

Healthcare

Q4FY17 result preview

We expect healthcare companies under our coverage to report mixed set of results for the quarter ended Mar'17. Strong performance would be registered by: 1) Glenmark on the back of continued exclusivity of generic *Zetia*, 2) Alkem laboratories on back of higher India contribution and low base, and 3) Natco Pharma due to continued exclusivity gain from generic *Tamiflu* and launch of generic *Entocort* and *Nuvigil* in the US. We expect weak results from: 1) Sun Pharma due to high base with exclusivity of generic *Gleevec* and continued pricing pressure in Taro portfolio, 2) Torrent Pharma due to high base of generic *Abilify*, and 3) Lupin on competition in generic *Fortamet* and authorised generic launch in *Glumetza*. Overall, we expect the companies to report 6% revenue and 2% PAT growth YoY with EBITDA margin remaining flattish at 24.8%.

- **India secondary sales:** The Indian pharma market witnessed moderate growth, impacted by demonetisation, at 10.3% in value terms (*source: AWACS Mar'17*). The growth was attributed to better performance in the chronic segment led by strong performance in anti-diabetics. Secondary sales clearly indicate the value decline of 23.5% and 1.6% YoY and 31.4% and 6.3% QoQ in portfolio under FDC and NLEM, respectively, due to FDC ban and price revision, respectively.
- **US generics:** We expect Q4FY17 numbers to show moderate growth in US sales. Glenmark and Natco would gain from launch within exclusivity period and Cipla from acquisition of Invagen and Exelon. While Dr. Reddy's US business would get impacted by additional competition in generic *Vidaza* and *Valcyte*, Alembic Pharma and Torrent Pharma would face pressure in US sales due to reducing contribution of generic *Abilify* and increased R&D spend. Sun Pharma is expected to face pricing pressure in Taro portfolio and base effect of exclusivity sales of generic *Gleevec*.
- **Factors to watch:** The key factors to observe in Q4FY17 numbers and management commentary would be: i) recent USFDA inspections and associated observations (Baddi for Cadila Healthcare, Baddi for Alkem, Duvvada, Miryalguda and Srikakulam for Dr. Reddy's), ii) update on resolution for Sun Pharma and Dr Reddy's, iii) recovery in domestic formulations and pricing erosion in US business, and iv) growth in emerging markets after stabilisation of currencies and any working capital issues in these markets.

Quarterly summary

Company (Rs mn)	Sales			EBITDA			Adj. PAT		
	% Chg			% Chg			% Chg		
	Q4FY17E	(YoY)	(QoQ)	Q4FY17E	(YoY)	(QoQ)	Q4FY17E	(YoY)	(QoQ)
Alembic Pharma	7,911	26.3	2.6	1,445	0.9	(0.6)	929	1.9	7.4
Alkem	13,315	16.5	(10.1)	2,177	37.8	(18.8)	1,336	135.5	(42.8)
Aurobindo	40,876	9.1	4.6	9,579	8.6	7.0	6,162	9.5	6.5
Cadila	24,342	(0.4)	5.8	4,582	(20.9)	19.3	3,097	(19.3)	19.5
Cipla	38,525	17.9	5.6	7,062	60.1	4.2	3,263	7.7	7.3
Dr Lal Pathlabs	2,299	16.3	10.8	610	12.6	29.8	404	16.5	30.8
Dr Reddy's	38,009	1.2	2.5	8,720	11.8	2.3	4,999	(1.1)	6.3
Fortis	11,819	8.6	4.3	1,212	236.6	8.0	347	289.5	2.4
Glenmark	29,027	27.2	14.5	9,712	110.5	26.9	5,900	124.9	28.3
Jubilant Life	15,206	2.2	4.3	3,565	22.4	7.4	1,465	237.8	0.1
Lupin	40,984	(2.0)	(8.6)	10,383	(24.1)	(14.6)	6,514	(19.3)	2.9
Natco Pharma	5,534	36.0	(18.5)	2,115	128.7	(25.5)	1,561	159.2	(26.8)
Shilpa Medicare	2,401	33.7	30.8	563	16.0	53.4	362	6.4	93.2
Sun Pharma	74,494	(2.4)	(5.9)	24,161	(4.1)	(1.5)	14,584	(14.9)	(0.9)
Torrent Pharma	14,927	(0.4)	3.4	3,271	(32.4)	3.5	2,099	(41.2)	(8.3)

Source: I-Sec Research

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Domestic market trends – secondary data

AWACS data for March shows that the India pharma market (IPM) had a growth rate of 10.3% in value terms over the year (MAT Mar'17). Adjusting for seasonality and free samples, the industry grew at similar levels (10.1%) for the 12 months ended March. Chronic portfolio grew strongly at 12.1% while acute portfolio grew at a relatively timid rate of 8.6%.

Top-growing categories (MAT March, 2017):

- Anti-infectives and respiratory grew 4.5% and 9.1%, respectively.
- Chronic segment continued to drive sales in the markets growing at 12.1% due to cardiovascular (11.4%) and anti-diabetic (19.3%) segments.
- Gastro-intestinal and derma grew by 10.4% and 11.7%, respectively, while VMN and Neuro/CNS grew by 10.2% and 9.7%.
- Pain/Analgesics, anti-neoplastics and gynaec grew by 9.9%, 16.2% and 10.8% YoY.
- The urology segment registered 13.2% growth.

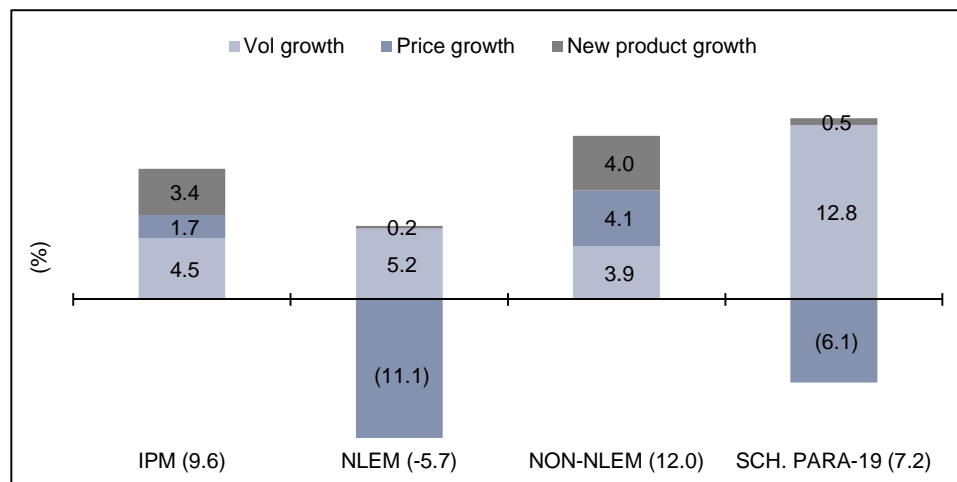
Winners in domestic sales growth (top 20 companies in the Indian market) with MAT in excess of 13% (without bonus units) are: Alkem, Intas, Torrent, USV and Micro Lab. Losers in domestic sales growth (sales growth less than 10%) are: Cipla, Glaxo, Pfizer, Macleods, Pfizer, Dr. Reddy's and Alembic Pharma.

Table 1: Domestic growth rate of key companies

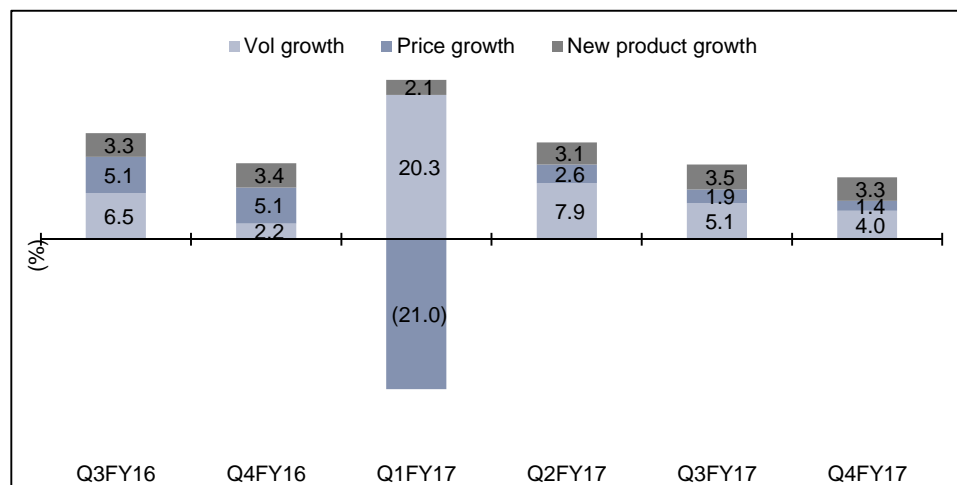
	YoY Growth (%)			Avg. Jan-Mar'17	MAT Mar'17
	Jan'17	Feb'17	Mar'17		
Industry	10.1	7.1	9.6	8.9	10.3
Sun + Ranbaxy	9.4	8.1	11.1	9.5	10.9
Abbott	13.5	7.1	9.1	9.9	11.0
Cipla	4.9	3.1	6.3	4.8	7.6
Cadila	17.5	11.8	12.1	13.8	12.0
Mankind	3.6	4.0	10.1	5.9	10.5
Alkem	8.4	3.5	11.2	7.7	15.1
Lupin	8.6	5.5	10.1	8.1	11.6
Glaxo	5.1	6.3	9.3	6.9	(0.9)
Macleods	2.2	4.0	6.4	4.2	10.7
Intas	17.8	3.0	3.2	8.0	13.5
Emcure	20.5	16.3	16.5	17.8	13.6
Pfizer	-1.7	0.6	-1.5	-0.9	1.8
Aristo	9.5	8.3	5.0	7.6	11.4
Glenmark	15.7	13.8	15.7	15.1	12.3
Sanofi India	9.8	8.1	11.5	9.8	11.5
Torrent	17.0	8.5	10.5	12.0	12.5

**Abbott includes Novo, Cadila includes Biochem, Alkem includes Cachet and Indchemine and Emcure includes Zuventus*

Source: AWACS data, I-Sec research

Chart 1: Growth drivers for March 2017

Source: AWACS data, I-Sec research

Chart 2: Quarterly growth drivers (YoY)

Source: AWACS data, I-Sec research

Company-specific factors

- **Alembic Pharma:** i) Low base to show strong growth in US generics but flat on QoQ basis, ii) domestic performance is expected to bounce back after demonetisation and NLEM impact, and iii) higher R&D and other expenses to impact EBITDA margins.
- **Alkem Labs:** i) Strong domestic performance which contributes ~72% would drive revenue growth, ii) US revenue to grow strong on the back of new approvals and small base, and iii) improved profitability because of increase in revenue of India chronic and US businesses.
- **Aurobindo:** i) Expect improved US formulations due to several launches post approvals despite pricing and competitive pressure, ii) EM, EU and ARV would perform on back of stabilising currency and rising demand, iii) API would grow at a flattish rate, and iv) appreciating INR would affect profitability.
- **Cadila Healthcare:** i) Expect subdued revenue growth due to muted US performance as pricing pressure mounts (particularly HCQS), partly compensated by few new launches, ii) expect domestic formulations to grow in line with industry, iii) margins to decline on account of muted US performance, and iv) update on and strategy post successful inspection of Moraiya facility.
- **Cipla:** i) Invagen and Exelon to help growth in the US, ii) expect growth in the domestic market to be in line with industry, and iii) EBITDA margin to improve YoY due to improved US performance and cost rationalisation.
- **Dr Lal Pathlabs:** i) Expect growth to return with recovery post demonetisation on the back of strong industry growth with the company being one of the largest players, and ii) EBITDA margin to remain muted due to seasonality and assumption of flattish realisations.
- **Dr Reddy's:** i) Expect weak performance in the US and other international markets, ii) proprietary business would witness good traction, iii) EBITDA margin would improve due to better domestic profitability and lower raw material cost, and iv) discussion on USFDA inspection of its facilities at Miryalguda, Duvvada and Srikakulam.
- **Fortis Healthcare:** i) Revenue growth would largely be in line with industry growth, though, may be impacted by slower recovery from demonetisation, and ii) PAT increase on a yearly basis is on account of improvement in EBITDA margin due to improving operating leverage.
- **Glenmark:** i) Expect strong revenue growth on the back of strong traction in the US with continued exclusivity sales of generic *Zetia*, ii) expect domestic formulations to grow at 10%, but EU and RoW would remain weak, and iii) EBITDA margin would benefit from generic *Zetia*.
- **Jubilant Life:** i) Revenues are expected to remain flattish YoY on account muted performance in pharma segment and LSI on account of fall in crude oil prices, and ii) net profit expected to grow strong on account of better operating margins and lower depreciation and interest cost, and iii) traction in *Rubyfill*.

- **Lupin:** i) Expect growth in the US to slow down with competition in generic *Fortamet* and launch of authorized generic in *Glumetza*, ii) expect India business to grow in line with industry, and iii) EBITDA margin would decline as high-margin products face increased competition.
- **Natco Pharma:** i) Expect strong US performance led by continued exclusivity period of generic *Tamiflu* and launch of generic *Entocort* and *Nuvigil*, ii) profit share from *Tamiflu* especially during the peak season to benefit profitability, and iii) expect strong PAT growth with improved margins and high revenue growth.
- **Shilpa Medicare:** i) Steady revenue growth is expected to continue on the back of strong oncology API portfolio and commencement of supplies to the US (*Azacitadine*, *Capecitabine*), and ii) EBITDA margins decline from a high base which were exceptionally high in Q4FY16.
- **Sun Pharma:** i) US revenue growth to be impacted due to pricing pressure in Taro portfolio and high base of generic *Gleevec* exclusivity sales, ii) expect India business to grow at 15% due to improved chronic portfolio performance, and iii) EBITDA margin to remain flattish.
- **Torrent Pharma:** i) Expect flattish revenue as US business witnesses slowdown in growth owing to no meaningful launches and high base of generic *Abilify*, ii) expect India business to grow at 15%, and iii) EBITDA margin would decline due to higher base from sale of generic *Abilify* and increased R&D spend.

Table 2: Estimates for Q4FY17E

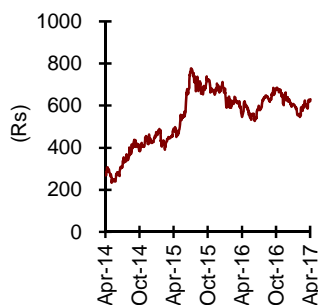
(Rs mn)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17E	%YoY	%QoQ	Comments
Alembic Pharma								1) Low base to show strong growth in US generics but flat on QoQ basis, 2) domestic performance is expected to bounce back after demonetisation and NLEM impact, and 3) higher R&D and other expenses to impact EBITDA margins.
Revenue	6,266	7,280	8,723	7,707	7,911	26.3	2.6	
EBITDA	1,433	1,570	1,778	1,454	1,445	0.9	(0.6)	
EBITDA Margin (%)	22.9	21.6	20.4	18.9	18.3	(460)bps	(60)bps	
PAT	912	1,020	1,198	866	929	1.9	7.4	
EPS (Rs)	4.8	5.4	6.4	4.6	4.9	1.9	7.4	
Alkem								1) Strong domestic performance which contributes ~72% would drive revenue growth, 2) US revenue to grow strong on the back of new approvals and small base, and 3) improved profitability because of increase in revenue of India chronic and US businesses.
Revenue	11,426	14,808	16,383	14,819	13,315	16.5	(10.1)	
EBITDA	1,580	2,711	3,105	2,681	2,177	37.8	(18.8)	
EBITDA Margin (%)	13.8	18.3	19.0	18.1	16.4	250bps	(170)bps	
PAT	567	2,388	2,828	2,334	1,336	135.5	(42.8)	
EPS (Rs)	4.7	20.0	23.7	19.5	11.2	135.5	(42.8)	
Aurobindo								1) Expect improved US formulations due to several launches post approvals despite pricing and competitive pressure, 2) EM, EU and ARV would perform on the back of stabilising currency and rising demand, 3) API would grow at a flattish rate, and 4) appreciating INR would affect profitability.
Revenue	37,468	37,666	37,755	39,062	40,876	9.1	4.6	
EBITDA	8,823	8,890	9,292	8,948	9,579	8.6	7.0	
EBITDA Margin (%)	23.5	23.6	24.6	22.9	23.4	(10)bps	50bps	
PAT	5,629	5,850	6,056	5,786	6,162	9.5	6.5	
EPS (Rs)	9.6	10.0	10.3	9.9	10.5	9.5	6.5	
Cadila								1) Expect subdued revenue growth due to muted US performance as pricing pressure mounts (particularly HCQS), partly compensated by few new launches, 2) expect domestic formulations to grow in line with industry, 3) margins to decline on account of muted US performance, and 4) update on and strategy post successful inspection of Moraiya facility.
Revenue	24,445	22,640	23,675	23,004	24,342	(0.4)	5.8	
EBITDA	5,790	4,771	5,424	3,839	4,582	(20.9)	19.3	
EBITDA Margin (%)	23.7	21.1	22.9	16.7	18.8	(490)bps	(210)bps	
PAT	3,836	3,212	3,589	2,591	3,097	(19.3)	19.5	
EPS (Rs)	3.7	3.1	3.5	2.5	3.0	(19.3)	19.5	
Cipla								1) Invagen and Exelon to help growth in the US, 2) expect growth in the domestic market to be in line with industry, and 3) EBITDA margin to improve YoY due to improved US performance and cost rationalisation.
Revenue	32,665	36,500	37,510	36,471	38,525	17.9	5.6	
EBITDA	4,411	6,112	6,807	6,776	7,062	60.1	4.2	
EBITDA Margin (%)	13.5	16.7	18.1	18.6	18.3	480bps	(20)bps	
PAT	3,030	3,391	3,543	3,042	3,263	7.7	7.3	
EPS (Rs)	3.8	4.2	4.4	3.8	4.1	7.7	7.3	
Dr Lal Pathlabs								1) Expect growth to return with recovery post demonetisation on the back of strong industry growth as the company is one of the largest players, and 2) EBITDA margin to remain muted due to seasonality and assumption of flattish realisations.
Revenue	1,977	2,228	2,622	2,075	2,299	16.3	10.8	
EBITDA	541	604	798	470	610	12.6	29.8	
EBITDA Margin (%)	27.4	27.1	30.4	22.6	26.5	(90)bps	390bps	
PAT	347	402	525	309	404	16.5	30.8	
EPS (Rs)	4.2	4.9	6.3	3.7	4.9	16.5	30.8	
Dr Reddy's								1) Expect weak performance in the US and other international markets, 2) proprietary business would witness good traction, 3) EBITDA margin would improve due to better domestic profitability and lower raw material cost and 4) discussion on USFDA inspection of its facilities at Miryalguda, Duvvada and Srikakulam.
Revenue	37,562	32,345	35,857	37,065	38,009	1.2	2.5	
EBITDA	7,797	3,773	6,367	8,526	8,720	11.8	2.3	
EBITDA Margin (%)	20.8	11.7	17.8	23.0	22.9	220bps	(10)bps	
PAT	5,055	1,263	3,266	4,701	4,999	(1.1)	6.3	
EPS (Rs)	33.0	8.2	21.3	30.6	32.6	(1.1)	6.3	

(Rs mn)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17E	%YoY	%QoQ	Comments
Fortis								
Revenue	10,883	11,212	11,957	11,334	11,819	8.6	4.3	1) Revenue growth would largely be in line with industry growth, though, may be impacted by slower recovery from demonetisation, and 2) PAT increase on a yearly basis is on account of improvement in EBITDA margin due to improving operating leverage.
EBITDA	360	626	990	1,123	1,212	236.6	8.0	
EBITDA Margin (%)	3.3	5.6	8.3	9.9	10.3	700bps	(40)bps	
PAT	(183)	144	437	338	347	289.5	2.4	
EPS (Rs)	(0.4)	0.3	0.9	0.7	0.7	289.5	2.4	
Glenmark								
Revenue	22,813	19,694	22,241	25,350	29,027	27.2	14.5	1) Expect strong revenue growth on the back of strong traction in the US with continued exclusivity sales of generic Zetia, 2) expect domestic formulations to grow at 10%, but EU and RoW would remain weak and 3) EBITDA margin would benefit from generic Zetia.
EBITDA	4,614	3,791	4,488	7,651	9,712	110.5	26.9	
EBITDA Margin (%)	20.2	19.2	20.2	30.2	33.5	1320bps	330bps	
PAT	2,623	2,268	2,236	4,598	5,900	124.9	28.3	
EPS (Rs)	9.3	8.0	7.9	16.3	20.9	124.9	28.3	
Jubilant Life Science								
Revenue	14,873	14,195.3	13,855.0	14,582.2	15,205.6	2.2	4.3	1) Revenues are expected to remain flattish YoY on account muted performance in pharma segment and LSI on account of fall in crude oil prices, and 2) net profit expected to grow strong on account of better operating margins and lower depreciation and interest cost, and 3) traction in Rubyfill.
EBITDA	2,912	3,681.6	3,403.3	3,318.2	3,564.8	22.4	7.4	
EBITDA Margin (%)	19.6	25.9	24.6	22.8	23.4	390bps	70bps	
PAT	434	1,615.2	1,446.6	1,464.0	1,464.7	237.8	0.1	
EPS (Rs)	2.7	10.1	9.1	9.2	9.2	237.8	0.1	
Lupin								
Revenue	41,812	44,394	42,905	44,829	40,984	(2.0)	(8.6)	1) Expect growth in the US to slow down with competition in generic Fortamet and launch of authorized generic in Glumetza, 2) expect India business to grow in line with industry, and 3) EBITDA margin to decline as high-margin products face increased competition.
EBITDA	13,674	13,080	10,281	12,158	10,383	(24.1)	(14.6)	
EBITDA Margin (%)	32.7	29.5	24.0	27.1	25.3	(740)bps	(180)bps	
PAT	8,071	8,819	6,622	6,331	6,514	(19.3)	2.9	
EPS (Rs)	17.9	19.6	14.7	14.1	14.5	(19.3)	2.9	
Natco Pharma								
Revenue	4,070	3,252	4,679	6,790	5,534	36.0	(18.5)	1) Expect strong US performance led by continued exclusivity period of generic Tamiflu and launch of generic Entocort and Nuvigil, 2) profit share from Tamiflu especially during the peak season to benefit profitability, and 3) expect strong PAT growth with improved margins and high revenue growth.
EBITDA	925	773	1,048	2,839	2,115	128.7	(25.5)	
EBITDA Margin (%)	22.7	23.8	22.4	41.8	38.2	1550bps	(360)bps	
PAT	602	477	666	2,131	1,561	159.2	(26.8)	
EPS (Rs)	3.6	2.7	3.8	12.2	9.4	159.2	(22.8)	
Shilpa Medicare								
Revenue	1,796	1,672	2,113	1,836	2,401	33.7	30.8	1) Steady revenue growth is expected to continue on back of strong oncology API portfolio and commencement of supplies to the US (<i>Azacitadine</i> , <i>Capecitabine</i>), and 2) EBITDA margins decline from a high base which were exceptionally high in Q4FY16.
EBITDA	485	333	489	367	563	16.0	53.4	
EBITDA Margin (%)	27.0	19.9	23.2	20.0	23.4	(360)bps	350bps	
PAT	340	147	382	187	362	6.4	93.2	
EPS (Rs)	4.4	1.9	5.0	2.3	4.5	2.3	93.2	
Sun Pharma								
Revenue	76,342	82,430	79,487	79,127	74,494	(2.4)	(5.9)	1) US revenue growth tom be impacted due to pricing pressure in Taro portfolio and high base of generic Gleevec exclusivity sales, 2) expect India business to grow at 15% due to improved chronic portfolio performance, and 3) EBITDA margin to remain flattish.
EBITDA	25,203	29,210	28,662	24,531	24,161	(4.1)	(1.5)	
EBITDA Margin (%)	33.0	35.4	36.1	31.0	32.4	60bps	(140)bps	
PAT	17,137	20,337	22,351	14,718	14,584	(14.9)	(0.9)	
EPS (Rs)	7.1	8.5	9.3	6.1	6.1	(14.9)	(0.9)	
Torrent Pharma								
Revenue	14,990	15,510	14,290	14,430	14,927	(0.4)	3.4	1) Expect flattish revenue as US business witnesses slowdown in growth owing to no meaningful launches and high base of generic Abilify, 2) expect India business to grow at 15%, and 3) EBITDA margin would decline due to higher base from sale of generic Abilify and increased R&D spend.
EBITDA	4,840	4,370	3,300	3,160	3,271	(32.4)	3.5	
EBITDA Margin (%)	32.3	28.2	23.1	21.9	21.9	(1040)bps	0bps	
PAT	3,570	2,920	2,070	2,290	2,099	(41.2)	(8.3)	
EPS (Rs)	21.1	17.3	12.2	13.5	12.4	(41.2)	(8.3)	

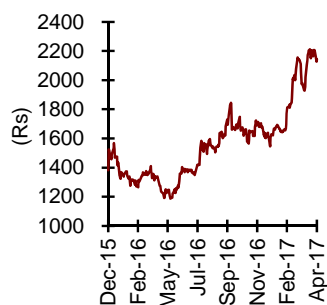
Source: Company data, I-Sec research

Price charts

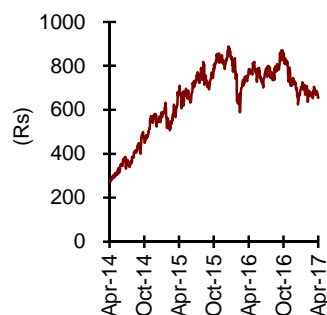
Alembic Pharma



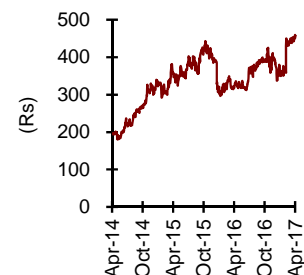
Alkem



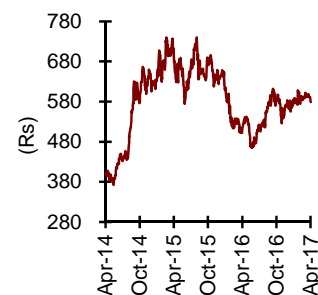
Aurobindo



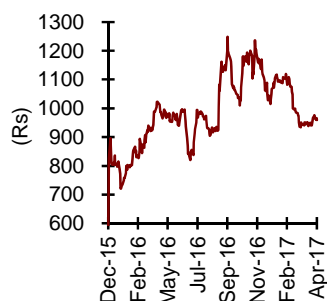
Cadila



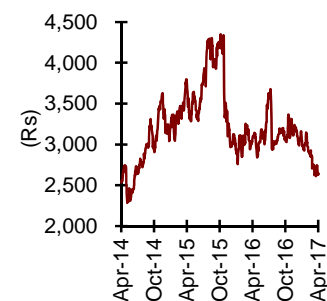
Cipla



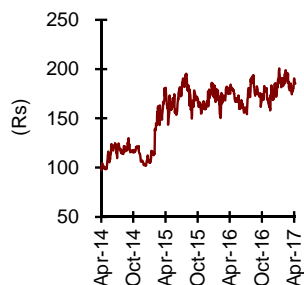
Dr Lal Pathlabs



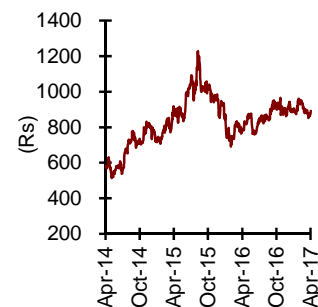
Dr Reddy's



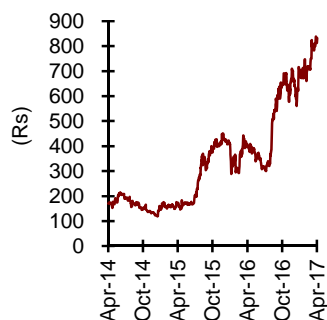
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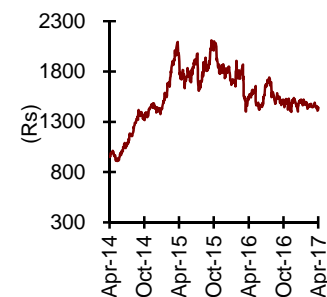
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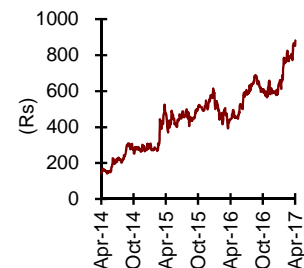
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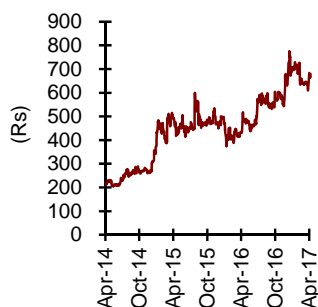
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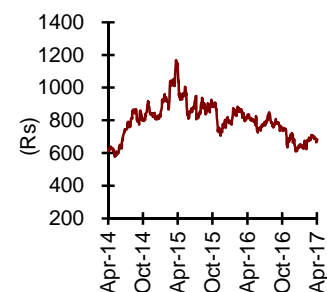
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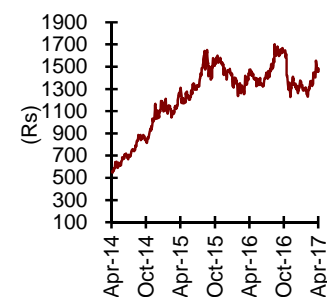
Shilpa Medicare



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