

April 13, 2022

Expectations muted due to external headwinds...

The I-direct Pharma universe witnessed a mixed quarter with the phase of smooth going in the first half (decent domestic traction, normalising scenario on input cost inflation and logistics) almost undone by headwinds such as Russia-Ukraine crisis and Covid wave in China. The universe (12 coverage companies) is expected to post YoY growth of ~7% to ~₹ 44,593 crore.

Domestic formulations (select pack) are expected to grow ~11% YoY to ₹ 10,609 crore on the back of 1) price hikes, 2) continued traction for acute therapies being supplemented by pick-up in chronic demand and 3) a small bump in Covid induced sales.

On the US front, we model high single digit price erosion in US generics besides negative USFDA compliance outcomes for Zydus (Jarod), Aurobindo Pharma (Unit-I), Biocon Insulin Aspart CRL, Lupin (New Jersey) to continue to weigh on US pack. These aspects are likely to outweigh approvals traction such as Lacosamide for Alembic, Dapagliflozin for Zydus, Vasostrict for Dr Roddy's, Vigabatrin and Efinaconazole for Lupin. The US (select pack) portfolio is expected to grow ~5% YoY to ₹ 12,788 crore.

Europe (select pack) is expected to grow ~3% YoY to ₹ 2,769 crore, as we expect a delay in pick-up in demand being exaggerated by logistical challenges arising out of geo-political tensions in Europe. API segment (select pack) is likely to de-grow ~3% YoY to ₹ 4,693 crore amid gradual pickup in demand as we forecast inventory destocking to decrease.

On the company's front, Divi's Lab, Biocon, Ipca and Sun Pharma are likely to report 10%+ YoY growth.

EBITDA margins to contract amid inflationary headwinds

Amid logistical delays and high freight cost due to Russia-Ukraine conflict and closure of port cities amid Covid wave in China leading to inflationary input (Solvents, KSM, API) cost, we expect EBITDA margins for I-direct Pharma universe to decline 106 bps YoY to 22.4%.

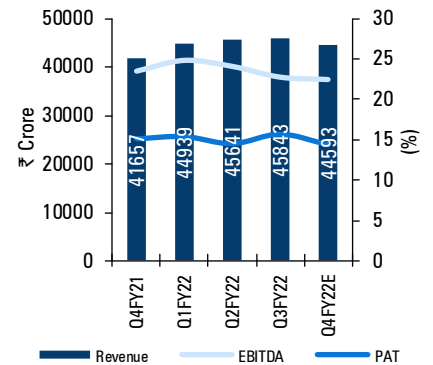
Adjusted PAT to increase ~3% YoY

Q4 witnessed significant one offs (M&As, write-offs etc.)- Alembic's Aleor acquisition, Aurobindo's Veritaz acquisition, Biocon's Viatrix Biosimilars acquisition, Lupin's Anglo French Drugs CNS & VMS acquisition, Taro's Alchemy acquisition and Sun Pharma's plaintiff settlement. Adjusted PAT is expected to grow ~ 3% YoY to ₹ 6,451 crore.

Exhibit 1: Estimates for Q4FY22E (₹ crore)									
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ
Alembic Pharma	1216.3	-5.0%	-4.4%	232.4	-32.0%	-9.1%	155.9	-37.8%	-11.6%
Ajanta Pharma	817.0	7.9%	-2.5%	225.0	-13.3%	-6.1%	168.2	5.6%	-12.3%
Aurobindo	5974.2	-0.5%	-0.5%	1001.0	-21.5%	-1.5%	557.9	-30.4%	-2.1%
Biocon	2292.9	24.7%	5.5%	562.0	29.0%	15.1%	237.8	-2.0%	27.1%
Zydus Lifesciences	3902.6	1.5%	6.8%	785.2	-8.2%	4.3%	511.6	-34.4%	2.2%
Cipla	4966.4	7.8%	-9.4%	1088.8	36.7%	-11.5%	650.1	57.3%	-10.8%
Divi's Lab	2302.2	28.7%	-7.7%	976.1	36.3%	-11.0%	795.4	58.4%	-11.8%
Dr Reddy's	5062.5	6.2%	-5.2%	1034.6	-1.8%	-14.9%	562.0	0.8%	-19.2%
Ipca Lab	1265.0	13.5%	-11.6%	266.5	16.5%	-13.4%	174.2	8.0%	-11.6%
Lupin	4039.8	6.8%	-2.9%	539.4	-23.8%	45.5%	244.7	-46.8%	-55.4%
Laurus Labs	1231.8	-12.8%	19.7%	326.3	-30.9%	14.4%	191.1	-35.6%	24.3%
Sun Pharma	9459.0	11.0%	-4.1%	2408.7	17.6%	-7.6%	1952.6	45.4%	-5.2%
Torrent Pharma	2063.2	6.5%	-2.1%	539.5	-7.3%	0.3%	249.4	-23.0%	0.1%
Total	44592.8	7.0%	-2.7%	9985.5	2.2%	-4.0%	6450.9	2.5%	-9.9%

Source: Company, ICICI Direct Research

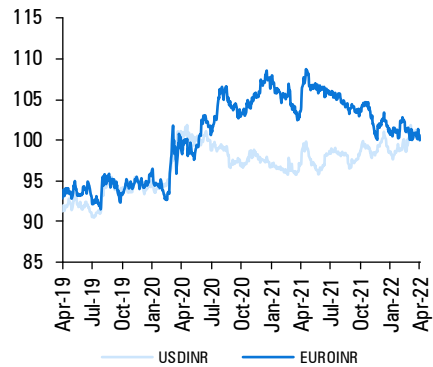
Topline & Profitability (Coverage Universe)



US approvals for Q4FY22 (Select pack)

Company	Final	Tentative
Alembic Pharma	5	3
Aurobindo Pharma	5	1
Zydus Lifesciences	5	1
Cipla	5	0
Dr. Reddy's Labs	2	0
Lupin	4	0
Sun Pharma	2	0

Currency Movement



Top Picks

- Divi's Lab
- Biocon
- Ipca Lab

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Exhibit 2: Company Specific view

Company	Remarks
Ajanta Pharma	Revenues are expected to grow ~8% YoY to ₹ 817 crore on the back of ~13% growth in domestic business and ~6% growth in exports. EBITDA margins are expected to decline 673 bps YoY to 27.5% mainly due to increase in raw material expenditure (gross margins down 81 bps YoY) and other expenditure. EBITDA is likely to decline ~13% YoY to ₹ 225 crore. Adjusted PAT is expected to increase 6% YoY to ~₹ 168 crore
Alembic Pharma	Revenues are expected to decline ~5% YoY to ₹ 1216.3 crore, as 21% growth in domestic formulations to ₹ 433.2 crore is likely to get offset by 19% decline in US revenues to ₹ 382.7 crore. EBITDA margins are expected to decline 758 bps YoY to 19.1% mainly due to YoY increase in input cost and other expenditure. EBITDA is expected to de-grow 32% YoY to ₹ 232.4 crore. Subsequently, adjusted PAT is expected to decline 37.8% YoY to ₹ 155.9 crore
Aurobindo Pharma	Revenues are expected to remain flat YoY to ₹ 5974 crore amid YoY flat US at ₹ 2886 crore while ARVs decline by 65% YoY to ₹ 172 crore, offsetting 25% and 15% YoY growth in RoW and API businesses respectively. Europe business is likely to grow by 4% YoY to ₹ 1608 crore. EBITDA margins are expected to decline by 450 bps YoY to 16.8%. Subsequently, EBITDA is likely to decline 21.5% YoY to ₹ 1001 crore. Adjusted PAT is expected to de-grow 30.4% YoY to ~₹ 557.9 crore
Biocon	Revenues are likely to grow ~25% YoY to ₹ 2292.9 crore, mainly due to ~45% expected growth in biosimilar segment to ₹ 959.6 crore and ~7% growth in Syngene to ₹ 703.6 crore. Generics are likely to grow 8% YoY to ₹ 616 crore. EBITDA margins are expected to improve 81 bps YoY to 24.5%. EBITDA is expected to grow ~29% YoY to ₹ 562 core. Adjusted PAT is likely to decline 6% YoY to ₹ 237.8 crore
Zydus Lifesciences	Revenues are expected to remain flat YoY to ₹ 3902.6 crore on back of 9% growth in India business to ₹ 1115.3 crore being offset by 2% decline in US business to ₹ 1481 crore. EBITDA margins are likely to decline 212 bps YoY to ~20.1% largely due to an increase in raw material expenditure. EBITDA is expected to decline 8.2% YoY to ₹ 785.2 crore. Adjusted PAT is expected to de-grow 34.4% YoY to ₹ 511.6 crore
Cipla	Revenues are expected to grow ~8% YoY to ₹ 4966.4 crore mainly due to 9% YoY growth in domestic formulations to ₹ 1969.6 crore and US business growing at 16.5% YoY to ₹ 1167 crore. API sales, on the other hand, are likely to decline 25% YoY to ₹ 168 crore while both RoW and South Africa market are expected to post 5% YoY growth to ₹ 969 crore and ₹ 636 crore, respectively. EBITDA margins are expected to increase 464 bps YoY to 21.9% mainly due to decrease in employee and other expenditure. EBITDA is expected to grow 36.7% YoY to ₹ 1088.8 crore. Subsequently, adjusted PAT is likely to grow 57.2% YoY to ₹ 650.1 crore
Divi's Lab	Revenues are expected to grow ~29% YoY to ₹ 2302.2 crore mainly due to likely 75% growth in custom synthesis segment to ₹ 1251.7 crore. Generic APIs are likely to witness de-growth of 5% YoY to ₹ 871 crore. EBITDA margins are expected to remain healthy at ~42.4%. Net profit is expected to grow 58% YoY to ₹ 795.4 crore
Dr Reddy's	Revenues are likely to grow ~6% YoY to ₹ 5062.5 crore mainly due to ~11% growth in domestic formulations to ₹ 937.4 crore and 12% YoY growth in US business to ₹ 1951.2 crore. Russia & CIS revenues are likely to de-grow 10% YoY to ₹ 534 crore while RoW markets are expected to grow by 25% to ₹ 364 crore. Europe and PSAl business are likely to remain muted YoY at ₹ 388 and ₹ 791 crore, respectively. EBITDA margins are likely to decline 165 bps YoY to 20.4%. EBITDA is expected to be flat YoY at ₹ 1034.6 crore. Adjusted Revenues are expected to grow ~14% YoY to ₹ 1265 crore mainly due to YoY 16% growth in domestic formulations to ₹ 503 crore. Export formulations are likely to increase by 5% YoY to ₹ 356 crore while APIs are expected to post growth of 15% YoY to ₹ 300 crore. EBITDA margins are expected to improve 54 bps YoY to 21.1% while EBITDA is expected to increase by 16.5% YoY to ₹ 266.5 crore. Subsequently, net profit is expected to increase 8% YoY to ₹ 174.2 crore
Ipca Lab	Revenues are expected to de-grow ~13% YoY to ₹ 1232 crore tracking 50% expected de-growth in anti-viral API to ₹ 284.5 crore and 33% de-growth in Generic API to ₹ 534 crore. CRAMS business is expected to post 35% YoY growth to ₹ 238 crore while formulations are likely to be flat YoY at ₹ 430 crore. EBITDA margins are expected to decline 695 bps YoY to 26.5% while EBITDA is likely to de-grow 31% YoY to ₹ 326 crore. Adjusted PAT is expected to de-grow 36% YoY to ₹ 191 crore
Laurus	Revenues are expected to de-grow ~13% YoY to ₹ 1232 crore tracking 50% expected de-growth in anti-viral API to ₹ 284.5 crore and 33% de-growth in Generic API to ₹ 534 crore. CRAMS business is expected to post 35% YoY growth to ₹ 238 crore while formulations are likely to be flat YoY at ₹ 430 crore. EBITDA margins are expected to decline 695 bps YoY to 26.5% while EBITDA is likely to de-grow 31% YoY to ₹ 326 crore. Adjusted PAT is expected to de-grow 36% YoY to ₹ 191 crore
Lupin	Revenues are expected to grow ~7% YoY to ₹ 4040 crore mainly driven by ~10% growth in domestic business to ₹ 1408.8 crore and 4% growth in US to ₹ 1552.9 crore. EBITDA margins are expected to decline 535bps YoY to 13.4% while EBITDA is likely to de-grow 24% YoY to ₹ 539.4 crore. Adjusted PAT is expected to de-grow 47% YoY to ₹ 244.7 crore

Source: Company, ICICI Direct Research

Expected growth in Domestic formulations					
India					
(₹ cr)	Q4FY22E	Q4FY21	%	Q3FY22	%
Alembic	433	358	21.0	488	-11.2
Ajanta	245	218	12.5	260	-5.7
Zydus Life	1,115	1,023	9.0	1,079	3.4
Ipca	503	434	16.0	645	-22.1
Lupin	1,409	1,287	9.5	1,473	-4.4
Cipla	1,970	1,807	9.0	2,518	-21.8
Dr Reddy	937	845	11.0	1,027	-8.7
Sun Pharr	2,991	2,671	12.0	3,168	-5.6
Torrent	1,005	922	9.0	1,072	-6.3
Total	10609	9564	10.9	11730	-9.6

Expected growth in US formulations					
US					
(₹ cr)	Q4FY22E	Q4FY21	%	Q3FY22	%
Alembic	383	475	-19.4	393	-2.6
Ajanta	170	173	-1.8	166	2.3
Aurobindo	2,886	2,856	1.0	2,745	5.1
Zydus Life	1,481	1,509	-1.9	1,504	-1.6
Cipla	1,167	1,002	16.5	1,124	3.9
Lupin	1,553	1,495	3.9	1,578	-1.6
Dr Reddy	1,951	1,749	11.6	1,865	4.7
Sun Pharr	2,953	2,695	9.6	2,972	-0.6
Torrent	245	269	-9.1	235	4.0
Total	12788	12223	4.6	12581	1.6

Expected growth in Europe formulations					
Europe					
(₹ cr)	Q4FY22E	Q4FY21	%	Q3FY22	%
Aurobindo	1,608	1,553	3.6	1,694	-5.1
Zydus Life	63	63	0.0	68	-7.9
Cipla	286	249	15.0	290	-1.2
Dr Reddy	388	396	-2.0	406	-4.5
Lupin	189	165	15.0	187	1.1
Torrent	235	267	-12.0	237	-0.9
Total	2769	2692	2.9	2882	-3.9

Expected growth in API segment					
API					
(₹ cr)	Q4FY22E	Q4FY21	%	Q3FY22	%
Aurobindo	913	794	15.0	1,010	-9.6
Alembic	214	214	0.0	198	8.1
Laurus La	534	797	-33.0	424	26.0
Zydus Life	153	140	10.0	165	-7.0
Divi's Lab	871	917	-5.0	783	11.3
Ipca Labs	300	260	15.4	309	-3.0
Lupin	268	256	5.0	256	4.7
Cipla	168	224	-25.0	150	12.0
Dr Reddy	792	792	0.0	727	8.9
Sun Pharr	479	436	10.0	471	1.7
Total	4693	4828	-2.8	4494	4.4

Exhibit 3: : Company Specific view

Sun
Pharma

Revenues are likely to grow ~11% YoY to ₹ 9459 crore mainly on the back of 12% growth in domestic formulations to ₹ 2991 crore. Taro's sales are expected to grow ~3% to ₹ 1117 crores while US (ex-Taro) is likely to grow 14% YoY to ₹ 1836 crore. Emerging markets are likely to grow by 20% YoY to ₹ 1682 crore while RoW markets likely to grow at 5% YoY to ₹ 1251 crore. EBITDA margins are likely to increase by 143 bps to ~25.5% while EBITDA is expected to post a growth of ~18% YoY to ₹ 2408.7 crore. Adjusted PAT is likely to increase by 45% YoY to ₹ 1952.6 crore

Torrent
Pharma

Revenues are expected grow ~6.5% YoY to ₹ 2063 crore mainly due to 9% YoY growth in domestic formulations to ₹ 1005 crore and 12% YoY growth in Brazil business to ₹ 212 crore. On other hand, US is likely to decline by 9% YoY to ₹ 244 crore while Germany to post de-growth of 12% YoY to ₹ 235 crore. Gross margins are likely to decline 439 bps YoY to 70% while EBITDA margins is expected to decline 390 bps YoY to 26.2%. EBITDA is likely to decline 7% YoY to ₹ 539.5 crore. Adjusted PAT is expected to decrease 23% YoY to ₹ 249.4 crore

Exhibit 4: ICICI Direct Coverage Universe (Pharmaceuticals)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	Y22E	FY23E	FY24E	FY21	Y22E	FY23E	FY24E
MNC Pharma																					
Abbott India	ABBIND	17917	19,840	Buy	38072	325.0	370.4	429.0	496.0	55.1	48.4	41.8	36.1	33.8	35.7	34.4	33.4	26.5	28.1	26.8	25.8
Pfizer	PFIZER	4422	5,350	Buy	20232	108.8	135.2	133.0	148.6	40.7	32.7	33.2	29.8	27.6	27.4	23.6	22.9	20.8	21.7	18.6	18.1
Pharma																					
Ajanta Pharma	AJAPHA	1758	2,605	Buy	15212	74.0	85.4	87.0	100.4	23.8	20.6	20.2	17.5	29.0	27.0	23.8	23.6	21.8	22.4	19.5	19.2
Alembic Pharma	ALEMPHA	770	770	Hold	15128	59.9	34.0	34.8	38.5	12.8	22.7	22.1	20.0	24.2	12.1	12.3	12.6	23.0	11.9	11.2	11.4
Aurobindo Pharma	AURPHA	683	765	Hold	39996	55.0	55.0	53.4	61.2	12.4	12.4	12.8	11.2	16.9	16.9	14.3	15.2	14.7	14.7	11.5	11.7
Biocon	BIOCON	350	390	Hold	42021	6.1	6.1	8.7	13.8	57.5	57.5	40.4	25.5	7.6	7.6	5.3	7.1	9.6	9.6	4.6	6.8
Zydus Lifesciences	CADHEA	364	475	Hold	37254	21.5	21.5	22.4	25.4	16.9	16.9	16.2	14.3	12.6	12.6	13.7	14.6	16.9	16.9	14.0	14.1
Cipla	CIPLA	1027	1,100	Buy	82833	29.9	29.9	39.3	43.5	34.4	34.4	26.1	23.6	16.3	16.3	18.0	18.0	13.1	13.1	13.8	13.6
Dr Reddy's Labs	DRREDD	4322	5,160	Buy	71928	117.3	117.3	190.9	236.0	36.9	36.9	22.6	18.3	13.1	13.1	18.6	22.7	11.1	11.1	14.0	15.1
Glenmark Pharma	GLEPHA	475	550	Hold	13403	32.9	44.2	44.2	49.1	14.5	10.7	10.7	9.7	13.9	15.5	15.2	15.4	13.1	13.1	11.7	11.6
Ipca Laboratories	IPCLAB	1045	1,175	Buy	26510	44.9	44.9	42.4	48.2	23.3	23.3	24.7	21.7	27.1	27.1	19.1	18.5	24.2	24.2	16.1	15.6
Jubilant Pharmova	JUBLIF	476	490	Hold	7574	37.4	28.7	32.5	40.8	12.7	16.6	14.6	11.7	13.7	10.1	10.4	12.2	12.6	8.9	9.2	10.4
Lupin	LUPIN	777	960	Hold	35289	26.9	26.9	29.7	39.4	28.9	28.9	26.2	19.7	9.1	9.1	10.3	12.6	8.8	8.8	9.5	11.3
Natco Pharma	NATPHA	820	955	Hold	14957	24.2	24.2	19.6	23.1	33.9	33.9	41.9	35.5	13.1	13.1	9.7	10.7	10.7	10.7	7.8	8.5
Sun Pharma	SUNPHA	926	1,075	Buy	222262	30.0	30.0	33.8	38.6	30.8	30.8	27.4	24.0	14.2	14.2	17.8	17.8	15.5	15.5	14.4	14.3
Torrent Pharma	TORPHA	2790	3,235	Hold	47212	74.0	74.0	94.7	114.5	37.7	37.7	29.4	24.4	17.7	17.7	21.1	23.5	21.4	21.4	20.3	20.7
Indoco Remedies	INDREM	399	510	Buy	3679	10.1	10.1	23.3	28.3	39.5	39.5	17.2	14.1	11.7	11.7	21.5	26.3	12.1	12.1	19.8	20.0
Caplin Point	CAPPOI	781	1,010	Buy	5919	81.7	76.7	55.5	60.4	9.6	10.2	14.1	12.9	25.6	24.1	23.5	0.0	20.4	20.5	18.8	18.3
Advanced Enzymes	ADVENZ	315	380	Buy	3521	13.1	11.3	13.6	15.8	24.1	28.0	23.2	20.0	19.4	15.4	16.7	17.2	15.1	11.6	12.4	12.7
Hester Biosciences	HESPHA	2832	2,780	Hold	2409	44.4	47.2	52.0	71.4	63.8	60.0	54.5	39.7	16.2	12.8	14.3	17.3	16.5	15.5	15.1	17.8
API/CRAMS																					
Divi's Lab	DIVLAB	4470	5,335	Buy	118672	74.7	74.7	108.4	126.4	59.8	59.8	41.3	35.4	27.6	27.6	27.7	27.5	21.3	21.3	21.7	21.6
Hikal	HIKCHE	435	500	Buy	5365	10.8	10.8	17.1	22.6	40.3	40.3	25.4	19.2	15.1	15.1	16.0	19.1	14.3	14.3	16.8	18.8
Syngene Int.	SYNINT	645	710	Buy	25849	10.1	10.1	13.1	17.8	63.7	63.7	49.2	36.3	11.5	11.5	15.0	17.9	13.5	13.5	14.2	16.2
Granules India	GRANUL	303	360	Buy	7503	22.2	16.2	19.4	25.8	13.7	18.7	15.6	11.7	24.0	16.2	17.4	20.2	25.3	15.8	16.1	17.8
Laurus Labs	LAULAB	597	625	Buy	32067	18.3	14.9	20.9	26.4	32.6	40.1	28.5	22.6	31.7	21.1	24.5	26.4	37.9	24.1	26.0	25.3
Suven Pharmaceuticals	SUVPH	598	555	Hold	15229	14.2	18.3	17.7	19.8	42.0	32.7	33.8	30.2	31.2	35.0	28.7	26.6	30.7	29.6	23.2	21.3

Source: ICICI Direct Research

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Reduce: -5% to -15%;

Sell: <-15%



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