

Q1 FY22E Pharmaceuticals Earnings Preview



Sector Report

16th July 2021

Favourable base + Recovery in Domestic market = Healthy Q1

We expect the companies under our pharmaceutical coverage to clock 38.8% (YoY) earnings growth with a 14.2% (YoY) rise in the revenue base due to strong growth in the domestic market supported by a recovery in the acute segment, reasonable traction in the chronic segment and incremental contribution Covid 19 related products. With the easing of COVID-19 cases in the US, better traction and new launches would aid better sales growth. We expect a decline in API sales due to the high base effect. Currency appreciation could improve the top line by 1.8% on a YoY basis. Overall, our pharmaceutical coverage would post Revenue/EBITDA/PAT growth of 14.2%/23.8%/38.8% YoY in Q1FY22. We expect the EBITDA margin of our coverage universe to improve by 176bps YoY, led by base effect (select pack), cost rationalization measures, and a favourable product mix.

Aurobindo Pharma

We expect Aurobindo Pharma's revenues to grow by 5.6% YoY to INR 61.6bn. US sales are expected to decline due to Natrol divestment and price erosion. The EU is expected to grow faster YoY supported by currency tailwinds and a lower base. EM and ARV to grow at a steady pace. The company's EBITDA margin to decline by 49bps due to higher R&D spends and other expenses. PAT expects to grow by 2% to INR8.1bn due to muted operational performance.

Dishman Carbogen Amcis

Dishman Carbogen is expected to report a 9.2% growth in revenue due to a recovery in commercial orders. We expect an increase in the EBITDA margin by 871bps to 17.8% compared to last year's same quarter, supported by a low base. PAT is expected at INR 99mn (compared to a loss of INR 214mn in Q1FY21) on the back of improved operational performance.

Fermenta Bio

Fermenta is expected to report revenue growth of 7% YoY to INR 1011mn led by continued traction in the Human VD3 business (66% of overall VD3 sales FY21). We expect the EBITDA margin to decline by 262bps to 21.1% from 23.7% in Q1FY21 due to an adverse revenue mix. Subsequently, PAT is expected to decline by 19.6% YoY to INR 109 mn.

Granules India

Granules India expected to report revenue growth of 10.6% YoY to INR 8.14bn due to better traction in both (API + Formulation) business. However, the growth pace was partially impacted by lower paracetamol sales. We expect the EBITDA margin to contract by 316bps to 21.8% from 25% in Q1FY21, mainly impacted by the higher price of key raw materials. We expect Adj PAT to decline by 8.7% YoY to INR 1018mn.

Lupin

We expect Lupin's revenues to grow by 24.4% YoY owing to low base in US sales, strong traction in the domestic market and one-time income of US\$50 million for NCE licensing. EBITDA margin to jump by 788bps at 22% from 14.1%, due to better product mix and licensing income. Adj PAT expects to witness a 382% growth to INR 5.1bn.

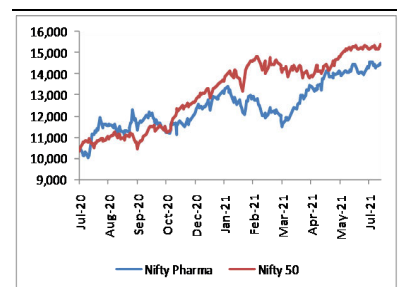
Neuland Lab

We expect Neuland's revenue to grow by 22.4% to INR 2.52bn on account of strong growth in CMS and the speciality API segment. We expect the EBITDA margin to contract by 117bps to 15.3% from 16.5% in Q1FY21, mainly impacted by the price increase of input cost. We expect Adj PAT to grow by 22.1% YoY to INR 185 mn.

Performance (%)	1m	3m	1Yr
Aurobindo Pharma	-2	1	15
Dishman Carbogen	1	66	28
Fermenta Biotech	-7	15	12
Granules India	12	16	55
Lupin	-1	11	33
Neuland Lab	8	-9	215
SeQuent Scientific	6	12	164
Sun Pharma	3	7	38
Suven Pharma	-4	-4	62

Company Name	Reco	CMP	Target price
Aurobindo Pharma	Hold	965	1040
Dishman Carbogen	Hold	206	198
Fermenta Biotech	Buy	311	395
Granules India	Buy	381	425
Lupin	Buy	1170	1382
Neuland Lab	Hold	2200	1975
Sequent scientific	Hold	287	264
Sun Pharma	Buy	688	793
Suven Pharma	Hold	464	451

Relative Price Chart



Our Top Picks:

- ⇒ Lupin
- ⇒ Fermenta Bio

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Sequent Scientific

Sequent Scientific to post revenue growth of 19.1% on the back of continued growth in Formulation sales to regulated markets. We expect a slowdown in API business mainly due to a decline in sales of Albendazole (key product in API). EBITDA margin to decline by 201bps mainly due to higher employee cost (ESOP) and other expenses. PAT is expected at INR 266mn.

Sun Pharma

Sun Pharma's revenues are likely to grow by 16.4% YoY at INR 88bn, primarily due to the ramp-up of the Specialty portfolio led by Cequa and Ilumya. We expect domestic formulations to report growth of 20% YoY benefiting supported by lower base and improved traction. The company's EBITDA margin to increase by 121bps YoY to 24.5% from 23.5% due to improving the operating performance of specialty portfolio and favourable product mix. Net profit is expected to grow ~37.3% YoY to INR 14.5bn, mainly due to the better operational performance.

Suven Pharma

Suven Pharma's revenues are likely to increase by 12.1% YoY, mainly due to steady performance from the commercial CRAMS business. The company's EBITDA margin expects to decline by 675bps, impacted by changes in the product mix, higher raw material and logistics costs. The net profit is likely to grow by 3.4% YoY to INR 946mn from INR 915 mn.

Estimates for Q1FY22E

Company	Revenues			EBITDA			EBITDA Margin (%)		PAT			PAT Margin (%)	
	Q1FY22E	Q1FY21	Y-o-Y (%)	Q1FY22E	Q1FY21	Y-o-Y (%)	Q1FY22E	Q1FY21	Q1FY22E	Q1FY21	Y-o-Y (%)	Q1FY22E	Q1FY21
INR in mn													
Aurobindo Pharma	61,646	58,352	5.6%	12,979	12,573	3.2%	21.1%	21.5%	8,082	7,927	2.0%	13.1%	13.6%
Dishman Carbogen	5,182	4,744	9.2%	921	431	114.0%	17.8%	9.1%	99	-214	146.0%	1.9%	-4.5%
Fermenta Biotech	1,011	945	7.0%	213	224	-4.9%	21.1%	23.7%	109	136	-19.6%	10.8%	14.4%
Granules India	8,138	7,356	10.6%	1,774	1,836	-3.4%	21.8%	25.0%	1,018	1,114	-8.7%	12.5%	15.2%
Lupin	43,154	34,685	24.4%	9,473	4,881	94.1%	22.0%	14.1%	5,155	1,069	382.2%	11.9%	3.1%
Neuland Lab	2,515	2,054	22.4%	385	338	13.7%	15.3%	16.5%	185	152	22.1%	7.4%	7.4%
SeQuent Scientific	3,696	3,103	19.1%	533	510	4.6%	14.4%	16.4%	266	209	27.1%	7.2%	6.7%
Sun Pharma	88,286	75,853	16.4%	21,602	17,644	22.4%	24.5%	23.3%	14,524	10,579	37.3%	16.5%	13.9%
Suven Pharma	2,670	2,382	12.1%	1,076	1,121	-4.0%	40.3%	47.0%	946	915	3.4%	35.4%	38.4%

Source: Company, BP Equities Research

Q1 FY22 Pharmaceuticals Earnings Preview

Forex trend

	USD/INR	EUR/INR	GBP/INR	ZAR/INR	RUB/INR	BRL/INR	TRY/INR
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
Close rate Q4 FY21	73.4	86.4	101.5	5.0	1.0	12.9	9.0
Close rate Q1 FY22	74.4	88.2	102.8	5.2	1.0	15.0	8.5
% Change since Q1 FY21 Closing	-1.6%	3.9%	9.8%	19.6%	-4.2%	8.2%	-22.5%
% Change since Q4FY21 Closing	1.3%	2.1%	1.3%	3.9%	5.9%	16.2%	-5.0%

	USD/INR	EUR/INR	GBP/INR	ZAR/INR	RUB/INR	BRL/INR	TRY/INR
Average Rate Q4 FY20	72.5	80.0	92.7	4.7	1.1	16.3	11.9
Average Rate Q1 FY21	75.9	83.6	94.2	4.2	1.1	14.1	11.1
Average Rate Q2 FY21	74.3	86.9	96.0	4.4	1.0	13.8	10.3
Average Rate Q3 FY21	73.8	87.8	97.5	4.7	1.0	13.7	9.4
Average Rate Q4 FY21	72.9	87.9	100.6	4.9	1.0	13.3	9.9
Average Rate Q1 FY22	73.8	88.9	103.1	5.2	1.0	14.0	8.8
Change %							
YoY	-2.8%	6.3%	9.5%	23.5%	-5.3%	-1.4%	-20.5%
QoQ	1.2%	1.2%	2.5%	7.0%	1.3%	4.7%	-10.9%

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

The INR has depreciated by 1.2.% v/s the USD on a QoQ basis (to INR73.8 on an average in 1QFY22 v/s INR72.9 in 4QFY21). However, the INR has appreciated by ~2.8% YoY v/s the USD (to INR73.8 in 1QFY22 v/s INR75.9 in 1QFY21).

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