

Pharma Sector: Pharma Roundup

08 June, 2023

Robust 4QFY23; Healthy outlook for FY24

Post challenging 9MFY23 due to the higher base of Covid-19 in the Indian market, double-digit price erosion in the US market and persistent cost inflation, 4QFY23 has shown a sharp improvement in both US as well as Indian markets with normalization in cost inflation. Our Pharma coverage universe has posted a robust ~15% YoY growth in 4QFY23 topline, mainly driven by strong growth in the US business. US market growth stood at ~23% YoY (~13% growth in CC terms), mainly driven by Revlimid and new launches. In addition, moderation in base business price erosion and volume gains supported growth in the US. The Indian business grew by ~11% YoY, primarily driven by price hikes. On an average, EBITDA margin improved by 232bps YoY in 4QFY23 on the back of a better mix. Among the Large Cap coverage companies, Zydus Life reported the strongest growth, driven by robust growth across its key geographies. In the Mid Cap and Small Cap segments, Eris Life (consolidation of acquisitions) and Natco Pharma (Revlimid boost) were the best performers while Gland Pharma reported the worst results due to a high base, plant shutdown, increased competition and client-related issues.

Like 4QFY23, we believe that Indian market growth is expected to be in double digits in FY24 while US growth would be driven by continuous strong growth in Revlimid and new launches. US base business price erosion is also expected to be in single digits against double digits in FY23. EBITDA margin is expected to improve by 224bps with normalizing cost inflation, diminishing US price erosion and change in mix. On the flip side, we believe that the USFDA inspections are expected to remain high. Therefore, our focus remains on companies that are heavy on branded generics and have the least exposure to US generics. Sun Pharma, Torrent Pharma and Cipla are our top picks in the Large Cap space while Eris Life, JB Chem and Ajanta Pharma are our preferred picks in the Mid Cap and Small Cap space.

Revlimid and new launches drive US sales: Our coverage Pharma companies reported US growth at ~23% YoY (~13% growth in CC terms) in 4QFY24, mainly driven by Revlimid and new launches. On a QoQ basis, US CC growth declined by 2.6% despite Revlimid sales as the benefit of strong flu season receded and the base business continued to suffer from price erosion. However, **majority companies have indicated softening price erosion in the base business from double-digit levels to mid to high single-digit levels.** Among the Large Caps, Zydus Life reported the highest growth of 17% QoQ, driven by strong base business growth and new launches followed by Cipla, which reported 4.6% QoQ growth while Lupin saw 1.1% QoQ decline.

India business remains steady: Our coverage universe reported ~11% YoY Indian market growth in 4QFY24. However, excluding Covid-19, almost all coverage companies reported double-digit growth, mainly driven by price hikes. Among the Large Caps, Cipla reported 3.5% YoY growth (16% Ex-covid) and Zydus reported ~11% YoY growth (12% Ex-covid), Sun Pharma reported 8.7% YoY growth (9.8% Ex-covid), Torrent reported 21.6% YoY growth (15% Ex-Curatio) while Dr Reddy's reported robust 32.5% YoY growth. But, excluding covid and divestment income, Dr Reddy's grew by 11% YoY. **Almost all companies have guided for low double-digit growth for FY24.**

EBITDA margin improves by ~230bps YoY: Our coverage universe's EBITDA margin improved by 232bps YoY, mainly driven by an improved product mix and operating leverage benefits, partially offset by consumption of high-cost inventory. Among the Large Cap companies, Cipla's EBITDA margin improved by 620bps, Dr Reddy's by 353bps, Lupin's by 618bps and Zydus' by 512bps. **Almost all companies are expecting margin improvement in FY24 due to normalized cost inflation and decline in US price erosion.**

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Exhibit 1: Financial Summary

Company	CMP (Rs)	Rating	TP (Rs)	MCap (Rsbn)	Revenue (Rsbn)		EBITDA Margin (%)		EPS (Rs)		P/E (X)		EV/EBITDA (X)		RoE (%)	RoCE (%)
					FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY25E	FY25E
Ajanta Pharma	1,442	Buy	1,734	185	41	45	24.9	26.1	61.7	72.2	23.4	20.0	16.9	14.2	20.8	20.1
Alembic Pharmaceuticals	552	Acc	548	108	68	77	15.3	17.2	25.1	36.5	22.0	15.1	11.0	8.3	14.2	13.3
Alkem Laboratories	3,402	Buy	3,800	407	129	142	16.1	18.2	134.1	172.7	25.4	19.7	18.5	14.6	18.7	16.5
Cipla	963	Buy	1,097	777	257	283	22.2	23.0	45.1	53.4	21.4	18.0	12.5	10.5	15.2	14.5
Dr Reddy's Laboratories	4,671	Acc	4,762	775	262	267	24.0	22.3	249.3	236.2	18.7	19.8	11.4	11.5	14.0	13.5
Eris Lifesciences	653	Buy	834	89	21	25	35.2	36.1	39.1	48.5	16.7	13.5	12.0	9.3	22.8	18.7
Gland Pharma	943	Sell	1,195	154	39	43	29.4	30.0	53.3	62.2	17.7	15.1	8.8	7.4	10.9	9.7
Indoco Remedies	330	Acc	380	30	19	22	18.4	19.3	20.1	27.2	16.4	12.2	9.3	7.3	19.0	15.5
JB Chemicals & Pharmaceuticals	2,143	Buy	2,461	166	35	40	24.7	25.9	70.7	87.6	30.3	24.4	19.0	15.6	20.7	19.2
Jubilant Pharmova	355	Acc	331	56	68	74	16.5	17.2	26.3	33.1	13.5	10.7	7.3	6.3	8.7	6.6
Lupin	816	Sell	705	371	184	201	15.1	16.6	25.9	35.3	31.5	23.1	14.8	12.0	11.4	9.0
Natco Pharma	622	Acc	600	111	37	37	42.4	41.1	66.2	63.3	9.4	9.8	6.2	5.8	17.4	24.6
Pfizer	3,951	Acc	4,217	181	26	28	33.1	33.2	141.1	162.2	28.0	24.4	18.4	16.4	19.2	18.5
Sanofi India	7,152	Buy	7,666	165	29	32	29.2	30.4	290.5	319.4	24.6	22.4	17.5	15.2	43.5	41.9
Sun Pharmaceutical Industries	1,013	Buy	1,130	2,431	480	524	26.6	27.0	37.3	43.5	27.2	23.3	17.9	15.6	15.8	14.5
Torrent Pharmaceuticals	1,797	Buy	1,981	607	110	122	30.5	31.7	45.0	56.3	39.9	31.9	19.3	16.4	24.4	17.6
Zydus Lifesciences	513	Buy	600	519	187	199	22.5	22.4	25.7	27.6	19.9	18.6	12.1	11.0	13.2	11.6

Source: Industry data, Nirmal Bang Institutional Equities Research

Exhibit 2: Coverage Companies – Return Profile

Company Name	Returns				Annualized Returns			
	1 Month	3 Month	6 Month	12 Month	2 Year	3 Year	5 Year	10 Year
NSE Nifty 50 Index	2.9%	5.7%	-0.6%	12.1%	8.9%	22.4%	11.9%	12.1%
NSE Nifty Pharma Index	2.6%	9.8%	-0.9%	4.2%	-4.2%	8.7%	9.8%	6.5%
Ajanta Pharma Ltd	6.2%	17.4%	9.5%	18.2%	2.9%	12.2%	17.7%	23.4%
Alembic Pharmaceuticals Ltd	-0.1%	10.2%	-7.2%	-24.2%	-23.6%	-13.4%	5.8%	14.9%
Alkem Laboratories Ltd	-2.0%	7.5%	8.8%	9.5%	3.6%	12.3%	12.2%	NA*
Cipla Ltd	5.4%	10.9%	-12.6%	1.4%	1.5%	14.4%	12.5%	10.0%
Dr Reddy's Laboratories Ltd	-6.9%	3.7%	2.8%	6.1%	-6.4%	4.6%	18.6%	7.9%
Eris Lifesciences Ltd	2.4%	2.1%	-2.8%	-3.2%	-5.6%	8.2%	-4.2%	NA*
Gland Pharma Ltd	-33.1%	-27.0%	-46.5%	-67.1%	-45.4%	NA*	NA*	NA*
Indoco Remedies Ltd	0.1%	-2.1%	-15.2%	-8.0%	-7.7%	14.0%	13.1%	17.9%
JB Chemicals & Pharmaceuticals Ltd	4.4%	8.6%	4.9%	34.1%	18.4%	44.1%	52.8%	38.9%
Jubilant Pharmova Ltd	9.9%	11.2%	-10.0%	-13.9%	-36.4%	-12.6%	-12.2%	9.2%
Lupin Ltd	16.5%	23.8%	6.5%	34.2%	-18.4%	-3.1%	1.5%	0.7%
NatcoPharma Ltd	3.7%	12.2%	8.9%	-9.9%	-22.1%	2.1%	-3.1%	22.0%
Pfizer Ltd	5.3%	5.3%	-12.7%	-4.9%	-12.4%	-1.0%	9.5%	14.3%
Sanofi India Ltd	29.0%	25.0%	25.4%	4.4%	-3.9%	-4.1%	7.2%	10.9%
Sun Pharmaceutical Industries Ltd	3.9%	4.3%	-2.9%	16.6%	22.3%	26.8%	16.3%	6.9%
Torrent Pharmaceuticals Ltd	7.3%	18.6%	9.3%	27.4%	12.2%	14.4%	20.4%	24.1%
ZydusLifesciences Ltd	-1.3%	7.9%	23.4%	40.4%	-10.5%	12.3%	7.9%	12.6%

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Note: *Alkem Laboratories got listed on Dec 2015; Eris Lifesciences got listed on June 2017; Gland got listed on Nov 2020

Revlimid and new launches drive US sales; India business steady

Our Pharma coverage universe has posted a robust ~15% YoY growth for 4QFY23, mainly driven by strong growth in the US business. US growth stood at ~23% YoY (~13% growth in CC terms), mainly driven by Revlimid and new launches. In addition, moderation in base business price erosion, volume gains and new launches also supported US market growth. The India business grew by ~11% YoY, primarily driven by price hikes. Average EBITDA margin improved by 232bps YoY in 4QFY23 on the back of a better mix. Among the Large Cap coverage companies, Zydus Life reported the strongest growth, driven by robust growth across key geographies. In the Mid Cap and Small cap space, Eris (consolidation of acquisitions) and Natco (Revlimid boost) were the best performers while Gland Pharma reported the worst results due to a high base, plant shutdown, increased competition and client-related issues.

Exhibit 3: Revenue growth trend YoY (%)

Company	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Ajanta	11.0	11.9	23.6	11.9	15.0	27.1	6.0	16.0	1.3
Alembic	6.1	-1.1	-11.3	-3.2	10.6	-4.8	14.1	18.7	-0.7
Alkem	7.0	36.3	18.5	13.0	13.3	-5.7	10.0	16.1	16.9
Cipla	5.3	26.6	9.6	6.0	14.2	-2.3	5.6	6.0	9.1
Dr Reddy's	6.7	11.4	17.7	7.9	11.2	1.3	9.4	27.3	19.7
Eris	11.9	19.1	9.0	7.0	10.0	14.1	28.0	27.4	31.7
Gland	39.8	30.5	29.9	23.7	24.2	-25.7	-3.3	-11.8	-28.8
Indoco	12.2	40.2	17.9	7.7	34.1	5.6	8.6	11.5	4.7
JB Chemicals	19.1	16.0	33.7	9.6	18.2	29.5	36.5	32.0	22.1
Jubilant Pharmova	0.7	41.4	4.2	-26.0	-3.3	-11.2	-3.5	18.5	9.9
Lupin	-1.6	10.5	6.7	5.4	2.6	-3.9	1.3	3.9	14.1
Natco	-27.2	-27.2	-53.0	57.8	80.1	115.6	14.6	-12.1	50.5
Pfizer	6.5	45.5	6.9	13.9	2.8	-20.9	0.2	-8.0	4.2
Sanofi	-7.6	11.1	9.9	-4.5	-2.5	-11.4	-8.3	-2.3	4.2
Sun	4.1	28.1	11.7	11.6	10.8	10.7	14.7	14.0	15.7
Torrent Pharma	-0.5	3.8	5.9	5.6	10.0	10.0	7.2	18.3	16.9
ZydusLifescience	-1.0	14.5	-1.2	-3.7	3.1	1.2	9.2	16.5	31.7

Source: Company, Nirmal Bang Institutional Equities Research

US business (CC term) grew 13% YoY, while declining by 2.6% QoQ: Our coverage Pharma companies reported US growth at ~23% YoY (~13% growth in CC terms), mainly driven by Revlimid and new launches. On a QoQ basis, US CC growth declined by 2.6% despite Revlimid sales as the benefit of strong flu season receded and the base business continued to suffer from price erosion. **However, majority companies have indicated softening price erosion in the base business from double-digit levels to mid to high single-digit levels.** Among the Large Caps, Zydus Life reported the highest growth of 17% QoQ, driven by strong base business growth and new launches, followed by Cipla, which reported 4.6% QoQ growth while Lupin saw 1.1% QoQ decline.

Exhibit 4: US CC growth trends YoY (%)

Company	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Ajanta	21.0	12.8	26.0	3.1	-2.9	-4.4	-16.1	38.1	17.3
Alembic	-17.7	-33.5	-39.4	-23.2	18.4	-4.4	11.7	0.3	-42.6
Alkem	-13.1	-8.1	-2.6	-6.9	-1.6	-12.6	-7.9	19.6	-0.5
Cipla	16.9	4.4	0.7	6.4	15.9	9.9	26.1	30.0	27.5
Dr Reddy's	-4.4	2.6	3.2	6.7	10.2	-2.1	34.9	47.4	16.8
Lupin	-8.0	9.6	2.2	7.4	-7.2	-29.7	-13.6	-12.4	-3.3
Sun	-1.3	34.8	7.8	6.1	5.1	10.5	14.1	6.3	10.5
Torrent Pharma	-28.8	-24.1	-18.6	-21.1	0.0	8.3	5.7	12.9	-8.1
ZydusLifescience	-17.9	-9.8	-12.7	-6.9	-8.7	4.7	7.5	18.1	45.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: US CC growth trends QoQ (%)

Company	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Ajanta	7.5	-2.9	15.5	-14.4	1.2	-4.4	1.3	41.0	-14.1
Alembic	-7.2	-21.3	-5.7	11.4	43.1	-36.5	10.2	0.1	-18.1
Alkem	-11.7	11.2	0.9	-6.0	-6.7	-1.3	6.4	22.1	-22.4
Cipla	-2.1	2.2	0.7	5.6	6.7	-3.1	15.5	8.9	4.6
Dr Reddy's	1.7	-1.7	8.5	-1.7	5.1	-12.7	49.6	7.4	-16.7
Lupin	3.7	-11.8	7.0	9.8	-10.4	-33.1	31.4	11.3	-1.1
Sun	-1.1	2.7	-5.0	10.0	-2.0	8.0	-1.9	2.5	1.9
Torrent Pharma	-5.9	-2.7	-2.8	-11.4	19.4	5.4	-5.1	-5.4	-2.9
ZydusLifescience	-3.2	-6.8	3.1	0.0	-5.0	6.9	5.9	9.8	17.0

Source: Company, Nirmal Bang Institutional Equities Research

Ex Covid almost all coverage companies reported double-digit growth in India: Our coverage universe reported ~11% YoY growth in the Indian business. However, excluding Covid-19, almost all coverage companies reported double-digit growth, mainly driven by price hikes. Among the Large Caps, Cipla reported 3.5% YoY growth (16% Ex-covid) and Zydus reported 11% YoY growth (12% Ex-covid), Torrent reported 21.6% YoY growth (15% Ex-Curatio) while Dr Reddy's reported robust 32.5% YoY growth. But, excluding covid and divestment income, Dr Reddy's grew by 11% YoY. **All companies have guided for low double-digit growth for FY24.**

Exhibit 6: India business growth trend YoY (%)

Company	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Ajanta	23.2	31.6	22.8	18.2	12.4	21.8	26.6	13.1	17.1
Alembic	4.7	57.2	22.7	16.7	25.4	-0.2	7.9	11.7	9.1
Alkem	17.1	65.3	25.9	19.9	16.7	-6.7	13.0	9.7	17.0
Cipla	4.5	68.5	15.6	12.9	20.8	-8.4	6.1	1.8	3.5
Dr Reddy's	23.5	69.3	25.0	7.0	14.7	4.1	0.9	9.8	32.5
Eris	11.9	19.1	9.0	7.0	10.0	14.1	28.0	27.4	31.7
Gland	15.7	40.6	19.3	-20.0	61.7	-71.7	-60.4	-31.9	-67.9
Indoco	-13.0	45.8	22.3	15.2	38.5	-7.0	-2.4	12.2	-4.3
JB Chemicals	9.4	39.7	39.9	23.3	33.0	33.5	45.2	42.3	29.3
Lupin	7.9	27.3	15.9	7.8	5.0	-8.8	2.6	3.3	9.4
Natco	-19.4	157.2	-7.8	5.6	-6.0	-55.9	-6.3	0.5	19.4
Pfizer	6.5	45.5	6.9	13.9	2.8	-20.9	0.2	-8.0	4.2
Sanofi	-7.6	11.1	9.9	-4.5	-2.5	-11.4	-8.3	-2.3	4.2
Sun	12.9	38.5	25.9	15.1	15.9	2.4	8.5	7.1	8.7
Torrent Pharma	9.8	18.2	12.9	15.3	12.1	13.9	12.6	17.4	21.6
Zydus Lifesciences	14.7	63.6	11.6	-2.2	13.8	-17.1	4.3	14.1	10.8

Source: Company, Nirmal Bang Institutional Equities Research

Strong margin improvement in 4Q: Our coverage universe's EBITDA margin improved by 232bps YoY, mainly driven by an improved product mix and operating leverage benefits, partially offset by consumption of high-cost inventory. Among the Large Cap companies, Cipla's EBITDA margin improved by 620bps, Dr Reddy's by 353bps, Lupin's by 618bps and Zydus' by 512bps. **Almost all companies are expecting margin improvement in FY24 due to normalized cost inflation and decline in US price erosion.**

Exhibit 7: EBITDA margin trends (%)

Company	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Ajanta	34.3	29.4	29.7	28.6	17.0	23.3	20.9	17.4	16.9
Alembic	26.7	17.8	19.9	20.1	20.0	1.2	15.8	16.5	15.1
Alkem	16.9	21.7	22.3	19.0	13.6	7.9	14.7	19.7	12.2
Cipla	17.3	24.5	22.2	22.5	14.3	21.3	22.3	24.2	20.5
Dr Reddy's	21.3	18.3	23.2	22.6	20.7	13.9	27.0	30.4	24.3
Eris	34.0	36.2	38.9	36.6	31.7	32.4	32.9	32.4	29.5
Gland	36.9	37.8	34.9	32.8	31.6	31.5	28.4	30.9	21.5
Indoco	17.9	22.5	22.3	20.5	19.7	17.5	17.8	15.5	15.1
JB Chemicals	23.4	27.0	21.4	21.3	20.0	22.0	22.8	22.0	21.5
Jubilant Pharmova	23.7	23.0	20.5	14.8	16.2	13.3	13.7	9.4	13.1
Lupin	19.0	15.2	13.6	8.9	6.9	6.2	10.9	12.3	13.0
Natco	23.0	26.8	18.7	18.2	37.1	44.7	22.1	21.5	37.8
Pfizer	23.5	38.1	29.8	28.9	30.1	32.4	36.3	32.7	31.8
Sanofi	26.1	31.3	26.3	18.5	27.5	23.0	26.3	24.8	31.2
Sun	24.0	29.0	26.8	26.4	24.8	26.8	27.0	26.7	25.6
Torrent Pharma	30.0	31.7	30.9	25.5	26.3	30.3	29.6	29.1	29.2
ZydusLifescience	21.8	23.2	23.8	20.6	21.1	20.5	19.7	20.0	26.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Adjusted PAT growth trend YoY (%)

Company	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Ajanta	21.6	17.6	15.1	8.6	-42.1	0.5	-20.1	-29.9	32.6
Alembic	7.6	-45.4	-49.2	-39.7	-34.7	-140.0	-21.2	-24.0	-6.8
Alkem	55.9	10.9	15.3	24.9	-64.0	-72.8	-39.2	-13.5	-9.1
Cipla	33.1	39.1	6.9	-2.6	-0.7	-14.6	10.9	9.9	59.3
Dr Reddy's	-26.3	-1.5	19.3	14.5	-31.0	-3.8	-1.1	76.5	195.6
Eris	21.3	19.8	9.9	11.8	17.7	-11.3	1.6	-0.5	-18.5
Gland	33.7	11.8	38.0	33.8	9.8	-34.6	-20.2	-15.0	-52.7
Indoco	363.0	132.7	62.5	30.1	61.8	-2.7	-11.9	-14.7	-36.2
JB Chemicals	48.4	-0.5	32.4	-35.1	-0.8	-11.6	13.6	26.5	3.3
Jubilant Pharmova	-13.7	353.9	-2.9	-77.8	-67.5	-70.7	-56.3	-131.5	21.2
Lupin	42.0	152.3	70.7	43.1	-48.4	-133.0	-64.0	-71.9	-0.8
Natco	-43.7	-38.9	-67.8	28.2	144.3	327.2	-12.7	-22.5	113.0
Pfizer	-18.8	60.6	8.8	1.9	58.0	-32.6	18.6	4.7	15.3
Sanofi	24.3	31.6	15.0	-23.0	4.2	-32.5	-14.5	34.2	16.8
Sun	103.3	72.7	24.5	11.1	17.8	4.1	14.3	5.2	35.2
Torrent Pharma	24.1	2.8	1.9	-16.2	-24.2	7.3	-1.3	13.7	16.8
ZydusLifescience	-2.0	29.3	3.5	-6.2	11.0	-9.9	-15.3	8.6	55.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: 4QFY23 performance summary for our coverage universe

Company	Parameter (Rsmn)	4QFY22	3QFY23	4QFY23	YoY (%)	QoQ (%)	4QFY23E	Var. (%)	Comments
Ajanta Pharma	Net Revenue	8,703	9,718	8,818	1.3	(9.3)	9,363	(5.8)	Ajanta Pharma's results missed on all fronts mainly due to lower-than-expected export branded business and operational de-leverage in margins. Revenue grew by a mere 1% YoY to Rs8.8bn (NBIE Est: Rs9.3bn) as strong growth in domestic formulations was almost nullified by a sharp fall in exports. EBITDA margin also remained subdued at ~17%. Lower gross margin, higher freight cost and an adverse currency impact affected EBITDA margin.
	EBITDA	1,477	1,696	1,494	1.1	(11.9)	1,817	(17.8)	
	EBITDA margin (%)	17.0	17.4	16.9	(3) bps	(51) bps	19.4	(247) bps	
	APAT	922	1,345	1,223	32.6	(9.1)	1,418	(13.8)	
Alembic Pharma	Net Revenue	14,157	15,090	14,065	(0.7)	(6.8)	14,223	(1.1)	Alembic Pharma reported decent set of numbers for 4QFY23, with revenue coming in line with our estimate and a beat on margins, driven by lower-than-expected marketing & promotional expenditure. Revenue growth was flat at Rs14bn (NBIE Est. Rs14.2bn) largely on account of US business sales declining due to a high base and persistent pricing pressure. EBITDA margin contracted by 491bps to 15.1% due to lower gross margin and higher operating overheads on account of commercialization of new facilities.
	EBITDA	2,831	2,488	2,122	(25.0)	(14.7)	1,610	31.8	
	EBITDA margin (%)	20.0	16.5	15.1	(491) bps	(140) bps	11.3	377 bps	
	APAT	1,637	1,342	1,526	(6.8)	13.8	619	146.4	
Alkem Laboratories	Net Revenue	24,839	30,409	29,026	16.9	(4.5)	28,329	2.5	Alkem Laboratories' revenue was in line with NBIE estimate while EBITDA margin missed estimate largely on account of weak gross margin and higher marketing spend. Revenue grew by 16.9% YoY to Rs29bn (NBIE Est: Rs28bn), mainly driven by strong growth in India and RoW markets. EBITDA margin declined by 141bps to 12.2% due to lower gross margin and higher marketing spend.
	EBITDA	3,372	5,991	3,533	4.8	(41.0)	4,065	(13.1)	
	EBITDA margin (%)	13.6	19.7	12.2	(141) bps	(753) bps	14.3	(218) bps	
	APAT	1,143	4,547	1,039	(9.1)	(77.1)	2,211	(53.0)	
Cipla	Net Revenue	52,603	58,101	57,393	9.1	(1.2)	57,594	(0.3)	Cipla's results were in-line with our estimates on both revenue as well as profitability front, although margins came in higher-than-expected. Revenue grew by 9.1% YoY (14% Ex-covid) to Rs57.4bn (NBIE Est: Rs57.6bn) mainly on the back of strong growth in the US business, which was partially offset by a decline in SAGA and API sales. EBITDA margin came in at 20.5%, higher than NBIE estimate of 19.3% mainly on the back of lower other expenditure.
	EBITDA	7,497	14,076	11,737	56.6	(16.6)	11,121	5.5	
	EBITDA margin (%)	14.3	24.2	20.5	620 bps	(378) bps	19.3	114 bps	
	APAT	4,104	8,010	6,537	59.3	(18.4)	6,485	0.8	

Dr Reddy's	Net Revenue	52,594	67,700	62,968	19.7	(7.0)	57,564	9.4	Dr. Reddy's Laboratories reported strong numbers for 4QFY23, mainly driven by higher-than-expected Revlimid sales and divestment income (included in domestic sales). Gross margin improved by 589bps to 57.2% on the back of divestment income, Revlimid and improvement in API margin. EBITDA margin stood at 24.3%, but excluding divestment income and Revlimid, the same was at 15-16%.
	EBITDA	10,911	20,562	15,289	40.1	(25.6)	12,952	18.0	
	EBITDA margin (%)	20.7	30.4	24.3	353 bps	(609) bps	22.5	178 bps	
	APAT	3,245	12,471	9,592	195.6	(23.1)	6,455	48.6	
Eris Lifesciences	Net Revenue	3,059	4,233	4,028	31.7	(4.8)	3,946	2.1	Eris Lifesciences' revenue came in-line with NBIE estimate but its performance was below expectations on the margin and profitability front mainly due to higher-than-expected losses in subsidiaries. Consolidated revenue grew by 31.7% YoY to Rs4.0bn (NBIE Est: Rs3.9bn), led by consolidation of Oaknet. Losses in subsidiaries along with consolidation of the Oaknet business dragged consolidated EBITDA margin down by 215bps to 29.5% despite 214bps improvement in gross margin.
	EBITDA	969	1,372	1,189	22.7	(13.3)	1,235	(3.7)	
	EBITDA margin (%)	31.7	32.4	29.5	(215) bps	(290) bps	31.3	(178) bps	
	APAT	803	1,002	654	(18.5)	(34.7)	849	(22.9)	
Gland Pharma	Net Revenue	11,030	9,383	7,850	(28.8)	(16.3)	9,491	(17.3)	Gland Pharma's results missed NBIE and consensus estimates on all fronts on account of multiple issues, including plant shutdown, decline in BTC business in India and volatility in RoW tender business. Gross margin improved by 296bps to 53.5% on the back of change in geographical and product mix. Despite improved gross margin, EBITDA margin contracted to 21.5% mainly due to higher employee cost and elevated energy cost.
	EBITDA	3,484	2,896	1,684	(51.7)	(41.8)	2,965	(43.2)	
	EBITDA margin (%)	31.6	30.9	21.5	(1013) bps	(941) bps	31.2	(978) bps	
	APAT	2,859	2,319	1,351	(52.7)	(41.7)	2,355	(42.6)	
Lupin	Net Revenue	38,830	43,222	44,301	14.1	2.5	42,684	3.8	Lupin's operational performance was in-line with NBIE estimate, but lower tax rate boosted APAT. Revenue grew by 14.1% YoY to Rs44.3bn (NBIE Est: Rs42.7bn), mainly driven by strong growth in the API segment (46.5% YoY). EBITDA margin stood at 13%, but excluding PLI benefit of Rs590mn, it came in at 11.9%, lower than NBIE estimate of 13.2%. Near term trigger for the stock is ramp-up in Suprep and launch of Spiriva in FY24.
	EBITDA	2,667	5,327	5,778	116.7	8.5	5,618	2.8	
	EBITDA margin (%)	6.9	12.3	13.0	617 bps	72 bps	13.2	(12) bps	
	APAT	2,378	1,535	2,360	(0.8)	53.7	1,794	31.5	

Pfizer	Net Revenue	5,497	6,218	5,726	4.2	(7.9)	5,771	(0.8)	Pfizer India's performance was largely in line with our estimate, barring adjusted PAT, which was a beat, led by higher other income and lower tax rate. Revenue grew by 4.2% YoY to Rs5.7bn; the subdued growth could largely be attributable to the divestment of Upjohn business in 2QFY23 and lower growth in key therapy areas. EBITDA margin improved by 166bps YoY to 31.8% (NBIE Est: 31.5%), aided by successful implementation of VRS and one-time business restructuring exercise in 1QFY23.
	EBITDA	1,655	2,035	1,819	9.9	(10.6)	1,815	0.2	
	EBITDA margin (%)	30.1	32.7	31.8	166 bps	(96) bps	31.5	31 bps	
	APAT	1,258	1,507	1,451	15.3	(3.7)	1,343	8.0	
Sanofi	Net Revenue	7,070	6,719	7,365	4.2	9.6	6,929	6.3	Sanofi India's 1QCY23 results were a beat on all fronts, led by growth across all segments and benefits of cost optimizations accruing to the company, leading to margin improvement. Revenue stood at Rs7.4bn (NBIE Est: Rs7bn), growing by 4.2% YoY despite divestment of brands. EBITDA margin improved by 370bps YoY to 31.2%, led by the company's focus on cost rationalization. Adjusted PAT grew by 16.3% YoY to Rs1.8bn (NBIE Est: Rs1.4bn), mainly led by a strong operational performance and lower tax outgo.
	EBITDA	1,945	1,669	2,299	18.2	37.7	1,743	31.9	
	EBITDA margin (%)	27.5	24.8	31.2	370 bps	638 bps	25.2	605 bps	
	APAT	1,520	1,213	1,775	16.8	46.3	1,395	27.3	
Zydus Lifesciences	Net Revenue	38,056	42,571	50,106	31.7	17.7	47,657	5.1	Zydus Lifesciences' performance was a beat on all fronts mainly on the back of robust growth in the US business. Revenue grew by 31.7%/17.7% YoY/QoQ to Rs50.1bn (NBIE Est: Rs42.8bn) on the back of strong growth in the US business. Gross margin improved by 169bps YoY to 66.2%, driven by a high base of inventory write-off and a better product mix. Driven by strong gross margin and operational leverage, EBITDA margin improved by 513bps YoY.
	EBITDA	8,030	8,508	13,142	63.7	54.5	10,961	19.9	
	EBITDA margin (%)	21.1	20.0	26.2	513 bps	624 bps	23.0	323 bps	
	APAT	4,537	5,436	7,055	55.5	29.8	6,883	2.5	
JB Chemical	Net Revenue	6,246	7,927	7,623	22.1	(3.8)	7,616	0.1	JB Chemicals' 4QFY23 performance was in-line with NBIE estimates on the operational front, although they missed on the profitability front due to higher-than-expected financial cost and amortization related to the acquired brands. Revenue grew by 22.1% YoY to Rs7.6bn on the back of consolidation of inorganic opportunities in India besides robust growth in export formulations and the CMO segment. EBITDA margin improved by 146bps YoY to 21.5% on the back of cost optimization initiatives and improved productivity.
	EBITDA	1,249	1,748	1,636	31.0	(6.4)	1,666	(1.8)	
	EBITDA margin (%)	20.0	22.0	21.5	146 bps	(58) bps	21.9	(41) bps	
	APAT	848	1,061	876	3.3	(17.4)	983	(10.8)	

Institutional Equities

Indoco	Net Revenue	4,091	3,992	4,282	4.7	7.3	4,480	(4.4)	Indoco Remedies' 4QFY23 results were lower than NBIE as well as consensus estimates mainly due to lower-than-expected growth in domestic market and developed markets (DM) besides higher other expenditure. Revenue grew by 4.7% YoY to Rs4.3bn (NBIE Est: Rs4.5bn) on the back of 53.7% YoY growth in EMs to Rs528mn and 74.4% YoY growth in API business to Rs228mn. Despite strong gross margin, EBITDA margin contracted by 456bps to 15.1% in 4QFY23 mainly due to a sharp increase in other expenditure.
	EBITDA	805	620	648	(19.6)	4.4	835	(22.4)	
	EBITDA margin (%)	19.7	15.5	15.1	(456) bps	(42) bps	18.6	(351) bps	
	APAT	405	282	258	(36.2)	(8.3)	446	(42.1)	
Natco	Net Revenue	5,968	4,925	8,979	50.5	82.3	6,953	29.1	Natco Pharma's 4QFY23 results were way higher than NBIE estimates mainly on the back of higher-than-expected Revlimid sales. Revenue grew by 50.5% YoY to ~Rs9bn, mainly driven by robust sales in Export Formulations and APIs. Domestic Formulations business grew by 20.3% YoY on the back of CTPR launch in Crop Protection space and a low base. EBITDA margin expanded by 67bps YoY to 37.8% as operational leverage was largely offset by lower gross margin.
	EBITDA	2,214	1,059	3,391	53.2	220.2	2,746	23.5	
	EBITDA margin (%)	37.1	21.5	37.8	67 bps	1626 bps	39.5	(173) bps	
	APAT	1,295	623	2,758	113.0	342.7	2,031	35.8	
SunPharma	Net Revenue	94,468	1,12,410	1,09,307	15.7	(2.8)	1,10,884	(1.4)	Sun Pharmaceutical Industries reported strong growth in 4QFY23, mainly driven by continuous robust growth in the Global Specialty segment. While revenue was largely in line with NBIE estimate, profitability was higher than NBIE estimate on the back of higher other income. Revenue grew by 15.7% YoY to Rs109.3bn (NBIE Est: Rs110.9bn) on the back of strong growth in export formulations, mainly the Global Specialty segment. The Global Specialty segment grew by 31.2%/3.8% YoY/QoQ to US\$244mn (including US\$6.8mn of milestone income). EBITDA margin improved modestly by 86bps YoY to 25.6% as strong gross margin was largely offset by higher other expenditure.
	EBITDA	23,404	30,037	28,021	19.7	(6.7)	29,730	(5.7)	
	EBITDA margin (%)	24.8	26.7	25.6	86 bps	(109) bps	26.8	(118) bps	
	APAT	15,821	21,660	21,389	35.2	(1.3)	20,466	4.5	

Torrent Pharma	Net Revenue	21,310	24,910	24,910	16.9	-	24,253	2.7	<p>Torrent Pharma's (Torrent) reported strong revenue growth in 4QFY23 with a beat against our estimate, largely led by continuous strong growth in Branded Generics markets and integration of the recently acquired Curatio portfolio while adjusted margin was in line with our expectation. Revenue grew by 16.9% YoY to Rs24.9bn (NBIE Est: Rs24.2bn) mainly on the back of robust growth in all the Branded Generics markets. The Domestic market grew by 21.6% YoY, aided by the Curatio acquisition and new launches in Chronic therapy. Gross margin improved by 93bps YoY, which aided EBITDA margin improvement of 286bps to 29.2%.</p>
	EBITDA	5,610	7,240	7,270	29.6	0.4	7,174	1.3	
	EBITDA margin (%)	26.3	29.1	29.2	286 bps	12 bps	29.6	(39) bps	
	APAT	2,458	2,830	2,870	16.8	1.4	2,868	0.1	

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Key industry, demand and company-specific commentary from concall/press releases/presentation across coverage companies

Company	Commentary
Ajanta Pharma	In FY23, Ajanta Pharma's India business grew by ~16% YoY vs IPM growth of 8% with price growth of ~6%, NI growth of ~3% and volume growth of ~8% YoY. The company expects domestic growth in low double digits, driven by volume and price increases while new product growth would comparatively be lower. The management expects industry to grow by 8-9%. In the US, price erosion has stabilized, which is in high single digits now vs double digits. For some products, price erosion has hit a bottom. Existing portfolios will see mid to high single-digit price erosion. There has not been a significant withdrawal of players from the market.
Alembic Pharma	For 4QFY23, India Branded Business recorded 9% YoY growth (12% YoY, excluding covid-related Azithral sales) with revenue of Rs4.9bn. The company expects to outperform domestic industry growth rate on the back of volume growth. However, it does not intend to take price increase on its NLEM portfolio. The US business continues to remain challenging on account of high competitive intensity. Volume grew by 18% YoY on the back of new launches and market share expansion. Price erosion moderated compared to FY22 as players are giving less priority to the US business. Additionally, USFDA inspections have also increased. Overall price erosion in the US portfolio remains in double digits.
Alkem	In 4QFY23, Alkem grew ahead of the IPM with a growth of 22.5% YoY compared to IPM growth of 14.9% YoY. For FY23, the company outperformed IPM with a growth of 12.8% compared to IPM growth of 7.9%. Alkem expects double-digit unit growth in FY24 and marginal contribution from new products. The Acute and Chronic portfolios will grow by 8-9% and ~22%, respectively, leading to consolidated growth of 10-11% for FY24. US business saw significant pricing pressure during FY23, leading to a marginal decline in CC terms. Price deflation was in double digits in FY23. In 4QFY23, Alkem saw some respite in US pricing pressure and expects only single digit price erosion in FY24.
Cipla	For India, there was robust growth across branded prescription, trade generics and consumer healthcare over last year; India business grew by 16% YoY, adjusted for covid-19. As per IQVIA, industry grew by 8%. Cipla aims to achieve market-beating growth in the India business. US business revenue grew by 27% YoY to US\$204mn, driven by expansion in market share of key launches. US\$190-195mn was the run-rate for the base business in 4QFY23. The company will file important new respiratory products from dual sites of own/partner to de-risk products.
Dr Reddy's	Excluding divestment of brands and covid-related sales, domestic business grew by 11% YoY while for FY23, it grew 13%. The company expects to grow faster than industry growth FY24 onwards, driven by focus brands and in-licensing opportunities. In the US business, revenue growth was led by new product launches and favorable forex movements, which were partly offset by price erosion. The sequential decline was due to fluctuation in demand for new launches.
Eris Lifesciences	Consolidated revenue growth for 4QFY23/FY23 stood at 32%/25% YoY (31% for FY23 Ex. Covid products and Zayo). For FY23, Oaknet achieved organic growth of 22% (inorganic growth of 28%) after three flat years during FY20-FY22. EBITDA stood at Rs570mn with EBITDA margin of 24.4%. The company expects further margin expansion in FY24. The company is aiming for a breakeven in the Insulin business in FY24.
Gland Pharma	There was a production line shutdown in 4QFY23 in PashamlaramPenems facility due to line upgrade. Two Lyophilized lines were shut for capacity expansion, which caused an estimated supply loss of Rs300-400mn. Gland added one more Lyophilized line during 4QFY23. It doubled Ertapenem sales YoY and therefore wanted to add capacities. Supplies from these Lyophilized lines have resumed now. Gland chose to reduce Heparin supplies as prices fell sharply. In Enoxaparin, prices were down by 10% but volume increased by 7%. A few Chinese players have launched Heparin in the US, leading to lower prices. Gland's Enoxaparin supplies are also facing direct competition from Chinese players in the US.
Lupin	US business is stabilizing as price erosion is normalizing to mid to high single digit from double digits. For Spiriva launch, the company is currently in active dialogue with the agency and the target action date has been shifted to July and August (earlier April and August). Spiriva launch is expected in 1HFY24. India business (ex-diabetes) recorded 15%+ growth as per IQVIA, which was in line with market growth. Genericization of diabetes affected growth. Genericization is expected to continue till FY25. The company expects to take 5-6% price increase in its Non-NLEM portfolio in FY24.

Sanofi	All the three business units in India performed well in 1QCY23; it was a strong quarter and growth was broad-based. As per the terms of agreement between Sanofi (Parent) and Sanofi India (Subsidiary), for imported products, operating profit as percentage of sales will remain constant and hence purchase price of Lantus will be adjusted post NLEM implementation.
ZydusLifesciences	India Formulations business registered revenue of Rs12.9bn, up by 11% YoY. Excluding sales of covid-related products, the business grew by 12% YoY. For FY23, adjusted revenue growth was 12%. The company expects to perform better than industry in the medium term through market share gains. Industry will grow by ~9-12% in FY24. Zydus expects high single-digit growth in the US business over the FY23 base with mid single-digit price erosion. The company expects strong growth in 1QFY24, mainly driven by Revlimid.
J B Chemical	As per IQVIA, JB Chem grew by 30% YoY in 4QFY23 as against industry growth of 15%. India business is expected to grow at 300-400bps faster rate vs industry growth. It expects price hike benefits to start accruing June'23 onwards. In the CMO business, the company will try to deepen its presence in existing geographies; it is also evaluating opportunities in the LatAm and Central American markets. The company intends to launch new Lozenges in South Africa in 2QFY24. It has also introduced 3-4 Lozenges in India and is selling it through the digital medium.
Indoco	In India, Urology, Derma and Gastro segments performed well in 4QFY23. For India, FY24 revenue guidance is at least 15% growth with 5-6% coming from price hikes, 1-2% from new products and rest from volume growth. The order book in the US is healthy. The company expects 25-30% growth in the US business. 3-4 approvals are expected in FY24 with the majority being for Ophthalmic products (of which 1 will be suspension ophthalmic).
Natco	For India, the management has guided for 8-10% growth in FY24 (20-25% growth, including inorganic opportunity). The company is looking for a strategic acquisition. Natco will file 10 products from India. The company will file 10 products in Canada & Brazil and it is expected to grow by 15-20%. For Revlimid, the company has booked supplies (for 25% allocated volume) in 4QFY23. Majority of Revlimid sales will come in 1QFY24 and some part will get spilled over into 2QFY24. FY24 volume is expected to be better than FY23 for this product.
Sun Pharma	In India, as per IQVIA MAT March FY23, Sun Pharma grew by 11% YoY, led by 6% volume growth, 2% by new launches and 3% by price growth. The company intends to grow in line or slightly better than industry. There has been no price stabilization in the US Generic business. Market growth is low or even declining in value terms, although there is volume growth. Derma product marketed by Taro is seeing more and more new competitors and hence performance will continue to be affected. Over the next 2-3 years, the Specialty portfolio growth would be driven by Ilumya, Cequa and Winlevi with Ilumya being the largest contributor.
Torrent Pharma	India business grew by 22% YoY. Ex-Curatio, the base business grew by 15% YoY, led by 3% volume growth, 7% price growth and 5% new product growth. FY24 growth is expected to be driven by ~7% price hike, 2% volume growth and new launches. Torrent has already implemented price increases for FY24 and benefits would be seen May'23 onwards. The company will continue to beat the market by 200bps. In the US, growth was impacted by price erosion in the base portfolio and lack of new launches, pending inspection of facilities. The company won't be doing any more capex for the US business. 5-6 products are expected to be filed every year.

Source: Company, Nirmal Bang Institutional Equities Research

FY23 overview

Overall, FY23 has been a challenging year for the Pharma sector owing to slowdown in growth, margin contraction and enhanced regulatory concerns. The India and US business (ex Revlimid in CC terms) grew by 4.5% and ~3% YoY respectively. India business growth was impacted by a higher covid base while the US generics business was impacted by double-digit price erosion. Average EBITDA margin contracted by 145bps YoY due to US price erosion, elevated cost inflation and a higher covid base. Apart from these headwinds, enhanced regulatory concerns, which were absent during the covid period, have also resurfaced, affecting sentiment for the sector.

FY24 Outlook

We believe that India business growth is expected to be back in double digits in FY24 while price erosion in the US is expected to cool off from double-digit levels to single-digit levels. On the margin front, cost inflation is normalizing and companies have to a large extent passed on the burden of additional costs, predominantly in the branded markets. On the flip side, we believe that the USFDA inspections are expected to remain high.

India market back to normalized growth trajectory

As per media sources, India formulations growth was modest at 7.9% YoY (source: MAT Mar'23) despite more than 5% price hike. Slow growth was mainly due to a sharp decline in volume growth, owing to a high covid base (9.7% volume growth in FY22). However, the covid base has normalized and we believe that volume growth is expected to be around the historical range of ~5% in FY24. Price hikes are expected to be higher due to pass-through of elevated cost inflation while double-digit WPI in FY23 will continue to support higher prices of drugs under NLEM. Also, among the highest price hikes were taken in FY23 amid sticky cost inflation and the same will start reflecting only 2HFY23 onwards. Hence, the full benefit of FY23 price hikes will be visible in FY24. Apart from this, most coverage companies are focusing on new product introduction even as multiple products are set to lose their patents, especially in Dialectology, which is likely to drive growth of new products. Our coverage universe's domestic revenue is likely to grow by 11.9% in FY24 as against 4.5% in FY23 despite acquisitions and healthy price hikes taken by most companies to counter elevated cost inflation.

Exhibit 11: Historical IPM growth (%)

Year	Volume	Price	NI	Total
FY12	8.5	1.6	6.5	16.5
FY13	2.9	2.3	5.5	10.7
FY14	2.4	1.2	6.3	9.9
FY15	11.2	-3.8	6.4	13.8
FY16	5.5	4.0	5.0	14.6
FY17	2.6	1.6	5.0	9.1
FY18	10.7	-8.6	5.1	7.2
FY19	3.5	3.4	3.8	10.6
FY20	2.5	5.3	3.1	10.9
FY21	-3.6	4.2	3.7	4.4
FY22	9.7	4.4	4.2	18.2
FY23	0.1	5.4	2.3	7.9
Average	4.7	3.3*	4.7	12.7

Source: Industry data, Nirmal Bang Institutional Equities Research; *Price growth excluded FY15 and FY18 which was impacted due to NLEM and GST implementation.

Double-digit India business growth envisaged in FY24

Among the coverage companies, barring Ajanta Pharma, JB Chem, Eris Life and Torrent, all other the companies have reported subdued India business growth in FY23 mainly due to a high covid base. However, excluding covid, most of them have reported double-digit growth, mainly driven by price hikes taken to tackle persistently high cost inflation.

In FY24, almost all coverage companies are expected to report double-digit growth, driven by across the board price hikes, recovery in volume growth and new product introduction. Among the coverage companies, Eris and Torrent are expected to report >15% growth, driven by double-digit growth in existing business and acquisitions.

Natco (increased competition), Pfizer (divestment of brands to Upjohn) and Sanofi (Glargine included in NLEM) are likely to report high single-digit growth in FY24.

Exhibit 12: India business growth YoY (%)

Company	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Ajanta	14.0	2.4	6.5	14.8	5.7	20.8	19.6	11.8	11.8
Alembic	6.6	1.6	8.5	3.1	5.1	28.7	7.1	11.8	11.8
Alkem	15.6	6.5	8.6	11.9	4.5	29.9	8.1	12.3	11.6
Cipla	9.9	6.3	9.4	5.0	14.8	27.0	0.4*	12.3	12.4
Dr Reddy's	8.6	0.8	12.3	10.6	15.5	25.5	4.8	12.3	12.0
Eris	21.4	18.0	14.8	9.4	12.8	11.2	25.1	25.1	18.4
Gland	NA	-7.4	29.2	20.5	19.1	23.2	-63.5	10.0	10.0
Indoco	9.5	1.7	1.9	13.2	-9.8	29.7	-0.8	10.0	10.0
JB Chemicals	17.1	9.6	14.5	28.1	11.9	31.5	39.8	13.6	13.3
Lupin	10.6	8.1	12.4	10.8	2.6	13.9	1.2	10.0	12.0
Natco	41.1	-18.2	2.1	-26.5	-24.1	16.3	-21.4	8.0	10.0
Pfizer	-2.3	0.1	5.7	3.4	4.0	16.6	-7.1	7.3	8.2
Sanofi	8.0	4.0	12.5	10.8	-5.5	1.9	-6.3	6.2	8.6
Sun	8.4	3.6	-8.5	32.1	6.5	23.4	6.6	10.0	10.0
Torrent Pharma	7.8	18.9	37.6	8.8	11.2	9.6	16.3	18.6	12.4
Zydus	8.7	2.7	5.3	5.8	8.9	19.0	2.0	12.0	10.0
Average growth	10.9	4.8	7.5	12.3	6.9	20.9	4.5	11.9	11.4

Source: Nirmal Bang Institutional Equities Research, Company. *Excludes income from divestment of brands

Better performance expected in US in FY24 on slowdown in price erosion

Historically, US price erosion has been around mid single digits, but post covid, almost all the companies are facing double-digit price erosion in the US base business mainly due to heightened competition and inventory liquidation due to higher inventories in the channel. However, most companies have indicated that the price erosion has moderated to single digits now, although the same is still higher than pre-covid levels. Revlimid is expected to continue to drive growth in FY24 with higher market share vs FY23 while key launches like Spiriva, Transdermals and others are likely to support growth once they are launched.

Exhibit 13: US CC growth YoY (%) (Ex Revlimid)

Company	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Ajanta	1,201.7	7.8	37.5	66.6	27.8	6.5	11.0	1.2	2.6
Alembic	(25.7)	2.4	27.2	51.1	6.0	(23.0)	(12.0)	39.8	21.0
Alkem	22.3	16.2	28.9	14.3	6.9	(5.2)	(0.7)	7.7	1.6
Cipla	22.9	5.1	18.4	12.1	0.7	7.8	15.0	3.0	6.6
Dr Reddy's	(16.8)	(2.1)	(7.5)	6.3	4.1	4.0	(6.2)	19.3	(0.3)
Indoco	12.4	(66.9)	(6.8)	39.7	146.3	46.8	16.3	25.9	28.4
Lupin	33.1	(27.1)	(11.5)	2.8	(10.0)	2.5	(14.4)	20.2	6.9
Natco	555.5	46.7	(21.1)	(6.8)	(7.6)	6.7	6.7	(5.6)	(18.2)
Sun	(0.7)	(33.8)	12.5	(2.6)	(8.5)	12.2	10.4	5.8	10.6
Torrent Pharma	(50.4)	(15.8)	27.0	(3.7)	(19.8)	(16.3)	4.3	7.2	1.9
Zydus	(9.1)	62.2	(0.1)	(0.9)	(3.3)	(9.2)	10.0	2.6	4.0
Average growth	0.2	(10.9)	3.8	4.3	(3.1)	1.8	2.8	9.9	6.1

Source: Nirmal Bang Institutional Equities Research; Ex-Mayne acquisition Dr Reddy's is expected to grow 3.8% over FY23-25E%; Ex-Spiriva Lupin expected to grow 7.8% for FY23-25E

Overall revenue growth expected to remain healthy

Overall, we expect our coverage universe revenue to grow by 10.7% in FY24, driven by growth across all geographies. Eris (strong existing business growth and acquisitions) and Natco (ramp-up in Revlimid) are likely to clock >25% growth in FY24.

Exhibit 14: Revenue growth YoY (%)

Company	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Ajanta	14.4	6.5	(3.5)	25.9	11.7	15.6	12.0	9.4	8.8
Alembic	0.4	(0.1)	25.7	17.1	17.1	(1.6)	6.5	19.7	13.3
Alkem	15.9	9.4	14.9	13.4	6.2	20.0	9.1	11.5	9.5
Cipla	6.1	4.0	7.5	4.7	11.8	13.6	4.5	13.0	10.2
Dr Reddy's	(9.0)	0.9	7.1	10.1	13.4	12.1	15.6	6.4	2.2
Eris	21.4	18.0	14.8	9.4	12.8	11.2	25.1	25.1	18.4
Gland	NA	8.8	26.0	28.8	31.5	27.1	(17.6)	8.2	10.6
Indoco	8.8	(4.7)	(7.4)	14.3	12.2	24.1	8.3	14.0	14.1
JB Chemicals	11.1	3.3	16.3	8.0	15.1	18.7	29.9	11.8	12.5
Jubilant Pharmova	2.0	28.3	21.2	(34.4)	2.1	0.2	2.8	8.9	8.6
Lupin	22.7	(9.7)	(7.2)	3.9	(0.9)	6.2	3.8	10.8	9.3
Natco	87.0	8.1	(4.1)	(8.6)	7.2	(5.2)	39.2	37.9	(0.6)
Pfizer	(2.3)	0.1	5.7	3.4	4.0	16.6	(7.1)	7.3	8.2
Sanofi	8.0	4.0	12.5	10.8	(5.5)	1.9	(6.3)	6.2	8.6
Sun	9.8	(15.7)	10.3	12.8	2.2	15.4	13.5	9.4	9.2
Torrent Pharma	(12.4)	1.6	27.9	4.3	0.8	5.3	14.1	14.5	10.5
Zydus	(0.3)	26.9	10.2	8.4	6.3	0.1	14.1	8.4	6.3
Average growth	7.8	(0.4)	9.1	6.3	6.4	10.5	9.9	10.7	8.4

Source: Nirmal Bang Institutional Equities Research

Margin improvement is likely in FY24

In FY23, our coverage companies' EBITDA margin declined by ~145bps YoY mainly due to higher raw material costs and elevated freight charges along with a higher covid base. Also, double-digit price erosion in the US business impacted margins. Apart from these headwinds, certain companies' margins were also impacted by written-off covid led inventories. However, the cost inflation has abated, although it is still higher than pre-covid levels. Further, price hikes (mainly in the branded markets) are expected to mitigate elevated cost inflation while normalizing price erosion in the US business along with operational leverage is expected to drive margins in FY24. Hence, we expect our coverage companies' EBITDA margin to expand by 224bps in FY24.

Exhibit 15: EBITDA margin trend (%)

Company	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Ajanta	34.3	30.9	27.6	26.4	34.6	27.8	20.9	24.9	26.1
Alembic	19.6	20.5	22.2	26.6	28.9	18.8	12.5	15.3	17.2
Alkem	17.1	16.2	15.2	17.7	21.9	19.3	13.9	16.1	18.2
Cipla	16.9	18.9	18.9	19.0	22.2	20.9	22.1	22.2	23.0
Dr Reddy's	17.7	16.3	19.4	21.1	23.5	21.3	26.0	24.0	22.3
Eris	37.1	37.6	35.1	34.3	35.5	36.0	31.9	35.2	36.1
Gland	42.7	33.2	34.6	36.3	37.6	34.3	28.3	29.4	30.0
Indoco	19.0	12.9	7.9	11.1	18.1	21.2	17.1	18.4	19.3
JB Chemicals	17.0	16.4	18.6	21.3	27.4	22.4	22.1	24.7	25.9
Jubilant Pharmova	23.0	20.2	20.7	25.9	22.9	18.6	12.4	16.5	17.2
Lupin	26.6	19.9	17.5	14.5	16.5	12.4	10.8	15.1	16.6
Natco	35.0	42.5	37.9	30.4	29.5	25.9	34.6	42.4	41.1
Pfizer	17.8	25.4	27.2	26.6	31.8	32.0	33.4	33.1	33.2
Sanofi	20.0	20.1	21.0	20.4	23.2	25.8	25.4	29.2	30.4
Sun	32.3	20.8	21.7	21.2	25.3	26.9	26.5	26.6	27.0
Torrent Pharma	23.5	23.5	25.9	27.3	31.0	27.9	29.5	30.5	31.7
Zydus	20.3	23.7	22.1	19.1	22.2	21.1	20.7	22.5	22.4
Average bps increase/(decrease)	127	-122	-32	33	312	-233	-145	224	68

Source: Nirmal Bang Institutional Equities Research

Exhibit 16: Adjusted PAT is expected to grow by ~17% in FY24 vs ~11% in FY23 (%)

Company	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Ajanta	19.7	-6.3	-18.8	22.6	39.0	9.0	-17.5	34.4	17.1
Alembic	-44.0	2.4	41.6	47.8	36.4	-45.0	-47.2	44.4	45.4
Alkem	20.3	-22.1	10.6	42.5	41.8	6.8	-35.9	50.7	28.8
Cipla	-26.0	51.8	5.8	-2.0	51.8	10.2	10.6	24.2	18.4
Dr Reddy's	-47.1	-10.2	49.2	9.7	38.9	10.3	58.3	-8.2	-5.3
Eris	81.2	21.5	-1.1	1.9	19.9	14.4	-6.8	40.5	23.9
Gland	NA	-22.4	40.7	71.0	29.0	21.5	-35.5	11.6	16.8
Indoco	-6.0	-46.6	-107.0	-931.7	285.8	66.4	-8.1	30.5	34.8
JB Chemicals	13.2	-19.2	30.1	44.7	45.7	-5.5	6.2	33.5	24.0
Jubilant Pharmova	46.9	23.3	20.4	-18.2	-15.9	-29.6	-59.9	152.3	25.9
Lupin	18.1	-47.8	-39.4	17.7	17.2	-13.8	-57.2	174.5	35.9
Natco	221.1	38.0	-7.4	-28.5	-4.3	-20.6	104.4	65.9	-4.4
Pfizer	-15.7	43.0	19.2	16.5	-4.6	28.4	-2.2	7.8	14.9
Sanofi	20.7	-16.0	16.7	19.6	11.4	13.8	-8.9	27.1	10.0
Sun	35.6	-56.3	21.1	6.9	50.5	12.4	29.5	3.6	16.6
Torrent Pharma	-50.2	-16.5	-9.3	37.3	28.8	-20.8	25.5	22.3	25.1
Zydus	-22.1	19.5	-3.7	-15.9	46.4	-9.6	16.9	20.9	7.3
Average	2.3	-24.8	7.9	9.7	35.8	2.2	10.7	17.0	14.8

Source: Nirmal Bang Institutional Equities Research

Exhibit 17: Strong FCF expected mainly on the back of recovery in growth, lower capex and improvement in margins

Company (Rsmn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Ajanta	3,067	492	499	2,034	4,064	4,316	6,269	6,110	8,052
Alembic	-1,622	-5,733	345	-2,852	8,041	1,281	2,824	4,112	6,393
Alkem	-1,632	-4,110	2,527	2,374	11,156	7,830	14,528	12,784	17,362
Cipla	10,956	7,090	7,662	20,507	29,528	26,269	18,351	28,893	37,861
Dr Reddy's	-19,444	7,125	22,478	24,116	6,760	12,049	40,377	23,279	36,331
Eris	1,502	-3,148	1,754	1,254	3,496	2,580	-12,040	8,375	6,694
Gland	3,604	1,171	501	5,302	3,766	2,843	1,461	12,917	3,142
Indoco	-87	-145	391	645	56	495	-273	868	1,093
JB Chemicals	476	943	1,525	2,052	3,069	-5,289	-1,385	4,122	5,365
Jubilant Pharmova	8,062	6,890	4,632	9,753	12,700	2,411	1,094	2,528	4,043
Lupin	13,603	571	4,036	20,129	10,097	-8,203	-1,294	8,724	13,197
Natco	663	571	2,249	808	916	-1,413	6,740	6,483	11,833
Pfizer	4,425	2,625	1,247	3,214	4,097	6,538	2,919	7,450	7,971
Sanofi	2,534	3,786	3,169	3,370	8,095	11,265	5,457	7,838	7,418
Sun	33,246	19,274	-9,887	51,048	50,973	75,501	28,948	93,270	1,06,711
Torrent Pharma	3,932	-38,569	11,376	9,890	16,770	16,060	-470	22,682	24,490
ZydusLifescience	-16,233	-1,160	-31,458	18,577	25,496	39,081	16,973	23,293	27,535

Source: Nirmal Bang Institutional Equities Research

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