

July 9, 2021

Strong domestic growth to drive Q1...

Lower base and a revival in domestic formulations is likely to drive overall sales. On the other hand, despite a favourable base in some select stocks, US formulations growth is expected to remain subdued amid lack of meaningful launches, price erosion and currency headwinds. The I-direct healthcare universe (12 coverage companies) is expected to post decent YoY growth of 11.4% to ~₹ 44497 crore led by strong growth in domestic formulations being partly offset by slow growth in the US. Domestic growth is expected to be led by lower base, recovery in acute segment growth and Covid-related product sales.

The US (select pack) portfolio is expected to grow mere 2.8% YoY to ₹ 12127 crore. Favourable base effect (Lupin, Sun Pharma) is being largely offset by 1) lack of meaningful launches, 2) price erosion (Alembic – Sartans, Cadila – Mesalamine) and 3) rupee appreciation vs. US\$ by 2.8% YoY. Domestic formulations (select pack) are expected to grow ~22% to ₹ 10137 crore due to base effect, normalisation of acute growth and Covid-related product sales. Europe is expected to grow 16.5% YoY driven by lower base and currency tailwinds (6.4% YoY). Amid higher base, the API segment is also expected to decline ~10% YoY. On the hospitals front, the second wave is likely to change the product mix more towards Covid occupancies, which is likely to impact realisations.

On the companies front, three out of 12 companies are likely to report 15%+ YoY growth. Key monitorables are: Lupin, likely to register above 21% growth amid one-off US\$50 million licensing income and strong domestic growth. Amid lower base, Sun Pharma and Apollo Hospitals are likely to register 19.5% and 27.7% YoY growth, respectively.

EBITDA to improve ~10% YoY; margins to remain at ~23%

EBITDA of the I-direct healthcare universe is expected to grow 10.1% YoY to ₹ 10326 crore. EBITDA margins are likely to decline marginally by 26.7 bps YoY to 23.2%, with increase in marketing & travel cost likely to be offset by a better product mix.

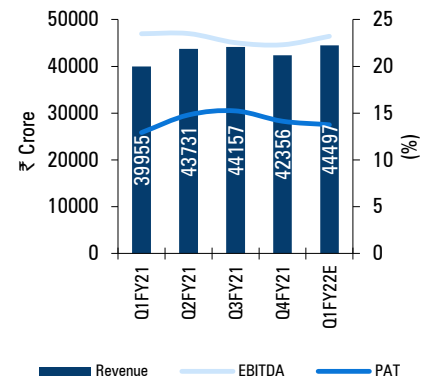
Adjusted PAT to grow ~19% YoY

Adjusted PAT is expected to grow 18.6% YoY to ₹ 6120 crore. Delta vis-à-vis EBITDA is likely due to a decline in interest cost, tax rate and higher other income.

Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	YoY	QoQ	
Alembic Pharma	1287.6	-4.0%	0.6%	341.2	-16.2%	-0.1%	240.2	-20.3%	-4.2%			
Apollo Hospitals	2772.3	27.7%	-3.3%	383.6	981.2%	-6.9%	140.2	-167.4%	-6.7%			
Aurobindo	6233.7	5.2%	3.9%	1292.1	2.8%	1.4%	767.6	-1.7%	-4.2%			
Biocon	1895.3	13.4%	3.1%	453.5	9.7%	4.1%	180.7	21.0%	-25.5%			
Cadila HC	3836.2	5.4%	-0.3%	824.8	1.2%	-3.6%	502.5	10.7%	-35.6%			
Cipla	4822.4	11.0%	4.7%	988.6	-5.7%	24.2%	534.3	-7.5%	29.3%			
Divi's Lab	1884.0	8.9%	5.4%	753.6	7.6%	5.2%	533.6	8.4%	6.3%			
Dr Reddy's	4910.8	10.9%	3.0%	1075.4	-4.1%	2.1%	626.7	5.4%	12.5%			
Ipca Lab	1321.4	-13.9%	18.6%	293.1	-50.2%	28.1%	207.6	-53.5%	28.8%			
Lupin	4256.0	20.6%	12.5%	1030.6	111.2%	45.7%	613.6	474.0%	33.3%			
Sun Pharma	9062.7	19.5%	6.3%	2203.9	19.5%	7.6%	1417.3	23.7%	5.5%			
Torrent Pharma	2214.3	7.7%	14.3%	686.4	3.8%	17.9%	355.7	10.8%	9.8%			
Total	44496.8	11.4%	5.1%	10326.9	10.1%	9.3%	6120.1	18.6%	2.2%			

Source: Company, ICICI Direct Research

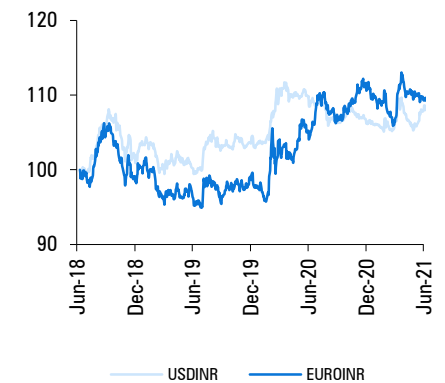
Topline & Profitability (Coverage Universe)



US approvals for Q1FY22 (Select pack)

Company	Final	Tentative
Alembic Pharma	5	2
Aurobindo Pharma	3	0
Cadila Healthcare	3	1
Cipla	3	1
Dr. Reddy's Labs	3	1
Lupin	2	1
Sun Pharma	5	2

Currency Movement



Source: Bloomberg

Top Picks

Sun Pharma
Lupin

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Exhibit 2: Company Specific view

Company	Remarks
Alembic Pharma	Revenues are expected to decline 4% YoY to ₹ 1287.6 crore as 25% growth in domestic formulations to ₹ 382 crore is being largely offset by 17.3% YoY decline in US revenues to ₹ 492.6 crore. EBITDA margins are expected to decline 387 bps YoY to 26.5% mainly due to increase in R&D and other expenditure. EBITDA is expected to de-grow 16.2% YoY to ₹ 341 crore. Subsequently, net profit is expected to decline 20.3% YoY to ₹ 240 crore
Apollo Hospitals	Despite a restructuring in pharmacy, overall revenues are likely to grow ~28% YoY to ₹ 2772.3 crore, mainly due to strong growth in hospital segment, albeit on lower base. EBITDA margins are expected at 13.8% vs. 1.6%, 14.4% in Q1FY21, Q4FY21, respectively. PAT is expected at ~₹ 140.2 crore against loss of ₹ 208 crore in Q1FY21
Aurobindo Pharma	Revenues are expected to grow ~5% YoY to ₹ 6233.7 crore, mainly due to strong growth in Europe (currency tailwinds, lower base), RoW, ARV segment are likely to be partially offset by a decline in US amid divestment of Natrol, decline in ex-injectable portfolio owing to slowdown in new launches. EBITDA margins may stay at ~21%. PAT is expected to de-grow 1.7% YoY to ~₹ 768 crore, almost in line with operational performance
Biocon	Revenues are likely to grow ~13.4% YoY ₹ 1895 crore, mainly due to strong growth in contract research (Syngene) albeit on a lower base. Biosimilar segment is expected to grow 2% YoY to ₹ 706 crore. EBITDA margins are expected to decline 80 bps YoY to 23.9% mainly due to higher R&D cost. EBITDA is expected to grow 9.7% YoY to ₹ 453.5 crore. Net profit is expected to grow ~21% YoY to ₹ 180.7 crore. Delta vis-a-vis EBITDA was due to lower tax rate (23% vs. 32.1% in Q1FY21)
Cadila Healthcare	Revenues are expected to grow 5% YoY ₹ to 3836 crore, with strong growth in domestic portfolio being partially offset by a decline in US formulations, mainly due to erosion in mesalamine franchise. EBITDA margins are likely to fall 90 bps YoY to ~21.5% mainly due to higher other expenditure. EBITDA is expected to grow 1.2% YoY to ₹ 825 crore. PAT is expected to grow 10.7% YoY to ₹ 502.5 crore on the back of lower financial cost
Cipla	Revenues are expected to grow 11% YoY to ₹ 4822 crore mainly due to 20% growth in domestic formulations to ₹ 1930 crore. US formulations are expected to grow mere 1.3% YoY to ₹ 1034 crore. EBITDA margins are expected to decline 363 bps YoY to 20.5%, mainly due to an increase in other expenditure. EBITDA is expected to de-grow 5.7% YoY to ₹ 989 crore. Subsequently, net profit expected to decline 7.5% YoY to ₹ 534 crore
Divi's Lab	Revenues are expected to grow 9% YoY to ₹ 1884 crore, mainly due to strong growth in Carotenoid segment. EBITDA margins are expected to remain healthy at ~40%. Net profit is expected to grow 8.4% YoY to ₹ 534 crore, in line with operational performance
Dr Reddy's	Revenues are likely to grow 10.9% YoY to ₹ 4911 crore mainly due to ~42% growth in domestic formulations to ₹ 886.8 crore amid Wockhardt portfolio acquisition, Covid related opportunities and lower base. US business is expected to grow 5% YoY to ₹ 1815 crore. EBITDA margins are likely to decline 343 bps YoY to 21.9% due to higher other expenditure. EBITDA is expected to decline ~4% YoY to ₹ 1075 crore. Net profit is expected to grow 5.4% YoY to ₹ 627 crore mainly due to lower tax rate (26% against 34.3% in Q1FY21)
Ipca Lab	Q1 is expected to be a subdued quarter amid one-off export supply opportunity of HCQS in the first wave of Covid. Revenues are expected to decline 14% YoY to ₹ 1321 crore, mainly due to 11.5% decline in export formulations to ₹ 410 crore and 46% decline in API segment to ₹ 278.1 crore. Domestic formulations are expected to grow 15% YoY to ₹ 563 crore. EBITDA margins are likely at 22.2% against 38.3%, 22.2% in Q1FY21, Q4FY21, respectively. Subsequently, net profit is expected to decline 53.5% YoY to ₹ 207.6 crore
Lupin	One-off licensing income of US\$50 million is likely to boost financials. Revenues are expected to grow ~20.6% YoY (~10% ex licensing income) to ₹ 4256 crore. A 20% YoY growth in domestic business to ₹ 1542.5 crore, 14.6% YoY growth in the US to ₹ 1394 crore is expected to be partially offset by 35% decline in API segment to ₹ 265.9 crore. EBITDA margins are expected at 24.2% (~17% ex-licensing income) vs. 13.8%, 18.7% in Q1FY21, Q4FY21, respectively. EBITDA is expected to grow 111.2% YoY to ₹ 1030.6 crore. PAT is expected to grow 474% YoY (222.9% ex licensing income) to ₹ 613 crore
Sun Pharma	Revenues are likely to grow 19.5% YoY to ₹ 9063 crore, mainly due to 20% YoY growth in domestic formulations to ₹ 2866 crore and 26% YoY growth in US formations to ₹ 2696 crore. Amid a lower base, Taro's sales are expected to grow ~25% YoY to US\$147 million. EBITDA margins are expected remain at ~24%. Net profit is expected to grow ~23.7% YoY to ₹ 1417 crore, mainly due to a strong operational performance
Torrent Pharma	Revenues are expected to grow mere 7.7% YoY to ₹ 2214 crore. A 20% YoY growth in domestic formulations to ₹ 1110 crore is expected to be partially offset by ~26% de-growth in US business to ₹ 277.4 crore. EBITDA margins are expected to decline 115 bps YoY to 31%, mainly due to increase in other expenditure. Net profit is expected to increase just 10.8% YoY to ₹ 355.7 crore, due to lower interest cost and higher other income

Expected growth in Domestic formulations					
India					
(₹ cr)	Q1FY22	Q1FY21	%	Q4FY21	%
Alembic	383	306	25.0	358	6.8
Cadila	1,037	829	25.0	1,023	1.3
Ipca	563	489	15.0	434	29.8
Lupin	1,542	1,285	20.0	1,287	19.9
Cipla	1,930	1,608	20.0	1,807	6.8
Dr Reddy	887	626	41.7	845	5.0
Sun Pha	2,866	2,388	20.0	2,671	7.3
Torrent	1,110	925	20.0	922	20.4
Total	10317	8457	22.0	9346	10.4

Expected growth in US formulations					
US					
(₹ cr)	Q1FY22	Q1FY21	%	Q4FY21	%
Alembic	493	596	-17.3	475	3.7
Aurobind	2,965	3,107	-4.6	2,856	3.8
Cadila	1,452	1,623	-10.5	1,509	-3.8
Cipla	1,034	1,021	1.3	1,002	3.2
Lupin	1,394	1,216	14.6	1,495	-6.8
Dr Reddy	1,815	1,728	5.0	1,749	3.8
Sun Pha	2,696	2,136	26.2	2,695	0.1
Torrent	277	373	-25.6	269	3.1
Total	12127	11801	2.8	12050	0.6

Expected growth in Europe formulations					
Europe					
(₹ cr)	Q1FY22	Q1FY21	%	Q4FY21	%
Aurobind	1,625	1,322	22.9	1,553	4.7
Cadila	61	49	25.0	63	-2.4
Cipla	252	240	5.0	249	1.2
Dr Reddy	408	355	15.0	396	3.2
Lupin	135	150	-10.0	165	-17.8
Torrent	271	246	10.0	267	1.3
Total	2752	2363	16.5	2692	2.3

Expected growth in API segment					
API					
(₹ cr)	Q1FY22	Q1FY21	%	Q4FY21	%
Aurobind	796	780	2.0	794	0.2
Alembic	211	264	-20.0	214	-1.3
Cadila	144	131	10.0	140	3.2
Divi's La	965	894	8.0	917	5.3
Ipca Lab	278	513	-45.8	260	7.0
Lupin	266	409	-35.0	256	4.0
Cipla	193	184	5.0	224	-13.8
Dr Reddy	770	855	-10.0	792	-2.7
Sun Pha	498	554	-10.0	436	14.4
Total	4122	4584	-10.1	4031	2.2

Source: Company, ICICI Direct Research

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