



Top Sector Ideas: Pharmaceutical

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Pharma Sector: Q4FY24 Review

Q4FY24 Pharma Review – Higher Profitability with Easing Price Erosion, New Launches, and Lower RM Prices

✓ **Key Highlights & Financial Performance**

- In Q4FY24, the Pharma Coverage universe posted robust revenue growth of 11.5%/2.0% YoY/QoQ due to volume gains, stable demand, new launches (especially gRevlimid, gSpiriva, gPrezista), and stabilizing pricing pressure in the US base business. EBITDA margin improved by a healthy 250bps/120bps YoY/QoQ amidst normalizing cost inflation and stabilizing prices.
- US price erosion remained benign (low to mid-single digit for most players), with benefits from drug shortages and supply issues. There is more focus on complex molecules, with Indian companies moving up the value chain.
- India growth is better than expected, with field force expansion driving volume growth. Softening input costs and lower freight expenses have resulted in improved margins. Hospitals saw seasonally lower occupancies but a continuous increase in ARPOB YoY.

Pharma Sector: Outlook

Pharma Back on Growth Track

- **High single-digit domestic growth is expected in FY25E.** Moreover, growth in the US market will remain robust, thanks to the normalization of prices in the base business and the continued ramp-up of gRevlimid and new product launches (gSpiriva, gPrezista).
- In the US business, **supply constraints have led to a sharp decline in price erosion**, which is expected to remain low for the remainder of FY25E.
- **In India, growth has been driven mainly by price increases and strong growth in chronic therapies**, with all major companies forecasting high single-digit growth in FY25E.
- **Margins are expected to improve** as raw material and freight costs normalize, US price erosion eases, and a better mix is achieved. However, USFDA inspections remain an overhang and price erosion in the US is expected to increase once supplies normalize.
- Therefore, we **continue to focus on companies that are launching niche products in the US market** and have a strong product mix (chronic portfolio) in the Indian market.
- **BIOCON, LUPIN, and Aurobindo are our top picks in the Pharma universe.**

Short and Medium-term Outlook

Short Term

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

India: Weak acute season and NLEM impacted growth

Better sales growth was led by gRevlimid and the launch of new products gSpiriva, gPrtezista

Field force expansion to drive growth in India

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

Medium Term

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

Top Sector Ideas: Biocon Ltd

Stock	Reco.	TP	Recommendation Rationale
 Biocon LTD	BUY	Rs 340*	<ul style="list-style-type: none"> ✓ Revenue grew by 3.8% YoY, majorly driven by Biosimilars (+12.2% YoY) while Generic and Research Services grew by 0.3% and declined by -7.8% YoY respectively. ✓ Gross margins improved by 24bps QoQ due to a more favorable product mix towards Biosimilars. The company reported EBITDA margins of 23.4%, improving by 442bps QoQ due to higher operating profitability and lower other expenses. ✓ Reported PAT stood at Rs 223 Cr, which was better than our expectations. ✓ Biocon Biologics is reporting strong traction after the vertical integration of the biosimilar business across geographies. Major drugs like gTrastuzumab, gPegfilgrastim, and Semglee have gained market shares of 18%, 21%, and 15% in the US markets respectively in Q4FY24. ✓ Biosimilars are continuously gaining market share across geographies, and the launch of products like gLiraglutide in Generics along with a strong pipeline of upcoming biosimilars like Stellara and YESFILI show a strong outlook for the business in the upcoming quarters.

* Note: Target Price is based on our Q4FY24 Result Update Report

Top Sector Ideas: Lupin

Stock	Reco.	TP	Recommendation Rationale
 Lupin Ltd	BUY	Rs 1,800*	<ul style="list-style-type: none"> ✓ US revenue showed robust growth, reaching \$209 Mn, up 19.4% YoY. The company's India business grew by 8.3%, outpacing industry growth (1.2x IPM Growth), with core therapies like cardio and respiratory treatments exceeding market growth at 8.7% over IPM growth of 6%. Other markets also performed well in the last quarter. ✓ Lupin reported strong financial results, largely meeting expectations. Its revenue increased by 12%, supported by notable improvements in EBITDA margins, resulting in Reported PAT reaching Rs 561 Cr. ✓ The outlook appears positive due to several factors: 1. New launches in the US market, such as Darunavir and gSpiriva, have gained market shares of up to 30% and 32% respectively; 2. Recent approvals for Tolvaptan (market size \$287 Mn) and Xyway (market size \$958 Mn – 180 days exclusivity) could add to business in the second half; 3. Double-digit growth in the India business is expected with the company's medical representative number increasing to 1,000; 4. An uptick in the API business as the API industry is witnessing a demand revival.

* Note: Target Price is based on our Q4FY24 Result Update Report

Top Sector Ideas: Aurobindo

Stock	Reco.	TP	Recommendation Rationale
 Aurobindo <small>Committed to healthier life!</small>	BUY	Rs 1,320*	<ul style="list-style-type: none"> ✓ Aurobindo Pharma reported better-than-expected results with EBITDA and PAT beating estimates by ~8% YoY and 11% YoY respectively. Consolidated revenue grew by 17.1% YoY, led by incremental sales from gRevlimid. Gross margin improved by 250bps QoQ, while EBITDA margins grew by 30bps QoQ. PAT grew significantly by 91% YoY, indicating strong bottom-line performance. ✓ Injectables represent \$500 Mn in revenues, constituting 30% of US sales, and boast the highest gross margins. However, the issuance of OAI for injectable segments may negatively impact new launches. Moreover, price erosion within the injectable portfolio poses a risk to gross margins in upcoming quarters. Nevertheless, the newly commenced plant in Vizag could be used for new launches in the injectable segment. Aurobindo has already invested Rs 7,000 Cr in Capex over the last two years, primarily in segments like Biosimilars and Pen-G (API). Aurobindo's valuations in the coming years will be influenced by the return on invested capital (ROIC) generated from this Capex.

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