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Recovery in US but high domestic base to weigh...

The I-direct Pharma universe is likely to witness a muted quarter amid sluggish YoY growth in domestic formulations on high Covid base even as select US portfolio is expected to deliver decent growth amid launches. The universe (12 coverage companies) is expected to post YoY growth of ~6% to ₹ 43,273 crore.

Domestic formulations (select pack) are expected to remain flat YoY at ₹ 11,111 crore on the back of a significant high base in Q1FY22 due to Covid being partially offset by price hikes and pick-up in ex-Covid brands.

On the US front, we estimate single digit price erosion will persist in the oral solids base business. However, with some incremental approvals and launches- Bortezomib and Pemetrexed Injection for Aurobindo, Pregabalin Capsules for Lupin, Mesalamine ER-capsules for Sun, Pirfenidone tablets for Alembic and Pemetrexed injection for Dr Reddy's, we expect US (select pack) portfolio to get some respite and is expected to grow ~11% YoY to ₹ 11,548 crore. Rupee depreciation of 4.6% YoY vis-à-vis US\$ (average basis) is also likely to provide some cushion.

Europe (select pack) is expected to grow ~3% YoY to ₹ 2,675 crore as we expect a delay in pick-up in demand amid some distributors and tenders led challenges. API segment (select pack) is likely to de-grow ~9% YoY to ₹ 4,310 crore amid persisting poor demand environment.

On company's front, Divi's and Biocon are likely to see 15%+ YoY growth.

EBITDA margins to contract YoY at ~ 22.2%

Improving logistical challenges and sequentially lower freight cost is likely to be offset by challenges in China leading to inflationary input (solvents, KSM, API) cost. Few notable US recalls are likely to impact margins – Aurobindo (Cyanocobalamin), Sun (Cequa and Bupropion tablets), Lupin (Losartan), Dr Reddy's (Lansoprazole) and Torrent (Pantoprazole). We expect EBITDA margins for I-direct pharma universe to decline 281 bps YoY to 22.2%.

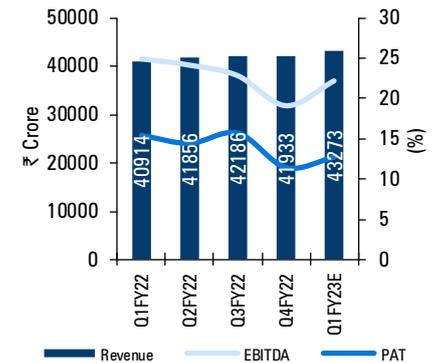
PAT to decline ~ 13% YoY

Q1 witnessed significant one offs (M&As)- Dr Reddy's acquisition of 1) Novartis cardio brands in India and 2) branded and generic injectable products from Eton Pharmaceuticals in the US, Sun's acquisition of Uractiv portfolio from Fiterman Pharma in Romania and Aurobindo's acquisition of GLS Pharma. PAT is expected to decline ~ 13.2% YoY to ₹ 5,498 crore.

Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ	YoY	QoQ	
Alembic Pharma	1355.2	2.2%	-4.3%	223.6	-5.2%	39.7%	142.7	-13.3%	302.4%			
Ajanta Pharma	852.3	13.9%	-2.1%	221.6	0.6%	7.2%	151.6	-12.7%	0.3%			
Aurobindo	5994.3	5.1%	3.2%	1032.6	-14.6%	6.0%	568.8	-26.1%	-22.6%			
Biocon	2337.2	32.7%	-3.0%	561.2	44.1%	-5.2%	97.9	16.0%	-64.2%			
Cipla	5439.3	-1.2%	3.4%	1085.1	-19.4%	44.7%	613.2	-23.7%	49.4%			
Divi's Lab	2314.5	18.0%	-8.1%	994.1	16.7%	-10.0%	709.0	27.3%	-20.7%			
Dr Reddy's	5324.7	7.7%	-2.7%	1104.9	50.4%	145.0%	629.9	65.6%	93.5%			
Ipca Lab	1443.0	-7.8%	11.9%	299.4	-28.1%	36.5%	179.8	-41.4%	38.1%			
Lupin	4007.3	-6.2%	3.2%	458.9	-50.5%	102.6%	144.7	-73.3%	-127.6%			
Laurus Labs	1454.8	13.8%	2.1%	425.5	7.6%	7.3%	248.6	3.0%	7.8%			
Sun Pharma	10382.7	6.8%	9.9%	2529.9	-10.3%	8.1%	1673.1	-15.5%	5.8%			
Torrent Pharma	2367.8	11.0%	11.1%	663.0	-2.1%	18.2%	339.1	2.8%	-37.2%			
Total	43273.1	5.8%	3.2%	9599.8	-6.1%	20.3%	5498.4	-13.2%	15.0%			

Source: Company, ICICI Direct Research

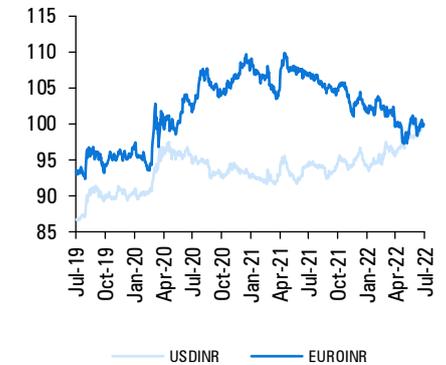
Topline & Profitability (Coverage Universe)



US approvals for Q1FY23 (Select pack)

Company	Final	Tentative
Alembic Pharma	5	4
Aurobindo Pharma	4	1
Cipla	3	0
Dr. Reddy's Labs	7	0
Lupin	3	2
Sun Pharma	2	1

Currency Movement



Top Picks

Divi's Lab
Biocon

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Exhibit 2: Company Specific view

Ajanta Pharma	Revenues are expected to grow ~14% YoY to ₹ 852.3 crore on the back of ~19% growth in domestic business and ~10.8% growth in exports. EBITDA margins are expected to decline 344 bps YoY to 26%, mainly due to increase in raw material expenditure (gross margins down 305 bps YoY) and other expenditure. EBITDA is likely to remain flat YoY at ₹ 221.6 crore. Adjusted PAT is expected to decline ~13% YoY to ~₹ 151.6 crore
Alembic Pharma	Revenues are expected to increase ~2% YoY to ₹ 1355.2 crore as ~26% growth in US business to ₹ 463.4 crore is likely to get offset by 4% decline in domestic formulation to ₹ 461.8 crore. EBITDA margins are expected to decline 129 bps YoY to 16.5%, mainly due to YoY increase in other expenditure. EBITDA is expected to de-grow 5% YoY to ₹ 223.6 crore. Subsequently, adjusted PAT is expected to decline ~13% YoY to ₹ 142.7 crore
Aurobindo Pharma	Revenues are expected to increase 5% YoY to ₹ 5994.3 crore on back of ~5% YoY increase in US to ₹ 2834.3 crore while Europe is likely to remain flat YoY at ₹ 1579.4 crore. EBITDA margins are expected to decline 390 bps YoY to ~17%. Subsequently, EBITDA is likely to decline 14.6% YoY to ₹ 1032.6 crore. Adjusted PAT is expected to de-grow 26% YoY to ~₹ 568.8 crore
Biocon	Revenues are likely to grow ~32.7% YoY to ₹ 2337.2 crore, mainly due to ~32% expected growth in biosimilar segment to ₹1007.5 crore and ~15% growth in Syngene to ₹ 683.7 crore. Generics are likely to grow 30% YoY to ₹ 632.2 crore. EBITDA margins are expected to improve 190 bps YoY to 24%. EBITDA is expected to grow ~44.1% YoY to ₹ 561.2 core. Adjusted PAT is likely to increase 16% YoY to ₹ 97.9 crore
Cipla	Revenues are expected to de-grow ~1.2% YoY to ₹ 5439.3 crore, mainly due to 10.5% YoY de-growth in domestic formulations to ₹ 2425.5 crore partially offset by US business growing 18.9% YoY to ₹ 1234.5 crore. RoW and South Africa market trending 20% & 2% YoY growth, respectively, to ₹ 940.8 crore and ₹ 646.7 crore, respectively. EBITDA margins expected to decline 450 bps YoY to 20%. EBITDA is expected to de-grow 19.4% YoY to ₹ 1085.1 crore. Subsequently, adjusted PAT is likely to de-grow 23.7% YoY to ₹ 613.2 crore
Divi's Lab	Revenues are expected to grow ~18% YoY to ₹ 2314.5 crore, mainly due to likely 40% growth in custom synthesis segment to ₹ 1372.4 crore. Generic APIs are likely to witness de-growth of 7% YoY to ₹ 783.4 crore. EBITDA margins are expected to decline 51 bps YoY to 43% while EBITDA is expected to grow 16.7% to ₹ 994.1 crore. Net profit is likely to grow 27.3% YoY to ₹ 709 crore
Dr Reddy's	Revenues are likely to grow ~8% YoY to ₹ 5324.7 crore mainly due to ~16% growth in US business to ₹ 2022.9 crore partially offset by 7% YoY decline in domestic business to ₹ 985.8 crore. Russia & CIS revenues are likely to grow 45% YoY to ₹ 710.5 crore while RoW markets are expected to de-grow 15% to ₹ 359.5 crore. EBITDA margins are likely to increase 589 bps YoY to 20.8%. EBITDA is expected to increase ~50% YoY at ₹ 1104.9 crore. Adjusted PAT is likely to increase ~66% YoY to ₹ 629.9 crore
Ipca Lab	Revenues are expected to de-grow ~8% YoY to ₹ 1443 crore mainly due to YoY growth of 13% in domestic formulations to ₹ 692.7 crore being offset by decline in export formulations by ~18% YoY to ₹ 363.1 crore. APIs are expected to de-grow ~34% YoY to ₹ 275.6 crore. EBITDA margins are expected to decline 585 bps YoY to 20.8% while EBITDA is expected to decline 28% YoY to ₹ 299.4 crore. Subsequently, net profit is expected to decline ~41% YoY to ₹ 179.8 crore
Laurus	Revenues are expected to grow ~14% YoY to ₹ 1454.8 crore tracking 25% expected de-growth in anti viral API to ₹ 310 crore. CRAMS business is expected to post 85% YoY growth to ₹ 360.8 crore while formulations are likely to be flat YoY at ₹ 521 crore. EBITDA margins are expected to decline 167 bps YoY to 29.3% while EBITDA is likely to grow ~8% YoY to ₹ 425.5 crore. Adjusted PAT is expected to grow 3% YoY to ₹ 248.6 crore
Lupin	Revenues are expected to de-grow ~6% YoY to ₹ 4007.3 crore amid ~5% de-growth in domestic business to ₹ 1554.4 crore and ~3% growth in US to ₹ 1367.7 crore. EBITDA margins are expected to decline 1027 bps YoY to 11.5% while EBITDA is likely to de-grow ~51% YoY to ₹ 458.9 crore. Adjusted PAT is expected to de-grow ~73% YoY to ₹ 144.7 crore
Sun Pharma	Revenues are likely to grow ~7% YoY to ₹ 10382.7 crore mainly on the back of 5% growth in domestic formulations to ₹ 3473.8 crore and ~13% growth in US to ₹ 3170 crore. Emerging markets are likely to grow 5% YoY to ₹ 1685.5 crore while RoW markets likely to grow at 8% YoY to ₹ 1477.4 crore. EBITDA margins are likely to decline 466 bps to 24.4% while EBITDA is expected to post de-growth of ~10% YoY to ₹ 2529.9 crore. Adjusted PAT is likely to decline ~16% YoY to ₹ 1673.1 crore.
Torrent Pharma	Revenues are expected grow 11% YoY to ₹ 2367.8 crore mainly due to 14% YoY growth in domestic formulations to ₹ 1246 crore and 35% YoY growth in Brazil business to ₹ 206.6 crore. US is likely to grow ~7% YoY to ₹ 283.9 crore. Gross margins are likely to decline 145 bps YoY to 71% while EBITDA margins is expected to decline 372 bps YoY to 28%. EBITDA is likely to decline 2% YoY to ₹ 663 crore. PAT is expected to increase 2.8% YoY to ₹ 339.1 crore

Expected growth in Domestic formulations					
India					
(₹ cr)	Q1FY23	Q1FY22	%	Q4FY22	%
Alembic	462	481	-4.0	449	2.8
Ajanta	271	229	18.5	245	10.7
Ipca	693	613	13.0	552	25.5
Lupin	1,554	1,636	-5.0	1,351	15.0
Cipla	2,425	2,710	-10.5	2,183	11.1
Dr Reddy	986	1,060	-7.0	969	1.7
Sun Pharr	3,474	3,308	5.0	3,097	12.2
Torrent	1,246	1,093	14.0	1,034	20.5
Total	11111	11131	-0.2	9879	12.5

Expected growth in US formulations					
US					
(₹ cr)	Q1FY23	Q1FY22	%	Q4FY22	%
Alembic	463	369	25.6	557	-16.8
Ajanta	171	168	1.5	168	1.5
Aurobindc	2,834	2,681	5.7	2,728	3.9
Cipla	1,234	1,038	18.9	1,209	2.1
Lupin	1,368	1,333	2.6	1,416	-3.4
Dr Reddy	2,023	1,739	16.3	1,997	1.3
Sun Pharr	3,170	2,800	13.2	2,925	8.4
Torrent	284	266	6.7	282	0.7
Total	11548	10394	11.1	11282	2.4

Expected growth in Europe formulations					
Europe					
(₹ cr)	Q1FY23	Q1FY22	%	Q4FY22	%
Aurobindc	1,579	1,583	-0.2	1,541	2.5
Cipla	277	252	10.0	286	-3.2
Dr Reddy	407	399	2.0	444	-8.3
Lupin	190	119	60.0	197	-3.5
Torrent	221	260	-15.0	218	1.4
Total	2675	2613	2.4	2687	-0.4

Expected growth in API segment					
API					
(₹ cr)	Q1FY23	Q1FY22	%	Q4FY22	%
Aurobindc	934	812	15.0	913	2.3
Alembic	223	279	-20.0	222	0.5
Laurus La	533	549	-3.0	539	-1.1
Divi's Lab	783	842	-7.0	747	4.9
Ipca Labs	276	414	-33.5	258	6.9
Lupin	234	246	-5.0	220	6.0
Cipla	136	302	-55.0	137	-0.8
Dr Reddy	754	754	0.0	756	-0.2
Sun Pharr	438	515	-15.0	414	5.8
Total	4310	4714	-8.6	4205	2.5

Source: Company, ICICI Direct Research

Exhibit 3: ICICI Direct Coverage Universe (Pharmaceuticals)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
MNC Pharma																					
Abbott India	ABBIND	19344	20,560	Buy	41105	325.0	375.9	439.8	514.0	59.5	51.5	44.0	37.6	33.8	36.6	37.9	36.3	26.5	28.3	29.5	28.1
Pfizer	PFIZER	4139	4,810	Hold	18935	108.8	133.9	140.4	160.3	38.1	30.9	29.5	25.8	27.6	26.1	23.5	23.0	20.8	21.4	19.2	18.7
Pfizer	PFIZER	4139	4,810	Hold	18935	108.8	133.9	140.4	160.3	38.1	30.9	29.5	25.8	27.6	26.1	23.5	23.0	20.8	21.4	19.2	18.7
Pfizer	PFIZER	4139	4,810	Hold	18935	108.8	133.9	140.4	160.3	38.1	30.9	29.5	25.8	27.6	26.1	23.5	23.0	20.8	21.4	19.2	18.7
Pharma																					
Ajanta Pharma	AJAPHA	1188	1,305	Hold	10145	51.0	55.6	55.6	65.2	23.3	21.4	21.4	18.2	29.0	27.0	23.3	23.5	21.8	21.8	18.7	18.8
Alembic Pharma	ALEMPHA	734	720	Hold	14428	62.8	27.8	29.7	35.9	11.7	26.4	24.7	20.4	25.1	10.6	11.2	13.8	24.1	10.4	10.3	11.3
Aurobindo Pharma	AURPHA	544	610	Hold	31872	55.0	47.4	45.6	51.0	9.9	11.5	11.9	10.7	16.9	12.9	12.5	13.1	14.7	11.3	9.9	10.0
Biocon	BIOCON	329	380	Hold	39500	6.3	5.7	6.1	11.7	52.5	57.8	54.3	28.2	7.7	7.5	5.0	6.9	9.9	8.1	3.2	5.9
Zydus Lifesciences	CADHEA	371	475	Hold	37955	23.3	21.0	20.2	24.0	15.9	17.7	18.4	15.5	13.8	12.0	11.2	12.4	18.4	12.6	11.0	11.7
Cipla	CIPLA	948	1,095	Buy	76450	29.9	32.9	36.2	42.5	31.7	28.8	26.2	22.3	16.3	16.7	16.7	17.7	13.1	12.7	12.6	13.3
Dr Reddy's Labs	DRREDD	4501	4,960	Buy	74908	117.3	127.9	187.1	218.0	38.4	35.2	24.1	20.6	13.1	13.0	17.8	20.2	11.1	11.1	14.3	14.7
Glenmark Pharma	GLEPHA	390	460	Hold	11013	32.9	42.7	41.0	48.3	11.9	9.1	9.5	8.1	13.9	14.8	14.5	15.4	13.1	13.2	11.4	11.9
Ipca Laboratories	IPCLAB	985	1,000	Hold	24990	44.9	34.8	32.7	39.9	21.9	28.3	30.1	24.7	27.1	17.4	16.2	17.4	24.2	16.1	13.4	14.4
Jubilant Pharmova	JUBLIF	368	410	Hold	5862	37.4	26.0	24.2	31.4	9.8	14.2	15.2	11.7	13.7	9.0	7.7	9.4	12.6	7.8	6.8	8.2
Lupin	LUPIN	643	610	Hold	29223	26.9	11.9	18.7	30.5	23.9	54.1	34.3	21.1	9.6	3.4	7.6	11.2	8.8	4.4	6.6	9.8
Natco Pharma	NATPHA	635	820	Hold	11588	24.2	9.3	28.3	33.2	26.3	68.2	22.5	19.1	13.1	4.6	13.3	14.1	10.7	4.0	11.0	11.6
Sun Pharma	SUNPHA	857	1,070	Buy	205683	30.0	32.0	32.6	38.3	28.5	26.8	26.3	22.4	14.2	18.2	17.7	18.2	15.5	16.0	14.3	14.7
Torrent Pharma	TORPHA	1484	1,615	Hold	25113	37.0	32.0	43.4	53.9	40.1	46.3	34.2	27.5	17.6	19.7	24.3	29.1	21.4	18.2	20.8	21.6
Indoco Remedies	INDREM	380	510	Buy	3502	10.1	16.8	21.8	28.4	37.6	22.6	17.4	13.4	11.7	17.5	18.8	24.9	12.1	17.1	18.7	20.2
Caplin Point	CAPPOI	730	895	Buy	5533	81.7	85.3	68.3	70.8	8.9	8.6	10.7	10.3	25.3	23.7	22.5	0.0	20.4	20.2	18.5	17.5
Advanced Enzymes	ADVENZ	279	290	Hold	3124	13.1	10.7	10.2	13.2	21.4	26.1	27.4	21.2	19.4	14.3	12.6	14.7	15.1	11.0	9.6	11.1
Hester Biosciences	HESPHA	2326	2,445	Hold	1979	44.4	45.7	41.3	63.2	52.4	50.9	56.3	36.8	16.2	10.9	9.9	13.4	16.5	15.0	12.2	16.3
API/CRAMS																					
Divi's Lab	DIVLAB	3734	4,655	Buy	99129	74.7	111.5	105.7	122.5	50.0	33.5	35.3	30.5	27.6	30.2	25.8	25.5	21.3	25.2	20.3	20.0
Hikal	HIKCHE	236	340	Buy	2912	10.8	13.0	11.1	19.0	21.9	18.1	21.3	12.4	15.1	13.6	10.9	16.3	14.3	15.0	11.5	16.8
Syngene Int.	SYNINT	571	730	Buy	22891	10.1	9.9	11.4	15.5	56.4	57.8	50.2	36.9	11.5	11.7	12.2	15.7	13.5	12.9	12.3	14.4
Granules India	GRANUL	297	345	Buy	7367	22.2	16.6	19.6	24.6	13.4	17.8	15.1	12.1	24.0	15.6	16.8	18.6	25.3	16.0	16.0	16.9
Laurus Labs	LAULAB	492	690	Buy	26425	18.3	15.4	20.6	26.5	26.9	31.9	23.9	18.5	31.7	21.3	22.6	24.7	37.9	24.7	25.5	25.3
Suven Pharmaceuticals	SUVPH	445	555	Hold	11326	14.2	17.8	17.0	18.5	31.3	25.0	26.1	24.0	31.2	37.5	28.5	26.0	30.7	29.7	23.0	20.8

Source: ICICI Direct Research

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