

# Q1 FY20E Pharmaceuticals and Chemical Earnings Preview



Pharmaceuticals and Chemicals | Earnings Preview

15<sup>th</sup> July 2019

## Revenue performance to improve, Low base to drive earnings

We expect the companies under our pharmaceuticals coverage to report revenue growth of 17.2% in Q1FY20 with 15.7% growth in profitability, aided by low base with lower single digit price erosion. The US revenues are expected to deliver double digit growth due to favorable currency movement and moderate recovery in base business. In domestic market, better pricing growth and new launches are expected to drive growth in the domestic formulation space. Overall structural trends in the sector give us long-term comfort, based on overall earnings decline is expected to bottom out in the near term. **Overall our pharma coverage would post Revenue/EBITDA/PAT growth of 17.2%/24.6%/15.7% YoY in Q1FY20. We expect the EBITDA margin of our coverage universe to show marginal improvement of 116bps YoY, underpinned by favourable product mix, cost control measures, thus mitigating higher raw material cost due to raw material supply constraints from China and higher promotional cost of innovative products. Improvement in PAT is mainly due to lower tax expenses.**

### Aurobindo Pharma

We expect Aurobindo Pharma's Q1FY20E revenues to grow by 25.4% YoY to INR 53.3bn, aided by integration of Apotex business in Europe and strong growth in US business (led by Injectables and incremental sales from spectrum acquisition). The company's EBITDA margin is expected to improve by 296bps YoY to 19.7% in Q1FY20 from 16.7% in Q1FY19. We expect PAT to grow by 34.5% YoY to INR6.13bn on account of better operational performance.

### Dishman Carbogen Amcis

Dishman Carbogen is expected to deliver 11.8% revenue growth with EBITDA growth of 17.9% on the back of favorable change in products mix. The net profit would increase by 24.6% YoY to INR 494mn. We expect higher proportion of products shifting from the late phase III to commercialization stage to support growth going forward.

### Glenmark Pharma

We expect Glenmark to report 12.8% growth in revenues primarily on back of strong growth in domestic formulation business. However, we expect the US business to post low single digit growth. EBITDA margin expected to remain flat at 16.1%. PAT is expected to decline by 19.1% to INR1.9bn due to lower other income.

### Granules India

We expect Granules India's revenues to grow by 37.6% YoY to INR6.23bn on the back of higher utilization at new API/PFI capacities and ramp-up of formulation business in the US. We expect EBITDA margin to improve YoY to 16.7% from 16% due operating leverage benefit and better product mix. We expect PAT (incl. associate income) to grow by 25.6% YoY to INR 650mn.

### Lupin

We expect Lupin's Q1FY20E revenues to increase by 16.2% YoY primarily due to strong growth in US led by gRenexa exclusivity and lower base. EBITDA margin expected to improve by 395bps to 17.6% from 13.7% led by exclusive launches in the US. PAT expected to be at INR 3.23bn owing to lower tax rate.

### Sun Pharma

Sun Pharma's revenues are likely to increase by 13.4% YoY, primarily due to change in distribution and integration of Pola pharma. The company's EBITDA margin expected to see contraction by 103bps YoY to 21.2% from 22.2% due to inch up in promotional expenses related to its speciality portfolio. The net profits expect to witness growth of 5% YoY to INR10.3bn from INR 9.8bn.

### Suven Life Sciences

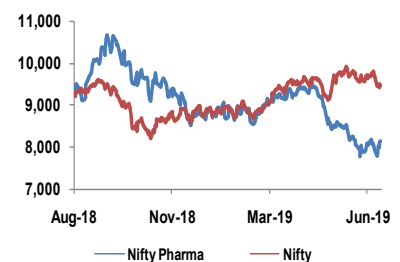
Suven Life's revenues are likely to increase by 13.6% YoY, mainly due to better performance from core CRAMS business. The company's EBITDA margin expects to enhance by 276bps at 33.1% from 30.4% due to favorable product mix. The net profit is likely to accelerate by 23% YoY to INR478mn from INR388mn.

Performance (%)	1m	3m	1Yr
Aurobindo Pharma	-7	-23	-1
Dishman Carbogen	-13	-5	-19
Glenmark Pharma	-14	-30	-21
Granules India	-10	-18	2
Lupin	5	-8	-14
Sun Pharma	4	-12	-28
Suven Life	-11	-11	9
Aarti Industries	-5	2	32
Bodal Chemicals	-15	-20	-24
Hikal Ltd	0	-5	12
IG Petrochemicals	-12	-22	-53
SH Kelkar	-10	-18	-41
Vinati Organics	1	21	113
GMM Pfaudler	-12	6	55

Company name	Reco	CMP	Target price
Aurobindo Pharma	Hold	601	790
Dishman Carbogen	Buy	217	313
Glenmark Pharma	Hold	452	570
Granules India	Buy	94	155
Lupin	Buy	764	964
Sun Pharma	Buy	420	546
Suven Life	Buy	240	306
Aarti Industries	Buy	1680	1881
Bodal Chemicals	Buy	94	132
Hikal Ltd	Buy	166	218
IG Petrochemicals	Buy	239	512
SH Kelkar	Buy	126	188
Vinati Organics	UR	2059	1935
GMM Pfaudler	Buy	1282	1489

UR: Under Review

Relative Price Chart



### Our Top Picks:

- ⇒ Suven Life Sciences
- ⇒ Dishman Carbogen Amcis
- ⇒ Hikal
- ⇒ SH Kelkar

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## ▷ Chemical Sector

### Aarti Industries

We expect Aarti Industries to deliver revenue growth of 16.5% YoY, aided by strong volume growth with higher realization in speciality chemical segment, supported by healthy growth in pharma segment. The company's EBIDTA margin expects to show improvement at 19.6% from 17.4% in Q1FY19 on the back of favourable product mix. The net profit is likely to grow by 22.2% to INR 1091mn from INR 893mn.

### Bodal Chemical

Bodal Chemical expected to deliver revenue growth of 3.1% YoY, due to lower volume growth in Dye intermediate and slower revenue ramp up from new products. The company's EBIDTA margin expects to decline from 18.1% to 15.6% due to lower utilization. The net profit is likely to de-grow by 11.2% to INR 341mn from INR 384mn due to operationally weak performance.

### Hikal

We expect Hikal to post revenue of 21.8% YoY, on the back of strong performance from both Pharmaceutical and crop protection business. EBITDA margin to marginally improve from 18.6% to 18.8% in Q1FY20E compared to same quarter last year, due to better product mix. Net profit set to grow by 27.5% YoY to INR 203mn from INR 159mn.

### IG Petrochemicals

We expect IG petrochemicals to post sluggish revenue growth of 2.1% YoY, due to muted volume and realization growth in base business. EBITDA margin to contract from 24.1% to 12.9% in Q1FY20 compared to same quarter last year, due to decline in PAN/OX spread. Net profit to decline by 33.4% YoY to INR 268mn from INR 402mn due to operationally weak performance.

### SH Kelkar

We expect SHK to deliver revenue growth of 9.5% YoY, due to demand recovery in fragrance and flavor business. EBITDA margin to improve from 13.9% to 14.6% in Q1FY20 compared to same quarter last year, due to higher utilization of tonalid facility (Mahad). Net profit to increase by 25.7% YoY to INR 235mn from INR187mn due to lower tax expense.

### Vinati Organics

We expect Vinati organics to report revenue growth of 18.1% YoY on the back of strong performance from ATBS business and new product launches. EBITDA margin expected to remain healthy at 37%. PAT expected to be at INR 777mn compared to INR 643mn last year same quarter due to strong operational performance.

## ⇒ Other sector

### GMM Pfadler

We expect GMM to post revenue growth of 29.5% YoY, supported by healthy volume growth and better realization in GL and non-GL business. EBITDA margins expected to remain at flat level YoY basis from 16.4% to 16.8% due to increasing contribution from high margin export orders. Net profit set to grow at 37.9% YoY to INR 125mn from INR 91mn in Q1FY19

### Summary Estimates ( In mn)

Company	Revenues			EBITDA			EBITDA Margin (%)		PAT			PAT Margin (%)	
	Q1 FY20E	Q1 FY19	Y-o-Y (%)	Q1 FY20E	Q1FY19	Y-o-Y (%)	Q1FY20E	Q1FY19	Q1 FY20E	Q1 FY19	Y-o-Y (%)	Q1 FY20E	Q1 FY19
<b>Pharmaceuticals</b>													
Aurobindo Pharma	53,280	42,503	25.4%	10,492	7,111	47.6%	19.7%	16.7%	6,128	4,557	34.5%	11.5%	10.7%
Dishman Carbogen	5,461	4,882	11.8%	1,423	1,208	17.9%	26.1%	24.7%	494	396	24.6%	9.0%	8.1%
Glenmark Pharma	24,431	21,656	12.8%	3,942	3,469	13.6%	16.1%	16.0%	1,885	2,330	-19.1%	7.7%	10.8%
Granules India	6,235	4,532	37.6%	1,041	726	43.4%	16.7%	16.0%	650	518	25.6%	10.4%	11.4%
Lupin	44,791	38,559	16.2%	7,892	5,270	49.8%	17.6%	13.7%	3,231	2,028	59.4%	7.2%	5.3%
Sun Pharma	81,934	72,242	13.4%	17,376	16,067	8.1%	21.2%	22.2%	10,314	9,825	5.0%	12.6%	13.6%
Suven Life	2,178	1,917	13.6%	722	582	24.0%	33.1%	30.4%	478	388	23.0%	21.9%	20.3%
<b>Chemicals</b>													
Aarti Industries	12,561	10,785	16.5%	2,463	1,879	31.1%	19.6%	17.4%	1,091	893	22.2%	8.7%	8.3%
Bodal Chemicals	3,628	3,517	3.1%	567	638	-11.1%	15.6%	18.1%	341	384	-11.2%	9.4%	10.9%
Hikal Ltd	3,967	3,256	21.8%	745	606	22.8%	18.8%	18.6%	203	159	27.5%	5.1%	4.9%
IG Petrochemicals	3,436	3,509	-2.1%	443	847	-47.7%	12.9%	24.1%	268	402	-33.4%	7.8%	11.5%
SH Kelkar	2,589	2,364	9.5%	377	329	14.6%	14.6%	13.9%	235	187	25.7%	9.1%	7.9%
Vinati Organics	3,126	2,647	18.1%	1,158	917	26.3%	37.1%	34.7%	777	643	20.9%	24.9%	24.3%
<b>Other</b>													
GMM Pfadler	1,207	932	29.5%	203	153	32.7%	16.8%	16.4%	125	91	37.9%	10.4%	9.8%

Source: Company, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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