>29,763</b>
yoy Growth%	17	(7)	10	11
<b>Total Op. Exp.</b>	<b>17,753</b>	<b>16,249</b>	<b>17,723</b>	<b>19,758</b>
<b>EBITDA</b>	<b>8,357</b>	<b>8,128</b>	<b>9,106</b>	<b>10,005</b>
Margins %	32.0	33.3	33.9	33.6
yoy Growth%				
Depreciation	1,150	1,025	1,083	1,144
<b>EBIT</b>	<b>7,207</b>	<b>7,102</b>	<b>8,023</b>	<b>8,861</b>
Other Income	627	900	1,004	1,122
Interest	105	100	100	100
EO Items	-	-	-	-
<b>PBT</b>	<b>7,729</b>	<b>7,902</b>	<b>8,927</b>	<b>9,883</b>
Tax	1,603	1,975	2,232	2,471
Tax Rate (%)	20.7	25.0	25.0	25.0
Minority Interest	-	-	-	-
<b>Reported PAT</b>	<b>6,126</b>	<b>5,926</b>	<b>6,695</b>	<b>7,412</b>
<b>Adj PAT</b>	<b>6,126</b>	<b>5,926</b>	<b>6,695</b>	<b>7,412</b>
Net Margins (%)	23.5	24.3	25.0	24.9

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid up Capital	458	458	458	458
Reserves & Surplus	28,644	32,926	37,763	43,119
<b>Total Equity</b>	<b>29,102</b>	<b>33,383</b>	<b>38,221</b>	<b>43,576</b>
Minority Interest	-	-	-	-
<b>Total Debt</b>	<b>25</b>	<b>25</b>	<b>25</b>	<b>25</b>
Deferred Liabilities	(470)	(470)	(470)	(470)
<b>Capital Employed</b>	<b>28,199</b>	<b>32,481</b>	<b>37,318</b>	<b>42,674</b>
Current Liabilities & Prov	10,336	9,239	10,441	11,028
<b>Total Liabilities</b>	<b>38,535</b>	<b>41,720</b>	<b>47,759</b>	<b>53,702</b>
<b>Net Fixed Assets</b>	<b>8,421</b>	<b>7,646</b>	<b>6,813</b>	<b>5,933</b>
Investments	282	282	282	282
Inventory	4,489	3,832	4,485	4,968
Debtors	1,243	1,135	1,250	1,386
Other Current Assets	7,768	7,498	7,832	8,231
Cash and Equivalents	16,333	21,327	27,099	32,901
<b>Total Cur. Assets</b>	<b>30,114</b>	<b>34,074</b>	<b>40,946</b>	<b>47,768</b>
<b>Total Assets</b>	<b>38,535</b>	<b>41,720</b>	<b>47,759</b>	<b>53,702</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non cash items	6,174	6,152	6,874	7,534
Add/Less : Working Capital Changes	536	(64)	102	(432)
Operating Cash Flow	6,710	6,088	6,976	7,102
Less:- Capex	896	250	250	264
Free Cash Flow	5,814	5,838	6,726	6,838
Financing Cash Flow	(645)	(845)	(954)	(1,035)
Investing Cash Flow	14	-	-	-
<b>Net change in Cash</b>	<b>5,182</b>	<b>4,993</b>	<b>5,772</b>	<b>5,803</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	143.1	129.5	146.3	162.0
yoy Growth%	23.7	(9.5)	13.0	10.7
Cash EPS	147.4	152.0	170.0	187.0
EBITDA (%)	32.0	33.3	33.9	33.6
NPM (%)	23.5	24.3	25.0	24.9
Net Debt to Equity (x)	(0.6)	(0.6)	(0.7)	(0.8)
P/E (x)	28.3	29.3	25.9	23.4
EV/EBITDA (x)	18.8	18.7	16.1	14.0
P/BV (x)	6.1	5.3	4.6	4.0
EV/Sales (x)	6.0	6.2	5.5	4.7
ROCE (%)	23.9	19.8	19.4	18.7
ROE (%)	23.3	19.3	18.9	18.3
ROIC (%)	47.5	43.5	52.2	61.0
Book Value (Rs)	626	720	825	942
DPS (Rs)	37.4	35.9	40.6	45.0
Dividend Payout (%)	27.9	27.8	27.8	27.8
Div Yield (%)	1.0	0.9	1.1	1.2
Asset Turnover Ratio	3.0	2.9	3.6	4.5
Avg Collection days	17	17	17	17
Avg Inventory days	63	57	61	61

Source: Company data, I-Sec research

ICICI Securities Limited  
is the author and  
distributor of this report

Re-initiating coverage

## Pharmaceuticals

Target price: Rs6,500

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	60.4	60.4	60.4
Institutional investors	27.3	26.2	26.2
MFs and UTI	11.0	9.4	9.5
Insurance Cos.	8.8	9.8	9.9
FII's	7.5	7.0	6.8
Others	12.3	13.4	13.4

Source: CMIE

### ESG disclosure score

Year	2020	2021	Chg
<b>ESG score</b>	<b>40.7</b>	<b>39.3</b>	<b>(1.4)</b>
Environment	24.2	24.2	0.0
Social	19.2	15.1	(4.2)
Governance	78.6	78.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

Sanofi

 **ICICI Securities**

**HOLD**

## Growth risk looming

**Rs6,444**

Sanofi (SANL) is a dominant player in the insulin market in India. Its key brand Lantus (Rs5.6bn in CY22) is the most prescribed basal insulin brand in the modern insulin segment. At present, Sanofi India has 6 major anti-diabetes brand including Lantus, Toujeo, Apidra, Amaryl, Insuman & Soliqua in its portfolio. We remain positive on SANL given its high exposure in the fast-growing chronic therapy in domestic formulations and strong balance sheet with deep cash reserves. While we expect near-term performance to be modest, recent correction in the stock price (~10% in past 6 months) has made valuations fair. We re-initiate coverage on the stock with Hold rating and TP of Rs6,500/share.

- **Lantus price cut may dampen India growth:** SANL took a mandated 25% price cut in Lantus in Apr'23. Sales share of price-controlled products has risen to ~40%. The company is likely to take a blended price hike of ~8% on its India branded portfolio in FY24. Management expects EBITDA margin of Lantus to be intact as the price impact will be observed by the group entity. We believe lower prices will drive an uptick in volumes, which should partially offset the price impact. We expect SANL's India business to exhibit 3.2% CAGR in CY22-24E.
- **Demerger to carve value accretive business:** SANL is demerging its consumer biz into a separate listed entity, Sanofi Consumer Healthcare India Limited (SCHIL). SCHIL had sales of Rs 7.28bn at end of CY22 and accounted for 28% of overall sales with margins 800-1000bps over company level. Consumer biz has grown at 8-8.5% CAGR over last 3years as against 3.5% CAGR of combined entity. It can also take reasonable price hikes on consumer brands which will improve margins.
- **Exports continue to be a lucrative opportunity:** Sanofi's exports revived in CY22 and the business grew 26% in Q4CY22. Post divestment of a portion of export business to Advent, sales contribution from exports had dropped to 17% of sales which had jumped to 20% in CY22. Though export business is a low-margin business, it plays a critical role in absorbing plant-level cost and boosting overall revenue growth. We expect exports to grow at a faster pace of 16% over CY22-24E.
- **Outlook:** We expect revenue/EBITDA/PAT CAGR of 6.0%/7.9%/10.1% over CY22-CY24E with declining contribution from exports, respectively. Despite high inflationary environment, we expect EBITDA margin to remain at ~26% over CY22-CY23E, with rising contribution of domestic revenue supporting margins.
- **Valuations and risks:** Value unlocking on account of demerger has lifted stock price in past few days. Post demerger Lantus contribution will jump to 35% of India sales and broader growth concerns continue to prevail. We re-initiate coverage on the stock with **HOLD rating** and target price of Rs6,500/share based on 23x CY24E EPS. **Key upside risks:** New product launches and price increases **Key downside risks:** Addition of key drugs in NLEM and presence of unlisted promoter company.

Market Cap	Rs148bn/US\$1.8bn
Reuters/Bloomberg	SANL IN /SANO.BO
Shares Outstanding (mn)	23.0
52-week Range (Rs)	6947 / 5300
Free Float (%)	39.6
FII (%)	9.9
Daily Volume (US\$'000)	2,114
Absolute Return 3m (%)	28.5
Absolute Return 12m (%)	8.4
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Dec	CY21	CY22	CY23E	CY24E
Revenue (Rs mn)	29,566	27,701	28,457	31,118
Net Income (Rs mn)	9,444	6,206	5,971	6,376
EPS (Rs)	250.9	228.6	259.6	277.2
% Chg YoY	13.8	(8.9)	13.6	6.8
P/E (x)	25.6	28.2	24.8	23.2
CEPS (Rs)	279.9	246.8	276.8	297.3
EV/E (x)	17.4	19.6	17.8	16.2
Dividend Yield (%)	6.8	8.9	2.0	2.1
RoCE (%)	25.9	41.2	37.7	33.4
RoE (%)	26.0	41.2	37.8	33.4

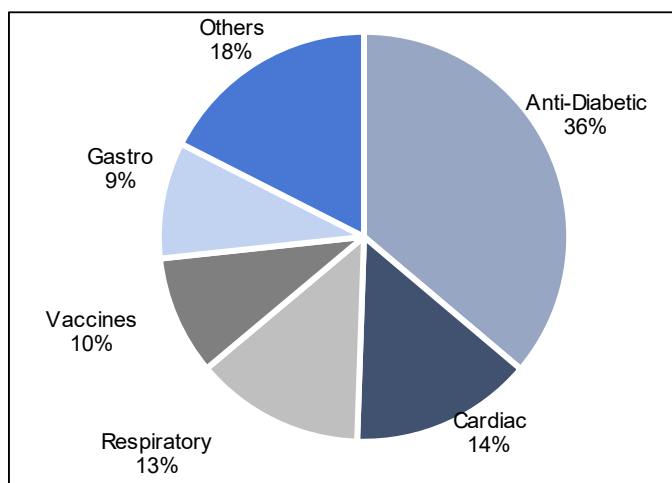
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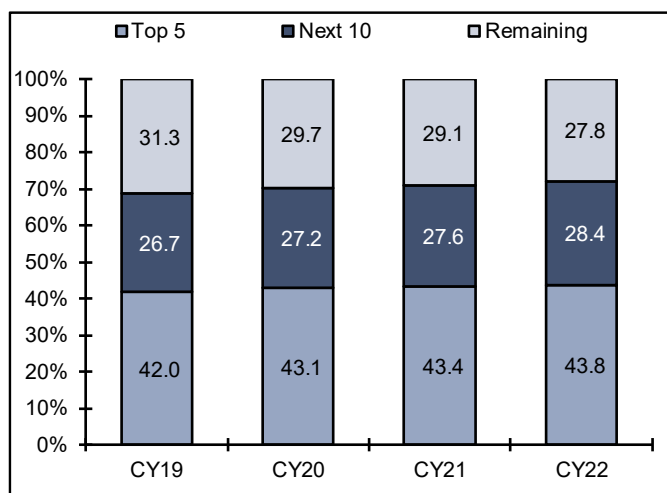
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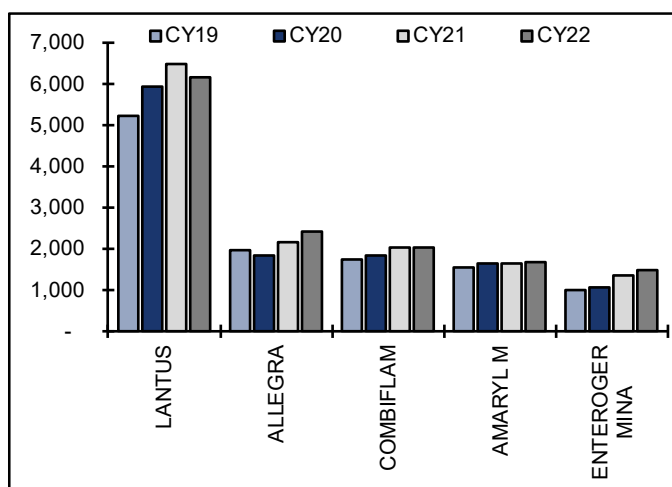
rohan.john@icicisecurities.com  
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**Chart 1: Chronic therapies contributes ~60% of the revenue mix**

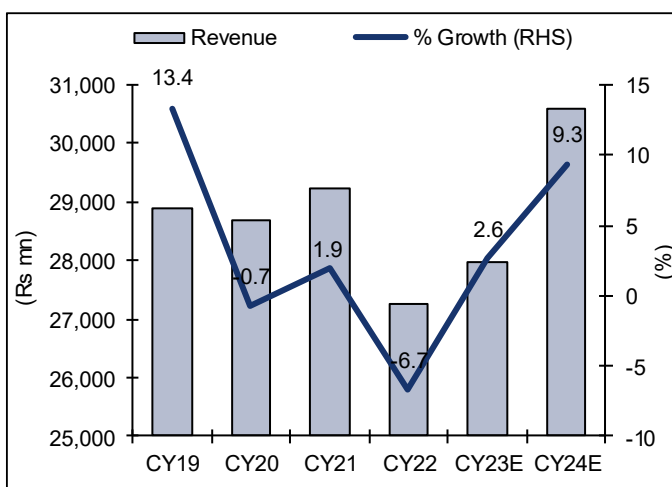
Source: IQVIA, I-Sec research.

**Chart 2: Top 15 brands account for ~70% of the revenues**

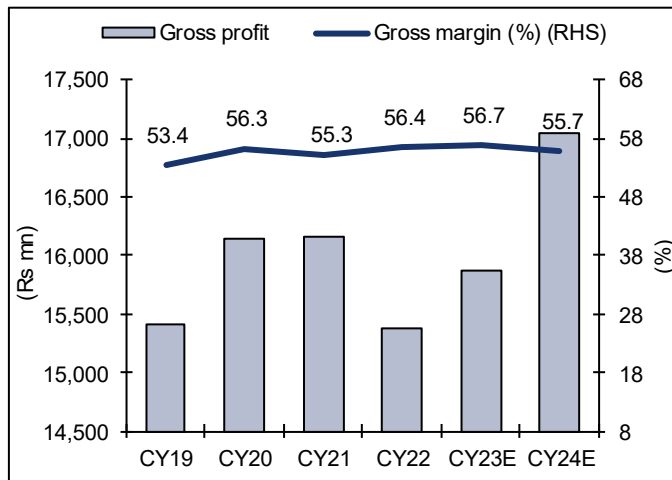
Source: IQVIA, I-Sec research.

**Chart 3: Growth in Top 5 brands**

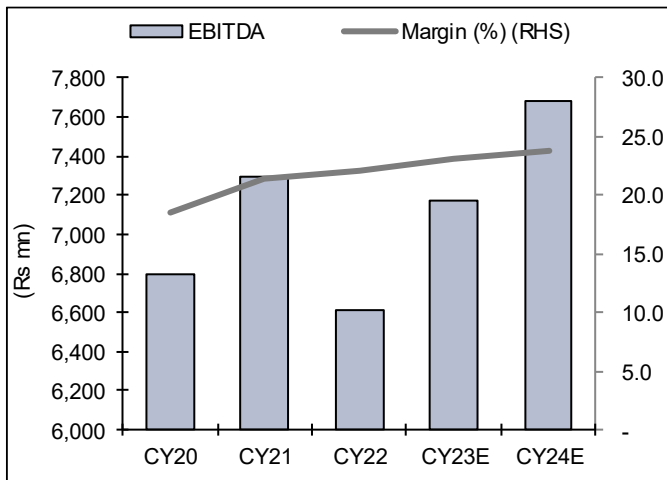
Source: IQVIA, I-Sec research.

**Chart 4: Revenues to grow at 6% CAGR over CY23E-CY25E**

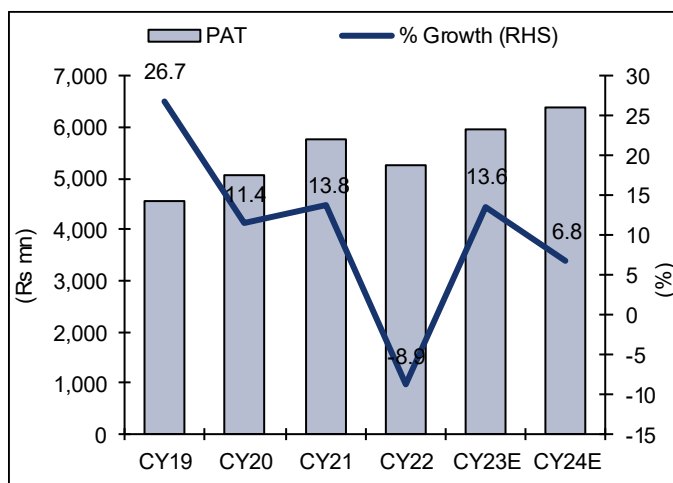
Source: Company data, I-Sec research.

**Chart 5: Gross margins to remain stable at ~56%**

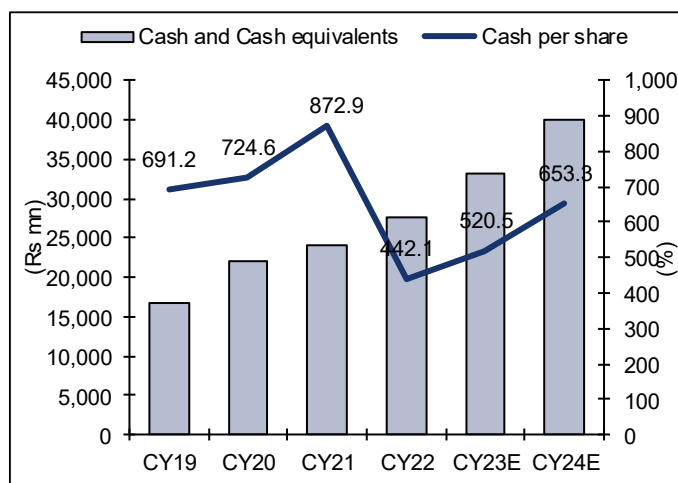
Source: Company data, I-Sec research.

**Chart 6: Expect margins to remain at 26%**

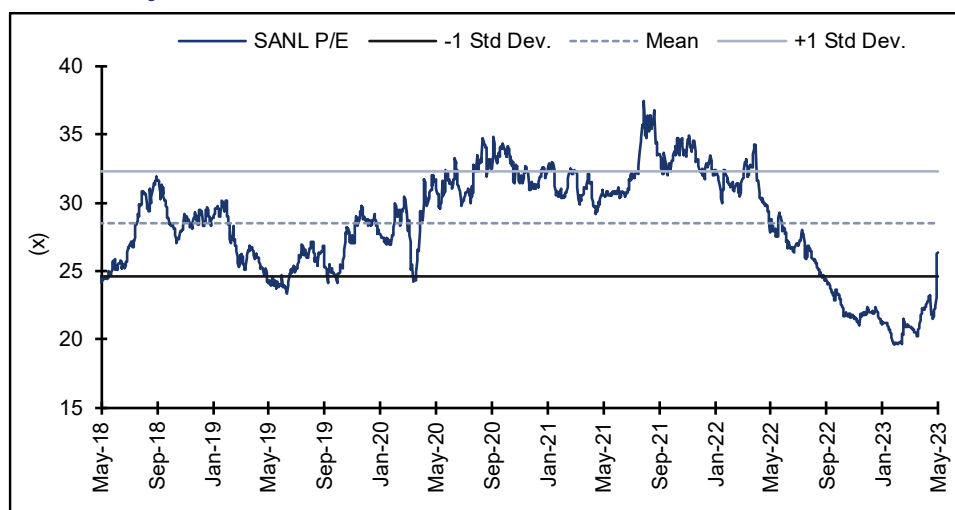
Source: Company data, I-Sec research.

**Chart 7: Net Profit to grow 10.1% over CY23E-CY24E**

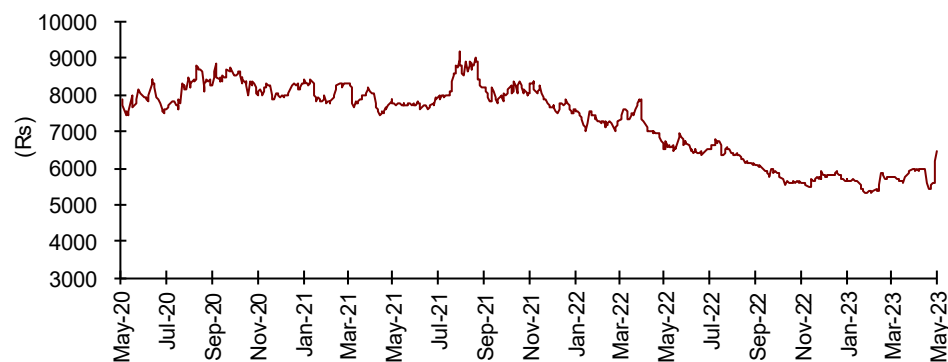
Source: Company data, I-Sec research.

**Chart 8: Healthy cash generation over the years**

Source: Company data, I-Sec research.

**Chart 9: 1-year forward P/E**

Source: Company data, I-Sec research

**Price chart**

Source: Bloomberg

## Financial summary (consolidated)

Table 1: Profit and loss statement

(Rs mn, year ending Dec 31)

	CY21	CY22	CY23E	CY24E
<b>Total Net Revenue</b>	<b>29,566</b>	<b>27,701</b>	<b>28,457</b>	<b>31,118</b>
yoy Growth%	2	(6)	3	9
<b>Total Op. Exp.</b>	<b>21,941</b>	<b>20,657</b>	<b>20,816</b>	<b>22,914</b>
<b>EBITDA</b>	<b>7,625</b>	<b>7,044</b>	<b>7,640</b>	<b>8,203</b>
Margins %	25.8	25.4	26.8	26.4
yoy Growth%				
Depreciation	667	419	395	461
<b>EBIT</b>	<b>6,958</b>	<b>6,625</b>	<b>7,245</b>	<b>7,742</b>
Other Income	744	715	755	799
Interest	18	17	17	17
EO items	(4,892)	(1,320)	-	-
<b>PBT</b>	<b>12,576</b>	<b>8,643</b>	<b>7,983</b>	<b>8,524</b>
Tax	3,132	2,437	2,012	2,148
Tax Rate (%)	24.9	28.2	25.2	25.2
Minority Interest	-	-	-	-
<b>Reported PAT</b>	<b>9,444</b>	<b>6,206</b>	<b>5,971</b>	<b>6,376</b>
<b>Adj PAT</b>	<b>5,785</b>	<b>5,258</b>	<b>5,971</b>	<b>6,376</b>
Net Margins (%)	19.6	19.0	21.0	20.5

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending Dec 31)

	CY21	CY22	CY23E	CY24E
Paid up Capital	230	230	230	230
Reserves & Surplus	22,256	12,758	15,808	19,065
<b>Total Equity</b>	<b>22,486</b>	<b>12,988</b>	<b>16,038</b>	<b>19,295</b>
Minority Interest	-	-	-	-
<b>Total Debt</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Deferred Liabilities	63	49	49	49
<b>Capital Employed</b>	<b>22,319</b>	<b>12,807</b>	<b>15,857</b>	<b>19,114</b>
Current Liabilities & Prov	8,291	7,910	8,091	9,111
<b>Total Liabilities</b>	<b>30,610</b>	<b>20,717</b>	<b>23,947</b>	<b>28,225</b>
<b>Net Fixed Assets</b>	<b>3,469</b>	<b>3,291</b>	<b>3,484</b>	<b>3,823</b>
Investments	4,574	147	147	147
Inventory	3,924	4,080	3,640	4,086
Debtors	1,429	1,291	1,917	2,096
Other Current Assets	1,711	1,739	2,787	3,047
Cash and Equivalents	15,503	10,169	11,972	15,025
<b>Total Cur. Assets</b>	<b>27,141</b>	<b>17,426</b>	<b>20,463</b>	<b>24,401</b>
<b>Total Assets</b>	<b>30,610</b>	<b>20,717</b>	<b>23,947</b>	<b>28,225</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending Dec 31)

	CY21	CY22	CY23E	CY24E
Cash profit adjusted for non cash items	8,351	7,742	8,378	8,985
Add/Less : Working Capital Changes	1,313	(427)	(1,054)	136
Operating Cash Flow	9,664	7,315	7,324	9,121
Less:- Capex	(605)	241	588	800
Free Cash Flow	10,269	7,074	6,736	8,321
Financing Cash Flow	(6,662)	(4,223)	(1,927)	(2,058)
Investing Cash Flow	1,950	7,068	994	1,061
<b>Net change in Cash</b>	<b>5,557</b>	<b>9,918</b>	<b>5,802</b>	<b>7,324</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending Dec 31)

	CY21	CY22	CY23E	CY24E
Adj EPS	250.9	228.6	259.6	277.2
yoy Growth%	13.8	(8.9)	13.6	6.8
Cash EPS	279.9	246.8	276.8	297.3
EBITDA (%)	25.8	25.4	26.8	26.4
NPM (%)	19.6	19.0	21.0	20.5
Net Debt to Equity (x)	(0.7)	(0.8)	(0.8)	(0.8)
P/E (x)	25.6	28.2	24.8	23.2
EV/EBITDA (x)	17.4	19.6	17.8	16.2
P/BV (x)	6.7	11.6	9.4	7.8
EV/Sales (x)	4.5	5.0	4.8	4.3
ROCE (%)	25.9	41.2	37.7	33.4
ROE (%)	26.0	41.2	37.8	33.4
ROIC (%)	184.9	246.7	220.1	198.3
Book Value (Rs)	968	555	687	829
DPS (Rs)	439.4	570.1	127.0	135.6
Dividend Payout (%)	70.6	139.4	32.3	32.3
Div Yield (%)	6.8	8.9	2.0	2.1
Asset Turnover Ratio	1.0	1.3	1.2	1.1
Avg Collection days	18	17	25	25
Avg Inventory days	48	54	47	48

Source: Company data, I-Sec research



ICICI Securities Limited  
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Re-initiating coverage

## Pharmaceuticals

Target price Rs390

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	31.1	30.9	28.3
Institutional investors	36.6	37.9	37.1
MFs and UTI	8.3	11.6	11.1
Insurance Cos.	5.2	5.3	5.2
FII	23.1	21.0	20.8
Others	32.3	31.2	34.6

Source: CMIE

### ESG disclosure score

Year	2021	2022	Chg
ESG score	39.9	44.7	4.8
Environment	16.1	30.4	14.4
Social	25.0	25.0	0.0
Governance	78.6	78.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA



# Strides Pharma Sciences

ADD

## M&As driving traction in US

Rs367

Strides Pharma Sciences (STR) has completed ANDA acquisition from Endo International plc. Post this acquisition, STR has ~275 ANDAs filed in the US, of which it has commercialised only 60 products (40 owned by STR, 20 acquired from Endo). STR plans to sell over 100 products (20-25 launches every year) in the US by FY24. Management aims to achieve US\$250mn annual sales from the US in FY24. Teriparatide biosimilar (US\$2bn opportunity) will be the first launch in the regulated market from Stelis Biopharma's portfolio. STR expects Stelis to contribute meaningfully to sales from FY24. Stelis raised US\$195mn (US\$350mn EV), post which STR's stake in it trimmed to 33% (from ~49%). Reinitiate with ADD and a target price of Rs390/share.

- **US business – Recovery on track:** After a turbulent FY22, marred with pricing pressures and market share loss, STR is on its way to recovery supported by the recent ANDA acquisition from Endo and stabilisation in prices. Currently, STR has ~280 ANDAs filed in the US and plans to sell over 100 products (15-20 launches every year) in the US over FY24-FY25. Moreover, the company has exited loss-making molecules in an effort to boost profitability. Healthy launch runrate and improved focus on execution should help the US business register a CAGR of 19.6% over FY23E-FY25E.
- **Stelis empowering niche capabilities:** Stelis is STR's biopharma arm. It is conducting phase-1 trial for six biosimilar and insulin products, with a combined addressable market of US\$40bn. Teriparatide biosimilar (US\$2bn opportunity) received approval from EMA (European Medicine Agency) and the company has recently concluded a term sheet with a large European player to license this asset in seven EU countries. Stelis raised US\$195mn (US\$350mn EV), post which STR's stake in it trimmed to 33% (from ~49%). STR further plans to unlock value of its investment in Stelis via a separate listing of the latter. We assign a value of Rs100/share in our target price to STR's investment in Stelis.
- **Outlook:** We estimate revenue / EBITDA CAGRs of 13% / 34.5% for STR with margins reaching ~16% over FY23E-FY25E, by which time 'debt-equity' ratio is likely to decline to ~0.7. We expect return ratios to improve, but remain below 12%.
- **Valuations and risks:** The US business saw healthy turnaround in FY23. Price erosion now is largely stable and Endo portfolio integration may drive traction FY24E. Reinitiate with **ADD** and a target price of Rs390/share, based on 11x FY25E EPS. **Key downside risks:** Slowdown in US sales, and regulatory hurdles.

Market Cap	Rs33.1bn/US\$403mn
Reuters/Bloomberg	STR IN /STAR.BO
Shares Outstanding (mn)	90.3
52-week Range (Rs)	374 / 266
Free Float (%)	71.7
FII (%)	20.8
Daily Volume (US\$'000)	1,938
Absolute Return 3m (%)	22.8
Absolute Return 12m (%)	37.6
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	30,703	35,907	40,679	45,837
Net Income (Rs mn)	(2,759)	(2,051)	1,941	3,403
EPS (Rs)	(29.4)	(21.9)	20.7	34.8
% Chg YoY	(227.6)	(25.7)	(194.7)	68.1
P/E (x)	(12.5)	(16.8)	17.7	10.5
CEPS (Rs)	(4.6)	4.5	49.0	63.8
EV/E (x)	(604.0)	14.7	9.7	7.9
Dividend Yield (%)	0.0	0.0	0.0	0.0
RoCE (%)	(2.2)	(0.9)	6.5	8.8
RoE (%)	(10.7)	(8.3)	7.2	11.6

### Research Analysts:

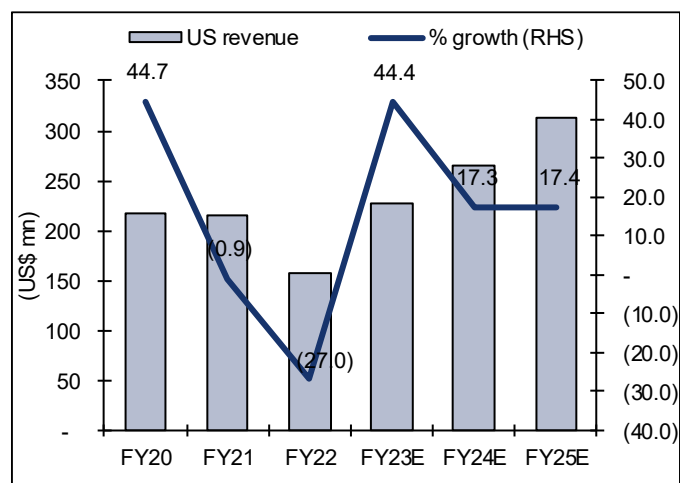
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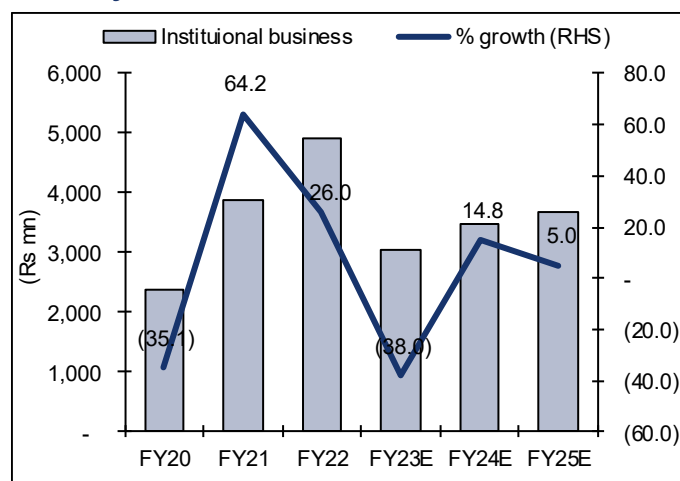
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**Chart 1: Endo portfolio to boost US revenues**



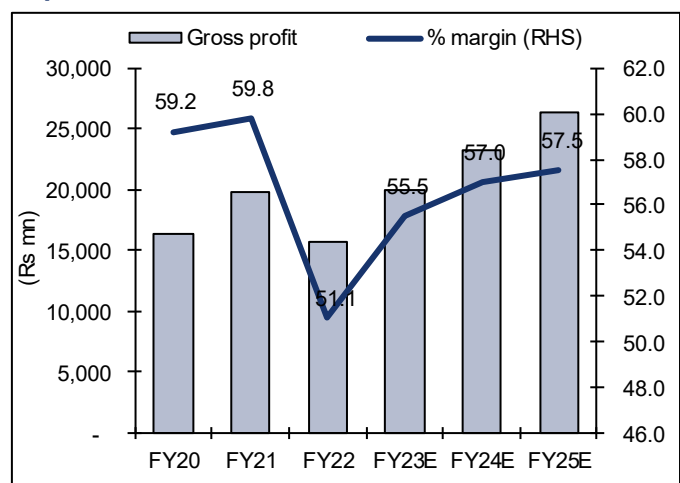
Source: Company data, I-Sec research

**Chart 3: Institutional business to witness gradual recovery**



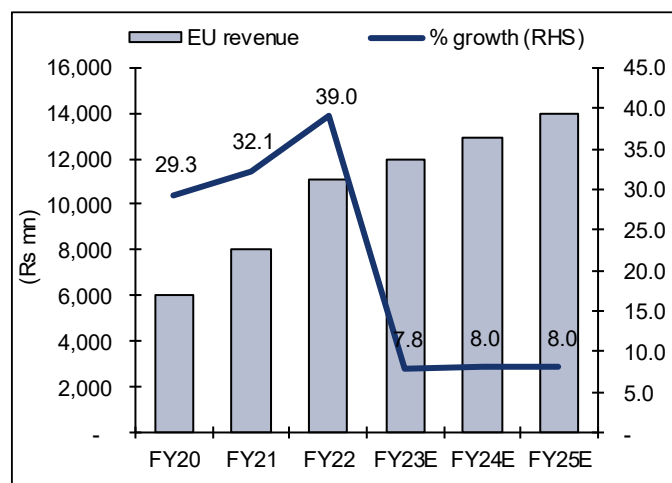
Source: Company data, I-Sec research

**Chart 5: Gross margins to recover with improvement in US business**



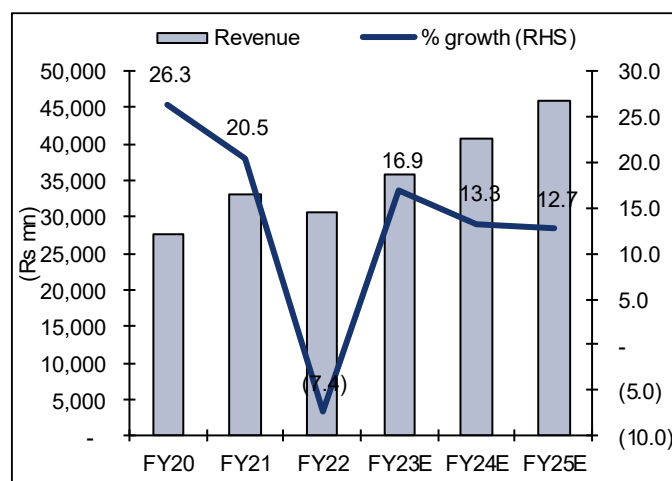
Source: Company data, I-Sec research

**Chart 2: EU revenue to grow 8% CAGR over FY23E-FY25E**



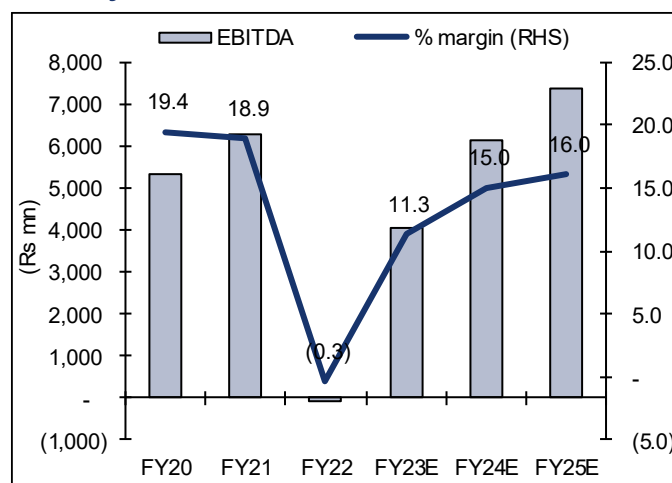
Source: Company data, I-Sec research

**Chart 4: Revenues to grow 13% CAGR over FY23E-FY25E**



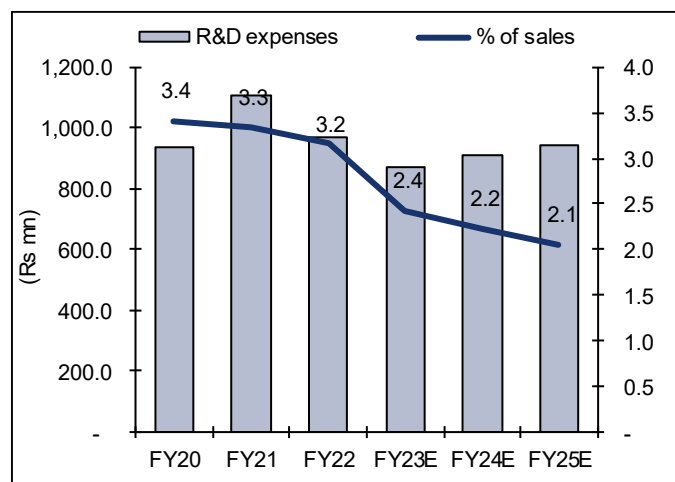
Source: Company data, I-Sec research

**Chart 6: EBITDA margins to expand 470bps to ~16% by FY25E**



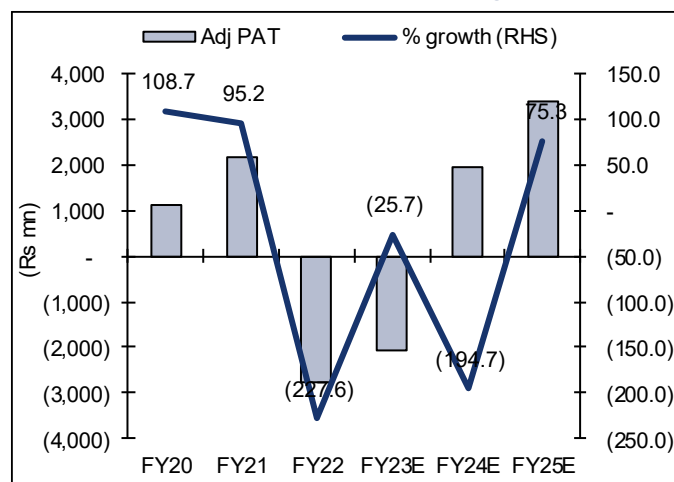
Source: Company data, I-Sec research

**Chart 7: R&D spend to decline**



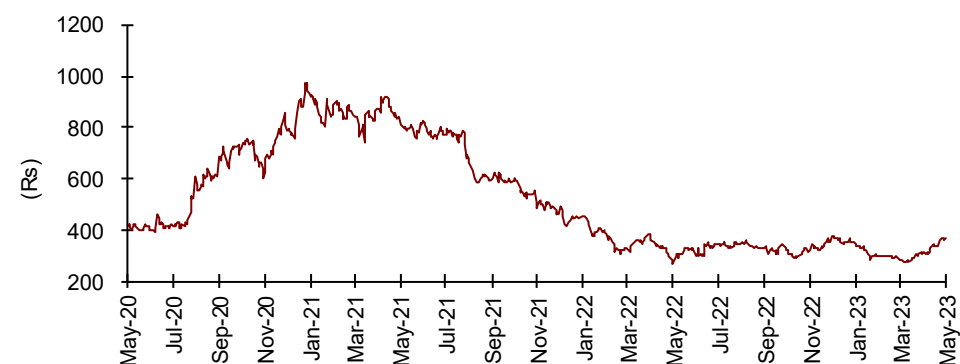
Source: Company data, I-Sec research

**Chart 8: On track towards profitable growth**



Source: Company data, I-Sec research

**Price chart**



Source: Bloomberg

## Financial summary (consolidated)

Table 1: Profit and Loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
PSAI/API	-	-	-	-
Regulated markets	22,830	30,138	34,243	38,990
Emer Mkt & Insti. Biz	8,116	5,769	6,436	6,847
<b>Total Net Revenue</b>	<b>30,703</b>	<b>35,907</b>	<b>40,679</b>	<b>45,837</b>
yoy Growth%	(7.4)	16.9	13.3	12.7
<b>Total Op. Exp.</b>	<b>30,806</b>	<b>31,842</b>	<b>34,570</b>	<b>38,485</b>
<b>EBITDA</b>	<b>(103)</b>	<b>4,064</b>	<b>6,109</b>	<b>7,352</b>
Margins %	(0.3)	11.3	15.0	16.0
yoy Growth%	(101.6)	(4,037.4)	50.3	20.3
Depreciation & Amortization	2,330	2,476	2,658	2,832
<b>EBIT</b>	<b>(2,433)</b>	<b>1,588</b>	<b>3,451</b>	<b>4,520</b>
Other Income	212	(1,873)	569	1,058
Interest	1,767	2,156	1,873	1,750
EO Items	(2,536)	5,369	-	-
<b>PBT</b>	<b>(6,525)</b>	<b>2,929</b>	<b>2,148</b>	<b>3,828</b>
Tax	(1,783)	381	279	498
Tax Rate (%)	27.3	13.0	13.0	13.0
Profit/Loss from discontinued operations	-	186	-	-
Minority Interest	(140)	(73)	(73)	(73)
<b>Reported PAT</b>	<b>(4,602)</b>	<b>2,806</b>	<b>1,941</b>	<b>3,403</b>
<b>Adj PAT</b>	<b>(2,759)</b>	<b>(2,051)</b>	<b>1,941</b>	<b>3,403</b>
Net Margins (%)	(9.0)	(5.7)	4.8	7.4

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid up Capital	898	898	938	978
Reserves & Surplus	22,694	25,178	26,758	29,798
<b>Total Equity</b>	<b>23,592</b>	<b>26,076</b>	<b>27,695</b>	<b>30,776</b>
Minority Interest	241	168	96	23
<b>Total Debt</b>	<b>30,250</b>	<b>27,250</b>	<b>26,250</b>	<b>23,750</b>
Net Deferred Liabilities	(1,794)	(1,794)	(1,794)	(1,794)
<b>Capital Employed</b>	<b>52,289</b>	<b>51,701</b>	<b>52,247</b>	<b>52,755</b>
Current Liabilities & Prov	15,318	16,640	18,306	20,359
<b>Total Liabilities</b>	<b>67,607</b>	<b>68,340</b>	<b>70,554</b>	<b>73,114</b>
<b>Net Fixed Assets</b>	<b>26,377</b>	<b>25,901</b>	<b>25,243</b>	<b>24,411</b>
Investments	5,403	5,403	5,403	5,403
Inventory	11,738	10,920	11,855	13,197
Debtors	12,073	14,119	15,996	18,024
Other Current Assets	10,308	10,665	10,992	11,346
Cash and Equivalents	1,707	1,331	1,063	732
<b>Total Cur. Assets</b>	<b>35,827</b>	<b>37,035</b>	<b>39,907</b>	<b>43,300</b>
<b>Total Assets</b>	<b>67,607</b>	<b>68,340</b>	<b>70,554</b>	<b>73,114</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
PBT	(6,525)	3,114	2,148	3,828
Depreciation	2,330	2,476	2,658	2,832
Net Chg in WC	(1,899)	(547)	(1,733)	(1,952)
Taxes	23	(381)	(279)	(498)
Others	3,493	2,440	2,132	2,031
<b>CFO</b>	<b>(2,578)</b>	<b>7,102</b>	<b>4,926</b>	<b>6,241</b>
Capex	(2,875)	(2,000)	(2,000)	(2,000)
Net Investments made	1,081	-	-	-
Others	607	-	-	-
<b>CFI</b>	<b>(1,187)</b>	<b>(2,000)</b>	<b>(2,000)</b>	<b>(2,000)</b>
Change in Share capital	36	-	-	-
Change in Debts	5,939	(3,000)	(1,000)	(2,500)
Div. & Div Tax	(224)	(322)	(322)	(322)
Others	(1,910)	(2,156)	(1,873)	(1,750)
<b>CFF</b>	<b>3,841</b>	<b>(5,478)</b>	<b>(3,195)</b>	<b>(4,572)</b>
<b>Total Cash Generated</b>	<b>76</b>	<b>(376)</b>	<b>(268)</b>	<b>(331)</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	(29.4)	(21.9)	20.7	34.8
yoy Growth%	(227.6)	(25.7)	(194.7)	68.1
Cash EPS	(4.6)	4.5	49.0	63.8
EBITDA (%)	(0.3)	11.3	15.0	16.0
NPM (%)	(9.0)	(5.7)	4.8	7.4
Net Debt to Equity (x)	1.2	1.0	0.9	0.7
P/E (x)	(12.5)	(16.8)	17.7	10.5
EV/EBITDA (x)	(604.0)	14.7	9.7	7.9
P/BV (x)	1.5	1.3	1.2	1.2
EV/Sales (x)	2.0	1.7	1.5	1.3
ROCE (%)	(2.2)	(0.9)	6.5	8.8
ROE (%)	(10.7)	(8.3)	7.2	11.6
ROIC (%)	(4.1)	(1.6)	5.8	8.2
Book Value (Rs)	252	278	295	315
DPS (Rs)	3.4	3.4	3.4	3.3
Dividend Payout (%)	0.9	0.9	0.9	0.9
Div Yield (%)	0.0	0.0	0.0	0.0
Asset Turnover Ratio	0.5	0.5	0.6	0.6
Avg Collection days	138	133	135	135
Avg Inventory days	141	130	120	119

Source: Company data, I-Sec research

ICICI Securities Limited  
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distributor of this report

Re-initiating coverage

## Pharmaceuticals

Target price Rs1,630

### Shareholding pattern

	Sep '22	Dec '22	Mar '22
Promoters	71.3	71.3	71.3
Institutional investors	20.8	20.9	21.0
MFs and UTI	6.7	6.2	6.4
Insurance Cos.	2.2	2.6	1.9
FII	11.9	12.1	12.7
Others	7.9	7.8	7.7

Source: CMIE

### ESG disclosure score

Year	2021	2022	Chg
ESG score	50.4	53.3	2.9
Environment	28.2	38.5	10.2
Social	44.1	42.6	(1.5)
Governance	78.6	78.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

# Torrent Pharma

HOLD

## M&A to mar profitability

Rs1,652

Torrent Pharma (TRP) is undertaking a slew of measures to boost growth in India. It takes a price hike of 7-9% every year; it has added 1,100 MRs over the last 1 year to improve its reach. TRP acquired Curatio Healthcare in Oct'22 for Rs18.85bn (6.7x FY23E EV/sales and 22x EV/EBITDA) which boosted India revenue by ~6% and raised India contribution to ~52% in FY23E. Pricing pressure in generics and rise in overhead cost have hit margins. Rise in debt (interest cost up 48% QoQ in Q3FY23) and intangible (Rs15bn from Curatio) amortisation due to M&A is denting profits. We re-initiate coverage on the stock with HOLD rating and target price of Rs1,630/share.

- **Price hike, M&A driving India growth:** Chronic therapies account 70% of domestic sales of TRP. Market share in different segments such as cardiac rose to 10.2% from 5.6%, in CNS to 10.0% from 6.4%, and in gastro to 7.4% from 3.1% in the last 5 years. TRP can take good price hike (~7-9%), as ~90% of its portfolio is out of price control's purview. Curatio is likely to have sales of ~Rs2.8bn in FY23, fetching additional 6% growth. TRP has increased its medical representative (MR) count by 33% in the past year and 500 more were added from Curatio. We expect India business to grow at a CAGR of 15.8% over FY23E-FY25E.
- **Branded play in Brazil bodes well:** Exports account for ~56% of TRP's business. TRP is the largest Indian pharma company in Brazil and has consistently grown above local market growth rate. Its portfolio of 22 products in Brazil largely consists of CNS products and nearly 86% of portfolio is branded with seven more approvals received in 9MFY23. Additional 10 products are pending for regulatory nod; TRP received 7 approvals in 9MFY23 and has 10 products pending approval. It aims to file 10 products per year. We expect TRP to grow faster than the market in Brazil at a CAGR of 9% over FY23E-25E.
- **Dahej clearance, critical for rebound in US:** Indrad site was re-inspected by the USFDA which issued 3 observations and inspection was classified as Official Action Indicated (OAI). Capacity utilisation of Indrad plant is ~70% and Dahej is ~55-56%. If Dahej regains compliance in near term, TRP will transfer products from Indrad as Dahej site is underutilised. TRP has 48 products pending approval from Indrad and Dahej and plans to file 4-5 ANDAs annually from third-party site. We expect US revenue to decline at a CAGR of 3% over FY23E-FY25E.
- **Outlook:** We estimate revenue/EBITDA/PAT CAGR of 10.9%/12.6%/19.7% over FY23-FY25E with margin likely to improve 90bps, respectively. RoCE may improve to 17% in FY25E from 14.6% in FY22. Debt-equity ratio is expected to decline to ~0.2 by FY25E.
- **Valuations and risks:** M&A and price hikes will fuel 10-12% growth in branded generics (70% of sales). TRP is expected to take another 3-4 quarters to fully realize synergies from Curatio portfolio. However, in the near term, higher interest cost and depreciation would likely dent profitability. We re-initiate coverage on TRP with **HOLD** rating and target price of Rs1,630/share based on 16x FY25E EV/EBITDA. **Key downside risks:** Slowdown in domestic growth and forex volatility.

Market Cap	Rs559bn/US\$6.8bn
Reuters/Bloomberg	TRP IN /TORP.BO
Shares Outstanding (mn)	338.4
52-week Range (Rs)	1694/1252
Free Float (%)	28.7
FII (%)	12.7
Daily Volume (US\$'000)	4,616
Absolute Return 3m (%)	8.6
Absolute Return 12m (%)	34.3
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	85,080	95,483	1,07,146	1,17,474
Net Income (Rs mn)	7,772	12,548	15,132	17,985
EPS (Rs)	33.0	37.1	44.7	53.1
% Chg YoY	(10.8)	12.4	20.6	18.9
P/E (x)	50.1	44.6	37.0	31.1
CEPS (Rs)	52.5	57.7	67.0	75.8
EV/E (x)	24.4	21.4	18.4	16.2
Dividend Yield (%)	2.9	0.8	0.9	-
RoCE (%)	14.6	14.1	15.1	17.2
RoE (%)	18.9	19.8	21.1	21.9

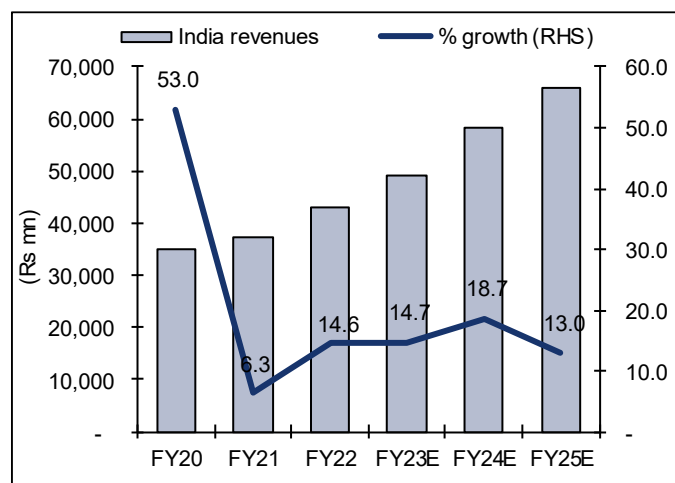
### Research Analysts:

Abdulkader Puranwala

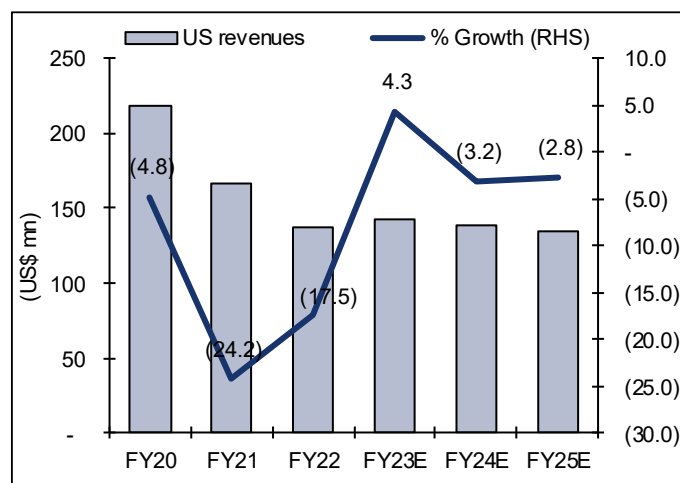
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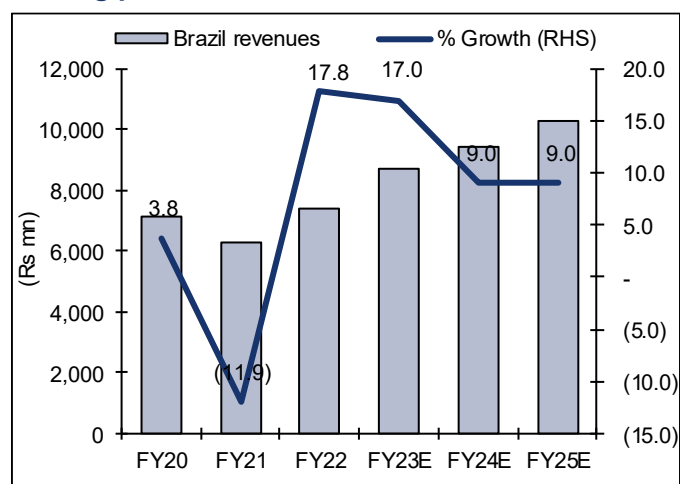
rohan.john@icicisecurities.com  
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**Chart 1: Potential price hikes and incremental Curatio sales to elevate India sales**

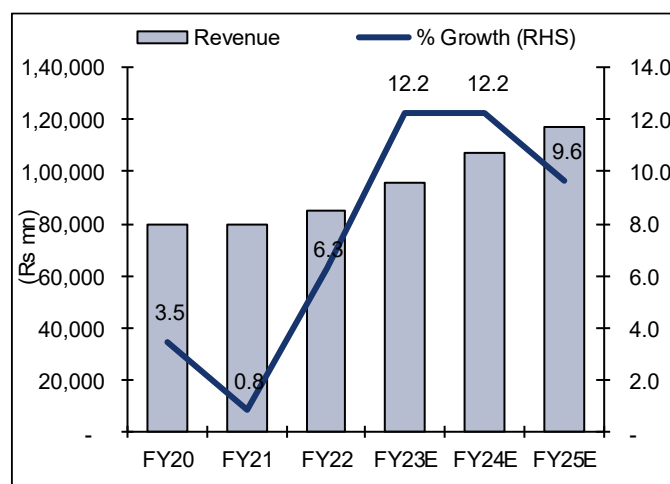
Source: Company data, I-Sec research.

**Chart 2: US revenues to decline due to lack of new product launches**

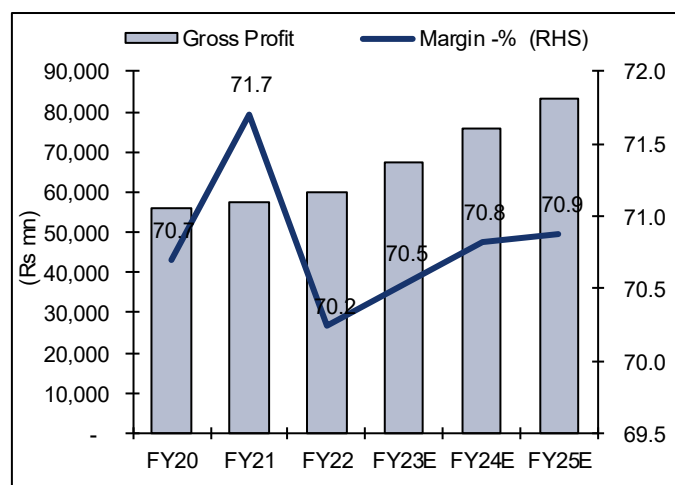
Source: Company data, I-Sec research.

**Chart 3: Branded generic to continue market beating performance in Brazil**

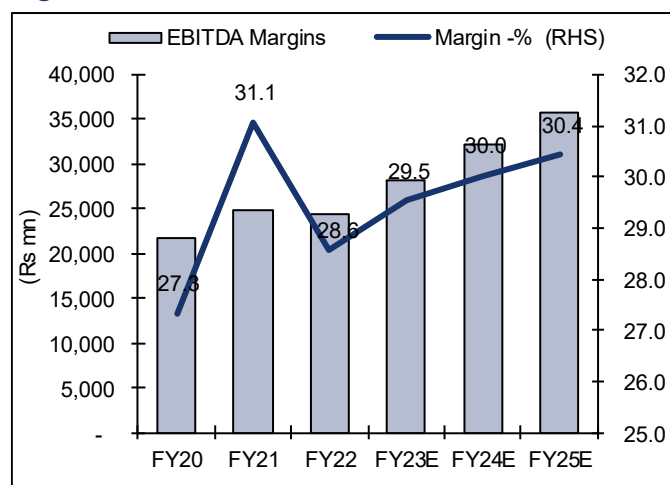
Source: Company data, I-Sec research.

**Chart 4: Revenue to grow at 10.9% over FY23E-25E**

Source: Company data, I-Sec research.

**Chart 5: Gross margins to remain stable at ~71%**

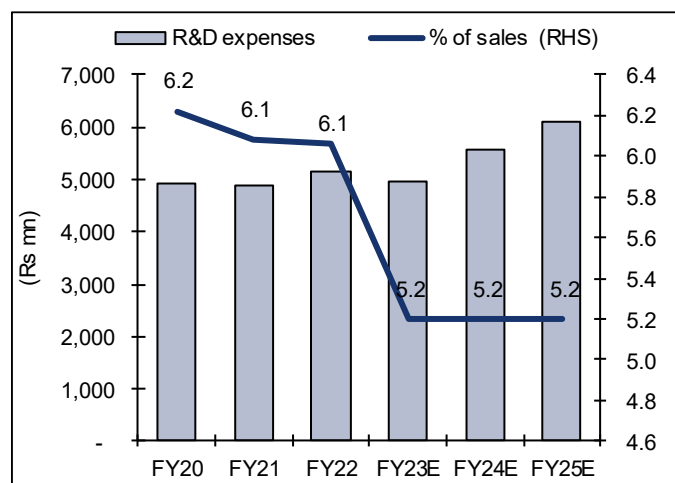
Source: Company data, I-Sec research.

**Chart 6: Expect EBITDA margins to improve with higher contribution of India business**

Source: Company data, I-Sec research.

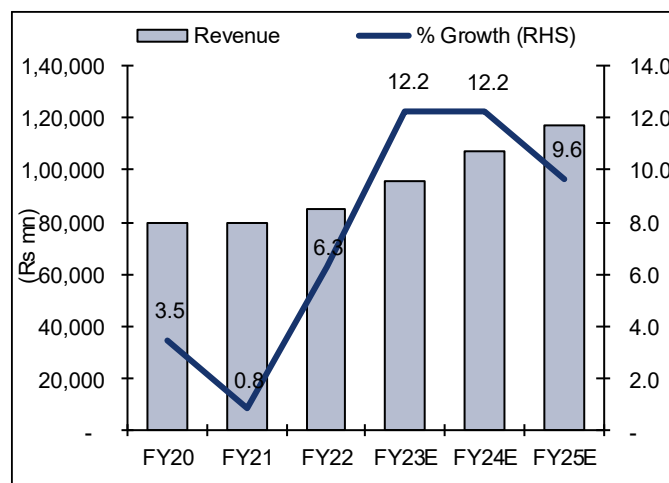


**Chart 7: R&D contribution inching downwards with reduced spend in US business**



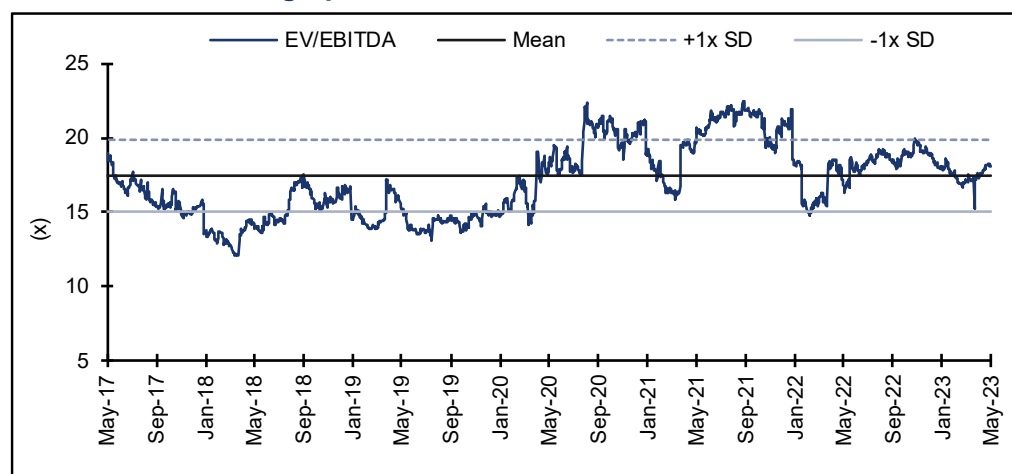
Source: Company data, I-Sec research.

**Chart 8: Net profit to grow at a robust 19.7% CAGR over FY23E-FY25E**



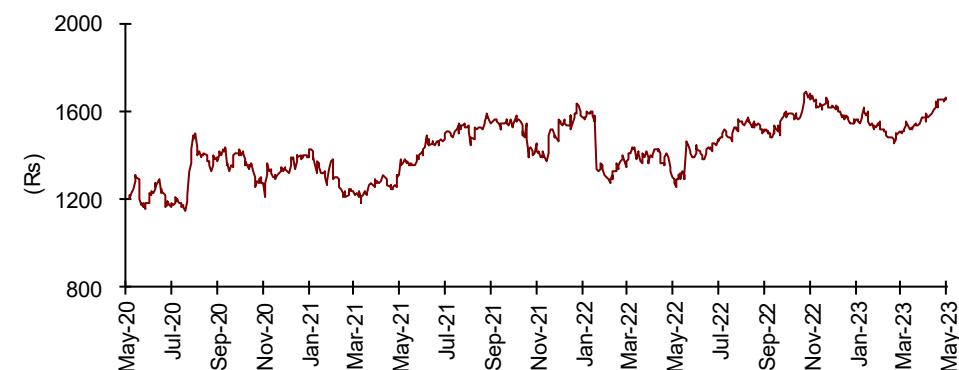
Source: Company data, I-Sec research.

**Chart 9: EV/EBITDA graph**



Source: Company data, I-Sec research

**Price chart**



Source: Bloomberg



## Financial summary (consolidated)

Table 1: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Total Net Revenue</b>	<b>85,080</b>	<b>95,483</b>	<b>1,07,146</b>	<b>1,17,474</b>
yoy Growth%	6	12	12	10
<b>Total Op. Exp.</b>	<b>60,768</b>	<b>67,295</b>	<b>74,979</b>	<b>81,736</b>
<b>EBITDA</b>	<b>24,313</b>	<b>28,188</b>	<b>32,167</b>	<b>35,737</b>
Margins %	28.6	29.5	30.0	30.4
yoy Growth%				
Depreciation	6,622	6,991	7,534	7,663
<b>EBIT</b>	<b>17,691</b>	<b>21,197</b>	<b>24,633</b>	<b>28,074</b>
Other Income	1,966	688	722	758
Interest	2,551	3,295	2,939	2,189
EO Items	4,847	-	-	-
<b>PBT</b>	<b>12,259</b>	<b>18,590</b>	<b>22,417</b>	<b>26,644</b>
Tax	4,487	6,042	7,286	8,659
Tax Rate (%)	26.2	32.5	32.5	32.5
Minority Interest	-	-	-	-
<b>Reported PAT</b>	<b>7,772</b>	<b>12,548</b>	<b>15,132</b>	<b>17,985</b>
<b>Adj PAT</b>	<b>11,165</b>	<b>12,548</b>	<b>15,132</b>	<b>17,985</b>
Net Margins (%)	13.1	13.1	14.1	15.3

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid up Capital	846	846	846	846
Reserves & Surplus	59,530	67,208	76,467	87,472
<b>Total Equity</b>	<b>60,376</b>	<b>68,054</b>	<b>77,313</b>	<b>88,319</b>
Minority Interest	-	-	-	-
<b>Total Debt</b>	<b>40,181</b>	<b>49,181</b>	<b>39,181</b>	<b>29,181</b>
Deferred Liabilities	(3,001)	(3,001)	(3,001)	(3,001)
<b>Capital Employed</b>	<b>96,710</b>	<b>1,13,388</b>	<b>1,12,647</b>	<b>1,13,652</b>
Current Liabilities & Prov	29,352	27,404	29,093	30,579
<b>Total Liabilities</b>	<b>1,26,062</b>	<b>1,40,792</b>	<b>1,41,740</b>	<b>1,44,231</b>
<b>Net Fixed Assets</b>	<b>70,525</b>	<b>82,083</b>	<b>76,550</b>	<b>70,887</b>
Investments	2,263	2,263	2,263	2,263
Inventory	24,623	24,852	27,887	30,575
Debtors	16,325	19,358	21,723	23,817
Other Current Assets	8,292	8,405	8,520	8,639
Cash and Equivalents	4,034	3,831	4,797	8,050
<b>Total Cur. Assets</b>	<b>55,537</b>	<b>58,708</b>	<b>65,191</b>	<b>73,345</b>
<b>Total Assets</b>	<b>1,26,062</b>	<b>1,40,792</b>	<b>1,41,740</b>	<b>1,44,231</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non cash items	16,004	22,147	24,882	27,078
Add/Less : Working Capital Changes	(4,865)	(5,323)	(3,827)	(3,415)
Operating Cash Flow	11,139	16,823	21,055	23,663
Less:- Capex	(2,394)	18,550	2,000	2,000
Free Cash Flow	13,533	(1,727)	19,055	21,663
<b>Financing Cash Flow</b>	<b>(26,540)</b>	<b>4,130</b>	<b>(15,872)</b>	<b>(16,980)</b>
Investing Cash Flow	11,006	(2,607)	(2,216)	(1,430)
<b>Net change in Cash</b>	<b>(2,001)</b>	<b>(203)</b>	<b>966</b>	<b>3,253</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	33.0	37.1	44.7	53.1
yoy Growth%	(10.8)	12.4	20.6	18.9
Cash EPS	52.5	57.7	67.0	75.8
EBITDA (%)	28.6	29.5	30.0	30.4
NPM (%)	13.1	13.1	14.1	15.3
Net Debt to Equity (x)	0.6	0.6	0.4	0.2
P/E (x)	50.1	44.6	37.0	31.1
EV/EBITDA (x)	24.4	21.4	18.4	16.2
P/BV (x)	9.4	8.3	7.3	6.4
EV/Sales (x)	7.0	6.3	5.5	4.9
ROCE (%)	14.6	14.1	15.1	17.2
ROE (%)	18.9	19.8	21.1	21.9
Book Value (Rs)	176	199	226	258
DPS (Rs)	48.0	13.0	15.6	-
Dividend Payout (%)	231.8	38.8	38.8	38.8
Div Yield (%)	2.9	0.8	0.9	-
Asset Turnover Ratio	1.1	1.3	1.4	1.6
Avg Collection days	70	74	74	74
Avg Inventory days	106	95	95	95

Source: Company data, I-Sec research

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Re-initiating coverage

## Healthcare

Target price: Rs5,000

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	29.3	29.3	29.3
Institutional investors	64.8	63.7	64.7
MFs and UTI	9.8	10.2	11.4
Banks & FIs	0.1	0.1	0.1
Insurance Cos.	5.7	5.5	5.5
FIs	49.2	47.9	47.7
Others	5.9	7.0	6.0

Source: CMIE

### ESG disclosure score

Year	2021	2022	Chg
<b>ESG score</b>	<b>33.8</b>	<b>34.1</b>	<b>0.4</b>
Environment	2.1	2.4	0.3
Social	20.5	21.3	0.8
Governance	78.6	78.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

# Apollo Hospitals

**ADD**

## Strong diversified healthcare franchise

**Rs4,605**

Established in 1983, Apollo Hospitals (APHS) is an end-to-end complete healthcare service provider. Apollo owns 71 hospitals with total bed capacity of 10,006 beds. Its offline retail pharmacy network of 5,196 stores is the largest in India. Retail franchise is spread across 1,500+ diagnostic centres, 111 dialysis centres, 114 dental centres, 23 ambulatory care and birthing centres and 341 clinics. Better payor mix, higher occupancy and ARPOB growth have improved cashflow of hospitals business. Management aims to curb the cost of online pharmacy business and turn it profitable in coming quarters. APHS is set to boost growth by adding 2,000 beds in 3 years, 500 offline pharmacies per year and double the GMV of online pharmacy. We re-initiate coverage on the stock with ADD rating and target price of Rs5,000/share.

- **Matured hospital margins scaling to new highs:** APHS' hospitals segment EBITDA margin has improved to 25% in Q3FY23 driven by sustained high ARPOB above Rs50K per day and reduced ALOS to 3.4 days. The company is currently operating at 64% occupancy across its network with mature hospitals at 66%. It aims to add 2,000 beds in the next 3 years with total outlay of Rs30bn (at Rs15mn per bed). Hospitals business is expected to exhibit 13.6% sales CAGR over FY23E-25E and EBITDA margin may expand to 24%, driven by matured hospitals (over 25% margins).
- **AHLL's (Apollo Health and Lifestyle) revenue decline is temporary on high covid base:** AHLL has not only expanded its geographical footprint by adding new centres, but also added an array of services it offers. AHLL has 1,965 centres offering an array of services like childcare, fertility, clinics, dental services, diagnostics and dialysis. Its business declined 8.1% YoY in 9MFY23 largely on account of covid business contribution last year. Covid sales impact was visible especially in diagnostics, primary care and special care businesses. We expect AHLL to exhibit sales CAGR of 27.5% over FY23E-25E driven by with EBITDA margin of ~18% in FY25E.
- **24\*7 losses mounting pressure on pharmacy margins:** APHS has added 667 pharmacy stores; in 9MFY23, total pharmacy count as of Dec'22 stands at 5,196. EBITDA margin for pharmacy distribution business was impacted by ~8% in 9MFY23 due to cash burn of ~Rs4bn in 24\*7. APHS targets to achieve US\$1.0bn in gross merchandise value (GMV) in 2-3 years with EBITDA breakeven in FY24.
- **Valuations and risks:** Hospitals business is expected to be the biggest near term value creator for APHS while efforts to improve digital presence would keep a check on reported margin. We re-initiate coverage on the stock with **ADD** rating and target price of Rs5,000 on hospitals at 20x FY25E EV/EBITDA, AHLL at 15x FY25E EV/EBITDA and Healthco at 1.7x FY25E EV/Revenue. **Key downside risks:** Delay in ramp up of 24\*7 online platform may hurt profitability, regulatory changes in pricing may affect profitability.

Market Cap	Rs662bn/US\$8.1bn
Reuters/Bloomberg	APHS IN /APLH.BO
Shares Outstanding (mn)	143.8
52-week Range (Rs)	4871/3524
Free Float (%)	69.7
FII (%)	47.7
Daily Volume (US\$'000)	26,380
Absolute Return 3m (%)	4.4
Absolute Return 12m (%)	29.1
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	1,46,626	1,66,294	1,90,175	2,16,145
Net Income (Rs mn)	8,500	8,015	11,816	15,273
EPS (Rs)	58.5	55.2	81.4	105.2
% Chg YoY	652.8	(5.7)	47.4	29.2
P/E (x)	78.7	83.4	56.6	43.8
CEPS (Rs)	99.9	96.9	125.0	150.7
EV/E (x)	32.1	32.9	25.7	21.0
Dividend Yield (%)	0.1	0.1	0.1	0.1
RoCE (%)	11.0	9.5	12.1	13.6
RoE (%)	16.6	13.3	16.9	18.4

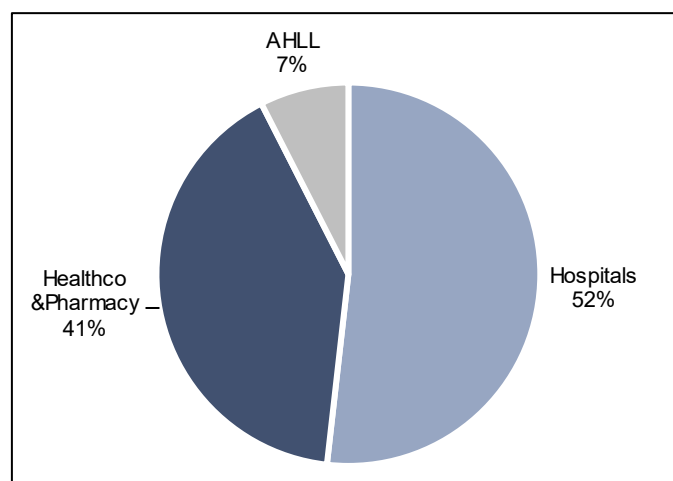
### Research Analysts:

**Abdulkader Puranwala**

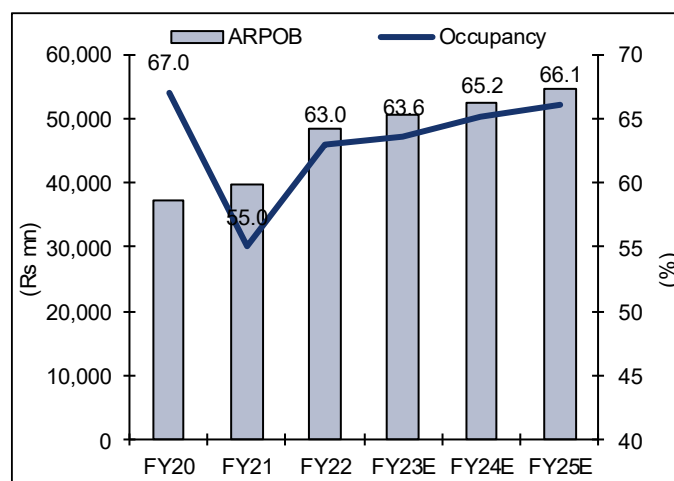
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**Rohan John**

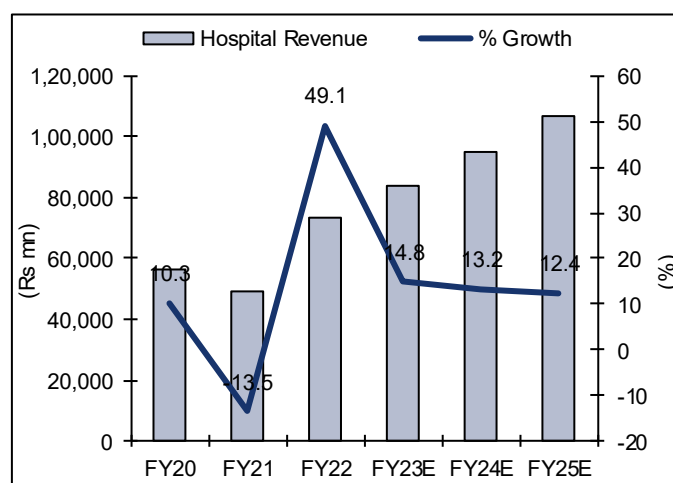
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**Chart 1: Revenue breakup(FY23E)**

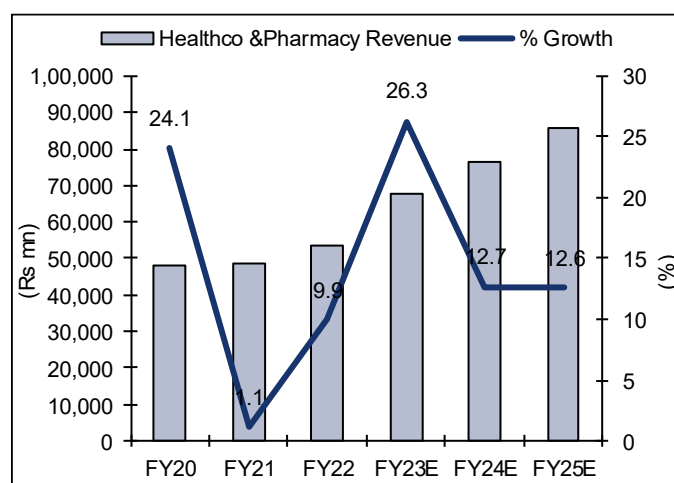
Source: Company data, I-Sec research.

**Chart 2: Occupancy and ARPOB to remain elevated**

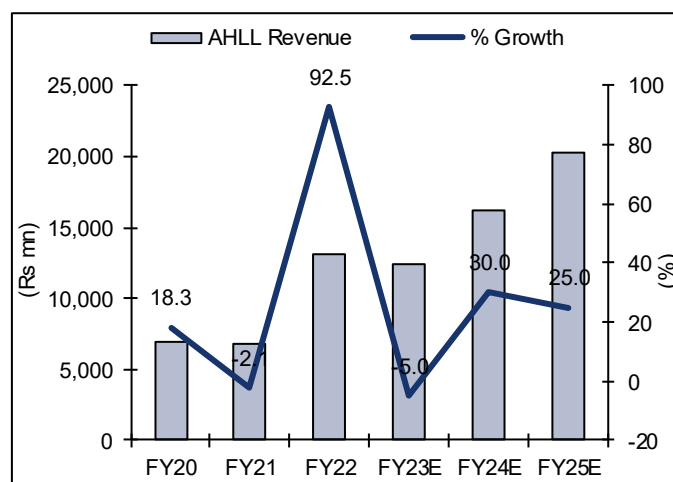
Source: Company data, I-Sec research.

**Chart 3: Healthy traction in hospitals to continue**

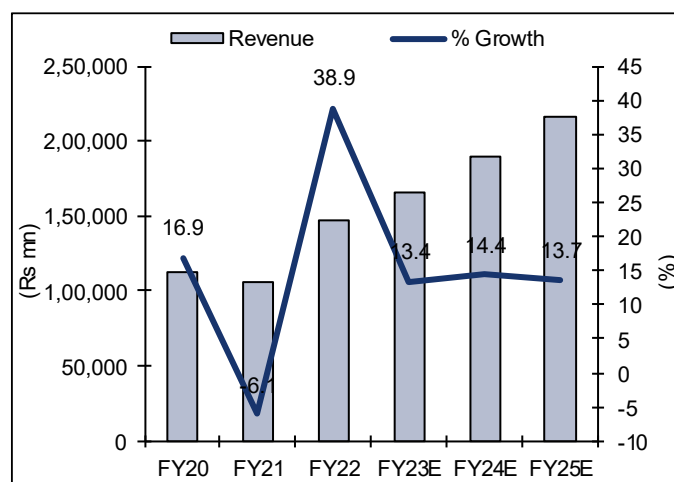
Source: Company data, I-Sec research.

**Chart 4: Store addition & 24/7 to boost pharmacy revenue**

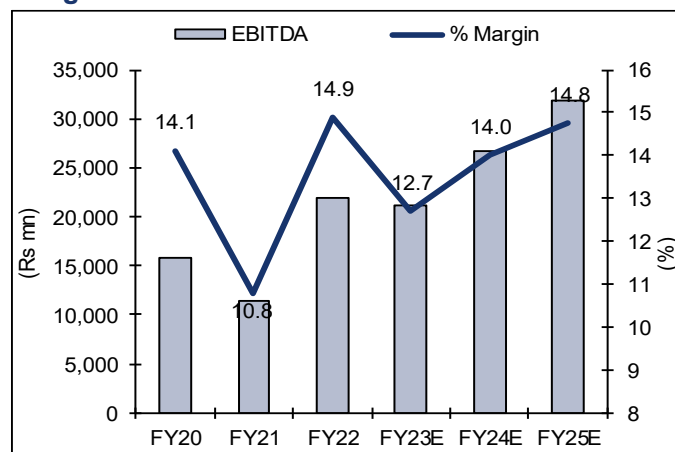
Source: Company data, I-Sec research.

**Chart 5: AHLL revenues to grow at fastest pace**

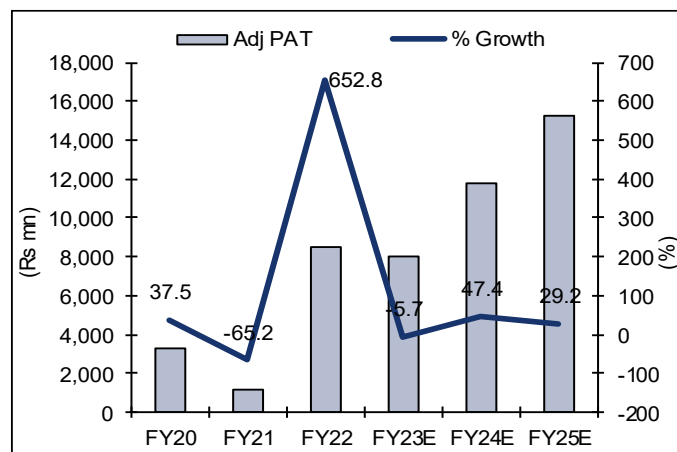
Source: Company data, I-Sec research.

**Chart 6: Revenues to grow at 14% CAGR over FY23E-25E**

Source: Company data, I-Sec research.

**Chart 7: Curbs in 24/7 losses to boost EBITDA margins**

Source: Company data, I-Sec research.

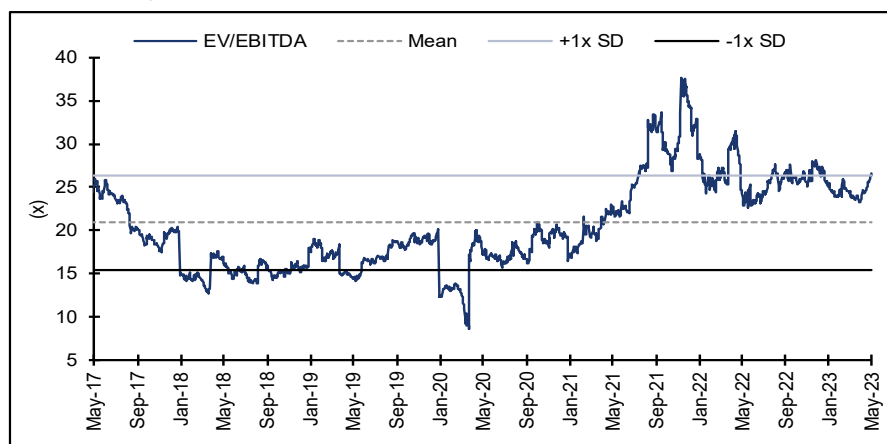
**Chart 8: FY23E-25E profit growth pegged at 25% CAGR**

Source: Company data, I-Sec research.

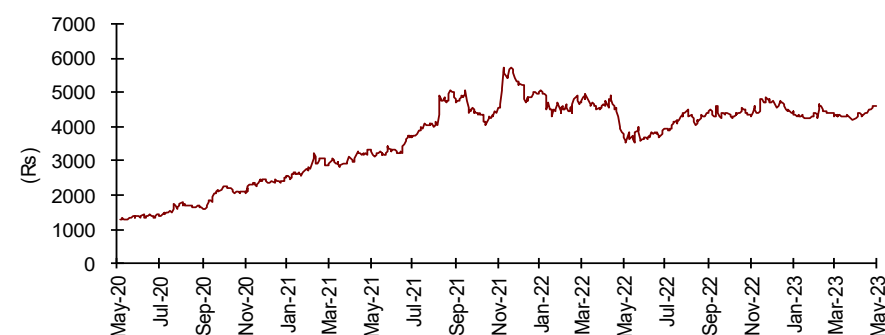
**Table 1: Sum of the parts (SoTP) valuation**

Segments	Rs mn	(x)	Value (Rs mn)	AHEL's stake	Value (Rs mn)
Hospitals - EBITDA (FY25)	27,547	20.0	5,50,941	100%	5,50,941
HealthCo - Sales (FY25)	85,911	1.7	1,49,400	100%	1,49,400
AHLL - EBITDA (FY25)	3,023	15.1	45,648	70%	32,068
Indraprastha Medical - Market cap	7,820	0.8	5,865	22%	1,292
<b>Total EV</b>					<b>7,33,701</b>
Less: Net Debt (FY25)					7,819
<b>Implied M-Cap</b>					<b>7,25,881</b>
<b>Value per share (Rs)</b>					<b>5,000</b>

Source: Company data, I-Sec research

**Chart 9: 1-year forward EV/EBITDA**

Source: Company data, I-Sec research

**Price chart**

Source: Bloomberg

## Financial summary (consolidated)

Table 2: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Hospital	73,133	83,962	95,074	1,06,863
Pharmacy	53,610	67,703	76,300	85,911
AHLL & Proton	15,003	14,628	18,801	23,372
Others	4,880	0	0	-
<b>Total Revenue</b>	<b>1,46,626</b>	<b>1,66,294</b>	<b>1,90,175</b>	<b>2,16,145</b>
yoy Growth%	38.9	13.4	14.4	13.7
<b>Total Op. Exp.</b>	<b>1,24,775</b>	<b>1,45,174</b>	<b>1,63,547</b>	<b>1,84,264</b>
<b>EBITDA</b>	<b>21,851</b>	<b>21,119</b>	<b>26,627</b>	<b>31,881</b>
Margins %	14.9	12.7	14.0	14.8
yoy Growth%	92.1	(3.3)	26.1	19.7
Depreciation	6,007	6,060	6,335	6,610
<b>EBIT</b>	<b>15,844</b>	<b>15,059</b>	<b>20,292</b>	<b>25,271</b>
Other Income	855	527	401	292
Interest	3,786	3,623	3,057	2,769
Exceptional Items (net)	2,941	-	-	-
<b>PBT</b>	<b>15,854</b>	<b>11,963</b>	<b>17,637</b>	<b>22,795</b>
Tax	4,770	3,948	5,820	7,522
Tax Rate (%)	30.1	33.0	33.0	33.0
Minority Interest	528	-	-	-
<b>Reported PAT</b>	<b>10,556</b>	<b>8,015</b>	<b>11,816</b>	<b>15,273</b>
<b>Adj PAT</b>	<b>8,500</b>	<b>8,015</b>	<b>11,816</b>	<b>15,273</b>
Net Margins (%)	5.8	4.8	6.2	7.1

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid up Capital	719	719	719	719
Reserves & Surplus	55,733	63,365	74,799	89,689
<b>Total Equity</b>	<b>56,452</b>	<b>64,084</b>	<b>75,518</b>	<b>90,408</b>
Minority Interest	2,543	2,543	2,543	2,543
<b>Total Debt</b>	<b>48,453</b>	<b>44,453</b>	<b>40,453</b>	<b>36,453</b>
Deferred Liabilities	5,215	5,215	5,215	5,215
<b>Capital Employed</b>	<b>1,12,662</b>	<b>1,16,295</b>	<b>1,23,729</b>	<b>1,34,619</b>
Current Liabilities & Prov	19,397	21,914	25,030	28,418
<b>Total Liabilities</b>	<b>1,32,059</b>	<b>1,38,209</b>	<b>1,48,758</b>	<b>1,63,037</b>
<b>Net Fixed Assets</b>	<b>83,150</b>	<b>82,090</b>	<b>80,755</b>	<b>79,145</b>
Investments	3,003	3,003	3,003	3,003
Inventory	4,318	5,024	5,659	6,376
Debtors	17,676	20,047	22,926	26,057
Other Current Assets	8,541	9,675	11,053	12,552
Cash and Equivalents	15,372	18,371	25,362	35,904
<b>Total Cur. Assets</b>	<b>48,909</b>	<b>56,120</b>	<b>68,004</b>	<b>83,892</b>
<b>Total Assets</b>	<b>1,32,059</b>	<b>1,38,209</b>	<b>1,48,758</b>	<b>1,63,037</b>

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
PBT	11,084	11,963	17,637	22,795
Depreciation	6,007	6,060	6,335	6,610
Net Chg in WC	(4,630)	(942)	(865)	(966)
Taxes	(2,043)	(3,948)	(5,820)	(7,522)
Others	5,739	2,872	2,144	1,776
<b>CFO</b>	<b>16,156</b>	<b>16,005</b>	<b>19,431</b>	<b>22,693</b>
Capex	(6,518)	(5,000)	(5,000)	(5,000)
Net Investments made	(1,859)	-	-	-
Others	3,012	-	-	-
<b>CFI</b>	<b>(5,365)</b>	<b>(5,000)</b>	<b>(5,000)</b>	<b>(5,000)</b>
Change in Share capital	-	-	-	-
Change in Debts	(2,866)	(4,000)	(4,000)	(4,000)
Div. & Div Tax	(433)	(383)	(383)	(383)
Others	(4,378)	(3,623)	(3,057)	(2,769)
<b>CFF</b>	<b>(7,677)</b>	<b>(8,006)</b>	<b>(7,439)</b>	<b>(7,151)</b>
<b>Total Cash Generated</b>	<b>3,115</b>	<b>2,999</b>	<b>6,992</b>	<b>10,542</b>

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	58.5	55.2	81.4	105.2
yoy Growth%	652.8	(5.7)	47.4	29.2
Cash EPS	99.9	96.9	125.0	150.7
EBITDA (%)	14.9	12.7	14.0	14.8
NPM (%)	5.8	4.8	6.2	7.1
Net Debt to Equity (x)	0.6	0.4	0.2	0.0
P/E (x)	78.7	83.4	56.6	43.8
EV/EBITDA (x)	32.1	32.9	25.7	21.0
P/BV (x)	11.8	10.4	8.9	7.4
EV/Sales (x)	4.8	4.2	3.6	3.1
ROCE (%)	11.0	9.5	12.1	13.6
ROE (%)	16.6	13.3	16.9	18.4
ROIC (%)	12.4	10.5	14.0	17.0
Book Value (Rs)	388.8	441.4	520.2	622.7
DPS (Rs)	2.6	2.6	2.6	2.6
Dividend Payout (%)	4.5	4.8	3.2	2.5
Div Yield (%)	0.1	0.1	0.1	0.1
Asset Turnover Ratio	1.2	1.2	1.3	1.4
Avg Collection days	10	12	12	12
Avg Inventory days	41	44	44	45

Source: Company data, I-Sec research



ICICI Securities Limited  
is the author and  
distributor of this report

Re-initiating coverage

## Healthcare

Target price: Rs330

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	71.4	71.4	71.4
Institutional investors	11.3	11.2	11.9
MFs and UTI	2.8	3.0	3.9
Insurance Cos.	0.6	0.4	0.4
FII	7.9	7.2	7.6
Others	17.3	17.4	16.7

Source: CMIE

### ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA



# Healthcare Global Enterprises

BUY

## Operational matrix improving

Rs278

HCG has niche focus on cancer care, tertiary care, infertility treatment and advanced screening and diagnostics. Its operations are spread across ~20 cities through expansion in tier II and III cities, towns and villages. Cost rationalisation and operational efficiencies post the entry of private equity CVC capital have helped the company scale up EBITDA margin to 19% in Q3FY23 from ~12.5% in FY21 and occupancy at 66% vs 57% in Q3FY22. Comfortable debt levels with minimal capex plans provide room to explore additional growth opportunities. We remain positive on the stock as the company is poised for growth with focus on improving the utilisation of its assets and strengthening the balance sheet. We re-initiate coverage on the stock with BUY rating and a target price of Rs330/share.

- **Focusing on core strength in oncology is yielding results:** HCG's business model is to provide specialty healthcare with focus on oncology and fertility incidences in India. Given the company offers one-stop solution at competitive prices, this makes its business model differentiated and scalable. Further its experienced management, high-quality Board and pan-India focus enhance our comfort on its long-term business outlook. HCG operates 21 cancer centres in India making it the largest oncology-focused hospital in India. The company currently has 4 multi-specialty hospitals which it is trying to convert into super-specialty hospital by introducing oncology specialty.
- **Ramp up in new hospitals on cards:** ARPOB for Q3FY23 had a sequential decline largely on account of new facilities still in ramp-up phase which has led to an unfavourable payer mix and therapy mix. Among the new centres, ARPOBs are higher for Mumbai and Kolkata at ~Rs50K per day. The focus of the company for new centres is pushing the utilisation up post which the company will focus on ARPOB improvement. We expect oncology segment revenues to exhibit 7.3% CAGR over FY23E-25E.
- **Restructuring has brought net debt under control:** HCG has ceased operations at hospitals where profitability was distant and overall operating bed count has reduced by 234 beds to 1,797 in last 2 years. The company has generated positive operating cashflow of Rs5.9bn over FY20-22. Net debt has reduced by Rs10.8bn to Rs2.1bn at the end of FY22.
- **Outlook:** We expect 8% revenue and 13.6% EBITDA CAGRs over FY23E-FY25E. We expect EBITDA margin to improve by ~190bps over FY23E-FY25E led by operating levels and benefit from cost optimisation activities. We expect losses from new centres to narrow, which may improve overall profitability.
- **Valuations and risks:** We remain optimistic on HCG given its focus on niche oncology services and high growth potential. We re-initiate coverage on the stock with BUY rating and a revised target price of Rs330/share based on 13x FY25E EV/EBITDA. **Key downside risks:** Higher competition in oncology and delay in operational turnaround of new centres.

Market Cap	Rs38.6bn/US\$470mn
Reuters/Bloomberg	HCG IN
Shares Outstanding (mn)	139.1
52-week Range (Rs)	315/258
Free Float (%)	28.6
FII (%)	7.6
Daily Volume (US\$'000)	432
Absolute Return 3m (%)	(1.7)
Absolute Return 12m (%)	6.9
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	13,978	16,937	18,055	19,771
Net Income (Rs mn)	537	497	824	1,223
EPS (Rs)	0.8	3.6	5.9	8.8
% Chg YoY	(111.4)	322.1	65.8	48.4
P/E (x)	315.2	74.7	45.0	30.3
CEPS (Rs)	12.2	15.3	18.2	21.7
EV/E (x)	18.7	14.8	12.6	10.7
Dividend Yield (%)	-	-	-	-
RoCE (%)	3.2	7.1	8.7	10.3
RoE (%)	1.5	5.6	8.6	11.5

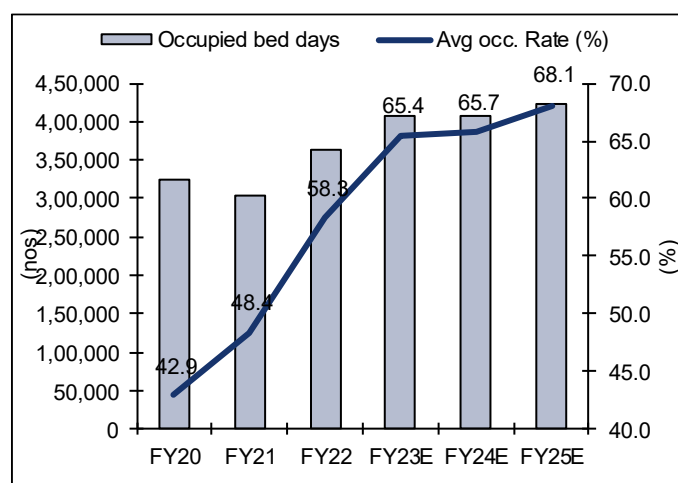
### Research Analysts:

Abdulkader Puranwala

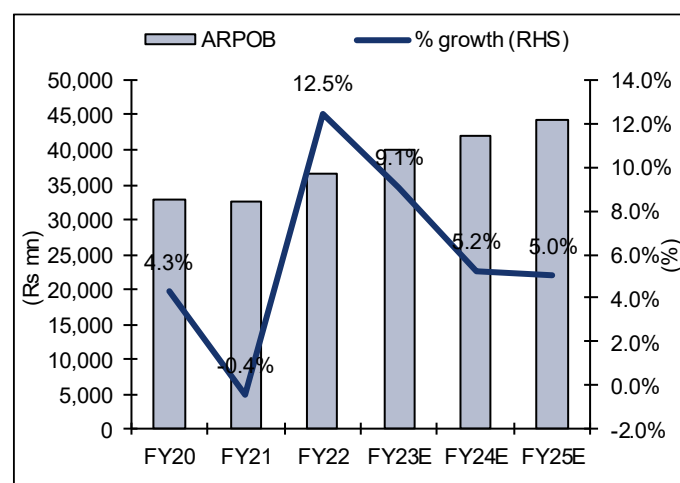
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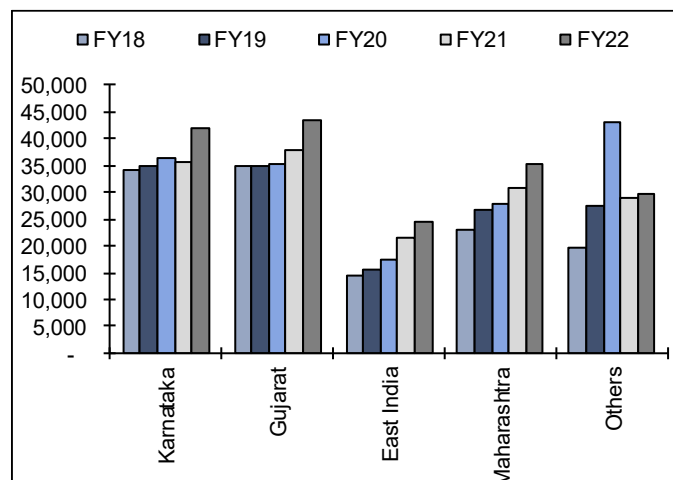
rohan.john@icicisecurities.com  
+91 22 6807 7453

**Chart 1: Occupancies has been steadily improving**

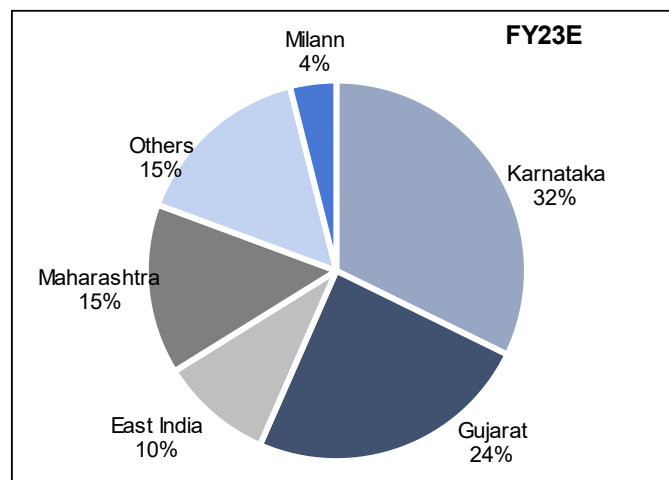
Source: Company data, I-Sec research.

**Chart 2: Expect ARPOBs to grow at a CAGR of 5% over FY23E-FY25E**

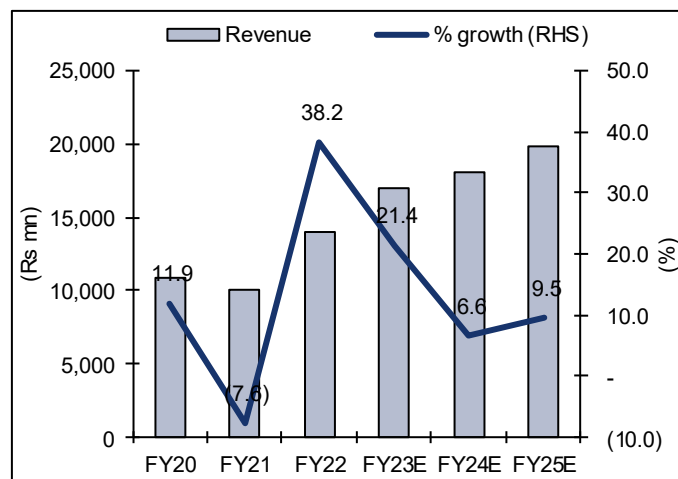
Source: Company data, I-Sec research.

**Chart 3: Cluster wise ARPOB growth**

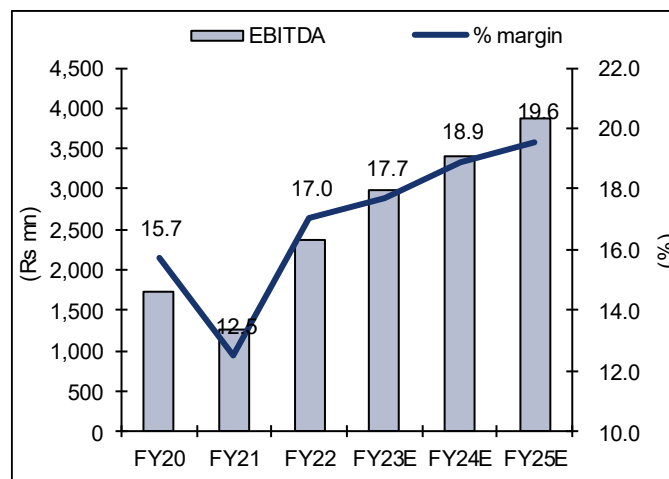
Source: Company data, I-Sec research.

**Chart 4: Revenue breakup (FY23E)**

Source: Company data, I-Sec research.

**Chart 5: Revenue to grow 13.6% CAGR over FY23E-FY25E**

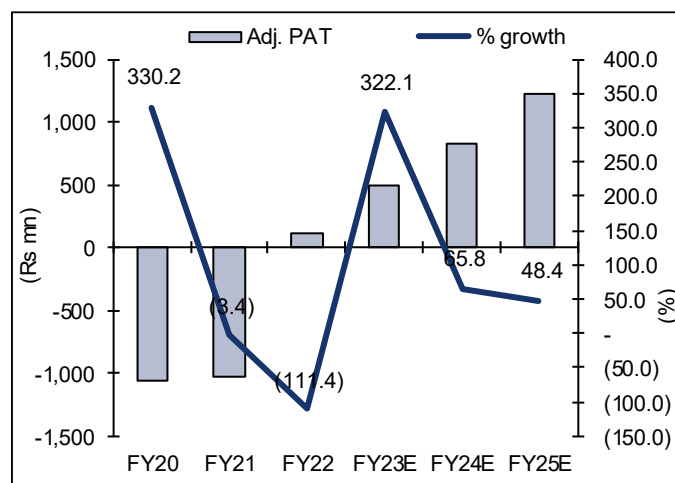
Source: Company data, I-Sec research.

**Chart 6: Cost optimization activities to yield 190 bps margin improvement over FY23E-FY25E**

Source: Company data, I-Sec research.

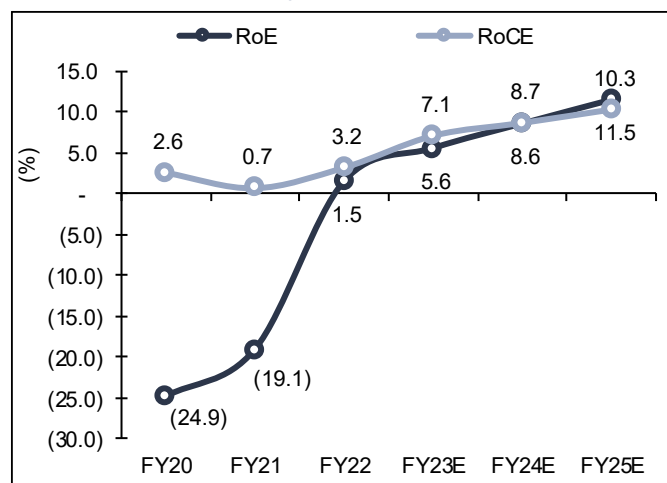


Chart 7: Growing in a profitable manner



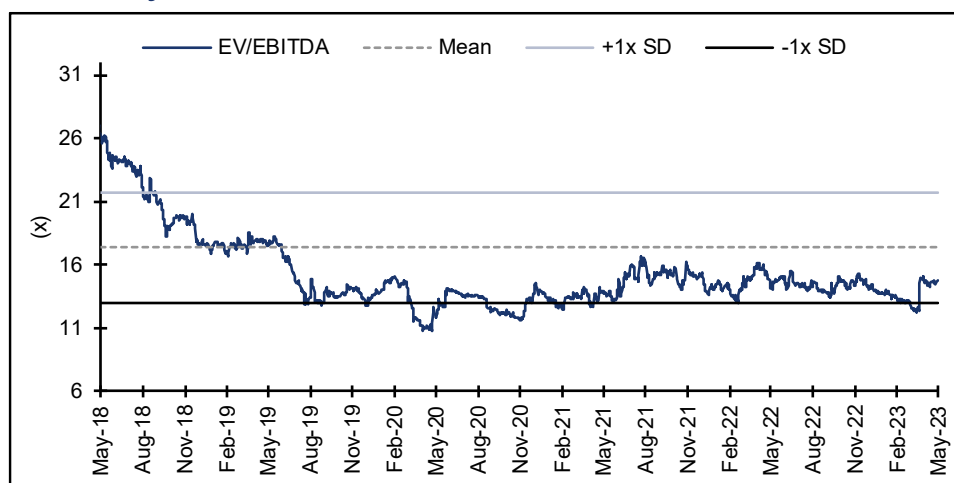
Source: Company data, I-Sec research.

Chart 8: Return ratios have improved with increased profitability



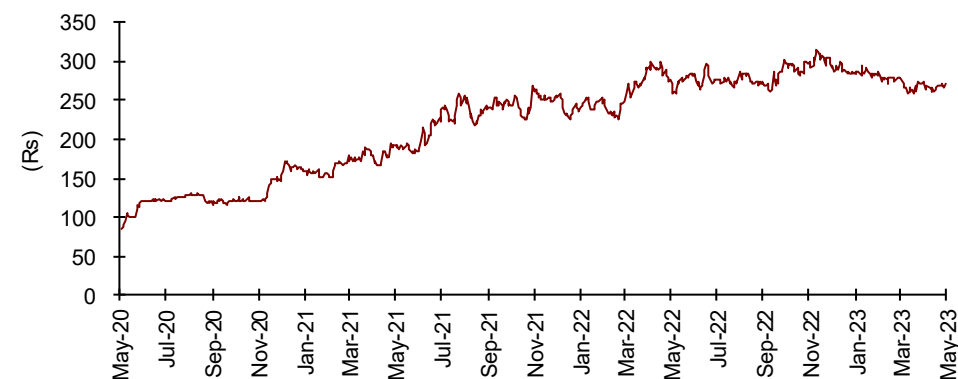
Source: Company data, I-Sec research.

Chart 9: 1-year forward P/E



Source: Company data, I-Sec research

Price chart



Source: Bloomberg

## Financial summary (consolidated)

Table 1: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Karnataka cluster	4,748	5,464	5,768	6,175
Gujarat cluster	3,518	4,116	4,350	4,668
East India cluster	1,168	1,622	1,752	1,946
Maharashtra cluster	2,275	2,457	2,798	3,230
Others	1,648	2,612	2,538	2,706
Milann	621	665	849	1,046
<b>Total Net Revenue</b>	<b>13,978</b>	<b>16,937</b>	<b>18,055</b>	<b>19,771</b>
yoy Growth%	37.9	21.2	6.6	9.5
<b>Total Op. Exp.</b>	<b>11,598</b>	<b>13,939</b>	<b>14,643</b>	<b>15,906</b>
<b>EBITDA</b>	<b>2,380</b>	<b>2,998</b>	<b>3,412</b>	<b>3,865</b>
Margins %	17.0	17.7	18.9	19.6
yoy Growth%	88.1	26.0	13.8	13.3
Depreciation & Amortization	1,583	1,625	1,702	1,798
<b>EBIT</b>	<b>797</b>	<b>1,373</b>	<b>1,710</b>	<b>2,067</b>
Other Income	112	133	140	147
Interest	978	1,032	939	770
EO Income	946	-	-	-
<b>PBT</b>	<b>878</b>	<b>474</b>	<b>911</b>	<b>1,444</b>
Tax	489	119	230	364
Tax Rate (%)	55.7	25.2	25.2	25.2
Minority Interest	(148)	(143)	(143)	(143)
<b>Reported PAT</b>	<b>537</b>	<b>497</b>	<b>824</b>	<b>1,223</b>
<b>Adj PAT</b>	<b>118</b>	<b>497</b>	<b>824</b>	<b>1,223</b>
Net Margins (%)	0.8	2.9	4.6	6.2

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid up Capital	1,390	1,390	1,390	1,390
Reserves & Surplus	7,313	7,810	8,634	9,857
<b>Total Equity</b>	<b>8,703</b>	<b>9,200</b>	<b>10,024</b>	<b>11,247</b>
Minority Interest	134	(9)	(151)	(294)
<b>Total Debt</b>	<b>9,147</b>	<b>8,647</b>	<b>7,547</b>	<b>6,447</b>
Deferred Liabilities	(47)	(47)	(47)	(47)
<b>Capital Employed</b>	<b>17,937</b>	<b>17,792</b>	<b>17,373</b>	<b>17,353</b>
Current Liabilities & Prov	4,199	3,844	4,031	4,373
<b>Total Liabilities</b>	<b>22,136</b>	<b>21,635</b>	<b>21,404</b>	<b>21,726</b>
<b>Net Fixed Assets</b>	<b>15,689</b>	<b>15,064</b>	<b>14,362</b>	<b>14,063</b>
Investments	88	88	88	88
Inventory	300	360	378	411
Debtors	2,175	2,635	2,809	3,076
Other Current Assets	1,910	1,959	1,978	2,006
Cash and Equivalents	1,975	1,529	1,789	2,082
<b>Total Cur. Assets</b>	<b>6,359</b>	<b>6,483</b>	<b>6,954</b>	<b>7,575</b>
<b>Total Assets</b>	<b>22,136</b>	<b>21,635</b>	<b>21,404</b>	<b>21,726</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
PBT	878	474	911	1,444
Depreciation	1,583	1,625	1,702	1,798
Net Chg in WC	87	(165)	(90)	(88)
Taxes	(237)	(119)	(230)	(364)
Others	(110)	272	1,006	872
<b>CFO</b>	<b>2,201</b>	<b>2,086</b>	<b>3,299</b>	<b>3,662</b>
Capex	(704)	(1,000)	(1,000)	(1,500)
Net Investments made	1,316	-	-	-
Others	(1,857)	-	-	-
<b>CFI</b>	<b>(1,246)</b>	<b>(1,000)</b>	<b>(1,000)</b>	<b>(1,500)</b>
Change in Share capital	1,322	-	-	-
Change in Debts	(1,938)	(500)	(1,100)	(1,100)
Div. & Div Tax	-	-	-	-
Others	1,227	(1,032)	(939)	(770)
<b>CFF</b>	<b>611</b>	<b>(1,532)</b>	<b>(2,039)</b>	<b>(1,870)</b>
<b>Total Cash Generated</b>	<b>1,567</b>	<b>(446)</b>	<b>260</b>	<b>292</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	0.8	3.6	5.9	8.8
yoy Growth%	(111.4)	322.1	65.8	48.4
Cash EPS	12.2	15.3	18.2	21.7
EBITDA (%)	17.0	17.7	18.9	19.6
NPM (%)	0.8	2.9	4.6	6.2
Net Debt to Equity (x)	0.8	0.8	0.6	0.4
P/E (x)	315.2	74.7	45.0	30.3
EV/EBITDA (x)	18.7	14.8	12.6	10.7
P/BV (x)	4.3	4.0	3.7	3.3
EV/Sales (x)	3.2	2.6	2.4	2.1
ROCE (%)	3.2	7.1	8.7	10.3
ROE (%)	1.5	5.6	8.6	11.5
ROIC (%)	3.5	7.9	9.6	11.6
Book Value (Rs)	62.6	66.2	72.1	80.9
DPS (Rs)	-	-	-	-
Dividend Payout (%)	-	-	-	-
Div Yield (%)	-	-	-	-
Asset Turnover Ratio	0.7	0.8	0.8	0.9
Avg Collection days	53	52	55	54
Avg Inventory days	8	9	9	9

Source: Company data, I-Sec research

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is the author and  
distributor of this report

Re-initiating coverage

## Healthcare

Target price Rs1,345

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	49.8	49.8	49.8
Institutional investors	37.5	36.6	39.3
MFs and UTI	10.9	11.8	12.4
Insurance Cos.	1.0	0.9	0.9
FII	25.6	23.9	26.0
Others	12.7	13.6	10.9

Source: CMIE

### ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	-
Environment	NA	NA	-
Social	NA	NA	-
Governance	NA	NA	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

# Metropolis

HOLD

## Committed to profitable growth

Rs1,351

Metropolis is a premium diagnostics player with significant focus towards specialised tests. Its operations are concentrated in western India, which accounts for 50% of its revenue (top-5 focused cities account for 61%). We remain positive on the company owing to: 1) its aggressive network expansion with concentration on B2C, 2) strengthening position in the fast-growing south region (via Hitech acquisition) with focus on increasing digital revenue and 3) faster shift of the market to organised players. Stock has corrected 37% from peak owing to concerns about competitive threat to its premium pricing model and valuations of recent acquisition. Reinitiate coverage with HOLD rating and a target price of Rs1,345/share.

- **Strong B2C focus ensures premium realisations:** Better penetration in metro cities has helped Metropolis enjoy 20-25% higher realisations than a non-metro focused diagnostics business. It is the third-largest organised player in India diagnostics with strong brand equity and B2C share in its focused cities at 60%. Owing to its brand equity and basket of specialised tests (40-45% of revenue), the company is able to take 3-5% price hike despite grappling with competitive pressures. Overall, we expect revenue per patient to grow 3.3% over FY23E-FY25E and revenue per test to remain flattish
- **M&As, network expansion to improve reach:** Metropolis added 12 labs and 400 centres in 9MFY23. Of the 12 labs added, 5 were in north and east regions, 4 in west and 2 in central India. It further aims to add 90 labs and 1,800 centres by FY25. Contribution from new labs stood at 3% and is likely to increase in the coming quarters. Acquisition of Hitech has improved Metropolis's B2C presence in Bangalore. Moreover, in Chennai, its market share in the OPD segment has increased to 20-25%. Hitech revenue is expected to grow 13.5% over FY23E-FY25E.
- **Favourable test mix driving growth in revenue per patient:** In 9MFY23, revenue per patient increased by ~5% to Rs955, driven by better mix of specialised tests. Ahead, the management is focusing on smoothening the patient flow (down 10% in 9M) and enhance contribution from wellness packages to 20% (from 12% currently). It has also entered into an agreement with Delhi government to offer diagnostic services through *Mohalla* clinics; this business is likely to be margin-accretive.
- **Outlook:** We forecast revenue, EBITDA and PAT CAGRs of 7.8%, 9.8% and 17.4%, respectively, over FY23E-FY25E. We expect the company to generate FCF of ~Rs7bn over FY23E-FY25E.
- **Valuations and risks:** Network expansion, Hitech acquisition, growing digital revenue and shift to organised players would support Metropolis' growth. However, increasing competition and higher base may restrict growth in near term. Initiate with **HOLD** and a DCF-based target price of Rs1,345/share. **Key upside risks:** Inorganic acquisitions and faster shift from unorganized to organized. **Key downside risks:** higher-than-expected competition and regulatory hurdles.

Market Cap	Rs69.2bn/US\$842mn
Reuters/Bloomberg	METP.BO/METROHL IN
Shares Outstanding (mn)	51.2
52-week Range (Rs)	2097/1197
Free Float (%)	50.2
FII (%)	26.0
Daily Volume (US\$'000)	4,266
Absolute Return 3m (%)	5.6
Absolute Return 12m (%)	(33.3)
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	12,283	11,635	12,217	13,526
Net Income (Rs mn)	2,142	1,430	1,639	1,971
EPS (Rs)	39.6	27.9	32.0	38.5
% Chg YoY	10.6	(29.4)	14.7	20.2
P/E (x)	34.1	48.4	42.2	35.1
CEPS (Rs)	51.9	45.2	50.0	57.4
EV/E (x)	20.7	24.1	22.1	19.3
Dividend Yield (%)	1.5	1.0	1.2	1.4
RoCE (%)	19.7	11.9	13.3	15.6
RoE (%)	25.4	15.5	16.5	18.5

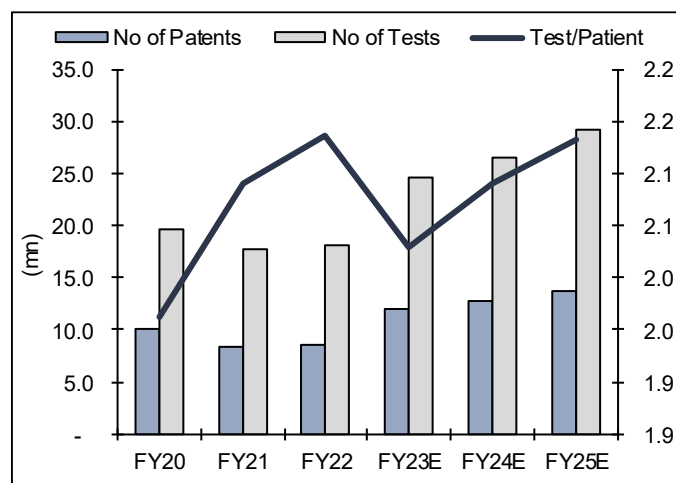
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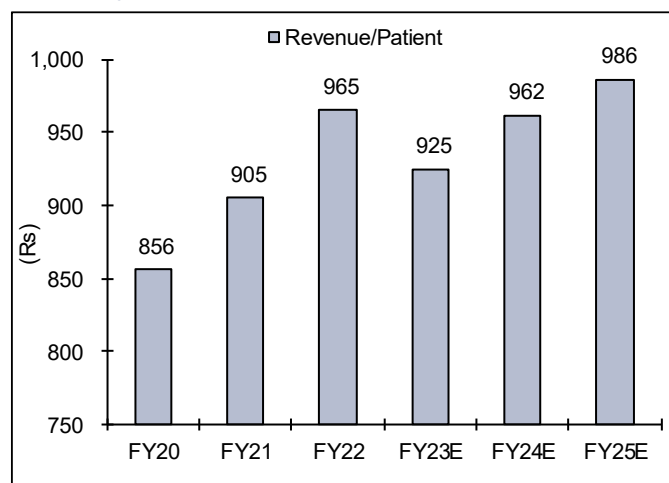
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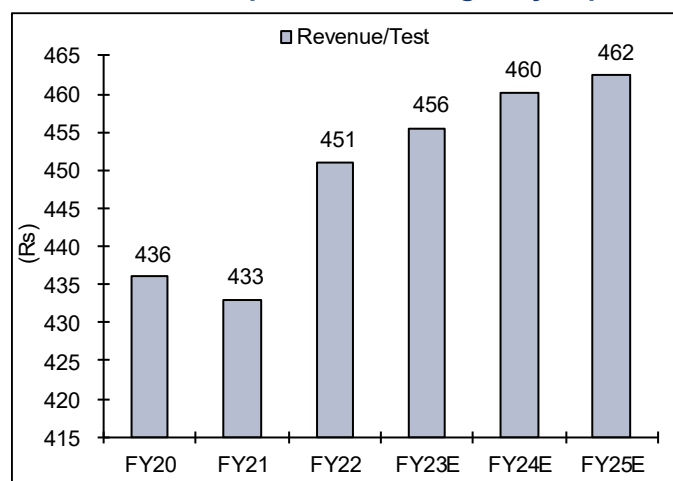
rohan.john@icicisecurities.com  
+91 22 6807 7453

**Chart 1: Network expansion to support healthy volumes over FY23E-FY25E**

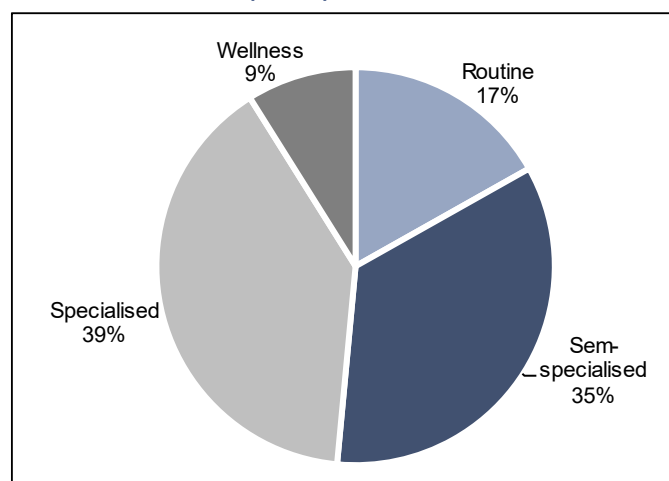
Source: Company data, I-Sec research.

**Chart 2: Revenue per patient to improve led by specialty tests**

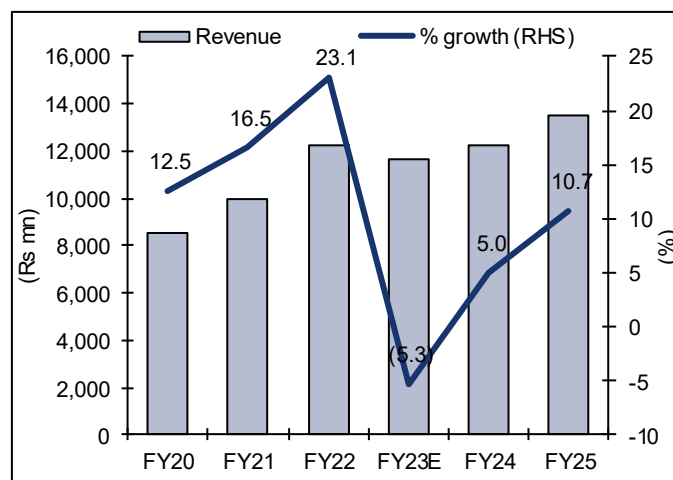
Source: Company data, I-Sec research.

**Chart 3: Revenue per tests to marginally improve**

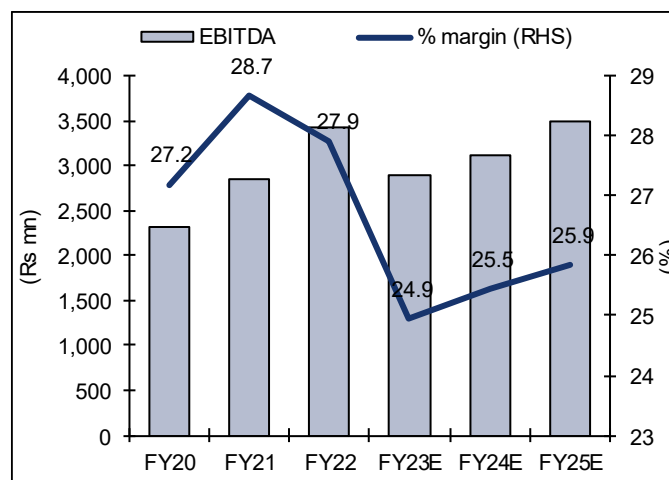
Source: Company data, I-Sec research.

**Chart 4: Test mix (FY22)**

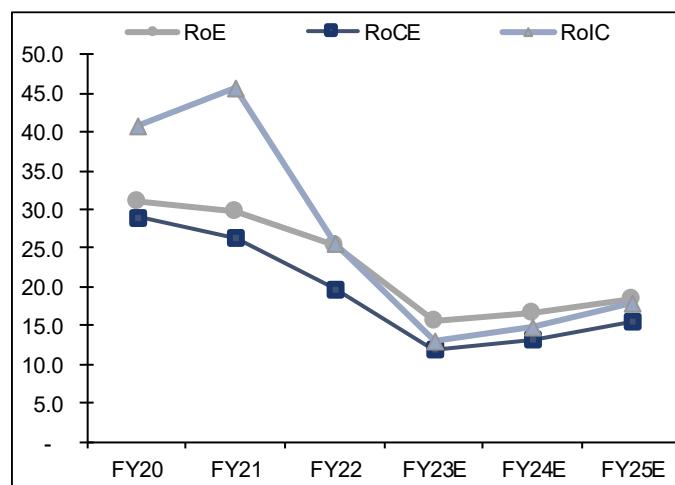
Source: Company data, I-Sec research.

**Chart 5: Revenue to grow 7.8% over FY23E-FY25E**

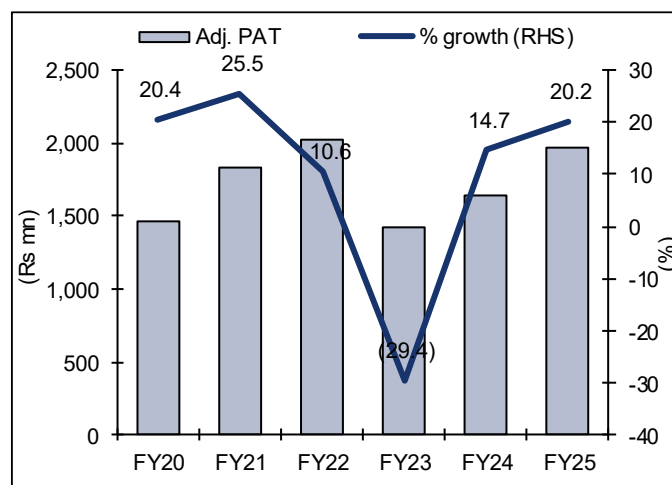
Source: Company data, I-Sec research.

**Chart 6: EBITDA margins to improve 100bps over FY23E-FY25E**

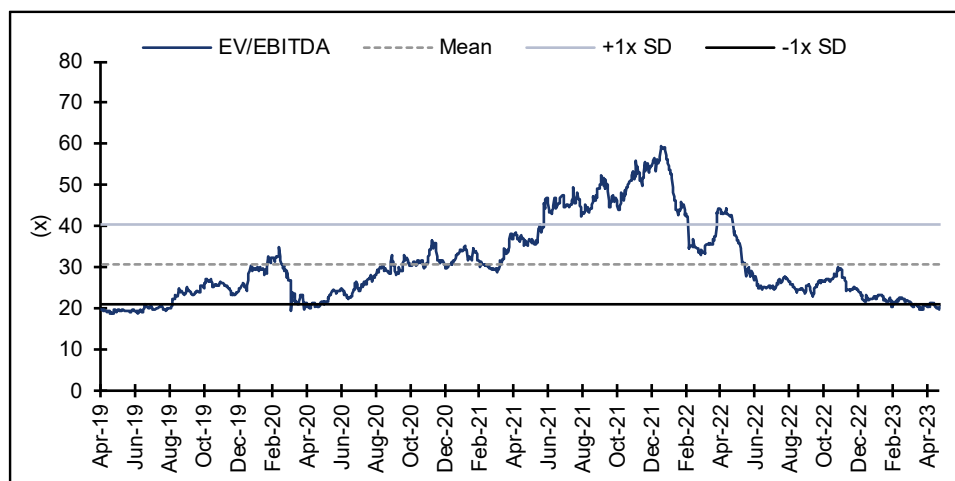
Source: Company data, I-Sec research.

**Chart 7: Return ratios to slightly recover**

Source: Company data, I-Sec research.

**Chart 8: Net profit to grow at 17.4% CAGR over FY23E-FY25E**

Source: Company data, I-Sec research.

**Chart 9: 1-year forward EV/EBITDA**

Source: Company data, I-Sec research

**Price chart**

Source: Bloomberg

## Financial summary (consolidated)

Table 1: Profit and Loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Total Net Revenue</b>	<b>12,283</b>	<b>11,635</b>	<b>12,217</b>	<b>13,526</b>
YoY Growth%	23.1	(5.3)	5.0	10.7
<b>Total Op. Exp.</b>	<b>8,855</b>	<b>8,733</b>	<b>9,108</b>	<b>10,030</b>
<b>EBITDA</b>	<b>3,428</b>	<b>2,902</b>	<b>3,109</b>	<b>3,496</b>
Margins %	27.9	24.9	25.5	25.9
YoY Growth%	19.9	(15.3)	7.1	12.5
Depreciation & Amortization	632	884	921	966
<b>EBIT</b>	<b>2,796</b>	<b>2,018</b>	<b>2,188</b>	<b>2,531</b>
Other Income	176	187	205	226
Interest	197	286	195	115
EO Items	159	-	-	-
<b>PBT</b>	<b>2,934</b>	<b>1,918</b>	<b>2,198</b>	<b>2,641</b>
Tax	787	483	554	666
Tax Rate (%)	26.8	25.2	25.2	25.2
Minority Interest	5	5	5	5
<b>Reported PAT</b>	<b>2,142</b>	<b>1,430</b>	<b>1,639</b>	<b>1,971</b>
<b>Adj PAT</b>	<b>2,025</b>	<b>1,430</b>	<b>1,639</b>	<b>1,971</b>
Net Margins (%)	16.5	12.3	13.4	14.6

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid up Capital	102	102	102	102
Reserves & Surplus	8,760	9,475	10,147	10,955
<b>Total Equity</b>	<b>8,862</b>	<b>9,577</b>	<b>10,249</b>	<b>11,057</b>
Minority Interest	20	25	30	35
<b>Total Debt</b>	<b>3,786</b>	<b>3,286</b>	<b>1,787</b>	<b>1,287</b>
Deferred Liabilities	769	769	769	769
<b>Capital Employed</b>	<b>13,436</b>	<b>13,656</b>	<b>12,834</b>	<b>13,148</b>
Current Liabilities & Prov	1,769	1,669	1,743	1,928
<b>Total Liabilities</b>	<b>15,205</b>	<b>15,325</b>	<b>14,577</b>	<b>15,076</b>
<b>Net Fixed Assets</b>	<b>10,647</b>	<b>10,113</b>	<b>9,592</b>	<b>9,126</b>
Investments	18	18	18	18
Inventory	511	504	526	579
Debtors	1,355	1,283	1,348	1,492
Other Current Assets	868	822	863	955
Cash and Equivalents	1,807	2,585	2,232	2,907
<b>Total Cur. Assets</b>	<b>4,541</b>	<b>5,195</b>	<b>4,968</b>	<b>5,932</b>
<b>Total Assets</b>	<b>15,205</b>	<b>15,325</b>	<b>14,577</b>	<b>15,076</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
PBT	2,934	1,918	2,198	2,641
Depreciation	632	884	921	966
Net Chg in WC	(129)	17	(47)	(89)
Taxes	(825)	(483)	(554)	(666)
Others	(79)	294	189	101
<b>CFO</b>	<b>2,533</b>	<b>2,630</b>	<b>2,708</b>	<b>2,953</b>
Capex	(6,686)	(350)	(400)	(500)
Net Investments made	(50)	-	-	-
Others	(640)	-	-	-
<b>CFI</b>	<b>(7,376)</b>	<b>(350)</b>	<b>(400)</b>	<b>(500)</b>
Change in Share capital	20	-	-	-
Change in Debts	2,105	(500)	(1,499)	(500)
Div. & Div Tax	(409)	(715)	(967)	(1,163)
Others	600	(286)	(195)	(115)
<b>CFF</b>	<b>2,315</b>	<b>(1,501)</b>	<b>(2,661)</b>	<b>(1,778)</b>
<b>Total Cash Generated</b>	<b>(2,528)</b>	<b>778</b>	<b>(354)</b>	<b>675</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	39.6	27.9	32.0	38.5
YoY Growth%	10.6	(29.4)	14.7	20.2
Cash EPS	51.9	45.2	50.0	57.4
EBITDA (%)	27.9	24.9	25.5	25.9
NPM (%)	16.5	12.3	13.4	14.6
Net Debt to Equity (x)	0.2	0.1	(0.0)	(0.1)
P/E (x)	34.1	48.4	42.2	35.1
EV/EBITDA (x)	20.7	24.1	22.1	19.3
P/BV (x)	7.8	7.2	6.7	6.3
EV/Sales (x)	5.8	6.0	5.6	5.0
ROCE (%)	19.7	11.9	13.3	15.6
ROE (%)	25.4	15.5	16.5	18.5
ROIC (%)	25.7	13.0	14.8	17.7
Book Value (Rs)	173	187	200	216
DPS (Rs)	20.9	14.0	16.0	19.3
Dividend Payout (%)	52.9	50.0	50.0	50.0
Div Yield (%)	1.5	1.0	1.2	1.4
Asset Turnover Ratio	2.1	1.3	1.4	1.6
Avg Collection days	38	41	39	38
Avg Inventory days	19	21	21	20

Source: Company data, I-Sec research



ICICI Securities Limited  
is the author and  
distributor of this report

Re-initiating coverage

## Pharmaceutical

Target price: Rs435

### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	55.0	55.0	55.0
Institutional investors	40.1	39.2	39.2
MFs and UTI	15.3	13.7	13.3
Insurance Cos.	0.4	0.5	0.4
FII	24.4	25.0	25.5
Others	4.2	5.8	5.8

Source: CMIE

### ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA



# Vijaya Diagnostic

BUY

## Niche regional diagnostic play

Rs374

Vijaya Diagnostic (Vijaya) is one of the largest integrated diagnostic chains in southern India and is primarily based in Andhra Pradesh and Telangana. We remain positive on the stock mainly due to the company's B2C focus (95% of revenue in Q3FY23), highest margin within the industry and continued focus on deeper expansion in its dominant regions. These strengths synergise with supportive macro factors, including the likelihood of a faster shift of market to organised players. Further expansion in the east, especially Kolkata, may drive medium- to long-term growth. However, incremental competition may affect near-term performance. We re-initiate coverage on the stock with BUY rating and target price of Rs435/share.

- **One of the largest South Indian chain with B2C focus:** The South Indian diagnostic industry is estimated to grow at 13-14% CAGR over FY23E-FY25E, marginally higher than the industry growth of 12-13%, led by higher-than-average non-communicable diseases and higher population above 15 years of age. Vijaya is one of the largest and renowned integrated diagnostic chains in southern India, particularly Andhra Pradesh and Telangana (~96% of revenue). It puts a lot of emphasis on its brand recall, customer service and superior quality which helps in pushing individual consumer business and strengthening the brand. This is the key strategy to focus on B2C business which contributed ~94% of Vijaya's revenue in FY22. B2C business is not only more profitable than B2B but also provides a high level of customer stickiness.
- **Integrated offering:** Unlike other large chains, Vijaya not only focuses on pathology services but also radiology services. In pathology, it offers >1,600 tests, including ~740 routines and 870 specialised tests. In radiology, its test menu has 220 basic and 320 advanced radiology tests, including MRI, HRCT, SPECT and PET CT. Due to its focused approach, wide test menu, strong brand recall, B2C focus and continuous deepening of presence in key geographies, we expect the company to provide continuous industry-leading growth.
- **Strong margins with consistent free cashflow generation:** With higher radiology contribution and B2C focus, Vijaya commands best-in-industry EBITDA margin which we believe may continue and remain at ~40-41% in near-to-medium term. We expect a revenue CAGR of 15% over FY23E-FY25E with EBITDA to CAGR at 17.6%. Despite continuous expansion, we expect the company to generate free cashflow of ~Rs3.5bn over FY23E-FY25E.
- **Valuations and risks:** We re-initiate coverage on the stock with **BUY** rating based on DCF-based target price of Rs435/share. **Key downside risks:** Slowdown in growth in southern region, and regulatory hurdles.

Market Cap	Rs38.2bn / US\$465mn
Reuters/Bloomberg	VIJAYA IN
Shares Outstanding (mn)	102.1
52-week Range (Rs)	489/300
Free Float (%)	45.0
FII (%)	25.5
Daily Volume (US\$'000)	1,554
Absolute Return 3m (%)	(15.2)
Absolute Return 12m (%)	0.4
Sensex Return 3m (%)	2.3
Sensex Return 12m (%)	18.5

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	4,624	4,588	5,276	6,066
Net Income (Rs mn)	1,097	769	965	1,215
EPS (Rs)	10.8	7.5	9.5	11.9
% Chg YoY	30.2	(29.9)	25.5	26.0
P/E (x)	34.9	49.7	39.6	31.5
CEPS (Rs)	15.9	14.5	17.2	20.2
EV/E (x)	18.5	20.5	17.0	13.9
Dividend Yield (%)	-	-	-	-
RoCE (%)	20.9	13.1	14.0	15.0
RoE (%)	26.5	15.2	16.3	17.3

### Research Analysts:

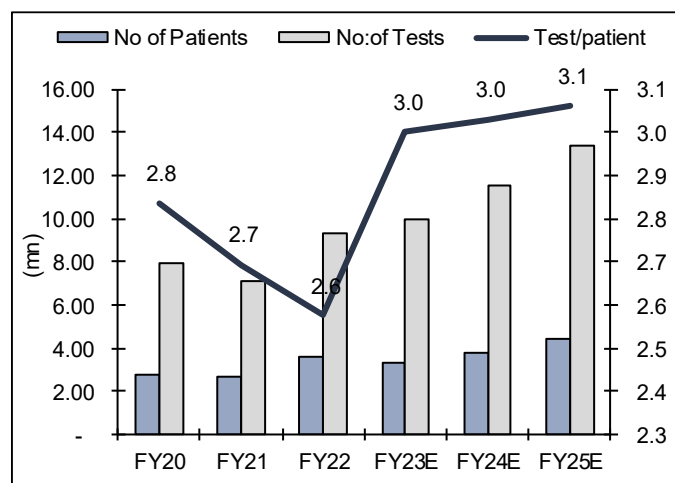
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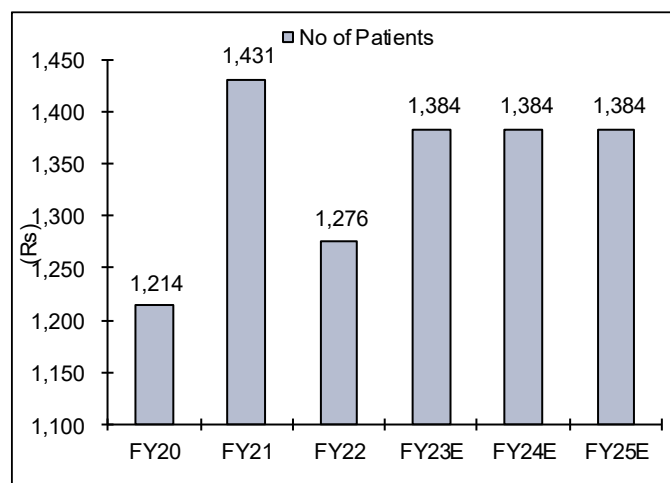
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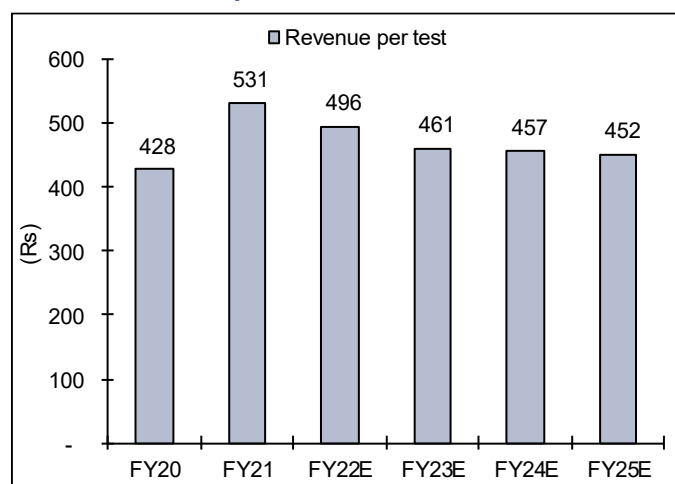


**Chart 1: Consistent volume growth in patients and tests**

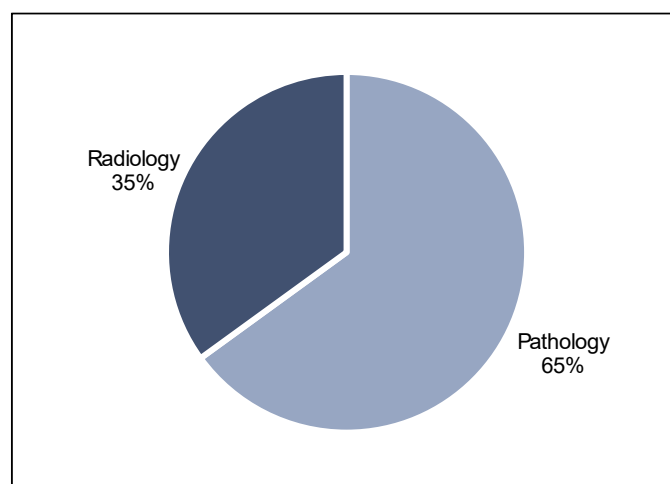
Source: Company data, I-Sec research.

**Chart 2: Expect patient realizations to remain flattish over FY23E-FY25E**

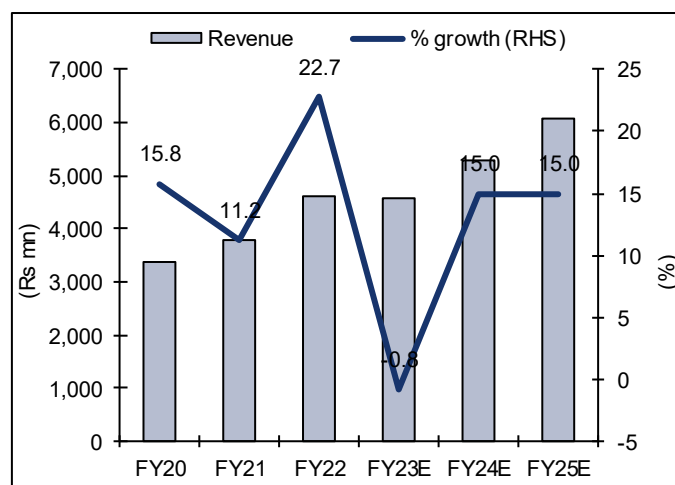
Source: Company data, I-Sec research.

**Chart 3: Realization per test to remain stable with incremental competition**

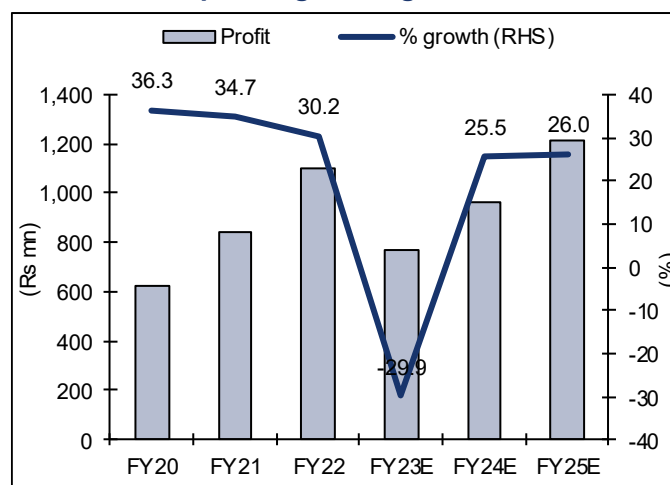
Source: Company data, I-Sec research.

**Chart 4: Pathology vs radiology split (FY23E)**

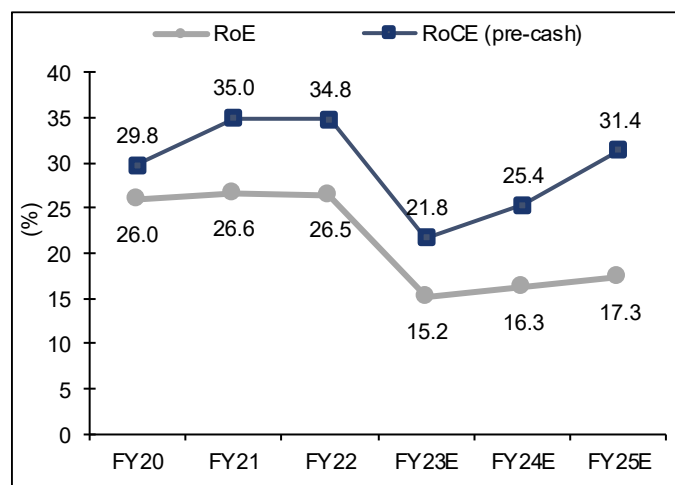
Source: Company data, I-Sec research.

**Chart 5: Revenue to grow 15% CAGR over FY23E-FY25E**

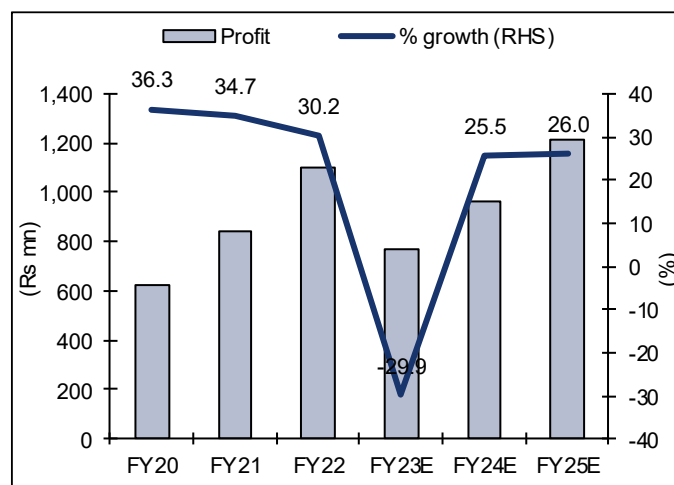
Source: Company data, I-Sec research.

**Chart 6: EBITDA margin to improve 180bps to ~41% due to operating leverage**

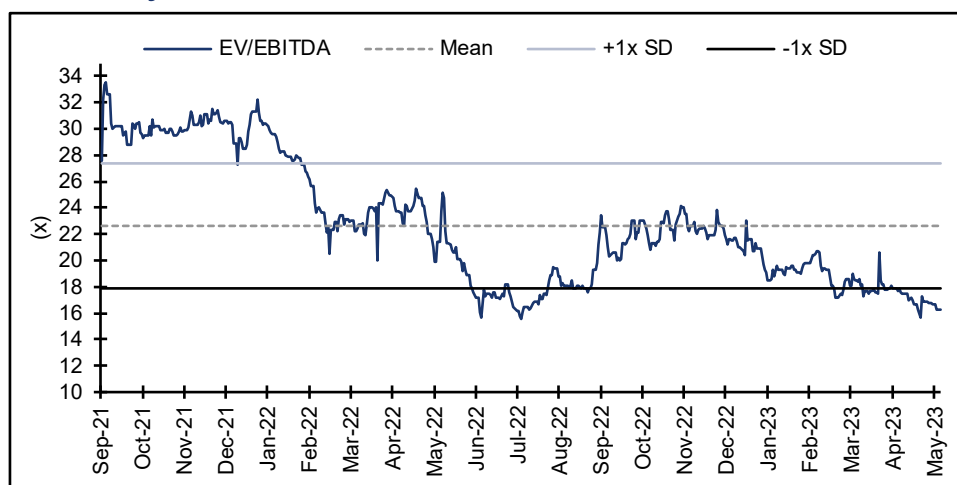
Source: Company data, I-Sec research.

**Chart 7: Vijaya to maintain superior ROCE**

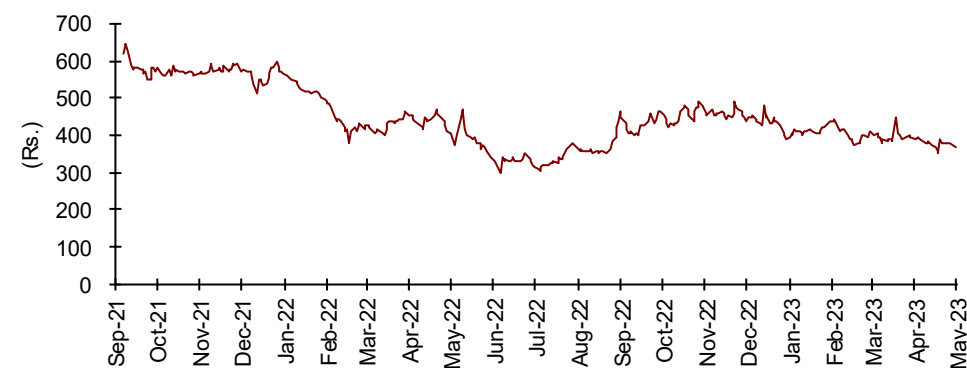
Source: Company data, I-Sec research.

**Chart 8: Net profit to grow 25.7% CAGR over FY23E-FY25E**

Source: Company data, I-Sec research.

**Chart 9: 1-year forward EV/EBITDA**

Source: Company data, I-Sec research

**Price chart**

Source: Bloomberg

## Financial summary (consolidated)

Table 1: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Total Net Revenue</b>	<b>4,624</b>	<b>4,588</b>	<b>5,276</b>	<b>6,066</b>
yoy Growth%	22.7	(0.8)	15.0	15.0
<b>Total Op. Exp.</b>	<b>2,587</b>	<b>2,781</b>	<b>3,154</b>	<b>3,569</b>
<b>EBITDA</b>	<b>2,037</b>	<b>1,806</b>	<b>2,122</b>	<b>2,498</b>
Margins %	44.1	39.4	40.2	41.2
yoy Growth%	22.7	(11.3)	17.4	17.7
Depreciation & Amortization	527	705	791	847
<b>EBIT</b>	<b>1,510</b>	<b>1,101</b>	<b>1,331</b>	<b>1,651</b>
Other Income	128	141	155	171
Interest	165	202	183	183
EO Items	-	-	-	-
<b>PBT</b>	<b>1,474</b>	<b>1,041</b>	<b>1,303</b>	<b>1,638</b>
Tax	367	262	328	413
Tax Rate (%)	24.9	25.2	25.2	25.2
Minority Interest	10	10	10	10
<b>Reported PAT</b>	<b>1,097</b>	<b>769</b>	<b>965</b>	<b>1,215</b>
<b>Adj PAT</b>	<b>1,097</b>	<b>769</b>	<b>965</b>	<b>1,215</b>
Net Margins (%)	23.7	16.8	18.3	20.0

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid up Capital	102	102	102	102
Reserves & Surplus	4,580	5,349	6,313	7,529
<b>Total Equity</b>	<b>4,682</b>	<b>5,451</b>	<b>6,415</b>	<b>7,631</b>
Minority Interest	13	23	33	43
<b>Total Debt</b>	<b>1,835</b>	<b>1,835</b>	<b>1,835</b>	<b>1,835</b>
Deferred Liabilities	(89)	(89)	(89)	(89)
<b>Capital Employed</b>	<b>6,441</b>	<b>7,220</b>	<b>8,194</b>	<b>9,420</b>
Current Liabilities & Prov	605	618	707	807
<b>Total Liabilities</b>	<b>7,046</b>	<b>7,838</b>	<b>8,901</b>	<b>10,227</b>
<b>Net Fixed Assets</b>	<b>4,046</b>	<b>4,241</b>	<b>4,351</b>	<b>4,254</b>
Investments	0	0	0	0
Inventory	43	35	43	48
Debtors	98	97	111	128
Other Current Assets	393	392	406	422
Cash and Equivalents	2,466	3,072	3,990	5,375
<b>Total Cur. Assets</b>	<b>2,999</b>	<b>3,596</b>	<b>4,550</b>	<b>5,973</b>
<b>Total Assets</b>	<b>7,046</b>	<b>7,838</b>	<b>8,901</b>	<b>10,227</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
PBT	1,474	1,041	1,303	1,638
Depreciation	527	705	791	847
Net Chg in WC	(50)	25	9	13
Taxes	(399)	(262)	(328)	(413)
Others	29	200	227	234
<b>CFO</b>	<b>1,580</b>	<b>1,708</b>	<b>2,002</b>	<b>2,318</b>
Capex	(1,209)	(900)	(900)	(750)
Net Investments made	(127)	-	-	-
Others	106	-	-	-
<b>CFI</b>	<b>(1,231)</b>	<b>(900)</b>	<b>(900)</b>	<b>(750)</b>
Change in Share capital	-	-	-	-
Change in Debts	(286)	-	-	-
Div. & Div Tax	-	-	-	-
Others	(83)	(202)	(183)	(183)
<b>CFF</b>	<b>(368)</b>	<b>(202)</b>	<b>(183)</b>	<b>(183)</b>
<b>Total Cash Generated</b>	<b>(19)</b>	<b>606</b>	<b>918</b>	<b>1,385</b>

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	10.8	7.5	9.5	11.9
yoy Growth%	30.2	(29.9)	25.5	26.0
Cash EPS	15.9	14.5	17.2	20.2
EBITDA (%)	44.1	39.4	40.2	41.2
NPM (%)	23.7	16.8	18.3	20.0
Net Debt to Equity (x)	(0.1)	(0.2)	(0.3)	(0.5)
P/E (x)	34.9	49.7	39.6	31.5
EV/EBITDA (x)	18.5	20.5	17.0	13.9
P/BV (x)	8.2	7.0	6.0	5.0
EV/Sales (x)	8.1	8.1	6.8	5.7
ROCE (%)	20.9	13.1	14.0	15.0
ROE (%)	26.5	15.2	16.3	17.3
ROIC (%)	34.8	21.8	25.4	31.4
Book Value (Rs)	45.9	53.5	62.9	74.8
DPS (Rs)	-	-	-	-
Dividend Payout (%)	-	-	-	-
Div Yield (%)	-	-	-	-
F.Asset Turnover Ratio	1.4	1.1	1.2	1.4
Avg Collection days	6	8	7	7
Avg Inventory days	3	3	3	3

Source: Company data, I-Sec research

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