



Pharmaceutical preview Q4FY2006

Overall improvement in revenues expected

Pharmaceutical sector

The quarter ended March 31, 2006, will see a good improvement in the revenues and the profit margins of various pharmaceutical majors as compared to their performance in Q4FY2005. That is because the domestic demand picked up in this quarter; in the same quarter in the previous year the domestic revenues of these companies had declined sharply as a result of de-stocking due to the implementation of the value added tax (VAT). Companies like Cipla, Cadila Healthcare and Unichem may be strong beneficiaries of this.

Apart from this, the cost-cutting methods employed by various companies may also result in higher margins. The price erosion in the US markets continues, but some of the big pharma firms like Ranbaxy Laboratories and Lupin are expected to benefit from the increasing generic opportunities in FY2007 as blockbuster drugs like Pravastatin and Simvastatin go generic during the year.

Company specific

Cipla

For the quarter ended March 31, 2006, Cipla is expected to show a 28% growth in its net profit year on year (yoy) to Rs135 crore. The growth would be driven primarily by the improvement in its domestic formulation business, a possible increase in the other operating revenues and the increased bulk drug exports due to the supply of new drugs to its partners in the regulated markets.

Cadila Healthcare

Cadila Healthcare is expected to show a substantial growth of 60% in the bottom line to Rs35.5 crore due to the higher margins driven by the increased domestic formulation sales and the exports to the regulated markets. We believe that this could be the year when its subsidiary in the USA turns around and starts contributing positively to the bottom line.

Company name	PAT estimates		Q4FY2005 Rs (crore)	% Growth	Result date
	Sharekhan Q4FY2006E	Consensus Q4FY2006E			
Sun Pharma	138.5	135.3	118.3	17.1	TBA
Cipla	135.1	132.3	105.6	27.9	25-Apr-06
Nicholas Piramal	32.5	35.0	-12.4	NA	TBA
Ranbaxy*	81.0	80.5	70.8	14.4	19-Apr-06
Wockhardt*	62.1	63.8	41.5	49.6	25-Apr-06
Lupin	41.0	42.5	21.7	88.9	TBA
Cadila Healthcare	35.5	35.2	22.1	60.6	28-Apr-06
Orchid Chemicals	23.9	22.6	16.6	44.0	TBA
Unichem Labs	12.1	11.7	6.8	78.5	TBA
Marksans Pharma	6.7	-	4.5	48.6	TBA
Surya Pharma	5.7	-	4.7	20.3	TBA
Dr.Reddy's Labs	44.4	44.4	-8.8	NA	TBA

*Calendar year ending, hence results are for Q1CY2006.

TBA- to be announced.

Unichem Laboratories

Unichem Laboratories, which is primarily a formulation maker, is also expected to benefit from the rising domestic demand and may show close to a 78% growth in its net profit. The net profit for Q4FY2006 is estimated at Rs12.1 crore. Unichem was hit deeply by the VAT related de-stocking in Q4FY2005.

Lupin

For the quarter ended March 31, 2006, Lupin is expected to show a strong growth in its profit after tax (PAT), which is expected to be over 80% yoy, due to a much better domestic demand for its goods and the higher revenues from key molecules like Suprax in the regulated markets as the flu season was in full swing during the quarter.

Ranbaxy Laboratories

Ranbaxy Laboratories is also expected to show a decent 15% growth in its net profit due to better revenues from the Commonwealth of Independent States, Africa and Europe, and higher domestic formulation sales. Further the lower costs due to lesser litigation costs, and the stabilising research and development expenses are expected to bump up the margins sequentially.

Orchid Chemicals & Pharmaceuticals

We expect Orchid Chemicals to show a steady 25% increase in its revenues led by the first full quarter of sales of the

key cephalosporins in the US markets. We also expect its PAT to increase by more than 40% yoy (despite a deferred tax write-back of Rs9.7 crore in Q4FY2005 that inflated the PAT to Rs16.6 crore in Q4FY2005).

Marksans Pharma

We expect Marksans Pharma to report a solid growth in its numbers due to the greater execution of the CRAMS orders. The company is expected to show a growth in its bottom line of 48% resulting in a profit after tax of Rs6.7 crore for Q4FY2006.

Sun Pharmaceutical

Sun Pharmaceuticals is expected to show a moderate growth of 17% in its net profits although we expect the revenues to grow at a substantial rate. This is because we expect the margins to decrease by close to 200 basis points as a result of the changes in the distribution system, consolidation of the recent acquisitions and the continued pricing pressure in the US market.

Hence on a broader perspective we believe that the increased domestic demand followed by cost-cutting initiatives in the quarter will result in growth for the companies in Q4FY2006. We also believe that the increase in the generic opportunity in the coming quarters in the regulated markets will result in the future growth for the generic pharma companies.

The author doesn't hold any investment in any of the companies mentioned in the article.

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