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India Pharmaceuticals

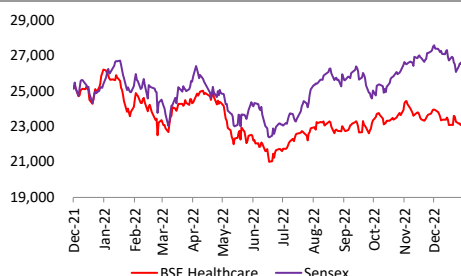
06 January 2023

3QFY23 RESULT PREVIEW

Industry

Pharmaceuticals

BSE Healthcare v/s BSE Sensex



Source: Bloomberg, Systematix Institutional Research

Sector recommendations

Ticker	Mkt Cap (Rs bn)	TP (Rs)	Rating
SUNP	2,437	1,185	BUY
DIVI	918	2,829	SELL
CIPLA	875	1,212	HOLD
DRRD	713	5,192	BUY
ZYDUSLIF	443	554	BUY
LPC	337	809	HOLD
AJP	152	1,488	HOLD
INDR	37	458	BUY

Source: Systematix Institutional Research

Expect a strong quarter led by US

Few Indian pharmaceutical companies are expected to reap benefits of a strong flu season in 3QFY23. The gTamiflu capsule market in the US has expanded by >200% YoY and the gTamiflu suspension market has grown by >500% YoY. Notably, we expect Ajanta Pharma's (AJP; HOLD) gTamiflu to drive significant growth in the US business due to a low base. Other Indian pharma companies including Lupin (LPC; HOLD), Zydus Life (ZYDUSLIF; BUY), Natco Pharma (NTCPH; Not Rated), Strides Pharma (STR; Not Rated) and Alembic Pharma (ALPM; Not Rated) should gain on higher gTamiflu sales in 3QFY23. We expect Sun Pharma (SUNP; BUY) to record a strong US performance and high single digit growth in the India business which should help maintain its growth trajectory. We expect some of Dr. Reddy's (DRRD; BUY) gRevlimid sales to stick in 3QFY23. Custom Synthesis (CCS) revenue of Divi's (DIVI; SELL) should come under pressure with *Molnupiravir* sales coming off the base completely. Lupin (LPC; HOLD) is poised to deliver robust growth in its US business, mainly from volume gains in gSuprep, revenue contribution from acquired brands, and a strong flu season. Cipla's (CIPLA; HOLD) US business is set to deliver a decent performance with launch of Leuprolide Depot and volume growth in Albuterol Sulfate and Lanreotide Acetate.

Sun Pharma: SUNP should benefit from price hikes and field force expansion in India. *Ilumya* and *Cequa* continue to expand in high single digit while *Levulan* has seen a sharp pick-up in volumes on a QoQ basis. Market share in *Amphotericin B Liposome* has ramped up to 27% in 3QFY23 from 17% in 2QFY23. Volumes in *Winlevi* have declined in mid-single digits, which will be offset by lower share of discounted prescriptions sold. SUNP received an import alert at its Halol facility in Dec'22. However, we expect the sales lost in Dec'22 will be offset by volume growth in new launches. We also expect the company to report some inventory write off due to the import alert. SUNP's Taro business was impacted by a one off in 2QFY23 which should not recur in 3QFY23.

Divi's Labs: In 3QFY23, Molnupiravir exports of DIVI are expected to come off the base which should lead to pressure on DIVI's CCS business on a QoQ and YoY basis.

Cipla: CIPLA should experience double digit growth in its India business. The strong flu season in the US has led to higher Albuterol Sulfate sales (up 23% QoQ). The company has also seen market share gains in *Lanreotide Acetate* and gBrovana. CIPLA will also record one month sales of its new launch, *Leuprolide Depot*. CIPLA had recorded a Covid inventory write off in 2QFY23, which should not recur in 3QFY23.

Dr. Reddy's: DRRD's North America business was on a high base in 2QFY23 due to the launch of gRevlimid. We believe that some gRevlimid sales should stick for each quarter in FY23. As per prescription volumes, DRRD holds ~18% market share in gRevlimid. Besides gRevlimid, DRRD will also gain on volume increase in other new launches, including gNexavar, Javygtor (gKuvan), gVelcade and gAlimta. The company has seen a sharp volume decline in Vasopressin (down 65%) and Doxorubicin Liposome (down 14%). gCiprodex volumes declined 26% QoQ, due to a seasonally weak quarter.

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Zydus Lifesciences: ZYDUSLIF should benefit from a strong flu season with volume gains in gTamiflu while the company's gLacosamide injectable has captured 25% market share in 3QFY23 from 9% in 2QFY23. We have also built-in contribution from gRevlimid in this quarter. Asacol HD volumes sold have remained flattish in 3QFY23.

Lupin: LPC should gain from revenue contribution of newly acquired brands, Brovana and Xopenex HFA. It will also benefit from a strong flu season with volume gains in Albuterol Sulfate and gTamiflu. LPC has seen strong volume growth in gSuprep, where it has captured more than 40% market share. We expect LPC to record high single digit growth in the India business despite facing pressure in its diabetes portfolio.

Ajanta Pharma: We expect AJP's India branded formulations business to expand in low double digit. The company's US business should benefit from higher gTamiflu volume sales in 3QFY23. The company had recorded Rs 100mn of preponement expenses which should not recur in 3QFY23. We have also built in some reduction in freight costs on a QoQ basis.

Indoco Remedies: We expect Indoco Remedies (INDR) to record high single digit growth in the Indian market, led by volume growth and marginal price hikes. In the US business, the company will benefit from higher profit share in Brinzolamide and strong volume growth in gLacosamide injectable.

Exhibit 1: 3QFY23 result estimates

Company	3QFY23E				Change in revenue		Change in EBITDA		Change in PAT	
	Revenue	EBITDA	PAT	EPS	YoY	QoQ	YoY	QoQ	YoY	QoQ
	(Rs mn)	(Rs mn)	(Rs mn)	(Rs)	(%)	(%)	(%)	(%)	(%)	(%)
SUNP	1,13,586	31,290	21,992	9.2	15.2	3.7	20.1	5.8	6.8	-2.8
DIVI	16,728	5,374	4,306	16.2	-32.9	-9.8	-51.0	-13.5	-52.3	-12.8
CIPLA	62,669	15,886	10,034	12.5	14.4	7.5	29.1	21.1	37.7	25.8
DRRD	61,030	16,887	10,120	61.1	14.7	-3.2	33.4	-12.6	43.2	-9.1
ZYDUSLIF	43,450	10,356	6,812	6.7	18.9	5.1	37.6	27.0	36.1	30.4
LPC	44,434	5,825	2,307	5.1	6.8	7.2	57.5	28.6	-57.7	77.8
AJP	9,183	2,059	1,680	13.1	9.6	-2.1	-14.0	4.9	-12.4	7.3
INDR	4,096	778	429	4.7	14.4	-5.4	5.9	-11.4	30.2	-13.6

Source: Company, Systematix Institutional Research

Exhibit 2: Valuation snapshot

Company	Rating	CMP	Target Price	Upside (%)	Mkt.Cap (Rs bn)	CAGR over FY22-24E (%)			Valuation on FY24E	
						Revenue	EBITDA	Adj. EPS	PE (x)	EV/EBITDA (x)
SUNP	Buy	1,016	1,185	16.6	2,437	9.8	14.2	26.2	22.9	16.4
DIVI	Sell	3,460	2,829	-18.2	918	-2.5	-10.7	-8.1	36.4	27.5
CIPLA	Hold	1,088	1,212	11.4	875	9.3	26.1	31.2	18.5	11.0
DRRD	Buy	4,296	5,192	20.9	713	7.8	27.1	35.2	16.4	9.6
ZYDUSLIF	Buy	432	554	28.2	443	8.4	12.4	12.3	16.2	10.0
LPC	Hold	743	809	8.9	337	5.9	24.0	118.2	19.9	10.7
AJP	Hold	1,189	1,488	25.1	152	10.8	7.9	5.6	19.1	13.2
INDR	Buy	397	458	15.5	37	8.6	6.1	16.7	17.3	10.0

Source: Company, Systematix Institutional Research

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