

# Q3 FY21E Pharmaceuticals Earnings Preview



Sector Report

16<sup>th</sup> January 2021

## Healthy export growth results in strong Q3

We expect the companies under our pharmaceutical coverage to clock 36.7% (YoY) earnings growth with an 8.4% (YoY) rise in the revenue base, led by a notable recovery in the domestic market and healthy growth in the export market. In the domestic business, the chronic portfolio continues to be steady, and acute therapies are recovering slowly. US formulations are expected to grow due to a ramp-up in speciality products supported by improving prescription trends, new product launches, and favourable currency movement. We expect a moderation in API sales, which were abnormally high during H1FY21 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/ KSM costs. **Overall, our pharmaceutical coverage would post Revenue/EBITDA/PAT growth of 8.4%/22.3%/36.7% YoY in Q3FY21. We expect the EBITDA margin of our coverage universe to improve by 256bps YoY, led by cost control measures and a favourable product mix.**

Performance (%)	1m	3m	1Yr
Aurobindo Pharma	7	19	93
Dishman Carbogen	-9	-6	74
Granules India	-8	-6	160
Lupin	16	9	46
Neuland Lab	17	4	147
Sun Pharma	23	42	155
Sequent scientific	6	23	35
Suven Pharma	17	45	NA

## Aurobindo Pharma

We expect Aurobindo Pharma's revenues to grow by 12% YoY to INR 64.9bn, aided by growth across geographies, especially US & ARV (benefit from TLE to TLD migration) segment. Expected pick-up in the injectable portfolio and new launches to result in double-digit growth. The company's EBITDA margin to expand by 78bps due to improving pricing scenario in the US and favourable currency. PAT expects to grow by 19.6% to INR8.4bn on account of flattish depreciation expense.

Company Name	Reco	CMP	Target price
Aurobindo Pharma	Hold	936	985
Dishman Carbogen	Hold	148	163
Granules India	Buy	356	455
Lupin	Buy	1093	1217
Neuland Lab	Buy	1221	1434
Sequent scientific	Buy	211	224
Sun Pharma	Buy	604	673
Suven Pharma	Hold	503	451

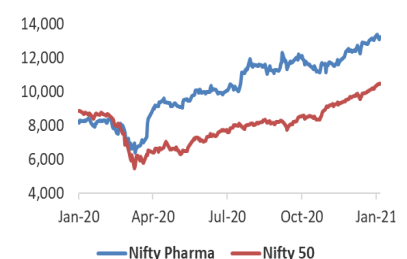
## Dishman Carbogen Amcis

Dishman Carbogen is expected to deliver an 11.2% decline in revenue due to lower commercial orders. We expect a contraction in the EBITDA margin by 82bps to 22.3% compared to last year same quarter. The net profit would fall by 29.7% YoY to INR 231mn due to weak operational performance.

## Granules India

Granules India is expected to report muted revenue growth of 3.4% YoY to INR 7.27bn which is impacted by slower growth in base portfolio and deferment of product launch to Q4 due to shortages of raw materials as delayed shipments from China. We expect the EBITDA margin to improve by 42bps to 23.6% from 23.2% in Q3FY20. However, on a sequential basis, it can decline by 628bps impacted by the higher price of key raw materials (PAP and DCBA) and higher shipment cost. We expect Adj PAT to grow by 3.3% YoY to INR 993mn.

Relative Price Chart



## Lupin

We expect Lupin's revenues to grow by 6.3% YoY primarily due to moderate market share gain in gAlbuterol and gLevothyroxine and new product launches in the US market. Europe momentum should sustain on the back of Enbrel launch in France. Domestic business to show some pick-up with the growth of 6% YoY. EBITDA margin to expand by 568bps at 17.1% from 11.4%, due to better product mix, lower employee cost, and other expenditure. In line with the strong operating performance, Adj PAT expected to witness a 96.4% growth to INR 3bn on account of the low base last year.

### Our Top Picks:

- ⇒ **Lupin**
- ⇒ **Neuland Lab**
- ⇒ **SeQuent Scientific**

## Neuland Lab

We expect Neuland's revenue to grow by 5.6% to INR 2.15bn on account of steady growth in CMS and the speciality segment. The greater contribution from the margin-accretive segments is likely to lift the EBITDA margin by 445bps to 18.2%. PAT is expected to grow 82.8% to INR202mn on the back of better operational performance.

Research Analyst

Nikhil Shetty

nikhilshetty@bpwealth.com

## Q3 FY21 Pharmaceuticals Earnings Preview

### Sequent Scientific

Sequent Scientific to post revenue growth of 8.1% 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 160bps mainly driven by a better product mix. PAT is expected to grow by 48.9% to INR 302mn on account of better operational performance and lower minority interest.

### Sun Pharma

Sun Pharma's revenues are likely to grow by 8.8% YoY at INR 87.5bn, primarily due to strong performance of Specialty portfolio led by Cequa and Ilumya. We expect Domestic sales to grow by 5.5% despite continued business challenges. The company's EBITDA margin to increase by 256bps YoY to 25.1% from 22.6% due to improving the operating performance of speciality portfolio and favourable product mix. Net profits expect to see a 42.5% growth on account of better operational performance and lower depreciation and interest expense.

### Suven Pharma

Suven Pharma's revenue is likely to increase by 64.9% YoY, mainly due to strong commercial CRAMS business performance. The company's EBITDA margin expects to enhance by 123bps YoY to 45.8% from 44.6% driven by favourable product mix. The net profit is likely to accelerate by 75.4% YoY to INR1016mn from INR579mn.

### Estimates for Q3FY21E

Company	Revenues			EBITDA			EBITDA Margin (%)			PAT			PAT Margin (%)	
	Q3FY21E	Q3FY20	Y-o-Y (%)	Q3FY21E	Q3FY20	Y-o-Y (%)	Q3FY21E	Q3FY20	Q3FY21E	Q3FY20	Y-o-Y (%)	Q3FY21E	Q3FY20	
<b>INR in mn</b>														
Aurobindo Pharma	64,971	57,994	12.0%	14,039	12,080	16.2%	21.6%	20.8%	8,437	7,055	19.6%	13.0%	12.2%	
Dishman Carbogen	4,814	5,423	-11.2%	1,074	1,254	-14.4%	22.3%	23.1%	231	329	-29.7%	4.8%	6.1%	
Granules India	7,279	7,040	3.4%	1,718	1,631	5.3%	23.6%	23.2%	993	961	3.3%	13.6%	13.7%	
Lupin	40,068	37,693	6.3%	6,837	4,291	59.3%	17.1%	11.4%	3,005	1,530	96.4%	7.5%	4.1%	
Neuland Lab	2,150	2,036	5.6%	392	281	39.7%	18.2%	13.8%	202	110	82.8%	9.4%	5.4%	
SeQuent Scientific	3,420	3,164	8.1%	595	500	19.1%	17.4%	15.8%	302	203	48.9%	8.8%	6.4%	
Sun Pharma	87,488	81,549	7.3%	21,992	18,414	19.4%	25.1%	22.6%	13,017	9,135	42.5%	14.9%	11.2%	
Suven Pharma	2,947	1,787	64.9%	1,350	796	69.5%	45.8%	44.6%	1,016	579	75.4%	34.5%	32.4%	

Source: Company, BP Equities Research (For Lupin the exceptional items are adjusted)

## Q3 FY21 Pharmaceuticals Earnings Preview

### Forex trend

	USD/INR	EUR/INR	GBP/INR	ZAR/INR	RUB/INR	BRL/INR	TRY/INR
Close rate Q2 FY20	70.6	77.0	86.8	4.7	1.1	17.0	12.5
Close rate Q3 FY20	71.3	80.0	94.6	5.1	1.1	17.7	12.0
Close rate Q4 FY20	75.4	83.1	93.5	4.2	1.0	14.5	11.4
Close rate Q1 FY21	75.6	84.9	93.6	4.4	1.1	13.8	11.0
Close rate Q2 FY21	73.5	86.3	95.0	4.4	0.9	13.1	9.5
Close rate Q3 FY21	73.1	89.9	100.0	5.0	1.0	14.1	9.8
% Change since Q3 FY20 Closing	2.6%	12.4%	5.7%	-1.5%	-13.0%	-20.5%	-18.2%
% Change since Q2 FY21 Closing	-0.5%	4.3%	5.2%	14.1%	5.7%	7.6%	3.0%

	USD/INR	EUR/INR	GBP/INR	ZAR/INR	RUB/INR	BRL/INR	TRY/INR
Average Rate Q1 FY20	70.4	78.3	86.8	4.8	1.1	17.7	12.4
Average Rate Q2 FY20	71.2	78.9	91.8	4.8	1.1	17.3	12.3
Average Rate Q3 FY20	72.5	80.0	92.7	4.7	1.1	16.3	11.9
Average Rate Q4 FY20	75.9	83.6	94.2	4.2	1.1	14.1	11.1
Average Rate Q1 FY21	74.3	86.9	96.0	4.4	1.0	13.8	10.3
Average Rate Q2 FY21	73.8	87.8	97.5	4.7	1.0	13.7	9.4
<b>Change %</b>							
YoY	3.7%	11.3%	6.2%	-2.5%	-12.5%	-21.0%	-23.7%
QoQ	-0.7%	1.0%	1.5%	7.5%	-2.9%	-1.2%	-9.1%

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 3.7%/11.3%/6.2% against the USD /Euro / GBP YoY whereas it has appreciated 2.5% 12.5%/21%/23.7% against ZAR / RUB/ BRL and TRY YoY respectively.

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

We analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer (s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation (s) or view (s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the BP Equities Pvt. Ltd. (Institutional Equities).

**General Disclaimer**

This report has been prepared by the research department of BP EQUITIES Pvt. Ltd, is for information purposes only. This report is not construed as an offer to sell or the solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal.

BP EQUITIES Pvt. Ltd have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time. Prospective investors are cautioned that any forward looking statement are not predictions and are subject to change without prior notice.

Recipients of this material should rely on their own investigations and take their own professional advice. BP Equities or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. BP EQUITIES Pvt. Ltd. or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

BP Wealth and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person in any locality, state and country or other jurisdiction where such distribution, publication or use would be contrary to the law or regulation or would subject to BP Equities or any of its affiliates to any registration or licensing requirement within such jurisdiction.

**Corporate Office:**

4th floor,  
Rustom Bldg,  
29, Veer Nariman Road, Fort,  
Mumbai-400001  
Phone- +91 22 6159 6464  
Fax-+91 22 6159 6160  
Website- [www.bpwealth.com](http://www.bpwealth.com)

**Registered Office:**

24/26, 1st Floor, Cama Building,  
Dalal street, Fort,  
Mumbai-400001

**BP Equities Pvt. Ltd.****CIN No: U67120MH1997PTC107392**