

# Healthcare

## 3QFY24 Preview: US growth to sustain, domestic steady



Jainil Shah

jainil.shah@jmfl.com | Tel: (91 22) 66303155

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In 3QFY24, we expect double-digit domestic growth from IPCA, TRP, CIPLA and SUNP. We expect gRevlimid contribution of USD 95mn/ USD 54mn/ USD 20mn for DRRD, Cipla and SUNP, respectively. SUNP (specialty growth, gRevlimid, Mohali supply resumption) and LPC (gSpiriva, gPrezista) can potentially deliver positive earnings surprise. We expect sequential improvement in BIOS' revenue driven by ramp-up in existing biosimilars, higher generics revenue and research contribution. Due to Unichem acquisition, IPCA's performance is not comparable. Krsnaa and Vijaya's topline growth should outperform larger diagnostic peers. METROHL's growth was slightly impacted by Tamil Nadu floods. We expect Medanta to sustain its strong operating performance with stable margins QoQ due to better case mix. We prefer SUNP as our top pick in Pharma, and Metropolis, Medanta and Jupiter in healthcare.

- Decent domestic growth:** IPM growth (as per IQVIA) is trending at ~8% benefitting partly from deferred infection season in Oct'23. However, acute segment growth remains weak at ~8% vs. ~10% chronic. We expect moderate growth for our coverage companies in 3Q. IPCA is on track to achieve 12-14% FY24 domestic sales guidance (3Qe: 14%). SUNP's 3Q IQVIA growth is trending at ~9% (higher than IPM) given the lower anti-diabetic drag and Istamet base reset, and TRP is also expected to report early double-digit growth with Curatio now in the base. Field force expansion, chronic segment growth and price hikes are key growth drivers. Overall, we believe domestic business is expected to sustain early double-digit growth in FY24.
- US momentum to sustain:** DRRD, Cipla and SUNP will be key gRevlimid beneficiaries this time around with contribution of USD 95mn/ USD 54mn/ USD 20mn respectively. Mayne portfolio ramp-up should support incremental growth in base business (at USD 279mn). gTamiflu tailwinds should aid NTCPH, ZYDUSLIF and LPC albeit it has been weaker this time. We build in ~USD 270mn specialty revenue and sequential improvement in US generic revenue (with Mohali supply resumption). SUNP and LPC can potentially deliver positive earnings surprises. LPC's management alluded to lower gSpiriva sales in 3Q due to channel fill-up in 2Q and margin delivery beyond 18% seems difficult this quarter. Cipla's gRevlimid and Lanreotide should sustain current US momentum; site compliance and timeline of new launches remain key monitorables/ risks. We believe BIOS' revenue will pick up QoQ driven by uptick in existing biosimilars and better generics performance but flattish research contribution. While ALPM's US sales may improve marginally, we expect stable EBITDAM. TRP's US business is expected to remain subdued on account of portfolio optimisation initiatives, which may reduce margin drag. IPCA's US business is at an inflection point and given that it is the first full quarter of Unichem, margin may remain subdued (JMFe: 16% vs. ~19% in 1Q).
- A seasonally weak quarter:** We expect ~12% YoY revenue growth for DLPL with an EBITDAM of ~26%. The 12% growth assumption is based on 8% volume growth and 4% realisation growth. METROHL's NACO expiry has created a void in earnings and centre expansion has dented margins. Hitech's operations were impacted by recent floods in Tamil Nadu (overall impact not material). METROHL reported core revenue growth of 12%YoY. Vijaya's growth will further accelerate with PH Diagnostics' acquisition while new hubs (Punjagutta, Tirupati and Rajahmundry) continue to ramp up. This, in our view, should drive ~16%YoY revenue growth and ~39% EBITDAM. Krsnaa's strong revenue momentum should sustain in 3Q, in our view. New centre costs particularly from Assam will keep EBITDAM in check (21-22%). We await clarity on the Rajasthan agreement, which will accelerate growth momentum over the next few quarters. Among Hospitals, we expect Medanta to report 18.5%/27.5% Revenue/EBITDA growth driven by ramp-up of Lucknow / Patna and price hikes. Aster's sequential improvement will be driven by GCC seasonality. JLHL is expected to have flattish sequential topline growth with ~23% margins, in our view. We await commentary on new hospital sites.

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## Exhibit 1. Pharma preview

Company	Revenue	YoY	EBITDA	YoY	EBITDA %	Adj. PAT	YoY	JMFe Comments
Alembic	16126	7%	2166	-13%	13.4%	1251	3%	We expect momentum in non-US formulations to sustain and US\$55mn US sales. We expect marginal improvement in margin QoQ.
Biocon	35660	21%	7881	22%	22.1%	1626	16%	We expect QoQ improvement in existing biosimilars and generics performance albeit Syngene could be flattish QoQ. Update on pending new launches will be a key factor to watch out for
Cipla	65194	12%	16152	15%	24.8%	10086	26%	We expect ~USD 54mn gRevlimid contribution. Margins may contract sequentially (c. -120bps). We expect 11% domestic growth due to lower acute sales despite a strong Oct'23.
Dr Reddys	69083	2%	19439	-5%	28.1%	12758	2%	We expect gRevlimid sales of USD 95mn, higher Mayne Pharma contribution (USD 279mn ex-Revlimid US business) and ~5% domestic growth. Margins to remain elevated at ~28%.
Ipca	21226	37%	3396	57%	16.0%	1668	55%	YoY financials are not comparable due to Unichem acquisition. We expect healthy performance in promotional biz and domestic formulations.
Lupin	49192	14%	8476	59%	17.2%	4173	172%	LPC is likely to sustain USD 200mn US base as gSpiriva channel fill-in in 2Q may lead to QoQ dip. We expect margins to be <18%
Natco	5896	20%	1356	28%	23.0%	948	52%	3Q is expected to be sequentially weaker on account of lower gRevlimid and Agrochem contribution.
Sun Pharma	124205	10%	32666	9%	26.3%	23887	10%	We expect ~10% domestic growth and strong specialty sales of USD 268mn. We bake USD 20mn from gRevlimid.
Torrent	27605	11%	8572	18%	31.1%	4075	44%	We expect 13%YoY domestic growth with Curatio now in the base
Zydus Life	43494	0%	10893	14%	25.0%	7217	16%	We expect negligible gRevlimid sales in 3Q and total US sales of ~ USD 228mn. We expect domestic growth of 8.5%.

Source: JM Financial; Amount in INR mn

## Exhibit 2. Hospital preview

Company	Revenue	YoY	EBITDA	YoY	EBITDA %	PAT	YoY	JMFe Comments
Aster DM	36063	13%	5229	17%	14.5%	1590	14%	We expect ~15% revenue growth in India business with 17% EBITDAM. 2H is seasonally strong for GCC business.
Medanta	8228	19%	2040	28%	24.8%	1194	48%	Festive season to drive QoQ dip. EBITDAM to remain stable due to favourable case mix
Jupiter	2610	14%	611	35%	23.4%	374	NA	We expect flattish revenues QoQ with margins at 23.4%. We await land acquisition for new hospitals

Source: JM Financial; Amount in INR mn

## Exhibit 3. Diagnostic preview

Company	Revenue	YoY	EBITDA	YoY	EBITDA %	PAT	YoY	JMFe Comments
Dr Lal	5478	12%	1446	28%	26.4%	841	59%	We have assumed ~12% revenue growth driven by 8% volume growth. We expect strong margins of 26.4%
Metropolis	2910	2%	684	-3%	23.5%	327	-9%	NACO expiry has created a void in earnings. Core revenue grows at ~12%YoY. Hitech revenues impacted due to floods.
Vijaya	1314	16%	518	17%	39.4%	289	77%	We expect double digit growth with 39.4% EBITDAM partly impacted due to acquisition-related costs
Krsnaa	1500	27%	315	7%	21.0%	124	-9%	We expect 27%YoY revenue growth in 3Q with 21% margin due to new centre costs, particularly Assam.

Source: JM Financial; Amount in INR mn

## Exhibit 4. Valuation

Company	Rating	Mkt Cap (INR bn)	12M TP (INR)	EV/EBITDA (x)			PE (x)		
				FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
<b>Pharma</b>									
Alembic Pharmaceuticals	BUY	157	915	17.8	12.4	10.2	29.9	20.1	16.9
Biocon	BUY	338	340	15.3	12.2	10.0	38.9	21.8	15.6
Cipla	HOLD	1,073	1,155	16.4	14.4	13.1	28.2	26.0	24.5
Dr Reddy's Labs	BUY	966	6,055	11.3	10.5	10.0	18.1	18.1	18.1
Ipca Laboratories	BUY	283	1,055	23.6	16.6	13.0	44.7	27.7	21.8
Lupin	HOLD	640	1,175	19.1	16.9	14.2	36.5	32.4	25.9
Natco Pharma	HOLD	151	875	10.4	7.8	7.6	14.4	11.6	12.0
Sun Pharma	BUY	3,179	1,440	24.2	20.5	17.2	34.1	28.9	24.8
Torrent Pharmaceuticals	HOLD	796	1,835	24.4	20.8	17.7	49.5	38.4	31.5
Zydus Lifesciences	BUY	716	720	14.6	12.9	11.9	21.7	19.4	18.0
<b>Hospitals</b>									
Aster DM Healthcare	BUY	204	410	11.6	9.6	8.0	39.7	24.3	19.2
Global Health	BUY	267	930	33.0	28.1	23.5	57.8	49.3	40.8
Jupiter Life Line Hospitals	BUY	73	1,260	25.3	21.7	17.8	45.9	35.9	29.1
<b>Diagnostics</b>									
Dr Lal Pathlabs	BUY	209	2,575	33.2	28.5	24.6	57.3	48.5	41.5
Krsnaa Diagnostics	BUY	23	1,010	14.8	8.9	7.0	36.6	19.2	14.8
Metropolis Healthcare	BUY	82	1,635	28.0	22.4	18.2	57.7	42.5	33.3
Vijaya Diagnostics	BUY	71	665	32.0	24.9	21.0	57.1	45.5	37.4

Source: JM Financial

## APPENDIX I

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Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: [jmfinancial.research@jmfl.com](mailto:jmfinancial.research@jmfl.com) | [www.jmfl.com](http://www.jmfl.com)Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: [sahil.salastekar@jmfl.com](mailto:sahil.salastekar@jmfl.com)Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: [instcompliance@jmfl.com](mailto:instcompliance@jmfl.com)

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