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Healthcare Q2 FY21 Results review

Sensex: 43828

Nifty: 12858

Margin elevation drives growth; benefits to moderate in H2

Q2 FY21 sales of the companies we cover grew 11.2% to Rs161bn, driven by supply of Covid'19-related drugs, a surge in demand for APIs and relatively stable pricing in the US. Supported by less promotional spending, the EBITDA margins of most companies with a sizeable India business expanded. Those of the companies we cover expanded 479bps to 27.6% (down 113bps sequentially). Their adj. PAT grew 40.3% to Rs30.2bn.

India business back on track. After a flat Q1, the India business of the companies we cover grew 5.5% to Rs62.4bn in Q2 FY21, driven by sales of Covid'19-related drugs, traction in chronic therapies, and acute therapies returning to growth. Eris (15.9% growth), JB Chemicals (12.8%) and Zydus Cadila (11.2%) grew their India sales in double digits in Q2. This momentum is likely to improve further and India business of the companies we cover is expected to grow in double digits ahead.

US performance steady. US sales of companies we cover grew 4.9% to \$439m in Q2 FY21. Growth in the region was largely driven by market-share gains in existing products and launches. Cadila's US sales grew 9.9% to \$231m while Alkem's grew 11.6% to \$84m.

API, key driver of growth. API was the key growth driver of the companies we cover. API sales grew 36.6% to Rs18.9bn while the API contribution to overall sales rose to 12% (from 10% a year ago). Natco's API division reported 193.7% growth while Cadila's grew 52.2%.

Margins may moderate ahead. Aided by lower promotional and travelling cost, EBITDA margins of the companies we cover climbed to 27.6% (vs. 22.8% a year back). Most of the companies expect a gradual increase in promotional and travelling cost; hence such margins may not persist. We factor in a ~25.4% EBITDA margins for FY22 as these costs start normalizing; beyond that, stable margins will be aided by launches in India, by their US business and greater operational efficiencies.

Road ahead. We expect sales of the companies we cover to grow 12.1%/11.4%/13% in H2 FY21/FY22/FY23, driven by growth rebounding in the home market and launches in the US, while EBITDA and PAT growth may be under pressure. We expect 17.1%/9.3%/17.9% EBITDA growth in H2 FY21/FY22/FY23 and 19.3%/7.5%/22.7% growth in PAT.

Top picks. We continue to be positive on companies which have a strong domestic business like **Torrent Pharma** (strong chronic portfolio, focus on productivity improvement to boost margins), **Ajanta Pharma** (rebound in India sales to improve earnings quality) and CRAMS companies like **Suven Pharma** (strong relation with innovators to drive 49% PAT growth in H2).

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Fig 1 – Q2FY21 result snapshot

Rs m	Sales					EBITDA					EBITDA margins					Adj. PAT				
Companies	Q2FY21	Q2FY20	Q1FY21	Y/Y (%)	Q/Q (%)	Q2FY21	Q2FY20	Q1FY21	Y/Y (%)	Q/Q (%)	Q2FY21	Q2FY20	bps	Q1FY21	bps	Q2FY21	Q2FY20	Q1FY21	Y/Y (%)	Q/Q (%)
Aarti Drugs	5,781	4,775	5,447	21.1	6.1	1,164	683	1,340	70.4	(13.1)	20.136306	14.3	583	24.6	(446)	752	323	855	132.9	(11.9)
Ajanta	7,159	6,428	6,682	11.4	7.1	2,743	1,776	2,232	54.4	22.9	38.3	27.6	1,067	33.4	490	1,702	1,171	1,478	45.3	15.2
Alembic	14,571	12,409	13,413	17.4	8.6	4,434	3,455	4,074	28.3	8.9	30.4	27.8	259	30.4	6	3,334	2,461	3,015	35.5	10.6
Alkem	23,628	22,640	20,035	4.4	17.9	6,005	4,526	5,332	32.7	12.6	25.4	20.0	542	26.6	(120)	4,721	3,709	4,220	27.3	11.9
Cadila	38,200	33,618	36,272	13.6	5.3	8,634	6,170	8,026	39.9	7.6	22.6	18.4	425	22.1	47	6,054	2,832	4,413	113.8	37.2
Eris	3,300	2,848	2,932	15.9	12.5	1,277	1,098	1,041	16.3	22.7	38.7	38.6	13	35.5	322	1,107	927	890	19.4	24.3
Granules	8,581	6,995	7,356	22.7	16.7	2,564	1,436	1,836	78.6	39.7	29.9	20.5	935	25.0	492	1,654	958	1,115	72.7	48.4
Indoco	3,282	2,926	2,759	12.2	19.0	607	326	487	86.1	24.8	18.5	11.2	735	17.6	86	257	78	170	228.4	50.5
IPCA	13,611	12,839	15,344	6.0	(11.3)	3,431	2,682	5,823	27.9	(41.1)	25.2	20.9	432	38.0	(1,274)	2,505	1,951	4,403	28.4	(43.1)
JB Chem	4,436	4,564	5,223	(2.8)	(15.1)	1,101	1,003	1,554	9.8	(29.2)	24.8	22.0	285	29.8	(494)	738	936	1,194	(21.2)	(38.2)
Natco	8,022	4,857	5,634	65.2	42.4	2,764	1,343	1,711	105.8	61.5	34.5	27.7	680	30.4	409	2,024	1,190	1,228	70.1	64.8
Neuland	2,414	1,862	2,054	29.6	17.5	408	249	338	63.4	20.4	16.9	13.4	349	16.5	41	213	87	152	145.6	40.7
Pfizer	5,954	5,671	5,149	5.0	15.6	2,033	1,642	1,863	23.8	9.1	34.1	29.0	520	36.2	(203)	1,314	1,543	1,245	(14.8)	5.6
Suven	2,374	2,729	2,382	(13.0)	(0.4)	985	1,255	1,121	(21.5)	(12.1)	41.5	46.0	(450)	47.0	(556)	741	930	915	(20.3)	(19.1)
Torrent	20,170	20,050	20,560	0.6	(1.9)	6,350	5,410	6,610	17.4	(3.9)	31.5	27.0	450	32.1	(67)	3,100	2,440	3,210	27.0	(3.4)
Total	161,483	145,211	151,242	11.2	6.8	44,500	33,055	43,387	34.6	2.6	27.6	22.8	479	28.7	(113)	30,215	21,535	28,502	40.3	6.0

Source: Company, Anand Rath Research

Fig 2 – H1FY21 result snapshot

Rs m	Sales			EBITDA			EBITDA margins			Adj. PAT		
Companies	H1FY21	H1FY20	Y/Y (%)	H1FY21	H1FY20	Y/Y (%)	H1FY21	H1FY20	bps	H1FY21	H1FY20	Y/Y (%)
Aarti Drugs	11,228	8,829	27.2	2,504	1,230	103.5	22.3	13.9	837	1,607	547	193.5
Ajanta	13,841	12,547	10.3	4,975	3,460	43.8	35.9	27.6	836	3,180	2,318	37.2
Alembic	27,984	21,898	27.8	8,508	5,704	49.1	30.4	26.0	438	6,348	3,963	60.2
Alkem	43,663	41,135	6.1	11,337	7,171	58.1	26.0	17.4	853	8,941	5,563	60.7
Cadila	74,472	68,504	8.7	16,660	12,413	34.2	22.4	18.1	425	10,434	6,043	72.7
Eris	6,232	5,591	11.5	2,318	2,144	8.1	37.2	38.3	(115)	1,997	1,768	13.0
Granules	15,937	12,948	23.1	4,400	2,622	67.8	27.6	20.3	736	2,751	1,790	53.7
Indoco	6,041	5,453	10.8	1,094	551	98.7	18.1	10.1	801	427	97	341.9
IPCA	28,955	23,621	22.6	9,254	4,578	102.2	32.0	19.4	1,258	6,908	3,171	117.9
JB Chem	9,658	9,025	7.0	2,655	1,962	35.3	27.5	21.7	575	1,932	1,556	24.1
Natco	13,656	9,780	39.6	4,475	3,256	37.4	32.8	33.3	(52)	3,252	2,622	24.0
Neuland	4,468	3,672	21.7	746	436	71.1	16.7	11.9	482	365	144	153.6
Pfizer	11,103	11,115	(0.1)	3,896	3,304	17.9	35.1	29.7	536	2,558	2,671	(4.2)
Suven	4,756	4,703	1.1	2,106	2,280	(7.6)	44.3	48.5	(420)	1,656	1,849	(10.4)
Torrent	40,730	40,270	1.1	12,960	10,820	19.8	31.8	26.9	495	6,310	4,600	37.2
Total	312,725	279,091	12.1	87,887	61,931	41.9	28.1	22.2	591	58,666	38,701	51.6

Source: Company, Anand Rath Research

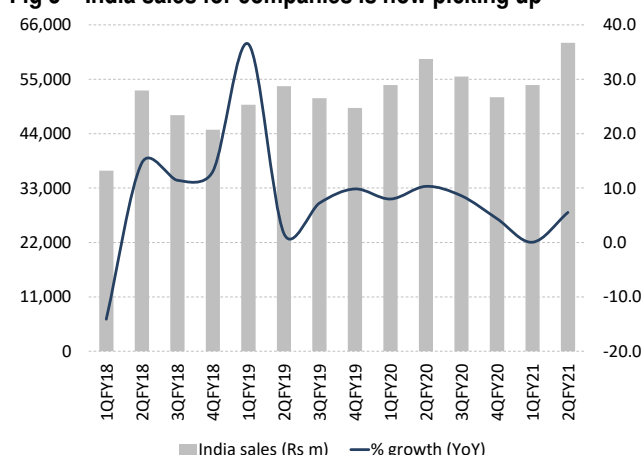
India Formulations

India business in Q2FY21 was back on the growth track. Overall sales of the companies we cover grew 5.5%. We expect the momentum in their India business to pick up and the segment will be back to double-digit growth.

Eris, JB Chemicals and Cadila were a few of the companies we cover which grew their India formulations sales in double digits.

Natco, Indoco Remedies and Ajanta Pharma reported 11.2%, 6.2% and 0.5% declines, respectively.

Fig 3 – India sales for companies is now picking up



Source: Company, Anand Rath Research

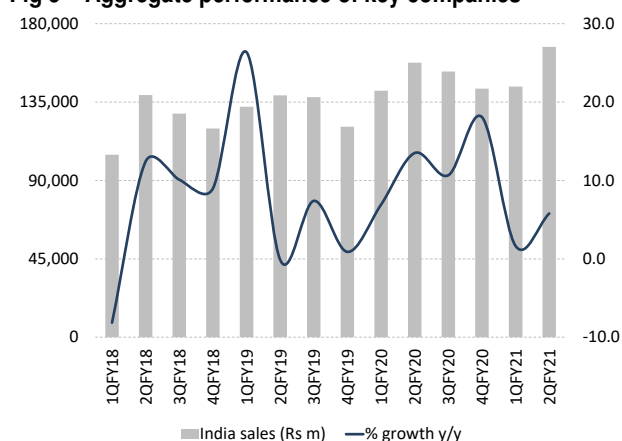
Fig 4 – Q2 India performance of coverage companies

Domestic formulations (Rs m)	Q2FY21	Q2FY20	% Y/Y	Q1FY21	% Q/Q
Cadila	10,870	9,778	11.2	8,292	31.1
Ajanta	2,020	2,030	(0.5)	1,740	16.1
Ipca	5,940	5,432	9.3	6,925	(14.2)
Natco	1,083	1,220	(11.2)	1,250	(13.4)
Indoco	1,747	1,863	(6.2)	1,475	18.4
Torrent	9,630	8,990	7.1	9,250	4.1
Alembic	4,150	3,910	6.1	3,060	35.6
Pfizer	5,954	5,671	5.0	5,149	15.6
Alkem	15,574	15,503	0.5	11,550	34.8
Eris	3,300	2,848	15.9	2,932	12.5
JB Chemicals	2,137	1,894	12.8	2,244	(4.8)
Aggregate	62,405	59,139	5.5	53,867	15.8

Source: Company, Anand Rath Research

Overall, sales of Rs167bn of listed pharma companies stemmed from India formulations, which grew 5.8%. Managements of most of the companies are confident of growing this business.

Fig 5 – Aggregate performance of key companies



Source: Company, Anand Rath Research

Fig 6 – Q2 India performance of key companies

Domestic formulations (Rs m)	Q2FY21	Q2FY20	% Y/Y	Q1FY21	% Q/Q
Cipla	20,900	17,450	19.8	16,080	30.0
Sun Pharma	25,310	25,150	0.6	23,880	6.0
Lupin	13,323	13,419	(0.7)	12,854	3.6
Dr Reddy's	9,123	7,511	21.5	6,260	45.7
Glenmark	10,507	8,964	17.2	7,799	34.7
GSK Pharma	8,794	8,821	(0.3)	6,487	35.6
Sanofi India	5,840	6,622	(11.8)	6,035	(3.2)
Abbott India	10,550	10,550	-	10,640	(0.8)

Source: Company, Anand Rath Research

Management commentary on India sales

Fig 7 – Management commentary on India sales

Companies	Quotes from managements regarding their outlook for their India business
Sun Pharma	"Our expansion of the field force in India is complete and will help us in the long run to announce our geographical and doctor reach. As the lockdown is opening up, more doctors are coming to clinics and patient footfalls are improving. Also our call average is going up. We see that in Q3 we will even have better growth numbers."
Lupin	"In H2, we expect to grow 6-8%."
Cipla	"Could see marginal moderation in Q3. But demand environment continued pretty strong."
Cadila	"We believe at least for the next two quarters we are in good place to show good growth in the domestic business. We are poised to gain a fair share of the opportunity in terms of presence in doctors' chambers. So, I think we are set to do well in the portfolio we have, which we have identified in terms of mandate brands, and the next two quarters should be good."
Alkem	"We see growth revival in October and I think that must be broadly in line with many companies. So, we are optimistic that, unlike in the past, where in Q2 we kind of had the best growth, I think our growth would be coming in the next few months and we see double-digit kind of growth returning."
Torrent	"In India, field activities are back to 70% to 80% of normal levels with doctors spending more time at clinics due to more patient footfalls. We expect at least for Q3, September data show a fairly accurate picture. September AIOCD data have shown 4% growth for the market; against that Torrent is at 8%."
Ipca	"We have seen good double-digit growth in October and we expect business in the second half would be significantly better than in the first half of the current financial year. And it's possible to achieve almost ~10%+ kind of growth in the second half of the current financial year."
Alembic	"Significant improvement was seen in gastroenterology and gynecology. We see strong improvement in the quarter and we expect this improvement to continue. We are extremely confident based on our history with this segment of pediatricians and cough and cold and oral antibiotics that we'll soon return to outperforming the market."
Indoco	"Definitely, we will see our India business return to a much better performance. For the second half, we will look at marginal growth. This is despite three to four major categories declining for us and the industry."

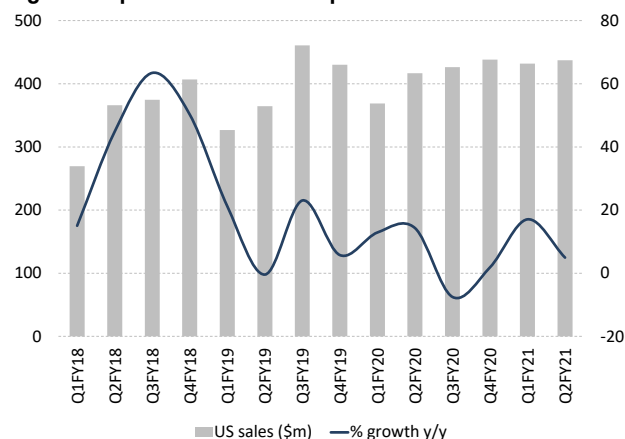
Source: Company, Anand Rath Research

US generics

US sales continued to benefit from market-share gains and launches by companies. Overall, US sales of companies we cover grew 4.9% to \$437m.

Among the companies which did well in the US are Zydus Cadila and Alkem. Zydus's US sales grew 9.9% while Alkem's sales grew 11.6%. Regulatory issues at plants was the primary reason for Torrent's 19% drop in sales.

Fig 8 – US performance of companies we cover



Source: Company, Anand Rath Research

Fig 9 – Q2US performance of companies we cover

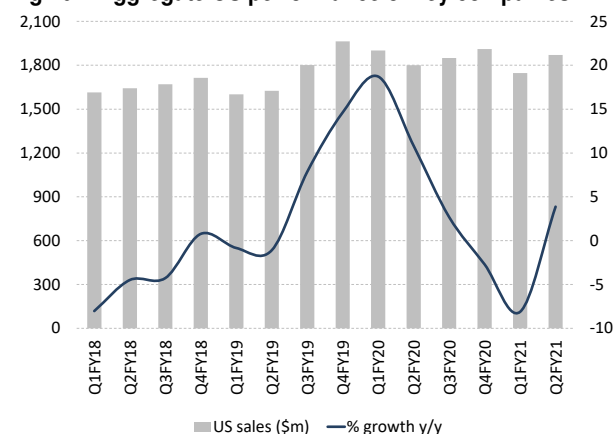
US sales (\$ m)	Q2 FY21	Q2 FY20	% Y/Y	Q1 FY21	% Q/Q
Cadila	230.9	210.2	9.9	216.4	6.7
Torrent	44.0	54.3	-19.0	49.2	-10.5
Alkem	84.2	75.4	11.6	87.8	-4.2
Alembic	78.3	76.9	1.8	78.6	-0.4
Aggregate US sales	437.4	416.8	4.9	432.0	1.2

Source: Company, Anand Rath Research

The US continues to be an important region for listed India companies. Overall, companies had sales of \$1.9bn in Q2FY21, registering 3.9% growth.

Dr Reddy's US sales grew the fastest (22.1%) in Q2. Glenmark, Lupin and Sun Pharma reported declines in their US sales.

Fig 10 – Aggregate US performance of key companies



Source: Company, Anand Rath Research

Fig 11 – Q2US performance of key companies

US sales (\$ m)	Q2 FY21	Q2 FY20	% Y/Y	Q1 FY21	% Q/Q
Aurobindo	429.1	403.6	6.3	412.0	4.1
Cipla	141.0	135.0	4.4	135.4	4.1
Dr Reddy's Lab	246.5	201.9	22.1	229.2	7.6
Glenmark	101.2	120.0	-15.7	98.5	2.7
Lupin	180.0	184.0	-2.2	157.4	14.4
Sun Pharma	335.0	339.0	-1.2	282.0	18.8

Source: Company, Anand Rath Research

Management commentary on US

Fig 12 – Outlook regarding their US business

Companies	Quotes from managements on the outlook for their US business
Sun Pharma	"US generics we are hoping that in quarter three, we will have another two, three launches coming up. We haven't seen the pricing environment softening sort to say. Revenues from Ilumya, Cequa and Yonsa are back to pre-Covid-level- the experience of doctors who have used the product is quite good."
Lupin	"We now got the full measure of Albuterol coming in and it's a flu season. So, obviously America would perform much better, Tamiflu and host of other products as well, Cephalosporins and the like."
Cipla	"Proventil market-share gains will be gradual."
Dr Reddy's	"We are well on track to launch more than 70 products during this fiscal, exceeding our initial expectation of 25 launches."
Aurobindo	"Generic injectable business in the USA is expected to reach \$650m-700m over the next three years. This will be predominantly driven by our new plant in the USA, the new plant Vizag for Europe and emerging markets, as well as our expansion in Unit 4. For the base business, we are confident of 5-10% growth."
Cadila	"On the 505(b)(2) and specialty initiatives, at present nine products are under different stages of development. From a very small base, this injectables business will become good sizable business of between \$150m and \$200m in the next 3-4 years."
Torrent	"Price erosion was muted during the peak of the Covid time (March, April, May). But after May, supplies have normalized and the fear of supply has muted a little. As a result, we see what we would consider to be a back-to-business-as-usual level of price erosion, which is mid-to-high single digits on an annualized basis across the broad portfolio. We have got two interesting approvals recently. And then from March, we will have the liquids business which will start being commercialized."
Alembic	"We have some interesting launches coming up this quarter and for the rest of the year and next year onwards is when hopefully we'll see some launches coming up in the new facilities from injectables. In H2FY21 we may have at least 10 to 15 launches."
Granules	"We expect one MUPS technology-based ANDA to be approved during Q3 or early Q4. This will be launched in Q4 from a module we constructed over the last six months at our Gagillapur facility. We expect 3-5 launches in H2. These are medium to high-volume products we will be launching from our GIL site and GPI site."
Indoco	"We already have been giving guidance that, for the whole year, we should do around Rs1.5bn. We stick by that. For the next year, we are looking at ~Rs2.5bn at least to come from the US."

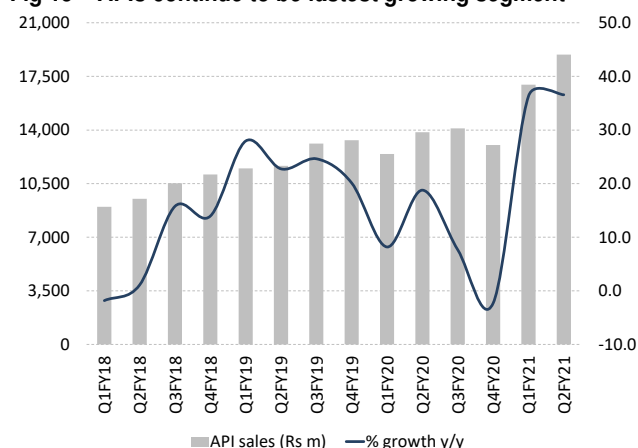
Source: Company, Anand Rath Research

APIs

For the companies we cover the key growth driver in Q2 FY21 was APIs. API sales grew 36.6% to Rs18.9bn while the contribution of APIs to overall sales increased to 12% (vs. 10% a year ago).

Natco's API division reported 193.7% growth, while Cadila's grew 52.2%.

Fig 13 – APIs continue to be fastest growing segment



Source: Company, Anand Rathi Research

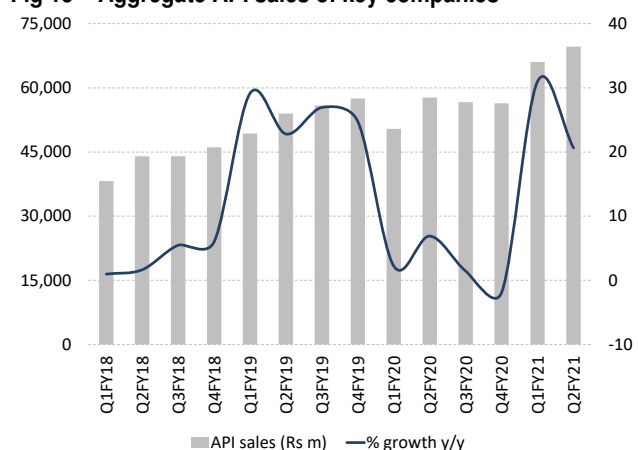
Fig 14 – Q2 performance, API divisions

API sales (Rs m)	Q2 FY21	Q2 FY20	% Y/Y	Q1 FY21	% Q/Q
Aarti Drugs	5,087	3,963	28.4	4,630	9.9
Alembic	2,630	2,040	28.9	2,640	-0.4
Cadila	1,597	1,049	52.2	1,309	22.0
Granules	2,547	2,169	17.5	2,121	20.1
Indoco	228	234	-2.2	222	2.9
IPCA	3,225	2,472	30.5	3,103	4.0
Neuland	1,617	1,253	29.1	1,500	7.9
Natco	1,997	680	193.7	1,439	38.8
Aggregate US sales	18,929	13,860	36.6	16,963	11.6

Source: Company, Anand Rathi Research

For most of the pharma companies, their API segment continues to do well. API sales of key companies grew 20.6% in Q2FY21 to Rs69.6bn.

Fig 15 – Aggregate API sales of key companies



Source: Company, Anand Rathi Research

Fig 16 – Key companies Q2 performance of API divisions

API sales (Rs m)	Q2 FY21	Q2 FY20	% Y/Y	Q1 FY21	% Q/Q
Divi's	10,319	8,531	21.0	10,207	1.1
Laurus	5,710	4,670	22.3	5,220	9.4
Solara	3,980	3,510	13.4	3,480	14.4
Sun Pharma	5,100	4,680	9.0	5,537	-7.9
Aurobindo	8,290	8,060	2.9	7,800	6.3
Dr Reddy's	8,505	7,107	19.7	8,553	-0.6
Cipla	1,859	1,570	18.4	1,840	1.0
Lupin	3,739	3,052	22.5	4,090	-8.6
Glenmark	3,213	2,698	19.1	2,348	36.8

Source: Company, Anand Rathi Research

Management outlook on APIs

Fig 17 – Outlook regarding APIs

Companies	Quotes from managements on outlook for APIs
Laurus	"We are also seeing a certain amount of dedicated capacities for select opportunities in diabetic and cardiovascular segments, which will enable us to grow this business beyond what we are growing now. We have a very healthy contract-manufacturing order-book for several generic APIs. We are revising our capex estimates to Rs12bn for FY21 and FY22. We are in the process of setting up dedicated R&D and manufacturing sites."
Aarti Drugs	"The company has already scaled up its anti-diabetic and anti-inflammatory API capacity, which will provide the impetus to revenue growth in FY21. For seven selected projects, many integrated with one another, Rs6bn capex has been planned."
Granules	"We are working on many new ANDAs and we've taking a lot of validation batches. That, along with other APIs that we are working on in Unit 4, like losartan, cetirizine, fexofenadine, have also increased. Overall Capex between this year and next year will be ~Rs4bn. About Rs800m of that will be for APIs, the rest will be for the new MUPS block and an increase in capacities for FDs."
Solara	"Pricing is stable and positive, and has been so far this year. With the continued strong demand picture, I see that trend continuing. We're on track to increase the filing speed in the second half of this year."
Cadila	"The API business will continue to actually drive good double-digit growth ahead from an external point of view."
IPCA	"Guided to API business growth of ~18-20% in the second half of the current year. Plant utilisations are almost ~90% currently and some kind of further capacity creation is in the pipeline, which is happening now at our Ratlam plant. As far as backward integrations on intermediate site are concerned, we have put up one project at our Aurangabad site."
Alembic	"We've been doing incremental investments in API capacity as well as part of our ongoing maintenance to debottleneck. Azithromycin as an API that we manufacture, we have got customers who have been buying from us. So it's sustainable ahead."

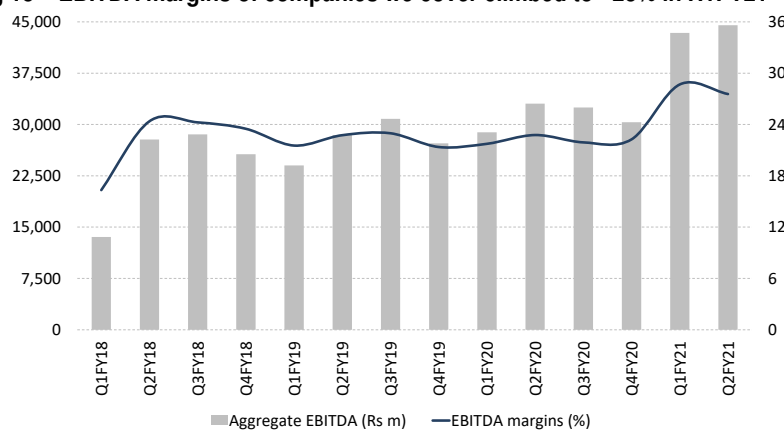
Source: Company, Anand Rath Research

Margins

Aided by lower promotional and travelling costs, the EBITDA margins of companies we cover rose to 27.6% (vs. 22.8% a year ago). Most of the companies expect a gradual increase in promotional and travelling costs, and Q2 margins may not continue.

We factor in EBITDA margins of ~25.4% for FY22 as promotional spending starts normalising. Beyond that, stable margins will be aided by launches in India and in the US businesses, and greater operational efficiencies.

Fig 18 – EBITDA margins of companies we cover climbed to ~28% in H1FY21



Source: Company, Anand Rath Research

Management outlook on margins

Fig 19 – Sustainability of margins

Companies	Quotes from managements on sustainability of margins
Sun Pharma	"In Q3, definitely, some of the savings that you've seen in sales and marketing will continue. For Q4, even I'm not so sure. If the situation normalizes, I think the spending should return to the plan we have. But in Q3, I think some of that saving will get carried forward."
Lupin	"We believe that our focus on SG&A expenses would continue and you will see this bearing fruit, operating leverage really kicking in Q3 and Q4. Ahead, there would be tremendous improvement in EBITDA. You would perhaps see that we would see Q4 at ~18.5%; over time, we would be back to the 20% to 22% that we were always known for in the past."
Cipla	"You should expect us to continue to invest between 6%-7% of revenue on R&D. Our operating expenses continue to track a bit higher than the optimal potential of Rs4bn-5bn against our FY21 operating plans."
Dr Reddy's	"R&D is going to increase in the next six months, not just because of Sputnik, but also on other COVID-19 products that we're bringing. We are going to be more and more digital and more productive on the SG&A."
Aurobindo	"Our spending on the specialty product basket will also increase as we move forward. This year we are guiding to ~5.5-6% on R&D."
Cadila	"Marketing activities are still limited because obviously access to doctors is still not fully there. But I think ahead, if demand again returns to a normal level, we would see some increase in marketing activities, but that will obviously be a function of growth. But overall fixed expenses are largely back to normal."
Alkem	"Our view is we'll be able to maintain our gross margin at 60% to 61%, which is normal. An EBITDA margin of 22-23% is something more realistic."
Torrent	"Promotional & field expenses to a certain extent will start going up if the situation normalizes beyond 75-80% in Q3 and Q4."
IPCA	"The operating cost will continue to be controlled. Of course, with revival of domestic sales, there'll be some kind of additional cost, but travel and other costs will continue significantly down. And in other marketing costs there'll be some increase in the second half of the year, but will not be very high. So, overall, the margins will be good; whatever margins we have reported for the second quarter are sustainable."
Alembic	"Regarding FY22, there will be an additional expense of Rs4.5bn in the P&L on account of the new formulation plants. Some travel and promotions have really picked up. Employee cost has gone up. R&D cost has gone up. So, I mean, we are almost at pre-Covid levels as far as expenses are concerned."
Indoco	"We may not be able to maintain these levels of EBITDA. So, for the second half of the year, I'm looking at ~15.5% EBITDA margins."
Laurus	"Because of our scale and backward integration, we expect to continue gaining market share; we maintain our margins in ARV API because of these things."
Aarti Drugs	"We feel that for our product line, our margins should somewhat continue in the December quarter also. We had earlier guided to ~16% overall EBITDA margins for the longer term, but now we feel that 18-20% is more feasible, given the fact that the outlook is still positive."
Granules	"Expect these margins to sustain."

Source: Company, Anand Rath Research

Fig 20 – Expected performance in H2

Rs m	Sales			EBITDA			EBITDA margins			Adj. PAT		
Companies	H2FY20	H2FY21	Y/Y (%)	H2FY20	H2FY21	Y/Y (%)	H2FY20	H2FY21	bps	H2FY20	H2FY21	Y/Y (%)
Aarti Drugs	9,232	11,143	20.7	1,388	1,865	34.4	15.0	16.7	170.0	832	1,082	30.1
Ajanta	13,332	14,885	11.7	3,373	4,160	23.3	25.3	27.9	264.8	2,387	2,905	21.7
Alembic	24,160	28,001	15.9	6,526	7,728	18.4	27.0	27.6	58.7	4,676	5,297	13.3
Alkem	42,308	47,545	12.4	7,563	8,431	11.5	17.9	17.7	(14.2)	5,707	6,081	6.6
Cadila	73,515	77,191	5.0	14,368	15,131	5.3	19.5	19.6	5.8	5,176	8,926	72.5
Eris	5,150	5,909	14.7	1,540	1,712	11.1	29.9	29.0	(94.2)	1,197	1,387	15.9
Granules	13,038	16,117	23.6	2,631	3,710	41.0	20.2	23.0	283.9	1,362	2,359	73.2
Indoco	5,613	7,062	25.8	682	1,029	51.0	12.1	14.6	242.8	145	410	183.4
IPCA	22,866	26,059	14.0	4,916	6,199	26.1	21.5	23.8	228.9	3,241	4,428	36.6
JB Chem	8,722	10,349	18.7	1,813	2,207	21.7	20.8	21.3	53.2	1,242	1,572	26.6
Natco	9,370	10,647	13.6	2,570	3,428	33.4	27.4	32.2	476.5	1,986	2,765	39.2
Neuland	3,955	4,558	15.3	583	669	14.9	14.7	14.7	(5.0)	18	273	1,406.8
Pfizer	10,402	11,283	8.5	2,422	3,165	30.7	23.3	28.0	477.0	2,175	2,567	18.0
Suven	3,635	4,865	33.8	1,570	2,416	53.9	43.2	49.7	646.1	1,321	1,962	48.5
Torrent	39,120	42,665	9.1	10,880	11,724	7.8	27.8	27.5	(33.3)	5,120	5,318	3.9
Total	284,417	318,280	11.9	62,824	73,573	17.1	22.1	23.1	102.7	36,586	47,332	29.4

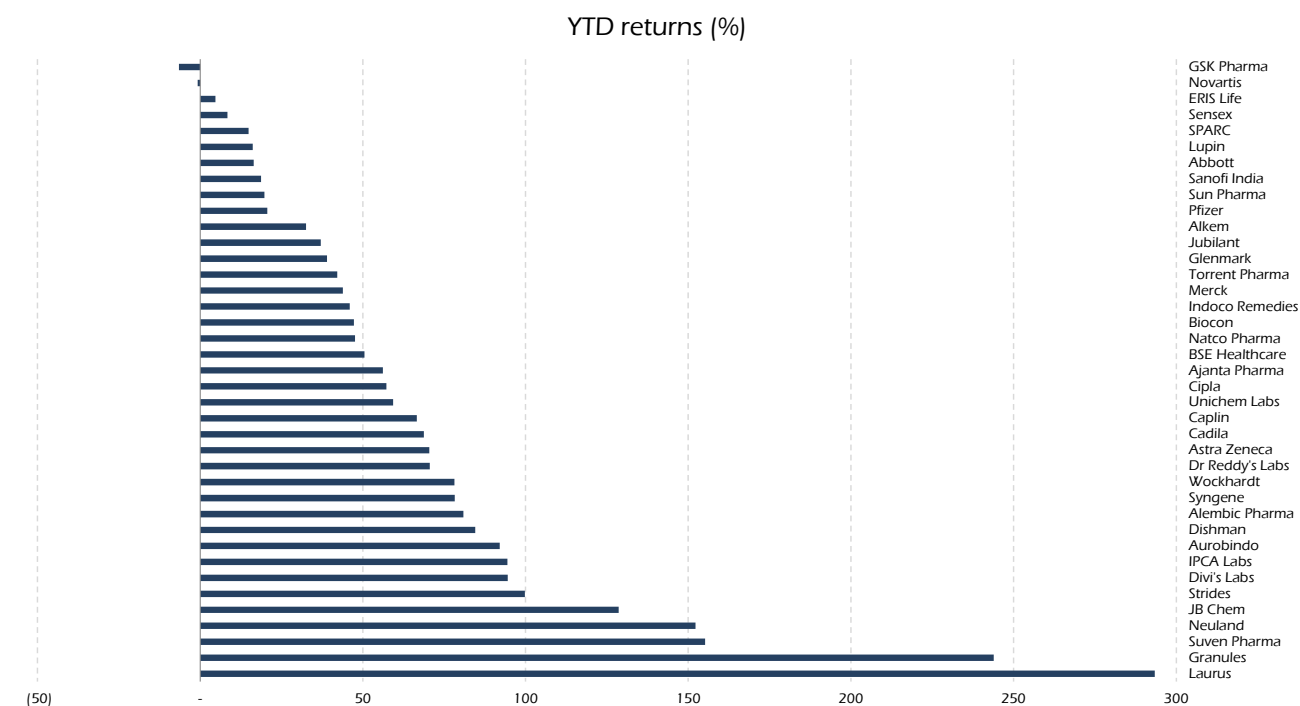
Source: Company, Anand Rath Research

Fig 21 – Estimate revision, post-Q2 result

(Rs bn)	Revised Estimates									Changes%								
	Revenue			EBITDA			Adjusted PAT			Revenue			EBITDA			Adjusted PAT		
	FY21e	FY22e	FY23e	FY21e	FY22e	FY23e	FY21e	FY22e	FY23e	FY21e	FY22e	FY23e	FY21e	FY22e	FY23e	FY21e	FY22e	FY23e
Aarti Drugs	22.4	26.6	31.4	4.4	5.1	6.4	2.7	3.2	4.2	0.0	1.4	3.5	10.7	19.1	21.3	13.3	22.9	24.1
Ajanta	28.4	33.1	37.8	9.1	10.5	12.1	6.1	7.3	8.6	2.0	3.8	2.6	16.3	11.3	8.5	20.0	13.3	11.7
Alembic	56.0	61.8	71.2	16.2	15.1	18.6	11.6	9.9	12.5	7.1	9.5	9.5	27.8	13.2	18.1	35.4	12.7	24.7
Alkem	91.2	103.2	113.8	21.6	27.2	29.1	15.0	15.4	17.2	0.1	0.6	2.0	29.2	41.4	37.4	18.6	4.0	5.4
Cadila	151.7	164.3	175.2	31.8	33.1	35.0	19.4	20.4	22.0	0.7	1.4	1.1	8.9	1.2	-1.8	25.6	13.8	9.5
Eris	12.1	13.2	14.2	4.0	4.2	4.5	3.4	3.6	3.8	1.3	1.9	2.4	2.9	0.9	0.7	3.2	1.0	0.8
Granules	32.1	37.9	44.0	8.1	9.8	11.5	5.1	6.3	7.5	-5.6	-7.0	-12.3	12.1	13.8	8.5	20.5	21.7	13.9
Indoco	13.1	15.1	16.9	2.1	2.4	2.8	0.8	1.0	1.3	4.1	7.2	7.8	17.1	12.8	17.6	20.5	10.4	14.6
IPCA	55.0	62.2	69.2	15.5	15.8	18.1	11.3	11.5	13.4	-0.5	-0.6	-0.5	2.1	0.3	2.0	2.4	0.3	2.3
JB Chem	20.0	22.5	24.9	4.9	5.0	5.7	3.5	3.6	4.1	0.0	0.0	0.0	4.3	1.4	4.6	4.5	1.4	4.8
Natco	24.3	25.5	42.8	7.9	8.9	19.6	6.0	6.7	15.4	15.5	9.8	6.5	21.9	20.4	12.6	17.7	18.3	11.5
Neuland	9.0	9.7	10.7	1.4	1.4	1.7	0.6	0.6	0.8	5.9	3.7	6.3	18.5	6.7	14.0	35.0	11.7	22.8
Pfizer	22.4	24.5	26.6	7.1	7.0	7.7	5.1	5.6	6.3	-1.0	0.6	2.1	13.7	4.3	8.0	-0.4	-0.6	3.8
Suven	9.6	11.4	13.7	4.5	5.4	6.5	3.6	4.4	5.2	1.1	1.1	1.4	3.3	3.8	4.3	-3.8	-3.6	-3.6
Torrent	83.4	91.6	101.9	24.7	27.6	31.0	11.6	14.5	17.6	-3.4	-3.3	-3.2	3.7	3.4	3.1	4.1	4.4	3.6
Total	630.7	702.6	794.3	163.3	178.5	210.4	106.0	113.9	139.8	0.7	1.1	1.0	12.4	10.3	9.5	14.7	8.1	8.5

Source: Company, Anand Rath Research

Fig 22 – Price performance



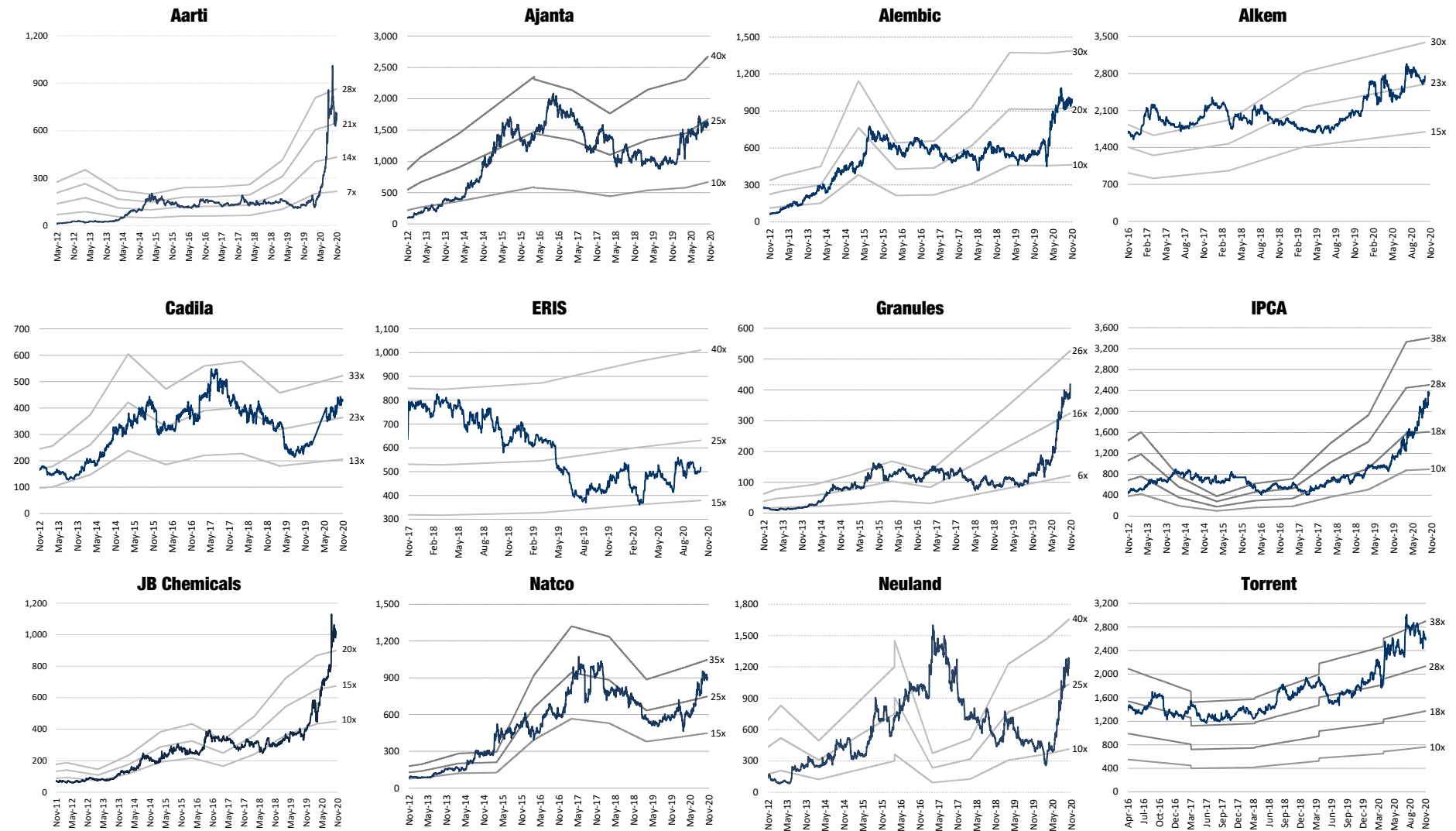
Source: Bse

Fig 23 – Valuation Summary

Company	RATING	CMP (Rs)	TP (Rs)	M Cap (Rs bn)	EPS (Rs)			PE (x)			EV/EBITDA (x)			RoE (%)		
					FY21e	FY22e	FY23e	FY21e	FY22e	FY23e	FY21e	FY22e	FY23e	FY21e	FY22e	FY23e
Aarti Drugs	Buy	705	813	65.7	28.9	34.5	44.7	24.4	20.4	15.8	15.6	13.2	10.1	35.0	31.6	31.3
Ajanta	Buy	1528	1980	134.0	69.4	82.9	98.0	22.0	18.4	15.6	14.1	11.9	9.9	21.4	21.7	21.8
Alembic	Hold	996	1140	195.8	59.3	50.4	63.4	16.8	19.8	15.7	12.3	12.9	10.2	28.9	19.0	20.6
Alkem	Hold	2775	3171	331.7	125.7	128.9	144.1	22.1	21.5	19.2	16.6	15.5	13.5	22.5	19.9	19.4
Zydus Cadila	Hold	429	430	439.4	18.9	19.9	21.4	22.7	21.6	20.0	15.8	14.9	13.6	17.7	16.8	16.2
Eris	Hold	522	565	70.8	24.9	26.3	28.2	20.9	19.8	18.5	16.6	15.1	13.4	23.7	21.0	19.2
Granules India	Buy	419	455	103.7	20.6	25.3	30.4	20.3	16.5	13.8	13.3	10.7	8.7	24.7	24.5	23.8
Indoco Remedies	Sell	275	229	25.4	9.1	11.4	14.3	30.3	24.2	19.3	12.8	10.6	8.5	11.6	12.9	14.2
Ipsa Labs.	Buy	2213	2380	279.7	89.7	91.1	105.8	24.7	24.3	20.9	17.7	16.8	14.2	27.4	22.4	21.4
JB Chemicals	Sell	979	805	75.7	45.3	46.6	53.1	21.6	21.0	18.4	14.5	13.7	11.6	22.5	20.0	19.8
Natco Pharma	Hold	914	946	166.3	33.1	36.7	84.5	27.6	24.9	10.8	21.0	18.4	7.9	15.0	14.9	28.9
Neuland	Sell	1055	1042	13.6	49.5	49.7	65.1	21.3	21.2	16.2	10.9	10.5	8.5	8.6	8.1	9.7
Pfizer	Hold	5122	5460	234.3	112.0	122.4	136.7	45.7	41.8	37.5	29.6	29.4	25.9	14.3	14.2	14.3
Suven Pharma	Buy	372	375	94.6	14.2	17.2	20.3	26.2	21.6	18.3	21.0	17.4	14.1	36.8	34.0	31.4
Torrent Pharma	Buy	2622	3080	443.8	68.7	85.6	104.2	38.2	30.6	25.2	19.6	17.0	14.7	22.5	24.5	25.8

Source: Anand Rathi Research

Fig 24 – PE bands



Source: Bloomberg, Anand Rathi Research

Appendix

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