

| Company | Bloomberg Code | Target Price (Rs) | Reco |
|-----------------------|----------------|-------------------|------|
| Ajanta Pharma | AJP IN | 1,846 | HOLD |
| Alembic Pharma | ALPM IN | 412 | HOLD |
| Aurobindo Pharma | ARBP IN | 1,293 | BUY |
| Biocon | BIOS IN | 479 | HOLD |
| Cadila | CDH IN | 1,636 | BUY |
| Cipla | CIPLA IN | 644 | HOLD |
| Divis Lab | DIVI IN | 1,802 | HOLD |
| Dr Reddy | DRRD IN | 3,581 | BUY |
| Glenmark | GNP IN | 775 | HOLD |
| Indoco Remedies | INDR IN | 392 | BUY |
| Ipsa Lab | IPCA IN | 747 | HOLD |
| JB Chemicals | JBCP IN | 295 | BUY |
| Jubilant LifeSciences | JOL IN | 131 | SELL |
| Lupin | LPC IN | 1,710 | BUY |
| Sharon Bio-medicine | SBML IN | 66 | HOLD |
| Shilpa Medicare | SLPA IN | 473 | HOLD |
| Sun Pharma | SUNP IN | 831 | HOLD |
| Torrent | TRP IN | 1,010 | HOLD |

Source: IndiaNivesh Research

Q3FY15 is expected to be another quarter of moderate growth, however, stance remains positive

We expect 18 companies under INSPL Pharma universe to show aggregate sales and adjusted PAT growth of 17.3% y-y and 10.7% y-y to Rs296bn and Rs51bn (including financials of JOL). Excluding financials of JOL, we expect companies under our coverage to deliver sales and adjusted PAT of Rs281bn and Rs51bn, growing by 18.1% y-y and 13.9% y-y, respectively. The downtrend in adjusted PAT y-y growth is expected to continue for fourth consecutive quarter. Also, interestingly, it would be second consecutive quarter, wherein, the y-y adjusted PAT growth would be lower than y-y sales growth. This is mainly due to moderate y-y growth expected in adjusted PAT of SUNP and contraction expected in adjusted PAT of DRRD. Company wise, we expect CDH, INDR, LPC, SUNP, TRP and ALPM to show better than average growth for the quarter.

EBITDA margin on aggregate basis is expected to remain steady sequentially, while expected to dip 140bps y-y. This is due to lack of approvals and partly due to high base of past year.

The lack of approvals in key US market and high base of past year may lead to such downtrend in adjusted PAT growth for the quarter. However, we believe that slow pace of approvals is a temporary phenomenon and the pace of approval would pick up in future. The filings of products by pharma companies in most of the regulated as well as emerging markets continued at robust pace, giving us enough comfort for reversal in downtrend as and when the approval pace picks up.

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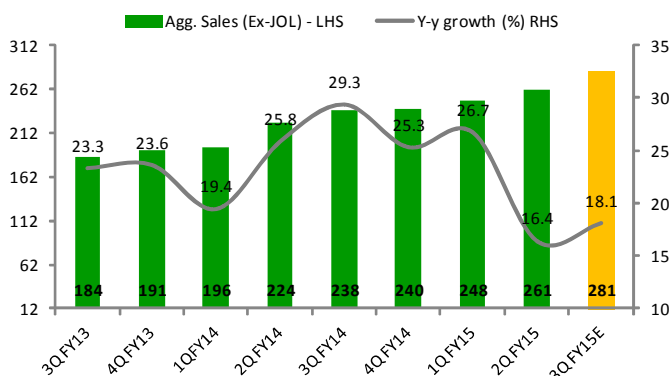
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Lower number of approvals and high base to result in further downtrend in y-y growth of US sales on aggregate basis: We expect US sales on aggregate basis to grow at lower rate than previous quarters at 18.2% to Rs93bn. This is mainly due to less number of approvals during 9M FY15 compared to that of 9M FY14. In addition, the base of past year was higher due to limited competition products sold by ARBP, DRRD, LPC and SUNP. The number of filings by individual companies remains robust and hence we expect trend of y-y growth in US sales on aggregate basis to improve once pace of approvals picks up. Company-wise, CDH, TRP and ARBP are expected to show superior y-y growth on the back of increased execution.

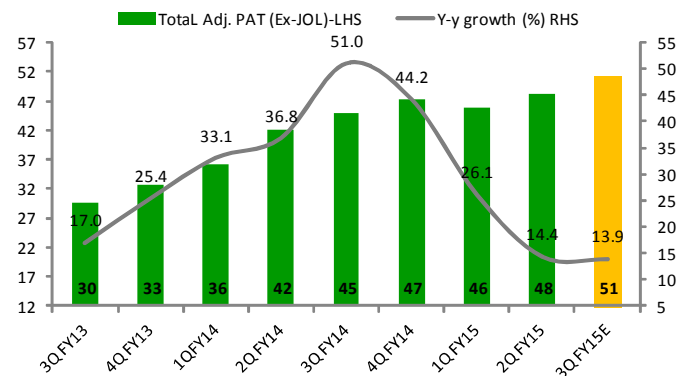
We expect aggregate sales to grow by 18% y-y to Rs281bn



Source: Company Filings, IndiaNivesh Research

Note: Excludes JOL numbers for the quarter

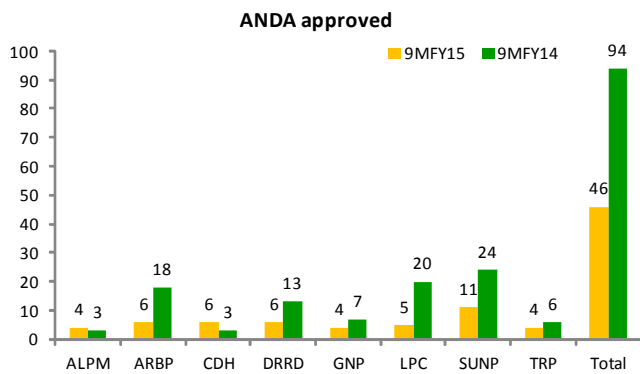
We expect aggregate adj. PAT to grow by 13.9% y-y to Rs51bn



Source: Company Filings, IndiaNivesh Research

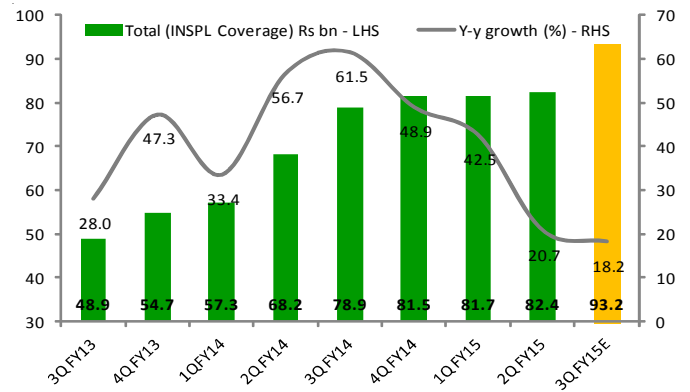
Note: Excludes JOL numbers for the quarter

Lower number of ANDA approval for six out of eight companies



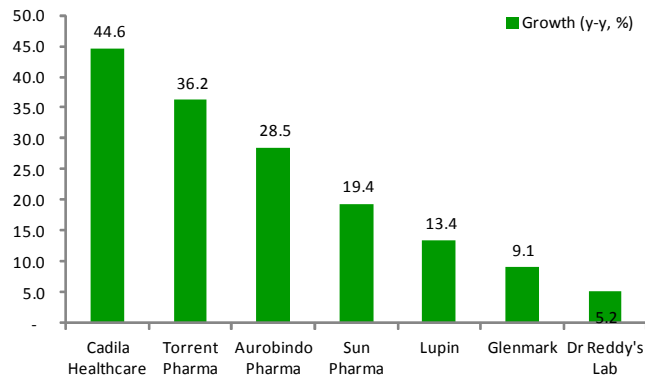
Source: Company Filings, IndiaNivesh Research

We expect 18.2% y-y growth in US sales on aggregate basis to Rs93bn



Source: Company Filings, IndiaNivesh Research

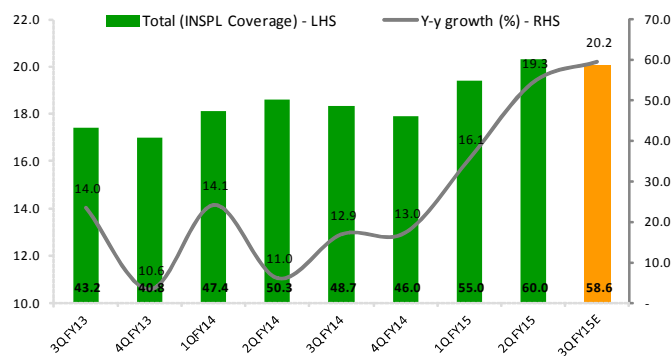
CDH is expected to show maximum y-y growth in US sales for the quarter



Source: IndiaNivesh Research

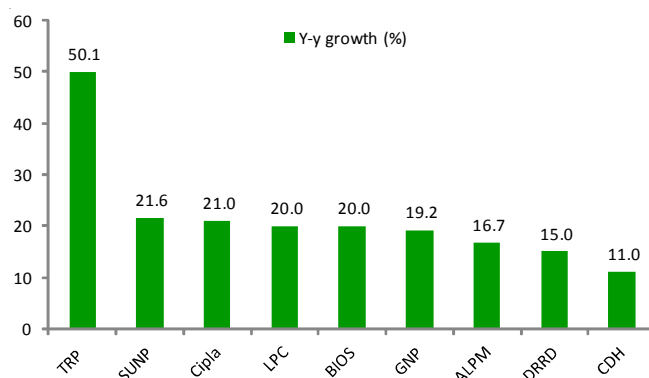
Momentum in Domestic formulation (DF) to further pick up speed: We expect uptick in DF y-y growth to continue for third consecutive quarter, mainly led by volume growth. The new product launches and increased traction in existing products would continue to drive growth in DF segment. TRP is expected to show phenomenally strong growth due to addition of Elder portfolio, which was absent in 3QFY14. During the quarter, National Pharmaceutical Pricing Authority (NPPA) implemented pricing cuts on more number of products. Despite uncertainty related to future pricing cuts, we remain optimistic on DF segment growth for pharma companies under our coverage as there is still lot of scope for introducing newer molecules and further shift towards lifestyle diseases as per capita income of population rises.

We expect DF sales to grow by 20.2% y-on on aggregate basis



Source: Company Filings, IndiaNivesh Research

Addition of Elder portfolio to result in higher growth for TRP



Source: Company Filings, IndiaNivesh Research

We maintain positive stance on the sector on the back of significant long term opportunities and companies making effort to monetize those opportunities. Our top picks are ARBP, CDH, LPC and DRRD. We continue to like AJP, ALPM, DIVI, SLPA and TRP. However, we have HOLD rating based on valuation.

Valuations & Recommendation

| Company | Sales (Rs mn) | | EBITDA Margin(%) | | Adj. PAT (Rs mn) | | EPS (Rs) | | ROE (%) | | P/E (x) | | CMP (Rs) | Target Price (Rs) | Reco |
|-----------------------|---------------|---------|------------------|-------|------------------|--------|----------|-------|---------|-------|---------|-------|----------|-------------------|------|
| | FY15E | FY16E | FY15E | FY16E | FY15E | FY16E | FY15E | FY16E | FY15E | FY16E | FY15E | FY16E | | | |
| Ajanta Pharma | 13,935 | 16,466 | 30.9 | 30.3 | 2,880 | 3,262 | 81.5 | 92.3 | 33.8 | 28.6 | 28.7 | 25.4 | 2,340 | 1,846 | HOLD |
| Alembic Pharma | 22,694 | 26,585 | 20.3 | 21.0 | 3,124 | 3,834 | 16.6 | 20.3 | 28.7 | 25.1 | 26.7 | 21.8 | 443 | 412 | HOLD |
| Aurobindo Pharma | 125,460 | 142,379 | 22.6 | 23.4 | 17,462 | 20,903 | 60.0 | 71.8 | 33.5 | 30.0 | 19.5 | 16.3 | 1,171 | 1,293 | BUY |
| Biocon | 33,263 | 38,801 | 23.5 | 23.1 | 4,608 | 5,320 | 23.0 | 26.6 | 13.8 | 14.3 | 18.0 | 15.6 | 415 | 479 | HOLD |
| Cadila | 84,145 | 99,115 | 20.1 | 21.0 | 10,887 | 13,958 | 53.2 | 68.2 | 25.6 | 26.4 | 31.7 | 24.7 | 1,687 | 1,636 | BUY |
| Cipla | 112,980 | 112,980 | 21.6 | 23.8 | 14,240 | 20,671 | 17.7 | 25.7 | 16.9 | 21.3 | 35.7 | 24.6 | 632 | 644 | HOLD |
| Divis Lab | 31,786 | 38,011 | 42.5 | 42.9 | 9,946 | 11,951 | 74.9 | 90.0 | 28.6 | 28.7 | 22.7 | 18.9 | 1,701 | 1,802 | HOLD |
| Dr Reddy | 150,023 | 169,881 | 22.6 | 22.2 | 22,035 | 24,401 | 130.0 | 143.9 | 25.7 | 24.1 | 24.3 | 22.0 | 3,164 | 3,581 | BUY |
| Glenmark | 69,747 | 80,060 | 21.3 | 21.4 | 8,965 | 10,460 | 33.2 | 38.8 | 26.7 | 25.0 | 22.1 | 18.9 | 734 | 775 | HOLD |
| Indoco Remedies | 8,793 | 11,126 | 20.0 | 20.8 | 1,072 | 1,519 | 11.6 | 16.5 | 20.2 | 23.8 | 28.2 | 19.9 | 328 | 392 | BUY |
| Ipca Lab | 33,272 | 39,987 | 20.4 | 22.1 | 4,266 | 5,890 | 33.8 | 46.7 | 26.2 | 29.3 | 21.8 | 15.8 | 739 | 747 | HOLD |
| JB Chemicals | 11,282 | 12,734 | 16.1 | 16.6 | 1,559 | 1,784 | 18.4 | 21.1 | 18.6 | 20.8 | 10.9 | 9.5 | 201 | 295 | BUY |
| Jubilant LifeSciences | 60,354 | 68,332 | 9.8 | 14.1 | 188 | 2,332 | 1.2 | 14.6 | 0.8 | 12.9 | 129.4 | 10.4 | 153 | 131 | SELL |
| Lupin | 136,395 | 162,445 | 26.5 | 27.5 | 22,881 | 28,342 | 55.1 | 68.4 | 24.6 | 25.3 | 25.8 | 20.8 | 1,420 | 1,710 | BUY |
| Sharon Bio-medicine | 13,910 | 15,997 | 11.7 | 12.5 | 745 | 1,009 | 4.7 | 7.2 | 19.1 | 21.1 | 7.0 | 4.6 | 33 | 66 | HOLD |
| Shilpa Medicare | 6,114 | 7,642 | 20.5 | 21.6 | 809 | 1,118 | 21.0 | 29.0 | 17.1 | 19.3 | 35.5 | 25.7 | 746 | 473 | HOLD |
| Sun Pharma | 189,598 | 205,834 | 45.6 | 44.0 | 69,703 | 72,607 | 33.7 | 35.1 | 51.2 | 49.9 | 24.3 | 23.3 | 817 | 831 | HOLD |
| Torrent Pharma | 49,334 | 57,643 | 25.4 | 23.6 | 9,078 | 9,498 | 53.6 | 56.1 | 34.4 | 28.0 | 22.0 | 21.1 | 1,182 | 1,010 | HOLD |

Note: CMP as on 9 Jan. 2015

Source: Company Filings, IndiaNivesh Research

Ajanta Pharma Ltd. | Reco: HOLD | TP: Rs.1,846

| (Rs. In Mn.) SA | Q3FY15E | Q3FY14 | Q2FY15 | Y-o-Y Ch. | Q-o-Q Ch. |
|----------------------------|---------|--------|--------|------------|------------|
| SALES | 3,544 | 2,926 | 3,312 | 21.1 | 7.0 |
| EBITDA | 1,095 | 910 | 1,046 | 20.4 | 4.6 |
| Adj Net Profit | 751 | 644 | 775 | 16.6 | (3.0) |
| Forex (loss) Gain | - | (20) | 12 | - | - |
| Reported Net profit | 751 | 624 | 786 | 20.3 | (4.5) |
| Adj. EPS (Rs) | 21.2 | 18.2 | 21.9 | 16.6 | (3.0) |
| | | | | bps | bps |
| EBITDA Margins (%) | 30.9 | 31.1 | 31.6 | (19) | (69) |
| Net Margins (%) | 21.2 | 22.0 | 23.4 | (82) | (219) |

Source: Company Filings, IndiaNivesh Research

We expect Ajanta Pharma (AJP IN) to grow by 21% and 17% y-y in sales and adjusted PAT, led by strong growth in domestic formulation segment. We expect branded formulation sales to maintain steady rate in Africa and Asia led by new product launches and increased market share in existing products. EBITDA margin is expected to taper a bit partly on high base.

Key factors to watch: Update of number of ANDAs filed and status of execution of new facility in Gujarat.

Alembic Pharmaceuticals Ltd. | Reco: HOLD | TP: Rs.412

| Rs Mn | Q3FY15E | Q3FY14 | Q2FY15 | Y-o-Y Ch. (%) | Q-o-Q Ch. (%) |
|---------------------|---------|--------|--------|---------------|---------------|
| Sales | 5,558 | 4,849 | 5,463 | 14.6 | 1.7 |
| EBITDA | 1,138 | 1,022 | 1,083 | 11.3 | 5.1 |
| Adj Net Profit | 781 | 659 | 773 | 18.5 | 1.1 |
| Forex (loss) Gain | - | - | - | - | - |
| Reported Net Profit | 781 | 659 | 773 | 18.5 | 1.1 |
| Adj EPS (Rs.) | 4.14 | 3.50 | 4.10 | 18.5 | 1.1 |
| | | | | bps | bps |
| EBITDA margins | 20.5 | 21.1 | 19.8 | (61) | 65 |
| PAT Margins | 14.1 | 13.6 | 14.1 | 46 | (9) |

Source: Company Filings, IndiaNivesh Research

Alembic Pharmaceuticals (ALPM IN) is expected to show sales of Rs5.6bn with 15% y-y growth for the quarter. The growth in sales would be mainly driven by domestic formulation segment. The slow pace of approvals may result in moderate growth of 11% y-y in international generic resulting in sales of US\$24mn for the quarter. Higher R&D spend and marketing spend is expected to tone down EBITDA margin a bit to 20.5% for the quarter. The lower interest cost is expected to result in higher adjusted PAT growth of 19% y-y to Rs781mn for the quarter.

Key factors to watch: Progress of execution of generic business and ongoing capex. Pricing and volume growth in domestic formulation would also be the key factor to watch out.

Aurobindo Pharma | Reco: BUY | TP: Rs.1,293

| (Rs Mn) | Q3FY15E | Q3FY14 | Q2FY15 | Y-o-Y Ch. | Q-o-Q Ch. (%) |
|-------------------------|---------|--------|--------|------------|---------------|
| Sales | 30,744 | 21,355 | 28,622 | 44.0 | 7.4 |
| EBITDA | 6,687 | 6,438 | 6,372 | 3.9 | 4.9 |
| Net Profit | 4,464 | 4,140 | 4,133 | 7.8 | 8.0 |
| Forex (loss) Gain/other | - | 35 | (411) | NA | NA |
| Net Profit Reported | 4,464 | 4,175 | 3,722 | 6.9 | 19.9 |
| Adj EPS (Rs.) | 15.34 | 14.23 | 14.20 | 7.8 | 8.0 |
| | | | | bps | bps |
| EBITDA Margins (%) | 21.7 | 30.1 | 22.3 | (840) | (51) |
| Net Margins (%) | 14.5 | 19.4 | 14.4 | (487) | 8 |

Source: Company Filings, IndiaNivesh Research

We expect Aurobindo Pharma (ARBP IN) to maintain sales momentum, led by US market and addition of recently acquired Actavis operations. We expect US generics sales to maintain strong run-rate and grow by 27% y-y to US\$190mn due to new product launches and increased market share in existing products. Overall sales are expected to grow by 44% y-y to Rs31bn and PAT to grow by 8% y-y to Rs4.5bn. The sales growth is expected to be higher than adjusted PAT growth, mainly due to addition of recently acquired Actavis operation, which was absent in Q3FY14.

Key factors to watch: progress on turnaround of acquired Actavis operations and performance in US market.

Biocon | Reco: HOLD | TP: Rs.479

| BIOS IN (in Rs Mn) | Q3FY15E | Q3FY14 | Q2FY15 | Y-o-Y Ch. (%) | Q-o-Q Ch. (%) |
|------------------------|---------|--------|--------|---------------|---------------|
| Out-licensing income | 40 | 40 | 90 | - | (55.6) |
| Core sales | 7,703 | 6,971 | 7,410 | 10.5 | 4.0 |
| NET SALES | 7,743 | 7,011 | 7,500 | 10.4 | 3.2 |
| EBITDA | 1,735 | 1,696 | 1,650 | 2.3 | 5.2 |
| Adj Net Profit | 1,029 | 1,050 | 1,020 | (2.0) | 0.9 |
| Rep Net Profit | 1,029 | 1,050 | 1,020 | (2.0) | 0.9 |
| EPS (Rs.) | 5.14 | 5.25 | 5.10 | (2.0) | 0.9 |
| | | | | bps | bps |
| Adj EBITDA Margins (%) | 22.0 | 23.8 | 21.1 | (175) | 95 |
| Net Margins (%) | 12.8 | 14.5 | 12.6 | (165) | 29 |

Source: Company Filings, IndiaNivesh Research

Biocon is expected to show marginal contraction of 2% y-y in net profit despite sales growing by 10.5% y-y for the quarter. Though the branded domestic formulation is expected to perform well, the bio-pharma segment is expected to remain adversely impacted due to political turmoil in MENA region and lower off-take of Fidaxomicin by Cubist Pharmaceuticals. In addition, the interest outgo is expected to remain higher due to increased short term borrowing.

Key factors to watch: Performance in domestic branded formulation segment, R&D spend, progress on various products in pipeline and performance in CRAMS business.

Cadila Healthcare | Reco: BUY | TP=Rs.1,636

| CDH IN (Rs Mn) | Q3FY15E | Q3FY14 | Q2FY15 | Y-o-Y Ch. (%) | Q-o-Q Ch. |
|--------------------|---------|--------|--------|---------------|------------|
| Sales | 21,506 | 18,157 | 20,635 | 18.4 | 4.2 |
| EBITDA | 4,505 | 2,955 | 4,210 | 52.5 | 7.0 |
| Adj Net Profit | 3,098 | 1,793 | 2,767 | 72.7 | 12.0 |
| Forex (loss) Gain | - | 66 | (12) | - | - |
| Rep Net Profit | 3,098 | 1,860 | 2,755 | 66.6 | 12.5 |
| EPS (Rs.) | 15.13 | 8.76 | 13.51 | 72.7 | 12.0 |
| | | | | bps | bps |
| EBITDA Margins (%) | 20.9 | 16.3 | 20.4 | 468 | 55 |
| Net Margins (%) | 14.4 | 9.9 | 13.4 | 453 | 100 |

Source: Company Filings, IndiaNivesh Research

We expect y-y growth momentum in adjusted PAT to continue for Q3FY15 as well, led by superior execution in US generics. We expect US generics sales to grow by 42% y-y to US\$145mn for the quarter, led by new product launches and increased traction in existing products. We expect EBITDA margin to gradually improve sequentially to 20.9% for the quarter.

Key factors to watch: Progress on ANDA approvals and revival in growth of domestic formulation segment.

Cipla Ltd. | Reco: HOLD | TP: Rs.644

| CIPLA IN (Rs Mn) | Q3FY15E | Q3FY14 | Q2FY15 | Y-o-Y Ch. (%) | Q-o-Q Ch. (%) |
|--------------------|---------|--------|--------|---------------|---------------|
| Sales | 29,831 | 25,526 | 26,298 | 16.9 | 13.4 |
| EBITDA | 5,398 | 4,673 | 5,585 | 15.5 | (3.3) |
| Adj Net Profit | 2,881 | 2,443 | 2,987 | 17.9 | (3.5) |
| Rep Net Profit | 2,881 | 2,843 | 2,987 | 1.3 | (3.5) |
| EPS (Rs.) | 3.59 | 3.04 | 3.72 | 17.9 | (3.5) |
| | | | | bps | bps |
| EBITDA Margins (%) | 16.8 | 17.2 | 16.0 | (45) | 75 |
| Net Margins (%) | 9.7 | 9.6 | 11.4 | 9 | (170) |

Source: Company Filings, IndiaNivesh Research

We expect Cipla to show decent growth of 17% y-y in sales and 18% y-y in adj. PAT to Rs30bn and Rs2.9bn, respectively. The growth would be driven by domestic formulation and exports. EBITDA margin is expected to slip 45bps y-y due to higher expense related to building front end in US market.

Key factors to watch: Progress on Inhaler launches in key European markets and building front end in US market.

Divis Lab (SA) | Reco: HOLD | TP: Rs.1,802

| DIVI IN (SA Rs Mn) | Q3FY15E | Q3FY14 | Q2FY15 | Y-o-Y Ch. (%) | Q-o-Q Ch. (%) |
|-----------------------|--------------|--------------|--------------|---------------|---------------|
| Sales | 8,936 | 6,874 | 8,298 | 30.0 | 7.7 |
| EBITDA | 3,289 | 2,909 | 3,034 | 13.0 | 8.4 |
| Adj Net Profit | 2,440 | 2,240 | 2,253 | 8.9 | 8.3 |
| Forex (loss) gain | - | (50) | 43 | NA | NA |
| Rep Net profit | 2,440 | 2,190 | 2,296 | 11.4 | 6.3 |
| Adj EPS (Rs.) | 18.38 | 16.88 | 16.97 | 8.9 | 8.3 |
| | | | | bps | bps |
| EBITDA Margins | 36.8 | 42.3 | 36.6 | (552) | 23 |
| Net Margins | 27.3 | 32.6 | 27.2 | (528) | 15 |

Source: Company Filings, IndiaNivesh Research

Divis Laboratories is expected to show 30% y-y increase in sales to Rs9bn on account of increased contract orders from its customers. However, EBITDA margin is expected to be at similar rate sequentially and down y-y. The y-y fall would be due to lower share of relatively higher margin custom synthesis business for the quarter. We expect adjusted PAT to grow by 9% to Rs2.4bn.

Key factors to watch: Revenue growth and improvement in EBITDA margins.

Dr Reddy's Lab | Reco: BUY | TP: Rs.3,581

| DRRD IN (Rs Mn) | Q3FY15E | Q3FY14 | Q2FY15 | Y-o-Y Ch. (%) | Q-o-Q Ch. (%) |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| SALES | 37,458 | 35,338 | 35,879 | 6.0 | 4.4 |
| Operating Profit (EBIT) | 6,700 | 8,467 | 6,200 | (20.9) | 8.0 |
| Adj Net Profit | 5,881 | 6,185 | 5,860 | (4.9) | 0.4 |
| Forex (loss) gain/ other | - | 497 | (118) | NA | - |
| Rep Net Profit | 5,881 | 6,683 | 5,742 | (12.0) | 2.4 |
| EPS (Rs.) | 34.63 | 36.41 | 34.50 | (4.9) | 0.4 |
| | | | | bps | bps |
| EBIT Margins (%) | 17.9 | 24.0 | 17.3 | (607) | 60 |
| Net Margins (%) | 15.7 | 17.5 | 16.3 | (180) | (63) |

Source: Company Filings, IndiaNivesh Research

We expect Dr. Reddy Laboratories to report contraction in adjusted PAT for second consecutive quarter. We expect adjusted PAT to decline by 12% y-y to Rs5.9bn for the quarter, led by muted US sales and Russian currency devaluation. We expect US sales to remain almost flat y-y to US\$270mn for the quarter due to high base of past year. Domestic formulation sales are expected to grow at industry average rate of 15% y-y. We expect EBITDA margin to decline by 607bps y-y due to lower share of limited competition products in the total sales.

Key factors to watch: performance in PSAI segment, domestic formulation segment and US market. R&D spend would also be the key factor to watch.

Glenmark Pharmaceuticals | Reco: HOLD | TP: Rs.775

| GNP IN (Rs Mn) | Q3FY15E | Q3FY14 | Q2FY15 | Y-o-Y Ch. | Q-o-Q Ch. (%) |
|----------------------|---------------|---------------|---------------|-------------|---------------|
| Core sales | 19,120 | 16,012 | 16,807 | 19.4 | 13.8 |
| Out-licensing income | - | - | - | - | - |
| Total sales | 19,120 | 16,012 | 16,807 | 19.4 | 13.8 |
| EBITDA | 3,909 | 3,650 | 3,352 | 7.1 | 16.6 |
| Adj Net Profit | 2,087 | 2,162 | 1,651 | (3.5) | 26.4 |
| Forex (loss) | - | - | - | - | NA |
| Rep Net Profit | 2,087 | 2,162 | 1,651 | (3.5) | 26.4 |
| Adj EPS (Rs.) | 7.7 | 8.0 | 6.1 | (3.5) | 26.4 |
| | | | | bps | bps |
| EBITDA Margins (%) | 20.4 | 22.8 | 19.9 | (235) | 50 |
| Net Margins (%) | 10.9 | 13.5 | 9.8 | (259) | 109 |

Source: Company Filings, IndiaNivesh Research

Glenmark Pharmaceuticals is expected to show contraction of 4% y-y in adjusted PAT partly on account of high base of past year. Though there were new product launches in US market, US sales is expected to grow at moderate rate of 6% y-y to US\$90mn. We expect domestic formulation sales to increase by 19% y-y to Rs4.5bn on the back of increased traction in existing products as well as new product launches. Overall sales are expected to grow by 19% y-y for the quarter.

Key factors to watch: Revenue performance across the markets, EBITDA margins & any data point on R&D front.

Jubilant Life Sciences Ltd. | Reco: SELL | TP: Rs.131

| JOL IN (Rs Mn) | Q3FY15E | Q3FY14 | Q2FY15 | Y-o-Y Ch. | Q-o-Q Ch. (%) |
|--------------------|---------|--------|--------|------------|---------------|
| Sales | 14,903 | 14,277 | 13,621 | 4.4 | 9.4 |
| EBITDA | 1,576 | 2,345 | 1,020 | (32.8) | 54.5 |
| Adj Net Profit | 32 | 1,329 | (987) | NA | NA |
| Forex (loss) gain | - | 105 | 46 | - | - |
| Rep Net Profit | 32 | 1,434 | (941) | NA | NA |
| Adj EPS | 0.2 | 8.3 | (6.2) | NA | NA |
| | | | | bps | bps |
| EBITDA Margins (%) | 10.6 | 16.4 | 7.5 | (585) | 309 |
| Net Margins (%) | 0.2 | 9.3 | (7.2) | (910) | 746 |

Source: Company Filings, IndiaNivesh Research

We expect Jubilant Life Sciences to show gradual improvement in sales on y-y as well as q-q basis to Rs14.9bn as business remains adversely impacted due to regulatory issues and weak supply demand dynamics for products under Life Science Ingredients segment. We expect EBITDA margin to improve sequentially from 7.5% to 10.6% as Q2FY15 had one time expense of Rs350mn as remediation measure. Higher interest cost is expected to remain as a dampener on the financial performance. We expect JOL to report adjusted PAT of Rs32mn against loss of Rs941mn due to lower tax for the quarter.

Key factors to watch: Pricing & volume growth, EBITDA margins, pricing scenario in chemical business and Symtet capacity utilization.

Indoco Remedies | Reco: BUY | TP: Rs.392

| (Rs. In Mn.) SA | Q3FY15E | Q3FY14 | Q2FY15 | Y-o-Y Ch. | Q-o-Q Ch. |
|----------------------------|---------|--------|--------|------------|------------|
| SALES | 2,241 | 1,884 | 2,264 | 19.0 | (1.0) |
| EBITDA | 460 | 299 | 486 | 54.2 | (5.4) |
| Adj Net Profit | 256 | 141 | 224 | 81.0 | 14.1 |
| Forex (loss) Gain | - | - | - | - | - |
| Reported Net profit | 256 | 141 | 224 | 81.0 | 14.1 |
| Adj. EPS (Rs) | 2.8 | 1.5 | 2.4 | 81.0 | 14.1 |
| | | | | bps | bps |
| EBITDA Margins (%) | 20.5 | 15.8 | 21.5 | 469 | (95) |
| Net Margins (%) | 11.4 | 7.5 | 9.9 | 391 | 151 |

Source: Company Filings, IndiaNivesh Research

We expect Indoco Remedies to show strong y-y growth of 81% in adjusted PAT to Rs256mn, led by increased US sales and better-than-industry average y-y growth in domestic formulation segment. We expect EBITDA margin to improve by 469bps due to superior product mix and increased operating leverage. Overall, sales is expected to grow by 19% y-y to Rs2.2bn for the quarter.

Key factor to watch: Progress on ANDA filings and subsequent approvals for US market and R&D spend would be the key factors to watch.

Ipca Labs (SA) | Reco: HOLD | TP: Rs.747

| IPCA IN (Rs Mn) | Q3FY15E | Q3FY14 | Q2FY15 | Y-o-Y Ch. (%) | Q-o-Q Ch. (%) |
|---------------------------|---------|--------|--------|---------------|---------------|
| Sales | 8,715 | 8,152 | 7,749 | 6.9 | 12.5 |
| EBITDA | 1,649 | 2,173 | 1,348 | (24.1) | 22.4 |
| Adj Net Profit | 937 | 1,415 | 707 | (33.8) | 32.6 |
| Forex (loss) gain | - | (24) | (94) | - | (100.0) |
| Rep Net profit | 937 | 1,391 | 613 | (32.7) | 52.8 |
| Adj EPS (Rs) | 7.42 | 11.22 | 5.60 | (33.8) | 32.6 |
| | | | | bps | bps |
| EBITDA Margins (%) | 18.9 | 26.7 | 17.4 | (774) | 153 |
| Net Margins (%) | 10.8 | 17.4 | 9.1 | (661) | 163 |

Source: Company Filings, IndiaNivesh Research

We expect IPCA to show y-y contraction in adjusted PAT to Rs937mn, mainly due to lower US sales and higher remediation expenses. We expect sales to grow by 7% y-y, driven by higher than industry growth in domestic formulation sales and pick up in institutional sales. EBITDA margin is expected to decline by 774bps y-y due to higher other expenses.

Key factor to watch: Progress of clearance of USFDA issues at Ratlam facility.

JB Chemicals & Pharma (SA) | Reco: BUY | TP: Rs.295

| JBCL IN Rs Mn (SA) | Q3FY15E | Q3FY14 | Q2FY15 | Y-o-Y Ch. (%) | Q-o-Q Ch. (%) |
|---------------------------|-------------|-------------|-------------|---------------|---------------|
| Sales | 2,764 | 2,342 | 2,749 | 18.0 | 0.6 |
| EBITDA | 522 | 411 | 525 | 27.0 | (0.5) |
| Adj Net Profit | 393 | 516 | 400 | (23.9) | (1.8) |
| Forex (loss) gain/other | - | 65 | (81) | - | NA |
| Rep Net Profit | 393 | (65) | 319 | NA | 23.1 |
| Adj EPS | 4.6 | 6.1 | 4.7 | (23.9) | (1.8) |
| | | | | bps | bps |
| EBITDA Margins (%) | 18.9 | 17.5 | 19.1 | 134 | (21) |
| Net Margins (%) | 14.2 | 22.0 | 14.5 | (781) | (34) |

Source: Company Filings, IndiaNivesh Research

JB Chemicals is expected to show 18% y-y growth in sales, driven by healthy growth in exports as well as domestic formulation. Increased operating leverage is expected to result in EBITDA margin to improve from 17.5% to 18.9%. Adjusted PAT is expected to show contraction of 24% y-y, mainly due to higher other income in Q3FY14 and higher tax expected in Q3FY15.

Key factors to watch: Expansion in EBITDA margins & revenue growth in domestic market.

Lupin | Reco: BUY | TP: Rs.1,710

| LPC IN (Rs Mn) | Q3FY15E | Q3FY14 | Q2FY15 | Y-o-Y Ch. (%) | Q-o-Q Ch. (%) |
|-------------------------------|-------------|-------------|-------------|---------------|---------------|
| Sales | 33,414 | 29,830 | 31,168 | 12.0 | 7.2 |
| EBITDA | 8,459 | 7,343 | 7,759 | 15.2 | 9.0 |
| Adj Net Profit | 5,818 | 4,761 | 6,300 | 22.2 | (7.6) |
| Forex (loss) gain/exceptional | - | - | - | - | - |
| Rep Net Profit | 5,818 | 4,761 | 6,300 | 22.2 | (7.6) |
| Adj EPS (Rs.) | 13.01 | 10.62 | 14.09 | 22.5 | (7.6) |
| | | | | bps | bps |
| EBITDA Margins (%) | 25.3 | 24.6 | 24.9 | 70 | 42 |
| Net Margins (%) | 17.4 | 16.0 | 20.2 | 145 | (280) |

Source: Company Filings, IndiaNivesh Research

We expect Lupin to deliver moderate growth in sales of 12% y-y to Rs33.4bn, due to high base of past year in US sales. We expect US sales to grow at 7% y-y to US\$230mn for the quarter. Domestic formulation sales are expected to grow better-than-industry average at 20% y-y to Rs7.8bn for the quarter. We expect EBITDA margin to inch up gradually to 25.3% for the quarter due to superior product mix. In addition to sales growth and EBITDA margin improvement, the lower tax rate would also support 22% y-y growth in adjusted PAT to Rs5.8bn for the quarter.

Key factors to watch: Progress on approvals of key products in US market and performance in domestic formulation and Japan segment.

Shilpa Medicare | Reco: HOLD | TP: Rs.473

| SLPA IN (Rs Mn) | Q3FY15E | Q3FY14 | Q2FY15 | Y-o-Y Ch. (%) | Q-o-Q Ch. (%) |
|-----------------|---------|--------|--------|---------------|---------------|
| Sales | 1,667 | 1,543 | 1,537 | 8.0 | 8.5 |
| EBITDA | 301 | 334 | 277 | (9.9) | 8.7 |
| Adj PAT | 202 | 218 | 174 | (7.6) | 16.0 |
| Rep Net Profit | 201 | 207 | 173 | (2.7) | 16.1 |
| EPS (Rs) | 5.2 | 5.7 | 4.5 | (7.6) | 16.0 |
| | | | | bps | bps |
| EBITDA margins | 18.1 | 21.7 | 18.0 | (359) | 4 |
| PAT Margins | 12.1 | 14.1 | 11.3 | (204) | 79 |

Source: Company Filings, IndiaNivesh Research

We expect Shilpa Medicare to show moderate growth of 8% y-y in sales to Rs1.7bn, due to high base of past year. We expect EBITDA margin to decline by 359bps y-y to 18.1% due to lower share of higher margin contract business during the quarter. Adjusted PAT is expected to decline by 8% y-y to Rs201mn for the quarter.

Key factors to watch: Growth in business segment and profitability, update on USFDA re-inspection at API unit in Raichur.

Sun Pharmaceutical Industries | Reco: HOLD | TP: Rs.831

| SUNP IN (Rs Mn) | Q3FY15E | Q3FY14 | Q2FY15 | Y-o-Y Ch. (%) | Q-o-Q Ch. (%) |
|------------------------|---------|--------|--------|---------------|---------------|
| Sales | 51,551 | 42,866 | 47,505 | 20.3 | 8.5 |
| EBITDA | 23,481 | 19,751 | 21,611 | 18.9 | 8.7 |
| Adj Net Profit | 17,496 | 15,311 | 15,725 | 14.3 | 11.3 |
| Forex/exceptional item | - | - | - | - | - |
| Rep Net Profit | 17,496 | 15,311 | 15,725 | 14.3 | 11.3 |
| Adj EPS (Rs.) | 8.4 | 7.4 | 7.59 | 14.3 | 11.3 |
| | | | | bps | bps |
| EBITDA Margins (%) | 45.5 | 46.1 | 45.5 | (53) | 6 |
| Net Margins (%) | 33.9 | 35.7 | 33.1 | (178) | 84 |

Source: Company Filings, IndiaNivesh Research

We expect Sun Pharmaceuticals to show 20% y-y and 12% y-y growth in sales and adjusted PAT, driven by robust performance in domestic formulation. The high base effect in US market would result in relatively low growth in US markets. As a result, we expect US sales to grow at moderate rate of 20% y-y to US\$ 508mn, due to high base of past year. Out of US\$508mn, we expect Taro to contribute US\$246mn for the quarter, up 15% y-y. We expect EBITDA margin to sustain at 45.5% due to superior product mix.

Key factors to watch: Performance in key markets of India and US.

Torrent Pharmaceuticals | Reco: HOLD | TP: Rs 1,010

| TRP IN (Rs Mn) | Q3FY15E | Q3FY14 | Q2FY15 | Y-o-Y Ch. | Q-o-Q Ch. |
|--------------------|---------|--------|--------|------------|------------|
| Sales | 12,962 | 9,900 | 12,030 | 30.9 | 7.7 |
| EBITDA | 2,845 | 1,900 | 2,590 | 49.7 | 9.9 |
| Adj Net Profit | 2,045 | 1,580 | 1,980 | 29.4 | 3.3 |
| Forex (loss) gain | - | - | - | - | - |
| Rep Net profit | 2,045 | 1,580 | 1,980 | 29.4 | 3.3 |
| Adj EPS (Rs.) | 10.31 | 8.74 | 7.45 | 17.9 | 38.5 |
| | | | | bps | bps |
| EBITDA Margins (%) | 22.0 | 19.2 | 21.5 | 276 | 42 |
| Net Margins (%) | 15.8 | 16.0 | 16.5 | (18) | (68) |

Source: Company Filings, IndiaNivesh Research

We expect Torrent Pharmaceuticals to deliver growth of 31% y-y and 29% y-y in sales and adjusted PAT to Rs12.9bn and Rs2.0bn, respectively. This would be driven by superior growth in US market, addition of acquired business of Elder and healthy growth in its domestic formulation segment. We expect US sales to grow at robust rate of 34% y-y to US\$32mn for the quarter. However, we expect EBITDA margin due to improve 276 bps y-y and 42 bps q-q to 22% in 3QFY15E due to new product launches and increased traction in existing products.

Key factors to watch: Progress on ANDA filing in US market and status of synergy post acquisition of Elder's portfolio.

Sharon Biomedicine | Reco: HOLD | TP:Rs.66

| SBML IN (Rs Mn) | Q2FY15E | Q2FY14A | Q1FY15A | Y-o-Y Ch.(%) | Q-o-Q Ch. (%) |
|---------------------|---------|---------|---------|--------------|---------------|
| Sales | 3,503 | 3,359 | 13,248 | 4.3 | (73.6) |
| EBITDA | 333 | 372 | 1,575 | (10.5) | (78.9) |
| Adj Net Profit | 140 | 171 | 703 | (18.1) | (80.1) |
| Reported Net Profit | 140 | 160 | 758 | (12.4) | (81.5) |
| Adj EPS (Rs.) | 1.3 | 1.5 | 7.2 | (12.4) | (81.5) |
| | | | | bps | bps |
| EBITDA Margins (%) | 9.5 | 11.1 | 11.9 | (157) | (239) |
| Net Margins (%) | 4.0 | 5.1 | 5.3 | (109) | (131) |

Note: Year ending June. Source: Company Filings, IndiaNivesh Research

Sharon Biomedicine is expected to show 4% y-y growth in revenue while adjusted PAT is expected to contract by 12.4% y-y to Rs140mn. Delay in approval and higher regulatory related expenses is expected to result in such inferior performance for the quarter.

Key factors to watch: Update of USFDA inspection, revenue growth and EBITDA margin.

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