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## Domestic revival, exports traction hint at normalcy convergence...

The I-direct healthcare universe (12 coverage companies) is expected to post decent YoY growth of ~10% to ₹ 44685 crore led by a significant revival in domestic sales and growth in US formulations led by new launches and specialty ramp-up. Domestic growth is expected to be led by partial recovery in acute segment, reasonable traction in the chronic segment and Covid-related product sales supported by sequentially higher MR footfalls. US formulations are expected to grow due to ramp-up in specialty products and new launches supported by currency tailwinds.

The US (select pack) portfolio is expected to grow ~7% YoY to ₹ 12808 crore due to 1) YoY strengthening of US\$ vs. rupee (3.6%), 2) new launches (Dr Reddy's) and 3) increased traction/recovery in specialty, injectable portfolios (Albuterol – Cipla, Lupin, Insulin – Biocon, Injectables - Aurobindo). Domestic formulations (select pack) are expected to grow ~10% to ₹ 9908 crore. Europe is expected to grow ~15% YoY driven by new launches, ramp-up in existing products and currency benefits. API segment is also expected to post strong ~16% YoY growth on the back of a low base effect and short-term opportunities amid Covid. On the hospitals front, continued QoQ recovery in occupancies is visible as the pandemic situation becomes manageable. In turn, this is expected to improve performance sequentially.

On the companies front, four out of 10 companies are likely to report +15% YoY growth. Key outlier Divi's Lab is likely to register above 25% growth in revenues amid steady growth in Generics and Custom Synthesis.

### EBITDA to improve ~19% YoY; margins to improve 167 bps

EBITDA of the I-direct healthcare universe is expected to grow 18.7% YoY to ₹ 10052 crore. EBITDA margins are likely to improve 167 bps YoY to 22.5% on the back of continued lower than pre-Covid marketing & travel costs (albeit higher than Q2FY21).

### Adjusted net profit to grow 30%

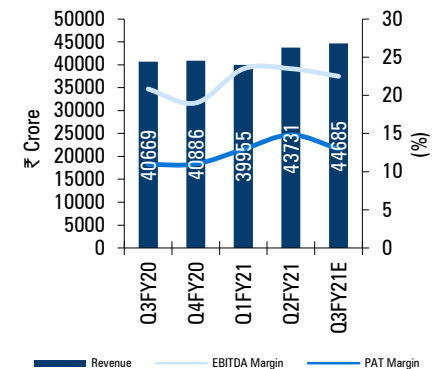
Adjusted net profit is expected to grow 30% YoY to ₹ 5794 crore due to a strong operational performance and lower other income.

Exhibit 1: Estimates for Q3FY21E (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY21E	YoY	QoQ	Q3FY21E	YoY	QoQ	Q3FY21E	YoY	QoQ
Alembic Pha	1422.8	17.7%	-2.4%	398.4	22.6%	-10.2%	280.9	19.9%	-15.7%
Apollo Hospi	2832.5	-2.7%	2.6%	356.8	-17.0%	19.0%	55.2	-40.1%	97.4%
Aurobindo	6619.9	12.3%	2.1%	1373.5	13.7%	-4.1%	855.9	19.1%	6.2%
Biocon	2018.1	15.4%	15.7%	481.4	8.4%	23.0%	199.7	-1.5%	18.0%
Cadila HC	3906.3	7.4%	2.3%	828.0	19.4%	-4.1%	495.0	31.9%	-14.4%
Cipla	5057.6	15.7%	0.4%	1112.7	46.7%	-5.4%	608.1	73.2%	-8.6%
Divi's Lab	1770.3	26.8%	1.2%	699.3	41.6%	-5.6%	491.8	36.9%	-5.4%
Dr Reddy's*	5014.3	14.0%	2.1%	1172.1	13.7%	1.4%	634.1	-0.7%	-17.8%
Ipca Lab	1374.5	13.3%	1.0%	358.4	31.0%	-0.5%	261.9	32.5%	-1.9%
Lupin**	3960.8	5.1%	3.3%	653.5	51.9%	12.5%	303.8	148.2%	44.0%
Sun Pharma	8636.0	5.9%	1.0%	1986.3	7.9%	-9.4%	1319.0	44.4%	-27.2%
Torrent Phari	2071.6	5.4%	2.7%	631.9	17.0%	-0.5%	288.5	14.9%	-6.9%
<b>Total</b>	<b>44684.8</b>	<b>9.9%</b>	<b>2.2%</b>	<b>10052.4</b>	<b>18.7%</b>	<b>-2.2%</b>	<b>5794.0</b>	<b>30.0%</b>	<b>-10.5%</b>

Source: Company, ICICI Direct Research; \*adjusted Q3FY20 exceptional expense in EBITDA, tax; \*\*adjusted exceptional items, tax

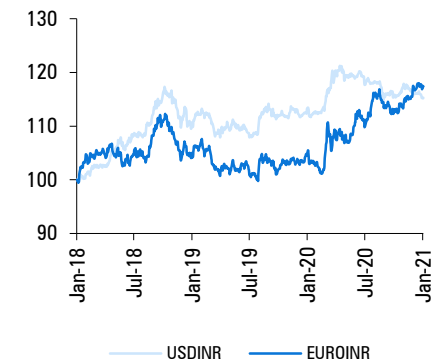
### Topline & Profitability (Coverage Universe)



### US approvals for Q3FY21 (Select pack)

Company	Final	Tentative
Alembic Pharma	6	2
Aurobindo Pharma	11	1
Cadila Healthcare	4	4
Cipla	0	0
Dr. Reddy's Labs	6	3
Lupin	4	1
Sun Pharma	0	2

### Currency Movement



Source: Bloomberg

### Top Picks

Divi's Laboratories  
Cipla

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Exhibit 2: Company Specific view

Company	Remarks
Alembic Pharma	Revenues are expected to grow 17.7% YoY to ₹1423 crore on the back of 10% growth expected in domestic market. Internationally, RoW markets are expected to continue their strong performance with serialisation issues having been resolved. US is expected to grow 8% to US\$78 million. API segment is also expected to post strong growth of 40% amid a lower base and strong demand. EBITDA margins are likely to increase 112 bps to ~28% amid better gross margins and lower other expenditure. Net profit is expected to grow ~20% YoY to ~₹281 crore
Apollo Hospitals	Consolidated sales are likely to grow 2.6% QoQ to ₹2832 crore. Growth of 49% QoQ is expected in the hospitals segment as occupancy levels reach +60% levels. The pharmacy distribution segment (~85% of standalone pharmacy) is expected to clock ₹1237 crore contribution to topline. EBITDA margins are likely to improve 174 bps QoQ to 12.6%. Subsequently, Apollo is expected to register a net profit of ₹55 crore in the quarter, up 97% sequentially
Aurobindo Pharma	Revenues are expected to grow 12.3% YoY to ₹6620 crore on the back of continued traction in Europe, US supported by currency tailwinds. US injectables are expected to continue to be impacted (albeit better than Q2) tracking Covid impact on US hospitals. Natrol sale completed in December will also skew US sales slightly negative. ARV is expected to remain strong amid EFV to DTG transition. API sales are expected to remain stable sequentially. EBITDA margins are likely to increase 26 bps to ~20.7%. Net profit is expected to grow 19.1% YoY to ~₹856 crore
Biocon	Revenues are likely to grow 15.4% YoY to ₹2018 crore amid continuing traction in Generics segment and 16% YoY expected growth to ₹602 crore in contract research segment. Biosimilars are expected to grow ~10% YoY on the back of traction in Ogivri (Trastuzumab) and ramp-up of insulin Glargine along with currency tailwinds. EBITDA margins are expected to decline 156 bps to 23.9% due to higher R&D and other expenditure. Net profit is expected to decline 1.5% YoY to ~₹200 crore, due to higher depreciation
Cadila Healthcare	Revenues are expected to grow 7.4% YoY to ₹3906 crore mainly due to 13% growth in the domestic markets to ₹1029 crore supported by Covid related products and a 6.7% YoY growth in US to ₹1788 crore. EBITDA margins are likely to improve 214 bps YoY to ~21.2% mainly due to lower travel & marketing spends. Subsequently, net profit is expected to grow ~32% YoY to ₹495 crore on the back of a better operational performance
Cipla	Revenues are expected to grow 15.7% YoY to ₹5058 crore on the back of strong domestic growth of 15% YoY supported by Covid related product sales. Export formulations are also expected to grow 20.5% YoY with gProAir ramp-up in US and Covid related opportunities in RoW markets. API exports are expected to grow 15% YoY but flat sequentially. EBITDA margins are expected to improve 465 bps to ~22% YoY mainly due to significantly lower other expenditure and lower R&D. Net profit is expected to grow 73.2% YoY to ₹608 crore in line with a strong operational performance
Divi's Lab	Revenues are expected to grow 26.8% YoY to ₹1770 crore on the back of strong growth in the Generic and custom synthesis segments. EBITDA margins are expected to improve 413 bps to ~39.5% YoY mainly due to better gross margins due to a change in the product mix and backward integration. Net profit is expected to grow 36.9% YoY to ₹492 crore in line with operational performance
Dr Reddy's	Revenues are likely to grow 14% YoY to ₹5014 crore. US formulations are likely to grow ~16% YoY to ₹1857 crore driven by currency tailwinds and new launches. Domestic segment is expected to grow 21% YoY due to integration of Wockhardt portfolio. PSAI is expected to maintain its growth momentum growing 22% YoY to ₹842 crore. Adjusted EBITDA margins are likely to remain stable at ~23.4%. Adjusted PAT is expected to remain flattish at ₹634 crore
Ipca Lab	Revenues are expected to grow ~13% YoY to ₹1374 crore due to overall growth. Domestic formulations are expected to grow 8% YoY to ₹524 crore. Export formulations are also expected to post robust growth of ~18% to ₹417 crore led by continued opportunity for HCQS in ex-US markets. Similarly, API segment is also expected to grow 18% YoY as it continues to benefit from chloroquine based opportunities. EBITDA margins are likely to improve 351 bps YoY to 26.1% mainly due to change in product mix and lower marketing and travel spend. Net profit is expected to increase ~32.5% YoY to ₹262 crore

Source: Company, ICICI Direct Research

Expected growth in Domestic formulations

India					
(₹cr)	3FY21E	13FY20	%	2FY21	%
Alembic	405	368	10.0	415	-2.5
Cadila	1,029	910	13.0	1,087	-5.4
Ipca	524	486	8.0	535	-2.1
Lupin	1,362	1,297	5.0	1,332	2.2
Cipla	2,044	1,777	15.0	2,090	-2.2
Dr Redd	927	764	21.4	912	1.6
Sun Pha	2,643	2,517	5.0	2,531	4.4
Torrent	976	871	12.0	963	1.3
Total	9908	8989	10.2	9866	0.4

Expected growth in US formulations

US					
(₹cr)	3FY21E	13FY20	%	2FY21	%
Alembic	577	515	11.9	582	-0.9
Aurobindo	3,156	2,969	6.3	3,190	-1.1
Cadila	1,788	1,675	6.7	1,709	4.6
Cipla	1,111	946	17.4	1,049	5.9
Lupin	1,434	1,377	4.2	1,398	2.5
Dr Redd	1,857	1,600	16.1	1,833	1.3
Sun Pha	2,580	2,492	3.5	2,492	3.5
Torrent	306	381	-19.7	327	-6.4
Total	12808	11956	7.1	12580	1.8

Expected growth in Europe formulations

Europe					
(₹cr)	3FY21E	13FY20	%	2FY21	%
Aurobindo	1,617	1,476	9.6	1,515	6.8
Cadila	55	49	12.0	55	1.3
Cipla	247	190	30.0	247	0.0
Dr Redd	387	309	25.0	375	3.0
Lupin	165	144	15.0	192	-14.0
Torrent	263	219	20.0	261	0.7
Total	2734	2388	14.5	2645	3.4

Expected growth in API segment

API					
(₹cr)	3FY21E	13FY20	%	2FY21	%
Aurobindo	829	790	5.0	829	0.0
Alembic	248	177	40.0	263	-5.8
Cadila	154	163	-5.0	160	-3.3
Divi's La	905	724	25.0	883	2.5
Ipca Lab	337	285	18.0	381	-11.6
Lupin	381	317	20.0	374	1.8
Cipla	190	165	15.0	189	0.4
Dr Redd	843	691	22.0	851	-0.9
Sun Pha	528	503	5.0	510	3.5
Total	4414	3815	15.7	4439	-0.6

**Exhibit 3: Company Specific view (Continued)**

Lupin

Revenues are expected to grow 5% YoY to ₹ 3961 crore. US sales are expected to grow 4% YoY due to ramp up in Albuterol sales partially offset by decline in Solosec prescriptions. India business is expected to grow 5% YoY to ₹1362 crore. EBITDA margins are likely to improve 509 bps to 16.5% mainly due to lower employee cost and other expenditure. Adjusted PAT is expected to come in at ₹304 crore

Sun Pharma

Revenues are likely to grow ~6% YoY to ₹8636 crore led by 10% growth in RoW and emerging markets. Domestic sales are expected to grow 5% YoY to ₹2643 crore, whereas US is expected to grow ~3.5% YoY to ₹2580 crore amid sequential ramp-up in speciality portfolio. Taro's sales are expected to decline 2% YoY on constant currency basis amid continued pressure on dermatology portfolio. EBITDA margins are expected to improve 42 bps YoY to 23% mainly due to a better product mix. Net profit is expected to grow 44.4% to ₹1319 crore. Delta vis-a-vis EBITDA is mainly due to lower depreciation and interest

Torrent Pharma

Revenues are expected to grow 5.4% YoY to ₹2072 crore with domestic sales growing 12% YoY to ₹976 crore partially offset by continued decline in US sales. EBITDA margins are expected to improve 303 bps to 30.5% due to lower marketing and travel spend. Net profit is expected to increase ~15% YoY to ₹289 crore

Source: Company, ICICI Direct Research

**Exhibit 4: ICICI Direct Coverage Universe (Healthcare)**

Company	I-Direct Code	CMP (₹)	TP rating	M Cap (₹cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)				
					FY19	FY20	Y21E	Y22E	FY19	FY20	FY21E	Y22E	FY19	Y20	Y21E	Y22E	FY19	FY20	Y21E	Y22E	
Alembic Pharm	ALEMPHA	1092	1,170	Buy	21460	31.4	46.3	61.5	48.8	34.7	23.6	17.8	22.4	19.6	21.0	22.7	17.0	21.8	27.1	23.5	16.2
Apollo Hospital	APOHOS	2550	2,310	Hold	35479	16.2	22.3	-1.6	36.1	157.1	114.2	NA	70.7	8.8	10.2	4.9	13.0	7.1	9.7	-0.5	10.0
Aurobindo Pha	AURPHA	965	1,025	Buy	56537	41.9	48.8	55.1	61.7	23.0	19.8	17.5	15.6	15.9	17.2	17.9	17.3	17.7	17.0	14.3	13.9
Biocon	BIOCON	471	500	Buy	56526	6.2	5.8	7.5	15.3	75.9	81.0	63.1	30.8	10.9	10.2	10.7	17.9	12.2	10.4	11.9	20.0
Cadila Healthc	CADHEA	493	555	Buy	50501	18.1	14.0	20.1	22.0	27.3	35.3	24.6	22.4	12.8	10.7	13.7	14.2	17.8	13.8	15.9	15.3
Cipla	CIPLA	857	965	Buy	69077	18.6	19.2	28.6	30.2	46.1	44.6	30.0	28.4	10.9	12.0	16.0	15.4	10.0	9.8	13.0	12.4
Divi's Lab	DIVLAB	3823	4,425	Buy	101478	51.0	51.9	74.1	89.8	75.0	73.7	51.6	42.6	25.5	23.9	28.8	28.6	19.4	18.8	22.5	22.3
Dr Reddy's Lab	DRREDD	5417	5,770	Buy	90072	114.6	121.8	153.6	195.4	47.2	44.5	35.3	27.7	10.7	9.6	17.7	19.3	13.6	13.0	14.3	15.8
Ipca Laboratori	IPCLAB	2113	2,665	Buy	26796	34.9	47.6	93.5	89.8	60.6	44.4	22.6	23.5	15.0	17.6	27.3	21.8	14.2	16.6	24.8	19.3
Lupin	LUPIN	1076	985	Hold	48780	16.5	-12.7	21.7	38.6	65.0	NA	49.5	27.9	9.4	9.7	8.6	13.6	5.4	-4.6	7.3	11.7
Sun Pharma	SUNPHA	621	585	Buy	148947	15.9	16.8	25.7	23.2	39.2	37.0	24.1	26.7	10.3	10.0	11.9	12.3	9.2	8.9	13.0	10.6
Torrent Pharm	TORPHA	2853	3,135	Buy	48281	48.9	60.6	70.6	85.8	58.3	47.1	40.4	33.3	14.2	15.4	17.9	20.2	17.5	21.2	20.9	21.3

Source: ICICI Direct Research, Bloomberg

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