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MONTHLY NEWSLETTER

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PHARMACEUTICAL SECTOR QUARTERLY UPDATE: Q3FY24 PERFORMANCE AND OUTLOOK

KEY HIGHLIGHTS:

US Market Performance: The US market performed well for coverage companies, with a year-on-year (y-o-y) growth of 14% and a quarter-on-quarter (q-o-q) growth of 7% to Rs 17,830 crore. The US contributes almost 33% of total sales for most coverage companies.

Factors Driving US Sales Growth: Various factors drove US sales growth, including easing price erosion in the base portfolio due to drug shortages, launch of complex generics, specialty products, and injectables.

Shift Towards Complex Products: Many companies are shifting from oral solids to complex products like inhalers, injectables, and transdermals to mitigate pricing pressure in the old portfolio.

India Market Growth: The India region also saw double-digit growth at 11%, above the Indian Pharmaceutical Market (IPM) growth of 9%. India contributes 33% of sales for coverage companies.

Margin Expansion: Margins increased to 22% in Q3FY24, primarily driven by a healthy product mix. Gross and EBITDA margins reached record highs due to easing input costs and better product mix.



Valuation and Outlook:

The sector's valuation remains reasonable at 18-25x on FY26 EPS. Going forward, input costs are expected to remain benign, driving further margin expansion. This was based on the valuation on the pharmaceutical sector, highlighting the performance of major companies in Q3FY24 and their outlook for the future. The pharmaceutical industry witnessed significant growth in the US market, with a notable year-on-year (y-o-y) growth of 14% and a quarter-on-quarter (q-o-q) growth of 7% to Rs 17,830 crore. This growth was primarily driven by factors such as easing price erosion, launch of complex generics, and specialty products.

Looking ahead, the sector's valuation remains reasonable at 18-25x on FY26 EPS, with expectations of further margin expansion due to benign input costs. Among the top performers for Q3FY24 were Sun Pharma, Dr. Reddy's, Abbott, and Caplin Point, while Laurus Labs and Divi's underperformed. Our preferred picks for investment include Sun Pharma, Cipla, Zydus Life, Lupin, Strides Pharma, Abbott, Caplin Point, Sanofi, and Artemis Medicare.

In response to pricing pressures in the old portfolio, many companies are strategically shifting towards complex products like inhalers, injectables, and transdermals. Additionally, the India region experienced impressive double-digit growth of 11%, surpassing the Indian Pharmaceutical Market (IPM) growth of 9%. Margin expansion was a key highlight, with margins increasing to 22% in Q3FY24, driven by a healthy product mix and easing input costs.



In terms of revised earnings estimates, we observed both upgrades and downgrades based on companies' performance and outlook. Notably, Aurobindo and Divis revised downwards due to operational challenges, while Zydus Lifesciences and Lupin saw upgrades due to better-than-expected performance. Sun Pharma, Biocon, and Granules also saw upgrades, driven by delays in new launches and growth expectations. Q3FY24 was a strong quarter for pharmaceutical companies, characterized by robust sales growth and margin expansion. With a focus on innovation, complex generics, and expanding market presence, the sector remains attractive for investors. We look forward to continued growth and value creation in the pharmaceutical sector in the quarters to come.

Performance Metrics:

Top Performers for Q3FY24: Sun Pharma, Dr. Reddy's, Abbott, and Caplin Point emerged as leaders for the quarter.

Underperformers for Q3FY24: Laurus Labs and Divi's lagged behind in performance.

Preferred Picks: Sun Pharma, Cipla, Zydus Life, Lupin, Strides Pharma, Abbott, Caplin Point, Sanofi, and Artemis Medicare are among the preferred picks.

The partnership leverages BE's expertise in vaccine manufacturing and Takeda's innovative vaccine technology to accelerate the production and distribution of multi-dose vials (MDVs) of the dengue vaccine. MDVs offer cost-effective and efficient solutions for national immunization programs, streamlining procurement, storage, and distribution processes. By making MDVs available for procurement by governments in endemic countries by 2030, this collaboration supports efforts to integrate dengue vaccination into national immunization schedules, ultimately reducing the disease's impact on public health.

Takeda's recent collaboration with Indian vaccine manufacturer Biological E (BE) marks a significant step forward in the global fight against dengue fever. Through this partnership, BE will increase its manufacturing capacity to produce 50 million doses annually, contributing to Takeda's goal of manufacturing 100 million doses per year by 2030. This joint effort aims to address the pressing need for dengue vaccines in endemic regions, particularly in Asia and Latin America, where the disease burden is high.



Takeda's commitment to expanding access to its dengue vaccine, QDENGGA, underscores the company's dedication to global health equity. Although currently approved in 30 countries and available in select markets, including Europe, the UK, and parts of Asia and Latin America, the vaccine's accessibility remains limited in many regions, including India. As efforts to secure regulatory approval in India continue, collaborations like the one with BE hold promise for increasing access to life-saving vaccines and improving health outcomes for vulnerable populations worldwide.

This collaboration exemplifies the power of public-private partnerships in advancing global health goals and addressing unmet medical needs. As the world grapples with emerging infectious diseases and ongoing health challenges, initiatives like this serve as a beacon of hope, demonstrating how collaboration and innovation can drive progress towards a healthier, more resilient future for all.

