INSTITUTIONAL RESEARCH

Sector Thematic

Pharma

Chronic therapy: A portfolio prescription

Domestic formulations business is the most sustainable and profitable part of Indian pharma companies. Chronic segment accounts for ~33% of the market and has gained 500bps share in the past seven years. Importantly, volume growth in the chronic segment has been ~7%, which is twice the industry average. With the segment's continued outperformance, a therapeutic re-order is underway. Cardiac therapy is in a race to lead the India Pharma Market (IPM), displacing anti-infectives from its dominant position. By 2030, cardiac and diabetes will become the top two therapies, accounting for ~27-30% of the market. In this report, we analyse the broad IPM trends, therapeutic shifts, incumbent's progress in the chronic segment, and key determinants of success. Further, our performance analysis of top brands within top molecules suggests that the bigger brands are growing significantly ahead of their category average and hence are likely to gain market share in the near term.

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Pharma

Chronic therapy: A portfolio prescription

Therapeutic re-order is underway

Domestic formulations business is the most sustainable and profitable part of Indian pharma companies. Its contribution to overall revenues has increased by 500bps to ~31% for our covered companies in the past seven years. Companies have shifted focus towards the high-growth chronic segment. Cardiac is in a race to lead the India Pharma Market (IPM), displacing anti-infectives from its dominant position. By 2030, cardiac and diabetes will become the top two therapies, accounting for ~27-30% of the market. In this report, we analyse the broad IPM trends, therapeutic shifts, incumbent's progress in the chronic segment, and key determinants of success.

Chronic volume growth is twice the industry average

The chronic segment has grown at 14% CAGR and outperformed the industry by ~300bps over the past seven years. Importantly, the volume growth in this segment has been ~7%, which is double the industry average of 3-4%. Key chronic therapies such as cardiac and anti-diabetes have witnessed ~450 bps increase in market share, accounting for 22% of the IPM. Lifestyle changes have rapidly increased the risks of high blood pressure, high cholesterol, obesity, and diabetes thereby contributing to an increased disease burden.

Leading companies with big brands could emerge as winners

In the long run, we believe companies with strong therapeutic presence (high growth segments, leadership), ability to build brands (leverage brand equity with prescribers), ability to launch new/in-licensed products consistently and superior MR productivity will gain market shares and outperform the industry. **Lupin, Glenmark, Mankind and Intas are making rapid strides in the chronic segment, which is reflecting in their rising market shares.**

COVID disruption to further accelerate chronic share gains

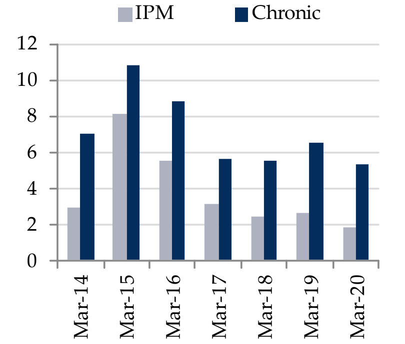
While the IPM declined by 6% in the quarter, the chronic segment reported a growth of ~4% in the same period. After a subdued April and May, June witnessed a strong recovery in key chronic therapies. Cardiac, anti-diabetes and CNS grew by 14%, 9% and 8% respectively for the month. Our performance analysis of top brands in the June quarter suggests that the bigger brands are growing significantly ahead of their category average and hence are likely to gain further market share in the near term (Exhibit 20).

Play on consumerism, premium valuations to sustain

More than 90% of the Indian pharma market is branded generic in nature and has attributes similar to the consumer staples business. Notwithstanding the near- term disruption, we see significant structural benefits for the industry over the long term, viz., expansion of the formal market, the resilience of demand, consolidation of market share and cost efficiencies, which augur well for premium valuations. We assign the highest multiple to India business (one-year forward EV/EBITDA multiple of 14-17x) in our business-wise EV/EBITDA framework (Exhibit 23). Companies with a higher contribution of India revenues and a higher proportion of chronic within that deserve premium multiple over peers. The key potential risk is the expansion of NLEM list to drugs in the chronic segment.

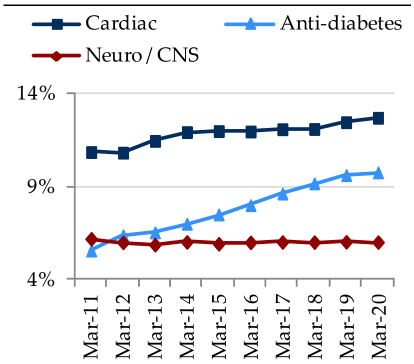
Stock	Rating	CMP	TP
Aurobindo	BUY	791	835
Cipla	BUY	663	690
Dr.Reddy's	REDUCE	4,050	3,770
Lupin	ADD	841	920
Sun Pharma	ADD	483	480
Torrent	ADD	2,291	2,605

Volume growth (%)



Source: AIOCD AWACS

Market share in IPM (%)



Source: AIOCD AWACS

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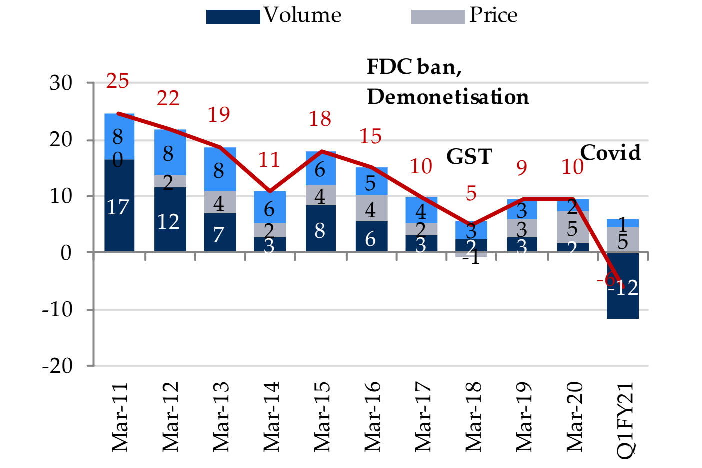
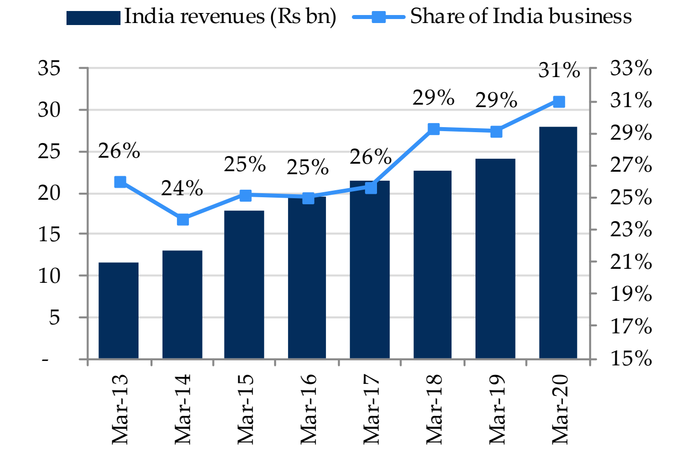
Focus Charts

Exhibit 1: Industry grew at 11% CAGR in the past seven years



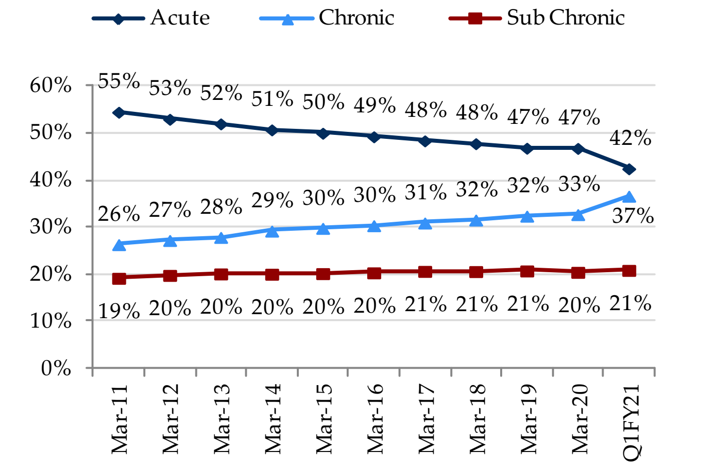
Source: HSIE Research, AIOCD AWACS

Exhibit 2: Share of domestic business to overall revenues has steadily increased



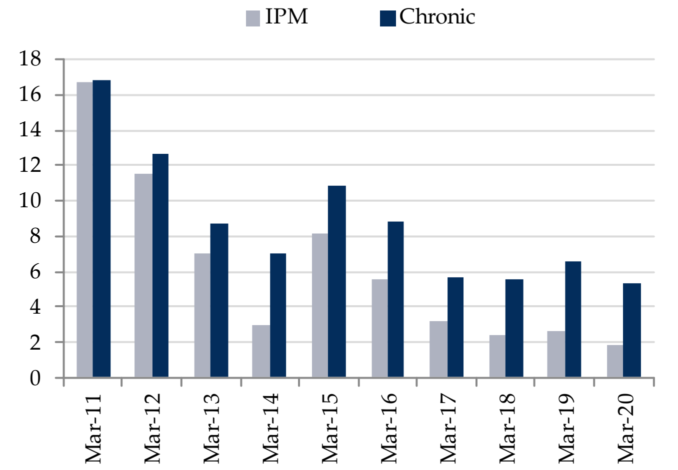
Source: HSIE Research, covered companies including acquisitions

Exhibit 3: Chronic segment continues to gain market share



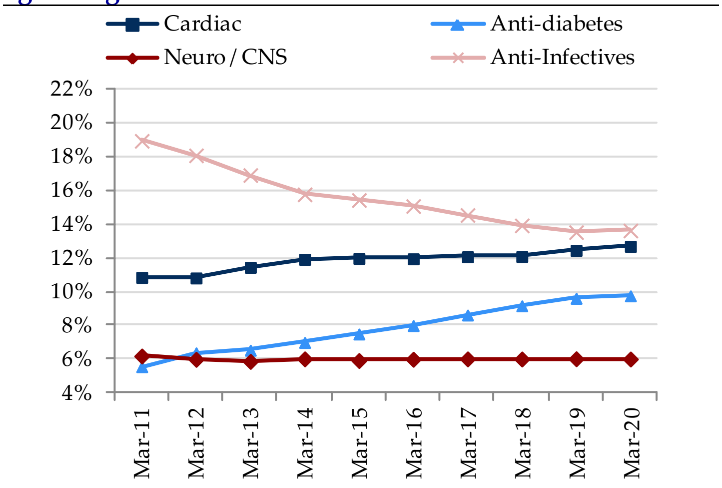
Source: HSIE Research, AIOCD AWACS

Exhibit 4: Volume growth in chronic is at 7% vs. 3-4% for IPM



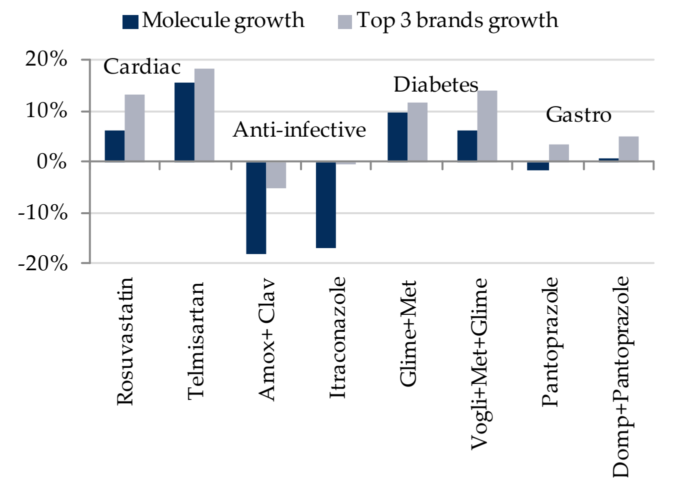
Source: HSIE Research, AIOCD AWACS

Exhibit 5: Cardiac and anti-diabetes therapies are growing ahead of anti-infectives



Source: HSIE Research, AIOCD AWACS

Exhibit 6: Top brands are growing faster than the category avg. - bigger brands will gain further share



Source: HSIE Research, AIOCD AWACS, Q1FY21 sales growth

IPM trends – chronic leads the way

India pharma market is fiercely competitive and fragmented in nature

Top 30 companies account for ~75% of the market and top 100 companies account for ~94% of the market

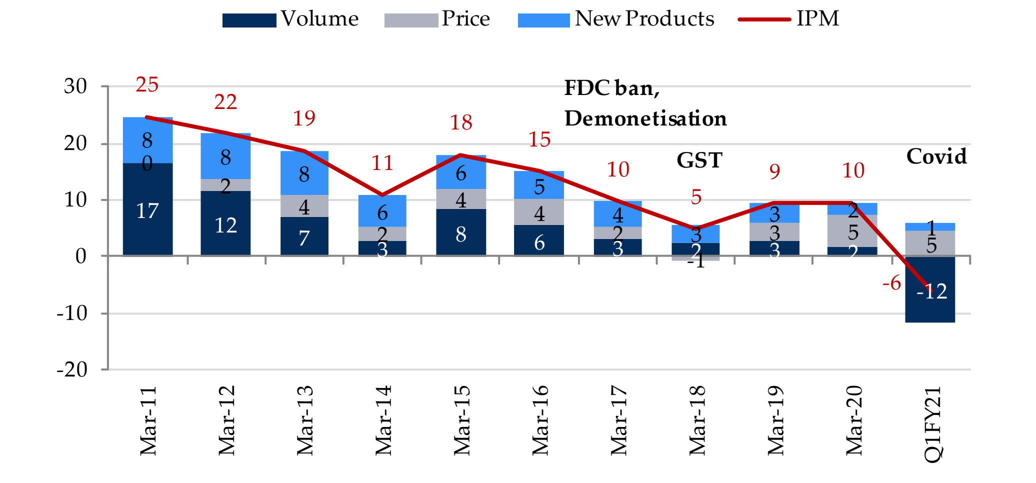
5 yr avg. growth break -up: 3% volume + 3% price + 3-4% new products introduction

The domestic formulations market has expanded to ~USD20bn in size and posted a growth of 11% CAGR over the last seven years.

As per IQVIA, India's pharma spends are estimated to reach USD31-35bn by 2024, growing at c.8-11% CAGR between 2020 and 2024.

The fundamental factors such as favorable demographics, underpenetrated market, access to healthcare and rising affordability will continue to drive underlying growth.

Exhibit 7: Industry grew by 13% CAGR over Mar11-20



Source: HSIE Research, AIOCD AWACS

Share of chronic segment increased by 600bps over Mar11-20

Chronic – Rx for lifetime

Sub-chronic – Rx upto 9-10 months

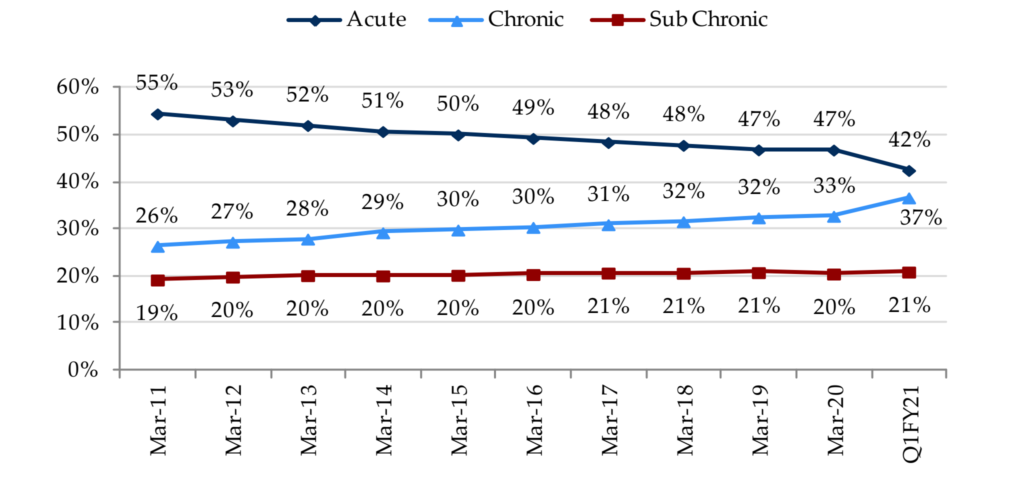
Acute –Rx less than 2-3 months

While acute segment continues to dominate the market (~47% share), its market share has significantly declined over the years primarily led by lower growth in its key therapy - anti infectives (9% CAGR vs. IPM growth of 13% over the last nine years).

The share of chronic segment, on the other hand, has risen from 26% in Mar-11 to 33% in Mar-20 driven by higher growth in cardiac (15% CAGR) and anti-diabetes (20% CAGR) therapies.

Sub-chronic segment (vitamins, gynaecological, derma) has grown at 14% CAGR, marginally outperforming the IPM in the same period.

Exhibit 8: Steady increase in the share of chronic segment



Source: HSIE Research, AIOCD AWACS

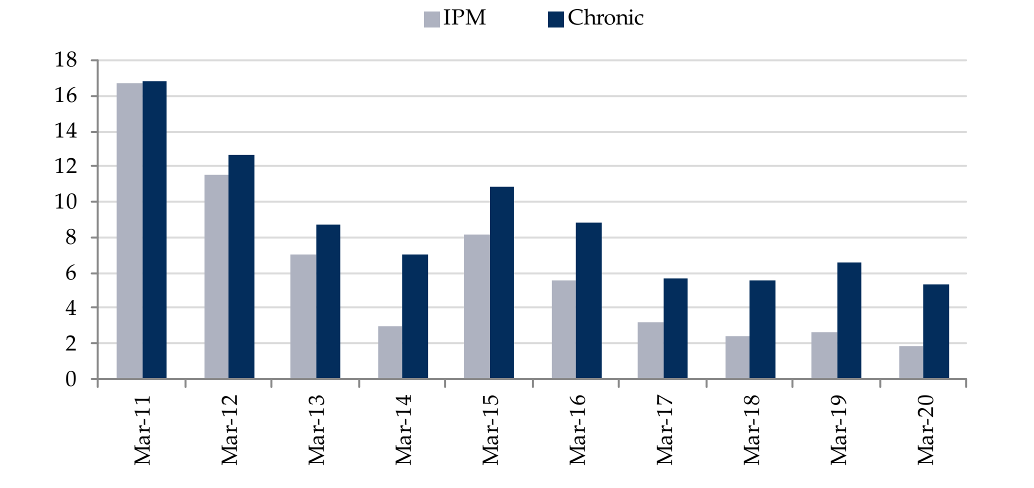
Volume growth in chronic is consistently higher than IPM

Traditionally, volumes have driven a large part of IPM growth. However, over the last four years, volume growth contribution has softened to ~ 2-3%. Trade generics, generic-generic medicines, online pharmacies have impacted volumes to some extent.

Chronic segment volumes have also witnessed moderate decline but they continue to remain healthy at 5-6% driven by rising incidence of lifestyle related disorders. Cardiovascular disease, diabetes, cancer, asthma, oncology have seen strong growth compared to acute therapies.

Chronic volumes are at 5-6% vs. the industry average of 2-3% in the last four years

Exhibit 9: Chronic volumes are twice the industry average



Source: HSIE Research, AIOCD AWACS

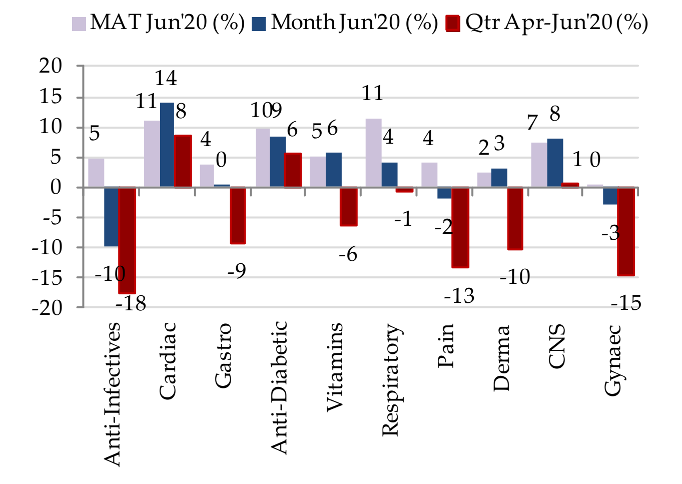
Better placed to navigate the near term disruptions

The IPM declined by 6% in June quarter led by sharp fall in acute and sub chronic segments. The months of April and May witnessed a negative growth of 11% and 9% respectively.

Volume growth in acute and sub chronic segment were heavily impacted. However, price growth remained steady at 4-5% across segments.

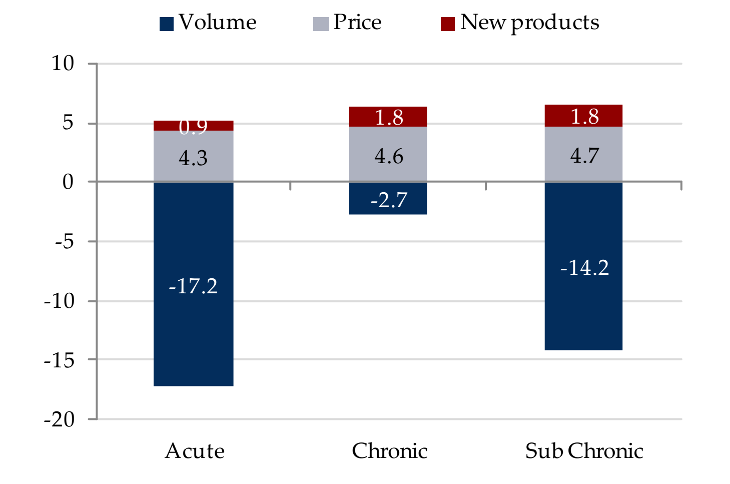
Post the partial easing of lockdown, market recovered in June with a 2.4% growth driven by strong bounce back in chronic therapies.

Exhibit 10: Impact on chronic therapies was less severe during Jun quarter



Source: HSIE Research, AIOCD AWACS

Exhibit 11: Volumes in acute segment were significantly impacted



Source: HSIE Research, AIOCD AWACS

Lupin, Glenmark and Mankind have gained meaningful market share

Sun and Abbott (market leaders) have lost market share

Key players in chronic segment and tracking their progress

Exhibit 12: Market share trends in chronic segment

	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Q1FY21
Indian Companies									
Sun	12.5%	12.2%	12.0%	12.1%	12.3%	12.0%	11.4%	11.1%	11.3%
Lupin	5.3%	5.4%	5.7%	5.6%	5.8%	6.2%	6.5%	6.7%	6.8%
Cipla	7.0%	6.9%	6.8%	6.6%	6.7%	6.5%	6.5%	6.4%	6.1%
Torrent	5.4%	5.6%	5.6%	5.4%	5.6%	5.0%	4.9%	5.0%	5.2%
Cadila	4.3%	4.4%	4.5%	4.3%	4.3%	4.1%	3.9%	3.9%	3.8%
Glenmark	1.7%	2.4%	2.5%	2.7%	2.5%	2.7%	2.8%	3.0%	3.0%
Dr. Reddy's	2.8%	2.7%	2.4%	2.4%	2.2%	2.3%	2.3%	2.2%	2.1%
Eris LS	1.4%	1.5%	1.7%	1.6%	1.7%	1.7%	1.7%	1.8%	1.9%
Alkem	0.9%	1.1%	1.1%	1.1%	1.2%	1.3%	1.4%	1.5%	1.4%
Ipca	1.5%	1.5%	1.4%	1.3%	1.3%	1.1%	1.2%	1.2%	1.2%
Unlisted companies									
USV	4.8%	4.8%	5.1%	5.0%	5.0%	5.2%	5.1%	5.0%	5.2%
Intas	5.2%	5.0%	4.8%	4.7%	4.6%	4.6%	4.8%	5.0%	5.0%
Mankind	2.7%	2.6%	2.5%	2.8%	2.9%	3.1%	3.1%	3.4%	3.6%
Emcure	2.7%	2.6%	2.4%	2.2%	2.0%	1.9%	1.8%	1.8%	1.9%
MNCs									
Abbott	9.5%	8.3%	7.9%	8.1%	8.0%	7.8%	7.8%	7.4%	7.2%
Sanofi	3.7%	3.6%	3.7%	3.6%	3.4%	3.5%	3.7%	3.5%	3.6%
GSK	2.0%	1.7%	1.4%	1.4%	1.2%	1.1%	1.1%	1.1%	1.0%

Source: HSIE Research, AIOCD AWACS, including acquisitions

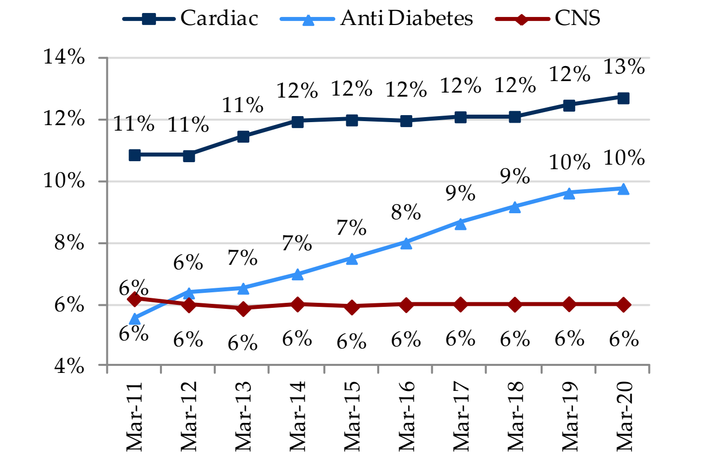
Therapeutic re-order underway

Cardiac in a race to become the leading therapy in IPM

The market share of key chronic therapies such as cardiac and anti-diabetes in the Indian pharma market has increased from 16% in Mar-11 to 22% in Mar-20. Anti-diabetes is the fastest growing therapy in IPM. Cardiac will soon displace anti-infectives as the leading therapy in IPM. If the current pace of growth continues, both cardiac and anti-diabetes will become the top two leading therapies and command ~30% share of the market by 2030.

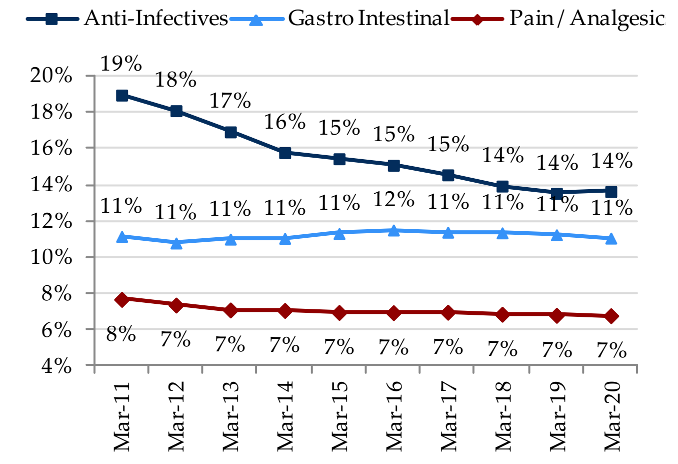
Anti-infectives will continue to grow at slower pace as better hygiene conditions leads to lower incidence of water borne diseases and infection rates in general.

Exhibit 13: Steady market share gains in Cardiac and Anti-diabetes segment..



Source: HSIE Research, AIOCD AWACS

Exhibit 14: ..whereas Anti-infective has significantly declined



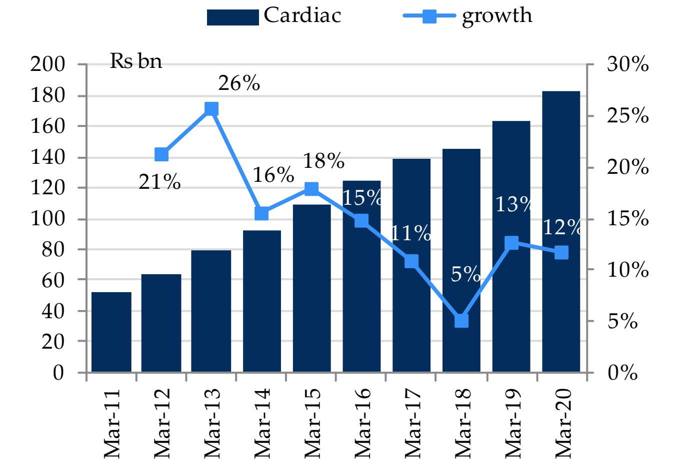
Source: HSIE Research, AIOCD AWACS

Snapshot of key chronic therapies

Cardiac is the second largest therapeutic segment in Indian pharma market with 12.7% share.

- **Key molecules**: Rosuvastatin is the largest molecule (Rs10bn in size) and forms 5% of the cardiac market. The other key molecules are Atorvastatin, Telmisartan and Telmisartn+combinations (all hypertension). Top 5 molecules account for ~22% of the cardiac market.
- **Key companies**: Sun Pharma has the leadership position in this category, followed by Torrent, Lupin, USV and Glenmark.
- **Key brands**: Glenmark's Telma is the leading brand with sales of ~Rs3bn. Ranbaxy's Rosuvas and Glenmark's Telma H are ranked second and third, respectively.

Exhibit 15: Cardiac – 9 year CAGR at 15%

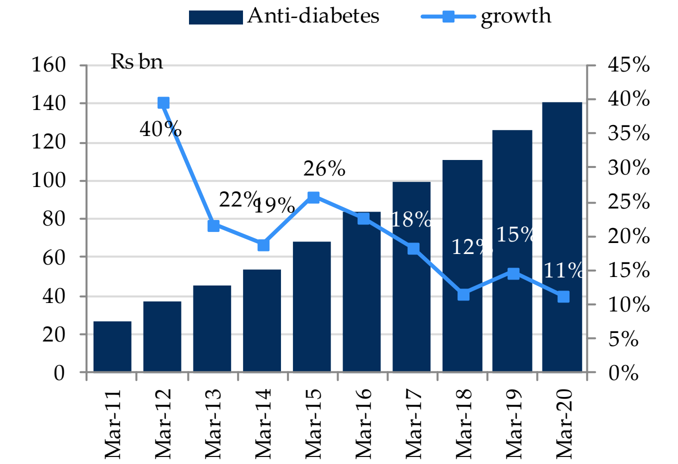


Source: HSIE Research, AIOCD AWACS

Anti-diabetes is the fastest growing therapeutic segment (14% CAGR) in the Indian pharma market and accounts for 10% share in IPM.

- **Key molecules**: Insulins accounts for 21% of the market whereas non-insulins (largely orals) account for the balance. Top 5 molecules account for 41% of the market.
- **Key companies**: Abbott and Sanofi are leading players in insulin whereas USV, Lupin and Sun have leadership in orals.
- **Key brands**: Human Mixtard by Abbott/Novo Nordisk is the biggest brand followed by USV's Glycomet GP, Sanofi's Lantus and Novos' Novomix (Human insulin), Lupin's Gluconorm G.

Exhibit 16: Anti-diabetes – 9 year CAGR at 20%

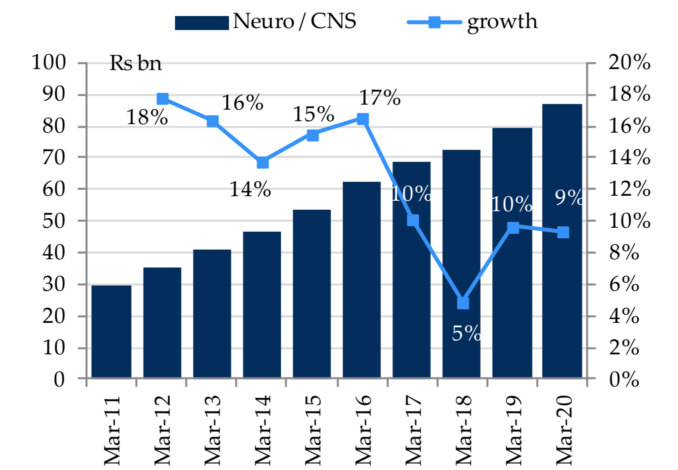


Source: HSIE Research, AIOCD AWACS

CNS is the third largest therapeutic segment in the chronic category. It accounts for 6% share in IPM.

- **Key Molecules**: Leviteracetam (anti-epileptic), Escitalopram+clonazepam (anti-depressants), Betahistine (anti-vertigo). Top 5 molecules account for 22% of the market
- **Key Companies**: Sun is the undisputed leader in this category, followed by Intas, Abbott, Torrent and Alkem.
- **Key brands:** Sun's Levipil is the leading brand (Rs3bn in size) followed by Intas's Levera, Abbott's Vertin, Intas's Gabapin and Sun's Oxetol

Exhibit 17: CNS – 9 year CAGR at 13%



Source: HSIE Research, AIOCD AWACS

Top gainers
Cardiac – Glenmark, Mankind, Lupin

Anti-diabetes – Glenmark, Sanofi, Eris, Lupin

CNS – Intas, Sun

Top losers
Cardiac –Abbott, Sun

Anti-diabetes – Abbott, Sun, USV

CNS – Abbott, Sanofi

Exhibit 18: Key players in chronic therapies and their market share trends

Market Share	Cardiac		Anti-diabetes		CNS	
	2013	2020	2013	2020	2013	2020
Indian companies						
Sun	12.4%	11.3%	10.0%	7.7%	22.1%	22.7%
Cipla	5.0%	4.8%	0.7%	0.6%	2.0%	2.7%
Lupin	5.6%	7.1%	7.9%	9.1%	2.9%	3.0%
Dr. Reddy's	3.3%	2.4%	2.0%	1.7%	2.2%	2.7%
Cadila	5.1%	4.7%	0.3%	0.7%	1.6%	0.7%
Torrent	8.4%	7.5%	2.0%	2.7%	7.5%	7.6%
Glenmark	3.0%	4.9%	0.5%	2.1%	0.3%	0.1%
Eris	1.6%	2.0%	1.3%	2.8%	2.1%	1.2%
Unlisted companies						
Mankind	2.0%	3.7%	2.2%	3.0%	2.0%	2.1%
Intas	4.2%	3.4%	2.4%	2.9%	13.0%	15.3%
USV	4.3%	5.0%	11.8%	10.0%	1.1%	0.3%
MNC						
Abbott	5.3%	3.7%	18.7%	12.5%	12.5%	8.5%
Sanofi	3.7%	3.5%	5.3%	6.8%	3.4%	2.6%

Source: HSIE Research, AIOCD AWACS

Key success parameters for companies

Companies have adopted differentiated strategy to grow the business both organically and inorganically. There are companies that have focussed on chronic therapies targeting specialists in metros (Torrent, Lupin, Intas), launched in- licensed products in collaboration with MNCs (Lupin, Sun), consistently launched new products (Glenmark), penetrated beyond metros to lower tier towns to gain maximum coverage by expanding field force and portfolio (Mankind), to drive sales.

We believe following are the key determinants for sustainable growth in IPM: a) strong therapeutic presence (high growth segments, leadership); b) ability to build brands (leverage brand equity), c) launch new/in-licensed products; d) improving MR productivity.

We believe therapeutic leadership is essential to achieve market leadership, with a few exceptions. Companies with leading position and big brands have larger voice share with prescribers and can leverage their brand equity to drive growth for other brands and new launches.

MR productivity is also a critical factor to drive growth as well as profitability. Depending upon the portfolio, companies decide the optimal size of field force. A large field force is essential for an acute focused company trying to maximize GP coverage. On the other hand, chronic companies will prioritize depth vs breadth of coverage.

Each of these factors offers potential for success. Once the reach is established it becomes essential to focus on brand building to achieve the next leg of growth. Mankind has been able to do this successfully.

Strong therapeutic presence….

Most of the leading pharma companies have focussed on establishing leadership in few therapies - Cipla in Respiratory, Sun in cardiac, CNS, Alkem and Aristo in Anti-infectives. While they have presence in other therapy areas, a large part of their revenues are derived from few key therapies.

It is critical for companies to identify select few therapies where they can gain an edge and capitalise on the same through reaching out to wider prescriber base and deeper geographic reach.

Leadership position allows companies to have bigger voice share with doctors and results in "sticky" prescriptions. Along with leadership position, it is also important to have market presence in high growth segments of the market.

Sun and Abbott have dominant position in both acute and chronic therapies. However, they have lost market share in the chronic segments to other aggressive players.

Torrent (cardiac), Lupin (cardiac, anti-diabetes), Intas (CNS) and USV (anti-diabetes) have leadership position in chronic segments and are likely to outperform the industry given this segment contributes more than 50%+ to the overall India revenues.

Sun, Lupin, Torrent, Intas, USV and Abbott have leading presence in key chronic therapies.

Alkem has leading presence in acute therapies.

Exhibit 19: Contribution of key leading therapies (within top 3 ranks) to sales

	Leading therapies	% of contribution to sales
Indian companies		
Sun	Cardiac (Rank 1), Neuro/ CNS (Rank 1), Pain/ Analgesics (Rank 1), Gastro intestinal (Rank 2), Derma (Rank 3)	59%
Cipla	Respiratory (Rank 1), Anti-infectives (Rank 3)	57%
Lupin	Respiratory (Rank 2), Anti Diabetes (Rank 3), Cardiac (Rank 3)	60%
Dr. Reddy's	-	-
Cadila	Pain/ Analgesics (Rank 2), Gynaecological (Rank 3), Respiratory (Rank 3)	24%
Torrent	Cardiac (Rank 2), Vitamins (Rank 3)	43%
Glenmark	Derma (Rank 2)	27%
Alkem	Anti-infectives (Rank 1), Gastro-intestinal (Rank 3)	53%
Eris	-	-
Unlisted companies		
Mankind	Vitamins (Rank 1)	13%
Intas	Neuro/ CNS (Rank 2)	31%
USV	Anti-diabetes (Rank 2)	50%
MNC		
Abbott	Anti-diabetes (Rank 1), Gastro intestinal (Rank 1),Vitamins (Rank 2), Gynaecological (Rank 2), Neuro/ CNS (Rank 3)	57%
GSK	Derma (Rank 1)	23%

Source: HSIE Research, AIOCD AWACS

……will aid leaders to gain share

Sun, Lupin, Glenmark, Alkem, and USV are likely beneficiaries

Our analysis of top six therapies which accounts for almost 65% of IPM suggests that bigger companies with leading brands will gain market share especially in the near term as they enjoy better brand equity with the prescribers. We analysed the sales performance of top three molecules and top 3 brands within those molecules for six key therapies for Apr-June quarter.

Most of the top brands have performed significantly better than their category average. While historically, some of the brands have been outperforming their respective categories, the growth differential has widened in June quarter, suggesting market share gains are likely to further accelerate.

Exhibit 20: Performance of top three brands within top three molecules of six key therapies

Therapy	Corporates	Q1FY21 (Rs mn)	*YoY*	Therapy	Corporates	Q1FY21 (Rs mn)	*YoY*
CARDIAC				**ANTI-INFECTIVE**			
Rosuvastatin		**2,519**	***6%***	**Amoxycillin + Clavulanic Acid**		**3,822**	***-18%***
Rosuvas	Sun	794	*14%*	Augmentin	GSK	885	*-6%*
Rozavel	Sun	304	*12%*	Clavam	Alkem	713	*-7%*
Roseday	USV	232	*13%*	Moxikind Cv	Mankind	449	*-1%*
Atorvastatin		**2,305**	***10%***	**Itraconazole**		**1,790**	***-17%***
Atorva	Cadila	413	*17%*	Candiforce	Mankind	464	*9%*
Storvas	Sun	287	*9%*	It-Mac	Macleods	224	*-12%*
Aztor	Sun	260	*6%*	Canditral	Glenmark	109	*-10%*
Telmisartan		**2,237**	***15%***	**Cefpodoxime**		**1,351**	***-23%***
Telma	Glenmark	777	*16%*	Monocef O	Aristo	276	*-10%*
Telmikind	Mankind	216	*27%*	Gudcef	Mankind	203	*-6%*
Tazloc	USV	160	*16%*	Cepodem	Sun	125	-23%
ANTI-DIABETES				**GASTRO**			
Glimepiride + Metformin		**6,647**	*9%*	**Pantoprazole**		**2,474**	**-2%**
Glycomet Gp	USV	1,383	*15%*	Pan	Alkem	761	*4%*
Gluconorm-G	Lupin	675	*6%*	Pantop	Aristo	533	*5%*
Gemer	Sun	548	*11%*	Pantocid	Sun	403	*-1%*
Human Premix Insulin		**2,528**	*1%*	**Domperidone + Pantoprazole**		**2,340**	**1%**
Mixtard	Abbott	1,322	*0%*	Pan D	Alkem	659	*3%*
Huminsulin	Lupin	457	*0%*	Pantocid Dsr	Sun	372	*-5%*
Insugen	Biocon	274	*0%*	Pantop D Sr	Aristo	298	*26%*
Voglibose + Metformin + Glimepiride		**2,179**	*6%*	**Domperidone + Rabeprazole**		**1,785**	**-6%**
Glycomet Trio	USV	373	*13%*	Razo D	Dr. Reddys	212	*2%*
Glimisave Mv	Eris	218	*18%*	Cyra D	Systopic	202	*5%*
Trivolib	Sun	179	*11%*	Rablet-D	Lupin	168	*-5%*
RESPIRATORY				**VITAMINS**			
Montelukast + Levocetirizine		**1,809**	*7%*	**Multivitamins + Minerals**		**3,588**	**-3%**
Montair Lc	Cipla	412	*23%*	Zincovit	Apex	702	*22%*
Montek-Lc	Sun	295	*13%*	A To Z Ns	Alkem	488	*27%*
Monticope	Mankind	152	*29%*	Bevon	Emcure	357	*8%*
Formoteral + Budesonide		**1,602**	*7%*	**Methylcobalamin Comb**		**2,018**	***-12%***
Foracort	Cipla	781	*1%*	Renerve Plus	Eris Ls	226	*4%*
Budamate	Lupin	317	*12%*	Nuhenz	La Renon	139	*-30%*
Formonide	Cadila	211	*8%*	Nurokind Plus	Mankind	-	-
Paracetamol + Phenylephrine + Chlorpheniramine		**955**	**-5%**	**Protein Supplements**		**1,970**	*11%*
Sinarest	Centaur	444	*5%*	Pediasure	Abbott	298	*45%*
Febrex Plus	Indoco	137	*-11%*	Protinex	Danone	173	*29%*
Wikoryl	Alembic	93	*-24%*	D Protin	British Biological	159	2%

Source: HSIE Research, AIOCD AWACS

…..compounded by their ability to build big brands

MNCs are successful in building mega brands.

Among Indian companies, Alkem , USV (40%+) and Sun, Cipla, Glenmark (30%+) have higher revenue contribution from brands forming part of top 300 in IPM

Companies with higher contribution of revenues from few large brands indicate their focus on select brands to drive growth, thereby leveraging their brand equity.
MNCs in general are known to follow this type of business model. Among domestic firms, USV has been most successful, riding on its Glycomet (~Rs8bn) and Ecospirin (Rs3.6bn) franchise (~42% of revenue contribution from top 100 brands). The top 10 brands of USV are growing at ~13%+ CAGR in the last 3 years vs. 8% growth in IPM. KOL(key opinion leaders) coverage and strong channel engagement with distributors and chemists are important drivers of mega brands.

Exhibit 21: Sales contribution from top ranked brands in IPM

	No. of brands in top 100 (A)	No. of brands in top 300 (B)	(A) as a % of sales	(B) as a % of sales
Indian companies				
Sun	9	32	17%	36%
Cipla	6	15	20%	35%
Lupin	2	9	8%	22%
Dr. Reddy's	1	8	5%	26%
Cadila	2	12	5%	20%
Torrent	2	12	9%	29%
Glenmark	2	8	16%	37%
Alkem	6	13	29%	43%
Eris	0	3	0%	20%
Unlisted companies				
Mankind	4	12	14%	28%
Intas	2	4	9%	13%
USV	5	8	42%	52%
MNC				
Abbott	9	24	30%	47%
Sanofi	5	14	37%	63%
GSK	8	14	49%	64%

Source: HSIE Research, AIOCD AWACS

….and launch new products

Companies that have focused on new launches (combinations/line-extension/ in-licensed from innovator) have demonstrated superior growth. Lupin has focused on new launches via in-licensed products, Glenmark has launched products in cardiac and diabetes space, Intas has focused on launches in chronic segment, biosimilars. Historically, Mankind has also seen immense success via new launches, though now the focus is shifted towards gaining leadership in therapies and building big brands.

Lupin, Dr. Reddy's, Glenmark, Intas, Alkem, Abbott have higher contribution of revenues from new launches

Exhibit 22: Contribution of new launches and growth in chronic segment

	% contribution - new launches in past 3 years	Chronic growth (FY17-20)
IPM	**16%**	**10%**
Indian companies		
Sun	7%	6%
Cipla	11%	9%
Lupin	23%	15%
Dr. Reddy's	23%	11%
Cadila	17%	7%
Torrent	14%	6%
Glenmark	30%	16%
Eris	12%	11%
Alkem	22%	19%
Unlisted companies		
Mankind	4%	15%
Intas	33%	13%
USV	9%	10%
MNCs		
Abbott	26%	7%
Sanofi	15%	11%

Source: HSIE Research, AIOCD AWACS

Mapping valuations to higher chronic share

Company	*Implied EV/EBIDTA for US (x)*
Cipla	*9.5*
Dr. Reddy's	*13.2*
Lupin	*6.0*
Sun	*12.0*
Torrent	*10.9*

We assign highest one year forward EV/EBITDA multiple (14x-17x) for India business. Companies with higher contribution of India revenues and higher proportion of chronic share deserves premium over peers given this segment offers long term growth visibility and higher profitability.

The EM business which is branded generic in nature (South Africa, Russia, Brazil) are assigned multiple of (10x-14x) in line with local peers. The discount to India business reflects the inherent currency risk in these markets. The API/other business is valued at (8x-10x) to factor lower profitability and lumpiness in growth.

Based on the current market cap, the implied one year forward EV/EBITDA multiple for the US business is reflected in the table alongside.

Exhibit 23: Framework for assigning EV/EBITDA multiple for India business

Company	% of India revenues	% of chronic exposure	% contribution from leadership in key therapies*	Consolidated EV (Rs bn)	Domestic			Comments
					Revenue (Rs bn)	EV/EBIDTA (x)	% of EV	
Cipla	39	45	57	547	80	15	63	Cipla ranks third in IPM with 4.6% market share. It has leadership position in Respiratory (Ranks 1) and Anti infective segment (Rank 3). ~20% of India business is trade generics and therefore we assign slight discount to the multiple of Lupin/Sun.
Dr. Reddy's	17	32	-	677	39	14	23	Dr. Reddy's has 2.8% market share in IPM. The portfolio is more skewed towards acute segment (~55%) and therefore we assign discount to the multiple compared to its peers.
Lupin	34	58	60	410	61	16	67	Strong India franchise with dominant chronic portfolio (~56%). Leadership position in Cardiac, Respiratory and Anti-diabetes therapies. In-licensed portfolio accounts for 14-15% of revenues which would have lower margins. India business has outperformed the peers/IPM and deserves premium valuations.
Sun	30	45	58	1,167	115	15	47	Sun is the market leader in India with 8.2% market share. Leadership position in Cardiac, CNS, Pain (Rank 1), Gastro (Rank 2) and Derma (Rank 3). It ranks 1 in 10 classes of doctors and has the highest MR productivity among peers. Higher exposure to fast growing chronic segment, leadership in brands, high profitability justifies premium valuations.
Torrent	44	52	43	423	43	17	70	Torrent ranks 8th in IPM with 3% market share. It has a chronic focused portfolio (%50%+) and leadership in Cardiac (Ranks 2) and Vitamins (Rank 3). Price growth contributes ~5-6% of the overall growth. It enjoys superior profitability compared to peers and expects its business to outperform IPM by 100-200bps. In our view, it deserves to trade at premium valuations compared to peerset.

Source: HSIE Research, AIOCD AWACS

Investment rationale and ratings

We maintain our Buy rating on Aurobindo and Cipla, Add rating on Sun, Lupin and Torrent and Reduce on Dr. Reddy's.

Cipla (Buy, Revise TP to Rs690)

The outlook for key businesses remains strong with US likely to see improved traction on account of ramp up in gProventil and limited competition launches (recent approvals - Migranal Nasal spray, Firazyr injectable). India growth trajectory has improved (double digit growth in last 3 quarters) and with enhanced focus (implementation of One-India strategy), domestic growth should outperform the market. While the branded business in India will be impacted in Q1FY21 (in line with IPM), Cipla's trade generics business is expected to report strong growth led by strong traction in sales amidst lockdown and partially aided by lower base. We increase our EPS estimates for FY21/22 by 1%/4% to factor higher revenues from gProventil (USD80/90mn for FY21/22, no additional competition, better pricing). We ascribe 22x FY22 EPS (5-10% higher than peers) to factor higher contribution from India business. Our revised TP is Rs690. Maintain Buy.

Aurobindo Pharma (Buy)

We believe Aurobindo will be the biggest beneficiary of the improved outlook in the US and EU. In the US, while injectables revenues will be impacted in Q1FY21, we expect steady momentum in the oral solids business aided by currency tailwinds. Apotex business in Europe is expected to breakeven in 2HFY21 and likely to turn profitable in FY22 which will aid margins and offset pressure on account of higher R&D spend. On the regulatory front, desktop review and potential resolution of plants (Unit I, IX – OAI status and Unit XI, VII - warning letter) will be the key trigger in the near term. The company intends to be net debt free by FY22. Our TP of Rs835 is based on 14x FY22 EPS. Maintain Buy.

Sun Pharma (Add)

Sun's business outlook will be driven by ramp up in specialty portfolio for the next two years. While the global specialty business uptick in Q4FY20 was encouraging (+7% QoQ), we expect near term outlook to remain challenged due to covid. The market share gains in front end markets (US and non-US) will be keenly monitored as this will drive operating leverage and margins. The costs pertaining to specialty business are largely expensed which would support the multiples in our view. In India, Sun ranks no. 1 with 8.2% market share and leadership position in key therapies. With strong brands and expansion in field force, we expect Sun to perform in line with industry despite its high base. Our TP of Rs480 is based on 21x FY22e EPS in line with peers. Maintain Add.

Lupin (Add)

Lupin has been guiding towards an improving cost structure, however, benefits of those are yet to be seen. We factor significant gains from operating leverage driven by key launches viz. gProAir, Levothyroxine ramp up and several cost containment measures (stable R&D, lower SG&A spends, savings on Solosec) to aid margin expansion. Resolution of key plants and approval for key products such as gProAir are the potential catalysts in the near term. India business remains on strong footing with leadership position in key chronic therapies which augurs well for growth and profitability. Our TP of Rs920 is based on 21x FY22e EPS. Maintain Add.

Torrent Pharma (Add)

Torrent offers a solid India franchise with strong profitability. The portfolio is skewed towards chronic and is expected to outperform the IPM by 100-200bps. US business (18% of revenues) is expected to remain flat due to OAI/WL status at Dahej and Indrad. Desktop review and resolution of Dahej plant is the key trigger in the near term. With superior growth prospects, high return ratios we believe the premium valuations for Torrent are justified. Our TP of Rs2,605 is based on 16x EV/EBIDTA on FY22 estimates.

Dr. Reddy's (Reduce)

Dr. Reddy's improved growth trajectory and cost control initiatives have led to EBIDTA margin expansion (~300bps) over the last three years. Going forward, while we continue to factor cost savings, a large part (~20%) of our FY22 estimate is dependent on key product approvals in the US (gNuvaring, gCopaxone), the approval timelines for which remain uncertain. Despite factoring these launches and margin expansion as per company guidance, we do not see upside from current levels. Our TP of Rs3,770 is based on 20x FY22 EPS (5-10% discount to peers) as the contribution of India business is low (less than 20%) and portfolio is skewed towards acute segment. Maintain Reduce.

Exhibit 24: Peerset valuation

	M.Cap (Rs bn)	CMP (Rs./ Sh)	RECO	TP	EV/ EBITDA (X)		ROE		PER(X)		CAGR (FY20-22E)	
					21E	22E	21E	22E	21E	22E	EPS	Revenue
Aurobindo	459	791	BUY	835	8.8	7.7	16.6	15.3	14.1	13.1	10.1%	8.1%
Cipla	528	663	BUY	690	15.1	12.1	10.8	12.1	28.0	21.2	24.0%	8.3%
Dr. Reddy's	670	4,050	REDUCE	3,770	16.0	12.9	14.0	15.6	27.6	21.4	27.0%	13.2%
Lupin	384	841	ADD	920	14.7	10.6	9.8	12.5	27.4	19.3	28.0%	10.0%
Sun	1,141	483	ADD	480	14.2	11.5	9.8	10.6	25.5	20.9	20.5%	8.1%
Torrent	389	2,291	ADD	2,605	17.0	14.1	20.6	23.8	33.4	26.1	23.8%	9.1%
Alkem	293	2,471	NR	NA	18.1	15.3	18.2	18.8	24.2	20.3	11.6%	10.7%
Cadila	361	357	NR	NA	14.3	13.2	14.1	14.3	22.0	19.8	13.5%	7.5%
Glenmark	120	421	NR	NA	8.2	7.3	12.1	12.8	15.3	12.6	15.0%	8.4%
Ipca Labs	220	1,733	NR	NA	19.9	16.8	19.2	19.2	28.3	23.5	20.4%	14.6%
Eris Lifesciences	57	423	NR	NA	14.2	12.7	22.2	21.2	18.1	15.8	8.2%	9.5%

Source: HSIE Research, Bloomberg, price as on July 27, 2020

Rating Criteria
BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

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