AXIS DIRECT

10 JAN 2017 Sector Update

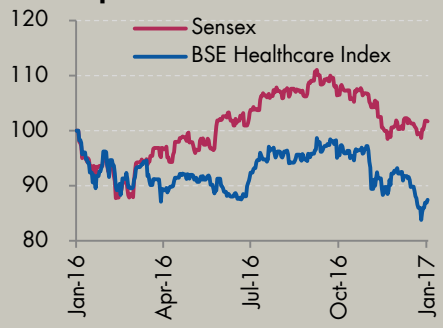
Indian Pharma: Q3FY17 – Pitstop on the road to transition

Sector preview

We expect India Pharma# to report tepid EBITDA growth of 9% YoY in Q3FY17 aided by one-offs such as Natco (164%) and Glenmark (73%), and acquisitions for Cipla (40%) and Strides (27%). While we expect steady performance by Sun (18%) and Lupin (15%), we see weak show by Dr Reddy's and Cadila due to lack of meaningful approvals in US.

We cut earnings and target multiplesfor companies under coverage, given increasing sector headwinds (channel consolidation, faster pace of approvals, USFDA woes).We also downgrade ratings for Lupin (increasing concentration risk and lack of meaningful approvals) and Divis (higher USFDA risk) to HOLD. We reiterate our BUY rating on: Aurobindo (strong approvals) and Cipla (US scale-up) among large caps and Alkem (steady India business with US scale-up), Natco (complex R&D pipeline), Glenmark (improving US) and Strides (diversified business model) in mid-caps.

Relative performance



Source: Axis Capital

- **Domestic growth affected by demonetization:**Despite AIOCD@ reporting IPM^ growth(secondary) of 11% YoY in Oct + Nov'16led by pre-buying due to demonetization, our channel checks suggest that growth rates could moderate to 5-10% (vs. 12-15% in past) due to (1) lower visits to doctors leading to lower prescriptions, (2) lower sales by chemistswith inadequate digital infrastructure. While companies (Alkem, Alembic, Cadila) with higher exposure in acute and non-Tier 1 cities could see muted near term growth, we expect growth to rebound from FY18.
- **US growth to remain muted (ex-one-offs):** Increasing pricing erosion impact driven by buyer channel consolidation and faster ANDA approvals (led by GDUFA) could result in softer base business growth. However, limited competition products/ exclusivities are likely to mask underlying weakness for most companies like Lupin (gGlumetza, gFortamet), Sun Pharma (gGleevec, gOlmesartan), Cadila (gAsacol HD), Glenmark (gZetia), Natco (gTamiflu). Also, some companies are also benefitted from acquisitions like Strides (Moberg, Arrow), Lupin (Gavis). However,DRRD may see another muted quarter due to lack of approvals for US market (given USFDA issues).

Exhibit 1: Q3FY17 –Tepid Quarter

	Revenues		EBITDA		EBITDA Margin %		Net Profit	
(Rs mn)	Q3FY17F	YoY gr.	Q3FY17F	YoY gr.	Q3FY17F	YoY bps	Q3FY17F	YoY gr.
Alembic Pharma	7,832	-15%	1,539	-60%	19.7	(2,207)	989	-63%
Alkem Labs	13,862	9%	2,255	-4%	16.3	(220)	1,864	-1%
Aurobindo	39,277	12%	9,319	13%	23.7	18	6,020	15%
Biocon	10,051	21%	2,287	27%	22.8	103	1,425	38%
Cipla	36,519	18%	6,350	40%	17.4	278	2,881	-16%
Cadila	23,976	-1%	5,155	-11%	21.5	(233)	3,289	-16%
Divis	10,051	18%	3,719	16%	37.0	(70)	2,980	21%
Dr. Reddys	37,573	-5%	6,881	-33%	18.3	(746)	3,544	-39%
Glenmark Pharma	23,201	30%	6,380	73%	27.5	671	3,796	123%
IPCA	7,675	12%	1,155	29%	15.0	200	550	138%
Lupin	42,446	19%	10,058	15%	23.7	(97)	6,081	15%
Natco Pharma	5,935	115%	1,620	164%	27.3	510	1,044	181%
Strides	10,568	29%	1,972	27%	18.7	(29)	969	65%
Sun Pharma	80,416	14%	25,492	18%	31.7	107	16,813	19%
Syngene	3,301	18%	1,106	18%	33.5	(2)	770	31%
Total	**352,683**	**13%**	**85,286**	**9%**	**24.2**	**(75)**	**53,015**	**7%**
Total (ex-one offs)	**347,935**	**12%**	**82,517**	**4%**	**23.7**	**(191)**	**50,955**	**7%**

Source: Company, Axis Capital Note: EBITDA margin/ PAT growth ex-one offs for (1) Natco (ex-gTamiflu): 25%/43% YoY (2) Glenmark (ex-gZetia): 21%/17% YoYNote: #India Pharma: companies under coverage @AIOCD:All India Organization of Chemists and Distributors ^IPM: India Pharma Market

- **US sector headwinds increasing:** We note that there has been increasing risk of generic pricing probe (sub poenas, class action suits) which could lead to penalty and reduce future price hike opportunities. Additionally, USFDA regulatory issue remains with (1) **Sun Pharma:**Halol resolution timelines unclear given another 483 observations received in Dec'16 and (2) **Divi's Labs:** 5 observations received in Dec'16 including improper maintenance of equipment, product impurities and falsification of records. In addition, resolution of long-standing warning letter issues at **Cadila** (Moraiya) and **Dr Reddy's**(3 facilities) continue to be delayed impacting approvals.

We remain cautiously optimistic on the sector as most pharma companies are transitioning into 1) improved and compliant capacities, 2) investing into complex generics and capabilities and 3) strengthening portfolio/ pipeline via acquisitions.However, given increasing sector headwinds, we revise our estimates and target prices (incl. downgrade to HOLD) for Lupin and Divis) as follows:

Exhibit 2: Change in EPS

Company	Prev EPS Sept'18E (Rs/sh)			Current EPS Dec'18E (Rs/sh)			Change in EPS (%)		
	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Aurobindo (ARBP)	42	49	56	41	46	52	(3)	(6)	(6)
Cipla	18	24	31	16	23	31	(10)	(3)	1
Lupin (LPC)	65	73	82	63	71	78	(3)	(3)	(5)
Cadila (CDH)	13	16	20	13	16	20	(2)	(1)	(2)
Sun Pharma (SUNP)	30	33	36	31	33	36	4	0	(0)
Dr. Reddy's (DRRD)	80	119	146	79	121	140	(0)	2	(4)
Alkem (ALKEM)	73	81	95	71	80	93	(2)	(2)	(2)
Glen`mark (GNP)	39	49	61	37	46	60	(3)	(5)	(3)
IPCA	18	27	36	18	27	36	(1)	(0)	(2)
Natco Pharma	22	26	41	22	26	40	0	0	(3)
Strides (STR)	41	60	79	38	56	76	(8)	(7)	(3)
Alembic (ALPM)	24	29	34	22	27	32	(8)	(7)	(8)
Biocon (BIOS)	29	31	42	29	32	40	1	2	(3)
Divi's Lab (DIVI)	48	57	65	44	40	42	(8)	(29)	(36)
Syngene (SYNG)	16	19	23	15	18	23	(7)	(2)	1

Source: Axis Capital;Note: We have changed our INR/USDestimates to Rs. 67.6 for FY17 && 69.3 FY18/19

Exhibit 3: Change in target multiple, ratings and TP

Company	Rating	Target Multiple		TP (Rs/sh)		
		Prev (Sept'18E)	Current (Dec'18E)	Prev (Sept'18E)	Current (Dec'18E)	Chg (%)
Aurobindo (ARBP)	BUY	18	17	940	860	(9)
Cipla	BUY	22	22	600	640	7
Lupin (LPC)*	HOLD	22	21	1,700	1,600	(6)
Cadila (CDH)	HOLD	19	19	365	360	(1)
Sun Pharma (SUNP)	HOLD	21	20	720	700	(3)
Dr. Reddy's (DRRD)	SELL	20	20	2,650	2,700	2
Alkem (ALKEM)	BUY	22	22	1,940	1,980	2
Glenmark (GNP)	BUY	20	19	1,100	1,070	(3)
IPCA	BUY	19	18	600	600	0
Natco Pharma	BUY	20	19	725	750	3
Strides (STR)	BUY	19	18	1,375	1,340	(3)
Alembic (ALPM)	HOLD	22	20	700	610	(13)
Biocon (BIOS)	HOLD	22	22	960	1,000	4
Divi's Lab (DIVI)*	HOLD	23	18	1,400	740	(47)
Syngene (SYNG)	HOLD	24	24	500	525	5

Source: Axis Capital Note: LupinandDivi's have been downgraded to HOLD (vs. BUY earlier)

Key sector trends

US pricing probe – picking up

- Anti-trust investigation by the US Department of Justice (DOJ) into suspected price collusion by generic pharmaceutical companies commenced around 2 years agoin Nov-2014.
- The US DOJ filed its first federal charges in the anti-trust investigation against two former executives of Heritage Pharma, on Dec-13,2016.This was followed by civil litigation against other generic pharmaceutical companies (incl. Aurobindo, Dr Reddy and Zydus), in the form of class actionlawsuits filed by State Attorneys General, and individual company law suits alleging damages (Exhibit 5).
- The court has jurisdiction over this action under the Sherman Act and the Clayton Act. The Sherman Act imposes criminal penalties of up to USD100mn for a corporation and USD1mn for an individual, along with up to 10 years in prison. Under federal law, the maximum fine may be increased to twice the amount the conspirators gained from the illegal acts or twice the money lost by the victims of the crime, if either of those amounts is over USD100mn.
- The Clayton Act authorizes private parties to sue for triple damages, when they have been harmed by conduct that violates either the Sherman or Clayton Act and to obtain court order prohibiting the anti-competitive practice in the future.

Exhibit 4: Generic-drug makers known to have received subpoenas over generic drug pricing

Corporate base	Companies	Drugs Specified
Indian Generic companies	Sun Pharma (May-16), Taro (Sep-16), Aurobindo (Mar-16), Dr Reddy (Nov-14), Zydus	Doxycycline, Digoxin, Cidofovir, Glipizide-metformin, Propranolol, Verapamil, TerbutalineSilfate, Lidocaine/Pirlocaine, Calcipotriene
Global Generic companies	Impax Labs (Nov-14), Lannett (Nov-14), Endo/Par (Dec-14), Actavis/Allergan (Jun-15), Teva (Jun-15), Mylan (Dec-15/Sep-16), Sandoz (Mar-16), MaynePharma (Jun-16)	

Source: Bloomberg, Company reports, Industry data

Exhibit 5: Known Lawsuits currently filed in the US

Date	Plaintiff	Defendant	Drugs Named
Dec 13, 2016	DOJ (Federal charges)	Executives of Heritage Pharma	Doxycycline Hyclate, Glyburide
Dec 15, 2016	20 US states (Civil suit)	Heritage Pharma, Mylan, Mayne, Aurobindo, Teva, Citron Pharma	Doxycycline Hyclate, Glyburide
Sep 15, 2016	Sergeants Benevolent Asso. Health & Welfare fund	Taro, Wockhardt, Fougera, Perrigo, Sandoz, Hi-Tech Pharmacal	Clobetasol propionate
Oct 12, 2016	Sergeants Benevolent Asso. Health & Welfare fund	Taro, Fougera, Perrigo, Sandoz	Desonide
Nov 17, 2016	UFCW Local 1500 welfare fund	Dr Reddy, ZydusCadila, Impax, Mylan, Par	Divalproex ER
Dec 28, 2016	Fraternal Order of Police, Miami Lodge 20, Insurance Trust Fund	Dr Reddy, ZydusCadila, Impax, Mylan, Par	Divalproex ER
Dec 29, 2016	Cesar Castillo, Inc	Aurobindo, Dr Reddy, ZydusCadila, Wockhardt, Impax, Mylan, Par, Morton Grove Pharma	Divalproex ER

Source: Bloomberg, Company reports, Industry data

Collusion cases are currently limited to specific drugs and manufacturers. However this is likely to remain an overhang on the industry over the medium term, as investigations are still underway and new evidence may emerge

US generic pricing

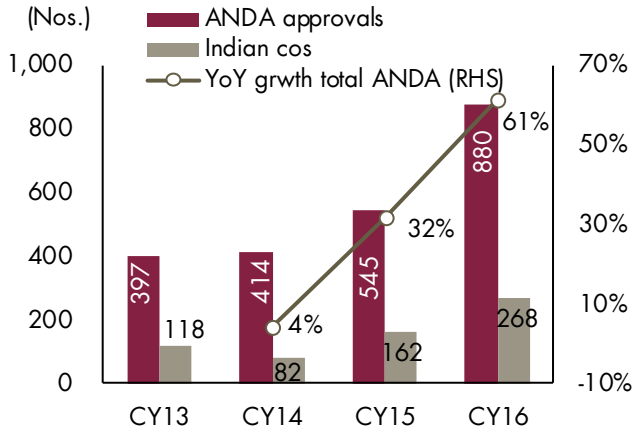
We note that continued consolidation among pharmacies and distributors in the US paired with increased rate of approvals by USFDA (led by GDUFA) has resulted in continued generic price erosion in recent past and is expected to continue.

Exhibit 6: Channel consolidation in the US continues, with Top 3 players controlling 60% of the market (vs. 40% in 2011)…

Pharmacy Benefit managers	Pharmacy chains	Distributors
Express Scripts Holding Company	Walgreens	Amerisource Bergen Corp
CVS Health	CVS Health	Cardinal Health
Catamaran Corp	Rite Aidk	Mckesson Corp
OptumRx	Walmart	
UnitedHealth Group	Cardinal Health	
Medco		
Envision Rx		

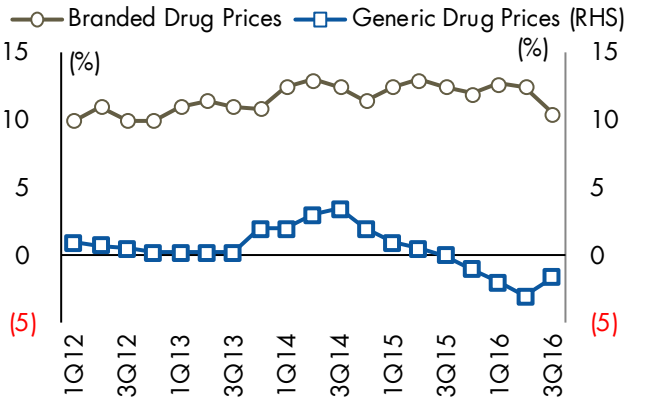
Source: USFDA, Companies, Axis Capital

Exhibit 7: …paired with increased pace of approvals led by GDUFA…



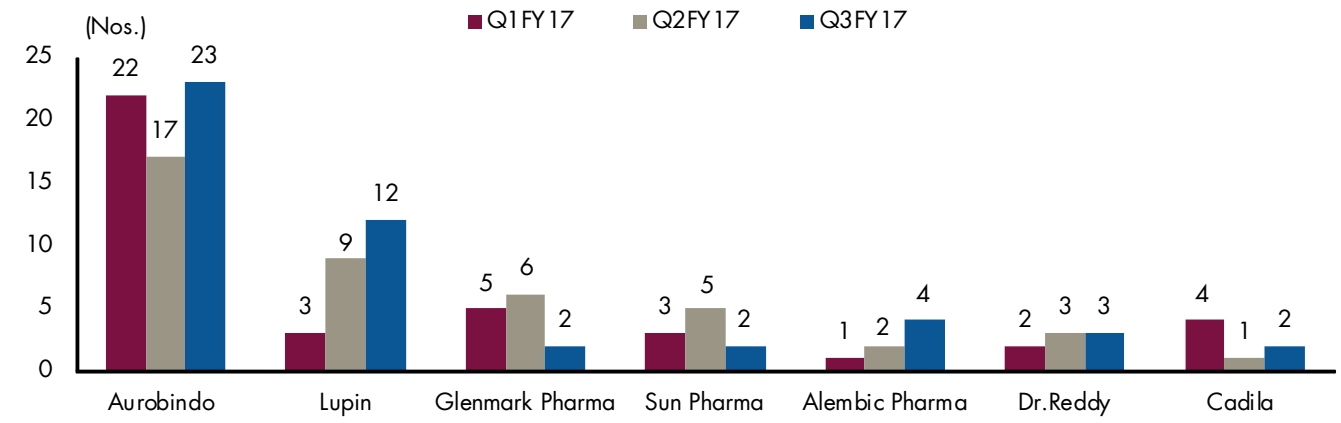
Source: Symphony Health, Bloomberg

Exhibit 8: …has resulted in continued generic pricing pressure



Source: USFDA

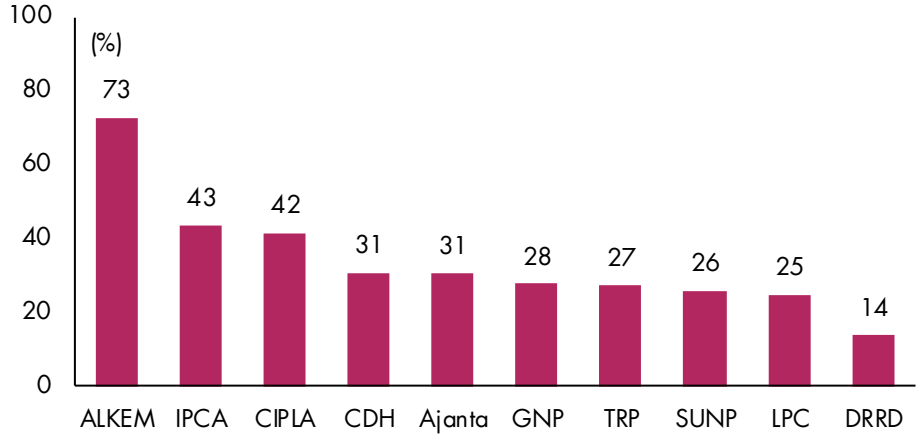
Exhibit 9: Aurobindo and Lupinhave received the highest number of approvals in Q3



Source: USFDA

India: Despite uptick in secondary market growth (as per AIOCD) led by pre-buying in the wake of demonetization, we expect growth to moderate in the near term as our channel checks suggest (1) lower visits to doctors and diagnostic centers leading to lower prescriptions, (2) lower sales by chemists with inadequate digital payment infrastructure, (3) focus on collections vs. marketing and (4) extended credit terms.

Exhibit 10: Domestic formulations contribute 15-75% to revenue of most companies



Source: Company, Axis Capital

Exhibit 11: India - While growth was strong in Nov'16 on account of pre-buying, we expect it to moderate in the near term

YoY Growth %	FY15	FY16	Q1FY17	Q2FY17	Oct'16	Nov'16	Oct+Nov'16
Alkem	15	10	6	15	10	13	11
Alembic Pharma	13	18	9	16	6	4	5
Cadila	8	12	2	9	14	16	15
Cipla	15	13	6	6	(3)	11	4
Dr Reddy's	12	21	1	15	7	5	6
GlenmarkPharma	17	23	8	14	8	20	14
IPCA	18	6	4	18	5	9	7
Lupin	18	17	9	15	21	17	19
Sun Pharma	12	14	5	15	14	20	17
Torrent Pharma	16	15	(2)	9	11	21	16
Ajanta Pharma	29	11	11	9	12	13	12
IPM	**13**	**13**	**6**	**13**	**8**	**15**	**11**

Source: AIOCD Note: AIOCD#: All India Organization of Chemists and Distributors

Exhibit 12: Stronger growth in chronic therapies (Anti-diabetic/Cardiac) vs. acute in recent months

YoY Growth	% of IPM Total*	FY15	FY16	Q1FY17	Q2FY17	Oct'16	Nov'16	Oct + Nov'16
Anti-Infective	15	10	8	1	14	1	2	1
Cardiac	12	14	14	7	10	10	21	15
Gastro Intestinal	12	18	15	7	11	7	13	10
Vitamins/nutrients	9	16	10	7	10	7	17	12
Anti-Diabetic	8	24	21	13	18	15	33	24
Respiratory	8	17	11	0	25	6	8	7
Pain / Analgesics	7	10	11	3	13	10	11	11
Neuro / CNS	6	12	16	8	9	9	15	12
Derma	6	23	17	8	9	10	17	13
Gynaecological	5	(6)	11	6	10	9	19	14
Anti-Malarial	1	(8)	(2)	15	20	30	(12)	(15)
Total IPM (Rs bn)	**995**	**13**	**13**	**6**	**13**	**8**	**15**	**11**

Source: AIOCD *% of FY16 total

Exhibit 13: Higher demonetization impact for companies with higher share of acute therapy

% of FY16 revenue	Acute	Chronic	Sub Chronic
IPCA	67	27	6
Alkem	65	10	25
Alembic Pharma	61	21	18
Dr Reddy's	50	30	20
Cadila	49	32	19
Cipla	47	41	12
Sun Pharma	41	45	14
Glenmark Pharma	40	37	23
Lupin	32	49	20
Torrent	25	51	25

Source: AIOCD

Exhibit 14: INR has depreciated against most key currencies

				(%) chg	
Currency	Q3'16	Q2'17	Q3'17	YoY	QoQ
US Dollar vs INR	65.9	67.0	67.4	2	1
Russian Rouble vs INR	1.0	1.0	1.1	7	3
Brazilian Real vs INR	17.1	20.6	20.5	19	(1)
South African Rand vs INR	4.6	4.8	4.9	5	2
Euro vs INR	72.2	74.7	72.7	1	(3)
YEN vs INR	0.5	0.7	0.6	13	(6)
AUD vs INR	47.5	50.8	50.5	6	(1)
VEF vs INR	10.5	6.7	6.8	(36)	1

Source: Bloomberg

AurobindoPharma (BUY): TP Rs860 (17x Dec'18E EPS)

- We expect a slower growth of 12% YoY in US (vs. over 15% in past) despite significant approvals (36 final approvals in 9MFY17 vs. 44 in FY16) due to capacity issues.
- We expect US growth to improve Q4 onwards, given higher capacity for oral solids from Unit VII and for injectables from Unit IV for US markets
- We cut our FY17 EPS by 3% andFY18/19 EPS by 6% and lower multiple to 17x Dec'18E (vs 18x Sep'18E earlier) given challenges in US market (pricing erosion, DoJpricing probe)

Exhibit 15: We expect growth in US and EU businesses led by new launches

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY (%)	QoQ (%)
US (USD mn)	238	259	267	12	3
Europe	7,786	8,134	8,175	5	1
Formulations	28,368	30,038	31,600	11	5
API	6,952	7,688	7,647	10	(1)
Gross revenue	**35,331**	**37,754**	**39,277**	**11**	**4**

Source: Company, Axis Capital

Exhibit 16: Margin expansion to be led by scale-up in US

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY (%)	QoQ (%)
Net revenue	34,955	37,755	39,277	12	4
Gross margin (%)	56.0	56.8	56.7	67 bps	-13 bps
EBITDA	8,230	9,292	9,319	13	0
EBITDA margin (%)	23.5	24.6	23.7	18 bps	-89 bps
Adj. PAT*	5,249	5,913	6,020	15	2

Source: Company, Axis Capital *PAT adjusted for interest on FCCB

Exhibit 17: Aurobindo'smarket share continues to increase in key injectable products EptifibatideandIsosulfan Blue

Generic name	Brand name	Brand sales / market size (USD mn)	#No. of players	Market share					
				Dec'15	Mar'16	Jun'16	Sept'16	Oct'16	Nov'16
Rosuvastatin Calcium*	Crestor	6,780	9	-	-	-	9%	9%	10%
Pantoprazole Sodium.Inj.	Protonix	94	3	-	10%	13%	7%	7%	4%
Valganciclovir	Valcyte	440	4	-	-	5%	10%	23%	29%
Isosulfan Blue	Lymphazurin	57	2	-	15%	46%	53%	60%	66%
Aripiprazole	Abilify	4,764	7	3%	6%	7%	7%	8%	8%
Entecavir	Baraclude	206	4	6%	18%	41%	43%	44%	45%
Eptifibatide Inj.	Interiglin	137	2	1%	68%	59%	55%	52%	56%
Cefixime OS	Suprax	80	2	21%	24%	26%	23%	24%	25%
Tazo-pip	Zosyn	635	7	20%	14%	10%	7%	11%	11%
Duloxetine*	Cymbalta	5,100	16	24%	24%	24%	24%	24%	25%
Valsartan+HCTZ	Diovan HCT	1,700	8	29%	30%	29%	31%	32%	33%
Lamivudine+ Zidovudine	Combivir	275	7	23%	16%	8%	9%	8%	7%
Metformin	Glucophage	-	>10	25%	25%	17%	15%	15%	15%

Source: Bloomberg

Alkem(BUY): TP Rs 1,980 (22x Dec'18E EPS)

- We expect muted growth of 8% YoY in India business (73% of FY16 revenue) despite 11% YoY growth for Oct + Nov'16 as per AIOCD due to demonetization impact (esp. on acute and in non-Tier 1sales)
- We believe US growth visibility to be back on track after Daman facility received USFDA clearance in Dec'16 (post 483 sued in Sept'16)
- We largely maintain estimates for FY18/19 and raise target price to Rs. 1,980 as we roll forward to 22x Dec'18E EPS (vs 22x Sept'18E earlier)

Exhibit 18: Expect muted growth in India

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY (%)	QoQ (%)
India formulations	8,816	12,258	9,521	8	(22)
International	3,643	3,892	4,091	12	5
US	2,602	3,023	2,914	12	(4)
~US (USD mn)	39	45	43	10	(4)
Total	**12,459**	**16,150**	**13,612**	**9**	**(16)**

Source: Company, Axis Capital

Exhibit 19: Muted earnings growth

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY (%)	QoQ (%)
Revenues	12,747	16,383	13,862	9	(15)
Gross Profit margin (%)	60.1	60.9	59.8	-28 bps	-105 bps
EBITDA	2,354	3,105	2,255	(4)	(27)
EBITDA margin (%)	18.5	18.9	16.3	-220 bps	-268 bps
Reported PAT	1,889	2,828	1,864	(1)	(34)

Source: Company, Axis Capital

Exhibit 20: Slowdown in anti-infective segment seen in Q3 (QTD) on account of demonetization

YoY growth	% Sales	FY14	FY15	FY16	Q1'17	Q2'17	Oct '16	Nov '16	Q3'17 (QTD)
Anti-Infectives	43%	10%	14%	6%	1%	17%	2%	3%	2%
Gastro Intestinal	16%	11%	24%	13%	14%	19%	20%	31%	25%
Vitamins	13%	18%	18%	12%	4%	4%	14%	20%	17%
Pain	7%	14%	12%	7%	7%	29%	32%	25%	29%
Neuro	4%	26%	-4%	22%	29%	4%	1%	10%	5%
Derma	3%	29%	21%	20%	8%	1%	18%	20%	19%
Respiratory	3%	6%	12%	8%	-6%	28%	4%	3%	3%
Cardiac	2%	46%	24%	23%	8%	9%	16%	28%	22%
Anti-Diabetic	2%	113%	45%	26%	26%	26%	33%	46%	39%
Gynaecological	3%	26%	-12%	22%	12%	2%	-2%	7%	2%
Total (Rs bn)	**34**	**14%**	**15%**	**10%**	**6%**	**15%**	**10%**	**13%**	**11%**

Source: AIOCD *% of FY16 sales

Cipla (BUY): TP Rs640 (22x Dec'18E EPS)

- We expect India business (38% of revenue) to exhibit 8% YoY growth (AIOCD growth for Oct + Nov'16 at 4%) given impact of demonetization
- We expect exports formulations revenue to exhibit 15% YoY growth in Q3FY17, largely led by Invagen acquisition. However, PAT is expected to decline 16% YoY in Q3FY17 due to higher interest costs, depreciation (Invagen acquisition) and tax expense
- Cipla recently received UK approval for MDI inhaler Seroflo (equivalent to Seretide/Advair), with an addressable market of USD 280 mn. This improves visibility for filing in US (larger market) which is expected in CY18
- While we cut FY17 EPS by 10%, we maintain estimates for FY18/19 given steady India business (to normalize post-demonetization) and continued scale-up in US, and raise TP to Rs 640 (22x Dec'18E EPS vs. 22x Sep'18E earlier)

Exhibit 21: Exports growth driven by US acquisitions and new launches

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY (%)	QoQ (%)
Domestic	11,940	15,220	12,895	8	(15)
Exports	19,760	22,290	22,724	15	2
Formulations	18,330	20,039	21,124	15	5
API	1,430	2,251	1,600	12	(29)
Gross revenue	**31,070**	**37,510**	**35,619**	**15**	**(5)**

Source: Company, Axis Capital

Exhibit 22: Expect EBITDA margin to improveby 278bps YoY

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY (%)	QoQ (%)
Total revenue	31,066	37,510	36,519	18	(3)
Gross margin	59.2	63.8	63.0	376 bps	-78 bps
EBITDA	4,537	6,807	6,350	40	(7)
EBITDA margin	14.6	18.1	17.4	278 bps	-76 bps
Reported PAT	3,432	3,543	2,881	(16)	(19)

Source: Company, Axis Capital

Exhibit 23: Increased market share in products launched from its own front-end (Gemifibrozil, Quinapril, Fosinopril)

Generic name	Market size	#No. of	Market share					
	(USD mn)	players	Jan'16	Mar'16	Jun'16	Sep'16	Oct'16	Nov'16
Terbinafine	650	More than 10	57%	58%	56%	46%	55%	54%
Gemfibrozil	35	More than 10	65%	65%	65%	60%	61%	62%
Fosinopril	267	6	48%	49%	47%	43%	43%	44%
Quinapril	350	7	37%	36%	36%	36%	35%	36%
Raloxifene	404	4	31%	31%	29%	22%	22%	21%
Alfuzosin	250	7	29%	27%	28%	29%	31%	30%
Meloxicam	120	>10	24%	25%	26%	27%	28%	28%
Topiramate	720	>10	11%	12%	16%	19%	27%	31%
Valacyclovir	990	>10	5%	5%	7%	8%	8%	8%
Lamotrigine	547	>10	8%	8%	9%	10%	10%	10%
Amlodipine	1,440	>10	13%	13%	15%	23%	29%	32%

Source: Bloomberg

GlenmarkPharmaceuticals (BUY): TP Rs 1,070 (19x Dec'18E EPS)

- We expect the US business (32% of revenue) to improve 67% YoY/ 34% QoQ to USD 155 mn led by gZetia exclusivity (expect USD 39 mn in Q3 post launch in Dec'16) & scale-up in recently-launched derma products (gDiclofenac, gLidociane, T-Cream)
- Domestic formulation business (28% of revenue) is expected to exhibit modest 9% YoY growth (AIOCD growth for Oct + Nov'16 at 14%), weighed down by impact of demonetization
- We largely maintain estimates but lower TP to Rs 1,070 at 19x Dec'18E EPS (vs Rs. 1,100 at 20x Sep'18E earlier) to factor in sector headwinds

Exhibit 24: Expect sharp uptick in US revenues from gZetia

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY (%)	QoQ (%)
US (USD mn)	93	115	155	67	34
US	6,089	7,712	9,742	60	26
India	4,880	6,749	5,320	9	(21)
Rest of the World (ROW)	2,363	2,538	2,750	16	8
Europe	1,764	1,347	1,800	2	34
Latin America	1,237	1,338	1,500	21	12
API	1,450	2,213	1,740	20	(21)
Consolidated Revenue	**17,783**	**22,241**	**23,201**	**30**	**4**

Source: Company, Axis Capital *US revenues include USD39m from gZetia exclusivity

Exhibit 25: Expect strong Q3 led by gZetia and improvement in base business in US

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY (%)	QoQ (%)
Net sales	17,783	22,241	20,553	16	(8)
Gross margin	70.3	72.4	74.0	370 bps	164 bps
EBITDA	3,698	4,488	6,380	73	42
EBITDA margin	20.8	20.2	27.5	671 bps	732 bps
Core EBITDA*	3,968	4,488	4,262	7	(5)
Core EBITDA margin	22.3	20.2	20.7	-158 bps	56 bps
Reported PAT	1,703	2,236	3,796	123	70
Adj PAT*	1,919	2,236	2,250	17	1

Source: Company,Axis Capital *Core EBITDA and Adj PAT excludes gZetia, and forex gain/loss

Exhibit 26: Market share has remained steady in gCrestor, gDovonex and gMuipirocin

Generic name	Brand name	Brand sales / market size (USD mn)	#No. of players	Market share (%)					
				Dec'15	Mar'16	Jun'16	Sep'16	Oct'16	Nov'16
Rosuvastatin Calcium	Crestor	6,780	>10	-	-	-	10%	11%	11%
Desmopressin Acetate	DDAVP	72	6	27%	29%	24%	15%	14%	13%
Calcipotriene cream	Dovonex	93	3	11%	15%	19%	24%	26%	26%
Fluocinonide Cream	Vanos	103	5	2%	5%	5%	4%	5%	5%
Trandolapril + Verampil Hcl	Tarka	24	2	48%	46%	45%	41%	35%	44%
Linezolid Tablets	Zyvox	448	9	0%	21%	15%	18%	17%	13%
Raloxifene Hcl	Evista	337	7	-	-	2%	6%	8%	9%
Telmisartan	Micardis	250	>10	18%	18%	19%	18%	20%	18%
Mupirocin ointment	Bactroban	55	6	16%	21%	27%	27%	26%	27%
Mupirocin cream	Bactroban	55	2	84%	87%	98%	99%	99%	99%

Source: Bloomberg

Strides (BUY): TP Rs 1,340 (18x Dec'18E EPS)

- We expect strong revenue growth led by continued consolidation impact of acquisitions in Australia (Arrow/Generic Partners), India (Sun Pharma's CNS portfolio, J&J),and US (Moberg)
- We expectrevenue growth for API to rebound QoQ aided by commercial supplies of API for Sevelamer Carbonate to its partners
- Expect EBITDA margin to improve from H2FY17, in line with guidance of Rs 4.4 to 4.75 bn in H2 (1.7x H1 EBITDA of Rs 2.7 bn) on strong growth visibility and improving synergy benefits
- Strides recently acquired API facility from Perrigo in India for USD 15 mn, which has a capacity of 600 tonnes per year, and will be used for captive consumption for regulated markets
- We cut FY17/18 EPS by 8%/7% and revise TP to Rs 1,340 at 18x Dec'18E EPS (vs. Rs 1,375 at 19x Sep'18E earlier) to factor in sector headwinds

Exhibit 27: Growth in key markets to continue post-integration of acquired assets

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY (%)	QoQ (%)
Regulated Markets	3,186	4,366	4,620	45	6
Institutional business	1,703	1,766	1,854	9	5
Emerging markets	1,159	1,702	2,044	76	20
PSAI	2,500	1,628	2,050	(18)	26
Revenues	**8,548**	**9,462**	**10,568**	**24**	**12**

Source: Company, Axis Capital

Exhibit 28: Margin improvement from synergy benefitsexpected to kick in

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY (%)	QoQ (%)
Net Sales	8,163	9,222	10,568	29	15
Gross margin (%)	53.9	60.0	58.5	456 bps	-150 bps
EBITDA	1,547	1,546	1,972	27	28
EBITDA margin (%)	19.0	16.8	18.7	-29 bps	190 bps
Reported PAT	588	741	969	65	31

Source: Company,Axis Capital

Exhibit 29: Carisoprodol 250 mg share continues to increase ; Combivir&Vancocin market share stable

Approval date	Brand	Generic	IMS Revenue (USD mn)	Existing competition	Market share in US					
					Dec'15	Mar'16	Jun'16	Sep'16	Oct'16	Nov'16
11-Apr-14	Vancocin	Vancomycin	332	5	52%	50%	50%	50%	49%	50%
6-Jun-14	Oxsoralen	Methoxsalen	14	2	38%	37%	44%	42%	43%	41%
16-Dec-14	Rocaltrol	Calcitriol	50	4	11%	10%	10%	13%	13%	13%
15-May-15	Combivir	Lamivudine and Zidovudine Tablets	120	8	3%	7%	23%	24%	23%	23%
30-Jul-15	Tessalon	Benzonatate	41	8	0%	9%	13%	17%	18%	18%
21-Nov-15	Avodart	Dutasteride	470	12	11%	14%	14%	14%	15%	14%
16-Nov-15	Soma (250 mg)	Carisoprodol tablets	250	1	-	6%	50%	70%	73%	76%

Source: Company, Axis Capital

NatcoPharma (BUY): TP Rs 750 (19x Dec'18E EPS + Rs 55 for R&D)

- We expect domestic formulations (56% of FY16 revenue) to improve 23% YoY/ decline 4%QoQ led by Hep-C and oncology portfolio
- We expect export formulations (17% of FY16 revenue) to improve sharply with growth of 469% YoY/ 51% QoQ on account of gTamiflu FTF sales as well as recent launch of limited competition products in US (gNuvigil/gEntocort)
- We largely maintain our FY17/18/19 EPS estimates and raise TP to Rs 750 at 19x Dec'18E EPS (vs Rs. 725 at 20x Sep'18E EPS earlier)

Exhibit 30: Export formulations to be aided by gTamiflu and other recent launches in US

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY (%)	QoQ (%)
Total API Sales	390	476	475	22	(0)
Domestic formulations	1,700	2,167	2,090	23	(4)
Export Formulations	360	1,354	2,050	469	51
Total	**2,933**	**4,709**	**5,335**	**82**	**13**

Source: Company, Axis Capital

Exhibit 31: Margin improvement expected from one-off gTamiflu revenue

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY (%)	QoQ (%)
Total Revenue	2,760	4,679	5,935	115	27
EBITDA	613	1,048	1,620	164	55
EBITDA margin (%)	22.2	22.4	27.3	510 bps	489 bps
Core EBITDA*	613	698	970	58	39
Core EBITDA margin(%)	22.2	22.1	25.3	309 bps	314 bps
Reported PAT	372	666	1,044	181	57
Adjusted PAT	372	396	531	42.9	34.0

Source: Company, Axis Capital*Core EBITDA and Adjusted PAT adjusted for one-off revenue from gTamiflu

IPCA Laboratories (BUY): TP Rs 600 (18x Dec'18E EPS)

- We expect domestic formulation business (43% of revenue) to exhibit modest 8% YoY growth (AIOCD growth for Oct + Nov'16 at 7%) on account of demonetization
- While we lower multiple to 18x, we maintain estimates for FY18/FY19 and TP at Rs 600 as we roll forward to Dec'18E EPS (vs. 19x Sep'18E EPS earlier)

Exhibit 32: Seasonally weak quarter for IPCA's domestic portfolio

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY	QoQ
Domestic Formulations	3,084	4,044	3,331	8	(18)
Export Formulations	2,213	2,640	2,567	16	(3)
Total Formulations	5,297	6,684	5,897	11	(12)
API	1,446	1,845	1,628	13	(12)
Total revenue	6,743	8,529	7,525	12	(12)

Source: Company, Axis Capital

Exhibit 33: Expect PAT to be aided by lower tax expense

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY	QoQ
Revenue	6,841	8,720	7,675	12	(12)
Gross margin (%)	62.8	62.5	62.4	-43 bps	-17 bps
EBITDA	892	1,280	1,155	29	(10)
EBITDA margin (%)	13.0	14.7	15.0	200 bps	36 bps
Reported PAT	231	550	550	138	0

Source: Company, Axis Capital

Biocon (HOLD): TP Rs1,000 (Rs 840/ sh for base business at 22xDec'18E EPS and Rs 160/ sh for biosimilar pipeline)

- While we expect strong growth in biologics business, we expect weak growth in India formulation business given discontinuation of its key brands gAbraxane and demonetization impact
- Research services (~30% of sales) segment (Syngene) to grow at 18% YoY
- **BiosimilarUpdates:** During Q3,Biocon successfully submitted filings Trastazumab with the USFDA (first filing in US) and Insulin Glargine in Europe (third filing in Europe after Trastazumab and Pegfilgrastim)
- We largely maintain estimates but raise TP of Rs 1,000 as we value it at 22x Dec'18E EPS (vs 22x Sep'18E earlier)and Rs 160/ sh for biosimilar pipeline

Exhibit 34: Expect revenue growth from improvement in base business (ex-Syngene)

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY chg	QoQ chg
Net Sales	8,282	9,240	10,051	21%	9%
Gross margins	57.3%	58.4%	57.5%	21 bps	-94 bps
EBITDA	1,799	2,120	2,287	27%	8%
EBITDA margins (%)	21.7%	22.9%	22.8%	103 bps	-19 bps
Reported PAT	1,030	1,370	1,425	38%	4%

Source: Company, Axis Capital

Syngene (HOLD): TP Rs 525 (24x Dec'18E EPS)

- We expect 18% YoY growth in revenue (vs. 29% YoY in FY16) as we factor in some loss of revenues from the recent fire at labs (accounting for ~10% of total infrastructure at Biocon Park)
- While we expect revenue and EBITDA growth of 18%YoY, we expect higher PAT growth at 31%YoY, primarily led by higher interest income
- Thus, we cut FY17 EPS by 7%.We largely maintain estimates For FY18/19 and raise TP to Rs 525 at 24x Dec'18E EPS (Rs 500 at 24x Sep'18E earlier)

Exhibit 35: Expect EBITDA margin to contract by 135bps sequentially

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY chg	QoQ chg
Revenues	2,804	3,030	3,301	18%	9%
Gross margin	71%	74%	71%	3 bps	-309 bps
EBITDA	940	1056	1106	18%	5%
EBITDA Margin (%)	34%	35%	34%	-2 bps	-135 bps
Profit after Tax	588	747	770	31%	3%

Source: Company, Axis Capital

Divi'sLaboratories (Downgrade to HOLD): TP Rs740 (18x Dec'18E EPS)

- The recent 483 with 5 observations by USFDA including improper maintenance of equipment, product impurities, cGMP issuesand falsification of records can lead to further USFDA action and some loss of sales from customers
- We cut our FY18/19 EPS by 29%/36%, lower multiple to 18x Dec'18E (vs. 23x Sep'18E earlier) and downgrade to HOLD as we factor in escalation of USFDA action
- Additionally, progress on capex has seen continuous delays in construction (local agitation at Vizag and delayed settlement with farmers at Kakinada)

Exhibit 36: We expect stable growth in Q3; USFDA impact from FY18 if unresolved

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY (%)	QoQ (%)
Revenue	8,518	10,054	10,051	18	(0)
Gross margin	62.7	61.7	61.5	-123 bps	-23 bps
EBITDA	3,212	2,912	3,719	16	28
EBITDA margin	37.7	29.0	37.0	-71 bps	804 bps
PAT	2,466	2,239	2,980	21	33

Source: Company, Axis Capital

Sun Pharmaceutical Industries (HOLD): TP Rs 700 (20x Dec'18E EPS)

- We expect the US business (48% of revenue) to grow 6% YoY/ decline 8% QoQto USD 513 mn. Sun recently launched authorized generics of Benicar, Benicar HCT, Azor and Tribenzor in October which have gained strong market share (~30% in first month)
- Domestic formulationsbusiness (26% of revenue) is expected to grow at 8% (AIOCD growth for Oct + Nov'16 at 17%) due to demonetization issues
- Progress on Halol remediation remains key event to monitor given that USFDA cited more observations post inspection in Dec'16 (now expect remediation to be completed by FY18 vs. FY17 end earlier). Halol contributes high single-digit to revenue and is the only site with injectables filings
- As Sun Pharma transitions towards a specialty pipeline, pricing pressure at Taro's base portfolio and potential penalties from ongoing price collusion lawsuits remain headwinds for the near term
- Given numerous headwinds in US (Delay in Halol remediation, pricing pressure in Taro's base portfolio, DoJ pricing probe), we lower multiple to 20x Dec'18E EPS and revise TP to Rs 700 (vs Rs720 at 21x Sep'18E EPS earlier)

Exhibit 37: Consolidation of acquired prescription brands in Japan to drive RoW revenue

				% chg	
(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY	QoQ
Domestic formulations	18,903	20,091	20,415	8	2
Export formulations	47,513	70,528	71,407	50	1
US formulations	32,003	37,144	34,595	8	(7)
US formulations (USD mn)	486	555	513	6	(8)
RoW formulations	5,570	5,281	6,477	16	23
Emerging market formulations	9,941	11,411	11,929	20	5
Bulk	4,612	3,713	5,000	8	35
Total gross revenue	**71,028**	**77,640**	**78,416**	**10**	**1**

Source: Company, Axis Capital

Exhibit 38: Expect EBITDA margin to contract sequentially, owing to lower gGleevec sales

				% chg	
(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY	QoQ
Total revenues	70,821	82,651	80,416	14	(3)
Gross margin (%)	75.2	77.7	73.5	-171 bps	-424 bQs
EBITDA	**21,690**	**31,677**	**25,492**	**18**	**(20)**
EBITDA margin (%)	**30.6**	**38.3**	**31.7**	**107 bps**	**-663 bQs**
Adjusted PAT	14,166	15,078	16,813	19	12

Source: Company, Axis Capital

Exhibit 39: Stable market share across key products

Products	Size (USD mn)	# of players	Market share (%)					
			Dec-15	Mar-16	Jun-16	Sep-16	Oct-16	Nov-16
Gleevec	2500	4	-	47	53	42	38	35
Doxil	200	2	48	47	41	47	43	42
Decitabine	251	3	26	30	30	27	27	23
Sumtriptan Auto Inj	170	3	13	23	15	17	18	13
Clobetasol Cream	185	4	28	28	27	27	28	27
Warfarin Sod	240	8	39	38	37	35	36	35
Olmesartan								
Benicar (AG)	2500	2	-	-	-	-	1	32
Benicar HCT (AG)		2	-	-	-	-	1	31
Azor (AG)		4	-	-	-	-	-	20
Tribenzor (AG)		3	-	-	-	-	-	34
Fluocinonide								
Gel	200	4	94	91	90	91	90	90
Cream			33	32	37	37	36	38
Solution			42	42	42	42	38	41
Ointment			26	31	38	42	40	37

Source: Bloomberg

Lupin (Downgrade to HOLD): TP Rs1,600 (21x Dec'18E EPS)

- We expect the US business (43% of revenue) to grow 43% YoY/ 2% QoQ to USD 297 mn, driven by continued upside from Metformin franchise (delay in competition in gGlumetza) and ramp up at Gavis
- We expect domestic formulations (25% of revenue) to grow at 10% YoY (AIOCD growth for Oct + Nov'16 at 19%), on account of demonetization
- Lupin has announced the acquisition of 21 brands from Shionogi (announced in Aug'16 and deal closed in Dec'16) with total sales of USD 90 mn in CVS, CNS, oncology and anti-infective therapies
- We cut EPS estimates by 3%/3%/5% for FY17/18/19 and reduce TP to Rs 1,600 at 21x Dec'18E EPS (vs Rs. 1,700 at 22x Sep'18E earlier) to factor in the increasing concentration risk given lack of meaningfulapprovals and increasing sector headwinds. Downgrade to HOLD

Exhibit 40: US growth continues with Gavis ramp up

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY (%)	QoQ (%)
US Total (USD mn)	208	292	297	43	2
US Total (Rs mn)	14,049	19,978	20,090	43	1
India	8,712	9,958	9,583	10	(4)
Formulations	25,020	39,193	31,219	25	(20)
API	2,760	2,919	3,036	10	4
Total	33,577	42,112	41,496	24	(1)

Source: Company, Axis Capital

Exhibit 41: Growth to be buoyed by metformin franchise and Gavis acquisition

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY (%)	QoQ (%)
Total Revenue	35,558	42,905	42,446	19	(1)
Gross Profit margin (%)	66.6	70.5	70.0	345 bps	-49 bps
EBITDA	8,772	10,281	10,058	15	(2)
EBITDA margin (%)	26.1	24.0	23.7	-243 bps	-26 bps
Core EBITDA*	8,772	7,544	7,354	(16)	(3)
Core EBITDA margin(%)	26.1	19.5	19.3	-683 bps	-20 bps
Reported PAT	5,298	6,622	6,081	15	(8)
Adjusted PAT	5,298	4,706	4,459	(16)	(5)

Source: Company, Axis Capital *Core EBITDA/PAT adjusted for gGlumetza opportunity

Exhibit 42: Market share in most products has been stable (gLoestrin 24 FE, gFortamet 1,000 mg, gCelebrex)

		Brand sales/	No. of	Market share (%)					
Launch	Brand	market size (USD mn)	players	Dec-15	Mar-16	Jun-16	Sep-16	Oct-16	Nov-16
22-Feb-13	Suprax OS	80	2	79	76	74	77	76	75
21-Mar-14	Niaspan	1,000	5	23	20	18	18	18	18
12-Nov-14	Celebrex	2,540	10	13	13	12	12	13	13
15-May-12	Combivir	275	8	19	11	13	9	10	8
20-Nov-12	Tricor	1,300	6	15	13	13	14	13	14
14-Oct-11	Fortamet 1000mg	-	2	62	69	70	70	70	69
12-Dec-13	Cymbalta	5,400	16	16	16	17	16	16	15
1-Apr-16	Loestrin 24 FE	-	7	-	1	6	8	14	16

Source: Bloomberg

Cadila Healthcare (HOLD): TP Rs 360 (19x Dec'18E EPS)

- We expect the US business (42% of revenue) to decline5% YoY/ increase 4% QoQ to USD 154 mn, with full quarter of Asacol HD revenues offset marginally by price erosion in HCQS (on YoY basis) and lack of meaningful approvals given Moraiya warning letter yet to be resolved
- Domestic formulation business (31% of revenue) is expected to report muted 6% YoY growth (AIOCD growth for Oct + Nov'16 at 15%) due to demonetization impact
- We tweakour FY17/18 EPS by 2%/1% and revise TP to Rs 360 at 19x Dec'18E EPS (vs Rs. 365 at 19x Sep'18E EPS earlier). Despite Cadila's significantly large product pipeline awaiting approval, we value it at 19x Dec'18E EPS,to factor in sector headwinds, continued delay in Moraiya resolution and potential pressure from DoJ pricing probe

Exhibit 43: Expect overall revenue to remain flat despite full quarter impact of Asacol HD

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY (%)	QoQ (%)
Domestic	8,308	9,328	8,831	6	(5)
Exports	14,609	14,288	14,895	2	4
Formulations	12,986	12,231	12,945	(0)	6
US (USD mn)	163	148	154	(5)	4
US	10,717	9,888	10,395	(3)	5
Europe	762	557	700	(8)	26
Total	**23,919**	**23,868**	**23,976**	**0**	**0**

Source: Company,Axis Capital

Exhibit 44: Muted revenue growth on account of absence of key approvals in the US

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY (%)	QoQ (%)
Total revenues	24,284	24,035	23,976	(1)	(0)
Gross margin (%)	65.9	62.6	62.5	-336 bps	-6 bps
EBITDA	5,787	5,160	5,155	(11)	(0)
EBITDA margin (%)	23.8	21.5	21.5	-233 bps	3 bps
Core PAT	3,903	3,376	3,289	(16)	(3)
Core EPS (Rs/share)	3.8	3.3	3.2	(16)	(3)

Source: Company, Axis Capital

Exhibit 45: CDH has captured significant market share in Asacol HD

		Brand/Mkt	No. of	Market Share %					
Launched	Brand	size (USD mn)	generics	Dec'15	Mar'16	Jun'16	Sep'16	Oct'16	Nov'16
2QFY14	Wellbutrin XL	792	5	4	4	4	6	3	1
3QFY14	Depakote ER	700	>10	19	18	23	24	25	25
2QFY17	Asacol HD (AG)	250	1	-	-	-	37	43	46
4QFY14	Tricor (AG)	1,300	7	16	17	18	18	18	18
4QFY14	Trilipix (AG)	450	5	24	24	23	23	24	24
1QFY15	Zemplar (AG)	109	8	37	45	54	64	69	69
2QFY15	Niaspan (AG)	1,000	5	17	18	10	8	7	8
Sep '14	Urocit - K	130	2	39	44	45	45	47	46
NA	HCQS	100	7	38	36	35	30	31	30
3QFY16	Benzonatate	40	9	2	9	13	13	13	14

Source: Companies, Axis Capital

Alembic Pharmaceuticals (HOLD): TP Rs 610 (20x Dec'18E EPS)

- We expect the US business (40% of revenue) to decline by 41% YoY on account of high base from gAbilify in Q3'16, lack of meaningful approvalspaired with higher price erosion due to incremental competition
- Domestic formulation (38% of revenue) is expected to grow at 10% YoY (AIOCD growth for Oct + Nov'16 at 5%) aided by growth in specialty segment
- Given sector headwinds, we lower our FY17 EPS by 10% and FY18/19 EPS by 7%/8% and revise TP to Rs610 at 20x Dec'18E EPS (vs Rs 700 at 22x Sep'18E EPS earlier)

Exhibit 46: Expect US business to decline on high base of gAbilify

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY (%)	QoQ (%)
India Branded	2,883	3,380	3,113	8	(8)
India Generics	201	250	225	12	(10)
International formulations	5,211	3,520	2,894	(44)	(18)
US business (USD mn)	68	40	40	(41)	(1)
API	1,012	1,640	1,600	58	(2)
Total	**9,306**	**8,790**	**7,832**	**(16)**	**(11)**

Source: Company,Axis Capital

Exhibit 47: Expect EBITDA margin to be weighed down by increased R&D spend

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY (%)	QoQ (%)
Revenue	9,217	8,794	7,832	(15)	(11)
Gross margin (%)	*77.6*	*72.7*	*70.5*	-715 bps	-223 bps
R&D	701	1,087	1,104	57	2
R&D (%)	*7.6*	*12.4*	*14.1*	649 bps	175 bps
EBITDA	3,846	1,778	1,539	(60)	(13)
EBITDA margin (%)	*41.7*	*20.2*	*19.6*	-2208 bps	-57 bps
Net profit	2,696	1,198	989	(63)	(17)

Source: Company, Axis Capital

Exhibit 48: Steady market share in key products

Launched	Product	Branded sales (USD mn)	# players	Partner	Market share (%)					
					Dec-15	Mar-16	Jun-16	Sep-16	Oct-16	Nov-16
Apr-15	gAbilify	4,764	7	Trigen	7	9	11	10	10	10
Apr-15	gAbilify ODT	~20	1	Trigen	74	72	94	97	96	98
Feb-14	gMicardis HCT	226	5	Qualitest	24	24	17	13	16	16
Jun-14	gCymbalta	5100	16	Breckenridge	4	5	8	8	8	8
Jul-14	gMicardis	250	12	Qualitest	3	3	4	2	2	2
Q4FY13	gProvigil	1200	7	Qualitest	22	20	10	2	2	3
Q4FY13	gExelon	130	8	Breckenridge	47	48	38	40	40	39
Q3FY14	gDiovan HCT	1700	8	Qualitest	6	6	5	2	2	2
Oct-15	gCelebrex	2,440	10	Trigen	2	4	4	6	6	5

Source: Company, Axis Capital

Dr.Reddy's Labs (SELL): TP Rs 2,700 (20x Dec'18E EPS)

- We expect the US business (49% of FY16 revenue) to decline 15% YoY/ improve 2% QoQ to USD 250 mn due to increasing competition in key products (gValcyte, gVidaza and Dacogen) in the US coupled with lack of any significant launches.
- Domestic formulation business (16% of FY16 revenue) is expected to grow at 8% YoY (AIOCD growth for Oct + Nov'16 at 6%) due to demonetization impact
- We largely maintain estimates but revise TP to Rs 2,700 at 20x Dec'18E EPS (vs Rs 2,650 at 20x Sep'18E EPS earlier)

Exhibit 49: Expect strong rebound in Russia/CIS revenues

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY (%)	QoQ (%)
North America (USD mn)	293	245	250	(15)	2
North America	19,417	16,134	16,893	(13)	5
India	5,805	6,251	6,269	8	0
Emerging Markets*	6,399	4,834	5,825	(9)	21
Global Generics	33,558	28,995	30,787	(8)	6
Total sales	**39,679**	**35,857**	**37,573**	**(5)**	**5**

Source: Company, Axis Capital

Exhibit 50: Expect EBITDA margin to expand by152bps sequentially

(Rs mn)	Q3'16	Q2'17	Q3'17F	YoY (%)	QoQ (%)
Net Sales	39,679	35,857	37,573	(5)	5
Gross profit	23,590	20,097	21,229	(10)	6
Gross margin (%)	59.5	56.0	56.5	-295 bps	45 bps
EBITDA	10,227	6,023	6,881	(33)	14
EBITDA margin (%)	25.8	16.8	18.3	-746 bps	152 bps
Reported PAT	5,792	2,950	3,544	(39)	20

Source: Company, Axis Capital

Exhibit 51: Dr. Reddy's market share in gVidaza&gNexium has declined in recent months

Generic name	Brand name	Brand sales (USD mn)	# players	Market share (%)					
				Dec'15	Mar'16	Jun'16	Sep'16	Oct'16	Nov'16
Omeprazole Sodium Bicarbonate	Zegerid	307	4	-	-	-	15%	18%	19%
Decitabine injection	Dacogen	251	3	59%	58%	52%	53%	53%	54%
Azacitidine injection*	Vidaza	380	3	47%	37%	33%	41%	40%	38%
Atorvastatin-Amlodipine	Caduet	340	2	44%	53%	63%	68%	69%	67%
Metoprolol Succinate ER	Toprol XL	1,114	5	21%	21%	21%	19%	21%	21%
Divalproex Sodium ER	Depakote ER	194	>10	9%	8%	9%	10%	11%	11%
Sumtriptan auto inj.	Imitrex	170	>10	54%	45%	55%	48%	42%	44%
Fondaparinux	Arixtra	340	2	52%	50%	52%	51%	55%	56%
Valganciclovir	Valcyte	440	4	39%	34%	30%	29%	32%	32%
Esomeprazole Magnesium	Nexium	4,000	6	3%	3%	18%	19%	21%	19%

Source: Bloomberg

Exhibit 52: India Pharma – Valuation snapshot

Company	MCAP (USD bn)	Rating	CMP (Rs)	TP (Rs)	Upside (%)	EPS CAGR FY16-19E (%)	P/E (x) FY17E	P/E (x) FY18E	P/E (x) FY19E	RoCE (%) FY17E	RoCE (%) FY18E	RoCE (%) FY19E
Aurobindo (ARBP)	6.0	BUY	693	860	24	14	17	15	13	27	26	25
Cipla	6.9	BUY	582	640	10	23	37	26	19	10	13	17
Cadila (CDH)	5.7	HOLD	379	360	(5)	10	29	24	19	23	25	28
Lupin (LPC)	10.0	HOLD	1,512	1,600	6	15	24	21	19	19	20	20
Sun Pharma (SUNP)	22.6	HOLD	641	700	9	20	24	20	18	19	20	20
Dr. Reddy's (DRRD)	7.7	SELL	3,161	2,700	(15)	5	40	26	23	9	13	14
Large Cap							**27**	**21**	**19**	**17**	**19**	**20**
Alkem (ALKEM)	2.9	BUY	1,660	1,980	19	18	23	21	18	21	22	23
Glenmark (GNP)	3.7	BUY	895	1,040	16	20	24	19	15	17	17	21
IPCA	1.0	BUY	547	600	10	49	30	21	15	10	13	15
NatcoPharma	1.6	BUY	624	750	20	54	(2)	(2)	(1)	18	31	39
Strides (STR)	1.4	BUY	1,098	1,340	22	35	27	19	14	11	13	16
Alembic (ALPM)	1.7	HOLD	606	610	1	19	28	22	19	28	30	29
Biocon (BIOS)	2.8	HOLD	958	1,000	4	23	27	25	20	12	13	15
Mid Cap							**23**	**19**	**15**	**17**	**18**	**21**
Generics Avg							**25**	**20**	**17**	**17**	**19**	**20**
Others												
Divi's Lab (DIVI)	2.9	HOLD	737	740	0	(1)	17	18	18	30	24	23
Syngene (SYNG)	1.7	HOLD	581	525	(10)	28	39	32	25	18	18	19

Source: Companies, Axis Capital; Price as on 6-Jan 2017 *Stride TP includes Rs 54/ sh for R&D, BIOS TP includes Rs 160/ sh for Biosimilar. Natco TP includes Rs 55/ sh for R&D

Exhibit 53: India Pharma – Price performance

India Pharma	Price (Rs)	Absolute Performance (%) 1 month	3 months	1 year	3 year	5 year
Aurobindo	692	-5%	-19%	-20%	240%	1430%
ALKEM	1,660	-2%	0%	N.A	N.A	178%
Alembic	607	-4%	-11%	-10%	185%	NA
Biocon	960	5%	0%	83%	101%	257%
Cipla	583	1%	1%	-11%	49%	74%
Cadila Healthcare	379	-4%	-2%	18%	136%	176%
Dr Reddy's	3,159	-1%	3%	4%	27%	97%
Divis	737	-36%	-42%	-35%	20%	90%
Glenmark	893	3%	-3%	-2%	74%	206%
IPCA	545	-3%	-11%	-24%	-25%	92%
Lupin	1,512	-1%	2%	-14%	62%	240%
NatcoPharma	625	5%	2%	2%	289%	1231%
Strides	1,099	1%	10%	-13%	201%	178%
Sun Pharma	641	-9%	-15%	-19%	8%	156%
BSE HC	**15,071**	**-4%**	**-7%**	**-9%**	**51%**	**150%**
Sensex	**26,759**	**1%**	**-5%**	**5%**	**29%**	**69%**

Source: Company, Axis Capital Note: BSE HC: BSE Healthcare Index

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