SECTOR UPDATE

PHARMACEUTICALS

Generic onslaught on the branded domestic space

India Equity Research | Pharmaceuticals

The Indian pharmaceutical market (IPM), hitherto considered immune to economic downturns, seems to be defying the trend and has slowed down in tandem with the broader economy. Analysis of IPM's growth drivers indicates slowdown from 13.5% to 10% over the past three years. This was primarily due to deepening penetration of trade generics and weak summer & monsoon seasons impacting chronic and acute volumes. Revenue of the Jan Aushadhi scheme is expected to double year-on-year (YoY) in FY19 and this alone has an impact of ~120bps on branded market growth. Growth from product introduction has also nearly halved as the regulator is more careful with new combination drugs. Frequent regulatory interventions have added to the woes. Going forward, strong summer and monsoon seasons will be key to acceleration in IPM growth. This report also contains a *detailed therapy-wise trend analysis*.

Penetration in trade generics impacted chronic volumes

Growing awareness about trade generics and a rising number of channels for access have started impacting volume growth of branded generics. The largest dent has been from the government's push towards Jan Aushadhi stores—5,000 plus so far. The scheme is expected to more than double revenue YoY, to INR3bn in FY19. State schemes, like those in Rajasthan and Tamil Nadu, hyper-local chains like *Generico* and propaganda companies are playing their part in improving access to trade generics. We estimate current impact on IPM growth at ~120bps. Going forward, BPPI targets to take Jan Aushadhi penetration from current 1% to ~20%, potentially disrupting the INR1.3tr IPM.

Acute suffered from weak summers and fragmented monsoons

Summers have become less severe, evident from decelerating volume growth in air-conditioners and coolers. Also, the domestic market witnessed consecutive fragmented monsoons, leading to a softer flu season as highlighted by diagnostic player Dr. Lal. This directly affects volumes in acute therapies like anti-infectives, gastro-intestinal and pain.

Frequent regulatory intervention continues to affect pricing

The National Pharmaceutical Pricing Authority (NPPA) regularly imposes or revises price ceiling for drugs. Currently, 24% of the IPM is under price control where price increases are linked with WPI, which was negative in CY15-16 and turned positive in CY17-18.

Domestic-focused drug makers' earnings, valuations at risk

The Street is building in 13-15% domestic sales growth. Our analysis indicates that beating 10% growth will be a challenge and consensus is likely to take 2-3% cut in sales, which implies 3-5% earnings impact. Companies having large domestic exposure are - Alkem, Torrent, Cipla and Glenmark. Also, expensive valuations for domestic-focused companies, which trade at significant premium, are likely to soften.

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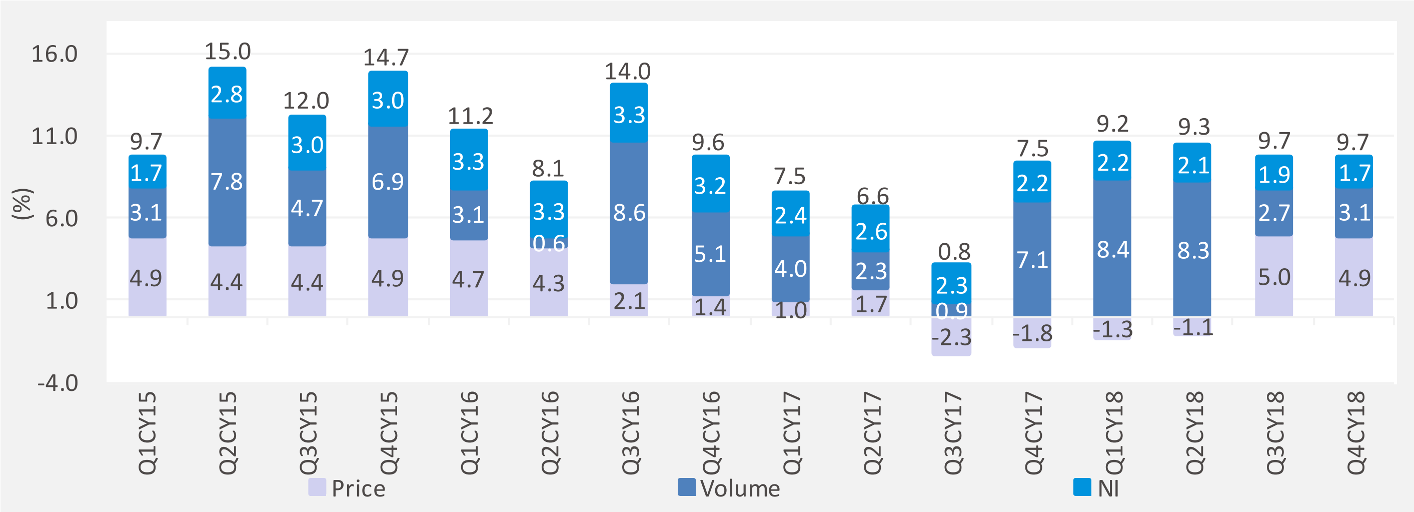
Deciphering the slowdown in the IPM

1) **Volume growth slowed due to government push via Jan Aushadhi, penetration of unbranded generics and weaker summer and monsoon season,;**
2) **NPPA's price control actions via regulatory actions impacted pricing;**
3) **New introductions halved over the last two years, as approvals for irrational combinations and new product innovations slowed.**

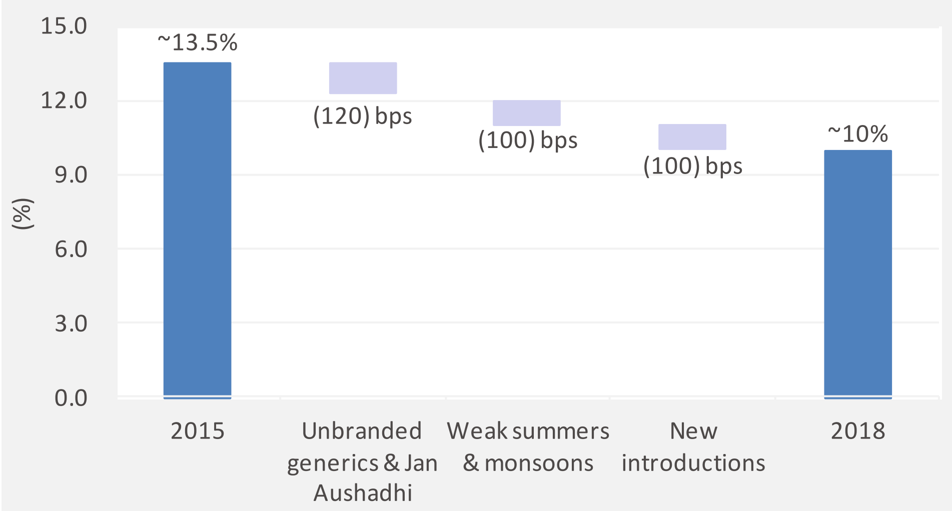
Chart 1: IPM growth in volume, price, new introductions



Source: AIOCD AWACS

A deep-dive into IPM's main growth drivers shows that: a) ***volume*** growth slowed by ~120bps due to penetration of unbranded generics & government push via Jan Aushadhi, and by ~100bps due to a weaker summers and fragmented monsoons; b) ***pricing***, while impacted by NPPA's regulatory actions, has now reverted to its 5% levels; c) ***new introductions*** slowed as approvals for irrational combinations and new product innovations declined, impacting IPM growth by ~100bps.

Chart 2: IPM growth has come off from ~13.5% to ~10% YoY

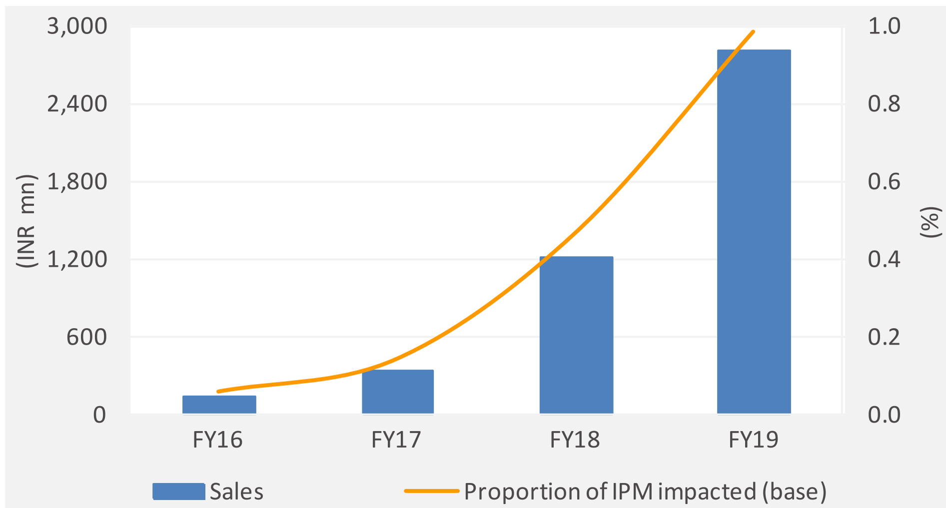


Source: Edelweiss research

Trade generic penetration impacting chronic volumes

Growing awareness about cheaper alternatives to generics and an increasing number of channels providing to access to them has started impacting volume growth for branded generics in the IPM. The largest impact has been from the government's push towards Jan Aushadhi stores, 5,000+ so far and expected to open another 2,500 by 2020. The scheme itself is expected to top revenue of INR3bn this fiscal and could potentially disrupt 1% of the total IPM. State government schemes like those in Rajasthan and Tamil Nadu, as well as hyperlocal chains like Generico are playing their part in improving access to trade generics. We estimate current impact on IPM growth at ~120bps. Going forward, BPPI is keen to take Jan Aushadhi penetration from current 1% to ~20%, potentially disrupting the INR1.3tr IPM.

Chart 3: Jan Aushadhi affects 1% of the IPM



Source: BPPI, Edelweiss research

Table 1: Volume growth in chronic therapies (%)

	% age of IPM	MAT Dec 14	MAT Dec 15	MAT Dec 16	MAT Dec 17	MAT Dec 18
Cardiac	12.4	8.1	8.4	1.8	5.3	7.7
Anti-diabetic	9.4	15.0	16.7	3.0	8.7	9.4
Neuro / CNS	6.1	5.3	7.0	2.2	5.0	6.5
Respiratory (chronic)	1.9	1.7	15.0	14.9	14.3	19.9

Source: AIOCD AWACS, Edelweiss research

Jan Aushadhi – penetration could pose a threat to branded IPM

The Pradhan Mantri Jan Aushadhi scheme aims to provide the highest quality drugs at affordable prices, at almost 50-90% discount to their branded counterparts. India has over 5,000 Jan Aushadhi stores that cover a list of 800 plus drugs, both chronic and acute, across therapies like anti-cancer, anti-infective, reproductive and gastro intestinal medicines. By 2020, the government is eyeing opening of another 2,500 stores.

Progress so far

Demand for affordable government-supplied drugs seems to be picking up with Jan Aushadhi stores clocking aggregate sales of INR1.5bn in H2FY19, according to the Department of Pharmaceuticals (DoP). The Bureau of Pharma PSUs of India (BPPI) posted ~INR1.2bn sales in FY18 at maximum retail price (which corresponds to ~INR6bn of branded products) versus INR330mn in FY17 and INR124mn in FY16.

Impact analysis

We believe this two pronged focus will enable the BPPI to expand to over 10,000 stores by FY20-21. With each store achieving monthly sales of ~INR500,000, the scheme is set to top INR60bn by FY20-21. To put this into perspective, ~INR60bn of BPPI drugs could adversely impact ~INR250-300bn branded sales, assuming an average price differential of 5 times. In other words, the Jan Aushadhi scheme has the potential to disrupt ~20% of IPM sales.

Government push key

The government is pushing hard to promote the Jan Aushadhi scheme, which is yet to take off. It has already: i) provided higher incentives to retailers & distributors; and ii) permitted Jan Aushadhi Kendras to substitute doctor’s prescription with a generic brand. Going forward, it is planning to: a) open 2,500 more stores by 2020, targeting one store in every block; and b) ensure quality, safety & efficacy of medicines by testing drugs at NABL accredited laboratories.

Jan Aushadhi: Outlook

As unbranded generics and Jan Aushadhi gain steam, there will be further pressure on volume, leading to lower revenue growth for branded market. However, streamlining supply of drugs, accessibility to stores, consumer awareness and acceptability of drug quality still remain key challenges for the scheme to gain steam. Trends that could potentially emerge in the coming years are:

A. Branded revenue growth will become a challenge as generics market share will keep on increasing

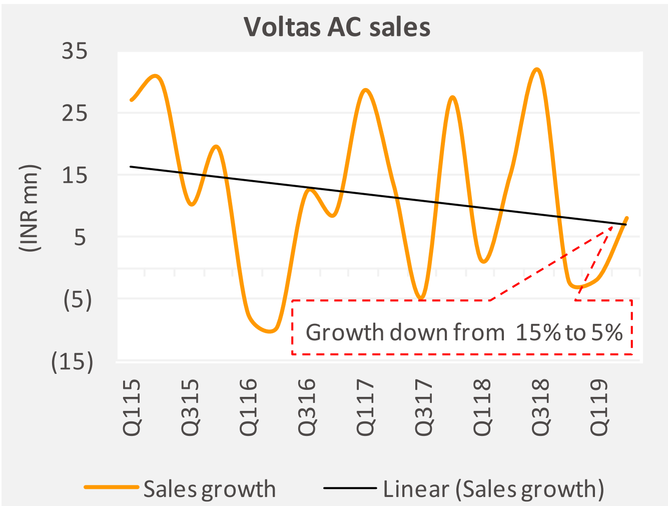
C. Role of doctor as a decision maker will change and as a result companies will spend less on market and promotion

D. Stronger regulatory over sight will be required to assure drug quality

Acute suffered from weak summers and fragmented monsoons

Summers have become less severe, evident from decelerating volume growth in air-conditioners and coolers. Unseasonal showers moderated temperatures, leading to weak summers. Also, the domestic market witnessed consecutive fragmented monsoons, leading to a softer flu season as highlighted by diagnostic players. This directly affects volumes in acute therapies like anti-infectives, gastro-intestinal and pain.

Chart 4: Slowing air-conditioner and cooler sales



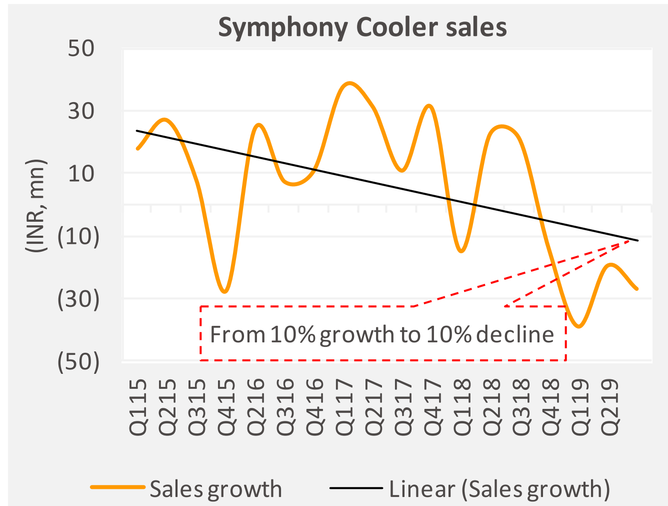
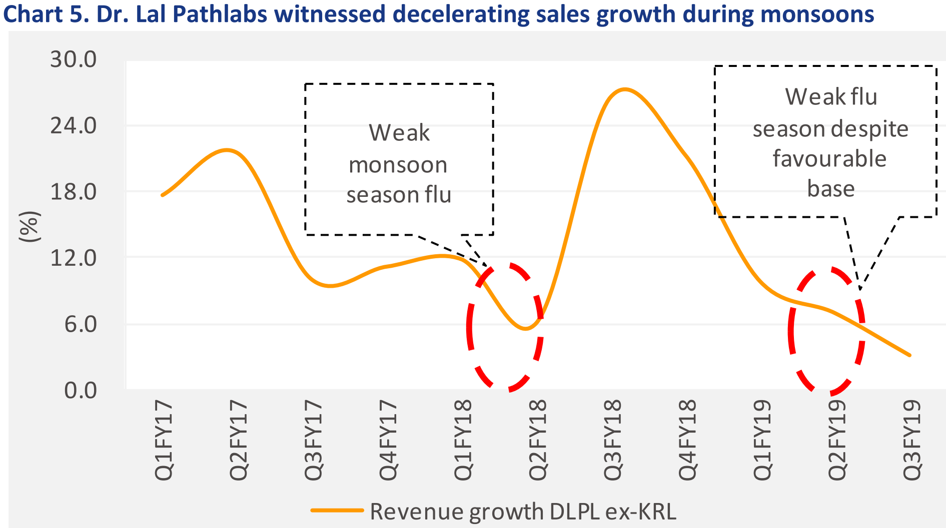


Chart 5. Dr. Lal Pathlabs witnessed decelerating sales growth during monsoons



Source: Edelweiss research, Companies

Table 2: Volume growth in acute therapies (%)

	% age of IPM	MAT Dec 14	MAT Dec 15	MAT Dec 16	MAT Dec 17	MAT Dec 18
Anti-infectives	13.6	5.9	4.2	2.4	0.4	3.3
Gastro-intestinal	11.5	5.5	7.5	(2.0)	2.1	4.7
Pain / analgesics	6.8	5.0	5.5	2.3	2.2	3.2
Respiratory (acute)	5.7	6.2	2.1	(0.9)	(1.0)	3.8

Source: AIOCD AWACS, Edelweiss research

Frequent regulatory interventions increased pricing pressure

The National Pharmaceutical Pricing Authority (NPPA) regularly imposes or revises price ceiling for drugs. Currently, 24% of the IPM is under price control where price increases are linked with WPI, which was negative in CY15-16 and turned positive in CY17-18. Table xx demonstrates that in CY16 and CY17, pricing for top-6 therapies, which account for ~70% of the IPM, saw pricing decline under the NLEM but volumes increase faster for NLEM drugs. With a resolute government in an election year, the frequency of price controls actions is likely to rise.

Table 3: Therapy-wise price and volume for NLEM and non-NLEM portfolios

			Price GR					Volume GR				
SUPER GROUP	NLEM/NON-NLEM	Value Dec-18	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18
IPM		**129,015**	**4.7**	**4.5**	**3.2**	**(0.3)**	**2.2**	**6.1**	**6.7**	**1.1**	**3.2**	**4.8**
ANTI-INFECTIVES	NLEM	6,038	4.1	1.2	(6.6)	(10.1)	1.2	3.6	6.3	2.7	5.4	5.0
	NON NLEM	11,569	3.3	3.8	3.0	0.6	1.4	(1.1)	3.0	2.2	(2.4)	2.4
CARDIAC	NLEM	5,575	2.9	2.3	(2.8)	(6.4)	0.8	12.8	8.3	2.6	5.8	6.3
	NON NLEM	10,446	5.2	5.7	5.4	2.6	2.5	10.1	8.5	1.3	5.1	8.4
GASTRO INTESTINAL	NLEM	1,902	4.2	4.3	(2.9)	(7.7)	(0.9)	1.8	10.7	4.9	5.4	9.3
	NON NLEM	12,909	6.1	6.3	5.8	2.6	3.1	7.0	7.0	(3.2)	1.6	4.0
ANTI DIABETIC	NLEM	1,543	0.6	0.8	(1.0)	(3.1)	0.5	12.0	9.3	0.5	1.3	0.9
	NON NLEM	10,600	4.9	4.8	5.7	1.9	2.0	21.3	18.6	3.6	10.2	10.8
PAIN / ANALGESICS	NLEM	1,241	2.6	2.9	(2.2)	(9.7)	(0.1)	1.6	12.5	10.8	7.2	6.7
	NON NLEM	7,556	4.9	5.1	6.6	2.5	3.5	3.6	4.2	0.7	1.3	2.7
RESPIRATORY	NLEM	1,020	5.1	5.0	(2.7)	(10.7)	0.2	11.2	10.0	9.3	7.8	12.5
	NON NLEM	8,721	5.8	6.3	6.8	2.0	4.1	2.0	5.3	(2.2)	(1.5)	5.8
VITAMINS / MINERALS / NUTRIENTS	NLEM	365	5.5	4.6	(7.2)	(11.2)	1.5	11.6	15.5	7.1	11.6	8.4
	NON NLEM	10,669	5.8	5.2	5.4	2.5	3.2	0.7	0.1	(0.7)	(0.7)	2.0

Source: AIOCD AWACS, NPPA

Note: The red box represents therapies that witnessed pricing decline in the NLEM vs. non-NLEM portfolio. The green box represents therapies that witnessed faster volume growth in NLEM vs. non-NLEM.

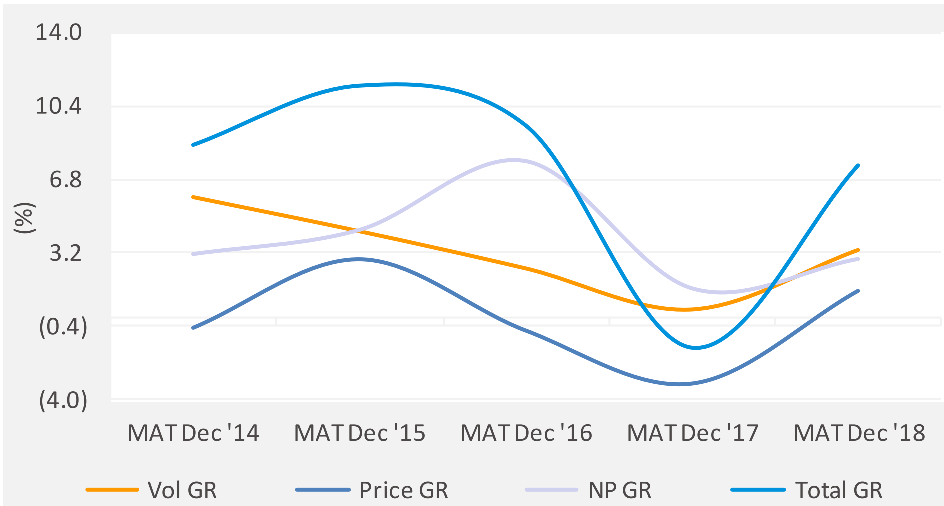
Anti-infectives, gastro, and pain slower than IPM

To understand the growth drivers better – we touch upon the growth drivers of the top six therapies that contribute ~70% of the IPM.

Anti-infectives – growth is down from 10-12% run-rate to 7-8%

Anti-infective is IPM's largest therapy area, accounting for 13.5% of the IPM or ~INR180bn. It is a seasonal therapy that used to grow at 10-12%, but has moderated in recent times, and has settled at 7.5% growth as of MAT Dec '18. Two factors that have directly affected anti-infectives growth: i) lower volumes as combination treatments replace single ingredient formulations, ii) weaker summers and monsoons.

Chart 6: Volume, price, NI chart for IPM anti-infectives



Source: AIOCD AWACS

The five main categories in the anti-infectives therapy are: 1) penicillins; 2) macrolides; 3) cephalosporines; 4) quinolones; 5) penems. The ***penicillin*** category is a first-line treatment, typically prescribed by a physician. Most prescriptions are for patients diagnosed with respiratory infections, which account for 60-70% of domestic infections. Penicillin contributes ~20% to the overall anti-infectives market and its growth has moderated to 4-5%. The ***macrolide*** category is also a first-line treatment, but with a better efficacy and lower dosage frequency, primarily prescribed in patients where dosage compliance could be an issue and where the lower dosage frequency compared to penicillin is favourable.

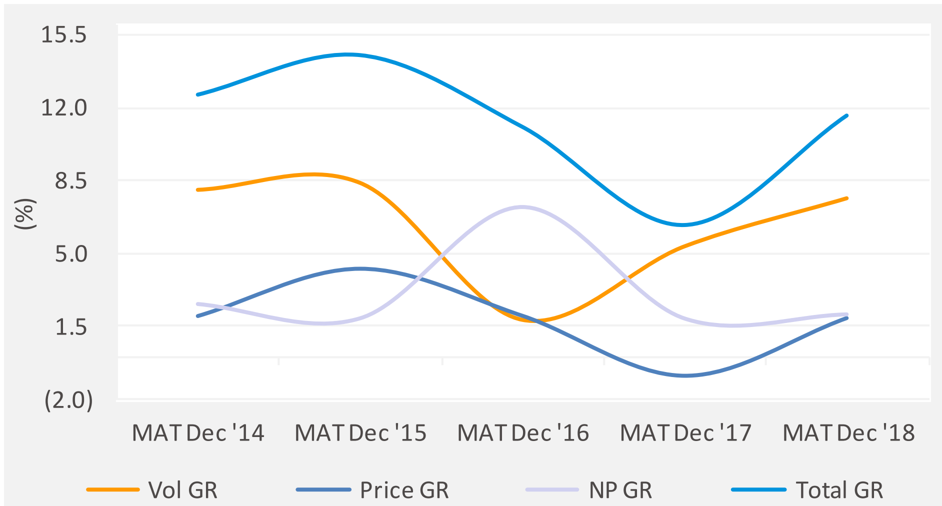
Cephalosporines are typically a second-line treatment and contribute ~35% to the overall anti-infectives market. Here too, growth has moderated to mid-single digit. ***Quinolones*** are broad-spectrum anti-infectives, which are effective against gram positive (reparatory, skin and soft tissue) and gram negative (gastro-intestinal and urinary infections) bacteria. ***Penems*** are considered the last resort antibiotics, contributing ~5% to the overall anti-infectives segment.

As of MAT Dec '18, top five anti-infectives brands include Augmentin (up 10.6% YoY), Clavam (up 13.8% YoY), Moncef (up 11.6% YoY), Taxim-O (up 3.8% YoY) and Moxikind-CV (up 14.8% YoY). Company-wise, Alkem is the largest player with ~10% market share and growing faster than IPM at 10.4% YoY. Other top players include Aristo Pharma (up 9.6% YoY), Cipla (up 0.4% YoY), Macleods (up 7.9% YoY) and Sun Pharma (up 5.8% YoY).

Cardiovascular – growth remains steady at ~11%

Cardiovascular is IPM's second-largest therapy, accounting for 12.5% of the IPM or ~INR160bn. The therapy has been clocking 11% CAGR over the past five years with 11.7% growth as of MAT December 2018. Main categories in the cardiovascular therapy are: i) lipid medications (statins); ii) angiotensin receptor blockers (sartans); iii) beta-blockers; and iv) anticoagulants.

Chart 7: Volume, price, NI chart for IPM cardiovascular



Source: AIOCD AWACS

Statins lower cholesterol levels by blocking the liver enzyme that is responsible for cholesterol production. The category accounts for 20% of the cardiac market and has been growing consistently at 10% plus. Here, new generation statins like combinations of rosuvastatin and pitavastatin are outpacing older molecules like simvastatin. ***Sartans*** or angiotensin receptor blockers (ARBs) are anti-hypertension drugs used to reduce high blood pressure. They block effects of a hormone called angiotensin II, which is known to constrict blood vessels and retain body water. Sartans account for ~30% of the cardiac market and have been growing at ~15%. Here, new generation sartans like combinations of telmisartan and valsartan are outpacing older molecules like losartan and olmesartan.

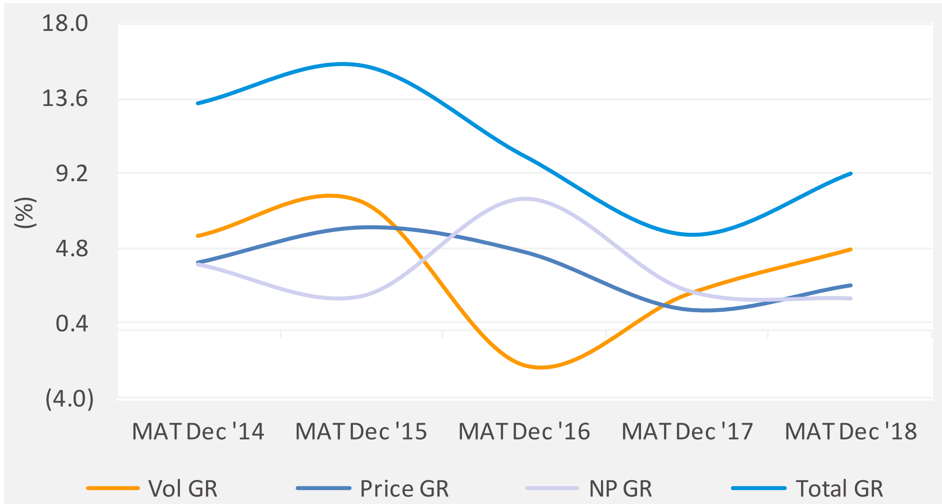
Beta blockers are used to treat a variety of conditions such as hypertension, arrhythmia, chest pain, migraine, etc. This category accounts for ~15% of the cardiac market and has been growing at 7-8%.

As of MAT Dec '18, top five cardiovascular brands include Rosuvas (up 9.3% YoY), Telma (up 27.6% YoY), Telma H (up 15.2% YoY), Ecosprin-AV (up 22.2% YoY) and Minipress-XL (down 3.2% YoY). Company-wise, Sun Pharma is the largest player in cardiovascular with ~12% market share, but growing slower than IPM at 6.1% YoY. Other top players include Torrent Pharma (up 9.3% YoY), Lupin (up 18.9% YoY), USV (13.4% YoY) and Glenmark (up 26.1% YoY).

Gastro-intestinal – growth decelerated from 13% to 9%

Gastro-intestinal (GI) therapy accounts for ~11% of IPM or ~INR150bn. The therapy has been posting 10% CAGR over the past five years with growth slowing to 9.2% as of MAT December 2018. There are three main categories in GI: i) acidity; ii) nausea; and iii) lower gastro-intestinal tract.

Chart 8: Volume, price, NI chart for IPM gastro-intestinal



Source: AIOCD AWACS

Acidity contributes ~40% to the overall segment and includes molecules like the shorter acting omeprazoles as well as longer acting categories like pantoprazoles, rabiprazoles, esomeprazoles and their combinations. Growth has tapered from the earlier 10-12% to currently mid-single digits, as these long acting combinations replace shorter acting treatments and single molecule therapies. **Nausea** is not as big as antacids, but carries a unique identity. This category contributes ~5% to the overall therapy and includes molecules like ondansetron and palonosetron.

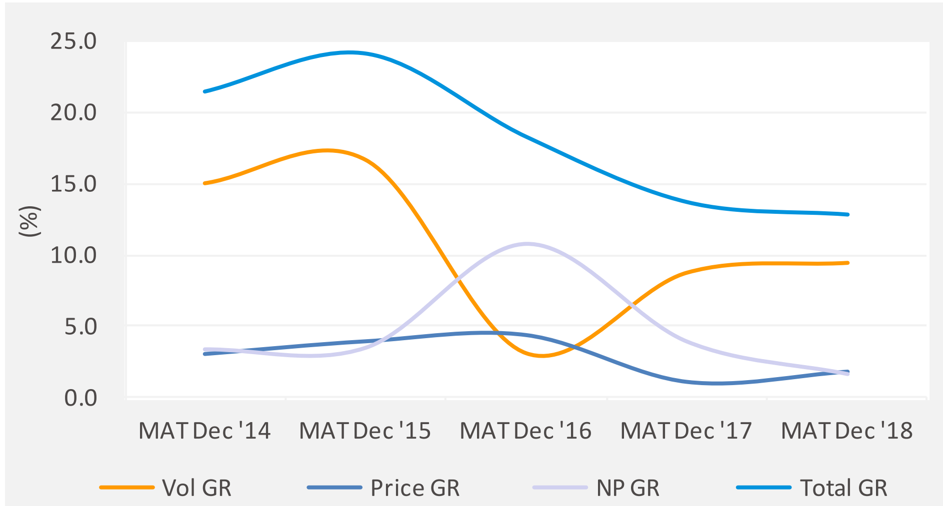
Lower gastro-intestinal tract category is large, but has a lot of tail products, which have limited significance. It includes anti-biotics for lower gastro-intestinal protozoan infections, enzymes, mesalmines, among others.

As of MAT Dec ’18, top five gastro-intestinal brands include Pan (up 6.6% YoY), Udiliv (up 47.3% YoY), Pan D (up 11.6% YoY), Spasmo Proxyvon Plus (down 24.5% YoY) and Zinetac (up 10.1% YoY). Company-wise, Abbott is the largest player in gastro-intestinal with ~11% market share, but is growing marginally faster than market at 9.4% YoY. Lupin is the third-largest player and grew 18.4% as per MAT December 2018. Other large players include USV (up 8.7% YoY), Sun Pharma (up 6.2% YoY) and Sanofi India (up 13.6% YoY).

Anti-diabetic – growth down from 20% plus to 12-14%

Anti-diabetic therapy accounts for ~10% of the IPM or ~INR125bn of the IPM. The therapy has been registering 17.2% CAGR over the past five years with growth slowing to 12.9% as of MAT December 2018. There are five main categories in anti-diabetic: i) biguanide; ii) DPP4 inhibitors (-gliptin); iii) GLP-1 agonists (-glutide); iv) SGLT2 inhibitors (-gliflozine); and v) insulins.

Chart 9: Volume, price, NI chart for IPM anti-diabetic



Source: AIOCD AWACS

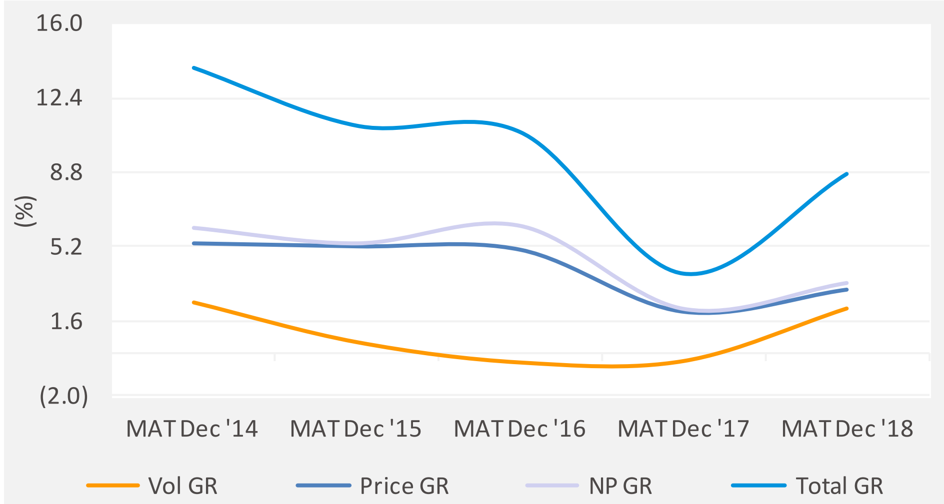
Metformin and combinations belong to the ***biguanide*** category of drugs used to treat type II diabetes. Metformin and combinations account for over 50% of the diabetes market and have been growing at ~15%. ***DPP4*** inhibitors, ***GLP-1*** agonists and ***SGLT2*** inhibitors belong to the new age of diabetes treatments, which have been growing at ~20%, ~15% and ~80%, respectively. **Insulins** used to be a last resort, but now they are often prescribed sooner because of the benefits. Insulins account for ~20% of the anti-diabetes market and have been growing at ~15%.

Top five anti-diabetic brands include Mixtard (up 3.9% YoY), Glycomet-GP (up 6.2% YoY), Lantus (up 18.7% YoY), Janumet (down 19% YoY) and Galvus-MET (down 4.4% YoY). Company-wise, Abbott is the largest player in anti-diabetics with ~13% market share, but is growing slower than the market at 9.4% YoY. Lupin is the third-largest player and grew 18.6% as per MAT December 2018. Other players include USV (up 8.7% YoY), Sun Pharma (up 6.2% YoY) and Sanofi India (up 13.6% YoY).

Vitamins – growth has come off slightly from the ~11% run-rate to ~9%

Vitamin/Mineral/Nutrients is a fast growing therapy, which could see tremendous opportunity with increasing diagnosis of vitamin deficiencies and an overall focus on healthy living. The therapy accounts for ~8.5% of the IPM or ~INR110bn of the IPM and has been clocking 8.6% CAGR over the past five years. MAT December 2018 growth came in at 8.7% YoY as lower volume growth was offset by better pricing. There are five main categories in vitamins: i) vitamin B12; ii) vitamin D3; iii) multi-vitamins; iv) proteins; and v) nutrients.

Chart 10: Volume, price, NI chart for IPM vitamins



Source: AIOCD AWACS

Vitamin D3, which also comprises vitamin D3 derivative calcitriol, contributes ~25% to the vitamins market and has been posting 12% CAGR over the past five years. ***Vitamin B12*** (methylcobalamins) forms ~25% of the vitamins market and has been clocking 10% CAGR. ***Multi-vitamins*** contribute ~25% to the vitamins market and have been registering 10% CAGR over the past five years. ***Protein supplements*** contribute ~9% and have been clocking 10% CAGR over the past five years. ***Nutrients*** have posted 12% CAGR, albeit on a small base.

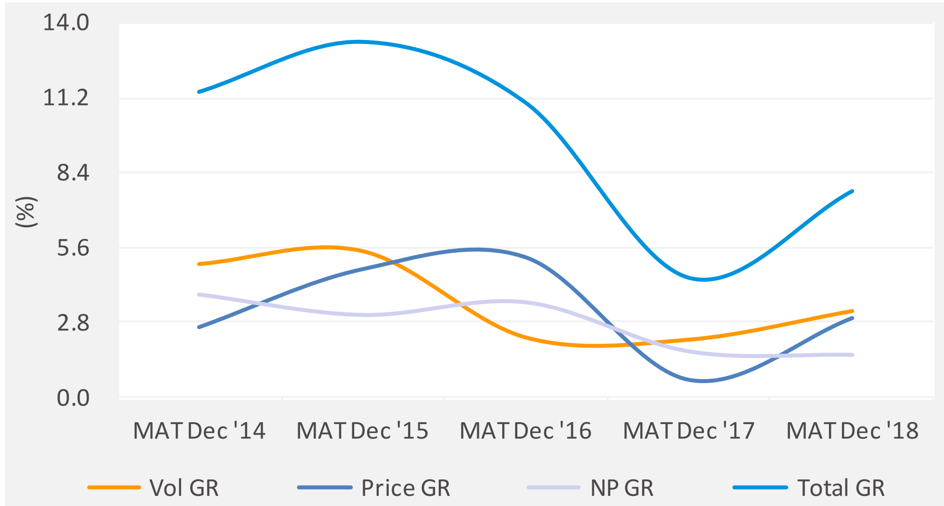
As of MAT Dec '18, top five vitamin brands include Becosules (up 24.1% YoY), Shelcal (up 18.0% YoY), A-to-Z NS (up 1.2% YoY), Similac (down 19.1% YoY) and Revital-H (up 7.9% YoY). Company-wise, Abbott is the largest player and is growing marginally faster than market at 13.9% YoY. Other players include Mankind (up 8.2% YoY), Alkem (up 7.6% YoY), Torrent (up 23.5% YoY), and Sun Pharma (up 13.2% YoY).

Going forward, vitamins, minerals and nutrients are poised to grow with the ever-increasing emphasis on health. With sedentary lifestyles, access to healthcare and preventive diagnostics and an overall stress on health & well being at workplaces, we believe the health market is likely to witness agnostic growth going forward.

Pain – ~11% run-rate has come off to ~8%

Pain/analgesics account for ~7% of the IPM or ~INR90bn of IPM. The therapy has been clocking 9.1% CAGR over the past five years, with growth slowing to 7.5% as of MAT December 2018. There are three main categories in pain: i) acetaminophens; ii) non-steroidal anti-inflammatory drugs (NSAIDs); iii) opioid analgesics.

Chart 11: Volume, price, NI chart for IPM pain



Source: AIOCD AWACS

Acetaminophens are mild analgesics that have a mild pain reducing capacity, but are safe. This category contributes ~15% to the PA market and has posted 13% CAGR over the past five years. Over the years, growth in acetaminophens has declined as combinations with NSAIDs have been taking share. ***NSAIDs*** and their combinations contribute ~50% to the pain market and have been posting ~8% CAGR over the past five years despite impact from NLEM. ***Opioids*** are prescribed in extreme pain, usually in tertiary care set ups where the pain is the most severe symptom. This category contributes ~8% to the pain market and has been registering ~12% CAGR over the past five years.

As of MAT Dec '18, top five pain brands include Voveran (down 7.0% YoY), Volini (up 0.7% YoY), Calpol (up 8.1% YoY), Dolo (up 16% YoY) and Zerodol-SP (up 32% YoY). Company-wise, Sun Pharma is the largest player in pain with ~8% market share and is growing considerably slower than the market at 3.9% YoY. Other players are Ipca (up 22% YoY), Cadila (up 5.6% YoY), Abbott (up 9.2% YoY) and Alkem (up 6.5% YoY).

Earnings, valuations at-risk for the domestic focused

The Street is building in 13-15% domestic sales growth. Our analysis indicates that beating 10% growth will be a challenge and consensus is likely to take 2-3% cut in sales, which implies 3-5% earnings impact. Companies having large domestic exposure are - Alkem, Torrent, Cipla and Glenmark. Also, expensive valuations for domestic-focused companies, which trade at significant premium, are likely to soften.

Table 4: Domestic pharma valuations

Rank	Corporate	Sales (INR, cr)	% sales from India	Acute: Chronic	% under NLEM	Dec-14 Total GR	Dec-15 Total GR	Dec-16 Total GR	Dec-17 Total GR	Dec-18 Total GR	3-yr CAGR	5-yr CAGR
	IPM	**1,29,015**				**14.5**	**14.6**	**10.8**	**5.5**	**9.4**	**8.5**	**10.0**
1	Sun	10,562	30	50:50	13.0	16.2	14.4	11.6	5.8	7.6	8.3	9.8
2	Abbott	8,106	100	60:40	17.6	12.4	15.2	9.0	7.8	11.6	9.5	10.9
3	Cipla	6,067	38	60:40	27.0	10.6	14.8	11.0	2.1	8.4	7.1	9.0
4	Cadila	5,252	100	70:30	24.0	12.9	11.2	12.0	8.5	7.1	9.2	9.7
5	GSK	4,777	100	90:10	28.0	0.2	18.0	13.9	4.8	15.1	10.7	3.9
6	Lupin	4,649	28	40:60	17.0	18.1	15.6	15.6	8.2	10.7	11.3	13.1
7	Mankind	4,450	85	70:30	12.0	19.5	5.2	13.8	3.8	10.9	9.9	11.7
8	Torrent	4,102	43	50:50	11.0	21.0	12.8	12.7	4.6	11.8	7.0	11.2
9	Alkem	3,719	70	90:10	26.0	7.5	16.2	-2.1	7.7	5.0	6.1	10.7
10	Pfizer	3,716	100	60:40	17.0	21.1	17.1	12.1	6.1	15.2	8.2	5.1
12	Intas	3,225	47	50:50	17.0	20.0	20.7	16.1	6.2	6.7	7.1	14.3
14	Sanofi India	3,021	100	50:50	20.0	20.8	17.0	11.9	3.6	15.5	8.2	9.9
15	Dr. Reddy's	3,014	20	70:30	19.0	13.3	18.2	9.8	8.6	9.1	9.7	10.7
16	Glenmark	2,860	35	60:40	11.0	20.9	19.5	6.5	10.8	10.1	7.9	15.9
20	Ipca	1,818	44	70:30	22.0	7.6	6.6	11.2	-4.2	16.7	7.5	7.3

Source: AIOCD AWACS, Companies, Edelweiss research

Table 5. Edelweiss Pharma Coverage Valuation sheet

	CMP	Target	Reco	Mcap (USD bn)	Sales (INR mn)			EBITDA (INR mn)			EPS (INR)			CAGR (%) (FY18-21E)	P/E (x)		EV/ EBITDA (x)	
INR mn	INR	Price			FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E		FY20E	FY21E	FY20E	FY21E
Sun Pharma	464	400	REDUCE	16.2	2,96,379	3,32,922	3,61,023	68,934	78,844	85,674	16.9	20.3	21.9	17.6	22.9	21.2	13.6	11.5
Aurobindo	772	780	HOLD	6.5	1,81,229	2,61,361	2,72,585	38,744	54,410	58,955	42.3	50.6	53.2	8.5	15.3	14.5	8.5	9.0
Dr. Reddy's	2,659	3,450	BUY	6.4	1,66,675	1,98,539	2,20,601	37,002	46,657	51,841	123.2	167.0	190.2	47.6	15.9	14.0	9.9	8.5
Cipla	533	490	REDUCE	6.2	1,64,907	1,84,550	2,01,808	29,171	33,643	35,075	18.0	23.0	24.4	10.0	23.1	21.8	13.1	11.6
Biocon	623	430	REDUCE	5.4	55,231	68,765	81,602	14,042	18,355	22,234	13.1	16.3	20.2	48.2	38.2	30.8	20.5	16.9
Lupin	785	1,050	BUY	5.1	1,63,733	1,93,213	2,16,664	26,394	39,355	45,577	24.3	43.3	55.1	21.4	18.1	14.2	10.4	8.8
Cadila	342	460	BUY	5.1	1,22,496	1,39,953	1,55,263	31,994	36,021	38,712	19.2	22.8	25.2	13.3	15.0	13.6	10.2	8.8
Large Cap															**21.4**	**19.1**	**12.5**	**10.8**
Torrent Pharma	1,856	1,760	HOLD	4.5	74,598	84,689	96,167	19,659	23,324	25,994	46.3	67.6	79.9	25.9	27.5	23.2	16.0	14.0
Glenmark	642	660	HOLD	2.6	1,04,610	1,17,861	1,30,979	16,337	19,545	21,321	31.7	36.8	41.0	12.9	17.4	15.6	11.0	10.1
Natco	588	800	BUY	1.5	24,418	24,760	25,704	9,359	9,622	9,705	40.0	40.3	40.7	0.6	14.6	14.5	9.8	8.8
Ipca	886	780	HOLD	1.6	36,238	42,799	47,203	6,802	9,053	9,415	32.2	48.4	53.1	46.6	18.3	16.7	12.3	11.0
Divi's	1,708	1,850	BUY	6.6	49,602	61,739	69,346	19,458	24,988	28,535	54.5	69.2	79.0	34.8	24.7	21.6	17.2	14.6
Overall															**21.8**	**19.3**	**13.1**	**11.3**

Source: AIOCD AWACS, Companies, Edelweiss research

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Coverage group(s) of stocks by primary analyst(s): Pharmaceuticals

Aurobindo Pharma, Cadila Healthcare, Cipla, Divi's Laboratories, Dr. Reddy's Laboratories, Glenmark Pharmaceuticals, Ipca Laboratories, Lupin, Natco Pharma, Sun Pharmaceuticals Industries, Torrent Pharmaceuticals

Recent Research

Date	Company	Title	Price (INR)	Recos
01-Mar-19	**Pharma**	Biosimilars: Slow off-take in US; *Sector Update*		
22-Feb-19	**Pharma**	US healthcare cost debate intensifies; *Sector Update*		
16-Feb-18	**Dr Reddy's Laboratories**	Duvvada cleared; bellwether roars!; *Flash Note*	2,563	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	240

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

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