Twitter Thread by Intrinsic Compounding

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Why Indoco Remedies looks Interesting and why FY22-24 growth is likely to be stellar here?

Time for a thread■■■■

(Source for ophthalmics data:Nirmal Bang and rest is own work)

Looking at the incremental opportunity in Ophthalmics:-

Market size is not attractive for the Large Generic companies but for someone like Indoco which has a smalll base in exports business

Ophthalmic and OTIC suspensions represent a niche complex category in the overall US pharmaceutical market. We estimate the cumulative market opportunity, represented by products in this category, at US$800mn-US$1,000mn. Generic players find it challenging to develop copies of them owing to the complexity in manufacturing process and complex bioequivalence requirements (physiochemical bioequivalence). The challenges of development get magnified as products in this category are quite small in size which makes it less attractive for the large generic players to invest resources in.

As per the USFDA's orange book, for Ophthalmic suspension drugs, only 3 out of 17 molecules have an active patent. Among the 14 molecules that are patent expired, 8 molecules are yet to see generic competition.

Even for the one's which have seen generic competition, the competitive intensity is very low and there is space for an additional entrant.. Entrenched players like Novartis, Bausch & Lomb and Abbvie have dominated this market with legacy products for decades.

Indoco Remedies and Sun Pharma are the only Indian generic manufacturers to have successfully won approvals for generic version of Ophthalmic suspensions in the US market. Indoco Remedies has recently launched generic version of Azopt (brinozolamide)

while Sun Pharma also only recently received approval for gLotemax (loteprednol suspension). A break up of the ophthalmic Products launched in the market:

Exhibit 1: Ophthalmic suspension drugs launched in the US market

Molecule	Proprietary Drug Name	Strength	Last Patent Expiry	Estimated manufacturer Sales in 2020 (USDmn)	Competitors	Originator/ Company	Notes
Prednisolone Acetate	Pred Forte/Pred Mild	1%; 0.12%	Expired	2.6; 2.6; 157 (Generic)	2	Abbvie	1. Generics launched by **Pacific Pharma** and **Novartis** hold majority market share.
Brinzolamide	Azopt	1%	Expired	93.5	2	Novartis	1. Bausch Health and Watson Laboratories (Teva) are the generic players that have entered the Brinzolamide market in the US. **In 2021, Teva partnered with Indoco Remedies to launch Brinzolamide generic in the US market.**
Dexamethasone/Tobramycin	Tobradex; Tobradex ST	0.1%, 0.3%; 0.05%, 0.3%	Tobradex (Expired); Tobradex ST (2028)	2.9; 3.6; 69 (Generic)	2	Novartis	1. Patents on Tobradex (0.1%, 0. 3%) have expired. **Generics created by Amneal and Bausch & Lomb have entered the market.** 2. Novartis received a USFDA approval for the newer version of Tobradex ST (0.05%, 0.3%) in 2009. The last patent on Tobradex ST expires in 2028.
Brimonidine Tartrate; Brinzolamide	Simbrinza	0.2%, 1%	2030	51.4	-	Alcon	-

As you can see there are very few generic players in the market due to complexity of manufacturing and small size of the industry

Loteprednol Etabonate	Alrex; Lotemax; Eysuvis; Inveltys	0.2%; 0.25%; 1%; 0.5%	Eysuvis, Inveltys (2033); Alrex, Lotemax (Expired)	17.8; 9.5; 0.3; 6.1; 36.5 (Generic, Lotemax)	2 (0.5%)	Bausch & Lomb / Kala Pharma	1. Bausch and Lomb markets Alrex (0.2%) and Lotemax (0.5%). **Lotemax has seen generics from Sun Pharma, Oceanside Pharma (part of Bausch & Lomb) and Akorn**. 2. Kala Pharma markets Eysuvis (0.25%) and Inveltys (1%).
Fluorometholone	FML/FML Forte	0.1%; 0.25%	Expired	0.3; 2.4; 30.5 (Generic)	1	Abbvie	1. **Pacific Pharma** dominates the Fluorometholone market with more than 90% market share.
Nepafenac	Nevanac; Ilevro	0.1%; 0.3%	Nevanac (2027); Ilevro (2032)	2.7; 28	-	Novartis	1. Teva has filed a paragraph IV for launching Ilevro in the US market before patent expiry. Alcon Research (subsidiary of Novartis) and Watson Labs (subsidiary of Teva) have been under litigation.
Besifloxacin Hydrochloride	Besivance	0.60%	2031	27.2	-	Bausch & Lomb	-
Dexamethasone; Neomycin Sulfate; Polymyxin B Sulfate	Maxitrol	0.10%	Expired	0.01; 12.4 (Generic)	1	Novartis	1. Generics have been launched by Bausch & Lomb and Novartis.
Loteprednol Etabonate; Tobramycin	Zylet	0.50%	Expired	7.9	-	Bausch & Lomb	-
Betaxolol Hydrochloride	Betoptic S	0.25%	Expired	4.3; 2 (Generic)	1	Novartis	1. Generics have been launched by Akorn and Novartis.
Fluorometholone Acetate	Flarex	0.10%	Expired	3.4	-	Eyevance Pharma	-
Hydrocortisone; Neomycin Sulfate; Polymyxin B Sulfate	Cortisporin	1%, 3.5 mg, 10,000 unit/ml	Expired	2.2	1	GSK	1. GSK sold its Cortisporin rights to Monarch Pharma (a division of King Pharma) in 1997. In 2010, Pfizer acquired King Pharma. **Pfizer has discontinued Cortisporin ophthalmic suspension**. 2. **Novartis's generic is available in the market.**
Natamycin	Natacyn	5%	Expired	1.2	-	Eyevance Pharma	-
Dexamethasone	Maxidex	0.10%	Expired	0.6	-	Novartis	-
Prednisolone Acetate; Sulfacetamide Sodium	Blephamide	0.2%, 10%	Expired	0.6	-	Abbvie	-
Gentamicin Sulfate; Prednisolone Acetate	Pred-G	0.3%, 1%	Expired	0.1	-	Abbvie	-
Estimated manufacturer sales in 2020 (Total)				**$593mn**			

Thesis entails:

1. Strong recovery in Domestic Heavy Acute Portfolio.
2. Hiring a Chief Marketing officer which indicates to something+Changing the logo (signalling)
3. UK & US exports will show disproportionate growth this year due to regulatory issues being solved

4. MR productivity is horribly low, 2.7 lakhs. This can easily go above 3-3.5 Lakhs.
5. Indoco is the fastest growing domestic pharma business this year and they are targeting Sub-Chronic therapy launches.
6. Un-utlised gross block as the company

did capex but couldn't utilize it due to regulatory issues b/w 2017-2019.

7. Co is sitting on substantial operating leverage, and has the potential to do 24%+ ebitda margins in my view. First Q this year they already did 22%.

8. Management guiding to double the Ebitda in next 3