

Q2 FY21E Pharmaceuticals Earnings Preview



Sector Report

15th October 2020

Domestic weakness to offset by healthy export growth

We expect the companies under our pharmaceutical coverage to clock 11% (YoY) earnings growth with 2% (YoY) rise in the revenue base, on the account of weak domestic business, negatively affected by COVID-19 led restrictions. Domestic business is likely to remain weak, largely due to extended lockdowns and restrictions, result in lower MR footfalls to hospitals and Clinics. However, sales of Covid19 drug (Favipiravir) to boost the domestic performance of Glenmark Pharma. US formulations are expected to grow due to ramp-up in specialty products, improving prescription trends, and new launches supported by currency tailwinds. We expect a moderation in API sales, which were abnormally high during Q1FY21 due to the stocking of raw material by formulation companies. The recent INR weakness will also benefit Indian pharma companies, but some of the margin benefits are being offset from EM currencies and higher API costs. **Overall, our pharmaceutical coverage would post Revenue/EBITDA/PAT growth of 2.1%/7.5%/11.1% YoY in Q2FY21. We expect the EBITDA margin of our coverage universe to improve by 105bps YoY, led by cost rationalization measures and favorable product mix.**

Aurobindo Pharma

We expect Aurobindo Pharma's revenues to grow by 12.2% YoY to INR 62.8bn, aided by growth across geographies especially US & ARV (benefit from TLE to TLD migration) segment. Injectable sales could get impacted due to the decline in footfall at the hospital level. However, that would be offset by healthy growth in oral solids & Spectrum portfolio. The company's EBITDA margin to expand by 119bps due to improving pricing scenario in the US and favorable currency. PAT expects to grow by 30.3% to INR8.3bn on account of flattish depreciation expense.

Dishman Carbogen Amcis

Dishman Carbogen is expected to deliver a 4.5% decline in revenue due to lower commercial orders. We expect a contraction in the EBITDA margin by 613bps to 25.1%. The net profit would fall by 35.9% YoY to INR 264mn due to weak operational performance.

Glenmark Pharma

We expect Glenmark to report a 3.3% revenue decline primarily due to a strong base. Domestic business expected to grow by 15% YoY primarily led by the launch of FabiFlu (Favipiravir). We expect the EBITDA margin to witness 174bps improvement to 17.7% compared to 16% in Q2FY20 driven by a better product mix. PAT is expected to be at INR2.32bn.

Granules India

Granules India's revenues are expected to grow by 9.4% YoY to INR7.65bn driven by higher sales of FD on the back of market share gain in existing and newly launched products. We expect EBITDA margin to improve by 186bps to 22.4% from 20.5% on the back of operating leverage benefit and better product mix. We expect PAT to grow by 6.9% YoY to INR 1,024mn.

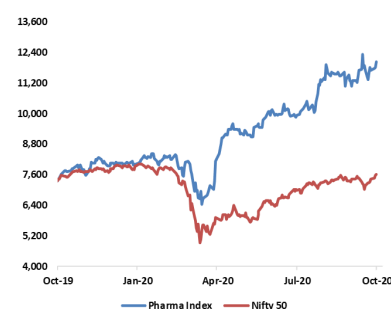
Lupin

We expect Lupin's revenues to decline by 11.5% YoY primarily due to divestment of Kyowa business in Japan and licensing income of about USD20mn in the base.Q2 saw the launch of Albuterol in the US and biosimilar Enbrel in EU, but revenue benefit to flow Q3 onwards. Domestic business to show softness with the growth of 4% YoY. EBITDA margin expected to remain flat at 16.9% from 16.8%, mainly due to adverse product mix despite tight cost control measures in speciality portfolio. In line with the weak operating performance, Adj PAT expects to witness an 11.1% decline to INR 2.73bn.

Performance (%)	1m	3m	1Yr
Aurobindo Pharma	2	0	83
Dishman Carbogen	-7	2	-1
Glenmark Pharma	2	21	75
Granules India	6	67	292
Lupin	9	21	48
Neuland Lab	27	99	172
Sun Pharma	1	2	28
Sequent scientific	1	50	99
Suven Pharma	-4	30	NA

Company Name	Reco	CMP	Target price
Aurobindo Pharma	Hold	810	889
Dishman Carbogen	Hold	161	184
Glenmark Pharma	Hold	486	490
Granules India	Buy	384	312
Lupin	Buy	1036	1212
Neuland Lab	Buy	1229	973
Sun Pharma	Buy	502	583
Sequent scientific	Buy	154	224
Suven Pharma	Hold	345	350

Relative Price Chart



Our Top Picks:

- ⇒ Lupin
- ⇒ Granules India
- ⇒ Neuland Lab
- ⇒ SeQuent Scientific

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Neuland Lab

We expect Neuland's revenue to grow by 16% to INR2.16bn on account of strong growth in CMS and the speciality segment. The greater contribution from the margin-accretive segments are likely to lift the EBITDA margin 130bps to 14.7%. PAT is expected to grow 68.7% to INR147mn on the back of better operational performance and a favorable base.

Sequent Scientific

Sequent Scientific to post revenue growth of 15.9% on the back of continued growth in API sales to regulated markets and volume growth in formulation sales across geographies. EBITDA margin to expand by 250bps mainly driven by a better product mix. PAT is expected to grow by 17.2% to INR 250mn on account of better operational performance.

Sun Pharma

Sun Pharma's revenues are likely to remain muted (3.9% YoY) at INR 84bn, primarily due to lower Specialty sales and lack of meaningful launches. We expect underperformance in domestic business due to Covid led challenges. The company's EBITDA margin to increase by 113bps YoY to 23.2% from 22% due to cost-saving on account of limited promotional & marketing activities due to Covid'19. Net profits expect to see a 13.5% growth in modest revenue and operating performance.

Suven Pharma

Suven Pharma's revenues are likely to decline by 13.8% YoY, mainly due to high base on account of strong commercial CRAMS performance in Q2FY20. Subsequently, EBITDA and PAT to witness the decline of 4.2% and 6.4% respectively.

Estimates for Q2FY21E

Company	Revenues			EBITDA			EBITDA Margin (%)			PAT			PAT Margin (%)	
	Q2FY21E	Q2FY20	Y-o-Y (%)	Q2FY21E	Q2FY20	Y-o-Y (%)	Q2FY21E	Q2FY20	Q2FY21E	Q2FY20	Y-o-Y (%)	Q2FY21E	Q2FY20	
INR in mn														
Aurobindo Pharma	62,843	56,005	12.2%	13,542	11,402	18.8%	21.5%	20.4%	8,330	6,395	30.3%	13.3%	11.4%	
Dishman Carbogen	4,464	4,673	-4.5%	1,119	1,458	-23.2%	25.1%	31.2%	264	412	-35.9%	5.9%	8.8%	
Glenmark Pharma	27,113	28,150	-3.7%	4,809	4,504	6.8%	17.7%	16.0%	2,328	2,555	-8.9%	8.6%	9.1%	
Granules India	7,652	6,995	9.4%	1,713	1,436	19.3%	22.4%	20.5%	1,024	958	6.9%	13.4%	13.7%	
Lupin	38,737	43,597	-11.1%	6,539	7,310	-10.5%	16.9%	16.8%	2,726	3,065	-11.1%	7.0%	7.0%	
Neuland Lab	2,160	1,862	16.0%	318	250	27.3%	14.7%	13.4%	147	87	68.7%	6.8%	4.7%	
SeQuent Scientific	3,295	2,842	15.9%	513	372	38.1%	15.6%	13.1%	250	213	17.2%	7.6%	7.5%	
Sun Pharma	84,368	81,234	3.9%	19,541	17,897	9.2%	23.2%	22.0%	12,082	10,641	13.5%	14.3%	13.1%	
Suven Pharma	2,364	2,743	-13.8%	1,059	1,105	-4.2%	44.8%	40.3%	677	723	-6.4%	28.6%	26.4%	

Source: Company, BP Equities Research

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Forex sees mixed trend

	USD/INR	EUR/INR	GBP/INR	ZAR/INR	RUB/INR	BRL/INR	TRY/INR
Close rate Q1 FY20	68.90	77.76	87.13	4.87	1.09	17.94	12.19
Close rate Q2 FY20	70.65	76.98	86.82	4.66	1.09	17.00	12.50
Close rate Q3 FY20	71.30	80.03	94.56	5.09	1.15	17.74	11.99
Close rate Q4 FY20	75.37	83.10	93.46	4.22	0.96	14.47	11.39
Close rate Q1 FY21	75.56	84.89	93.64	4.35	1.06	13.83	11.03
Close rate Q2 FY21	73.53	86.25	95.05	4.39	0.95	13.11	9.52
% Change since Q2 FY20 Closing	4.1%	12.0%	9.5%	-5.82%	-13.03%	-22.89%	-23.83%
% Change since Q1 FY21 Closing	-2.7%	1.6%	1.5%	0.93%	-10.84%	-5.23%	-13.62%

	USD/INR	EUR/INR	GBP/INR	ZAR/INR	RUB/INR	BRL/INR	TRY/INR
Average Rate Q1 FY20	69.54	78.16	89.37	4.84	1.08	17.74	11.84
Average Rate Q2 FY20	70.40	78.31	86.77	4.79	1.09	17.74	12.40
Average Rate Q3 FY20	71.22	78.88	91.78	4.85	1.12	17.31	12.29
Average Rate Q4 FY20	72.48	79.96	92.74	4.72	1.09	16.32	11.86
Average Rate Q1 FY21	75.90	83.61	94.17	4.23	1.05	14.15	11.06
Average Rate Q2 FY21	74.34	86.91	96.04	4.40	1.01	13.83	10.31

Change %							
YoY	5.6%	11.0%	10.7%	-8.2%	-7.4%	-22.0%	-16.9%
QoQ	-2.1%	3.9%	2.0%	4.0%	-4.0%	-2.2%	-6.8%

INR: Indian Rupee ,USD: United States dollar, EUR: Euro, GBP: Pound sterling, ZAR: South African rand, RUB: Russian ruble, BRL: Brazilian real, TRY: Turkish lira

INR depreciated against all major currencies except, RUB, BRL,ZAR and TRY.
It depreciated 5.6%/11%/10.7% against the USD /Euro / GBP YoY whereas it has appreciated 8.2%/7.4%/22%/16.9 against ZAR / RUB/ BRL and TRY YoY respectively.

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