

Pharmaceutical Sector

3QFY25 Result Preview

January 14, 2025

US pricing pressure eases; margins improve

Key Points

- NBIE Pharma coverage universe's revenue is expected to grow by ~11% YoY in 3QFY25, driven by a pick-up in US sales, gRevlimid & gSpiriva and favourable currency movements. Domestic market's weak volume growth was partially covered by price hikes in Chronic therapies. We expect the Chronic therapies to grow by >12% YoY.
- 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, normalising US pricing pressure will support margins.
- Growth in Domestic Formulations business is expected to moderate to ~10% YoY (Ex-Mankind) despite support from new launches and price hikes.
- The US business is expected to grow by ~8% YoY in CC terms mainly on the back of gRevlimid & gSpiriva and new launches, but it is expected to remain almost flat QoQ. Also, softer raw material prices are supporting US growth.

Company-wise performance: Among the Large Caps, all coverage companies are expected to report decent numbers. In terms of revenue, Zydus, DRL, Mankind (due to acquisition) and Torrent Pharma are expected to report >10% YoY growth among the Large Caps while Eris Life/JB Chem (due to acquisitions) are expected to report strong double-digit YoY revenue growth in the Mid Cap/Small Cap space. Among the MNCs, Sanofi is expected to report 4% YoY revenue growth in spite of divestment of brands, with YoY margin improvement. Pfizer is expected to report a growth of 5% YoY on the back of a muted season (as it has an Acute-heavy portfolio). Our preferred picks are Cipla, Dr. Reddy's & Sun Pharma in Large Caps and JB Chem and Eris Life in Mid Cap/Small Cap space.

Currency tailwinds to aid growth: INR depreciated against USD on an average by 1% YoY but was flat QoQ. INR also depreciated against the Euro and Brazilian Real by 3% YoY and 6% YoY, respectively, but INR appreciated against the Russian Rubble by 19% YoY.

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Company (Rsmn)	TP	CMP	Rating	Sales			EBITDA			EBITDA margin (%)			PAT		
	(Rs)	(Rs)		3QFY25E	YoY(%)	QoQ(%)	3QFY25E	YoY(%)	QoQ(%)	3QFY25E	2QFY25	3QFY24	3QFY25E	YoY(%)	QoQ(%)
Ajanta Pharma	3,103	2,776	Hold	11,666	5.6	-1.7	3,091	-1.6	-0.7	26.5	26.2	28.4	2,195	4.5	1.4
Alembic Pharma	1,100	1,002	Hold	17,404	6.7	5.6	3,037	14.0	26.9	17.4	14.5	16.3	1,841	2.0	32.3
Alkem Laboratories	6,124	5,227	Hold	35,157	5.8	3.0	7,207	1.9	-4.3	20.5	22.0	21.3	6,038	-6.6	-12.3
Cipla	1,828	1,439	Buy	71,650	8.5	1.6	19,205	9.9	1.9	26.8	26.7	26.5	13,305	10.9	3.4
Dr. Reddy's Labs	1,703	1,335	Buy	81,527	13.0	1.7	22,828	13.1	37.8	28.0	20.7	28.0	16,519	19.8	77.0
Eris Lifesciences	1,316	1,248	Buy	7,731	59.0	4.3	2,792	59.1	5.5	36.1	35.7	36.1	1,021	-0.6	11.5
Gland Pharma	2,020	1,695	Hold	15,467	0.1	10.0	3,647	2.3	22.8	23.6	21.1	23.1	1,995	4.0	22.0
Indoco Remedies	330	324	Hold	4,413	-3.9	2.0	436	-30.7	8.3	9.9	9.3	13.7	27	-72.2	NA
J.B Chemicals	2,143	1,785	Buy	10,213	20.9	2.1	2,758	23.6	1.9	27.0	27.0	26.4	1,803	35.0	3.3
Jubilant Pharmova	964	924	Hold	18,959	13.0	8.2	3,052	40.0	5.5	16.1	16.5	13.0	1,197	79.2	2.5
Lupin	1,967	2,154	Hold	56,949	9.6	0.4	12,379	19.3	-5.4	21.7	23.1	20.0	7,127	16.2	-13.8
Mankind	2,715	2,595	Hold	30,945	18.7	0.6	8,105	33.6	-4.6	26.2	27.6	23.3	5,391	18.8	-18.2
Natco	1,516	1,211	Hold	8,798	16.0	-35.8	4,569	70.4	-43.2	51.9	58.7	35.3	3,600	69.3	-46.8
Pfizer	4,354	5,090	Sell	5,670	5.0	-3.7	1,920	25.9	1.5	33.9	32.2	28.3	1,590	28.1	0.4
Sanofi India*	-	-	Under Review	-	-	-	-	-	-	-	-	-	-	-	-
Sun Pharma	1,863	1,746	Hold	1,32,295	6.9	-0.5	35,058	0.8	-11.0	26.5	29.6	28.1	26,165	1.3	-13.7
Torrent Pharma	3,189	3,235	Hold	30,069	10.1	4.1	9,622	10.7	2.5	32.0	32.5	31.8	4,871	27.8	7.5
Zydus Lifescience	1,089	975	Hold	51,013	13.2	4.7	14,364	32.8	2.4	28.2	28.8	24.0	10,238	35.2	-1.3
Our coverage universe				5,95,269	11.0	1.1	1,55,337	14.4	-0.1	26.1	26.4	25.3	1,05,809	14.4	-1.3

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

Ajanta Pharma: Revenue is expected to grow by ~6% YoY, mainly driven by double-digit growth in Domestic as well as Africa branded business. Domestic business is expected to grow by 11% YoY, mainly driven by strong growth across key segments. Asia and Africa branded businesses are expected to grow by 12% YoY and 5% YoY, respectively. US market revenue is expected to grow by 11% YoY mainly on the back of easing pricing pressure. EBITDA margin is expected to remain flat YoY at 26%.

Alembic Pharma: Revenue is expected to grow by ~7% YoY on the back of a 6% YoY growth in the Domestic market. The US business is expected to grow by 10% YoY in CC terms considering the low base of 3QFY24. EBITDA margin is expected to improve by 110bps YoY to ~17.4% on the back of softening of raw material prices. Net profit is expected to remain flat on account of higher tax outgo.

Alkem: Revenue is expected to grow by ~6% YoY as growth in the Domestic business is largely expected to be ~11% YoY whereas the US business is expected to remain flat YoY at US\$85mn. ROW business is expected to grow by 5% YoY. EBITDA margin is expected to fall by 80bps YoY to 20.5% due to higher other expenses.

Cipla: Revenue is expected to grow by ~9% YoY, driven by gRevlimid in the US and 11% YoY growth in the Domestic business. The US business is expected to grow in mid to high single digit to US\$253mn due to a decline in the base business (including Albuterol Sulphate HFA). EBITDA margin is expected to remain flat YoY to 26% mainly led by easing pricing pressure and lower RM costs. Net profit is expected to grow by 10% YoY, mainly due to the absence of one-time expense and lower tax.

DRL: Revenue is expected to grow by 12% YoY (on the back of acquisition). US revenue is expected to grow by 17% YoY to US\$473mn on account of an acquisition. India business is expected to grow by 13% YoY. EBITDA margin is expected to remain flat YoY to ~28% on account increased R&D spends and expenses.

Eris Life: Revenue is expected to grow by ~60% YoY, mainly driven by continuous strong growth in key brands and newly acquired growth in Oaknet, Biocon and Swiss business. Consolidated EBITDA margin is expected to remain flat at ~36%.

Gland Pharma: Revenue is expected to remain flat on back of consolidation of Cenexi, a gradual recovery in Emerging Markets (EM) and currency tailwinds. EBITDA margin is likely to improve by 50bps YoY to 23.6% mainly due softening of raw material prices.

Indoco Remedies: Revenue is expected to decline by ~4% YoY on account of remediation of plants. Domestic Formulations business is expected to grow by 10% YoY. Exports are expected to remain flat YoY due to plant remediation process. EBITDA margin is expected to decline by 400bps YoY to 9.9% on account of staff and other expenses.

JB Chemicals: Revenue is expected to grow by ~21% YoY, mainly driven by double-digit growth in the domestic base business following brand acquisitions. Exports business is expected to grow by 12% YoY. We expect EBITDA margin to improve by 60bps YoY to 27%, driven by lower ESOP cost and a better product mix. Net profit is expected to grow by ~35% YoY on the back of lower interest expense.

Jubilant Pharmova: Revenue is expected to grow by ~13% YoY. Radiopharma and Radio Pharmacy business is expected to grow by 10% YoY. EBITDA margin is expected to improve by 310bps YoY to ~16% on the back of reduced cost of raw materials, employees and other expense.

Lupin: Revenue is expected to grow by ~9% 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 13% YoY as loss of exclusivity in Diabetes and CVS therapy areas could hamper growth. EBITDA margin is expected to expand by 170bps YoY to 21.7% on the back of reduced raw material prices and other expenses.

Natco Pharma: Revenue is expected to grow by 16% YoY, driven by gRevlimid supply to the partner and launch of CTPR. EBITDA margin is likely to improve to ~52%, mainly led by the ramp-up in gRevlimid supply, growth in the Agro Chem business and reduction in RM costs. Net profit is expected to grow by 41% YoY, in line with the sales and a better operational performance.

Pfizer: Revenue is expected to grow by 12% YoY, led by a pick-up in the Acute segment. EBITDA margin is expected to improve by 891bps to 29.7% on the back of operating leverage and reduced raw material prices. Net profit is expected to improve by 655bps to 24% YoY, in line with the operational performance.

Sanofi India: We are evaluating the potential impact of the demerger of the Consumer Healthcare business from Sanofi India. It is still under review and we will provide an update after the 4QCY24 results.

Sun Pharma: Revenue is expected to grow by 8.6% YoY, driven by continuous strong growth in US Specialty business. The US Specialty business is expected to grow by 5% YoY on a higher base of last year, driven by continuous growth in Winlevi, Ilumya & Cequa along with the ramp-up of gRevlimid. Growth in the US generics business (ex-Taro) is expected to decline on a QoQ basis 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 ~27%.

Torrent Pharma: Revenue is expected to grow by 10% YoY, led by the acquisition of Curatio as well as strong growth across key markets. Domestic Formulations business is expected to grow by 13% YoY, driven by the consolidation of Curatio and strong growth in key segments. Brazil business revenue is expected to remain flat YoY. US business growth is expected to remain muted on a YoY basis due to the lack of meaningful launches. German business is expected to grow by 8% YoY, driven by the pick-up in the tender business. EBITDA margin is expected to remain healthy at ~32%, mainly led by cost rationalization done at the start of FY23.

Zydus Life: Revenue is expected to grow by ~14% YoY, with the US business expected to grow by 12% YoY as contribution from gRevlimid resumes and in-line market growth in Domestic business at 15% YoY. EBITDA margin is expected to improve by 400bps YoY to 28% due to softening of raw material prices. Net profit margin is expected to improve by 300bps YoY to ~20% due to lower tax outgo.

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