

# Pharmaceutical Sector

## 2QFY24 Result Preview

October 05, 2023

### US to drive 2Q; weak seasonality drags India growth

#### Key Points

- NBIE Pharma coverage universe's revenue is expected to grow by ~13% YoY, mainly driven by robust growth in the US on the back of key products (including Revlimid) and favourable currency movement. However, Domestic growth is expected to be tepid owing to softer offtake in Acute therapies.
- Margins are expected to improve YoY on the back of a better product mix, price hike benefits in branded markets and normalizing cost inflation. Also, diminishing US pricing pressure is supporting overall margins.
- Growth in Domestic Formulations is expected to moderate to ~8% YoY (excluding Mankind), dragged down by Acute-heavy portfolio of Alembic, Alkem, DRL and Pfizer, which are likely to report negative to mid single digit growth.
- US is expected to grow by ~16% YoY in CC terms mainly on the back of Revlimid and new launches. But, it is expected to remain almost flat QoQ.

**Company-wise performance:** Among the Large Caps, all coverage companies are expected to report decent numbers. In terms of revenue, Zydus Life and Torrent are expected to report >15% YoY growth among the Large Caps while Eris Life/JB Chem (due to acquisitions) and 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, Sanofi is expected to report decent revenue growth in spite of divestment of brands with YoY margin improvement while Pfizer is expect to report a weak quarter owing to divestment of Upjohn business and slow growth in the Acute-heavy portfolio. Our preferred picks are Cipla 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 ~3.6% YoY but was flat QoQ. INR also depreciated against the Euro and Brazilian Real by ~11.9%/~11.4% YoY but appreciated against Rubble by 34%.

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Company (Rsmn)	TP (Rs)	CMP (Rs)	Rating	Sales			EBITDA			EBITDA margin (%)			PAT		
				2QFY24E	YoY (%)	QoQ (%)	2QFY24E	YoY (%)	QoQ (%)	2QFY24E	1QFY24	2QFY23	2QFY24E	YoY (%)	QoQ (%)
Ajanta Pharma	2,037	1,775	Buy	10,327	10.1	1.1	2,652	35.1	-2.3	25.7	26.6	20.9	2,086	33.2	0.2
Alembic Pharma	775	778	Acc	15,619	5.9	5.1	2,265	-2.7	14.0	14.5	13.4	15.8	1,277	-4.3	5.8
Alkem Laboratories	4,210	3,483	Acc	33,227	7.9	12.0	4,585	1.0	17.8	13.8	13.1	14.7	3,390	2.5	18.2
Cipla	1,245	1,167	Buy	65,018	11.6	2.7	14,954	14.8	0.1	23.0	23.6	22.3	9,973	26.4	0.2
Dr. Reddy's Labs	5,788	5,418	Acc	69,031	9.5	2.4	19,385	14.0	-5.2	28.1	30.3	27.0	13,146	34.0	-6.3
Eris Lifesciences	1,022	901	Buy	5,158	12.0	10.5	1,831	20.9	7.9	35.5	36.4	32.9	1,059	-12.0	11.6
Gland Pharma	1,302	1,676	Acc	13,442	28.7	11.2	3,226	8.7	9.8	24.0	24.3	28.4	2,186	-9.4	12.6
Indoco Remedies	352	330	Acc	4,394	4.6	3.0	659	-11.9	7.7	15.0	14.3	17.8	277	-24.5	14.7
J.B Chemicals	1,725	1,494	Buy	9,152	13.1	2.1	2,306	25.0	-0.6	25.2	25.9	22.8	1,413	27.2	-0.7
Jubilant Pharmova	371	432	Acc	17,278	8.0	8.9	2,073	-5.2	22.2	12.0	10.7	13.7	407	-34.8	577.5
Lupin	1,050	1,152	Acc	47,383	14.3	-1.6	7,107	56.9	-17.0	15.0	17.8	10.9	3,409	162.8	-24.6
Mankind	1,870	1,808	Acc	27,160	12.0	5.3	6,871	14.6	4.9	25.3	25.4	24.7	4,800	14.4	-1.4
Natco	866	866	Acc	11,921	175.9	4.5	5,305	456.6	0.5	44.5	46.3	22.1	3,924	590.8	-6.6
Pfizer	4,070	3,917	Acc	5,610	-12.0	5.6	1,402	-39.5	26.7	25.0	20.8	36.3	1,167	-31.1	24.8
Sanofi India*	8,542	7,221	Buy	7,334	6.0	3.9	2,017	10.9	13.2	27.5	25.2	26.3	1,614	23.3	31.3
Sun Pharma	1,315	1,124	Buy	1,20,726	10.2	1.1	31,992	8.2	-4.0	26.5	27.9	27.0	21,939	-3.0	-4.0
Torrent Pharma	2,418	1,864	Buy	26,366	15.1	1.8	8,002	17.9	1.2	30.4	30.5	29.6	3,734	19.7	-1.2
ZydusLifescience	770	603	Buy	48,605	17.6	-5.4	11,665	43.1	-23.9	24.0	29.8	19.7	7,866	51.8	-29.9
<b>Our coverage universe</b>				<b>5,37,749</b>	<b>12.8</b>	<b>2.3</b>	<b>1,28,299</b>	<b>18.5</b>	<b>-3.6</b>	<b>23.9</b>	<b>25.3</b>	<b>22.7</b>	<b>83,667</b>	<b>20.2</b>	<b>-5.3</b>

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

**Ajanta Pharma:** Revenue is expected to grow by ~10% YoY, mainly driven by double-digit growth in Domestic and Africa branded business. Domestic business is expected to grow by 10% YoY, mainly driven by strong growth across key segments. Asia and Africa branded businesses are expected to grow by 5% 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 improve by 475bps YoY to 25.7%.

**Alembic Pharma:** Revenue is expected to grow by a mere ~6% YoY due to weak growth of ~5% in the Domestic market owing to weak acute season. The US business is expected to grow by 10% QoQ in CC terms as product launches from the new USFDA approved facility gain traction. EBITDA margin is expected to improve by 113bps QoQ to 14.5%. Net profit is expected to decline by ~4% YoY due to higher depreciation and tax rate.

**Alkem:** Revenue is expected to grow by ~8% YoY as growth across export geographies will largely be offset by weak growth in the Domestic market. The Domestic business is expected to grow by 4% YoY, led by weak off-take in the Acute segment. The US business is expected to be flat QoQ at US\$85mn. EBITDA margin is expected to improve by 69bps YoY to 13.8% as the benefit of cost optimization initiatives start accruing to the company.

**Cipla:** Revenue is expected to grow by ~12% 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\$213mn due to slowdown in the base business (including Albuterol Sulphate HFA). EBITDA margin is expected to improve by 66bps YoY to 23%, mainly driven by a better product mix. Net profit is expected to grow by 26.4% YoY, mainly driven by better operational performance and higher other income.

**DRL:** Revenue is expected to grow by ~10% YoY. US revenue is expected to grow by 2.6% QoQ to US\$400mn, led by continuous ramp-up in gRevlimid sales, which are expected to be offset by heightened competition in the base business. The India business is expected to grow by 5% YoY, adjusted for income from divestment of brands. EBITDA margin is expected to improve by ~110bps YoY to ~28%, driven by growth in gRevlimid sales.

**Eris Life:** Revenue is expected to grow by 12% YoY, mainly driven by continuous strong growth in key brands and growth in the newly acquired Oaknet business. Consolidated EBITDA margin is expected to improve by 260bps to 35.5% as the margins of Oaknet improve and Insulin business steers towards breakeven point.

**Gland Pharma:** Revenue is expected to grow by ~11% 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 remain flat QoQ at ~24% mainly due to consolidation of Cenexi and de-leverage in the base business.

**Indoco Remedies:** Revenue is expected to grow by a meager ~5% YoY. Domestic Formulations business is expected to grow by 4% YoY due to weak sales in Acute therapies. Despite OAI in USFDA-approved facilities, export revenue is expected to grow by 6% YoY mainly due to strong growth in the EU and other EMs. EBITDA margin is expected to contract by 282bps YoY to 15% and net profit growth is expected to decline by 25% YoY.

**JB Chemicals:** Revenue is expected to grow by ~13% YoY, mainly driven by double-digit growth in the domestic base business amid brand acquisitions. Export business is expected to grow by ~11% YoY. We expect EBITDA margin to improve by 240bps YoY to ~25%, driven by lower ESOP cost and a better product mix.

**Jubilant Pharmova:** Revenue is expected to grow by ~8% YoY. Radiopharma business is expected to remain flat YoY with strong growth in Radio Pharmacy business. EBITDA margin is expected to decline by 170bps YoY to 12%.

**Lupin:** Revenue is expected to grow by ~14% YoY, with the US market expected to report strong double-digit growth, largely led by the launch of Spriva and currency tailwinds. The Domestic business is expected to grow by 8% YoY as loss of exclusivity in Diabetes and CVS therapy areas could hamper growth. US business revenue is expected to grow by 10% QoQ in CC terms mainly on the back of new product launches, which will be partially offset by price erosion in the base business. EBITDA margin is expected to remain subdued at ~15%.

**Natco Pharma:** Revenue is expected to grow by 176%/5% YoY/QoQ, driven by Revlimid supply to the partner and launch of CTPR. EBITDA margin is likely to improve to 44.5%, mainly led by the ramp-up in Revlimid supply. Net profit is expected to grow by 590% YoY, in line with the sales and better operational performance.

**Pfizer:** Revenue is expected to decline by 12% YoY due to divestment of Upjohn business and slowdown in growth in key therapies areas. EBITDA margin is expected to decline to 25% due to operational de-leverage. Net profit is expected to decline by ~31% YoY, in line with weak operational performance.

**Sanofi India:** Revenue is expected to grow by mere 6% YoY due to inclusion of Lantus in NLEM and divestment of brands. Led by cost optimization initiatives, EBITDA margin is expected to improve by 121bps YoY to 27.5%. Net profit is expected to improve by 23% YoY, in line with the better operational performance.

**Sun Pharma:** Revenue is expected to grow by ~10% YoY, driven by continuous strong growth in the US Specialty business. The US Specialty business is expected to grow by 18.3% YoY in CC terms, driven by continuous growth in Winlevi, Ilumya and Cequa. Growth in the US generics business (ex-Taro) is expected to decline sequentially due to regulatory concerns at Mohali and Halol facilities. 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 9% YoY, driven by growth across segments. EBITDA margin is expected to remain strong at 26.5%.

**Torrent Pharma:** Revenue is expected to grow by ~15% YoY, led by the acquisition of Curatio besides strong growth across key markets. The Domestic Formulations business is expected to grow by 17.5% YoY, driven by the consolidation of Curatio and strong growth in key segments. Brazil business revenue is expected to grow by 18% 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 ~16% YoY, driven by pick-up in the tender business. EBITDA margin is expected to remain healthy at ~30%, mainly led by cost rationalization done at the start of FY23.

**Zydus Life:** Revenue is expected to grow by ~18% YoY, driven by Revlimid and new launches mainly (Trokendi XR) in the US market. US business revenue is expected to grow by ~29.5% YoY in CC terms. The India Formulations business is expected to grow by ~6% YoY, led by weak growth in Acute therapies. EBITDA margin is expected to improve by ~430bps YoY to 24%. Net profit is expected to grow by ~52% YoY, in line with the operational performance.

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