

# Pharmaceutical Sector

## 1QFY24 Result Preview

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### Growth across geographies with margin improvement

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#### Key Points

- NBIE Pharma coverage universe's revenue is expected to grow by ~15% YoY (Excluding Mankind), mainly driven by robust growth in the US on the back of key launches and favourable currency movement. Domestic growth (excluding divestment of brands) is expected to be driven by the Chronic segment and price hike benefits.
- Margins are expected to improve YoY on the back of a better product mix, price hike benefits in branded markets and normalizing cost inflation. But pricing pressure in the US market continues to weigh on overall margins.
- Revenue from Domestic Formulations is expected to grow by ~9% YoY (Excluding Mankind) but adjusted for divestment of brands by Dr Reddy's (DRL), Sanofi and Pfizer from base, growth is expected in low double digits, mainly driven by price hikes followed by new launches and volume gains.
- US is expected to grow by ~21% YoY in CC terms mainly on the back of Revlimid and new launches. But it is expected to remain flat QoQ due to pricing pressure in the base business.

**Company-wise performance:** Among the Large Caps, excluding Lupin (due to subdued margins), all coverage companies are expected to report strong earnings. In terms of revenue, Zydus Life, DRL and Lupin are expected to report >15% YoY growth among the Large Caps while Eris Life/Gland Pharma (on a low base) are expected to report strong double-digit YoY revenue growth in Mid Cap/Small Cap space. Among the MNCs, the likes of Sanofi and Pfizer are expected to subdued revenue growth majorly due to divestment of brands with YoY margin improvement. Our preferred picks are Torrent Pharma and Sun Pharma in Large Caps and JB Chem, Ajanta Pharma and Eris Life in Mid Cap/Small Cap space.

**Currency tailwinds to aid growth:** INR depreciated against USD on an average by 6.5% YoY but was flat QoQ. INR also depreciated against the Euro and Brazilian Real by around 8.7%/5.4% YoY however INR appreciated against rubble by 13.1%.

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Company (Rsmn)	TP (Rs)	CMP (Rs)	Rating	Sales			EBITDA			EBITDA margin (%)			PAT		
				1QFY24E	YoY(%)	QoQ(%)	1QFY24E	YoY(%)	QoQ(%)	1QFY24E	4QFY23	1QFY23	1QFY24E	YoY(%)	QoQ(%)
Ajanta Pharma	1,734	1,440	Buy	10,423	9.6	18.2	2,449	10.5	64.0	23.5	16.9	23.3	1,905	9.1	55.8
Alembic Pharma	548	650	Acc	14,349	13.7	2.0	2,224	1417.2	4.8	15.5	15.1	1.2	898	NA	-41.2
Alkem Laboratories	3,800	3,523	Buy	28,475	10.5	-1.9	4,077	100.6	15.4	14.3	12.2	7.9	2,997	135.1	188.4
Cipla	1,097	1,020	Buy	61,717	14.8	7.5	13,393	17.1	14.1	21.7	20.5	21.3	7,937	15.6	21.4
Dr. Reddy's Labs	4,762	5,243	Acc	60,991	22.3	-3.1	14,028	102.2	-8.2	23.0	24.3	13.9	9,124	73.7	-4.9
Eris Lifesciences	834	707	Buy	4,623	16.0	14.8	1,618	25.2	36.1	35.0	29.5	32.4	1,017	7.6	55.5
Gland Pharma	1,195	1,060	Sell	12,019	40.3	53.1	2,770	2.6	64.5	23.0	21.5	31.5	1,958	-14.6	44.9
Indoco Remedies	380	328	Acc	4,359	6.8	1.8	749	4.9	15.7	17.2	15.1	17.5	385	-0.1	49.2
J.B Chemicals	2,461	2,302	Buy	8,517	8.5	11.7	2,044	18.3	24.9	24.0	21.5	22.0	1,260	20.0	43.8
Jubilant Pharmova	331	392	Acc	15,847	9.2	-5.6	2,139	11.2	-2.4	13.5	13.1	13.3	584	24.2	-19.0
Lupin	704	904	Sell	43,643	16.6	-1.5	5,674	144.2	-1.8	13.0	13.0	6.2	2,048	NA	-13.2
Mankind	1,440	1,708	Acc	20,937	NA	2.0	4,712	NA	13.1	22.5	20.3	NA	3,159	NA	10.7
Natco	600	684	Acc	11,954	35.1	33.1	5,425	37.2	60.0	45.4	37.8	44.7	4,365	36.2	58.2
Pfizer	4,217	3,809	Acc	5,935	0.1	3.6	1,929	0.5	6.1	32.5	31.8	32.4	1,440	6.8	-0.8
Sanofi India*	7,666	6,922	Buy	7,273	4.0	-1.3	2,102	30.5	-8.6	28.9	31.2	23.0	1,578	31.1	-11.1
Sun Pharma	1,217	1,050	Buy	1,17,847	9.5	7.8	31,112	7.9	11.0	26.4	25.6	26.8	22,388	8.6	4.7
Torrent Pharma	1,981	1,906	Buy	26,046	11.0	4.6	7,723	8.5	6.2	29.7	29.2	30.3	3,197	-9.7	11.4
Zydus Lifescience	600	590	Buy	50,503	24.0	0.8	12,626	51.6	-3.9	25.0	26.2	20.5	8,391	58.6	18.9
<b>Our coverage universe (Ex Mankind)</b>				<b>4,84,521</b>	<b>14.9</b>	<b>4.5</b>	<b>1,12,081</b>	<b>31.5</b>	<b>8.6</b>	<b>23.1</b>	<b>22.3</b>	<b>20.2</b>	<b>71,472</b>	<b>32.5</b>	<b>12.7</b>

Source: Company, Nirmal Bang Institutional Equities; \*Sanofi follows calendar year

**Ajanta Pharma:** Revenue is expected to grow by ~10% YoY, mainly driven by strong domestic market performance, which is likely to be partially offset by decline in the African institutional business. Domestic business is expected to grow by 12% YoY, mainly driven by strong growth across key segments. Asia and Africa branded businesses are expected to grow by 10% YoY and 12% YoY, respectively. US market revenue is expected to remain flat QoQ in CC terms mainly due to lack of meaningful launches. EBITDA margin is expected to remain flat YoY but improve by 656bps QoQ to 23.5%.

**Alembic Pharma:** Revenue is expected to grow by ~14% YoY. Domestic business is expected to grow by 12% YoY on the back of strong growth across segments. US business is expected to grow by 16.1% QoQ in CC terms as product launches from the new USFDA approved facility gain traction. EBITDA margin is expected to remain flat at 15.5% on QoQ basis. Net profit is expected to decline by ~41% QoQ due to a higher depreciation & tax rate.

**Alkem:** Revenue is expected to grow by 10.5% YoY, driven by growth across all geographies. The Domestic business is expected to grow by 11% YoY, led by robust growth in the Chronic segment. US business is expected to grow by ~3% QoQ to US\$74mn. EBITDA margin is expected to improve by 634bps YoY to 14.3% on the back of cost optimization initiatives undertaken by the company.

**Cipla:** Revenue is expected to grow by ~15% YoY, driven by Revlimid in the US and 10% YoY growth in the Domestic business. However, sequentially, the US business is expected to decline by ~4% QoQ to US\$195mn due to decline in gBrovana and Albuterol Sulphate HFA. EBITDA margin is expected to improve by 43bps YoY to 21.7%, mainly driven by a better product mix. Net profit is expected to grow by 15.6% YoY, mainly driven by better operational performance and higher other income.

**DRL:** Revenue is expected to grow by ~22% YoY. US revenue is expected to grow by ~5% QoQ to US\$323mn, led by growth in gRevlimid sales, which is expected to be offset by price erosion in the base business. India business is expected to grow by 6% YoY, adjusted for income from divestment of brands. EBITDA margin is expected to improve by ~910bps YoY to 23%, driven by growth in gRevlimid sales.

**Eris Lifesciences:** Revenue is expected to grow by 16% YoY, mainly driven by growth in Oaknet and Insulin business. Consolidated EBITDA margin is expected to improve by 260bps to ~35% as the margins of Oaknet improve and Insulin business steers towards breakeven point. Net profit is expected to grow by ~8% YoY.

**Gland Pharma:** Revenue is expected to grow by ~53% QoQ on the back of consolidation of Cenexi, 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 contract by 850bps YoY to ~23% mainly due to consolidation of Cenexi and deleverage in the base business.

**Indoco Remedies:** Revenue is expected to grow by ~7% YoY. Domestic Formulations business is expected to grow by 5% YoY on the back of growth in Acute therapies while Export Formulations business is expected to grow by 10% YoY. US business revenue is expected to grow by 2% YoY in CC terms, mainly driven by a continuous ramp-up in key products. EBITDA margin is expected to contract by 30bps YoY to 17.2% while net profit growth is expected to remain flat.

**JB Chemicals:** Revenue is expected to grow by 8.5% YoY, mainly driven by double-digit growth in the domestic base business and integration of Sanzyme & Azmarda. Export business is expected to grow by 7% YoY. We expect EBITDA margin to improve by 200bps to ~24%, driven by lower ESOP cost and better product mix.

**Jubilant Pharmova:** Revenue is expected to grow by ~9% YoY. 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 remain flat at 13.5%.

**Lupin:** Revenue is expected to grow by ~17% YoY, with the majority of markets expected to report double-digit growth, led by new launches and currency tailwinds. The Domestic Formulations business is expected to grow by 6% YoY as loss of exclusivity in Diabetes and CVS therapy areas could hamper growth. US business revenue is expected to remain flat QoQ in CC terms 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 35%/33% YoY/QoQ, driven by resumption of Revlimid supply to the partner and launch of CTPR. EBITDA margin is likely to improve by 70bps YoY to 45.4%, mainly led by the ramp-up in Revlimid supply. Net profit is expected to grow by 36.2% YoY, in line with the operational performance.

**Pfizer:** Revenue is expected to remain flat YoY due to divestment of Upjohn business and slowdown in growth in key therapies growth. EBITDA margin is expected to improve by 14bps YoY to 32.5% on the back of VRS and restructuring initiatives. Net profit is expected to grow by ~7% YoY, in line with better operational performance.

**Sanofi India:** Revenue is expected to grow by 4% YoY due to inclusion of Lantus in NLEM and divestment of brands. Led by cost optimization initiatives, EBITDA margin is expected to improve by 586bps YoY. Net profit is expected to improve by 31% YoY, in line with the operational performance.

**Sun Pharma:** Revenue is expected to grow by ~10% YoY, driven by growth across geographies. US Specialty business is expected to grow by 31.6% YoY in CC terms, driven by continuous growth in Winlevi, Ilumya and Cequa. Growth in the US generics business (ex-Taro) is expected to improve sequentially with gradual launches of products from the Mohali 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 10% YoY, driven by growth across segments. EBITDA margin is expected to remain strong at ~26%.

**Torrent Pharma:** Revenue is expected to grow by ~11% YoY, led by the acquisition of Curatio as well strong growth across key markets. Domestic Formulations business is expected to grow by ~15% YoY, driven by the consolidation of Curatio and strong growth in key segments. Brazil business revenue is expected to grow by 15% 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 ~15% YoY, driven by pick-up in the tender business. EBITDA margin is expected to remain healthy at 29.7%, mainly led by cost rationalization done during the start of FY23.

**Zydus Lifesciences:** Revenue is expected to grow by 24% YoY, driven by Revlimid and new launches mainly (Trokendi XR) in the US market. US business revenue is expected to grow by ~39%/~2% YoY/QoQ in CC terms. India Formulations business is expected to grow by ~10% YoY, led by growth across key segments. EBITDA margin is expected to improve by 455bps YoY to 25%. Net profit is expected to grow by ~59% YoY, in line with the operational performance.

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