

India Research

QUARTERLY PREVIEW

Pharmaceuticals

Q4 FY19E: Revenue traction continues

March'19E Qtrly PAT

In Rs. Mn	Karvy
Sun Pharma	9,054
Cadila	5,184
Lupin	3,035
Dr. Reddy's Labs	4,063

Source: Karvy Stock Broking
Major changes in Target Price (TP)

Companies	Rating	TP Change
Alembic Pharma	HOLD	-7%
Cadila Healthcare	BUY	12%
Dishman Carbogen	BUY	4%
Divis Labs	HOLD	15%
Dr. Reddy's Labs	HOLD	10%
GlaxoSmithKline	SELL	20%
Indoco Remedies	HOLD	-3%
Ipca Labs.	BUY	19%
Lupin	HOLD	-3%
Sun Pharma	BUY	16%
Torrent Pharma	BUY	7%

Source: Karvy Stock Broking
Changes in Ratings

Companies	Old	New
Cadila Healthcare	HOLD	BUY
Sun Pharma Ind.	HOLD	BUY
Torrent Pharma	HOLD	BUY
Dr. Reddy's Labs	SELL	HOLD

Source: Karvy Stock Broking

Key Highlights of the Quarter

The **domestic formulations business** (secondary data) has witnessed 9.9% growth YoY during the January - March 2019 quarter. Therapy wise Anti-Diabetic witnessed a growth of 17.0%, Cardiac 14.8%, Gastro-intestinal 8.6%, Anti-infectives 5.0%, Respiratory 4.6% and Derma 9.4% were the clear outperformers for the quarter.

Rupee movement: USD has depreciated by 6.5% YoY and appreciated by 0.6% QoQ against Rupee. Yen has also depreciated by 2.5% YoY and appreciated by 0.7% QoQ basis. Ruble has appreciated by 6.1% YoY basis and depreciated by 6.3% QoQ basis. GBP has appreciated by 0.4% YoY and depreciated by 2.7% on QoQ basis. Real has appreciated by 10.1% and 1.3% YoY and QoQ basis respectively.

US market: Overall, there were 52 ANDA approvals during the Q4FY19 in the US market for companies under our coverage. Alembic Pharma has got 6 approvals and Lupin has got 9 approvals, SunPharma has received 12 approvals (4 approvals for Taro), Zydus Cadila has received 16 approvals, Torrent Pharma has received 5 approvals and Dr Reddys has received 4 approvals.

Key traction in US market (prescription data) can be seen for Telmisartan HCTZ, Amlodipine, Diovon, Celebrax and Pristiq for Alembic Pharma this quarter. Dr Reddys has garnered market share from gSuboxone and other new launches in this quarter. Cymbalta, Telmisartan HCTZ, Detrol LA, Olmesartan HCTZ and Abilify will be revenue generators for Torrent Pharma. Welchol AG, Coreg CR, Yoansa, Doxil and Tildra to be revenue generators for Sun Pharma; Ascaol HD, Tamiflu, Andro Gel and Methyl Prednisolone would be key contributors for Cadila.

Result Expectations: We expect 12.0% YoY growth in revenues for Q4FY19 for the companies in our space. Revenue growth: Lupin (12.4% YoY), Sun Pharma (8.0% YoY), Alembic Pharma (15.1% YoY), Dr Reddys (10.1% YoY) and Divis Labs (15.8% YoY) and Torrent Pharma (21.0% YoY). EBITDA margins will decline by 11bps YoY and by 255 bps QoQ for the companies in our space. Net Profit will grow by 38.4% YoY for the companies in our space during the quarter.

Rating Change & Revision of Price Target: We upgrade our rating on Cadila Healthcare, Sun Pharma and Torrent Pharma to BUY and upgrade Dr. Reddy's Labs to HOLD.

Top picks in our space are Cadila Healthcare, Torrent Pharma, Sun Pharma and IPCA Labs.

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March 19 Quarterly Estimates

(Rs mn)	Mar'19E	Dec'18	Mar'18	YoY (%)	QoQ (%)	Comment
Alembic Pharma (ALPM IN EQUITY, HOLD, CMP: Rs.534, TP: Rs.608, Mcap: Rs.101bn)						
Sales	9817	10182	8533	15.1	(3.6)	Domestic Formulation to grow by 12.9%, US formulations to show significant growth of 13.0% due to Telmisartan HCTZ, Diovan, Celebrex, Pristiq and Amlodipine.
EBITDA	2090	2422	1732	20.7	(13.7)	
EBITDA margin (%)	21.3%	23.8%	20.3%	101 bps	(250) bps	Overall API's expected to de-grow by 11.1% YoY basis.
PBT	1770	2108	1410	25.6	(16.0)	Margins are expected to increase by 101 bps on YoY basis
PAT	1325	1698	938	41.3	(22.0)	due to lower material cost & R&D expenses.
Cadila Healthcare Ltd. (CDH IN EQUITY, BUY, CMP: Rs.338, TP: Rs.410, Mcap: Rs.346bn)						
Sales	38154	35779	32502	17.4	6.6	Top line is expected to grow by 17.4% on YoY basis. We expect 8.0% de-growth in domestic formulations business and growth of export formulations by 30.6% on YoY basis.
EBITDA	8184	8399	8704	(6.0)	(2.6)	
EBITDA margin (%)	21.5%	23.5%	26.8%	(533) bps	(202) bps	US expected to grow by 34.0% YoY to Rs 22.0 bn due to Asacol HD, Effexor XR, Tamiflu, Andro Gel and Methyl prednisolone showing traction. Margins to move down on a YoY basis to 533 bps.
PBT	6677	6717	7397	(9.7)	(0.6)	
PAT	5184	5107	5908	(12.3)	1.5	
Dishman Carbogen (DCAL IN EQUITY, BUY, CMP: Rs.230, TP: Rs.334 Mcap: Rs.37bn)						
Sales	4923	4789	4515	9.0	2.8	Revenues expected to see growth of 9.0% YoY.
EBITDA	1400	1327	1211	15.5	5.5	Carbogen Amcis to grow by 15.1% during the quarter while
EBITDA margin (%)	28.4%	27.7%	26.8%	160 bps	72 bps	over all CRAMS expected to grow by 16.7%.
PBT	807	745	749	7.7	8.3	Margins expected to improve by 160 bps YoY due to lower
PAT	549	514	511	7.4	6.9	material cost and staff cost.
Divi's Labs Ltd.(Standalone) (DIVI IN EQUITY, HOLD, CMP: Rs.1715, TP: 1852, Mcap: Rs.455bn)						
Sales	12600	13429	10880	15.8	(6.2)	Revenue growth driven by 16.9% growth in Custom Synthesis, 12.9% growth in Generics and 30.4% growth in Neutraceuticals on YoY basis.
EBITDA	4841	5233	3865	25.3	(7.5)	
EBITDA margin (%)	38.4%	39.0%	35.5%	290 bps	(55) bps	Margins expected to move up on a YoY by 290 bps on back of improved gross margin and lower other expenses for the
PBT	4707	5129	3961	18.9	(8.2)	quarter. Profits to move up by 31.4% YoY.
PAT	3436	3795	2616	31.4	(9.5)	
Dr.Reddy's Laboratories Ltd. (DRRD IN EQUITY, HOLD, CMP: Rs.2825, TP: Rs.3122 Mcap: Rs.469bn)						
Sales	38931	38500	35349	10.1	1.1	Revenue is likely to grow by 10.1% YoY. Generics will increase by 13.1% YoY and PSAI is expected to de-grow by 1.1% YoY. US generics market will grow by 13.5% YoY, mainly due to gSuboxone and other new launches. Margins
EBITDA	8160	8837	5677	43.7	(7.7)	
EBITDA margin (%)	21.0%	23.0%	16.1%	490 bps	(199) bps	expected to move up on YoY by 490 bps to 21.0% due to
PBT	5143	5805	3748	37.2	(11.4)	lower SGA and R&D expenses.
PAT	4063	4852	3022	34.5	(16.3)	
GlaxoSmithKline Pharmaceuticals Ltd. (Standalone) (GLXO IN EQUITY, SELL, CMP: Rs.1300, TP: Rs1236, Mcap: Rs.220bn)						
Sales	7995	8254	7486	6.8	(3.1)	Revenue expected to increase by 6.8% YoY and decrease by 3.1% QoQ based on secondary numbers.
EBITDA	1294	1373	1549	(16.5)	(5.8)	
EBITDA margin (%)	16.2%	16.6%	20.7%	(450) bps	(45) bps	Margins expected to move down on a YoY by 450 bps on back of increased material cost and other expenses for the
PBT	1438	1698	1636	(12.1)	(15.3)	quarter. We also expect profits to move down by
PAT	964	1130	1056	(8.7)	(14.7)	8.7% YoY.

Pharmaceuticals

(Rs mn)	Mar'19E	Dec'18	Mar'18	YoY (%)	QoQ (%)	Comment
Indoco Remedies Ltd. (INDR IN EQUITY, HOLD, CMP: Rs.205, TP: Rs.228 Mcap: Rs.19bn)						
Sales	2843	2626	2696	5.4	8.3	Domestic formulations will witness positive growth of 12.5% YoY. Exports formulations to show 19% de-growth due to lower traction in US and Europe market. Margins are expected to decrease by 521 bps on YoY due to lower gross margins and fixed nature of certain costs.
EBITDA	373	248	494	(24.5)	50.5	
EBITDA margin (%)	13.1%	9.4%	18.3%	-521 bps	368 bps	
PBT	149	39	258	(42.3)	281.9	
PAT	115	53	205	(44.1)	114.8	
Ipca Labs Ltd. (IPCA IN EQUITY, BUY, CMP: Rs. 946, TP: Rs.1090, Mcap: Rs.120bn)						
Sales	8706	9476	7828	11.2	(8.1)	Revenues are expected to grow by 11.2% YoY basis, Domestic formulations to grow by 7.8% YoY. Exports formulations increase by 14.8% due to growth in branded promotional business. Margins are also expected to increase by 254 bps on YoY.
EBITDA	1443	2317	1099	31.3	(37.7)	
EBITDA margin (%)	16.6%	24.5%	14.0%	254 bps	(788) bps	
PBT	972	1968	717	35.6	(50.6)	
PAT	789	1602	513	53.7	(50.8)	
Lupin Ltd. (LPC IN EQUITY, HOLD, CMP: Rs.833, TP: Rs.903 Mcap: Rs.377bn)						
Sales	45331	45049	40338	12.4	0.6	Revenues expected to grow by 16% YoY in domestic market. US market expected to grow by 19% on the back of traction from Tamiflu and Renexa in the US market. Europe market will show marginal de-growth while other markets to show decreased traction. Margins expected to be lower by 191 bps YoY due to higher staff and overheads.
EBITDA	7099	7525	7088	0.2	(5.7)	
EBITDA margin (%)	15.7%	16.7%	17.6%	(191) bps	(105) bps	
PBT	3899	4364	5223	(25.4)	(10.7)	
PAT	3035	-1517	-7835	n/a	n/a	
Sun Pharmaceutical Inds. Ltd. (SUNP IN EQUITY, BUY, CMP: Rs.463, TP: Rs.543 Mcap: Rs.1110bn)						
Sales	75330	77402	69771	8.0	(2.7)	Revenue expected to increase by 8.0% YoY. Domestic business will clock a growth of 5.6%. US business increased by 9.1% YoY. ROW expected to show growth of 16.9% YoY. EBITDA margin expected to be decrease by 123 bps YoY on account of higher material cost and overheads. Welchol AG, Coreg CR, Yoansa, Doxil and Tildra revenue to reflect in quarter.
EBITDA	17,246	21529	16835	2.4	(19.9)	
EBITDA margin (%)	22.9%	27.8%	24.1%	(123) bps	(492) bps	
PBT	12860	17301	13756	-6.5	(25.7)	
PAT	9054	-8495	13090	-30.8	n/a	
Torrent Pharmaceuticals Ltd. (TRP IN EQUITY, BUY, CMP: Rs. 1839, TP: Rs.2144, Mcap: Rs.311bn)						
Sales	21574	20510	17837	21.0	5.2	Overall domestic formulations revenues to increase by 17.8% to Rs 8162 mn. US and Europe formulations to show double digit growth. Cymbalta, Telmisartan HCTZ, Detrol LA, Olmesartan HCTZ and Abilify to show good tractions in US sales. Margins to improve by 585 bps on YoY basis.
EBITDA	5,953	5610	3879	53.5	6.1	
EBITDA margin (%)	27.6%	27.4%	21.7%	585 bps	24 bps	
PBT	3226	2750	1576	104.7	17.3	
PAT	2678	2460	2518	6.4	8.9	

Source: Karvy Stock Broking

Change in Estimates

Alembic Pharma : We increase our revenue estimates by 0.2%/1.7% for FY19E/FY20E. We upgrade our EBDITA margins by 28 bps/61 bps to 23% and 21.6% and upgrade our EPS estimates by 2.4%/ 5.5% respectively to Rs 32.3/32.8 for FY19E/FY20E respectively. We introduce our FY21E EPS estimates of Rs 33.8 and roll over our price target to Rs 608 based on 18x FY21E (lower multiple on account of lower earnings growth). We maintain our **HOLD** rating on the stock.

Cadila Healthcare : We increase our revenue estimates for FY19E/FY20E by 1.8% 1.5% mainly on account of upgrade in US business. We upgrade our EBDITAM for FY19E/FY20E by -42bps/ -21bps to 22.6% / 20.3%. We revise our EPS upwards by 4.6%/3.4% to Rs 18.6/Rs 18.9 for FY19E/FY20E respectively. We introduce our FY21E EPS estimates of Rs 20.5 and roll over our price target to Rs 410 based on 20x FY21E. We upgrade our rating to **BUY** on the stock.

Dishman Carbogen : We maintain our estimates for FY19E/FY20, we introduce our FY21E EPS estimates of Rs 20.3. We maintain **BUY** with a price target of Rs 334 based on 8x EV/EBDITA FY21E.

Divis Labs : We maintain our estimates for FY19E/20E, we introduce our FY21E EPS estimates of Rs 68.6 and roll over our price target to Rs 1852 based on 27x FY21E and maintain our **HOLD** rating on the stock.

Dr Reddys Lab : We upgrade our revenues for FY19E/FY20E by 0.7% /1.7% mainly on account of upgrade in US business. We upgrade our EBDITAM for FY19E by 9bps to 21.6 % while we downgrade by 5 bps to 21.9%. We marginally downgrade our EPS estimates by 0.6% to Rs 111.5 for FY19E while we upgrade by 0.4 % to Rs 124 for FY20. We introduce our FY21 EPS estimates of Rs 141.9. We revise our price target to Rs 3122 based on 22x FY21E and upgrade our rating to **HOLD**.

GSK Pharma : We maintain our revenues estimates for FY19E/FY20E. We downgrade our EBDITA margins for FY19E by 97 bps to 19.4% while we upgrade our EBDITA margins by 81 bps at 22.1% for FY20E. We downgrade our EPS estimates by 1 % to Rs 25.7 for FY19E and upgrade by 5.6% to Rs. 31.2 for FY20E. We introduce our FY21E EPS estimates of Rs 35.3 and roll over our price target to Rs 1236 based on 35x FY21E and reiterate our **SELL** rating on the stock.

Indoco Remedies : We downgrade our revenue estimates by 1%/2.7% for FY19E/FY20E due to downgrade across markets. We downgrade our EBDITAM by 410 bps and 540 bps to 6.2 % and 11.8 % for FY 19E/FY 20E. We downgrade our EPS estimates to Rs (0.2) for FY19E and by 48.5 % to Rs 6.6 for FY20E. We introduce our FY21E EPS estimates of Rs 11.4 and roll over our price target to Rs 228 based on 20x FY21E and reiterate our **HOLD** rating on the stock.

Pharmaceuticals

Ipca Labs: We maintain our revenue estimates for FY19E while we downgrade for FY20E by 2.3 % mainly on account of downgrade in UK and Generic business. We maintain our EBDITA margins for FY19E while we downgrade by 40 bps for FY20E by on account of lower gross margins. We maintain our EPS estimates for FY19E while we downgrade by 5.2 % to Rs 43.4 for FY20E. We introduce our FY21E EPS estimates of Rs 54.5 and revise our price target to Rs 1090 based on 20x FY21E. We maintain our **BUY** rating on the stock.

Lupin : We upgrade our revenue estimates for FY19E/FY20E by 1.8%/1.9% on account of upgrade in US markets/ India markets. We downgrade our EBDITAM by 119 bps / 177 bps for FY19E/ FY20E respectively. We downgrade our EPS estimates by 51%/9.1% to Rs 13.7/Rs 39 for FY19E / FY20E. We roll over our price target to FY21E with a revised price target of Rs 903 based on 21x FY21E (EPS Rs 43) and maintain our **HOLD** rating on the stock.

Sun Pharma : We decrease our revenue estimates for FY19E/FY20E by 0.8%/0.2%. We broadly maintain our EBDITAM for both the years. We downgrade our EPS for FY19E by 6.1 % to Rs 12.4 while we maintain our FY20E EPS estimates at Rs 21.3. We introduce our FY21E EPS of Rs 24.7 and revise our price target to Rs 543 based on 22 x FY21E. We upgrade the stock to **BUY**.

Torrent Pharma : We upgrade our revenue estimates by 1.9% for FY19E due to upgrade in US business while we downgrade our revenues for FY20E by 2.6% due to downgrade in domestic formulations and Brazil business. We maintain our EBDITA margins for FY19E while we downgrade our EBDITAM for FY20E by 20 bps to 27.3 %. We upgrade our EPS estimates for FY19E by 0.7% to Rs 50.6 while we downgrade our EPS estimates for FY20E by 5.4% to Rs 63.7. We introduce our FY21E EPS of Rs 78.1 and revise our price target to Rs 2144 based on 15 x EV/EBDITA FY21E. We upgrade the stock to **BUY**.

Estimates Revision

	Revenue (Rs mn)						
	Old		New		Introducing	% change	
	FY19E	FY20E	FY19E	FY20E	FY21E	FY19E	FY20E
Pharmaceuticals							
Alembic Pharma	39,976	42,837	40,063	43,547	47,797	0.2%	1.7%
Cadila Healthcare	130,125	157,798	132,483	160,110	172,692	1.8%	1.5%
Dishman Pharma	19,012	20,976	19,012	20,976	24,066	0.0%	0.0%
Divis	48,832	56,322	48,832	56,322	64,795	0.0%	0.0%
Dr. Reddy's Labs	151,596	173,314	152,616	176,265	193,456	0.7%	1.7%
GlaxoSmithKline Pharma	32,295	35,575	32,295	35,575	39,194	0.0%	0.0%
Indoco Remedies	10,174	13,329	10,076	12,968	14,747	-1.0%	-2.7%
Ipca Labs.	36,699	43,915	36,699	42,926	48,837	0.0%	-2.3%
Lupin Labs.	165,552	193,389	168,485	197,121	215,547	1.8%	1.9%
Sun Pharma	297,268	341,876	294,765	341,102	369,930	-0.8%	-0.2%
Cadila Healthcare	78,246	89,178	79,744	86,894	97,228	1.9%	-2.6%

Source: Karvy Stock Broking

	EBIDTA (Rs mn)							PAT (Rs mn)						
	Old		New		Introducing	% change		Old		New		Introducing	% change	
	FY19E	FY20E	FY19E	FY20E	FY21E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY21E	FY19E	FY20E
Pharmaceuticals														
Alembic Pharma	9,081	9,008	9,214	9,424	10,203	1.5%	4.6%	5,956	5,860	6,096	6,184	6,367	2.4%	5.5%
Cadila Healthcare	28,828	31,719	29,912	32,517	34,548	3.8%	2.5%	18,225	18,740	19,072	19,375	21,000	4.6%	3.4%
Dishman Pharma	5,225	5,951	5,225	5,951	6,740	0.0%	0.0%	1,899	2,758	1,899	2,758	3,278	0.0%	0.0%
Divis	19,146	21,968	19,146	21,968	24,833	0.0%	0.0%	13,869	15,901	13,869	15,901	18,223	0.0%	0.0%
Dr. Reddy's Labs	32,565	37,963	32,919	38,523	42,271	1.1%	1.5%	18,634	20,511	18,514	20,587	23,557	-0.6%	0.4%
GlaxoSmithKline Pharma	6,562	7,577	6,249	7,864	9,053	-4.8%	3.8%	4,358	4,999	4,276	5,281	5,979	-1.0%	-0.8%
Indoco Remedies	1,049	2,289	629	1,524	2,124	-40.0%	-33.4%	233	1,180	(17)	608	1,052	n/a	-48.5%
Ipca Labs.	6,628	8,880	6,628	8,496	10,084	0.0%	-4.3%	4,193	5,773	4,193	5,472	6,876	0.0%	-5.2%
Lupin Labs.	28,272	41,941	26,772	39,261	42,931	-5.3%	-6.4%	12,642	19,412	6,187	17,632	19,426	-51.1%	-9.2%
Sun Pharma	70,986	85,432	70,569	85,096	93,212	-0.6%	-0.4%	28,048	51,221	29,765	51,155	59,278	6.1%	-0.1%
Torrent Pharma	20,696	24,534	21,063	23,706	26,283	1.8%	-3.4%	8,487	11,395	8,557	10,773	13,210	0.8%	-5.5%

Source: Karvy Stock Broking

Valuation Summary

Company Name	Rating	CMP Rs	TP Rs	Up/Down %	Revenue (Rs mn)			EBIDTA (Rs mn)			EPS (Rs)			P/E(x)			EV/EBITDA (x)		
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Pharma																			
Alembic Pharma	HOLD	534	608	13.9	40,063	43,547	47,797	9,214	9,424	10,203	32.3	32.8	33.8	16.5	16.3	15.8	11.3	10.6	9.4
Cadila Healthcare	BUY	338	410	21.3	132,483	160,110	172,692	29,912	32,517	34,548	18.6	18.9	20.5	18.1	17.9	16.5	13.1	11.9	11.4
Dishman Carbogen	BUY	230	334	45.1	19,012	20,976	24,066	5,225	5,951	6,740	11.8	17.1	20.3	19.6	13.5	11.3	8.8	7.1	5.5
Divis Labs	HOLD	1,715	1,852	8.0	48,832	56,322	64,795	19,146	21,968	24,833	52.2	59.9	68.6	32.8	28.6	25.0	23.4	20.2	17.5
Dr. Reddy's Labs	HOLD	2,825	3,122	10.5	152,616	176,265	193,456	32,919	38,523	42,271	111.5	124.0	141.9	25.3	22.8	19.9	15.0	12.6	11.1
GlaxoSmithKline	SELL	1,300	1,236	-4.9	32,295	35,575	39,194	6,249	7,864	9,053	25.2	31.2	35.3	51.5	41.7	36.8	33.6	26.6	23.0
Indoco Remedies*	HOLD	205	228	11.2	10,076	12,968	14,747	629	1,524	2,124	-0.2	6.6	11.4	n/a	31.1	18.0	33.7	14.2	10.0
Ipca Labs.	BUY	946	1,090	15.2	36,699	42,926	48,837	6,628	8,496	10,084	33.2	43.4	54.5	28.5	21.8	17.4	18.2	13.8	11.1
Lupin Labs.	HOLD	833	903	8.4	168,485	197,121	215,547	26,772	39,261	42,931	13.7	39.0	43.0	60.9	21.4	19.4	17.0	11.5	10.2
Sun Pharma.	BUY	463	543	17.4	294,765	341,102	369,930	70,569	85,096	93,212	12.4	21.3	24.7	37.3	21.7	18.7	15.4	12.4	10.8
Torrent Pharma	BUY	1,839	2,144	16.6	79,744	86,894	97,228	21,063	23,706	26,283	50.6	63.7	78.1	36.4	28.9	23.6	17.2	14.8	13.0

Source: Karvy Stock Broking, *We write-off entire R&D and do not amortize R&D

Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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Disclosures Appendix

Analyst certification

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