

## Pharmaceutical Sector

05 April, 2023

### Decent 4Q expected for most coverage companies

NBIE Pharma coverage universe's revenue is expected to grow by ~12% YoY, driven by strong growth in both US as well as India markets, supported by key launches (mainly Revlimid), favourable currency movement, continuous strong growth in the Chronic segment and price hike benefits. Margins are also expected to improve YoY on the back of a better product mix, price hike benefits in the branded markets and normalizing cost inflation. But, pricing pressure in the US market continues to weigh on overall margins. Revenue from the Domestic Formulations segment is expected to grow by 10% YoY, mainly driven by price hikes followed by new launches and volume gains. US sales are expected to decline QoQ due to waning gTamiflu opportunity. Also, persistent pricing pressure and heightened competition continue to weigh on US market performance. Average INR depreciated against USD by 9.4% YoY, but was flat QoQ. INR also depreciated against the Euro, Rubble and Brazilian Real by around 4.6%/28%/10% YoY. Among the large caps, excluding Lupin (due to subdued margins), all coverage companies are expected to report strong results. Zydus Life and Sun Pharma are expected to report >15% YoY revenue growth. Among the Mid Caps/Small Caps, Eris Life and JB Chem are expected to report >20% YoY revenue growth, mainly driven by acquisitions. On the flip side, Alembic Pharma, Jubilant, Pfizer and Sanofi are likely to report subdued results. Our preferred picks are Torrent Pharma, Sun Pharma and Cipla in Large Cap space and JB Chem, Eris Life and Ajanta Pharma in Mid Cap/Small Cap space.

**Ajanta Pharma:** Revenue is expected to grow by ~8% YoY, mainly driven by strong domestic market performance, which is likely to be partially offset by decline in the African business. Domestic business is expected to grow by 13% YoY, mainly driven by strong growth across key segments. Asia and Africa generics business are expected to grow by 6% YoY and 10% YoY, respectively. US market revenue is expected to decline by 34% QoQ mainly due to waning gTamiflu opportunity. Due to a lower base, EBITDA margin is expected to improve by 244bps YoY to 19.4%.

**Alembic Pharma:** Revenue is expected to be muted as growth in the Domestic Formulations is expected to be largely offset by a decline in the US business due to a higher base. Domestic business is expected to grow by 12% YoY on the back of strong growth across segments. US business growth is expected to remain muted on QoQ basis at US\$53mn since traction from new launches is likely to be offset by a decline in gTamiflu sales and continuous price erosion in the base business. EBITDA margin is expected to contract by 867bps YoY to 11.3% due to commencement of new plants. Net profit is expected to decline by ~62% YoY due to a weaker operational performance and higher depreciation & tax rate.

**Alkem:** Revenue is expected to grow by 14% YoY, driven by all geographies. The Domestic market is expected to grow by 12% YoY, led by strong growth in the Acute segment and continuous growth in the Chronic segment. US business is expected to decline by 16% QoQ to US\$78mn mainly due to the high base in 3QFY23 (seasonality factor). EBITDA margin is expected to remain subdued at 14-15%.

**Cipla:** Revenue is expected to grow by 9.5% YoY, driven by Revlimid sales in the US and 10% YoY growth in the Domestic business. US business is expected to grow by 2.6% QoQ to US\$200mn, as strong growth from Revlimid is likely to be offset by higher seasonality benefit in 3QFY23 and decline in Albuterol sales. EBITDA margin is expected to improve by 506bps YoY to 19.3%, mainly driven by a better product mix. Net profit is expected to grow by 58% YoY, mainly driven by better operational performance and higher other income.

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Company (Rsmn)	TP	CMP	Rating	Sales			EBITDA			EBITDA margin (%)			PAT		
	(Rs)	(Rs)		4QFY23E	YoY(%)	QoQ(%)	4QFY23E	YoY(%)	QoQ(%)	4QFY23E	3QFY23	4QFY22	4QFY23E	YoY(%)	QoQ(%)
Ajanta Pharma	1,507	1,263	Buy	9,363	7.6	-3.7	1,817	23.1	7.2	19.4	17.4	17.0	1,418	53.7	5.4
Alembic Pharma	541	499	Acc	14,223	0.5	-5.7	1,610	-43.1	-35.3	11.3	16.5	20.0	619	-62.2	-53.8
Alkem Laboratories	3,968	3,409	Buy	28,329	14.1	-6.8	4,065	20.5	-32.1	14.3	19.7	13.6	2,211	93.5	-51.4
Cipla	1,021	896	Buy	57,594	9.5	-0.9	11,121	48.3	-21.0	19.3	24.2	14.3	6,485	58.0	-19.0
Dr. Reddy's Labs	4,482	4,683	Acc	57,564	9.4	-15.0	12,952	18.7	-37.0	22.5	30.4	20.7	6,455	99.0	-48.2
Eris Lifesciences	804	585	Buy	3,946	29.0	-6.8	1,235	27.5	-10.0	31.3	32.4	31.7	849	5.7	-15.3
Gland Pharma	1,352	1,267	Acc	9,491	-14.0	1.2	2,965	-14.9	2.4	31.2	30.9	31.6	2,355	-17.6	1.5
Indoco Remedies	427	328	Buy	4,480	9.5	12.2	835	3.6	34.6	18.6	15.5	19.7	446	10.2	58.4
J.B Chemicals	2,349	1,956	Buy	7,616	21.9	-3.9	1,666	33.3	-4.7	21.9	22.0	20.0	983	15.8	-7.4
Jubilant Pharmova	307	293	Acc	15,491	1.4	-0.2	2,091	-15.5	43.4	13.5	9.4	16.2	735	23.5	NA
Lupin	586	659	Sell	42,684	9.9	-1.2	5,618	110.7	5.5	13.2	12.3	6.9	1,794	-24.6	16.9
Natco	539	578	Acc	6,953	16.5	41.2	2,746	24.0	159.3	39.5	21.5	37.1	2,031	56.8	225.9
Pfizer	3,954	3,608	Acc	5,771	5.0	-7.2	1,815	9.7	-10.8	31.5	32.7	30.1	1,343	6.8	-10.9
Sanofi India*	6,651	5,859	Buy	6,929	-2.0	3.1	1,743	-10.4	4.5	25.2	24.8	27.5	1,395	-8.2	14.9
Sun Pharma	1,265	997	Buy	1,10,884	17.4	-1.4	29,730	27.0	-1.0	26.8	26.7	24.8	20,466	29.4	-5.5
Torrent Pharma	1,909	1,578	Buy	24,253	13.8	-2.6	7,174	27.9	-0.9	29.6	29.1	26.3	2,868	16.7	1.3
Zydus Lifescience	545	493	Buy	47,657	23.3	9.2	10,961	27.3	14.7	23.0	21.9	22.3	6,883	34.2	10.6
<b>Our coverage universe</b>				<b>4,53,227</b>	<b>12.1</b>	<b>-2.3</b>	<b>1,00,144</b>	<b>23.4</b>	<b>-8.8</b>	<b>22.1</b>	<b>23.7</b>	<b>20.1</b>	<b>59,335</b>	<b>27.8</b>	<b>-12.5</b>

\*Sanofi India follows calendar year; Source: Respective companies, Nirmal Bang Institutional Equities Research

**Dr Reddy's:** Revenue is expected to grow by 9.4% YoY. US revenue is expected to decline by 25.2% QoQ to US\$277mn mainly due to fall in gRevlimid sales. India business is expected to grow by ~10% YoY. EBITDA margin is expected to improve by 175bps YoY to 22.5%, but contract by 787bps QoQ due to diminishing Revlimid opportunity.

**Eris Lifesciences:** Revenue is expected to grow by 29% YoY, mainly driven by consolidation of Oaknet business. Standalone business is expected to grow by 8% YoY, as strong growth in key segments is likely to be dragged by injunction on Zayo brand and slow growth in the GI segment. EBITDA margin is expected to remain ~31-32%. Net profit is expected to grow by 5.7% YoY.

**Gland Pharma:** Revenue is expected to grow by ~1% QoQ on the back of a gradual recovery in Emerging Markets (EM) and currency tailwinds. US business revenue should improve QoQ with normalization of supply chain. EBITDA margin is likely to remain ~31%.

**Indoco Remedies:** Revenue is expected to grow by 9.5% YoY. Domestic Formulations business is expected to grow by 7% YoY and Export Formulations business is expected to grow by 9% YoY. US business revenue is expected to grow by 13% YoY, mainly driven by continuous ramp-up in Lacosamide and Norepinephrine Bitartrate injections. EBITDA margin is expected to contract by 105bps YoY to 18.6%. Net profit is expected to grow by 10.2% YoY on the back of a strong operational performance and lower tax rate.

**J.B Chemicals:** Revenue is expected to grow by 22% YoY, mainly driven by double-digit growth in the domestic base business and integration of Sanzyme & Azmarda. Given the higher base, the export business is expected to decline by 25% YoY. We expect EBITDA margin is expected to remain healthy at ~21-22%.

**Jubilant Pharmova:** Revenue is expected to grow at a mere 1.4% YoY mainly due to continuous pricing pressure in the generics business as well as import alert on its Roorkee formulations facility. Radiopharma business is expected to grow by 10% YoY, led by growth in Ruby Fill installations and recovery in Radiopharmacy business. EBITDA margin is expected to decline by 269bps YoY mainly due to an adverse mix.

**Lupin:** Revenue is expected to grow by ~10% YoY, as growth in Domestic Formulations and RoW markets is likely to be offset by restructuring in the US portfolio. Despite loss of exclusivity in the Diabetes and CVS therapy areas, the Domestic Formulations business is expected to grow by 11% YoY, driven by growth across segments. US business revenue is expected to decline by ~3% QoQ mainly due to price erosion in the base business. EBITDA margin is expected to remain subdued at ~13%.

**Natco Pharma:** Revenue is expected to grow by 16.5%/41% YoY/QoQ, driven by the resumption of Revlimid supply to the partner and launch of CTPR. EBITDA margin is likely to improve by 240bps YoY to 39.5%, mainly led by the ramp-up in Revlimid supply. Net profit is expected to grow by 56.8% YoY, in sync with the operational performance.

**Pfizer:** Revenue is expected to grow by 5% YoY due to divestment of Upjohn business and slowdown in growth. EBITDA margin is expected to improve by 135bps YoY to 31.5% on the back of VRS and restructuring initiatives. Net profit is expected to grow by 6.8% YoY, in sync with the operational performance.

**Sanofi India:** Revenue is expected to decline by 2% YoY due to a high base of covid-19 and expected slowdown in Lantus sales. Due to a higher base, EBITDA margin is expected to contract by 235bps YoY. Net profit is expected to decline by 8.2% YoY, in sync with the operational performance.

**Sun Pharma:** Revenue is expected to grow by 17% YoY, driven by growth across geographies. US Specialty business is expected to grow by 18.3% YoY, driven by continuous strong growth in Winlevi, Illmya and Cequa. Growth in the US generics business (ex-Taro) is expected to improve sequentially with re-launches of exempted products from the Halol plant. Growth in Taro is expected to remain subdued due to increased competition and lack of meaningful launches. The India business is expected to grow by 8% YoY, driven by growth across segments. EBITDA margin is expected to remain strong at ~27%.

**Torrent Pharma:** Revenue is expected to grow by ~14% YoY, led by the acquisition of Curatio as well strong growth across key markets. Domestic Formulations business is expected to grow by ~16% YoY, driven by the consolidation of Curatio and strong growth across geographies and key segments. Brazil business revenue is expected to grow by 7.7% YoY, mainly led by new launches. US business growth is expected to remain muted sequentially due to lack of meaningful launches and continuous price erosion. Germany business is expected to grow by ~11% YoY, driven by new tender business. EBITDA margin is expected to improve by 325bps YoY to 29.6%, mainly led by cost rationalization done during the start of FY23.

**Zydus Lifesciences:** Revenue is expected to grow by 23% YoY, driven by Revlimid and new launches mainly (Trokendi XR) in the US market. US business revenue is expected to grow by ~31%/~5% YoY/QoQ. India Formulations business is expected to grow by ~8% YoY, led by growth across key segments. EBITDA margin is expected to improve by just 71bps YoY to 23%. Net profit is expected to grow by ~34%, in sync with the operational performance.

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