India: Healthcare: Custom Research and Manufacturing Services (CRO/CDMO)

Synthesis of 3Cs to catalyze growth; Buy SYNN/NEUL

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We expand our coverage to the India CRO/CDMO space with players establishing themselves firmly within the global pharmaceutical value chain, as supply chain diversification picks up, underpinned by geopolitical/strategic factors. While the pharma R&D outsourcing TAM of US$200bn is seeing healthy double-digit growth p.a, we forecast India's global market share to increase 30bps (in small molecule CDMO) and 70 bps (CRO) by FY28E in our base case. In a bull case scenario where China+1 trends accelerate at a faster pace, the share gains could be **threefold,** i.e 120bps/200bps respectively. We expect key debates to be focused on:

1. **Why would India gain share?** While the prospects of China+1 diversification within global pharma were evident since Covid (FY21), we now see tangible progress in terms of the 3Cs: a) **Capacities** coming online (Exhibit 2), b) **Capabilities** improving (Exhibit 3), and c) **Customer** traction (Exhibit 4).

2. **Key catalysts to watch?** ARBN's US$250mn Pen-G API commercialisation (Apr-2024), biotech funding environment, CRO/CDMO deal wins (see our monthly India/China API tracker for updates).

3. **What is sector risk/reward?** We expect 22% OP growth over FY24-27E, driven by 13% topline growth while factoring operating leverage benefits, putting our FY26-27E EPS estimates **4%-10% above consensus**. While the sector is trading at premium valuations (+1SD vs. its 5Y average), we argue that higher multiples are warranted given this strong earnings outlook.

Stock ideas based on fundamental framework: Buy Syngene/Neuland, Sell Laurus

Syngene (**Buy**, TP: Rs875, +20% upside): Leading position in CRO space with CDMO business set to inflect. See the initiation report for details (link).

Neuland (**Buy,** TP: Rs9,100, +46% upside): Fast-growing CDMO with higher share coming from commercialised molecules. See the initiation report for details (link).

Laurus (**Sell,** TP: Rs350, -23% downside): Earnings challenges due to monetisation delays with valuations at a premium. See the initiation report for details (link).

Sector risk: Biotech funding, product/customer concentration risk, compliance.

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Executive Summary: Syngene and Neuland (both Buy rated) our top picks

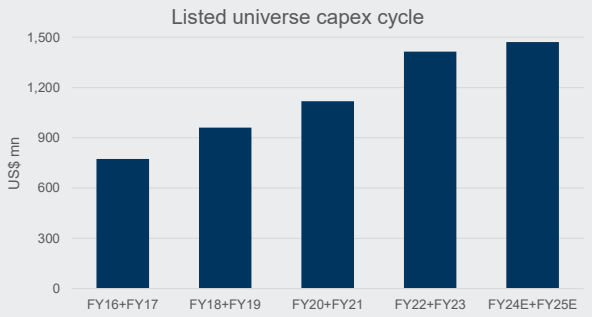
While the pharma R&D outsourcing has been a global theme for more than a decade now, Indian players still have a small presence in the value chain despite having structural benefits of a) large pool of **skilled manpower**, and b) labor/ material **cost arbitrage**. India's CRO market share in CY22 was 2.7% vs. 16% for China and similarly the corresponding CDMO market share was 1.6% vs 8% for China. We believe the key challenges in higher penetration of India's CRO/CDMO players can be attributed to: a) Smaller scale/capacities, b) Lack of Innovation with little collaboration between Industry and academia; and c) Lower priority from a management strategy standpoint.

We believe some of these headwinds are easing and take a **constructive stance on the India CRO/CDMO** space as Indian players focus on increasing penetration across the global pharmaceutical supply chain starting 2024 by offering prospective customers: i) More meaningful capacities that are coming online following a capex phase, ii) Improvement in quality/capability paradigms, and iii) Optionality to de-risk supply chain as vertical integration kicks off in FY25 driven by API PLI. Customer traction as gauged by the CPHI 2023 survey rank India at #3, in market attractiveness from a pharma supply chain perspective.

Our take: While we like India's positioning in the overall CRDMO space in general, given multiple moats which the Indian companies enjoy in the form of improving compliance (Exhibit 3), investments in capabilities (Exhibit 1), cost advantages (Exhibit 20) and industry reputational ranks (Exhibit 4), we believe integrated players offering services right from discovery to commercial manufacturing (like Syngene) are the best positioned to benefit from the China+1 theme over medium to long term.

Within the pure-play CRO and CDMO space, we believe India is in a relatively better position to capture CRO segment on account of factors such as (i) better cost competitiveness vs. China: 30-40% cheaper vs. China given lower labor costs (Frost & Sullivan), (ii) lower gestation period to add capacities: unlike large CMO facilities which require multiple years to operationalise, CRO facilities require shorter timelines to start if the manpower is available, and (iii) shorter duration of contracts: allowing innovators to switch relatively easily. Accordingly, any initial success signs of China+1 would likely benefit integrated or CRO players first, in our view.

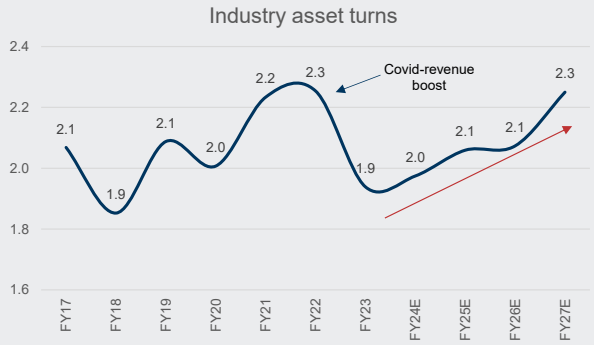
Exhibit 1: India's listed CRO/CDMO players expect to spend US$1.5bn for API/CRDMO capacities over FY24/25E



Numbers include API PLI capex by Aurobindo and Orchid

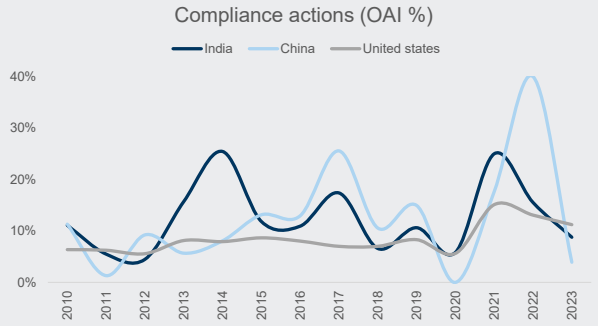
Source: Company data, Bloomberg, Goldman Sachs Global Investment Research

Exhibit 2: We expect industry utilisation to move upwards over the next 2-3 years



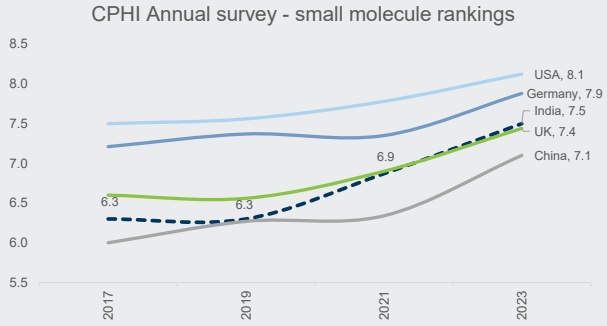
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 3: We have seen a lower incidence of OAI flags following inspections at indian facilities in 2023



Source: FDA, Data compiled by Goldman Sachs Global Investment Research

Exhibit 4: India is ranked #3 on a scale of market attractiveness
CPHI 2023 Annual survey of 250 pharma executives



Source: CPHI

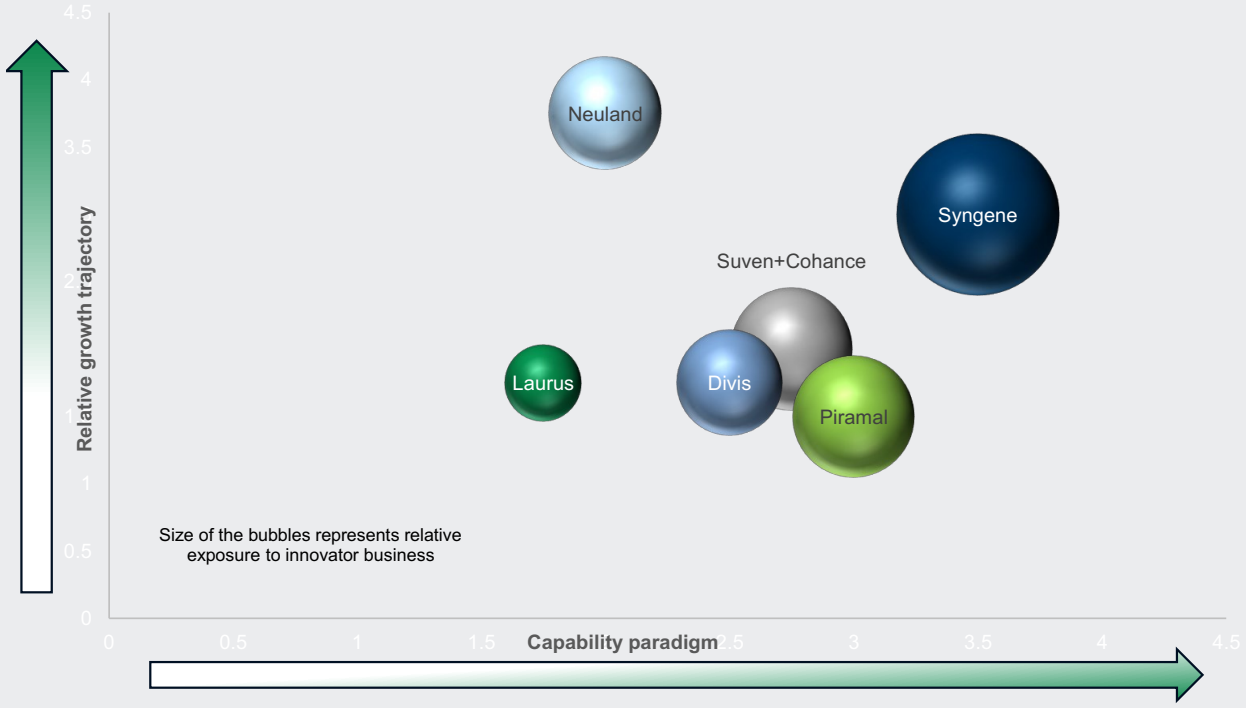
Framework to analyze companies in the space

With a **large pharma R&D outsourcing TAM** ~US$200bn and our expectation of **double-digit growth** for the industry over the medium term, we analyze individual stocks based on the following factors to chart out the relative positioning of companies in our fundamental framework.

1. **Capability paradigms:** We consider exposure to discovery services as attractive, given the early stage of drug development and prefer integrated drug development (IDD) with innovators as a key competitive edge. We also consider complexity of offerings with Biologics, ADCs, CGT and Peptides manufacturing capabilities, screening higher on the relative scale.
2. **Relative growth trajectory:** In this vector, we plot companies' track record in delivering industry leading growth over the past 5 years as we believe this captures their execution on market share progress.
3. **Exposure to Innovative themes:** Given the diverse revenue streams that firms operate in, we also prefer companies with higher exposure with Innovators as this increases revenue/earnings

sustainability.

Exhibit 5: Syngene screens favourably on capabilities while we prefer Neuland for its longer runway for growth
CRO-CDMO Investment framework



For full details on the metrics, please refer to the Appendix (based on company data)

Source: Company data, Compiled by Goldman Sachs Global Investment Research

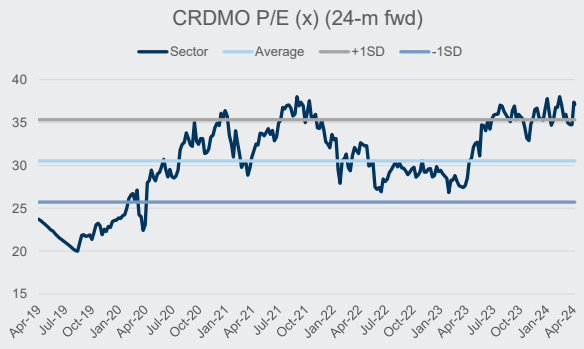
Valuation and key ideas

We expect operating profit growth at 22% over FY24-27E, driven by 13% topline growth while factoring operating leverage benefits due to better mix and higher productivity. While sector is trading at premium valuations vs its last 5Y average, we argue that higher multiples are warranted as earnings delivery will remain strong. Our 12-m TPs for our Buy rated names suggest c. 20%-46% upside potential.

We initiate with a Buy rating on **Syngene** (SYNN.BO, upside c. 20%) for its leadership position in the India CRO segment while we believe its CDMO business is set to inflect. We are also Buy rated on **Neuland** (NEUL.BO, upside c. 46%) with its exposure to a fast-growing CDMO with higher share coming from commercialised molecules. We are Sell rated on **Laurus Labs** (LAUL.BO, downside: 23%) as we are cautious on its earnings delivery given potential ramp-up delays and see current valuations as expensive.

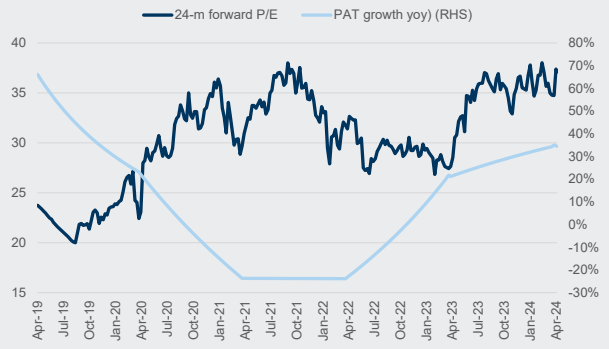
We value our India CRO/CDMO coverage using SoTP based on P/E(x) for different businesses, depending on the nature/type of business, their growth and margin profiles and relative to the multiples where their peers have historically trade.

Exhibit 6: CRDMO sector trades at 1SD above the historical average



Source: Bloomberg

Exhibit 7: Earnings growth momentum can sustain valuations, in our view



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 8: We are Buy rated on Syngene and Neuland and Sell rated on Laurus
India Pharma comp sheet

India Pharma Company	Mkt Cap ($mn)	Rating	Currency	Current Price	Target Price (12-m)	Upside/ Downside	P/E			EV/EBITDA			CROCI
							FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY25E
Torrent Pharma	10,460	Buy	INR	2,579	2,900	12%	55.3x	41.0x	31.3x	26.9x	22.1x	17.5x	24%
Aurobindo	7,927	Buy	INR	1,131	1,215	7%	20.8x	16.9x	15.0x	11.1x	8.9x	7.7x	16%
Biocon	3,888	Buy	INR	271	300	11%	63.7x	20.6x	15.4x	17.7x	12.2x	10.1x	7%
Gland	3,559	Buy	INR	1,801	2,125	18%	36.8x	26.1x	21.0x	19.9x	15.7x	12.4x	18%
Lupin	8,737	Neutral	INR	1,605	1,600	0%	38.4x	29.5x	22.1x	20.9x	16.8x	13.0x	14%
Divi's Labs	12,116	Neutral	INR	3,802	3,670	-3%	68.0x	52.0x	44.1x	47.6x	36.6x	30.5x	18%
Dr. Reddy's	12,280	Neutral	INR	6,168	5,900	-4%	18.1x	18.2x	17.5x	10.8x	10.0x	9.1x	19%
Cipla	14,026	Sell	INR	1,450	1,200	-17%	28.2x	28.1x	24.5x	18.2x	16.9x	14.2x	14%
Sun Pharma	46,153	Sell	INR	1,603	1,200	-25%	42.6x	41.1x	37.9x	30.0x	27.1x	24.0x	4%
Syngene	3,512	Buy	INR	730	875	20%	59.5x	60.6x	37.4x	29.9x	29.0x	20.0x	17%
Neuland	958	Buy	INR	6,222	9,100	46%	25.5x	31.5x	21.4x	16.4x	18.7x	13.0x	28%
Laurus Labs	2,930	Sell	INR	454	350	-23%	117.4x	72.2x	39.4x	30.7x	24.7x	17.6x	16%
India Pharma Median						**4%**	**40.5x**	**30.5x**	**23.3x**	**20.4x**	**17.8x**	**13.6x**	**17%**

Priced as of 10th April, 2024

Source: Datastream, Goldman Sachs Global Investment Research

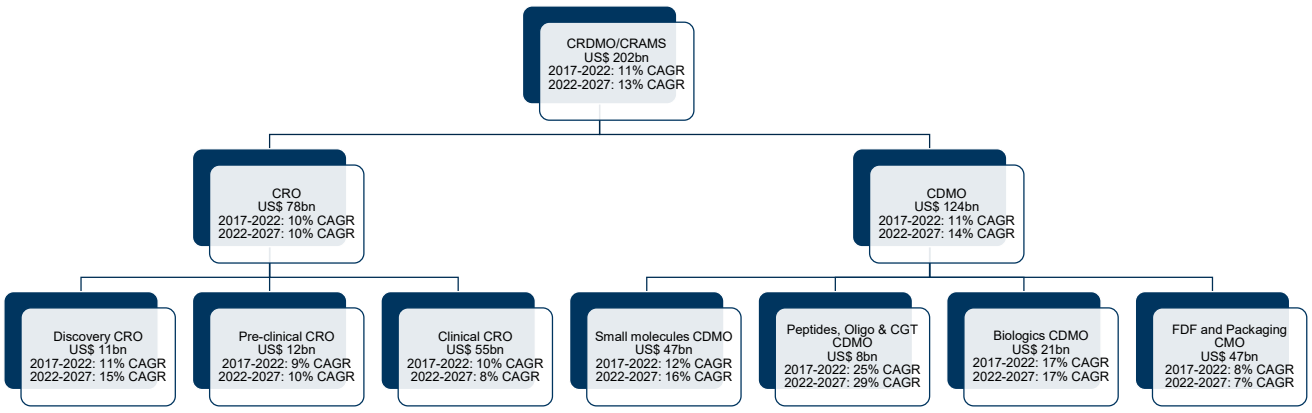
Key sector risks

1. **Biotech funding environment:** Small and mid-size pharma companies tend to outsource R&D functions more, given lack of resources/expertise internally; However most of their early stage clinical programs are funded by external capital (VC/private equity) which could be volatile and dependent on the global interest rate cycle.
2. **Product/customer concentration risk:** Given the smaller scale that Indian companies are currently operating at, concentration risk will be a key risk especially if top products go generic, customers fail to renew the contract or switch suppliers for different clinical trial stages.
3. **Compliance track record:** Maintaining quality/compliance standards at both regulatory as well as customer audits is a key factor. Any lapses on this front, could lead to product/execution delays at the customer which could result in near term earnings/valuation pressure.

Huge TAM boosted by significant tailwinds from geopolitical and strategic shifts

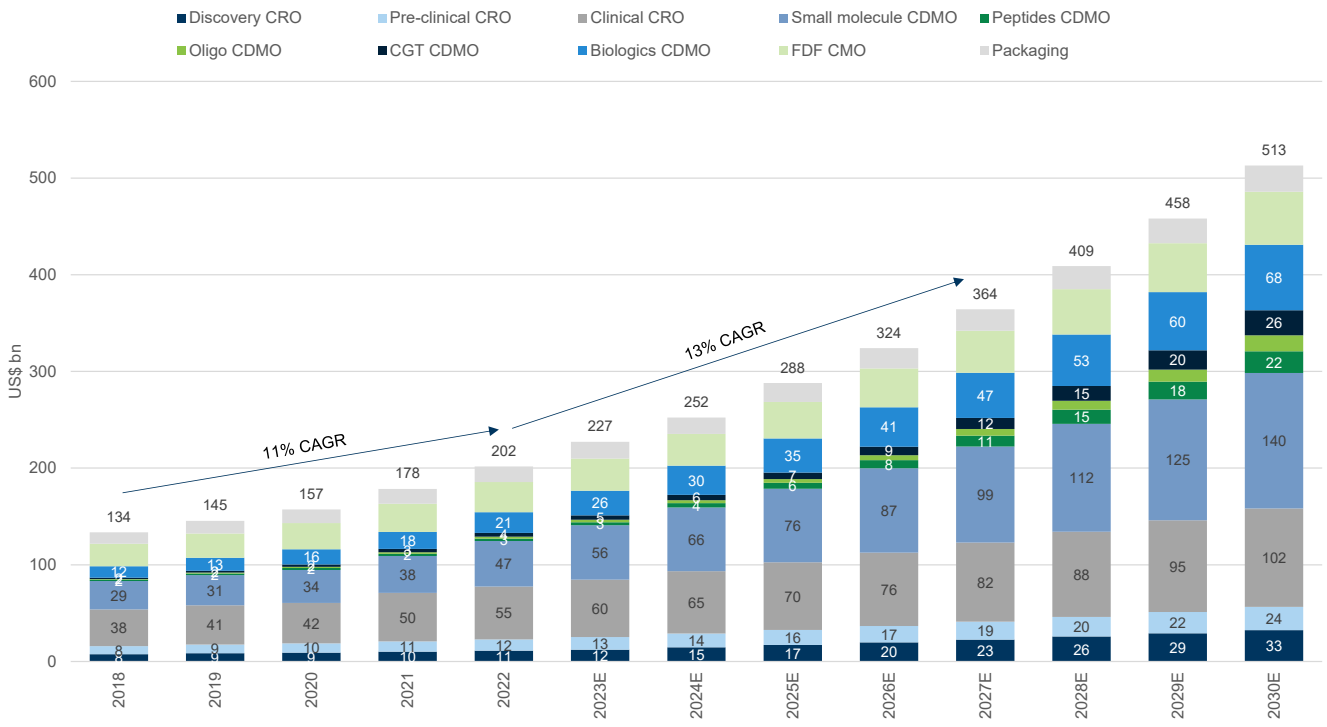
The global pharma CRDMO industry was pegged at ~US$202bn in 2022, per our analysis of various industry sources, growing at ~11% CAGR (vs. ~6% growth for Rx drugs) over the past 5 years. Within the same, the CRO industry was valued at ~US$78bn (growing at ~10% CAGR over 2017-22), while the CDMO market was valued at ~US124bn (growing at 11% CAGR over 2017-22). Going forward, the CRO industry is expected to grow at ~10% CAGR, while the CDMO industry growth is expected to accelerate to ~14% CAGR over 2022-27, implying ~13% growth for the overall CRAMS/CRDMO industry over the same period.

Exhibit 9: Summarising the global CDMO market
2022 data



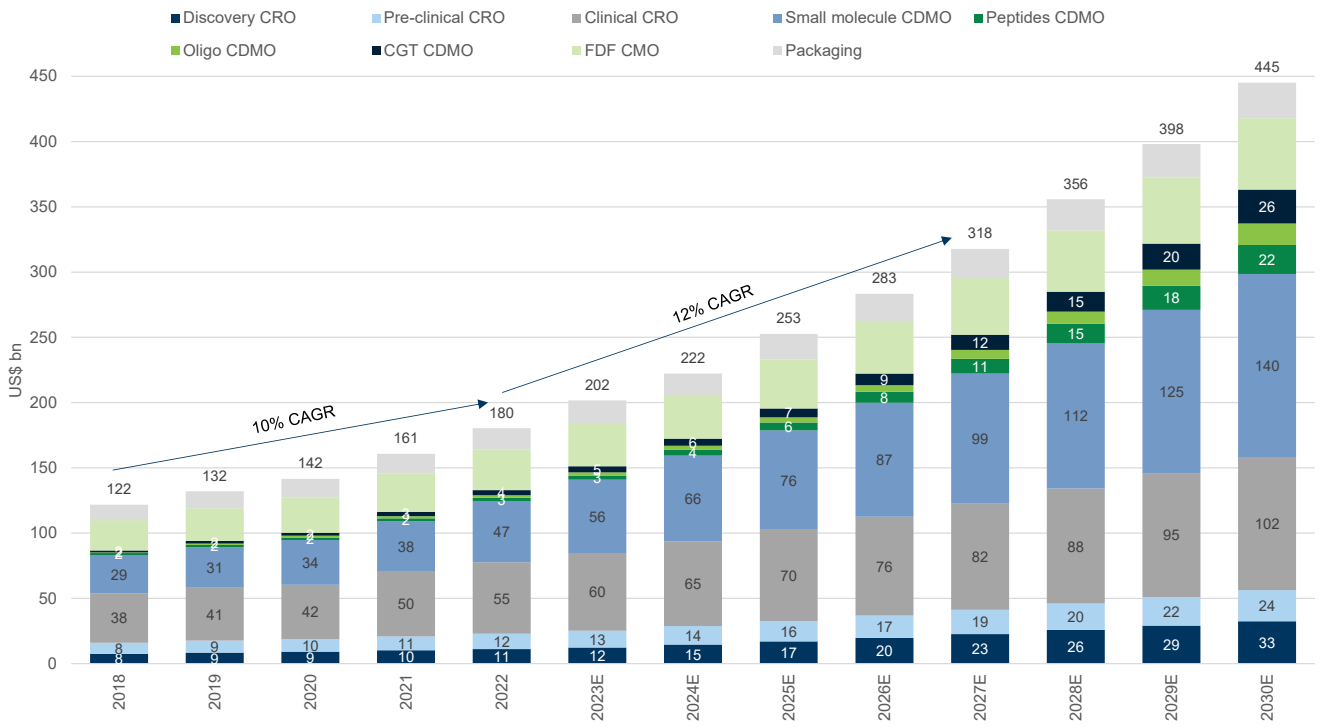
Source: Frost & Sullivan, Company data, Compiled by Goldman Sachs Global Investment Research

Exhibit 10: The global CRDMO/ CRAMS market is expected to grow at ~13% over 2022-27E (vs. 11% over 2018-22)



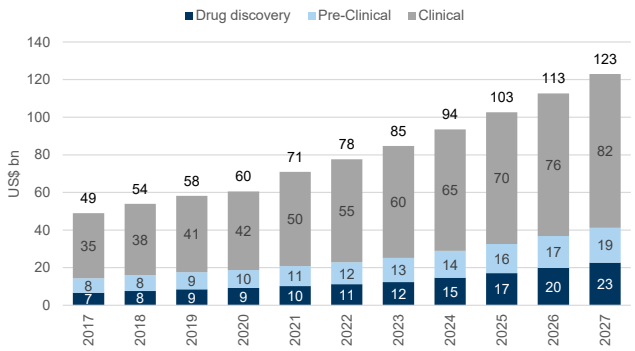
Source: Frost & Sullivan, Company data, Compiled by Goldman Sachs Global Investment Research

Exhibit 11: Ex-biologics, market growth is expected to be ~12% over 2022-27E



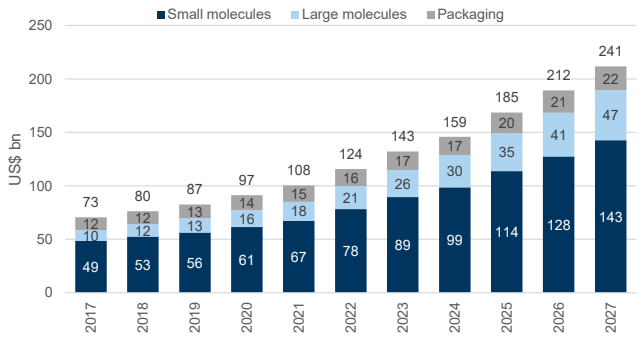
Source: Frost & Sullivan, Company data, Compiled by Goldman Sachs Global Investment Research

Exhibit 12: Global CRO TAM stood at ~US$ 78bn in 2022, with Clinical CRO the largest segment



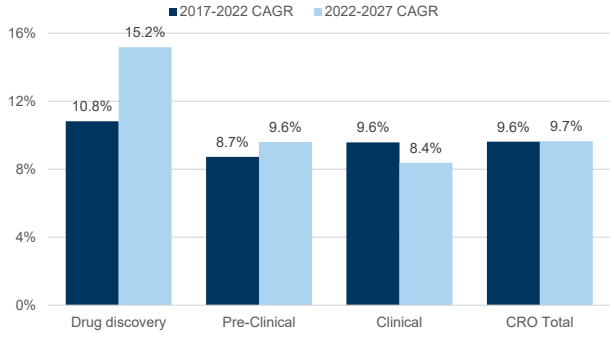
Source: Frost & Sullivan, Compiled by Goldman Sachs Global Investment Research

Exhibit 13: Global CDMO TAM stood at ~US$124bn, with small molecules dominating the majority share



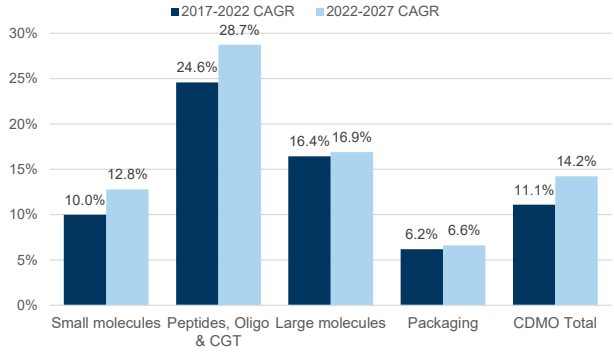
Source: Statista, PWC, Compiled by Goldman Sachs Global Investment Research

Exhibit 14: Drug discovery is expected to be the fastest-growing CRO segment



Source: Company data, Compiled by Goldman Sachs Global Investment Research

Exhibit 15: In the CDMO market, peptides/ oligonucleotides/ CGT are expected to be the fastest-growing sub-segments followed by biologics



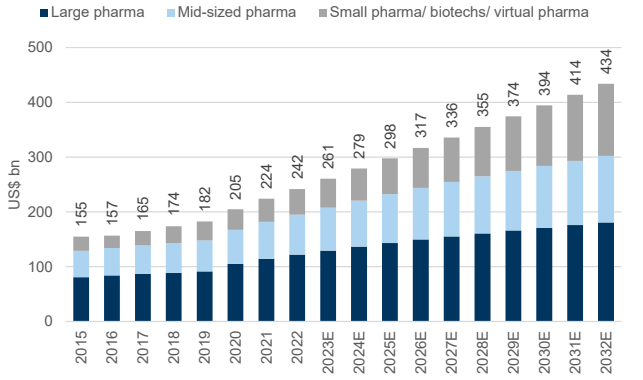
Source: Company data, Compiled by Goldman Sachs Global Investment Research

Drivers of growth

A combination of incremental R&D spends along with higher focus on outsourcing would continue to be the key drivers of growth going forward, in our view. A key point to note is that growth in the previous 5-year period was driven mainly by higher R&D spends at the industry level (R&D spends grew at ~7% CAGR over 2017-22), while the outsourcing penetration inched up moderately from 32% to 34% levels. However, the next 5-year period is expected to be marked by higher levels of outsourcing penetration (to reach ~39% by 2027, Frost & Sullivan), as R&D spend growth continues around the 6-7% levels.

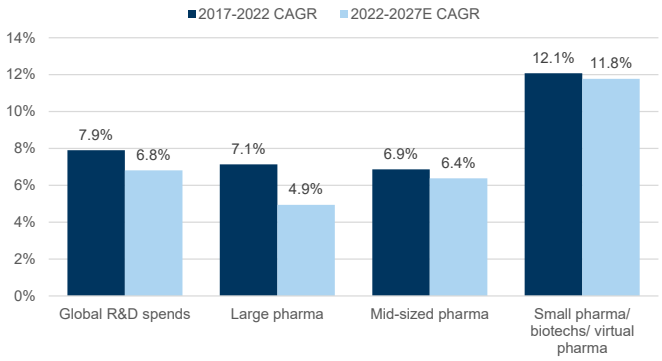
What would drive the outsourcing penetration?: Besides the known benefits of improving efficiency/ productivity (clinical trials conducted by CROs are completed up to 30% faster than those conducted in-house by pharma companies), cost savings (Exhibit 20), focusing on core operations and diversifying supply chains, the steep rise of mid and small sized pharma (incl. biotechs, virtual pharma) companies (<US$ 1bn annual revenue) has meant that a large part of the incremental global R&D spends over the next 5 years would be driven by companies with relatively limited balance sheet strength leading to higher reliance on outsourcing partners taking penetration upwards at a broader level. Outsourcing to countries in India/China can save up to 60-75% of costs for US companies and 33-60% for European companies (Frost & Sullivan).

Exhibit 16: Global pharma R&D spends are expected to grow at ~7% CAGR
Global R&D spends by type of company



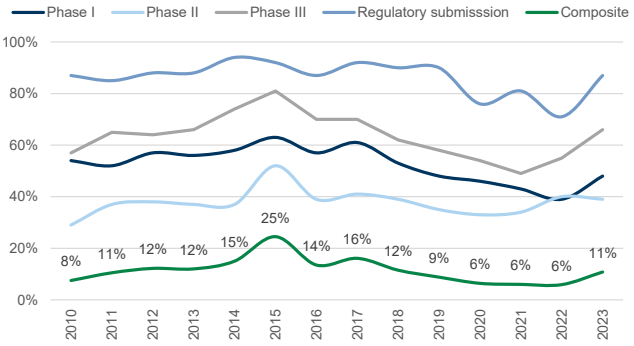
Source: Frost & Sullivan

Exhibit 17: Small and mid-sized pharma companies are expected to dominate incremental R&D spending in the next 5 years



Source: Forst & Sullivan

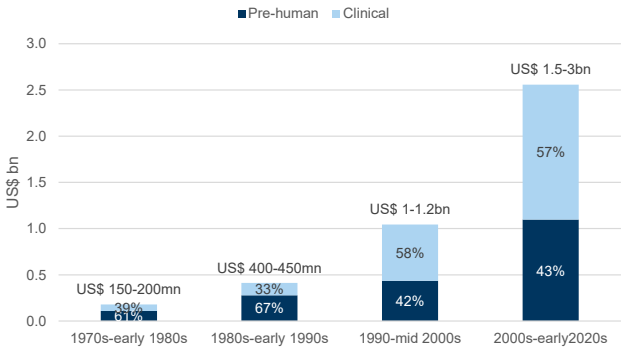
Exhibit 18: Barring 2023, we have seen a structural decline in R&D success rates over the past 10 years



Composite success % = Phase I x Phase II x Phase III x Regulatory submissions

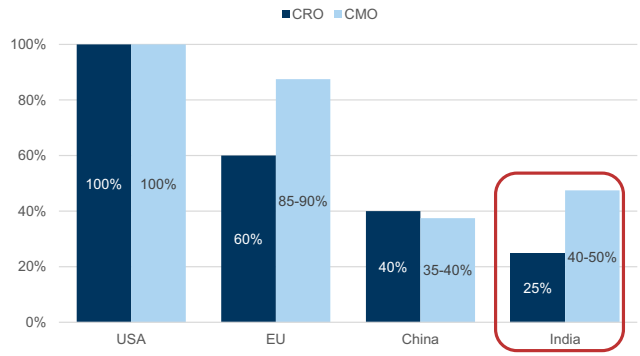
Source: IQVIA

Exhibit 19: We have seen R&D costs per approved drug shoot up by >10x over the past few decades
R&D cost per approved drug



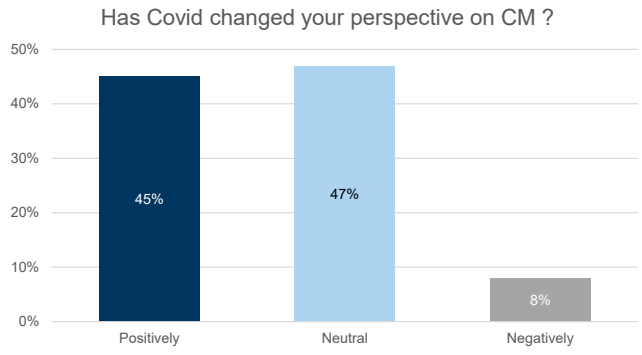
Source: EFPIA, Tufts University, Compiled by Goldman Sachs Global Investment Research

Exhibit 20: India and China offer meaningful cost advantages in CRO as well as the CDMO segments
Costs indexed to the US



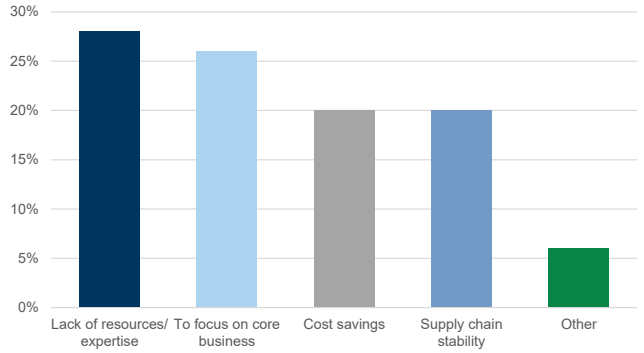
Source: Frost and Sullivan, Company data, Compiled by Goldman Sachs Global Investment Research

Exhibit 21: Responses to the CPHI survey suggest positive bias towards outsourcing
CPHI 2023 survey



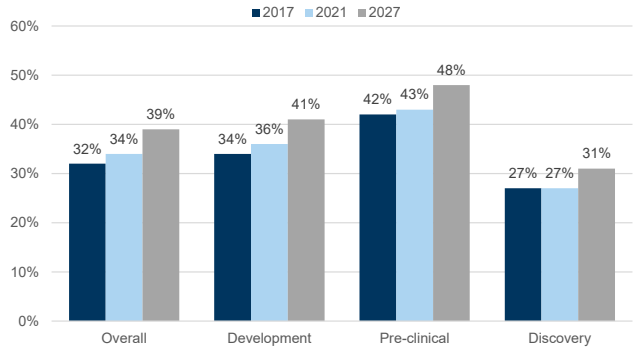
Source: CPHI

Exhibit 22: The same survey mentions the below key reasons attributable to outsourcing
CPHI 2023 survey



Source: CPHI

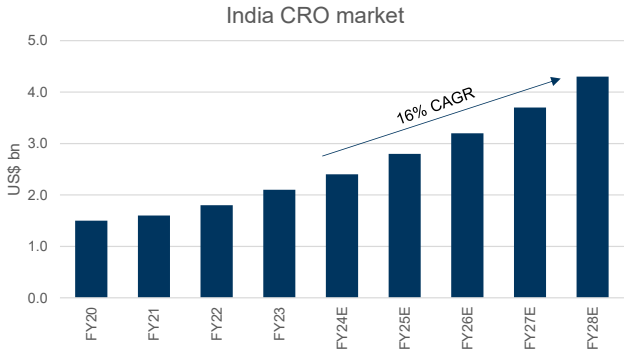
Exhibit 23: Accordingly, global outsourcing penetration trends are set to witness an inflection point over the next 5 years



Source: Frost & Sullivan, Compiled by Goldman Sachs Global Investment Research

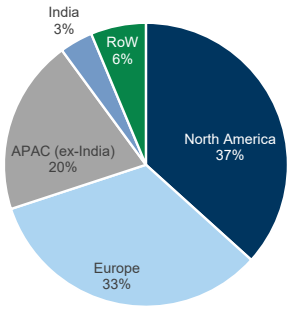
Assessing India's positioning in the overall space

Exhibit 24: While India is expected to be one of the fastest-growing CRO markets...



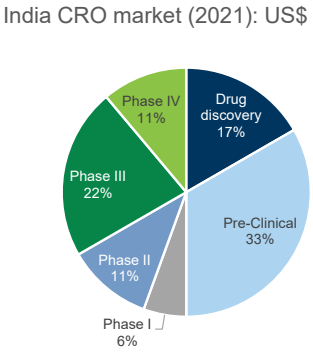
Source: Frost & Sullivan, Compiled by Goldman Sachs Global Investment Research

Exhibit 25: ...the US & Europe have historically been the major CRO hubs
2022 CRO market share data



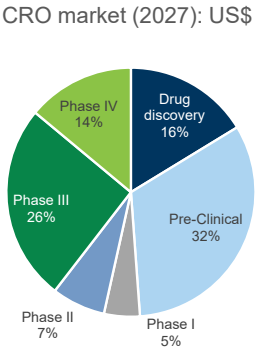
Source: Frost & Sullivan, Compiled by Goldman Sachs Global Investment Research

Exhibit 26: India's CRO market growth is expected to be driven by late-stage clinical CRO whose market share is touted to grow from 33% in 2021...



Source: Frost & Sullivan, Compiled by Goldman Sachs Global Investment Research

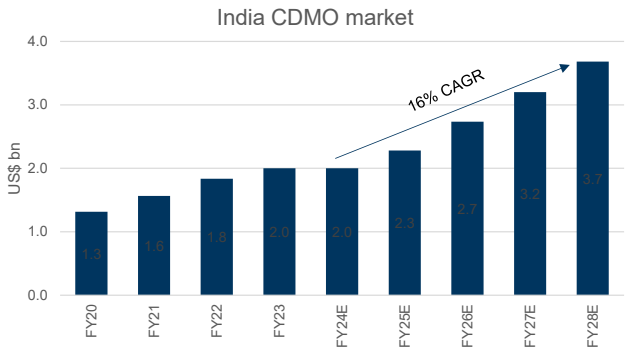
Exhibit 27: ...to 40% in 2027E



Source: Frost & Sullivan, Compiled by Goldman Sachs Global Investment Research

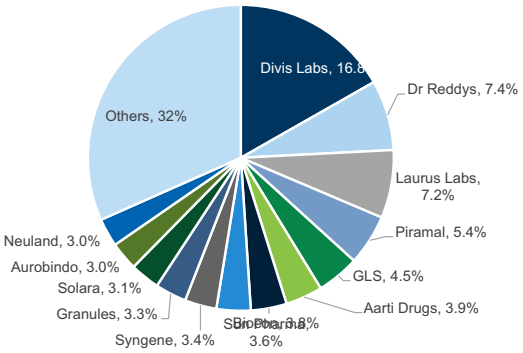
India API exports was around US$4.7bn in FY23 (+6% yoy in cc terms), with c. US$2bn coming from CDMO as per our estimates. When we look at the market structure, given most companies have a mix of CDMO and generic API, we look at their combined market share and concluded that top 5 companies account for 40% of the exports in FY23. This appears similar to the Top 5 in China accounting for c. 36% in 2023.

Exhibit 28: India's CDMO market is expected to grow in the mid-teens over the medium term



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 29: The top 5 companies account for 40% of API exports
API export market share (generic+CDMO)



Source: DGCIS, Company data, Data compiled by Goldman Sachs Global Investment Research

Learnings from China

This section has been authored by our China Pharma analyst Ziyi Chen

China has been the biggest beneficiary of the global outsourcing theme over the past decade, per our analysis of UN Commtrade data. The same is reflected in the revenue and earnings growth trajectories of China's listed CRDMO sector. While the growth shown in the below exhibits is boosted by some large IPOs during the 2016-18 period, the overall trajectory has still remained solid underpinned by buoyant domestic industry R&D since 2016/17 as return on innovative drug R&D improved notably with:

1. Reimbursement list starting to cover novel drugs since 2016.
2. Major NMPA reform (China FDA) to make the drug approval more transparent in requirement (also catching up with global standard) and shorter in timeline; and
3. Improved IP protection for novel drugs.

In addition, the HK market opened up for pre-revenue biotech for the first time since April 2018, followed by the A-share STAR board adopting similar rules in June 2019.

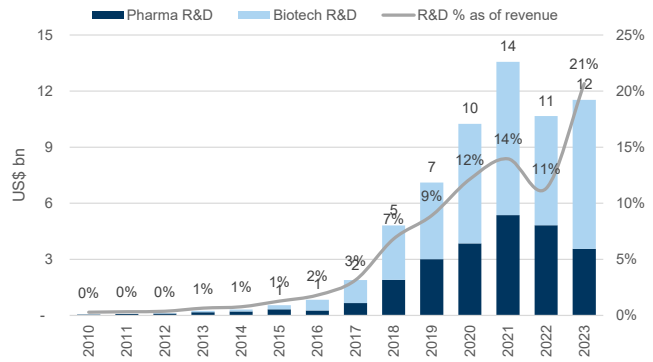
Exhibit 30: We have seen revenues quadruple over the past four years...

Source: Wind, Company data, Compiled by Goldman Sachs Global Investment Research

Exhibit 31: ...while earnings have increased by 6x

Source: Wind, Company data, Compiled byok Goldman Sachs Global Investment Research

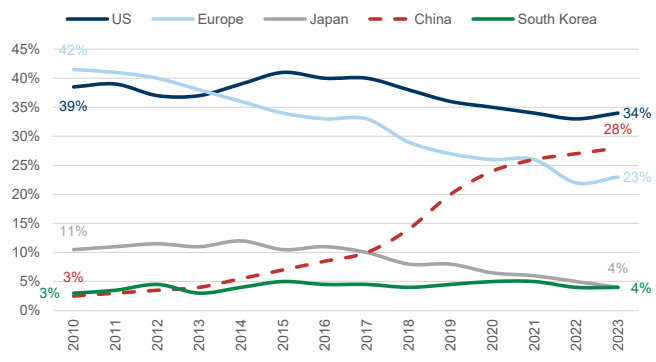
Exhibit 32: China domestic pharma+biotech R&D has seen exponential growth over the past decade...



Source: Wind

Exhibit 33: ...leading to a sharp pick-up in clinical trial activity over the same period

Global share of Phase I to III trial starts based on company headquarters location

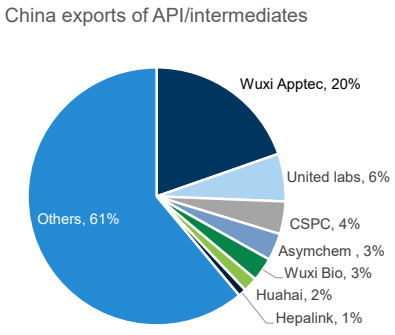


Source: IQVIA

WuXi AppTec

WuXi AppTech has been the biggest beneficiary of the outsourcing theme, followed by WuXi Bio, Pharmaron, Asymchem and a few others. We illustrate the factors of success for Wuxi AppTec below.

Exhibit 34: Wuxi Apptec leads the way in China's exports of API/intermediates
2023 data

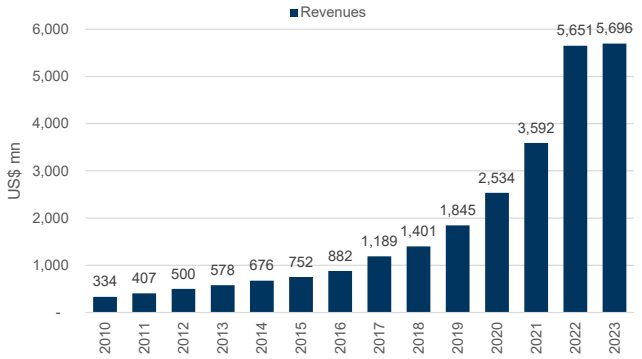


Source: China Customs, Company data, Goldman Sachs Global Investment Research

WuXi AppTec's success was driven by a combination of several factors:

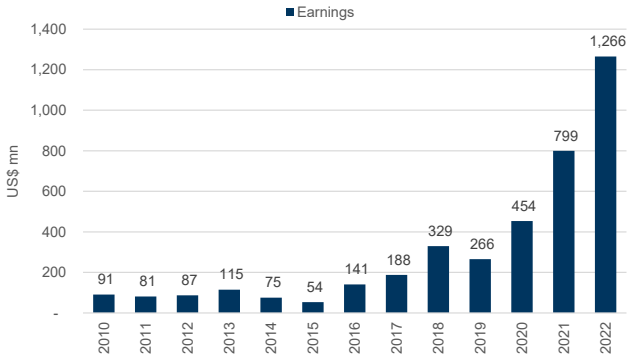
1. **Early entry:** Wuxi AppTec was the first China-based CRO to tap into the business back in 2001, ahead of rest of the competitors.
2. **Low cost, well-trained, stable and abundant supply of talent:** Started with 1/5th the cost of US labor (now c. 1/3rd), China has the largest supply of chemistry/biology majored college graduates globally (per the China Ministry of Education), which is the base for WuXi's expansion. The talent pool led to another two success factors: a) **Execution/Delivery**: on-time delivery, short queue, flexible hands-on collaboration, and b) **Higher margin vs. global peers**: that turns into higher profit, more cash flow for capacity expansion.
3. **Access to capital:** Compared to some of its peers (eg. Pharmaron – more on synthetic chemistry/preclinical assay/CMC; Asymchem – more on CMC/CMO) who have to relied purely on debt financing/ OCF to grow their businesses before IPO in 2019/2016, WuXi's IPO at NYSE back in 2007 helped raise US$ 156mn enabling it to quickly strengthen its balance sheet for capacity/ capability expansion. In addition, NYSE listing also helped WuXi to build brand name much more quickly vs. peers.
4. **Strong client IP protection**: Even when China's regulatory framework has not been very well-established for IP protection, WuXi is building a very rigorous internal firewall system to prevent any IP infringement that could potentially damage its reputation. 20 years of services, no single case of IP infringement.

Exhibit 35: WuXi AppTec's revenues have grown at a solid ~31% CAGR over the past 7 years...



Source: Company data

Exhibit 36: ...translating into earnings growth of ~40% CAGR over the same period



Source: Company data

Takeaways for the Indian industry

While the global industry landscape analysis makes us confident about India's strong positioning in terms of the global pharma outsourcing theme (esp. from the developed markets), assessment of the Chinese CRDMO industry's history and its success factors lead us to believe that despite a robust outlook, India's growth might not match that of China's growth in the previous decade as India still lags behind China in terms of: (i) Capacities (China's top 5 players have significantly more capacities than the Indian industry), (ii) Capabilities (limited no. of players with proven success stories in biologics, new-age therapies like CGT, etc), and (iii) Lack of a buoyant domestic R&D set-up like in China (Exhibits 32 & 33).

Addressing key debates

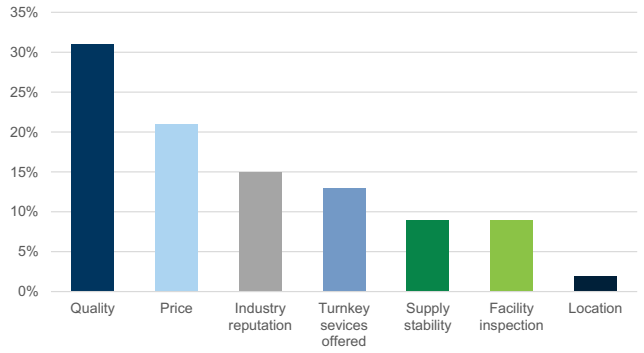
Why would India be a beneficiary of China+1 diversification in pharma?

Following the supply chain disruptions during the Covid pandemic, the prospects for diversifying to China+1 sources (mainly for API and intermediates) has been a key shift in Industry thinking as per CPHI. Despite these tailwinds, we have seen slow progress on this front given certain challenges: availability of capacity elsewhere, cost competitiveness and filing requirements with FDAs around the world that could also potentially trigger establishment inspections. We however believe a **more durable move could likely ensue from 2024/25 onwards**, given the increasing focus from DMs to secure pharma supply chain including potential passage of US Biosecure Bill and its implications.

Large repository of regulated sites with improving capabilities

The focus on quality and facility inspection is one of the most important factors that determine an outsourcing partner as per latest CPHI (Convention on Pharmaceutical Ingredients) Annual survey (2023) where they polled 250 pharma executives about the supply chain. India has the second largest number of US-FDA cataloged sites (after the US) and over the last 5 years has seen the highest increase in sites (+17%) amongst top 10 geographies. Secondly, India's compliance track record (measured by incidence of Official action indicated (OAI) flag, following a plant inspection) has improved significantly in 2023, despite inspections doubling - implying that management driven efforts guided by third party consultants is leading to tangible progress with the FDA.

Exhibit 37: Quality followed by Price are the most important factors while deciding on an outsourcing partner
CPHI 2023 annual survey



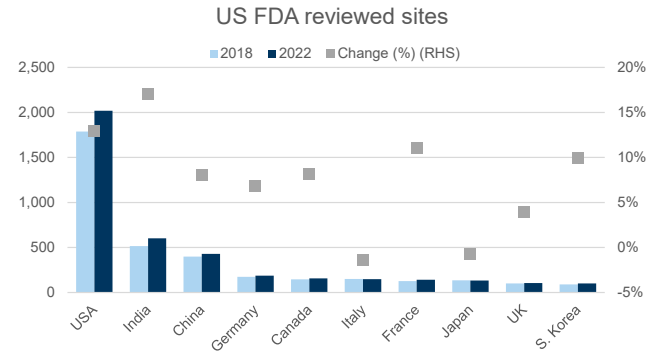
Source: CPHI

Exhibit 38: India moved to the top 3 position in 2023, driven by better growth prospects and talent pool
CPHI 2023 annual survey

CPHI Annual Survey	API	FDF	Overall competitiveness	Knowledge of professionals	Growth	Average
USA	7.6	9.0	7.4	9.1	7.5	**8.1**
Germany	7.8	8.9	6.7	9.1	6.9	**7.9**
India	6.7	7.6	7.3	7.9	7.8	**7.5**
UK	7.3	8.4	6.7	8.4	6.4	**7.4**
Switzerland	7.5	7.8	6.7	8.1	6.7	**7.4**
Japan	7.5	7.7	6.6	8.3	6.6	**7.3**
China	6.6	7.4	7.1	7.2	7.2	**7.1**
France	6.8	7.7	6.2	7.6	5.9	**6.8**
Italy	6.9	7.6	6.3	7.3	6.0	**6.8**
Singapore	6.3	7.2	6.3	7.6	6.5	**6.8**
Korea	6.8	6.7	6.7	6.1	6.5	**6.6**
Spain	6.9	6.5	6.5	6.1	6.7	**6.5**

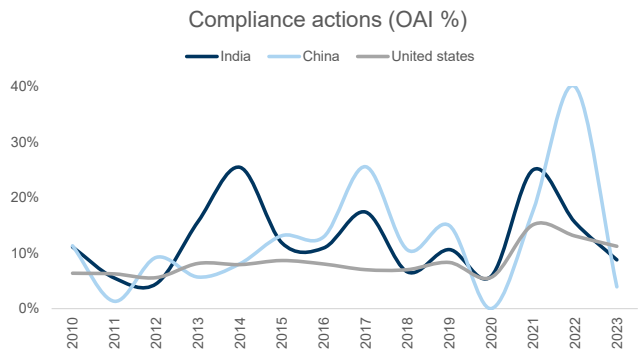
Source: CPHI Annual survey

Exhibit 39: India has the second-highest number of cataloged sites as per FDA
August-2023



Source: FDA, Data compiled by Goldman Sachs Global Investment Research

Exhibit 40: We have seen a lower incidence of OAI flags following Inspections at Indian facilities in 2023

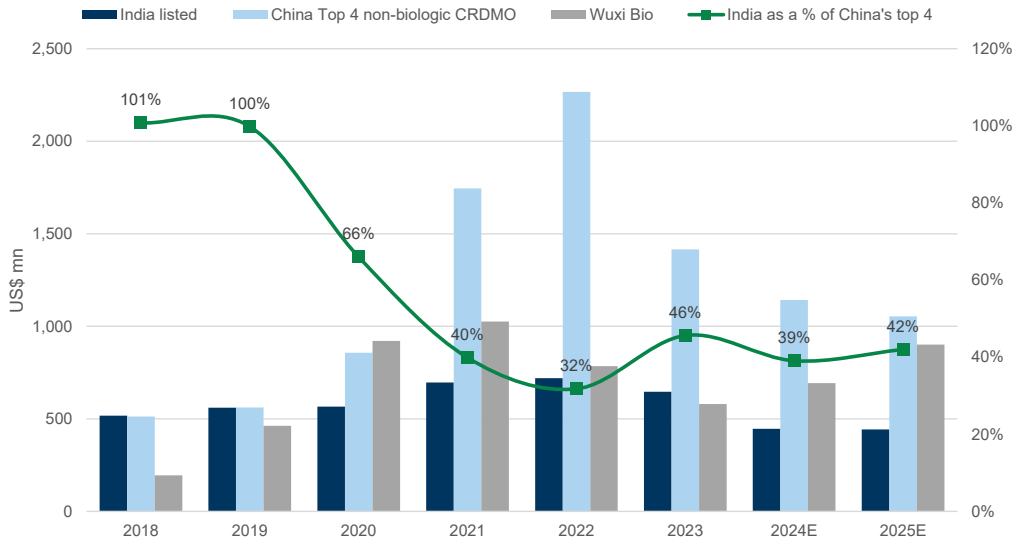


Source: FDA, Data compiled by Goldman Sachs Global Investment Research

New capacities coming online following capex uptrend

While historically India and China were similar on small molecules Capex, the top 3 Chinese small molecule CDMO saw a significant spurt in capex during COVID years as they responded to the anti-viral drug development. Following the easing of Covid related development, CDMO capex in China is now starting to normalise while India is seeing an uptrend. Additionally, (Exhibit 42) illustrates new capacities that have been created/coming online over the medium term in India.

Exhibit 41: India CRO/CDMO capex divergence with China is narrowing, as China's focus shifts to Biologics
Capex trends



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 42: Following the capex phase, we are seeing more capacities come online

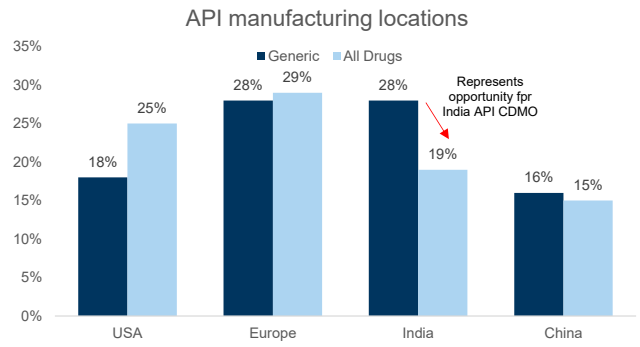
Timeline	CRDMO player	Capacity/ Capability	Capex/ cost (US$ mn)	Purpose
Biologics				
2023-24	Syngene	20KL	75	Biologics drug substance manufacturing capacity
2026-28	Aurobindo	30KL*	100	Bio CDMO contract with MSD
2025-26	Suven	ADC	NA	Cohance merger
Small molecules				
2024	Aurobindo	15,000MT	250	Pen-G plant
2025	Divi's	1,500KL	150-175	Pharma small molecules
2025	Neuland	NA	15	Small molecule CDMO
2025	Laurus	NA	30	Animal Health
2026	Laurus	NA	24	Crop
Others				
2025-26	Laurus	700-800KL	36	Fermentation

* Aurobindo has capacity to add another 30KL in the facility

Source: Company data, Goldman Sachs Global Investment Research

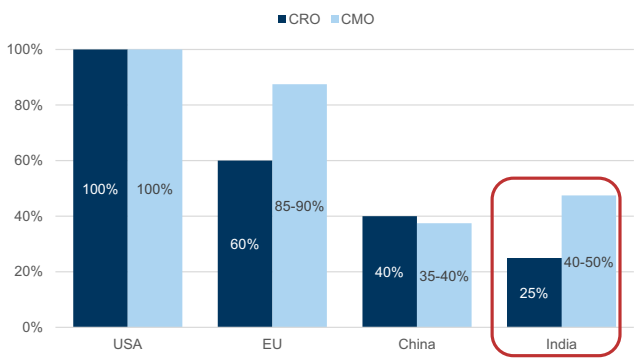
While India has made significant progress on the generic API side of things (28% of US FDA cataloged sites), its under-indexed for branded drugs despite the structural cost benefits. We believe this gap presents a significant opportunity set for Indian manufacturers and potentially a larger TAM as branded prices see annual inflation vs. generics which are in steady state of deflation.

Exhibit 43: While Indian API facilites have 28% share (#) in generic API, they only are 19% for all drugs (generic+brand)
Aug'23 data



Source: FDA, Data compiled by Goldman Sachs Global Investment Research

Exhibit 44: Cost arbitrage advantages for India are set to stay
Costs indexed to the US (2022)



Source: Frost and Sullivan, Company data, Goldman Sachs Global Investment Research

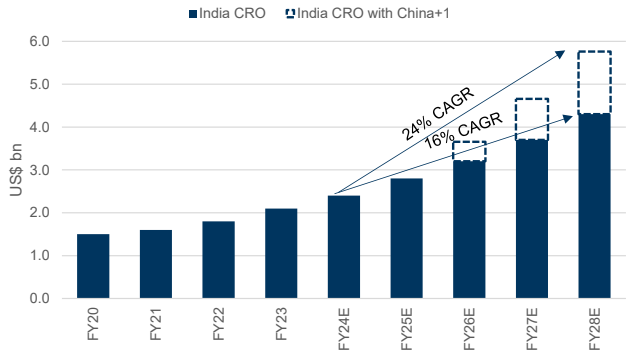
Our take: While we like India's positioning in the overall CRDMO space in general, given multiple moats which the Indian companies enjoy in the form of improving compliance (Exhibit 3), investments in capabilities (Exhibit 1), cost advantages (Exhibit 20) and industry reputational ranks (Exhibit 4), we believe integrated players offering services right from discovery to commercial manufacturing (like Syngene) are the best positioned to benefit from the China+1 theme over medium to long term.

Within the pure-play CRO and CDMO space, we believe India is in a relatively better position to capture CRO segment on account of factors such as (i) better cost competitiveness vs. China: 30-40% cheaper vs. China given lower labor costs (Frost & Sullivan), (ii) lower gestation period to add capacities: unlike large CMO facilities which require multiple years to operationalise, CRO facilities require shorter timelines to start if

the manpower is available, and (iii) shorter duration of contracts: allowing innovators to switch relatively easily. Accordingly, any initial success signs of China+1 would likely benefit integrated or CRO players first, in our view.

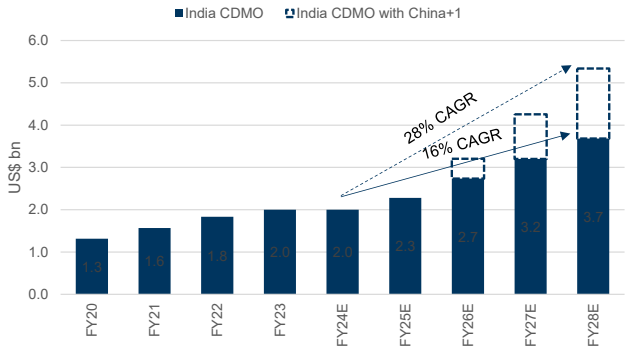
We also try to forecast how the India CRDMO market could potentially evolve in case China+1 actually starts playing out – accordingly, our analysis suggests that the **India CRDMO market growth could structurally move upwards from mid-teens currently to mid-20% over the medium to long term**, if only 10% of incremental business from China switches base to India.

Exhibit 45: We forecast 16% revenue growth for India CRDMO revenue from China+1 shift, increasing to 24% from an additional 10% incremental shift from China



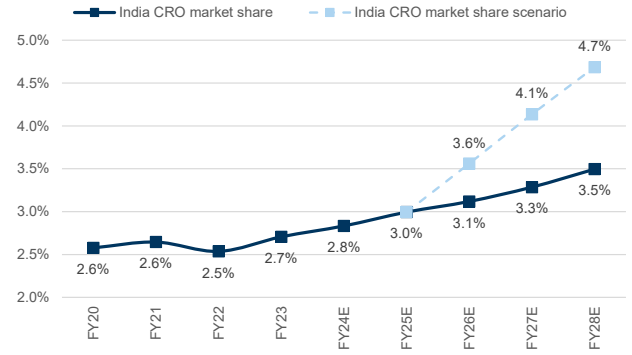
Source: Frost & Sullivan, Company data, Goldman Sachs Global Investment Research

Exhibit 46: ...while the CDMO market growth could see an even sharper move from 16% to 28% over a similar period



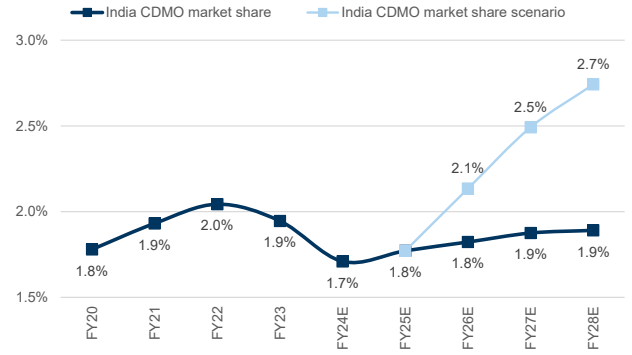
Source: Frost & Sullivan, Company data, Goldman Sachs Global Investment Research

Exhibit 47: India CRO market share could potentially double in the next 4-5 years...



Source: Frost & Sullivan, Company data, Goldman Sachs Global Investment Research

Exhibit 48: ...and CDMO share could jump 1.5x in case China + 1 were to just start playing out over the same period



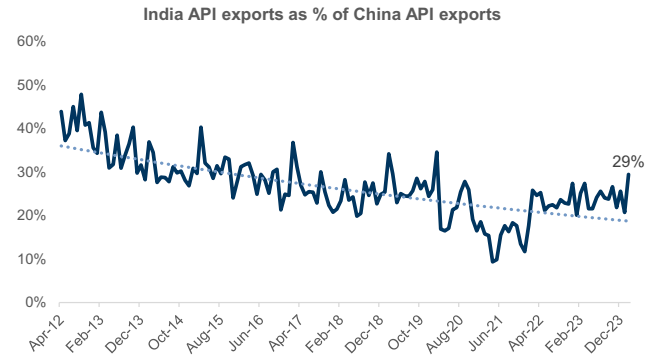
Source: Frost & Sullivan, Company data, Goldman Sachs Global Investment Research

What are the key factors to watch?

Given the B2B nature of this business, it's important to track Trade data (UN Comtrade, India Customs, China Customs) – our **India/China API tracker** has shown a spike for the month of Feb-2024 in relative shift of share towards India with API exports growing c. 5% yoy for the month while China declined 10% yoy. While we also note that China's production and supply slowdown in Feb was likely driven by the Chinese new year. Additionally, if we consider two months of Jan+Feb – India's share remains well above

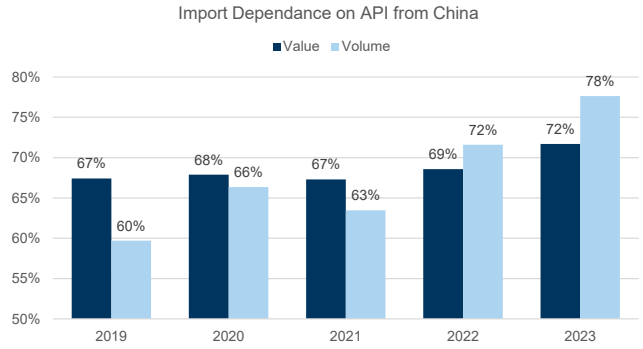
the trendline. However, on the API import side, the dependency on China only increased reaching a peak of 72% by value and 78% by volume of goods.

Exhibit 49: India's API exports have sustained well above what long-term trends would suggest



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 50: India's dependance on Chinese API has increased over the years

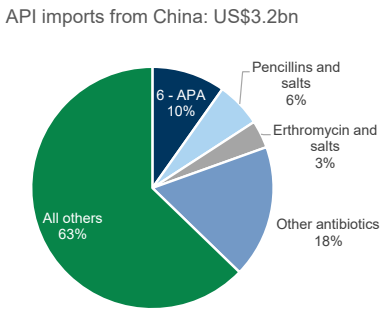


Source: DGCIS

ARBN's US$250mn **Pen-G API commercialisation** (April-2024) will likely be a key catalyst for the import substitution (Make in India) theme that the Indian government has promoted - c. 45% of API imports from China are forms of Antibiotics API. The production ramp-up at Aurobindo (overall Pen-G capacity of 15000MT) as well as supply response from Chinese manufacturers will be a key factor to watch. Pen-g and 6-APA prices have started softening over the last 6 months, likely in anticipation of new supply coming to the 80K MT global market. Aurobindo has noted that c. 50% of the production will be consumed internally and expects to reach sizeable export quantities (>500MT monthly) only in 2HFY25, when there could be dilution to market prices.

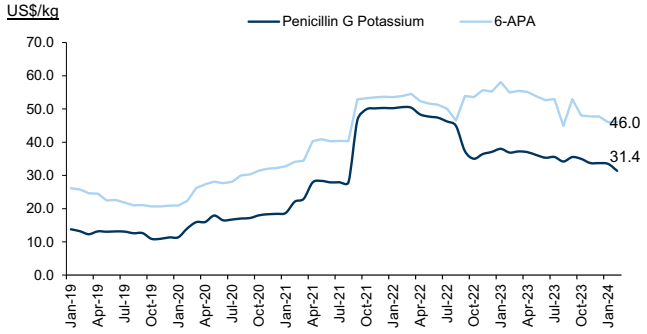
Why to track this? Despite being known as the pharma capital of the world, the Indian pharma industry has been heavily dependent on China for KSMs/APIs (Exhibit 50). We believe steps like the PLI scheme promoting large scale domestic manufacturing/ import substitution from China should help improve the global perception of the Indian pharma industry, as the global pharma players are unlikely to want to diversify out of China to a country that in turn is heavily dependent on China. However, we note that,despite efforts, dependence on China can only be reduced up to a certain extent as a large part of the global pharma KSM supply chain is based out of China.

Exhibit 51: Antibiotics API as a class form c. 35-40% of the total bulk drug imports from China



Source: DGCIS

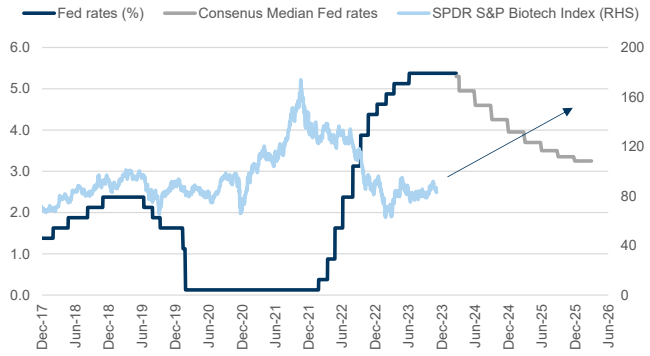
Exhibit 52: Pen-G and 6-APA prices have started seeing softness



Source: Wind

Lastly we look at the **biotech funding environment** which is showing some signs of stability and could see a turnaround with recent Fed rate cuts (in line with historical trends). We shall also closely track the deal wins for India pharma with Big pharma from DMs to monitor for signs of customer RFPs getting converted into order book.

Exhibit 53: Biotech funding could likely improve with Fed Funds rate



Source: Bloomberg

Exhibit 54: India CRDMO have been announcing a series of deal wins

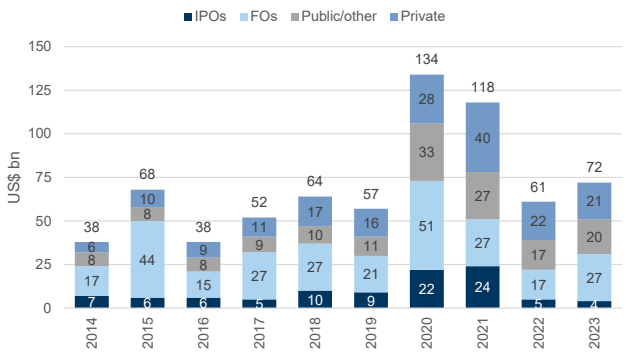
Date	CRDMO player	Innovator partner	Drug/Therapy	Contract size (US$ mn)
FY22/23	Divi's	MSD	Molnupiravir	375
FY22/23	Laurus, Suven	Pfizer	Paxlovid	NA
Jul-22	Syngene	Zoetis	Librela	500
Oct-22	Aurobindo	MSD	2-3 biosimilars	$100mn plant capex
May-23	Supriya	DSM Firmenich	Vitamins	c.$8-10mn per annum
Jan-24	Glenmark Life	Japan Innovator	Urinary anti-spasmodic	5

Source: Bloomberg, Company data

Where are we in the global/US biotech funding cycle?

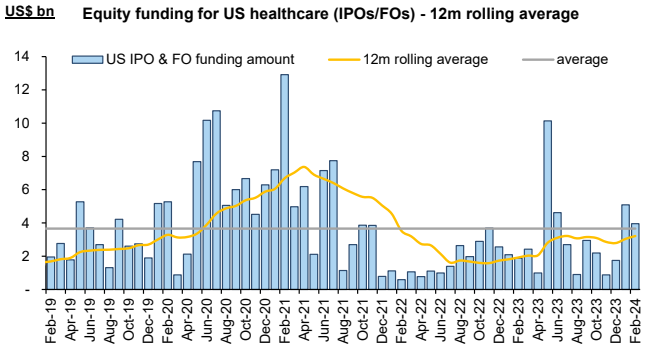
Despite a sharp decline in global biotech funding since Covid, we note that funding bottomed out in 2022 around pre-Covid levels. Even the public market funding in the US has picked up in 2024, with both Jan/Feb numbers coming in above long-term averages. We can correlate the same with Syngene's commentary on its recent earnings call where management mentioned signs of a bottoming out of the biotech funding stress.

Exhibit 55: Despite a sharp decline in global biotech funding since Covid, we note that the base funding levels are above pre-Covid levels



Source: IQVIA

Exhibit 56: US public market funding now starting to move above the long-term avg.



Source: Pharmacube

Why invest now, if FY25 could likely be a sluggish year?

We acknowledge that growth in FY25 is expected to be sluggish for most CRDMO companies given a combination of: base effects, lumpiness of revenues, biotech funding decline, Covid effects wearing off and Inventory rationalisation. While many of these factors are well flagged and already in the price, we believe it is difficult to precisely time the recovery. Hence, we favor companies which either have valuation comfort coupled with strong medium/long term prospects (eg Neuland) or the ones which we believe could be the earliest beneficiaries of the China+1 theme (eg CROs like Syngene).

Valuation framework

We value our India CRO/CDMO coverage using SoTP based on P/E(x) for different businesses, depending on the nature/type of business, their growth and margin profiles and relative to the multiples where their peers have historically traded.

We are below the Street for FY25, but see upside risk to consensus from FY26 onwards for Buy-rated names

We are below consensus for our India CRO/CDMO coverage in FY25 as we expect a challenging macro environment in CY24, but expect a strong recovery from CY25 onwards. In line with the same, we see upside risk to street estimates from FY26E onwards for Buy-rated names (Syngene and Neuland), given the multiple growth and margin catalysts ahead (refer to individual company sections for further details). On Laurus, while we acknowledge management's efforts to upscale its CDMO business, we expect it to happen gradually rather than in the near term.

Exhibit 57: While we expect FY25 to be a relatively challenging year for our coverage, we are above consensus on Buy-rated names from FY26E and beyond
GS EPS estimates vs. consensus

EPS	GS estimate			Bloomberg			Gse vs Consensus		
Rs/ share	**FY25E**	**FY26E**	**FY27E**	**FY25E**	**FY26E**	**FY27E**	**FY25E**	**FY26E**	**FY27E**
Syngene	12.0	19.5	25.6	14.5	18.4	23.3	-17%	6%	10%
Neuland	197.8	290.2	388.3	212.1	280.2	365.0	-7%	4%	6%
Laurus	6.3	11.5	16.7	8.5	13.4	21.8	-26%	-14%	-23%

Source: Bloomberg, Goldman Sachs Global Investment Research

Attractive risk-reward for Syngene and Neuland

We flex our estimates to arrive at the bear and bull case scenarios and note the impact on implied values in this section. We summarize the key assumption changes below:

Bear case: We reduce the revenue CAGR by between 150 to 250bps vs. the base case on account of a combination of multiple factors like longer-than-expected biotech funding winter, inability to commercialise molecules on time and/or failure to win new deals. This would also have corresponding impact on the margins and CROCIs. We also cut our multiples by 10-15% in such a scenario.

Bull case: We increase the revenue CAGR by between 200 to 300bps vs. the base case, to reflect an acceleration in the topline growth driven by tailwinds from better capacity utilisations on the back of more deal wins, a better operating macro environment and entry into new meaningful partnerships. Accordingly, we also increase multiples by ~10% to factor in better outlook on the business.

Our analysis suggests that risk-reward is most attractive for Neuland and Syngene, while it appears skewed to the downside for Laurus.

Exhibit 58: We see attractive risk-reward for Syngene and Neuland Labs
Scenario analysis summary

FY24-FY26E	Syngene			Neuland Labs			Laurus Labs		
	Bear Case	Base case	Bull case	Bear Case	Base case	Bull case	Bear Case	Base case	Bull case
Topline CAGR	**11.2%**	**13.1%**	**15.1%**	**15.2%**	**17.9%**	**20.6%**	**11.0%**	**12.9%**	**16.1%**
PAT CAGR	**19.6%**	**26.1%**	**32.6%**	**24.2%**	**32.2%**	**40.3%**	**47.2%**	**72.6%**	**98.0%**
FY26E CROCIs	**18.8%**	**22.2%**	**24.4%**	**30.0%**	**35.3%**	**38.9%**	**15.8%**	**21.0%**	**26.3%**
Implied Value per Share (Rs)	**660**	**875**	**1,010**	**6,105**	**9,100**	**10,290**	**285**	**350**	**475**
Upside / downside (%)	-10%	20%	38%	-2%	46%	65%	-37%	-23%	5%
Implied fwd. multiples									
P/E (x) FY26E	40	45	46	25	31	32	29	30	37
P/BVPS (x) FY25E	6.1	7.7	8.5	5.4	7.6	8.2	3.5	4.1	5.3
Historical ranges	**Min**	**Average**	**Max**	**Min**	**Average**	**Max**	**Min**	**Average**	**Max**
24-m forward P/E (x)	18	34	43	5	19	53	9	19	34
12-m forward P/BVPS (x)	3.7	7.0	10.1	0.7	2.7	7.4	1.7	5.3	10.3

Priced as of 10th April, 2024

Source: Datastream, Bloomberg, Goldman Sachs Global Investment Research

Indian CXO players trade in line with their Western counterparts

Exhibit 59: India CXO names trading on par with Western counterparts
Global CXO comp sheet

Company name	Currency	Current price	Mkt Cap (USD mn)	P/E FY24E	P/E FY25E	P/E FY26E	RoC	RoE FY24E	RoE FY25E	RoE FY26E	FY23-26E CAGR Revenue	FY23-26E CAGR EBITDA	FY23-26E CAGR EPS	Net debt/ EBITDA	Net asset turns
INDIA															
Divi's Laboratories Ltd	INR	3,739	11,931	64.1x	48.4x	38.6x	15%	12%	14%	16%	11%	14%	12%	-1.7x	1.6x
Gland Pharma Ltd	INR	1,792	3,549	34.6x	27.6x	23.7x	11%	10%	11%	12%	22%	17%	17%	-2.9x	2.1x
Syngene International Ltd	INR	732	3,537	61.0x	50.5x	39.7x	13%	13%	13%	15%	17%	17%	17%	-0.8x	1.2x
Laurus Labs Ltd	INR	460	2,977	121.8x	54.1x	34.4x	20%	5%	12%	15%	3%	-3%	-3%	1.1x	1.7x
Neuland Laboratories Ltd	INR	6,191	955	25.7x	25.1x	20.6x	22%	27%	22%	22%	22%	44%	33%	NA	2.4x
Piramal Pharma Ltd	INR	145	2,307	154.4x	41.5x	26.2x	NA	2%	6%	8%	14%	56%	-253%	8.6x	1.7x
Suven Pharmaceuticals Ltd	INR	616	1,884	48.1x	38.5x	30.9x	26%	17%	19%	19%	5%	7%	7%	NA	2.0x
Median				**46.9x**	**36.2x**	**26.2x**	**17%**	**13%**	**14%**	**16%**	**15%**	**17%**	**14%**	**-0.8x**	**1.9x**
ASIA															
Samsung Biologics Co Ltd	KRW	805,000	42,286	70.2x	58.5x	47.8x	16%	9%	10%	11%	20%	19%	14%	-0.1x	1.0x
Celltrion Inc	KRW	181,300	29,176	42.1x	42.0x	32.6x	17%	15%	14%	16%	14%	17%	15%	-0.1x	2.3x
Wuxi Biologics Cayman Inc	CNY	14	8,442	13.8x	12.5x	10.3x	10%	10%	10%	11%	15%	9%	5%	-0.5x	0.7x
Wuxi Apptec Co Ltd-H	HKD	37	19,345	9.9x	9.4x	8.2x	27%	20%	18%	17%	7%	14%	11%	-0.5x	1.9x
Pharmaron Beijing Co Ltd-H	HKD	10	4,816	9.8x	8.7x	7.1x	12%	14%	13%	14%	16%	14%	18%	1.3x	1.3x
Asymchem Laboratories Tian-H	HKD	64	4,402	8.9x	13.4x	10.1x	NA	14%	9%	11%	-5%	-8%	NA	-1.8x	2.3x
Hangzhou Tigermed Consulti-H	HKD	34	6,873	12.3x	13.0x	11.6x	NA	11%	9%	9%	10%	8%	NA	-3.1x	5.5x
Median				**12.3x**	**13.0x**	**10.3x**	**16%**	**14%**	**10%**	**11%**	**14%**	**14%**	**14%**	**-0.5x**	**1.9x**
US/EU															
Catalent Inc	USD	57	10,313	55.7x	117.6x	39.7x	NA	4%	2%	6%	-1%	-10%	-28%	3.2x	1.6x
Iqvia Holdings Inc	USD	239	43,576	23.5x	21.5x	19.2x	NA	31%	28%	28%	5%	7%	7%	3.5x	16.3x
Lonza Group Ag-Reg	CHF	535	43,613	40.0x	43.2x	34.9x	8%	9%	9%	11%	7%	4%	1%	0.8x	1.2x
Siegfried Holding Ag-Reg	CHF	895	4,418	27.8x	25.8x	22.5x	9%	16%	16%	17%	4%	5%	10%	1.4x	1.6x
Median				**33.9x**	**34.5x**	**28.7x**	**8%**	**12%**	**13%**	**14%**	**4%**	**5%**	**4%**	**2.3x**	**1.6x**

Priced as of 10th April, 2024; Company estimates per consensus; For global companies, FY24 = CY23, FY25 = CY24, FY26 = CY25

Source: Datastream, Bloomberg, Goldman Sachs Global Investment Research

M&A framework

Across our coverage universe, we examine stocks using an M&A framework, considering both qualitative and quantitative factors to incorporate the potential that certain companies could be acquired at a premium to current share prices.

We consider mostly quantitative factors to evaluate the M&A probability for each company such as market cap, free float, ownership structure, financial strength, relative pricing power (service complexity), returns, top-line growth, and valuation.

Exhibit 60: We assign M&A ranks of 2 to Syngene/ Neuland and 3 to Laurus
GS India Pharma & HC M&A framework

India CRO/CDMO										
Company name	Final M&A rank	M&A probability	Market cap score	Free float score	Ownership score	Financial strength score	Product complexity score	CROCI score	Topline growth score	Valuation score
Divi's Labs	3	0%-15%	3	3	3	1	1	3	2	3
Gland Pharma Ltd.	3	0%-15%	2	2	2	1	3	2	2	3
Syngene International	2	15%-30%	1	2	2	2	1	1	1	3
Laurus Labs	3	0%-15%	1	1	3	3	3	3	3	3
Neuland Labs	2	15%-30%	1	1	3	2	2	1	1	3

Source: Goldman Sachs Global Investment Research

Syngene (SYNN.BO): Integrated growth engine fueled by newly added capacities; initiate at Buy

Refer to the initiation report for details (link).

Syngene is the largest integrated CRAMS/CRDMO in the country providing discovery, development, and manufacturing services to pharmaceutical, biotechnology, animal healthcare, consumer goods and agro-chem companies. We expect the company to be the largest beneficiary of China+1 given its ability to offer end-to-end service to customers right from discovery to commercial manufacturing. Barring the short-term macro challenges in CY24, we see multiple catalysts for the company in the form of: (i) **improving biotech funding environment**, (2) **ramp-up of Mangalore API/ Stelis biologics** plant in H2FY25/FY26, and (3) **new contract wins** esp. in the current anti-China environment. Besides this, any progress on the US Biosecure Act could bring in disproportionate benefits to the company. We initiate with a Buy rating and a SoTP derived TP of Rs875/sh. The stock currently trades above its historical avg. P/E.

Price target risks and methodology

We are Buy rated on Syngene with a 12-m TP of Rs875, derived using a P/E-based SoTP approach. Key risks include product/customer/geography concentration risk, prolonged biotech funding stress, delay in ramp-up of key plants, potential regulatory compliance issues.

Exhibit 61: Syngene SoTP TP valuation

Segments (Rs mn)	Sales (Q5 to Q8)	Growth (yoy)	PAT margin	PAT (Q5 to Q8)	P/E fwd	Segment Value	# mn shares	Value per share (Rs)	% of value
CRO	25,811	21%	19.9%	5,126	45x	230,681	401	576	65.8%
-Discovery	16,020	33%	18.3%	2,939	45x	132,241	401	330	37.7%
-Dedicated	9,791	5%	22.3%	2,188	45x	98,440	401	246	28.1%
CDMO	19,636	23%	13.7%	2,690	40x	107,606	401	269	30.7%
Syngene	45,447	22%	17.2%	7,816	43.3x	338,287	401	845	96.5%
M&A value (15% weight)	45,447	22%	17.2%	7,816	45x	355,202	401	885	3.5%
Target Price (Rs)								**875**	

* CRO multiple based on 12m fwd. P/Es of companies like IQVIA, Tigermed, Wuxi, Lonza, etc.
* CDMO multiple based on 12m fwd. P/Es of companies like Divi's, Suven, Piramal, Laurus, Samsung Bio and Lonza
* M&A multiple based on avg. of large listed deals in the India CRDMO over the past 4-5 years

GS P/E multiples for coverage, consensus for the rest

Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 62: Syngene - Summary financials

Profit model (Rs mn)	3/23	3/24E	3/25E	3/26E
Total revenue	31,929	35,502	37,312	45,447
Cost of goods sold	(8,602)	(10,160)	(10,891)	(12,867)
SG&A				
R&D	0	0	0	0
Other operating profit/(expense)	(5,566)	(6,513)	(6,997)	(7,692)
EBITDA	**9,344**	**9,959**	**10,169**	**14,477**
Depreciation & amortization	(3,665)	(4,224)	(4,709)	(5,342)
EBIT	**6,388**	**6,725**	**6,392**	**10,271**
Interest income	0	0	0	0
Interest expense	(452)	(425)	(203)	(120)
Income/(loss) from uncons. subs.				
Others	709	990	933	1,136
Pretax profits	**5,936**	**6,299**	**6,189**	**10,151**
Income tax	(1,293)	(1,383)	(1,362)	(2,335)
Minorities				
Net income pre-preferred dividends	4,643	4,916	4,828	7,816
Preferred dividends				
Net income (pre-exceptionals)	4,643	4,916	4,828	7,816
Post-tax exceptionals		(87)		
Net income	**4,643**	**4,829**	**4,828**	**7,816**
EPS (basic, pre-except) (Rs)	**11.6**	**12.3**	**12.0**	**19.5**
EPS (basic, post-except) (Rs)	11.6	12.1	12.0	19.5
EPS (diluted, post-except) (Rs)	11.5	12.0	12.0	19.4
DPS (Rs)				
Dividend payout ratio (%)	0%	0%	0%	0%
Free cash flow yield (%)	2%	2%	1%	2%

Balance sheet (Rs mn)	3/23	3/24E	3/25E	3/26E
Cash & equivalents	5,317	193	2,397	6,633
Accounts receivable	5,293	5,836	6,645	8,093
Inventory	3,328	3,480	4,028	5,288
Other current assets	10,315	10,315	10,315	10,315
Total current assets	**24,253**	**19,824**	**23,385**	**30,329**
Net PP&E	27,772	34,698	34,968	35,776
Net intangibles	185	185	185	185
Total investments	0	0	0	0
Other long-term assets	6,100	6,100	6,100	6,100
Total assets	**58,310**	**60,806**	**64,638**	**72,390**
Accounts payable	2,580	3,480	3,730	4,406
Short-term loans	863	863	863	863
Other current liabilities	8,182	8,182	8,182	8,182
Total current liabilities	**11,882**	**12,782**	**13,032**	**13,708**
Long-term debt	4,890	1,890	890	390
Other long-term liabilities	3,216	3,216	3,216	3,216
Total long-term liabilities	10,248	7,248	6,248	5,748
Total liabilities	**22,130**	**20,030**	**19,280**	**19,456**
Preferred shares				
Total common equity	36,180	40,777	45,359	52,934
Minority interest				
Total liabilities & equity	**58,310**	**60,806**	**64,638**	**72,390**
BVPS (Rs)	90	102	113	132
Net debt	2,835	4,959	1,755	(2,981)

Growth & margins (%)	3/23	3/24E	3/25E	3/26E
Sales growth	23%	11%	5%	22%
EBITDA growth	17%	7%	2%	42%
EBIT growth	18%	5%	-5%	61%
Net income growth	17%	4%	0%	62%
EPS growth	17%	4%	0%	62%
Gross margin	73%	71%	71%	72%
EBITDA margin	29%	28%	27%	32%
EBIT margin	20%	19%	17%	23%

Ratios	3/23	3/24E	3/25E	3/26E
ROE (%)	13%	13%	11%	16%
CROCI (%)	21%	20%	17%	21%
ROACE (%)	13%	12%	11%	16%
Inventory days	108.7	122.3	125.8	132.1
Receivables days	59.3	57.2	61.0	59.2
Payable days	104.1	108.8	120.8	115.4
Net debt/equity (%)	8%	12%	4%	-6%
Interest cover - EBIT (X)	14.1	15.8	31.5	85.4
Total debt/total capital (%)	18%	11%	8%	6%

Cash flow statement (Rs mn)	3/23	3/24E	3/25E	3/26E
Net income pre-preferred dividends	4,643	4,916	4,828	7,816
D&A add-back	3,665	4,224	4,709	5,342
Minorities interests add-back				
Net (inc)/dec working capital	557	205	(1,107)	(2,032)
Other operating cash flow	(630)	(651)	(730)	(1,016)
Cash flow from operations	**8,235**	**8,694**	**7,700**	**10,111**
Capital expenditures	(5,066)	(4,150)	(4,980)	(6,150)
Acquisitions		(7,000)		
Divestitures				
Others	(1,498)	990	933	1,136
Cash flow from investments	**(6,564)**	**(10,160)**	**(4,047)**	**(5,014)**
Dividends paid (common & pref)	(401)	(232)	(246)	(241)
Inc/(dec) in debt	(2,581)	(3,000)	(1,000)	(500)
Common stock issuance (repurchase)				
Other financing cash flows	(443)	(425)	(203)	(120)
Cash flow from financing	**(3,425)**	**(3,657)**	**(1,449)**	**(862)**
Total cash flow	**(1,754)**	**(5,124)**	**2,204**	**4,235**
Free cash flow	3,799	5,195	3,450	4,977

Valuation	3/23	3/24E	3/25E	3/26E
P/E basic (X)	50.2	59.5	60.6	37.4
P/B (X)	6.4	7.2	6.5	5.5
EV/EBITDA (X)	25.2	29.9	29.0	20.0
Div yield (%)	0%	0%	0%	0%

Source: Company data, Goldman Sachs Global Investment Research

Neuland Labs (NEUL.BO): Scaling new heights on the back of commercial launches; initiate at Buy

Refer to the initiation report for details (link).

Neuland is a leading manufacturer of active pharmaceutical ingredients (APIs) and an end-to-end solution provider for the pharmaceutical industry's chemistry needs. Over the years, management has transitioned the business from pure-play APIs to also providing CDMO services to innovators. Barring the challenges to FY25 growth on account of a high base, we see multiple catalysts for the company in the form of: (i) **improving biotech funding environment**, (2) **new capacity at unit-3** coming online from FY25-end, and (3) **commercialisation of a large molecule in FY26/27**. Besides this, any progress on the US Biosecure Act could bring in disproportionate benefits to the company. We initiate with a Buy rating and a P/E-based SoTP derived TP of Rs9,100/sh. The stock currently trades above its historical avg. P/E.

Price target risks and methodology

We are Buy rated on Neuland with a 12-m TP of Rs9,100, derived using a P/E-based SoTP approach. Key risks include product/ customer concentration risk, vendor consolidation, potential regulatory compliance issues.

Exhibit 63: Neuland Labs SoTP TP valuation

Segments (Rs mn)	Sales (Q5 to Q8)	Growth (yoy)	PAT margin	PAT (Q5 to Q8)	P/E fwd	Segment Value	# mn shares	Value per share (Rs)	% of value
Prime	4,379	8%	7.1%	313	14x	4,382	13	342	3.8%
Specialty	4,610	18%	22.1%	1,021	20x	20,418	13	1,591	17.5%
CMS	9,787	39%	24.1%	2,363	35x	82,716	13	6,447	70.8%
Others	743	5%	3.6%	27	10x	266	13	21	0.2%
Neuland Labs	19,519	24%	19.1%	3,724	28.9x	107,783	13	8,400	92.3%
M&A value (15% weight)	19,519	24%	19.1%	3,724	45x	167,602	13	13,065	7.7%
Target Price (Rs)								**9,100**	

* Prime multiple based on companies like Aurobindo, Granules, Ipca
* Specialty multiple based on Gland
* CDMO multiple based on companies like Divi's, Suven, Laurus and GLS
* M&A multiple based on avg. of large listed deals in the India CRDMO over the past 4-5 years

GS P/E multiples for coverage, consensus for the rest

Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 64: Neuland Labs - Summary financials

Profit model (Rs mn)	3/23	3/24E	3/25E	3/26E
Total revenue	11,912	15,720	15,688	19,519
Cost of goods sold	(4,782)	(5,892)	(6,275)	(8,003)
SG&A				
R&D	(301)	(314)	(314)	(390)
Other operating profit/(expense)	(2,092)	(2,179)	(2,353)	(2,562)
EBITDA	**2,718**	**4,722**	**4,040**	**5,647**
Depreciation & amortization	(528)	(592)	(628)	(683)
EBIT	**2,288**	**4,222**	**3,490**	**5,061**
Interest income	0	0	0	0
Interest expense	(131)	(104)	(62)	(29)
Income/(loss) from uncons. subs.				
Others	97	92	78	98
Pretax profits	**2,157**	**4,118**	**3,429**	**5,032**
Income tax	(546)	(994)	(892)	(1,308)
Minorities				
Net income pre-preferred dividends	1,611	3,124	2,537	3,724
Preferred dividends				
Net income (pre-exceptionals)	1,611	3,124	2,537	3,724
Post-tax exceptionals	(51)			
Net income	**1,560**	**3,124**	**2,537**	**3,724**
EPS (basic, pre-except) (Rs)	**125.6**	**243.5**	**197.8**	**290.2**
EPS (basic, post-except) (Rs)	121.6	243.5	197.8	290.2
EPS (diluted, post-except) (Rs)	121.6	243.5	197.8	290.2
DPS (Rs)	6.3	12.2	9.9	14.5
Dividend payout ratio (%)	5%	5%	5%	5%
Free cash flow yield (%)	9%	4%	3%	3%

Balance sheet (Rs mn)	3/23	3/24E	3/25E	3/26E
Cash & equivalents	591	3,259	5,015	6,879
Accounts receivable	3,618	3,015	2,794	3,476
Inventory	2,792	2,825	2,837	3,618
Other current assets	608	608	608	608
Total current assets	**7,609**	**9,707**	**11,253**	**14,580**
Net PP&E	4,980	5,884	6,256	6,773
Net intangibles				
Total investments	0	0	0	0
Other long-term assets	3,209	3,209	3,209	3,209
Total assets	**15,798**	**18,799**	**20,718**	**24,562**
Accounts payable	2,365	2,673	2,461	2,958
Short-term loans	473	123	123	123
Other current liabilities	1,521	1,521	1,521	1,521
Total current liabilities	**4,390**	**4,347**	**4,135**	**4,632**
Long-term debt	742	742	492	242
Other long-term liabilities	686	686	686	686
Total long-term liabilities	1,467	1,467	1,217	967
Total liabilities	**5,857**	**5,814**	**5,352**	**5,599**
Preferred shares				
Total common equity	9,941	12,985	15,366	18,963
Minority interest				
Total liabilities & equity	**15,798**	**18,799**	**20,718**	**24,562**
BVPS (Rs)	775	1,012	1,198	1,478
Net debt	693	(2,325)	(4,330)	(6,444)

Growth & margins (%)	3/23	3/24E	3/25E	3/26E
Sales growth	25%	32%	0%	24%
EBITDA growth	94%	74%	-14%	40%
EBIT growth	139%	85%	-17%	45%
Net income growth	144%	100%	-19%	47%
EPS growth	144%	100%	-19%	47%
Gross margin	60%	63%	60%	59%
EBITDA margin	23%	30%	26%	29%
EBIT margin	19%	27%	22%	26%

Ratios	3/23	3/24E	3/25E	3/26E
ROE (%)	17%	27%	18%	22%
CROCI (%)	23%	36%	28%	34%
ROACE (%)	16%	30%	24%	32%
Inventory days	207.8	174.0	164.7	147.2
Receivables days	91.3	77.0	67.6	58.6
Payable days	153.5	156.1	149.3	123.6
Net debt/equity (%)	7%	-18%	-28%	-34%
Interest cover - EBIT (X)	17.5	40.7	56.7	173.3
Total debt/total capital (%)	11%	7%	4%	2%

Cash flow statement (Rs mn)	3/23	3/24E	3/25E	3/26E
Net income pre-preferred dividends	1,611	3,124	2,537	3,724
D&A add-back	528	592	628	683
Minorities interests add-back				
Net (inc)/dec working capital	90	878	(3)	(966)
Other operating cash flow	143	12	(17)	(68)
Cash flow from operations	**2,372**	**4,606**	**3,145**	**3,372**
Capital expenditures	(661)	(1,500)	(1,000)	(1,200)
Acquisitions				
Divestitures				
Others	46	96	78	98
Cash flow from investments	**(615)**	**(1,404)**	**(922)**	**(1,102)**
Dividends paid (common & pref)	(64)	(81)	(156)	(127)
Inc/(dec) in debt	(1,136)	(350)	(250)	(250)
Common stock issuance (repurchase)				
Other financing cash flows	(162)	(104)	(62)	(29)
Cash flow from financing	**(1,362)**	**(534)**	**(468)**	**(406)**
Total cash flow	**395**	**2,668**	**1,755**	**1,864**
Free cash flow	1,567	3,094	2,162	2,241

Valuation	3/23	3/24E	3/25E	3/26E
P/E basic (X)	11.2	25.5	31.5	21.4
P/B (X)	1.8	6.1	5.2	4.2
EV/EBITDA (X)	6.9	16.4	18.7	13.0
Div yield (%)	0%	0%	0%	0%

Source: Company data, Goldman Sachs Global Investment Research

Laurus Labs (LAUL.BO): Back-ended earnings inflection at odds with front-ended street expectations; initiate at Sell

Refer to the initiation report for details (link).

Laurus Labs primarily operates in four areas: APIs, Formulations, synthesis (small molecule) and biologics. Over years the company has transitioned from being an Anti retroviral (ARV) player to an API company to then vertically integrating to formulations and has now invested heavily in its CDMO business. Although we appreciate management's capex efforts, which should benefit the company meaningfully from FY26/27 onwards, our Sell rating is based on unfavourable risk-reward: (i) **lack of catalysts for CDMO business** in CY24 (in our view), (2) **mismatch in timelines** for new capacity monetisation vs. the street expectations, (3) **slower FY25 growth** (vs. peers) with **risk on margin guidance** vs expensive valuations. The stock currently trades at ~34x FY26E EPS, >2SD above its historical avg. P/E.

Price target risks and methodology

We are Sell rated on Laurus with a 12-m TP of Rs350, derived using a P/E-based SoTP approach. Key risks include faster ramp-up of CDMO/Bio business, positive structural changes to ARV business, China+1 benefits.

Exhibit 65: Laurus Labs SoTP TP valuation

Segments (Rs mn)	Sales (Q5 to Q8)	Growth (yoy)	PAT margin	PAT (Q5 to Q8)	P/E fwd	Segment Value	# mn shares	Value per share (Rs)	% of value
FDF	19,071	8%	7.0%	1,332	15x	19,979	538	37	10.6%
API	27,274	5%	3.0%	814	15x	12,208	538	23	6.5%
Synthesis	16,309	49%	22.0%	3,585	40x	143,414	538	267	76.2%
Bio	2,169	10%	21.3%	461	30x	13,835	538	26	7.4%
Laurus Labs	64,823	15%	9.6%	6,192	30.6x	189,436	538		100.7%
Target Price (Rs)								**350**	

* FDF multiple based on 12m fwd P/Es of companies like Aurobindo, Ipca and Alembic
* API multiple based on 12m fwd P/Es of Aurobindo and Cipla's API businesses
* Synthesis multiple based on 12m fwd P/Es of companies like Divi's, Suven, Piramal, Samsung Bio, Lonza and Catalent
* Bio multiple based on 12m fwd P/Es of dietray supplements businesses of India companies

GS P/E multiples for coverage, consensus for the rest

Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 66: Laurus Labs - Summary financials
In Rs mn unless stated

Profit model (Rs mn)	3/23	3/24E	3/25E	3/26E
Total revenue	60,406	50,871	56,544	64,823
Cost of goods sold	(27,743)	(24,088)	(26,858)	(30,219)
SG&A				
R&D	(2,110)	(2,389)	(2,647)	(2,871)
Other operating profit/(expense)	(8,824)	(9,565)	(10,061)	(10,156)
EBITDA	**15,922**	**8,443**	**10,451**	**14,630**
Depreciation & amortization	(3,241)	(3,863)	(4,382)	(5,024)
EBIT	**12,741**	**4,695**	**6,210**	**9,768**
Interest income	0	0	0	0
Interest expense	(1,652)	(1,872)	(1,640)	(1,400)
Income/(loss) from uncons. subs.				
Others	(12)	172	141	162
Pretax profits	**11,018**	**2,880**	**4,570**	**8,368**
Income tax	(3,123)	(759)	(1,188)	(2,176)
Minorities				
Net income pre-preferred dividends	7,895	2,120	3,382	6,192
Preferred dividends				
Net income (pre-exceptionals)	7,945	2,079	3,382	6,192
Post-tax exceptionals	51	(41)		
Net income	**7,945**	**2,079**	**3,382**	**6,192**
EPS (basic, pre-except) (Rs)	**14.8**	**3.9**	**6.3**	**11.5**
EPS (basic, post-except) (Rs)	14.8	3.9	6.3	11.5
EPS (diluted, post-except) (Rs)	14.7	3.9	6.3	11.5
DPS (Rs)				
Dividend payout ratio (%)	0%	0%	0%	0%
Free cash flow yield (%)	-1%	1%	0%	1%

Balance sheet (Rs mn)	3/23	3/24E	3/25E	3/26E
Cash & equivalents	485	4,159	3,835	2,954
Accounts receivable	15,804	13,937	15,491	17,760
Inventory	16,848	14,189	15,821	17,800
Other current assets	1,480	1,480	1,480	1,480
Total current assets	**34,617**	**33,764**	**36,627**	**39,994**
Net PP&E	37,002	38,467	40,585	42,061
Net intangibles				
Total investments	0	0	0	0
Other long-term assets	4,986	4,986	4,986	4,986
Total assets	**76,604**	**77,217**	**82,198**	**87,041**
Accounts payable	9,030	8,523	11,121	12,272
Short-term loans	12,106	11,106	10,106	7,606
Other current liabilities	3,131	3,131	3,131	3,131
Total current liabilities	**24,323**	**22,816**	**24,414**	**23,065**
Long-term debt	7,614	7,614	7,614	7,614
Other long-term liabilities	3,806	3,806	3,806	3,806
Total long-term liabilities	11,795	11,795	11,795	11,795
Total liabilities	**36,117**	**34,610**	**36,209**	**34,860**
Preferred shares				
Total common equity	40,375	42,496	45,878	52,070
Minority interest	111	111	111	111
Total liabilities & equity	**76,604**	**77,217**	**82,198**	**87,041**
BVPS (Rs)	75	79	86	97
Net debt	19,666	14,992	14,315	12,696

Growth & margins (%)	3/23	3/24E	3/25E	3/26E
Sales growth	22%	-16%	11%	15%
EBITDA growth	12%	-47%	24%	40%
EBIT growth	7%	-63%	32%	57%
Net income growth	-5%	-74%	63%	83%
EPS growth	-5%	-74%	63%	83%
Gross margin	54%	53%	53%	53%
EBITDA margin	26%	17%	18%	23%
EBIT margin	21%	9%	11%	15%

Ratios	3/23	3/24E	3/25E	3/26E
ROE (%)	22%	5%	8%	13%
CROCI (%)	25%	15%	16%	18%
ROACE (%)	16%	6%	8%	12%
Inventory days	226.6	235.1	203.9	203.0
Receivables days	88.7	106.7	95.0	93.6
Payable days	136.8	133.0	133.5	141.3
Net debt/equity (%)	49%	35%	31%	24%
Interest cover - EBIT (X)	7.7	2.5	3.8	7.0
Total debt/total capital (%)	33%	31%	28%	23%

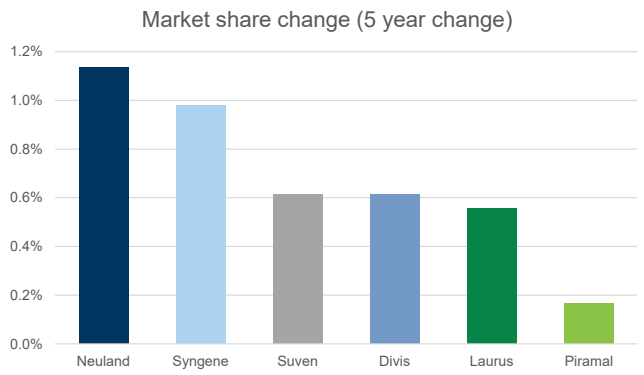
Cash flow statement (Rs mn)	3/23	3/24E	3/25E	3/26E
Net income pre-preferred dividends	7,895	2,120	3,382	6,192
D&A add-back	3,241	3,863	4,382	5,024
Minorities interests add-back				
Net (inc)/dec working capital	(3,149)	4,020	(588)	(3,097)
Other operating cash flow	1,953	1,757	1,498	1,238
Cash flow from operations	**9,939**	**11,760**	**8,675**	**9,357**
Capital expenditures	(9,902)	(8,500)	(6,500)	(6,500)
Acquisitions				
Divestitures				
Others	(59)	3,286	141	162
Cash flow from investments	**(9,961)**	**(5,214)**	**(6,359)**	**(6,338)**
Dividends paid (common & pref)	(1,075)			
Inc/(dec) in debt	2,216	(1,000)	(1,000)	(2,500)
Common stock issuance (repurchase)	74			
Other financing cash flows	(1,491)	(1,872)	(1,640)	(1,400)
Cash flow from financing	**(275)**	**(2,872)**	**(2,640)**	**(3,900)**
Total cash flow	**(297)**	**3,674**	**(323)**	**(881)**
Free cash flow	(1,843)	1,447	677	1,619

Valuation	3/23	3/24E	3/25E	3/26E
P/E basic (X)	31.5	117.4	72.2	39.4
P/B (X)	6.2	5.7	5.3	4.7
EV/EBITDA (X)	17.0	30.7	24.7	17.6
Div yield (%)	0%	0%	0%	0%

Source: Datastream, Company data, Goldman Sachs Global Investment Research

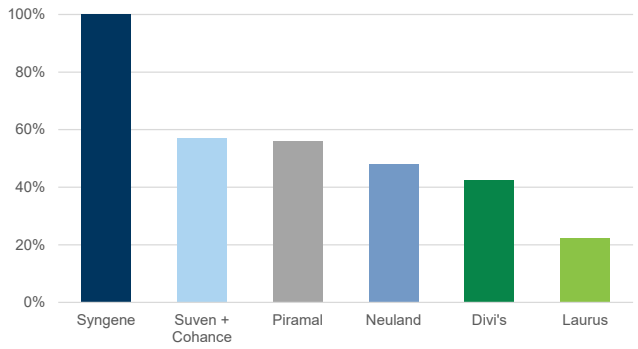
Appendix

Exhibit 67: Neuland and Syngene have seen the most market share gains over the last 5 years
API exports (generic + CDMO) sales



Source: DGCIS, Company data

Exhibit 68: Syngene has the highest exposure to innovators
FY23 revenues from innovator companies (non-generic) in %



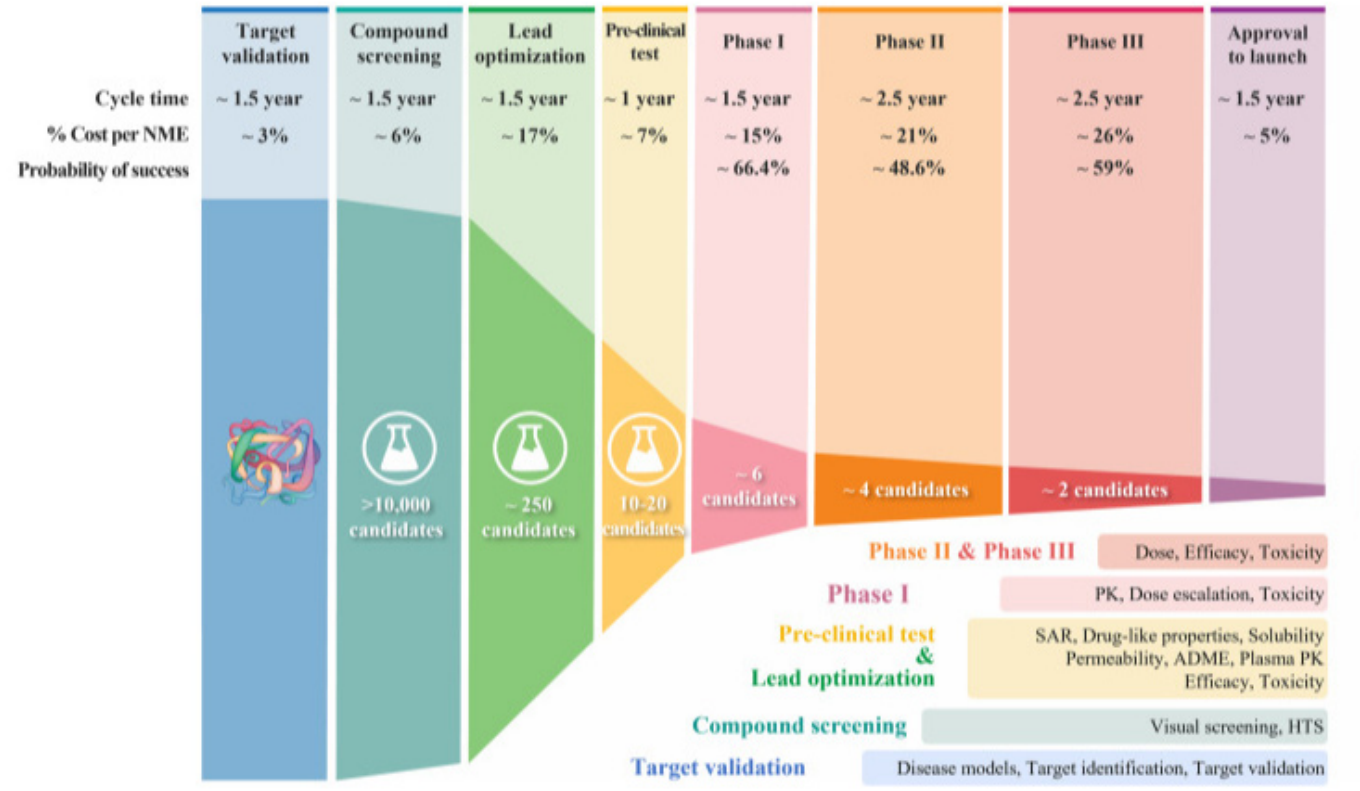
Source: Company data

Exhibit 69: Syngene offers the widest range of services, followed by Piramal

Capability	Drug Discovery	Pre Clinical	Clinical Services	Drug Substance	Drug product	CGT/ADC/ Biologics
Divis				✓		
Syngene	✓	✓	✓	✓	✓	✓
Laurus Labs				✓	✓	✓
Neuland		✓	✓	✓		
Piramal	✓	✓	✓	✓	✓	✓
Suven + Cohance				✓	✓	✓

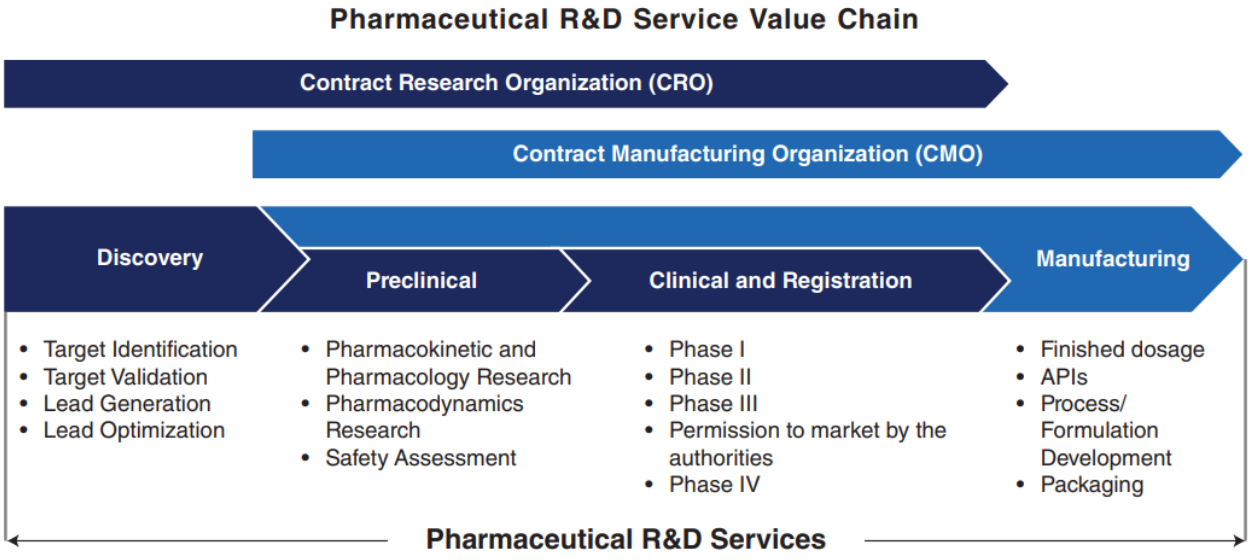
Source: Company data, compiled by Goldman Sachs Global Investment Research

Exhibit 70: Drug development process



Source: Science Direct

Exhibit 71: Pharma R&D service value chain summary



Source: Company data

- **Drug Discovery**: Discovery represents the earliest research stage, directed at identifying, screening, and selecting a lead molecule for future drug development. It starts with screening hundreds/ thousands/ millions of compounds. The goal of the drug discovery phase is to find a promising molecule, or lead compound, that has the potential to become a new medicine.

- **Target Identification:** It is the process of identifying the biological origin of a disease, and the potential targets such as protein or nucleic acid for intervention.
- **Target Validation: I**t involves intensive in vitro and in vivo studies and an increasing use of in silico models that provide information on the effects of pharmacological intervention (identified targets).
- **Lead Generation:** This stage of the work aims to refine each hit series to produce more potent and selective compounds/molecules that possess adequate properties to examine their efficacy in any available in vivo models.
- **Lead Optimization and Selection:** This stage seeks to identify and synthesize lead compounds, new analogs with improved potency, reduced off-target activities, and physiochemical/metabolic properties suggestive of reasonable in vivo pharmacokinetics through chemical modification of the hit structure.
- **Preclinical Research:** It aims to determine absorption, distribution, metabolism, and excretion information. It is also done to determine potential benefits and mechanisms of action; best dosage and administration route; side effects/adverse events; effects on gender, race, or ethnicity groups; interaction with other treatments; and effectiveness compared to similar drugs. During preclinical testing, the lead compound is tested in vitro (test tubes), in vivo (animals), and even in silico (computer simulation) over a wide range of doses.
- **Clinical Studies:** From preclinical testing, the compound then moves into clinical trials to determine the safety and efficacy of a drug. Clinical trials can last six to seven years and comprise Phases I-III, with Phase IV or post-commercial marketing undertaken for some products.
    - **Phase 0 trials:** Phase 0 of a clinical trial is done with a very small number of people, usually fewer than 15. Investigators use a minimal dose of medication to ensure it is not harmful to humans before they use it in higher doses for later phases.
    - **Phase I trials:** Phase I trials are the human-safety trials and serve as the first tests of a drug with a small no. of (often less than 100), healthy human subjects.
    - **Phase II trials:** Phase II trials are performed on larger groups of patients (usually 100 to 500 volunteers) and are designed to further assess the drug's efficacy in continuation with the Phase I safety assessments. Only about 25-30% of drugs in Phase II proceed to Phase III.
    - **Phase III trials:** Phase III trials are randomized controlled multi-center trials and provide most of the long-term safety data for the drug being tested. Phase III trials investigate the efficacy and safety of the new drug over 6 to 12 months or longer in a large patient population (usually between 1,000 and 5,000 subjects) under conditions that reflect daily clinical life much more closely than the Phase I or II trials.
    - **Phase IV trials:** Phase IV trials, also known as post-marketing surveillance trials or pharmacovigilance studies, involve conducting safety surveillance and ongoing technical support after approval.

- **BA/BE Studies:** Bioavailability (BA) and bioequivalence (BE) studies are essential to be carried out for developing a new formulation as well as when developing and marketing a generic drug. The BA/BE studies involve assessing the drug against another well-known and commercially available drugs, at the same concentrations/composition and under similar therapeutic conditions.
- **Synthesis:** Putting together different entities to make a whole which is new and different. In biochemistry, synthesis refers specifically to the process of building compounds from more elementary substances by means of one or more chemical reactions.

Disclosure Appendix

Reg AC

We, Shyam Srinivasan, CFA, Karan Vora, CFA and Ziyi Chen, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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