

June 6, 2024

Exhibit 1: PL Universe

Companies	Rating	CMP (Rs)	TP (Rs)
Aurobindo Pharma	Acc	1,252	1,300
Cipla	Acc	1,479	1,405
Divi's Laboratories	Acc	4,482	4,350
Dr. Reddy's Laboratories	Reduce	5,891	5,700
Eris Lifesciences	BUY	978	1,100
Indoco Remedies	Acc	317	335
Ipca Laboratories	REDUCE	1,163	1,150
J.B. Chemicals & Pharma	BUY	1,775	1,920
Lupin	HOLD	1,607	1,675
Sun Pharmaceutical Industries	BUY	1,473	1,710
Torrent Pharmaceuticals	BUY	2,783	2,900
Zydus Lifesciences	Acc	1,045	1,130

Source: PL

Acc=Accumulate

Pharma

Sector Update

Strong uptick in gross margin

Our pharma coverage universe reported another strong quarter with EBITDA growth of 25% YoY (flat QoQ) mainly aided by new launches (gRevlimid, gSpiriva, etc) in the US market, along with stable generic pricing in the base business. Further, lower raw material prices and softening of freight costs aided margins on YoY basis. EBITDA margin expanded by 203bps on YoY basis. Domestic segment was a mixed bag with muted growth from acute and trade generic segment due to a weak season. Cash flow generation was strong for FY24 with a stable working capital cycle.

Healthcare Index has outperformed Sensex by 9% for CY24 YTD. Our sectoral outlook remains positive led by tailwinds in US generics, healthy domestic formulations segment, and normalization in input cost. Henceforth, we expect profitability to continue to improve with 1) a steady domestic business, 2) niche launches in the US market and 3) continued cost optimization. We prefer companies with steady domestic franchises and strong US visibility. Our top picks remain SUNP, ERIS, JBCP and TRP.

- **US sales – Another steady quarter:** US sales grew 16% YoY in constant currency (CC) for our coverage universe aided by launches like gRevlimid and gSpiriva, and a stable base business. On QoQ basis, US sales were largely flat, except for ZYDUSLIF, which delivered 37% QoQ growth aided by gRevlimid and other new launches. Most of the companies guided for stable generic pricing and healthy new launches in FY25. This should continue to aid momentum in US sales in FY25.
- **Domestic formulations – Growth was mixed bag:** Domestic formulation growth was a mixed bag with the acute and trade generic segment reporting muted growth for certain companies. Also, a high base and a weak season impacted the anti-infectives and respiratory segment. Chronic growth continued to remain steady and was the key growth driver for IPM. As per IQVIA, IPM growth for Q4FY24 was 8%. Among our coverage universe, SUNP, JBCP and IPCA reported healthy double-digit growth, while for CIPLA, ZYDUSLIF and LPC, growth was in high single digits. Most of companies alluded field force expansion, chronic segment growth and price hikes in non-NLEM portfolio as key growth drivers. NLEM portfolio will see muted price growth in FY25.
- **GM expansion aided EBITDA:** GMs expanded by 100-700bps across companies on YoY basis. Expansion was significant for the acute/anti-infective portfolio with lower COGS seen over the last 2-3 quarters. GMs expanded even on QoQ basis. R&D cost in Q4FY24 also increased for large cap companies like DRRD, SUNP, CIPLA and LPC, by 20-35% YoY. Overall EBITDA growth was strong at 25% YoY (broadly flat QoQ) for our coverage universe. The companies have guided for a stable raw material pricing scenario, and R&D cost to inch up for FY25 with increasing complex filings. We see margins to remain stable with upward trajectory in FY25.

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Key highlights:

- During the quarter, of the 16 companies we have analyzed, 5 companies reported +5% beat on consensus EBITDA, while 8 companies reported largely in-line EBITDA.
- Companies like DIVI, ARBP and AJP aided strong beat to our/consensus estimates. In case of DIVI, beat was largely aided by higher CS revenues, while beat in ARBP was aided by higher GMs and EU revenues.
- ALKEM's EBITDA miss was led by lower revenues across segments, whereas that of INDR was led by lower margins. Adjusted for one-offs of Rs210mn, ERIS EBITDA was largely in line with our estimate
- Overall EBITDA growth was 26% YoY (down 3.5% QoQ) for the universe. GMs expanded by 100-800bps YoY aided by a better product mix and lower raw material prices.
- Overall revenue growth was 12% for the universe. Continued traction from the US business and a steady domestic business aided revenue growth

Exhibit 2: Q4FY24: Healthy performance across pharma companies

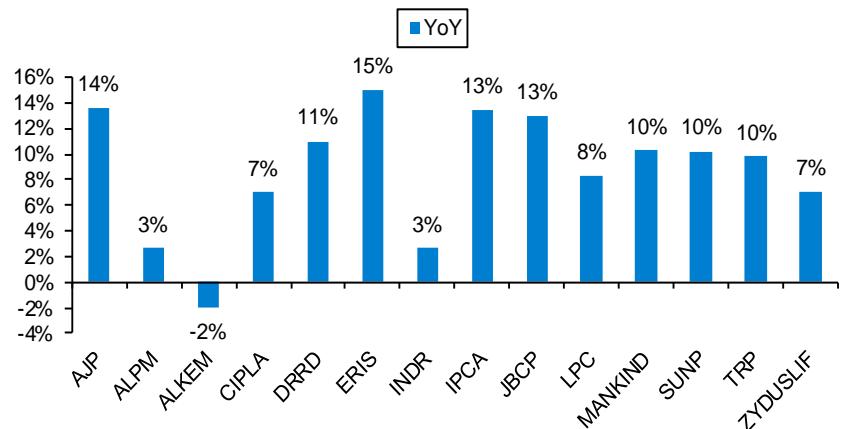
Company	Revenue			EBITDA			PAT			Revenue			EBITDA			PAT		
	Q4FY24	YoY	QoQ	Q4FY24	YoY	QoQ	Q4FY24	YoY	QoQ	Vs PLe	Vs Con. est	Vs PLe	Vs Con. est	Vs PLe	Vs Con. est	Vs PLe	Vs Con. est	
AJP	10540	20	-5	2782	86	-11	2026	66	-4	NA	1.9	NA	11.4	NA	8.5			
ALPM	15170	8	-7	2601	23	-3	1782	17	-1	NA	-4.1	NA	2.9	NA	18.4			
ALKEM	29358	1	-11	4020	14	-43	6463	314	-51	NA	-7.9	NA	-9.0	NA	90.6			
ARVP	75802	17	3	16871	68	5	9073	104	11	5.2	3.6	14.3	11.2	11.6	8.2			
CIPLA	61633	7	-7	13159	12	-25	9390	79	-11	0.5	-1.1	2.1	-4.0	13.3	8.2			
DIVI	23030	18	24	7330	49	50	5380	68	50	10.6	9.9	22.2	20.7	18.3	19.6			
DRRD	70830	12	-2	17842	13	-12	12897	27	-7	1.0	0.8	-6.3	-1.4	4.4	6.2			
ERIS	5473	37	13	1448	25	-15	796	30	-22	13.0	7.7	-14.6	-18.3	0.0	-12.1			
INDR	4391	5	-2	383	-25	-22	23	-91	-90	-4.6	-4.7	-38.4	-42.4	-90.5	-91.8			
IPCA	20330	34	-1	3046	79	-8	596	-22	-67	-0.5	-0.1	-5.5	-5.1	-53.3	-57.5			
JBCP	8617	12	-5	1981	21	-11	1262	44	-6	2.1	0.8	0.0	-1.0	6.7	5.2			
LPC	49608	12	-5	9968	65	-2	3594	52	-41	-3.6	-2.6	0.7	0.1	-31.5	-30.8			
MANKIND	24411	19	-6	5911	42	4	4664	63	5	NA	-0.3	NA	4.3	NA	15.5			
SUNP	119829	10	-3	30916	9	-8	26546	29	14	-1.1	-2.1	0.7	-3.7	22.8	8.7			
TRP	26950	10	0	8830	21	2	4490	56	26	-3.4	-3.2	-0.9	-1.4	3.4	-0.9			
ZYDUSLIF	55338	10	23	16252	24	50	11791	31	54	2.7	2.9	5.4	4.8	12.5	15.3			

Source: Company, PL

Domestic formulations: Growth was mixed bag

- Broadly, the companies managed to outperform IPM growth YoY and delivered healthy double-digit growth.
- Weak acute season was negated by sustained chronic portfolio performance. Resultantly, domestic formulation growth of ALKEM, INDR, ALPM was muted.
- IPCA, AJP and JBCP delivered high double-digit organic growth, whereas ZYDUSLIF, CIPLA and LPC from our universe delivered high single-digit growth YoY.
- DRRD's domestic formulation growth adjusted for divestment was 11% YoY.
- For JBCP, excluding the recently added ophthalmology portfolio, organic growth for domestic business was 13%. For ERIS, organic growth was 15% YoY.
- Field force expansion, chronic segment growth and price hikes in the non-NLEM portfolio were the key growth drivers. NLEM portfolio will see muted price growth in FY25.

Exhibit 3: Growth ahead of IPM performance



Source: Company, PL

US sales: Another steady quarter

- On the US front, in CC terms, the performance was driven by new launches, stable pricing in the base business and volume gains. Overall, we witnessed 16% YoY growth in CC.
- Niche and complex generics such as gRevlimid and gSpiriva largely contributed to YoY growth.
- On QoQ basis, US sales were largely flat, except for ZYDUSLIF, which delivered 37% QoQ growth aided by gRevlimid and other new launches. In case of ARBP, QoQ decline was due to temporary shutdown of Eugia 3 plant.
- SUNP specialty sales adjusted for milestone was up 14% YoY to \$271mn, driven by specialty products like Ilumya, Cequa, Winlevi and Odamzo.
- Most of the companies have guided for stable generic pricing and healthy new launches in FY25. This should continue to aid momentum in US sales in FY25.

Exhibit 4: Sustained growth momentum

\$ in Mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY gr. (%)	QoQ gr. (%)
AJP	24	26	29	30	31	32	4
ALPM	43	47	53	57	51	19	-11
ALKEM	71	84	92	82	75	5	-9
ARBP	367	398	408	452	432	18	-4
CIPLA	202	219	227	231	226	12	-2
DRRD	305	385	382	403	393	29	-3
INDP	26	19	23	23	26	-1	10
LPC	173	179	212	213	210	21	-1
SUNP	426	466	428	479	476	12	0
TRP	34	35	30	33	32	-6	-4
ZYDUSLIF	271	296	225	222	304	12	37
Total	1941	2154	2109	2226	2255	16	1

Source: Company, PL

Financial highlights:

- GMs expanded by 100-800bps across companies on YoY basis. Expansion was more witnessed for the acute/anti-infective portfolio with lower COGS seen over the last 2-3 quarters. GMs expanded even on QoQ basis.
- R&D cost in Q4FY24 also increased for large cap companies like DRRD, SUNP, CIPLA and LPC, by 20-35% YoY.
- ARBP and SUNP witnessed improvement in GM QoQ aided by a better product mix, whereas QoQ improvement in ZYDUSLIF GMs was aided by gRevlimid.
- QoQ dip in JBCP GMs was led by consolidation of the Novartis ophthal portfolio. QoQ drop in margins of ALKEM and CIPLA was due to seasonality.
- DIVI witnessed a sharp increase in OPM aided by better operating leverage, whereas ARBP's OPM QoQ improvement is commendable, despite lower US sales QoQ.

Exhibit 5: Increased GMs helped uptick in EBITDA

(Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY gr. (%)	QoQ gr. (%)
AJP	1494	2713	2903	3141	2782	86.21	-11.43
ALPM	2122	1987	2083	2668	2601	22.57	-2.51
ALKEM	3533	3892	7467	7076	4020	13.78	-43.19
ARBP	10022	11514	14034	16013	16871	68.34	5.36
CIPLA	11737	14939	17337	17475	13159	12.11	-24.70
DIVI	4918	5040	4790	4890	7330	49.04	49.90
DRRD	15829	20450	19916	20180	17842	12.72	-11.59
ERIS	1127	1632	1764	1727	1448	28.47	-16.17
INDR	654	515	632	622	383	-41.38	-38.44
IPCA	1705	2941	3195	3310	3046	78.60	-7.97
JBCP	1636	2321	2435	2231	1981	21.07	-11.20
LPC	6041	8565	9232	10219	9968	65.01	-2.46
MANKIND	4167	6548	6826	6065	5911	41.85	-2.54
SUNP	28293	33297	32135	33523	30915	9.27	-7.78
TRP	7270	7910	8250	8690	8830	21.46	1.61
ZYDUSLIF	13141	15324	10639	10818	16252	23.67	50.23

Source: Company, PL

Exhibit 6: Improved margin trend YoY

EBITDA margin	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY	QoQ
AJP	17%	27%	28%	28%	26%	945 bps	-203 bps
ALPM	15%	13%	13%	16%	17%	206 bps	79 bps
ALKEM	12%	13%	22%	21%	14%	152 bps	-760 bps
ARB P	15%	17%	19%	21.8%	22.3%	677 bps	48 bps
CIPLA	20%	24%	26%	26%	21%	90 bps	-511 bps
DIVI	25%	28%	25%	26%	32%	662 bps	547 bps
DRRD	25%	30%	29%	28%	25%	5 bps	-278 bps
ERIS	28%	35%	35%	36%	26%	-170 bps	-923 bps
INDR	15%	12%	13%	14%	9%	-674 bps	-503 bps
IPCA	11%	19%	16%	16%	15%	370 bps	-114 bps
JBCP	21%	26%	28%	26%	23%	152 bps	-343 bps
LPC	14%	18%	18%	20%	20%	646 bps	43 bps
MANKIND	20%	25%	25%	23%	24%	391 bps	95 bps
SUNP	26%	28%	26%	27%	26%	-8 bps	-128 bps
TRP	29%	31%	31%	32%	32%	298 bps	36 bps
ZYDUSLIF	26%	30%	24%	24%	29%	314 bps	536 bps

Source: Company, PL

Exhibit 7: Lower input costs aided margins

Gross Margin	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY	QoQ
AJP	72.7%	75.3%	75.1%	73.4%	74.9%	223 bps	153 bps
ALPM	69.2%	72.2%	71.1%	71.7%	75.0%	574 bps	324 bps
ALKEM	56.7%	59.6%	61.4%	60.8%	62.3%	553 bps	153 bps
ARB P	54.7%	53.9%	55.2%	57.1%	59.6%	490 bps	247 bps
CIPLA	63.6%	64.3%	64.9%	65.9%	66.3%	271 bps	41 bps
DIVI	57.6%	61.3%	57.6%	60.7%	60.8%	326 bps	13 bps
DRRD	57.2%	58.7%	58.7%	58.5%	58.6%	140 bps	7 bps
ERIS	81.9%	83.2%	81.3%	81.7%	78.5%	-339 bps	-318 bps
INDR	69.3%	69.8%	69.4%	69.0%	68.7%	-63 bps	-35 bps
IPCA	60.9%	67.5%	66.7%	66.0%	66.3%	537 bps	21 bps
JBCP	63.9%	65.4%	66.2%	67.6%	65.2%	121 bps	-245 bps
LPC	58.5%	64.6%	64.8%	65.2%	66.8%	823 bps	158 bps
MANKIND	67.2%	68.2%	69.5%	68.3%	69.8%	262 bps	154 bps
SUNP	79.0%	76.6%	76.8%	77.5%	79.8%	83 bps	236 bps
TRP	71.7%	74.9%	75.2%	74.5%	75.3%	353 bps	78 bps
ZYDUSLIF	65.0%	66.9%	65.4%	66.2%	70.0%	492 bps	378 bps

Source: Company, PL

Net Working capital cycle:

- Cash conversion cycle broadly remained steady YoY.
- TRP, ALKEM, LPC and SUNP witnessed improvement in NWC days by 20-25 days.
- On other hand, IPCA's working capital cycle increased due to Unichem(UL) consolidation.

Exhibit 8: Steady business cycle across companies

Company	FY24	FY23
AJP	140	141
ALPM	113	119
ALKEM	90	111
ARBP	128	134
CIPLA	107	109
DIVI	207	187
DRRD	92	88
ERIS	62	64
INDR	123	122
IPCA	159	128
JBCP	88	89
LPC	127	145
MANKIND	46	45
SUNP	116	135
TRP	70	95
ZYDUSLIF	125	124

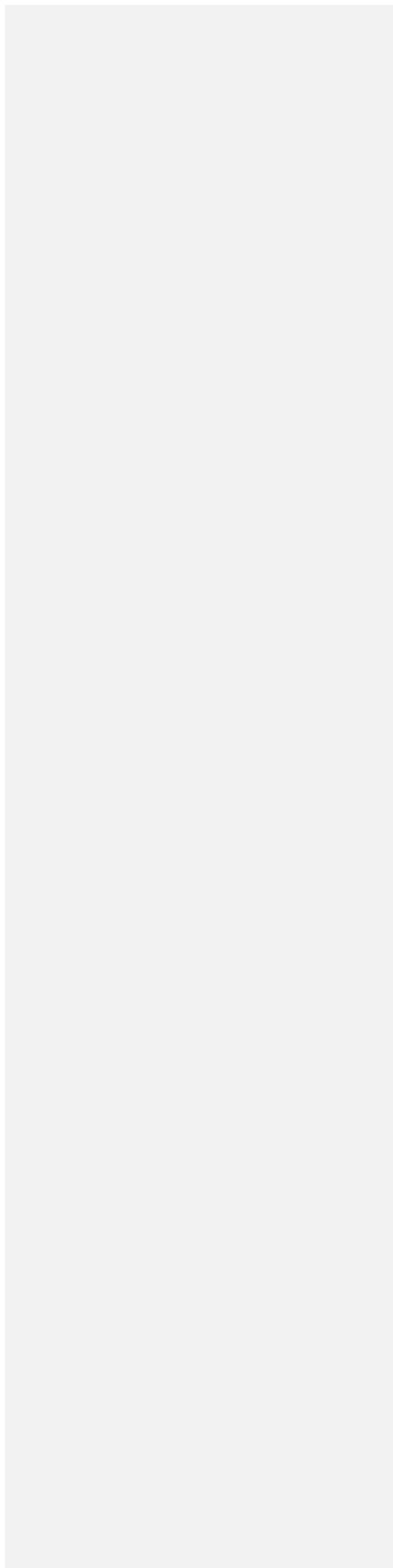
Source: Company, PL

Exhibit 9: Valuation Summary

Company Names	S/C Rating	CMP (Rs)	TP (Rs)	MCap (Rs bn)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)				
					FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	
Aurobindo Pharma	C	Acc	1,252	1,300	733.5	248.6	290.0	315.2	342.5	37.6	58.4	68.3	75.7	19.3	35.5	39.6	44.6	32.9	60.6	67.7	76.1	7.5	12.5	12.6	12.6	38.1	20.6	18.5	16.5
Cipla	C	Acc	1,479	1,405	1,194.0	227.5	257.7	280.2	308.8	50.3	62.9	68.8	76.9	28.0	41.2	46.7	52.5	34.7	51.1	57.8	65.0	12.7	16.5	16.3	16.1	42.6	29.0	25.6	22.8
Divi's Laboratories	C	Acc	4,482	4,350	1,187.7	77.7	78.5	91.1	104.7	23.7	22.1	28.9	35.1	18.2	16.0	21.1	25.6	68.7	60.4	79.6	96.5	14.9	12.1	14.8	16.3	65.3	74.2	56.3	46.4
Dr. Reddy's Laboratories	C	Reduce	5,891	5,700	982.6	245.9	279.2	293.3	317.8	64.6	78.4	80.0	82.1	45.1	55.7	54.9	55.6	270.5	333.8	329.2	333.3	21.4	21.8	18.1	16.0	21.8	17.6	17.9	17.7
Eris Lifesciences	C	BUY	978	1,100	133.0	16.9	20.1	29.9	33.5	5.4	6.7	10.6	11.9	3.8	3.9	4.1	5.4	28.1	28.8	30.3	39.3	18.6	16.4	14.7	16.6	34.8	33.9	32.3	24.9
Indoco Remedies	C	Acc	317	335	29.2	16.7	18.2	19.9	22.2	2.9	2.4	3.2	3.8	1.4	0.9	1.3	1.7	15.4	9.3	14.1	18.2	14.7	8.0	11.1	13.0	20.5	34.2	22.6	17.4
Ipca Laboratories	C	Reduce	1,163	1,150	295.1	62.4	77.1	92.7	105.0	9.6	12.9	17.0	21.0	4.7	6.6	8.1	10.5	18.6	25.8	32.0	41.4	8.3	10.8	12.1	13.9	62.6	45.0	36.3	28.1
J.B. Chemicals & Pharmaceuticals	C	BUY	1,775	1,920	275.4	31.5	34.8	40.9	46.2	7.0	9.0	10.7	12.7	4.1	5.5	7.0	8.6	26.4	35.6	44.9	55.5	17.8	20.5	22.1	23.3	67.2	49.8	39.5	32.0
Lup	C	HOLD	1,607	1,675	732.4	166.4	198.1	217.9	240.2	17.2	35.9	43.6	50.8	4.3	19.0	24.6	30.5	9.5	41.7	54.0	66.9	3.5	14.2	16.0	17.1	170.0	38.6	29.8	24.0
Sun Pharmaceutical Industries	C	BUY	1,473	1,710	3,533.4	438.9	485.0	532.4	591.6	117.7	129.9	141.7	167.2	84.7	95.8	105.6	127.0	36.6	41.8	44.0	52.9	16.3	16.0	15.8	17.0	40.3	35.2	33.5	27.8
Torrent Pharmaceuticals	C	BUY	2,783	2,900	940.6	96.2	107.3	120.7	136.0	28.4	33.7	38.8	44.8	12.4	16.6	20.4	26.2	36.8	46.4	60.3	77.4	20.5	24.0	28.0	31.1	75.6	60.0	46.2	36.0
Zydus Lifesciences	C	Acc	1,045	1,130	1,051.3	172.4	195.5	218.1	231.8	35.8	53.0	60.7	61.9	19.6	38.4	44.1	45.4	19.4	38.1	43.8	45.1	11.4	20.5	20.3	17.7	53.8	27.4	23.9	23.2

Source: Company, PL

S=Standalone / C=Consolidated / Acc=Accumulate



Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	7,050	5,839
2	Aster DM Healthcare	BUY	400	365
3	Aurobindo Pharma	Accumulate	1,300	1,196
4	Cipla	Accumulate	1,405	1,340
5	Divi's Laboratories	Accumulate	4,350	4,122
6	Dr. Reddy's Laboratories	Reduce	5,700	6,258
7	Eris Lifesciences	BUY	1,100	908
8	Fortis Healthcare	BUY	515	462
9	Glenmark Pharmaceuticals	Reduce	570	1,017
10	HealthCare Global Enterprises	BUY	420	358
11	Indoco Remedies	Accumulate	335	320
12	Ipcia Laboratories	Reduce	1,150	1,250
13	J.B. Chemicals & Pharmaceuticals	BUY	1,920	1,774
14	Jupiter Life Line Hospitals	BUY	1,360	1,275
15	Krishna Institute of Medical Sciences	BUY	2,100	1,950
16	Lupin	Hold	1,675	1,611
17	Max Healthcare Institute	BUY	925	803
18	Narayana Hrudayalaya	BUY	1,335	1,237
19	Sun Pharmaceutical Industries	BUY	1,710	1,539
20	Sunteck Realty	BUY	600	471
21	Torrent Pharmaceuticals	BUY	2,900	2,613
22	Zydus Lifesciences	Accumulate	1,130	1,104

PL's Recommendation Nomenclature

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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