Pharmaceutical Sector

06 January, 2023

3QFY23 Result Preview

Double-digit growth in revenue; margins remain under pressure

NBIE's pharma coverage universe's aggregate revenue is expected to grow in low double-digit YoY, with strong growth in both US as well as India, supported by key launches, favourable currency movements and seasonality benefits. However, we do not expect any material improvement in margins, as operational leverage and superior revenue mix will largely be offset by continuous cost inflation and acute pricing pressure in the US market. Growth in domestic formulations is expected to be driven by continued strong growth in the Chronic segment and robust growth in the Acute segment, supported by a favourable seasonality impact. Like 2QFY23, US revenue is expected to be driven by gRevlimid, coupled with a sharp improvement in gTamiflu sales due to a strong flu season. However, persistently high pricing pressure and stiff competition continue to weigh on the US performance. INR depreciated against USD by 9.7% YoY and 3% QoQ during the quarter. INR also depreciated vs Russian Rubble/Brazilian Real by 27%/16% YoY. While among the large caps, Cipla, Sun Pharma, Zydus Lifesciences and Torrent Pharma are expected to report double-digit growth, among the mid caps, Ajanta Pharma, Alembic Pharma, Alkem and Indoco are expected to report double-digit revenue growth. Eris Life and JB Chemicals are expected to report >25% YoY growth, aided by recent acquisitions. On the other hand, Gland Pharma, Natco Pharma, Pfizer India and Sanofi India are likely to report muted to negative growth due to price erosion in the US market, restructuring and a high base.

Alembic Pharma: Revenue is expected to grow by 14.6% YoY, driven by strong growth in domestic sales and currency tailwinds. Domestic business is expected to grow by 14% YoY on the back of continued strong growth in the Specialty segment and seasonality tailwinds. US business growth is expected to remain muted both on QoQ and YoY basis at US$53mn, as traction in new launches and gTamiflu ramp-up are likely to be offset by continuous price erosion in the base business. EBITDA margin is expected to decline by 410bps YoY due to US pricing pressure and elevated cost inflation. Net profit is expected to decline by 28% YoY mainly in sync with the operational performance.

Ajanta Pharma: Revenue is expected to grow by 15.3% YoY, mainly driven by strength in the domestic and Asian markets, which is likely to be partially offset by a decline in its African business. Domestic business is expected to grow by 17% YoY mainly on the back of strong growth across key segments. Also, a lower base and currency tailwinds are expected to help Asian business grow by 32% YoY. US revenue is expected to grow by 15% QoQ mainly on the back of strong growth in gTamiflu. EBITDA margin is expected to contract by 408bps YoY to 24.5% mainly due to US price erosion and elevated cost inflation. However, it is expected to improve by 358bps QoQ on the back of operational leverage and improvement in gross margin.

Alkem: Revenue is expected to grow by 14.2% YoY, mainly led by strong growth in the domestic business. The domestic business is expected to grow by 16% YoY on the back of robust growth in the Acute segment, supported by seasonality tailwinds and continuous growth in the Chronic segment. US business growth is expected to be muted QoQ at US$76mn mainly due to lack of meaningful launches and continuous price erosion. EBITDA margin is expected to contract by 351bps to 15.5% due to continuous cost pressure and US price erosion.

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Company (Rsmn)	TP	CMP	Rating	Sales			EBITDA			EBITDA margin (%)			PAT		
	(Rs)	(Rs)		3QFY23E	YoY(%)	QoQ(%)	3QFY23E	YoY(%)	QoQ(%)	3QFY23E	2QFY23	3QFY22	3QFY23E	YoY(%)	QoQ(%)
Ajanta Pharma	1,625	1,192	Buy	9,658	15.3	3.0	2,368	-1.2	20.6	24.5	20.9	28.6	1,893	-1.3	20.9
Alembic Pharma	641	567	Acc	14,574	14.6	-1.2	2,332	-8.8	0.2	16.0	15.8	20.1	1,263	-28.4	-5.3
Alkem Laboratories	3,702	3,043	Buy	29,913	14.2	-2.9	4,642	-6.9	2.3	15.5	14.7	19.0	5,151	-2.0	55.7
Cipla	1,321	1,088	Buy	63,138	16.0	8.3	15,114	22.8	16.1	23.9	22.3	22.6	9,699	33.1	22.9
Dr. Reddy's Labs	4,640	4,296	Acc	57,074	7.3	-9.5	12,271	2.1	-27.9	21.5	27.0	22.6	7,200	1.9	-26.6
Eris Lifesciences	843	650	Buy	4,549	37.0	-1.2	1,479	21.5	-2.4	32.5	32.9	36.6	1,080	7.2	-10.2
Gland Pharma	2,472	1,583	Buy	10,696	0.6	2.4	3,346	-4.1	12.7	31.3	28.4	32.8	2,729	0.0	13.1
Indoco Remedies	452	397	Buy	4,236	18.3	-2.2	847	15.4	-3.6	20.0	20.3	20.5	482	46.1	-3.1
J.B Chemicals	2,427	1,995	Buy	7,659	27.5	-5.4	1,697	32.5	-8.0	22.2	22.8	21.3	997	18.9	-10.2
Jubilant Pharmova	432	354	Buy	14,516	10.8	-9.2	1,931	-0.6	-11.7	13.3	13.7	14.8	517	1.5	-17.0
Lupin	752	743	Acc	43,002	3.3	3.7	5,639	0.1	24.5	13.1	10.9	13.5	2,149	-77.2	65.6
Natco	603	559	Acc	4,898	-12.6	13.4	1,123	10.3	17.9	22.9	22.1	18.2	752	-6.4	32.4
Pfizer	4,726	4,366	Acc	6,556	-3.0	2.8	2,303	18.0	-0.6	35.1	36.3	28.9	1,659	15.3	-2.1
Sanofi India*	6,716	5,718	Buy	7,030	2.2	1.6	1,573	23.7	-13.5	22.4	26.3	18.5	1,103	22.0	-15.8
Sun Pharma	1,192	1,016	Buy	1,12,458	14.0	2.7	29,801	14.3	0.8	26.5	27.0	26.4	19,767	-4.0	-12.6
Torrent Pharma	1,888	1,561	Buy	24,020	14.1	4.8	7,008	30.7	3.2	29.2	29.6	25.5	3,211	28.9	2.9
Zydus Lifescience	431	432	Acc	42,813	17.1	3.5	9,129	21.3	12.0	21.3	19.7	20.6	5,967	19.2	15.4

**2QCY22 - Sanofi India follows calendar year; Source: Respective companies, Nirmal Bang Institutional Equities Research*

Cipla: Revenue is expected to grow by 15% YoY, mainly driven by ramp-up in Albuterol Sulfate and Revlimid launched in the US. Domestic business is expected to grow at a modest rate of 8% YoY mainly due to a high base of covid opportunities. US business is expected grow by 20% QoQ to US$214mn mainly on the back of Revlimid launch. EBITDA margin is expected to improve by 147bps YoY to 23.9% mainly on the back of better product mix. Net profit is expected to grow by 33.1% YoY mainly on the back of an improved operational performance and higher other income.

Eris Lifesciences: Revenue is expected to grow by 37% 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 countered by an injunction on Zayo brand and slow growth in the GI segment. Margin is expected to contract by 415bps YoY to 32.5% mainly due to consolidation of low-margin Oaknet business, commissioning of new plant and additional expenditure towards new products & insulin business. Net profit is expected grow by 7.2% YoY to Rs1.1bn.

Dr Reddy's: Revenue is expected to grow by 7.3% YoY, but excluding Revlimid, growth is expected to be muted in 3QFY23 mainly due to continuous pricing pressure in the US base business. US revenue is expected to grow by 11.7% YoY to US$280mn mainly on the back of gRevlimid luanch. India business is expected to grow by 6% YoY. EBITDA margin is expected to contract by 109bps YoY to 21.5% despite Revlimid launch mainly due to the adverse impact of US price erosion, persistent cost inflation and integration of low-margin Cidmus brand in India.

Gland Pharma: Revenue is expected to grow by 2.4% QoQ due to a gradual recovery in Emerging Markets (EM) growth and currency tailwinds. US revenue should improve QoQ with normalization of supply chain, new launches as well as currency tailwinds. EBITDA margin is likely to decline by 153bps YoY to 31.3% due to persistent cost inflation and negative operational leverage.

Indoco Remedies: Revenue is expected to grow by 18.3% YoY, mainly driven by 32% YoY growth in Developed Market (DM) formulations. US revenue is expected to grow by 45% YoY mainly on the back of new launches, including Lacosamide and Norepinephrine Bitartrate injections. Domestic business is expected to grow by ~5% YoY. EBITDA margin is expected to remain healthy ~20-20.5%. Net profit is expected to grow by 46% YoY, driven by strong operational performance and lower tax rate.

JB Chemicals: Revenue is expected to grow by 27.5% YoY, mainly driven by double-digit growth in the domestic base business and full-quarter impact of integration of Sanzyme and Azmarda. A lower base will cause the export business to grow by 12% YoY. We expect EBITDA margin to remain healthy at ~22-23%.

Jubilant Pharmova: Revenue is expected to grow by 10.8% YoY, driven by recovery in Specialty segment and the CDMO business. However, continuous price erosion in the generics business as well as import alert at its Roorkee formulations facility should continue to affect generic sales. Radiopharma business is expected to improve YoY, led by growth in Ruby Fill installations and recovery in Radiopharmacy business. EBITDA margin is expected to decline by 150bps YoY mainly due to an adverse product/revenue mix.

Lupin: Revenue is expected to grow by 3.3% YoY, as growth in domestic formulations and RoW markets will largely be offset by restructuring in the US portfolio. Despite loss of exclusivity in the Diabetes and CVS therapeutic areas, domestic formulations business is expected to grow by 8% YoY, driven by growth across segments. US revenue is expected to grow by 13% QoQ, mainly driven by strong growth seen in gTamiflu (oral suspension), new launches (mainly gSuprep) and acquisition of brands. EBITDA margin is expected to improve by 219bps QoQ to 13.1% due to a better product mix and cost rationalization efforts.

Natco Pharma: Revenue is expected to decline by 12.6% YoY. Decline in export revenue by 20% YoY (due to a high base of one-time income) is expected to be partially offset by 24.8% YoY growth in the domestic business on the back of CTPR launch. EBITDA margin is likely to improve by 477bps YoY to 22.9%, mainly driven by one-time expenses in the base quarter.

Pfizer: Revenue is expected to decline by 3% YoY due to divestment of the Upjohn business and high base of covid opportunities. EBITDA margin is expected improve by 625bps YoY to 35.1% due to VRS and restructuring initiatives. Net profit is expected to grow by 15.3% YoY, which will be in sync with the operational performance.

Sanofi India: Revenue is expected to grow by a modest 2.2% YoY due to divestment of brands and the Nutraceuticals portfolio. EBITDA margin is expected to improve by 389bps YoY mainly on the back of improvement in the mix. Net profit is expected to grow by 22% YoY, which will be in sync with the operational performance.

Sun Pharma: Revenue is expected to grow by 14% YoY, driven by growth across geographies. US Specialty business is expected to grow by 10%/0.6% YoY/QoQ due to continuous strong growth in Winlevi, Illmya and Cequa. Growth in the US generics business (ex-Taro) is expected to remain strong due to new launches and volume gain in key products. Growth in Taro is expected to remain subdued due to heightened 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 ~26.5-27%.

Torrent Pharma: Revenue is expected to grow by 14.1% YoY on the back of the acquisition of Curatio as well as strong growth across its key markets. Domestic formulations business is expected to grow by 17.6% YoY, driven by the consolidation of Curatio and strong growth across geographies as well as key segments. Brazil business revenue is expected to grow by 16% YoY, mainly driven by currency tailwinds and new launches. Lack of meaningful launches and continuous price erosion will lead to muted US growth on QoQ basis. Germany business will also remain under pressure due to lack of tender business. EBITDA margin is expected to improve by 372bps YoY to 29.2% mainly due to cost rationalization efforts.

Zydus Lifesciences: Revenue is expected to grow by 17% YoY, driven by growth across geographies. US revenue is expected to grow by 10% QoQ mainly driven by strong traction in gTamiflu and ramp-up in gRevlimid. India formulations business will grow by 12% YoY on the back of growth in key segments. EBITDA margin is expected to improve by 73bps YoY to 21.3%, led by an improvement in product mix, which will largely be offset by elevated cost inflation.

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