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Pricing policy implementation to result in low-key performance in India

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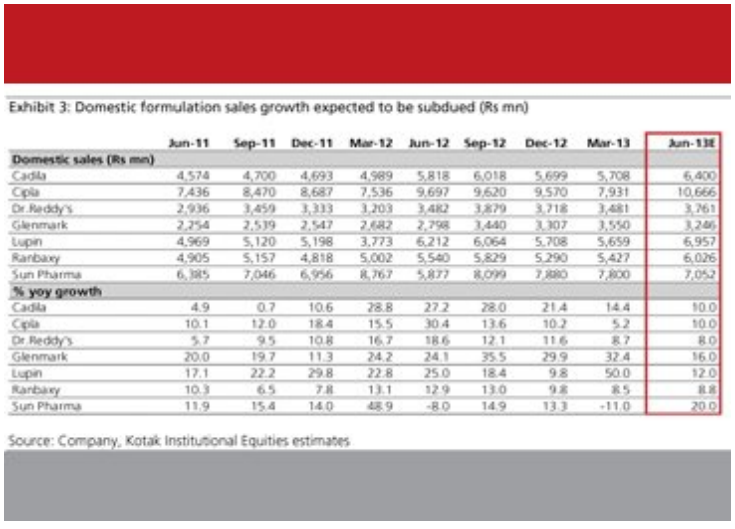


Exhibit 3: Domestic formulation sales growth expected to be subdued (Rs mn)

	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13E
Domestic sales (Rs mn)									
Cadila	4,574	4,700	4,693	4,989	5,818	6,018	5,699	5,708	6,400
Cipla	7,436	8,470	8,687	7,536	9,697	9,620	9,570	7,931	10,666
Dr.Reddy's	2,936	3,459	3,333	3,203	3,482	3,879	3,718	3,481	3,761
Glenmark	2,254	2,539	2,547	2,682	2,798	3,440	3,307	3,550	3,246
Lupin	4,969	5,120	5,198	3,773	6,212	6,064	5,708	5,659	6,957
Ranbaxy	4,905	5,157	4,818	5,002	5,540	5,829	5,290	5,427	6,026
Sun Pharma	6,385	7,046	6,956	8,767	5,877	8,099	7,880	7,800	7,052
% yoy growth									
Cadila	4.9	0.7	10.6	28.8	27.2	28.0	21.4	14.4	10.0
Cipla	10.1	12.0	18.4	15.5	30.4	13.6	10.2	5.2	10.0
Dr.Reddy's	5.7	9.5	10.8	16.7	18.6	12.1	11.6	8.7	8.0
Glenmark	20.0	19.7	11.3	24.2	24.1	35.5	29.9	32.4	16.0
Lupin	17.1	22.2	29.8	22.8	25.0	18.4	9.8	50.0	12.0
Ranbaxy	10.3	6.5	7.8	13.1	12.9	13.0	9.8	8.5	8.8
Sun Pharma	11.9	15.4	14.0	48.9	-8.0	14.9	13.3	-11.0	20.0

Source: Company, Kotak Institutional Equities estimates

The growth in domestic formulations to be weak across companies given the formed implementation (started in early June) of the new drug pricing policy. There has been uncertainty in the market resulting in lower offtake by the channel and companies also being cautious in building inventory. The impact of price cut may also be partly reflected in the current quarter says the report prepared by Kotak Institutional Equities.

According to it, there is higher growth for Sun Pharma (20 percent yoy) and Glenmark (16 percent yoy) while Lupin is estimated at 12 percent.

Further, the ban on Pioglitazone is not expected to be reflected in the current quarter (primarily for Sun Pharma and Lupin). For the remaining generics, the expected growth in domestic market will be between 8 percent and 10 percent for the quarter.

Sun Pharma to benefit from price hikes

The favorable pricing environment in Doxycycline market to sustain for the current quarter for Sun Pharma at 29 percent yoy. There has been additional price increases in Taro by 14 percent, which are expected to offset the incremental competition in Nystatin/Triamcinolone. Doxil sales are expected to be lower yoy given resumption of supplies by the innovator (J&J).

Further the report states, the overall expected EBITDA margin is at 45.1 percent, which is 70 bps lower yoy. Lupin will benefit from generic Tricor sales on a yoy basis, which is expected to drive the 210 bps improvement in EBITDA margin. Impact on price erosion due to Mylan entry in Tricor market remains the key monitorable for Lupin. Glenmark is expected to benefit from launch of Zolmitriptan in the US. Excluding the MTM impact, we expect 110 bps yoy decline in EBITDA margin for Glenmark.