

Growth in US biz likely to boost Q1 pharma revenues

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Indian pharma companies may be dealing with pressure from the US regulator, but analysts expect the firms to post double-digit revenue growth in the first quarter of FY20, owing to growth in the US business.

Most brokerages expect US business growth for Indian pharma companies to be in the range of 21-26 per cent in Q1FY20 on a year on year (YoY) basis. However, it would remain flat on a sequential basis in constant currency.

According to Edelweiss Securities, pharma sales to grow by 17 per cent YoY as US sales are expected to grow by 21 per cent YoY. The domestic business, however, is likely to clock single-digit growth of 9 per cent, according to Edelweiss. Firms like Sun Pharma, Lupin, and Cipla had one-time opportunity in the US, along with a good set of launches by Dr Reddy's Lab (DRL).

Sun Pharma benefitted from a one-time supply opportunity that began in Q4FY19. Brokerages expect its US revenues (\$425 million) to fall by 4 per cent sequentially in Q1FY20. Taro sales are expected to remain flat QoQ at \$150 million.

Krishnakant Munde of Reliance Securities felt there could be a 1.5 per cent sequential decline in US revenues led by slower abbreviated new drug application (ANDA) approvals. On a YoY basis, Munde expected the US sales of his coverage

universe to grow by 26 per cent. Q1FY20 saw 55 ANDA nods, against 93 in Q4FY19 and 64 in Q1FY19.

On the earnings front, analysts are positive about 22-23 per cent YoY uptick owing to the one-off opportunities in the US. Munde noted prices of active pharmaceutical ingredients moderated during the quarter. The domestic pharma market, which has acted as a cushion for US-focused firms whenever there was pricing pressure, has slowed down in the past few months. Seasonal factors, slower new product introductions, and an overhang of the pricing regulation have dragged the domestic market. Domestically, sales are likely to grow 9 per cent YoY as underlying demand remains weak. Deepak Malik, analyst with Edelweiss, said domestic sales of Sun Pharma were expected to grow at 8 per cent YoY. Similarly, the domestic revenues of Torrent Pharma and Cadila Healthcare (Zydus) are expected to clock growth of 8 per cent. DRL and Lupin are likely to post 12 per cent growth, higher than IPM growth rate.

Gaurav Jain, vice-president and co-head, corporate ratings of ICRA, said, "The negative growth in Q4FY19 was on account of change in distributor for Sun Pharma as well as muted growth for FDC portfolio after ban in August 2018. The growth in FY20 is expected to be supported by 4.2 per cent WPI linked price hike for NLEM portfolio."