

November 22, 2017

Health Check

Domestic growth back but US pain continues...

Companies in the I-direct pharma universe reported muted Q2 numbers as a challenging environment in the US generic space continued to weigh despite a recovery in domestic formulations post GST implementation. The revenues of the universe were at ₹ 38621 crore, almost flat YoY. EBITDA for the universe declined ~14% YoY to ₹ 8242 crore mainly due to pricing pressure and high base of exclusivities in the US. However, an improvement in domestic margins, cost control and curb in R&D spending restricted a further fall in margins.

On the M&A front, Torrent Pharma has entered into an agreement to acquire Unichem's India branded formulations business for a consideration of ₹ 3,600 crore. Unichem's India business comprises a portfolio of more than 120 brands in India and Nepal, a manufacturing plant at Sikkim and the entire employee base. The deal is expected to get closed by end of 2017. As per IMS MAT, with this deal, Torrent's domestic market share will increase to 3.4% from the current 2.4% making it the fifth largest player in India.

On the regulatory front, the USFDA has issued a combined warning letter for Lupin's Goa (oral solid) formulation plant and Pithampur (Indore) unit II (oral solid, ophthalmic) formulation plant. Lupin's management expects a resolution of this warning letter within 12-15 months.

USFDA has lifted the import alert from Divis' Visakhapatnam unit. Subsequently, USFDA has closed a warning letter issued to this unit following evaluation of corrective actions taken by the company at the plant.

On the other hand, the USFDA has issued an establishment inspection report (EIR) in relation to cGMP inspection of Biocon's aseptic product facility (inspected on May 25-June 3, 2017). The outcome has been classified as voluntary action indicated (VAI). The EIR says the inspection has been closed. Dr Reddy's Duvvada facility (formulations) has also received EIR from the USFDA. However, the warning letter is not yet closed. Dr Reddy's is planning to request a re-inspection of the facility in 2018.

Finally, the Indian pharmaceutical market (IPM) grew 6.5% YoY to ₹ 10376 crore for October. The volume growth continues to show strong momentum. However, price component continues to be a dampener.

Relief unlikely on US front despite faster clearances for plants

EIRs from the USFDA for clearance of plants are coming faster than expected (Lupin's warning letter a glaring exception though). This may further expedite product approvals, thus intensifying competition. This will further intensify pricing pressure that has been the core issue compared to compliance. From our I-direct universe, almost all players with the US franchisee are facing intense competition in the US owing to client consolidation and increase in product approvals, leading to price erosion in existing products to high single digit to low double digit. Similarly, other issues/uncertainties in the US like pricing probe by the Department of Justice (DoJ) and adapting to the bidding process are other near term overhangs. Back home, domestic growth, post GST implementation, has shown a partial recovery. Despite a steep correction in some stocks, the undercurrent remains cautious for the sector. We expect the earnings momentum to normalise from H2FY19 onwards on the back of 1) incremental product launches largely from speciality, biosimilar and injectables segments in the US, 2) normalising of Indian formulations growth and 3) recovery in emerging markets.

Monthly Update

Stocks Performance

Company	Return (%)				Mcap
	1M	3M	YTD	1Y	
Sun Pharma.Inds.	1	17	-14	-22	129319
Cipla	2	10	9	13	49778
Cadila Health.	-8	-4	27	24	46319
Aurobindo Pharma	-5	3	7	0	41847
Dr Reddy's Labs	1	25	-21	-23	39913
Lupin	-20	-9	-43	-40	38022
Divi's Lab.	20	70	35	-10	28002
Biocon	13	30	34	49	25470
Torrent Pharma.	-6	2	-3	-2	21567
Glaxosmit Pharma	2	4	-9	-8	20990
Glenmark Pharma.	-2	0	-33	-33	16799
Natco Pharma	-8	25	56	56	15808
Apollo Hospitals	6	7	-5	-2	15579
Ajanta Pharma	13	17	-24	-23	11864
Jubilant Life	3	-5	4	9	10500
Syngene Int.	3	18	-7	0	10432
Alembic Pharma	3	-1	-13	-16	9709
Pfizer	14	11	8	10	8999
Wockhardt	21	39	13	8	8239
Strides Arcolab	-5	-8	-22	-19	7400
Ipca Labs.	10	33	2	2	6880
Unichem Labs.	16	19	14	16	2650
Indoco Remedies	7	38	2	-5	2461

Market cap in ₹ crore

Global Indices Performance

Company	Return (%)					
	1M	3M	YTD	1Y	3Y	5Y
S&P 500 Pharm Index (US)	-5	2	10	11	4	14
NASDAQ Biotechnology (US)	-7	1	17	8	2	18
S&P Pharmaceuticals (US)	-3	4	7	3	-5	12
DJ Pharma and Biotech (US)	-6	3	15	13	4	16
DJ STOXX Healthcare (EU)	-3	1	5	9	4	12
TOPIX Pharma Index (Japan)	-1	10	11	13	10	18
MSCI World Pharm & Biotech	-5	2	14	14	2	13
NSE Pharma	-2	11	-8	-11	-5	11

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Geographical/segmental performance in Q2FY18

India					
(₹ crore)	Q2FY18	Q2FY17	Var. (%)	Q1FY18	Var. (%)
Ajanta	172.0	154.0	11.7	135.0	27.4
Alembic	346.5	338.0	2.5	210.0	65.0
Biocon	175.9	136.6	28.8	130.4	34.9
Cadila	894.5	820.9	9.0	637.6	40.3
Glenmark	710.7	674.9	5.3	616.4	15.3
Indoco	188.2	168.8	11.5	99.7	88.8
Ipca	424.7	404.4	5.0	295.0	44.0
Lupin	1,159.3	995.8	16.4	932.4	24.3
Cipla	1,646.0	1,469.0	12.0	1,271.0	29.5
Dr Reddy's	637.0	625.1	1.9	468.7	35.9
Sun Pharma	2,221.0	2,009.1	10.5	1,760.8	26.1
Torrent	607.0	496.0	22.4	464.0	30.8
Unichem	266.4	227.0	17.4	170.6	56.2
Total	9,449.2	8,519.5	10.9	7,191.6	31.4

US					
(₹ crore)	Q2FY18	Q2FY17	Var. (%)	Q1FY18	Var. (%)
Aurobindo	2,098.9	1,735.1	21.0	1,694.9	23.8
Cadila	1,643.6	988.8	66.2	965.0	70.3
Cipla	617.3	660.0	-6.5	646.0	-4.4
Glenmark	727.1	771.2	-5.7	1,045.0	-30.4
Lupin	1,361.1	1,997.8	-31.9	1,601.8	-15.0
Dr Reddy's	1,431.8	1,613.4	-11.3	1,494.6	-4.2
Sun Pharma	1,986.2	3,714.4	-46.5	2,264.6	-12.3
Torrent	255.0	322.0	-20.8	272.0	-6.3
Total	10,121.0	11,802.7	-14.2	9,984.0	1.4

Europe					
(₹ crore)	Q1FY18	Q1FY17	Var. (%)	Q4FY17	Var. (%)
Aurobindo	917.6	831.2	10.4	777.2	18.1
Cadila	60.8	79.2	-23.2	62.0	-1.9
Glenmark	162.1	150.0	8.1	229.8	-29.5
Dr Reddy's	207.5	161.5	28.5	206.6	0.4
Lupin	123.8	128.0	-3.2	135.5	-8.6
Torrent	202.0	187.0	8.0	235.0	-14.0
Total	1673.8	1536.8	8.9	1646.0	1.7

Latin America					
(₹ crore)	Q2FY18	Q2FY17	Var. (%)	Q1FY18	Var. (%)
Cadila	67.5	65.6	2.9	50.9	32.6
Glenmark	104.7	133.8	-21.7	84.5	23.9
Torrent	120.0	157.0	-23.6	181.0	-33.7
Total	292.2	356.4	-18.0	316.4	-7.6

API					
(₹ crore)	Q2FY18	Q2FY17	Var. (%)	Q1FY18	Var. (%)
Aurobindo	771.8	768.8	0.4	625.0	23.5
Alembic	142.0	164.0	-13.4	130.0	9.2
Cadila	92.9	83.2	11.7	68.9	34.8
Glenmark	236.6	221.3	6.9	204.8	15.6
Divi's Lab	443.0	489.7	-9.5	402.9	10.0
Indoco	14.7	13.6	8.2	14.9	-1.3
Ipca Labs	193.8	184.5	5.0	171.5	13.0
Lupin	265.0	291.9	-9.2	279.3	-5.1
Cipla	212.2	110.0	92.9	130.0	63.2
Dr Reddy's	565.4	578.4	-2.2	465.1	21.6
API	58.3	47.6	22.5	86.3	-32.4
Sun Pharma	413.4	371.3	11.3	318.4	29.8
Unichem	25.0	24.5	2.0	21.9	14.1
Total	3434.1	3348.9	2.5	2919.0	17.6

Q2FY18 Results Review

Companies in the I-direct pharma universe reported muted Q2 numbers as a challenging environment in the US generic space continued to weigh despite recovery in the domestic formulations post GST implementation. Revenues of the universe were at ₹ 38621 crore, almost flat YoY. EBITDA for the universe declined ~14% YoY to ₹ 8242 crore mainly due to pricing pressure and high base of exclusivities in the US. However, an improvement in domestic margins, cost control and curb in R&D spending restricted a further fall in margins. The fall in EBITDA also had a cascading effect on the net profit of the universe, which fell 20% YoY to ₹ 4850 crore.

Exhibit 1: Actual s vs. estimates

Company	Revenues		EBITDA		Net profit	
	Q2FY18	Q2FY18E	Q2FY18	Q2FY18E	Q2FY18	Q2FY18E
Ajanta Pharma	540.4	506.4	183.7	147.6	131.9	108.6
Alembic Pharma	789.3	846.0	179.2	152.3	121.6	104.8
Aurobindo Pharma	4435.9	4188.7	1117.3	1121.9	781.6	727.6
Biocon	968.6	982.2	182.3	203.3	68.8	80.7
Cadila Healthcare	3234.0	3072.4	857.1	798.8	503.3	609.0
Divi's Laboratories	890.2	958.6	277.2	312.7	206.8	228.4
Cipla	4082.4	4072.0	804.4	773.7	422.6	437.0
Dr Reddy's Labs	3559.8	3619.4	669.4	651.5	305.4	303.5
Glenmark Pharma	2256.6	2359.8	388.4	465.4	214.1	263.3
Indoco Remedies	284.8	291.1	40.9	41.3	19.8	21.4
Ipca laboratories	864.3	890.8	149.0	114.9	96.5	53.0
Jubilant Life Sciences	1641.8	1716.1	306.1	407.7	128.3	188.6
Lupin	3952.0	4065.1	853.1	833.4	455.1	416.0
Natco Pharma	426.7	496.4	121.9	153.7	84.8	103.0
Sun Pharma	6650.3	7215.7	1375.6	1443.1	912.1	967.4
Syngene	335.2	320.2	113.5	105.7	76.9	69.2
Torrent Pharma	1429.0	1541.8	329.0	323.8	204.0	205.7
Unichem Labs	428.1	411.5	72.3	43.3	45.8	27.0
Apollo Hospitals	1851.6	1835.1	221.2	221.2	70.9	82.1
Total	38621.0	39389.3	8241.6	8315.3	4850.1	4996.3

Source: Company, ICICIdirect.com Research

Exhibit 2: Quarterly performance of I-direct healthcare coverage

Company	Revenues			EBITDA			Profit		
	Q2FY18	Q2FY17	Var. (%)	Q2FY18	Q2FY17	Var. (%)	Q2FY18	Q2FY17	Var. (%)
Ajanta Pharma	540.4	515.8	4.8	183.7	172.7	6.4	131.9	130.7	0.9
Alembic Pharma	789.3	879.4	-10.2	179.2	177.8	0.8	121.6	119.8	1.5
Aurobindo Pharma	4435.9	3775.5	17.5	1117.3	929.2	20.2	781.6	585.5	33.5
Biocon	968.6	954.1	1.5	182.3	240.0	-24.0	68.8	146.7	-53.1
Cadila Healthcare	3234.0	2403.5	34.6	857.1	516.0	66.1	503.3	380.0	32.4
Divi's Laboratories	890.2	1005.4	-11.5	277.2	291.2	-4.8	206.8	223.9	-7.6
Cipla	4082.4	3751.0	8.8	804.4	680.7	18.2	422.6	354.3	19.3
Dr Reddy's Labs	3559.8	3616.3	-1.6	669.4	627.0	6.8	305.4	308.9	-1.1
Glenmark Pharma	2256.6	2224.1	1.5	388.4	448.8	-13.5	214.1	223.6	-4.2
Indoco Remedies	284.8	281.0	1.4	40.9	42.0	-2.4	19.8	22.1	-10.7
Ipca laboratories	864.3	885.1	-2.3	149.0	128.0	16.4	96.5	50.3	91.8
Jubilant Life Sciences	1641.8	1385.5	18.5	306.1	340.3	-10.1	128.3	144.6	-11.3
Lupin	3952.0	4290.5	-7.9	853.1	1028.1	-17.0	455.1	662.2	-31.3
Natco Pharma	426.7	460.3	-7.3	121.9	104.8	16.3	84.8	66.5	27.5
Sun Pharma	6650.3	8265.1	-19.5	1375.6	3167.7	-56.6	912.1	2235.1	-59.2
Syngene	335.2	303.0	10.6	113.5	105.6	7.5	76.9	74.7	2.9
Torrent Pharma	1429.0	1429.0	0.0	329.0	330.0	-0.3	204.0	207.0	-1.4
Unichem Labs	428.1	364.2	17.5	72.3	39.6	82.7	45.8	20.5	123.3
Apollo Hospitals	1851.6	1634.1	13.3	221.2	221.9	-0.3	70.9	92.0	-22.9
Total	38621.0	38422.9	0.5	8241.6	9591.4	-14.1	4850.1	6048.4	-19.8

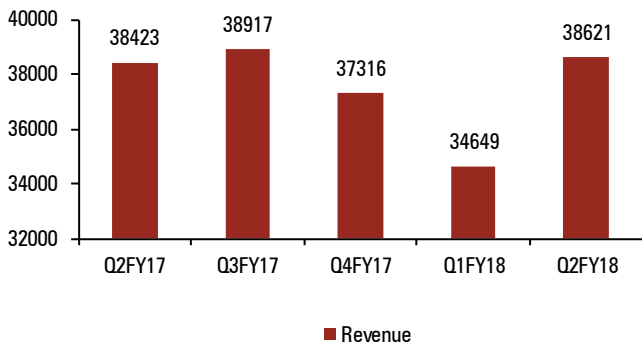
Source: Company, ICICIdirect.com Research

On the revenues front, 11 out of 19 companies under coverage registered negative or muted growth during the quarter due to 1) steep price erosion in the US base business, 2) slower-than-expected domestic recovery in some companies after GST implementation and, 3) changes in reporting pattern (new reporting norm ex- Excise). Bucking the trend, Cadila (35% YoY growth) registered a stellar set of numbers due to Mesalamine (gLiAlda; Ulcerative Colitis).

US sales (select pack) declined 14% YoY to ₹ 10121 crore mainly due to higher base, lack of meaningful approvals and sharp generic price erosion owing to client consolidation and increased competition.

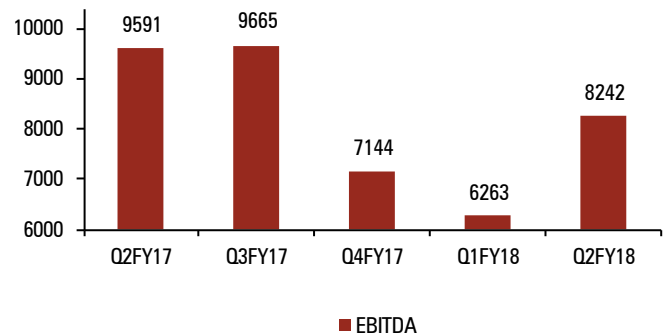
Domestic formulations increased 11% YoY to ₹ 9449 crore on the back of re-stocking at the distributors level post GST implementation.

Exhibit 3: I-direct Healthcare Universe revenues trend



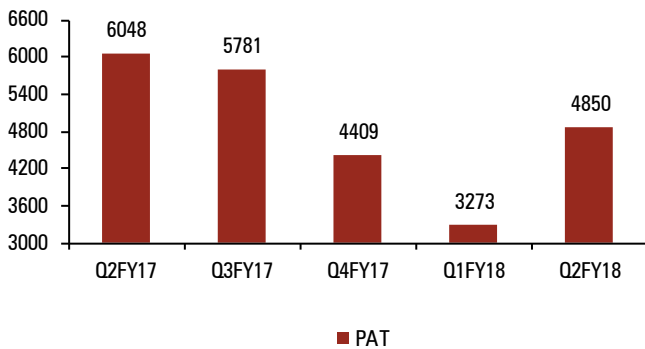
Source: Company, ICICIdirect.com, Research

Exhibit 4: I-direct Healthcare Universe EBITDA trend



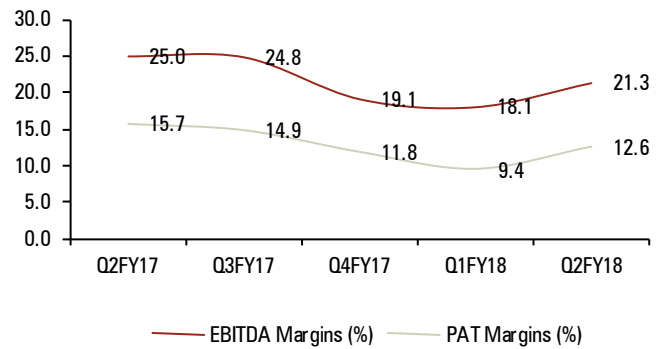
Source: Company, ICICIdirect.com, Research

Exhibit 5: I-direct Healthcare Universe profit trend



Source: Company, ICICIdirect.com, Research

Exhibit 6: Trends in EBITDA & PAT margin of I-direct Healthcare Universe



Source: Company, ICICIdirect.com, Research

Exhibit 7: Deviation from estimates / Change in outlook post Q2FY18 numbers

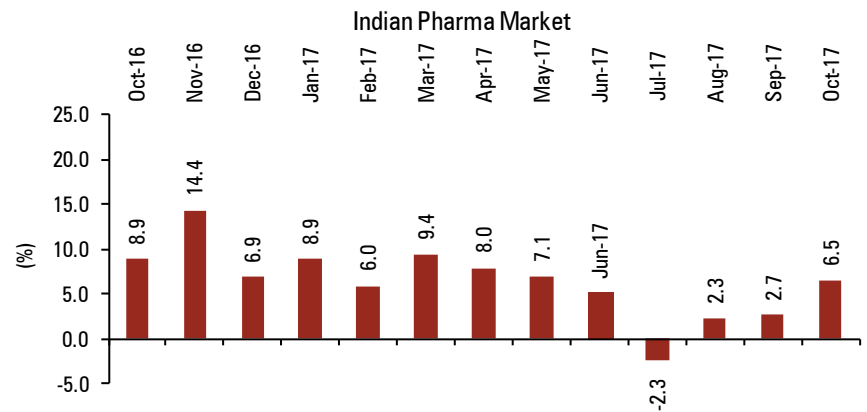
Company	Initial Rating	Current Rating	Deviation from estimates	Remarks
Ajanta Pharma	BUY	HOLD	Above	YoY revenue growth was largely driven by strong growth in domestic sales and African tender business
Alembic Pharma	HOLD	HOLD	Mixed	YoY revenue de-growth mainly on account of higher-than expected price erosion in the US. YoY improvement in EBITDA margins mainly due to a sharp fall in other expenditure
Aurobindo Pharma	HOLD	HOLD	Above	YoY revenue growth mainly due to robust growth in US, Europe and RoW markets and YoY improvement in the EBITDA margins mainly due to higher gross margins
Biocon	HOLD	HOLD	Below	Revenues flat YoY as branded formulations and research services business performed better YoY but weak small molecules performance and licensing income offset the gain. YoY contraction in EBITDA margins was led by higher raw material and employee expenditure
Cadila Healthcare	HOLD	HOLD	Above	Revenues increased YoY mainly due to increase in the US sales led by gLialda (ulcerative colitis) launch under exclusivity. EBITDA margins also improved YoY mainly on account of gLialda (ulcerative colitis) launch under exclusivity
Cipla	HOLD	HOLD	In-Line	Revenues grew YoY mainly due to growth in the domestic formulations. EBITDA margins improved YoY to mainly due of lower employee expense
Divi's labs	HOLD	HOLD	Below	Lower-than-expected as US import alert (now lifted)continued to hit performance
Dr Reddy's Labs	HOLD	HOLD	Mixed	Revenues declined marginally YoY as decline in in the US due to price erosion was offset by growth in Russia and other CIS as well as YoY growth in Europe. However, net profit declined mainly due to lower interest income and higher tax rate
Glenmark Pharma	HOLD	HOLD	Below	Marginal YoY growth in the revenues was more than offset by decline at the EBITDA margins levels attributable to lower gross margins and higher employee costs
Indoco Remedies	HOLD	HOLD	Mixed	Revenues remained flat YoY but the profitability declined due to higher interest expense
Ipca labs	HOLD	HOLD	Mixed	Revenues declined YoY mainly due to lower revenues from export formulations. However, EBITDA margins increased mainly due to stronger gross margins performance leading to higher profitability
Jubilant Life Sciences	BUY	BUY	Mixed	Revenues grew YoY led by higher growth in both pharmaceutical and LSI businesses. However, EBITDA margins declined YoY, impacted mainly by costs related to Triad Isotopes acquisition in the US, leading to decline in the profitability
Lupin	HOLD	HOLD	Above	Revenues declined YoY mainly due to sharp de-growth in US business. Net profit also declined YoY owing to a weak operational performance and higher depreciation and interest expense. However, the results were above I-direct estimates due to better EBITDA margin performance
Natco Pharma	BUY	BUY	Below	Lower-than-expected due to o lower than expected sales in domestic Hep C segment. EBITDA margin increase mainly due to profit sharing from doxorubicin and Oseltamivir sales in US. However, the results were below I-direct estimates was mainly due to higher employee expenses
Sun Pharma	HOLD	HOLD	Below	Lower-than-expected due to challenging generic pricing environment in the US. EBITDA margins declined, due to high base, pricing pressure in the US and decline in Taro's margins
Syngene	HOLD	BUY	Above	Revenues grew YoY due to strong performance in development & manufacturing services and sustained growth in dedicated R&D centres
Torrent Pharma	HOLD	HOLD	Mixed	Revenues and profitability remained flat YoY. However, the revenues came below I-direct estimates due to sharp decline in the US. EBITDA came above I-direct estimates mainly due to better gross margin performance
Unichem Labs	HOLD	UR	Above	Revenues increased YoY on account of growth in domestic as well as export sales. EBITDA margins sharply increased YoY attributable to the lower other expenses, leading to higher profitability

Source: Bloomberg, ICICIdirect.com Research

IPM grows 6.5% YoY in October

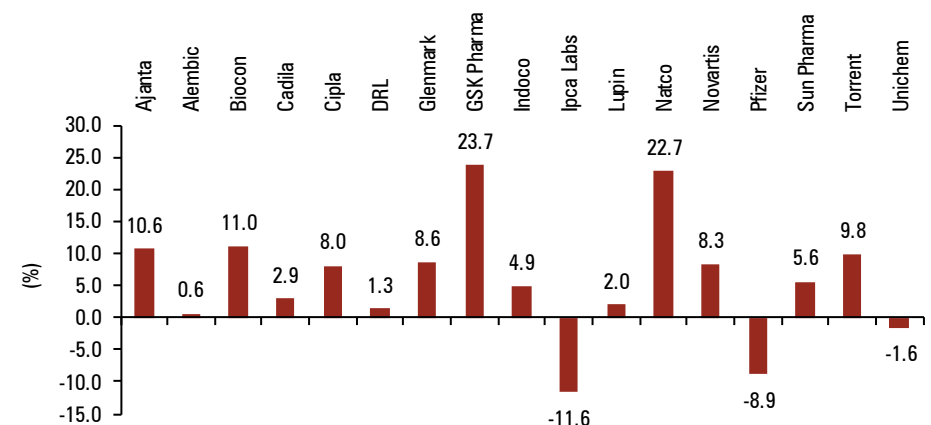
- The Indian pharmaceutical market (IPM) growth grew 6.5% YoY to ₹ 10376 crore in September. IPM growth was due to growth in volumes – 5.6% and new product launches – 2.6%. On the other hand, price growth continues to be in negative territory at 1.7%
- The fixed dosage combination (FDCs) related market grew 10.3% while the non-FDC market showed growth of 7.2%
- Drugs under NLEM list grew 3.3% while non-NLEM drugs grew 7.1%
- Among companies under I-direct coverage Ajanta, Biocon, Cipla, Natco, Torrent and Glenmark registered higher than industry growth rate
- Therapy wise, 10 therapies have shown growth for October. Notable among them with growth rates- anti-diabetic – 11.4% YoY, cardiac – 7.6% and derma – 13.5%. On the other hand, anti-malarials declined 19.8%
- On a MAT basis, IPM growth was at 6% YoY to ₹ 115010 crore
- Domestic company's growth has grown 6.6% YoY while MNC companies have grown 6.3% in October 2017

Exhibit 8: Domestic formulations - growth trend



Source: AIOCD data base, ICICIdirect.com Research

Exhibit 9: Companies growth in domestic market in Oct, 2017



Source: AIOCD data base, ICICIdirect.com Research

Therapy wise performance (₹ crore)

Therapy	Oct' 17	Oct' 16	YoY (%)	Sept' 17	MoM (%)
Anti-Infectives	1549	1525	1.6	1599	-3.1
Cardiac	1229	1142	7.6	1209	1.7
GI	1156	1073	7.8	1190	-2.8
Anti Diabetic	907	814	11.4	902	0.6
Vitamins	882	842	4.8	899	-1.9
Respiratory	843	775	8.7	825	2.2
Pain	724	699	3.7	726	-0.3
Derma	666	587	13.5	661	0.7
Neuro	613	580	5.7	608	0.8
Gynaecological	492	473	4.0	502	-2.1
Anti-Neoplastics	209	203	3.1	211	-1.0
Vaccines	212	172	23.5	198	7.1
Ophthal	185	167	10.3	188	-1.7
Hormones	186	175	6.3	181	2.3
Blood Related	119	124	-4.1	117	2.1
Urology	121	108	12.0	122	-1.0
Others	122	112	9.6	115	6.1
Sex Stimulants	51	48	6.0	49	4.5
Stomatologicals	47	44	8.1	49	-3.6
Anti Malarials	62	77	-19.8	74	-15.9

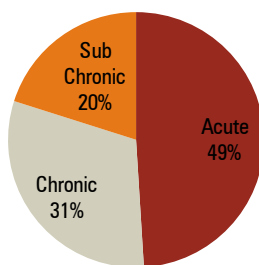
Source: AIOCD data base

Top brands in Indian pharma market (MAT; ₹ crore)

Brand	Company	Therapy	Oct' 17	YoY (%)
Mixtard	Abbott	Anti Diabetic	507.0	3.8
Spasmo Proxyv	Wockhardt	GI	447.0	39.4
Glycomet Gp	USV	Anti Diabetic	434.0	18.7
Galvus Met	Novartis	Anti Diabetic	387.0	27.2
Lantus	Sanofi India	Anti Diabetic	354.0	20.0
Janumet	MSD	Anti Diabetic	346.0	32.8
Augmentin	GSK	Anti-Infectives	326.0	12.0
Liv 52	Himalaya	GI	309.0	10.9
Clavam	Alkem	Anti-Infectives	284.0	3.9
Synflorix	GSK	Anti-Infectives	282.0	37.2

Source: AIOCD data base

Industry Acute vs Chronic vs Sub Chronic



Source: AIOCD data base; As per AIOCD MAT Oct 2017

Exhibit 10: Top five brands in value terms (MAT Value October 2017)

Sun	Brand	Therapy	Sales (₹cr)
1	Volini	Pain	234
2	Istamet	Anti Diabetic	224
3	Rosuvastatin	Cardiac	221
4	Gemer	Anti Diabetic	199
5	Levipil	Neuro	191

Cipla	Brand	Therapy	Sales (₹cr)
1	Foracort	Respiratory	244
2	Duolin	Respiratory	196
3	Seroflo	Respiratory	155
4	Budecort	Respiratory	147
5	Asthalin	Respiratory	143

Cadila	Brand	Therapy	Sales (₹cr)
1	Skinlite	Derma	195
2	Deriphyllin	Respiratory	119
3	Pantodac	GI	113
4	Mifegest Kit	Gynaecological	112
5	Atorva	Cardiac	108

Lupin	Brand	Therapy	Sales (₹cr)
1	Gluconorm-G	Anti Diabetic	191
2	Budamate	Respiratory	105
3	Tonact	Cardiac	90
4	Rablet-D	GI	66
5	Rablet	GI	54

Torrent	Brand	Therapy	Sales (₹cr)
1	Shelcal	Vitamins	187
2	Chymoral For Pain		114
3	Nikoran	Cardiac	96
4	Azulix-Mf	Anti Diabetic	87
5	Nebicard	Cardiac	81

Dr. Reddys	Brand	Therapy	Sales (₹cr)
1	Omez	GI	113
2	Omez D	GI	102
3	Econorm	GI	74
4	Atarax	Respiratory	72
5	Razo D	GI	65

Glenmark	Brand	Therapy	Sales (₹cr)
1	Telma	Cardiac	182
2	Telma H	Cardiac	173
3	Ascoril Plus	Respiratory	116
4	Candid	Derma	114
5	Candid-B	Derma	95

IPCA	Brand	Therapy	Sales (₹cr)
1	Zerodol Sp	Pain	121
2	Zerodol P	Pain	93
3	Hcqs	Anti Malarials	85
4	Larinate	Anti Malarials	53
5	Glycinorm M	Anti Diabetic	46

Alembic	Brand	Therapy	Sales (₹cr)
1	Azithral	Anti-Infectives	147
2	Althrocin	Anti-Infectives	76
3	Wikoryl	Respiratory	57
4	Gestofit	Gynaecological	54
5	Roxid	Anti-Infectives	49

Unichem	Brand	Therapy	Sales (₹cr)
1	Losar H	Cardiac	101
2	Losar	Cardiac	74
3	Ampoxin	Anti-Infectives	67
4	Unienzyme	GI	60
5	Vizylac	GI	31

Natco	Brand	Therapy	Sales (₹cr)
1	Hepcinat	Anti-Infectives	199
2	Geftinat	Anti-Neoplastics	147
3	Erlonat	Anti-Neoplastics	105
4	Veenat	Anti-Neoplastics	102
5	Natdac	Anti-Infectives	88

Indoco	Brand	Therapy	Sales (₹cr)
1	Febrex Plus	Respiratory	78
2	Cyclopam	GI	49
3	Oxipod	Anti-Infectives	44
4	Sensodent-K	Stomatologicals	38
5	Cital	Urology	35

Ajanta	Brand	Therapy	Sales (₹cr)
1	Met XI	Cardiac	84
2	Atorfit Cv	Cardiac	51
3	Melacare	Derma	49
4	Feburic	Pain	24
5	Rosufit Cv	Cardiac	22

Biocon	Brand	Therapy	Sales (₹cr)
1	Insugen	Anti Diabetic	110
2	Basalog	Anti Diabetic	77
3	Canmab	Anti-Neoplastics	36
4	Erypro	Blood Related	23
5	Insugen R	Anti Diabetic	23

Source: Bloomberg, ICICIdirect.com Research

Exhibit 11: Top five therapies in value term (MAT Value October 2017)

Sun	Therapy	Sales (₹cr)
1	Cardiac	1853
2	Neuro	1710
3	GI	1149
4	Anti-Infectives	976
5	Anti Diabetic	932

Cipla	Therapy	Sales (₹cr)
1	Respiratory	1718
2	Anti-Infectives	1257
3	Cardiac	661
4	GI	404
5	Urology	275

Cadila	Therapy	Sales (₹cr)
1	Anti-Infectives	727
2	Cardiac	687
3	GI	557
4	Respiratory	497
5	Pain	471

Lupin	Therapy	Sales (₹cr)
1	Cardiac	928
2	Anti-Infectives	661
3	Anti Diabetic	573
4	Respiratory	495
5	GI	310

Torrent	Therapy	Sales (₹cr)
1	Cardiac	774
2	Neuro	455
3	GI	420
4	Vitamins	377
5	Anti Diabetic	202

Dr. Reddys	Therapy	Sales (₹cr)
1	GI	543
2	Cardiac	351
3	Anti-Neoplastics	274
4	Respiratory	252
5	Anti-Infectives	204

Glenmark	Therapy	Sales (₹cr)
1	Derma	768
2	Cardiac	635
3	Respiratory	431
4	Anti-Infectives	378
5	Anti Diabetic	178

IPCA	Therapy	Sales (₹cr)
1	Pain	422
2	Cardiac	264
3	Anti Malarials	260
4	GI	119
5	Anti-Infectives	94

Alembic	Therapy	Sales (₹cr)
1	Anti-Infectives	323
2	Cardiac	218
3	Respiratory	184
4	GI	184
5	Gynaecological	168

Unichem	Therapy	Sales (₹cr)
1	Cardiac	426
2	Neuro	148
3	Anti-Infectives	147
4	GI	109
5	Anti Diabetic	59

Natco	Therapy	Sales (₹cr)
1	Anti-Neoplastics	525
2	Anti-Infectives	402
3	Pain	45
4	Blood Related	3
5	Cardiac	1

Indoco	Therapy	Sales (₹cr)
1	Respiratory	141
2	Anti-Infectives	135
3	Stomatologicals	125
4	GI	111
5	Vitamins	58

Ajanta	Therapy	Sales (₹cr)
1	Cardiac	281
2	Ophthal	177
3	Derma	126
4	Pain	36
5	Vitamins	30

Biocon	Therapy	Sales (₹cr)
1	Anti Diabetic	249
2	Anti-Neoplastics	73
3	Blood Related	24
4	Cardiac	15
5	Anti-Infectives	12

Source: Bloomberg, ICICIdirect.com Research

Exhibit 12: Summary of USFDA approvals for October, 2017

Company	Drug Name	Therapeutic Area	Innovator company	Generic Version of	Market Size
Cadila Healthcare	Desmopressin Acetate	Respiratory	Ferring Pharma	Minirin	NA
Cadila Healthcare	Fesoterodine Fumarate	Urology	Pfizer	Toviaz	NA
Cadila Healthcare	Dutasteride	Nephrology	Glaxo Smith Kline	Avodart	NA
Aurobindo	Moxifloxacin Hydrochloride	Anti-Infective	Bayer	Avelox	NA
Lupin	Nadolol	CVS	Us Worldmeds Llc	Corgard	US\$ 110 million
Cadila Healthcare	Amitriptyline Hcl	CNS	Astrazeneca	Elavil	NA
Cadila Healthcare	Trazodone Hydrochloride Tablets	Anti-depressant	Apothecon	Desyrel	NA
Cadila Healthcare	Desvenlafaxine Succinate	Anti-Depressant	Wyeth Pharms	Pristiq	NA
Glenmark Pharma	Aprepitant	Antiemetic	Merck	Emend	US\$ 65 million
Cadila Healthcare	Allopurinol	Hyperuricemia	Sebela Ireland	Zyloprim	NA
Aurobindo	Prasugrel Hcl	CVS	Eli Lilly	Effient	NA
Aurobindo	Esomeprazole Magnesium	GI	Astrazeneca Pharma	Nexium	NA
Sun Pharma	Dapsone	Leprosy	Allergan	Aczone	NA
Aurobindo	Albuterol Sulfate	Respiratory	Gsk	Ventolin	NA
Aurobindo	Fluphenazine Decanoate	Anti-Psychotic	BMS	Prolixin	NA
Lupin	Testosterone	Hormonal	Pfizer	Depo-Testosterone	NA
Lupin	Clonidine Hydrochloride Tablets	Hypertension	Boehringer Ingelheim Ph	Catapres	NA
Sun Pharma	Carvedilol Phosphate	CVS	GSK	Coreg CR	US\$ 208 million
Aurobindo	Amiodarone Hydrochloride	CVS	Wyeth Pharms	Cordarone	NA
Cadila Healthcare	Tamoxifen Citrate	Hormonal	Astrazeneca	Nolvadex	NA
Cipla	Zoledronic Acid	hypercalcemia	Novartis	Zometa	NA
Cadila Healthcare	Clobetasol Propionate Spray	Dermatology	Galderma Labs	Clobex	US\$ 14 million
Aurobindo	Lidocaine	Dermatology	Astrazeneca	Xylocaine	NA
Cadila Healthcare	Doxycycline	Anti-Infective	Aqua Pharma	Monodox	US\$ 181 million
Aurobindo	Fexofenadine HCL;Pseudoephedrine HCL tablets	Anti-Biotic	Sanofi Aventis	Allegra D 12	NA

Exhibit 13: US patent litigations

Month	Innovator	ANDA Filer	Brand Name	API	Used for
May-17	Takeda Pharma	Torrent Pharma	Nesina	Alogliptin	Diabetes
May-17	Takeda Pharma	Glenmark	Qudexy XR	Topiramate	Epilepsy
Jun-17	Allergan	Taro Pharma	Aczone	Dapsone	Leprosy
Jun-17	Genentech	Sun Pharma	Tarceva	Erlotinib	Cancer
Jun-17	Bayer AG	Alembic Pharma	Xarelto	Rivaroxaban	Blood Thinner
Jun-17	Teva	Dr Reddy's Lab	Copaxone	Glatiramer	Multiple Sclerosis
Jun-17	Valeant Pharma	Sun Pharma	Uceris	Budesonide	Ulcerative Colitis
Jun-17	Omeros Corp	Lupin	Omidria	Phenylephrine And Ketorolac	Pupil Dilation
Jun-17	Amgen	Lupin	Sensipar	Cinacalcet	Calcium Reducer
Jun-17	Biogen	Aurobindo Pharma	Tecfidera	Dimethyl Fumarate	Multiple Sclerosis
Jun-17	Biogen	Sun Pharma	Tecfidera	Dimethyl Fumarate	Multiple Sclerosis
Jun-17	Biogen	Cipla	Tecfidera	Dimethyl Fumarate	Multiple Sclerosis
Jun-17	Biogen	Glenmark	Tecfidera	Dimethyl Fumarate	Multiple Sclerosis
Jun-17	Biogen	Lupin	Tecfidera	Dimethyl Fumarate	Multiple Sclerosis
Jun-17	Biogen	Torrent Pharma	Tecfidera	Dimethyl Fumarate	Multiple Sclerosis
Jun-17	Forest Laboratories	Sun Pharma	Linzess	Linaclotide	Irritable Bowel Syndrome
Jun-17	Biogen	Torrent Pharma	Tecfidera	Dimethyl Fumarate	Multiple Sclerosis
Jun-17	Biogen	Cadila healthcare	Tecfidera	Dimethyl Fumarate	Multiple Sclerosis
Jul-17	Janssen Pharma	Aurobindo Pharma	Invokana	Canagliflozin	Diabetes
Jul-17	Actelion Pharma	Sun Pharma	Veletri	Epoprostenol	Pulmonary Arterial Hypertension
Jul-17	Biogen	Cadila healthcare	Tecfidera	Dimethyl Fumarate	Multiple Sclerosis
Jul-17	Delcor Asset Corp	Sun Pharma	Evoclin	Clindamycin	Acne vulgaris
Jul-17	Celgene Corp	Dr Reddy's Lab	Revlimid	Lenalidomide	Oncology
Jul-17	PreCISION Dermatology	Lupin	Locoid	Hydrocortisone butyrate	Dermatitis
Jul-17	BMS	Cadila healthcare	Reyataz	Atazanavir	HIV
Jul-17	Endo Pharma	Lupin	Nascobal	Cyanocobalamin	Vitamin B12 deficiency
Jul-17	Bayer	Sun Pharma	Aczone	Clindamycin	Acne vulgaris
Aug-17	Bayer AG	Lupin	Xarelto	Rivaroxaban	Blood Thinner
Aug-17	Horizon Therapeutics	Lupin	Ravicti	Glycerol Phenylbutyrate	Inborn Urea Cycle Disorder
Aug-17	Celgene	Cipla	Revlimid	Lenalidomide	Oncology
Aug-17	Kissei Pharmaceuticals	Aurobindo	Rapaflo	Silodosin	Enlarged Prostate
Aug-17	Bayer AG	Torrent Pharma	Xarelto	Rivaroxaban	Blood Thinner
Aug-17	Forest Laboratories	Aurobindo	Linzess	Linaclotide	Irritable Bowel Syndrome
Aug-17	Alcon Research	Cipla	Pazeo	Olopatadine	Ocular Itching
Aug-17	Sanofi-Aventis	Aurobindo	Multaq	Dronedarone	Atrial Fibrillation
Sep-17	Janssen Products LP	Aurobindo	Prezista	Darunavir	Hiv
Sep-17	Allergan	Aurobindo	Lastacaft	Alcaftadine	Allergic Conjunctivitis
Sep-17	Eli Lilly and Co	Glenmark	Cialis	Tadalafil	Erectile Dysfunction
Sep-17	Indivior	Dr Reddy's Lab	Suboxone	Buprenorphine	Opioid Dependence
Sep-17	Teijin Ltd	Aurobindo	Uloric	Febuxostat	Gout
Sep-17	Takeda Pharma	Indoco Remedies	Nesina	Alogliptin	Diabetes
Sep-17	Allergan, Inc	Alembic Pharma	Latisse	Bimatoprost	Hypotrichosis
Sep-17	Wyeth Pharma	Sun Pharma	Bosulif	Bosutinib	Leukemia
Oct-17	Boehringer Ingelheim	Aurobindo Pharma	Gilotrif	Afatinib	Lung Cancer
Oct-17	Boehringer Ingelheim	Sun Pharma	Gilotrif	Afatinib	Lung Cancer
Oct-17	Forest Laboratories	Torrent Pharma	Fetzima	Levomilnacipran	Depression
Oct-17	Forest Laboratories	Cadila Healthcare	Fetzima	Levomilnacipran	Depression
Nov-17	ViiV Healthcare	Lupin	Triumeq	Abacavir, Dolutegravir and Lamivudine	HIV
Nov-17	Pfizer	Sun Pharma	Xeljanz	Tofacitinib citrate	Rheumatoid arthritis

Source: Bloomberg, ICICIdirect.com Research

Monthly Sector News

M&As, demergers, tie-ups and JVs

Alembic Pharma acquires US based Orit Labs

Alembic Pharma has acquired US-based generic drug developer Orit Laboratories LLC. The acquired company has a US portfolio of seven approved and four pending ANDAs.

Torrent Pharma acquires Unichem Labs India business

Torrent Pharma has acquired Unichem Laboratories' India and Nepal businesses for ₹ 3600 crore. The amount will be a mix of equity and debt in the ratio of 25:75. The deal would also bring with it about 3,000 people supporting Unichem's outgoing businesses and its Sikkim plant. The deal is expected to close by end of 2017. The management has disclosed that the deal will be cash accretive in the first year and EPS accretive in three years. The acquisition puts Torrent in the fifth spot in the league of top firms in the Indian pharma market, according to IMS Health.

Price hikes, new launches, recalls, approvals

Glenmark Pharma launches nicotine chewing gum

Glenmark Pharma has launched nicotine gum Kwitz in India that helps smokers quit smoking. Kwitz nicotine gum will be available in two variants of 2 mg as an OTC product 4 mg as prescription product.

Lawsuits, court rulings, settlements, regulatory issues

USFDA lifted import alert from Divis Vizag unit

On November 2, 2017, the company has communicated that USFDA will be lifting the import alert "66-40" issued to the company's unit-2 at Vishakhapatnam. Subsequently, USFDA has closed out a warning letter issued to this unit following evaluation of corrective actions taken by the company at the plant.

Glenmark's drug receives DGCI approval for Apremilast

Glenmark has received approval to launch Apremilast from the Drug Controller General of India (DGCI) after conducting clinical trials on psoriasis patients for 16 weeks. Apremilast was approved in the US in 2014 for treatment of adults with active psoriatic arthritis and moderate-to-severe plaque psoriasis. The molecule has been patented by US firm Celgene Corporation in developed markets.

USFDA recognises eight EU drug regulators to conduct GMP inspections

USFDA will recognise eight EU drug regulators from Croatia, Austria, France, Italy, Malta, Spain, Sweden and the UK, as capable of conducting inspections of manufacturing sites that meet FDA requirements.

Lupin receives combine warning letter for Goa, Indore units

Lupin has received a combined warning letter for both the Goa and Indore unit 2. Both sites were inspected by USFDA in April and May 2017, respectively, and issued three and six Form 483 observations, respectively. As per the management, two observations are specifically mentioned to carry on further studies by Lupin. The management is confident of closing the warning letter in less than 18 months. Any impact on existing drugs manufactured from the two sites would be further detrimental to future earnings.

USFDA inspects Sun Pharma's Baska plant (media sources)

As per media sources, USFDA has inspected Sun Pharma's Baska plant (formulations), which is near to Sun's Halol plant. The plant recently filed for approvals to sell its products in the US.

NPPA and DoP proposes DPCO amendment

As per media sources, National Pharmaceutical Pricing Authority (NPPA) and the Department of Pharmaceuticals (DoP) have proposed an amendment to the four-year-old Drug Price Control Order (DPCO), which aims to bring non-scheduled drugs under price control by changing the price setting method. Also, if a company is launching a new drug that may be a combination of a scheduled and a non-scheduled drug, the regulator will fix the ceiling price of the drug.

Dr Reddy's faces class 3 recall for Famotidine tablets

Dr Reddy's has recalled 5.7 lakhs Famotidine tablets bottles (Gastro-Intestinal) from the US (class 3 recall) due to failed impurities specifications

Dr Reddy's receives class 3 recall for Doan's pain Relieving Cream

Dr Reddy's has recalled 23402 cases of Doan's pain Relieving Cream with 4% Lidocaine Plus Menthol (Class 3 recall), due to incorrect or missing lot and lot number on the secondary packaging doesn't match the lot number printed on the bottle

Biocon's partner re-submits biosimilar application to EMA

Biocon's Partner Mylan has resubmitted the Marketing Authorization Application (MAAs) for biosimilar Trastuzumab and Pegfilgrastim with the European Medicines Agency (EMA). As per press release, Biocon has completed the corrective and Preventive Action (CAPAs), including facility modification, in response to the audit observations

Biocon receives EIR from the USFDA

USFDA has issued an establishment inspection report (EIR) in relation to cGMP inspection of Biocon's aseptic product facility in Bangalore (inspected on May 25-June 3, 2017). The outcome has been classified as voluntary action indicated (VAI) while the EIR says the inspection has been closed

Fate of Dr Reddy's Duvvada facility remains in a lull

Dr Reddy's Duvvada facility (formulations) has received EIR from the USFDA. However, the USFDA has explained that the inspected is not yet closed. Dr Reddy's is planning to request a re-inspection of facility in 2018.

Torrent Pharma plans greenfield project in Gujarat

The Union Environment Ministry has issued an environment clearance certificate to Torrent Pharmaceuticals' proposal to establish a bulk drug manufacturing unit in Gujarat with an investment of ₹ 300 crore.

Others

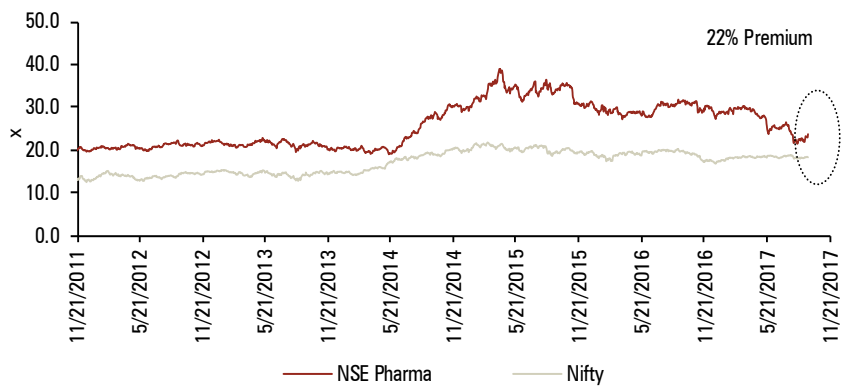
Natco's partner Mylan conveys increasing gCopaxone market share

Mylan in its conference call, a few weeks earlier, had communicated that the new prescription sales of 40 mg/ml gCopaxone has reached 16.2% for new prescriptions and 8% for overall prescriptions. The drug was launched on October 5, 2017. 40 mg/ml gCopaxone controls ~85% of the gCopaxone sales of both strengths. Gaining MS from Teva bodes well for both Mylan (Marketer) and Natco (Manufacturer).

Jubilant Lifesciences issues commercial papers

Jubilant Lifesciences has issued commercial papers (CPs) of ₹ 50 crore, with an interest rate in the range of 6.48-6.5%.

Exhibit 14: One year forward PE



Source: ICICIdirect.com Research

ICICIdirect.com coverage universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)				PE(x)			RoCE (%)			RoE (%)					
						FY16	FY17	FY18E	FY19E	FY16	FY17	FY18E	FY19E	FY16	FY17	FY18E	FY19E	FY16	FY17	FY18E	FY19E
Ajanta Pharma	AJAPHA	1348	1,300	Hold	11864.4	47.0	57.4	49.3	61.5	28.7	23.5	27.3	21.9	46.0	42.3	30.9	30.2	36.7	33.7	23.8	24.3
Alembic Pharma	ALEMPHA	515	530	Hold	9708.6	38.2	21.2	20.4	25.3	13.5	24.3	25.2	20.4	52.2	25.3	18.9	20.8	45.1	21.0	17.5	18.6
Apollo Hospitals	APOHOS	1124	1,060	Hold	15635.6	13.2	15.9	12.9	23.8	85.1	70.8	87.0	47.2	6.6	6.1	7.3	9.8	5.3	6.0	4.7	8.1
Aurobindo Pharma	AURPHA	714	810	Hold	41832.0	33.9	38.8	45.1	41.4	21.0	18.4	15.8	17.2	23.1	24.4	23.8	19.8	27.2	24.2	22.3	17.2
Biocon	BIOCON	424	380	Hold	25452.0	5.2	8.5	8.2	11.7	80.8	50.0	52.0	36.3	6.5	9.6	10.3	14.1	7.8	10.5	9.4	12.2
Cadila Healthcare	CADHEA	452	470	Hold	46309.0	15.0	14.5	18.6	21.9	30.2	31.1	24.4	20.6	24.9	13.1	18.9	19.5	34.4	21.4	22.7	22.3
Cipla	CIPLA	618	650	Hold	49762.2	18.5	12.5	22.0	27.2	33.4	49.3	28.1	22.7	11.8	7.7	13.1	14.6	12.9	8.0	12.7	13.9
Divi's Lab	DIVLAB	1055	1,090	Hold	28006.9	42.4	39.9	34.6	43.1	24.9	26.4	30.5	24.5	31.6	25.3	20.1	22.1	26.2	19.8	15.4	16.9
Dr Reddy's Labs	DRREDD	2417	2,520	Hold	40079.3	125.0	78.0	63.5	94.0	19.3	31.0	38.0	25.7	15.3	7.3	6.5	9.4	17.0	10.5	8.0	10.8
Glenmark Pharma	GLEPHA	595	670	Hold	16797.5	26.4	42.2	34.7	36.6	22.6	14.1	17.1	16.3	15.7	19.5	16.0	15.9	20.5	26.5	18.1	16.2
Indoco Remedies	INDREM	268	250	Hold	2465.0	9.4	8.4	5.3	12.5	28.5	32.0	50.6	21.3	12.9	8.7	6.1	11.4	14.8	11.8	7.1	14.8
Ipca Laboratories	IPCLAB	545	560	Hold	6880.2	7.4	15.4	18.1	32.9	73.9	35.4	30.2	16.6	4.5	8.7	8.8	15.1	4.1	7.9	8.6	13.9
Jubilant Life	JUBLIF	657	815	Buy	10471.9	24.6	36.1	40.5	54.0	26.7	18.2	16.2	12.2	11.8	13.8	13.5	16.0	13.2	16.8	16.0	17.8
Lupin	LUPIN	841	890	Hold	38019.4	50.4	56.7	35.5	38.5	16.7	14.8	23.7	21.8	17.8	16.6	11.0	12.0	20.3	19.0	10.8	10.7
Natco Pharma	NATPHA	906	1,190	Buy	15808.4	8.9	27.9	48.0	64.4	102.1	32.5	18.9	14.1	15.7	33.6	43.6	44.8	11.9	29.5	36.7	35.6
Sun Pharma	SUNPHA	540	485	Hold	129535.4	23.4	29.0	15.2	18.4	23.0	18.6	35.5	29.3	18.6	20.3	11.0	12.4	18.0	19.0	9.4	10.4
Syngene Int.	SYNINT	521	580	Buy	10421.0	12.0	14.4	16.0	20.4	42.6	35.7	32.2	25.1	15.3	16.8	18.6	20.9	23.5	20.3	18.8	19.5
Torrent Pharma	TORPHA	1276	1,365	Hold	21583.6	110.9	55.2	53.3	66.5	11.5	23.1	24.0	19.2	46.5	18.9	19.3	20.7	53.7	21.5	17.9	19.2

Source: Company, ICICIdirect.com Research

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Sector view:

Over weight compared to index

Equal weight compared to index

Under weight compared to index

Index here refers to BSE 500



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