Q2 FY20E Pharmaceuticals and Chemical Earnings Preview

BP WEALTH

Pharmaceuticals and Chemicals | Earnings Preview — 15th October 2019

Ongoing USFDA issues putting break to US business growth; Domestic performance remains strong

We expect the companies under our pharmaceuticals coverage to report revenue growth of 11.9% in Q2FY20 with 2.5% growth in profitability, aided by growth in the base business due to waning price erosion and lower base. The US revenues are expected to deliver 11% YoY growth, however on sequential basis we may notice de growth of 4% mainly due to lack of new approvals and non-recurrence of one-time opportunities at Sun Pharma and Lupin. Regulatory hurdles continue to impact as the sector received six warning letters YTD. With respect to domestic markets, the growth is likely to favour companies with larger presence in acute therapy led by heavy rainy season. Emerging Markets growth has been affected by adverse pricing regulations and the impact should be seen in subsequent quarters too. **Overall our pharma coverage would post Revenue/EBIDTA/PAT growth of 11.9%/13.8%/2.5% YoY in Q2FY20. We expect the EBITDA margin of our coverage universe to show marginal improvement of 33bps YoY, underpinned by cost control measures and INR depreciation.**

Aurobindo Pharma

We expect Aurobindo Pharma's revenues to grow by 16% YoY to INR 55bn, 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 remain flat at 20.7% in Q2FY20 due to increased competition in gErtapenem. We expect PAT to grow by 7.9% YoY to INR6.11bn on account of higher depreciation expense.

Dishman Carbogen Amcis

Dishman Carbogen is expected to deliver 23.1% revenue growth with EBITDA margin of 25.9% compared to 28.7%. Margin decline on account of adverse product mix .The net profit would increase by 4.5% YoY to INR 460mn. 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 de-growth of 2.5% in revenues primarily on back of weak performance of US business due to lack of meaningful launches. Domestic business expected to grow by 11 YoY led by new launches. Expect EBITDA margin to decline to 15% compared to 17% in Q2FY19 as the US continues to struggle with muted performances in non India business. PAT is expected to decline by -48% to INR1.75bn due to operationally weak performance.

Granules India

We expect Granules India's revenues to grow by 9.1% YoY to INR6.33bn slower growth compared to previous quarters due to high base of API and formulation segments in Q2FY19. We expect higher utilization at new API/PFI capacities and ramp-up of formulation business in the US on the back of new launches to drive growth going forward. We expect EBIDTA margin to improve YoY to 18.9% from 17.3% on the back of operating leverage benefit and better product mix. We expect PAT (incl. associate income) to grow by 11.4% YoY to INR 671mn, mainly due to lower profit from JVs (Cyclical nature of Omnichem JV and plant shut down at Biocause JV).

Lupin

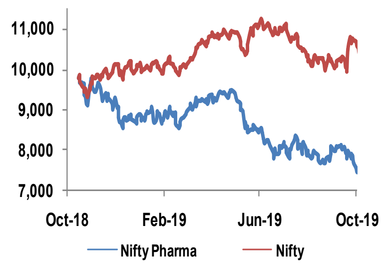
We expect Lupin's Q2FY20E revenues to increase by 11.5% YoY primarily due to ~12% growth in US led by gRenexa exclusivity and ramp-up in gLevothyroxine. Expect domestic business to grow 11% YoY, faster than the IPM. EBIDTA margin expected to improve by 448bps to 18.4% from 13.9% mainly due to favourable product mix. PAT expected to be at INR 3.20bn owing to better operational performance.

Performance (%)	1m	3m	1Yr
Aurobindo Pharma	-30	-27	-42
Dishman Carbogen	-14	-29	-33
Glenmark Pharma	-26	-37	-52
Granules India	3	-4	13
Lupin	12	13	-16
Sun Pharma	-9	-3	-34
Suven Life	-12	9	6
Aarti Industries	-1	-8	20
Bodal Chemicals	-13	5	-38
Hikal Ltd	-11	-14	-8
IG Petrochemicals	-12	-38	-60
SH Kelkar	1	4	-33
Vinati Organics	-7	4	84
GMM Pfaudler	2	16	51

Company name	Reco	CMP	Target price
Aurobindo Pharma	Hold	458	566
Dishman Carbogen	Buy	160	313
Glenmark Pharma	Hold	280	342
Granules India	Buy	100	155
Lupin	Buy	715	868
Sun Pharma	Buy	395	546
Suven Life	Buy	258	306
Aarti Industries	Hold	771	874
Bodal Chemicals	Buy	70	92
Hikal Ltd	Buy	142	218
IG Petrochemicals	Buy	152	UR
SH Kelkar	Buy	131	194
Vinati Organics	Hold	2148	2110
GMM Pfaudler	Buy	1486	1503

UR: Under Review

Relative Price Chart



Our Top Picks:

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

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Sun Pharma

Sun Pharma's revenues are likely to increase by 17.3% YoY, primarily due to strong growth in domestic formulation (albeit on a lower base) and integration of Pola pharma. The company's EBIDTA margin expected to see contraction by 122bps YoY to 20.9% from 22.1% due to inch up in promotional expenses related to its speciality portfolio. Adjusted net profits expect to grow by 5% YoY to INR10.3bn from INR 9.8bn.

Suven Life Sciences

Suven Life's revenues are likely to increase by 63.2% YoY, mainly due to strong performance from commercial CRAMS business. The company's EBIDTA margin expects to enhance by 1311bps at 40.4% from 27.3% driven by favorable product mix. The net profit is likely to accelerate by101% YoY to INR362mnfrom INR180mn.

Þ Chemical Sector

Aarti Industries

We expect Aarti Industries revenue to decline by 7.8% on YoY basis, mainly due to decline in realization (in tandem with softening of raw material price) and revenue exclusion of HPC segment on account of demerger. The company's EBIDTA margin expects to show improvement at 19.4% from 18.7% in Q2FY19 on the back of favourable product mix (demerger of the loss making HPC segment). The net profit is likely to remain flat at INR 1,224mn from INR 1,229mn.

Bodal Chemical

Bodal Chemical's revenue expected to de grow by 10% YoY, due to decline in Vinyl Sulphone and H acid prices and slower revenue ramp up from new products. The company's EBIDTA margin expect to contract from 18.5% to 15.2% due to lower utilization. Subsequently, net profit to de-grow by 33.7% to INR 302mn from INR 456mn.

Hikal

We expect Hikal to post revenue of 22.7% YoY, on the back of strong performance from both pharmaceutical and crop protection business. EBITDA margin to improve by 73bps from 19% to 19.8% in Q2FY20E, on the back of better product mix. Net profit set to grow by 34.3% YoY to INR 328mn from INR 244mn.

IG Petrochemicals

We expect IG petrochemicals revenue to drop by 24.1% YoY, due to decline in volume growth and realization. Increasing import (mainly from South Korea) is a big concern for domestic PAN manufacturers. We expect EBITDA margin to contract from 22% to 11.1% in Q1FY20, due to decline in PAN/OX spread. Net profit to fall by 67% YoY to INR 133mn from INR 405mn due to operationally weak performance.

SH Kelkar

We expect SHK to deliver revenue growth of 3% YoY, due to demand recovery in fragrance and flavor business. EBITDA margin to improve from 13% to 15.6% in Q2FY20 compared to same quarter last year, due to higher utilization of tonalid facility (Mahad). Net profit to increase by 4.8% YoY to INR 301mn from INR287mn due to higher interest and depreciation expense.

Vinati Organics

We expect Vinati organics to report revenue growth of 14.3% YoY on the back of moderate growth in ATBS volume. EBITDA margin expected to contract by 307bps to 34.5%. PAT expected to be at INR 667mn compared to INR 650mn last year same quarter due to muted operational performance.

Þ Other sector

GMM Pfaudler

We expect GMM to post revenue growth of 36.5% YoY, driven by healthy volume growth and better realization in GL and non-GL business and supported by strong order backlog. EBITDA margins expected to improve by160bps on YoY basis from 16.2% to 17.8% due to increasing contribution from high margin segments. Net profit set to grow by 53.3% YoY to INR 150mn from INR 98mn in Q2FY19.

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Summary Estimates (In mn)

Company	Revenues			EBITDA			EBITDA Margin (%)		PAT			PAT Margin (%)	
	Q2 FY20E	Q2 FY19	Y-o-Y (%)	Q2 FY20E	Q2FY19	Y-o-Y (%)	Q2FY20E	Q2FY19	Q2 FY20E	Q2 FY19	Y-o-Y (%)	Q2 FY20E	Q2 FY19
Pharmaceuticals													
Aurobindo Pharma	55,099	47,514	16%	11,424	9,863	16%	20.7%	20.8%	6,595	6,114	8%	12.0%	12.9%
Dishman Carbogen	5,512	4,477	23%	1,426	1,286	11%	25.9%	28.7%	460	440	5%	8.3%	9.8%
Glenmark Pharma	25,181	25,813	-2%	3,774	4,401	-14%	15.0%	17.0%	1,756	3,389	-48%	7.0%	13.1%
Granules India	6,337	5,809	9%	1,200	1,005	19%	18.9%	17.3%	671	603	11%	10.6%	10.4%
Lupin	44,035	39,511	11%	8,098	5,496	47%	18.4%	13.9%	3,203	2,028	58%	7.3%	5.1%
Sun Pharma	81,365	69,376	17%	16,967	15,312	11%	20.9%	22.1%	10,313	9,825	5%	12.7%	14.2%
Suven Life	1,461	3,242	-55%	590	847	-30%	40.4%	26.1%	362	402	-10%	24.8%	12.4%
Chemicals													
Aarti Industries	11,946	12,955	-8%	2,319	2,421	-4%	19.4%	18.7%	1,224	1,229	0%	10.2%	9.5%
Bodal Chemicals	3,537	3,932	-10%	538	728	-26%	15.2%	18.5%	302	456	-34%	8.5%	11.6%
Hikal Ltd	4,845	3,948	23%	958	752	27%	19.8%	19.0%	328	244	34%	6.8%	6.2%
IG Petrochemicals	2,461	3,242	-24%	274	713	-62%	11.1%	22.0%	133	405	-67%	5.4%	12.5%
SH Kelkar	2,921	2,835	3%	457	367	24%	15.6%	13.0%	301	288	4%	10.3%	10.2%
Vinati Organics	2,890	2,528	14%	998	952	5%	34.5%	37.7%	667	650	2%	23.1%	25.7%
Other													
GMM Pfaudler	1,354	992	36%	241	161	50%	17.8%	16.2%	150	98	53%	11.1%	9.9%

Source: Company, BP Equities Research

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