Pharma Q4FY24 Preview: Better Performance Led By New Launches & Improved Profitability

We anticipate that the Pharma companies within our coverage will collectively demonstrate revenue growth of 14.3%/1% YoY/QoQ and EBITDA growth of 32.8%/-1% YoY/QoQ. Sequential growth is expected to be driven by subdued performance in both the domestic and US markets. The conservative growth projection reflects a seasonally weak quarter in domestic formulations and mid-single digit growth in US generics, particularly driven by products such as gRevlimid, gSpiriva, gAlbuterol, gPrezista, gLenotirade, gProlensa, gChantix, and Biosimilars, among others. The US market is anticipated to witness mid-teen growth with stable pricing, while the Indian business is expected to experience a soft quarter in the acute segment due to seasonal factors.

We estimate Dr Reddy, Cipla, and Aurobindo to report gRevlimid sales of $115/$30/$28 respectively for Q4FY24. Single-digit revenue growth may be observed in Europe and the International market in Q4FY24.

Additionally, we anticipate a sequential decline in margins by 50bps on a QoQ basis for most companies within our coverage. The primary reasons for this margin reduction are (i) a weak quarter for the domestic formulations business, (ii) rising freight costs, and (iii) an increase in marketing, branding, and promotion expenses.

The price index of API/KSM, which comprises the top 15 APIs imported from China (majorly used as raw materials by Pharma companies), indicates that aggregate API prices increased by ~12% QoQ. This improvement in API prices was driven by price stabilization and increased volume across the APIs due to improved demand. Similarly, crude prices and shipping rates in Q4FY24 have increased from their lows, which may keep margins flat for Pharma companies moving forward. However, on a yearly basis, the overall profitability of Pharma companies' aggregate Q4FY24 EBITDA margins improved by 320bps on a YoY basis.

We recommend BUY on Lupin, Aurobindo, CIPLA, Abbott India, and KIMS.

These companies may surpass the industry growth driven by a superior product portfolio and strong product pipeline. In hospitals, KIMS is expected to deliver higher occupancies and realisations as the company is gaining market share consistently.

Abbott India: We expect Abbott India to report revenue growth of 10% vs. the IPM growth of 9% for Q4FY24, which is based on a strong uptick in the Hormones and Gastro segments. Abbott India has strong pricing power which would aid in improving its gross margins moving forward.

DR REDDY: We anticipate $280 Mn in base business and $115 Mn in gRevlimid sales in the US. We expect the US sales to remain relatively flat QoQ. We have factored in stable gRevlimid sales QoQ. Commentary on the US base business and margin trend will be key monitorables.

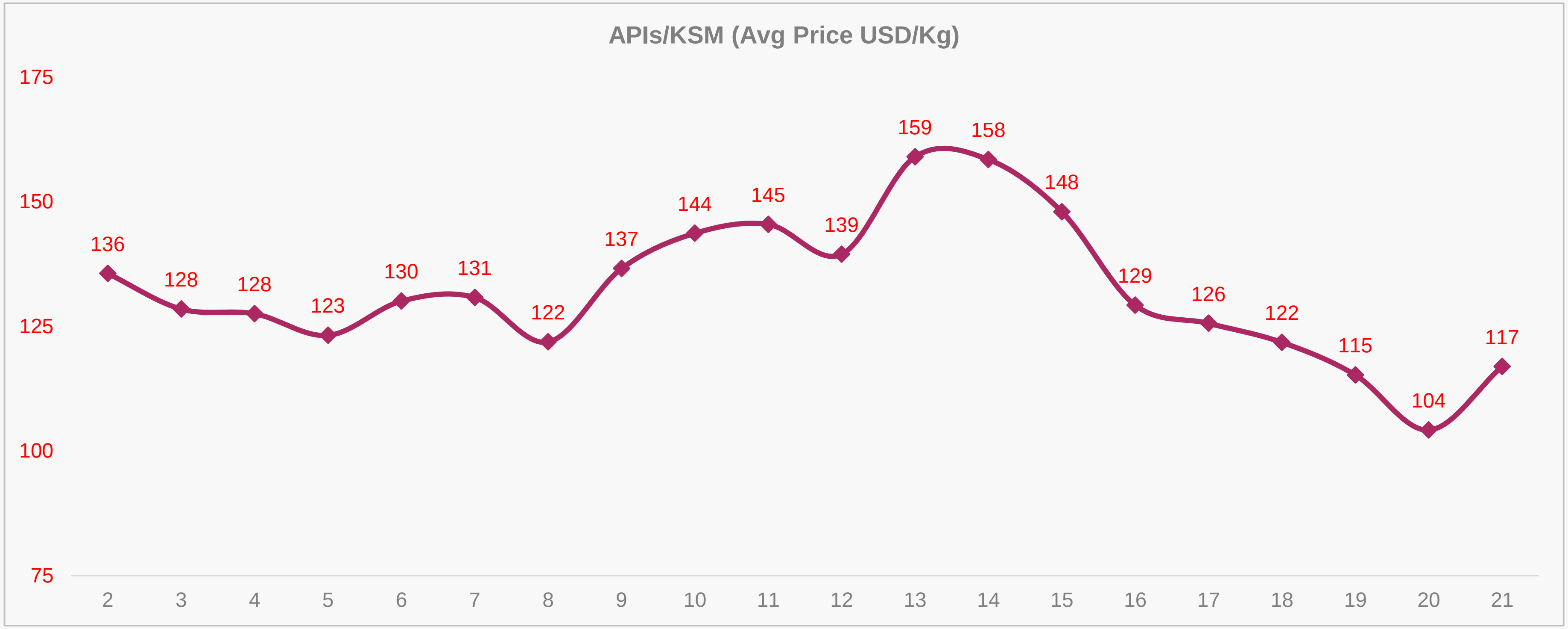
CIPLA Ltd: CIPLA maintains a stable market share (MS) in Albuterol, while it is gaining market share in Brovana. The company is gradually building market share in Lanreotide injections. We anticipate that Albuterol, Lanreotide, gRevlimid, and Brovana will contribute to stable sales of $225 Mn in the US market. Additionally, we expect $25 Mn in sales for gRevlimid in the last quarter.

Lupin: We anticipate $213 Mn in US-based sales for Lupin, supported by contributions from gSpiriva ($30 Mn), gSupreb, and gPrezista, along with greater pricing stability. The launch of two new molecules in Q4FY24, gProlensa and gChantix, could add approximately $13 Mn in incremental sales to Lupin in the last quarter. Additionally, EBITDA margins could see improvement due to low raw material prices. Overall, we expect Lupin's sales in Q4FY24 to grow by 17.8% YoY, but by only 1% QoQ.

Ankush Mahajan |ankush.mahajan@axissecurities.in

API/KSM (Raw Material): The price index of API/KSM, comprising the top 15 APIs imported from China (primarily used as raw materials by Pharma companies), indicates an aggregate increase of ~12% QoQ and a decrease of 14% YoY. This improvement in API prices was driven by price stabilization and increased volume across APIs due to improved demand. Similarly, crude prices and shipping rates in Q4FY24 have risen from the bottom, potentially maintaining margins flat for Pharma companies in the near future. However, on a yearly basis, the overall profitability of Pharma companies' aggregate Q4FY24 EBITDA margins improved by 320bps YoY.

API/KSM: The price index of API/KSM, which comprises the top 15 APIs imported from China (majorly used as raw material by Pharma companies), indicates aggregate API prices increased by ~12% QoQ and -14% YoY.



Source: Pharma compass, ASL Research

API/KSM: List of top 15 APIs imported from China. These are majorly used as raw materials by Pharma Companies. The price trends indicate an aggregate price decline of 12% YoY in the last quarter. We believe raw material prices could fall further based on stable production in China and increased supply in India under the PLI scheme.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Pencillin G	51	26	28	28	29	28	33	43	35	55	59	48	41	41	42	42	42	35
Azithromycin	93	91	121	119	118	120	126	127	128	131	128	117	96	102	111	123	126	131
Ceftriaxone	60	57	69	72	70	71	71	69	70	78	91	95	78	72	70	68	59	58
Vitamin B1	103	96	58	65	91	65	75	82	59	57	65	75	67	33	38	47	39	56
Amoxicillin	171	177	193	186	179	170	171	170	170	171	178	187	188	192	220	214	216	222
Gabapentin	36	37	37	37	37	37	36	36	36	31	36	32	34	30	30	29	26	27
Artemisinin	182	172	172	167	161	169	109	193	224	267	270	245	173	144	133	118	101	98
Lamivudine	64	63	59	58	74	107	111	118	104	103	104	94	86	83	81	73	74	73
Vitamin E	16	17	14	14	15	14	17	17	16	19	17	15	17	18	16	18	16	17
Meropenem	746	736	803	825	660	875	979	902	811	1,000	943	880	711	765	667	594	453	643
Clarithromycin	142	139	161	163	162	146	166	164	185	201	218	195	182	187	176	198	183	179
Aciclovir	50	45	46	46	46	43	53	51	42	45	47	44	46	40	50	39	43	46
Ibuprofen	19	17	12	16	14	14	13	11	10	10	12	10	12	12	13	14	13	12
Erythromycin	58	53	55	60	64	64	71	69	70	81	80	78	78	71	70	78	79	84
Losartan	122	122	123	106	108	126	124	130	132	136	129	105	130	94	110	74	93	73
APIs/KSM (Avg Price $/Kg)	**128**	**123**	**130**	**131**	**122**	**137**	**144**	**145**	**139**	**159**	**158**	**148**	**129**	**126**	**122**	**115**	**104**	**117**

Source: Pharma compass, ASL Research

Pharma

Year-end March (Rs Cr)	Q4FY24	Q3FY24	QoQ(%)	Q4FY23	YoY(%)	Result expectations
Abbott India						
Revenues	1,477	1,437	2.8%	1,343	10.0%	Revenue growth of 10% YoY at par with the Industry Growth. Stable Gross margins, led by stable API Prices.
Gross Profit	670	660	1.5%	583	14.9%	
Gross margin (%)	45.4	45.9		43.4		
EBITDA	396	388	2.1%	280	41.4%	
EBITDA margin (%)	26.8	27.0		20.8		
PAT	320	311	2.9%	231	38.5%	
EPS (Rs)	152.4	148.1	2.9%	110.0	38.5%	
Aarti Drugs						
Revenues	680	606	12.2%	742	-8.4%	Commencement of new capacity in Diabetes may add growth. Low Raw material prices like APIs and Organic solvents could improve gross margins YoY.
Gross Profit	227	201	12.9%	227	0.0%	
Gross margin (%)	33.4	33.2		30.6		
EBITDA	80	70	14.3%	94	-14.9%	
EBITDA margin (%)	11.8	11.6		12.7		
PAT	44	37	19.9%	56	-21.7%	
EPS (Rs)	4.7	3.9	19.9%	6.0	-21.7%	
Aurobindo Pharma						
Revenues	7,300	7,352	-0.7%	6,473	12.8%	US sales of $432 Mn (-4.2% QoQ) due to the close of Eugia business in Q4FY24. gRevlimid could offset the lost sales and stable Gross margins due to stable API prices in the last quarter.
Gross Profit	4,170	4,201	-0.7%	3,542	17.7%	
Gross margin (%)	57.1	57.1		54.7		
EBITDA	1,550	1,601	-3.2%	1,002	54.7%	
EBITDA margin (%)	21.2	21.8		15.5		
PAT	900	940	-4.3%	506	77.9%	
FDEPS (Rs)	15.4	16.0	-4.3%	8.6	77.9%	

Pharma (Cont'd)

Year-end March (Rs Cr)	Q4FY24	Q3FY24	QoQ(%)	Q4FY23	YoY(%)	Result expectations
Biocon						
Revenues	3,850	3,604	6.8%	3,774	2.0%	→ In the US, 3 biosimilars are maintaining market share; Stable Gross margins and EBITDA margins due to a fall in raw material prices
Gross Profit	2,550	2,372	7.5%	2,545	0.2%	
Gross margin (%)	66.2	65.8		67.4		
EBITDA	900	683	31.8%	997	-9.7%	
EBITDA margin (%)	23.4	19.0		26.4		
PAT	200	54	270.4%	418	-52.2%	
FDEPS (Rs)	1.7	0.5	270.4%	3.5	-52.2%	
DR REDDY						
Revenues	7,400	7,237	2.3%	6,315	17.2%	→ Expect $300 Mn base business & $110 Mn grevlimid sales in the US; Expect flattish growth in US sales QoQ. We have factored in stable gRevlimid sales QoQ. Commentary on US base business and margin trends are key monitorables.
Gross Profit	4,750	5,061	-6.1%	4,417	7.5%	
Gross margin (%)	64.2	69.9		69.9		
EBITDA	2,060	2,023	1.8%	1,534	34.3%	
EBITDA margin (%)	27.8	28.0		24.3		
PAT	1,430	1,381	3.5%	960	49.0%	
EPS (Rs)	86.1	83.2	3.5%	57.8	49.0%	
Lupin Ltd						→ Expecting $210 Mn in US base sales, supported by contributions from gSpiriva ($30 Mn), gSupreb, and gPrezista, alongside enhanced pricing stability.
Revenues	5,220	5,197	0.4%	4,430	17.8%	
Gross Profit	3,480	3,471	0.3%	2,680	29.9%	
Gross margin (%)	66.7	66.8		60.5		
EBITDA	1,030	1,038	-0.8%	578	78.2%	→ Anticipate flat EBITDA margins due to slight gains in API prices and logistic costs.
EBITDA margin (%)	19.7	20.0		13.0		
PAT	580	613	-5.4%	249	132.9%	
EPS (Rs)	12.8	13.5	-5.4%	5.5	132.9%	

Pharma (Cont'd)

Year-end March (Rs Cr)	Q4FY24	Q3FY24	QoQ(%)	Q4FY23	YoY(%)	Result expectations
Gland Pharma						
Revenues	1,600	1,545	3.6%	785	103.8%	➔ The injectables business and new acquisitions in the US and other markets are expected to drive sales. ➔ EBITDA could see improvement due to low raw material prices.
Gross Profit	980	946	3.6%	420	133.3%	
Gross margin (%)	61.3	61.2		53.5		
EBITDA	380	357	6.4%	169	124.9%	
EBITDA margin (%)	23.8	23.1		21.5		
PAT	220	192	14.6%	79	178.5%	
FDEPS (Rs)	14.2	12.4	14.6%	5.1	178.5%	
CIPLA						
Revenues	6,350	6,604	-3.8%	5,739	11.9%	➔ Anticipate $225 Mn in base sales in the US market, primarily driven by gRevlimid, Albuterol, and Lenotirade.
Gross Profit	4,200	4,365	-3.8%	3,676	11.7%	
Gross margin (%)	66.1	66.1		64.1		
EBITDA	1,420	1,748	-18.8%	1,174	12.9%	
EBITDA margin (%)	22.4	26.5		20.5		
PAT	950	1,224	-22.4%	704	27.2%	
EPS (Rs)	11.8	15.2	-22.4%	8.7	27.2%	
KIMS						
Revenues	634	606	4.6%	576	10.9%	➔ Stable Occupancies to drive growth. ➔ Stable EBITDA growth in the last quarter.
Gross Profit	500	480	4.2%	454	11.6%	
Gross margin (%)	78.9	79.2		78.8		
EBITDA	156	147	6.1%	163	7.3%	
EBITDA margin (%)	24.6	24.3		28.3		
PAT	82.00	77	6.5%	99	-1.2%	
EPS (Rs)	9.9	9.3	6.5%	11.9	-1.2%	

Pharma (Cont'd)

Year-end March (Rs Cr)	Q4FY24	Q2FY24	QoQ(%)	Q4FY23	YoY(%)	Result expectations
HCG						
Revenues	486	470	3.4%	442	10.0%	
Gross Profit	365	356	2.5%	325	12.3%	
Gross margin (%)	75.1	75.7		73.5		➔ Expect steady ARPOB and Occupancy dip in the last quarter
EBITDA	83	79	5.1%	76	9.2%	➔ Stable EBITDA growth in the last quarter.
EBITDA margin (%)	17.1	16.8		17.2		
PAT	8	4		6	36.4%	
FDEPS (Rs)	0.6	0.3		0.4	36.4%	

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We, authors (Research team) and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We (Research Analyst) also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL or its Associate does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associate does not have any material conflict of interest. I/we have not served as director / officer, employee, etc. in the subject company in the last 12-month period.
5.

Sr. No	Name	Designation	E-mail
1	Neeraj Chadawar	Head of Research	neeraj.chadawar@axissecurities.in
2	Preeyam Tolia	Research Analyst	preeyam.tolia@axissecurities.in
3	Omkar Tanksale	Research Analyst	omkar.tanksale@axissecurities.in
4	Uttamkumar Srimal	Research Analyst	uttamkumar.srimal@axissecurities.in
5	Ankush Mahajan	Research Analyst	ankush.mahajan@axissecurities.in
6	Dnyanada Vaidya	Research Analyst	dnyanada.vaidya@axissecurities.in
7	Aditya Welekar	Research Analyst	aditya.welekar@axissecurities.in
8	Prathamesh Sawant	Research Analyst	prathamesh.sawant@axissecurities.in
9	Akshay Mokashe	Research Analyst	akshay.mokashe@axissecurities.in
10	Shikha Doshi	Research Associate	shikha.doshi@axissecurities.in
11	Shridhar Kallani	Research Associate	shridhar.kallani@axissecurities.in
12	Bhavya Shah	Research Associate	bhavya1.shah@axissecurities.in
13	Suhanee Shome	Research Associate	suhanee.shome@axissecurities.in
14	Shivani More	Research Associate	shivani.more@axissecurities.in

6. ASL or its Associates has not received any compensation from the subject company in the past twelve months. I/We or ASL or its Associate has not been engaged in market making activity for the subject company.
7. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:
   i. Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or; ii. Managed or co-managed public offering of the securities from the subject company of this research report and / or; iii. Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report;
8. ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

Term& Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

NEERAJ CHADAWAR

Digitally signed by NEERAJ CHADAWAR
Date: 2024.04.10 12:31:58 +05'30'

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advice necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. The Research reports are also available & published on AxisDirect website.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Axis Securities Limited, SEBI Single Reg. No.- NSE, BSE & MSEI – INZ000161633, ARN No. 64610, CDSL-IN-DP-CDSL-693-2013, SEBI-Research Analyst Reg. No. INH 000000297, SEBI Portfolio Manager Reg. No.- INP000000654, Main/Dealing off.- Axis Securities Ltd, Unit No.1001, 10th Floor, Level-6, Q2 Building, Aurum, Q Parc, Plot No. 4/1, TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai. – 400 710., Regd. off.- Axis House,8th Floor, Wadia International Centre, PandurangBudhkar Marg, Worli, Mumbai – 400 025. Compliance Officer: Jatin Sanghani, Email: compliance.officer@axisdirect.in, Tel No: 022-49212706