

October 10, 2022

## Domestic growth, currency to propel revenues; margins ticking up sequentially...

The I-direct Pharma universe is likely to witness a decent quarter amid strong YoY growth in domestic formulations and a stable US portfolio amid favourable currency movement and some key launches. The universe (13 coverage companies) is expected to post YoY growth of ~12% to ~₹ 49,648 crore.

Domestic formulations (select pack) are expected to post robust growth of 12.2% YoY to ₹ 13,513 crore on the back of 1) uptick in volumes of chronic and sub-chronic therapies, 2) full quarter impact of price hikes and 3) benefits from new introductions and field force expansion.

On the US front, single digit price erosion persisting in the oral solids base business is expected to be offset by 1) new launches, 2) continued momentum in specialty/complex portfolio and 3) ~7.5% YoY impetus of rupee vs. US dollar movement in the last quarter.

Europe (select pack) is expected to remain muted YoY at ₹ 2,817 crore as we expect a continuance of a delay in demand pick-up amid distributors and tenders' challenges. API segment (select pack) is expected to grow ~11% YoY to ₹ 4,913 crore as we expect an improvement in demand pick-up in the generics space after a prolonged inventory de-stocking and delay in order amid volatility in prices.

On the company's front, Biocon, Laurus Labs and Sun Pharma are likely to see 15%+ YoY growth.

## EBITDA margins to contract YoY but sequential recovery visible

The YoY dent notwithstanding, we expect sequential stability in the freight cost situation and other lingering operating costs, which should help in sequential margin stability. Annual price hike in the domestic business is expected to further strengthen margins while operating spends on facilities under regulatory embargo could be the limiting factor. We expect EBITDA margins of the I-direct pharma universe to decline 202 bps YoY to 22% while EBITDA is expected to improve 2.9% YoY to ₹ 10941 crore.

## Adjusted PAT to increase ~3% YoY

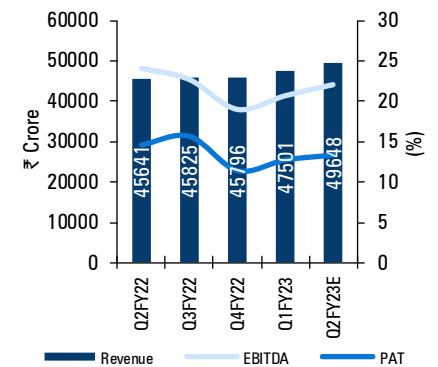
PAT is expected to improve ~ 2.5% YoY to ₹ 6,592 crore.

Exhibit 1: Estimates for Q2FY23E (₹ crore)

Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ	YoY	QoQ	
Alembic Pharma	1401.8	8.5%	11.1%	212.3	-17.5%	1348.3%	123.0	-27.4%	-286.7%			
Ajanta Pharma	920.2	4.0%	-3.2%	230.0	-12.5%	3.7%	178.6	-8.8%	2.3%			
Aurobindo	6372.9	7.3%	2.2%	1021.3	-13.9%	9.1%	572.0	-17.9%	9.9%			
Biocon	2368.3	28.7%	10.7%	501.4	12.5%	25.5%	171.5	-12.4%	18.8%			
Zydus Lifesciences	4167.1	10.1%	2.3%	864.7	0.5%	3.8%	551.6	-5.9%	4.3%			
Cipla	5820.0	5.4%	8.3%	1257.1	2.5%	10.0%	745.2	4.8%	8.8%			
Divi's Lab	2073.7	4.3%	-8.0%	792.2	-3.2%	-6.4%	558.4	-7.9%	-20.5%			
Dr Reddy's	5809.0	0.4%	11.0%	1190.9	-12.4%	26.5%	710.4	-26.8%	17.0%			
Ipca Lab	1682.0	8.9%	6.1%	307.0	-16.0%	14.0%	184.7	-26.2%	29.1%			
Lupin	3991.5	-2.4%	6.6%	399.2	-29.2%	143.5%	130.3	-141.7%	-246.2%			
Laurus Labs	1540.6	28.0%	0.1%	431.4	25.0%	-5.0%	247.4	22.5%	-1.5%			
Sun Pharma	11144.6	15.8%	3.6%	3009.1	14.4%	4.3%	2051.0	0.2%	-0.5%			
Torrent Pharma	2356.6	10.3%	0.4%	724.6	9.8%	1.8%	368.0	16.5%	4.0%			
<b>Total</b>	<b>49648.3</b>	<b>11.7%</b>	<b>8.0%</b>	<b>10941.0</b>	<b>2.9%</b>	<b>16.8%</b>	<b>6592.1</b>	<b>2.5%</b>	<b>14.3%</b>			

Source: Company, ICICI Direct Research

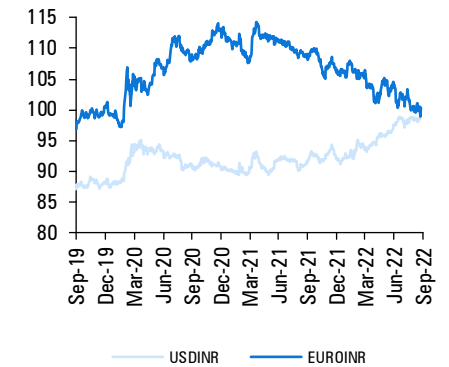
## Topline & Profitability (Coverage Universe)



## US approvals for Q2FY23 (Select pack)

Company	Final	Tentative
Alembic Pharma	2	0
Aurobindo Pharma	5	0
Zydus Lifesciences	10	3
Cipla	1	1
Dr. Reddy's Labs	5	1
Lupin	6	1
Sun Pharma	3	0
Laurus	3	1

## Currency Movement



## Currency

Currency	Q2FY23 YoY	Q2FY23 QoQ
USD/INR	7%	3%
EUR/INR	-8%	-2%
BRL/INR	7%	-3%
ZAR/INR	-7%	-5%
RUB/INR	32%	13%

## Top Picks

Laurus Lab  
Sun Pharma

## Research Analysts

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**Exhibit 2: Company Specific view**

Ajanta Pharma	Revenues are expected to grow ~4% YoY to ₹ 920.3 crore on the back of ~11% growth in the domestic business and ~4% growth in exports. EBITDA margins are expected to decline 125 bps YoY to 25% while EBITDA is likely to decline 12.5% YoY at ₹ 225 crore. Adjusted PAT is expected to decline ~9% YoY to ~₹ 178.6 crore
Alembic Pharma	Revenues are expected to increase ~9% YoY to ₹ 1401.8 crore as ~13% growth in the US business to ₹ 393.1 crore is likely to boost revenue accompanied by 9% growth in domestic formulation to ₹ 549.7 crore. EBITDA margins are expected to decline 476 bps YoY to 15.1% while EBITDA is expected to de-grow 17.5% YoY to ₹ 212.3 crore. Subsequently, adjusted PAT is expected to decline ~27.4% YoY to ₹123 crore
Aurobindo Pharma	Revenues are expected to increase ~7% YoY to ₹ 6372.9 crore on back of ~5% YoY increase in US to ₹ 3127.4 crore while Europe is likely to decline 3.3% YoY to ₹ 1606.9 crore as the rupee appreciated ~7% vis-a-vis the Euro YoY. EBITDA margins are expected to decline 395 bps YoY to ~16%. Subsequently, EBITDA is likely to decline 13.9% YoY to ₹ 1021.3 crore. Adjusted PAT is expected to de-grow 17.9% YoY to ~₹ 572.0 crore
Biocon	Revenues may grow ~29% YoY to ₹ 2368.3 crore, mainly due to ~40% expected growth in the biosimilar segment to ₹1038.5 crore and ~20% growth in Syngene to ₹ 732.2 crore. EBITDA margins are expected to improve 250 bps YoY to 21.2%. EBITDA is expected to grow ~25.2% YoY to ₹ 501.4 core. Adjusted PAT is likely to increase 144.4% YoY to ₹ 171.5 crore
Cipla	Revenues are expected to grow ~5% YoY to ₹ 5820.0 crore, mainly due to 12% YoY growth in domestic formulations to ₹ 2705.9 crore followed by the US business growing 18.4% YoY to ₹ 1254.9 crore. RoW and South Africa market are expected to register 7% & 12% YoY de-growth to ₹ 1028.6 crore and ₹ 624.8 crore, respectively. EBITDA margins are expected to decline 61 bps YoY to 21.6%. EBITDA is expected to grow 2.5% YoY to ₹ 1257.1 crore. Subsequently, adjusted PAT is likely to de-grow 7% YoY to ₹ 745.2 crore
Divi's Lab	Revenues are expected to grow ~4.3% YoY to ₹ 2073.7 crore, mainly due to likely 35% growth in the generic API segment to ₹ 901.6 crore. Custom Synthesis is likely to witness de-growth of 15% YoY to ₹ 978.9 crore. EBITDA margins are expected to decline 296 bps YoY to 38.2% while EBITDA is expected to de-grow 3.2% to ₹ 792.2 crore. Net profit is likely to de-grow 7.9% YoY to ₹ 558.4 crore
Dr Reddy's	Revenues are likely to remain flat YoY to ₹ 5809.0 crore as 7% growth in US business to ₹ 2030.0 crore and ~15% growth in India to ₹ 1309.2 crore is likely to be offset by Russia & CIS and RoW markets, which are expected to de-grow 20% to ₹ 632.0 and 10% to ₹ 459.0 crore, respectively. EBITDA margins are likely to decline ~300 bps YoY to 20.5%. EBITDA is expected to decline ~12.4% YoY at ₹ 1190.9 crore. Adjusted PAT is likely to decline ~26.8% YoY to ₹ 710.4 crore
Ipca Lab	Revenues are expected to grow ~9% YoY to ₹ 1682.0 crore mainly due to YoY growth of 12% in domestic formulations to ₹ 782.0 crore followed by growth in export formulations by ~7 YoY to ₹ 374.9 crore. APIs are expected to grow ~4% YoY to ₹ 374.9 crore. EBITDA margins are expected to decline 542 bps YoY to 18.3% while EBITDA is expected to decline 16% YoY to ₹ 307 crore. Subsequently, net profit is expected to decline ~26.2% YoY to ₹ 184.7 crore
Laurus	Revenues are expected to grow ~28% YoY to ₹ 1540.6 crore tracking strong CRAMs traction, which is likely to grow ~200% to ₹ 465 crore. Other APIs are expected to grow 12% to ₹ 200 crore. EBITDA margins are expected to decline 67.4 bps YoY to 28% while EBITDA is likely to grow 25.0% YoY to ₹ 431.4 crore. Adjusted PAT is expected to grow 22.5% YoY to ₹ 247.4 crore
Lupin	Revenues are expected to de-grow ~2.4% YoY to ₹ 3991.5 crore amid ~8% growth in domestic business to ₹ 1667 crore and ~18% YoY de-growth in the US to ₹ 1171.9 crore. EBITDA margins are expected to decline 378 bps YoY to 10% while EBITDA is likely to de-grow ~29.2% YoY to ₹ 399.2 crore. Adjusted PAT is expected to de-grow ~142% YoY to ₹ 130.3 crore
Sun Pharma	Revenues are likely to grow ~15.8% YoY to ₹ 11144.6 crore, mainly on the back of 13% growth in domestic formulations to ₹ 3602.2 crore and ~27% growth in US to ₹ 3410.7 crore (likely to be driven by specialty and Taro acquisition). Emerging markets are likely to grow 8% YoY to ₹ 1944.6 crore while RoW markets are likely to grow 10.0% YoY to ₹ 1531.9 crore. EBITDA margins are likely to decline 32 bps to 27% while EBITDA is expected to post growth of 14.4% YoY to ₹ 3009.1 crore. Adjusted PAT is likely to remain flat YoY to ₹ 2051.0 crore
Torrent Pharma	Revenues are expected grow 10.3% YoY to ₹ 2356.6 crore, mainly due to 15% YoY growth in domestic formulations to ₹ 1250.1 crore and 25% YoY growth in Brazil business to ₹ 195 crore. US is likely to de-grow ~2% YoY to ₹ 278.6 crore. Gross margins are likely to remain flat with 4% YoY growth to 72.2% while EBITDA margins are expected to decline 13 bps YoY to 30.8%. EBITDA is likely to grow 9.8% YoY to ₹ 724.6 crore. PAT is expected to increase 16.5% YoY to ₹ 368.0 crore
Zydus Lifesciences	Revenues are expected to grow 10.1% YoY to ₹ 4167.1 crore on the back of 13.0% growth in the India business to ₹ 1370.7 crore and ~9.7% growth in the US business to ₹ 1643.9 crore. EBITDA margins are likely to decline 199 bps YoY to 20.8% largely due to an increase in other expenditure. EBITDA is expected to remain flat YoY to ₹ 864.7 crore. Adjusted PAT is expected to de-grow 5.9 % YoY to ₹ 551.6 crore

Expected growth in Domestic formulations					
India					
(₹ cr)	Q2FY23	Q2FY22	%	Q1FY23	%
Alembic	550	509	8.0	480	14.5
Ajanta	277	248	11.6	279	-0.8
Zydus Life	1,371	1,213	13.0	1,125	21.8
Ipca	782	698	12.0	685	14.2
Lupin	1,667	1,544	8.0	1,492	11.7
Cipla	2,706	2,416	12.0	2,483	9.0
Dr Reddy	1,309	1,140	14.8	1,334	-1.9
Sun Pharr	3,602	3,188	13.0	3,387	6.4
Torrent	1,250	1,087	15.0	1,245	0.4
<b>Total</b>	<b>13513</b>	<b>12043</b>	<b>12.2</b>	<b>12510</b>	<b>8.0</b>

Expected growth in US formulations					
US					
(₹ cr)	Q2FY23	Q2FY22	%	Q1FY23	%
Alembic	393	348	13.0	367	7.1
Ajanta	188	194	-3.2	179	4.9
Aurobindo	3,127	2,968	5.4	2,971	5.3
Zydus Life	1,644	1,498	9.7	1,559	5.4
Cipla	1,255	1,060	18.4	1,199	4.7
Lupin	1,172	1,429	-18.0	1,010	16.0
Dr Reddy	2,030	1,891	7.4	1,782	13.9
Sun Pharr	3,411	2,677	27.4	3,244	5.1
Torrent	279	284	-1.9	299	-6.8
<b>Total</b>	<b>13499</b>	<b>12349</b>	<b>9.3</b>	<b>12610</b>	<b>7.0</b>

Expected growth in Europe formulations					
Europe					
(₹ cr)	Q2FY23	Q2FY22	%	Q1FY23	%
Aurobindo	1,607	1,662	-3.3	1,548	3.8
Zydus Life	63	61	3.0	61	2.3
Cipla	312	284	10.0	277	12.7
Dr Reddy	434	414	5.0	414	4.8
Lupin	188	168	12.0	194	-3.2
Torrent	213	251	-15.0	214	-0.3
<b>Total</b>	<b>2817</b>	<b>2839</b>	<b>-0.8</b>	<b>2709</b>	<b>4.0</b>

Expected growth in API segment					
API					
(₹ cr)	Q2FY23	Q2FY22	%	Q1FY23	%
Aurobindo	937	781	20.0	907	3.3
Alembic	246	239	3.0	233	5.7
Laurus La	600	527	13.9	583	2.9
Zydus Life	138	134	3.0	122	12.8
Divi's Lab	902	668	35.0	874	3.2
Ipca Labs	374	360	4.1	375	-0.2
Lupin	260	268	-3.0	255	1.8
Cipla	155	172	-10.0	135	14.7
Dr Reddy	779	837	-7.0	709	9.8
Sun Pharr	523	436	20.0	599	-12.6
<b>Total</b>	<b>4913</b>	<b>4421</b>	<b>11.1</b>	<b>4791</b>	<b>2.5</b>

Source: Company, ICICI Direct Research

Exhibit 3: ICICI Direct Coverage Universe (Pharmaceuticals)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
<b>MNC Pharma</b>																					
Abbott India	ABBIND	19042	21,140	Hold	40463	325.0	375.9	427.7	528.6	58.6	50.7	44.5	36.0	33.8	36.6	37.1	37.3	26.5	28.3	28.9	28.8
Pfizer	PFIZER	4440	4,480	Hold	20312	108.8	133.9	140.4	149.3	40.8	33.2	31.6	29.7	27.6	26.1	22.4	21.8	20.8	21.4	17.9	17.7
<b>Pharma</b>																					
Ajanta Pharma	AJAPHA	1260	1,495	Buy	16144	51.0	55.6	60.1	71.1	24.7	22.7	21.0	17.7	29.0	27.0	24.4	24.5	21.8	21.8	19.9	19.9
Alembic Pharma	ALEMPHA	621	590	Reduce	12208	62.8	27.8	15.3	26.9	9.9	22.4	40.6	23.1	25.1	10.6	6.5	10.5	24.1	10.4	5.6	9.1
Aurobindo Pharma	AURPHA	540	615	Hold	31644	55.0	47.4	41.1	51.3	9.8	11.4	13.1	10.5	16.9	12.9	11.5	13.3	14.7	11.3	9.0	10.1
Biocon	BIOCON	283	320	Hold	33947	6.3	5.7	5.5	11.3	45.2	49.6	51.9	24.9	7.7	7.5	4.1	6.5	9.9	8.1	2.8	5.5
Zydus Lifesciences	CADHEA	422	405	Hold	42669	23.3	21.0	21.0	23.8	18.1	20.1	20.1	17.7	13.8	12.0	11.8	11.7	18.4	12.6	11.4	11.6
Cipla	CIPLA	1130	1,135	Buy	91148	29.9	32.9	38.6	45.8	37.8	34.3	29.3	24.7	16.3	16.7	17.9	19.0	13.1	12.7	13.3	14.1
Dr Reddy's Labs	DRREDD	4377	4,750	Buy	72854	117.3	126.9	203.4	191.0	37.3	34.5	21.5	22.9	13.1	13.0	19.1	18.1	11.1	11.0	15.4	13.0
Glenmark Pharma	GLEPHA	398	440	Hold	11216	32.9	42.7	39.5	44.9	12.1	9.3	10.1	8.9	13.9	14.8	14.7	14.4	13.1	13.2	11.0	11.2
Ipca Laboratories	IPCLAB	917	985	Hold	23274	44.9	34.8	27.5	35.1	20.4	26.3	33.4	26.1	27.1	17.4	14.3	16.3	24.2	16.1	11.4	13.0
Jubilant Pharmova	JUBLIF	347	340	Reduce	5527	37.4	26.0	15.9	26.1	9.3	13.4	21.8	13.3	13.7	9.0	6.1	8.6	12.6	7.8	4.6	7.0
Lupin	LUPIN	721	610	Reduce	32774	26.9	11.9	11.8	27.7	26.8	60.7	61.3	26.0	9.6	3.4	5.8	10.9	8.8	4.4	4.2	9.2
Natco Pharma	NATPHA	626	735	Hold	11425	24.2	9.3	41.6	42.3	25.9	67.2	15.0	14.8	13.1	4.6	18.1	16.9	10.7	4.0	15.5	13.9
Sun Pharma	SUNPHA	955	1,125	Buy	229148	30.0	32.0	34.8	40.1	31.8	29.9	27.4	23.8	14.2	18.2	18.0	18.7	15.5	16.0	15.2	15.2
Torrent Pharma	TORPHA	1572	1,730	Buy	53199	37.0	32.0	40.0	46.7	42.5	49.1	39.3	33.7	17.6	19.7	19.1	21.4	21.4	18.2	19.8	19.7
Indoco Remedies	INDREM	341	525	Buy	3146	10.1	16.8	21.6	29.2	33.8	20.3	15.8	11.7	11.7	17.5	17.6	23.9	12.1	17.1	18.6	20.6
Caplin Point	CAPPOI	732	1,000	Buy	5545	81.7	85.3	70.4	73.0	8.9	8.6	10.4	10.0	25.3	23.7	22.6	0.0	20.4	20.2	18.7	17.5
Advanced Enzymes	ADVENZ	283	265	Reduce	3159	13.1	10.7	8.5	12.1	21.6	26.4	33.4	23.4	19.4	14.3	10.2	13.2	15.1	11.0	8.1	10.4
Hester Biosciences	HESPHA	2009	2,015	Reduce	1709	44.4	45.7	35.9	51.8	45.3	43.9	56.0	38.8	16.2	10.9	9.3	11.8	16.5	15.0	10.8	14.0
<b>API/CRAMS</b>																					
Divi's Lab	DIVLAB	3734	4,315	Buy	99135	74.7	111.5	93.0	113.5	50.0	33.5	40.1	32.9	27.6	30.2	22.8	24.4	21.3	25.2	18.4	19.2
Hikal	HIKCHE	336	290	Hold	4140	10.8	13.0	3.8	14.4	31.1	25.8	87.7	23.3	15.1	13.6	5.6	13.8	14.3	15.0	4.3	14.2
Syngene Int.	SYNINT	562	710	Buy	22579	10.1	9.9	11.5	14.6	55.6	57.0	48.8	38.6	11.5	11.7	12.8	15.2	13.5	12.9	12.4	13.7
Granules India	GRANUL	348	375	Buy	8622	22.2	16.6	21.9	26.8	15.7	20.9	15.9	13.0	24.0	15.6	18.6	20.5	25.3	16.0	17.6	17.9
Laurus Labs	LAULAB	524	675	Buy	28150	18.3	15.4	20.7	27.0	28.6	34.0	25.3	19.4	31.7	21.3	23.6	26.0	37.9	24.7	25.6	25.6
Suven Pharmaceuticals	SUVPH	423	530	Hold	10768	14.2	17.8	17.0	17.6	29.7	23.7	24.9	24.0	31.2	37.5	28.7	25.0	30.7	29.7	23.0	20.0

Source: ICICI Direct Research

## RATING RATIONALE

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Reduce: -5% to -15%;

Sell: <-15%



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