

January 13, 2023

Domestic formulations expected to support growth...

The I-direct Pharma universe is likely to witness decent growth during the quarter on a YoY basis, mainly led by continued traction in the domestic formulations business, which is poised to maintain a normalised growth trajectory of ~10% YoY during the quarter. The US portfolio is also expected to deliver decent growth amid favourable currency movement and new launches. The universe (13 coverage companies) is expected to post ~13% growth to ₹ 50,342 crore. Besides India and the US, Biocon's Viatris integration and Torrent's Curation acquisition are likely to factor in Q3 (our expectation) to push overall growth.

Domestic formulations (select pack) are expected to experience a jump of ~12% YoY at ₹ 13,075 crore to be driven by incremental chronic disease prevalence, positive seasonality effect in acute therapies, new products introduction, MR and geographical expansion and growing patient awareness campaigns by pharma companies.

On the US front, a favourable currency movement is likely to play out during the quarter as the rupee has depreciated 9.6% vis-à-vis the US\$. The US base business environment continues to remain challenging. Besides currency movement, we expect growth to be driven by new launches and volume gains. We expect US (select pack) portfolio to grow ~10% YoY to ₹ 13,785 crore. Europe (select pack) is expected to de grow ~1% YoY to ₹ 2,861 crore due to adverse currency movement (rupee has appreciated ~2% vis-à-vis Euro) and lack of meaningful launches. API segment (select pack) is likely to grow ~6% YoY to ₹ 4,883 crore.

EBITDA margins to remain intact at ~ 22.6%

Due to better growth prospects of domestic formulations, favourable currency movement (except Euro and SA Rand) and easing raw material and logistic costs, we expect margins to hold up in Q3. This is expected to neutralise pricing pressure in the US base business and fixed overheads pertaining to new capex. We expect EBITDA margins for I-direct pharma universe to decline marginally by 33 bps YoY to 22.6%.

Adjusted PAT to remain flat

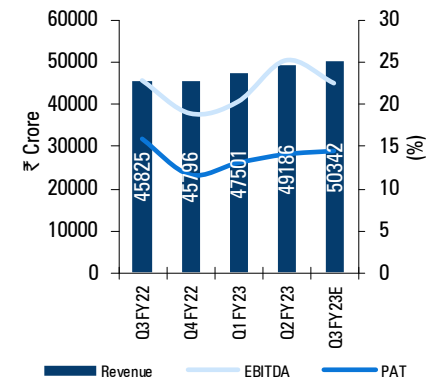
PAT of coverage universe is expected to remain flat at ₹ 7,292 crore. Delta vis-à-vis EBITDA growth is mainly on account of higher depreciation, taxation and certain one offs in base quarter.

Exhibit 1: Estimates for Q3FY23E (₹ crore)

Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ
Alembic Pharma	1405	10.5%	-4.8%	240	-0.9%	2.9%	112	-36.5%	-16.0%			
Ajanta Pharma	967	15.4%	3.1%	238	-0.5%	21.5%	190	-0.9%	21.4%			
Aurobindo	6008	0.1%	4.7%	908	-10.6%	14.9%	492	-13.6%	19.9%			
Biocon	3241	49.1%	39.7%	620	27.1%	31.8%	74	-60.6%	36.0%			
Cipla	6178	12.8%	6.0%	1421	15.4%	9.2%	878	20.5%	11.7%			
Divi's Lab	1888	-24.3%	1.8%	679	-38.1%	9.3%	541	-40.0%	9.6%			
Dr Reddy's	6021	12.8%	-4.9%	1373	13.0%	-27.7%	740	7.2%	-32.7%			
Ipca Lab	1541	7.7%	-3.7%	267	-13.1%	2.9%	167	-15.2%	16.7%			
Lupin	4163	0.0%	0.4%	622	67.9%	43.3%	208	-61.8%	76.9%			
Laurus Labs	1287	25.1%	-18.4%	426	7.6%	7.3%	322	12.7%	-28.4%			
Sun Pharma	10994	11.5%	0.4%	2969	13.9%	0.4%	1929	-6.3%	-14.7%			
Torrent Pharma	2469	17.2%	7.8%	734	37.0%	8.2%	311	25.0%	-0.2%			
Zydus Lifescienc	4180	14.8%	1.1%	878	15.0%	6.5%	503	0.0%	0.0%			
Total	50342	9.9%	2.3%	11365	8.3%	-8.9%	7292	0.0%	5.1%			

Source: Company, ICICI Direct Research

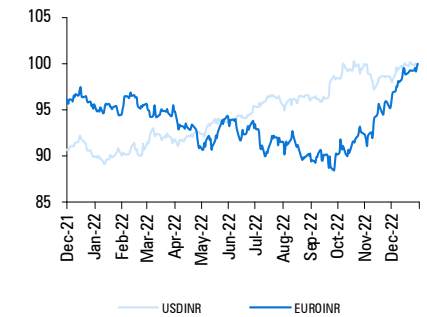
Topline & Profitability (Coverage Universe)



US approvals for Q3FY23 (Select pack)

Company	Final	Tentative
Alembic Pharma	9	0
Aurobindo Pharma	11	5
Zydus Lifesciences	8	3
Cipla	5	1
Dr. Reddy's Labs	6	0
Lupin	6	2
Sun Pharma	9	0

Currency Movement



Currency	Q3FY23	Q3FY22	YoY	Q2FY23	QoQ
USD/INR	82.12	74.92	9.61%	79.77	2.95%
EUR/INR	83.91	85.65	-2.03%	80.28	4.52%
BRL/INR	15.61	13.42	16.32%	15.21	2.63%
ZAR/INR	4.66	4.85	-3.92%	4.68	-0.43%
RUB/INR	1.31	1.03	27.18%	1.33	-1.50%

Top Picks

Cipla
Sun Pharma
Torrent Pharma

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Exhibit 2: Company Specific view

Company	Remarks
Ajanta Pharma	Revenues are expected to grow ~15% YoY to ₹ 967 crore on the back of ~12% growth in domestic business and ~17% growth in exports. EBITDA is likely to decline 0.5% YoY at ₹ 238 crore. EBITDA margins are expected to decline 390 bps YoY to 24.70%, mainly due to lower GPM and higher other expenditure. Adjusted PAT is expected to decline 0.9% YoY to ~₹ 190 crore
Alembic Pharma	Revenues are expected to increase ~11% YoY to ₹ 1,405 crore as US business is likely to show growth of ~9% to ₹ 428 crore accompanied by 12% growth in domestic formulation to ₹ 547 crore. EBITDA is expected to de-grow 0.9% YoY to ₹ 240 crore. EBITDA margins are expected to decline 190 bps YoY to 17.1%, mainly due to YoY increase in other expenditure and expected residual Aleor write-off. Subsequently, adjusted PAT is expected to decline ~3%.5 YoY to ₹ 112 crore
Aurobindo Pharma	Revenues are likely to decline 0.1% YoY to ₹ 6,008 crore on the back of lower-than-expected sales from US business, which are expected to grow only ~2% to ₹ 2,812 crore while Europe is likely to decline 6.5% YoY to ₹ 1,583 crore, due to rupee appreciation and overall slowdown. Subsequently, EBITDA is likely to decline ~11% YoY to ₹ 908 crore. EBITDA margins are expected to decline 180 bps YoY to ~15.1%. Adjusted PAT is expected to de-grow 13.6% YoY to ~₹ 492 crore
Biocon	Revenues are likely to grow ~49% YoY to ₹ 3,241 crore, mainly due to ~83% expected growth in biosimilar segment (Viatris integration) to ₹ 1,793 crore and ~20% growth in Syngene to ₹ 770 crore. Generics are likely to grow 8% YoY to ₹ 656 crore. EBITDA is expected to grow ~27.1% YoY to ₹ 620 crore. EBITDA margins are expected to decline 340 bps YoY to 19.1%. Adjusted PAT is likely to decline 60.6% YoY to ₹ 74 crore
Cipla	Revenues are expected to grow ~13% YoY to ₹ 6,178 crore, mainly due to 12% YoY growth in domestic formulations to ₹ 2,820 crore accompanied by US growth of ~24% YoY to ₹ 1,399 crore. RoW and South Africa market likely to showcase 5% & 10% YoY growth, respectively, to ₹ 1,058 crore and ₹ 685 crore, respectively. EBITDA is expected to grow 15.4% YoY to ₹ 1,421 crore. EBITDA margins are expected to increase 50 bps YoY to 23%. Subsequently, adjusted PAT is likely to grow ~20.5% YoY to ₹ 878 crore
Divi's Lab	Revenues are expected to de-grow ~24% YoY to ₹ 1,888 crore, mainly due to 47% decline in Custom Synthesis segment to ₹ 816 crore, which had a higher base of Molnupiravir execution. APIs, on the other hand are expected to grow ~20% to ₹ 940 crore. EBITDA is expected to de-grow 38.1% to ₹ 679 crore whereas EBITDA margins are expected to decline 800 bps YoY to 36%. Net profit is likely to de-grow 40% YoY to ₹ 541 crore
Dr Reddy's	Revenues are likely to show growth ~13% YoY to ₹ 6,021 crore mainly due to ~21% growth in US business to ₹ 2,254 crore. Europe revenues are expected to grow 9% YoY to ₹ 442 crore. Russia & CIS revenues are likely to grow 8% YoY to ₹ 767 crore while RoW markets are expected to grow 10% to ₹ 484 crore. EBITDA is expected to increase ~13% YoY to ₹ 1,373 crore. EBITDA margins are likely to remain flat YoY to 22.8%. Adjusted PAT is likely to show an uptick ~7.2% YoY to ₹ 740 crore
Ipca Lab	Revenues are expected to grow ~8% YoY to ₹ 1,541 crore mainly due to YoY growth of 10% in domestic formulations to ₹ 710 crore followed by growth in export formulations by ~10% YoY to ₹ 381 crore. APIs are expected to grow ~7% YoY to ₹ 332 crore. EBITDA is expected to decline 13.1% YoY to ₹ 267 crore. EBITDA margins are expected to decline 410 bps YoY to 17% due to higher expenditure. Subsequently, net profit is expected to decline 15.2% YoY to ₹ 167 crore
Laurus	Revenues are expected to grow ~14% YoY to ₹ 1,455 crore tracking 62% expected growth in anti-retro viral API to ₹ 330 crore. Custom Synthesis business is expected to post 140% YoY growth to ₹ 362 crore while formulations are likely to de-grow 20% YoY at ₹ 298 crore. EBITDA is likely to grow 7.6 % YoY to ₹ 426 crore. EBITDA margins are expected to decline 270 bps YoY to 25%. Adjusted PAT is expected to grow 3% YoY to ₹ 249 crore
Lupin	Revenues are likely to show flattish growth YoY to ₹ 4,163 crore amid ~13% decline in US business to ₹ 1,377 crore, with India business delivering growth of 8% at ₹ 1,591 crore. EBITDA may grow ~67.9% YoY to ₹ 622 crore. EBITDA margins are expected to improve 600 bps YoY to 14.95%. Adjusted PAT is expected to de-grow ~61.8% YoY to ₹ 208 crore
Sun Pharma	Revenues are likely to grow ~12% YoY to ₹ 10,994 crore mainly on the back of 10% growth in domestic formulations to ₹ 3,484 crore and ~13% growth in US to ₹ 3,369 crore. Emerging markets are likely to grow 10% YoY to ₹ 1,969 crore while RoW markets likely to grow at 10% YoY to ₹ 1,516 crore. EBITDA is expected to post growth of ~14% YoY to ₹ 2,969 crore. EBITDA margins are likely to increase 60 bps to 27%. Adjusted PAT is likely to decline 6.3% YoY to ₹ 1,929 crore
Torrent Pharma	Revenues are expected growth ~17% YoY to ₹ 2,469 crore mainly due to ~21% YoY growth in domestic formulations (including Curatio) to ₹ 1,302 crore and 15% YoY growth in Brazil business to ₹ 209 crore. US is likely to grow ~6% YoY to ₹ 249 crore. EBITDA margins is expected to increase 430 bps YoY to 29.8%. EBITDA is likely to grow 37% YoY to ₹ 734 crore. PAT is expected to increase 25% YoY to ₹ 311 crore
Zydus Lifesciences	Revenues are expected to grow 14.8% YoY to ₹ 4,180 crore on back of 17% growth in India business to ₹ 1,262 crore being followed by 16.1% growth in US business to ₹ 1,728 crore. EBITDA is expected to grow 15% YoY to ₹ 878 crore. EBITDA margins are likely to be flattish YoY to 20.8%. Adjusted PAT is expected to come at ₹ 503

Source: Company, ICICI Direct Research

Expected growth in Domestic formulations					
India					
(₹ cr)	Q3FY23E	Q3FY22	%	Q2FY23	%
Alembic	547	488	12.0	549	-0.4
Ajanta	271	229	18.5	245	10.7
Ipca	710	645	10.0	766	-7.3
Lupin	1,591	1,473	8.0	1,584	0.4
Cipla	2,820	2,518	12.0	2,563	10.0
Dr Reddy	1,088	1,027	6.0	1,150	-5.4
Sun Pha	3,484	3,168	10.0	3,460	0.7
Torrent	1,302	1,072	21.4	1,224	6.3
Zydus Li	1,262	1,079	17.0	1,265	-0.2
Total	13075	11699	11.8	12806	2.1

Expected growth in US formulations					
US					
(₹ cr)	Q3FY23E	Q3FY22	%	Q2FY23	%
Alembic	428	393	8.9	418	2.4
Ajanta	171	168	1.5	168	1.5
Aurobind	2,812	2,745	2.4	2,638	6.6
Cipla	1,399	1,124	24.4	1,432	-2.3
Lupin	1,377	1,578	-12.7	1,330	3.6
Dr Reddy	2,254	1,865	20.9	2,800	-19.5
Sun Pha	3,369	2,972	13.4	3,291	2.4
Torrent	249	235	6.2	292	-14.6
Zydus Li	1,728	1,489	16.1	1,708	1.2
Total	13785	12568	9.7	14077	-2.1

Expected growth in Europe formulations					
Europe					
(₹ cr)	Q3FY23E	Q3FY22	%	Q2FY23	%
Aurobind	1,583	1,694	-6.5	1,516	4.4
Cipla	319	290	10.0	312	2.0
Dr Reddy	442	406	9.0	420	5.3
Lupin	187	187	0.0	216	-13.3
Torrent	256	237	8.0	220	16.3
Zydus Li	73	68	7.4	54	35.2
Total	2861	2882	-0.7	2739	4.5

Expected growth in API segment					
API					
(₹ cr)	Q3FY23E	Q3FY22	%	Q2FY23	%
Aurobind	960	1,010	-5.0	969	-1.0
Alembic	218	198	10.0	294	-25.9
Laurus L	533	549	-3.0	539	-1.1
Divi's La	900	783	15.0	895	0.6
Ipca Lab	332	309	7.2	307	7.9
Lupin	269	256	5.0	250	7.7
Cipla	165	150	10.0	153	7.8
Dr Reddy	814	727	12.0	643	26.6
Sun Pha	528	471	12.0	473	11.5
Zydus Li	165	165	0.0	112	47.3
Total	4883	4619	5.7	4635	5.4

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
MNC Pharma																					
Abbott India	ABBIND	22241	21,725	Hold	47350	325.0	375.9	452.0	543.1	68.4	59.2	49.2	41.0	33.8	36.6	38.6	37.5	26.5	28.3	30.1	29.0
P&G Health	MERLIM	4079	5,235	Buy	6934	106.5	116.0	150.0	163.6	38.3	35.2	27.2	24.9	32.2	39.8	42.5	38.0	25.1	31.2	32.0	28.5
Sanofi India	SANOFI	5665	6,385	Hold	13029	207.4	410.1	265.9	255.5	27.3	13.8	21.3	22.2	32.3	33.3	40.9	50.2	24.5	25.9	30.8	38.1
Pfizer	PFIZER	4215	4,505	Hold	19388	108.8	133.9	151.4	150.2	38.7	31.5	27.8	28.1	27.6	26.1	25.0	23.7	20.8	21.4	18.8	18.1
Pharma																					
Ajanta Pharma	AJAPHA	1176	1,505	Buy	15053	51.1	55.7	55.9	68.4	23.0	21.1	21.0	17.2	29.0	27.0	23.4	24.4	21.8	21.8	18.8	19.5
Alembic Pharma	ALEMPHA	556	625	Hold	10949	62.6	27.7	14.6	21.0	8.9	20.1	37.9	26.5	25.1	10.6	6.3	8.6	24.1	10.4	5.3	7.3
Aurobindo Pharma	AURPHA	435	540	Hold	25509	55.0	47.4	34.7	44.8	7.9	9.2	12.5	9.7	16.9	12.9	9.6	11.9	14.7	11.3	7.7	9.1
Biocon	BIOCON	253	290	Hold	30337	6.3	5.7	3.0	4.8	40.3	44.4	83.9	52.1	7.7	7.5	3.8	6.1	9.9	8.1	1.5	2.4
Zydus Lifesciences	CADHEA	441	480	Hold	44537	23.3	21.0	21.1	25.3	18.9	21.0	20.9	17.5	13.8	12.0	11.7	12.2	18.4	12.6	11.4	12.2
Cipla	CIPLA	1069	1,350	Buy	86256	29.9	32.9	39.9	49.6	38.2	34.7	28.7	23.0	16.3	16.7	18.6	20.5	13.1	12.7	13.8	15.2
Dr Reddy's Labs	DRREDD	4320	5,215	Buy	71719	117.6	127.2	226.6	205.5	36.7	34.0	19.1	21.0	13.1	13.0	21.9	19.8	11.1	11.0	16.8	13.6
Glenmark Pharma	GLEPHA	420	440	Hold	11848	32.9	42.7	36.4	50.0	12.8	9.8	11.5	8.4	13.9	14.8	16.0	16.0	13.1	13.2	10.2	12.4
Ipca Laboratories	IPCLAB	871	925	Hold	22116	44.9	34.8	24.5	35.7	19.4	25.0	35.5	24.4	27.1	17.4	13.3	16.5	24.2	16.1	10.3	13.3
Jubilant Pharmova	JUBLIF	358	395	Hold	5687	37.4	26.0	22.5	32.8	9.6	13.7	15.9	10.9	13.7	9.0	7.8	9.7	12.6	7.8	6.4	8.6
Lupin	LUPIN	756	680	Hold	34387	26.9	11.9	9.1	26.4	28.1	63.6	82.7	28.7	9.6	3.4	5.9	11.3	8.8	4.4	3.3	8.8
Natco Pharma	NATPHA	553	660	Hold	10111	24.2	9.3	38.6	46.3	22.9	59.3	14.3	11.9	13.1	4.6	16.8	18.5	10.7	4.0	14.6	15.2
Sun Pharma	SUNPHA	1032	1,225	Buy	247481	30.1	32.0	34.3	40.9	34.3	32.3	30.0	25.2	14.2	18.2	17.4	19.0	15.5	16.0	15.0	15.5
Torrent Pharma	TORPHA	1551	1,690	Hold	52407	37.0	32.0	37.6	45.6	41.9	48.4	41.2	34.0	17.6	19.7	18.3	21.1	21.4	18.2	18.8	19.4
Indoco Remedies	INDREM	399	465	Buy	3668	10.1	16.8	22.1	28.9	39.5	23.7	18.0	13.8	11.7	17.5	18.4	23.0	12.1	17.1	18.9	20.4
Caplin Point	CAPPOI	715	955	Buy	5434	81.7	85.3	79.0	74.8	8.7	8.4	9.0	9.6	25.3	24.2	23.4	0.0	20.4	20.2	20.2	18.2
Advanced Enzymes	ADVENZ	277	265	Reduce	3099	13.1	10.7	9.6	13.3	21.2	25.9	29.0	20.8	16.2	10.9	9.5	12.7	16.5	15.0	11.3	15.4
Hester Biosciences	HESPHA	1774	2,280	Hold	1597	44.4	45.7	37.8	58.6	40.0	38.8	47.0	30.3	16.2	10.9	9.5	12.7	16.5	15.0	11.3	15.4
API/GRAMS																					
Divi's Lab	DIVLAB	3352	3,685	Hold	88820	74.7	111.5	87.7	96.9	44.8	30.1	38.2	34.6	27.6	30.2	21.1	21.8	21.3	25.2	17.7	17.2
Hikal	HIKCHE	403	330	Hold	4956	10.8	13.0	6.8	16.6	37.3	31.0	59.4	24.3	15.1	13.6	7.8	14.9	14.3	15.0	7.4	15.6
Syngene Int.	SYNINT	618	710	Buy	24770	10.1	9.9	11.6	14.3	61.0	62.6	53.3	43.1	11.5	11.7	12.9	15.1	13.5	12.9	12.5	13.5
Granules India	GRANUL	318	410	Buy	7894	22.2	16.6	22.7	27.2	14.4	19.1	14.0	11.7	24.0	15.6	20.5	21.7	25.3	16.0	19.7	19.3
Laurus Labs	LAULAB	357	630	Buy	19182	18.3	15.4	17.0	23.3	19.5	23.2	21.0	15.4	31.7	21.3	20.8	24.3	37.9	24.7	21.9	23.6
Suven Pharmaceutical	SUVPH	495	530	Buy	12633	14.2	17.8	14.7	17.7	34.8	27.8	33.6	28.0	31.2	37.5	26.0	25.6	30.7	29.7	20.6	20.5

Source: ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



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