



## Future of the pharmaceutical industry in India

Devaansh Jallan, Aryan Mehta, Devanshi Sanghani, Parth Shah, Rudresh Basarge, Sheel Narsaria

Anil Surendra Modi School of Commerce (NMIMS), Mumbai, Maharashtra, India

### Abstract

The study is focused on doing the industry analysis of the pharmaceutical industry of India by analyzing secondary data of one large, mid and small cap company in India along with finding their valuations. For the purpose of the study, IOL chemicals and pharmaceuticals, Ajanta pharmaceuticals and Sun pharmaceuticals were selected, and valuation was done using Ben Graham, discounted cash flow and expected return methodology. The purpose behind this research is to give the reader an insight of the Indian pharmaceutical industry. At the end, we were able to give a buy, sell or hold call on each of the companies analyzed.

**Keywords:** valuation, Indian pharmaceutical industry, IOLCP, ajanta pharma, sun pharma

### Introduction

The Indian pharmaceuticals market has characteristics that make it unique. First, branded generics dominate, making up for 70 to 80 per cent of the retail market. Second, local players have enjoyed a dominant position driven by formulation development capabilities and early investments. Third, price levels are low, driven by intense competition. While India ranks tenth globally in terms of value, it is ranked third in volumes.

India, known as the Pharmacy of the World, is the largest provider of generic drugs and one of the biggest suppliers of low-cost vaccines globally. India has contributed significantly to global healthcare by ensuring high quality, affordable and accessible medicines around the world.

The Pharmaceutical industry in India is yet growing and according to the Government of India it is expected to grow to \$130 Billion in the next decade.

In the last 10 years, the BSE Healthcare Index has grown at a CAGR of 12% per annum and the Nifty Pharma returned around 10.94% per annum in the past nine years. Recently with the spread of the coronavirus, pharmaceutical sector and mutual funds that invest in the pharmaceutical sector have performed better than its peers. BSE Healthcare has returned 47.23% so far this year and Nifty Pharma has returned 44.83%.

With the rise in India's healthcare market, low-cost labour and various government initiatives to help boost this sector the pharmaceutical industry remains and attractive destination for investments within India

### Macroeconomic Factors

#### GDP

Lockdowns imposed by Covid caused the economy to contract by approximately 24% in the first quarter (April, May, and June) and 15.7 % in the first half of the year (first two quarters or from April to September). As a result, the domestic economy had slipped into an economic recession. Despite dramatic fiscal and monetary stimulus, the Indian economy, which expanded at 4.7 percent in 2019, will contract by 9.6 percent in calendar year 2020, as lockdowns and other containment measures slashed domestic demand

without halting the spread of the disease. For the full year of 2020-21 then, India's GDP is likely to be Rs 134.4 lakh crore as against Rs 145.7 lakh crore in 2019-20.

### Export-Import growth

India is a developing economy, and many initiatives are taken by the government periodically to help boost the economy by giving grants and incentives on exports. The International Monetary Fund has forecasted that India's exports of goods growth will stand at 7.5% in December 2025. The pharmaceutical sector accounts for almost 5% of India's total exports and the government wishes to capture more on that and establish India as the global hub for manufacturing medicines.

The Government of India unveiled 'Pharma Vision 2020' aimed at making India a global leader in end-to-end drug manufacture. Approval time for new facilities has been reduced to boost investments and exports. The Indian government plans to set up nearly Rs. 1 lakh crore to fund companies manufacture pharmaceutical products and export them by 2023 according to ibef. India has one of the lowest manufacturing costs in the world and is ranked among the top three pharmaceutical markets in the world, giving it an export bonus. In terms of volume, Indian drugs comprise of 20% of the global generic drug exports. Pharmaceutical export from India stood at \$20.70 billion as on 31st March 2020. The Indian pharmaceutical industry is expected to grow at an annual CAGR off 22.4% and such a high growth potential can help India reduce its trade deficit by exporting these products. The export-import bill plays an important role as an indicator of growth for any economy and with such growth potential in the pharmaceutical industry in India, the government can look to assist these industries further which in a few years will help India emerge as the largest exporter of pharma products and reduce the deficit in turn.

### Inflation Growth

The inflation rates in the country are currently around 5%, closer to the lowest value historically. The rates have been declining since 2010, hinting that the economy has a whole

is performing better. The rate is expected to fall further and by 2025, rates are expected to be below 4%. The lack of funds and buying power which occurs when inflation in a country increases could impact any industry in the country. The Indian economy has done well to counter this issue even amidst a global pandemic. The pharma sector is largely impacted by the rise in inflation rates as it could make medicines out of a consumer's budget if the rates rise. The pharma sector is the worst impacted with the change in WPI rates. Drug prices in India have increased at almost 3.6% in FY2020, due to the impact of the coronavirus pandemic. India as an economy needs to control this inflation as it could cost India its dominance as a low-cost manufacturer and exporter to the world economy.

## Industry Analysis

### Government Policies

The National Pharmaceutical Pricing Policy of 2012: The department of Pharmaceuticals announced that the prices of 348 in the National List of Essential Medicines would be brought under price control. Replacing an earlier of just 74 drugs, this drastically affected sales and margins of many pharmaceutical companies.

Setting up of special economic zones (SEZs): According to the organizers, the incentives provided from the SEZ include duty-free import and domestic procurement of capital goods, raw materials, office equipment and other materials; domestic sales of finished products is allowed on payment of applicable customs duties; 100% income tax exemption for five years and 50% exemption for two following years, and exemption from minimum alternate tax (MAT), 100% foreign investment automatic approval. By the end of 2010 more than 200 Pharmaceutical companies were set up in the SEZ of Himachal Pradesh called Baddi.

The Indian government has endorsed the concept of a pharmaceutical cluster, which exempts goods that are exported from import duties as well as local taxes (depending on the state government). From a tax standpoint, the net profit of manufacturing in a cluster tends to be about 14 percent (the ordinary 34 percent corporate rate is reduced to 20 percent).

Pharmexcil was developed and funded by the Indian government to promote exports. Pharmexcil informs its member companies about export prospects and encourages them to attend foreign trade shows. Pharmexcil represents Indian companies' interests in international markets, such as when regulatory concerns arise.

On the R&D front, India has done outstanding work in developing non-infringing newer processes for manufacturing a wide range of patent-expired APIs, which it has been able to commercialize for both domestic and international use. The present Patents Act 2005 enables companies to protect their innovations. The R&D expenditure can have a claim for deduction of expenses incurred for R&D u/s. 35(2AB) of the Income Tax Act.

### Opportunities for the industry

1. **Medical Tourism:** It basically refers to persons travelling globally to receive medical treatment. India can capture on this opportunity with its quality services at marginal costs as compared to the European and south Asian nations. The business model of Dr. Devi Shetty with the Narayana Hospital chain could be

implemented for other illness as well, attracting patients globally. With the government now giving visas for medical purposes, the medical tourism industry in India, which is valued at about 6 billion dollars, is bound to reach new highs. Apart from this, the prime attraction is the Ayurveda services offered at various hospitals in the country.

2. **Manufacturing Raw Material (Active pharmaceutical ingredients):** India is a key importer of raw materials from China which are used by the pharma companies to manufacture drugs. With the government providing incentives and allowing a 100% FDI in green field pharmaceutical projects, the economy can aim at boosting its own capacity to produce/ manufacture these raw materials. According to studies, due to the low cost of production and the low R&D costs, the cost of manufacturing in India is about 33% lower than that in the United States.
3. **Reaching the untapped rural market:** though urbanization continues in full force in the country, according to PWC, about 70% of India's population still resides in rural areas. As we are aware, this population in the rural areas has less access to quality treatment and medicines. Thus, pharmaceutical companies can aim to target these areas, set up manufacturing hubs, creating employment and a new market for their product. Though the urban India seems a more lucrative option to function in, the rising income levels leading to more affordability in these areas, is what is going to change the approach for these companies.

### Challenges for the industry

1. **Infrastructure:** The key problem that the pharmaceutical industry in India faces is the shortage of power and inadequate transport facilities across the country. Though the situation is improving, these companies cannot tap the rural markets completely without the governments support. Another issue is that remote villages have a small dispensary catering to a large number of people, which often leads to shortage of medical staff when needed.
2. **Counterfeit Medicines:** A major setback to the Indian pharmaceutical industry is the usage of spurious drugs for treatment which can turn out to be fatal. According to a survey by the World Health Organization, about 3% of the total medicines in the Indian market are spurious. Fake versions of high value brands of pharmaceutical companies are adversely affecting their business performance and causing huge health hazards. This is a major obstacle that the pharma companies need to overcome and ensure that only standardized products are being shipped out of their manufacturing units.
3. **External Markets:** India is completely dependent on china to import the active pharmaceutical ingredients to manufacture drugs. China accounts for almost 80% of the APIs used in India. This creates a huge dependency on the Chinese manufacturers and India is at the mercy of supply disruptions and unpredictable price

fluctuations.

### Porter's 5 forces model

1. Threat of new entrant: One of the most important things for the Indian Pharma industry is their focus on research and development to sustain their position in the market. This comes at a very high cost. Moreover, there are also strict government laws for approval of new drugs. Besides this, there are many other obstacles such as developing effective distribution plans, selecting the appropriate products and competing with bigger and established companies. These factors make the threat of a new entrant fairly low to moderate.
2. Threat of substitutes: The demand for generic drugs has increased compared to branded drugs because they are much cheaper than the later as they didn't have to incur research and development costs and costs related to regulatory activities such as FDA approval and clinical trials. Generic drugs act as substitutes to branded drugs hence increasing the threat of substitutes. Rising popularity of Homeopathy, Naturopathy, Ayurveda etc. has also increased the threat of substitutes.
3. Bargaining power of buyers: The market is filled with sellers offering homogenous products. Buyers i.e. hospitals and other healthcare organisations get various options to choose from. They are generally able to prevent the pharma companies from hiking the prices substantially. Hence, the bargaining power of buyers is moderate. However, a unique feature of the pharmaceutical industry is that the buyer i.e. the patient is different from the influencer i.e. the physician. The consumer has no option to purchase the drug that has been prescribed by the physician. Hence, the bargaining power of the patient is very low.
4. Bargaining power of suppliers: Manufacturing pharmaceutical products requires many different types of organic chemicals. There are also many suppliers of these chemicals present in the market. Hence, the bargaining power of suppliers is low as the pharma companies can find suppliers that competitively priced products.
5. Competitive rivalry: The pharmaceutical industry in India is cutthroat and extremely competitive. Many small and large firms exist in the market space. Due to high barriers to entry and also to growth the high research and development costs involved, there are a few very large firms in India that compete with each other on various fronts. These companies are namely Sun Pharma, Cipla, Lupin, Dr. Reddy's Laboratories etc.

### IOL Chemicals and Pharmaceuticals

#### Management Analysis

Mr. Varindar Gupta is the Managing Director and CEO of IOL Chemicals and Pharmaceuticals. Under his leadership the company has seen an exponential growth in sales and the same has reflected in the stock price of the company which has surged over the past few years. Mr. Gupta had clear goals with respect to the capacity expansion which has resulted in growth of the company and has clear ambitions on what he wants from the company in the future. The management has not taken out any dividends, showing that they have reinvested whatever profits that they had back

into the business proves how confident the management is in their goals.

The promoters holding has increased from 41.89% to 43.69% over the past year showing that the management trusts the growth potential in the stock and so should the investors. They have been holding regular meetings to discuss the key points of pertaining to the organization.

There has also been more trust that has been put on this company by the Foreign Institutional Investors as their holdings increase to 7.77%.

The management has taken decisive steps to reduce the debt of the organization and is planning on funding all future expected capex through the profits and not taking up an additional debt, showing the risk averse nature of the management.

The compensation of the management has been 0.89 since 2016 with no increase since. Earlier it was 0.45 with no fixed percentage of the Profits, shows that the management is not drawing out a lot of money in terms of compensation.

All in all, the management of the organisation has done a good job in improving profits, reducing debt, and expanding the business all while they made the organisation financially sound. Thus, we can conclude to say that even though Mr Gupta does not have much formal education he has been a good leader and visionary for IOL Chemicals and Pharmaceuticals.

### Products, Markets and Customers

#### Products

The company is into two different industries: Active Pharmaceutical Business (API) and the Specialty Chemical Business. The API business constitutes for 64% of the income of the company with the remaining 36% coming from the Specialty Chemicals segment. IOLCP is one of the biggest players in Ibuprofen with a 30% global market share. It owns the world's second largest manufacturing facility and is the only producer with backward integration. Under the API segment 6 APIs are commercialized and 10 other APIs are in the advance stage of development. The company is focusing on generic product development and cost-effective commercialization.

#### Markets

The company not only supplies to the Indian market but also exports to 55 other countries worldwide. The company's quality-focus, dedication to technical excellence and an unwavering commitment to its customers has resulted in their strong network today.

In a recently held con-call in November the CEO claims to have expanded their reach this financial year to 80 countries now ranging from Europe to Latin America. They are looking at expanding into more countries over time while at the same time creating a strong base in the countries, they are already present in.

#### Customers

Since the company is present in 80 different countries this means that they have customers spread all across the globe. The company has clients who cater to pharmaceuticals to paints industry. Their two biggest customers are Strides and Granules who import raw materials from the company for Ibuprofen manufacturing. Some of their other customers apart from the ones in the picture below are BASF, Sun

Pharma, ITC, Uflex, Dr Reddys Labs, Sinochem Pharma, DIC, Nectar Life, Asian Paints, ICI Paints, Hindustan Polyamide, Avon Organics among others.

**Swot Analysis**

**Strengths**

IOLCP is a major player in Ibuprofen manufacturing, accounting nearly 30% of global capacity. IOLCP has world’s second largest Ibuprofen manufacturing facility and is only company that has backward integration. IOLCP started its business with Ethyl Acetate production and is one of the largest producers in the world with 87,000 TPA. It has a 30% Market share in the key ingredient of manufacturing Ibuprofen, being Iso Butyl Benzene.

The Ibuprofen manufacturing facility is USFDA approved and has CEP, EUGMP and WHOGMP accreditation. They have the Largest Ethyl Acetate producing plant in India. Its clients are not concentrated, they are spread across 50 countries catering not just to pharmaceutical companies but paints industry too. Company has had a Net Profit CAGR of 49% over the past 5 Years and a Return on Equity of 59.19% in the last 3 Years.

**Weakness**

Large transactions with a single related party, Vivachem Ltd could prove to be a weakness for the company if something were to go wrong with the said organisation. Dependence on Ibuprofen and Ethyl Acetate. Any changes in this market could adversely affect the business of IOL Chemicals & Pharmaceuticals, as most of its sales are from these two drugs.

**Opportunities**

Clients from USA account for only 1% of the revenue, and it can use the approvals from USFDA, WHOGMP etc to attract new clients. Growth of Domestic and International markets provide potential for growth. Atmanirbhar Bharat campaign could prove to be a major boost to the company as India is seeking to reduce reliance on China. Production Linked Incentives for the manufacture of Bulk Drug and Chemicals could prove to be a great opportunity for the company to expand into more products. There has been a growth in the use of Ethyl Acetate, IOLCP is in a unique position to use this growth to their advantage and expand customer base.

**Threats**

There is a growing competition in the generics market domestically that could potentially pose a threat to the company. Solara and BASF have invested in building an Ibuprofen plant, this would directly affect the business of IOL Chemicals & Pharmaceuticals.

**Future Growth and Expansion Plans**

One of the main reasons IOLCP’s share price has increased in the recent past is the rising prices of Ibuprofen and Ethyl Acetate – its two main products that are sold. Therefore, if the company wants to maintain its current levels of profitability the stability in prices of these two products will be absolutely crucial. In the current scenario and after looking at con-calls it appears that there is a supply gap in the Ibuprofen market and Solara is coming up with a new plant that is aimed at filling the gap. In the past year the

prices have somewhat stabilized which means that the current prices may remain.

The MD has suggested 150-200 crores of Capex over the next 5 years. This capex will come from internally generated funds which is a good signal. The capex will be aimed at new products so that the company in the long term can reduce their dependence on Ibuprofen and Ethyl Acetate. Currently 80% of API revenue comes in from Ibuprofen. Short term target is 70% and in the long term (3 years) it’s expected to reduce to 50% with product diversification.

The company aims to come up with 2-3 new plants every year according to the MD. This would mean that they aim to launch 2-3 new products every year. In the next 2-3 years the company plans to launch 8 new products and aims the 150-200 crores capex at the setup of these products. The products are – Losartan, Albendazole, Folic Acid, Fexofenadine, Dextromethorphan, Valsartan, Levetiracetam and Gabapentin. All in all, the MD expects the company to grow at a rate of 15-20% for the next 5 years.

**Valuation**

**Table 1**

Intrinsic Value Range		
IOL Chemicals & Pharmaceuticals Ltd		
	Lower	Higher
Dhandho	4,438	6,977
Ben Graham	6,322	11,640
DCF	7,037	
Expected Return	7,948	
Current Market Cap.	3,406	

Four methods of valuation were used. Considering all the 4 methods we can say that IOL Chemicals and Pharmaceuticals is roughly valued between 4500 crores to 11600 crores. This a huge range but accurately predicting a company’s valuation is near impossible. Comparing this valuation with the current market cap we can say that the company is still very undervalued.

Considering the above factors, we give a BUY Call for the company with a price target of 7000 crores. This represents a ~100% upside from current prices.

**Ajanta Pharmaceuticals Management Analysis**

The management of APL has fairly been consistent over the years in achieving the goals and targets laid down by them. The company’s value creation index also has a positive slope in the last 10 years. Under the chairmanship of Mr. Mannalal Agarwal, the company has seen steady growth in sales and the same has been reflected in the rising share prices over the years. The company has been paying dividends steadily over the years with the payout ratio increasing over the years, which shows that the company under the current management has been able to generate stable cash flows. The year ended December 2020 saw an increase in FII/FPI holdings in the company has the holdings increased to 7.9% which shows increasing trust in the management.

The management has been successful in reducing the once very high debt burden and as of the current financial year, the company is debt free. This highlights the managements

working, enhancing their cash management abilities and ensuring safety of investment to the shareholders. They plan to fund all upcoming capital expenditure by means of own funds, further highlighting the risk averse nature of the management.

The last board meeting was held on 2nd February 2021 in which the quarterly results were disclosed. There has been a managerial hike in fees of 10% in the current financial year, which is in lieu of their performance and is justified.

Each of the persons in the top management of the company are highly educated and qualified individuals who have had years of experience in various sectors and contribute passionately in the active working and success of the organisation. A special mention needs to be made toward the efforts of Mr. Rajesh Agarwal and Mr. Yogesh Agarwal who have been instrumental in the turnaround of the company from a meagre domestic player to a reputed international giant.

## **Products, Markets and Customers**

### **Products**

The company is primarily into three different industries: Branded Generics, Generics and Institutional Business. The branded generic business is the key source of revenue for the company contributing to almost 70% of its revenue and grew by almost 22% in the emerging Asian and African markets in the last financial year. With over 1400 products in its portfolio, the company is a leader in various segments including ophthalmology, dermatology, cardiology and pain management. As of 31st December 2020, APL has 36 ANDA approvals which are commercialized and another 18 waiting for approval. Ajanta Pharma was the 1st Generic Company to obtain 'WHO Pre-Qualification' for Anti-Malarial product. Currently, it's one of the 6 biggest suppliers of anti-malaria product to the global fund. The company is also involved in the manufacturing of 6 major APIs: Lumefantrine, Propyphenazone, Atenolol, Picotamide, Acipimox and Tenatoprazole.

### **Markets**

Ajanta Pharma is a strong global player and its products are exported to 30 different countries, primarily in Asia and Africa. With the rising demand for its products in the US markets, the company expects its exports to go up and the profitability in turn.

The company has followed a policy of targeting emerging markets and entering it with a first to market product and establishing itself as a strong player and plans to continue the same. The only source of concern for the company is that 70% of its revenue comes from exports and hence there is a huge forex risk.

### **Customers**

The customer base for Ajanta Pharma's products is vast, expanding over 30 countries. Most of these countries are emerging markets who welcome APL's products due to its affordability and reliability. Over the years, the company has entered into many joint ventures with governments of emerging economies and has profited immensely. With their mission to address the unmet needs of the customers, APL's set of customers continue to grow with each new product launched and the company has the capability to access markets in various developed nations as well.

## **Swot Analysis**

### **Strengths**

Ajanta Pharma now boasts of a strong and resilient infrastructure. Three green-field manufacturing facilities in addition to earlier 5 facilities would enable it to meet the growth demand for the next 5 years. All these facilities are state of the art, equipped with most advanced machines, capable of complying with the most stringent regulatory requirements. The anti-malaria institution business for Artemether-Lumefantrine in Africa grew 25% in the year. It really boosted their revenue. It launched total 18 new products in India across 4 specialty therapies. Out of this, 7 were first-to-market. This includes eye drop Ripatec (Ripasudil), anti-hypertensive drug Azusa (Azilnidipine) and moisturiser Aqura HF. These launches ensured the continued growth in coming years apart from our existing products like MetXL, Softdrops and others which keep climbing new highs. Company with low debt benefits not only the functioning of the company but also for investors. There is stability and lower risk of bankruptcy. It instils shareholders faith in them for correct investments.

### **Weakness**

About 70% of the company's turnover comes from exports and hence, foreign currency risk is one of the important risks it has to manage on continuous basis, some of them being adverse sharp movement in local/overseas currency rates. Company has a Forex policy and forex risk management committee in place to manage forex exposure. It manages forex risk with hedging about 50% of its foreign currency exposures with plain vanilla forwards. Promoters are decreasing their shareholding. Inefficient use of assets is there because ROA is declining over the last couple of years.

### **Opportunities**

22 ANDAs are waiting for approval from USA FDA. Once they are approved they provide an even greater opportunity to grab an increased market share in the pharmaceutical industry. There is investments in manufacturing facilities (Dahej, Guwahati and Pithampur) and expansion of R&D centre. This capital was allocated to ensure that it is ready for satisfying upcoming opportunities, while maintaining highest quality standards. Most importantly, it was funded entirely from internal accruals. With all these facilities commencing operations, it is expected easing of pressure on our operating free cash flow in coming years. Branded Generic business, which constitute almost 70% of our revenue, is strongly built on providing solutions to the patients for their unmet medical needs through R&D and achieve consistent growth. For the year, it performed well with a growth of 17% and going forward, it should achieve a growth in the range of low teenagers.

### **Threats**

Company's operations span across the globe having diverse political and economic environments. Any adverse change like political instability leading to policy uncertainty, tariff/trade wars, economic sanctions, leading to weakening of Global economy may impact company's business. Company continuously evaluates political and economic scenario across the globe and restricts overall exposure to identified countries, in terms of sales and invested capital. Increasing

trend in non-core income. Companies with better R&D and higher capital at disposal are a threat. For instance covid-19 vaccine was not found out by Ajanta pharma but Serum Institute of India.

**Valuation**

Four different methods of valuation were used. Considering the above range, we can say that Ajanta Pharma Ltd.'s valuation should be in range is between Rs 3,900 crore to Rs 11,500 crore. It's a big range, but we have to accept it as predicting the exact market cap is nearly impossible. Now, if the current market cap is within this IV range, it makes the stock reasonably/attractively priced. But since the current market cap is higher than the higher value of the range, it makes it overpriced. Hence, the stock is going to see bullish sentiments in the near future and is overvalued according to our calculations.

Hence, considering all the above factors, we give a SELL Call for Ajanta Pharma Ltd.

Intrinsic Value Range		
AJANTA PHARMA LTD		
	Lower	Higher
Dhandho	3,895	6,316
Ben Graham	7,673	11,528
DCF	5,683	
Expected Return	7,812	
<b>Current Market Cap.</b>		<b>15,863</b>

Fig 1

**Sun Pharmaceuticals Management Analysis**

Sun Pharma is headed by Israel Makov who is the Chairman of the company. Under his leadership the company has seen an exponential growth in sales and the same has reflected in the stock price of the company which has surged over the past few years Dilip Shanghvi the Managing Director and has extensive industrial experience in the pharmaceutical industry. Shanghvi is also Chairman and Managing Director of Sun Pharma Advanced Research Company Ltd., and Chairman of the Shantilal Shanghvi Foundation. The MD has won many awards for his contribution and being an ideal entrepreneur. The promoters of the company hold more than 50% stake in the company, which is a very reflection of stable management in the company. The current management has received a lot of praise from the employees for providing with a very good work environment and opportunity to grow. The management has made it possible for the company to become one of the biggest pharma companies not only in India, but in the world. Sun Pharma has expanded to many countries and now has an international presence due to it's management. The management is gradually ramping up their global specialty business. The management has planned to increase its contribution to the consolidated revenues in the long term. This will entail significant front-ended investments, with commensurate revenue streams accruing only over a period. The management has taken decisive steps to reduce the debt of the organisation and is planning on funding all future expected capex through the profits and not taking up an additional debt, showing the risk averse nature of the

management.

**Swot Analysis Strengths**

Globally, Sun Pharma is among the top five pharma companies. It has a renowned presence in the generics market. The company has successfully managed to increase its footprint in the emerging markets. It is one of the largest companies in the Indian generics market and also at the top in India in branded specialty chronic segment. With the acquisition of Biosintez, a Russian drug maker, the company expanded in Russia as the country was looking to increase its local production of generics. In 2014, Sun Pharma also acquired Ranbaxy laboratories. This led to it becoming the 5th largest generic company in the world with its annual sales increase of 68% in the generic market. Ranbaxy had a strong presence in Russia and hence this acquisition further helped with its expansion in Russia. In the US, Sun Pharma is the 4th largest company in generics, 3rd largest in branded dermatology and largest in generic dermatology. The company continues to grow in the US with the increase in ANDA (Abbreviated New Drug Application) approvals. The company has strong financials. Since the last two years, it's ROA, ROE, revenue and profits grew every quarter. The company has low debt and is financially stable.

**Weakness**

The Company faces weaknesses from its subsidiary's underperformance. It has also faced numerous regulatory issues. The drug prices have been reduced by the regulators leading to difficulties for the company. At the same time, The US FDA (Food and Drug Administration) had an inspection at the Mohali manufacturing unit of Sun Pharma and they found seven breaches. This can have an impact on the sales at the company's biggest market. There are two weaknesses from a financial standpoint as well. The promoter has been decreasing their shareholding which raises trust issues among the other shareholders. Also, the company is facing a declining net cash flow and is facing difficulties in generating net cash.

**Opportunities**

Sun Pharma has numerous opportunities that can help with the expansion and growth of the company. Firstly, Ranbaxy has a number of OTC drugs. The company can leverage on those and increase its share of revenue from the OTC products by focusing on popular brands under Ranbaxy. Secondly, Sun Pharma hopes to increase its footprint in the oncology market with it's new product Gemcitabine Infusmart. Thirdly, Sun Pharma already has a good presence in the US dermatology market but it hopes to further expand it. It has launched a new dermatology product Suncros. This will help to increase its retail offering and is already leading to growth in market share which is expected to further increase in 2-3 years. Lastly, the company plans to outsource a part of its manufacturing to save costs. All this has led to brokers upgrading their target price of Sun Pharma for the next three months.

**Threats**

The biggest threat Sun Pharma is facing is the growing competition in the generics market. There are a number of

low-cost rivals like Cipla, Lupin and Dr. Reddy’s. The market share of these companies in the Indian generics market continues to increase as more patents are expiring and it can have an impact on Sun Pharma’s market share. Secondly, the presence of controls on drug prices by the government poses a major threat for the company. Changes in pricing can have a negative effect and impact profitability. Sun Pharma exports pharmaceutical products and thus faces the risk of foreign currency fluctuation. Lastly, the company has had a history of acquisition-based growth which is not as sustainable as growing organically. There is an increasing trend in non-core income.

**Future growth and expansion plans**

Sun Pharma’s US Business which accounts for almost a third of its revenues, is improving rapidly. It has reported growing revenues for the second consecutive quarter after declining for four consecutive quarters. This growth is a result of improvement in the specialty segment. The company’s three specialty products – Ilumya, Cequa, and Lonza have been flying off shelves, and have crossed their pre-covid level in sales, hence increasing their market share in respective segments. Additionally, with doctors reopening their clinics, patient footfalls are expected to rise, which are still below pre-Covid levels. US business is growing majorly because of the increase in prescriptions which is a result of patients returning back to OPDs. Moreover, the company has filed for 90 ANDAs which are in the pipeline and currently awaiting approval.

In India, the recovery from is still in progress with patient footfalls still at 75% of pre-covid levels. Despite of this, Revenue increased by 9.4% and the company launched 27 new products in Q3FY2021 to boost growth. In Q3FY20, Halol plant went under cGMP (Current Good Manufacturing Practice) inspection and received 8 observations including one issue of data integrity. The plant has been under OAI (Official Action Indicated) status since March, 2020. The OAI classification states inter- alia that the USFDA may withhold approval of any pending product applications or supplements filed from this facility till the outstanding observations are resolved. This has affected the 90 ANDAs and 6 NDAs that are in the pipeline awaiting approval. The company has completed its Corrective and Preventive Actions (CAPA) for the Halol plant and is currently waiting for a physical USFDA audit which is expected to take place in FY22. The company and other industry analysts are expecting a resolution in the first half of FY22. This will boost the approval for new products and further enhance the company’s performance in US. The company also made R&D Investments of Rs. 560 crores which is 6% of sales.

**Valuation**

Intrinsic Value Range		
Sun Pharmaceuticals Industries Limited		
	Lower	Higher
Dhandho	74,764	1,51,046
Ben Graham	78,893	1,16,542
DCF	1,42,171	
Expected Return	1,47,122	
Current Market Cap.	1,38,754	

Fig 2

Four methods of valuation were used which gave us a range of the intrinsic value of Sun Pharma. The current market cap is within this range, in fact it is on the higher end. Yet, there is still scope for possible increase in share price based on these valuations. Moreover, all the points mentioned above indicate that the company is looking to grow further. Especially the recent increase in sales and profits and a strong expected recovery from COVID on the back of exceptional performance in US, indicates that the stock price will increase in the future.

Increase in approval ratings for post-Halol resolution also indicates the same. Hence we give a BUY Call for the company with price target of Rs. 675 or approximately 1,62,000 crores. This is a 16.7% upside.

**Conclusion**

The Indian Pharmaceutical Industry is expected to grow to \$130 billion by 2030. The medical device market is expected to grow to \$25 billion by 2025. The Indian biotechnology industry is expected to hit a \$150 billion valuation by 2025. Medicinal spending in India is expected to grow at 9-12% per annum over the next 5 years making India one of the top 10 countries in the world when it comes to medicinal spending. Going forward higher growth is expected in the chronic diseases segment since such cases are on a rise.

The government is trying its best to help bring healthcare expenses down via a focus on generic drugs. This will benefit Indian pharmaceutical companies. In addition, the Covid-19 vaccination drive is being led by Indian pharmaceutical companies thus making India a more renowned player in the global pharmaceutical landscape. The government’s focus on rural health programmes augurs well for pharmaceutical companies

After analyzing the three companies we give a BUY Call on Sun Pharma and IOL Chemicals and Pharmaceuticals and a SELL Call on Ajanta Pharma.

**References**

1. Biradar S. Outlier in Focus: A Quick View of IOL Chemicals and Pharmaceuticals, 2019. Retrieved from capitalmind.in: <https://www.capitalmind.in/2019/01/outlier-in-focus-a-quick-view-of-iol-chemicals-and-pharmaceuticals/#:~:text=IOLCP%20customers%20are%20spread%20across,from%20IOLCP%20for%20Iburofen%20manufacturing.>
2. IOL Chemicals and Pharmaceuticals. 33rd Annual Report 2020. IOL Chemicals and Pharmaceuticals, 2020.
3. IOL Chemicals and Pharmaceuticals. Transcript of Earnings Conference Call for quarter and half year ended 30th September 2020. IOL Chemicals and Pharmaceuticals, 2020, 25.
4. Malik DV. Analysis: IOL Chemicals and Pharmaceuticals Ltd, 2021. Retrieved from drvijaymalik.com: [https://www.drvijaymalik.com/analysis-iol-chemicals-and-pharmaceuticals-ltd/#:~:text=Valuation%20analysis%20of%20IOL%20Chemicals,ration%20\(PEG%20ratio\)%3A%200.09&text=P%2FB%20ratio%3A%205.45,P%2FS%20ratio\)%3A%202.34](https://www.drvijaymalik.com/analysis-iol-chemicals-and-pharmaceuticals-ltd/#:~:text=Valuation%20analysis%20of%20IOL%20Chemicals,ration%20(PEG%20ratio)%3A%200.09&text=P%2FB%20ratio%3A%205.45,P%2FS%20ratio)%3A%202.34)
5. Bush T. Pestle analysis of pharmaceutical industry, 2019. Retrieved from PESTLE analysis:

- <https://pestleanalysis.com/pestle-analysis-of-pharmaceutical-industry/>
6. (n.d.) Retrieved from <https://pestleanalysis.com/pestle-analysis-of-pharmaceutical-industry/> Farooq, U. (2020, January 19). Retrieved from <https://www.marketingtutor.net/pestle-analysis-of-the-pharmaceutical-industry/>
  7. EP News Bureau. Indian pharma industry: Backbone of Indian economy in the current pandemic, 2020. Retrieved from [expresspharma.in](https://www.expresspharma.in/): <https://www.expresspharma.in/market-pharma/indian-pharma-industry-backbone-of-indian-economy-in-the-current-pandemic/#:~:text=The%20contribution%20to%20GDP%20and,GDP%2C%20making%20a%20significant%20mark.>
  8. IBEF. Indian Pharmaceutical Industry, 2021. Retrieved from [ibef.org](https://www.ibef.org/): [https://www.ibef.org/industry/pharmaceutical-india.aspx#:~:text=Indian%20pharmaceutical%20sector%20is%20expected,US%24%2025%20billion%20by%202025.&text=India's%20domestic%20pharmaceutical%20market%20turnover,%24%2018.12%20billion\)%20in%202018.](https://www.ibef.org/industry/pharmaceutical-india.aspx#:~:text=Indian%20pharmaceutical%20sector%20is%20expected,US%24%2025%20billion%20by%202025.&text=India's%20domestic%20pharmaceutical%20market%20turnover,%24%2018.12%20billion)%20in%202018.)
  9. Invest India. (n.d.). Indian pharmaceuticals - a formula for success, 2021. Retrieved from [investindia.gov.in](https://www.investindia.gov.in/): <https://www.investindia.gov.in/sector/pharmaceuticals>
  10. Business Standard. Ajanta Pharma, 2021. Retrieved from Business Standard: <https://www.business-standard.com/company/ajanta-pharma-13504.html>
  11. Economic Times. Ajanta-pharma-ltd/directorsreport, 2021. Retrieved from [economictimes.indiatimes.com](https://economictimes.indiatimes.com/): <https://economictimes.indiatimes.com/ajanta-pharma-ltd/directorsreport/companyid-3723.cms>
  12. Money control, 2021. [pharmaceuticals/ajantapharma](https://www.moneycontrol.com/india/stockpricequote/pharmaceuticals/ajantapharma/AP22). Retrieved from [www.moneycontrol.com](https://www.moneycontrol.com/): <https://www.moneycontrol.com/india/stockpricequote/pharmaceuticals/ajantapharma/AP22>
  13. [moneyworks4me](https://www.moneyworks4me.com/). [ajanta-pharma/company-info](https://www.moneyworks4me.com/indianstocks/mid-cap/healthcare/pharmaceuticals-drugs/ajanta-pharma/company-info). Retrieved, 2021. from [www.moneyworks4me.com](https://www.moneyworks4me.com/): <https://www.moneyworks4me.com/indianstocks/mid-cap/healthcare/pharmaceuticals-drugs/ajanta-pharma/company-info>
  14. IIFL Securities, 2020. [ajanta-pharma-ltd/management-discussions](https://www.indiainfoline.com/company/ajanta-pharma-ltd/management-discussions/13504). Retrieved from [www.indiainfoline.com](https://www.indiainfoline.com/): <https://www.indiainfoline.com/company/ajanta-pharma-ltd/management-discussions/13504>
  15. Kushal Rughani, 2021. Re-Initiating Coverage-Ajanta Pharma Ltd. Retrieved from [www.hdfcsec.com](https://www.hdfcsec.com/hsl.research.pdf/Re-Initiating%20Coverage%20-%20Ajanta%20Pharma_01032021.pdf): [https://www.hdfcsec.com/hsl.research.pdf/Re-Initiating%20Coverage%20-%20Ajanta%20Pharma\\_01032021.pdf](https://www.hdfcsec.com/hsl.research.pdf/Re-Initiating%20Coverage%20-%20Ajanta%20Pharma_01032021.pdf)
  16. Majumdar R. India. Deloitte Insights, 2021. <https://www2.deloitte.com/us/en/insights/economy/asia-pacific/india-economic-outlook.html#endnote-sup-7>
  17. Desai N. Sun Pharma Investor Presentation, 2021. Sun Pharma. <https://www.sunpharma.com/sites/all/themes/sunpharma/images/annual/IR%20Presentation%20Feb%202021.pdf>
  18. Tripathi D. USFDA nod for Sun Pharma Halol plant products may be put on hold. Mint, 2020. <https://www.livemint.com/news/india/usfda-nod-for-sun-pharma-halol-plant-products-may-be-put-on-hold-11585538306024.html>
  19. Aggarwal A. Specialty products growth momentum to continue. Prabhudas Lilladher, 2021. <https://images.moneycontrol.com/static-mcnews/2021/02/Sun-Pharmaceutical-Industries-05-02-2021-prabhu.pdf>