

RESEARCH

Pharmaceuticals

Takeaways from Pharma expert call

SUMMARY

Pharmaceuticals

We hosted Dr. Deepak Hedge, Chief Technology Officer, EOC Pharma – Shanghai, as part of Pharma expert series (Virtual) last week. Earlier, he has headed product development and outsourcing at GSK's Shanghai R&D (2014-19) for its global portfolio. With a relevance to India potential, the call provided deeper insight across Covid vaccine programs, Global supply disruption in KSM/API space, Progress on China +1 strategy by global pharma, and Future R&D investments. Below are the key highlights.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	900
GAIL	Buy	155
Petronet LNG	Buy	330
TCS	Buy	3,180
Tech Mahindra	Buy	1,040

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Greenply Industries	Buy	150
Laurus Labs	Buy	410
Transport Corp	Buy	300
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.93	(1bps)	11bps	(99bps)
India 10Y yield (%)	5.96	0bps	8bps	(61bps)
USD/INR	73.78	(0.3)	0.5	(3.7)
Brent Crude (US\$/bbl)	50.91	(2.6)	13.2	(21.0)
Dow	30,216	0.1	3.3	6.1
Shanghai	3,421	0.8	1.3	13.0
Sensex	45,554	(3.0)	3.8	12.7
India FII (US\$ mn)	18 Dec	MTD	CYTD	FYTD
FII-D	(45.3)	763.5	(13,855.6)	(4,096.1)
FII-E	522.4	5,916.7	22,022.5	28,625.4

Source: Bank of Baroda Economics Research

BOBCAPS Research

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PHARMACEUTICALS

22 December 2020

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Supply disruption in KSM/API and China dependence: India missed a big opportunity by not being ready to replace China during the Covid pandemic especially in antibiotic to EU/US. US imports of antibiotic from China is highest (Ibu 95%, hydrocortisone 91%, acetaminophen 70%). PLI scheme is right step to self-reliant India but unlikely to grab any meaningful benefit for listed players given China supplies has scaled up substantially post Aug'20. India is <4% share of the Global market vs. 15%+ for Chinese CRAMS companies.

Covid vaccine – Upside for Indian players too early to ascribe: Distribution of Pfizer & Moderna vaccine (efficacy 95%, stored at -20 to -70 degree) in India appears non-viable in view of inadequate cold chain infrastructure. Mass-scale vaccination may uncover adverse events. Indian regulators could play safe on Indian vaccines (Cadila, Bharat bio, Serum, Dr. Reddy's – launch planned around Mar'21) as these are never being approved by any major regulators. Hence, upside from launch is too early to ascertain ([Fig 1: Key vaccine assets](#)).

China +1 strategy reality: Demand for alternate supply source from Global Pharma is largely visible in the Innovators CDMO model compared to generics. Security/quality of supply are critical over cost arbitrage in choosing CDMO partner. Expert highlighted, amongst the CROs Syngene & Jubilant Life are strong choice by innovators while Divi's brings cost advantage, quality and scale.

Future R&D focused around cell and gene therapies: Globally, R&D portfolios of big pharma have shifted over last 10 years. Presently, small-molecules accounts for 60% while biologics 40% - expect that a 50:50 structure is possible to continue in the foreseeable future. Innovations around cell and gene technology to treat severe diseases is picking pace.

RECOMMENDATION SNAPSHOT

Ticker	Rating
AJP IN	BUY
ALKEM IN	BUY
ALPM IN	BUY
ARBP IN	BUY
CIPLA IN	BUY
DIVI IN	ADD
DRRD IN	ADD
ERIS IN	BUY
LAURUS IN	BUY
LPC IN	ADD
SUNP IN	ADD



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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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