

## Pharmaceuticals

### IPM growth negative; expect strong FY22E

As per AIOCD, the India Pharma Market (IPM) reported yet another month pf decline with 2.2% drop in IPM sales primarily driven by acute segments. The decline stood at 3.7% for first five months (Apr-Aug) of FY21. We now expect low single digit IPM growth for FY21 with recovery in H2FY21. Also expect strong growth in FY22E (double digit growth) on a low base as we believe IPM remains resilient in the current pandemic without any material structural impact. US generics business has stabilised after few years of consistent decline with stable pricing and faster approvals. Hence, we remain positive on the sector and expect premium valuations to sustain.

► **IPM growth to be muted in FY21E, US generics to improve gradually:** IPM reported a decline of 2.2% in Aug'20 as pressure on acute segments like anti-infectives, respiratory, pain/analgesics, gastro etc. continues. Positive growth was observed in cardiac, anti-diabetic and vitamins/minerals/nutrionals. We expect industry growth to turn positive in coming months with further easing of lockdown restrictions. Companies such as Sun Pharma, Lupin, Torrent Pharma, etc. would attain higher growth with larger contribution from chronic segments. US business has been in declining phase over past 3-4 years but revenue run-rate has either stabilised or improving over past few quarters for most companies. We expect this run-rate to improve hereon considering faster product approvals and stable price environment.

► **Our view:** We believe COVID-19 will not have any structural impact on the pharmaceutical industry over long term considering its growth visibility coupled with its relatively defensive nature. We expect IPM growth to reach 3-4% for FY21E and healthy double-digit for FY22E on a low base. Considering the recent stock price movement, we have upgraded Aurobindo to **BUY** from *Add* while Biocon, Cadila, Dr Reddy's and Jubilant Life to **ADD** from *Hold* and downgraded GSK Pharma to **REDUCE** from *Hold* and Pfizer to **HOLD** from *Add*.

#### ► Top picks:

- **Sun Pharma (BUY):** Improving business mix, continuous outperformance in India growth, gradual ramp up in specialty sales and attractive valuations.
- **Abbott India (BUY):** Strong growth across therapies and marquee products to continue, generate strong cashflows pushing return ratios even higher.
- **Alkem Labs (BUY):** Solid India business, improving margin trajectory, consistent track record of growth outperformance and attractive valuations.

#### Valuation summary

Company	Reco	CMP (Rs)	TP (Rs)	P/E (x)			EV/EBITDA (x)			RoE (%)		
				FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Abbott India	Buy	16,516	19,314	46.7	38.5	33.7	34.4	28.2	24.6	29.6	30.2	27.4
Alembic	Add	912	1,015	20.4	20.4	19.2	13.9	12.5	11.5	22.3	17.7	16.5
Alkem	Buy	2,909	3,679	23.7	22.1	19.2	17.2	16.1	13.8	22.0	20.3	20.3
Aurobindo	Buy	796	1,005	14.4	13.0	12.3	9.0	7.8	7.0	17.7	16.8	15.4
Biocon	Add	430	485	51.1	33.6	23.6	25.9	18.5	13.5	14.1	18.3	21.5
Cadila	Add	369	410	20.3	19.0	17.1	13.3	12.4	11.2	17.1	16.7	16.8
Cipla	Add	722	805	27.2	23.9	21.1	14.4	12.8	11.1	12.8	13.0	13.1
Dr Reddy's	Add	4,364	4,713	27.8	24.3	22.5	15.6	13.5	12.1	15.8	15.9	15.2
Glenmark	Add	483	551	16.8	15.0	13.1	8.7	7.9	7.0	12.6	12.6	12.8
GSK Pharma	Reduce	1,728	1,539	58.3	47.7	42.4	39.8	34.3	29.3	26.2	28.7	28.7
Jubilant Life	Add	762	822	13.4	11.7	10.3	7.5	6.5	5.6	15.1	15.2	15.2
Lupin	Hold	968	916	40.9	27.3	23.6	19.0	14.4	12.4	8.3	11.5	12.1
Natco	Add	783	875	28.9	25.2	22.9	22.1	19.2	17.2	12.4	12.9	12.9
Pfizer	Hold	4,920	5,085	43.2	36.3	31.7	29.7	25.1	21.8	17.8	22.9	22.0
Sanofi**	Hold	8,504	8,838	37.6	34.7	29.3	26.9	25.4	21.6	22.1	23.2	23.9
Shilpa	Add	571	638	25.9	21.3	18.3	18.7	15.6	13.3	12.5	13.3	13.6
Strides	Buy	675	773	23.0	16.2	13.7	10.6	9.3	8.2	9.9	12.6	13.2
Sun Pharma	Buy	496	617	25.0	20.6	18.1	14.6	12.2	10.4	10.4	11.9	12.2
Torrent	Add	2,798	3,080	38.0	30.2	25.5	20.5	17.6	15.4	24.0	26.2	26.6

Source: I-Sec research; Note: Year end in Dec for Sanofi India

**ICICI Securities Limited is the author and distributor of this report**

#### Sector update

#### Recommendations

Abbott India (BUY)  
 Alembic Pharma (ADD)  
 Alkem (BUY)  
 Aurobindo (BUY from Add)  
 Biocon (ADD from Hold)  
 Cadila Healthcare (ADD from Hold)  
 Cipla (ADD)  
 Dr Reddy's (ADD from Hold)  
 Glenmark (ADD)  
 GSK Pharma (REDUCE from Hold)  
 Jubilant Life Sciences (ADD)  
 Lupin (HOLD)  
 Natco (ADD)  
 Pfizer (HOLD from Add)  
 Sanofi India (HOLD)  
 Shilpa Medicare (ADD)  
 Strides Pharma Science (BUY)  
 Sun Pharma (BUY)  
 Torrent Pharma (ADD)

#### Research Analysts:

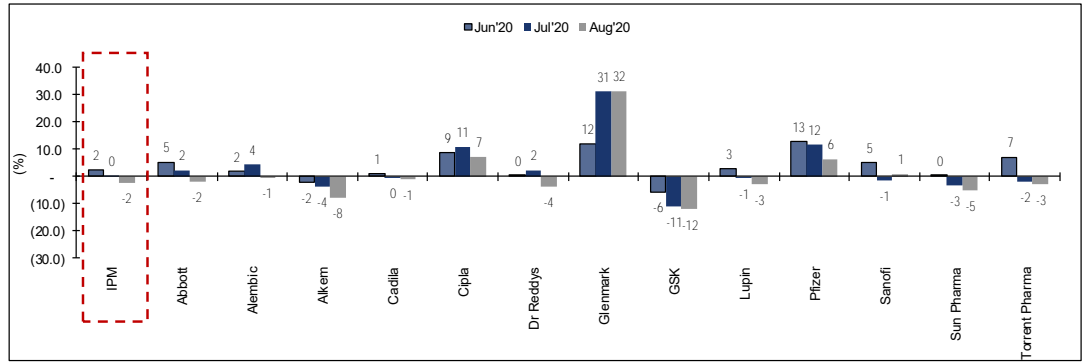
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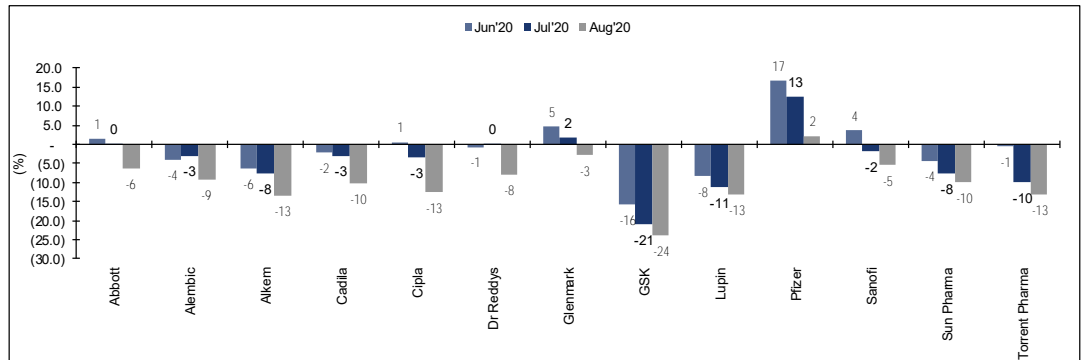
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**Chart 1: Value growth (YoY) trend of IPM and companies for Apr-Jun'20**



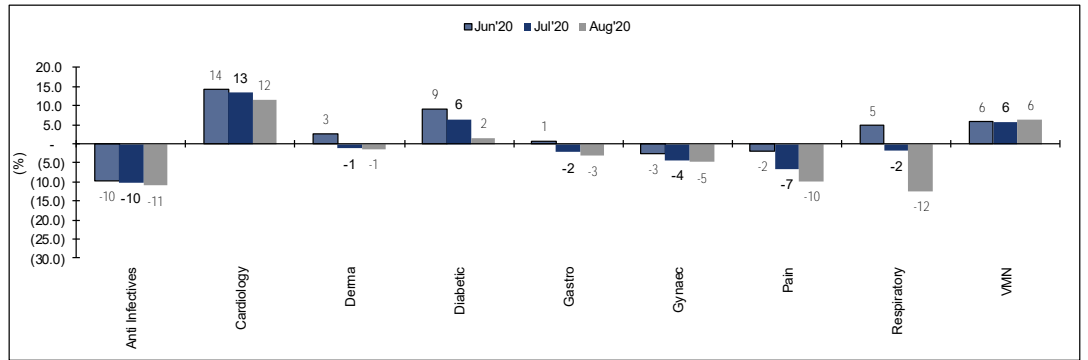
Source: AIOCD; I-Sec research

**Chart 2: Volume growth (YoY) trend of companies for Apr-Jun'20**



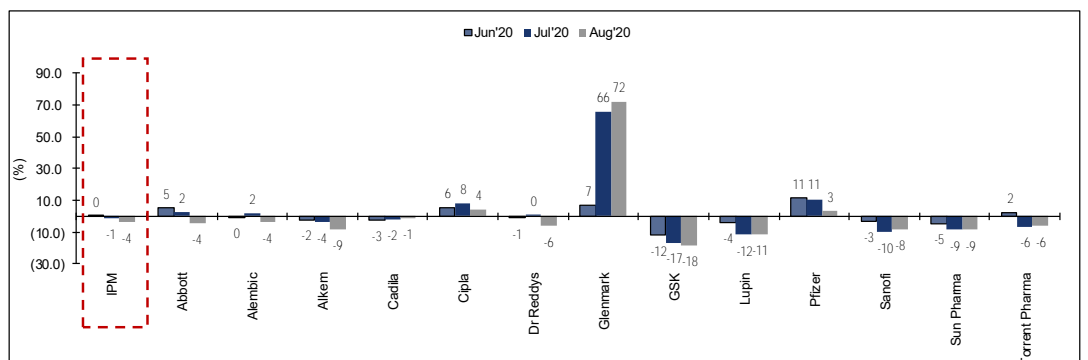
Source: AIOCD; I-Sec research

**Chart 3: Growth trend in key therapies of IPM for Apr-Jun'20**



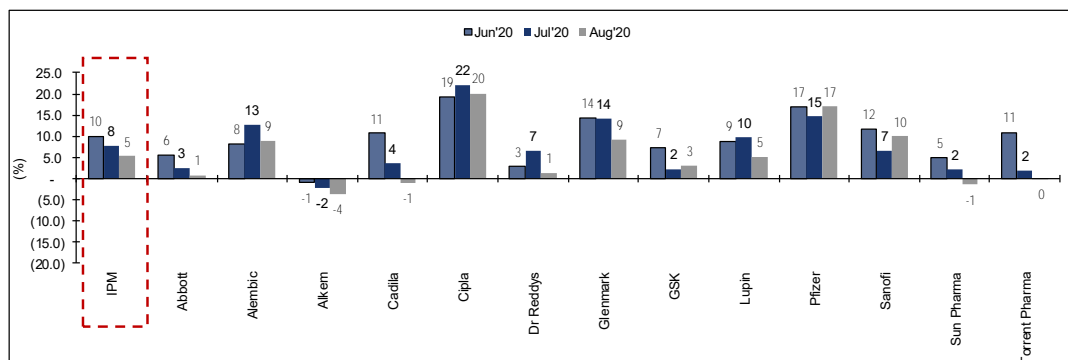
Source: AIOCD; I-Sec research

**Chart 4: Growth (YoY) trend of Acute therapies of IPM and companies for Apr-Jun'20**



Source: AIOCD; I-Sec research

**Chart 5: Growth (YoY) trend of Chronic therapies of IPM and companies for Apr-Jun'20**



Source: AIOCD; I-Sec research

**Table 1: Growth (%) of top 5 products of companies for Jan-Jun'20**

Company	Jan'20	Feb'20	Mar'20	Apr'20	May'20	Jun'20	Jul'20	Aug'20
Abbott	(1.2)	3.7	9.7	(4.0)	(15.0)	(3.8)	(8.3)	(12.3)
Alembic	(4.3)	11.3	18.1	(2.7)	(14.0)	7.7	14.7	4.0
Alkem	(0.8)	11.3	7.3	(7.1)	(2.6)	11.4	8.2	(0.1)
Cadila	5.3	9.4	9.4	(1.1)	2.7	10.6	12.7	0.0
Cipla	11.4	19.2	21.3	0.4	(3.6)	14.7	11.9	4.6
Dr Reddy's	13.8	27.7	6.8	(11.9)	(16.2)	(0.7)	9.7	8.7
Glenmark	17.9	23.7	24.1	5.7	6.0	38.8	119.5	138.8
GSK	7.0	12.0	11.6	(9.7)	(8.3)	9.7	(2.2)	(9.8)
Lupin	4.7	10.0	13.3	4.3	0.8	5.4	8.3	1.0
Pfizer	17.0	18.9	18.3	3.9	3.2	17.0	17.7	9.8
Sanofi	(0.2)	8.0	13.2	(1.4)	(1.0)	8.8	0.8	(2.2)
Sun Pharma	7.6	11.9	16.6	8.6	3.9	8.6	7.4	6.9
Torrent Pharma	14.6	23.3	24.4	0.3	1.9	13.4	5.7	7.0

Source: AIOCD; I-Sec research

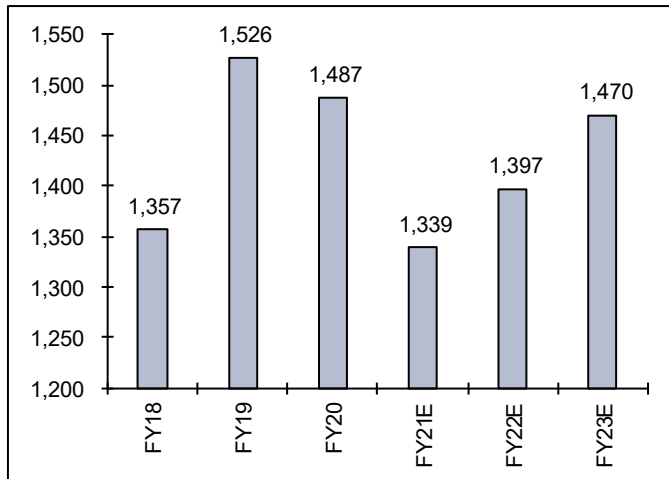
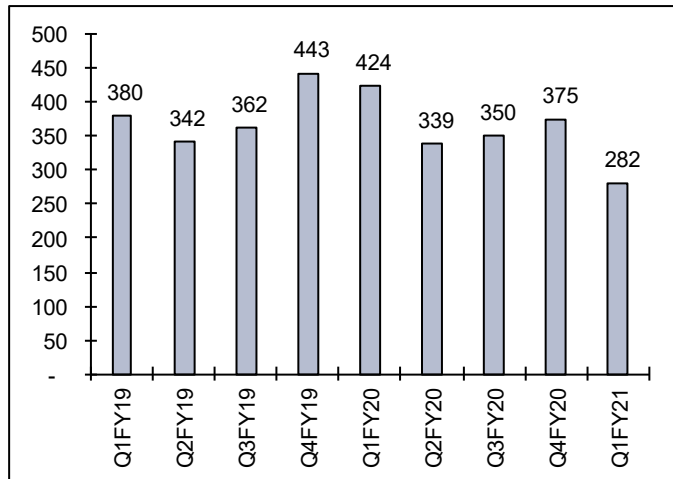
**Table 2: Growth (%) of top 20 products of companies for Jan-Jun'20**

Company	Jan'20	Feb'20	Mar'20	Apr'20	May'20	Jun'20	Jul'20	Aug'20
Abbott	1.7	6.4	8.1	(5.0)	(8.3)	3.3	(0.3)	(4.1)
Alembic	(2.7)	9.0	12.3	(5.1)	(10.2)	5.6	10.7	2.3
Alkem	(1.8)	9.5	4.7	(12.6)	(9.6)	0.8	(0.2)	(6.5)
Cadila	9.2	15.2	11.3	(3.5)	(3.0)	5.8	2.8	(3.5)
Cipla	7.9	15.3	18.8	(4.4)	(7.5)	12.6	13.1	6.5
Dr Reddy's	16.8	26.6	12.1	(9.9)	(9.5)	5.6	13.1	4.9
Glenmark	18.2	23.3	25.2	1.9	1.7	25.5	59.2	64.3
GSK	4.7	14.1	3.4	(18.8)	(14.9)	(4.4)	(10.6)	(10.0)
Lupin	11.8	17.7	17.3	3.8	0.5	6.5	5.2	(0.1)
Pfizer	16.1	17.6	18.6	7.0	3.5	15.0	12.7	8.7
Sanofi	0.9	11.6	11.6	(7.6)	(4.0)	7.0	1.8	4.1
Sun Pharma	11.0	15.6	17.5	3.4	0.4	4.7	1.8	0.4
Torrent Pharma	13.5	18.9	23.5	0.2	(3.3)	7.4	(1.8)	(2.8)

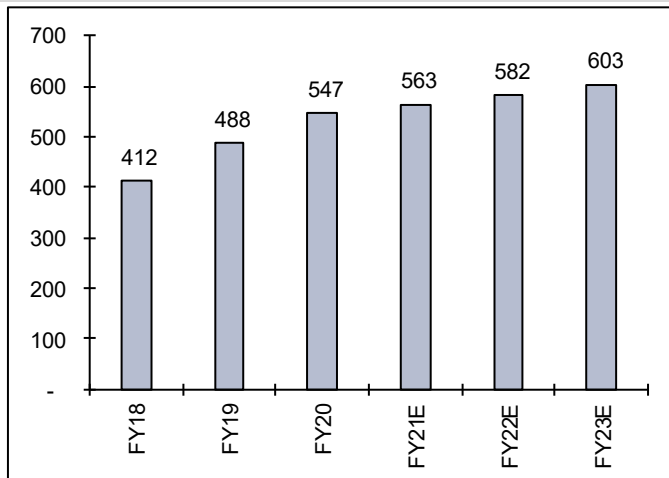
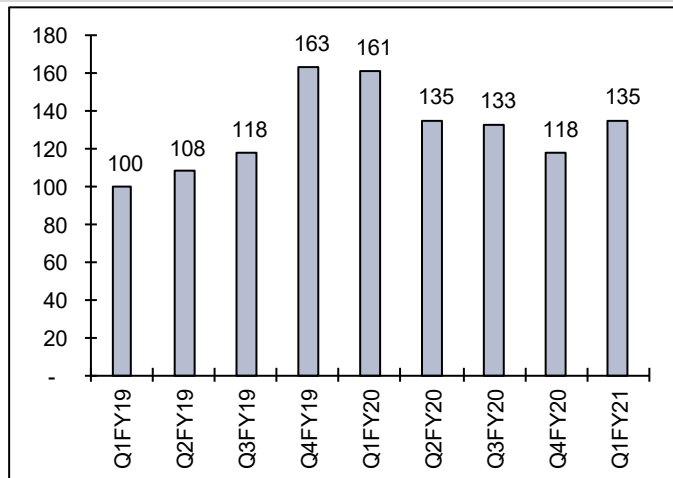
Source: AIOCD; I-Sec research

**Chart 6: Quarterly and annual growth trend in US sales (US\$ mn) of larger companies**

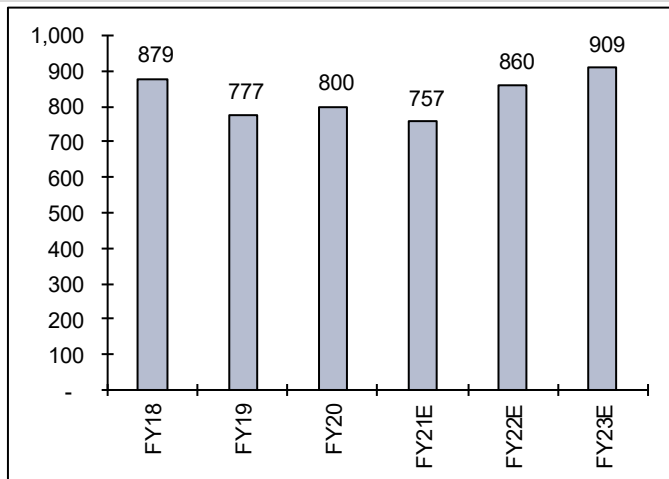
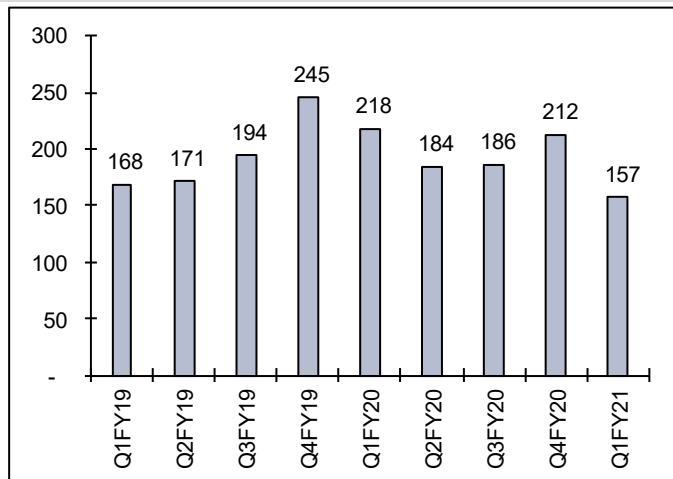
**Sun Pharma**



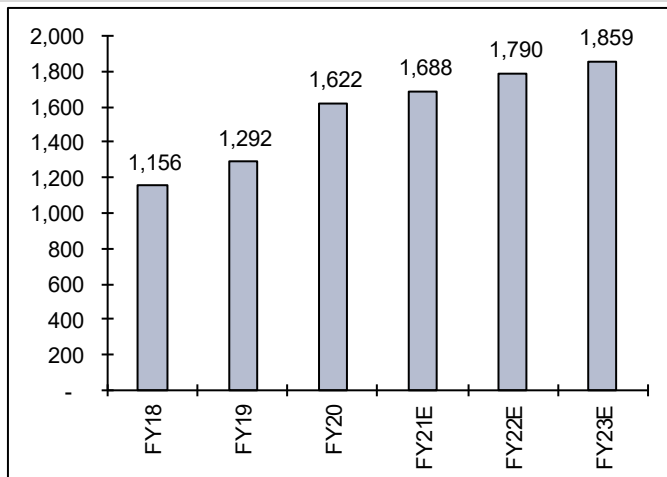
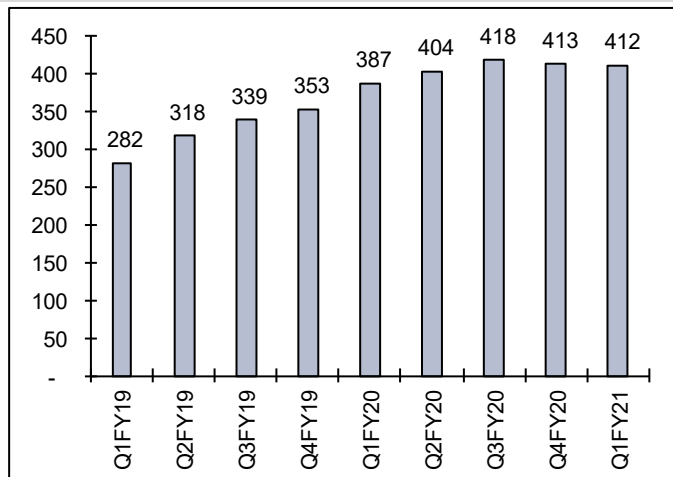
**Cipla**



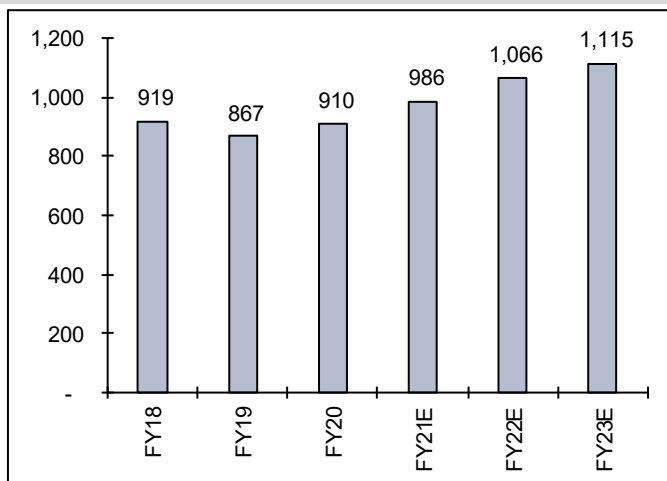
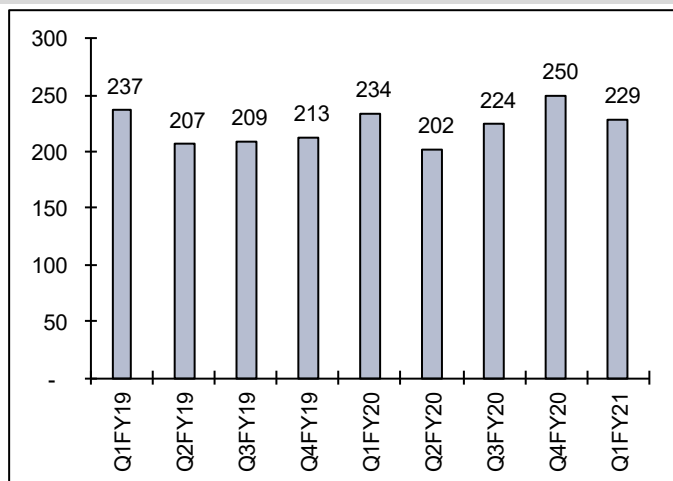
**Lupin**



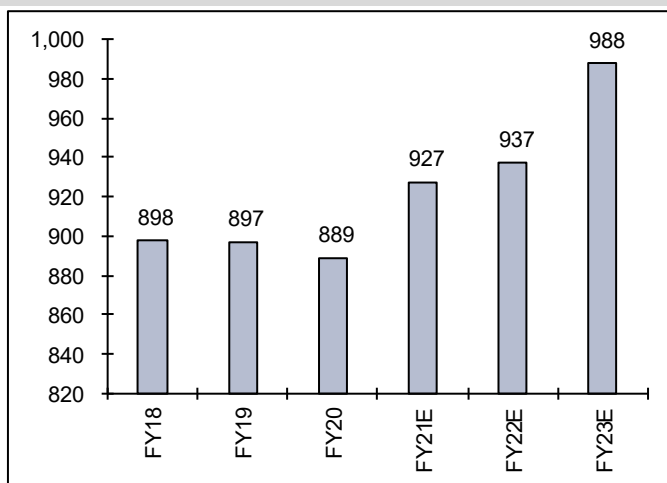
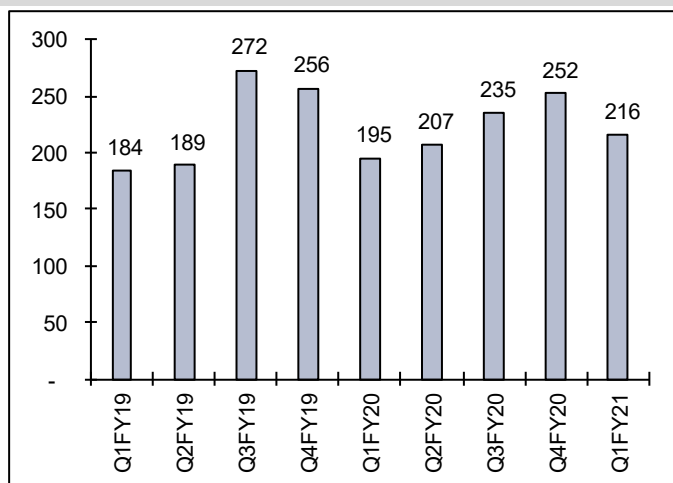
**Aurobindo**



**Dr Reddy's**



**Cadila**



Source: Company data; I-Sec research

## Estimates and target price revision

We have revised estimates of companies to factor in lower India growth in FY21E considering negative growth in first five months of FY21, lower injectable sales in US in H1FY21 and realignment of costs considering extended lockdown in India. We have introduced FY23 estimates for the companies and roll-over our target price to Sep'22 earnings from FY22 earlier.

**Table 3: Change in estimates, ratings and target price**

	Change in Revenue (%)		Change in EPS (%)		Target Price		Rating	
	FY21E	FY22E	FY21E	FY22E	New	Old	New	Old
Abbott India	(1.0)	(1.8)	(2.3)	(3.6)	<b>19,314</b>	18,712	<b>Buy</b>	Buy
Alembic Pharma	(0.3)	(0.3)	6.7	(3.7)	<b>1,015</b>	1,066	<b>Add</b>	Add
Alkem	(0.7)	(0.7)	0.2	(2.3)	<b>3,679</b>	3,500	<b>Buy</b>	Buy
Aurobindo	(1.7)	(1.7)	(6.0)	(4.6)	<b>1,005</b>	1,026	<b>Buy</b>	Add
Biocon	-	-	(0.1)	(4.3)	<b>485</b>	429	<b>Add</b>	Hold
Cadila	(0.5)	(0.5)	(2.8)	(2.2)	<b>410</b>	397	<b>Add</b>	Hold
Cipla	(0.3)	(0.3)	(0.4)	(1.9)	<b>805</b>	800	<b>Add</b>	Add
Dr Reddy's	(0.9)	(0.9)	0.4	0.4	<b>4,713</b>	4,406	<b>Add</b>	Hold
Glenmark	(0.5)	(0.5)	0.1	(4.4)	<b>551</b>	538	<b>Add</b>	Add
GSK Pharma	(1.1)	(1.5)	(3.8)	(0.2)	<b>1,539</b>	1,432	<b>Reduce</b>	Hold
Jubilant Life	-	-	-	-	<b>822</b>	822	<b>Add</b>	Hold
Lupin	(1.6)	(2.0)	(9.7)	(6.9)	<b>916</b>	912	<b>Hold</b>	Hold
Natco	(1.9)	(1.9)	(7.0)	(4.6)	<b>875</b>	874	<b>Add</b>	Add
Pfizer	(1.2)	(2.3)	5.1	0.8	<b>5,085</b>	4,705	<b>Hold</b>	Add
Sanofi India*	-	-	-	-	<b>8,838</b>	7,948	<b>Hold</b>	Hold
Shilpa Medicare	(1.1)	(4.8)	(7.1)	(10.0)	<b>638</b>	716	<b>Add</b>	Add
Strides	-	-	-	-	<b>773</b>	710	<b>Buy</b>	Buy
Sun Pharma	(2.4)	(2.9)	(4.7)	(5.6)	<b>617</b>	612	<b>Buy</b>	Buy
Torrent Pharma*	0.1	0.4	1.9	1.3	<b>3,080</b>	2,874	<b>Add</b>	Add

Source: I-Sec research; Note: Torrent target multiple is based on EV/EBITDA; Year-end in Dec for Sanofi India

Table 4: Valuation summary

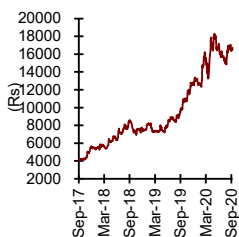
	RATING	CMP (Rs)	TP (Rs)	M Cap (Rs bn)	PE (x)			EV/EBITDA (x)			ROE (%)			RoCE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
<b>Pharma</b>																
Alembic	Add	912	1,015	172	20.4	20.4	19.2	13.9	12.5	11.5	22.3	17.7	16.5	15.3	14.0	13.6
Alkem	Buy	2,909	3,679	348	23.7	22.1	19.2	17.2	16.1	13.8	22.0	20.3	18.0	17.7	18.7	
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Glenmark	Add	483	551	136	16.8	15.0	13.1	8.7	7.9	7.0	12.6	12.6	12.8	9.5	9.7	10.2
Jubilant LifeScienc	Add	762	822	118	13.4	11.7	10.3	7.5	6.5	5.6	15.1	15.2	15.2	10.3	10.9	11.5
Lupin	Hold	968	916	439	40.9	27.3	23.6	19.0	14.4	12.4	8.3	11.5	12.1	6.7	10.0	10.9
Natco	Add	783	875	143	28.9	25.2	22.9	22.1	19.2	17.2	12.4	12.9	12.9	11.5	12.0	12.1
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<b>MNC</b>																
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Pfizer	Hold	4,920	5,085	225	43.2	36.3	31.7	29.7	25.1	21.8	17.8	22.9	22.0	17.3	22.1	21.2
Sanofi India (CY er	Hold	8,504	8,838	196	37.6	34.7	29.3	26.9	25.4	21.6	22.1	23.2	23.9	21.3	22.4	23.1

	Revenue (Rs m)				EBITDA Margin (%)				Adjusted PAT (Rs m)				EPS (Rs)			
	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
<b>Pharma</b>																
Alembic	46,060	54,118	61,190	67,727	26.6	25.0	24.3	23.5	8,377	8,772	8,795	9,338	45.8	44.6	44.7	47.5
Alkem	83,444	91,719	101,429	111,934	17.7	21.9	20.7	21.3	10,957	14,693	15,723	18,108	94.3	122.9	131.5	151.5
Aurobindo	230,985	253,813	271,008	284,229	21.1	20.9	21.6	21.7	28,807	32,323	35,784	37,830	49.1	55.1	61.0	64.5
Biocon	63,672	75,683	94,566	112,791	25.2	27.6	30.5	34.0	6,986	10,092	15,346	21,880	5.8	8.4	12.8	18.2
Cadila	142,019	153,794	162,859	174,288	19.1	21.5	21.3	21.4	14,194	18,632	19,904	22,102	13.9	18.2	19.4	21.6
Cipla	171,320	185,818	202,266	219,487	19.0	21.3	21.3	21.5	15,838	21,439	24,336	27,593	19.6	26.6	30.2	34.2
Dr Reddy's	167,371	194,616	213,194	230,696	21.1	23.7	24.1	24.1	25,055	26,072	29,808	32,193	112.0	157.1	179.6	193.9
Glenmark	106,410	112,076	122,257	132,276	16.0	17.5	17.4	17.5	6,713	8,103	9,073	10,371	23.8	28.7	32.2	36.8
Jubilant LifeScienc	91,544	96,525	103,275	110,618	21.3	20.6	21.1	21.6	9,239	9,063	10,379	11,819	58.0	56.9	65.2	74.2
Lupin	152,307	157,079	177,299	192,481	14.5	15.0	17.1	17.7	(104,541)	10,727	16,036	18,547	22.0	23.7	35.4	40.9
Natco	19,150	21,145	23,325	25,574	30.4	30.7	32.0	32.3	4,608	4,925	5,647	6,217	25.3	27.1	31.0	34.2
Shilpa Medicare	9,079	10,504	11,684	13,000	24.2	25.6	27.5	28.3	1,562	1,799	2,187	2,544	19.2	22.1	26.8	31.2
Strides Pharma Sci	27,637	32,877	36,180	39,378	19.8	20.6	21.1	21.3	1,425	2,504	3,742	4,409	12.4	29.4	41.8	49.2
Sun	327,875	341,815	371,006	400,860	21.2	22.7	23.8	24.3	39,410	47,644	57,705	65,651	16.4	19.9	24.1	27.4
Torrent Pharma	79,393	84,410	93,783	103,330	27.3	29.8	30.6	30.8	10,247	12,450	15,690	18,600	57.4	73.6	92.7	109.9
<b>MNC</b>																
Abbott India	40,931	44,532	49,329	54,082	18.5	21.4	23.0	23.5	5,929	7,517	9,126	10,417	279.0	353.8	429.5	490.2
GSK Pharma	32,244	33,715	36,933	40,643	20.4	20.8	21.8	22.8	1,973	5,020	6,141	6,898	28.6	29.6	36.3	40.7
Pfizer	21,517	23,348	25,770	28,325	26.6	30.5	31.8	32.1	4,422	5,214	6,197	7,095	109.3	114.0	135.5	155.1
Sanofi India (CY er	30,706	30,586	30,899	33,839	21.7	22.3	22.9	24.0	4,551	5,205	5,643	6,677	197.9	226.3	245.3	290.3

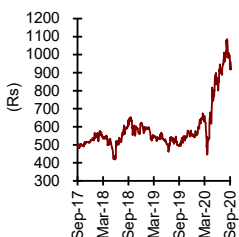
Source: I-Sec research; Note: Year end in Dec for Sanofi India

Price charts

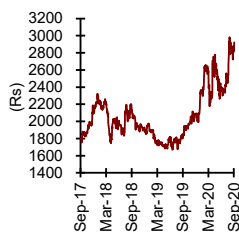
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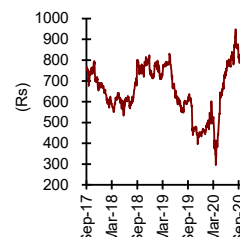
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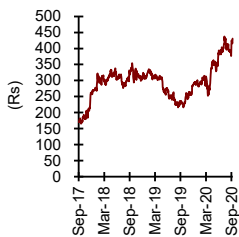
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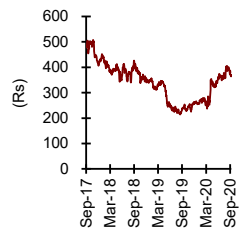
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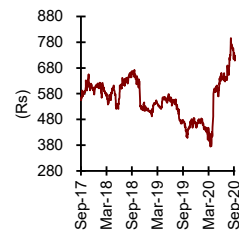
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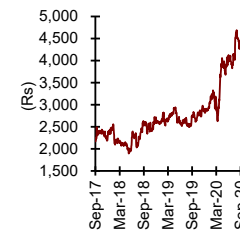
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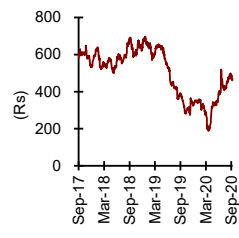
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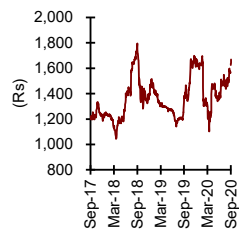
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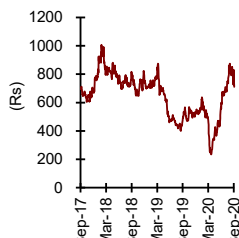
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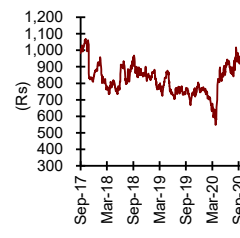
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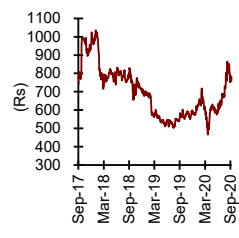
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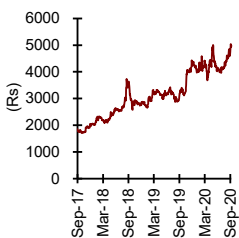
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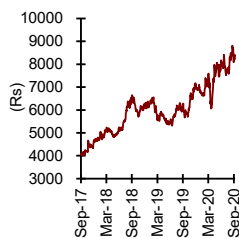
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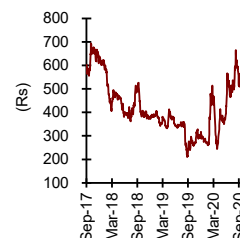
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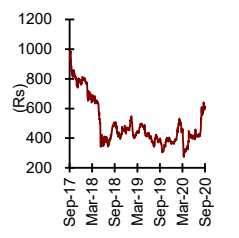
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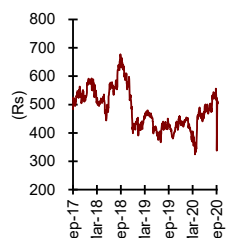
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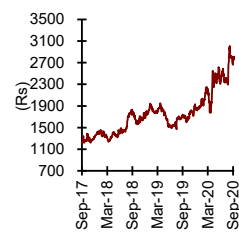
Strides Pharma Science



Sun Pharma



Torrent Pharma



Source: Bloomberg



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