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Domestic growth to the fore as US weakness persists

Continuity of domestic formulations growth with increasing share of non-Covid portfolio is likely to drive Q2FY22 sales even as expected weakness in the US generics space could act as a spoiler for overall momentum. The I-direct healthcare universe (12 coverage companies) is expected to post YoY growth of ~5.5% to ~₹ 46123 crore. Domestic formulations (select pack) are expected to grow ~14% to ₹ 11219 crore due to continuous traction from acute segment (momentum began from Q1) besides normalised trend in the chronic segment. We expect a significant shift in growth momentum from Covid to non-Covid portfolio on the back of receding active cases and growing vaccination drive across the country.

The US momentum (or lack of it) continues to trend the Q1 story amid lack of meaningful launches, price erosion and regulatory challenges including lack of inspections and approvals. The US (select pack) portfolio is expected to de-grow ~2.2% YoY to ₹ 12306 crore.

Europe is expected to grow 8.4% YoY driven by opening up of marketing and other channels post Covid. Amid higher base, the API segment is expected to grow merely by ~2.8% YoY. On the hospitals front, reduction of Covid in Q2FY22 is likely to change the product mix more towards elective occupancies, which is likely to improve realisations.

On the companies front, four out of 12 companies are likely to report 12%+ YoY growth. Key monitorables are: Divi's, which is likely to register around 21% growth while Sun Pharma, Ipca Labs and Apollo Hospitals are likely to register 11.5%, 16.9% and 14% YoY growth, respectively.

EBITDA to remain flat YoY; margins to decline at ~22%

EBITDA of the I-direct healthcare universe is expected to de-grow 0.2% YoY to ₹ 10254 crore. EBITDA margins are likely to decline 126 bps YoY to 22.2%, with increase in marketing & travel expenses besides higher raw material cost.

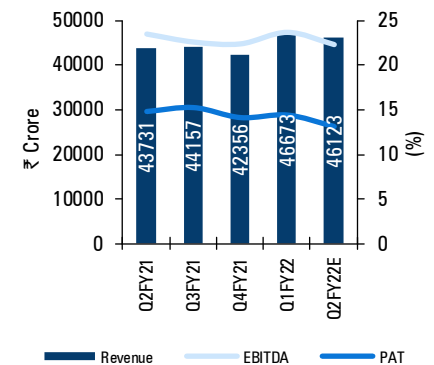
Adjusted PAT to decline ~6.3% YoY

Adjusted PAT is expected to de-grow ~ 6.3% YoY to ₹ 6066 crore. Delta vis-à-vis EBITDA is likely due to an increase in depreciation, tax rate being partially offset by a decline in interest cost.

Company	Revenue			EBITDA			PAT		
	Q2FY22E	YoY	QoQ	Q2FY22E	YoY	QoQ	Q2FY22E	YoY	QoQ
Alembic Pharma	1363.0	-6.5%	2.8%	244.0	-45.0%	3.4%	169.4	-49.2%	2.9%
Apollo Hospitals	3148.5	14.0%	-16.3%	473.4	57.9%	-8.9%	185.2	562.5%	-23.9%
Aurobindo	6117.4	-5.6%	7.3%	1206.3	-15.8%	-0.3%	708.6	-12.1%	-8.0%
Biocon	1921.1	10.1%	9.1%	423.0	8.1%	8.6%	107.0	-36.8%	26.8%
Cadila HC	3710.8	-2.9%	-7.8%	775.0	-10.2%	-16.9%	522.4	-9.6%	-7.5%
Cipla	5147.5	2.2%	-6.5%	1168.9	-0.7%	-13.2%	687.7	3.3%	-14.5%
Divi's Lab	2116.7	21.0%	8.0%	867.8	17.1%	1.9%	641.5	23.5%	15.1%
Dr Reddy's	5233.8	6.6%	5.8%	1025.0	-11.3%	39.5%	504.0	-34.7%	32.5%
Ipca Lab	1591.0	16.9%	1.6%	388.9	8.0%	-6.6%	289.6	8.4%	-5.6%
Lupin	4118.1	7.4%	-3.6%	750.2	29.1%	-19.1%	432.3	104.9%	-20.3%
Sun Pharma	9482.2	10.9%	-2.4%	2251.0	2.6%	-20.2%	1485.7	-18.0%	-24.9%
Torrent Pharma	2172.9	7.7%	1.8%	680.5	7.2%	0.5%	332.9	7.4%	0.9%
Total	46122.9	5.5%	-1.2%	10254.0	-0.2%	-7.3%	6066.3	-6.3%	-9.8%

Source: Company, ICICI Direct Research

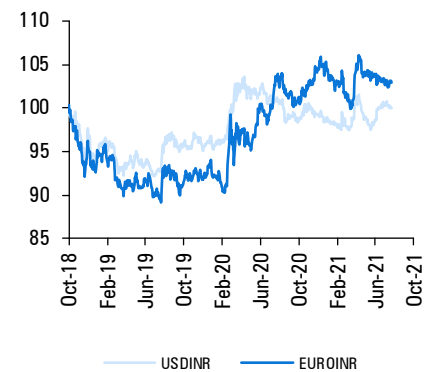
Topline & Profitability (Coverage Universe)



US approvals for Q2FY22 (Select pack)

Company	Final	Tentative
Alembic Pharma	4	0
Aurobindo Pharma	6	0
Cadila Healthcare	7	2
Cipla	2	0
Dr. Reddy's Labs	2	1
Lupin	0	1
Sun Pharma	2	0

Currency Movement



Top Picks

Divi's Lab
Sun Pharma
Ipca Lab

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Exhibit 2: Company Specific view

Company	Remarks
Alembic Pharma	Revenues are expected to decline 6.5% YoY to ₹ 1363 crore as 16% growth in domestic formulations to ₹ 481.4 crore is likely to get offset by 30.4% decline in US revenues to ₹ 405.2 crore. EBITDA margins are expected to decline 1253 bps YoY to 17.9%, mainly due to increase in raw material and other expenditure. EBITDA is expected to de-grow 45% YoY to ₹ 244 crore. Subsequently, net profit is expected to decline 49% YoY to ₹ 169.4 crore
Apollo Hospitals	Revenues are likely to grow ~14% YoY to ₹ 3148.5 crore, mainly due to strong growth in hospital and pharmacy segment albeit on a lower base. EBITDA margins are likely to be at 15% against 10.9%, 13.8% in Q2FY21, Q1FY22, respectively. Net profit is expected at ~₹ 185.2 crore against profit of ₹ 28 crore in Q2FY21
Aurobindo Pharma	Revenues are expected to decline ~5.6% YoY to ₹ 6117.4 crore, mainly due to de-growth in the US, RoW and ARV segment being partially offset by growth in Europe. US weakness could be due to muted ex-injectable portfolio growth owing to slowdown in new launches. EBITDA margins are likely to remain at ~20%. Net profit is expected to de-grow 12% YoY to ~₹ 708.6 crore, trending with the operational performance
Biocon	Revenues are likely to grow ~10.1% YoY ₹ 1921.1 crore, mainly due to reasonable growth in contract research (Syngene) and base effect impact in biosimilar segment, which is expected to grow ~24% to ₹ 840.6 crore. EBITDA margins are expected to decline 42 bps YoY to 22%, mainly due to higher raw material cost. EBITDA is expected to grow 8.1% YoY to ₹ 423 crore. Adjusted profit is expected to de-grow ~36% YoY to ₹ 107 crore. Delta vis-a-vis EBITDA was due to higher interest and tax rate
Cadila Healthcare	Revenues are expected to de-grow 2.9% YoY ₹ to 3710.8 crore as strong growth in domestic formulations was partially offset by decline in the US formulations mainly due to higher erosion in mesalamine franchise. EBITDA margins are likely to decline 172 bps YoY to ~20.9%, mainly due to higher other expenditure. EBITDA is expected to decline 10.2% YoY to ₹ 775 crore. Adjusted net profit is expected to de-grow 9.6% YoY to ₹ 522.4 crore on the back of lower financial cost
Cipla	Revenues are expected to grow 2.2% YoY to ₹ 5147.5 crore, mainly due to 9.4% growth in domestic formulations to ₹ 2286.5 crore. US formulations are expected to grow 9.8% YoY to ₹ 1152.1 crore. RoW sales, on the other hand, could pull down growth. EBITDA margins are expected to decline 65 bps YoY to 22.7%, mainly due to increase in other expenditure. EBITDA is expected to de-grow merely by 0.7% YoY to ₹ 1168.9 crore. Subsequently, net profit is expected to grow 3.3% YoY to ₹ 687.7 crore
Divi's Lab	Revenues are expected to grow 21% YoY to ₹ 2116.7 crore, mainly due to strong growth in Generic and Custom Synthesis segment. EBITDA margins are expected to remain healthy at ~41%. Net profit is expected to grow 23.5% YoY to ₹ 641.5 crore
Dr Reddy's	Revenues are likely to grow 6.6% YoY to ₹ 5233.8 crore, mainly due to ~21.3% growth in domestic formulations to ₹ 1106.6 crore amid Wockhardt portfolio acquisition. US business is expected to grow 1.5% YoY to ₹ 1859.4 crore. EBITDA margins are likely to decline 395 bps YoY to 19.6%, mainly due to higher other expenditure. EBITDA is expected to decline ~11.3% YoY to ₹ 1025 crore. Net profit is expected to de-grow 22% YoY to ₹ 602 crore
Ipca Lab	Revenues are expected to grow 16.9% YoY to ₹ 1591 crore, mainly due to 16% growth in domestic formulations to ₹ 621.2 crore and 13.1% increase in API segment to ₹ 430.8 crore. Export formulations are expected to grow 11% YoY to ₹ 404.5 crore. EBITDA margins are likely at 24.4% against 26.5%, 26.6% in Q2FY21, Q1FY22, respectively. Subsequently, net profit is expected to increase 8.4% YoY to ₹ 289.6 crore
Lupin	Revenues are expected to grow ~7.4% YoY to ₹ 4118.1 crore. YoY growth of 14.4% in domestic business to ₹ 1524.2 crore and 2.1% YoY growth in US to ₹ 1427.9 crore is expected to be partially offset by 10% decline in API segment to ₹ 336.5 crore. EBITDA margins are expected at 18.2% against 15.2%, 21.7% in Q2FY21, Q1FY22, respectively. EBITDA is expected to grow 29.1% YoY to ₹ 750.2 crore. Adjusted net profit is expected to grow 104.9% YoY to ₹ 423.3 crore
Sun Pharma	Revenues are likely to grow 10.9% YoY to ₹ 9482.2 crore, mainly due to 15.9% YoY growth in domestic formulations to ₹ 2933.6 crore and 14.7% YoY growth in the US (Ex Taro) to ₹ 1639.1 crore. Amid lower base, Taro's sales are expected to grow ~5% YoY to US\$150 million. EBITDA margins are expected to decline 190 bps to ~24%. Adjusted net profit is expected to decline ~18% YoY to ₹ 1485.7 crore
Torrent Pharma	Revenues are expected grow mere 7.7% YoY to ₹ 2172.9 crore. YoY growth of 9.4% in domestic formulations to ₹1053.5 crore is expected to be partially offset by ~9.8% de-growth in US business to ₹ 295 crore. EBITDA margins are expected to be flat at 31%. Net profit is expected to increase 7.4% YoY to ₹ 332.9 crore due to lower interest cost and higher other income

Source: Company, ICICI Direct Research

Expected growth in Domestic formulations					
India					
(₹ cr)	Q2FY22	Q2FY21	%	Q1FY22	%
Alembic	481	415	16.0	481	0.1
Cadila	1,212	1,087	11.5	1,357	-10.7
Ipca	621	535	16.0	613	1.3
Lupin	1,524	1,332	14.4	1,636	-6.8
Cipla	2,286	2,090	9.4	2,710	-15.6
Dr Reddy	1,107	912	21.3	1,060	4.4
Sun Pharr	2,934	2,531	15.9	3,308	-11.3
Torrent	1,054	963	9.4	1,093	-3.6
Total	11219	9866	13.7	12258	-8.5

Expected growth in US formulations					
US					
(₹ cr)	Q2FY22	Q2FY21	%	Q1FY22	%
Alembic	405	582	-30.4	369	9.8
Aurobindo	2,888	3,190	-9.5	2,681	7.7
Cadila	1,530	1,709	-10.5	1,451	5.4
Cipla	1,152	1,049	9.8	1,038	11.0
Lupin	1,428	1,398	2.1	1,333	7.1
Dr Reddy	1,859	1,833	1.5	1,739	6.9
Sun Pharr	2,749	2,492	10.3	2,800	-1.8
Torrent	295	327	-9.8	266	10.9
Total	12306	12580	-2.2	11678	5.4

Expected growth in Europe formulations					
Europe					
(₹ cr)	Q2FY22	Q2FY21	%	Q1FY22	%
Aurobindo	1,598	1,515	5.5	1,583	0.9
Cadila	60	55	10.0	60	0.3
Cipla	284	247	15.0	252	12.7
Dr Reddy	432	375	15.0	399	8.1
Lupin	211	192	10.0	119	78.0
Torrent	282	261	8.0	260	8.4
Total	2867	2645	8.4	2673	7.3

Expected growth in API segment					
API					
(₹ cr)	Q2FY22	Q2FY21	%	Q1FY22	%
Aurobindo	829	829	0.0	812	2.1
Alembic	250	263	-5.0	279	-10.4
Cadila	160	160	0.0	136	17.9
Divi's Lab	1,050	875	20.0	842	24.6
Ipca Labs	431	381	13.1	414	4.0
Lupin	337	374	-10.0	246	36.8
Cipla	198	189	5.0	302	-34.3
Dr Reddy	765	851	-10.0	754	1.5
Sun Pharr	536	510	5.0	515	4.1
Total	4556	4431	2.8	4300	5.9

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