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The pharmaceuticals sector is expected to report subdued results for Q3FY18 due to regulatory issues from US FDA (Food and Drug Administration), pricing pressure in the US generic market, faster ANDA (abbreviated new drug application) approvals by US FDA. The domestic market is likely to gain from the re-stocking by trade and new launches in the US would drive the future growth.

The 14 pharma companies under coverage by Centrum would post revenue, EBIDTA, net profit decline of 2 per cent/11 per cent/9 per cent year-on-year in Q3FY18. Margins of these companies could decline 220bps YoY to 22.1 per cent in Q3FY18 from 24.3 per cent in Q3FY17.

DOMESTIC PHARMA MARKET DECLINED

The domestic pharma market grew 8.9 per cent during December 2016 -

Recovery on the cards

PHARMACEUTICALS

November 2017 TTM (trailing twelve months) due to re-stocking by trade after GST implementation. There is no major price change under the GST for pharma products as the GST rate is 12 per cent. The government revised the prices of NLEM (National List of Essential Medicines) products upwards by 2.9 per cent to compensate for higher tax rate under GST.

That said, the price increase of up to 10 per cent in non-NLEM products, volume growth and new product launches are likely to drive the domestic pharma market up by ~10 per cent in FY18. The growth momentum is likely to continue, driven by growing

demand in lifestyle segments. Companies surveyed by Centrum will report 2 per cent year-on-year decline in revenues, 11 per cent decline in EBIDTA and 9 per cent decline in net profit. EBIDTA margin is likely to decline by 220bps year-on-year to 22.1 per cent from 24.3 per cent due to the decline in revenues. Companies under our coverage constitute ~34 per cent of the domestic market and were impacted by GST de-stocking in Q2FY18.

GLOBAL PHARMA MARKET

The continuous introduction of generic products and specialty products in

the US market is likely to drive future growth. Alembic, Ajanta Pharma, Alkem Labs, Aurobindo, Biocon, Cipla, Divis Labs, Dr. Reddy's Labs (DRL), Glenmark Pharma, Granules India, Ipca Labs, Lupin, Marksans Pharma, Natco Pharma, Strides Arcolab, SPIL and Zydus Cadila are the pharmaceutical companies likely to benefit from the US generic market. However, some major companies such as Divis Labs, DRL, SPIL, Wockhardt, Ipca Labs and Lupin are facing regulatory issues with the US FDA.

LOOKING AHEAD

The pharmaceuticals sector has sailed through the uncertainty on the regulatory front, price decline in NLEM products, pricing pressure in the US and increased competition

in the US generic market. Around 35 per cent of ANDA approvals from USFDA are in favour of Indian companies which would help them gain additional market share in the US. The pharmaceutical companies will perform well from Q3FY18 onwards due to quarter-on-quarter recovery.

RECOMMENDATION

Pharmaceutical companies are expected to report good growth from Q4FY18 in the domestic and global markets due to re-stocking by trade, new product introductions, changes in lifestyles and enhanced exports. There is a shortage of several products in the US, which would benefit the Indian companies in a big way. APL, ALL, SIL and Lupin remain the preferred picks in the sector. Key risks include appreciation of the rupee against the dollar and regulatory risks for manufacturing facilities.

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SUMMARY ESTIMATES (PHARMA)

Particulars (Y/E March)	NET SALES (Rs mn)				NET SALES (Rs mn)			
	Q3FY18E	YoY (%)	QoQ (%)	FY18E	Q3FY18E	YoY (%)	QoQ (%)	FY18E
Abbott India	8,400	11.2	(9.8)	33,894	1125	31.4	(18.2)	3,910
Aurobindo Pharma	41,505	6.3	(6.4)	1,73,101	6,995	20.9	(10.5)	27,306
Biocon	10,840	3.8	11.9	46,596	1,780	3.9	158.7	7,490
Cipla	39,620	8.6	(2.9)	1,65,296	4,510	20.4	3.7	17,741
Dr. Reddy's Labs	37,320	0.2	4.8	1,51,334	4,590	(6.8)	50.3	15,314
FDC	2,500	10.8	(17.9)	11,263	425	93.2	(34.5)	2,014
Glaxo SK Pharma	7,750	9.7	(7.3)	33,893	1,010	187.7	(19.3)	3,876
Granules India	4,050	12.7	3.2	17,120	510	30.8	26.6	1,899
Lupin	41,050	(8.4)	3.9	1,83,779	5,140	(18.8)	14.5	22,022
Marksans Pharma	2,915	35.5	6.5	10,296	175	53.5	86.2	547
Merck *	2,820	12.1	(9.8)	11,317	318	150.4	0.3	985
Pfizer	5,200	1.9	(8.9)	21,051	858	98.2	(22.8)	3,552
Sanofi India *	6,850	13.2	2.6	27,306	1,220	129.3	4.9	3,856
Sun Pharma	66,910	(15.6)	0.6	3,08,395	10,340	(40.0)	3.2	43,108

Source: Companies, Centrum Research Estimates; *Y/E Dec