

4QFY12 Pharmaceutical Sector Preview

16 April 2012

Another Strong Quarter Likely

We expect another strong quarter for the Indian pharmaceuticals sector led by revival in domestic market growth, launch of products having marketing exclusivity in the US and integration of recently acquired companies. Overall, we expect revenue/EBITDA/PAT to grow 16%/44%/23%, respectively. After the tepid performance in the 9MFY12 period, domestic market growth picked up in January and February 2012, at 16.5% and 18.4%, respectively, as per the recent All India Organisation of Chemists and Druggists' (AIOCD) AWACS data. On the other hand, despite a 4% sequential appreciation in the rupee against the greenback, US revenues are likely to benefit from niche launches like Lipodox (Sun Pharmaceutical Industries), Geodon (Lupin Laboratories), and Lexapro (Cipla). Also, integration of recently acquired companies like IROM (Lupin Laboratories) and Biochem (Cadila Healthcare) will aid revenue growth. After the recent outperformance (BSE Healthcare Index's 13% returns versus BSE Sensex, 12% during 4QFY12) and higher valuation, we believe 4QFY12 earnings assume further importance and leave little room for error. We prefer a selective approach and rate Torrent Pharmaceuticals as our top pick.

Revival in domestic growth: Following the pick-up in industry growth, we expect revival in domestic growth for Cipla and Torrent owing to the recent restructuring undertaken by them. On the other hand, Lupin (strong chronic focus + Eli Lilly portfolio), Cadila (Biochem acquisition) and Sun Pharma (chronic focus) are likely to report better than industry growth. We expect another quarter of moderate growth for Glenmark Pharmaceuticals owing to inventory rationalisation.

Launch of products with marketing exclusivity in the US: Despite sequential appreciation in the rupee against the US dollar during the quarter, launch of exclusive products i.e. Lipodox (Sun Pharma), Geodon (Lupin) and Lexapro (Cipla) will drive US revenues for these companies. However, higher price erosion in Taxotere and lack of new product approvals will hurt revenues of Cadila. Glenmark's performance will largely depend on the recent launch of oral contraceptives.

Improvement in margins: Higher contribution from the domestic market and less competitive launches in the US is expected to lead to strong improvement in margins of all companies under coverage universe although, sequentially, we believe margins would be negatively impacted by rupee appreciation. We expect Glenmark to report Rs700mn of forex gains on its outstanding loans during the quarter, while Cadila is likely to reverse some of its earlier forex losses that were routed through its balance sheet.

What to watch out for: Recent data from the AIOCD is encouraging and company managements' comments on the same will be closely monitored. Also, we seek clarity on tax guidance, updates on product launches in the US, the impact of contraction in EU/emerging market economies and the outlook on margins.

Praful Bohra

Praful.bohra@nirmalbang.com

+91-22-3926 8175

(Rsmn) Company	CMP Rs	TP Rs	Rating	Sales			EBITDA			EBITDA Margin (%)			PAT		
				4QFY12E	YoY(%)	QoQ(%)	4QFY12E	YoY(%)	QoQ(%)	4QFY12E	YoY(bps)	QoQ(bps)	4QFY12E	YoY(%)	QoQ(%)
Sun Pharma	579	596	Hold	22,142	51.3	3.2	8,901	100.6	(7.7)	40.2	988	(473.0)	6,575	48.5	(1.6)
Cipla	312	296	Sell	17,617	5.5	0.2	3,894	28.9	(0.5)	22.1	400	(15.0)	2,700	26.2	0.0
Cadila	702	674	Sell	12,911	6.5	(6.7)	2,479	8.8	(5.3)	19.2	41	28.0	1,496	(16.4)	0.2
Glenmark	319	349	Hold	9,676	-	(6.2)	2,418	-	18.0	25.0	-	511.0	1,643	-	10.9
Torrent Pharma	623	715	Buy	6,373	21.1	(8.5)	1,082	67.6	(10.9)	17.0	470	(47.0)	726	69.4	(12.8)
Lupin	566	-	-	17,839	14.8	(1.9)	3,644	17.2	(2.4)	20.4	42	(11.0)	2,314	1.8	(1.6)
Our coverage universe				86,558	16.1	(1.3)	22,416	44.3	(4.8)	25.9	506	(94.3)	15,454	23.3	(1.6)

Note: Source: Bloomberg, Nirmal Bang Institutional Equities Research

Sun Pharmaceuticals

Financial summary (Rsmn)	4QFY11	3QFY12	4QFY12E	YoY (%)	QoQ (%)	Comments
Revenue	14,633	21,461	22,142	51.3	3.2	The company is likely to beat its FY12 guidance of 32-34% because of additional sales of Lipodox and sustained traction in Taro's sales.
EBITDA	4,436	9,642	8,901	100.6	(7.7)	Sequentially, we expect margins to decline on account of lower gross margins (due to 4% rupee appreciation QoQ) and increased R&D spending by Taro.
EBITDA margin (%)	30.3	44.9	40.2	-	-	-
Net profit	4,428	6,683	6,575	48.5	(1.6)	Expect the tax rate to increase.

Source: Nirmal Bang Institutional Equities Research

Cipla

Financial summary (Rsmn)	4QFY11	3QFY12	4QFY12E	YoY (%)	QoQ (%)	Comments
Revenue	16,692	17,580	17,617	5.5	0.2	Lower ARV sales to offset benefits of Escitalopram supplies and recovery in domestic sales (seen up 15%YoY)
EBITDA	3,021	3,915	3,894	28.9	(0.5)	-
EBITDA margin (%)	18.1	22.3	22.1	-	-	Better revenue mix and cost rationalisation to lead to a 400bpsYoY improvement in margins, although sequentially we expect flat margins.
Net profit	2,140	2,699	2,700	26.2	0.0	-

Source: Nirmal Bang Institutional Equities Research

Cadila Healthcare

Financial summary (Rsmn)	4QFY11	3QFY12	4QFY12E	YoY (%)	QoQ (%)	Comments
Revenue	12,129	13,832	12,911	6.5	(6.7)	Recovery in domestic formulations, including first full quarter impact of Biochem integration, will be partially negated by lower Taxotere revenues in Hospira JV.
EBITDA	2,278	2,616	2,478	8.8	(5.3)	-
EBITDA margin (%)	18.8	18.9	19.2	-	-	Expect synergies from Biochem acquisition
Net profit	1,789	1,493	1,496	(16.4)	0.2	PAT to decline on account of higher interest costs and tax rate.

Source: Nirmal Bang Institutional Equities Research

Glenmark Pharmaceuticals

Financial summary (Rsmn)	3QFY12	4QFY12E	QoQ (%)	Comments
Revenue	10,313	9,676	(6.2)	YoY numbers are not comparable due to IFRS transition in 4QFY11. Sequentially, revenues to decline due to rupee appreciation against the US dollar.
EBITDA	2,049	2,418	18.0	Expect forex gains of Rs700mn, which will drive margin expansion. Excluding forex gains, we expect 17.8% margins. We have not assumed any milestone income.
EBITDA margin (%)	19.9	25.0	-	-
Net profit	1,481	1,643	10.9	Tax rate to increase QoQ.

Source: Nirmal Bang Institutional Equities Research

Torrent Pharmaceuticals

Financial summary (Rsmn)	4QFY11	3QFY12	4QFY12E	YoY (%)	QoQ (%)	Comments
Revenue	5,264	6,966	6,373	21.1	(8.5)	Recovery in India, strong growth in Brazil and the US to drive performance.
EBITDA	646	1,215	1,082	67.6	(10.9)	Expect a sequential drop in margins due to higher R&D spending.
EBITDA margin (%)	12.3	17.4	17.0	-	-	YoY improvement is on account of one-time adjustments in 4QFY11 (deferment of revenues in Brazil, charge-back in the US).
Net profit	428	832	726	69.4	(12.8)	-

Source: Nirmal Bang Institutional Equities Research

Lupin

Financial summary (Rsmn)	4QFY11	3QFY12	4QFY12E	YoY (%)	QoQ (%)	Comments
Revenue	15,536	18,189	17,839	14.8	(1.9)	High 4QFY11 base (due to launch of Lotrel) in the US will be negated by a seasonally strong quarter for Suprax and additional US\$11mn contribution expected from the launch of Geodon. Outperformance in domestic formulations to continue, while Japan's performance will be led by integration of IROM (first full quarter post consolidation).
EBITDA	3,108	3,735	3,644	17.2	(2.4)	-
EBITDA margin (%)	20.0	20.5	20.4	-	-	Expect flat margins sequentially.
Net profit	2,272	2,351	2,314	1.8	(1.6)	PAT to lag revenue growth due to higher depreciation at Indore SEZ and higher taxes due to expiry of tax benefits.

Source: Nirmal Bang Institutional Equities Research

NBIE vs Consensus

(Rsmn)	Revenue			EBITDA			EBITDA margin (%)			PAT		
	NBIE	Consensus	Chg (%)	NBIE	Consensus	Chg (%)	NBIE	Consensus	Chg (bps)	NBIE	Consensus	Chg (%)
Sun Pharma	22,142	20,852	6.2	8,901	8,206	8.5	40.2	39.4	84	6,575	6,724	(2.2)
Cipla	17,617	18,400	(4.3)	3,894	4,018	(3.1)	22.1	21.8	27	2,700	2,926	(7.7)
Cadila	12,911	13,736	(6.0)	2,478	2,585	(4.1)	19.2	18.8	38	1,496	1,697	(11.9)
Glenmark	9,676	9,836	(1.6)	2,418	1,848	30.8	25.0	18.8	620	1,643	1,103	49.0
Torrent Pharma	6,373	6,264	1.7	1,082	1,014	6.7	17.0	16.2	79	726	708	2.5
Lupin	17,839	18,467	(3.4)	3,644	3,840	(5.1)	20.4	20.8	(37)	2,314	2,629	(12.0)

Source: Nirmal Bang Institutional Equities Research

Ratings track

Sun Pharma

Date	Rating	Market Price (Rs)	Target Price (Rs)
1 November 2011	Hold	503	513
15 November 2011	Hold	510	532
12 January 2012	Buy	519	592
14 February 2012	Buy	552	635
19 March 2012	Hold	545	596

Cipla

Date	Rating	Market Price (Rs)	Target Price (Rs)
1 November 2011	Sell	297	268
15 November 2011	Sell	288	268
12 January 2012	Sell	339	296
14 February 2012	Sell	342	296
11 April 2012	Sell	311	296

Cadila

Date	Rating	Market Price (Rs)	Target Price (Rs)
1 November 2011	Sell	758	743
11 November 2011	Sell	760	737
22 December 2011	Hold	701	737
12 January 2012	Hold	678	737
8 February 2012	Sell	660	629
19 March 2012	Sell	712	674

Glenmark

Date	Rating	Market Price (Rs)	Target Price (Rs)
1 November 2011	Buy	310	362
11 November 2011	Hold	319	362
13 December 2011	Buy	295	362
12 January 2012	Buy	304	362
31 January 2012	Hold	312	349

Torrent Pharma

Date	Rating	Market price (Rs)	Target price (Rs)
1 November 2011	Buy	575	715
12 January 2012	Buy	551	715
24 January 2012	Buy	548	715

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

This report is published by Nirmal Bang's Institutional Equities Research desk. Nirmal Bang has other business units with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets. This report is for the personal information of the authorised recipient and is not for public distribution. This should not be reproduced or redistributed to any other person or in any form. This report is for the general information for the clients of Nirmal Bang Equities Pvt. Ltd., a division of Nirmal Bang, and should not be construed as an offer or solicitation of an offer to buy/sell any securities.

We have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time without notice.

Nirmal Bang or any persons connected with it do not accept any liability arising from the use of this document or the information contained therein. The recipients of this material should rely on their own judgment and take their own professional advice before acting on this information. Nirmal Bang or any of its connected persons including its directors or subsidiaries or associates or employees or agents shall not be in any way responsible for any loss or damage that may arise to any person/s from any inadvertent error in the information contained, views and opinions expressed in this publication.

Team Details:

Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	+91 22 3926 8098 / 99
Hemindra Hazari	Head of Research	hemindra.hazari@nirmalbang.com	+91 22 3926 8017 / 18

Sales and Dealing:

Neha Grover	AVP Sales	neha.grover@nirmalbang.com	+91 22 3926 8093
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 3926 8230, +91 22 6636 8832
Sudhindar Rao	Dealing Desk	sudhindar.rao@nirmalbang.com	+91 22 3926 8229
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 3926 8102/8103, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 3926 8100/8101, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park
 Lower Parel (W), Mumbai-400013.
 Board No. : 91 22 3926 8000/1
 Fax. : 022 3926 8010