

India Equity Analytics

Results Preview Q1FY20 - Pharma



Analyst

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ALPM IN

CMP **504**
Target **580**
Upside **15%**
Rating **BUY**

	FY18	FY19	FY20E	FY21E
Roe%	18.6%	21.5%	17.2%	16.8%
Roce%	19.8%	23.6%	19.5%	19.2%
P/E	25.1	17.1	17.7	15.6
P/B	4.7	3.7	3.0	2.6
EV/Ebdita	17	12	12	10

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Segment Revenue							
India Formulation	1,274	1,383	1,579	1,769	331	302	375
US formulation	928	1,263	1,421	1,634	225	313	387
ROW	279	519	435	499	127	82	85
API	650	769	832	915	179	230	200
Sales	3,131	3,935	4,267	4,817	863	927	1,047
<i>Sales Gr</i>	0%	26%	8%	13%	33%	9%	21%
Ebdita	643	874	832	939	151	178	204
<i>Ebdita Gr</i>	5%	36%	-5%	13%	49%	3%	35%
Net Profits	413	584	537	608	90	124	131
<i>Profit Gr%</i>	2%	42%	-8%	13%	36%	32%	45%
Ebdita Margin%	20.5%	22.2%	19.5%	19.5%	17.5%	19.2%	19.5%
Net Profit Margin%	13.2%	14.9%	12.6%	12.6%	10.5%	13.4%	12.5%

Fig in Rs Cr

- We expect US revenue to increase by 24% QoQ to US\$ 55 million as we expect around 10 launches in the first quarter of FY20 itself.
- India sales is expected to improve by 13% YoY to Rs. 375 crores in Q1FY20 based on the company's focus on the specialty segment like Cardiology, Anti Diabetic and Gynaecology.
- We expect ROW sales to be muted in Q1FY20 on a sequential basis due to serialization in Europe, though we expect this market to generate stable revenues in second half of the year.
- We expect the margins to be under pressure in the medium term due to increase in R&D cost and operational cost on account of commissioning of the new facilities.
- As per the management, the General injectable facility will see filings from the end of this calendar year and for Oncology injectable facility the filings should start from last quarter of FY20. Therefore, we believe the approvals to come from FY20 and the revenue generation to start from FY21 onwards.

Key Trackable this Quarter

- ANDA filings and approval from the new plants
- R&D investment
- USFDA inspection .

We value the stock at 18x FY21E EPS. BUY

ARBQY US

CMP 616
Target 725
Upside 18%
Rating ACCUMULATE

	FY18	FY19	FY20E	FY21E
Roe%	20.7%	17.0%	18.9%	16.3%
Roce%	26.5%	22.9%	25.1%	21.9%
P/E	13.5	19.5	11.3	11.0
P/B	2.8	3.3	2.1	1.8
EV/Ebdita	8.5	11.4	6.4	5.9

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Segment Revenue							
North America	7,442	9,031	15,260	16,155	1,890	2,481	3,252
Europe	4,354	4,960	5,793	6,013	1,199	1,312	1,448
Growth Markets	897	1,194	1,278	1,349	257	289	323
ARV	840	972	1,215	1,349	156	292	291
API	2,962	3,403	3,590	3,760	748	917	860
Sales	16,500	19,564	27,605	29,119	4,250	5,292	6,292
<i>Sales Gr</i>	9%	19%	41%	5%	16%	31%	48%
Ebdita	3,772	3,892	5,373	5,667	779	1,057	1,225
<i>Ebdita Gr</i>	10%	3%	38%	5%	-7%	32%	57%
Net Profits	2,423	2,365	3,193	3,268	456	585	707
<i>Profit Gr%</i>	5%	-2%	35%	2%	-22%	11%	55%
Ebdita Margin%	22.9%	19.9%	19.5%	19.5%	18.3%	20.0%	19.5%
Net Profit Margin%	14.7%	12.1%	11.6%	11.2%	10.7%	11.1%	11.2%

Fig in Rs Cr

- We expect the overall revenue to grow by 45% YoY to Rs. 6175 crs majorly driven by the US and Europe sales.
- We expect the US revenue to grow by 64% YoY to US\$ 463 million in Q1FY20 on account of ramp up of products like Ertapenem, Azithromycin, Ritonavir and Omeprazole.
- The revenues from Europe is expected to grow by 18% YoY to EUR 178 million in Q1FY20 on the back of Apotex acquisition though would partly be offset by serialization.
- We expect the margins to be under pressure on account of acquisition of Apotex and 7 branded oncology injectable products from Spectrum Pharmaceuticals Inc., though in a long run these acquisitions would be the major growth drivers.
- On the regulatory front, the company has received warning letter for Unit XI (API) and 10 483s for Unit III (Bachupally). The inspection at Unit 1 and Unit IX (Intermediate) has been classified as OAI by the USFDA. Therefore, we remain cautious and reduce the P/E multiple to 14x (from 17x).

Key Trackable this Quarter

- USFDA Inspection
- R&D Expenditure
- ANDA filings and Approvals

We value the stock at 13x FY21E EPS. ACCUMULATE

CIPLA IN

CMP 556
Target 676
Upside 22%
Rating BUY

	FY18	FY19	FY20E	FY21E
Roe%	10.0%	10.2%	11.7%	11.7%
Roce%	8.4%	9.4%	12.2%	13.3%
P/E	31.0	27.9	23.0	20.5
P/B	3.1	2.8	2.7	2.4
EV/Ebdita	17	15	13	12

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Segment Revenue							
India	5,870	6,273	6,900	7,590	1,544	1,500	1,725
North America	2,589	3,420	3,839	4,074	670	1,143	1,264
SAGA	3,339	3,183	3,484	3,709	831	823	871
Emerging Markets	1,682	1,740	1,672	1,742	469	406	407
Europe	623	700	773	759	134	236	218
Global API	626	699	694	759	200	174	173
Others	491	349	418	442	91	122	117
Sales	15,219	16,362	17,779	19,073	3,939	4,404	4,776
<i>Sales Gr</i>	4%	8%	9%	7%	12%	19%	21%
Ebdita	2,826	3,097	3,639	3,896	726	961	1,094
<i>Ebdita Gr</i>	14%	10%	17%	7%	12%	73%	51%
Net Profits	1,417	1,528	1,945	2,177	451	367	619
<i>Profit Gr%</i>	37%	8%	27%	12%	6%	106%	37%
Ebdita Margin%	18.6%	18.9%	20.5%	20.4%	18.4%	21.8%	22.9%
Net Profit Margin%	9.3%	9.3%	10.9%	11.4%	11.5%	8.3%	13.0%

Fig in Rs Cr

□ We expect the overall revenue to grow by 21% YoY to Rs.4776 crs majorly driven by growth in the US, Europe and India business partly offset by the pressures in the tender business.

□ US revenue is expected to improve by 80% YoY to US\$ 180 million on account of phased launch of gSensipar in March 2019 and ramp up of other products like Isoproterenol HCL, Decitabine and Albendazole.

□ We expect Europe and India business to grow by 55% and 12% YoY respectively. South Africa tender business will continue to see pressure which will be offset by growth in the private market. We believe from Q2FY20, the tender business will start seeing a traction based on the new tender which will start being serviced from 1 July 2019.

□ We expect the R&D expenditure to be in the range of 7-8% of sales for FY20 in comparison to 7.1% in FY19 as the initiation of gAdvair trials and Pulmatrix clinical trials are on track.

Key Trackable this Quarter

- R&D investment
- Limited competition launch each quarter.
- ANDA approval and filings

We value the stock at 25x FY21E EPS. BUY

DRRD IN

CMP 2655
Target 3025
Upside 14%
Rating ACCUMULATE

	FY18	FY19	FY20E	FY21E
Roe%	7.5%	13.9%	11.7%	11.8%
Roce%	8.4%	12.6%	11.9%	12.1%
P/E	36.5	23.6	24.5	22.0
P/B	2.7	3.3	2.9	2.6
EV/Ebdita	15.6	15.1	14.1	12.8

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Segment Revenue							
North America	5,982	5,996	6,853	7,445	1,590	1,496	1,644
Europe	822	787	798	893	202	191	199
India	2,332	2,618	2,880	3,312	607	651	662
Emerging Markets	2,265	2,889	2,907	3,132	664	701	727
PSAI	2,199	2,414	2,520	2,600	541	677	630
Proprietary products	602	681	514	600	116	302	129
Sales	14,203	15,448	17,125	18,462	3,737	4,030	4,501
<i>Sales Gr</i>	1%	9%	11%	8%	12%	13%	20%
Ebdita	2,351	3,178	3,263	3,508	769	819	1,037
<i>Ebdita Gr</i>	6%	35%	3%	8%	138%	45%	35%
Net Profits	947	1,950	1,800	2,006	476	455	627
<i>Profit Gr%</i>	-9%	106%	-8%	11%	615%	67%	32%
Ebdita Margin%	16.5%	20.6%	19.1%	19.0%	20.6%	20.3%	23.0%
Net Profit Margin%	6.6%	12.6%	10.5%	10.9%	12.7%	11.3%	13.9%

Fig in Rs Cr

□ We expect the US revenue to grow by 10% on a sequential basis to US\$ 234 million in Q1FY20 on account of ramp up of products like Tadalafil. On a YoY basis, the revenue will remain muted.

□ We expect the India business to grow by 9% YoY to Rs.662 crs in Q1FY20 on account of growth in the base business. Emerging market is also expected to report growth on the back of better volume traction.

□ EBITDA margin is expected to grow by 247 bps YoY to 23% on account of proceeds of US\$ 70 million receivable in Q1FY20 from the sale of its neurology branded products to Upsher-Smith Laboratories, LLC and also due to the cost optimization and productivity improvement initiatives.

□ For the full year, we expect the company to launch 30+ products in the US market, and expect the R&D expenses to be in the range of US\$250-300 million in FY20 as against US\$225 million in FY19.

□ On the regulatory front, the company has received EIR from USFDA, for the formulations manufacturing Plant - 3 at Bachupally, Hyderabad and has received 4 observations for formulations Srikakulam Plant (SEZ) Unit I, Andhra Pradesh.

Key Trackable this Quarter

- NuvaRing and gCopaxone launch
- R&D Expenditure
- VAI status for API Srikakulam and Miryalaguda plant

We value the stock at 25x FY21E EPS. ACCUMULATE

LUPNY US

CMP 772
Target 834
Upside 8%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	1.9%	4.4%	9.5%	10.3%
Roce%	10.3%	8.8%	11.6%	12.6%
P/E	128.8	55.1	25.0	21.3
P/B	2.5	2.4	2.4	2.2
EV/Ebdita	12.2	13.7	11.2	10.2

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Segment Revenue							
North America	5,894	5,593	6,579	7,240	1,186	1,741	1,880
India	4,125	4,638	5,195	5,844	1,192	1,053	1,323
APAC	2,573	2,611	2,748	2,828	608	690	676
EMEA	1,125	1,191	1,427	1,420	276	340	353
LATAM	579	566	583	618	126	139	146
API	1,093	1,346	1,200	1,200	358	291	300
Sales	15,804	16,718	18,217	19,653	3,856	4,406	4,803
<i>Sales Gr</i>	-10%	6%	9%	8%	0%	9%	25%
Ebdita	3,148	2,882	3,646	4,030	527	872	1,080
<i>Ebdita Gr</i>	-30%	-8%	27%	11%	-31%	23%	105%
Net Profits	258	607	1,397	1,642	203	290	450
<i>Profit Gr%</i>	-90%	135%	130%	18%	-43%	-137%	122%
Adjusted Net profits	1,723	947	1,397	1,642	202	293	450
<i>Adjusted Profit Gr%</i>	-33%	-45%	48%	18%	-44%	-58%	122%
Ebdita Margin%	19.9%	17.2%	20.0%	20.5%	13.7%	19.8%	22.5%
Net Profit Margin%	1.6%	3.6%	7.7%	8.4%	5.3%	6.6%	9.4%

Fig in Rs Cr

□ We expect the US revenue to increase by 10% QoQ to US\$ 270 million in Q1FY20 on account of ramp up of gRanexa and Levothyroxine this quarter, though on the US branded front, we expect slower ramp of Solosec.

□ For India business, we expect the sales to increase by 11% YoY to Rs.1323 crs as the chronic segment majorly respiratory, cardiology and diabetology contributes 55% of the domestic sales.

□ In Japan, the pricing pressure will continue to persist due to the annual price cuts. We expect Etanercept to drive growth in Japan in the near term as the company expects to launch it in the second half of FY20.

□ On the regulatory front, the status for Pithampur, Mandideep and Somerset facility remains OAI. USFDA has issued 3 observations for Aurangabad manufacturing plant. The company has responded for Pithampur and somerset facility.

Key Trackable this Quarter

- USFDA OAI status in Mandideep and Somerset facility
- R&D Expenditure
- Solosec ramp up

We value the stock at 23x FY21E EPS. NEUTRAL

SUNP IN

CMP 405
Target 430
Upside 6%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	5.7%	6.4%	9.6%	9.9%
Roce%	10.3%	10.6%	11.7%	11.7%
P/E	55.0	43.1	21.3	18.8
P/B	3.1	2.8	2.0	1.9
EV/Ebdita	20	17	12	11

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Segment Revenue							
US formulation	8,747	10,737	11,157	11,238	2,544	3,190	3,182
India Formulation	8,029	7,348	9,108	10,018	2,152	1,101	2,186
Emerging market	4,839	3,479	5,338	5,619	1,309	1,246	1,335
ROW	2,974	3,479	4,299	4,355	718	1,102	1,075
API	1,399	1,730	1,990	2,080	394	484	453
Others	77	124	168	180	22	42	42
Sales	26,489	28,686	32,060	33,490	7,224	7,164	8,355
<i>Sales Gr</i>	-16%	8%	12%	4%	16%	3%	17%
Ebdita	5,608	6,308	7,199	7,792	1,607	1,017	1,724
<i>Ebdita Gr</i>	-44%	12%	14%	8%	47%	-40%	7%
Net Profits	2,162	2,666	4,335	4,909	983	636	1,023
<i>Profit Gr%</i>	-69%	23%	63%	13%	-331%	-51%	4%
Adjusted Net profits	3,112	3,880	4,335	4,909	983	636	1,023
<i>Adjusted Profit Gr%</i>	-55%	25%	12%	13%	87%	-51%	4%
Ebdita Margin%	21.2%	21.7%	22.2%	23.0%	22.2%	14.2%	20.6%
Net Profit Margin%	8.2%	9.2%	13.4%	14.5%	13.6%	8.9%	12.2%

Fig in Rs Cr

□ We expect the US revenue to grow by 19% YoY to US\$ 453 million in Q1FY20. This growth will mainly be driven by a significant business of generic supply to a customer to be serviced over 6 months starting from Q4FY19.

□ For the India business, we expect the growth of 2% YoY and a significant growth on a sequential basis on account of lower base in Q4FY19 due to one-time impact of distribution change.

□ We believe the margins will continue to be under pressure as the uptake of specialty products is slower in comparison to their promotional expenses. Though Cequa is expected to be launched in US in Q2FY20, but we don't see a significant change due to the launch.

□ R&D expenditure for FY20 is expected to be in the range of 8-9% of sales on account of the investment in the specialty portfolio. R&D spend in the year FY19 was 7% of sales i.e., 1985 crores.

Key Trackable this Quarter

- ANDA filings and approval
- R&D investment
- Increasing promotional expenses.

We value the stock at 20x FY21E EPS. NEUTRAL

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