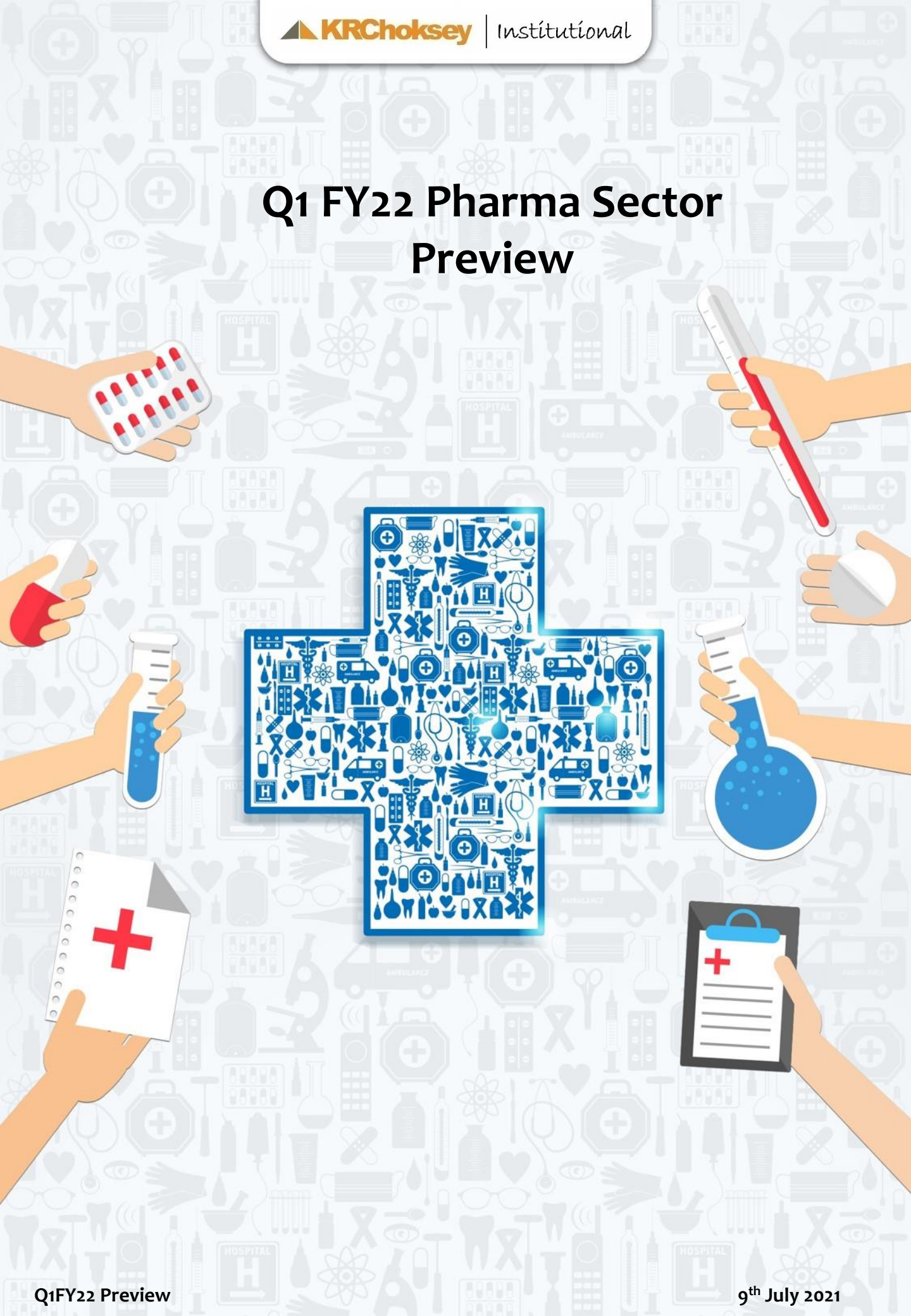


Q1 FY22 Pharma Sector Preview



Pharmaceuticals

Recovery in chronic and non COVID-acute segments to drive Pharma sector growth

MARKET DATA

	Close	1D (%)	1M (%)	YTD (%)	1Y (%)
Nifty	15,690	-0.24	-0.30	11.92	45.71
Sensex	52,386	-0.35	0.16	9.44	43.15
Nifty Pharma	14,360	0.64	0.32	10.45	42.57
BSE Healthcare	25,875	0.57	2.48	18.40	56.15

COVERAGE STOCKS

Company	Current Price (INR)	Target Price (INR)*	Upside	Market Cap. (INR mn)	Fwd PE 2022E (x)	Recommendation*
Sun Pharma	668	706	5.7%	1,602,510	25.5	HOLD
Lupin	1,148	1,258	9.6%	521,010	30.1	ACCUMULATE
Cipla	960	997	3.9%	774,170	28.1	HOLD
Dr. Reddy's	5,460	5,575	2.1%	908,370	28.7	HOLD
Cadila Healthcare	641	684	6.7%	655,700	29.3	ACCUMULATE
Torrent Pharma	3,005	UR	UR	508,520	UR	UR
Aurobindo Pharma	949	1,044	10.0%	555,880	16.0	ACCUMULATE
Glenmark Pharma	665	696	4.7%	187,720	17.4	ACCUMULATE
Alembic Pharma	976	995	1.9%	191,770	20.0	HOLD
Granules India	367	459	25.1%	90,930	17.7	BUY

Note: We will review targets & ratings post detailed Q1FY22 results analysis and conference call of said companies. UR: Un-Rated; Source: KRC & Bloomberg, Data as of July 9, 2021

SECTOR OVERVIEW

IPM to post robust growth going forward:

Pharma companies are expected to continue their strong performance in Q1FY22 due to low base effect YoY. Higher demand for acute therapy products including for COVID 19 treatment medicines, other anti-infectives, analgesics, vitamins and gastro products, and recovering demand for chronic segments such as cardiology, will drive growth in domestic formulations side; while continued increased competition in the US is likely to impact sales growth, partially. For Q1FY22, we expect our coverage universe to post 11.2% YoY (+4.1% QoQ) growth in sales. Glenmark Pharma (+23.1% YoY), Dr. Reddy's (+19.1% YoY), Cipla (+18.5% YoY) are expected to post highest growth in revenue in Q1FY22.

Margin to decline YoY, marginally though:

For our coverage universe, we expect EBITDA to witness 10.1% YoY growth (+6.6% QoQ). The companies under coverage can continue to benefit from cost cutting measures. However, EBITDA margins are expected to decline marginally by 23 bps YoY to 22.7% in Q1FY22 (+ 5 bps QoQ). The annual decline in EBITDA will be due to rising marketing and travel costs and price erosions in few competitive markets. Overall net profit for the coverage universe to increase 22.3% YoY (3.6% QoQ) on account of lower base, last year.

Sector Outlook and Valuation:

Indian pharmaceutical companies will continue to benefit from being one of the largest and the most competitive ones globally. Nifty Pharma index has gained 42.6% over the last year, as expected continued (however short term) demand for COVID 19 products, and recovery in chronic and acute therapies, post lockdown, will likely lead to improved financial performance for pharma companies. Also, YTD, the Pharma Index has grown by 10.5% returns, indicating strong upside potential, going forward, across sector. Our top picks in the sector are Cipla (to benefit from comprehensive COVID 19 products and ramp up in newly launched drugs in the US), Glenmark Pharma (likely to benefit from recovery in chronic segment). We like Granules India as well for its attractive valuation at current levels (likely to get benefited with revival of its KSM supply, going forward).

Pharmaceuticals

Exhibit 1: Quarterly result expectation for companies under coverage

INR Mn	Q1FY22E	Q1FY21A	YoY	Q4FY21A	QoQ	Remarks
Sun Pharmaceutical Industries						
Sales	85,477	75,853	12.7%	85,230	0.3%	Sun Pharma's Sales for the quarter will grow at ~ 12.7%. However, it is likely to get partially offset by lower sales in Taro and generics business, respectively, in the US, due to Pandemic. EBITDA margin will decline by ~ 266 bps QoQ to ~ 21.5% due to likely increased marketing and travelling spend. Nevertheless, the adjusted net income is expected to rise at 17.5% YoY (-14.1% QoQ), due to lower base effect (in revenue) and lower finance costs due to debt repayments. Key Parameters: (1) Ram-up in specialty portfolio and any improvements in the US generics and Taro's sales.
EBITDA	18,378	17,644	4.2%	20,592	-10.8%	
Adj. Net Profit	13,467	11,460	17.5%	15,670	-14.1%	
EBITDA (%)	21.5%	23.3%	-176 bps	24.2%	-266 bps	
NPM (%)	15.8%	15.1%	65 bps	18.4%	-263 bps	
Dr. Reddy's Laboratories						
Sales	52,701	44,265	19.1%	47,682	10.5%	Revenue is expected to grow at ~ 19.1% YoY in Q1FY22, driven by ramp up in market shares in key markets, new product launches, scale up of businesses and COVID 19 related opportunities. EBITDA is expected to increase at a muted growth rate, ~2.0% YoY, due to reduction in EBITDA margins by 363 bps to 21.7% in Q1FY22. Nevertheless, adj. Net Profit is expected to grow by 10.2% YoY for the quarter, driven by lower ETR. Key Parameters: (1) Competition in the US and any improvement in price erosion and (2) Performance of COVID19 drugs including Sputnik V vaccines.
EBITDA	11,436	11,213	2.0%	10,547	8.4%	
Adj. Net Profit	6,554	5,946	10.2%	5,588	17.3%	
EBITDA (%)	21.70%	25.33%	-363 bps	22.12%	-42 bps	
NPM (%)	12.44%	13.43%	-100 bps	11.72%	72 bps	
Cipla						
Sales	51,512	43,462	18.5%	46,065	11.8%	Revenue is expected to grow at ~ 18.5% due to projected strong growth in India and the US markets. The EBITDA margin is likely to benefit from cost savings and is expected to expand 303 bps QoQ to 20.3%. The EBITDA margin is likely to fall by ~ 382 bps YoY, though, due to likely fall in gross profits YoY. As a result, PAT is expected to grow at 10.9% YoY. Key Parameters: (1) Ramp-up in Albuterol MDI's (gProventil) sales in the US (2) Sales of COVID-19 drugs in India (3) Awaited ANDA approval for gAdvair etc.
EBITDA	10,465	10,487	-0.2%	7,962	31.4%	
Net Profit	6,407	5,779	10.9%	4,134	55.0%	
EBITDA (%)	20.3%	24.1%	-382 bps	17.3%	303 bps	
NPM (%)	12.4%	13.3%	-86 bps	9.0%	346 bps	
Lupin						
Sales	41,276	35,279	17.0%	37,831	9.1%	Revenue is expected to grow ~17.0% YoY due to base effect and ramp up in Albuterol MDI's (gProAir) sales, and new product launches. EBITDA margin is expected to expand 623 bps YoY to 20.07%, to be driven by cost cutting measures. Key Parameters: (1) Ramp up in chronic therapy products in India amidst pandemic's resurgence (2) Ramp-up in Albuterol MDI, Levothyroxine, and Metformin and likely launches of gBrovana in the US and approval for gFostair (pMDI) in the next few months for Europe.
EBITDA	8,284	4,881	69.7%	7,076	17.1%	
Adj. Net Profit	3,899	1,087	258.7%	4,644	-16.0%	
EBITDA (%)	20.07%	13.84%	623 bps	18.70%	137 bps	
NPM (%)	9.45%	3.08%	637 bps	12.27%	-283 bps	
Aurobindo Pharma						
Sales	61,480	59,248	3.8%	60,015	2.4%	Aurobindo Pharma to report 3.8% YoY revenue growth on the back of likely muted growth in the US and Europe markets, offset partially by strong growth in ARV and growth markets. EBITDA margin to reduce marginally by 30 bps YoY to 20.92%. While PAT to grow at a flat rate of 1.3% YoY. Key Parameters: (1) New product launch momentum in the in the US (2) Revival of injectable sales in the US post COVID-19 led decline in elective surgeries (3) Performance of ARV business
EBITDA	12,862	12,574	2.3%	12,747	1.0%	
Adj. Net Profit	7,911	7,806	1.3%	8,016	-1.3%	
EBITDA (%)	20.92%	21.22%	-30 bps	21.24%	-32 bps	
NPM (%)	12.87%	13.17%	-31 bps	13.36%	-49 bps	

Pharmaceuticals

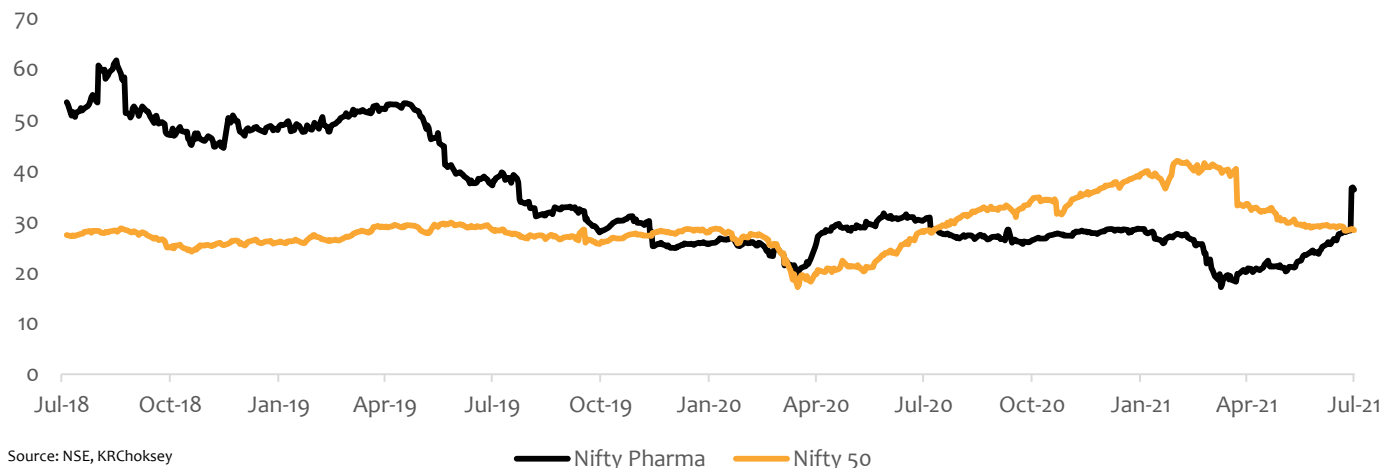
Exhibit 1: Quarterly result expectation for companies under coverage

INR Mn	Q1FY22E	Q1FY21A	YoY	Q4FY21A	QoQ	Remarks
Cadila Healthcare						
Sales	39,560	36,399	8.7%	37,521	5.4%	Cadila to post 8.7% YoY revenue growth backed by improved performance in India with COVID 19 products' sales, normalcy returning in demand and launch of new products in the US markets. EBITDA margin to improve to 27.0% because of lower costs. Robust operating performance to boost PAT by 63.9% YoY. Key Parameters: (1) Incremental revenue from COVID-19 products (Remdac) (2) Competition in levorphanol (3) Performance of Androgel (4) New launches
EBITDA	10,681	8,154	31.0%	7,912	35.0%	
Adj. Net Profit	7,440	4,540	63.9%	5,781	28.7%	
EBITDA (%)	27.0%	22.4%	460 bps	21.1%	591 bps	
NPM (%)	18.8%	12.5%	633 bps	15.4%	340 bps	
Glenmark Pharma						
Sales	28,870	23,448	23.1%	28,599	1.0%	Glenmark to report revenue growth of 23.1% YoY due to domestic market performing well as it has been one of the the fastest growing companies in India Pharma market in Q1FY22. Cost savings is likely to continue and to improve EBITDA margin by ~151bps. PAT is expected to improve by 23.3% YoY due to robust operational performance. Key Parameters: (1) Development on debt repayment (2) New product launches
EBITDA	6,323	4,781	32.3%	6,323	0.0%	
Adj. Net Profit	3,131	2,540	23.3%	3,131	0.0%	
EBITDA (%)	21.90%	20.39%	151 bps	22.11%	-21 bps	
NPM (%)	10.85%	10.83%	1 bps	10.95%	-10 bps	
Alembic Pharmaceuticals						
Sales	12,660	13,413	-5.6%	12,804	-1.1%	Alembic Pharma to report 5.6% YoY revenue decline due to likely sales decline in Sartan products sales in the US and lower demand for its Acute therapy products in India; partially offset by new product launches/traction in the existing products in the US, recovery in India branded business and increased demand for APIs. We expect adjusted EBITDA/PAT to decline by 21.4% & 28.7%, respectively. Key Parameters: (1) Growth in Ex-US business (2) New product launches and (3) API sales
EBITDA	3,200	4,074	-21.4%	3,417	-6.3%	
Net Profit	2,150	3,015	-28.7%	2,507	-14.3%	
EBITDA (%)	25.3%	30.4%	-509 bps	26.7%	-141 bps	
NPM (%)	17.0%	22.5%	-550 bps	19.6%	-260 bps	
Torrent Pharma						
Sales	19,370	20,560	-5.8%	19,370	0.0%	Torrent's Pharma to report 5.8% YoY decline in revenue due to decline in the US and Brazil. EBITDA margin to expand with cost savings due to reduced expenses. In line with the operational performance, EBITDA and PAT to grow at 7.9% and 34.2% YoY, respectively. Key Parameters: (1) Revival in the US business (2) New product launches (3) Business in Germany & Brazil
EBITDA	7,132	6,610	7.9%	5,820	22.5%	
Adj. Net Profit	4,308	3,210	34.2%	3,240	33.0%	
EBITDA (%)	36.8%	32.1%	467 bps	30.0%	677 bps	
NPM (%)	22.2%	15.6%	663 bps	16.7%	552 bps	
Granules India						
Sales	6,660	7,356	-9.5%	8,581	-22.4%	Granules India is likely to experience 9.5% YoY decline in revenue in Q1FY22 due to likely continued fall in API sales with shortage of KSM for the same. With favorable changes in the products mix, EBITDA margins to rise to 26.8%. We expect PAT growth of 54.7% YoY. Key Parameters: (1) New product launches (2) Improvement in product mix towards FD (3) Performance of 5 core API molecules
EBITDA	1,787	1,836	-2.6%	2,564	-30.3%	
Net Profit	992	640	54.7%	1,636	-39.4%	
EBITDA (%)	26.84%	24.96%	188 bps	29.88%	-3 bps	
NPM (%)	14.89%	8.70%	618 bps	19.07%	-4 bps	

Pharmaceuticals

Charts:

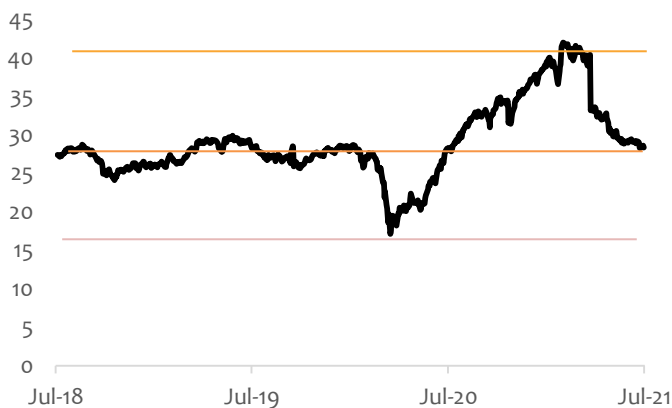
Nifty Pharma vs. Nifty 50 performance



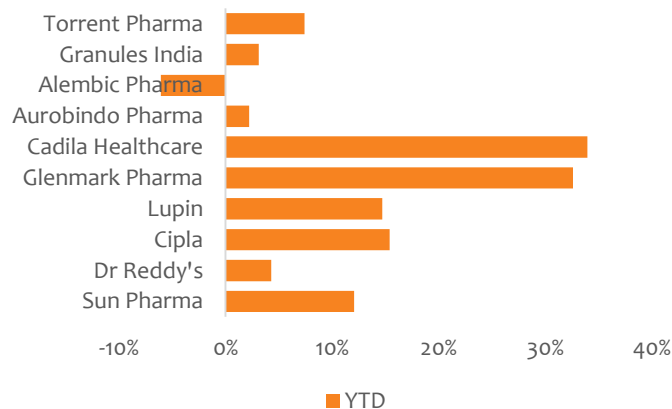
Nifty Pharma PE (3 Year TTM)



Nifty PE (3 Year TTM)

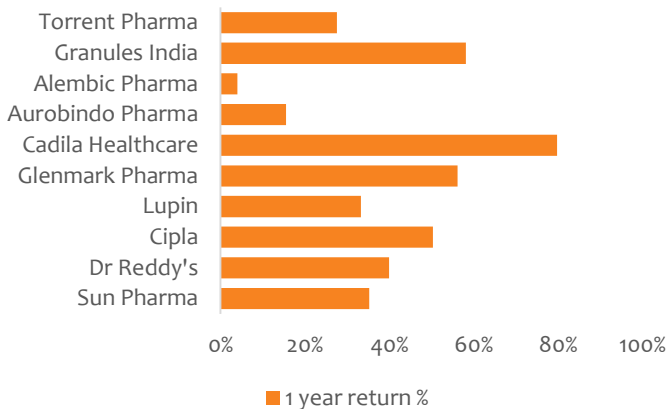


Coverage stock YTD Return (%)



Source: Bloomberg, KRChoksey; Closing prices as of 9th July 2021.

Coverage stock 1 Y Return (%)



Source: Bloomberg, KRChoksey; Closing prices as of 9th July 2021.

Pharmaceuticals

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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