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# Pharmaceuticals

Transforming from volume-driven to value-driven sector

October 2024

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## PHARMACEUTICALS

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### Transforming from volume-driven to value-driven sector

- The Indian pharma market is shifting from generics to innovation, resulting in higher focus on R&D
- Biopharma companies to dominate due to lower penetration; however generic companies to continue to grow due to off patent opportunities
- We have BUYs on ERIS, for its large chronic portfolio, and ARBP, for its biosimilars pipeline; downgrade AJP to SELL for its lack of innovation

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**India's pharma sector expected to grow ~10x by FY47:** According to the Economic Survey 2024, the Indian pharma market (IPM) is valued at US\$ 50bn by turnover. As per the Ernst & Young report "Reimagining Pharma and Healthcare for India@100, Nov'23", India's pharma sector is expected to reach US\$ 450bn by FY47. This growth is to be driven by all segments where generic companies will likely benefit from drugs worth US\$ 250bn going off patent by 2030, while Contract Development and Manufacturing Organization (CDMO) companies will likely benefit from the Biosecure Act passed recently in the US. Till date the sector's growth was driven by branded generics, but the next focus is on innovative products.

**Increasing investments towards R&D:** India's pharma market has become very competitive, hence most Indian pharma companies have increased their R&D either organically or through external innovators. In the changing landscape of the global pharma market, companies are either working on low-competition complex generic/specialty/biologics/biosimilars or bringing innovative drugs to the market through in-licensing/acquisitions. Companies focusing on organic innovation have increased their R&D expenditure to 7-9% of sales, from 5-7% previously, where ~40% of their R&D is towards biosimilars/specialty products.

**Strong innovation pipeline:** Large Indian Pharma companies have on average strong cash balances of ~US\$ 1bn which can support their investments in the development of innovative products. For eg, SUNP was an early investor in specialty products, which has reached US\$ 1bn in sales. DRRD is transforming from a generics company to a healthy pipeline of NCE/NBE molecules through Horizon 2, while ERIS has shifted from being a pure Derma to a Super Specialty player.

**Prefer ERIS and ARBP:** We assume coverage on ERIS (BUY, TP Rs 1,648) and upgrade ALPM (TP Rs 1,412), ALKEM (TP Rs 7,225) and ARBP (Rs 1,728) to BUY. We downgrade AJP (TP Rs 2,736) to SELL from BUY. In our view, ERIS is the best play for its large chronic portfolio in the domestic market, while ARBP is a better play for biosimilars. We attribute a SELL to AJP due to its concentrated portfolio and lack of innovation.

#### Recommendation snapshot

Ticker	Price	Target	Rating
AJP IN	3,345	2,736	SELL
ALKEM IN	6,137	7,225	BUY
ALPM IN	1,191	1,412	BUY
ARBP IN	1,466	1,728	BUY
ERIS IN	1,396	1,648	BUY

Price &amp; Target in Rupees | Price as of 10 Oct 2024



## Contents

<b>Executive summary</b> .....	<b>3</b>
<b>Growth opportunities for the pharma sector</b> .....	<b>4</b>
<b>India's market to become US\$ 450bn by 2047: E&amp;Y</b> .....	<b>5</b>
Branded generic market – Big brands to become bigger .....	6
Trade generics picking up rapidly in the IPM .....	6
Generic generics .....	7
<b>Increasing focus on R&amp;D for next gen therapy</b> .....	<b>9</b>
<b>Increasing participation in biosimilars by most firms</b> .....	<b>10</b>
<b>Drugs worth US\$ 250bn going off patent</b> .....	<b>11</b>
<b>Companies</b> .....	<b>12</b>
Ajanta Pharma .....	13
Alkem Labs .....	18
Alembic Pharma .....	24
Aurobindo Pharma.....	29
Eris Lifesciences.....	35

## Executive summary

The Indian pharma industry gained recognition post COVID. The government increased the healthcare budget allocation to Rs 861bn in FY24 from Rs 376bn in 2013. According to the E&Y report, the IPM will grow in value to US\$ 130bn by FY30 and US\$ 450bn by FY47 from Rs 50bn in FY24, indicating the sector would grow at a CAGR of 10% from FY24-47. We expect growth to be driven by diversification into innovation products as they have a larger market size and less competition. Currently, IPM's main contributing segment is generics with 97% and patented/innovator drugs with 3%. In the generics segment, branded generics contributes 87%, while trade generics contributes 10% and generic generics 0.5%.

Currently, the Indian market has become very competitive and expensive as many players have entered the market. Going forward, we believe growth in innovator/patented drugs will increase over the generics space due to its larger market size. Last year, volume growth in the IPM's branded generics market was negligible, while growth was driven mainly by price increases and new product launches. Currently, cardio and diabetes are the largest therapies in the IPM but witnessed no volume growth. Diabetes therapy volume was impacted with gliptins going off patent, while cardio vascular therapy volumes declined after the Sacubitril Valsartan molecule went off patent. However, smaller therapies like oncology, neurology and urology are emerging as the fastest-growing therapies in the IPM. We believe Indian generic companies will have huge opportunities in future as drugs worth US\$ 250bn are going off patent globally. However, we believe this would result in increased competition and price cuts resulting in further deterioration in volume growth.

To combat the pricing war in the generics space, Indian companies are climbing up the value chain by focusing on low competition products like complex generics or NCE/NBE molecules or diversifying into biologics and biosimilars. These products require more cash for R&D which only large cap companies or companies with strong promoters can incur. Hence, larger companies have increased their R&D expenditure post COVID and spent ~40% of their R&D on innovation/specialty products. Also, India has the highest number of plants approved by the US Food and Drug Administration (USFDA) outside the US, which makes it easier for companies to supply to regulated markets.

Though the future is innovative drugs, we feel generics cannot be ignored as it would continue to contribute a larger share to the IPM. To encourage sound practices the Department of Pharmaceuticals (DoP) recently introduced developments like the revised Schedule M for Good Manufacturing Practices (GMP), Good Distribution practices (GDP) and the Uniform Code of Pharmaceutical Marketing Practices (UCPMP). Introducing these reforms indicates how changes are reshaping the industry for better drug quality, patient safety, and the overall effectiveness of pharmaceutical distribution.

## Growth opportunities for the pharma sector

**Fig 1 – Diabetes products expected to go off patent**

Diabetes Product	US	China	Japan	Europe
Human insulin and Modern insulins	Expired	Expired	Expired	Expired
Victoza	Expired	Expired	Expired	Expired
Tresiba	2029	2024	2027	2028
Ryzodeg	2029	2024	2024	2028
Xultophy	2029	2024	2024	2028
Fiasp	2030	2030	2030	2030
Ozempic	2032	2026	2031	2031
Rybelsus	2032	2026	2031	2031

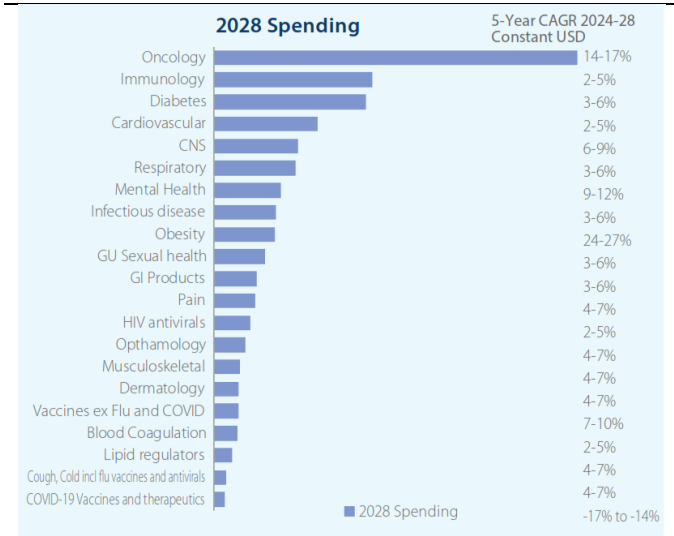
Source: Novo Nordisk Annual Report 2023, BOBCAPS Research

**Fig 2 – Obesity products expected to go off patent**

Obesity Product	US	China	Japan	Europe
Saxenda	Expired	Expired	Expired	Expired
Wegovy	2032	2026	2031	2031

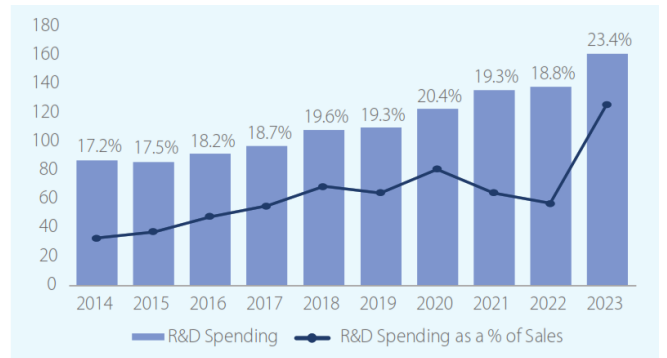
Source: Novo Nordisk Annual Report 2023, BOBCAPS Research

**Fig 3 – Oncology therapy to witness highest R&D spending**



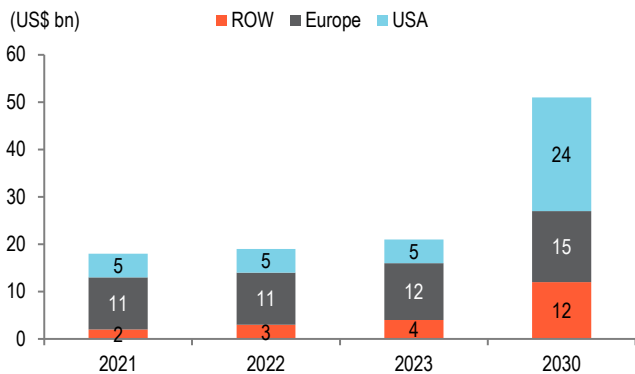
Source: Biocon, BOBCAPS Research

**Fig 4 – Global Biopharma companies spent >20% of sales on R&D**



Source: Biocon, BOBCAPS Research | Note: Y axis is US\$ bn.

**Fig 5 – Global biosimilar market size expected to rise across regions**



Source: Biocon Annual Report 2024, BOBCAPS Research

**Fig 6 – Global biotech funding scenario normalised post COVID**



Source: Syngene Annual Report 2024, BOBCAPS Research

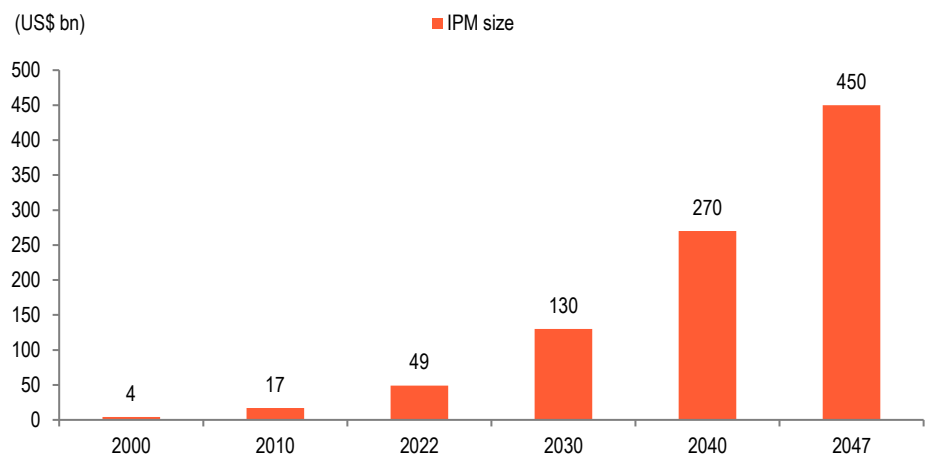
## India’s market to become US\$ 450bn by 2047: E&Y

India’s pharma market is one of the world’s fastest-growing major markets. According to the Economic Survey 2024, the IPM’s size by turnover is US\$ 50bn and expected to grow to US\$ 130bn by 2030. As per Ernst & Young’s secondary report, the IPM is expected to grow to US\$ 450bn by 2047, indicating the sector would grow at 10% CAGR from FY24-47. In the branded generics segment, growth is driven by price hikes and new product launches. Due to increasing R&D, new product contributions for most companies have increased to 3% of their sales vs IPM’s new product contribution of 1.5% for FY24. We believe that the IPM’s next phase of growth would be driven by innovation/patent drugs and companies focusing on complex therapies like oncology, neurology and urology.

Currently most company managements believe that the IPM has become a very competitive and expensive market. To retain their leadership position, generic companies would have to spend more on advertising to make their big brands bigger, while innovator companies like SUNP, Zydus Life, etc, are focusing on specialty/novel products to diversify into less competitive products. This has led to large cap companies increasing their investments organically towards R&D.

Mid-size branded generic players who do not have cash for higher R&D are diversifying into less competitive therapies like oncology/immunology through acquisitions. For eg, ERIS a pure chronic player (focused on Diabetes and Derma Therapies) has transformed into a super specialty player by acquiring Biocon’s MAB portfolio, while ALKEM, an acute player (~80% of India sales in the acute segment), has diversified into the biosimilars space through its subsidiary Enzene Biosciences.

**Fig 7 – Indian pharma market size expected to grow steeply**



Source: Ernst & Young report Reimagining Pharma and Healthcare for India@100, BOBCAPS Research

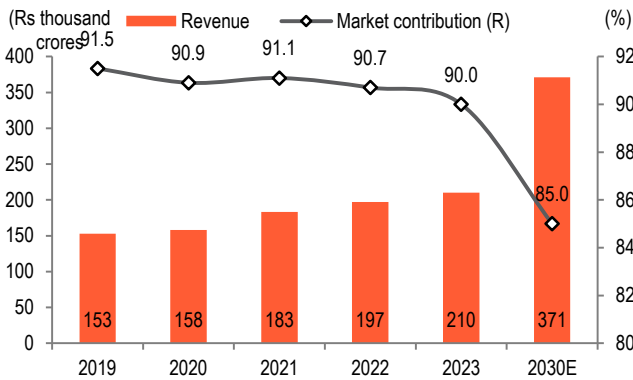
According to E&Y’s report, the Indian pharma industry has the potential to grow ~10x by FY47 for which domestic companies have started focusing on high market size opportunities and less competitive spaces like complex generics, injectables, biosimilars, NCE/NBE, next generation therapeutics like ADCs (antibody drug conjugate), C&GT (cell and gene therapy), DNA/RNA (deoxyribonucleic acid/ribonucleic acid) therapies, etc.

### Branded generic market – Big brands to become bigger

Branded generics are generic drugs marketed through brand promotion by field medical representatives (MRs). Overall, branded generics comprise 87% of India’s pharmaceuticals market, which was valued at Rs 2,100bn in 2023 and expected to grow at a CAGR of 8.5% to Rs 3,710bn by 2030, according to a Pharmarack report. Indian companies have on average ~7k-10k medical representatives and are now seeking to freeze their hiring to focus on productivity. On average, productivity per month ranges from Rs 500k-700k per month, where AJP has the lowest productivity of Rs 400k per month and Abbott the highest at Rs 900k per month. The key therapy areas driving this segment are cardiac, anti-infectives, gastrointestinal, anti-diabetic, and vitamins, minerals, and nutrients (VMN), which collectively comprise more than 50% of the market share by value.

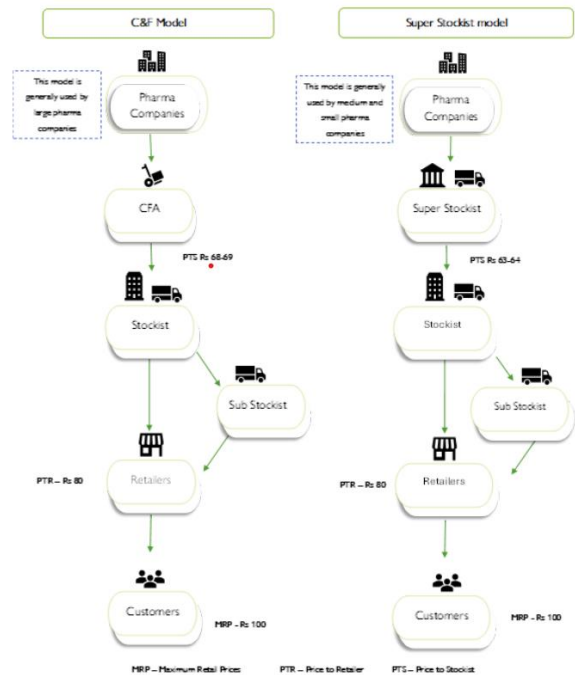
Larger pharma companies mostly use two distribution models for branded generics: (1) Carrying and forwarding agencies (C&F) and (2) the super stockists model. Large cap companies usually use the C&F model of distribution to promote their brands. Currently GSK’s Augmentin is the largest brand in the IPM with ~Rs 7bn sales and has sustained the top position for a long time, while Cipla’s Foracort has climbed to the top 3 position of the IPM due to strong branding. Mostly companies spend more to promote their mother brands due to their wider acceptance, aiming to make them even bigger.

**Fig 8 – Branded market size to grow at 8% CAGR from FY23-30**



Source: Pharmarack, BOBCAPS Research

**Fig 9 – C&F agent in the supply chain aids wider distribution of the brands**



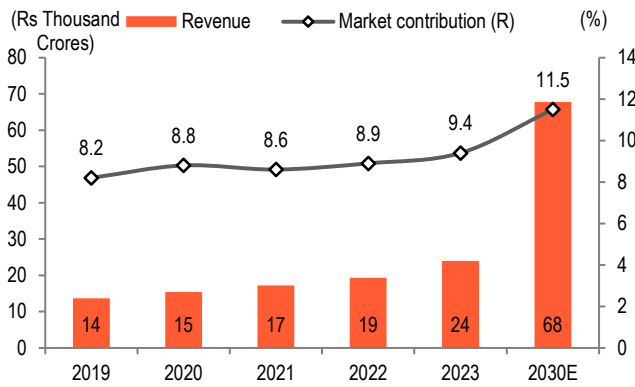
Source: Pharmarack, BOBCAPS Research

### Trade generics picking up rapidly in the IPM

Trade generics are branded medicines not promoted to doctors, but provided to channel players including retail chemists, stockists, hospitals, chain stores and online pharmacies at higher margins to drive their sales. According to a Pharmarack report, the trade generics segment was valued at Rs 240bn in 2023. It grew at a CAGR of

14.9% in 2019-2023 and is expected to grow at a CAGR of 16% to reach Rs 680bn by 2030. Many companies are investing in the trade generics segment as the IPM is facing retail competition and margin pressures. Trade generics has aided accessibility of medicines in Tier-2 and -3 towns across the country. This has resulted in many companies beginning to invest 2-5% of their investments in the trade generics segment. For most companies, this segment is growing at 10-15% and contributes ~2-3% of their sales. Due to lower investments in this segment, many companies skip C&F distributors and adopt direct-to-retail, super stockists, or third-party marketing agents. The segment is dominated by acute therapy, which accounted for 80% of the trade generics market share in 2023, according to Pharमारack.

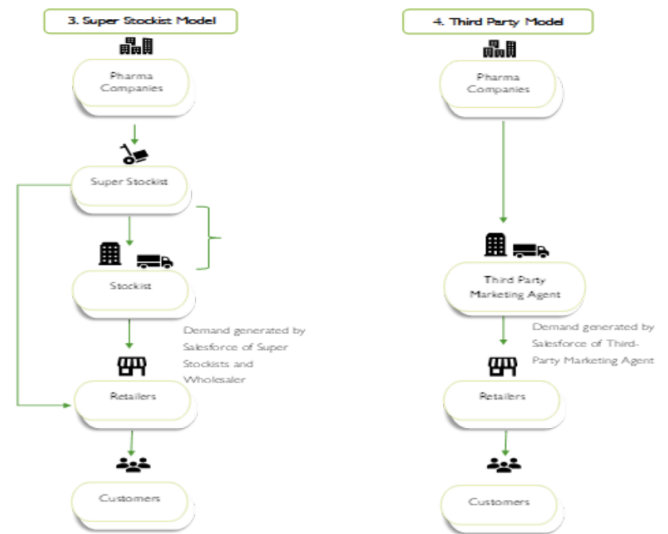
**Fig 10 – Trade generics expected to grow at 16% CAGR from FY23-30**



Source: Pharमारack, BOBCAPS Research

**Fig 11 – Due to fewer investments in trade generics segment, C&F agent is not included in the supply chain**

*Appendix 8: Distribution Channel of Trade Generic - PART B*



Source: Pharमारack, BOBCAPS Research

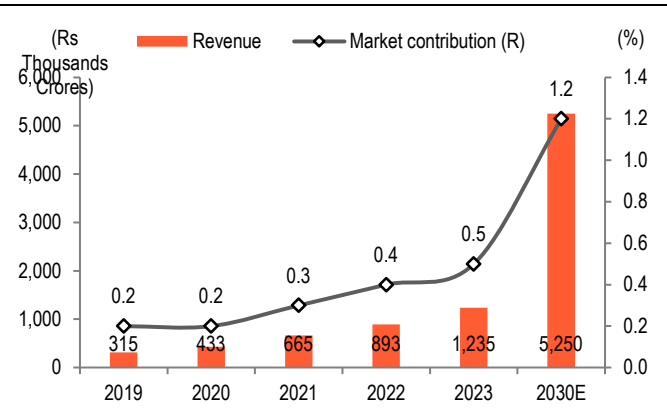
Post COVID-19, several Indian pharma companies introduced their non-core therapies into the trade generics market. This increased confidence among pharmacists in substituting branded products with trade generics alternatives, in our view. Additionally, there has been a growing trend of micro, small and medium enterprises (MSMEs) entering the market, leading to even more fragmentation. We believe there is an emerging trend where companies are gaining market share by actively promoting trade generics through stockists, pharmacies, and supplying to doctors through their MR networks. This market is characterised by higher contributions from leading states such as Uttar Pradesh, Maharashtra, Andhra Pradesh, Telangana and Tamil Nadu. Top therapies from the acute segment contributing to sales are anti-infectives and pain/analgesics.

### Generic generics

Generic drugs are unbranded medicines and sold without any specific brand name and often priced lower than their branded counterparts. They contain the same active pharmaceutical ingredients (API) as their brand name counterparts but are marketed under their APIs or generic names.

Generic generics accounts for 0.5% of India’s generic market and is expected to rise to 1.1% by 2030, according to a Pharmarack report. Aimed at providing medication to the underserved section of society and fueled by government initiatives like Jan Aushadhi stores, the generic generics segment is projected to reach Rs 52bn by 2030 from Rs 12bn in FY24 (Source: Pharmarack). The growth driver is chronic diseases requiring lifelong medication like diabetes and cardiovascular disease (40% of total sales), and patients are turning to Jan Aushadhi stores for affordability. The government plans to double the number of Jan Aushadhi Kendras to 25,000 by Mar’26 (Source: Pharmarack) to enhance accessibility. Jan Aushadhi’s supply chain consists of a centralised warehouse in Gurugram and four regional warehouses. Supplies in the States and Union Territories (UTs) are managed by 36+ stockists catering to 11,000+ stores.

**Fig 12 – Generic generics segment growth to be driven by increased franchise of Jan Aushadhi centres**



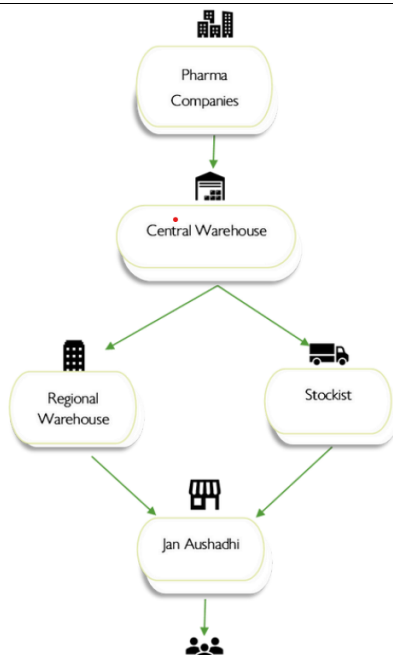
Source: Pharmarack, BOBCAPS Research

**Fig 13 – Top selling drugs in generic generics in last 1-2 years**

Drugs	Therapy	Monthly sales units	% of total IPM	Volume growth
Pantaprazole + Domperidone	Gastrointestinal	10	12	-4.2
Telmisartan	Cardio Vascular	9	8	5.7
Amlodipine	Cardiovascular	8.5	9	-100
Metformin + Glimepiride	Anti Diabetes	8	8.3	-4
Pantaprazole	Gastrointestinal	7.9	4.3	2.5

Source: Pharmarack, BOBCAPS Research

**Fig 14 – Simple distribution structure of generic generics**



Source: Pharmarack, BOBCAPS Research

**Fig 15 – Jan Aushadhi centers have penetrated the country widely**

S.No	State	Store =	S.No	State	Store =
1	Uttar Pradesh	1907	19	Assam	127
2	Karnataka	1137	20	Jharkhand	108
3	Kerala	998	21	Himachal Pradesh	71
4	Tamil Nadu	825	22	Manipur	46
5	Maharashtra	642	23	The Dadra and Nagar Haveli and Daman and Diu	37
6	Gujarat	637	24	Arunachal Pradesh	30
7	Bihar	553	25	Puducherry	26
8	Odisha	508	26	Tripura	25
9	Delhi	434	27	Nagaland	20
10	Punjab	373	28	Meghalaya	19
11	West Bengal	371	29	Goa	14
12	Madhya Pradesh	370	30	Chandigarh	12
13	Jammu and Kashmir	288	31	Mizoram	12
14	Rajasthan	275	32	Andaman And Nicobar Islands	9
15	Uttarakhand	252	33	Sikkim	7
16	Andhra Pradesh	249	34	Ladakh	2
17	Chhattisgarh	197	35	Lakshwadeep	1
18	Telangana	171			

Source: Pharmarack, BOBCAPS Research

## Increasing focus on R&D for next gen therapy

India is the largest provider of generic medicines globally with 20% share in global generics supply by volume. With rising competition and price erosion pressure in regulated markets, Indian companies are exploring the development of limited competition opportunities like complex generics, NCE, new NBE, and the biologics and biosimilar space.

Many companies have revised their guidance of increasing R&D spends. For, eg, SUNP increased its R&D guidance to 8-10% from 6-8% of sales in FY24. Almost all companies are spending 40% of their R&D costs on complex molecules like oncology, neurology or towards biosimilars and next gen therapy. Many Indian companies are launching biosimilars in the Indian market as a value-added product to mitigate competition in the generics segment.

**Fig 16 – Large cap companies increasing their R&D spends, while small cap companies lowering it**

Companies	Rs mn								CAGR (%)	
	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY17-20	FY21-24
<b>Sun Pharma</b>	<b>23,138</b>	<b>22,490</b>	<b>19,847</b>	<b>19,736</b>	<b>21,028</b>	<b>22,194</b>	<b>23,676</b>	<b>31,776</b>	<b>(5.2)</b>	<b>14.8</b>
YoY Growth (%)		(2.8)	(11.8)	(0.6)	6.5	5.5	6.7	34.2		
R&D as a % to sales	7.4	8.5	6.8	6.0	6.3	5.7	5.4	6.6		
<b>Dr. Reddy's</b>	<b>19,551</b>	<b>18,265</b>	<b>15,607</b>	<b>15,410</b>	<b>16,541</b>	<b>17,482</b>	<b>19,381</b>	<b>22,873</b>	<b>(7.6)</b>	<b>11.4</b>
YoY Growth (%)		(6.6)	(14.6)	(1.3)	7.3	5.7	10.9	18.0		
R&D as a % to sales	13.9	12.9	10.1	8.8	8.7	8.2	7.9	8.2		
<b>Cipla</b>	<b>10,700</b>	<b>10,410</b>	<b>12,108</b>	<b>11,932</b>	<b>9,240</b>	<b>11,220</b>	<b>13,430</b>	<b>15,710</b>	<b>3.7</b>	<b>19.4</b>
YoY Growth (%)		(2.7)	16.3	(1.5)	(22.6)	21.4	19.7	17.0		
R&D as a % to sales	7.8	7.4	7.9	7.2	4.9	5.2	5.9	6.1		
<b>Lupin</b>	<b>23,100</b>	<b>18,510</b>	<b>15,013</b>	<b>14,366</b>	<b>14,324</b>	<b>14,024</b>	<b>12,800</b>	<b>15,265</b>	<b>(14.6)</b>	<b>2.1</b>
YoY Growth (%)		(19.9)	(18.9)	(4.3)	(0.3)	(2.1)	(8.7)	19.3		
R&D as a % to sales	13.2	11.7	10.2	9.3	9.4	8.5	7.7	7.6		
<b>Ajanta Pharma</b>	<b>1,502</b>	<b>1,850</b>	<b>1,760</b>	<b>1,650</b>	<b>1,390</b>	<b>2,040</b>	<b>2,370</b>	<b>2,070</b>	<b>3.2</b>	<b>14.2</b>
YoY Growth (%)		23.2	(4.9)	(6.3)	(15.8)	46.8	16.2	(12.7)		
R&D as a % to sales	7.5	8.7	8.6	6.4	4.8	6.1	6.3	4.9		
<b>Alkem Labs</b>	<b>2,763</b>	<b>3,009</b>	<b>3,714</b>	<b>4,721</b>	<b>5,322</b>	<b>5,673</b>	<b>5,394</b>	<b>5,229</b>	<b>19.6</b>	<b>(0.6)</b>
YoY Growth (%)		8.9	23.4	27.1	12.7	6.6	(4.9)	(3.1)		
R&D as a % to sales	4.9	4.8	5.1	5.8	6.1	5.4	4.7	4.2		

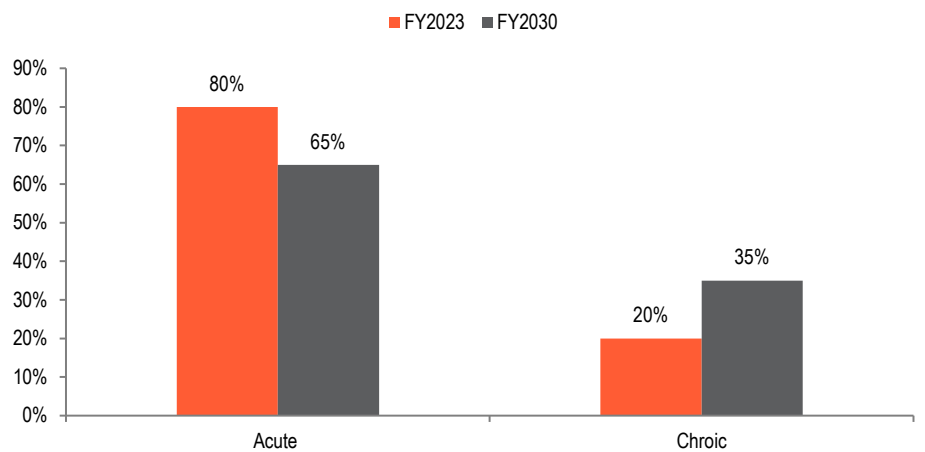
Source: Companies, BOBCAPS Research

From the above table we can see that large pharma companies have increased their spends on R&D as they have cash to diversify into less competitive molecules or innovation drugs. These large companies have selected their niches – SUNP is focusing on specialty products, DRRD on biosimilars, CIPLA on peptides and LPC on complex generic molecules. However, small size companies focused on branded generics continue to focus on their core business by making their big brands bigger and slashing their R&D expense to increase margins. We believe the chances of large companies surviving and thriving are better as they have huge cash reserves of on average at least US\$ 1bn which can be utilised for higher R&D or in-licensing of their innovative products which will likely command higher prices, and aid margin increments.

## Increasing participation in biosimilars by most firms

India's biosimilar market is nascent and valued at US\$ 349mn. According to the EY report, it is expected to expand to US\$ 2,108mn by FY30. India has a substantial and rapidly growing biosimilars market because of the availability of low-cost production facilities and a sizeable labour pool of highly-trained scientific and technical professionals. Due to the country's highly established regulatory framework, India has the highest number of biosimilars – 98 were approved in the country (as on Sep'19). However, only a handful of Indian companies have managed to successfully enter regulated markets. For eg, Biocon through its acquisition of Viartis is gaining market share for its products in regulated markets. ARBP through its subsidiary Curateq is developing biosimilars. DRRD is diversifying into biosimilars by initially collaborating with its partner Fresenius Kabi and will eventually develop biosimilars on its own.

**Fig 17 – Ample opportunities for India's biosimilars market to pick up**



Source: Insight, BOBCAPS Research

India's biosimilars market is at a very nascent stage compared to the US market. We expect companies to either participate in biosimilars through organic R&D expense or through the inorganic route of in-licensing or M&As. Indian companies are collaborating with European and US companies to develop biologics/biosimilars for global markets. ALKEM launched its first biosimilar Cetuximab in India, used in the treatment of head and neck cancer. The Cetuximab originator was developed by Merck and sold under the brand name Erbitux. Biocon's success has demonstrated globally how Indian biosimilars companies can compete in the US biosimilars market. ARBP will soon launch biosimilars in the Indian market and has a pipeline of 14 biosimilars until FY32.

## Drugs worth US\$ 250bn going off patent

Between 2022 and 2030, drugs worth about US\$ 250mn are expected to go off patent globally, providing India’s pharmaceuticals sector a robust opportunity to enter generic products. When molecules like gliptins and sacubitril valsartan went off patent, many companies participated in the generic version which resulted in their chronic portfolios expanding to ~65% of their sales from 60% earlier. Due to rising opportunities, the Indian government is supporting pharma companies through Production-linked Incentives (PLIs). Earlier the Indian government announced PLIs for key starting materials (KSMs) and now has announced another PLI for GLP-1 (glucagon-like peptide-1) products. Hence, Indian companies have started increasing their R&D spends or plan to participate in the off-patent opportunity through in-licensing or M&A deals. Usually, the expiry of patents decreases the overall returns of individual pharma companies due to post-expiry reduction in marketing cost, however, it will result in volumes increasing and increased contributions from new product launches which would potentially aid margin increments depending on the market size.

**Fig 18 – List of drugs going off patent by FY30**

Sr. No	Drug name	API	Type of molecule	Sales in 2022 (US\$ bn)	CAGR (%)	Forecast market in 2026 (US\$ bn)	Forecast market in 2028 (US\$ bn)	Forecast market in 2030 (US\$ bn)
1	Humira	Adalimumab	Large	21	5	25.87	28.58	36.72
2	Keytruda	Pembrolizumab	Large	21	1.87	22.62	23.47	25.36
3	Revlimid	Lenalidomide	Small	10	6.5	12.86	14.59	16.55
4	Stelara	Ustekinumab	Large	10	8.1	13.27	15.51	18.12
5	Xarelto	Rivaroxaban	Small	7	1.5	7.85	8.09	8.04
6	Symbicort	Budesonide	Small	3	18	4.92	6.86	9.55
7	OxyContin	Oxycodone	Small	9	5.7	11.1	12.41	13.86
9	Trulicity	Dulaglutide	Large	7	6.48	9.51	10.78	12.23
10	Enbrel	Etanercept	Large	4	3.3	4.69	5	5.34
11	Opdivo	Nivolumab	Large	10	33.3	29.99	53.29	94.7

Source: Department of Pharmaceuticals, BOBCAPS Research

Overall, 24 blockbuster drugs are going off patent by FY30. This includes the loss of exclusivity for big sellers like Humira (adalimumab) in the US beginning in 2023. Biocon became the first Indian company to launch its biosimilar Hulio in the US in Jul’23. From just one drug off patent opportunity with a market size of US\$ 21bn, many Indian companies can generate healthy cashflows. So, we believe, with a slew of brands expected to go off patent, there will be robust opportunities for Indian companies in a decade.



**Companies**

**SELL**

**TP: Rs 2,736 | ▼ 18%**

**AJANTA PHARMA**

| Pharmaceuticals

| 10 October 2024

### Concentrated portfolio to turn out challenging

- **AJP to diversify into fifth therapy preferably in the Chronic segment in the domestic market, which is a competitive space**
- **FY27E EBITDA margin to be 28.7%, which is lower than the industry average of above 30%**
- **We assume coverage on AJP with SELL and TP of Rs 2,736 due to its concentrated portfolio approach in the competitive India market**

**Foram Parekh**

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**Competitive India market unlikely to augur well for concentrated portfolio:** In the past, AJP has constantly reported market-beating sales growth owing to its concentrated approach of focusing on dermatology, cardiology, ophthalmology, and pain management. However, IPM (Indian Pharma market) has become challenging due to numerous players entering the market and focusing on the four therapies which would lessen growth prospects for AJP compared to its peers who are expanding through acquisitions. Hence, we expect AJP's India business to grow by 13% CAGR from FY25E-27E as against 24% CAGR from FY23-25E.

**US market to grow single digit:** The US market continues to witness price erosion of 7-8%. Due to fewer products filed in FY24, new product launches will likely remain lower in FY25E resulting in single-digit growth in FY25E. The US pharma market's landscape is changing with continuous price erosion in generics and static spends on R&D, leading us to believe the US region would grow at a CAGR of 8% from FY25E-27E.

**Lack of diversification to keep growth lower than industry:** AJP has a presence in only four therapies. The pharma sector is undergoing a shift from branded generics to biosimilars. Most companies across the industry have either increased their R&D spend or are acquiring companies to undergo transformation which AJP is lacking. Hence, we believe its earnings will grow at a CAGR of 13% from FY25E-27E compared to the domestic focused companies CAGR of above 20%.

**Margins lower than its peers:** Domestic-focused companies by nature trade above 30% margins, led by price hikes and synergies from inorganic growth. We expect AJP's EBITDA margin to increase to 28% by FY27, lower than ~32% margins of comparable peers, due to its concentrated portfolio.

**Downgrade to SELL with TP of Rs 2,736:** We assume coverage of AJP and downgrade it to SELL from BUY as the stock is trading 20% higher than its domestic peer average of 28x P/E on Sep'26. We value the stock at 31x P/E on Sep'26 to yield a TP of Rs 2,736 (from Rs 2,585).

### Key changes

Target	Rating
▲	▼

Ticker/Price	AJP IN/Rs 3,345
Market cap	US\$ 5.0bn
Free float	31%
3M ADV	US\$ 7.9mn
52wk high/low	Rs 3,485/Rs 1,650
Promoter/FPI/DII	66%/10%/15%

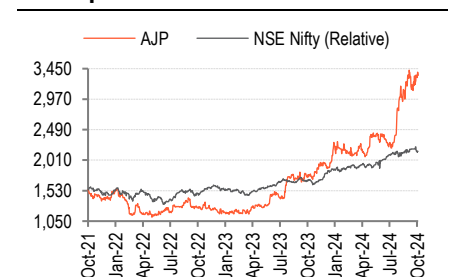
Source: NSE | Price as of 10 Oct 2024

### Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	42,087	47,593	52,699
EBITDA (Rs mn)	11,719	13,060	14,197
Adj. net profit (Rs mn)	8,161	8,981	9,904
Adj. EPS (Rs)	64.6	71.1	78.4
Consensus EPS (Rs)	64.6	74.7	86.5
Adj. ROAE (%)	23.6	23.0	21.3
Adj. P/E (x)	51.8	47.1	42.7
EV/EBITDA (x)	35.9	32.2	29.6
Adj. EPS growth (%)	38.8	10.0	10.3

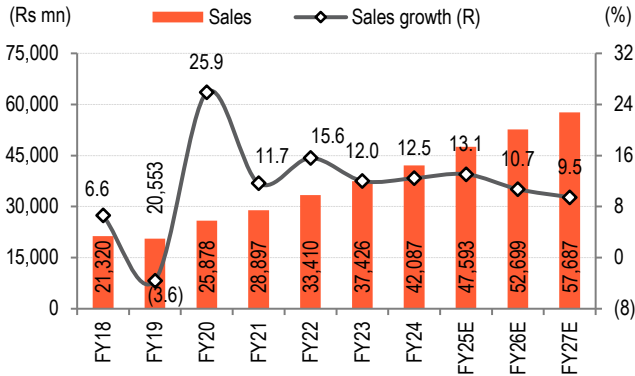
Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



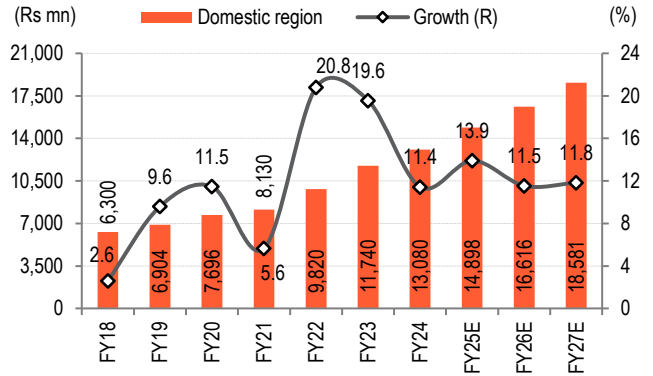
Source: NSE

**Fig 1 – Sales growth expected to decline due to its concentrated portfolio**



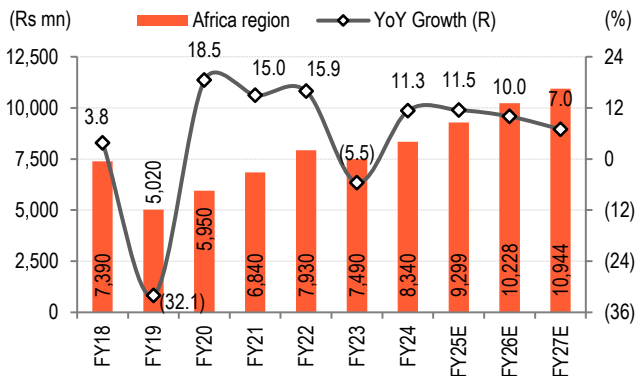
Source: Company, BOBCAPS Research

**Fig 2 – Domestic growth expected to decline in line with the IPM growth**



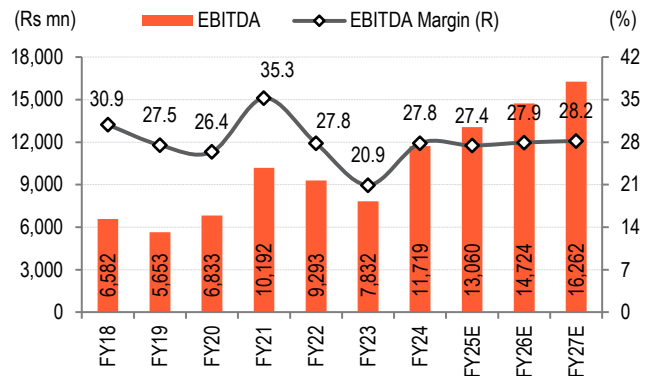
Source: Company, BOBCAPS Research

**Fig 3 – Africa sales growth falling due to higher base**



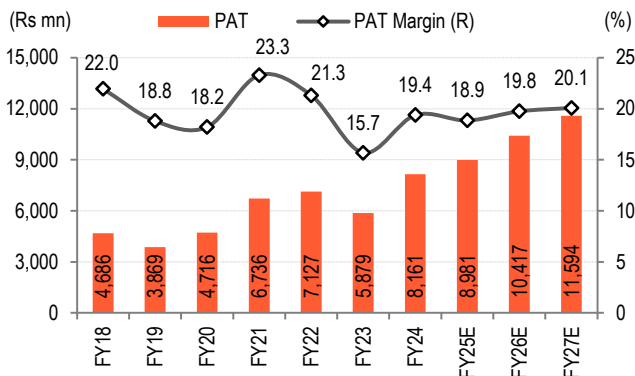
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA margin to remain flat due to concentrated portfolio**



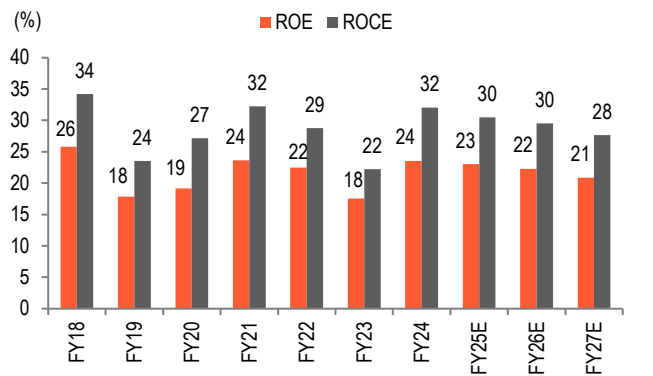
Source: Company, BOBCAPS Research

**Fig 5 – PAT margin expected to sustain at current levels**



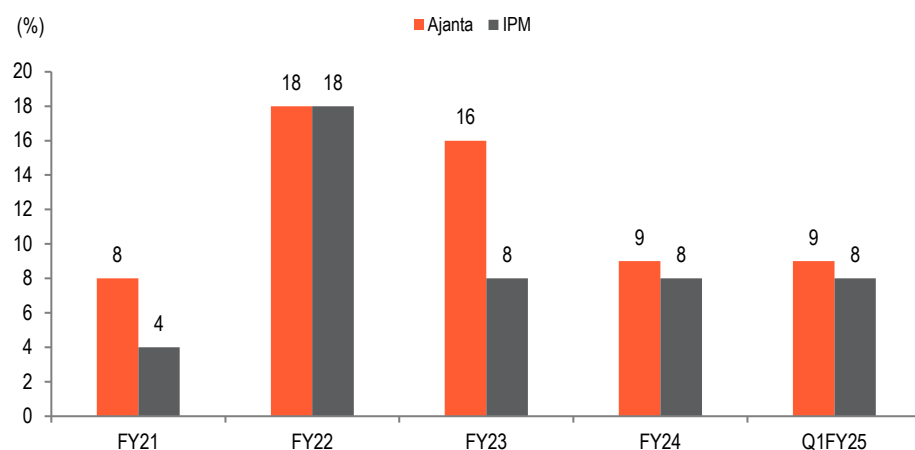
Source: Company, BOBCAPS Research

**Fig 6 – Return ratios expected to decline due to concentrated portfolio**



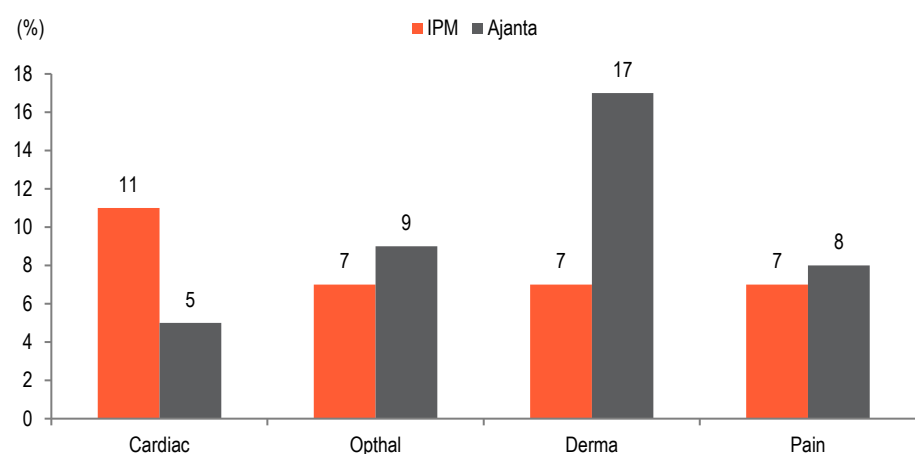
Source: Company, BOBCAPS Research

**Fig 7 – The spread between IPM and AJP’s growth is narrowing**



Source: Company, BOBCAPS Research

**Fig 8 – Only Derma therapy growing significantly higher than IPM**



Source: Company, BOBCAPS Research

**Fig 9 – Contribution from top 10 drugs expected to decline (Rs mn)**

Top 10 brands	Therapy	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
MET XL	Cardiac	1,975	2,284	2,660	2,583	2,841	3,125	3,438
Melacare	Derma	647	655	758	804	884	973	1,070
Feburic	Pain	502	579	714	778	856	941	1,036
Atorfit C	Cardiac	581	641	677	725	798	877	965
Cinod	Cardiac	272	318	385	448	493	542	596
Rosufit CV	Cardiac	287	295	333	355	391	430	473
Rosutor Gold	Cardiac	260	276	269	277	291	305	321
Olopat	Ophthalmology	159	216	247	276	304	334	367
Cilamet XL	Cardiac	179	196	236	271	298	328	361
Soft Drops	Ophthalmology	192	241	257	262	288	317	349
<b>Total of top 10 drugs</b>		<b>5,054</b>	<b>5,701</b>	<b>6,536</b>	<b>6,779</b>	<b>7,443</b>	<b>8,173</b>	<b>8,975</b>
<b>% of domestic sales</b>		<b>17</b>	<b>17</b>	<b>17</b>	<b>16</b>	<b>16</b>	<b>15</b>	<b>15</b>

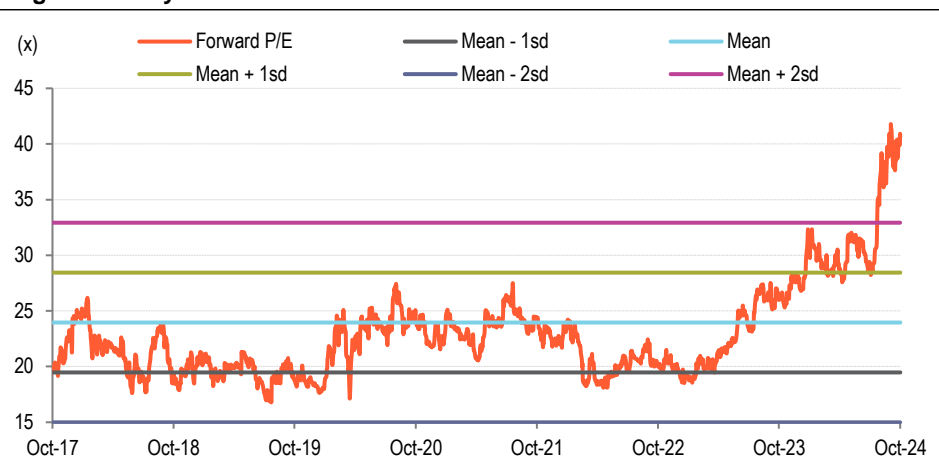
Source: Company, BOBCAPS Research

## Valuation methodology

The branded generics markets of India, Asia and Africa comprise 75% of AJP's portfolio. In the domestic region, the company's portfolio concentrates on four therapies – Cardiology, Ophthalmology, Pain Management and Dermatology. AJP intends to diversify into a fifth newer therapy in 12-18 months, mainly into the Chronic segment which is again a competitive segment.

We assume coverage on AJP with SELL from BUY as the stock is trading 20% higher than its domestic peer average of 28x P/E on Sep'26. Given its limited presence in therapies in the domestic market and lower margin profile compared to its close peers like Torrent Pharma with above-32% margin profile, we value the stock at 31x P/E on Sep'26 to yield a TP of Rs 2,736.

**Fig 10 – Five-year historical P/E band**



Source: Bloomberg, BOBCAPS Research

**Fig 11 – Key assumptions**

(Rs mn)	FY24	FY25E	FY26E	FY27E
Sales	42,087	47,593	52,699	57,687
EBITDA	11,719	13,060	14,724	16,262
PAT	8,161	8,981	10,417	11,594
EPS (Rs)	64.59	71.08	82.44	91.76
EBITDA margin (%)	27.8	27.4	27.9	28.2
PAT margin (%)	19.4	18.9	19.8	20.1

Source: Company, BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

- lower raw material and freight costs,
- stable or lower price erosion in the US business,
- no USFDA observations leading to swift new launches in the US,
- rupee depreciation and no supply chain constraints in Africa.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>37,426</b>	<b>42,087</b>	<b>47,593</b>	<b>52,699</b>	<b>57,687</b>
EBITDA	7,832	11,719	13,060	14,197	15,397
Depreciation	1,308	1,354	1,451	1,573	1,695
EBIT	6,524	10,365	11,608	12,624	13,702
Net interest inc./(exp.)	(58)	(72)	(21)	(21)	(21)
Other inc./(exp.)	986	846	388	603	736
Exceptional items	0	0	0	0	0
EBT	7,452	11,139	11,975	13,206	14,417
Income taxes	1,573	2,978	2,994	3,301	3,604
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>5,879</b>	<b>8,161</b>	<b>8,981</b>	<b>9,904</b>	<b>10,813</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>5,879</b>	<b>8,161</b>	<b>8,981</b>	<b>9,904</b>	<b>10,813</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	4,228	4,632	5,216	5,775	6,322
Other current liabilities	6,967	4,068	4,283	4,743	5,192
Provisions	382	573	648	717	785
Debt funds	356	353	353	353	353
Other liabilities	0	0	0	0	0
Equity capital	253	253	253	253	253
Reserves & surplus	33,637	35,161	42,346	50,270	58,920
Shareholders' fund	33,889	35,414	42,599	50,522	59,172
<b>Total liab. and equities</b>	<b>45,823</b>	<b>44,962</b>	<b>53,021</b>	<b>62,033</b>	<b>71,747</b>
Cash and cash eq.	3,333	1,360	4,048	5,717	8,998
Accounts receivables	10,569	12,468	14,995	17,326	19,756
Inventories	8,156	8,284	10,431	13,716	15,805
Other current assets	1,429	2,231	2,380	2,635	2,884
Investments	5,354	3,486	3,486	4,532	5,892
Net fixed assets	14,887	14,645	15,194	15,621	15,925
CWIP	2,095	2,565	2,565	2,565	2,565
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>45,823</b>	<b>45,039</b>	<b>53,099</b>	<b>62,111</b>	<b>71,824</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>11,789</b>	<b>4,454</b>	<b>6,506</b>	<b>6,716</b>	<b>8,824</b>
Capital expenditures	(811)	(962)	(2,000)	(2,000)	(2,000)
Change in investments	(3,800)	1,867	0	(1,046)	(1,360)
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(4,611)</b>	<b>906</b>	<b>(2,000)</b>	<b>(3,046)</b>	<b>(3,360)</b>
Equities issued/Others	81	0	0	0	0
Debt raised/repaid	106	(4)	0	0	0
Interest expenses	(58)	(72)	(21)	(21)	(21)
Dividends paid	(884)	(1,632)	(1,796)	(1,981)	(2,163)
Other financing cash flows	(5,207)	(5,625)	0	0	0
<b>Cash flow from financing</b>	<b>(5,963)</b>	<b>(7,333)</b>	<b>(1,817)</b>	<b>(2,002)</b>	<b>(2,184)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,215</b>	<b>(1,973)</b>	<b>2,688</b>	<b>1,669</b>	<b>3,281</b>
<b>Closing cash &amp; cash eq.</b>	<b>3,333</b>	<b>1,360</b>	<b>4,048</b>	<b>5,717</b>	<b>8,998</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	46.5	64.6	71.1	78.4	85.6
Adjusted EPS	46.5	64.6	71.1	78.4	85.6
Dividend per share	7.0	12.9	14.2	15.7	17.1
Book value per share	386.4	403.8	485.7	576.1	674.7

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	11.2	10.0	8.8	8.0	7.2
EV/EBITDA	53.7	35.9	32.2	29.6	27.2
Adjusted P/E	71.9	51.8	47.1	42.7	39.1
P/BV	8.7	8.3	6.9	5.8	5.0

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	78.9	73.3	75.0	75.0	75.0
Interest burden (PBT/EBIT)	114.2	107.5	103.2	104.6	105.2
EBIT margin (EBIT/Revenue)	17.4	24.6	24.4	24.0	23.8
Asset turnover (Rev./Avg TA)	27.7	30.1	30.2	28.1	26.1
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.0	1.0	1.0
<b>Adjusted ROAE</b>	<b>17.6</b>	<b>23.6</b>	<b>23.0</b>	<b>21.3</b>	<b>19.7</b>

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	12.0	12.5	13.1	10.7	9.5
EBITDA	(15.7)	49.6	11.4	8.7	8.4
Adjusted EPS	(43.9)	38.8	10.0	10.3	9.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	20.9	27.8	27.4	26.9	26.7
EBIT margin	17.4	24.6	24.4	24.0	23.8
Adjusted profit margin	15.7	19.4	18.9	18.8	18.7
Adjusted ROAE	17.6	23.6	23.0	21.3	19.7
ROCE	22.2	32.0	30.5	28.2	26.2
<b>Working capital days (days)</b>					
Receivables	103	108	115	120	125
Inventory	80	72	80	95	100
Payables	41	40	40	40	40
<b>Ratios (x)</b>					
Gross asset turnover	1.7	1.8	1.9	2.0	2.0
Current ratio	2.0	2.6	3.1	3.5	3.9
Net interest coverage ratio	111.7	143.8	548.4	596.4	647.3
<b>Adjusted debt/equity</b>	<b>(0.1)</b>	<b>0.0</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**BUY**

TP: Rs 7,225 | ▲ 18%

**ALKEM LABS**

| Pharmaceuticals

| 10 October 2024

### Focus on Chronic segment to drive margins

- Expects to increase Chronic portfolio to 20% of domestic sales from 18% currently. Inorganic growth can push this up to 25%, in our view
- Targeting low competition and high market size of US\$ 100mn-500mn for molecules in the US by filing 8-10 ANDAs vs 10-12ANDAs earlier
- We assume coverage on ALKEM by upgrading to a BUY rating and value the stock at a P/E of 29x on Sep'26 to yield a TP of Rs 7,225

**Foram Parekh**

research@bobcaps.in

**Domestic segment – a priority:** As the domestic region contributes ~70% of total sales, it is a priority segment ALKEM. Much of this segment’s growth is driven by Acute Therapies (82%), and the balance by Chronic (18%). ALKEM has reset its strategy which includes: (1) raising Chronic’s share to 20% of domestic sales, (2) increasing Medical Representative (MR) productivity to Rs 800k pm from Rs 500k, (3) focusing on making big brands bigger, (4) accounting for the top three launches in the Chronic segment and (5) focusing on making trade generics profitable. We expect ALKEM’s domestic region to grow at 11% CAGR from FY25E-27E.

**Biologics sales expected to double in FY25E:** Currently ALKEM has launched seven biosimilars in the Indian market through its subsidiary Enzene. The company clocked Rs 2.4bn in sales from Biologics in FY24 and expects sales of Rs 4bn in FY25 due to lower base and strong demand. ALKEM is setting up a manufacturing plant in the US to provide contract development and manufacturing organisation (CDMO) services to biotech companies.

**US segment to focus on profitability:** ALKEM expects growth to be driven by benign price erosion pressure and complex molecule-driven growth. The company aims to file 8-10 ANDAs in markets of US\$ 100mn-500mn size. We expect US\$ sales to grow at a CAGR of 6% from FY25E-27E vs 3% CAGR from FY22-24.

**EBITDA margin to increase by 100bps every year:** We expect EBITDA margin to rise to 22% by FY27E led by (1) increased productivity in the domestic region, (2) increasing profitability in the US region, and (3) focusing on branded generics segment in the rest of the world (ROW) market. We believe once ALKEM commissions its new biologics plant, EBITDA margin could surpass 25% in FY27E, although we have not factored this into our estimates.

**Valuations:** We assume coverage of ALKEM and upgrade our rating to a BUY from SELL and value the stock at a P/E of 29x on Sep’26E, ~29% premium to its five-year mean, which yields a TP of Rs 7,225 (from Rs 4,450) due to its increasing focus on the Chronic portfolio.

### Key changes

Target	Rating
▲	▲

Ticker/Price	ALKEM IN/Rs 6,137
Market cap	US\$ 8.7bn
Free float	41%
3M ADV	US\$ 17.2mn
52wk high/low	Rs 6,440/Rs 3,510
Promoter/FPI/DII	57%/6%/16%

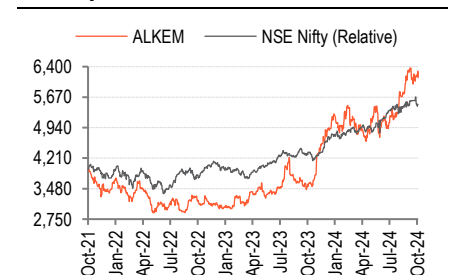
Source: NSE | Price as of 10 Oct 2024

### Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	126,677	141,464	154,817
EBITDA (Rs mn)	22,456	28,925	32,515
Adj. net profit (Rs mn)	19,174	22,167	25,155
Adj. EPS (Rs)	160.4	185.4	210.4
Consensus EPS (Rs)	160.4	181.0	210.0
Adj. ROAE (%)	23.2	23.1	22.3
Adj. P/E (x)	38.3	33.1	29.2
EV/EBITDA (x)	32.3	25.0	22.4
Adj. EPS growth (%)	76.4	15.6	13.5

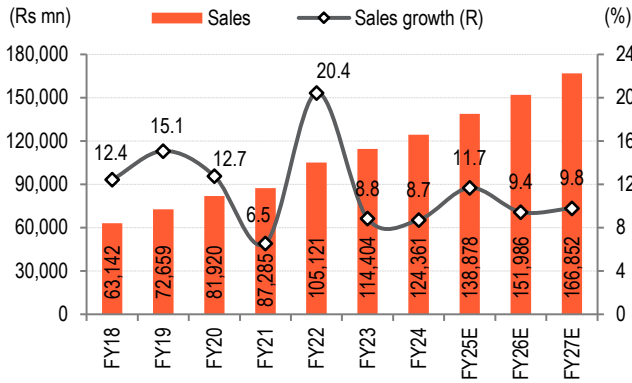
Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



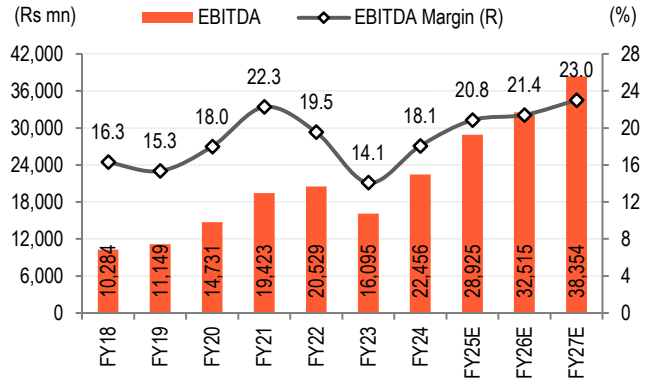
Source: NSE

**Fig 1 – Sales to grow at 11% CAGR from FY25E-27E**



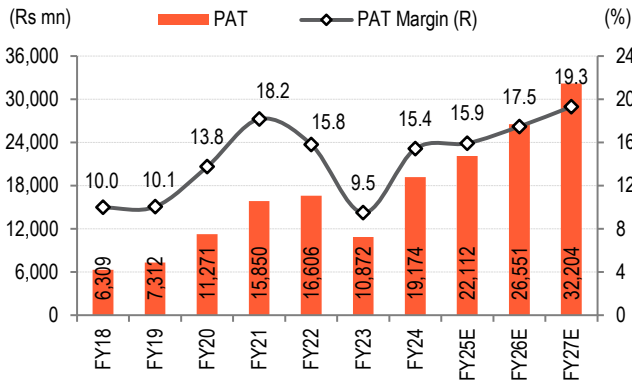
Source: Company, BOBCAPS Research

**Fig 2 – EBITDA margin increase to be driven by higher productivity**



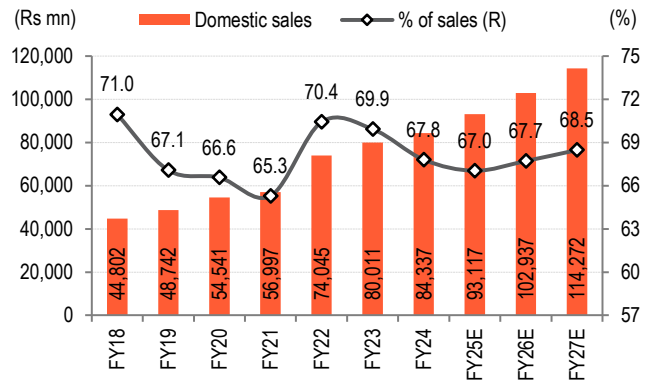
Source: Company, BOBCAPS Research

**Fig 3 – Focusing on US profitability to drive overall PAT**



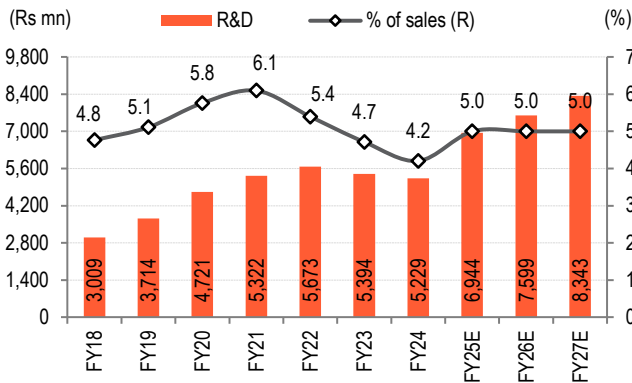
Source: Company, BOBCAPS Research

**Fig 4 – Expect India contribution to increase in FY27E with launch of Semaglutide**



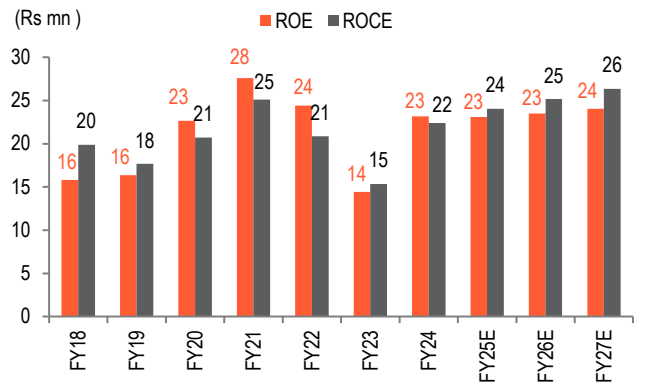
Source: Company, BOBCAPS Research

**Fig 5 – R&D expense to increase due to setting up of new CDMO facility in the US**



Source: Company, BOBCAPS Research

**Fig 6 – Return ratios to increase going forward, supported by US returning to profitability**



Source: Company, BOBCAPS Research

**Fig 7 – Key brands PAN/PAN D, Pipzo continue to grow in higher teens from FY21-24**

Brands	Molecule	Therapy	Brand sales (Rs mn)		
			FY21	FY24	CAGR FY21-24 (%)
Pan	Pantoprazole	Gastrointestinal	3,665	6,084	18.4
Clavam	Amoxicillin+Clavulanic Acid	Anti Infective	3,910	5,924	14.9
Pan D	Domperidone+Pantoprazole	Gastrointestinal	3,331	5,239	16.3
Taxim O	Cefixime	Anti Infective	2,213	3,118	12.1
A to Z Ns	Ascorbic Acid+Copper+Manganese+Nicotinamide+Pantothenic Acid+Pyridoxine+Retinol+Riboflavin+Vitamin E+Zinc	Vitamins	2,196	2,836	8.9
Xone	Ceftriaxone	Anti Infective	1,667	2,652	16.7
Pipzo	Piperacillin+Tazobactam	Anti Infective	1,053	1,971	23.2
Gemcal	Calcitriol+Calcium & Comb	Pain Management	1,511	1,809	6.2
Uprise D3	Colecalciferol	Vitamins	NA	1,774	NA
Taxim	Cefotaxime	Anti Infective	1,490	1,766	5.8

Source: Company, BOBCAPS Research

**Fig 8 – All plants have received an EIR**

Facility	Inspection date	Regulatory status
Baddi (India)	Jul'24	EIR
Daman (India)	Aug'19	EIR
Taloja R&D (India)	Oct'22	No Observations
Ankleshwar (India)	Apr'23	EIR
Mandva (India)	Dec'23	EIR
California (USA)	Aug'19	EIR

Source: Company, BOBCAPS Research | EIR: Establishment Inspection Report

**Fig 9 – Approved ANDAs at its highest levels**

Year	Total filed (cumulative)	Annual filing	Total approved (cumulative)
2014-15	63	14	19
2015-16	77	14	31
2016-17	91	14	39
2017-18	108	17	50
2018-19	127	19	70
2019-20	144	17	89
2020-21	152	8	110
2021-22	163	11	123
2022-23	175	12	134
2023-24	178	3	147

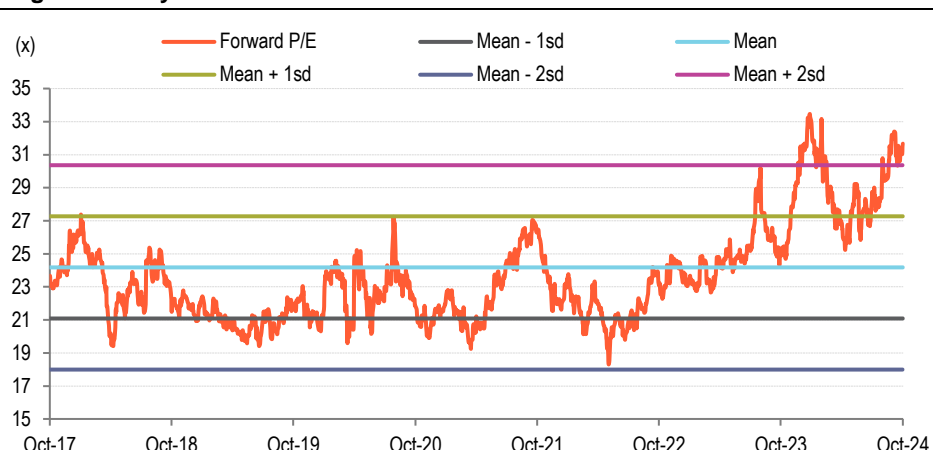
Sources: Company, BOBCAPS Research | ANDA: Abbreviated New Drug Application

### Valuation methodology

ALKEM is focusing on increasing operating margins to above 20% by increasing (1) productivity to Rs 800k per month from Rs 500k, (2) being among the top 1-3 players in launching Chronic products, (3) focusing on profitability in the trade generics business, (4) filing ANDAs in low competition, large size markets for molecules in the US region, (5) focusing on branded generics in the ROW market, and (6) aggressive growth in the biologics/biosimilars spaces through Enzene. ALKEM has invested in newer initiatives like setting up a CDMO plant in the US region and investing in med tech ventures through the asset-light model which would be commercialised from FY27. We believe the commissioning of these products could potentially raise EBITDA margin to more than 25%, which we have not factored into our estimates. However, we expect earnings to grow at 20% CAGR for FY25E-27E ex CDMO and med tech initiatives.

We assume coverage on ALKEM by upgrading our rating to BUY from SELL and value the stock at a P/E of 29x on Sep'26E, ~29% premium to its five-year mean which yields a TP of Rs 7,225 (from Rs 4,450). We believe ALKEM warrants this premium valuation given its focus on expanding its biologics/biosimilars sales, improving profitability in the US region and in trade generics and its healthy cash balance of ~Rs 3bn as on FY24 for inorganic growth.

**Fig 10 – Five year historical P/E band**



Source: Bloomberg, BOBCAPS Research

**Fig 11 – Key assumptions**

(Rs mn)	FY24	FY25E	FY26E	FY27E
Sales	126,677	141,464	154,817	169,959
EBITDA	22,456	28,925	32,515	38,354
PAT	19,174	22,112	25,024	29,951
EPS (Rs)	160.4	185.0	209.3	250.5
EBITDA margin (%)	17.7	20.4	21.0	22.6
PAT margin (%)	15.1	15.6	16.2	17.6

Sources: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- slowdown in the anti-infective therapy segment for the industry as well as the company, as this is a large component of ALKEM's domestic business;
- negative surprises on margins stemming from higher US price erosion and rising raw material prices; and,
- slower growth in chronic sales that can drive margins higher.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>115,993</b>	<b>126,677</b>	<b>141,464</b>	<b>154,817</b>	<b>169,959</b>
EBITDA	16,095	22,456	28,925	32,515	38,354
Depreciation	3,104	2,993	3,290	3,658	3,938
EBIT	12,991	19,463	25,635	28,858	34,417
Net interest inc./(exp.)	(1,074)	(1,124)	(1,085)	(670)	(290)
Other inc./(exp.)	2,161	3,108	1,444	1,326	1,182
Exceptional items	0	0	0	0	0
EBT	14,078	21,447	25,994	29,513	35,308
Income taxes	2,980	2,117	3,639	4,132	4,943
Extraordinary items	(1,030)	(1,215)	0	0	0
Min. int./Inc. from assoc.	226	157	188	226	271
<b>Reported net profit</b>	<b>9,842</b>	<b>17,959</b>	<b>22,167</b>	<b>25,155</b>	<b>30,094</b>
Adjustments	(1,030)	(1,215)	0	0	0
<b>Adjusted net profit</b>	<b>10,872</b>	<b>19,174</b>	<b>22,167</b>	<b>25,155</b>	<b>30,094</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	11,650	17,481	17,122	15,407	16,000
Other current liabilities	10,178	12,672	15,277	16,719	15,017
Provisions	7,421	4,267	4,765	5,215	5,725
Debt funds	13,967	14,184	9,929	4,964	1,489
Other liabilities	0	0	0	0	0
Equity capital	239	239	239	239	239
Reserves & surplus	81,086	91,757	107,462	125,284	146,606
Shareholders' fund	81,325	91,996	107,701	125,523	146,845
<b>Total liab. and equities</b>	<b>124,542</b>	<b>140,601</b>	<b>154,794</b>	<b>167,828</b>	<b>185,076</b>
Cash and cash eq.	26,169	15,794	14,100	12,046	14,411
Accounts receivables	21,322	22,528	24,732	26,650	28,799
Inventories	26,075	26,612	28,537	35,394	41,142
Other current assets	14,696	40,516	49,302	55,475	62,570
Investments	6,218	4,838	4,838	4,838	4,838
Net fixed assets	26,829	28,728	31,938	32,280	32,342
CWIP	3,232	1,586	1,348	1,146	974
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>124,542</b>	<b>140,601</b>	<b>154,794</b>	<b>167,828</b>	<b>185,076</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>21,331</b>	<b>(315)</b>	<b>16,371</b>	<b>14,711</b>	<b>18,731</b>
Capital expenditures	1,354	(3,250)	(6,500)	(4,000)	(4,000)
Change in investments	(2,508)	1,380	0	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(1,154)</b>	<b>(1,870)</b>	<b>(6,500)</b>	<b>(4,000)</b>	<b>(4,000)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(12,715)	217	(4,255)	(4,964)	(3,475)
Interest expenses	(1,074)	(1,124)	(1,085)	(670)	(290)
Dividends paid	(3,169)	(5,589)	(6,462)	(7,333)	(8,772)
Other financing cash flows	(2,836)	(1,694)	238	202	172
<b>Cash flow from financing</b>	<b>(19,794)</b>	<b>(8,190)</b>	<b>(11,564)</b>	<b>(12,765)</b>	<b>(12,366)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>383</b>	<b>(10,375)</b>	<b>(1,693)</b>	<b>(2,054)</b>	<b>2,365</b>
<b>Closing cash &amp; cash eq.</b>	<b>26,169</b>	<b>15,794</b>	<b>14,100</b>	<b>12,046</b>	<b>14,411</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	82.3	150.2	185.4	210.4	251.7
Adjusted EPS	90.9	160.4	185.4	210.4	251.7
Dividend per share	22.7	40.1	46.4	52.6	62.9
Book value per share	647.7	735.9	867.2	1,016.3	1,194.7

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	6.3	5.7	5.1	4.7	4.3
EV/EBITDA	45.4	32.3	25.0	22.4	18.9
Adjusted P/E	67.5	38.3	33.1	29.2	24.4
P/BV	9.5	8.3	7.1	6.0	5.1

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	77.2	89.4	85.3	85.2	85.2
Interest burden (PBT/EBIT)	108.4	110.2	101.4	102.3	102.6
EBIT margin (EBIT/Revenue)	11.2	15.4	18.1	18.6	20.2
Asset turnover (Rev./Avg TA)	29.4	31.4	31.6	31.2	30.5
Leverage (Avg TA/Avg Equity)	1.3	1.2	1.2	1.1	1.1
<b>Adjusted ROAE</b>	<b>14.4</b>	<b>23.2</b>	<b>23.1</b>	<b>22.3</b>	<b>22.8</b>

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	9.1	9.2	11.7	9.4	9.8
EBITDA	(21.6)	39.5	28.8	12.4	18.0
Adjusted EPS	(34.5)	76.4	15.6	13.5	19.6
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	13.9	17.7	20.4	21.0	22.6
EBIT margin	11.2	15.4	18.1	18.6	20.2
Adjusted profit margin	9.4	15.1	15.7	16.2	17.7
Adjusted ROAE	14.4	23.2	23.1	22.3	22.8
ROCE	15.4	22.4	24.2	24.3	25.5
<b>Working capital days (days)</b>					
Receivables	67	66	65	64	63
Inventory	82	78	75	85	90
Payables	37	51	45	37	35
<b>Ratios (x)</b>					
Gross asset turnover	2.9	2.9	2.8	2.9	2.9
Current ratio	3.0	3.1	3.1	3.5	4.0
Net interest coverage ratio	12.1	17.3	23.6	43.1	118.5
<b>Adjusted debt/equity</b>	<b>(0.2)</b>	<b>0.0</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**BUY**

TP: Rs 1,412 | ▲ 19%

**ALEMBIC PHARMA**

Pharmaceuticals

10 October 2024

### Plant clearance to speed up new product launches

- Domestic business to grow at a CAGR of 10% for FY25E-27E driven by strong traction in specialty and animal health segments
- We believe EBITDA margin will increase to 20% by FY27E due to operating leverage led by controlled R&D expense
- We assume coverage on ALPM and upgrade our rating to BUY, from HOLD, and TP of Rs 1,412 (from Rs 970), valuing it at 30x Sep'26E EPS

Foram Parekh

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**Domestic segment growth driven by specialty sales:** Domestic business growth is primarily driven by specialty therapies like gastroenterology, gynecology, anti-diabetic and ophthalmology, which contribute 60% of domestic sales. Acute segment sales are also picking up due to the intense heatwave in India. The animal healthcare business growth is driven by strong brands. Overall, we expect India's revenue CAGR to be 10% over FY24-26E, led by increased Medical Representative (MR) productivity, the portfolio mix shifting to specialty segment, and new launches.

**New launches to drive growth in US region:** The company intends to launch new products across the dosage form and aims to enhance the proportion of complex products in its overall portfolio. ALPM launched 27 products in FY24, and with all its plants receiving their establishment investigation report (EIR) status, we believe new product approvals for the company would be swift. We expect the US region to grow at a CAGR of 10% by FY27.

**Deeper penetration to drive ROW market growth:** This region has performed quite well in the past five years and grew at a CAGR of 1% from FY22-24 and we expect it to grow at a CAGR of 13% over FY25E-27E. We expect growth to be driven by deeper penetration in the MENA region and expanding product portfolio with dossier extension of non-oral solid dosage (OSD) products across regions.

**Operating margins expected to inch up to 20%:** The company's EBITDA margin was 15% in FY24, and we expect it to inch closer to 20% by FY27 driven by (1) increasing productivity in the domestic business, (2) complex product launches in the US region, (3) deeper penetration in the ROW market, (4) better operating leverage, and (5) controlled R&D expense.

**We assume coverage of ALPM; upgrade to BUY:** We value ALPM at 30x Sep'26E EPS, a 40% premium to its five-year mean of 21x, to yield a TP of Rs 1,412 (from Rs 970). We believe the premium valuation will sustain due to ALPM's superior execution across markets, operating leverage, and all its plants receiving an EIR from the USFDA which will likely result in swift approvals for new product launches.

### Key changes

Target	Rating
▲	▲

Ticker/Price	ALPM IN/Rs 1,191
Market cap	US\$ 2.8bn
Free float	31%
3M ADV	US\$ 6.8mn
52wk high/low	Rs 1,304/Rs 707
Promoter/FPI/DII	70%/5%/13%

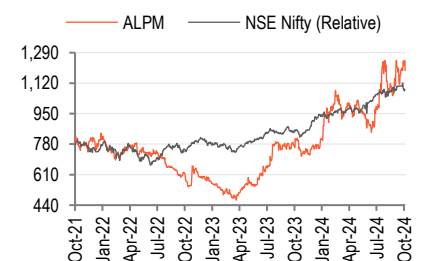
Source: NSE | Price as of 10 Oct 2024

### Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	62,290	68,890	76,575
EBITDA (Rs mn)	9,337	11,213	13,904
Adj. net profit (Rs mn)	6,172	6,709	8,402
Adj. EPS (Rs)	31.4	34.1	42.7
Consensus EPS (Rs)	31.4	36.7	44.6
Adj. ROAE (%)	13.9	13.8	15.5
Adj. P/E (x)	38.0	34.9	27.9
EV/EBITDA (x)	25.8	21.3	16.9
Adj. EPS growth (%)	80.2	8.9	25.2

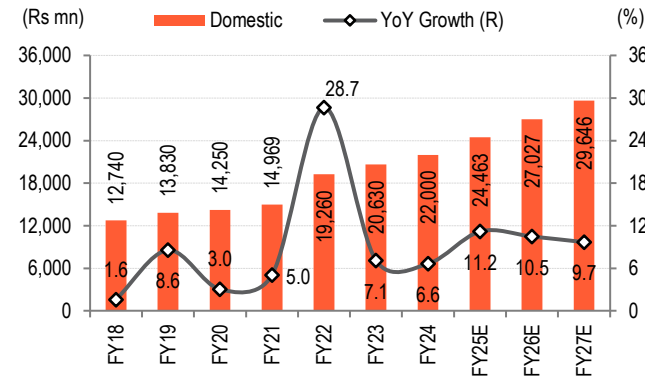
Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



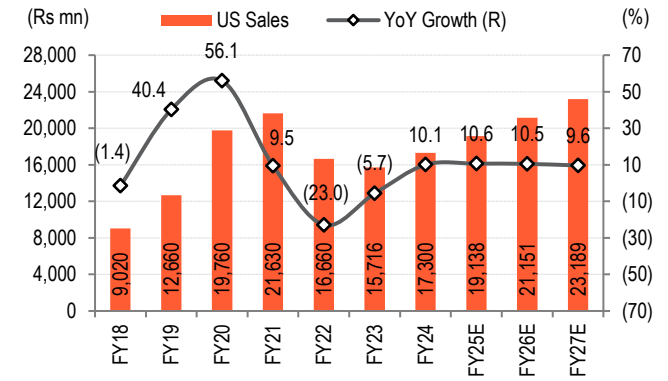
Source: NSE

**Fig 1 – Domestic growth to be driven by specialty products**



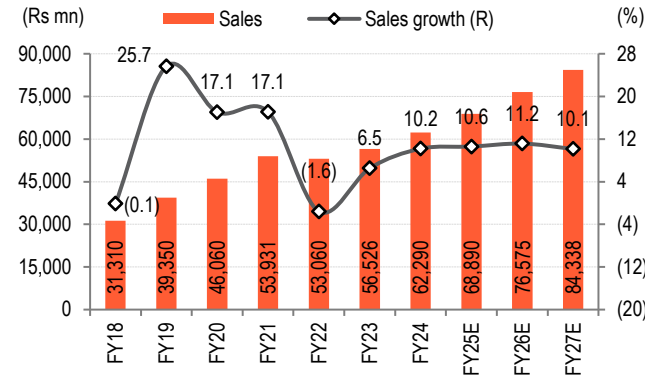
Source: Company, BOBCAPS Research

**Fig 2 – US sales growth to be driven by new product launches**



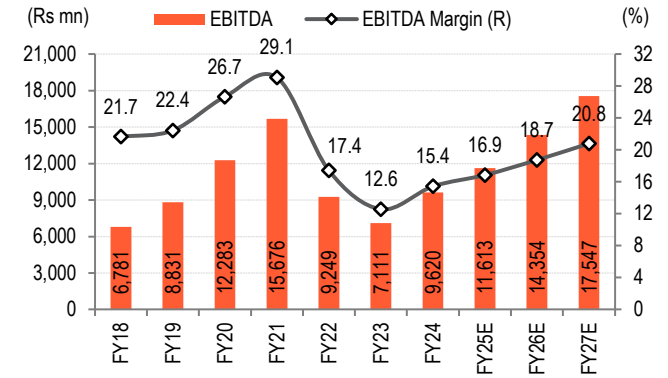
Source: Company, BOBCAPS Research

**Fig 3 – Sales growth to be driven by higher traction in both US and domestic regions**



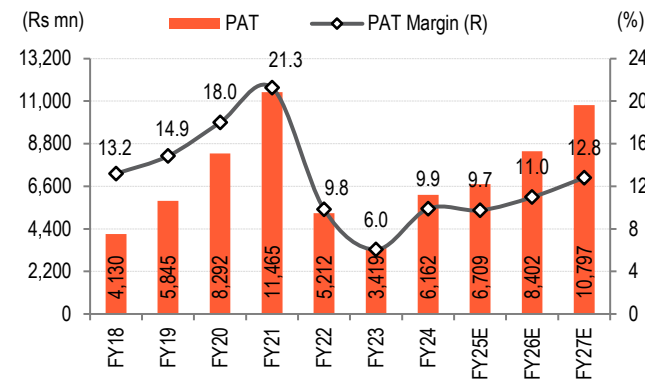
Source: Company, BOBCAPS Research

**Fig 4 – Healthy product mix to drive margins**



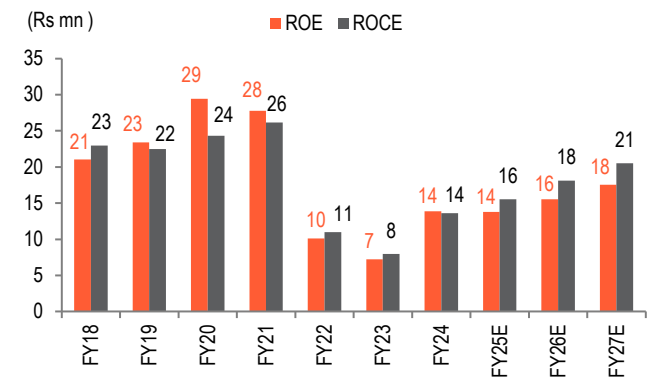
Source: Company, BOBCAPS Research

**Fig 5 – Healthy operations to drive profitability**



Source: Company, BOBCAPS Research

**Fig 6 – Healthy profitability to result in higher return ratios**



Source: Company, BOBCAPS Research

**Fig 7 – Top 10 brands of the domestic market with healthy market share**

Top Brands	Ranks	Market Share (%)
Azithral	1	35.3
Althrocin	1	89.3
Roxid	1	94.9
Lactonic	1	47.7
Deltone	1	65.8
Ovigyn	1	41.8
Gerijoint	1	46.7
Elata	1	48.3
Crina- Ncr	1	28.9
Estroplus	2	37.1

Source: Company, BOBCAPS Research

**Fig 8 – New product launches across segments performing well**

Therapy	Molecule	Brands	Launch	Q1FY25 (Rs mn)
Gynecology	Dydrogesterone	Isofit	2022	191
	Iron Ferric	Richar - FCM /Tufehart	2023	48
Gastrointestinal	Raft Mkt	Ulgeraft/Evaraft/Exceraft	2022	86
	Vonoprazan	Monovono / Vonofide	2024	1
Oral/ Anti Diabetic	Dapaglifozin + Sitagliptin + Metformin	Voage - Ms/ Sitalembic - MD	2023	55
	Dapaglifozin + Sitagliptin	Voage - S/ Sitalembic - D	2022	50
	Dapaglifozin + Vildagliptin	Glipy- D/ Voage - V	2022	32
	Sitagliptin + Metformin	Sitalembic – M	2022	29
	Dapaglifozin + Vildagliptin+Metformin	Glipy- DM	2023	12

Source: Company, BOBCAPS Research

**Fig 9 – All of ALPM’s plants have EIRs; to make new product launches smooth.**

Units	Dosage form	Last USFDA Audit	Status
F1 Panelav	General Oral Solids	Jul'24	0 observations
F2 – Panelav	Oncology Oral Solids	Mar'24	EIR
	Oncology Injectables	Mar'24	EIR
F3 – Karkhadi	General Injectables Ophthalmic	Mar'23	EIR
F4 – Jarod	General Oral Solids	Dec'22	EIR
F5 - Karkhadi	Dermatology	Mar'23	EIR
API			
API I & II – Panelav		Dec'18	EIR
API III – Karkhadi		Jan'20	EIR

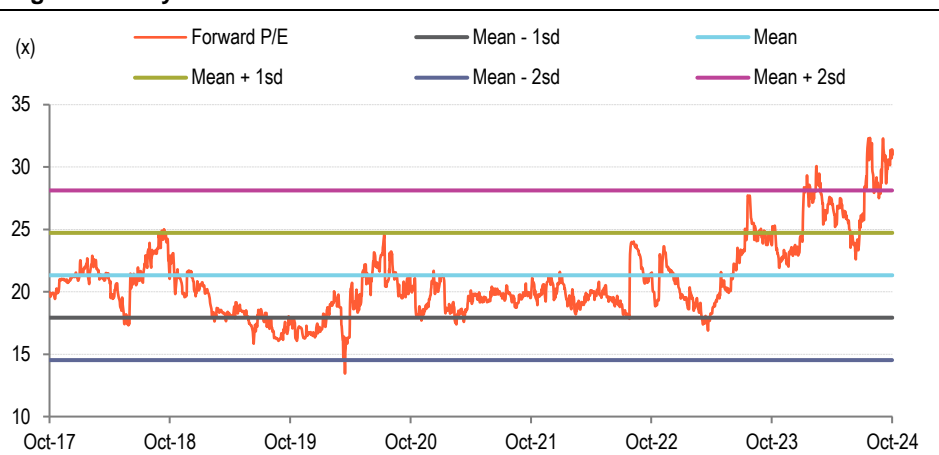
Source: Company, BOBCAPS Research

## Valuation methodology

Alembic Pharma’s domestic business (36% contribution in terms of sales) is performing well driven by higher growth in the Specialty segment. Its US business (28% contribution) is also performing well driven by new product launches. Going forward, we expect operating leverage to play out due to controlled R&D expense and healthy product mix. We expect Alembic’s sales/earnings to grow at CAGRs of 10%/24% over FY25E-27E.

We assume coverage of ALPM and upgrade our rating to BUY (from HOLD). We value the stock at 30x Sep’26 EPS, which is at a 40% premium to its five-year mean of 21x, to yield a TP of Rs 1,412 (from Rs 970). We believe the premium valuation will sustain due to its superior execution across markets, operating leverage and all plants receiving an EIR from the USFDA which will likely result in swift approvals for its new product launches.

**Fig 10 – Five-year historical P/E band**



Source: Bloomberg, BOBCAPS Research

**Fig 11 – Key assumptions**

Rs mn	FY24	FY25E	FY26E	FY27E
Revenue	62,290	68,890	76,575	84,338
EBITDA	9,337	11,213	13,904	17,097
PAT	6,172	6,709	8,402	10,797
EPS (Rs)	31.4	34.1	42.7	54.9
EBITDA Margin (%)	15.0	16.3	18.2	20.3
PAT Margin (%)	9.9	9.7	11.0	12.8

Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- adverse action on manufacturing facilities catering to the US,
- slow pace of new approvals/launches, and
- escalation in raw material prices or disruption in supply.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>56,526</b>	<b>62,290</b>	<b>68,890</b>	<b>76,575</b>	<b>84,338</b>
EBITDA	7,083	9,337	11,213	13,904	17,097
Depreciation	2,754	2,727	3,270	3,680	3,974
EBIT	4,329	6,611	7,943	10,224	13,123
Net interest inc./(exp.)	(502)	(562)	(450)	(428)	(406)
Other inc./(exp.)	27	283	400	450	450
Exceptional items	0	0	0	0	0
EBT	3,855	6,332	7,893	10,246	13,167
Income taxes	126	160	1,184	1,844	2,370
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>3,729</b>	<b>6,172</b>	<b>6,709</b>	<b>8,402</b>	<b>10,797</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>3,729</b>	<b>6,172</b>	<b>6,709</b>	<b>8,402</b>	<b>10,797</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	6,798	7,356	8,493	9,441	10,398
Other current liabilities	2,343	2,038	3,444	3,829	4,133
Provisions	1,763	1,748	1,933	2,148	2,366
Debt funds	7,220	5,132	4,875	4,631	4,400
Other liabilities	0	0	0	0	0
Equity capital	393	393	393	393	393
Reserves & surplus	42,082	46,093	50,640	56,880	65,514
Shareholders' fund	42,475	46,486	51,033	57,273	65,907
<b>Total liab. and equities</b>	<b>60,598</b>	<b>62,759</b>	<b>69,778</b>	<b>77,322</b>	<b>87,204</b>
Cash and cash eq.	823	1,266	5,642	5,740	6,855
Accounts receivables	10,464	10,248	11,324	15,735	24,262
Inventories	14,753	16,435	18,874	22,028	22,413
Other current assets	3,598	3,169	2,067	2,297	2,530
Investments	963	930	930	930	930
Net fixed assets	23,985	25,467	25,697	25,348	24,970
CWIP	6,013	5,244	5,244	5,244	5,244
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>60,598</b>	<b>62,759</b>	<b>69,778</b>	<b>77,322</b>	<b>87,204</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>5,352</b>	<b>8,651</b>	<b>10,745</b>	<b>6,262</b>	<b>7,511</b>
Capital expenditures	(8,665)	(3,450)	(3,500)	(3,330)	(3,596)
Change in investments	221	33	0	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(8,445)</b>	<b>(3,417)</b>	<b>(3,500)</b>	<b>(3,330)</b>	<b>(3,596)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	49	(2,089)	(257)	(244)	(232)
Interest expenses	(502)	(562)	(450)	(428)	(406)
Dividends paid	(1,966)	(2,162)	(2,162)	(2,162)	(2,162)
Other financing cash flows	5,639	21	0	0	0
<b>Cash flow from financing</b>	<b>3,220</b>	<b>(4,792)</b>	<b>(2,869)</b>	<b>(2,834)</b>	<b>(2,800)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>128</b>	<b>443</b>	<b>4,377</b>	<b>98</b>	<b>1,115</b>
<b>Closing cash &amp; cash eq.</b>	<b>823</b>	<b>1,266</b>	<b>5,642</b>	<b>5,740</b>	<b>6,855</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	17.4	31.4	34.1	42.7	54.9
Adjusted EPS	17.4	31.4	34.1	42.7	54.9
Dividend per share	10.0	11.0	11.0	11.0	11.0
Book value per share	216.1	236.5	259.6	291.4	335.3

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	4.2	3.9	3.5	3.1	2.8
EV/EBITDA	33.8	25.8	21.3	16.9	13.6
Adjusted P/E	68.4	38.0	34.9	27.9	21.7
P/BV	5.5	5.0	4.6	4.1	3.6

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	96.7	97.5	85.0	82.0	82.0
Interest burden (PBT/EBIT)	89.0	95.8	99.4	100.2	100.3
EBIT margin (EBIT/Revenue)	7.7	10.6	11.5	13.4	15.6
Asset turnover (Rev./Avg TA)	25.9	30.7	32.0	32.5	31.9
Leverage (Avg TA/Avg Equity)	1.2	1.1	1.1	1.1	1.1
<b>Adjusted ROAE</b>	<b>7.2</b>	<b>13.9</b>	<b>13.8</b>	<b>15.5</b>	<b>17.5</b>

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	6.5	10.2	10.6	11.2	10.1
EBITDA	(19.0)	31.8	20.1	24.0	23.0
Adjusted EPS	(34.4)	80.2	8.9	25.2	28.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	12.5	15.0	16.3	18.2	20.3
EBIT margin	7.7	10.6	11.5	13.4	15.6
Adjusted profit margin	6.6	9.9	9.7	11.0	12.8
Adjusted ROAE	7.2	13.9	13.8	15.5	17.5
ROCE	8.0	13.6	15.5	18.1	20.5
<b>Working capital days (days)</b>					
Receivables	68	60	60	75	105
Inventory	95	96	100	105	97
Payables	44	43	45	45	45
<b>Ratios (x)</b>					
Gross asset turnover	1.6	1.6	1.7	1.7	1.7
Current ratio	2.7	2.8	2.7	3.0	3.3
Net interest coverage ratio	8.6	11.8	17.6	23.9	32.3
<b>Adjusted debt/equity</b>	<b>0.2</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**BUY**

TP: Rs 1,728 | ▲ 18%

**AUROBINDO PHARMA**

| Pharmaceuticals

| 10 October 2024

## Transforming from API to biologics/biosimilars

- **Filing of 30 ANDAs from Eugia’s unit 3 can be shifted to the new Vizag plant, making Eugia’s sales target of ~US\$ 700mn by FY26E achievable**
- **We expect EBITDA margin to exceed 22% by FY27 and 25% beyond FY27 driven by its biologics/biosimilars sales**
- **We assume coverage of ARBP and upgrade to BUY on its transition from the API business to biologics/biosimilars**

**Foram Parekh**

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**Eugia’s Vizag injectable facility to the rescue:** ARBP’s WOS Eugia’s unit 3 received a warning letter indicating no new products could be launched from the plant. ARBP has 30 ANDAs to be filed from this plant. Recently, Eugia’s new injectables plant from Vizag received an establishment inspection report (EIR) status indicating unit 3’s filing can be shifted to the new plant. The new plant recently received approval from the USFDA for its first product Lidocaine Hydrochloride Injection. With the new plant receiving an EIR, we believe injectable sales are on track to achieve global sales of US\$ 700mn by FY26.

**On track to launch biosimilars in FY26E:** The company is in an advanced stage of filing biosimilars with the regulators. It is on track to file Trastuzumab with the USFDA (completed Type 4, meeting USFDA standards) while Tocilizumab catering to India and Emerging Markets (EMs) has completed phase 3 trials. Both biosimilars would be launched by FY26E and post commercialising these products, EBITDA margin will increase to 24% by FY27E from 20% in FY24.

**Only player to commercialise Pen-G in India:** ARBP has 15ktpa of installed capacity and is on track to commercialise the plant in H2FY25. Demand for Pen-G in India is very strong, and ARBP expects operating expense to reduce as it ramps up production; hence we expect earnings to grow at a CAGR of 24% from FY25E-27E.

**Company transforming from API to biologics/biosimilars:** ARBP is on track to commercialise mammalian cell culture-based products to Merck Sharpe & Dohme Singapore Trading for 10 years from FY27. It has 14 biosimilars in the pipeline till 2032. Commercialisation of these products could potentially raise EBITDA margin by over 24% from FY27E, which we have not factored into our estimates.

**Upgrade ARBP to BUY:** The company has several growth levers in place: (1) a strong generics pipeline, (2) commercialising the Pen-G project, (3) growing the injectables business, and (4) 14 biosimilar products in pipeline. Hence, we ascribe a P/E of 19x on Sep FY26E, a 30% premium to historical mean P/E of 14.7x, to yield a TP of Rs 1,728 (from Rs 1,200).

### Key changes

	Target	Rating
	▲	▲

Ticker/Price	ARBP IN/Rs 1,466
Market cap	US\$ 10.2bn
Free float	48%
3M ADV	US\$ 24.6mn
52wk high/low	Rs 1,592/Rs 835
Promoter/FPI/DII	52%/18%/23%

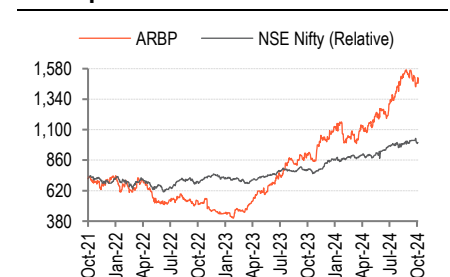
Source: NSE | Price as of 10 Oct 2024

### Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	290,000	324,596	360,449
EBITDA (Rs mn)	58,411	70,243	81,691
Adj. net profit (Rs mn)	33,990	40,401	48,831
Adj. EPS (Rs)	58.0	69.0	83.3
Consensus EPS (Rs)	58.0	64.8	74.1
Adj. ROAE (%)	12.2	13.1	13.9
Adj. P/E (x)	25.3	21.3	17.6
EV/EBITDA (x)	14.5	12.2	10.4
Adj. EPS growth (%)	69.8	18.9	20.9

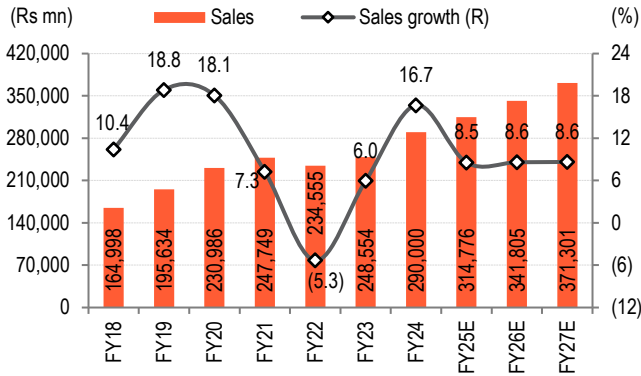
Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



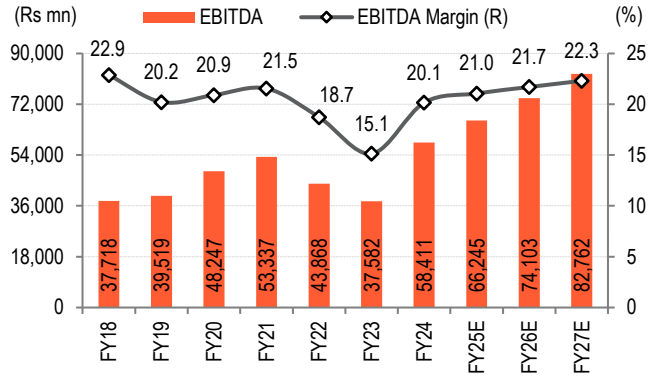
Source: NSE

**Fig 1 – Sales growth to be driven by North America region**



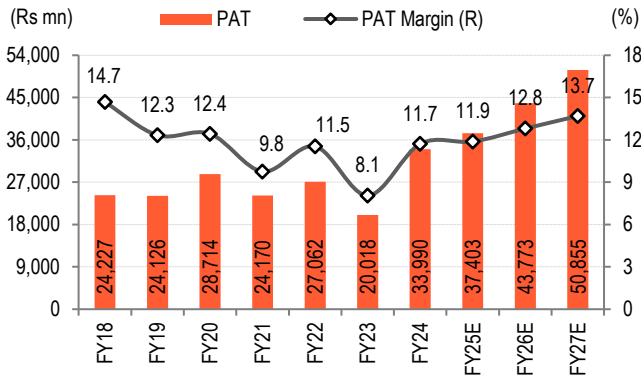
Source: Company, BOBCAPS Research

**Fig 2 – EBITDA margin expected to increase due to biosimilar launches**



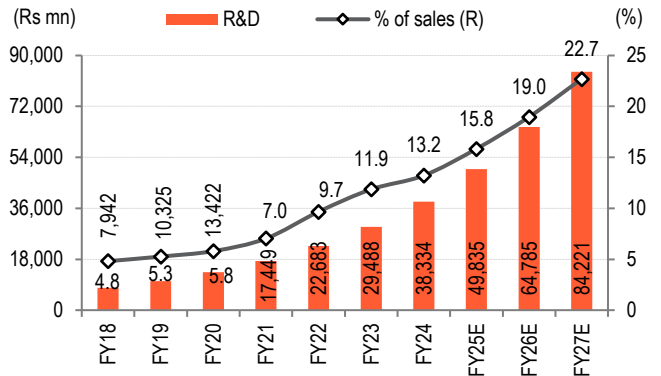
Source: Company, BOBCAPS Research

**Fig 3 – PAT margin expected to increase due to healthy operation**



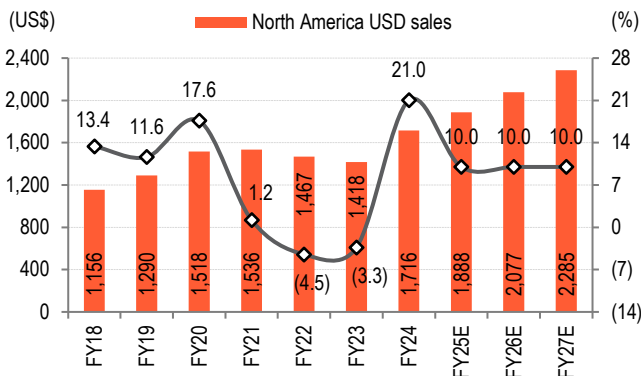
Source: Company, BOBCAPS Research

**Fig 4 – R&D expense increasing with biosimilar launches**



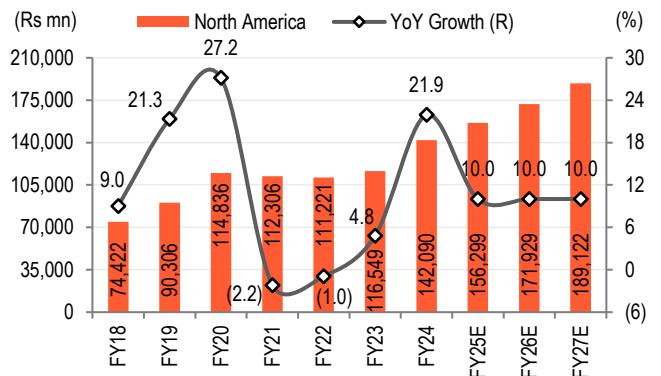
Source: Company, BOBCAPS Research

**Fig 5 – CC sales growth to be driven by Eugia sales**



Source: Company, BOBCAPS Research | CC: Constant currency

**Fig 6 – Rupee sales to be driven by currency depreciation**



Source: Company, BOBCAPS Research

**Fig 7 – Aurobindo is targeting a biosimilars market size of US\$ 35bn by FY32E**

Biosimilars	Market size (US\$ bn)	Molecule	Therapy	Status	Comments
BP14	4.6	Pegfilgrastim	Oncology	Completed	Completed licensure trials and filed with EMEA
BP13	1.5	Filgrastim	Oncology	Completed	Completed licensure trials and is filed with EMEA
BP01	6.2	Bevacizumab	Oncology	Completed	Phase 1 PK/PD (Pharmacokinetic/Pharmacodynamic) clinical study completed. Multi center and multi country Phase 3 study in NSCLC patients is in progress
BP02	5.2	Trastuzumab	Oncology		MA received in India. Have applied for Manufacturing License <ul style="list-style-type: none"> <li>• Product filed with European Medicine Agency (EMA)</li> <li>• Phase 3 clinical study completed in 690 metastatic breast cancer subjects and met the clinical end points successfully</li> </ul>
BP05	4.2	Ranibizumab	Ophthalmology		Phase 3 multi-country and multi-centre trial is in progress
BP11	4	Omalizumab	Respiratory/ Dermatology		Phase 3 clinical study is ongoing in Europe in chronic spontaneous urticaria patients Phase 3 clinical study in respiratory asthma patients is in progress in India
BP16	5.7	Denosumab	Orthopedic		Phase 3 clinical study in Europe region
BP08	3.5	Tocilizumab	Immunology		Phase 3 clinical study completed in Apr/May 2024. Filing in India in Q2FY24-25

Source: Company, BOBCAPS Research | NSCLC: Non-small cell lung cancer

## Valuation methodology

ARBP’s new Vizag unit has received an EIR and launched its first product from this plant. This enables the company to transfer 30 pending ANDAs from unit 3 (received a warning letter) to the Vizag plant, thus smoothing the way for new product launches for the North America region. This confirms that Eugia is on track to clock sales of ~US\$ 700mn by FY26E. The company is also commercialising India’s first Pen-G plant where 50% of Pen-G’s total capacity would be used for captive purposes and aid margin increment.

ARBP is transforming from an API company to biologics/biosimilars company. ARBP is expected to launch its first biosimilar Trastuzumab in the Indian market by FY26E. Trastuzumab has a global market size of US\$ 5.4bn and would significantly increase its sales run rate and margins. Hence, we upgrade our recommendation to BUY from HOLD. As the company has several growth levers in place, like (1) having a strong generics pipeline, (2) being the sole Pen-G seller in the domestic market, (3) growing the injectables business, and (4) having 14 biosimilar products in the pipeline, we ascribe a P/E of 19x on Sep FY26E, a 30% premium to the historical mean P/E of 14.7x, to yield a TP of Rs 1,728 (earlier Rs 1,200).

**Fig 8 – Five-year historical P/E band**



Source: Bloomberg, BOBCAPS Research

**Fig 9 – Key assumptions**

(Rs mn)	FY24A	FY25E	FY26E	FY27E
Sales	290,000	324,596	360,449	396,087
EBITDA	58,411	70,243	81,691	92,850
PAT	33,990	40,401	48,831	56,991
EPS (Rs)	58.1	69.0	83.4	97.4
EBITDA margin (%)	20.1	21.6	22.7	23.4
PAT margin (%)	11.7	12.4	13.5	14.4

Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- delays in filing biosimilar products,
- heightened intensity of price erosion in the US,
- delays in execution or commercialisation of biologics products,
- regulatory escalation at the Eugia-III facility and delays in remediation, and
- adverse regulatory action on any of the company's facilities.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>248,554</b>	<b>290,000</b>	<b>324,596</b>	<b>360,449</b>	<b>396,087</b>
EBITDA	37,582	58,411	70,243	81,691	92,850
Depreciation	12,446	15,217	17,379	18,790	20,201
EBIT	25,136	43,195	52,863	62,901	72,649
Net interest inc./(exp.)	(1,405)	(2,897)	(3,390)	(3,122)	(2,858)
Other inc./(exp.)	3,254	6,015	4,395	5,329	6,197
Exceptional items	0	0	0	0	0
EBT	26,985	46,312	53,868	65,108	75,988
Income taxes	6,849	12,110	13,467	16,277	18,997
Extraordinary items	(744)	(2,217)	0	0	0
Min. int./Inc. from assoc.	118	212	0	0	0
<b>Reported net profit</b>	<b>19,275</b>	<b>31,774</b>	<b>40,401</b>	<b>48,831</b>	<b>56,991</b>
Adjustments	744	2,217	0	0	0
<b>Adjusted net profit</b>	<b>20,018</b>	<b>33,990</b>	<b>40,401</b>	<b>48,831</b>	<b>56,991</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	38,713	44,542	48,912	53,327	57,514
Other current liabilities	31,178	32,799	38,952	46,858	43,570
Provisions	3,733	4,825	5,401	5,997	6,590
Debt funds	52,862	66,476	56,505	48,029	40,825
Other liabilities	0	0	0	0	0
Equity capital	586	586	586	586	586
Reserves & surplus	265,054	289,361	326,753	372,654	426,716
Shareholders' fund	265,640	289,947	327,339	373,240	427,302
<b>Total liab. and equities</b>	<b>392,125</b>	<b>438,589</b>	<b>477,107</b>	<b>527,451</b>	<b>575,800</b>
Cash and cash eq.	60,842	62,783	76,124	88,532	93,991
Accounts receivables	44,664	48,167	57,805	69,127	86,814
Inventories	85,112	98,082	107,606	127,392	146,498
Other current assets	31,943	42,219	49,014	58,032	67,731
Investments	5,428	3,723	3,723	3,723	3,723
Net fixed assets	79,954	115,455	114,676	112,486	108,885
CWIP	53,900	38,687	38,687	38,687	38,687
Intangible assets	30,283	29,473	29,473	29,473	29,473
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>392,125</b>	<b>438,589</b>	<b>477,107</b>	<b>527,451</b>	<b>575,800</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>25,842</b>	<b>31,680</b>	<b>46,313</b>	<b>43,535</b>	<b>35,051</b>
Capital expenditures	(27,123)	(16,600)	(16,600)	(16,600)	(16,600)
Change in investments	4,544	1,705	0	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(22,579)</b>	<b>(14,895)</b>	<b>(16,600)</b>	<b>(16,600)</b>	<b>(16,600)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	24,349	13,614	(9,971)	(8,476)	(7,204)
Interest expenses	(1,405)	(2,897)	(3,390)	(3,122)	(2,858)
Dividends paid	(2,930)	(2,930)	(2,930)	(2,930)	(2,930)
Other financing cash flows	(4,337)	(22,631)	(80)	0	0
<b>Cash flow from financing</b>	<b>15,678</b>	<b>(14,844)</b>	<b>(16,371)</b>	<b>(14,527)</b>	<b>(12,992)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>18,942</b>	<b>1,941</b>	<b>13,341</b>	<b>12,407</b>	<b>5,459</b>
<b>Closing cash &amp; cash eq.</b>	<b>60,842</b>	<b>62,783</b>	<b>76,124</b>	<b>88,532</b>	<b>93,991</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	32.9	54.2	69.0	83.3	97.3
Adjusted EPS	34.2	58.0	69.0	83.3	97.3
Dividend per share	2.5	2.5	2.5	2.5	2.5
Book value per share	453.7	495.3	559.4	637.8	730.2

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	3.4	2.9	2.6	2.4	2.1
EV/EBITDA	22.6	14.5	12.2	10.4	8.9
Adjusted P/E	42.9	25.3	21.3	17.6	15.1
P/BV	3.2	3.0	2.6	2.3	2.0

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.2	73.4	75.0	75.0	75.0
Interest burden (PBT/EBIT)	107.4	107.2	101.9	103.5	104.6
EBIT margin (EBIT/Revenue)	10.1	14.9	16.3	17.5	18.3
Asset turnover (Rev./Avg TA)	20.9	21.5	21.9	22.4	22.3
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.1	1.1
<b>Adjusted ROAE</b>	<b>7.8</b>	<b>12.2</b>	<b>13.1</b>	<b>13.9</b>	<b>14.2</b>

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	6.0	16.7	11.9	11.0	9.9
EBITDA	(14.3)	55.4	20.3	16.3	13.7
Adjusted EPS	(26.0)	69.8	18.9	20.9	16.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	15.1	20.1	21.6	22.7	23.4
EBIT margin	10.1	14.9	16.3	17.5	18.3
Adjusted profit margin	8.1	11.7	12.4	13.5	14.4
Adjusted ROAE	7.8	12.2	13.1	13.9	14.2
ROCE	9.6	14.6	15.5	16.9	17.7
<b>Working capital days (days)</b>					
Receivables	66	61	65	70	80
Inventory	125	123	121	129	135
Payables	57	56	55	54	53
<b>Ratios (x)</b>					
Gross asset turnover	1.4	1.5	1.5	1.6	1.6
Current ratio	3.0	3.1	3.1	3.2	3.7
Net interest coverage ratio	17.9	14.9	15.6	20.1	25.4
<b>Adjusted debt/equity</b>	<b>0.0</b>	<b>0.0</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**BUY**  
 TP: Rs 1,648 | ▲ 18%

**ERIS LIFESCIENCES**

Pharmaceuticals

10 October 2024

**Shift from chronic to super specialty company**

- India business’s Emerging Therapies to grow at 25%, while Core Therapies to grow at 20% CAGR over FY25E-27E
- Largest segment Chronic Therapy’s contribution is 80% currently, and is expected to increase to 85-90% over the next two years
- We assume coverage with a BUY rating and value the stock at a P/E of 33x on Sep’26, to yield a TP of Rs 1,648

**Foram Parekh**

research@bobcaps.in

**Domestic region ventured into super specialty segment:** ERIS’s recent acquisition of Swiss Parentals and Biocon insulin + MAB portfolio aided its transformation from Chronic Therapy to low-competition Super Specialty Therapies. This resulted in the contributions of its three flagship therapies (Anti-Diabetes, CVD and VMN) decreasing to 54% from 80% earlier. Due to lower penetration and higher demand, the newly diversified (Emerging Therapies) portfolio has the potential to grow at a CAGR of 25% over FY25E-FY27E.

**Largest Chronic portfolio in the IPM:** Amongst the core Chronic Therapies, Diabetes is the flagship therapy followed by Cardiac Therapy. ERIS currently has one of the largest Chronic portfolios of 80% of sales (industry average is 60%), which is expected to rise to 85-90% by FY27E, largely contributed by insulins in the Diabetes segment.

**Insulin portfolio to witness steep growth:** ERIS acquired Biocon’s insulin (Basalog and Insugen) and MAB portfolio in Apr’24. Due to low penetration currently, Basalog and Insugen have the potential to reach Rs 2.8bn worth of sales in FY25E, while the total insulin franchise will report Rs 3.5bn of sales in FY25E. Biocon recently acquired Chemman Labs for fill-finish of Insulins, GLP-1, MABs and rDNA products which could help the insulin segment grow at 25% CAGR till FY30E.

**Higher productivity to aid in margin increments:** Currently, ERIS’s medical representative (MR) productivity of Rs 500k per month is lower than that of its industry peers. However, its standalone acquired businesses have productivity of Rs 700k pm. Going forward, we expect the consolidated productivity to rise to Rs 700k pm, resulting in EBITDA margin increasing to 35-36% by FY27.

**Valuation outlook:** We assume coverage on ERIS and maintain our BUY rating and value the stock at a P/E of 33x on Sep’26, ~54% premium to its five-year mean, which yields a TP of Rs 1,648 (from Rs 1,200). We expect such a premium valuation to sustain due to: (1) increased MR productivity, (2) higher traction in value-added products, and (3) synergies from scaling up acquired businesses.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	ERIS IN/Rs 1,396
Market cap	US\$ 2.3bn
Free float	29%
3M ADV	US\$ 5.3mn
52wk high/low	Rs 1,522/Rs 804
Promoter/FPI/DII	55%/13%/16%

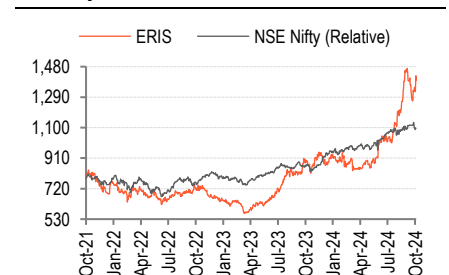
Source: NSE | Price as of 10 Oct 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	20,092	29,741	34,372
EBITDA (Rs mn)	6,748	10,214	11,924
Adj. net profit (Rs mn)	3,920	4,194	5,922
Adj. EPS (Rs)	28.9	30.9	43.6
Consensus EPS (Rs)	28.9	32.9	42.3
Adj. ROAE (%)	15.7	14.3	18.3
Adj. P/E (x)	48.4	45.2	32.0
EV/EBITDA (x)	28.7	19.6	17.2
Adj. EPS growth (%)	2.6	7.0	41.2

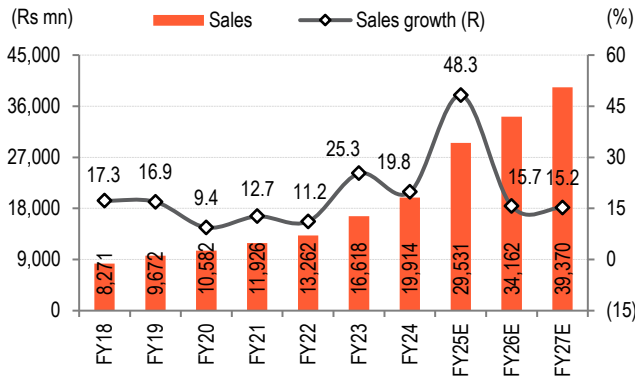
Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



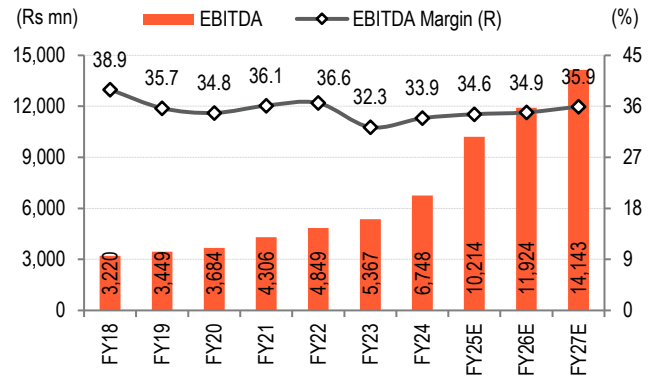
Source: NSE

**Fig 1 – Normalised sales to surpass IPM growth**



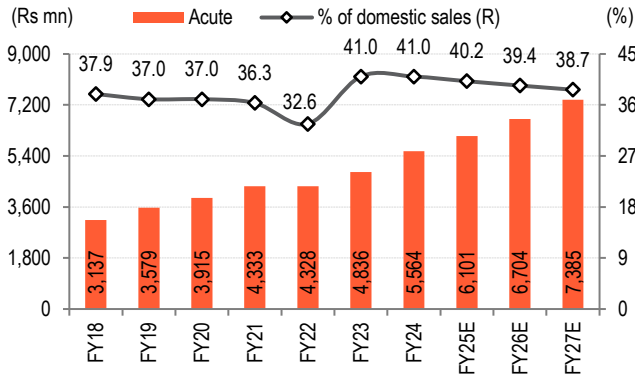
Source: Company, BOBCAPS Research

**Fig 2 – EBITDA margin to remain high due to its shift to Super Specialty segment**



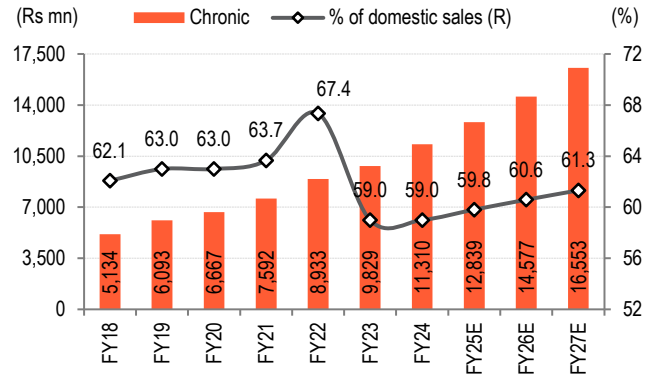
Source: Company, BOBCAPS Research

**Fig 3 – Acute share to fall due to focus on Chronic segment**



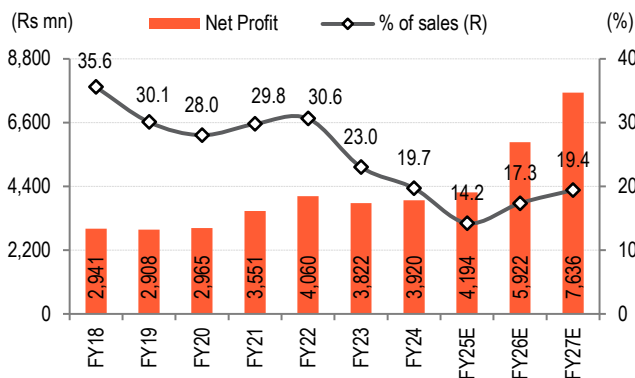
Source: Company, BOBCAPS Research

**Fig 4 – ERIS has one of the largest Chronic portfolios in the industry**



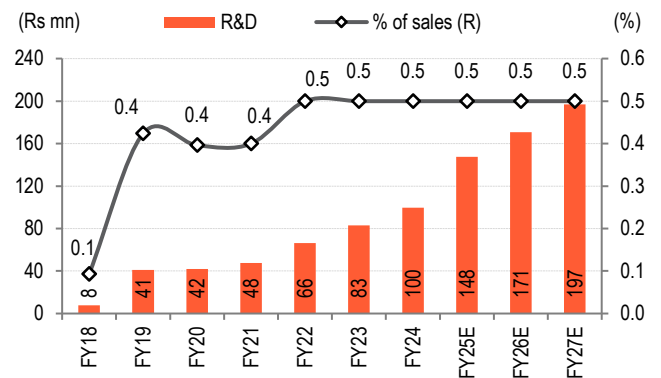
Source: Company, BOBCAPS Research

**Fig 5 – Healthy operations to drive PAT growth**



Source: Company, BOBCAPS Research

**Fig 6 – ERIS spends less on R&D due to inorganic growth**



Source: Company, BOBCAPS Research

**Fig 7 – Top drugs data of the IPM**

Brands	Therapy	FY23	FY24	Market share (%)	FY24 YoY growth (%)
Glimi Save	Anti Diabetes	3,152	3,152	6	0
Eritel	Cardiac Care	1,790	1,736	4	(3)
Renerve	Vitamins	1,542	1,604	7	4
Insugen	Anti Diabetes	1,322	1,441	11	9
Zomelis	Anti Diabetes	1,046	1,046	7	0
Basalog	Anti Diabetes	1,030	989	14	(4)
Tayo	Vitamins	694	867	4	25
Cyblex	Anti Diabetes	819	827	10	1
Gluxit	Anti Diabetes	619	774	5	25
Remylin	Vitamins	524	729	5	39
LnBloc	Cardiac Care	759	721	9	(5)
Olmin	Cardiac Care	668	688	9	3
Canmab	Oncology	771	671	24	(13)
Cosvate	Derma	581	628	8	8
Crevast	Cardiac Care	553	592	2	7
Tendia	Anti Diabetes	804	563	7	(30)
Atorsave	Cardiac Care	521	511	3	(2)
Rabonik	Gastro Intestinal	480	408	2	(15)
Ginkocer	Vitamins	417	392	35	(6)
Psorid	Derma	385	370	24	(4)

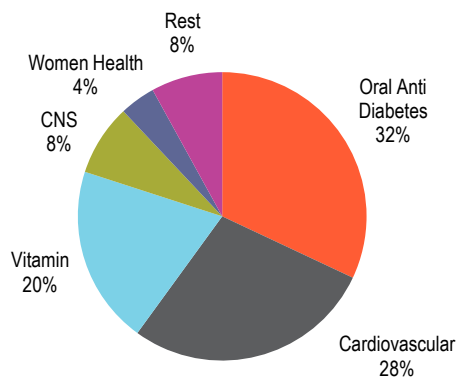
Source: Company, BOBCAPS Research

**Fig 8 – List Acquisitions made by ERIS**

Year	Seller	Amount paid (Rs mn)	Sales of target company/ brands at time of acquisition (Rs mn)	EV/Sales (x)
FY17	Aprica (Amay Pharma)	329	398	0.8
FY18	Strides Pharma	5,000	2,000	2.5
FY18	UTH	129	70	1.8
FY18	Kindex	774	515	1.5
FY21	Zomelis	960	640	1.5
FY22	Oaknet	6,500	1,950	3.3
FY23	Glenmark Pharma	3,400	850	4.0
FY23	Dr. Reddy's	2,750	621	4.4
FY24	Biocon Biologics	3,660	1,000	3.7
FY24	Swiss Parentals	6375	2803	2.3
FY24	Biocon Biologics	12,420	3,600	3.5
<b>Total consideration paid</b>		<b>39,582</b>	<b>12,644</b>	<b>3.1</b>

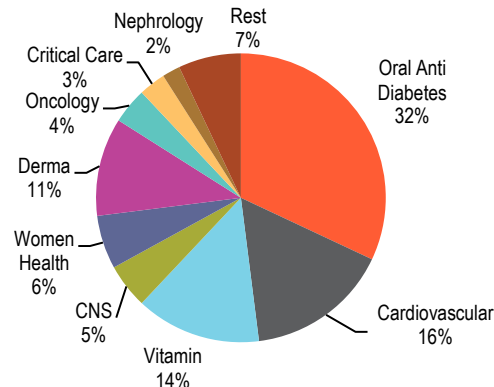
Source: Company, BOBCAPS Research

**Fig 9 – Therapy-wise breakdown for FY22**



Source: Company, BOBCAPS Research

**Fig 10 – Therapies added in FY24**



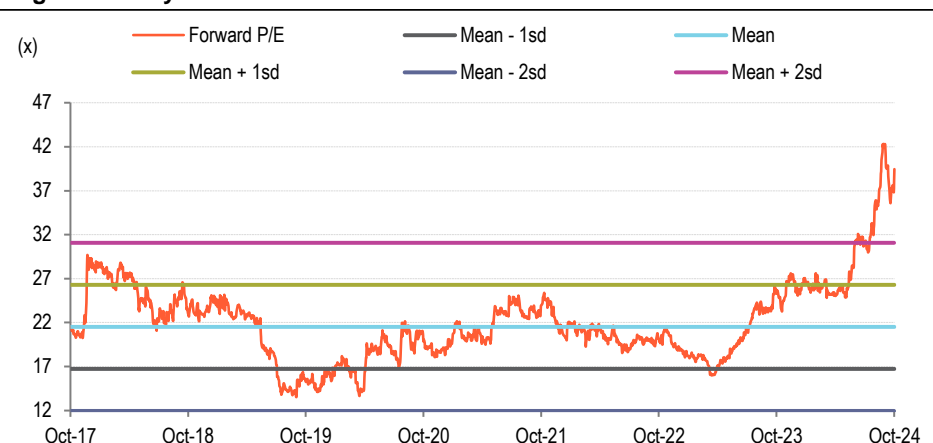
Source: Company, BOBCAPS Research

## Valuation methodology

ERIS has transformed its earlier business focus from Anti Diabetes to Super Specialty Therapies like oncology, nephrology and auto immune by acquiring Biocon's portfolio. ERIS has acquired many assets over the past two years, and expects them to scale up further. It has largely acquired Chronic portfolios, which when scaled up are expected to increase its chronic contributions to 85-90% of sales in the India market from 80% currently. Hence, we expect the company's earnings to grow at a CAGR of 35% over FY25E-27E from -2% CAGR from FY22-24.

We assume coverage on ERIS with a BUY rating and value the stock at a P/E of 33x on Sep'26, ~54% premium to its five-year mean, which yields a TP of Rs 1,648. We believe this premium valuation to sustain due to: (1) productivity increasing to Rs 700k pm from Rs 500k pm, (2) higher traction in value-added products like injectables in the diabetes portfolio and MAB in oncology, etc, and (3) synergies from scaling up its acquired businesses.

**Fig 11 – Five-year historical P/E band**



Source: Bloomberg, BOBCAPS Research

**Fig 12 – Key assumptions**

(Rs mn)	FY24	FY25E	FY26E	FY27E
Sales	20,092	29,741	34,372	39,580
EBITDA	6,748	10,214	11,924	14,143
PAT	3,920	4,194	5,922	7,636
EPS (Rs)	28.9	30.9	43.6	56.2
EBITDA margin (%)	33.59	34.34	34.69	35.73
PAT margin (%)	19.51	14.10	17.23	19.29

Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- a delay in paring debt would impact earnings,
- delays in launching/ramping up new products,
- weaker supply security of products not manufactured in-house,

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>16,851</b>	<b>20,092</b>	<b>29,741</b>	<b>34,372</b>	<b>39,580</b>
EBITDA	5,367	6,748	10,214	11,924	14,143
Depreciation	1,171	1,826	2,850	3,093	3,373
EBIT	4,197	4,922	7,364	8,831	10,770
Net interest inc./(exp.)	(262)	(848)	(2,408)	(2,080)	(1,780)
Other inc./(exp.)	112	238	420	842	800
Exceptional items	0	0	0	0	0
EBT	4,046	4,313	5,376	7,593	9,790
Income taxes	305	342	1,183	1,670	2,154
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(80)	51	0	0	0
<b>Reported net profit</b>	<b>3,822</b>	<b>3,920</b>	<b>4,194</b>	<b>5,922</b>	<b>7,636</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>3,822</b>	<b>3,920</b>	<b>4,194</b>	<b>5,922</b>	<b>7,636</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	1,248	2,683	4,854	7,488	10,786
Other current liabilities	966	1,196	1,477	1,708	1,969
Provisions	1,136	1,148	1,702	1,969	2,269
Debt funds	8,767	27,813	44,603	38,603	32,603
Other liabilities	0	0	0	0	0
Equity capital	136	136	136	136	136
Reserves & surplus	21,908	34,443	36,733	40,435	45,534
Shareholders' fund	22,044	34,579	36,869	40,571	45,670
<b>Total liab. and equities</b>	<b>34,160</b>	<b>67,419</b>	<b>89,505</b>	<b>90,339</b>	<b>93,296</b>
Cash and cash eq.	585	14,006	28,069	26,674	27,100
Accounts receivables	2,927	4,220	7,039	9,079	11,541
Inventories	1,314	1,890	2,832	3,276	3,775
Other current assets	3,068	3,675	5,345	6,183	7,126
Investments	367	155	155	155	155
Net fixed assets	3,560	5,046	3,196	2,103	730
CWIP	217	197	197	197	197
Intangible assets	22,121	38,229	42,672	42,672	42,672
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>34,160</b>	<b>67,419</b>	<b>89,505</b>	<b>90,339</b>	<b>93,296</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>4,102</b>	<b>5,797</b>	<b>7,027</b>	<b>10,905</b>	<b>12,744</b>
Capital expenditures	(9,723)	(8,643)	(1,000)	(2,000)	(2,000)
Change in investments	4,837	212	0	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(4,886)</b>	<b>(8,431)</b>	<b>(1,000)</b>	<b>(2,000)</b>	<b>(2,000)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	7,923	19,046	16,790	(6,000)	(6,000)
Interest expenses	(262)	(848)	(2,408)	(2,080)	(1,780)
Dividends paid	(1,269)	(1,586)	(1,903)	(2,221)	(2,538)
Other financing cash flows	(5,547)	(556)	(4,443)	0	0
<b>Cash flow from financing</b>	<b>846</b>	<b>16,056</b>	<b>8,036</b>	<b>(10,301)</b>	<b>(10,318)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>62</b>	<b>13,421</b>	<b>14,063</b>	<b>(1,395)</b>	<b>426</b>
<b>Closing cash &amp; cash eq.</b>	<b>585</b>	<b>14,006</b>	<b>28,069</b>	<b>26,674</b>	<b>27,100</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	28.1	28.9	30.9	43.6	56.2
Adjusted EPS	28.1	28.9	30.9	43.6	56.2
Dividend per share	8.0	10.0	12.0	14.0	16.0
Book value per share	160.5	207.8	224.7	252.0	289.5

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	11.2	9.6	6.7	6.0	5.2
EV/EBITDA	35.2	28.7	19.6	17.2	14.4
Adjusted P/E	49.6	48.4	45.2	32.0	24.8
P/BV	8.7	6.7	6.2	5.5	4.8

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	94.4	90.9	78.0	78.0	78.0
Interest burden (PBT/EBIT)	96.4	87.6	73.0	86.0	90.9
EBIT margin (EBIT/Revenue)	24.9	24.5	24.8	25.7	27.2
Asset turnover (Rev./Avg TA)	17.3	10.8	10.3	10.7	12.6
Leverage (Avg TA/Avg Equity)	1.3	1.9	2.4	2.5	2.1
<b>Adjusted ROAE</b>	<b>19.6</b>	<b>15.7</b>	<b>14.3</b>	<b>18.3</b>	<b>20.8</b>

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	25.1	19.2	48.0	15.6	15.2
EBITDA	10.7	25.7	51.4	16.7	18.6
Adjusted EPS	(5.9)	2.6	7.0	41.2	28.9
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	31.9	33.6	34.3	34.7	35.7
EBIT margin	24.9	24.5	24.8	25.7	27.2
Adjusted profit margin	22.7	19.5	14.1	17.2	19.3
Adjusted ROAE	19.6	15.7	14.3	18.3	20.8
ROCE	17.7	11.1	10.8	12.0	14.7
<b>Working capital days (days)</b>					
Receivables	64	77	87	97	107
Inventory	29	35	35	35	35
Payables	27	49	60	80	100
<b>Ratios (x)</b>					
Gross asset turnover	1.0	1.0	1.4	1.5	1.6
Current ratio	2.4	4.7	5.4	4.0	3.3
Net interest coverage ratio	16.0	5.8	3.1	4.2	6.0
<b>Adjusted debt/equity</b>	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>	<b>0.3</b>	<b>0.1</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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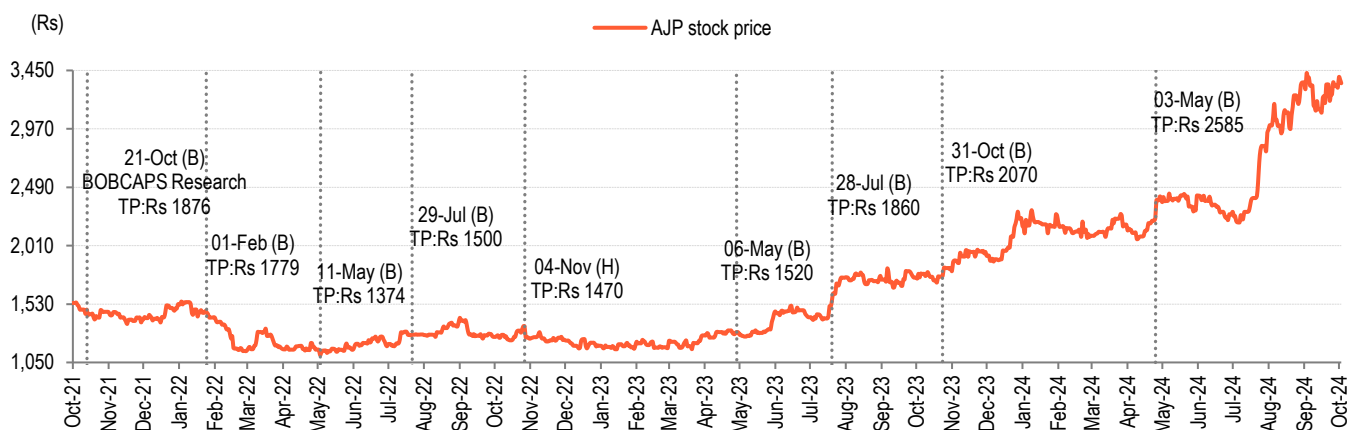
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- HOLD** – Expected return from -6% to +15%
- SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

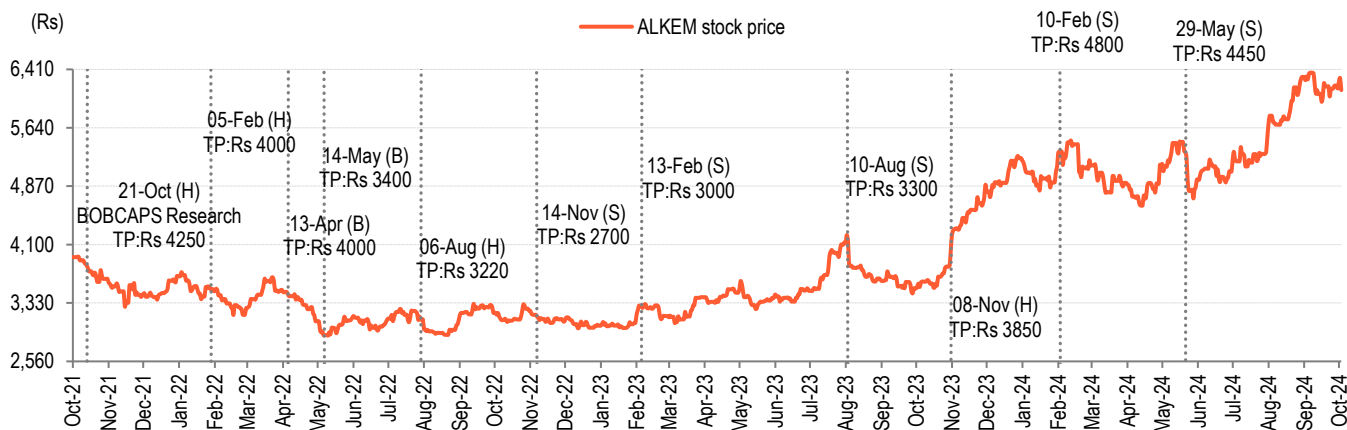
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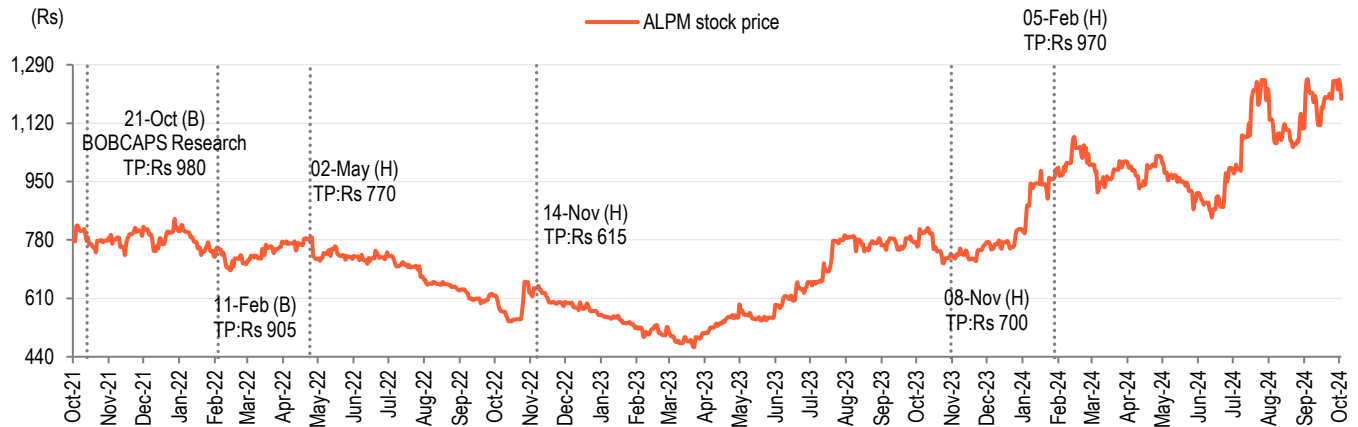
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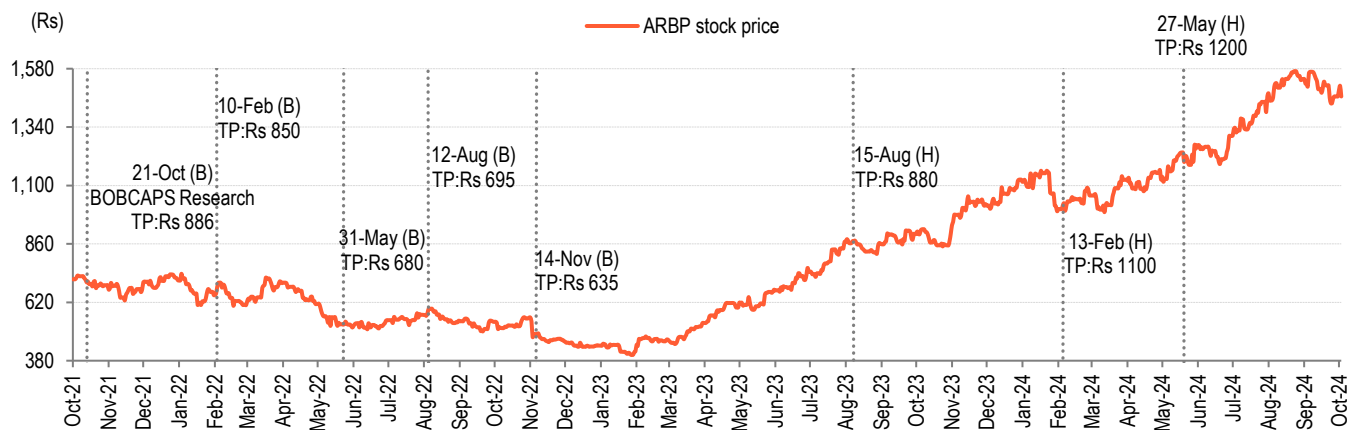
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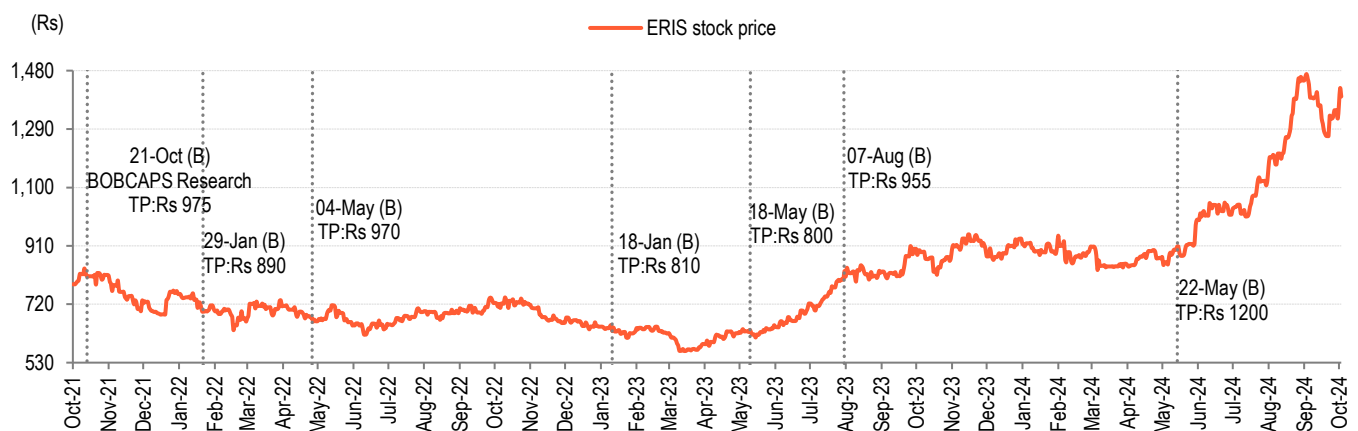
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**Ratings and Target Price (3-year history): AUROBINDO PHARMA (ARBP IN)**



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