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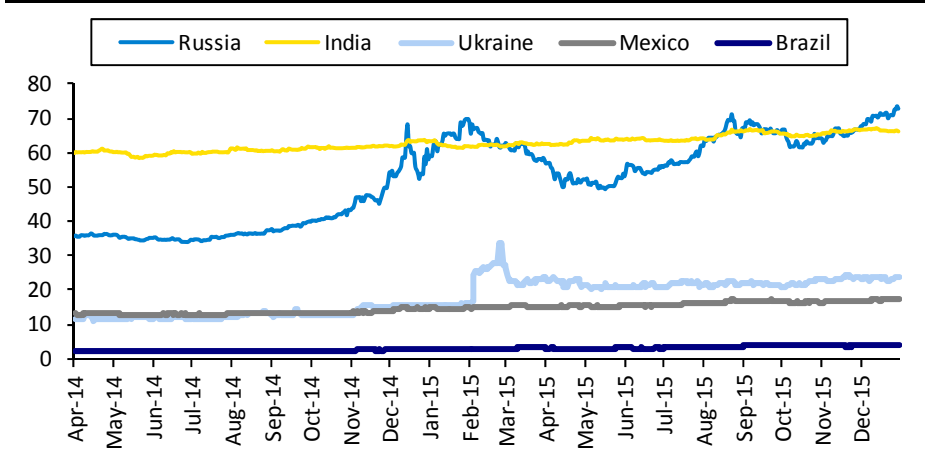
Top picks

Glenmark Pharma
Aurobindo Pharma
Jubilant Life

Pharmaceuticals

Increasing momentum in US FDA approval, USD appreciation of 2.3% (v/s Indian Rupee), weak Russian and vulnerable Venezuelan currency (in OTC) post election of new government are the key factors affecting Indian Pharma companies in Q3FY16. Further depreciations in emerging market currencies especially in Latin American countries along with Russian Rouble to impact YoY growth in sales and operating profit of *Dr Reddy's* and *Glenmark* followed by Sun Pharma's *Ranbaxy* sales and *Cipla*. With approvals of 55 ANDAs (vs 31 in Q2FY16) to Indian generics, Indian Pharma majors have witnessed increasing number of approvals in Q3FY16 though the trend has been prominent in companies/plants where manufacturing issues are non-existent such as Aurobindo, Lupin, Jubilant, Hetero, Novel Labs and Glenmark.

Emerging market currencies v/s USD since 2014



Source: Bloomberg, PL Research

With additional benefits of appreciated US Dollar, US remains to be major destination of Pharma exports, contributing 35% to revenues (average) of our coverage universe. Hence, we expect reported revenues of Indian generic companies to benefit from 2.3% appreciation in USD v/s INR in Q3FY16. We, however, would not consider any meaningful benefit in EBITDA margin for USD appreciation in Q3FY16 due to:

- Strong depreciations in emerging market currencies to nullify higher operating profit in US
- The depreciation of Euro will deepen operating loss of European subsidiaries
- The benefits of cheaper raw materials will also be nullified with lower demand in emerging markets
- Expect benefits of higher USD to be passed on to clients for maintain competitive supremacy in US generics. Empirically, we believe that operating margin of Indian companies gain minimal benefit (adjusted with exclusivity sales, price inflation) during FY12-14 when USD appreciated by 56% against INR.

Contribution of US generics in Revenues in Q3FY16E

Companies	US rev (%)
Aurobindo	44
Cipla	9
Dr Reddy's	46
Glenmark	33
Indoco Remedies	10
Jubilant Life	44
Lupin	53
Sun Pharma	49
Zydus Cadila	42
Average	37

Source: Company Data, PL Research

In exports, *Glenmark* received benefits of seven approval including approvals of 5 OC drugs in Q3FY16 though none of the approvals were major one. Despite being impacted from higher competition and price erosion, we expect *Lupin's* major products from older launches continue to be strong contributors such as **Fortamet, Tricor, Niacin and Celebrex**. We also expect revenues from *Suprax* and *Cymbalta* will fall significantly in Q3FY15 QoQ. Led by *Aurobindo* and followed by *Lupin* and *Jubilant* received more number of approvals compared to its peers. *Aurobindo*, *Lupin* and *Jubilant* received 24 approvals in Q3FY16. In the absence of any major approvals, *Lupin* and *Dr Reddy's* benefit will be from *Mupirocin*, *Celebrex* and *Valcyte*, respectively. Indian companies (such as *Zydus Cadila*, *Sun Pharma*, *Dr Reddy's*) with manufacturing issues in plants continue to be impacted due to lack of approvals or slower rate of approvals from other plants where no such issues are observed. For example, *Sun Pharma* and *Cadila* have not received any ANDA approvals from their *Halol* and *Moraiya* plants, while received approvals from US plants for controlled substance drugs in Q2FY16.

In ROW exports, we expect Indian companies to prefer lower sales growth and shorter working capital cycle in troubled markets as part of its risk mitigation process. Hence, we expect lower sales growth in *Latam*, especially in *Mexico*, *Venezuela* and *Colombia* as these markets are the epicentre of sales growth in *Latam* for Indian companies since Q4FY14. Sales growth in *Brazil* continues to be laggard for *Zydus Cadila*, *Glenmark* and *Dr Reddy's* due to inconsistent regulatory process for approval of generic drugs.

While we expect domestic formulations sales to remain unaffected in FY16E with DPCO rulings of 2013, the industry players expect insignificant impact in sales from new NLEM list with new inclusion/exclusion set of new products in FY16E.

US FDA: Key approvals for Indian companies in Jun-Sept 2015

Date	Molecule	Brand	Company	Status
Oct-15				
5-Oct-15	Indomethacin	Indomethacin (Sandoz)	Jubilant Life	Strong competition, old molecule.
8-Oct-15	Aripiprazole	Abilify	Aurobindo	Limited competition with 5 generics. With sizeable capacity and 37% originator's stake yet to be genericised, Aurobindo has opportunity to gain revenues of US\$40m in FY16.
8-Oct-15	Montelukast Sodium	Singulair	Unichem Labs	Strong competition and long went off-patent
13-Oct-15	Memantine hcl	Namenda	Jubilant Life	Strong competition though it got opportunity on day-1 generics
13-Oct-15	Memantine hcl	Namenda	Unichem Labs	Strong competition though it got opportunity on day-1 generics
13-Oct-15	Memantine hcl	Namenda	Torrent Pharma	Strong competition though it got opportunity on day-1 generics
13-Oct-15	Memantine hcl	Namenda	Alembic Pharma	Strong competition though it got opportunity on day-1 generics
13-Oct-15	Memantine hcl	Namenda	Aurobindo	Strong competition though it got opportunity on day-1 generics
14-Oct-15	Losartan Potassium	Cozaar	Unichem Labs	Strong competition and long went off-patent
15-Oct-15	Nevirapine	Viramune XR	Cipla	Good opportunity with only five generics in the anti-HIV drugs
16-Oct-15	Rizatriptan Benzoate	Maxalt-MLT	Jubilant Life	Decent opportunity with 8 generics. The drug went off-patent in 2014.
19-Oct-15	Esomeprazole Magnesium	Nexium	Torrent Pharma	Sizeable opportunity with 5 generics and 45% originator's stake yet to be genericised.
20-Oct-15	Olanzapine	Zyprexa	Alkem Labs	Strong competition with 10 generics
20-Oct-15	Tramadol hcl	Ultram ER	Aurobindo	Good opportunity with 5 generics. Also help to expand its control subs portfolio of 6 drugs
28-Oct-15	Ethinyl Estradiol;Norethindrone acetate (0.02mg; 1mg)	Loestrin FE 1/20	Lupin	To market with brand Blisovie FE 1/20 against original brand Loestrin FE 1/20 of Warnor Chilcott. Help in expand portfolio of 16 OC drugs. 6 generics available currently.
28-Oct-15	Duloxetine hcl	Cymbalta	Inventia Healthcare	Strong competition with highly eroded market
30-Oct-15	Donepezil hcl	Aricept	Lupin	Strong competition with 8 generics. Long went off-patent
30-Oct-15	Betamethasone Dipropionate;Clotrimazole	Lotrisone	Glenmark Pharma	Good opportunity with limited competition among 4 generics. Taro and Fougera have major Rx share
30-Oct-15	Telmisartan	Micardis	Inventia Healthcare	Strong competition with 10 generics. The Drug went off-patent in 2014
Nov-15				
12-Nov-15	Carisoprodol	Soma (250mg)	Shasun Pharma	Small market size with only 2 AB-rated generics
13-Nov-15	Methylphenidate hcl	Ritalin	Novel Labs	Strong competition with 8 generics. Long went off-patent
18-Nov-15	Ethinyl Estradiol;Norethindrone acetate(0.03;1.5mg)	Loestrin FE 1.5/20	Lupin	To market with brand Blisovie FE 1.5/20 against original brand Loestrin FE 1.5/20 of Warnor Chilcott. Help in expand portfolio of 16 OC drugs. 6 generics available currently.
18-Nov-15	Sildenafil Citrate	Revatio	Aurobindo	Small market size with 11 generics. Insignificant opportunity
19-Nov-15	Ethinyl estradiol;Levonorgestrel	Trivora-28	Lupin	Small market with 5 generics. Lupin to market with a brand ElifeMME
20-Nov-15	Dutasteride	Avodart	Strides Arcolab	Strong competition with 11 generics. Insignificant opportunity
23-Nov-15	Clobetasol Propionate	Embeline	Novel Labs	Small market with 6 generics in Topical products. Taro and Fougera leads Rx share
27-Nov-15	Paroxetine hcl	Paxil	Jubilant Life	Long went off-patent with 10 generics. Strong competition with eroded market size
30-Nov-15	Risedronate Sodium	Actonel	Sun Pharma	Good opportunity with limited competition among 5 generics and day-1 generics
30-Nov-15	Risedronate Sodium	Actonel	Aurobindo	Good opportunity with limited competition among 5 generics and day-1 generics
30-Nov-15	Memantine hcl	Namenda	Ajanta Pharma	Strong competition though it got opportunity on day-1 generics

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Dec-15

1-Dec-15	Dexamethasone sodium phosphate	RLD: Luitpold Generics	Aurobindo	Limited competition with 5 generics and sizeable market
3-Dec-15	Imatinib mesylate	Gleevec	Sun Pharma	Sole exclusivity of 180-days from Feb 2016
7-Dec-15	Irbesartan	Avapro	Unichem Labs	Long went off-patent with multiple generics. Insignificant opportunity
8-Dec-15	Eptifibatide	Integrilin	Aurobindo	Good opportunity with 2 generics and sizeable market size. Teva has not yet launched and hence its virtual sole generic opportunity for Aurobindo.
8-Dec-15	Levonorgestrel (OTC)	Plan-B One Step	Aurobindo	To market with brand Athentia Next and compete with 10 other generics and branded generics.
10-Dec-15	Irbesartan	Avapro	Ajanta Pharma	Long went off-patent with multiple generics. Insignificant opportunity
10-Dec-15	Ethinyl Estradiol;Norethindrone acetate (0.0025mg;0.5mg)	Femhrt	Lupin	To market with brand Fyavolv. Good opportunity with 2 competitors.
10-Dec-15	Ethinyl Estradiol;Norethindrone acetate (0.005mg;1mg)	Femhrt	Lupin	To market with brand Fyavolv. Good opportunity with 2 competitors.
10-Dec-15	Fesoterodine fumarate	Toviaz	Alkem Labs	Though approval arrived, Alkem would not be able to launch the drug before expiry in 2022.
11-Dec-15	Cyanocobalamin	Luitpold generic	Gavis/Lupin	Small market size with limited competition among 3 generics
15-Dec-15	Citalopram hydrobromide	Celexa	Hetero Labs	Small market size with more than 15 generics. Insignificant opportunity
15-Dec-15	Loperamide hcl (OTC)	Imodium A-D	Aurobindo	Small market size with 5 generics. Not a significant opportunity
15-Dec-15	Methylprednisolone sodium succinate	Solu-Medrol	Aurobindo	Small market with 4 generics. Help to expand Injectable portfolio
16-Dec-15	Morphine Sulfate	MS-Contin	Novel Labs	Small market with 8 generics. Large market share belong top 2-3 players
17-Dec-15	Ethinyl Estradiol;Norethindrone (0.025mg; 0.8mg)	Genress	Lupin	To be sold as brand Kaitlib FE with 3 generics. Good opportunity with small market (\$90m) and limited competition
18-Dec-15	Potassium Chloride	Actavis generic	Lupin	Small market with 8 generics. Insignificant opportunity
18-Dec-15	Olopatadine hcl	Patanol	Aurobindo	Day-1 opportunity with 6 generics. Good opportunity with US\$180m market size
21-Dec-15	Linezolid	Zyvox	Glenmark Pharma	Day-1 opportunity with 7 generics. Good opportunity with US\$400m market size
21-Dec-15	Linezolid	Zyvox	Hetero Labs	Day-1 opportunity with 7 generics. Good opportunity with US\$400m market size
21-Dec-15	Linezolid	Zyvox	Alembic Pharma	Day-1 opportunity with 7 generics. Good opportunity with US\$400m market size
21-Dec-15	Linezolid	Zyvox	Alkem Labs	Day-1 opportunity with 7 generics. Good opportunity with US\$400m market size
22-Dec-15	Famotidine	Pepcid	Aurobindo	Strong competition with 10 generics
23-Dec-15	Citalopram hydrobromide	Celexa	Jubilant Life	Small market size with more than 15 generics. Insignificant opportunity
23-Dec-15	Gabapentin	Neurontin	Alkem Labs	Sizeable market with 10 generics. Tough to gather new market share
23-Dec-15	Celecoxib	Celebrex	Torrent Pharma	Sizeable market with 8 generics.

Source: Company Data, PL Research

Stock Performance

	Absolute				Relative to Sensex			
	1M	3M	6M	12M	1M	3M	6M	12M
Aurobindo Pharma	5.9	12.5	17.0	49.9	7.3	19.7	26.9	58.5
Cadila Healthcare	(21.2)	(24.2)	(17.6)	(5.8)	(19.7)	(17.1)	(7.7)	2.8
Cipla	(3.2)	(8.5)	(3.7)	0.7	(1.7)	(1.4)	6.3	9.3
Dr. Reddy's Laboratories	(1.7)	(28.7)	(19.1)	(1.8)	(0.2)	(21.6)	(9.1)	6.8
Glenmark Pharmaceuticals	(7.6)	(13.3)	(15.7)	15.9	(6.2)	(6.2)	(5.8)	24.5
Indoco Remedies	(1.0)	(2.5)	(14.6)	(5.5)	0.5	4.6	(4.7)	3.1
Jubilant Life Sciences	(5.0)	5.5	137.0	163.5	(3.6)	12.6	147.0	172.1
Lupin	(5.1)	(16.2)	(8.8)	21.7	(3.6)	(9.1)	1.2	30.2
Sun Pharmaceutical Industries	3.0	(13.3)	(8.9)	(3.0)	4.5	(6.1)	1.1	5.6

Source: Bloomberg, PL Research

Summary Financials - Quarterly (Rs m)

		Q3FY16E	Q3FY15	YoY gr. (%)	Q2FY16	QoQ gr. (%)	9MFY16E	9MFY15	YoY gr. (%)
Aurobindo Pharma	Sales	36,399	31,425	15.8	32,801	11.0	101,837	88,993	14.4
	EBITDA	8,444	5,885	43.5	7,222	16.9	22,347	18,483	20.9
	Margins (%)	23.2	18.7	447 bps	22.0	118 bps	21.9	20.8	117 bps
	PAT	5,206	3,844	35.5	4,518	15.2	14,048	11,720	19.9
Cadila Healthcare	Sales	23,514	21,895	7.4	24,595	(4.4)	73,115	63,476	15.2
	EBITDA	5,779	4,472	29.2	6,213	(7.0)	18,007	12,443	44.7
	Margins (%)	24.6	20.4	415 bps	25.3	(68)bps	24.6	19.6	502 bps
	PAT	3,501	2,819	24.2	3,909	(10.4)	10,944	8,002	36.8
Cipla	Sales	33,969	26,247	29.4	33,617	1.0	105,354	79,017	33.3
	EBITDA	7,267	4,131	75.9	6,987	4.0	23,885	13,030	83.3
	Margins (%)	21.4	15.7	566 bps	20.8	61 bps	22.7	16.5	618 bps
	PAT	4,655	3,279	42.0	4,312	7.9	15,473	9,211	68.0
Dr. Reddy's Laboratories	Sales	39,417	38,431	2.6	39,890	(1.2)	116,884	109,485	6.8
	EBITDA	9,789	9,461	3.5	11,404	(14.2)	30,399	25,779	17.9
	Margins (%)	24.8	24.6	22 bps	28.6	(375)bps	26.0	23.5	246 bps
	PAT	5,666	5,745	(1.4)	7,219	(21.5)	19,141	16,990	12.7
Glenmark Pharmaceuticals	Sales	18,881	16,921	11.6	18,952	(0.4)	54,256	48,415	12.1
	EBITDA	4,165	2,565	62.4	3,876	7.5	11,508	9,157	25.7
	Margins (%)	22.1	15.2	690 bps	20.5	161 bps	21.2	18.9	230 bps
	PAT	2,229	1,148	94.2	1,978	12.7	6,117	4,647	31.6

Source: Company Data, PL Research. Note: PAT is adjusted for one-offs

Summary Financials - Quarterly (Rs m)

		Q3FY16E	Q3FY15	YoY gr. (%)	Q2FY16	QoQ gr. (%)	9MFY16E	9MFY15	YoY gr. (%)
Indoco Remedies	Sales	2,422	2,129	13.8	2,477	(2.2)	7,059	6,373	10.8
	EBITDA	351	390	(9.8)	385	(8.7)	1,088	1,215	(10.4)
	Margins (%)	14.5	18.3	(380)bps	15.5	(104)bps	15.4	19.1	(365)bps
	PAT	199	216	(7.9)	226	(12.0)	628	641	(2.0)
Jubilant Life Sciences	Sales	15,257	14,455	5.6	14,631	4.3	44,473	42,897	3.7
	EBITDA	3,440	1,853	85.6	3,206	7.3	9,940	4,418	125.0
	Margins (%)	22.5	12.8	973 bps	21.9	64 bps	22.4	10.3	1,205 bps
	PAT	1,218	(112)	(1,191.2)	1,158	5.1	3,657	(1,005)	(463.9)
Lupin	Sales	33,300	31,449	5.9	31,783	4.8	95,826	95,457	0.4
	EBITDA	5,799	8,502	(31.8)	5,292	9.6	18,498	26,840	(31.1)
	Margins (%)	17.4	27.0	(962)bps	16.6	77 bps	19.3	28.1	(881)bps
	PAT	4,399	6,015	(26.9)	4,088	7.6	13,737	18,562	(26.0)
Sun Pharmaceutical Industries	Sales	68,489	68,826	(0.5)	68,033	0.7	201,743	211,753	(4.7)
	EBITDA	17,584	21,176	(17.0)	18,994	(7.4)	52,720	70,340	(25.0)
	Margins (%)	25.7	30.8	(509)bps	27.9	(224)bps	26.1	33.2	(709)bps
	PAT	10,065	3,953	154.6	11,067	(9.1)	25,921	41,563	(37.6)

Source: Company Data, PL Research. Note: PAT is adjusted for one-offs

Consolidated Sectoral Data

Key Figures (Rs m)

	2016E	2017E	2018E
Net Sales	1,098,716	1,256,408	1,390,572
Growth (%)	10.5	14.4	10.7
EBITDA	246,265	298,956	336,073
Margin (%)	22.4	23.8	24.2
PAT	161,152	195,346	227,207
Growth (%)	15.2	21.2	16.3
PE (x)	30.1	24.8	21.3

Quarterly Table (Rs m)

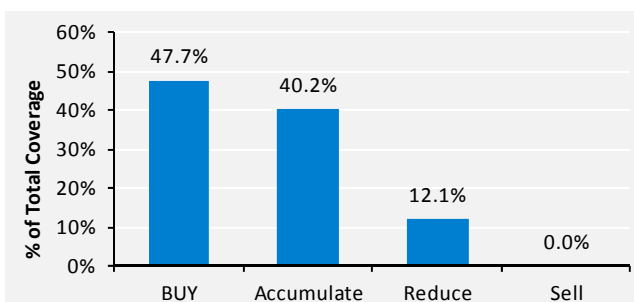
	Oct-Dec'15	Oct-Dec'14	YoY gr. (%)	Jul-Sep'15	QoQ gr. (%)
Net Sales	271,647	251,777	7.9	266,778	1.8
EBITDA	62,619	58,434	7.2	63,578	(1.5)
Margin (%)	23.1	23.2	(16)bps	23.8	(78)bps
PAT (Exd. Ex Items)	37,137	26,907	38.0	38,475	(3.5)

Note: Revenue, EBITDA and PAT numbers are arrived by totaling corresponding numbers of all companies under our coverage in this sector.

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Trading Sell	: Over 10% absolute decline in 1-month
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