

Q3 FY19E Pharmaceuticals and Chemical Earnings Preview



BP WEALTH

Pharmaceuticals and Chemicals | Earnings Preview

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Decent revenue performance with high tax base to provide profit push

We expect the companies under our pharmaceuticals coverage to report revenue growth of 12% in Q3FY19 with 67.4% surge in profitability, aided by improvement in both domestic and export market. The US revenues are expected to deliver high single digit growth due to favorable currency movement and volume growth in base business. In domestic market, better pricing growth and new launches are expected to drive growth in the domestic formulation space. However, higher raw material cost due to supply constraints from China and higher promotional cost of innovative products are likely to put pressure on overall margins. 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. Moreover, several companies with significant USFDA-related regulatory issues appear to be coming close to finally rectifying their deficiencies. This should boost approvals and growth in the near term. **Overall our pharma coverage would post Revenue/EBIDTA/PAT growth of 12%/9%/67.4% YoY in Q3FY19. We expect the EBITDA margin of our coverage universe to show marginal decline of 47bps YoY, underpinned by a margin pressure in domestic business. Sharp surge in PAT is mainly due to high tax base.**

Performance (%)	1m	3m	1Yr
Aurobindo Pharma	0.6	-0.9	12.3
Dishman Carbogen	3.1	12.5	-29.0
Glenmark Pharma	2.1	11.2	9.0
Granules India	7.4	-1.2	-35.0
Lupin	-0.4	-3.3	-9.1
Shilpa Medicare	3.2	0.6	-36.1
Sun Pharma	8.8	-26.6	-23.8
Suven Life	-2.1	-7.1	5.7
Aarti Industries	2.8	20.9	30.5
Bodal Chemicals	7.7	1.3	-28.2
Hikal Ltd	4.2	3.1	-4.5
IG Petrochemicals	-8.2	6.4	-48.9
Vinati Organics	10.2	38.2	64.4
GMM Pfaudler	10.6	24.8	50.9

Aurobindo Pharma

We expect Aurobindo Pharma's Q3FY19E revenues to grow by 12.5% YoY to Rs46bn, aided by currency tailwinds and new launches (gErtapenem as well as more supply of Injectable from Unit-4) in the US business. The company's EBITDA margin is expected to contract by 153bps YoY to 22.1% in Q3FY19 from 23.7% in Q3FY18, mainly due to lower gross margins and higher R&D expenses. We expect PAT to grow by ~14.4% YoY to Rs.6.8bn due to lower tax rate.

Dishman Carbogen Amcis

Dishman Carbogen is expected to deliver flat revenue growth with EBITDA growth of 15.1% on the back of favorable change in products mix. The net profit would increase by 20.1% YoY to Rs 505mn. 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 15.5% growth in revenues primarily on back of highteen growth in domestic formulation business and midteen growth in US. EBITDA margin expected to expand from 14.6% in Q3FY18 to 17.1% in Q3FY19 due to improvement in gross margin. PAT is expected to grow by 124% to Rs 2.3bn on the back of margin expansion and higher other income.

Granules India

We expect Granules India's revenues to grow by 37.3% YoY to Rs 5.6bn on the back of commissioning of new capacities and ramp-up of formulation business in the US. We expect EBITDA margin to contract YoY to 17.3% from 18% due to higher input cost. We expect PAT (incl. associate income) to grow by 33.4% YoY to Rs 467mn from Rs 350mn.

Lupin

We expect Lupin's Q3FY19E revenues to increase by 3.1% YoY primarily due to high single digit decline in domestic market. Domestic business expected to post healthy double digit growth. EBITDA margin expected to decline by 267bps to 14.6% from 17.3% due weak performance in US market and elevated input cost. PAT expected to grow by 24.8% YoY to Rs 2.7bn from Rs 2.2bn owing to lower tax rate.

Shilpa Medicare

Shilpa Medicare's revenue expect to decline by 7.6% YoY. We expect EBITDA margin to improve by 885bps to 23.5% from 14.6% mainly due to low base. The net profit set to grow by 56.6% YoY to Rs 271mn from Rs 173mn.

Sun Pharma

Sun Pharma's revenues are likely to increase by 14.3% YoY, primarily due to healthy growth in domestic and the US market with the volume gain in existing products and new launches. The company's EBITDA margin expected to see marginal contraction by 25bps YoY to 21.6% from 21.8%. The net profit is likely to accelerate by 178% YoY to Rs 10.1bn from Rs 3.65bn due to one off item related to deferred tax payment of Rs5.13bn in Q3FY18.

Suven Life Sciences

Suven Life's revenues are likely to increase by 15.1% YoY, mainly due to strong performance from core CRAMS and Speciality business. The company's EBITDA margin expects to enhance by 407bps at 35.5% from 31.4% due to favorable product mix. The net profit is likely to accelerate by 12.8% YoY to Rs 390mn from Rs346mn due to higher tax rate.

Company name	Reco	CMP	Target price
Aurobindo Pharma	Hold	757	832
Dishman Carbogen	Buy	242	313
Glenmark Pharma	Hold	656.5	712
Granules India	Buy	90.45	129
Lupin	Hold	837	964
Shilpa Medicare	Buy	385	453
Sun Pharma	Buy	447.4	683
Suven Life	Buy	226	296
Aarti Industries	Buy	1485	1562
Bodal Chemicals	Buy	118.3	165
Hikal Ltd	Buy	153	224
IG Petrochemicals	Buy	385	955
Vinati Organics	Buy	1613	UR
GMM Pfaudler	Buy	1207	UR

Relative Price Chart



Our Top Picks:

- ⇒ **Suven Life Sciences**
- ⇒ **Dishman Pharma**
- ⇒ **Hikal**

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► Chemical Sector

Aarti Industries

We expect Aarti Industries to deliver revenue growth of 17.8% 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 marginal improvement at 18.6% from 18%. The net profit is likely to grow by 19% to Rs 1,073mn from Rs 902mn.

Bodal Chemical

Bodal Chemical expected to deliver revenue growth of 30.5% YoY, lead by higher realization in Dye intermediate and increasing revenue contribution from new products. The company's EBIDTA margin expects to incline from 17.3% to 18.4% due to better realization. The net profit is likely to grow by 44.1% to Rs 440mn from Rs 305mn due to better operational performance.

Hikal

We expect Hikal to post revenue of 16.8% YoY, on the back of healthy performance from both Pharmaceutical and cro protection business. EBITDA margin to improve by 50bps from 19.1% to 19.6% in Q3FY19 compared to same quarter last year, due to better product mix. Net profit to grow by 28.9% YoY to Rs 298mn from Rs 231mn.

IG Petrochemicals

We expect IG petrochemicals to post de-growth in revenue of 7.7% YoY, due to by muted volume and realization growth in base business. EBITDA margin to contract from 24.2% to 20.6% in Q3FY19 compared to same quarter last year, due to decline in PAN/OX spread. Net profit to decline by 11.4% YoY to Rs 358mn from Rs 404mn.

Vinati Organics

We expect Vinati organics to report revenue growth of 41.6% YoY on the back of strong performance from ATBS business and new product launches. EBITDA margin expected to remain healthy at 34.2%. PAT expected to be at Rs 541mn compared to Rs 317mn last year same quarter due to strong operational performance.

⇒ Other sector

GMM Pfaudler

We expect GMM to post revenue growth of 23.4% YoY, supported by healthy volume growth and better realization in GL and non-GL business. EBITDA margins to improve YoY from 15.5% to 16.1% due to increasing contribution from high margin export orders. Net profit set to grow at 27% YoY to Rs 94mn from Rs 74mn.

Summary Estimates (In mn)

Company	Revenues			EBITDA			EBITDA Margin (%)		PAT			PAT Margin (%)	
	Q3FY19E	Q3FY18	Y-o-Y (%)	Q3FY19E	Q3FY18	Y-o-Y (%)	Q3FY19E	Q3FY18	Q3FY19E	Q3FY18	Y-o-Y (%)	Q3FY19E	Q3FY18
Pharmaceuticals													
Aurobindo Pharma	48,780	43,361	12.5%	10,791	10,256	5.2%	22.1%	23.7%	6,810	5,950	14.4%	14.0%	13.7%
Dishman Pharma	4,596	4,598	-0.1%	1,396	1,212	15.1%	30.4%	26.4%	505	420	20.1%	11.0%	9.1%
Glenmark Pharma	25,453	22,037	15.5%	4,353	3,227	34.9%	17.1%	14.6%	2,350	1,047	124.5%	9.2%	4.8%
Granules India	5,641	4,107	37.3%	978	740	32.1%	17.3%	18.0%	467	350	33.4%	8.3%	8.5%
Lupin	41,006	39,756	3.1%	6,007	6,883	-12.7%	14.6%	17.3%	2,768	2,217	24.8%	6.8%	5.6%
Shilpa Medicare	1,715	1,855	-7.6%	403	271	48.4%	23.5%	14.6%	271	173	56.6%	15.8%	9.3%
Sun Pharma	76,078	66,532	14.3%	16,429	14,534	13.0%	21.6%	21.8%	10,142	3,654	177.6%	13.3%	5.5%
Suven Life	1,884	1,637	15.1%	668	514	30.0%	35.5%	31.4%	390	346	12.8%	20.7%	21.1%
Chemicals													
Aarti Industries	11,667	9,902	17.8%	2,165	1,778	21.8%	18.6%	18.0%	1,073	902	19.0%	9.2%	9.1%
Bodal Chemicals	3,967	3,041	30.5%	728	526	38.5%	18.4%	17.3%	440	305	44.1%	11.1%	10.0%
Hikal Ltd	4,094	3,506	16.8%	801	669	19.8%	19.6%	19.1%	298	231	28.9%	7.3%	6.6%
IG Petrochemicals	2,718	2,946	-7.7%	560	714	-21.6%	20.6%	24.2%	358	404	-11.4%	13.2%	13.7%
Vinati Organics	2,498	1,856	34.5%	854	498	71.3%	34.2%	26.8%	541	317	70.5%	21.7%	17.1%
Other													
GMM Pfaudler	977	792	23.4%	157	123	27.6%	16.1%	15.5%	94	74	27.0%	9.6%	9.3%

Source: Company, BP Equities Research

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

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