

Q1 FY24 Pharma Sector Preview



Pharmaceuticals

Robust volume growth in the formulation business and healthy product launch pipeline

MARKET DATA

	Close	1D (%)	1M (%)	YTD (%)	1Y (%)
Nifty	19749	0.19%	5.80%	8.53%	20.86%
Sensex	66795	0.31%	5.74%	9.20%	21.96%
Nifty Pharma	14017	-0.26%	5.67%	11.68%	10.53%
BSE Healthcare	26342	-0.38%	4.87%	14.68%	16.30%

COVERAGE STOCKS

Company	Current Price (INR)	Target Price (INR)*	Upside	Market Cap. (INR mn)	Fwd PE 2025E (x)	Recommendation
Sun Pharma	1,078	1,172	8.76%	25,85,464	22.6	BUY
Dr. Reddy's	5,231	5,155	TA*	8,71,266	16.5	BUY
Cipla	1,033	1,167	13.03%	8,33,474	19.8	BUY
Lupin	934	816	TA*	4,25,037	18.7	ACCUMULATE
Glenmark Pharma	702	683	TA*	1,98,068	9.8	BUY
Alembic Pharma	662	704	6.40%	1,30,056	15.0	BUY
Zydus Lifesciences	602	623	3.48%	6,09,395	16.0	BUY
Aurobindo Pharma	737	665	TA*	4,31,954	19.3	HOLD
Supriya Lifescience Ltd	245	292	19.04%	19,742	14.0	BUY
Ami Organics Ltd	1,173	1,305	11.27%	42,735	31.8	BUY
Granules India	311	368	18.19%	75,360	10.5	BUY

Note: We will review targets & ratings post detailed Q1FY24 results analysis and conference call of said companies. T.A: Target Achieved Source: KRC & Bloomberg, Data as of July 18th, 2023

SECTOR OVERVIEW

IPM growth witnessed strong performance in the quarter ended April-June 2023:

In Q1FY24, the Indian Pharma Market (IPM) experienced a 10.7% YoY sales growth, primarily due to a 16.0% increase in realization, whereas volume declined by 13.9%. The growth from new product launches was approximately 8.6% compared to the same quarter last year. IPM witnessed growth across various therapy areas during Q1FY24. The YoY growth in IPM was driven by double-digit growth in several therapy categories, including respiratory (+38%), pain management (+20%), CNS (+18%), cardiac (+18%), dermatological (+16%), gynecological (+15%), anti-infectives (+15%), anti-diabetic (+14%), vitamins (+13%), and gastroenterology (+12%). Both the acute and chronic segments demonstrated strong YoY growth during the quarter.

In Q1FY24, we anticipate a strong revenue increase of 22.49% YoY (+0.50 QoQ) within our coverage universe of pharmaceutical companies. This growth will be driven by several factors, including improved performance in the US generics market, solid performance in branded markets, a gradual alleviation of cost pressures, market share gains in recently launched products such as gRevlimid, as well as other important and competitively limited products in the US, and normalized growth in the India Pharma Market. However, it is worth noting that the recent issuance of Form 483 observations or warning letters by the USFDA to certain Indian manufacturing facilities may result in a delay in the introduction of new and critical products for competitors like Sun Pharma and Cipla. The growth of the IPM will heavily depend on the continued expansion of the chronic segment. This, coupled with growth in emerging markets, will contribute to increased sales for large companies and diversified players. In terms of companies under our coverage, Granules (+21.40% YoY), Lupin (+20.60% YoY), Dr. Reddy (+12.30% YoY), and Alembic Pharma (+10.90% YoY) are expected to achieve the highest YoY revenue growth in Q1FY24E.

Ease of inflationary pressure will lead to improvement in margin:

We anticipate a healthy improvement in profitability for our coverage universe, both on a YoY and QoQ basis. This improvement will be driven by volume growth in both the US and domestic formulation segments, a reduction in inflationary pressure, a decrease in high-priced channel inventory, and lower freight rates. However, these positive factors will be partially offset by pricing pressure in the US market, especially in US generic business. As a result, the net profit for the coverage universe is expected to increase by 10.0% YoY (14.07% QoQ). The recovery in margins is a positive development, indicating a reduction in high inflationary pressures in Q1FY24.

Sector Outlook:

The IPM is projected to experience a high single-digit growth rate in the Q1FY24. This growth will be driven by the recovery in volume from the US and European markets, expansion in the domestic formulation sector, a promising pipeline of product launches, partially offset by price erosion in the US generic business and a downward revision in the National List of Essential Medicines (NLEM). Additionally, there are emerging opportunities in CDMO and API Synthesizing companies, particularly in the innovative, specialty, and biosimilar product segments. These opportunities are expected to serve as key growth drivers for the pharmaceutical industry. Considering these factors, we maintain the belief that the long-term growth outlook for pharma companies remains intact, and they are anticipated to deliver robust performance in the upcoming quarters. **Our top recommendations in the sector include Sun Pharma, Cipla, Alembic Pharma, and Granules India.**

Pharmaceuticals

Exhibit 1: Quarterly result expectation for companies under coverage

INR Mn	Q1FY24E	Q1FY23A	YoY	Q4FY23A	QoQ	Remarks
Sun Pharma						
Sales	1,16,837	1,07,618	8.6%	1,09,307	6.9%	We anticipate Sun Pharma's revenue to increase by 8.6% YoY (+6.9% QoQ) to INR 116837 Mn, driven by geographic growth and the strong growth of Ilumya and Cequa; however, the Taro Business is anticipated to stay subdued due to a lack of new launches and price erosion. The import warning at the SUNP facility in Halol and the non-compliance letter at the facility in Mohali will probably continue to hurt the company's US generics business. Given the pricing increases throughout the portfolio, we anticipate a modest growth of 7% YoY in the domestic formulation business due to impact of the NPPA and delayed in monsoon effected the acute business. US formulation is expected to report 6% YoY growth due to the introduction of g Revlimid and its increasing sales. EBITDA is anticipated to be INR 30962 Mn for the quarter (+13.1% YoY and 9.4% QoQ), with EBITDA margins remaining at 26.5% (+105bps YoY and 62bps QoQ). The PAT margins are expected to be 20.0% (+224bps YoY, +7bps QoQ) and the Net profit to be 23415 Mn.
EBITDA	30,962	27,387	13.1%	28,293	9.4%	
Adj. Net Profit	23,415	19,152	22.3%	21,831	7.3%	
EBITDA (%)	26.5%	25.4%	105 bps	25.9%	62 bps	
NPM (%)	20.0%	17.8%	224 bps	20.0%	7 bps	
Dr. Reddy's Laboratories						
Sales	56,200	50,028	12.3%	63,152	-11.0%	The revenue for Dr. Reddy's is expected to increase by 12.3% (-11.0% QoQ) in Q1FY24 aided by healthy growth in US revenue by g Revlimid and new launches. We anticipate a 15% increase in business in North America, driven by the ramp-up of g Revliimid as well as of gAmitiza, gNuvaring, gRemodulin, and gLexiscan. Share gain in gSuboxone partly offset by share loss in gCiprodex along with price erosion. The estimated EBITDA is INR 14162 Mn (99.2% YoY, -10.8% QoQ), margins are expected to rise by 131% YoY (-4.9% QoQ) to 25.2% by increase in g Revlimid sales and product mix. PAT expected to be at 9130 Mn in Q1FY24, with steady PAT margins of 25.2% (+1099 bps YoY, -6 bps QoQ).
EBITDA	14,162	7,111	99.2%	15,879	-10.8%	
Adj. Net Profit	9,130	3,951	131.1%	9,601	-4.9%	
EBITDA (%)	25.2%	14.2%	1,099 bps	25.1%	6 bps	
NPM (%)	16.2%	7.9%	835 bps	15.2%	104 bps	
Cipla						
Sales	58,206	53,752	8.3%	57,393	1.4%	We expect that Cipla's revenue will grow by 8.3% YoY and 1.4% QoQ as a result of the domestic market's strong growth. The revenue of Indian businesses is anticipated to increase by 7% YoY. We anticipate that decreased Albuterol Sulfate will put pressure on the North American market, however, the North American is expected to rise by 8% YoY. SAGA's business is expected to grow by 7%, taking into account its new product launches in a variety of markets. EBITDA is anticipated to be reported at INR 12920 Mn with a 22.2% EBITDA margin. The margins are expected to improve owing to better product mix. The PAT is expected to be at INR 7855 Mn and the PAT margins to report 13.5%(+72 bps YoY, +664 bps QoQ).
EBITDA	12,920	11,434	13.0%	11,737	10.1%	
Net Profit	7,855	6,864	14.4%	3,935	99.6%	
EBITDA (%)	22.2%	21.3%	93 bps	20.5%	175 bps	
NPM (%)	13.5%	12.8%	72 bps	6.9%	664 bps	
Lupin						
Sales	45,147	37,438	20.6%	44,301	1.9%	Due to strong sales in the US, Lupin is expected to report a substantial rise in revenue to INR 45147 Mn (+20.6% YoY and 1.9% QoQ). Additionally, US launches including Spiriva, Diazepam Gel, Varenicline, and Darunavir are anticipated to contribute considerably in the upcoming quarters. The company has increased its market share in products like gSuprep, gPennsaid and gPerforomist. The addition of 1,000 medical representatives (MRs) would be advantageous for the Indian business. The US and Indian formulations market is anticipated to expand by 6% YoY. We anticipate EBITDA to increase by 309% YoY, 16% QoQ to INR6704 mn and margins to be at 14.9% (, +1047 bps YoY,+181 bps QoQ) as a result of portfolio optimizations and cost optimization measures. The Net profit is expected to report at INR 2966 Mn and the margins to grow by +1072 bps YoY and +110 bps QoQ)
EBITDA	6,704	1,639	309.0%	5,778	16.0%	
Adj. Net Profit	2,966	-1,552	-291.1%	2,424	22.4%	
EBITDA (%)	14.9%	4.4%	1,047 bps	13.0%	181 bps	
NPM (%)	6.6%	-4.1%	1,072 bps	5.5%	110 bps	

Pharmaceuticals

Exhibit 1: Quarterly result expectation for companies under coverage

INR Mn	Q1FY24E	Q1FY23A	YoY	Q4FY23A	QoQ	Remarks
Glenmark Pharma						
Sales	29,619	27,773	6.6%	33,737	-12.2%	Glenmark is expected to report a revenue growth of INR 29619 Mn (6.6% YoY/-12.2 QoQ). Indian business is expected to grow by 6.5% YoY as a result of increased in its market share in the key therapeutic categories. On the account of new product launches, improvement in the service led volume, and easing of the price erosion we expect the revenue of the US business to grow by 5%. The EBITDA is expected to rise by 30.3 % YoY/ -7.1% QoQ) to INR 6230 Mn. The EBITDA margins are expected to report at 19.0% (+344bps YoY,105 bps QoQ). The net profit is expected to be at 2895 Mn (+50.4% YoY, -22.1% QoQ) and the NPM at 9.8% (+284bps YoY, -124 bps QoQ)
EBITDA	5,622	4,316	30.3%	6,050	-7.1%	
Adj. Net Profit	2,895	1,925	50.4%	3,714	-22.1%	
EBITDA (%)	19.0%	15.5%	344 bps	17.9%	105 bps	
NPM (%)	9.8%	6.9%	284 bps	11.0%	-124 bps	
Alembic Pharmaceuticals						
Sales	13,992	12,621	10.9%	14,065	-0.5%	Due to the API and Indian formulations business, Alembic Pharma is anticipated to report revenue of INR 13992 Mn (+10.9% YoY, -0.5% QoQ), with US pricing erosion is expected to persist in the mid term. We anticipate a 35% YoY increase in API business and a 9% increase in Indian business. EBITDA and net profit expected to report at INR 2239 Mn and INR 1123 Mn, respectively. The PAT margins are likely to expand by 1325 bps YoY (-282 bps QoQ) to 8.0%, while the EBITDA margins are anticipated to rise to 16% (+1484bps YoY, +91bps QoQ).
EBITDA	2,239	147	1427.1%	2,123	5.5%	
Net Profit	1,123	-659	-270.4%	1,525	-26.3%	
EBITDA (%)	16.0%	1.2%	1,484 bps	15.1%	91 bps	
NPM (%)	8.0%	-5.2%	1,325 bps	10.8%	-282 bps	
Zydus Lifesciences Ltd.						
Sales	44,372	40,727	8.9%	50,106	-11.4%	In Q1FY24 we expect the Zydus life science to report a revenue of INR 44372 Mn owing to new launches in gRevlimid and gTrokendi in the US markets. The US business is anticipated to grow by 9% and the Indian Business to grow by 10%. The margins are expected to improve by 14.1% YoY and -24.3% QoQ due to benefits of g Revilimd sales and better product mix and might be offset by greater R&D expense. The PAT is expected to grow by 14.7% YoY and -32.51% QoQ to INR 6075 Mn and the PAT margins to improve by +69bps YoY and -427 bps QoQ. TO 13.7%
EBITDA	9,504	8,330	14.1%	12,556	-24.3%	
Adj. Net Profit	6,075	5,295	14.7%	9,001	-32.51%	
EBITDA (%)	21.4%	20.5%	97 bps	25.1%	-364 bps	
NPM (%)	13.7%	13.0%	69 bps	18.0%	-427 bps	
Aurobindo Pharma						
Sales	65,557	62,359	5.1%	64,730	1.3%	Aurobindo Pharma is anticipated to report a flat revenue growth of INR 65557 Mn (+5.1% YOY, 1.3% QoQ) due to continued effect of US pricing pressure. EBITDA is anticipated to be INR 11782 Mn. The European and Growth markets are expected to grow by 12% and 20% respectively and US markets is expected to grow by 1.5% YoY. EBITDA margins is expected to increase by +250bps bps YoY (+ 249 bps QoQ) to report at 18.0% as a result of softening input cost and price stability in the US markets. The PAT margins are expected to grow by 278 bps YoY (+419 bps QoQ) to 11.6% and the PAT to be reported at INR 7590 Mn.
EBITDA	11,782	9,647	22.1%	10,022	17.6%	
Adj. Net Profit	7,590	5,488	38.3%	4,779	58.8%	
EBITDA (%)	18.0%	15.5%	250 bps	15.5%	249 bps	
NPM (%)	11.6%	8.8%	278 bps	7.4%	419 bps	

Pharmaceuticals

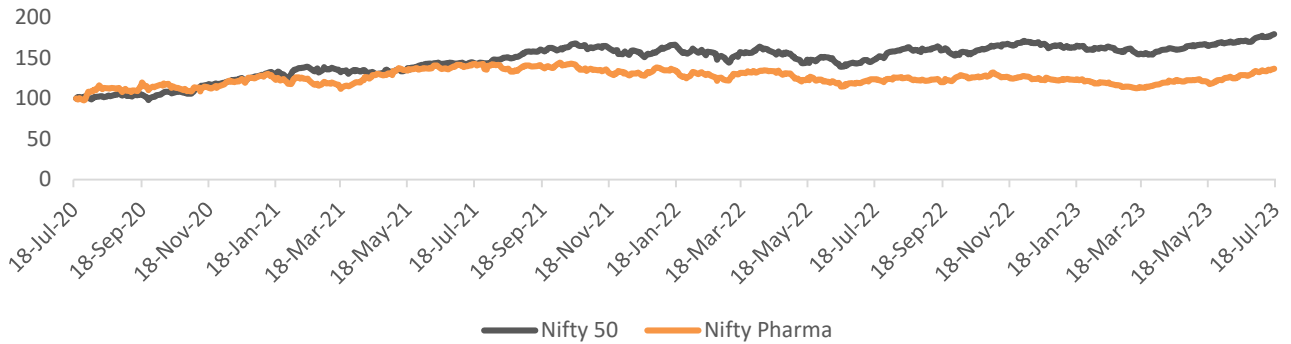
Exhibit 1: Quarterly result expectation for companies under coverage

INR Mn	Q1FY24E	Q1FY23A	YoY	Q4FY23A	QoQ	Remarks
Supriya Lifescience Ltd						
Sales	1,341	769	74%	1014	5.6%	The revenue of Supriya lifescience is expected to grow by 74% YoY and 5.6% QoQ driven by strong traction in US, Europe and Latin America Markets. The EBITDA is expected to be at INR 385 Mn (+149% YoY, +6.7% QoQ) The EBITDA margins to grow by 862 bps YoY and 15 bps QoQ as a result of optimizing product mix. PAT for the quarter is expected to be at INR 275 Mn (+256% YoY and +7.2% QoQ) and the margins are estimated to be at 20.5% (+1047bps YoY, +14 bps QoQ).
EBITDA	385	155	149%	140	6.7%	
PAT	275	77	256%	95	7.2%	
EBITDA Margin (%)	28.7%	20.1%	862 bps	13.4%	15 bps	
NPM (%)	20.5%	10.1%	1047 bps	9.1%	14 bps	
Granules India Ltd						
Sales	12,377	10,196	21.4%	11,955	3.5%	We expect Granules to report a revenue of INR 12377 Mn(+21.45 YoY, +3.5% QoQ backed by growth in US and European markets. The EBITDA for the quarter is expected to be at INR 2500Mn. The EBITDA margins are expected to contract by 54 bps YoY (+1bps QoQ) as result of price erosions in the US markets. PAT is expected to be at INR 1394 Mn(+9.3% YoY, 16.6% QoQ) . PAT margins are expected to be at 11.3%(-125bps YoY, +1 bps QoQ)
EBITDA	2,500	2,115	18.2%	2,281	9.6%	
Net Profit	1,394	1,276	9.3%	1,196	16.6%	
EBITDA (%)	20.2%	20.7%	-54 bps	19.1%	1 bps	
NPM (%)	11.3%	12.5%	-125 bps	10.0%	1 bps	
Ami Organics Ltd						
Sales	2,236	1,310	70.68%	1,863	20.00%	We expect Ami Organics Ltd to report revenue growth of 70.68% on a YoY basis and 20% on a QoQ basis owing to healthy pipeline in pharma segment and commercialization of Electrolytes additives from Q1FY24. We believe EBITDA margin will expand by 522 bps on a YoY basis and 90 bps on a sequential basis. Ami Organics foraying into emerging segment like semiconductor chemicals, Electrolytes will drive growth going ahead. Management expects share of specialty chemicals to increase and margins will expand going forward.
EBITDA	509	230	121.30%	408	24.75%	
Net Profit	350	149	134.89%	272	28.68%	
EBITDA (%)	22.78%	17.56%	522 bps	21.88%	90 bps	
NPM (%)	15.67%	11.39%	428 bps	14.57%	110bps	

Pharmaceuticals

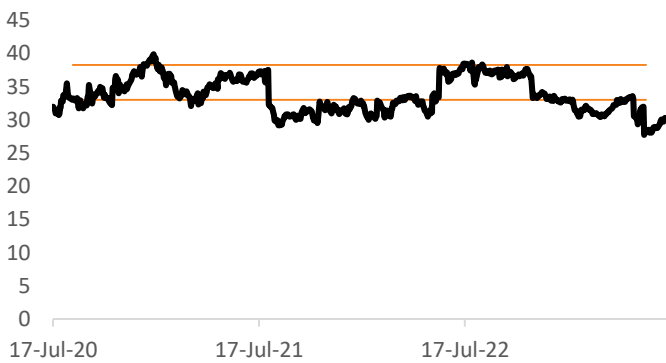
Charts:

Nifty 50 and Nifty Pharma



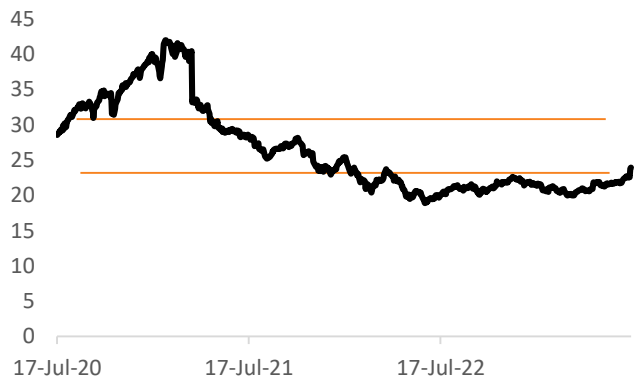
Source: NSE, KRChoksey

NIFTY Pharma (3 Year TTM P/E)



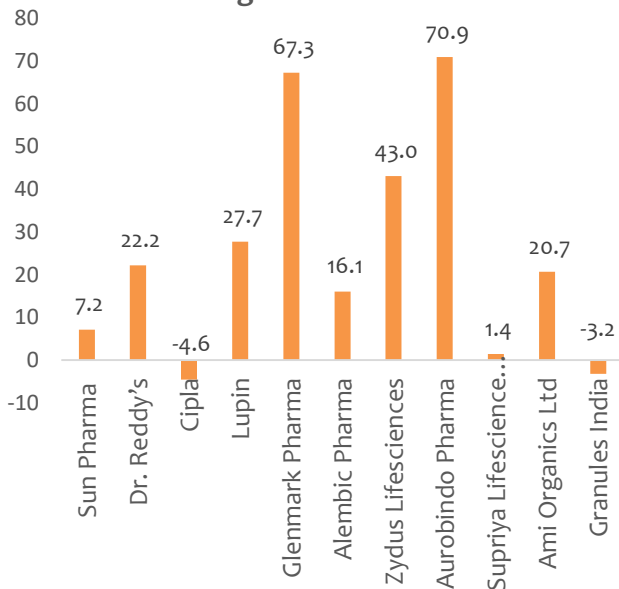
Source: NSE, KRChoksey

NIFTY 50 (3 Year TTM P/E)



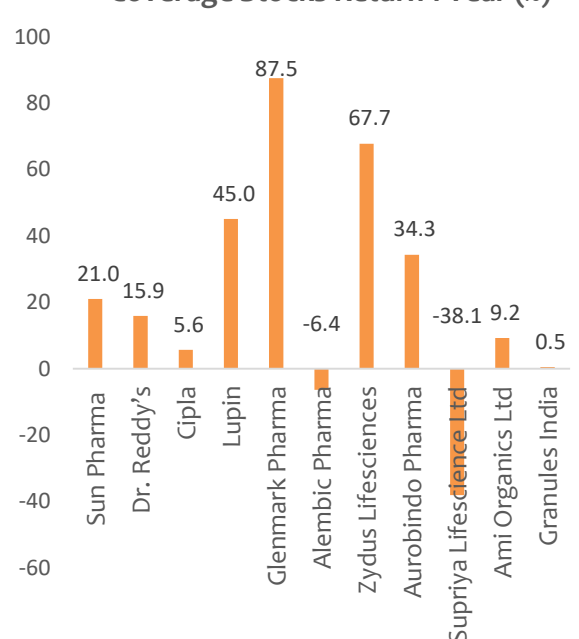
Source: NSE, KRChoksey

Coverage Stocks Return YTD %



Source: Bloomberg, KRChoksey; Closing prices as of 18th July 2023

Coverage Stocks Return 1 Year (%)



Source: Bloomberg, KRChoksey; Closing prices as of 18th July 2023

Pharmaceuticals

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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