

Another muted quarter for Pharmaceuticals, Strong performance from Chemicals

We expect the companies under our coverage to report weak performance in Q4FY18 due to pricing pressure in US and rupee appreciation against dollar. However, we believe growth in domestic business to continue in Q4FY18 due to low base in Q4FY17. 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. Overall our pharma coverage would post Revenue/EBIDTA/PAT growth of -0.4%/0.5%/-7.3% YoY in Q4FY18.

⇒ Pharmaceuticals

Aurobindo Pharma

We expect Aurobindo Pharma's Q4FY18E revenues to grow by 10.1% YoY to Rs43bn, aided by base business growth in US and generic acquisition in Europe. 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).

Dishman Pharma

Dishman Pharma is expected to deliver ~10% revenue growth with faster acceleration in 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

Revenue expected to decline by 6.5%YoY mainly due to decline in US led by high base of gZetia sales. Domestic revenue expected to deliver double digit growth in Q4FY18. We expect margins to decline by 204bps to 16% on the back of high base in the US. PAT is estimated at Rs 1.98bn.

Granules India

We expect Granules India's revenues to grow by 17.4% YoY to Rs 4.25bn. We expect EBITDA margin to decline YoY to 20.1% from 21.4% due to the rise in raw material led by rise in cost of crude based chemicals. Net profit set to grow at by 13.9% YoY to Rs 520mn from Rs 457mn.

Lupin

Revenues are expected to contract by 5.9% YoY on the back of decline in US mainly due to price erosion in Metformin portfolio (mainly gGlumetza and gFortamet). Lupin's Asia Pacific formulations are expected to grow at 21% YoY due to good growth in Japan. We expect EBITDA margin to remain flat at 18.4% from 18.4% mainly due to change in product mix. The net profit to decline by 12.5% YoY to Rs 3.32bn from Rs 3.8bn on the back of operationally weak performance.

Sun Pharma

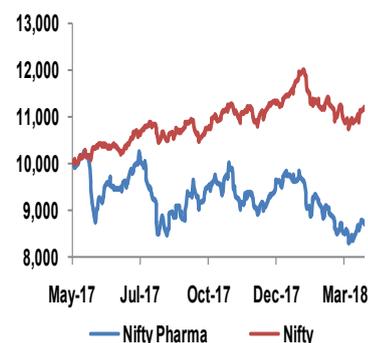
We expect Sun Pharma's revenues are likely to decline by 5.3% YoY, mainly due to expected lower growth of Taro, pricing pressure in the US market and consolidation of distributors in the US and Large base of gGleevec and gBenicar. The company's EBITDA margin expects to decline by 25bps YoY to 21.4% from 21.7% due to adverse product mix. Net profit is expected to decline by 20.4% due to subdued operational performance.

Our Top Picks: Aurobindo Pharma, IG Petrochemicals

Performance (%)	1m	3m	1Yr
Aurobindo Pharma	2.7	-9.5	-7.4
Dishman Pharma	9.3	-0.6	9.1
Glenmark Pharma	5.8	-8.5	-35.3
Granules India	1.2	-22.9	-21.4
Lupin	3.2	-14.7	-44.3
Sun Pharma	1.7	-11.9	-22.7
Aarti Industries	2.1	6.2	52.7
Vinati Organics	17.0	-5.5	23.8
IG Petrochemicals	16.7	-5.7	108.0

Company name	Reco	CMP	Target price
Aurobindo Pharma	Buy	606	832
Dishman Pharma	Buy	334	400
Glenmark Pharma	Buy	562	712
Granules India	Buy	108	173
Lupin	Buy	787	964
Sun Pharma	Buy	516	683
Aarti Industries	Buy	1,192	1,260
Vinati Organics	Buy	925	1,167
IG Petrochemicals	Buy	768	1,203

Relative Price Chart



Research Analyst

Nikhil Shetty

nikhilshetty@bpwealth.com

Q4 FY18 Pharmaceuticals and Speciality Chemical Earnings Preview

⇒ Chemical Sector

Aarti Industries

We expect Aarti Industries to report revenue growth of 24.2% YoY, aided by strong volume growth and realization increase in specialty chemical segment supported with healthy growth in pharma segment. The company's EBIDTA margin expects reach 18.5% from 18.3% due to increase in input cost. The net profit is likely to grow by 36.7% to Rs 1,016mn from Rs 743mn due to strong operational performance.

Vinati Organics

Revenue expected to decline by -2% YoY due to high base. EBITDA margin expected to remain flat at 29.1%. PAT expected to contract at Rs 367mn compared to Rs 406 last year same quarter.

IG Petrochemicals

We expect IG petrochemicals to deliver revenue growth of 10.2% YoY, supported by strong volume growth in base business. EBITDA margins to grow at higher pace due to low base from 15.8% to 23.8% in Q4FY18 compared to same quarter last year. Net profit set to grow at 58.5% YoY to Rs 445mn from Rs 281mn.

Summary Estimates (In mn)

Company	Revenues			EBITDA			EBITDA Margin (%)			PAT		PAT Margin (%)	
	Q4FY18E	Q4FY17	Y-o-Y (%)	Q4FY18E	Q4FY17	Y-o-Y (%)	Q4FY18E	Q4FY17	Q4FY18E	Q4FY17	Y-o-Y (%)	Q4FY18E	Q4FY17
Pharmaceuticals													
Aurobindo Pharma	42,816	36,416	17.6%	9,529	7,212	32.1%	22.3%	19.8%	6,211	5,325	16.6%	14.5%	14.6%
Dishman Pharma	5,437	5,342	1.8%	1,441	1,467	-1.8%	26.5%	27.5%	541	428	26.4%	10.0%	8.0%
Glenmark Pharma	22,967	24,572	-6.5%	3,679	4,438	-17.1%	16.0%	18.1%	1,984	1,838	8.0%	8.6%	7.5%
Granules India	4,253	3,622	17.4%	856	774	10.7%	20.1%	21.4%	520	457	13.9%	12.2%	12.6%
Lupin	40,027	42,533	-5.9%	7,373	7,814	-5.6%	18.4%	18.4%	3,328	3,802	-12.5%	8.3%	8.9%
Sun Pharma	67,609	71,370	-5.3%	14,491	15,475	-6.4%	21.4%	21.7%	9,747	12,237	-20.4%	14.4%	17.1%
Chemicals													
Aarti Industries	10,359	8,344	24.2%	1,917	1,526	25.6%	18.5%	18.3%	1,016	743	36.7%	9.8%	8.9%
Vinati Organics	2,034	2,076	-2.0%	591	605	-2.4%	29.1%	29.2%	367	406	-9.6%	18.0%	19.6%
IG Petrochemicals	3,187	2,893	10.2%	760	456	66.7%	23.8%	15.8%	445	281	58.5%	14.0%	9.7%

Source: Company, BP Equities Research

**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

Registered Office:

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

BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392