

Q1FY2022 Results Review

Sector: Pharmaceuticals

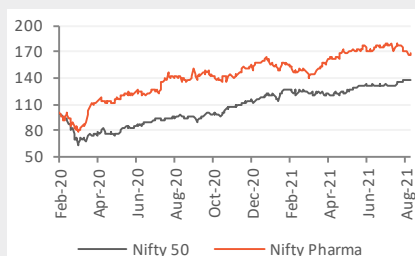
Sector View: Positive

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Aurobindo	688	Buy	915
Cadila	548	Buy	720
Cipla	917	Buy	1,150
Divis	4,847	Buy	,620
Ipcalabs	2,500	Buy	2,560
Lupin	940	Buy	1,400
Sun Pharma	771	Buy	900
Torrent Pharma	3,055	Buy	3,400
Biocon	349	Buy	470
Granules	334	Buy	475
Laurus Labs	677	Buy	800
Sanofi India	8,901	Buy	9,600
Abbott India	18,900	Buy	20,300
Strides Pharma sciences	585	Hold	770
Shilpa Medicare	567	Book out	-
Solara Active Pharma	1,661	Buy	2,100
Dr Reddys Laboratories	4,584	Buy	5,900
Gland Pharma	3,794	Buy	4,400
Caplin Point Laboratories	738	Positive	1,054

Source: Sharekhan Research

Price chart



Q1FY2022 was a healthy quarter for pharmaceutical companies under the Sharekhan coverage universe with topline and earnings growing in double digits. Growth was driven by strong performance of the domestic business led by robust sales of COVID-led products and low base of the corresponding quarter in the previous year. The acute therapies segment reported an impressive performance with chronic therapies also staging a double-digit growth. India focused companies such as Cipla staged a strong 27% y-o-y growth in India sales. Also Gland Pharma's India sales grew by 76.8% y-o-y due to ramped up supplies of COVID-19 drugs Remdesivir and Enoxaparin. On the other hand, performance in the US markets for most of the companies was impacted by a steep price erosion in US markets due to heightened competitive pressures. The management commentaries from the select companies suggested that the heightened price erosion in the US markets is expected to stay in the near term and would be a key point to watch out for. Companies such as Aurobindo, Dr Reddy's and Strides Pharma Sciences were impacted due to the heightened price erosion while Sun pharma reported a strong 31% y-o-y growth in US sales due to pick up in the specialty portfolio. Aurobindo (adjusted for Natrol) reported a 1.5% y-o-y decline in US sales while Strides reported a strong 19.3% y-o-y dip in US sales. Simultaneously the API players – Divis, Laurus, Granules and Solara active Pharma also reported a double digit revenue growth of 13.3%, 31.2%, 15.5% and 16.4% y-o-y respectively. The universe's operating margins were flat on a y-o-y basis at 25%. Companies such as IPCA laboratories reported a steep 1166 bps y-o-y to 26.6% as Q1FY21 had the impact of Covid led demand for HCQS which commanded way higher margins, while a double-digit price erosion led to an operating loss for Strides pharma Sciences. Select companies such as Biocon and Divis reported higher depreciation charge, while Gland pharma's other income almost doubled on a y-o-y basis. Consequently, the universe's earnings clocked a double digit growth of 10% y-o-y for 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 of the 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) improving growth prospects in key regulated markets including US, 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 some players over the medium term. The area of Vaccines could also open up sizeable growth opportunities for Indian pharmaceutical companies. 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 past.

Valuation

Sector View - Positive: Considering a long-term horizon from April 2015 to March 2019 the healthcare index has underperformed benchmark indices, with the Nifty Pharma index reporting a negative return of ~11%. However, over the past one and half year, the healthcare index has bucked the trend, outperforming benchmark indices, yielding a sturdy 69% return as compared to a ~39% return clocked by the benchmarks. The strong outperformance is expected to continue going ahead as well and we see this extending to a multi-year bull run. The Indian pharma companies are amongst the most competitive ones globally and over the years have developed and demonstrated strong capabilities, which have laid the footing for a sturdy growth ahead. Multiple factors including improving growth prospects in exports and Indian markets, expected rise in product approvals from the regulators and focus on specialty / complex products in addition to emerging opportunities in the API and vaccines space would be key growth drivers. Better growth prospects in the domestic markets could benefit India-focused MNC companies. Collectively, these point to strong growth potential, which would gradually unfold going ahead. Also in the near term evolving trends for US pricing environment, India sales (ex-Covid) and resolution of USFDA scrutiny would be a key point to watch for. We have a Positive view on the sector.

Key Risks

Adverse regulatory changes, delay in plant inspections and currency volatility could over weigh on the financial performance of the companies in the sector.

Our Preferred Picks:

Large Caps: Cadila, Lupin, Dr Reddy's, Sun Pharma, Biocon, IPCA Labs

Mid Caps: Gland Pharma, Laurus Labs, Solara Active Pharma Sciences, Abbott India

Outperformers in Q1FY2022: Cipla, Laurus Labs, Gland Pharma, Caplin Point Laboratories

Underperformers in Q1FY2022: Shilpa Medicare, Strides Pharma Sciences, Aurobindo

Q1FY2022 results snapshot

Particulars	Net sales (Rs cr)				OPM (%)				Adj. PAT (Rs. cr)			
	Q1 FY22	Q1 FY21	YoY (%)	QoQ (%)	Q1 FY22	Q1 FY21	YoY (BPS)	QoQ (BPS)	Q1 FY22	Q1 FY21	YoY (%)	QoQ (%)
Large Caps												
Aurobindo	5,702.0	5,925.0	-3.8	-5.0	21.2	21.2	-1.1	-2.8	770.0	783.0	-1.7	-3.8
Cadila	4,025.0	3,515.0	14.5	9.0	23.2	22.5	68.8	136.8	565.0	439.0	28.7	-22.1
Cipla	5,503.6	4,346.2	26.6	19.5	24.4	24.1	30.3	715.9	838.0	577.9	45.0	102.7
Divis	1,960.6	1,730.5	13.3	9.6	43.5	40.5	300.2	340.3	557.1	492.1	13.2	11.0
IPCA	1,565.8	1,534.0	2.1	40.5	26.6	38.3	-1,166.6	606.5	306.7	444.8	-31.0	90.3
Lupin	4,270.0	3,528.0	21.0	12.9	21.7	14.3	737.8	301.9	505.3	124.9	304.6	12.1
Sun Pharma	9,718.7	7,585.0	28.1	14.0	28.2	23.3	494.0	404.5	1,995.0	1,898.0	5.1	26.4
Torrent Pharma	2,134.0	2,056.0	3.8	10.2	31.7	32.1	-42.5	167.8	330.0	321.0	2.8	1.9
Biocon	1,761.0	1,694.0	4.0	-4.4	22.1	24.4	-229.0	-162.2	84.0	148.0	-43.2	3.7
Dr Reddy's Lab	4,945.1	4,426.5	11.7	3.7	18.6	25.3	-676.2	-355.0	573.4	594.6	-3.6	2.9
Mid Caps												
Granules	849.8	735.6	15.5	6.3	23.7	25.0	-125.6	-157.1	120.2	111.5	7.9	-5.8
Laurus Labs	1,278.5	974.3	31.2	-9.4	30.9	28.6	236.3	-251.7	241.6	171.8	40.6	-18.6
Abbott India	1,217.8	1,064.3	14.4	11.2	21.8	21.9	-15.3	301.8	195.8	180.4	8.5	28.4
Sanofi India*	789.1	710.5	11.1	8.8	31.3	24.9	637.4	519.4	171.7	135.2	27.0	17.7
Strides Pharma Science	688.4	781.8	-11.9	-24.2	-8.0	19.3	-	-	-122.1	53.0	-	-
Shilpa Medicare	237.4	222.9	6.5	14.1	13.4	29.5	-1,604.1	84.5	1.6	25.5	-93.8	-79.7
Solara Active Pharma	405.6	348.4	16.4	-8.7	22.5	24.1	-151.5	22.7	50.7	42.3	19.9	-10.4
Gland Pharma	1,153.9	884.2	30.5	30.0	37.8	46.7	-885.3	89.7	350.7	313.1	12.0	34.7
Caplin point Laboratories	300.4	240.1	25.1	7.8	30.8	29.8	100.2	7.6	70.9	54.6	29.9	5.3
Grand Total	48506.7	42302.2	14.7	8.2	25.0	24.8	13.7	170.6	7605.6	6910.6	10.1	12.6

Source: Company, Sharekhan Research; * Q2CY21 result estimates

Valuations

Particulars	CMP (Rs.)	Reco / View	PT (Rs.)	EPS (Rs.)			P/E (X)			
				FY21	FY22E	FY23E	FY21	FY22E	FY23E	
Large Caps										
Aurobindo	688.0	Buy	915	42.2	61.4	70.3	16.3	11.2	9.8	
Cadila	548.0	Buy	720	22.4	22.3	27.4	24.5	24.6	20.0	
Cipla	917.0	Buy	1150	29.8	38.4	47.7	30.8	23.9	19.2	
Divis	4847.0	Buy	5620	74.8	96.4	126.7	64.8	50.3	38.3	
Lupin	940.0	Buy	1400	26.8	36.7	50.0	35.1	25.6	18.8	
Sun Pharma	771.0	Buy	900	28.3	29.4	34.2	27.2	26.2	22.5	
Torrent Pharma	3055.0	Buy	3400	73.6	82.6	105.5	41.5	37.0	29.0	
Biocon	349.0	Buy	470	4.8	9.5	15.4	73.1	36.7	22.7	
Dr Reddys Laboratories	4584.0	Buy	5900	117.6	165.9	217.1	39.0	27.6	21.1	
Ipcalabs	2500.0	Buy	2560	90.5	89.4	102.4	27.6	28.0	24.4	
Mid Caps										
Granules	334.0	Buy	475	22.2	23.9	31.6	15.0	14.0	10.6	
Laurus Labs	677.0	Buy	800	18.5	23.9	30.6	36.6	28.3	22.1	
Sanofi India	8901.0	Buy	9600	225.8	267.4	294.8	39.4	33.3	30.2	
Abbott India	18900.0	Buy	20300	325.1	378.9	432.9	58.1	49.9	43.7	
Strides Pharma sciences	585.0	Hold	770	21.5	6.7	37.7	27.2	87.3	15.5	
Shilpa Medicare	567.0	Book out	-	10.7	15.4	21.7	53.2	36.8	26.2	
Solara Active Pharma	1661.0	Buy	2100	62.4	74.5	98.8	26.6	22.3	16.8	
Gland Pharma	3794.0	Buy	4400	80.3	123.6	127.7	47.2	30.7	29.7	
Caplin point Laboratories	738.0	Positive	1054	33.2	40.4	51.3	22.2	18.3	14.4	

Source: Company, Sharekhan Research

Q1FY2022 Pharma earnings review

Revision in earnings estimates

Company	Change in Estimates	Reason	Current Reco	Previous Reco	Target Price
Aurobindo	Downwards	Aurobindo is witnessing headwinds in the form of higher pricing pressures and build-up of inventory across channels in the US markets. Q1FY22 was a weak quarter and results missed estimates. We have revised FY22E/FY23E downwards to factor in the headwinds.	Buy	Buy	915
Cadila	Maintained	Cadila reported healthy results and numbers are in line with the estimates. Therefore we have retained our estimates for FY22E/FY23E. In the near term, opportunities from Vaccines (ZyCoV-D) could be a growth driver.	Buy	Buy	720
Cipla	Upwards	Cipla sees a strong growth outlook for India business and plans to outperform the IPM growth. In the US, it expects the respiratory franchise to strengthen further. Q1FY22 was a strong quarter and results are ahead of estimates. Given the strong outlook we have revised estimates upwards for FY23E, while maintaining estimates for FY22E.	Buy	Buy	1150
Divis	Maintained	Divis has identified six pillars or avenue that would propel the company's growth going ahead. Also the company would benefit from backward integration, benefits of scale and commissioning of capex plans. Q1FY22 was a strong quarter, but results are a tad below estimates. We have retained our estimates for FY22E/FY23E.	Buy	Buy	5620
IPCA	Maintained	Ipca's API business is witnessing strong demand traction and is expected to grow by 16-18% in FY22. IPCA reported a weak performance for the quarter and due to a strong growth outlook we have maintained the estimates for FY22E/FY23E.	Buy	Buy	2560
Sun Pharma	Upwards	Expected traction in the Specialty business segment and the pick-up in the India business to drive the growth ahead. Q1FY22 was a strong quarter and results are ahead of estimates. Basis this we have revised upwards our estimates for FY22E/FY23E.	Buy	Buy	900
Torrent Pharma	Maintained	Torrent expects a strong outlook for the India business backed by expanding reach and market share gains, while the setting up of trade generics divisions would enable the growth from the acute therapy. The company reported a steady performance for the quarter and consequently we have retained our estimates for FY22E/FY23E.	Buy	Buy	3400
Lupin	Downwards	Lupin's domestic formulations business has a strong growth outlook and is expected to stage growth in the high teens for FY2022 backed by a chronic-heavy presence and growth in the overall business. The US business on the other hand is witnessing price erosion, which is expected to lead to a subdued Q2. Lupin has lowered its EBITDA margin guidance for FY22 and consequently we have also lowered EPS estimates for FY22E/FY23E.	Buy	Buy	1400
Biocon	Downwards	Biocon has laid a strong platform for growth of the biosimilars in insulin and oncology franchise across its key markets. Further, the performance of the generics segment is expected to normalize in the coming quarters after a weak show in Q1FY22. Q1FY22 was a weak quarter and results missed estimates. Therefore, we have revised downwards our estimates for FY22E / FY23E.	Buy	Buy	470
Granules	Maintained	Granules core molecules are expected to sustain their strong growth trajectory has a strong pipeline of products to be launched across geographies, including 8-10 launches lined up in the US for FY2022. Also supply concerns around paracetamol KSM are likely to ease off, leading to a better performance in 2HFY22 versus 1HFY22. We have retained our estimates for FY23E	Buy	Buy	475

Laurus Labs	Upwards	Laurus has charted a growth path that involves fortifying its position in the FDF and synthesis segments, strengthening its presence in the non- ARV space and growing in new area of biologics (through Laurus Bio). Q1FY22 was a strong quarter and basis the strong growth outlook we have revised our estimates upwards for FY22E/FY23E	Buy	Buy	800
Sanofi India	Upwards	Sanofi reported a strong performance for Q2CY21 and results are ahead of estimates. It has set its focus on anti-diabetics segment for growth and is also looking to expand its reach and eyeing market share gains. Given the better than expected margins for the quarter we have revised upwards our estimates for FY23E.	Buy	Buy	9600
Abbott India	Upwards	Abbott India's topline is expected to grow in double digits, backed by strong performance of its power brands and efforts to expand reach to tier-II & -III towns. Q1FY22 was a strong quarter and we have raised estimates for FY22/FY23 factoring in benefits from digital platform to expand the reach.	Buy	Buy	20300
Strides Pharma sciences	Downwards	Multiple headwinds have emerged for Strides across key geographies such as the US in the form of heightened competitive intensity leading to double-digit pricing erosion. A higher presence in acute therapies has further amplified challenges. Near-term concerns have emerged which could drag performance with Q2 expected to be a subdued quarter. we have revised downwards our estimates for FY22E/FY23E	Hold	Buy	770
Shilpa Medicare	Downwards	Shilpa Medicare Limited (SML) reported a weak performance for the quarter with the results missing estimates. Higher remedial cost incurred during the quarter is expected to stay and pressurise margins. Given the impact of the import alert and margins pressures we have cut our estimates for FY22E/FY23E.	Book - Out	Hold	-
Solara Active Pharma Sciences	Upwards	Solara Active Pharma reported a healthy performance for the Q1FY22, but the results missed estimates. The company has charted out a strong growth outlook over the next four years to 2025. Given the strong growth outlook, we have revised upwards estimates for FY23E.	Buy	Buy	2100
Dr Reddys	Downwards	Dr Reddy's reported a weak performance for Q1FY22 and results missed estimates. Due to expected fluctuations in PSAI segment and pricing pressures in the US, we have revised downwards our estimates for Fy22E and FY23E	Buy	Buy	5900
Gland Pharma	Upwards	Gland reported a strong set of results and numbers were ahead of estimates. Robust growth outlook across the markets and emerging opportunities from vaccines are key growth drivers. Given the better than expected results we have revised upwards our estimates for Fy22E/FY23E	Buy	Buy	4400
Caplin Point Laboratories	Maintained	Caplin reported a strong set of results for Q1FY22 and numbers are in line on the operating front. Given the robust growth outlook for Latam markets and US would be growth drivers. Due to in line results we have maintained our estimates.	Positive	Positive	1054

Source: Company, Sharekhan Research

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