

## Q4FY2021 Results Preview

Sector: Pharmaceuticals

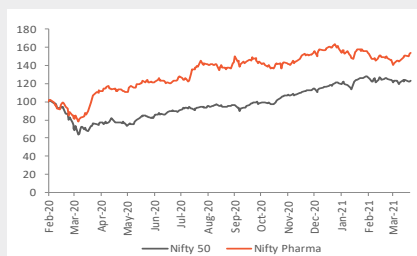
Sector View: Positive

## Our active coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Aurobindo	905	Buy	1,100
Cadila	461	Buy	560
Cipla	841	Buy	950
Divis	3,699	Buy	4,500
Ipca Labs	2,027	Buy	2,560
Lupin	1,035	Buy	1,350
Sun Pharma	621	Buy	700
Torrent Pharma	2,578	Hold	3,100
Biocon	414	Buy	470
Granules	331	Buy	475
Laurus Labs	420	Buy	450
Sanofi India	8,025	Buy	9,600
Abbott India	15,315	Buy	19,425
Strides Pharma sciences	828	Buy	1,020
Shilpa Medicare	381	Buy	520
Solara Active Pharma	1,347	Buy	1,700
Dr Reddys Laboratories	4,690	Buy	6,500
Gland Pharma	2,506	Buy	3,040

Source: Sharekhan Research

## Price chart



Pharmaceutical companies in Sharekhan's universe are expected to report strong performance for yet another quarter in Q4FY2021 on a y-o-y basis, after a phenomenal show in preceding quarters. Management commentaries suggest that growth opportunities in the US, India and other exports markets remain healthy. Q4FY2021 performance is expected to be driven by growth in API-focused companies, which are expected to benefit from a dual sourcing strategy followed by global pharma majors. Moreover, India-focused companies, which have a strong presence in the chronic therapies are also expected to stage healthy growth and also outperform the Indian pharmaceutical market's (IPM's) growth. Growth in IPM during January and February 2021 stood at 4.5% and 1.1% y-o-y and was largely driven by chronic therapies as acute therapies' performance was weak. Companies such as Sun Pharma (with a strong presence in chronic therapies) and Cipla (40% of revenues from domestic markets) are likely to post healthy growth. In the generics formulations space in the US, companies with a strong product portfolio are expected to stage healthy growth as the quantum of new product approvals from the regulator (USFDA) has been slower. Also reports indicate of increasing pricing pressures in the US generics space, which could restrict growth in the quarter. US-focused companies such as Aurobindo are likely to benefit from the situation with revenues expected to grow by 8% y-o-y. In addition to this, COVID-19-led opportunities could also contribute to performance of companies such as Cadila, Cipla among others, though the quantum of benefits is likely to be lower (sequentially) given the commencement of vaccination drive world over. Our universe of pharmaceutical companies are expected to report an 11% y-o-y revenue growth. Our universe's OPM are expected to expand by 388 bps y-o-y, primarily led by favourable mix and focus on cost-control measures. Tracking operating performance, the universe's PAT is expected to stage a sturdy 37.7% y-o-y growth in the quarter.

## Outlook

**Growth levers intact:** Indian pharmaceutical companies are better placed to harness opportunities and post healthy growth going ahead. Indian companies are among the most competitive globally and hold a sizeable market share in most developed as well as other markets. Indian pharmaceutical companies have developed strong capabilities over the years, which are depicted in their inherent strength. Moreover, other factors such as - 1) improved growth prospects in the US including increasing preference for specialty / complex generics and injectables 2) revival in the IPM which is expected to stage a double digit growth in FY22, and 3) emerging opportunities in the API space would be key growth drivers. This would be complemented by strong capabilities developed by Indian companies (leading to a shift towards complex molecules and biosimilars) and commissioning of expanded capacities by select players over the medium term. Collectively, this points towards a strong growth potential going ahead, which would place pharmaceutical companies in a higher earnings growth trajectory as compared to slow earnings growth in the recent past.

## Valuation

**Sector view - Positive:** The pharma index has largely underperformed the benchmark indices, considering a longer tenure from around April 2015 till date. Further in a little over the past one year, the Nifty Pharma index had bucked its trend and outperformed the benchmark, reporting a sturdy 54% return as compared to ~24% return by the benchmark. Strong outperformance is expected to continue going ahead as well. We see this as the beginning of a multi-year bull run for pharmaceuticals. Indian pharmaceutical companies are among most competitive ones globally and, over the years, have developed strong capabilities, which have laid the footing for strong growth ahead. The confluence of other factors including improved growth prospects in exports as well as domestic markets, easing of regulatory pressures, and focus on specialty/complex products in addition to emerging opportunities in the API space would be key growth drivers. Improving growth prospects in the domestic market could benefit India-focused MNCs. Collectively, all this points towards a strong growth potential, which would gradually unfold. Consequently, the earnings growth trajectory of pharmaceutical companies is expected to improve. Based on this, we have a Positive view on the sector.

## Key Risks

1) Adverse regulatory changes / delay in approvals could impact the sector's performance. 2) Currency volatility could dent earnings.

**Leaders:** Divis Laboratories, Laurus Labs, Granules, Solara Active Pharma Science

**Laggards:** Torrent Pharma, Shilpa Medicare

**Preferred Picks:** Aurobindo, Cipla, Divis Laboratories, Laurus Labs, Dr Reddy's, Lupin, Sanofi India, Abbott India, Strides Pharma Sciences, and Gland Pharma.

**Q4FY2021 results estimates**

Particulars	Net sales (Rs cr)				OPM (%)		BPS	BPS	Adj. PAT (Rs. cr)			
	Q4FY21E	Q4FY20	YoY %	QoQ%	Q4FY21E	Q4FY20	(YoY)	(QoQ)	Q4FY21E	Q4FY20	YoY %	QoQ%
Aurobindo	6671.2	6158.4	8.3	4.8	22.0	21.8	18.0	47.6	901.0	849.9	6.0	7.7
Cadila	3844.0	3752.0	2.5	1.3	20.9	21.1	-19.0	-35.9	505.0	444.0	13.7	-4.2
Cipla	5031.7	4376.2	15.0	-2.7	21.9	14.5	741.4	-191.5	609.4	246.0	147.8	-18.5
Divis	1680.0	1389.7	20.9	-1.3	39.9	32.0	794.3	-69.6	467.2	331.2	41.1	-0.2
IPCA	1300.0	1073.8	21.1	-7.8	22.1	15.7	638.5	-394.8	194.8	86.0	126.5	-27.3
Lupin	3979.0	3846.0	3.5	-0.9	16.0	13.7	234.1	-338.6	317.2	306.5	3.5	-27.6
Sun Pharma	8692.6	8185.0	6.2	-1.6	24.5	18.4	611.2	-191.8	1462.7	802.6	82.2	-17.9
Torrent Pharma	2000.7	1912.0	4.6	1.5	1.5	1.5	1.5	-5.2	308.0	314.0	-1.9	3.7
Biocon	1999.6	1558.0	28.3	8.0	23.2	20.4	275.0	165.5	203.4	132.0	54.1	20.4
Dr Reddy's Lab	4849.3	4448.9	9.0	-1.9	23.5	21.4	214.9	50.3	674.5	781.1	-13.6	8.1
Granules	817.2	599.8	36.2	-3.2	24.7	17.0	767.2	-35.0	122.7	34.7	253.6	-16.4
Laurus Labs	1314.3	839.1	56.6	2.0	29.6	15.6	1404.3	71.6	232.2	49.8	366.3	5.6
Sanofi india*	823.7	784.5	5.0	14.4	24.0	22.5	147.7	81.6	143.2	135.9	5.4	24.3
Abbott India	999.6	961.0	4.0	-8.8	22.0	14.4	759.7	-71	172.8	111.0	55.7	-2.4
Strides Pharma Science	810.3	618.6	31.0	-2.6	19.5	13.5	596.9	34.0	72.3	-18.6	-488.7	51.6
Shilpa Medicare	187.0	220.0	-15.0	-2.2	12.0	20.7	-874.9	99.9	9.6	34.6	-72.3	24.7
Solara Active Pharma	401.9	296.8	35.4	-5.8	24.3	16.9	740.3	-39.4	57.6	17.8	223.6	-12.5
Gland Pharma	825.8	635.2	30.0	-3.9	36.0	37.8	-176.4	525.9	229.0	195.2	17.3	12.2
<b>Grand Total</b>	<b>46227.9</b>	<b>41655.1</b>	<b>11.0</b>	<b>-0.2</b>	<b>22.3</b>	<b>18.4</b>	<b>388.4</b>	<b>-76.2</b>	<b>6682.6</b>	<b>4853.6</b>	<b>37.7</b>	<b>-6.4</b>

\* Results for Q1CY2021

Source: Company, Sharekhan Research

**Valuation**

Particulars	CMP (Rs.)	Reco / View	PT (Rs.)	EPS (Rs.)			P/E (X)		
				FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
<b>Active Coverage</b>									
Aurobindo	905.0	Buy	1100	55.8	64.8	77.7	16.2	14.0	11.7
Cadila	461.0	Buy	560	20.2	21.8	24.5	22.8	21.1	18.8
Cipla	841.0	Buy	950	31.3	36.1	43.2	26.9	23.3	19.5
Divis	3699.0	Buy	4500	74.0	97.0	122.4	50.0	38.1	30.2
Ipc Labs	2027.0	Buy	2560	91.8	97.1	106.1	22.1	20.9	19.1
Lupin	1035.0	Buy	1350	23.9	40.7	50.9	43.3	25.4	20.3
Sun Pharma	621.0	Buy	700	24.0	27.6	31.1	25.9	22.5	20.0
Torrent Pharma	2578.0	Hold	3100	77.0	89.2	105.9	33.5	28.9	24.3
Biocon	414.0	Buy	470	8.6	11.8	16.2	48.3	35.1	25.5
Granules	331.0	Buy	475	21.8	25.0	31.8	15.1	13.2	10.4
Laurus Labs	420.0	Buy	450	17.6	20.8	24.7	23.9	20.2	17.0
Sanofi India	8025.0	Buy	9600	225.8	258.5	282.5	35.5	31.0	28.4
Abbott India	15315.0	Buy	19425	346.2	385.5	444.1	44.2	39.7	34.5
Strides Pharma sciences	828.0	Buy	1020	29.2	44.6	60.5	28.3	18.6	13.7
Shilpa Medicare	381.0	Buy	520	18.3	23.7	28.8	20.9	16.1	13.2
Solara Active Pharma	1347.0	Buy	1700	61.6	73.5	94.4	21.9	18.3	14.3
Dr Reddy's Laboratories	4690.0	Buy	6500	163.4	187.5	243.0	28.7	25.0	19.3
Gland Pharma	2506.0	Buy	3040	61.1	75.5	94.0	41.0	33.2	26.7

Source: Company, Sharekhan Research

## Q4FY2021 Pharma earnings preview

## Company-wise key expectations

Company	y-o-y (%)	q-o-q (%)	Comment
<b>Aurobindo Pharma</b>			
Total Sales	8.3	4.8	Healthy growth in the US, double digit growth in the European markets, expected pick up in the injectables and new launches to drive the topline growth
OPM (BPS)	18.0	47.6	OPMs to be almost flat on a y-o-y basis attributable to a high base in corresponding quarter of previous year
Adj. PAT	6.0	7.7	Tracking the operating performance the PAT is expected to grow by 6%
<b>Cadila</b>			
Total Sales	2.5	1.3	Improved performance by the US business, supply opportunities due to COVID-19 to drive the topline growth, lower other operating income to slow down the top line growth on a y-o-y basis
OPM (BPS)	-19.0	-35.9	Operating margins to be almost flat on a yoy basis
Adj. PAT	13.7	-4.2	Low interest cost due to debt reduction to result in a strong double digit PAT growth
<b>Cipla</b>			
Total Sales	15.0	-2.7	Double digit growth across the India and the exports business, benefits from Covid related Portfolio and a pick-up in the albuterol in the US markets to drive the revenues
OPM (BPS)	741.4	-191.5	Operating margins to expand due to lower operating expenses
Adj. PAT	147.8	-18.5	Tracking the operating performance, the PAT is expected to clock a sturdy y-o-y growth
<b>Divis</b>			
Total Sales	20.9	-1.3	Improved opportunities in the API space, incremental capacities to lead to a double digit topline growth
OPM (BPS)	794.3	-69.6	Expansion in gross margins coupled with operating leverage benefits to result margins expansion
Adj. PAT	41.1	-0.2	Reflecting the operational performance the Adjusted PAT is expected to grow in double digits
<b>IPCA</b>			
Total Sales	21.1	-7.8	Healthy growth in the exports markets and a sustained momentum in the domestic markets to drive the revenue growth
OPM (BPS)	638.5	-394.8	Favorable mix and benefits of operating leverage to result in a sturdy margin expansion
Adj. PAT	126.5	-27.3	Reflecting the strong operating performance, PAT is expected to grow in double digit on y-o-y basis
<b>Lupin</b>			
Total Sales	3.5	-0.9	Revenues to grow in mid-single digits backed by pick up in India business While US sales expected to remain under pressure.
OPM (BPS)	234.1	-338.6	Margin expansion attributable to gross margin expansion on a lower base and savings in costs
Adj. PAT	3.5	-27.6	Lower other income to result in a slower earnings growth for the quarter
<b>Sun Pharma</b>			
Total Sales	6.2	-1.6	Pick up in the specialty business. Improvement in the domestic sales along with traction in other geographies would be the key growth drivers
OPM (BPS)	611.2	-191.8	OPM expansion attributable to lower operating expenses
Adj. PAT	82.2	-17.9	Tracking the operating performance the earnings are expected to stage a strong growth
<b>Torrent Pharma</b>			
Total Sales	4.6	1.5	Topline growth to be supported by a single digit growth in the domestic business; however performance of the brazil due to adverse currency movement and weakness in US business is expected to result in a slow topline growth.
OPM (BPS)	1.5	-5.2	EBITDA margins to grow y-o-y largely backed by a lower SGA expenses
Adj. PAT	-1.9	3.7	PAT to grow in sturdy double digits

**Company-wise key expectations**

<b>Biocon</b>			
Total Sales	28.3	8.0	Strong double digit growth expected due to a sturdy growth in the Biosimilars business largely attributable to the low base in the corresponding quarter.
OPM (BPS)	275.0	165.5	Operating margins to expand largely aided by expansion in the gross margins
Adj. PAT	54.1	20.4	Tracking the operating performance, the earnings are also expected to stage a strong double digit growth
<b>Dr Reddy Lab</b>			
Total Sales	36.2	-3.2	Topline growth for the quarter to be driven by better traction in the FD segment, while API and PFI segment sales likely to grow in double digit on the back of a low base
OPM (BPS)	767.2	-35.0	Marginal contraction in gross margins due to input cost pressures to result in marginal OPM contraction sequentially
Adj. PAT	253.6	-16.4	Tracking the operating performance and a low base of the corresponding quarter in the previous year, PAT is expected to grow sturdily
<b>Laurus Labs</b>			
Total Sales	56.6	2.0	Strong growth momentum across segments to drive the revenue growth, though the numbers are not comparable on y-o-y basis due to Acquisition of biotech business
OPM (BPS)	1404.3	71.6	Better product mix and operational efficiencies to drive margins and profitability.
Adj. PAT	366.3	5.6	Sturdy PAT growth expected on account of a strong operating performance
<b>Sanofi India</b>			
Total Sales	5.0	14.4	Healthy performance of the Chronic segment to result in a single-digit topline growth
OPM (BPS)	147.7	81.6	Better product mix and operational efficiencies to drive margins expansion
Adj. PAT	5.4	24.3	Tracking the operating performance, the earnings are expected to stage a mid-single digit growth
<b>Abbott India</b>			
Total Sales	4.0	-8.8	Sales growth to be in line with the expected growth in IPM
OPM (BPS)	759.7	-7.1	Operating Margins to expand strongly due to low base in the corresponding year
Adj. PAT	55.7	-2.4	Earnings growth in line with the operating profit growth
<b>Strides Pharma Science</b>			
Total Sales	31.0	-2.6	Strong Double digit growth in the US markets due to a low base, double digit growth in the regulated as well as emerging markets to result in the sturdy topline growth
OPM (BPS)	596.9	34.0	Margins improvement attributable to a lower cost
Adj. PAT	-488.7	51.6	Adjusted PAT expected at Rs 72 crore as compared to an adjusted loss in Q4FY2021
<b>Shilpa Medicare</b>			
Total Sales	-15.0	-2.2	Formulations segment performance like to be impacted following the warning letter from the USFDA. API segment to clock a steady growth
OPM (BPS)	-874.9	99.9	Margins expected to contract following a decline in the revenues
Adj. PAT	-72.3	24.7	Pat to decline reflecting the weak operating performance
<b>Solara Active Pharma</b>			
Total Sales	35.4	-5.8	Strong growth in the API segment, ramp up in incremental capacities at Vizag Phase I to aid revenues growth
OPM (BPS)	740.3	-39.4	Lower operating expenses to aid the OPM expansion on y-o-y basis
Adj. PAT	223.6	-12.5	PAT to stage a strong double digit growth reflecting the operating performance
<b>Gland Pharma</b>			
Total Sales	30.0	-3.9	Strong growth on account of expected traction in the business and a low base
OPM (BPS)	-176.4	525.9	Contraction in gross margins to lead to a OPM contraction on YoY basis; sequentially the margins set to stage a strong recovery
Adj. PAT	17.3	12.2	PAT to stage a double digit growth YoY

Source: Company, Sharekhan Research

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