April 20, 2020

Pharma stocks poised for re-rating amid panic...

Amid the Covid-19 pandemic panic that has taken a heavy toll on most sectors in the Indian markets, most pharma companies withstood the carnage while some delivered positive returns during this period. Most sectors continued to suffer on account of unprecedented lockdowns and limited business continuity plans (BCPs) besides a bleak demand outlook. The cases of Covid-19 are still increasing with significant velocity in many parts of the world. There is significant uncertainty as to when things will normalise. **However, in pharma, barring few supply related disturbances, we do not envisage material earnings impact in FY21. Also, note that in this unprecedented global lockdown, pharma and healthcare services, being at the top layer of essential services, remain exempted everywhere.** Now that Chinese supply lines for key starting materials (KSM) and APIs are crawling back to normal, the supply side issues are slowly waning. Overall, we expect hindrances to persist for the next two to three months only with full normalcy from Q2FY21 onwards. **Our FY21 earnings estimates for I-direct coverage universe are unlikely to change materially as will be FY22 estimates as there is no change in visibility aspect. However, we expect a multiple re-rating in some stocks, especially for those with 1) stable earnings visibility, 2) no balance sheet stress and strong return ratios, 3) having strong presence in some critical segments besides 4) decent ESG quotient.**

On the business front, despite the nationwide lockdown, domestic growth is expected to remain more or less stable. Exports growth, barring for one or two months due to congestion in all major ports globally, is also expected to remain strong due to 1) currency benefit, 2) slowdown in competition due to delay in new approvals that will be beneficial for existing players and 3) expected demand continuum across the world despite Covid-19. Some windfall is also expected in some critical products- a case in point is Hydroxychloroquine, a malaria drug that is likely to be repurposed as a prophylaxis for Covid-19 treatment in some cases. Profitability is also likely to improve due to cooling off of raw material prices (crude based solvents) and continuous focus on cost rationalisation and MR productivity. Improving operating leverage is also likely to contribute to margin expansion. The companies are also moderating their capex plans to focus on better RoCE.

In the following discussion, we briefly touch upon some initial takeaways from the discussions/comments from the managements of respective sub-segments.

Domestic formulations – The demand in the domestic market is normal as of now but movements of MRs are restricted. To address this, companies are using telephonic and digital marketing channels to push products. We believe domestic growth is likely to emanate from price hikes and volume increase (albeit on lower base). However, nationwide lockdown/curfew can still lead to supply related issues like availability of packing materials, etc. Delay in new launches may also impact overall growth. We expect normalised growth from Q2FY21 onwards.

Export formulations – Till date, the shipments are normal even in the worst impacted countries. However, a complete lockdown or restriction on any international trade may impact businesses in future. The beneficial impact of sharp rupee depreciation may take some time to soak in.

Stock Performance

	Return (%)				Mcap
Company	**1M**	**3M**	**YTD**	**1Y**	**20-Apr**
Sun Pharma.Ind	30	5	9	2	113582
Dr Reddy's Labs	33	26	34	37	63885
Divi's Lab.	17	24	27	36	62187
Cipla	49	22	23	5	47197
Biocon	30	23	22	16	42954
Torrent Pharma.	23	16	27	28	39450
Lupin	26	11	6	-3	36682
Abbott	15	34	29	116	35871
Cadila Health.	17	25	31	-1	34111
Aurobindo Pharr	56	12	18	-32	31673
Apollo Hospitals	6	-11	1	14	20186
Pfizer	6	6	1	32	19504
Ipca Labs.	9	23	32	56	19005
Sanofi	20	15	9	33	17606
Syngene Int.	31	1	-3	7	12480
Alembic Pharma	14	4	9	16	11647
Ajanta Pharma	9	10	35	28	11476
Natco Pharma	15	-4	4	14	11221
Fortis Health	-7	-14	-7	-13	9260
Glenmark Pharn	48	-10	-10	-51	8863
Narayana Hruda	19	-20	-5	36	5967
Jubilant Life	20	-45	-38	-52	5340
Aster DM	12	-36	-35	-32	5195
FDC Ltd	18	3	12	45	4069
Indoco Remedie	36	16	29	24	2275
Hikal	38	-18	-6	-40	1318
Hester Bio	-8	-38	-31	-33	846
Shalby Ltd	40	-31	-25	-49	748
Healthcare Glob	-18	-39	-33	-66	617
NGL Fine-Chem	29	-31	-22	-26	204

Source: Bloomberg

Global Indices Performance

	Return (%)					
Company	**1M**	**3M**	**YTD**	**1Y**	**3Y**	**5Y**
S&P 500 Pharm Ir	24	-3	0	16	10	7
NASDAQ Biotechı	27	2	4	20	9	1
S&P Pharmaceuti	25	-15	-13	4	-1	-7
DJ Pharma and Bi	25	-1	1	17	10	5
DJ STOXX Healthc	18	-3	0	23	9	4
MSCI World Pharr	23	-2	1	21	11	5
NSE Pharma	**32**	**11**	**14**	**-2**	**-3**	**-6**

Source: Bloomberg

Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

MItesh Shah, CFA
mitesh.sha@icicisecurities.com

Sudarshan Agarwal
sudarshan.agarwal@icicisecurities.com

Sector Update

ICICI Securities – Retail Equity Research

API/CRAMs players–On the back of recurring issues in China like shutdown due to environmental concerns earlier and now due to Covid-19, most formulation manufacturers have started looking at India as an alternative source of APIs. This bodes well for API players. For discretionary CRAMs, however, de-stocking at the client's level is likely to impact near-term spending of large pharma companies in early stage innovative products.

Raw materials – Due to the steep decline in Covid-19 cases in China and restoration of manufacturing (except from Hubei province where manufacturing has just began), supplies of raw materials are about to normalise. Raw material prices are also cooling off though they are still higher than historical levels. However, certain supply chain issues such as heavy congestion at major ports in China for disinfection of ships are likely to persist, thus causing delays in consignments.

Notwithstanding the out and out PE expansion, we prefer a stock specific approach. We categorise pharma coverage companies into following – India specific branded generic players, blended model with higher India branded contribution followed by US and other export destinations, blended model with higher US generics exports followed by India branded contribution and API and CRAMS players.

In our order of preference, we prefer India specific branded players on the back of 9-10% expected growth momentum without much sweat and B/S pressure, favourable market dynamics with doctor prescription stickiness to the fore and lower perceived risk factors. **MNCs such as Abbott India, Sanofi and Pfizer are our preferred picks in this category.**

We also prefer blended model with higher India branded contribution followed by the US and other export destinations where India remains the main growth engine and other geographies as auxiliary engines. This category also includes cases in which there could be windfall gain opportunities such as the latest case of first generic approval by the USFDA to Cipla's inhalation product, 'Albuterol sulphate' (Proventil HFA) metered dose inhaler that is used to treat bronchospasm amid rise in demand for Albuterol products during the ongoing Covid-19 pandemic. **Ipca Labs, Ajanta Pharma, Torrent and Cipla are our preferred picks from this category.**

Thirdly, we prefer B2B players like API and CRAMS manufacturing on account of a better regulatory track record, client validation and long term supply agreement with marquee customers and frontloading of capex with specific order book. **Divi's Labs, Syngene and Hikal are our top picks from this category.**

We remain neutral on US focused generic players and companies with blended model with higher US generics exposure as we believe the regulatory overhang, higher competition and weaker pricing power continue to act as a major headwind with lower or higher degree in the near term.

Exhibit 1: Change in valuation

Company	CMP	FY22E EPS (₹	Multiple		Target Price		Rating	
			Old	New	Old	New	Old	New
Abbott India	16877	468.8	36	40	16880	18755	BUY	HOLD
Ajanta	1331	77.2	20	22	1525	1700	BUY	**BUY**
Alembic	614	31.0	20	22	620	685	HOLD	HOLD
Auro	546	55.5	8	9	435	500	HOLD	HOLD
Cadila	335	20.9	15	18	285	375	HOLD	HOLD
Cipla	588	27.7	18	22	490	610	HOLD	HOLD
Divi's	2358	71.0	28	30	1990	2130	HOLD	HOLD
Dr Reddy's	3874	180.9	20	22	3520	3980	HOLD	HOLD
Ipca	1520	79.3	20	24	1560	1900	BUY	**BUY**
Lupin	811	31.1	22	24	675	745	HOLD	HOLD
Pfizer Ltd	4279	159.2	30	35	4775	5570	BUY	**BUY**
Sanofi India	7670	220.4	35	40	7715	8815	HOLD	**BUY**
Sun	472	23.2	20	22	460	510	Hold	HOLD
Torrent	2344	92.1	22	26	2020	2395	HOLD	HOLD

Source: ICICI Direct Research, Bloomberg

Abbott India

Abbott is the fastest growing listed MNC pharma company with a strong domestic presence. Certain supply related issues due to Covid-19 disturbances notwithstanding, domestic focused players are expected to maintain growth momentum in the range of 9-10% per annum. Besides stable growth, debt-free B/S, favourable market dynamics with doctor prescription stickiness and lower perceived risk factors are some key determinants. We continue to believe in Abbott's strong growth track in power brands and capability of new launches on a fairly consistent basis (100 products in the last 10 years). We expect revenues, EBITDA and PAT to grow at ~13%, 25% and 30% CAGR, respectively, in FY19-22E. Due to the recent run-up in the stock, we change our rating from BUY to **HOLD** and arrive at a target price of ₹ 18755 based on 40x FY22 EPS of ₹ 468.8.

Exhibit 2: Key Financial Summary

	FY19	FY20E	FY21E	FY22E	CAGR FY19-22 (%)
Revenues	3678.6	4147.8	4685.9	5304.3	13.0
EBITDA	604.7	846.4	1017.1	1193.8	25.4
EBITDA margins (%)	16.4	20.4	21.7	22.5	
Net Profit	450.3	667.0	832.4	996.2	30.3
EPS (₹	211.9	313.9	391.7	468.8	
PE (x)	79.6	53.8	43.1	36.0	
M.Cap/Revenues (x)	9.7	8.6	7.7	6.8	
EV to EBITDA (x)	56.5	39.9	32.7	27.3	
RoCE (%)	33.9	35.1	35.8	35.2	
ROE	22.4	27.3	27.7	27.1	

Source: ICICI Direct Research, Bloomberg

Ajanta Pharma

Ajanta Pharma has a **blended model with higher India branded contribution followed by the US and other export destinations** where India remains the main growth engine. We expect 10-11% growth in branded business (India, Asia, Africa -- ~70% of sales) and ~25% CAGR in FY19-22 for US. On the margins front, heavy capex and change in product mix (increased US revenues) notwithstanding, the management expects ~100 bps improvement, going ahead, with improving operating leverage. Overall, calculated focus, healthy margins, return profile and lighter balance sheet are some key differentiators for Ajanta. We maintain **BUY** and arrive at our target price of ₹ 1700 based on 22x FY22E EPS of ~₹ 77.2.

Exhibit 3: Key Financial Summary

	FY19	FY20E	FY21E	FY22E	CAGR FY20-22 (%)
Revenues	2053.0	2540.0	2938.7	3330.4	14.5
EBITDA	555.8	696.9	822.8	965.8	17.7
EBITDA margins (%)	27.1	27.4	28.0	29.0	
Net Profit	384.6	467.9	566.5	681.9	20.7
EPS (₹	43.5	53.1	64.1	77.2	
PE (x)	30.6	25.1	20.8	17.2	
M.Cap/Revenues (x)	5.7	4.6	4.0	3.5	
EV to EBITDA (x)	20.9	16.8	14.1	11.8	
RoCE (%)	21.8	24.2	23.4	24.2	
ROE	17.1	18.1	18.7	19.3	

Source: ICICI Direct Research, Bloomberg

Alembic Pharma

Alembic has a **higher US generics exposure** with India branded business and other geographies acting as auxiliary engines. On the exports front, till date the shipments are normal even in the worst impacted countries. However, business may be impacted due to supply chain issues and logistical barriers. Also, the beneficial impact of the recent sharp rupee depreciation may take some time to soak in. The company continues to send mixed signals with high performing US engine (albeit on Sartan success) at one end and a somewhat laggard domestic portfolio at the other end. The management expects 10-12% domestic annual growth from FY21 on the back of ongoing restructuring of distribution patterns. For the US, with the aggressive R&D and capex, the management has signalled its long term strategy for the next five to six years. This includes a foray into niche areas like oncology, injectables, derma, etc. We believe this is fraught with a new set of challenges. The benefits are most likely to be back-loaded. We maintain **HOLD** and arrive at our target price of ₹ 685 based on 22x FY22E EPS of ₹ 31.0

Exhibit 4: Key Financial Summary

	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E) %
Revenues	3934.7	4563.1	4564.8	4983.7	8.2
EBITDA	873.6	1203.3	898.7	1076.3	7.2
EBITDA margins (%)	22.2	26.4	19.7	21.6	
Net Profit	592.7	835.6	511.8	584.8	-0.4
EPS (₹	31.4	44.3	27.2	31.0	
PE (x)	19.5	14.4	22.6	19.8	
Target PE (x)	21.8	15.5	25.2	22.1	
EV to EBITDA (x)	14.3	10.6	13.9	11.3	
ROIC (%)	35.1	38.5	17.6	15.8	
RoNW (%)	21.8	24.9	13.6	13.8	

Source: ICICI Direct Research, Bloomberg

Aurobindo Pharma

We remain neutral on Aurobindo Pharma due to its lingering cGMP issues and **high US generics exposure** (~46% revenues), which opens it up to higher competition and weaker pricing power in US. The company may see some impact on its US injectables business as hospitals, main clients for the segment, have seen a significant drop in patient footfalls due to Covid-19. More recently, due to calling off of the Sandoz deal, there may be some solace on the balance sheet front as the debt level was expected to double post this deal. However, the company will still be losing out on one of the cheapest M&A bargains in the US generics space and manufacturing base in US. We maintain **HOLD** and arrive at our target price of ₹ 500 based on 9x FY22E EPS of ₹ 55.5.

Exhibit 5: Key Financial Summary

(Year End March)	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E) %
Revenues	19563.5	22958.5	25229.8	26874.0	11.2
EBITDA	3843.2	4828.4	5109.6	5516.2	12.8
EBITDA margins (%)	19.6	21.0	20.3	20.5	
Net Profit	2452.8	2867.3	2988.1	3234.1	9.7
EPS	42.1	49.2	51.3	55.5	
PE (x)	13.4	11.2	10.6	9.8	
EV/EBITDA (%)	9.5	7.5	6.8	5.9	
ROE (%)	17.7	17.4	15.5	14.5	
ROCE (%)	15.9	17.8	17.1	16.9	

Source: ICICI Direct Research, Bloomberg

Cadila Healthcare

Despite India pedigree, the Indian business has been a kind of underachiever vis-à-vis other peers. The US, although promising, remains a tough business ground like for any other players. The management expects Indian formulations to grow above industry average and US base to grow in high single digits in FY21. The third major segment i.e. wellness (post acquisition) will be keenly watched as the company ventures into slightly unchartered territory with high amount of seasonality aspect. Although it is early days to gauge the success, prima facie it looks beneficial from an overall revenue point of view with India focused FMCG addition in the overall portfolio mix. On the margins front, the company has guided for 20% EBITDA margins in FY21. Overall, balance sheet reduction, Moraiya warning letter resolution and US base business performance in tough times are some of the important aspects to watch. We maintain **HOLD** and arrive at our target price of ₹ 375 based on 18x FY22E EPS of ₹ 20.9. We remain neutral on the stock. One can think about staggered buying after further correction.

Exhibit 6: Key Financial Summary

	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E) %
Revenues	11936.4	13165.6	14600.3	16022.3	17344.8	9.6
EBITDA	2847.5	2972.8	2750.2	3248.3	3715.2	7.7
EBITDA margins (%)	23.9	22.6	18.8	20.3	21.4	
Net Profit	1794.6	1849.0	1464.9	1792.5	2138.5	5.0
EPS (₹	17.5	18.1	14.3	17.5	20.9	
PE (x)	19.1	18.6	27.4	19.1	16.0	
EV to EBITDA (x)	13.4	13.9	15.0	12.5	10.6	
RoE (%)	20.5	17.8	12.9	14.1	14.9	
RoCE (%)	16.7	13.0	10.6	12.1	13.4	

Source: ICICI Direct Research, Bloomberg

Cipla

We prefer Cipla due to its **blended model with higher India branded contribution followed by US and other export destinations**. In a recent positive development, the company got the first generic approval by the USFDA for its inhalation product, 'Albuterol sulphate' (Proventil HFA) metered dose inhaler that is used to treat bronchospasm amid rise in demand for Albuterol products during the ongoing Covid-19 pandemic. Recently, the company has restructured its total business into four verticals namely, India, South Africa & EMs, US generics & specialty and lung leadership in its quest for improving focus. While India focus will be on branded (Bx) and trade generics (Tx), the US focus will be on specialty including hospitals and value accretive generics. Across the board transformation from tenderised model to private model in the exports market and towards rapid consumerisation of important Tx and Bx in India is likely to continue for some time and this may have some implications on the quarterly performances. We maintain **HOLD** and arrive at a target price of ₹ 610 based on 22x FY22E EPS ₹ 27.7.

Exhibit 7: Key Financial Summary

	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E) %
Revenues	16362.4	17099.2	18976.6	20781.6	8.3
EBITDA	3097.3	3379.7	3638.7	4195.4	10.6
EBITDA margins (%)	18.9	19.8	19.2	20.2	
Adjusted PAT	1496.1	1663.7	1825.9	2228.8	14.2
Adj. EPS (₹	18.6	20.7	22.7	27.7	
PE (x)	31.7	28.5	25.9	21.2	
EV to EBITDA (x)	15.8	13.9	12.6	10.4	
RoNW (%)	10.0	10.2	10.2	11.2	
RoCE (%)	10.9	12.7	13.3	14.8	

Source: ICICI Direct Research, Bloomberg

Divi's Laboratories

We prefer Divi's, an established **API & CRAMS** player, due to its better regulatory track record, client validation and long term supply agreement with marquee customers. A key opportunity for the company could stem from formulation manufacturers worldwide looking for alternative sources of APIs due to earlier environmental concerns in China and now the Covid-19 pandemic. On the operational front, apart from the recent improvement in margins due to softening of raw material prices and backward integration the important narrative for Divi's is the unprecedented capex that it is undertaking in the course of next few months. To further augment the capacities besides preparing for growing opportunities arising due to China factor, the company has earmarked an aggressive capex of ~₹ 1700 crore (including ₹ 300 crore for backward integration), over and above ~₹ 2000 crore spent in the last five years. We expect the full-blown impact of this massive investment to fructify from FY22 onwards (after considering the time lag for regulatory inspections). We maintain HOLD and ascribe a target price of ₹ 2130 based on 30x FY22E EPS of ₹ 71.0.

Exhibit 8: Key Financial Summary

(₹crore)	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E) %
Revenues	4946.3	5347.5	6171.5	7097.2	12.8
EBITDA	1871.8	1834.8	2183.8	2608.8	11.7
EBITDA margins (%)	37.8	34.3	35.4	36.8	
Adj. Net Profit	1352.7	1323.6	1549.8	1885.8	11.7
Adjusted EPS (₹)	51.0	49.9	58.4	71.0	
PE (x)	46.3	47.3	40.4	33.2	
Target PE (x)	1.1	1.2	1.0	0.8	
EV to EBITDA (x)	32.1	32.6	27.1	22.5	
RoNW (%)	19.4	16.6	16.9	17.5	
RoCE (%)	25.5	21.7	21.8	22.8	

Source: ICICI Direct Research, Bloomberg

Dr Reddy's Laboratories

We remain neutral on Dr Reddy's due to its **blended model with higher US generics exports followed by India branded contribution**. Recently, the company acquired Wockhardt's select domestic branded business in India and few emerging markets for a consideration of ₹ 1850 crore. Post this acquisition, the domestic business contribution in revenues is likely to increase to 19-20% from 17% as of 9MFY20. The company has also undertaken sustained cost rationalisation, especially on the SG&A front and calibration of R&D spend. We expect a continuance in operational improvement due to strong growth from branded markets, control on overheads and reduction in regulatory spend. Overall, it is still a work in progress for the company with product/segment identification for growth and cost rationalisation drive likely to continue for the next few quarters. We maintain **HOLD** and arrive at a target price of ₹ 3980 by valuing the stock at 22x FY22E EPS of ₹ 180.9

Exhibit 9: Key Financial Summary

	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E) %
Revenues	15448.2	17417.5	19592.6	21638.6	11.9
EBITDA	3151.6	2373.3	4290.7	4823.5	15.2
EBITDA Margins (%)	20.4	13.6	21.9	22.3	
Adjusted PAT	1906.3	1766.9	2538.8	3004.6	16.4
EPS (Adjusted)	114.7	106.3	152.8	180.8	
PE (x)	33.8	36.4	25.4	21.4	
EV to EBITDA (x)	20.7	27.1	14.9	12.8	
RoE (%)	13.6	11.4	14.4	14.9	
RoCE (%)	11.1	8.4	14.4	17.1	

Source: ICICI Direct Research, Bloomberg

Ipca Laboratories

The company falls under the **blended model with higher India branded contribution followed by US and other export destinations** category. Besides industry-beating growth in domestic formulations, the company continues to thrive on the exports front, both in formulations and APIs. There are fluctuations in the institutional business, though, but the management remains upbeat on the prospects. Going ahead, with a firm growth tempo in domestic formulations and good prospects both for API exports and formulation exports, we expect a further improvement in financial parameters. The company will continue to remain a compelling bet on the back of well-rounded growth prospects for FY19–22E- sales, EBITDA and PAT CAGR of 15%, 25% and 31%, respectively. We maintain **BUY** and arrive at our target price of ₹ 1900 (24x FY22E EPS of ₹ 79.3).

Exhibit 10: Key Financial Summary

	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E) %
Revenues	3773.2	4726.4	5178.9	5800.0	15.4
EBITDA	690.1	987.5	1139.4	1334.0	24.6
EBITDA Margins (%)	18.3	20.9	22.0	23.0	
Net Profit	442.2	703.2	827.8	999.9	31.3
EPS (₹	35.1	55.7	65.6	79.3	
Adj. EPS (₹	35.1	55.7	65.6	79.3	
PE (x)	43.4	27.3	23.2	19.2	
EV to EBITDA (x)	27.9	19.1	16.1	13.1	
Price to book (x)	6.1	5.2	4.4	3.7	
RoNW (%)	14.2	19.1	18.9	19.2	
RoCE (%)	15.0	20.5	21.0	21.6	

Source: ICICI Direct Research, Bloomberg

Lupin

Lupin follows a **blended model with higher US generics exports followed by India**. Recently, Lupin has divested its stake in its Japanese subsidiary, Kyowa Pharmaceutical to Unison Capital for a consideration of ~₹ 3702 crore (enterprise value). The deal values the Kyowa business at ~2x EV/sales and is likely to generate post tax net cash inflow of ~₹ 2104 crore, which is likely to be used to pare down debt and possibly for any inorganic opportunity in key markets. Profitability is also likely to improve post this exit as the company increases focus on core markets (India and US). As per the management, FY20 US sales would be largely driven by gLevothyroxine and 15+ new launches. Domestic branded formulations are expected to remain strong. However, the resolution of warning letter and clearance of official action indicated (OAIs) status on plants could be a near term overhang along with progress on the margins front. Additionally, Lupin has also chalked out a product and cost rationalisation drive, the result of which could be visible two to three years down the line. We maintain **HOLD** and arrive at a target price of ₹ 745 by valuing the stock at 24x FY22E EPS of ₹ 31.1.

Exhibit 11: Key Financial Summary

	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E) %
Revenues	16718.2	16262.1	16601.0	18343.9	3.1
EBITDA	2704.2	2512.0	2290.9	3210.2	5.9
EBITDA margins(%)	16.2	15.4	13.8	17.5	
Net Profit	748.0	-1319.7	826.8	1404.0	23.4
EPS (₹	16.5	-29.2	18.3	31.1	
PE (x)	60.1	-68.5	44.3	26.1	
Target PE (x)	45.0	-25.5	40.7	24.0	
EV to EBITDA (x)	15.5	15.1	16.7	11.6	
Price to book (x)	2.7	2.8	2.6	2.4	
RoNW (%)	5.4	-10.0	6.0	9.3	
RoCE (%)	9.4	9.0	7.9	12.3	
Debt / Equity	0.6	0.4	0.3	0.2	

Source: ICICI Direct Research, Bloomberg

Pfizer Ltd

Pfizer is one of the pharma **MNCs with domestic focus** that continues to drive investor's interest on the back of 1) consistency in stable growth despite higher competition and regulatory changes, 2) strong focus on legacy power brands as well as introduction from the global parent's stable, 3) consistent free cashflow generation, 4) debt-free balance sheet and strong core RoEs and 5) healthy dividend payout track record. In addition to this, the domestic pharma industry is expected to grow in the range of 9-11% per annum. We continue to believe in Pfizer's strong growth track in power brands and capability of new launches on a fairly consistent basis. We expect revenues, EBITDA and PAT to grow at ~10%, 15% and 19% CAGR, respectively, in FY19-22E. We maintain **BUY** and arrive at a target price of ₹ 5570 based on 35x FY22 EPS of ₹ 159.2.

Exhibit 12: Key Financial Summary

	FY19	FY20E	FY21E	FY22E	CAGR FY19-22 (%)
Revenues	2081.5	2289.7	2518.6	2770.5	10.0
EBITDA	565.2	675.7	764.4	861.6	15.1
EBITDA margins (%)	27.2	29.5	30.4	31.1	
Net Profit	429.1	553.4	635.1	728.2	19.3
EPS (₹	93.8	121.0	138.8	159.2	
PE (x)	45.6	35.4	30.8	26.9	
M.Cap/ Revenues (x)	9.4	8.6	7.8	7.1	
EV to EBITDA (x)	31.3	25.5	21.8	18.6	
RoCE (%)	21.7	21.2	21.1	21.0	
ROE	14.2	16.0	16.0	15.8	

Source: ICICI Direct Research, Bloomberg

Sanofi India

Sanofi remains one of the fastest growing companies in India in anti-diabetic therapy. It launched Toujeo within just three years of its launch in the US, which suggests it is prepared to launch core innovative products in India banking on growth prospects in the anti-diabetic category. A strong growth track record in top brands, measured new launches (including innovative launches) besides strong balance sheet and comfort on corporate governance front are some key attributes of **MNC pharma** companies including Sanofi. We upgrade our rating from HOLD to **BUY** and arrive at a new target price of ₹ 8815 based on 40x CY21E EPS of ₹ 220.4.

Exhibit 13: Key Financial Summary

	CY18	CY19	CY20E	CY21E	CAGR CY19-21 (%)
Revenues	2770.8	3070.6	3174.8	3389.8	5.1
EBITDA	623.5	665.3	744.4	818.4	10.9
EBITDA margins (%)	22.5	21.7	23.4	24.1	
Net Profit	380.6	414.2	636.0	507.6	10.7
EPS (₹)	165.3	205.6	169.4	220.4	
PE (x)	46.4	42.6	27.8	34.8	
M.Cap/Revenues (x)	6.4	5.8	5.6	5.2	
EV to EBITDA (x)	27.0	24.9	22.7	20.4	
RoCE (%)	25.9	26.0	35.2	35.7	
ROE	17.2	19.4	20.0	24.0	

Source: ICICI Direct Research, Bloomberg

Sun Pharma

The company's US business comprises ~37% of turnover (FY19) while the US generics business is witnessing calibrated product rationalisation, the US specialty segment looks promising due to robust product pipeline. However, this gradual change of stance from generics to specialty is likely to weigh on US growth in the near term. On the other hand, enhanced focus on domestic front (addition of field force and growing in-licensing deals) is likely to improve overall growth. On the cost front, the management expects continuous front-loading of cost on specialty launches and higher R&D spend to optimise existing specialty products besides projecting them in other geographies such as Japan and China. We bank on the company's endeavour to mobilise resources towards more productive and long lasting segments. We maintain **HOLD** and arrive at a target price of ₹ 510 by valuing the stock at 22x FY22E EPS of ₹ 23.2.

Exhibit 14: Key Financial Summary

	FY19	FY20E	FY21E	FY22E	CAGR FY19-22E (%)
Net Sales	29028.1	32577.8	34614.0	37938.0	5.2
EBITDA	6269.8	7336.8	7356.2	8442.7	4.8
EBITDA Margins (%)	21.6	22.5	21.3	22.3	
Adj. Profit	3803.3	4233.3	4474.3	5575.5	9.6
Adj. EPS (₹)	15.9	17.6	18.6	23.2	
PE (x)	43.7	26.7	25.3	20.3	
EV to EBITDA (x)	17.9	15.0	14.5	12.2	
Price to book (x)	2.7	2.5	2.3	2.1	
RoE (%)	9.2	9.4	9.1	10.2	
RoCE (%)	10.3	10.8	10.7	12.1	

Source: ICICI Direct Research, Bloomberg

Torrent Pharma

Torrent Pharma owns a **blended model with higher India branded contribution** followed by US and other export destinations with India (including CRAMS) being the main growth engine (48% of sales). Torrent continues to impress thanks to its robust margin profile, which can be attributed to global portfolio that comprises ~60% branded generics. We expect a further improvement in this matrix and product rationalisation to further strengthen margins and return ratios. The company's portfolio is finely balanced between India, Brazil, Germany and the US with Indian being the leader. With consistent FCF generation and moderation in core capex, we expect the leverage situation to improve substantially. We maintain **HOLD** and arrive at a target price of ₹ 2395 by valuing the stock at 26x FY22E EPS of ₹ 92.1.

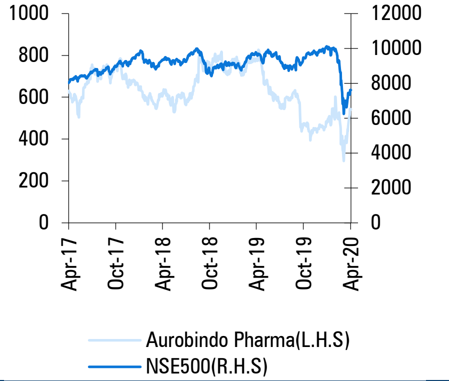
Exhibit 15: Key Financial Summary

	FY19	FY20E	FY21E	FY22E	CAGR FY19-22E (%)
Revenues	7776.0	7917.0	8885.7	9781.7	7.9
EBITDA	2087.0	2112.6	2509.9	2836.7	10.8
EBITDA margins (%)	26.8	26.7	28.2	29.0	
Net Profit	828.4	920.4	1215.0	1559.3	23.5
EPS (₹	48.9	54.4	71.8	92.1	
PE (x)	73.6	43.1	32.7	25.4	
EV to EBITDA (x)	21.3	20.7	17.0	14.5	
Price to book (x)	8.4	7.3	6.3	5.3	
RoNW (%)	17.5	17.0	19.2	20.8	
RoCE (%)	14.2	15.4	18.5	21.3	
Debt / Equity	1.3	0.9	0.7	0.4	

Source: ICICI Direct Research, Bloomberg

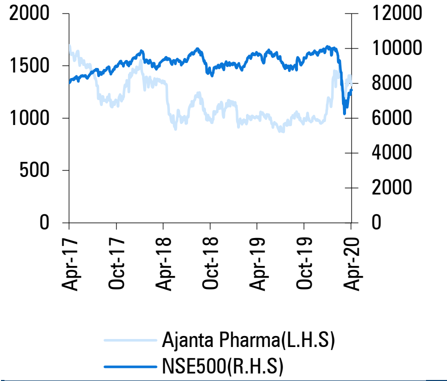
Exhibit 3: Price Charts

Aurobindo Pharma



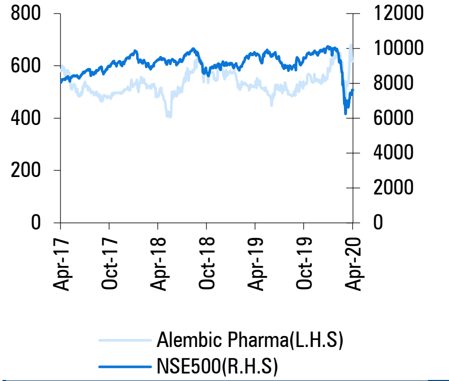
Source: Bloomberg, ICICI Direct Research

Ajanta Pharma



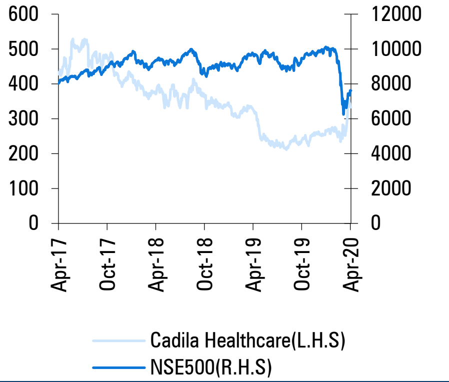
Source: Bloomberg, ICICI Direct Research

Alembic Pharma



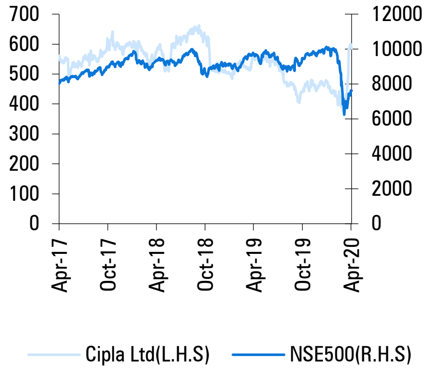
Source: Bloomberg, ICICI Direct Research

Cadila Healthcare



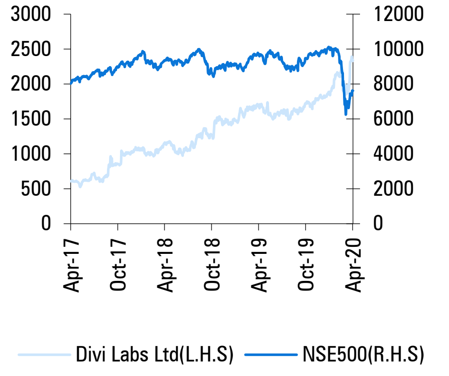
Source: Bloomberg, ICICI Direct Research

Cipla



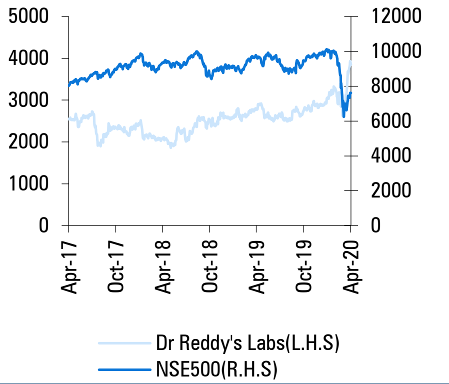
Source: Bloomberg, ICICI Direct Research

Divis Lab



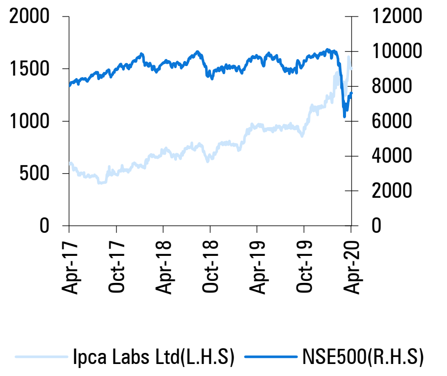
Source: Bloomberg, ICICI Direct Research

Dr Reddys'



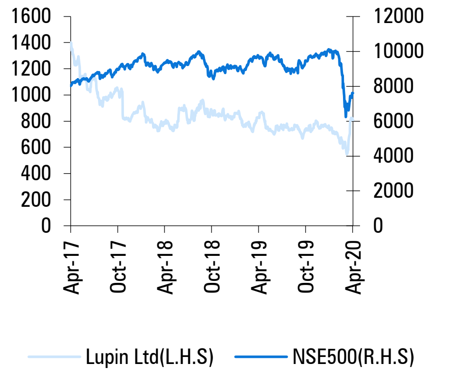
Source: Bloomberg, ICICI Direct Research

Ipca Labs



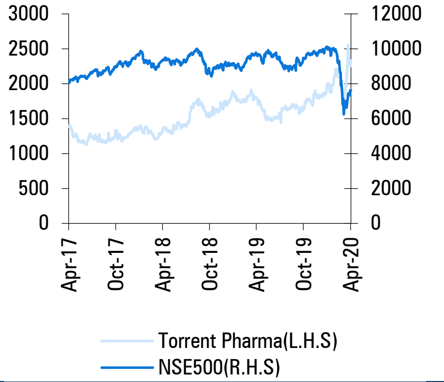
Source: Bloomberg, ICICI Direct Research

Lupin



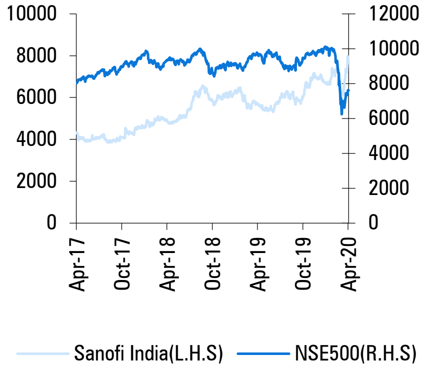
Source: Bloomberg, ICICI Direct Research

Torrent Pharma



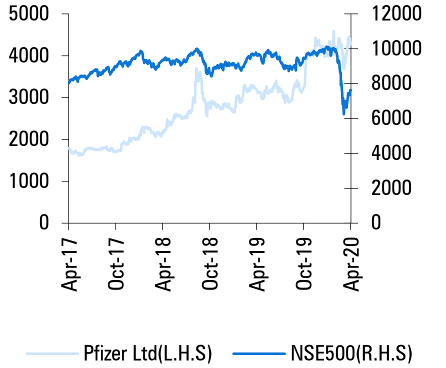
Source: Bloomberg, ICICI Direct Research

Sanofi India



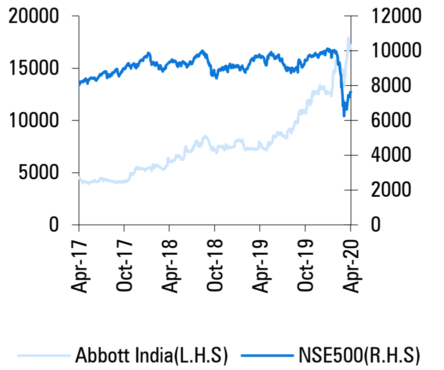
Source: Bloomberg, ICICI Direct Research

Pfizer Ltd



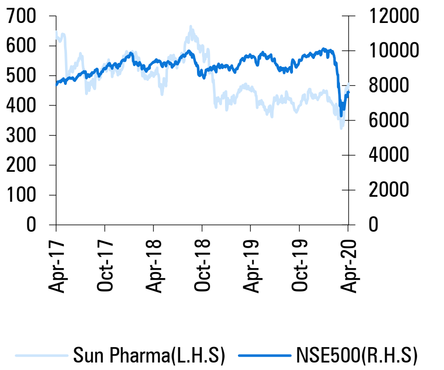
Source: Bloomberg, ICICI Direct Research

Abbott India



Source: Bloomberg, ICICI Direct Research

Sun Pharma



Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%

Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

We /I, Siddhant Khandekar, Inter CA, Mitesh Shah, CFA, Sudarshan Agarwal, PGDM (Finance) Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.