

Pharmaceutical

On a strong footing!

Pharma companies under our coverage are likely to report revenue/EBITDA/PAT growth of 15%/33%/28% YoY in Q1FY24E. The growth is likely to be led by new launches, market share expansion in key products and acquisition in US & India. Aggregate gross margin to improve marginally QoQ (+250bps YoY) at 64.8% as higher RM cost and mandated price cut in India may offset the benefit of better margins from niche US launches. However, operating leverage may drive a 90bps QoQ (+300bps YoY) surge in EBITDA margin to 22.4%. Aggregate PAT is expected to surge 28% YoY to Rs86.6bn. Cipla, Sun Pharma, Zydus Lifesciences, Ajanta Pharma and Abbott India are our top picks in pharma space.

- **Synopsis of expected quarterly performance:** Revenue for coverage universe is likely to grow ~15%/4% YoY/QoQ to Rs641bn in Q1FY24E. Growth is likely to be led by traction across key markets of US and India. Gross margin to expand 250bps YoY (+40bps QoQ) to 64.8% in Q1FY24E. EBITDA is expected to grow 33% YoY (9% QoQ) to Rs144bn, EBITDA margin may improve 300bps YoY (90bp QoQ) to 22.4%. Profit for our coverage universe was up 28% YoY (13% QoQ) to Rs87bn led by improvement in overall operating performance. Alkem, Zydus Lifesciences, Biocon, Glenmark and Dr Reddy's are likely to grow their profits between 28-115%.
- **India margins to be under pressure:** India business of our coverage companies is expected to grow at ~8% YoY in Q1FY24E to Rs198bn. Better volumes and acquisitions may help companies offset the impact of price cuts on growth, while margins may be under pressure. M&A may elevate the pace of growth in India business of JB Chemicals and Torrent Pharma to 20-24% while Abbott and Ajanta can grow organically at a faster pace of 15-16%. NLEM linked price hike of 12.2% will likely boost domestic growth and profitability Q2FY24 onwards.
- **Better market share, launches to drive robust performance in US:** Aggregate US sales of coverage universe is likely to grow US\$2.3bn, up ~6% QoQ and 24% YoY. Lesser price erosion in base business and improved supplies on account of few companies vacating the market may drive sequential growth across all the companies in our coverage universe. Zydus is expected to grow the fastest at 10% QoQ, driven by products like gRevlimid, gTrokendi XR, gChantix and gVascepa. Dr Reddy's, Zydus, Cipla and Sun are likely to benefit from the launch of gRevlimid, while Aurobindo is expected to launch this product in Oct'23.
- **Operating leverage to drive improvement in EBITDA:** RM cost is expected to remain elevated in Q1FY24E and mandated price cuts in India may further restrict the scope for gross margin expansion. We believe benefit of low-priced inventory may not be seen in Q1FY24 as companies are unlikely to have exhausted their high-priced inventory and full quarter benefit of it will likely be visible from Q2FY24. Better revenue traction in US and India to drive operating leverage and help EBITDA margin soar by 272bps YoY to ~22%. We expect significant recovery in gross and EBITDA margins for companies under our coverage in FY24E. Better traction in US may drive margins for the next couple of quarters beyond which price increase in India and normalisation of RM and logistic cost are likely to play a pivotal role in restoring the margin profile.
- **Key risks:** Adverse outcome of USFDA inspections, currency volatility and inclusion of more products under NLEM in India.

Q1FY24 result preview

Recommendations

Abbott India (BUY)
Ajanta Pharma (BUY)
Alembic Pharma (HOLD)
Alkem (ADD)
Aurobindo (ADD)
Biocon (HOLD)
Cipla (BUY)
Divi's Labs (ADD)
Dr Reddy's (ADD)
Glenmark (REDUCE)
GSK Pharma (HOLD)
JB Chemicals (ADD)
Lupin (SELL)
Natco (HOLD)
Pfizer (ADD)
Sanofi India (HOLD)
Strides Pharma Science (ADD)
Sun Pharma (BUY)
Torrent Pharma (HOLD)
Zydus Lifesciences (BUY)

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Table 1: Key financials

(Rs mn, year ending March 31)

Company	Revenue (INR mn)					EBITDA (INR mn)					PAT (INR mn)				
	Q1FY24E	Q4FY23	Q1FY23	QoQ (%)	YoY(%)	Q1FY24E	Q4FY23	Q1FY23	QoQ (%)	YoY(%)	Q1FY24E	Q4FY23	Q1FY23	QoQ (%)	YoY(%)
Sun Pharma	1,16,280	1,08,747	1,07,618	6.9	8.0	32,093	27,462	28,844	16.9	11.3	23,135	20,885	20,609	10.8	12.3
Dr Reddy's	64,091	60,328	52,154	6.2	22.9	14,100	12,849	6,937	9.7	103.3	8,924	7,852	6,994	13.7	27.6
Aurobindo	68,754	64,730	62,950	6.2	9.2	11,276	10,022	9,647	12.5	16.9	5,976	5,063	5,422	18.0	10.2
Zydus Lifesciences	51,206	50,106	39,644	2.2	29.2	12,238	13,136	7,161	(6.8)	70.9	8,356	8,979	4,165	(6.9)	100.6
Cipla	60,326	57,393	53,752	5.1	12.2	13,513	11,737	11,434	15.1	18.2	8,208	5,800	6,864	41.5	19.6
Lupin*	44,764	44,301	37,438	1.0	19.6	6,356	6,041	1,639	5.2	287.7	2,231	2,606	(1,369)	(14.4)	(262.9)
Biocon	37,711	37,739	21,395	(0.1)	76.3	9,993	9,973	3,994	0.2	150.2	2,080	3,157	1,444	(34.1)	44.0
Glenmark	32,165	33,737	27,773	(4.7)	15.8	5,597	6,050	4,316	(7.5)	29.7	2,965	1,235	1,925	140.0	54.0
Torrent Pharma	27,420	24,910	23,470	10.1	16.8	8,390	7,270	7,120	15.4	17.8	3,863	2,870	3,540	34.6	9.1
JB Chemicals	9,364	7,623	7,848	22.8	19.3	2,247	1,636	1,728	37.3	30.1	1,346	876	1,050	53.6	28.2
Ajanta Pharma	10,567	8,818	9,509	19.8	11.1	2,494	1,670	2,218	49.3	12.5	1,965	1,364	1,746	44.0	12.5
Alkem	28,325	29,026	25,764	(2.4)	9.9	3,796	3,533	2,032	7.4	86.8	2,739	1,585	1,276	72.8	114.6
Alembic Pharma	13,679	14,065	12,621	(2.7)	8.4	2,052	2,122	147	(3.3)	1,299.7	879	1,526	(659)	(42.4)	(233.5)
Strides Pharma Science	9,533	9,864	9,401	(3.3)	1.4	1,478	1,556	512	(5.0)	188.7	22	56	(1,051)	(60.5)	(102.1)
Natco	9,885	8,979	8,846	10.1	11.7	3,677	3,391	3,953	8.4	(7.0)	2,962	2,758	3,204	7.4	(7.6)
Divi's	21,040	19,508	22,545	7.9	(6.7)	5,576	4,918	8,467	13.4	(34.1)	4,107	3,239	6,555	26.8	(37.3)
Abbott India	15,036	13,431	13,044	12.0	15.3	3,143	2,801	2,704	12.2	16.2	2,450	2,314	2,056	5.9	19.1
Sanofi India	6,727	7,365	6,993	(8.7)	(3.8)	2,079	2,299	1,611	(9.6)	29.0	1,592	1,779	1,204	(10.5)	32.2
Pfizer	6,285	5,726	5,929	9.8	6.0	2,093	1,819	1,919	15.1	9.1	1,591	1,451	1,348	9.7	18.0
GSK Pharma	7,675	7,875	7,451	(2.5)	3.0	1,535	1,697	1,489	(9.6)	3.1	1,228	1,261	1,162	(2.6)	5.6
Coverage Universe	6,40,833	6,14,270	5,56,145	4.3	15.2	1,43,725	1,31,981	1,07,871	8.9	33.2	86,619	76,655	67,486	13.0	28.4

Source: Company data, I-Sec research

Note: Lupin estimates do not factor in the milestone income for its phase 1 clinical stage MALT1 inhibitor programme

Table 2: Valuation summary

(Rs mn, year ending March 31)

₹/s m, year ending March 07)															
Company	Target Price (Rs)	Rating	EPS (Rs)			CAGR FY23-25E	ROCE (%)			P/E (x)			EV/ EBITDA (x)		
			FY23	FY24E	FY25E		FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Pharma															
Sun	1,160	BUY	35.4	40.0	46.4	14.5	14.3	14.3	15.1	29.7	26.2	22.6	21.2	17.6	15.0
Dr Reddy's	5,000	ADD	238.4	273.9	291.4	10.6	16.7	17.4	16.8	21.8	19.0	17.9	14.5	11.6	10.4
Aurobindo	655	ADD	33.4	40.8	49.6	21.9	7.1	7.8	9.2	21.3	17.5	14.4	10.8	8.7	7.2
Lupin	740	SELL	8.4	26.3	31.4	93.2	3.5	8.3	9.2	106.4	34.0	28.5	25.1	14.9	13.0
Cipla	1,169	BUY	36.3	43.9	53.6	21.5	13.3	14.3	15.4	27.9	23.1	18.9	15.4	12.9	10.4
Zydus Lifesciences	590	BUY	24.0	28.6	29.4	10.5	11.7	12.3	12.5	23.9	22.5	19.6	15.5	14.5	12.4
Biocon	250	HOLD	5.6	7.9	10.0	33.8	3.1	3.2	3.6	46.8	33.2	26.2	17.6	20.1	14.6
Glenmark	575	REDUCE	29.3	40.8	49.1	29.5	7.2	11.3	12.2	22.2	15.9	13.2	9.3	7.8	6.7
Torrent	1,645	HOLD	36.8	46.4	54.9	22.1	13.4	14.3	16.3	48.9	38.9	32.8	23.4	19.8	17.4
Alkem	3,750	ADD	89.0	120.5	138.9	25.0	12.0	15.7	16.2	39.4	29.1	25.2	25.0	20.6	17.7
Ajanta	1,580	BUY	49.2	63.4	75.2	23.5	19.0	22.0	21.8	29.4	22.8	19.3	21.1	16.6	13.4
Alembic	590	HOLD	17.4	22.1	28.7	25.2	7.7	9.5	11.2	36.7	30.8	23.4	18.4	13.7	11.0
Strides	390	ADD	11.3	20.7	34.8	75.3	-0.9	6.5	8.8	-22.1	23.3	13.9	17.4	11.4	9.5
JB Chemicals	2,200	ADD	52.9	77.0	94.0	33.2	16.4	18.8	20.4	44.4	30.6	25.0	26.5	19.6	16.3
Natco	650	HOLD	39.2	49.0	62.3	26.0	14.9	16.7	18.6	17.7	14.2	11.1	12.7	9.7	7.4
Abbott India	26,800	BUY	446.8	521.4	607.7	16.6	32.3	31.7	29.9	50.0	42.8	36.7	37.7	30.7	25.7
Pfizer India	4,200	ADD	130.9	146.0	161.8	11.2	20.5	20.1	19.4	28.9	25.9	23.4	19.1	16.4	14.4
Sanofi India	6,500	HOLD	228.6	259.6	277.2	10.1	41.2	37.7	33.4	30.5	26.9	25.2	21.3	19.4	17.7
GSK Pharma	1,295	HOLD	35.9	37.5	42.1	8.3	29.3	39.7	44.1	39.5	37.8	33.7	27.8	26.7	23.6
Divi's	3,560	ADD	64.9	72.5	93.0	19.7	14.3	14.1	16.7	54.7	49.0	38.2	38.0	33.7	26.3

Source: Company data, I-Sec research

Table 3: Company wise key developments in Q1FY24

Company	Key developments
Sun Pharma	Sun Pharma launched Cequa, a novel therapy for Dry Eye disease in India on Apr 25, '23.
	Trial for 12mg dose of dueruxolitinib (acquired from Concert Pharma) has been placed on partial clinical hold due to thrombotic adversity. However, no such event has been reported for 8mg dose.
	Sun Pharma entered into an exclusive distribution, license and supply agreement with Philogen for commercialising its specialty product, Nidlegly, in Europe, Australia and New Zealand. Nidlegly is a new anti-cancer drug currently in phase III clinical trials.
	It announced Health Canada Approval of PrWINLEVI (clascoterone cream 1%) for topical treatment of acne.
	Sun Pharma has proposed to acquire the balance 21.5% (Sun already owns 78.5%) outstanding shares of Taro for a purchase price of US\$38/share.
Dr. Reddys	It completed the acquisition of Mayne Pharma's US generic prescription product portfolio in Apr'23. The deal was announced in Feb'23 for an upfront cash payment of US\$90mn and contingent payments of up to US\$15mn.
	USFDA completed a PAI inspection in May'23 at its formulations manufacturing facility in Srikakulam (in Andhra Pradesh) and issued four 483 observations.
	USFDA completed a GMP inspection in Jun'23, at its API manufacturing facility in Bollaram, Hyderabad and closed with zero observations
	Dr. Reddy has forayed in trade generics business in India and named the division as 'RGenX'
Aurobindo	USFDA conducted an inspection at Unit XIV (antibiotic API unit), situated in Anakapalli district of Andhra Pradesh in May'23 and issued four 483 observations.
	Eugia Pharma signed an voluntary license with Medicines Patent Pool to develop and market the generic version of Nilotinib Capsules in 44 low and middle-income countries (LMIC).
Zydus Lifesciences	Zydus announced phase IV trial data of Saroglitazar in India for Non-Alcoholic Fatty Liver Disease (NAFLD).
	Zydus Lifesciences' arm, Z AHL, has acquired 6.5% stake in Mylab for Rs1.06bn. Mylab is a manufacturer of in-vitro diagnostic kits and registered revenue of Rs9.30bn in FY23.
	USFDA inspected injectables manufacturing facility(Jun'23) at Zydus Biotech Park (in Ahmedabad, Gujarat) and concluded with nil observations.
	Zydus received EIR for the Pre-Approval Inspection (PAI) at the manufacturing facility in Moraiya, Ahmedabad(May'23)
Cipla	Cipla has signed perpetual licensing agreement with Novartis Pharma AG for Galvus range to treat diabetes in India from Nov 1, '26. Galvus reported sales of Rs2.68bn (IQVIA MAT Feb'23).
	USFDA inspection at InvaGen manufacturing facility in Fall River (USA) concluded with nil observations(May'23).
	The company has entered into a binding term sheet to sell its entire stake of 51% held in Saba Investment Limited, UAE (Saba) to Shibam Group Holding Limited, UAE for a consideration of US\$6.5mn.
Lupin	It launched its new Regional Reference Laboratory in Bengaluru, Karnataka, to expand its diagnostics network.
	Lupin acquired Medisol, a French company that specialises in generic injectables, for a cash consideration of EUR18mn. Revenues for the company stood at EUR7.3mn for FY22.
	Lupin has launched a Satellite Laboratory in Vijayawada, Andhra Pradesh as it expands its diagnostic business.
	It announced a strategic collaboration with Enzene Biosciences (division of Alkem) to launch Cetuximab in India, the first biosimilar developed for Cetuximab.
	Lupin announced a key milestone for its phase 1 clinical stage MALT1 inhibitor programme. It has received US\$25mn from AbbVie for the initiation of phase 1 clinical studies successfully. Lupin had earlier received US\$30mn from AbbVie for achievement of other milestones in the programme.
Biocon	USFDA concluded a pre-approval inspection of Biocon's Oral Solid dosage formulations manufacturing facility in Bengaluru with nil observations.(Jun'23)
Alkem	USFDA conducted a GMP and PAI inspection at the company's API manufacturing facility located at Ankleshwar, Gujarat with nil observations.(Apr'23)
JBCPL	USFDA conducted an inspection at JB's formulation manufacturing facility - T20, located in Panoli, Gujarat. The plant cleared inspection without any 483 observation.(Jun'23)
Natco	Natco has incorporated a JV with PT Mitra Medis Exim (MME) Indonesia and infused US\$3mn for a stake of 51%.
	Inspection was conducted at its formulations manufacturing facility in Vizag (Andhra Pradesh) and received an EIR for the same.
Glenmark	USFDA issued a warning letter to its facility at Monroe, US in Jun'23. The company had received an OAI in Aug'22.
	Glenmark has entered into a settlement with three plaintiff groups in the US for US\$87.5mn to settle lawsuits for Zetia. These will be payable over the next 2 financial years.
Torrent	USFDA issued an EIR following a PAI inspection at its oral oncology manufacturing facility in Bileshwarapura,Gujarat.(Jun'23)
Ajanta	Company's formulation facility was inspected by USFDA and was concluded with nil observations.(Jun'23)
Abbott	Company recalled batches of Thronorm due to labelling error.
Pfizer	Company recalled Magnex Forte, Zosyn and Magnamycin. These products recorded total revenue of Rs1.39bn, as per IQVIA MAT data.
Sanofi	Company approved the demerger of its consumer healthcare business into a wholly-owned subsidiary. Its consumer business includes brands like Allegra and Combiflam.

Source: Company data, I-Sec research

Table 4: India business trends over the quarters

(INR mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24E	% YoY	% QoQ
Sun Pharma	31,878	31,676	30,956	33,871	34,600	33,919	33,641	36,581	8.0	8.7
Dr Reddy's	11,402	10,266	9,689	13,339	11,500	11,274	12,834	12,252	(8.1)	(4.5)
Zydus Lifesciences	12,130	10,790	11,640	11,251	12,648	12,316	12,896	12,039	7.0	(6.6)
Cipla	24,160	25,180	21,830	24,830	25,630	25,630	22,590	26,816	8.0	18.7
Lupin	15,435	14,733	13,511	14,920	15,841	15,213	14,786	15,815	6.0	7.0
Glenmark	9,689	10,069	8,847	10,352	10,916	10,745	8,284	10,766	4.0	30.0
Torrent Pharma	10,870	10,720	10,340	12,450	12,240	12,590	12,570	14,940	20.0	18.9
JB Chemicals	2,960	2,780	2,870	4,180	4,340	4,070	3,800	5,183	24.0	36.4
Ajanta Pharma	2,480	2,560	2,450	2,790	3,140	2,940	2,870	3,236	16.0	12.8
Alkem	19,605	18,156	17,187	17,815	22,161	19,922	20,113	19,418	9.0	(3.5)
Alembic Pharma	5,090	4,880	4,490	4,800	5,490	5,450	4,900	5,136	7.0	4.8
Natco	998	1,003	763	885	935	1,011	918	956	8.0	4.1
Abbott India	12,221	12,244	12,550	13,044	13,795	13,222	13,431	15,036	15.3	12.0
Sanofi India	6,262	5,710	5,868	5,804	5,743	5,577	6,113	5,584	(3.8)	(8.7)
Pfizer	6,363	6,759	5,497	5,929	6,375	6,218	5,726	6,285	6.0	9.8
GSK Pharma	10,099	8,159	8,096	7,451	9,169	8,023	7,875	7,675	3.0	(2.5)
Total Domestic sales	1,81,641	1,75,684	1,66,585	1,83,711	1,94,522	1,88,119	1,83,347	1,97,718	7.6	7.8
Growth (YoY)	16.7	10.9	12.7	(2.6)	7.1	7.1	10.1	7.6		

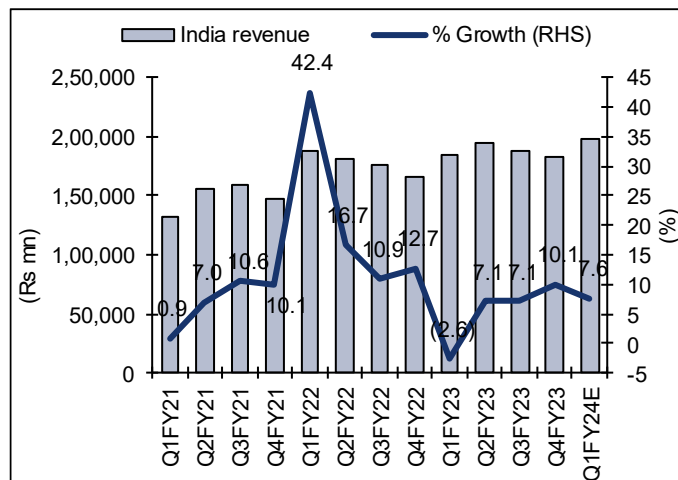
Source: Company data, I-Sec research

Table 5: US business trends over the quarters

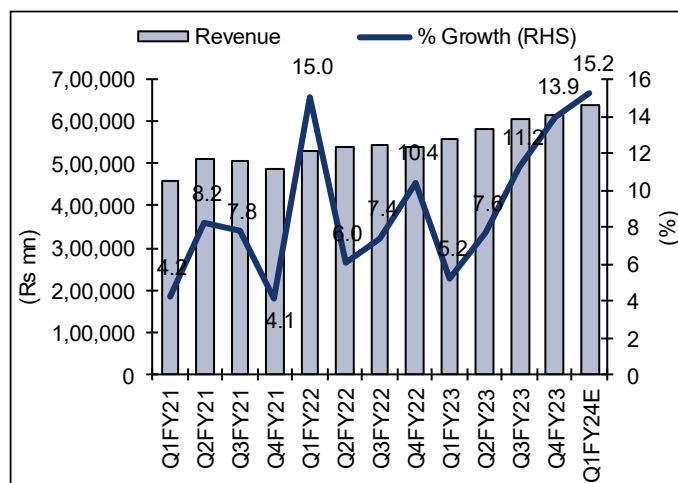
(USD mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24E	% YoY	% QoQ
Sun Pharma	361	397	389	420	412	422	430	441	5.1	2.7
Dr Reddy's	254	248	265	230	351	375	338	361	57.0	7.0
Aurobindo	401	371	363	386	331	366	370	400	3.5	8.0
Zydus Lifesciences	202	201	189	202	214	235	275	303	49.8	10.0
Cipla	142	150	160	155	179	195	204	214	38.2	5.0
Lupin	184	202	181	121	159	177	175	189	56.2	8.0
Glenmark	102	101	98	86	95	102	106	111	29.3	5.0
Torrent Pharma	35	31	37	39	37	35	34	35	(9.3)	4.0
Ajanta Pharma	26	22	23	22	23	32	24	25	15.0	4.5
Alkem	75	76	71	73	77	92	72	75	2.8	3.9
Alembic Pharma	47	53	75	45	51	53	43	46	1.9	5.0
Strides Pharma Science	34	38	44	46	60	63	58	63	36.8	9.0
Total US sales	1,863	1,890	1,895	1,824	1,988	2,147	2,129	2,263	24.0	6.3
Growth (YoY)	(1.1)	(3.3)	(0.7)	(0.2)	6.7	13.6	12.3	24.0		

Source: Company data, I-Sec research

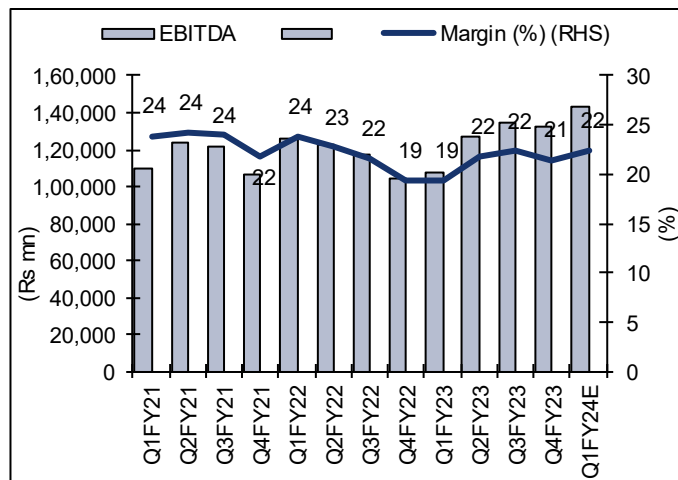
Charts

Chart 1: Domestic business – growth to be driven by volumes and acquisitions

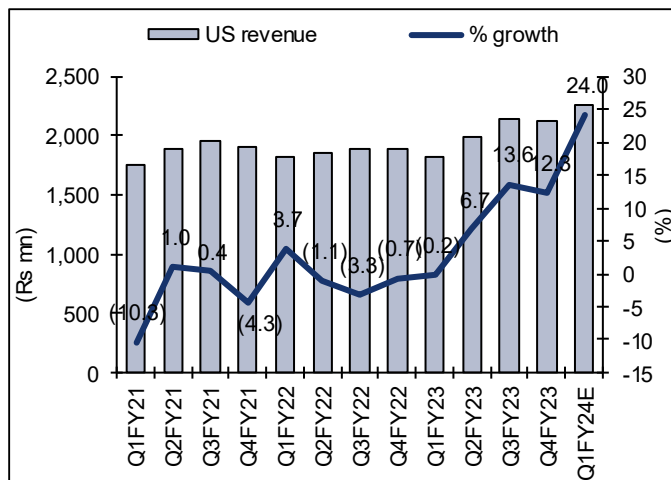
Source: Company data, I-Sec research

Chart 3: Revenue of our coverage universe is set to grow 15% YoY

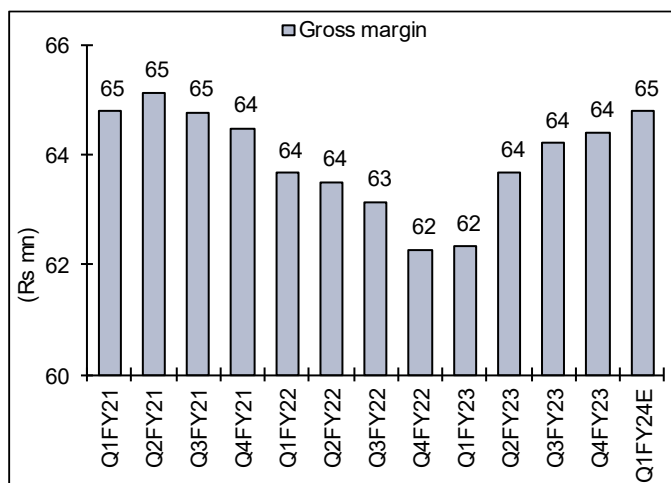
Source: Company data, I-Sec research

Chart 5: Margins to improve led by operating leverage

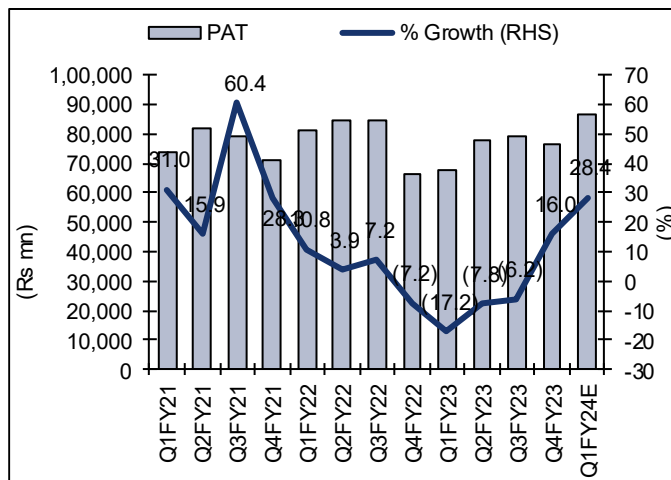
Source: Company data, I-Sec research

Chart 2: US – moderating price erosion and product launches to support ~6% growth

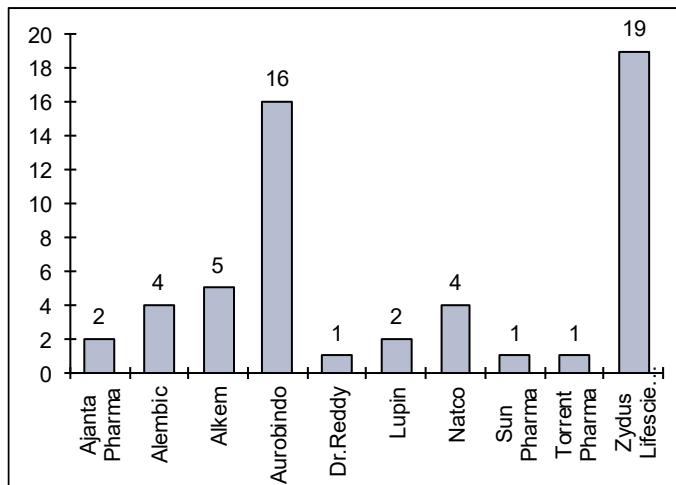
Source: Company data, I-Sec research

Chart 4: Price cuts in domestic business to offset cooling RM prices and healthy US growth

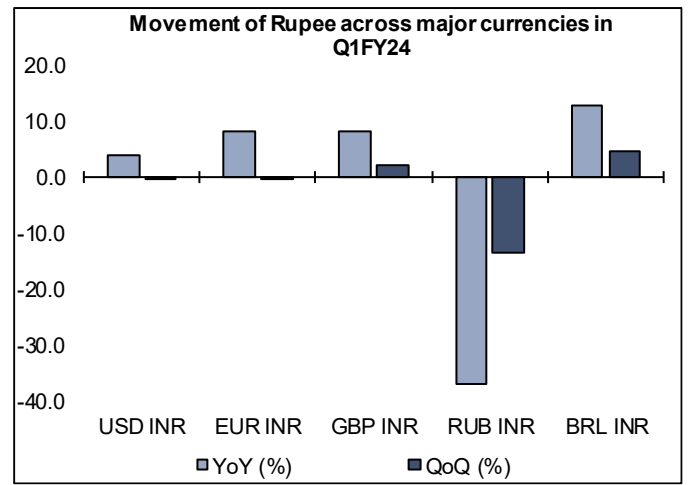
Source: Company data, I-Sec research

Chart 6: Net profit for our pharma coverage universe to prop up 28% YoY

Source: Company data, I-Sec research

Chart 7: Aurobindo and Zydus continue their strong approval momentum

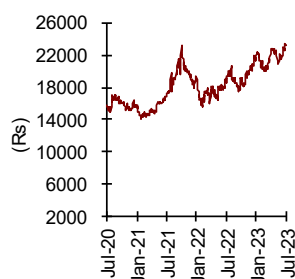
Source: USFDA, I-Sec research

Chart 8: RUB movement may negatively impact Dr. Reddy

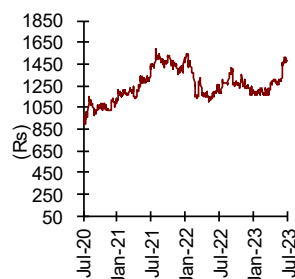
Source: Bloomberg, I-Sec research

Price charts

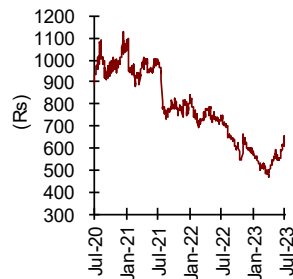
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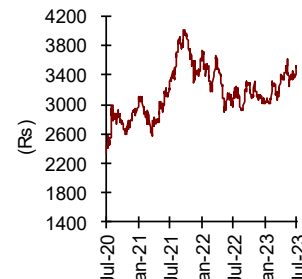
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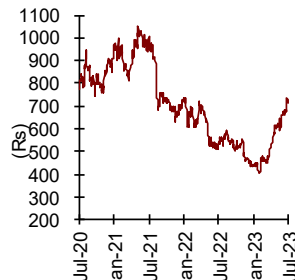
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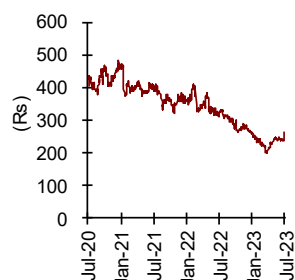
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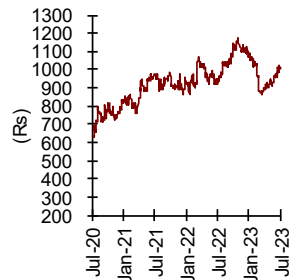
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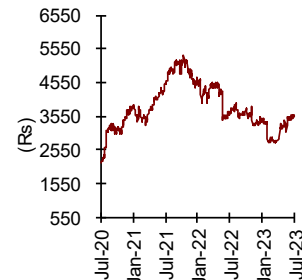
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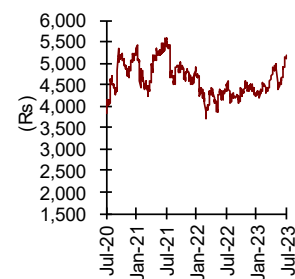
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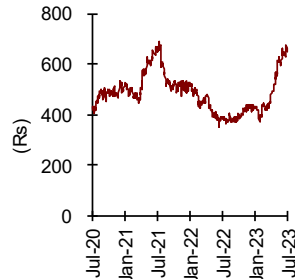
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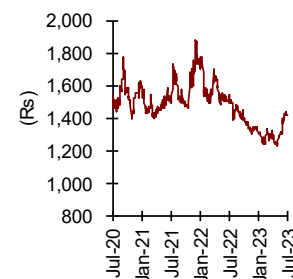
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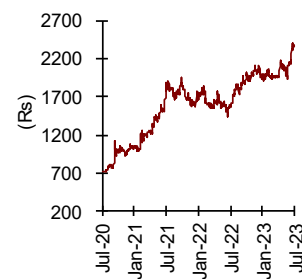
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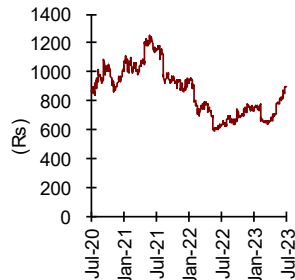
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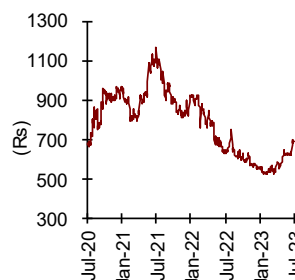
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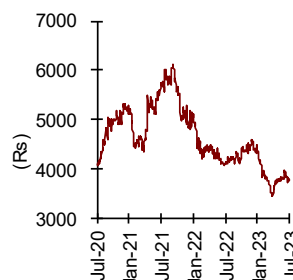
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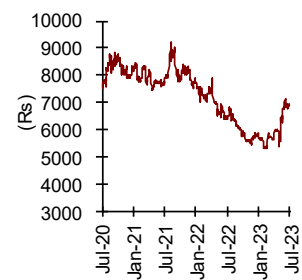
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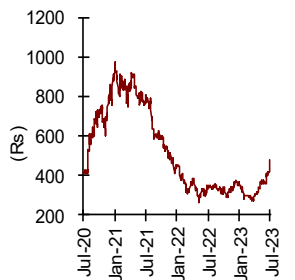
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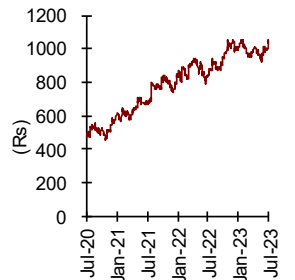
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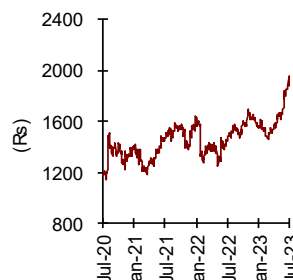
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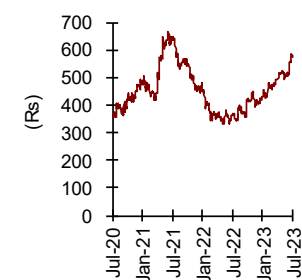
Sun Pharma



Torrent Pharma



Zydus Lifesciences



Source : Bloomberg

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