

Q4 FY24 Earnings Preview - Pharma & Healthcare

Q4 typically sees weakness in domestic acute business on account of low seasonality. US business is expected to exhibit moderate growth as operating environment remains presumably benign. India business for most companies especially chronic focused ones would grow 9-11% YoY while acute heavy ones might have to endure mid-single digit growth. Large companies like Lupin, Dr Reddy's would continue to benefit from product specific boost like Spiriva and Revlimid (some seasonal weakness not ruled out) while smaller ones would have to rely on existing business to drive growth in US. Diagnostic players would see broad volume range with Vijaya again leading the pack. We reckon Torrent, Lupin and Ajanta could report better than expected numbers while Alkem and JB Chem likely to disappoint extant consensus expectations.

- **Ajanta Pharma** - Some lingering impact of MetXL price cut which was effective from Feb'23. Africa branded to recover partly in primary sales while Asia branded seen up ~10% YoY. US to remain steady with moderate ~2% growth QoQ. Freight cost impact seen <1% on EBIDTA
- **Torrent Pharma** - Domestic business to chug along at 10% YoY growth while Brazil should also see a double-digit rise; US to be steady at US\$34mn before ramp up expected from Dahej in H2 FY25. Margin to come in strong at over 34% as gross margin improve due to better mix.
- **Aurobindo** - US\$20mn impact due to shutting down of aseptic and septic lines at Eugia 3; aseptic lines to come back gradually in April. Revlimid would be a key driver to offset some of the US revenue loss YoY. Europe to see ebbing of one-time revenue hit while ROW markets would see benefit of Indonesian acquisition
- **Vijaya Diagnostics** - About 15% topline growth to continue driven by 13-14% rise in patient volumes on a like-to-like basis. Including PH for full quarter results in 23% growth on reported basis. Kolkata, Mehbubnagar, Tirupati and Gulbarga are some of the hubs added YoY and should add to growth. Reckon no major costs incurred QoQ; addition of Ongole hub in Q1 FY25. Margin can be around or above 40% as PH Diagnostics integration costs would not be meaningful.
- **Metropolis** - A 5% price hikes across B2C portfolio which is 55% of the revenue translates into ~2.5% price hike from January. Volume growth is likely to be in double digit while PPP contract went off in Feb so impact would be ~40 days for the quarter or (higher margin) ~Rs100mn sitting in the base last year. Q3 had 0.9% impact due to provision for bad debt
- **Indoco** - Domestic growth ~6% lower than IPM in Q4; Remediation costs not much different from Q3. US sales continue to be affected due to inability to supply. Europe - paracetamol overstocking behind but ramp up to H1 levels to come about in Q1 FY25
- **Alkem** - Q4 margin would be ~13% or thereabout vs 12.5% in Q4 FY23; R&D would be on higher side as Q4 normally sees higher filings which would offset the lower input costs YoY. US - Suprep still not launched while domestic growth might end FY24 on a weak note at 4-5% YoY growth (slightly higher base in Q4 FY23)
- **Sun Pharma** - Expect steady up move in US specialty business with sustained momentum in Taro; ROW had US\$20mn payment from Almirall in Q3 which would be presumably absent in Q4. Domestic growth of ~10% YoY.
- **JB Chem** - Looking at ~10% growth in domestic business on a like-to-like basis adjusting for Razel inventory and excluding ophthalmology portfolio. Can add ~Rs300mn from ophthalmology products translating into mid-teens growth in domestic business on reported basis. Ophthalmology products would come with very low gross and EBIDTA margin which would drag overall EBIDTA. Exports seen flat due to exit of SA tender business in Q2 FY24 while being part of base quarter YoY. CMO seen at sub Rs1bn and down 8% YoY
- **Gland Pharma** - One-offs in Cenexi expenses to the tune of Euro2mn would recede while moderate growth in US presumed QoQ. Addition of Enoxaparin supplies in US might be margin dilutive
- **Lupin** - Spiriva expected to ramp up after 2 quarters as revenues pick up pace to match prescription trends an expectation outlined in previous call. Other products like Chantix, Dronedarone (first generic) and traction in earlier ophthalmic launches like Prolensa should support QoQ momentum. Domestic business to remain strong YoY while better mix to ensure margin cross 20%.

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Exhibit 1: Pharma & Healthcare- Earnings expectation snapshot

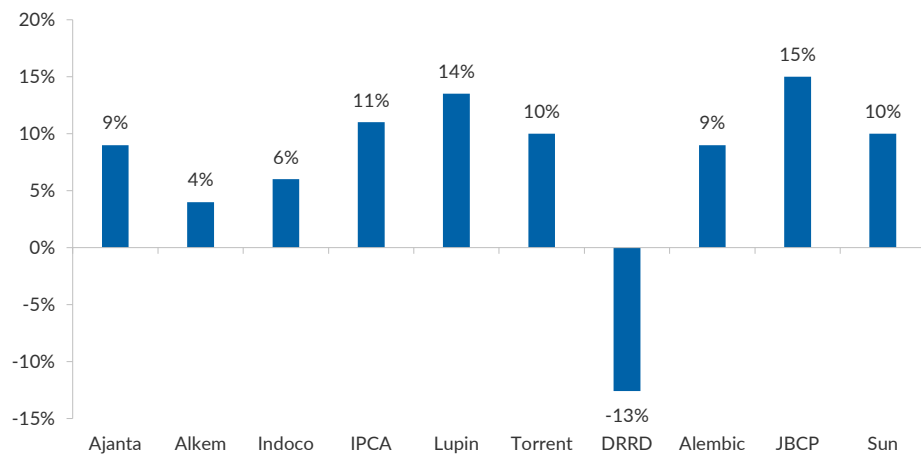
Co. name (Rs mn)	Revenue			EBITDA			PAT			Remarks
	Q4 FY24	YoY (%)	QoQ (%)	Q4 FY24	YoY (bps)	QoQ (bps)	Q4 FY24	YoY (%)	QoQ (%)	
Dr Reddy's	70,460	11.6	(2.6)	19,569	263	(33)	13,159	37.1	(4.7)	Revlimid could be flat or marginally lower as Q4 is traditionally a weak period for ordering (as per innovator BMS comments). India business to see ~10% YoY adjusted for Rs2.6bn of non core brands divested in Q4 FY23. Margin tad lower on US decline QoQ
Aurobindo Pharma	73,255	13.2	(0.4)	15,193	526	(104)	8,038	59.0	(14.1)	US\$20mn impact due to shutting down of aseptic and septic lines at Eugia 3; aseptic lines to come back gradually in April. Revlimid would be a key driver to offset some of the US revenue loss YoY. Europe to see ebbing of one-time revenue hit while ROW markets would see benefit of Indonesian acquisition
Sun Pharma	118,585	8.5	(4.2)	28,719	(167)	(286)	20,379	2.7	(19.3)	Expect steady up move in US specialty business with sustained momentum in Taro; ROW had US\$20mn payment from Almirall in Q3 which would be presumably absent in Q4. Domestic growth of ~10% YoY.
Lupin	51,459	16.2	(1.0)	10,731	722	119	5,946	152.0	(3.0)	Spiriva expected to ramp up after 2 quarters as revenues pick up pace to match prescription trends, an expectation outlined in Q3 call. Other launches like Chantix, Dronedarone (first generic) and traction in earlier ophthal launches like Prolensa should support QoQ momentum. Domestic business to remain strong YoY while better mix to ensure margin cross 20%
Torrent Pharma	27,547	10.6	0.8	9,248	439	176	4,154	44.7	(6.2)	Domestic business to chug along at 10% YoY growth while Brazil should also see a double digit rise; US to be steady at US\$34mn before ramp up expected from Dahej in H2 FY25. Margin to come in strong at over 34% as gross margin improves due to better mix
Ajanta Pharma	10,713	21.5	(3.1)	2,845	716	(186)	1,876	57.0	(10.7)	Some lingering impact of MetXL price cut which was effective from Feb'23. Africa branded to recover partly in primary sales while Asia branded seen up ~10% YoY. US to remain steady with moderate ~2% growth QoQ while freight to shave off <100bps from margin (due to large Iraq presence)
Alkem	30,817	6.2	(7.3)	4,113	118	(794)	3,592	430.7	(40.6)	Should end the year with ~17% guided margin number and Q4 would be ~13% or thereabout vs 12.5% in Q4 FY23; R&D would be on higher side as Q4 normally sees accelerated filings that would offset lower input costs YoY. US - Suprep still not launched while domestic business might end FY24 on a weak note at +4-5% YoY (slightly higher base in Q4 FY23)
Indoco Remedies	4,285	0.1	(6.7)	530	(277)	(133)	159	(38.2)	(2.2)	Domestic growth ~6% lower than IPM in Q4; Remediation costs not much different from Q3 US sales continue to be affected due to inability to supply. Europe - paracetamol overstocking behind but ramp up to H1 levels to come about in Q1 FY25
IPCA	19,913	31.7	(3.0)	3,117	368	(49)	1,342	75.3	(25.4)	Branded growth to rebound after shipments resume in CIS and also based on 6-7% YoY growth in FY24 resulting in a strong QoQ finish. Domestic growth to be ~11% while API business to remain subdued for 1 more quarter. Generic business expected to clock ~15% YoY growth, building conservatively lower than 9m FY24 growth

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Co. name (Rs mn)	Revenue			EBITDA			PAT			Remarks
	Q4 FY24	YoY (%)	QoQ (%)	Q4 FY24	YoY (bps)	QoQ (bps)	Q4 FY24	YoY (%)	QoQ (%)	
JB Chem	8,230	8.0	(2.5)	1,695	(305)	(724)	824	(6.0)	(38.3)	Looking at ~10% growth in domestic business on a like-to-like basis adjusting for Razel inventory and excluding ophthalmology portfolio. Can add ~Rs300mn from ophthalmology products translating into mid-teens growth in domestic business on reported basis. Ophthalmology products would come with very low gross and EBITDA margin which would drag overall EBITDA. Exports seen flat due to exit of SA tender business in Q2 FY24 while being part of base quarter YoY. CMO seen at sub Rs1bn and down 8% YoY
Syngene	10,453	5.1	22.5	3,255	(87)	256	1,635	(8.5)	46.6	Basis Q3 revised guidance, expect weak end to FY24 with 5% YoY growth in Q4. With presumed pressure emanating from weak biotech orders, biologics manufacturing could be weak translating into actually better gross margin mix
Gland Pharma	16,064	104.6	4.0	3,958	318	157	2,236	184.1	16.5	One-offs in Cenexi expenses to the tune of Euro2mn would recede while moderate growth in US presumed QoQ. Addition of Enoxaparin supplies in US might be margin dilutive
Alembic Pharma	15,812	12.4	(3.0)	2,566	114	(11)	1,554	1.9	(13.9)	US to see 5 launches coupled with benign operating environment which might offset lack of major new approvals. Domestic growth seen healthy at ~9% YoY while gross margin might taper off somewhat QoQ as domestic business on back of weak domestic seasonality
Sequent Scientific	3,758	2.5	14.1	428	788	284	66	(107.3)	(20.4)	Topline growth would be low single digit as rationalization and exits would have an impact YoY though building in ~11% margin in line with company guidance of double digit exit from Q4
Dr Lal Pathlabs	5,254	7.0	(2.5)	1,306	131	(123)	747	31.7	(8.1)	Volume growth presumption of ~5% YoY coupled with some benefit YoY of price hike in Feb'23 which would result in mid to high single digit growth YoY. No immediate benefits of going deeper in Tier 3 and 4 locations. Gross margin to rise ~150-200bps YoY
Metropolis Health	3,025	7.1	3.9	751	(6)	254	342	2.4	25.8	We understand company has taken a 5% price hikes across B2C portfolio which is 55% of the revenue translating in to ~2.5% price hike from January. Volume growth is likely to be in double digit while PPP contract went off in Feb so impact would be ~40 days for the quarter or (higher margin) ~Rs100mn sitting in the base last year
Vijaya Diagnostic	1,494	23.5	12.6	597	(61)	55	305	10.8	17.1	About 15% topline growth to continue driven by 13-14% rise in patient volumes on a like-to-like basis. Including PH for full quarter results in 23% growth on reported basis. Kolkata, Mehbubnagar, Tirupati and Gulbarga are some of the hubs added YoY and should add to growth. Reckon no major costs incurred QoQ; addition of Ongole hub in Q1 FY25. Margin can be around or above 40% as PH Diagnostics integration costs would not be meaningful.

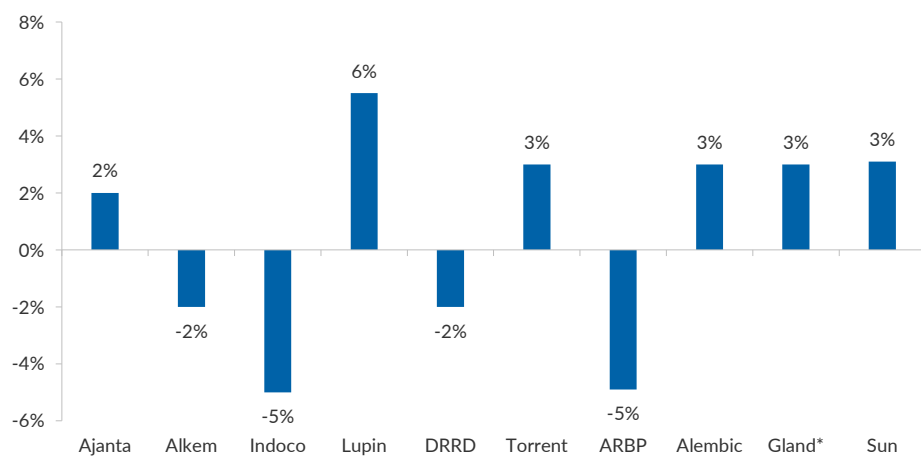
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Exhibit 2: Trend in domestic growth across pharma cos, % YoY



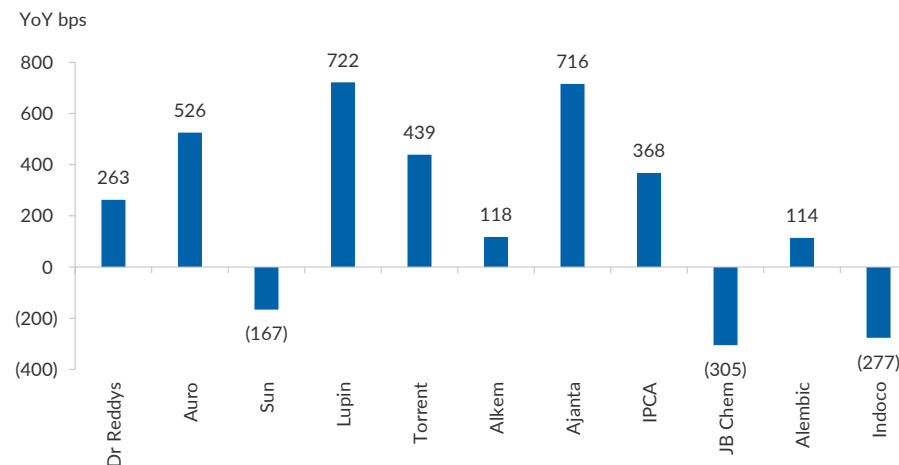
Source: Companies, YES Sec

Exhibit 3: Trend in US growth across pharma cos, % QoQ



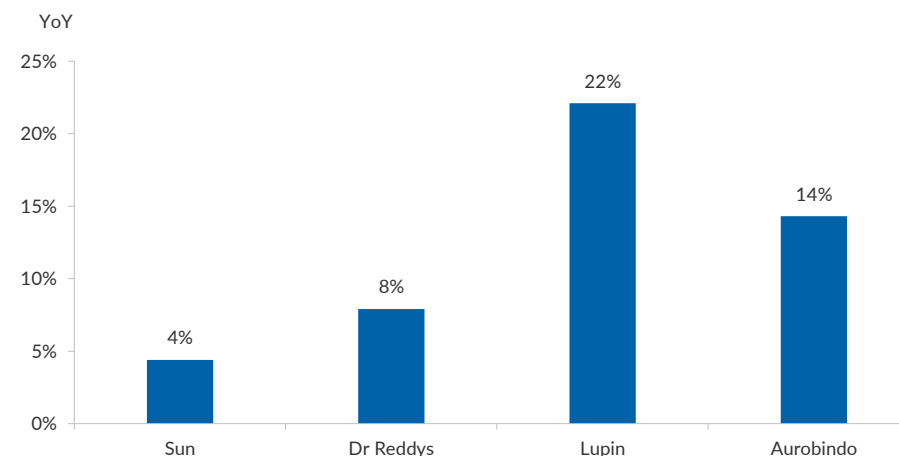
Source: Companies, YES Sec

Exhibit 4: Pharma margin mostly up YoY as base quarter had RM cost surge



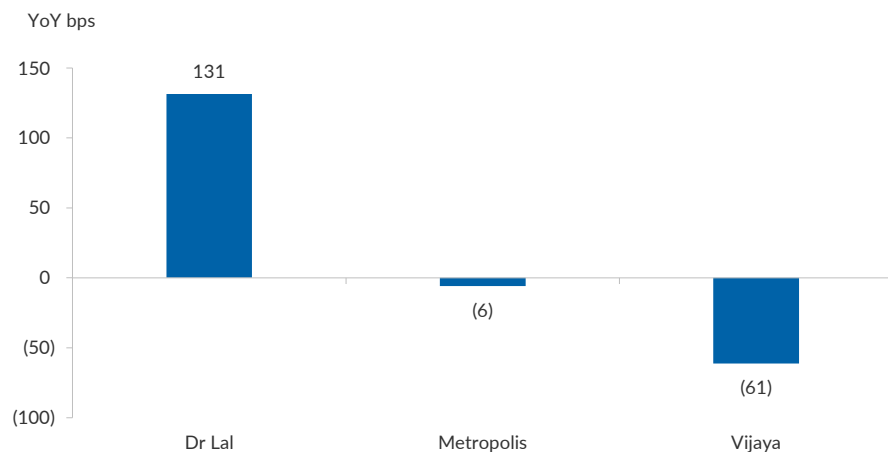
Source: Companies, YES Sec

Exhibit 5: Lupin to lead large pharma growth in markets excluding India and US



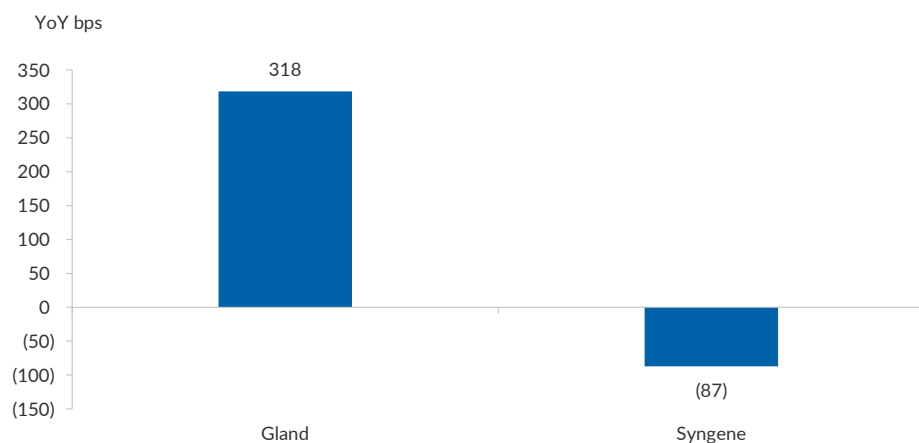
Source: Companies, YES Sec

Exhibit 6: Diagnostics - Metropolis margin weak due to PPP contract revs in base



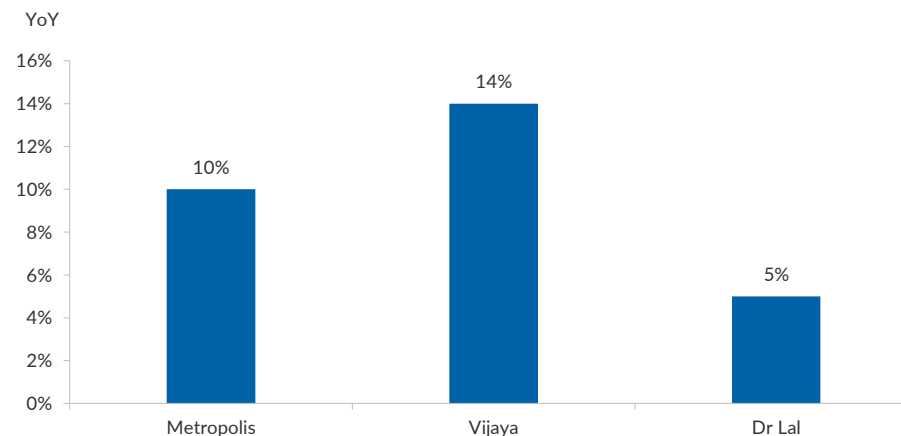
Source: Companies, YES Sec

Exhibit 7: CDMO – Low revenue growth to keep Syngene margin under leash



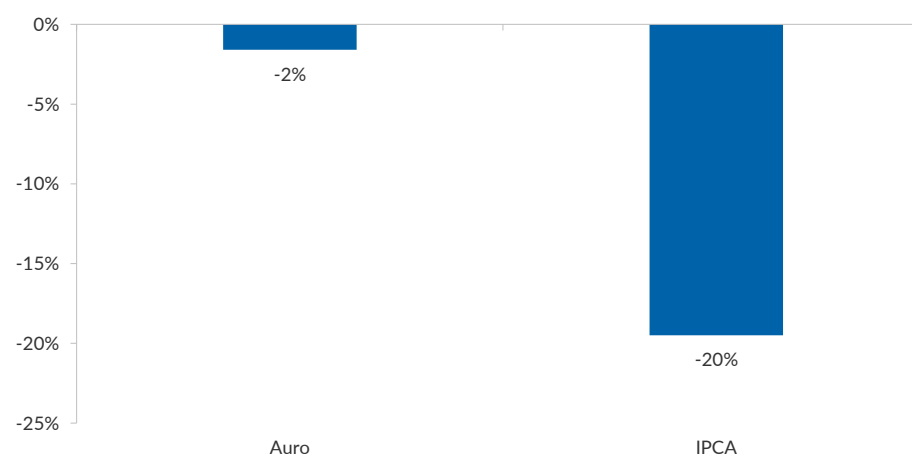
Source: Companies, YES Sec

Exhibit 8: Diagnostics – Implicit vol assumption in Q4 revenue estimates



Source: Companies, YES Sec

Exhibit 9: API segment – 2 key players still struggling YoY



Source: Companies, YES Sec

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