

**NOT
RATED**
RPGL LIFE SCIENCES

| Pharmaceuticals

| 16 June 2023

Investor day takeaways: Foundation in place; now targeting scale

- FY23 a milestone year with revenue/EBITDA of Rs 5bn/1bn; Naprosyn brand crossed Rs 500mn
- Earnings logged a 38% CAGR in the last 5Y (8% for revenue) primarily from improved operational efficiencies
- Management now targeting scale from organic as well as inorganic opportunities, including M&A in chronic business

Saad Shaikh

research@bobcaps.in

Key takeaways from RPGL's (Not Rated) recent investor day:

Strong earnings growth: RPGL's FY23 revenue/EBITDA grew 17%/19% with a 20% EBITDA margin, translating to earnings growth of 31%. Domestic formulations contributed 78% to incremental revenue growth amid sustained prescription generation, portfolio augmentation through launches and extensions, and plugging of sales leakages via better control over product returns and inventory.

Broad-based topline uptick: Domestic formulations (67% of revenue) grew 20%, outpacing the market substantially, supported by volume growth of 13%, price growth of 5% and new introduction-led growth of 2%. APIs (15% of revenue) grew 2%. International formulations (18% of revenue) did well, rising 18% on new products, customer addition, market expansion and the return of political stability in some regions.

Largest brand Naprosyn crosses Rs 500mn in turnover: Lifecycle management helped largest brand Naprosyn (nonsteroidal anti-inflammatory drug) reach Rs 620mn in FY23. Chronic and specialty therapies remain focus areas for RPGL with a raft of product launches in recent years. The company is a leader in immunosuppressants which contribute ~35% of its turnover (including domestic, international and API sales). RPGL was one of the first companies to launch Adalimumab in India and holds 10% market share.

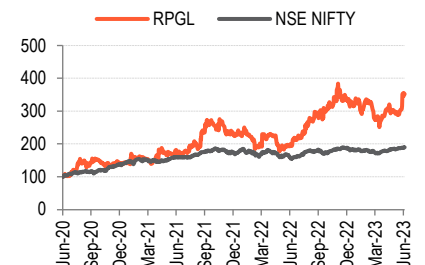
Capex: The company has spent close to Rs 1bn on plant modernisation as well as capacity enhancements for API as well as formulation plants over the last three years. This would result in capacity improvement to the tune of 40-50% in APIs and 15-20% in the formulation plants.

Fundamentals in place; now looking at scale: To continue on its growth path, the company intends to focus on (1) building the domestic formulations business via the five identified pillars, (2) building global business through new products, markets and customers, (3) modernising and expanding formulation and API plants, (4) identifying the R&D pipeline in niche areas, and (5) new opportunities via M&A.

Ticker/Price	RPGL IN/Rs 918
Market cap	US\$ 184mn
Free float	26%
3M ADV	US\$ 0.43mn
52wk high/low	Rs 1,013/Rs 498
Promoter/FPI/DII	73%/0%/0%

Source: NSE | Price as of 16 Jun 2023

Stock performance



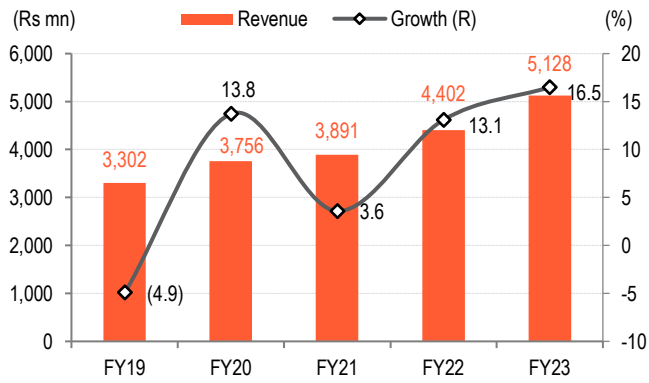
Source: NSE



Investor day takeaways

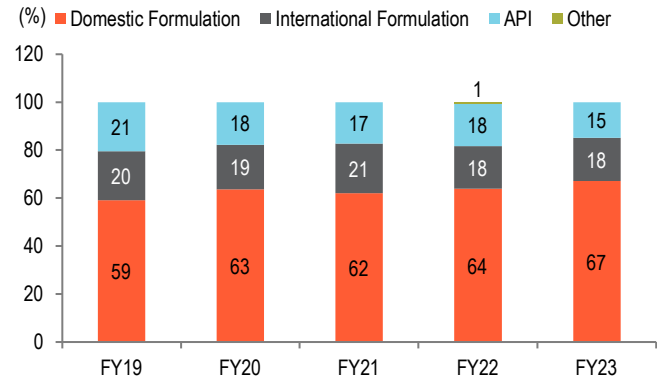
- **Domestic growth outlook:** RPGL's management expects growth in its domestic formulations business (67% of FY23 sales) to be helmed by the specialty and chronic segments, where the company has increased customer coverage through product launches. The company is now able to cover 85-90% of target customers. For general practitioners as well, it has increased coverage by ~30%.
- **Five pillars for domestic growth:** RPGL continues to target above-industry growth by (1) rejuvenating the product portfolio via chronic and specialty launches, (2) building strategic brand assets through lifecycle management by introducing line extensions, (3) deepening customer coverage in targeted therapies via field-force scope expansion and digital deployment, (4) raising salesforce efficacy by building competencies and productivity, and (5) improving profitability through opex control and efficient manufacturing.
- **International formulations:** The breakup of branded generic to unbranded generic sales in international markets is 35% and 65% respectively, with branded generics guided to go up. Management has identified three steps to growth in the global formulations business (18% of FY23 sales): (1) build-up of the immunosuppressant portfolio by leveraging its leadership in the domestic market, (2) focus on products with a competitive advantage such as Sodium Valproate PR (complex generic product), and (3) expansion of footprint in emerging markets such as Myanmar, Vietnam, the Philippines, Sri Lanka, Egypt and Sudan.
- **API:** RPGL is looking to target small volume and low-competition active pharma ingredients (API) by leveraging existing infrastructure and enhancing forward integration.
- **Naprosyn:** After reaching sales of Rs 620mn in FY23, management's next focus is to scale the Naprosyn brand to Rs 1bn. Thereafter, it plans to push for the product to be sold over the counter (as is the case in a few developed countries), which will lend a further fillip to sales.
- **Price hikes:** The company has taken price hikes wherever necessary except for the oncology portfolio, with effective hikes in the range of 5-6.5% during FY23.
- **Field force and productivity:** Management has highlighted that it is not looking to expand the field force but would focus on increasing productivity as well as scope of work for marketing representatives (MR). Productivity in terms of revenue per MR is now at Rs 550,000+ per year. For specialty business, this rises to Rs 1.3mn-1.4mn.
- **USFDA approval:** Investment in capacities is aimed at garnering regulatory approvals from PICS as well as the EU. The company intends to seek USFDA approval only once it has sufficient ANDAs (abbreviated new drug applications) lined up.
- **M&A:** With a good cash surplus (~Rs 1bn), RPGL is evaluating proposals to deploy the same on M&A, preferably in chronic areas.

Fig 1 – Revenue growth of 8.1% over last 5Y



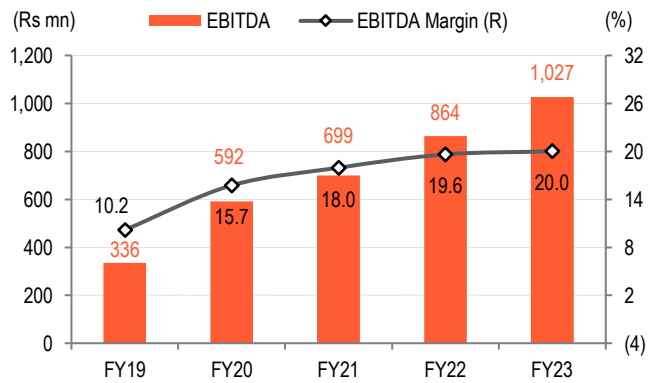
Source: Company, BOBCAPS Research

Fig 2 – Domestic formulations dominate revenue mix



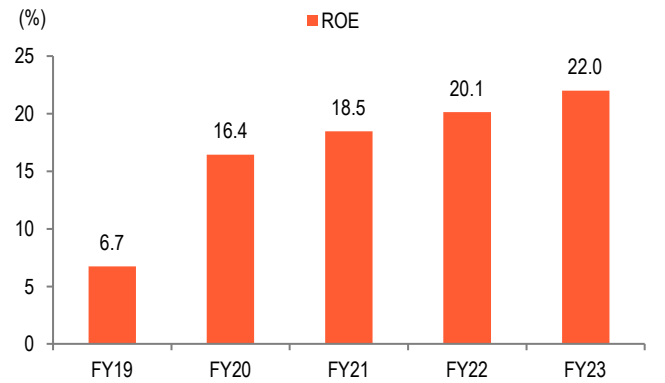
Source: Company, BOBCAPS Research

Fig 3 – EBITDA margin expanded 10ppt over FY19-FY23



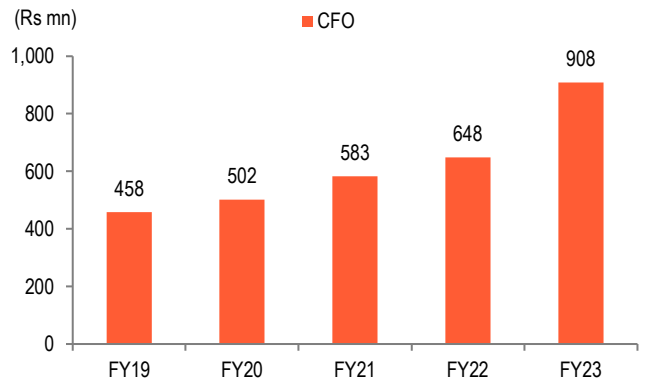
Source: Company, BOBCAPS Research

Fig 4 – ROE on an uptrend



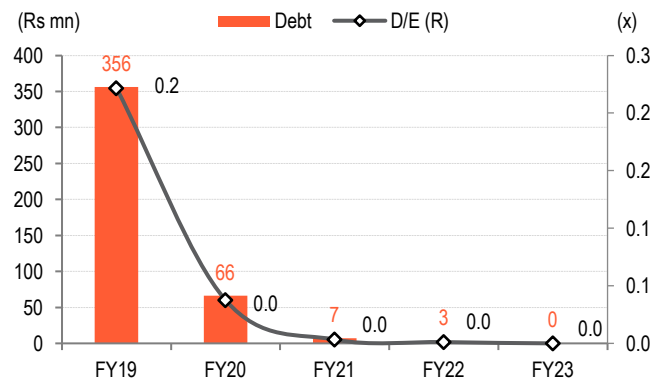
Source: Company, BOBCAPS Research

Fig 5 – Consistent improvement in operating cash



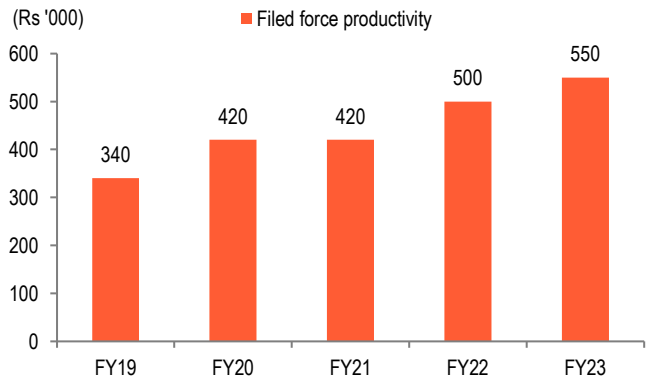
Source: Company, BOBCAPS Research

Fig 6 – Balance sheet has improved with debt retirement



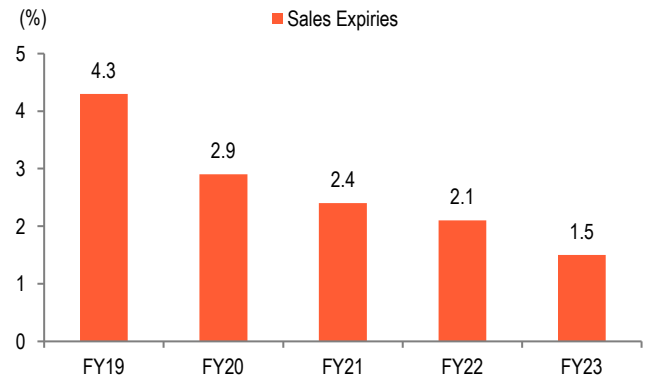
Source: Company, BOBCAPS Research

Fig 7 – Consistent improvement in productivity



Source: Company, BOBCAPS Research

Fig 8 – Sales expiries now in line with industry



Source: Company, BOBCAPS Research

About the company

Part of RPG Enterprises, RPG Life Sciences (RPGL) is an integrated pharmaceutical company operating in domestic and international markets in the branded formulation, global generic and synthetic API space. The company draws 67% of revenue from domestic formulations, 18% from international formulations and 18% from APIs. It operates three manufacturing facilities with 1,200+ employees and caters to 50+ markets worldwide.

RPGL's key therapy areas are nephrology, rheumatology, oncology, orthopaedics, gastroenterology, cardiology, diabetology, and neuropsychiatry. It is a leader in the immunosuppressant space with brands such as Azoran (Azathioprine), Mofetyl (Mycophenolate Mofetil), Arpimune ME (Cyclosporine) and Imunotac (Tacrolimus).

In the domestic market, the company is increasingly focusing on the specialty and chronic segments. In the specialty business, its portfolio consists of products such as Trastuzumab (HerMab), Adalimumab (Adlumab), Bevacizumab (Ivzumab), Rituzimab (Zestmab) and Tofacitinib (T-Jaki). The chronic portfolio includes Vildagliptin (NuGliptin) and Teneigliptin (GliptiNext), Dapagliflozin (DPO), and Azelinidipine (Azilta).

A significant portion of RPGL's domestic revenue is contributed by six textbook brands: Azoran (Azathioprine), Aldactone (Spironolactone), Lomotil (Diphenoxylate HCl), Naprosyn (Naproxen), Serenace (Haloperidol) and Norpace (Disopyramide Phosphate).

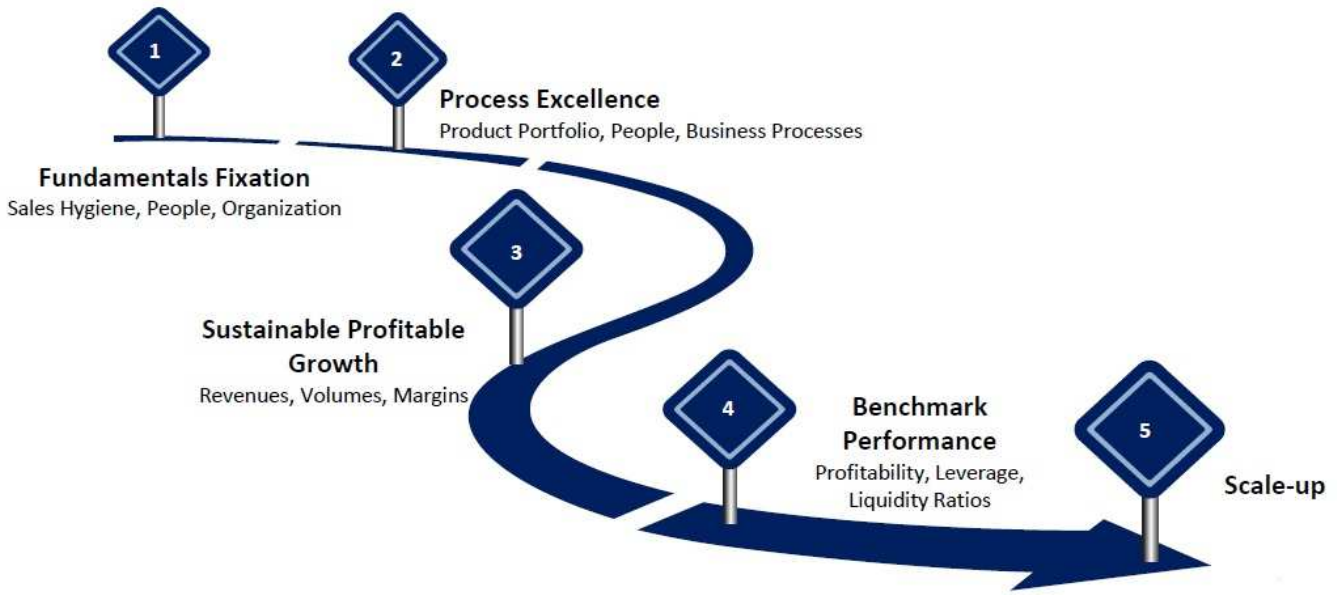
In the international formulations space, its generic portfolio includes Azathioprine, Sodium Valproate PR and Nicorandil while the branded generic portfolio has products such as Siloxogene, Azoran, Mofetyl, Arpimune and Dipsope. RPGL's international business primarily caters to the emerging markets of Myanmar, Vietnam, the Philippines, Sri Lanka, Egypt and Sudan. Key products in the API portfolio include Quinifamide, Azathioprine, Haloperidol, Risperidone, Propantheline Bromide, Nicorandil, Pantoprazole and Diphenoxylate.

Fig 9 – Key therapies and products

Key Therapies	Key Products				
	Legacy Portfolio		New Portfolio		
Nephrology	Immunosuppressants Azoran Azathioprine Mofetyl Mycophenolate Mofetil Arpimune ME Cyclosporine Imunotac Tacrolimus	Text Book Brands Azoran Azathioprine Aldactone Spironolactone Lomotil Diphenoxylate HCl Naprosyn Naproxen Serenace Haloperidol Norpace New Disopyramide Phosphate	Specialty HerMab Trastuzumab Adlumab Adalimumab Ivzumab Bevacizumab Zestmab Rituzimab T-JAKI Tofacitinib TroHigh Haloperidol Denbri Denosumab	Chronic NuGliptin Vildagliptin GliptiNext Teneigliptin DPO Dapagliflozin Azilta Azelinidipine Solifirst Mirasmart S More Smart...More Efficient	Life Cycle Management (Existing Products) Azoran 75 Aldactone T Aldactone F Naprosyn + ROMILAST-BL Tricaine Alma 2 Lomofen LB
Rheumatology					
Oncology					
Pain Management					
Gastroenterology					
Neuropsychiatry					
Cardiovascular					
Diabetes					
Urology					

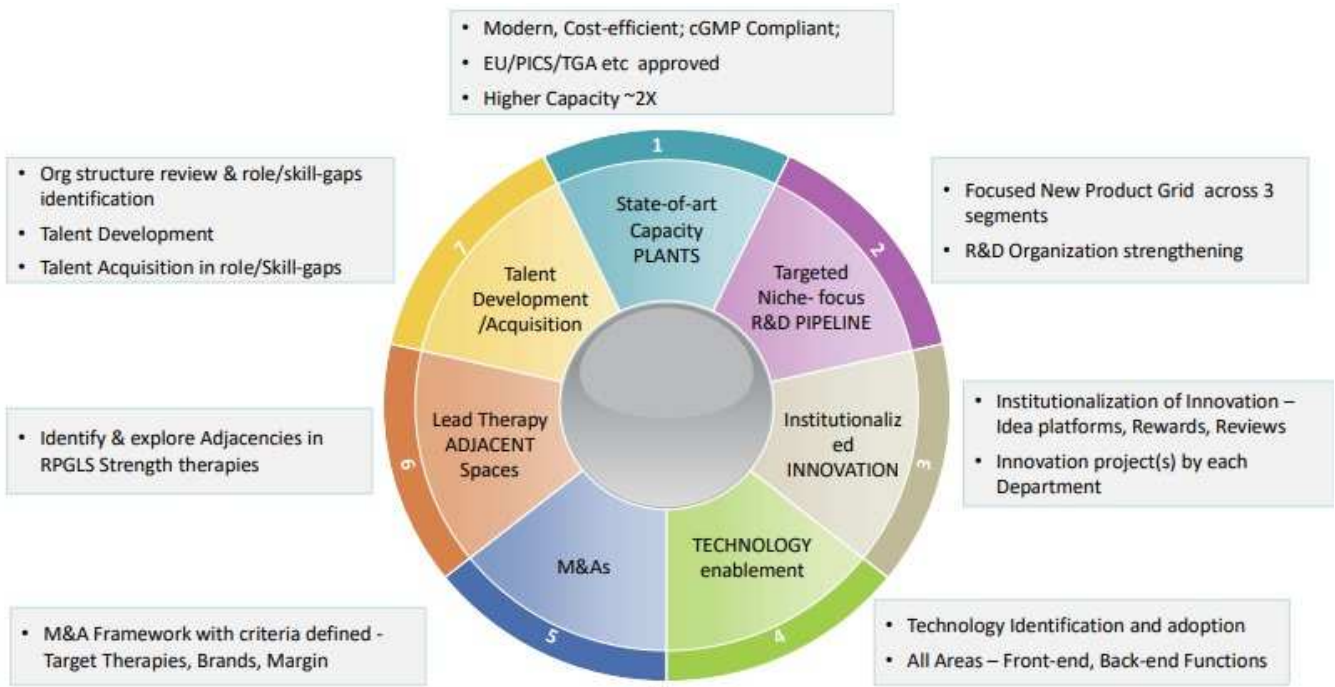
Source: Company presentation

Fig 10 – RPGL’s journey



Source: Company presentation

Fig 11 – Journey ahead – 7 pillars identified



Source: Company presentation

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA ("US") OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**
 Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
 SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
 Brand Name: **BOBCAPS**
 Trade Name: **www.barodaetrade.com**
 CIN: **U65999MH1996GOI098009**



Investments in securities market are subject to market risks. Read all the related documents carefully before investing.
 Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company or third party in the past 12 months in connection with research report/activities. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an "as is" basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the "Losses") which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom ("UK"):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd ("MSL") who is authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom (MSL and its affiliates are collectively referred to as "MAYBANK"). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the "Order"), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as "relevant persons").

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.