

### Low base due to GST to support growth

We expect the companies under our coverage to report double digit growth in Q1FY19, aided by low base in domestic market due to GST. However, we believe US business continue to witness pricing pressure in the base business mainly due to channel consolidation and increased competition. Few interesting launches in US generic market will help few Indian players to report better performance in Q1. On domestic market front, we expect most of the companies report healthy performance in Q1FY19 due to low base last year same quarter. 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 in the US. Overall our pharma coverage would post Revenue/EBIDTA/PAT growth of 10%/14%/20% YoY in Q1FY19. We expect the EBITDA margin of our coverage universe to show marginal improvement of 73bps YoY, underpinned by a lower base in domestic market.

Performance (%)	1m	3m	1Yr
Aurobindo Pharma	7.4	1.0	-13.5
Dishman Carbogen	-9.1	-19.7	-12.8
Glenmark Pharma	5.4	3.5	-13.2
Granules India	17.1	-14.7	-35.3
Lupin	11.5	14.6	-21.3
Shilpa Medicare	5.3	-10.3	-37.5
Sun Pharma	6.8	11.1	0.2
Aarti Industries	6.4	5.1	33.2
Bodal Chemical	-12.1	-8.6	-25.1
IG Petrochemicals	-7.4	-30.0	15.5
Vinati Organics	3.1	7.6	4.3

### Aurobindo Pharma

We expect Aurobindo Pharma's Q1FY19E revenues to grow by 12.5% YoY to Rs41bn, aided by higher growth in Europe. US business expected to deliver flat growth during the quarter due to lack of approval and launches. 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 R&D cost as Aurobindo investing to building platform in complex generics. We expect participation in high value ARV tender business will benefit the company in better EBITDA margin. PAT expected to come at Rs5.5bn (up 6.6% YoY).

### Dishman Carbogen

Dishman Carbogen is expected to deliver 17.4% revenue growth with EBITDA growth of 64.7% on the back of low base and favorable change in products mix. The net profit would increase by 91.7% YoY to Rs 473mn. We expect higher proportion of products shifting from the late phase III to commercialization stage to support future growth trajectory.

### Glenmark Pharma

We expect Glenmark to report 3% drop in revenues primarily on back of 30% de- growth in the US generic segment due to high base of gZetia sales. We expect margins to contract by 810bps to 16.3% on the back of high base in the US. PAT is set to decline by 48.8% YoY to Rs 1.7bn from Rs 3.3bn.

### Granules India

We expect Granules India's revenues to grow by 15.2% YoY to Rs 4.4bn on the back of commissioning of new capacities and launch of gMethergine in the US. We expect EBITDA margin to decline YoY to 14.9% from 19.9% due to the change in product mix. Subsequently, PAT to decline by 15.3% YoY to Rs 312mn from Rs368mn.

### Lupin

We expect Lupin's Q1FY19E sales to increase by 8.5% YoY due to strong growth in domestic market. We expect EBITDA margin to improve by 39bps to 20.3% from 19.9% due to cost cutting and cost deferment measures. The net profit to increase sharply by 21.9% YoY to Rs 4.36bn from Rs 3.58bn on the back of better operational performance and lower tax rate.

### Shilpa Medicare

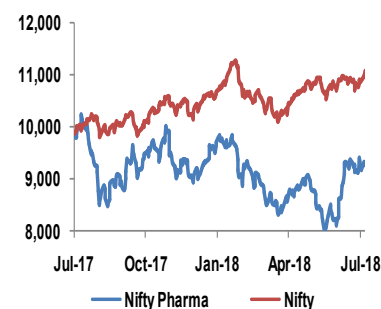
Shilpa's sales expect to grow by 23.9% YoY due to low base during last year same quarter. We expect EBITDA margin to improve by 79bps to 21% from 20.2% mainly due to increased contribution from formulation business. The net profit set to increase by 21.1% YoY to Rs 298mn from Rs 246bn on the back of operationally strong performance.

### Sun Pharma

Sun Pharma's revenues are likely to increase by 13.2% YoY, mainly due to healthy growth in domestic market and lower double digit growth in the US. The company's EBITDA margin expects to increase by 491bps YoY to 22.6% from 17.6% due to lower base. The net profit is likely to accelerate by 75% YoY to Rs 9.2bn from Rs 5.25bn (excl exceptional expense of Rs 9.5bn un Q1FY18) due to strong operating performance.

Company name	Reco	CMP	Target price
Aurobindo Pharma	Buy	613	832
Dishman Carbogen	Buy	268	400
Glenmark Pharma	Buy	585	712
Granules India	Buy	92	129
Lupin	Buy	903	964
Shilpa Medicare	Buy	422	592
Sun Pharma	Buy	561	683
Aarti Industries	Buy	1,255	UR
Bodal Chemical	Buy	126	163
IG Petrochemicals	Buy	536	1,143
Vinati Organics	Buy	985	1,167

Relative Price Chart



### Research Analyst

Nikhil Shetty

nikhilshetty@bpwealth.com

**Our Top Picks: Aurobindo Pharma, Sun Pharma, IG Petrochemicals, Aarti Industries**

# Q1 FY19 Pharmaceuticals and Speciality Chemical Earnings Preview

## ▷ Chemical Sector

### Aarti Industries

We expect Aarti Industries to see revenue growth of 28.6% YoY, aided by strong volume growth with higher realization in speciality chemical segment supported by healthy growth in pharma segment. The company's EBITDA margin expects to remain at flat at 17.7% from 17.5% due to increase in input cost. The net profit is likely to grow by 33.5% to Rs 842mn from Rs 631mn due to better operational performance.

### Bodal Chemical

Bodal Chemical expected to deliver revenue growth of 6.6% YoY, aided by demand recovery in end user industry and increasing revenue contribution from new products. The company's EBITDA margin expects to remain at flat at 17.5% from 17.3% due to increase in input cost. The net profit is likely to grow by 10.9% to Rs 346mn from Rs 312mn due to better operational performance.

### IG Petrochemicals

We expect IG petrochemicals to deliver revenue growth of 23.3% YoY, supported by strong volume and realization growth in base business. EBITDA margins to grow at higher pace due operationally strong performance from 21.6% to 23.2% in Q1FY19 compared to same quarter last year. Net profit to grow by 25.3% YoY to Rs 490mn from Rs 391mn.

### Vinati Organics

We expect Vinati organics to report revenue growth of 8.1% YoY on the back new product launches and sustainable growth in existing product. EBITDA margin expected to remain healthy at 25.8%. PAT expected to be at Rs 343mn compared to Rs 311mn last year same quarter.

## Summary Estimates ( In mn)

Company	Revenues			EBITDA			EBITDA Margin (%)		PAT			PAT Margin (%)	
	Q1FY19E	Q1FY18	Y-o-Y (%)	Q1FY19E	Q1FY18	Y-o-Y (%)	Q1FY19E	Q1FY18	Q1FY19E	Q1FY18	Y-o-Y (%)	Q1FY19E	Q1FY18
<b>Pharmaceuticals</b>													
Aurobindo Pharma	41,385	36,788	12.5%	8,883	8,228	8.0%	21.5%	22.4%	5,528	5,185	6.6%	13.4%	14.1%
Dishman Pharma	3,987	3,396	17.4%	1,153	700	64.7%	28.9%	20.6%	473	247	91.7%	11.9%	7.3%
Glenmark Pharma	22,911	23,630	-3.0%	3,741	5,774	-35.2%	16.3%	24.4%	1,708	3,334	-48.8%	7.5%	14.1%
Granules India	4,447	3,860	15.2%	664	769	-13.7%	14.9%	19.9%	312	368	-15.3%	7.0%	9.5%
Lupin	41,983	38,696	8.5%	8,502	7,684	10.7%	20.3%	19.9%	4,365	3,581	21.9%	10.4%	9.3%
Shilpa Medicare	2,088	1,685	23.9%	439	341	28.8%	21.0%	20.2%	298	246	21.1%	14.3%	14.6%
Sun Pharma	70,267	62,088	13.2%	15,855	10,957	44.7%	22.6%	17.6%	9,196	5,256	75.0%	13.1%	8.5%
<b>Speciality Chemical</b>													
Aarti Industries	10,181	7,918	28.6%	1,798	1,384	29.9%	17.7%	17.5%	842	631	33.5%	8.3%	8.0%
Bodal Chemical	3,142	2,946	6.6%	550	509	7.9%	17.5%	17.3%	346	312	10.9%	11.0%	10.6%
IG Petrochemicals	3,576	3,226	10.8%	830	696	19.2%	23.2%	21.6%	490	391	25.3%	13.7%	12.1%
Vinati Organics	2,129	1,969	8.1%	549	502	9.4%	25.8%	25.5%	343	311	10.4%	16.1%	15.8%

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](http://www.bpwealth.com)

**Registered Office:**

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

**BP Equities Pvt. Ltd.****CIN No: U67120MH1997PTC107392**