

24 November 2023

India | Equity research | Sector Update

Pharmaceutical

Q2FY24 result review: Splendid quarter, positive momentum to accelerate ahead!

The Q2FY24 performance of our coverage companies was in-line with our expectation. Revenue / EBITDA / PAT of coverage companies rose 14% / 27% / 32% YoY primarily led by US, softer RM and overhead costs, respectively. Gross and EBITDA margins were elevated by 198bps/ 246bps YoY to 65.7% and 24.3% despite lower sales of gRevlimid in the quarter. India business grew in line with market growth which was impacted by a muted acute season. We believe traction in the US is likely to be maintained in H2FY24E driven by seasonality and better sales of gRevlimid while softer cost may ensure margins trajectory is maintained. **Cipla, Aurobindo Pharma, Ajanta Pharma and Abbott India are our top picks in the space.**

Synopsis of quarterly performance

Revenue for our coverage universe grew ~14% / 3% YoY / QoQ to INR 663.3bn in Q2FY24. Gross margin grew 198bps YoY and 30bps QoQ to 65.3% due to softening of RM prices and better pricing in the US. EBITDA grew 27% YoY (4% QoQ) to INR 161bn. Operating leverage also drove 246bps YoY (45bps QoQ) surge in EBITDA margin to 24.3%. Aggregate profits of coverage companies grew 32% YoY (9% QoQ) to INR 103.5bn. Lupin, Alkem, Cipla, Strides and Aurobindo saw 8-11% upgrade to FY25 EPS estimates. Divi's, Biocon, Pfizer and Glenmark's FY25 earnings were reduced by 6-16% post Q2FY24 results.

US shines even without gRevlimid sales

Aggregate US sales of our coverage universe stood at USD 2.3bn, down ~2% QoQ and up ~11% YoY. Driven by launch of gSpiriva, Lupin reported ~18% QoQ jump in its US revenue, while Aurobindo (+4%) also fared better. In Q2, Sun Pharma (-9% QoQ), Dr Reddy's (-2%), Cipla (+3%) and Zydus Lifesciences (-24%) did not book gRevlimid sales while exiting non-profitable products took a 17% QoQ toll on Torrent's US sales. Indian pharma companies continue to gain market share from inefficiencies of competitors, fuelling a 11% YoY increase in revenue. The supply situation in the US is unlikely to improve in the next six months beyond which investments in creation of differentiated pipeline of injectable, inhalers, transdermal, biosimilar and specialty products may aid growth.

India growth in line with market

India business of our coverage companies grew at a slower pace of 7% YoY in Q2FY24 to INR 209bn, in line with domestic market growth of 7%. Growth was impacted by lacklustre acute season. Torrent Pharma grew 18% YoY due to consolidation of acquisition in Q2FY24. Ajanta Pharma (+13%), Sun Pharma (+11%), JB Chemicals (+11%) and Cipla (+10%) grew fastest among the pack. Multinational companies like Abbott India, GSK Pharma and Sanofi India grew 8%/4%/3%, respectively, while Pfizer saw a decline in growth of 10% due to brand recall. Driven by new launches and better volumes, we remain hopeful of a growth rebound in India business in H2FY24E.

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Softer RM prices drive margins

Aggregate gross margin (65.7%) increased 198 bps YoY and 31bps QoQ driven by softening of raw material and overhead costs. However, better operating leverage driven by US led to expansion in EBITDA margin (24.3%) by 246 bps YoY and 45bps QoQ. Better sales from India and gRevlimid may maintain margin profile in H2FY24E.

Exhibit 1: Key financials

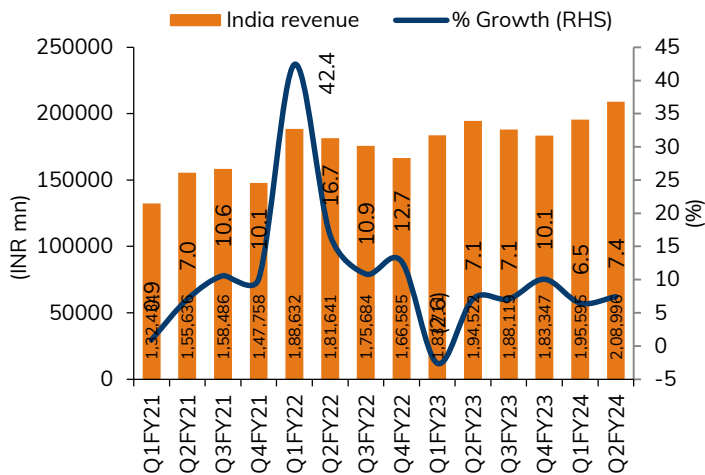
Pharma Company	Revenue (INR mn)						EBITDA (INR mn)						PAT (INR mn)					
	Q2FY24	Q1FY24	Q2FY23	QoQ (%)	YoY(%)		Q2FY24	Q1FY24	Q2FY23	QoQ (%)	YoY(%)		Q2FY24	Q1FY24	Q2FY23	QoQ (%)	YoY(%)	
Sun Pharma	1,21,924	1,19,408	1,09,523	2.1	11.3		31,794	29,566	33,318	7.5	(4.6)		23,755	22,845	22,622	4.0	5.0	
Dr Reddy's	68,802	67,384	63,057	2.1	9.1		19,881	20,400	18,010	(2.5)	10.4		14,843	14,033	11,153	5.8	33.1	
Aurobindo	72,194	68,505	57,394	5.4	25.8		14,032	11,514	8,369	21.9	67.7		7,780	6,197	4,456	25.5	74.6	
Zydus Lifesciences	43,688	51,396	40,053	(15.0)	9.1		10,608	15,324	6,779	(30.8)	56.5		7,346	11,215	4,980	(34.5)	47.5	
Cipla	66,782	63,289	58,285	5.5	14.6		17,338	14,939	13,023	16.1	33.1		11,309	9,957	7,889	13.6	43.4	
Lupin	50,386	46,091	41,455	9.3	21.5		9,231	6,515	4,342	41.7	112.6		4,939	2,474	1,177	99.6	319.8	
Biocon	34,623	34,226	23,197	1.2	49.3		7,416	7,144	4,707	3.8	57.6		1,449	1,014	530	42.9	173.6	
Glenmark	32,074	34,016	33,752	(5.7)	(5.0)		5,053	6,312	6,216	(20.0)	(18.7)		1,383	1,858	2,604	(25.6)	(46.9)	
Torrent Pharma	26,600	25,910	22,910	2.7	16.1		8,250	7,910	6,790	4.3	21.5		3,860	3,780	3,120	2.1	23.7	
JB Chemicals	8,817	8,962	8,094	(1.6)	8.9		2,435	2,321	1,846	4.9	31.9		1,506	1,423	1,111	5.8	35.6	
Ajanta Pharma	10,284	10,210	9,381	0.7	9.6		2,907	2,713	2,002	7.1	45.2		1,953	2,081	1,596	(6.2)	22.4	
Alkem	34,402	29,677	30,794	15.9	11.7		7,467	3,892	4,539	91.9	64.5		6,752	2,867	3,308	135.5	104.1	
Alembic Pharma	15,949	14,862	14,750	7.3	8.1		2,083	1,987	2,328	4.8	(10.5)		1,366	1,206	1,334	13.2	2.4	
Strides Pharma Science	9,994	9,300	8,971	7.5	11.4		2,283	1,666	842	37.0	171.2		(181)	(11)	(618)	1,497.2	(70.7)	
Natco	10,314	11,405	4,321	(9.6)	138.7		4,580	5,280	953	(13.3)	380.6		3,690	4,203	568	(12.2)	549.6	
Divi's	19,090	17,780	18,545	7.4	2.9		4,990	5,040	6,210	(1.0)	(19.7)		3,398	3,538	4,689	(4.0)	(27.5)	
Abbott India	14,941	14,790	13,795	1.0	8.3		3,809	3,550	3,433	7.3	10.9		3,129	2,902	2,655	7.8	17.9	
Sanofi India	7,146	7,061	6,919	1.2	3.3		2,085	1,782	1,819	17.0	14.6		1,522	1,229	1,309	23.8	16.3	
Pfizer	5,752	5,314	6,375	8.3	(9.8)		1,826	1,107	2,317	64.9	(21.2)		1,490	935	1,695	59.3	(12.1)	
GSK Pharma	9,570	7,617	9,169	25.6	4.4		2,895	1,439	2,569	101.2	12.7		2,175	1,150	1,934	89.2	12.5	
Coverage Universe	6,63,333	6,47,202	5,80,740	2.5	14.2		1,60,962	1,50,400	1,30,412	7.0	23.4		1,03,464	94,898	78,112	9.0	32.5	

Source: Company data, I-Sec research

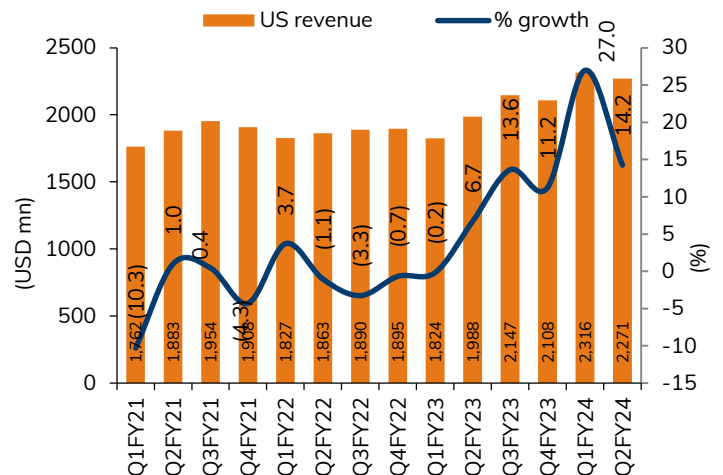
Exhibit 2: Valuation summary

Pharma Company	Target Price (INR)	Rating	EPS (INR)			CAGR FY23-25E	RoCE (%)			P/E (x)			EV/ EBITDA (x)		
			FY23	FY24E	FY25E		FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Sun	1,210	ADD	35.4	38.2	44.8	12.6	14.3	13.7	14.7	33.8	31.3	26.7	24.2	20.9	17.8
Dr Reddy's	6,000	ADD	237.7	308.8	312.9	14.7	16.7	19.5	17.5	23.6	18.2	17.9	15.7	11.4	10.8
Aurobindo	1,100	Buy	33.4	49.7	64.8	39.3	7.1	9.7	11.9	30.5	20.5	15.7	15.5	10.7	8.8
Lupin	1,000	SELL	8.4	35.5	40.2	118.7	3.5	11.2	11.7	143.3	33.9	30.0	33.3	17.0	15.0
Cipla	1,365	BUY	36.3	49.1	59.1	27.6	13.3	15.9	16.6	32.3	23.9	19.9	18.0	13.8	11.3
Zydus Lifesciences	660	ADD	24.0	31.4	32.9	17.0	11.7	14.7	13.4	24.8	19.0	18.2	16.1	12.7	11.7
Biocon	200	REDUCE	5.6	5.3	6.9	10.7	3.1	2.7	3.0	40.6	42.7	33.2	15.5	18.4	15.7
Glenmark	660	REDUCE	29.3	37.2	51.2	32.3	7.2	10.4	11.6	25.7	20.2	14.7	10.6	8.3	6.8
Torrent	1,940	HOLD	36.8	49.8	61.0	28.7	13.4	15.6	18.1	51.0	37.7	30.8	24.3	19.9	17.1
Alkem	3,780	REDUCE	138.8	89.0	127.0	-4.3	19.1	12.0	16.6	31.7	49.4	34.6	25.5	31.6	25.7
Ajanta	2,030	BUY	49.2	67.8	79.7	27.3	17.9	23.4	22.8	39.1	28.4	24.1	28.4	20.0	16.7
Alembic	680	REDUCE	17.4	23.4	29.5	30.3	7.7	10.4	11.7	42.5	31.7	25.0	21.2	16.7	13.5
Strides	495	HOLD	12.0	21.5	35.8	72.5	-0.3	7.4	10.0	-21.2	22.6	13.6	16.3	9.4	8.4
JB Chemicals	1,400	HOLD	26.5	39.6	47.4	33.7	16.4	19.4	20.5	55.4	37.1	31.0	33.0	24.0	20.3
Natco	875	HOLD	39.2	63.2	71.5	35.1	14.9	21.2	20.5	19.4	12.0	10.6	13.9	8.4	7.0
Abbott India	29,200	BUY	446.8	567.7	663.7	21.9	32.3	34.0	31.5	53.1	41.8	35.7	40.2	30.8	25.7
Pfizer India	4,125	ADD	130.9	126.7	142.6	4.4	20.5	17.7	17.5	29.9	30.9	27.5	19.9	21.7	18.8
Sanofi India	8,000	HOLD	228.6	253.7	284.5	11.5	41.2	37.0	34.3	34.1	30.7	27.4	24.0	20.9	18.2
GSK Pharma	1,530	HOLD	35.9	39.2	42.4	8.7	29.3	41.2	43.1	41.1	37.6	34.8	29.0	26.8	24.6
Divi's	2,990	REDUCE	64.9	58.7	78.2	9.8	14.3	11.6	14.6	54.0	59.7	44.8	37.5	39.6	30.0

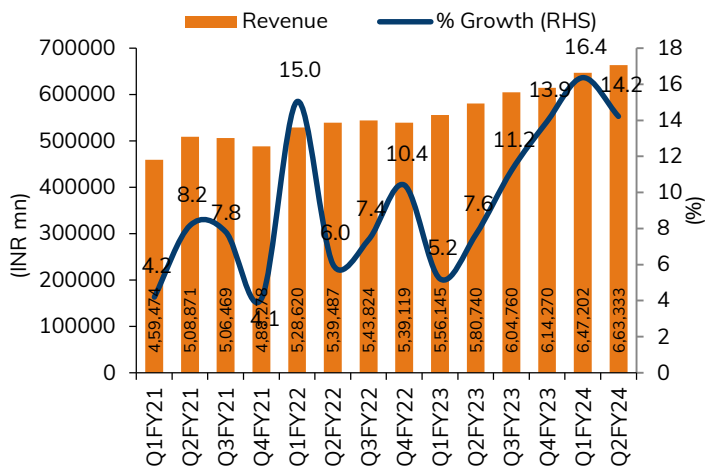
Source: Company data, I-Sec research

Exhibit 3: Domestic business - mild growth due to lacklustre acute season


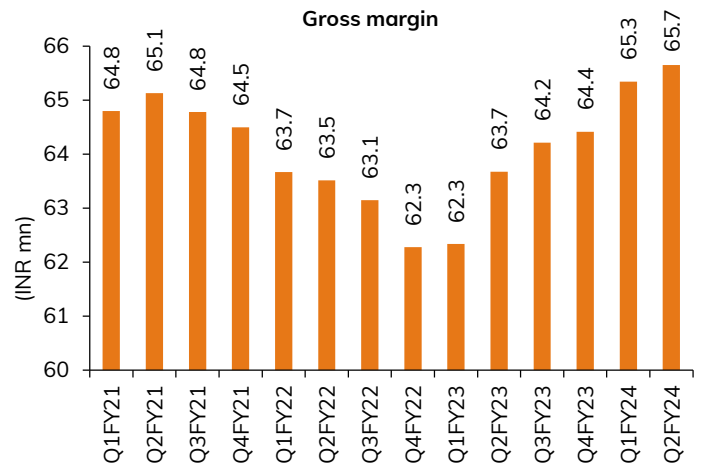
Source: Company data, I-Sec research

Exhibit 4: US revenue growth supported by market share gains


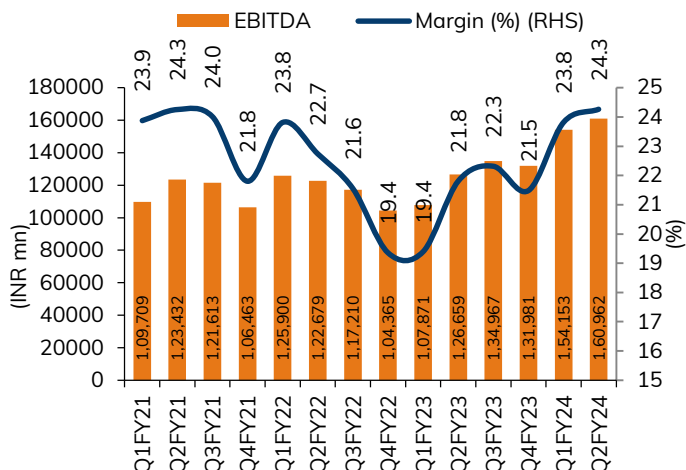
Source: Company data, I-Sec research

Exhibit 5: Revenue of our coverage universe grew 14% in Q2FY24.


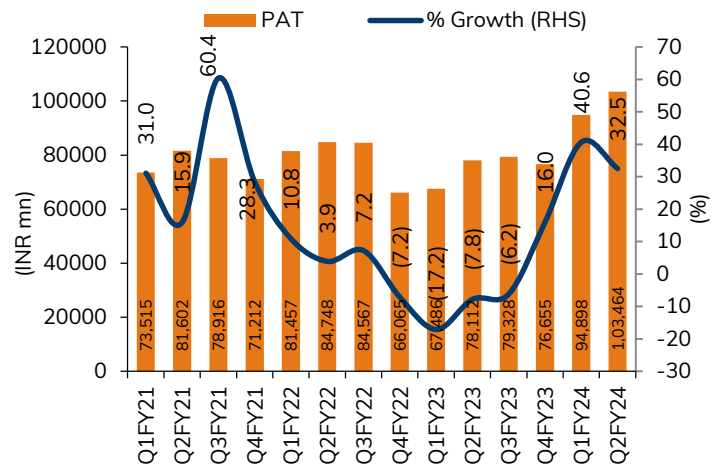
Source: Company data, I-Sec research

Exhibit 6: Softer RM prices led to improved margins


Source: Company data, I-Sec research

Exhibit 7: Lower overhead cost led to EBITDA margin expansion


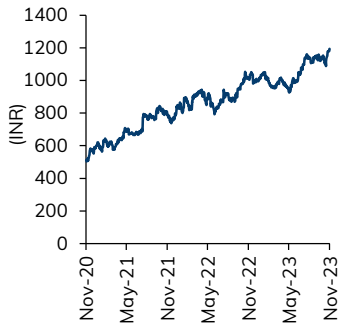
Source: Company data, I-Sec research

Exhibit 8: Net profit for our pharma coverage universe propped 32% YoY in Q2FY24


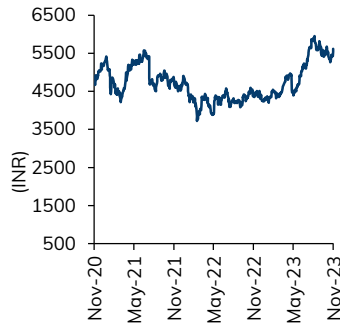
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Price charts

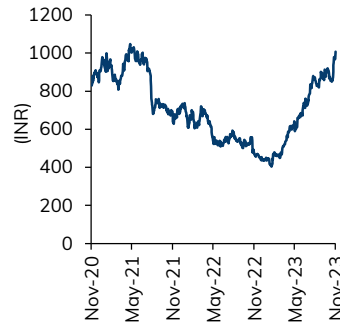
Sun Pharma



Dr Reddy's



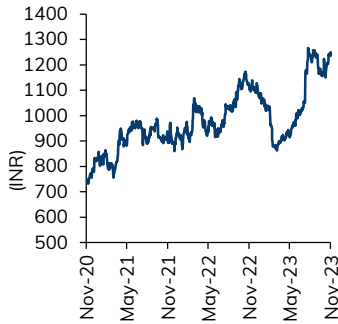
Aurobindo



Lupin



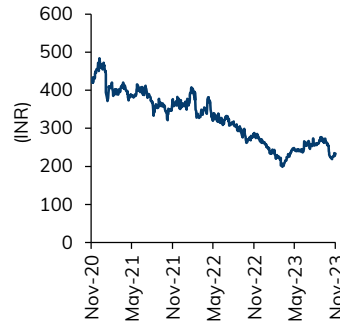
Cipla



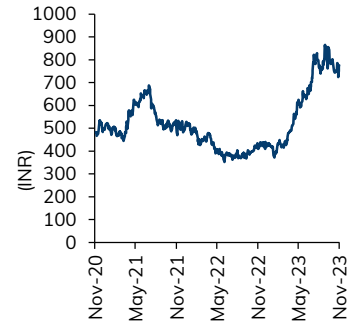
Zydus Lifesciences



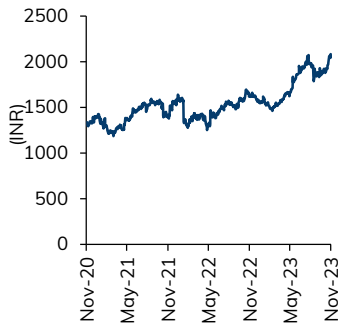
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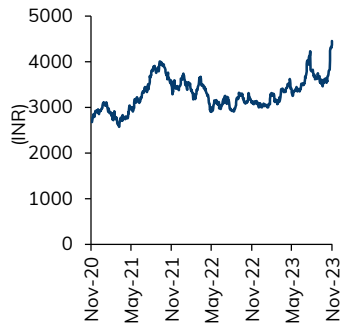
Glenmark



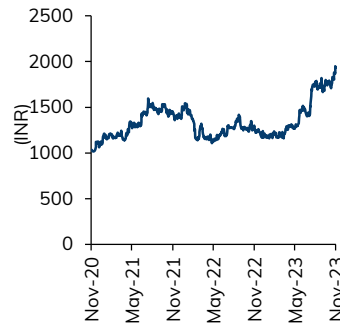
Torrent



Alkem



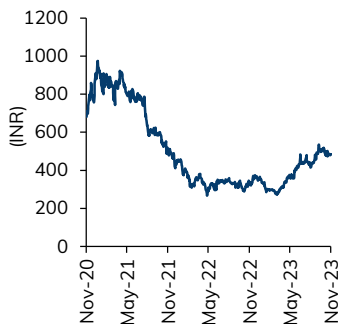
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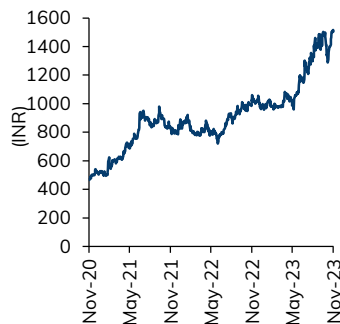
Alembic



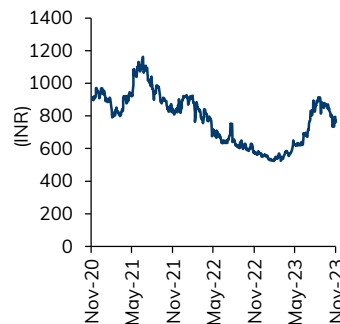
Strides



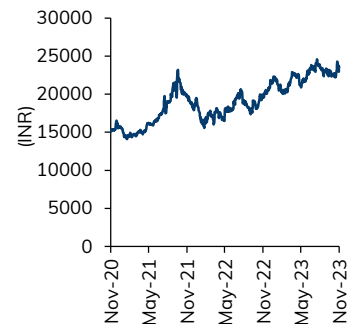
JB Chemicals



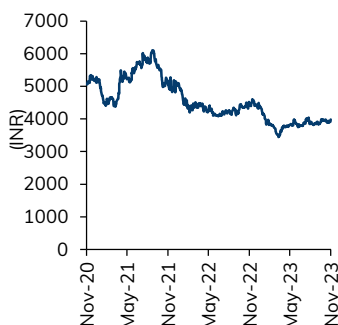
Natco



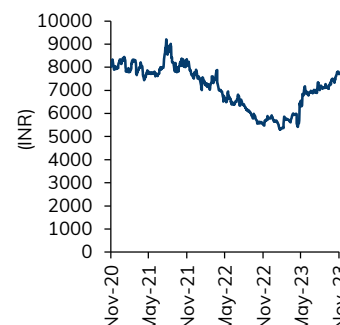
Abbott India



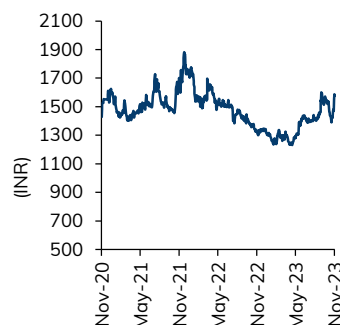
Pfizer India



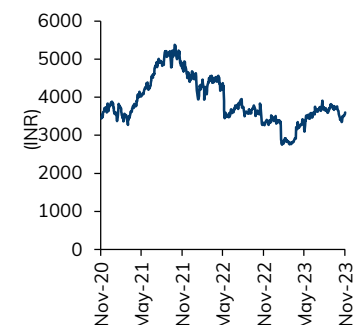
Sanofi India



GSK Pharma



Divi's



Source: Bloomberg

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