

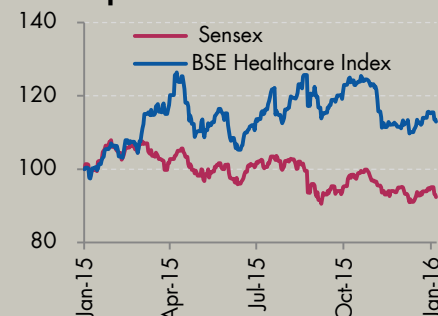
## Indian Pharma: Dusk before the dawn

### Sector Preview

Q3FY16 is expected to show 10% YoY EBITDA growth on muted performance by companies like Lupin (-16% YoY), Sun Pharma (-7% YoY), IPCA (+1% YoY), Glenmark (+6% YoY) and DrReddys (+6% YoY) given lack of meaningful approvals in US and currency volatility. We expect strong performance by Aurobindo (+41% YoY) given its strong momentum in ANDA approvals in US and Cipla (+39% YoY) driven by upsides from supplies of gNexium/ gPulmicort. We expect better growth in Q4 for the sector led by approvals (exclusivities) and M&A.

Our top picks are **ABC**: (1) Aurobindo: Strengthening US portfolio/pipeline, (2) Biocon: Biosimilar play at attractive valuations and (3) Cipla: US scale up to drive rerating. While we are restricted to HOLD on Sun Pharma and Cadila due to USFDA issues (impacting FY17E EPS) and Lupin (rich valuations on FY17E PE), we like them from long term perspective given their strong portfolio/ pipeline.

### Relative performance



Source: Axis Capital

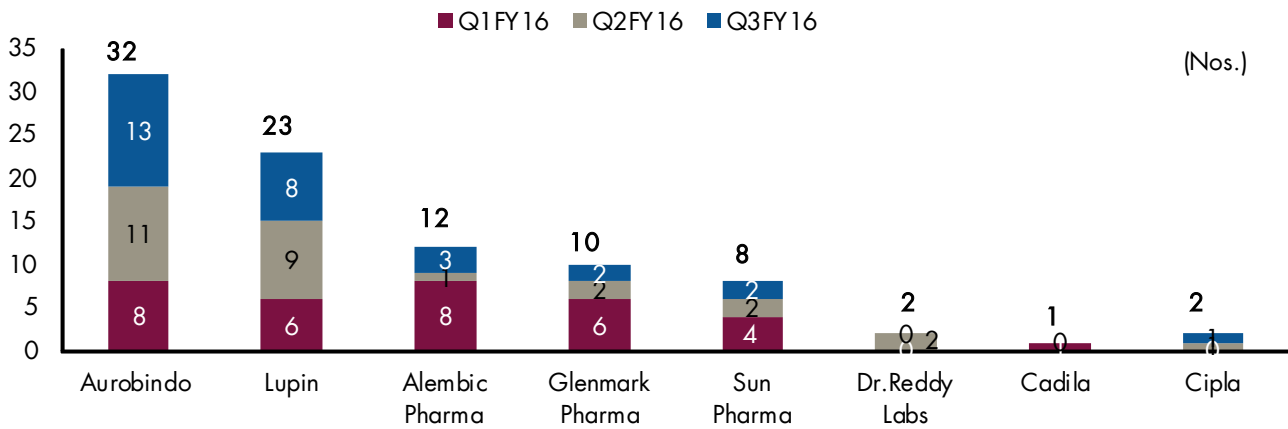
- ◆ **ANDA approvals have doubled for Indian companies (162 in CY15 vs 82 in CY14):** Indian companies have seen 62 ANDA approvals in Q3'16 vs. 32/ 42 during Q3'15/ Q2'16 led by Aurobindo and Lupin. This could lead to increased competition (price erosion/ market share loss) along with ongoing pressure of channel consolidation
- ◆ **Steady growth in domestic formulations:** While growth in Q2FY16 was impacted due to seasonality (lower acute incidence). IPM<sup>^</sup> for Oct'15+Nov'15 grew by 15% YoY (vs. 11%/12% in Q3'15 / Q2'16), as per AIOCD#
- ◆ **Currency volatility:** While USD/ INR has appreciated 6% YoY/ 2% QoQ, most other currencies have depreciated vs. INR including Brazilian Real (-30% YoY), Russian rouble (-22% YoY), South African Rand (-17% YoY)
- ◆ In this note, we have cut our FY16/17 EPS est. by 6%/ 11% and TP by 8% for GNP (see page 7 for details)

### Exhibit 1: We expect 10% YoY EBITDA growth in Q3FY16 (Rsmn)

	Revenues			EBITDA			Net Profit		
	Q3FY16F	YoY	QoQ	Q3FY16F	YoY	QoQ	Q3FY16F	YoY	QoQ
Alembic Pharma	8,955	75%	-11%	2,880	183%	-23%	2,210	213%	-23%
Aurobindo	36,366	15%	9%	8,616	41%	11%	5,213	30%	5%
Cipla	33,654	22%	5%	7,704	39%	-2%	4,694	43%	77%
Cadila	24,821	13%	1%	5,671	24%	-4%	3,841	32%	-2%
Dr. Reddys	40,720	6%	2%	10,020	6%	-12%	6,520	13%	-10%
GlenmarkPharma	18,651	10%	-2%	3,951	6%	-7%	2,122	4%	-1%
Lupin	32,292	3%	2%	7,417	-16%	10%	4,580	-24%	12%
Sun Pharma	70,217	1%	3%	20,217	-7%	5%	12,017	204%	9%
IPCA	7,996	8%	7%	1,221	1%	37%	537	11%	82%
Biocon	8,590	13%	4%	1,865	23%	-1%	1,050	16%	2%
Syngene	2,731	20%	4%	906	18%	6%	566	27%	8%
Divis	9,536	21%	-1%	3,496	23%	-6%	2,714	23%	-8%
GSK Pharma	6,978	8%	1%	1,189	25%	7%	1,129	24%	9%
<b>Total</b>	<b>301,507</b>	<b>10%</b>	<b>3%</b>	<b>75,153</b>	<b>10%</b>	<b>0%</b>	<b>47,194</b>	<b>40%</b>	<b>5%</b>
<b>Ex-SUN/ALPM</b>	<b>231,290</b>	<b>13%</b>	<b>3%</b>	<b>54,936</b>	<b>18%</b>	<b>-2%</b>	<b>35,177</b>	<b>19%</b>	<b>4%</b>

Source: Axis Capital. Note : Sun Pharma Q3FY15 included one-off tax expenses, Alembic Pharma includes one-off upside from gAbilify

<sup>^</sup>IPM = Indian Pharma market, AIOCD = All India Organisation of Chemists and Druggists

**Key sector trends**
**Exhibit 2: ARBP and LPC have received significant ANDA approvals during 9MFY16**


Source: USFDA

**Exhibit 3: Domestic formulations growth has remained healthy for most covered companies**

Domestic Growth (YoY) As per	Q1FY16		Q2FY16		Q3FY16*
	Company	AIOCD	Company	AIOCD	AIOCD
Alembic Pharma	18%	18%	3%	14%	25%
Biocon	1%	7%	3%	0%	5%
Cadila	10%	9%	10%	12%	13%
Cipla	8%	19%	1%	9%	18%
Dr.Reddy's Labs	19%	22%	14%	14%	17%
GlenmarkPharma	19%	32%	27%	23%	26%
GSK Pharma	-5%	5%	-6%	0%	15%
IPCA	8%	0%	1%	2%	16%
Lupin	16%	3%	9%	19%	15%
Sun Pharma	11%	22%	1%	13%	10%
<b>IPM</b>		<b>15%</b>		<b>12%</b>	<b>15%</b>

Source: Company, AIOCD, Q3FY16 pertains to Oct'15 + Nov'15

**Exhibit 4: INR has depreciated 6% YoYvs. USD**

Currency	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	YoY%	QoQ%
US Dollar vs INR	62.0	62.3	63.5	64.9	65.9	6	2
Russian Roublevs INR	1.3	1.0	1.2	1.0	1.0	(22)	(3)
Brazilian Real vs INR	24.3	21.7	20.7	18.4	17.2	(30)	(6)
South African Rand vs INR	5.5	5.3	5.3	5.0	4.6	(16)	(7)
Euro vs INR	77.4	70.1	70.2	72.2	72.2	(7)	(0)
YEN vs INR	0.5	0.5	0.5	0.5	0.5	0	2
AUD vs INR	53.0	49.0	49.4	47.1	47.4	(10)	1
VEF vs INR	9.9	9.9	10.1	10.3	10.5	6	2

Source: Bloomberg

### AurobindoPharma (BUY): TP Rs950(20x FY17E EPS)

We expect US business (43% of H1FY16 revenue) to grow 26% YoY/7% QoQ to USD 245 mn (32/ 14 ANDA approvals received during 9MFY16/ Q3FY16). EU business (22% of revenue) is expected to grow at 8% YoY/QoQ (We note EUR/ Rs depreciated 7% YoY/ flat QoQ).

#### Exhibit 5: Improvement in EBITDA margin to be led by US approvals (Rsmn)

	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16F	YoY (%)	QoQ (%)
Net revenue	31,662	31,621	33,204	33,335	36,366	15	9
Gross margin (%)	53.0	56.6	54.6	55.9	56.0	296 bps	7 bps
EBITDA	6,122	6,561	7,247	7,756	8,616	41	11
EBITDA margin (%)	19.3	20.7	21.8	23.3	23.7	436 bps	43 bps
Adj. PAT	4,001	4,029	4,524	4,969	5,213	30	5
Adj. EPS (Rs / share)	6.9	6.9	7.7	8.5	8.9	30	5

Source: Company, Axis Capital

### Cipla (BUY): TP Rs730 (24x FY17E EPS)

We expect India business (37% of revenue) to grow 8% YoY (AIOCD growth for the Oct'15+Nov'15 at 18%) as growth to be impacted due to lower generics business. Export formulations (57% of revenue) expected to grow at 42% YoY led by gNexium and gPulmicort. We note South African ZAR has depreciated 16% YoY against INR. South Africa contributed 13% of FY15 revenue.

#### Exhibit 6: EBITDA margin to benefit from gNexium tailwinds(Rsmn)

	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16F	YoY (%)	QoQ (%)
Total revenue	27,655	30,927	38,528	34,524	33,654	22	(3)
One-offs (gNexium)	-	-	4,823	2,592	-	-	-
Revenue (ex-one offs)	27,655	30,927	33,705	31,932	33,654	22	5
Gross margin	62.3	61.1	66.9	63.8	64.0	175 bps	24 bps
EBITDA	5,538	5,077	10,390	7,894	7,704	39	(2)
EBITDA margin	20.0	16.4	27.0	22.9	22.9	287 bps	3 bps
Core EBITDA*	5,538	5,077	6,050	5,561	7,704	39	39
Core EBITDA margin	20.0	16.4	17.9	17.4	22.9	287 bps	548 bps
Core PAT	3,279	2,597	3,361	2,650	4,694	43	77
Core EPS (ex-one-offs)	4.1	3.2	4.2	3.3	5.8	43	77

Source: Company, Axis Capital; Note – We have taken supplies of gNexium as base business from Q3FY16

### Divis lab (BUY): TP Rs1,300 (25x FY17E EPS)

#### Exhibit 7: We expect a stable quarter(Rsmn)

	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16F	YoY (%)	QoQ (%)
Revenue	7,881	8,147	8,069	9,619	9,536	21	(1)
Gross margin	59.6	63.5	60.3	59.9	61.7	216 bps	179 bps
EBITDA	2,841	3,127	2,980	3,736	3,496	23	(6)
EBITDA margin	36.0	38.4	36.9	38.8	36.7	62 bps	-218 bps
PAT	2,206	2,289	2,432	2,957	2,714	23	(8)
EPS (Rs/share)	8.3	8.6	9.2	11.1	10.2	23	(8)

Source: Company, Axis Capital

### Biocon (BUY): TP Rs640 (Rs 508/ sh for base business at 20x FY17E EPS and Rs 132/ sh for biosimilar pipeline)

We expect biopharmaceuticals business (71% of revenue) to grow at 9% YoY (AIOCD growth for Oct'15+Nov'15 at 5% YoY). Research services segment (Syngene) growth expected at 23% YoY.

#### Exhibit 8: Expect a stable quarter(Rsmn)

	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16F	YoY (%)	QoQ (%)
Net sales	7,609	8,302	8,330	8,280	8,590	13	4
Gross margins	53%	55%	56%	56%	55%	2 bps	-1 bps
EBITDA	1,516	1,777	2,122	1,890	1,865	23	(1)
EBITDA margins (%)	19.9	21.4	25.5	22.8	21.7	180 bps	-110 bps
Adjusted PAT	909	1,063	1,263	1,030	1,060	17	3
EPS (Rs/share)	4.5	5.3	6.3	5.2	5.3	17	3

Source: Company, Axis Capital

### Lupin (HOLD): TP Rs1,800 (25x FY17E EPS)

We expect US business (38% of revenue) to decline 15% YoY led by 10% YoY decline in generics business to USD 175 mn due to lack of meaningful approvals along with price erosion in base portfolio (gTricor). Domestic formulations (28% of revenue) is expected to grow at 15% (AIOCD growth for the Oct+Nov at 15%)

#### Exhibit 9: Market share trends in key products

Launch	Brand	Size (USD mn)	Market share (%)					# of peers
			Mar-15	Jun-15	Sep-15	Oct-15	Nov-15	
<b>Exclusive/ semi-exclusive launches</b>								
8-Oct-13	Zymaxid	62	75	61	46	44	37	3
18-Dec-13	Trizivir	112	74	74	76	78	79	-
21-Mar-14	Niaspan	1,000	25	26	26	25	24	4
12-Nov-14	Celebrex	2,540	13	13	13	13	13	6
<b>Other key launches</b>								
15-May-12	Combivir	275	32	31	24	24	21	5
20-Nov-12	Tricor	1,300	21	23	22	23	16	6
6-Dec-13	Trilipix	450	27	27	27	27	27	4
12-Dec-13	Cymbalta	5400	23	22	19	19	19	11-12
1-Apr-15	Exforge	415		1	1	1	1	7-8

Source: Company, USFDA, Bloomberg, Axis Capital

#### Exhibit 10: Higher price erosion in US base business to impact margin on YoY basis(Rsmn)

	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16F	YoY (%)	QoQ (%)
Revenues	31,449	30,540	30,743	31,783	32,292	3	2
Gross Profit margin (%)	67.5	68.7	68.0	64.5	65.0	-245 bps	54 bps
EBITDA	8,829	7,894	8,166	6,721	7,417	(16)	10
EBITDA margin (%)	27.8	25.6	25.9	20.2	22.1	-571 bps	184 bps
PAT	6,015	5,470	5,250	4,088	4,580	(24)	12
EPS (Rs / share)	13.5	12.2	11.8	9.2	10.3	(24)	12

Source: Company, Axis Capital

**Sun Pharma (HOLD): TP Rs 775 (23x FY17E EPS)**

We expect US business (48% of revenue) to decline 10% YoY /4% QoQtoUSD 490 mn with flat YoYgrowth in Taro at USD 235 mn. Domestic formulation (27% of revenue) is expected to grow at 7% (AIOCD growth for the Oct+Nov at 10%).

**Exhibit 11: Key products losing market share**

Products	Size (USD mn)	# of players	Market share (%)				
			Mar'15	Jun'15	Sep'15	Oct-15	Nov-15
Doxil	200	2	67	62	63	61	54
Doxycycline		8	15	25	28	26	28
Temodar Cap	400	3	4	4	5	5	5
Sumatriptan Auto Inj	170	3	32	46	39	28	18
Nystatin-Triam	145	2	65	64	61	58	55
Clobetasol Cream	185	4	44	41	39	38	40
Carbamazepine	170	5	40	38	37	37	36
Warfarin Sod	240	4	45	37	36	36	35
<b>Fluocinonide</b>							
Gel			74	81	89	89	91
Cream	200	4	33	33	32	33	33
Solution			44	43	42	42	43
Ointment			30	27	24	25	25

Source: Company, USFDA, Bloomberg, Axis Capital

**Exhibit 12: EBITDA margin to improve QoQ led by lower acquisition related costs(Rsmn)**

	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16F	YoY	QoQ
Total revenues	69,295	61,571	67,576	68,376	70,217	1	3
Gross margin (%)	75.3	74.1	74.6	77.2	74.4	-92 bps	-284 bps
EBITDA	21,645	7,923	18,497	19,337	20,217	(7)	5
EBITDA margin (%)	31.2	12.9	27.4	28.3	28.8	-244 bps	51 bps
Adjusted PAT	3,953	8,868	10,665	11,067	12,017	204	9
Extraordinary	-	-	(5,876)	-	-		
Reported PAT	3,953	8,868	4,790	11,067	12,017	204	9
Adjusted EPS (Rs/share)	1.6	3.7	4.4	4.6	5.0	204	9

Source: Company, Axis Capital

**Syngene (HOLD): TP Rs 345 (25x FY17E EPS)**
**Exhibit 13: Expect EBITDA margin to remain steady (Rsmn)**

	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16F	YoY	QoQ
Revenues	2,276	2,276	2,518	8,599	2,731	20%	-68%
Gross margin	70%	70%	74%	72%	71%	104 bps	-149 bps
EBITDA	771	770.8	834	2811	906	18%	-68%
EBITDA margin (%)	34%	34%	33%	33%	33%	-68 bps	50 bps
Profit after Tax	447	447	556.4	1750	566	27%	-68%

Source: Company, Axis Capital

### Dr.Reddy's Labs (HOLD): TP Rs 2,850 (20x FY17E EPS)

We expect US business (48% of revenue) to improve 11% YoY/ 5% QoQ to USD 296m driven by steady market share in its key products and incremental contribution from gNexium. Domestic formulations (45% of revenue) is expected to grow at 29% due to delayed despatches from Q2'15 and UCB portfolio acquisition (AIOCD growth for the Oct+Nov at 17%). Russia business (23% of revenue) is expected to decline led by currency (RUB has declined 22% YoY).

#### Exhibit 14: Stable market share in key products

Generic name	Brand name	Brand sales (USD mn)	# players	Market share (%)				
				Mar'15	Jun'15	Sep'15	Oct'15	Nov'15
Decitabine injection	Dacogen	251	4	60%	76%	59%	63%	61%
Azacitidine injection	Vidaza	380	3	41%	52%	38%	42%	41%
Atorvastatin-Amlodipine	Caduet	340	4	32%	38%	40%	41%	40%
Metoprolol Succinate ER	Toprol XL	1,114	4	18%	18%	21%	20%	20%
Divalproex Sodium ER	Depakote ER	194	6	18%	18%	17%	11%	10%
Fondaparinux	Arixtra	340	2	48%	55%	54%	55%	55%
Valganciclovir	Valcyte	440	2	22%	25%	24%	26%	29%
Ziprasidone Hcl	Geodon	1,340	6	44%	45%	47%	48%	49%
Esomeprazole magnesium	Nexium	4,000	5	-	-	-	1%	3%

Source: Company, USFDA, Bloomberg, Axis Capital

#### Exhibit 15: EBITDA margin to be impacted due to higher costs (Rsmn)

	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16F	YoY (%)	QoQ (%)
Net Sales	38,431	38,704	37,606	39,890	40,720	6	2
Gross margin (%)	58.2	54.8	61.1	61.3	60.7	255 bps	-63 bps
EBITDA	9,459	8,322	9,883	11,404	10,020	6	(12)
EBITDA margin (%)	24.6	21.5	26.3	28.6	24.6	-1 bps	-398 bps
PAT (ex one-offs)	6,172	5,939	6,365	7,498	6,520	6	(13)
EPS (ex one-offs)	36.2	34.9	37.4	44.0	38.3	6	(13)

Source: Company, Axis Capital

### Cadila Healthcare (HOLD): TP Rs 315 (22x FY17E EPS)

We expect US business (41% of revenue) to improve 6% YoY/ flat QoQ to USD 155mn with continuing contribution from HCQS and increasing market share in AG products. Domestic formulations (31% of revenue) is expected to grow at 14% (AIOCD growth for the Oct+Nov at 13%).

#### Exhibit 16: Improving market share in key AG products

Launched	Brand	Brand/Mkt size (USD mn)	No. of generics	Market share (%)				
				Mar'15	Jun'15	Sep'15	Oct'15	Nov'15
2QFY14	Wellbutrin XL	256	4	5	5	5	5	5
3QFY14	Depakote ER	700	6	14	15	15	15	15
4QFY14	Tricor	1,300	6	2	2	3	6	10
4QFY14	Trilipix	450	3	12	17	22	22	22
1QFY15	Zemplar	109	4	16	17	8	14	20
2QFY15	Niaspan	1,000	4	9	11	13	14	15
Sep '14	Urocit - K	130	2	36	38	39	40	40
NA	HCQS	100	3-5	46	42	41	41	42
Apr'10	Flomax	2,790	8	41	41	45	44	44

Source: Company, USFDA, Bloomberg, Axis Capital, AG = Authorised Generic products have been highlighted in blue

**Exhibit 17: Higher AG sales to negatively impact EBITDA margin QoQ(Rsmn)**

	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16F	YoY (%)	QoQ (%)
Total revenues	22,050	22,882	25,007	24,595	24,821	13	1
Gross margin (%)	65.0	64.3	64.3	66.0	65.3	37 bps	-69 bps
Adjusted EBITDA*	4,567	5,317	5,812	5,920	5,671	24	(4)
Adjusted EBITDA margins	20.7	23.2	23.2	24.1	22.8	213 bps	-122 bps
Core PAT	2,906	3,492	3,551	3,912	3,841	32	(2)
Core EPS (Rs/share)	2.8	3.4	3.5	3.8	3.8	32	(2)

Source: Company, Axis Capital \* margins adjusted for Forex

**Glenmark (HOLD): TP Rs870 (Rs 844 for base business at 21x FY17E EPS + Rs 6 R&D value + Rs 20 for one-time Zetia exclusivity)**

We expect US business (35% of revenue) to improve 17% YoY/ 4% QoQ to USD 96 mn on price increase taken in Muipirocin during Nov'15 and new launches. Domestic formulation (28% of revenue) is expected to grow at 15%(AIOCD growth for the Oct+Nov at 26%). We expect revenue/ margin impact due to Venezuela issues (6% of FY15 revenue).

Given lack of meaningful approvals, currency impact in Russia business and impact of slowing sales in Venezuela due to repatriation issues, we have cut our FY16/17 EPS estimates by 6%/ 11% and TP by 8% to Rs 870.

**Exhibit 18: Expect EBITDA margin to decline led by Venezuela issues (Rsmn)**

	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16F	YoY (%)	QoQ (%)
Net sales (ex-NCE)	17,013	17,758	16,552	19,094	18,651	10	(2)
Gross margin	67.3	78.5	69.7	68.7	68.4	105 bps	-34 bps
EBITDA	2,657	2,814	3,596	4,018	3,951	48.7	(1.7)
EBITDA margin	15.6	15.8	21.7	21.0	21.2	557 bps	14 bps
EBITDA *	3,717	3,974	3,596	4,238	3,951	6	(7)
EBITDA margin	21.8	22.4	21.7	22.2	21.2	-66 bps	-101 bps
Reported PAT	1,148	106	1,910	1,978	2,122	85	7
PAT*	2,046	2,404	1,910	2,154	2,122	4	(1)
EPS* (Rs/share)	7.2	8.5	6.8	7.6	7.5	4	(1)

Source: Company, Axis Capital \*Adjusted for Forex

**IPCA (HOLD): TP Rs 700 (20x FY17E EPS)**

We expect domestic formulations business (40% of revenue) to improve 12% YoY (AIOCD growth for Oct+Nov at 16%) due to improved sales across therapies. Institutional malaria business (8% of revenue) is expected to decline 27% YoY as Global Fund business expected to restart from Q4FY16. Export API (20% of revenue) may see a 37% YoY improvement led by higher sales from Ratlam API unit

**Exhibit 19: Expect EBITDA margin improvement led by growth in India formulations (Rsmn)**

	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16F	YoY	QoQ
Total Operating Income	7,407	6,279	7,580	7,492	7,996	8	7
Gross margin (%)	62.9	58.8	60.4	62.0	58.0	-487 bps	-401 bps
EBITDA	1,211	337	822	892	1,221	1	37
EBITDA margin (%)	16.4	5.4	10.8	11.9	15.3	-108 bps	337 bps
Adjusted PAT	483	(91)	276	296	537	11	82
Adjusted EPS	3.9	(0.7)	2.2	2.4	4.3	11	82

Source: Company, Axis Capital



### Alembic Pharma (SELL): TP Rs 540 (21x FY17E EPS)

We expect US business (40% of revenue) to benefit from profit share for gAbilify (expect USD 41 mn from gAbilify). Domestic formulations business (34% of revenue) is expected to improve 16% YoY (AIOCD growth for Oct+Nov at 25%) due to growth in acute portfolio returning.

#### Exhibit 20: Market share decline in gAbilify

Launched	Product	Branded sales (USD mn)	# players	Partner	Market share (%)				
					Mar-15	Jun-15	Sep-15	Oct-15	Nov-15
Apr-15	gAbilify	4,764	6	Trigen	-	14	9	7	6
Feb-14	gMicardis HCT	226	5	Qualitest	4	15	18	23	24
Jun-14	gCymbalta	5,100	11	Breckenridge	3	4	4	4	4
Jun-14	gLamictal	300	>15	Northstar	9	8	7	7	7
Jul-14	gMicardis	250	7	Qualitest	2	1	2	2	3
Q4FY13	gProvigil	1,200	8	Qualitest	31	33	19	19	19
Q4FY13	gExelon	130	6	Breckenridge	32	35	40	43	44
Q3FY14	gDiovan HCT	1,700	8	Qualitest	22	13	7	6	6
Oct-15	gCelebrex	2,440	8	Trigen	-	-	-	-	1

Source: Bloomberg, Company, Bloomberg, Axis Capital

#### Exhibit 21: Expect EBITDA margin ex gAbilify to improve QoQ (Rsmn)

YE March	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16F	yoy % chg	qoq % chg
<b>Revenue</b>	<b>5,110</b>	<b>5,018</b>	<b>5,833</b>	<b>10,088</b>	<b>8,955</b>	<b>75</b>	<b>(11)</b>
Gross margin (%)	65.9	65.4	63.5	77.6	71.0	508 bps	-660 bps
R&D (%)	6.0	6.1	8.2	7.7	7.0	101 bps	-75 bps
<b>EBITDA</b>	<b>1,017</b>	<b>975</b>	<b>1,021</b>	<b>3,760</b>	<b>2,880</b>	<b>183</b>	<b>(23)</b>
EBITDA margin (%)	19.9	19.4	17.5	37.3	32.2	1226 bps	-512 bps
<b>EBITDA (ex gAbilify)</b>	<b>1,017</b>	<b>975</b>	<b>1,021</b>	<b>1,037</b>	<b>1,194</b>		
margin (ex gAbilify)	19.9	19.4	17.5	16.7	19.1	-75 bps	242 bps
<b>Net profit</b>	<b>707</b>	<b>703</b>	<b>699</b>	<b>2,889</b>	<b>2,210</b>	<b>213</b>	<b>(23)</b>
EPS (Rs/ share)	3.7	3.7	3.7	15.3	11.7	213	(23)

Source: Company, Axis Capital

### GSK Pharma (SELL): TP Rs2,500 (34x FY17E EPS)

We expect 8% YoY growth in the pharmaceutical business as recovery witnessed in acute portfolio products (AIOCD growth for the Oct+Nov at 15%).

#### Exhibit 22: We expect a steady quarter

(Rsmn)	Q4CY14	Q5FY15	Q1FY16	Q2FY16	Q3FY16F	YoY (%)	QoQ (%)
Net Sales	6,462	6,135	6,219	6,919	6,978	8	1
Gross margin (%)	55.6	57.1	55.0	56.4	57.0	137 bps	58 bps
EBITDA	948	1,087	928	1,113	1,189	25	7
EBITDA margins (%)	14.7	17.7	14.9	16.1	17.0	237 bps	95 bps
Adjusted PAT	914	1,087	957	1,039	1,129	24	9
Adjusted EPS (Rs)	11	13	11	12	13	24	9

Source: Company, Axis Capital



**Exhibit 23: India pharma valuation snapshot**

Company	MCap Rating (USD bn)	CMP (Rs)	TP (Rs)	Upside (%)	EPS (Rs)			EPS CAGR FY15-17E (%)	P/E (x)		RoE (%)	
					FY15	FY16E	FY17E		FY16E	FY17E	FY15	FY17E
Cipla	7.8 <b>BUY</b>	652	730	12	15	21	30	44	31	21	11	18
Aurobindo (ARBP)	7.6 <b>BUY</b>	867	950	10	28	36	48	31	24	18	36	35
Sun Pharma (SUNP)	28.6 <b>HOLD</b>	793	775	(2)	18	20	34	36	39	23	18	21
Lupin (LPC)	11.8 <b>HOLD</b>	1,754	1,800	3	54	46	72	16	38	24	30	27
Dr. Reddy's (DRRD)	7.8 <b>HOLD</b>	3,047	2,850	(6)	130	161	142	5	19	21	22	17
Cadila (CDH)	4.9 <b>HOLD</b>	319	315	(1)	11	15	14	12	21	22	29	33
<b>Large Cap</b>									<b>35</b>	<b>23</b>	<b>21</b>	<b>22</b>
Biocon (BIOS)	1.6 <b>BUY</b>	524	640	22	20	21	25	12	24	21	16	13
Glenmark (GNP)	3.8 <b>HOLD</b>	907	870	(4)	29	31	40	18	29	23	26	21
Alembic (ALPM)	1.9 <b>SELL</b>	676	540	(20)	15	17	26	31	39	26	36	30
IPCA	1.3 <b>HOLD</b>	714	700	(2)	20	17	35	32	43	20	12	17
<b>Mid Cap</b>									<b>34</b>	<b>23</b>	<b>20</b>	<b>19</b>
<b>Generics Avg</b>									<b>35</b>	<b>23</b>	<b>21</b>	<b>22</b>
<b>Others</b>												
Divi's Lab (DIVI)	4.5 <b>BUY</b>	1,136	1,300	14	33	42	52	25	27	22	27	30
Syngene (SYNG)	1.3 <b>HOLD</b>	419	345	(18)	9	11	14	25	39	31	8	27
GSK Pharma (GLXO)	4.1 <b>SELL</b>	3,262	2,500	(23)	50	52	74	21	63	44	27	38

Source: Bloomberg, Company, Axis Capital, Prices as on 06-Jan-2016, \* GNP TP includes Rs 6/ sh for R&D pipeline and Rs 20 for one time Zetia exclusivity; BIOS TP includes Rs 132/ sh for Biosimilar pipeline

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