

24 August 2021

Q1 FY22 Pharma Results review

Sensex:55556

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Domestic drives the show; margin pressure may persist in near term

Q1 FY22 sales growth for most pharma companies was driven by their India business. Overall sales of the companies we cover grew 11.6% to Rs168.7bn. India growth was much higher in Q1 (44.9%), ahead of the industry's ~37% growth. Challenges in the US and the higher base in API largely offset the benefits of India sales. EBITDA slipped 2.5% to Rs42.1bn. The EBITDA margin shrank 364bps to 25% from higher price erosion in the US, raw material price rises and normalised promotional expense. Adj. PAT declined 2.4% to Rs27.8bn.

Robust performance in India to continue. The India business in the last few quarters bounced back sharply; in Q1 the segment also benefited from the second wave of Covid-19. India sales of companies we cover grew 44.9% to Rs75bn. Companies which had a Covid portfolio and significant focus on acute therapies did well. Alkem (grew 65.3%), Cadila (63.6%), Indoco (45.8%) and Alembic (57.2%) were growth front-runners. Though the pace of India sales is expected to normalise from Q2 FY22, the India business will still be the fastest growing and likely to register a 13-14% CAGR over FY21-23.

Challenges in US generics persist. Covid-19 and a change in prescription patterns (90 days vs 30) benefitted most companies in H1 last year. On a higher base and nominal price erosion, US sales of companies we cover declined 17.2% to \$361m in Q1 FY22. Adherence to regulatory standards and diversification into niche segments of biosimilars, transdermal, injectables and NCE/NDDS would be key catalysts of growth in this region.

EBITDA margins now stabilising. Cost savings from lower promotional and travelling spending expanded EBITDA margins in FY21. In Q1 FY22, the companies we cover contracted 364bps to 25% as most costs returned to pre-Covid'19. Ahead, margin expansion will largely depend on better revenue mixes, internal cost efficiencies and companies' ability to backward integrate.

Road ahead. H1 FY21 was strong as companies benefitted from more supplies of drugs to the US and other regions and a temporary reduction in certain costs. We expect most growth- and margin-related challenges to persist in Q2 FY22. We expect sales of the companies we cover to grow 12.3%/13.3% in FY22/FY23, driven by growth rebounding in the domestic market and launches in the US, while EBITDA and PAT may grow 6.7%/20.3% and 4%/23% in FY22/FY23.

Top picks. We continue to be positive on companies which have a strong domestic business such as **Torrent Pharma** (strong chronic portfolio, productivity improvement and rebound in the US to boost margins), **Ajanta Pharma** (rebound in India sales to improve earnings quality) and CRAMS companies such as **Suven Pharma** (commercialisation of new molecules and forward integration to aid growth).

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Fig 1 – Q1 FY22 result snapshot

Rs m	Sales					EBITDA					EBITDA margins					Adj. PAT				
Companies	1QFY22	1QFY21	4QFY21	YoY (%)	QoQ (%)	1QFY22	1QFY21	4QFY21	YoY (%)	QoQ (%)	1QFY22	1QFY21	bps	4QFY21	bps	1QFY22	1QFY21	4QFY21	YoY (%)	QoQ (%)
Aarti Drugs	5,800	5,447	5,518	6.5	5.1	797	1,340	1,059	(40.5)	(24.8)	13.7	24.6	(1,085)	19.2	(546)	488	855	766	(42.9)	(36.3)
Ajanta	7,480	6,682	7,568	11.9	(1.2)	2,202	2,232	2,594	(1.3)	(15.1)	29.4	33.4	(397)	34.3	(484)	1,738	1,478	1,593	17.6	9.1
Alembic	13,260	13,413	12,804	(1.1)	3.6	2,359	4,074	3,417	(42.1)	(31.0)	17.8	30.4	(1,258)	26.7	(889)	1,645	3,015	2,507	(45.4)	(34.4)
Alkem	27,314	19,920	21,922	37.1	24.6	5,929	5,217	2,911	13.6	103.7	21.7	26.2	(448)	13.3	843	5,251	4,219	3,172	24.5	65.5
Cadila	39,727	36,272	38,467	9.5	3.3	8,850	8,026	8,536	10.3	3.7	22.3	22.1	15	22.2	9	5,110	4,413	6,625	15.8	(22.9)
Eris	3,493	2,932	2,782	19.1	25.5	1,265	1,041	945	21.6	33.9	36.2	35.5	74	34.0	225	1,067	890	682	19.8	56.3
Granules	8,498	7,356	7,993	15.5	6.3	2,014	1,836	2,020	9.7	(0.3)	23.7	25.0	(126)	25.3	(157)	1,202	1,115	1,276	7.8	(5.8)
Indoco	3,868	2,759	3,051	40.2	26.7	869	487	547	78.6	58.8	22.5	17.6	483	17.9	454	397	170	250	132.7	58.6
IPCA	15,658	15,344	11,147	2.0	40.5	4,131	5,823	2,287	(29.1)	80.6	26.4	38.0	(1,157)	20.5	587	3,039	4,412	1,611	(31.1)	88.6
JB Chem	6,060	5,223	5,285	16.0	14.7	1,637	1,554	1,239	5.3	32.1	27.0	29.8	(275)	23.4	357	1,189	1,194	1,006	(0.5)	18.1
Natco	4,103	5,634	3,313	(27.2)	23.8	1,098	1,711	762	(35.8)	44.1	26.8	30.4	(361)	23.0	376	750	1,228	530	(38.9)	41.5
Neuland	2,009	2,054	2,447	(2.2)	(17.9)	257	338	255	(24.1)	0.7	12.8	16.5	(369)	10.4	236	87	152	173	(42.4)	(49.5)
Pfizer	7,492	5,149	5,348	45.5	40.1	2,857	1,863	1,257	53.4	127.2	38.1	36.2	196	23.5	1,463	1,999	1,245	1,006	60.6	98.8
Suven	2,638	2,382	2,592	10.7	1.8	1,146	1,121	937	2.3	22.3	43.4	47.0	(360)	36.2	729	1,051	915	831	14.8	26.4
Torrent	21,340	20,560	19,370	3.8	10.2	6,770	6,610	5,820	2.4	16.3	31.7	32.1	(43)	30.0	168	3,300	3,210	3,240	2.8	1.9
Total	168,738	151,127	149,605	11.7	12.8	42,181	43,272	34,587	(2.5)	22.0	25.0	28.6	(364)	23.1	188	27,823	28,511	25,268	(2.4)	10.1

Source: Company, Anand Rath Research

Fig 2 – Q1 FY22 result snapshot

Rs m	Sales					EBITDA					EBITDA margins					Adj. PAT				
Companies	1QFY22	1QFY21	4QFY21	YoY (%)	QoQ (%)	1QFY22	1QFY21	4QFY21	YoY (%)	QoQ (%)	1QFY22	1QFY21	bps	4QFY21	bps	1QFY22	1QFY21	4QFY21	YoY (%)	QoQ (%)
Sun Pharma	97,187	75,853	84,314	28.1	15.3	27,412	18,435	20,592	48.7	33.1	28.2	24.3	390	24.2	404	19,954	11,202	14,164	78.1	40.9
Dr Reddy's	49,194	44,293	47,284	11.1	4.0	6,120	11,247	7,002	(45.6)	(12.6)	12.4	25.4	-1,295	14.8	-237	5,708	5,791	5,535	(1.4)	3.1
Cipla	55,044	43,462	46,065	26.6	19.5	13,459	10,487	7,962	28.3	69.0	24.5	24.1	37	17.3	721	8,346	5,779	4,134	44.4	101.9
Lupin	42,702	35,279	37,831	21.0	12.9	9,276	4,881	7,076	90.0	31.1	21.7	13.8	789	18.7	302	5,423	1,069	4,644	407.2	16.8
Aurobindo	57,020	61,584	60,015	(7.4)	(5.0)	12,094	13,424	12,747	(9.9)	(5.1)	21.2	21.8	-60	21.2	-4	7,700	8,380	8,021	(8.1)	(4.0)
Divi's	19,606	17,305	17,882	13.3	9.6	8,521	7,001	7,163	21.7	19.0	43.5	40.5	304	40.1	344	5,571	4,885	4,991	14.0	11.6
Gland Pharma	11,539	8,842	8,877	30.5	30.0	4,363	4,126	3,277	5.7	33.2	37.8	46.7	-887	36.9	89	3,507	3,136	2,604	11.8	34.7
Laurus Labs	12,785	9,743	14,119	31.2	(9.5)	3,954	2,783	4,722	42.1	(16.3)	30.9	28.6	233	33.4	-254	2,416	1,718	2,969	40.6	(18.6)
Abbott India	12,178	10,643	10,955	14.4	11.2	2,652	2,334	2,055	13.6	29.0	21.8	21.9	-13	18.8	304	1,958	1,804	1,525	8.6	28.4
Sanofi India	7,891	7,105	7,251	11.1	8.8	2,471	1,772	1,894	39.4	30.5	31.3	24.9	636	26.1	518	1,783	1,355	1,459	31.6	22.2
GSK Pharma	7,900	6,486	8,138	21.8	(2.9)	1,517	1,141	1,709	33.0	(11.2)	19.2	17.6	161	21.0	-180	1,211	1,108	1,015	9.3	19.3
Total	97,187	75,853	84,314	28.1	15.3	27,412	18,435	20,592	48.7	33.1	28.2	24.3	390	24.2	404	19,954	11,202	14,164	78.1	40.9

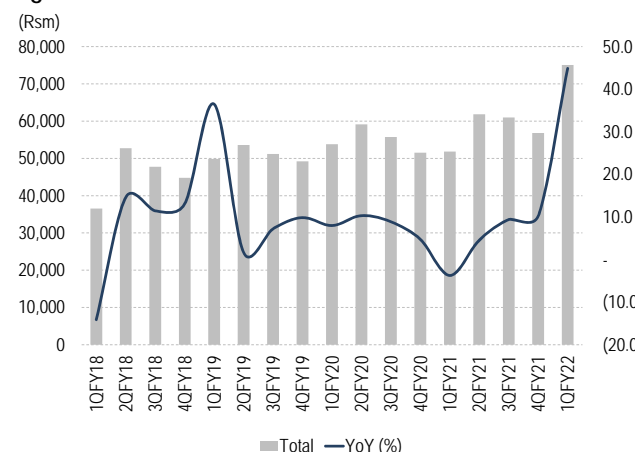
Source: Company, Anand Rathi Research

India Formulations

The India business in Q1 FY22 rebounded strongly as demand for medicines surged with the second wave of Covid-19. The companies we cover outpaced the market growth, growing 44.9%, against the market's ~37% growth. Ahead, we expect their India business to grow in mid-teens.

Companies with a focus on acute therapies and Covid-19 drugs outpaced peers. Alkem, Cadila, Alembic and Indoco grew faster.

Fig 3 – India business benefitted from covid sales



Source: Company, Anand Rathi Research

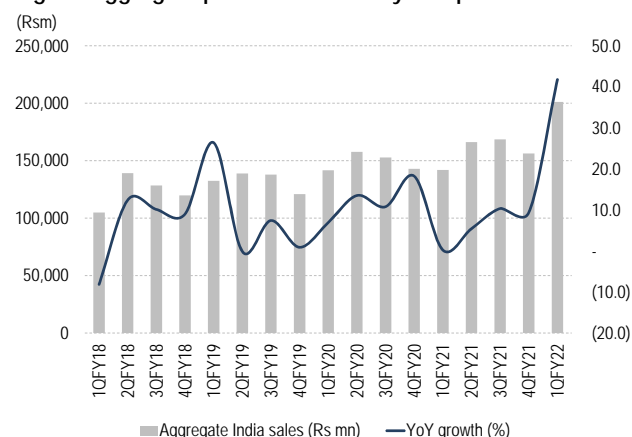
Fig 4 – Q1 India performance of the companies we cover

Domestic formulations (Rs m)	1QFY22	1QFY21	Y/Y %	4QFY21	Q/Q %
Cadila	13,566	8,292	63.6	10,232	32.6
Ajanta	2,290	1,740	31.6	2,180	5.0
Ipca	6,130	4,894	25.2	4,336	41.4
Natco	2,006	1,250	60.5	818	145.2
Indoco	2,151	1,475	45.8	1,392	54.5
Torrent	10,930	9,250	18.2	9,220	18.5
Alembic	4,810	3,060	57.2	3,580	34.4
Pfizer	7,492	5,149	45.5	5,348	40.1
Alkem	19,097	11,550	65.3	14,732	29.6
Eris	3,493	2,932	19.1	2,782	25.5
JB Chemicals	3,130	2,240	39.7	2,210	41.6
Aggregate	75,094	51,833	44.9	56,830	32.1

Source: Company, Anand Rathi Research

Overall, sales of Rs201bn of key pharma companies stemmed from India formulations, which grew 41.8%. Managements of most of the companies are confident of growing this business.

Fig 5 – Aggregate performance of key companies



Source: Company, Anand Rathi Research

Fig 6 – Q1 India performance of key companies

Domestic formulations (Rs m)	1QFY22	1QFY21	Y/Y %	4QFY21	Q/Q %
Cipla	27,100	16,080	68.5	18,070	50.0
Sun Pharma	33,084	23,880	38.5	26,709	23.9
Lupin	16,362	12,854	27.3	12,866	27.2
Dr Reddy's	10,600	6,260	69.3	8,445	25.5
Glenmark	12,250	7,799	57.1	8,238	48.7
GSK Pharma	7,900	6,487	21.8	8,138	-2.9
Sanofi India	6,550	6,035	8.5	6,018	8.8
Abbott India	12,178	10,640	14.5	10,955	11.2

Source: Company, Anand Rathi 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	India business accounted for about 34% of consolidated sales for Q1. The growth was driven by a combination of core business growth, sale of COVID related products and low base of last year.
Cipla	Significant traction in our One India business led by the strong core portfolio tailwinds in the prescription and Trade Generics business along with the support from the COVID portfolio during the second COVID wave in India. Excluding for COVID, the portfolio momentum continues to be on track with solid double digit growth during the quarter
Cadila Healthcare	The growth was supported by both COVID portfolio as well as good performance of the base business. We gained market share in the anti-diabetic, anti-infective and the nutraceuticals therapeutic areas. "Large part of our future portfolio is driven towards launching low competition or sort of first generic when we launched our biosimilar against the only generic in India and in the world.
Torrent Pharma	Branded generic markets led by India and Brazil, continue to drive growth backed by our top brands and performance of new launches. "I view the double-digit growth for the market should continue even without the COVID drugs going ahead.
Alembic Pharmaceuticals	We saw nice ramp up in our India business despite challenges in related to COVID. "India business we see enough pockets of growth across the portfolio both in Acute, Specialty as well as Veterinary side of it. We continue to perform, we're very confident of the business.
Dr Reddy	Our India business recorded sales of INR1,060 cores with a strong year-on-year growth of 69% and sequential growth of 26%. This strong growth was supported by both COVID portfolio as well as good performance of the base business.
Ajanta Pharma	Growth can be attributed to all three factors during the year which are increase in the market shares, new product launches, and also in a small way increasing the prices of some of the products.
Alkem Labs	65.3% y/y during the quarter, which was majorly driven by strong volume-led growth in our acute therapy. Even adjusting for the low base of last year, the company delivered a robust growth over Q1FY20 base, which was more of a normal quarter for the company.
Glenmark Pharma	So I think Q2 in India obviously will be negative growth for us on the India business. "We will be negative in Q2 because of the high Favipiravir sales we had last year
JB Chemicals	We have already have launched close to 12 to 15 products in last six months in both this new initiatives and couple of products in the world of metabolic. "The domestic market will help us in driving market beating performance, which is a combination of big brands that we have and this market beating performance will also be supported by some of the newer initiatives that we have taken and launching couple of new divisions and around 8 to 10 new brands.
Indoco Remedies	Excellent performance of anti-infective and respiratory therapeutic segments resulted in a robust growth during the quarter.

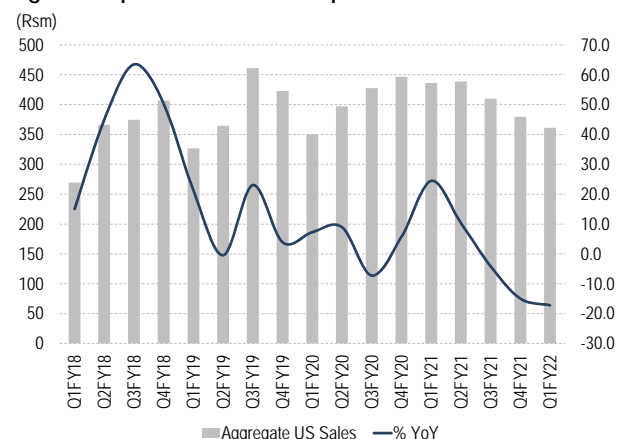
Source: Company, Anand Rathi Research

US generics

Most of the gains in the US last year are largely fading. US sales of companies we cover declined 17.2% to \$361m.

Greater demand for Covid-19 drugs and change in prescription patterns last year created a higher base for companies. Besides, the base business continues to be eroded every year due to price rises of key products. Zydus Cadila's US sales declined 10.6% to \$194m while Alkem's sales declined 9.3%.

Fig 8 – US performance of companies we cover



Source: Company, Anand Rathi Research

Fig 9 – Q1 US performance of companies we cover

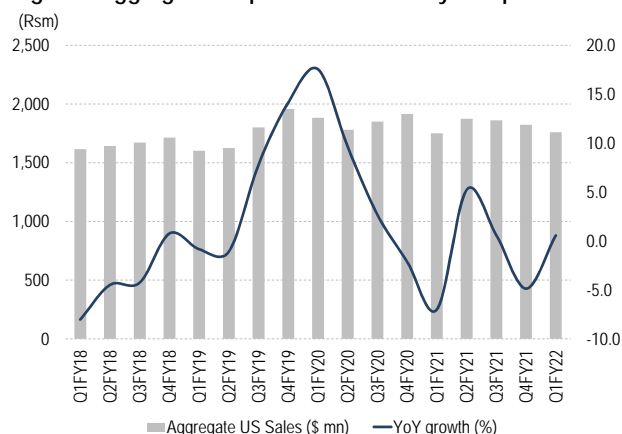
US sales (\$ m)	Q1FY22	Q1FY21	Y/Y %	Q4FY21	Q/Q %
Cadila	194	216	-10.6	205	-5.7
Torrent	36	49	-26.8	37	-1.6
Alkem	81	90	-9.3	73	11.2
Alembic	50	81	-37.9	65	-22.3
Aggregate US sales	361	436	-17.2	380	-4.9

Source: Company, Anand Rathi Research

The US continues to be an important region for listed India companies. Overall, companies had sales of \$1.76bn in Q1 FY22, registering 0.6% growth.

On a weaker base, Sun's US sales grew the fastest (34.8%) in Q1. Aurobindo reported an 11.7% decline in its US sales.

Fig 10 – Aggregate US performance of key companies



Source: Company, Anand Rathi Research

Fig 11 – Q1 US performance of key companies

US sales (\$ m)	Q1FY22	Q1FY21	Y/Y %	Q4FY21	Q/Q %
Sun Pharma	380	282	34.8	370	2.7
Aurobindo	364	412	-11.7	393	-7.4
Dr Reddy's Lab	235	229	2.5	236	-0.6
Lupin	172	157	9.3	195	-11.8
Cipla	141	135	4.4	138	2.2
Glenmark	107	98	8.6	110	-2.7

Source: Company, Anand Rathi 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	Similar level of price erosion, Sun hasn't seen, because we had larger percentage of product in what you call already highly competitive marketplace. So price erosion, is an impact which is different for different companies. And that's not going to change.
Dr Reddy	We got the downside of the U.S. as some products, we face the price erosion primarily depending on sale, while the big launches are coming up timely wise later.
Aurobindo Pharma	We had slightly tepid growth during the Q1 of current year. We saw some price erosion during the quarter and primarily due to build up of inventory across supply chain, across suppliers due to decreased demand, so price erosion was in, I would say, upper single-digit percentage wise, which is higher than normal.
Cipla	Our portfolio effort, selection and execution have limited the impact of price erosion on our portfolio and we hope to continue this momentum and scale up as new launches come in.
Lupin	US revenues were down sequentially due to competitive pressures on base business products, famotidine in particular, because new competition had entered.
Cadila Healthcare	Reduction in cases of supply disruption in the market resulting in limited one-time opportunities and pricing pressure in some of our products led to this decline." "So, one time buy we have been seeing it in the last couple of years because of disruption in supply chain. In the last six months we have seen this one-time buys have dried up because there is very little issue with supply chain in the US. So, we have not seen any meaningful one time buys in the last six months
Alkem Labs	We had a strong quarter last year, mainly because of some of forward buying done by our customers, a bit of stockpiling and panic buying as well affected that. The other reason has been some loss of market share and obviously price deflation, which has sort of depressed at this particular quarter compared to 12 months ago, but our broad guidance remains similar and we are looking to grow at those numbers.
Glenmark Pharma	On the pricing erosion side, we have seen a bit of an increase then we're probably looking at it in a bit of more around the high single digit level and, of course, this has an impact as we go along

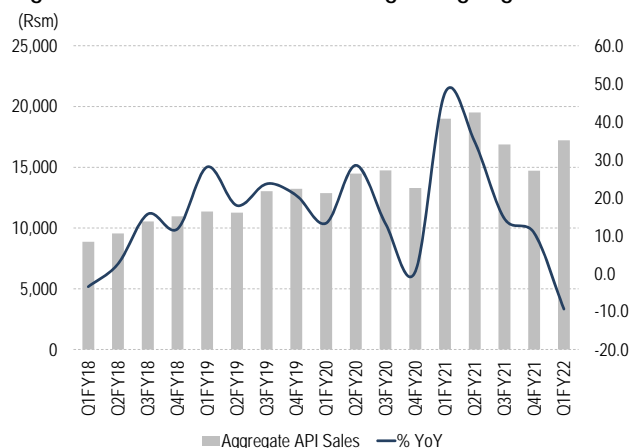
Source: Company, Anand Rath Research

APIs

The API business of the companies we cover, on a higher base, declined 9.3% to Rs17.2bn. Sequentially, however, sales were 17% higher.

Alembic, Cadila and Granules reported increases of 5.7%, 3.5% and 5.5% respectively.

Fig 13 – APIs continue to be fastest growing segment



Source: Company, Anand Rath Research

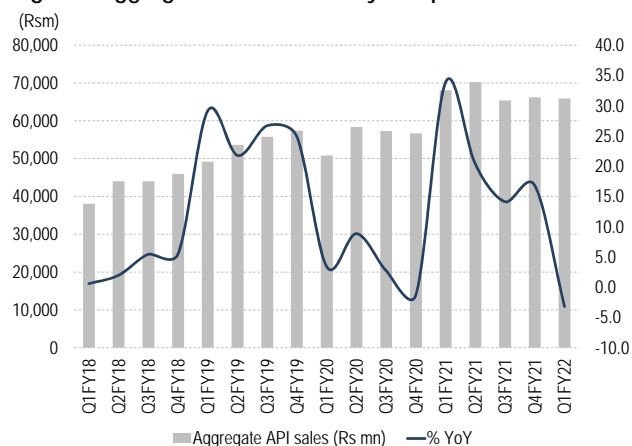
Fig 14 – Q1 performance, API divisions

API sales (Rs m)	Q1FY22	Q1FY21	Y/Y %	Q4FY21	Q/Q %
Aarti Drugs	4,464	4,630	-3.6	3,921	13.8
Alembic	2,790	2,640	5.7	2,140	30.4
Cadila	1,355	1,309	3.5	1,395	-2.9
Granules	2,237	2,121	5.5	1,938	15.4
Indoco	109	222	-51.0	199	-45.4
IPCA	4,144	5,133	-19.3	2,599	59.4
Neuland	1,507	1,500	0.5	1,815	-17.0
Natco	616	1,439	-57.2	708	-13.0
Aggregate US sales	17,222	18,993	-9.3	14,716	17.0

Source: Company, Anand Rath Research

On an aggregate basis API division sales declined 3.2% to Rs65.9bn.

Fig 15 – Aggregate API sales of key companies



Source: Company, Anand Rath Research

Fig 16 – Key companies Q1 performance of API divisions

API sales (Rs m)	Q1FY22	Q1FY21	Y/Y %	Q4FY21	Q/Q %
Divi's	9,803	10,207	-4.0	10,729	-8.6
Laurus	5,490	5,220	5.2	7,970	-31.1
Solara	4,056	3,480	16.5	4,442	-8.7
Sun Pharma	5,149	5,537	-7.0	4,357	18.2
Aurobindo	8,119	7,800	4.1	7,943	2.2
Dr Reddy's	7,540	8,553	-11.8	7,915	-4.7
Cipla	3,020	1,840	64.1	2,240	34.8
Lupin	2,459	4,090	-39.9	2,556	-3.8
Glenmark	3,040	2,348	29.5	3,311	-8.2

Source: Company, Anand Rath Research

Management outlook on APIs

Fig 17 – Outlook regarding APIs

Companies	Quotes from managements on outlook for APIs
Divis Labs	I think there are several things we have taken up in the last one year, investing Rs250bn in backward integration, in top new technology; introducing new technology; up gradation of plants, modern mechanization; and revisiting the processes and improving the yields. I think these are some of the things that caused a positive benefit with green chemistry.
Dr Reddy	API because of the nature of it has relatively high level of fixed cost. When the sales are less, normally you see it also in the margin that fits. So when the sales will go up, also the margins will go up. I don't see any specific issue. We did have some price decrease in some molecules there. So on those molecules, we would see less profitability, but on the other hand, we are going to launch others.
Cipla	Our reported API numbers include a profit share on the commercial supply and API to our partner; our revenue market, the business was slightly impacted by a timing deferral pertaining to in-country currency allocation for our Middle Eastern supplies
Laurus Labs	ARV API recorded a healthy growth. This was led by higher volumes. On sequential basis, sales were moderately-impacted, partly due to demand normalization, which is in line with our expectations." "So our API sale depends on how much of our partners are getting market share and their inventory level, their order book. You can't sell more than what our customer needs.
IPCA Labs	API business we should be able to achieve around 10% kind of growth. Domestic API should be able to do better than that.
Alembic Pharmaceuticals	The API business had phenomenal growth last year. And a lot of the growth last year was due to the COVID-related disruptions. So having said that this quarter, they've done well. I expect them to be close to 10% growth this year
Granules	For the quarter, the gross margins contracted from 59.5% in Q1 FY '21 to 54.2% in Q1 FY '22, mainly due to the reduction in margins on Paracetamol, due to increased KSM pricing
Aarti Drugs	We believe that the worst is behind us in terms of raw material price hike and EBITDA margin are expected to come back to normal level in the coming couple of quarters. We remain confident of obtaining EBITDA margin in the range of around 18% going forward
Solara Active Sciences	The backward integration will go a long way in not just ensuring that we are able to manage our margins in Ibuprofen." "Backward integration will definitely offer is relief in the second half of the year in terms of any potential margin impact.

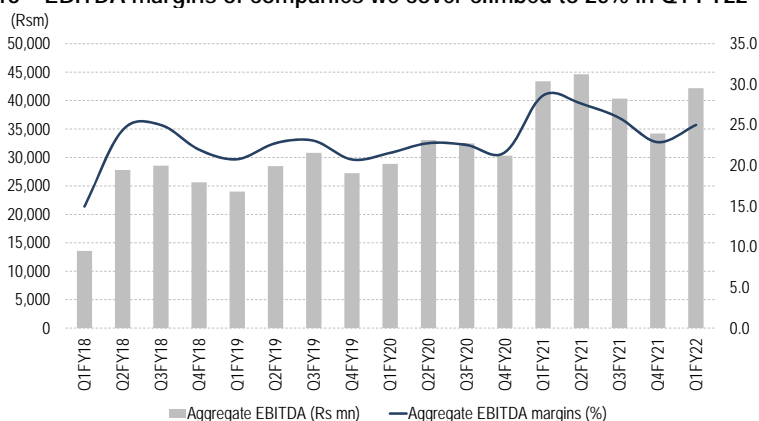
Source: Company, Anand Rath Research

Margins

Lower promotional and travelling costs had inflated EBITDA margins of most of the pharma companies last year. On that base, EBITDA margins of companies we cover contracted 364bps y/y to 25%. (23.1% in Q4 FY21). As these costs are now returning to pre-Covid'19 levels, we expect margins to stabilize at these levels.

We factor in a ~25% EBITDA margin for FY22 as promotional spending starts normalising. Beyond that, better revenue mixes, internal cost efficiencies and companies' ability to backward integrate would drive margin expansion.

Fig 18 – EBITDA margins of companies we cover climbed to 25% in Q1 FY22



Source: Company, Anand Rathi Research

Management outlook on margins

Fig 19 – Sustainability of margins

Companies	Quotes from managements on sustainability of margins
Sun Pharma	Expenses in the current quarter have relatively moved up comparatively, however different geographies have different impact of the second wave in India, especially in April, May they were impacted. So overall what we are saying is that, the expenses will inch up as normalization increases, however the company continuously focus heavily on cost optimization and improving efficiencies.
Dr Reddy	FY21 gross margins were high, due to higher export benefit and favorable product mix. The gross margins in current quarter were impacted due to higher price erosion, primarily in U.S. and increase in inventory provisions for a few products.
Aurobindo Pharma	Our endeavor will always be to ensure that we move towards 60% (gross margins). That is what we always have the standard at 58% and move towards 60%. Because of the temporary nature, all these price erosion because of the COVID related and other thing, we had a small setback, but let's see whether it is a one-off or it we'll come to know of it maybe down the line in two quarters
Cipla	So every endeavor is to beat last year's core business profitability, which we believe was in the range of 21% to 22% (EBITDA margins) most quarters other than quarter four where reverse seasonality reduces our margin, but therefore in quarter four also, we'll try to beat last year, we may not be at 21%, 22% but average for the full year, we will come in at that level
Lupin	EBITDA to be 17% to 18% in the second half, which is lower than our earlier guidance of 19% to 20%. We see meaningful bounce back in the second half, driven by increased sales in Albuterol, higher base in India and growth across various markets.
Divis Labs	The margins are getting better and better. It's not one-off, we think they are sustainable. And we always have new projects coming. In the custom synthesis or generic whenever new products come, the margins can be slightly higher. "Right now it is 50-50 (split) between generic and custom synthesis. So that will give you more assurance that the profitability probably can be maintained at these levels.
Ajanta Pharma	I think these margins, which are there currently that definitely can be hold.
Alembic Pharmaceuticals	We're temporarily withdrawing this guidance on the Rs50 EPS guidance due to a lot of uncertainty that we're seeing and some softness in the U.S. market."
Glenmark Pharma	Key objectives for FY22, we expect revenue growth of 10% to 15% during the year. We expect to sustain EBITDA margin performance at similar levels of FY21. We would like to guide to a 19% plus margins.
Alkem Labs	EBITDA margin, our guidelines, it was from 19% to 20% for this year, because our endeavor was to improve by 100%. So we remain with our guidance. Looking to better quarter one, we believe 50 to 100 basis points we'll try to improve on that.
IPCA Labs	Guidelines for this year on EBITDA margin side was almost around 25% and in first quarter, we had recorded around 27%. And the trend is likely to be better, so after second quarter, we will revise our guidelines, upward here
JB Chemicals & Pharma	Going forward, we expect that the margin could remain healthy and in the range of last year's margin level despite cost structures reverting to the steady and normal levels.
Laurus Labs	With a better product mix, gross margin, we could able to improve almost by 2%."
Solara Active sciences	EBITDA in the range of 23% to 24%. And obviously, this will be achieved through a combination of building more capacities, focusing on science, increasing our products, working on cost improvement programs"

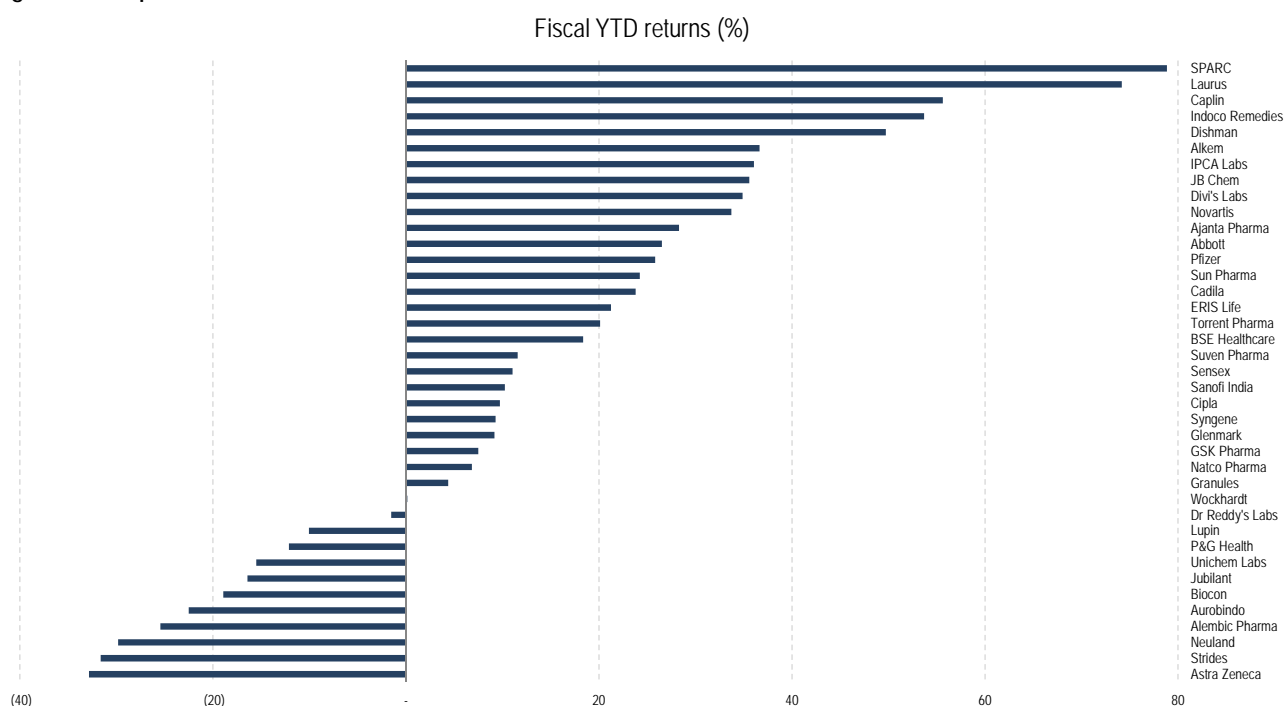
Source: Company, Anand Rathi Research

Fig 20 – Estimate revision, post-Q1 result

	Revised Estimates						Change %					
	Revenue		EBITDA		Adj. PAT		Revenue		EBITDA		Adj. PAT	
	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23
Aarti Drugs	24.6	29.1	4.4	5.9	2.8	3.9	-4.4	-4.6	-17.4	-10.4	-18.6	-11.1
Ajanta pharma	34.0	39.2	11.4	13.4	8.4	10.1	-0.1	-0.1	-0.1	-0.1	7.2	7.3
Alembic pharmaceutical	54.0	61.9	11.5	14.3	7.6	9.2	-4.0	-5.0	-23.4	-17.8	-24.0	-19.1
Alkem	103.1	110.7	20.7	22.6	16.8	18.2	5.9	3.3	7.6	4.9	8.0	5.1
Cadila	168.2	181.2	36.6	39.2	22.7	24.5	1.0	0.7	1.5	0.5	3.6	2.2
eris	13.9	15.3	4.7	5.3	3.9	4.4	1.4	-0.5	3.2	2.9	0.1	-0.3
granules	36.3	41.3	8.3	9.7	5.1	6.0	-1.1	-1.1	3.9	-0.3	5.0	-0.4
Indoco	15.2	17.5	2.9	3.3	1.3	1.8	0.5	0.4	6.1	0.9	4.7	11.1
IPCA	59.3	66.3	15.1	17.7	10.9	13.0	0.9	0.2	1.6	0.3	2.4	0.8
Jb Chem	24.3	26.7	6.1	7.0	4.9	5.6	6.5	5.8	5.0	5.6	5.1	5.6
Natco	23.3	42.5	8.2	20.2	6.0	15.4	-3.7	-2.0	-4.0	-1.8	-4.2	-1.9
Neuland	10.3	11.7	1.5	1.8	0.7	0.9	-1.1	-3.1	-8.0	-10.7	-20.5	-23.1
Pfizer	26.2	28.9	8.8	9.7	6.7	7.4	4.8	4.0	19.3	15.4	10.5	6.9
Suven	12.0	14.2	5.4	6.5	4.4	5.3	1.1	3.7	1.1	3.7	1.6	4.9
Torrent	89.3	100.1	27.9	32.2	13.4	16.6	-0.1	0.0	1.8	2.9	-5.2	-6.3

Source: Company, Anand Rath Research

Fig 21 – Price performance



Source: Bse

Fig 22 – Valuation Summary

Company	RATING	CMP	TP	M Cap	EPS (Rs)			PE (x)			EV/EBITDA (x)			RoE (%)		
		(Rs)	(Rs)		FY21	FY22e	FY23e	FY21	FY22e	FY23e	FY21	FY22e	FY23e	FY21	FY22e	FY23e
Aarti Drugs	Buy	587	836	62.8	30.1	25.4	41.8	19.5	23.1	14.0	15.6	17.1	10.8	35.8	23.6	30.9
Ajanta	Buy	2237	2795	210.0	75.2	96.6	116.4	29.7	23.1	19.2	15.4	17.5	14.4	23.4	25.0	24.3
Alembic	Hold	734	955	179.0	59.9	38.6	46.7	12.2	19.0	15.7	7.0	16.2	12.2	28.2	14.0	15.2
Alkem	Hold	3792	3644	415.0	132.6	140.1	151.8	28.6	27.1	25.0	16.8	19.5	17.4	23.4	21.0	19.8
Zydus Cadila	Sell	547	522	577.2	21.7	22.1	23.9	25.2	24.7	22.9	18.3	16.5	14.9	19.0	16.4	15.8
Eris	Hold	731	804	104.8	26.2	28.6	32.1	27.9	25.5	22.7	18.3	20.8	17.9	24.7	22.4	21.2
Granules India	Hold	326	392	92.0	22.2	20.4	24.2	14.7	16.0	13.5	11.3	11.5	9.6	27.4	21.1	20.9
Indoco Remedies	Sell	443	348	40.7	10.1	13.6	19.1	43.9	32.5	23.2	19.3	14.7	12.3	12.8	15.1	18.0
Ipca Labs	Hold	2562	2462	274.4	88.4	86.4	102.6	29.0	29.6	25.0	17.8	17.3	14.3	26.8	21.1	20.8
JB Chemicals	Hold	1696	1890	137.2	58.0	63.8	72.7	29.3	26.6	23.3	16.1	20.7	17.6	27.6	24.9	23.9
Natco Pharma	Hold	900	1139	188.9	24.2	33.2	84.4	37.2	27.1	10.7	30.6	22.3	9.0	11.2	13.9	29.8
Neuland	Sell	1533	1268	24.2	62.5	55.2	70.5	24.5	27.8	21.8	17.3	17.1	13.9	10.8	8.7	10.2
Pfizer	Buy	5732	6520	270.8	108.8	138.0	152.7	52.7	41.5	37.5	27.5	28.9	25.7	17.2	24.1	22.5
Suven Pharma	Buy	549	630	138.2	14.2	17.5	21.0	38.6	31.4	26.2	31.3	25.5	20.7	35.8	32.9	31.0
Torrent Pharma	Buy	3062	3664	508.4	74.0	79.4	98.2	41.4	38.5	31.2	22.1	19.4	16.5	23.5	21.6	23.5

Source: Anand Rath Research

The figure displays 12 individual line charts, each representing a different Indian company. Each chart has a primary y-axis for the stock price (blue line) and a secondary y-axis for the EV/EBITDA ratio (grey lines). The x-axis for all charts represents time, from July 2012 to August 2021. The companies and their corresponding EV/EBITDA ratios are as follows:

- Aarti:** Ratios of 7x, 14x, 21x, 28x.
- Ajanta:** Ratios of 10x, 25x, 40x.
- Alembic:** Ratios of 10x, 20x, 30x.
- Aikem:** Ratios of 15x, 23x, 30x.
- Cadila:** Ratios of 13x, 23x, 33x.
- ERIS:** Ratios of 15x, 25x, 40x.
- Granules:** Ratios of 6x, 16x, 26x.
- IPCA:** Ratios of 10x, 18x, 28x, 38x.
- JB Chemicals:** Ratios of 10x, 20x, 30x.
- Natco:** Ratios of 15x, 25x, 35x.
- Neuland:** Ratios of 10x, 25x, 40x.
- Torrent (EV/EBITDA):** Ratios of 10x, 15x, 20x, 25x.

Source: Bloomberg, Anand Rathi Research

Appendix

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