

# Q2 FY19E Pharmaceuticals and Chemical Earnings Preview



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Pharmaceuticals and Chemicals | Earnings Preview

12<sup>th</sup> October 2018

## High base due to restocking and increase in input cost to dent performance in Q2

We expect the companies under our pharmaceuticals coverage to report high single-digit growth in Q2FY19 with 8.5% decline in profitability, aided by the higher base of sales, which were accounted in Q2FY18 post-GST implementation. US revenues are expected to deliver high single-digit growth due to favorable currency movement and volume growth in base business. However, we believe US business continues to witness pricing pressure in the base business mainly due to channel consolidation and increased competition. Moreover, the input cost (API /intermediates) sourced from China has risen after the Chinese Government started cracking down on facilities that violate pollution control norms. India being a net importer of raw materials from China (65% of total requirement), the higher raw material cost could dent gross margins of most of the pharma companies. 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 short term. **Overall our Pharma coverage would post Revenue/EBIDTA/PAT growth of 9%/-2%/-8.8% YoY in Q2FY19. We expect the EBITDA margin of our coverage universe to show the decline of 217bps YoY, underpinned by a higher base in the domestic market and increase in input cost.**

### Aurobindo Pharma

We expect Aurobindo Pharma's Q2FY19E revenues to grow by 4.7% YoY to Rs46bn, aided by currency tailwinds and new launches (gErtapenem as well as more supply of Injectable ) in the US business. The company's EBITDA margin is expected to contract by 90bps YoY to 21.5% in Q1FY19 from 22.4% in Q1FY18, mainly due to higher raw material cost owing to China supply constraints and the high base of gRenvela. PAT expected to decline in tune with margin contraction of 361bps at Rs6.5bn (- 16.8% YoY).

### Dishman Carbogen Amcis

Dishman Carbogen is expected to deliver 17.7% revenue growth with EBITDA growth of 24.4% on the back of the low base and the favorable change in products mix. The net profit would increase by 11.3% YoY to Rs 539mn. We expect the 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 8.5% growth in revenues primarily on the back of mid-teen growth in domestic formulation business and ramp-up of gWelcol in the US. EBITDA margin expected to remain at 16.2% (vs 17.2% in Q2FY18) due to increase in input cost. Higher tax (27% vs 21.6%) leads to decline in PAT by 10.3% YoY to Rs 1.9bn from Rs 2.1bn.

### Granules India

We expect Granules India's revenues to grow by 13.5% YoY to Rs 4.45bn on the back of commissioning of new capacities and ramp-up of gMethergine in the US. We expect EBITDA margin to decline YoY to 17.4% from 19.6% due to higher input cost. Subsequently, PAT to decline by 10% YoY to Rs 363mn from Rs 403mn.

### Lupin

We expect Lupin's Q2FY19E revenues to increase by 1.3% YoY due to mid-single-digit growth in the domestic market and lack of meaningful approvals/ launches in the US market. EBITDA margin expected to decline by 678bps to 14.8% from 21.6% due to weak performance in the US market and elevated input cost. PAT expected to decline sharply by 38.3% YoY to Rs 2.8bn from Rs 4.55bn on the back of weak operational performance.

### Shilpa Medicare

Shilpa Medicare's revenue expects to decline by 1.2% YoY. We expect EBITDA margin to decline by 315bps to 24.6% from 27.8% mainly due to a higher base. The net profit set to contract by 5.6% YoY to Rs 323mn from Rs 341bn.

### Sun Pharma

Sun Pharma's revenues are likely to increase by 14.7% YoY, mainly due to healthy growth in domestic market and resolution on Halol plants to increase exports to the US to improve sales growth. The company's EBITDA margin expects to increase by 134bps YoY to 22% from 20.7%. The net profit is likely to accelerate by 10.6% YoY to Rs 10bn from Rs 9.1bn due to strong operating performance.

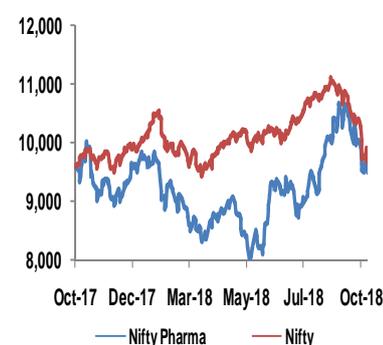
### Suven Life Sciences

Suven Life's revenues are likely to increase by 33.3% YoY, mainly due to a strong performance from core CRAMS and Speciality business. The company's EBITDA margin expects to remain flattish at 41.5% from 42% due to a high base. The net profit is likely to accelerate by 34.2% YoY to Rs 426mn from Rs 317mn due to strong operating performance.

Performance (%)	1m	3m	1Yr
Aurobindo Pharma	-7.1	20.5	0.4
Dishman Carbogen	-19.4	-14.0	-22.4
Glenmark Pharma	-10.0	3.5	0.1
Granules India	-19.3	1.0	-28.1
Lupin	-9.9	-6.1	-19.1
Shilpa Medicare	-21.3	-5.5	-39.7
Sun Pharma	-6.3	5.4	12.4
Suven Life	-17.0	16.5	31.5
Aarti Industries	-1.9	2.1	39.4
Bodal Chemicals	4.4	-7.3	-35.7
IG Petrochemicals	-20.8	-28.4	-46.5
Vinati Organics	-10.7	22.3	22.2
GMM Pfadler	-4.8	22.9	60.1

Company name	Reco	CMP	Target price
Aurobindo Pharma	Hold	735	832
Dishman Carbogen	Buy	232	380
Glenmark Pharma	Hold	601	712
Granules India	Buy	93	129
Lupin	Hold	847	964
Shilpa Medicare	Buy	402	592
Sun Pharma	Buy	591	683
Suven Life	Hold	258	296
Aarti Industries	Buy	1283	1,562
Bodal Chemicals	Buy	117	165
IG Petrochemicals	Buy	383	UR
Vinati Organics	Buy	1210	1,409
GMM Pfadler	Buy	1000	1,197

## Relative Price Chart



## Research Analyst

Nikhil Shetty

nikhilshetty@bpwealth.com

**Our Top Picks: Aurobindo Pharma, Sun Pharma, Aarti Industries, GMM Pfadler**

## Q2 FY19 Pharmaceuticals and Chemical Earnings Preview

### ► Chemical Sector

#### Aarti Industries

We expect Aarti Industries to deliver revenue growth of 24.9% YoY, aided by strong volume growth with the higher realization in specialty chemical segment supported by healthy growth in the pharma segment. The company's EBIDTA margin expects to remain at the flat at 17.7% from 18.1% due to increase in input cost. The net profit is likely to grow by 13.9% to Rs 894mn from Rs 785mn.

#### Bodal Chemical

Bodal Chemical expected to deliver revenue growth of 36.5% YoY, led by the higher realization in Dye intermediate (Vinyl Sulphone and H.Acid) and increasing revenue contribution from new products. The company's EBIDTA margin expects to incline from 17.7% to 18.8% due to better realization. The net profit is likely to grow by 50.6% to Rs 394mn from Rs 262mn due to better operational performance.

#### IG Petrochemicals

We expect IG petrochemicals to post revenue growth of 14.2% YoY, supported by strong volume and realization growth in base business. EBITDA margin to contract from 21.6% to 23.2% in Q1FY19 compared to the same quarter last year, due to the decline in PAN/OX spread. Net profit to decline by 8.3% YoY to Rs 308mn from Rs 336mn.

#### Vinati Organics

We expect Vinati organics to report revenue growth of 46.8% YoY on the back of strong performance from ATBS business and new product launches. EBITDA margin expected to remain healthy at 34.8%. PAT expected to be at Rs 492mn compared to Rs 291mn last year same quarter due to a low base.

### ► Other sector

#### GMM Pfaudler

We expect GMM to post revenue growth of 18.4% YoY, supported by healthy volume growth and better realization in GL business. EBITDA margins to improve YoY from 15.2% to 16.8% due to increased contribution from high margin export orders. Net profit set to grow at 29.6% YoY to Rs 91mn from Rs 70mn.

### Summary Estimates ( In mn)

Company	Revenues			EBITDA			EBITDA Margin (%)		PAT			PAT Margin (%)	
	Q2FY19E	Q2FY18	Y-o-Y (%)	Q2FY19E	Q2FY18	Y-o-Y (%)	Q2FY19E	Q2FY18	Q2FY19E	Q2FY18	Y-o-Y (%)	Q2FY19E	Q2FY18
<b>Pharmaceuticals</b>													
Aurobindo Pharma	46,433	44,359	4.7%	9,376	11,169	-16.0%	20.2%	25.2%	6,501	7,812	-16.8%	14.0%	17.6%
Dishman Carbogen Amcis	5,223	4,438	17.7%	1,655	1,330	24.4%	31.7%	30.0%	539	484	11.3%	10.3%	10.9%
Glenmark Pharma	24,480	22,566	8.5%	3,972	3,884	2.3%	16.2%	17.2%	1,922	2,142	-10.3%	7.9%	9.5%
Granules India	4,456	3,926	13.5%	776	769	0.9%	17.4%	19.6%	363	403	-10.0%	8.1%	10.3%
Lupin	40,035	39,520	1.3%	5,928	8,531	-30.5%	14.8%	21.6%	2,807	4,550	-38.3%	7.0%	11.5%
Shilpa Medicare	2,015	2,040	-1.2%	496	566	-12.4%	24.6%	27.8%	323	341	-5.6%	16.0%	16.7%
Sun Pharma	76,276	66,503	14.7%	16,802	13,756	22.1%	22.0%	20.7%	10,085	9,121	10.6%	13.2%	13.7%
Suven Life	1,424	1,069	33.3%	591	450	31.2%	41.5%	42.1%	426	317	34.2%	29.9%	29.7%
<b>Chemicals</b>													
Aarti Industries	11,090	8,879	24.9%	1,966	1,603	22.7%	17.7%	18.1%	894	785	13.9%	8.1%	8.8%
Bodal Chemicals	3,583	2,625	36.5%	674	464	45.3%	18.8%	17.7%	394	262	50.6%	11.0%	10.0%
IG Petrochemicals	2,752	2,409	14.2%	581	601	-3.3%	21.1%	24.9%	308	336	-8.3%	11.2%	14.0%
Vinati Organics	2,359	1,607	46.8%	820	459	78.6%	34.8%	28.6%	492	291	68.8%	20.9%	18.1%
<b>Other</b>													
GMM Pfaudler	905	764	18.4%	152	116	31.0%	16.8%	15.2%	91	70	29.6%	10.1%	9.2%

Source: Company, BP Equities Research

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

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**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

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