

# Q3 FY18E Pharmaceuticals and Chemical Earnings Preview



Pharmaceuticals and Chemicals | Earnings Preview

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## Another painful quarter for pharmaceutical, margin to remain under pressure for chemical

We expect the companies under our coverage to report weak performance in Q3FY18 due to high base (exclusive opportunities), pricing pressure in US. However, we believe growth in domestic business will continue in Q3FY18 with further improvement in inventory levels and also due to low base in Q3FY17 due to demonetization. Overall structural trends in the sector do not give any long-term comfort, however 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 short term. We expect Glenmark to see significant decline in revenue and profitability on the back of high base in previous year quarter due to gZetia FTF launch along with Sun Pharma and Lupin due to fall in US business on the back of pricing pressure in the base business. Overall our pharma coverage would post Revenue/EBIDTA/PAT growth of -7%/-29%/-30% YoY in Q3FY18. We expect the EBITDA margin of our coverage universe to decline by 646bps YoY, underpinned by a pricing pressure and weak operational efficiencies.

Performance (%)	1m	3m	1Yr
Aurobindo Pharma	0.6	-8.0	-3.3
Dishman Pharma	9.8	11.1	9.4
Glenmark Pharma	16.4	2.2	-30.7
Granules India	14.4	14.5	38.8
Lupin	13.5	-12.2	-37.4
Sun Pharma	13.1	11.8	-7.6
Aarti Industries	26.9	27.1	61.0
Vinati Organics	-2.5	-2.2	48.8
IG Petrochemicals	7.9	14.2	237.5
GMM Pfaudler	16.0	23.0	36.6

### Aurobindo Pharma

We expect Aurobindo Pharma's Q3FY18E revenues to grow by 10.1% YoY to Rs43bn, aided by base business growth in US and revenues from generic Renvela (Sevelamer Carbonate). The company's EBITDA margin is expected to improve by 62bps YoY to 23.5% in Q3FY18 from 22.9% in Q2FY17, mainly due to strong performance in US business and improved profitability in EU. We expect participation in high value ARV tender business will benefit the company in better EBITDA margin. PAT expected to come at Rs6.5bn (12.4% YoY).

Company name	Reco	CMP	Target price
Aurobindo Pharma	Buy	678	832
Dishman Pharma	Buy	333	400
Glenmark Pharma	Buy	623	797
Granules India	Buy	145	173
Lupin	Buy	930	1174
Sun Pharma	Buy	590	752
Aarti Industries	Buy	1126	1260
Vinati Organics	Buy	1006	1167
IG Petrochemicals	Buy	825	1134
GMM Pfaudler	Buy	785	1106

### Dishman Pharma

Dishman Pharma is expected to deliver ~10% revenue growth with EBITDA growth of 19.2% on the back of favorable change in products mix. The net profit would decline by -5% YoY to Rs 480mn due to higher depreciation cost.

### Glenmark Pharma

We expect Glenmark to report 12% drop in revenues primarily on back of 35% decline in the US generic segment due to high base of gZetia sales. We expect margins to decline by 1120bps to 19% on the back of high base in the US. PAT is set to decline by 51.5% YoY to Rs 2.3bn from Rs 4.77bn.

### Granules India

We expect Granules India's revenues to grow by 12.2% YoY to Rs 4bn. We expect EBITDA margin to remain flat YoY to 21.1% from 21.2% due to the change in product mix. Net profit to grow at better pace by 17% YoY to Rs 458mn from Rs 391mn.

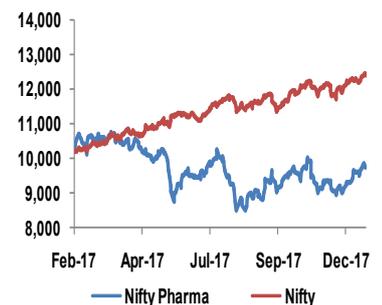
### Lupin

We expect Lupin's Q3FY18E sales to contract by 12% YoY due to the increased competition in Glumetza and Fortamet generics in the US market and the absence of 180-days exclusivity of gGlumetza and gFortamet in Q3FY17. We expect EBITDA margin to decline by 577bps to 21.4% from 27.1% mainly due to high base of metformin in Q3FY17. The net profit to decline sharply by 33% YoY to Rs 4.24bn from Rs 6.3bn on the back of operationally weak performance.

### Sun Pharma

We expect Sun Pharma's revenues are likely to decline by~13.9% YoY, mainly due to expected lower growth of Taro, pricing pressure in the US market and consolidation of distributors in the US and absence of 180-days exclusivity for generic Gleevec. The company's EBITDA margin expects to decline by 985bps YoY to 21.2% from 31% due to adverse product mix. The net profit is likely to decline by 39.7% YoY to Rs 8.9bn from Rs 14.7bn due to weak operating performance.

Relative Price Chart



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**Our Top Picks: Aurobindo Pharma, Granules India, IG Petrochemicals, GMM Pfaudler**

# Q3 FY18 Pharmaceuticals and Speciality Chemical Earnings Preview

## ⇒ Chemical Sector

### Aarti Industries

We expect Aarti Industries to see revenue growth of 17.3% YoY, aided by strong volume growth and realization increase in speciality chemical segment supported with healthy growth in pharma segment. The company's EBITDA margin expects to decline to 18.9% from 19.5% due to increase in input cost. The net profit is likely to grow by 13.9% to Rs 841mn from Rs 738mn due to increase in depreciation cost.

### Vinati Organics

We expect Vinati organics to report revenue growth of 10.8% YoY on the back new product launches and sustainable growth in existing product. EBITDA margin expected to remain healthy at 32.8%. PAT expected to at Rs 367mn compared to Rs 326 last year same quarter.

### IG Petrochemicals

We expect IG petrochemicals to deliver revenue growth of 23.3% YoY, supported by strong volume growth in base business. EBITDA margins to grow at higher pace due to low base from 15.8% to 19.7% in Q3FY18 compared to same quarter last year. Net profit to grow at 41.7% YoY to Rs 328mn from Rs 232mn.

## ⇒ Other sector

### GMM Pfaudler

We expect GMM to post revenue growth of 21.5% YoY, supported by healthy volume growth and better realization in GL business. EBITDA margins to contract due to increase in raw material cost (Steel sheet). Net profit to grow at 16.6% YoY to Rs 68mn from Rs 58mn.

## Summary Estimates ( In mn)

Company	Revenues			EBITDA			EBITDA Margin (%)		PAT			PAT Margin (%)	
	Q3FY18E	Q3FY17	Y-o-Y (%)	Q3FY18E	Q3FY17	Y-o-Y (%)	Q3FY18E	Q3FY17	Q3FY18E	Q3FY17	Y-o-Y (%)	Q3FY18E	Q3FY17
<b>Pharmaceuticals</b>													
Aurobindo Pharma	43,000	39,062	10.1%	10,117	8,948	13.1%	23.5%	22.9%	6,506	5,786	12.4%	15.1%	14.8%
Dishman Pharma	3,998	3,621	10.4%	1,141	957	19.2%	28.5%	26.4%	480	507	-5.3%	12.0%	14.0%
Glenmark Pharma	22,311	25,350	-12.0%	4,231	7,650	-44.7%	19.0%	30.2%	2,314	4,770	-51.5%	10.4%	18.8%
Granules India	4,034	3,595	12.2%	853	763	11.7%	21.1%	21.2%	458	391	17.3%	11.4%	10.9%
Lupin	39,452	44,829	-12.0%	8,425	12,158	-30.7%	21.4%	27.1%	4,238	6,331	-33.1%	10.7%	14.1%
Sun Pharma	68,129	79,127	-13.9%	14,414	24,531	-41.2%	21.2%	31.0%	8,871	14,718	-39.7%	13.0%	18.6%
<b>Speciality Chemical</b>													
Aarti Industries	9,037	7,702	17.3%	1,704	1,502	13.4%	18.9%	19.5%	841	738	13.9%	9.3%	9.6%
Vinati Organics	1,821	1,644	10.8%	598	531	12.7%	32.8%	32.3%	367	326	12.7%	20.2%	19.8%
IG Petrochemicals	2,931	2,377	23.3%	578	376	53.8%	19.7%	15.8%	328	232	41.7%	11.2%	9.7%
<b>Other</b>													
GMM Pfaudler	810	666	21.5%	125	106	18.0%	15.5%	15.9%	68	58	16.6%	8.4%	8.8%

Source: Company, BP Equities Research

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