

Good Q2 for Cipla, Alembic, Alkem, Laurus

We expect positive Q2 surprises from Cipla (led by gProventil, Remdesivir), ALPM (US, EU), Laurus and Alkem (better seasonality). A depressed cost base will aid margins YoY, but expect contraction QoQ on adverse forex and higher promotional spends. DRRD and ARBP should have a better H2 while Q2 looks stable with US sales up 3-5% QoQ. LPC (gProAir stocking, Enbrel) can show QoQ recovery but SUNP could be muted. India growth can deliver some surprise YoY. We expect AJP's Q2 to be weak and DIVI to see lumpy sales but strong margins.

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Key to watch: (1) **Alembic (ALPM):** Update on US business, QIP money utilisation, India growth recovery. (2) **Alkem:** Cost control sustainability. (3) **Aurobindo (ARBP):** US injectable sales recovery. (4) **Cipla:** Remdesivir upside, India outlook, Goa warning letter remediation, respiratory filings. (5) **Dr Reddy's (DRRD):** PSAI segment demand outlook, Copaxone CRL, Vascepa launch timeline. (6) **Divi's (DIVI):** QoQ sales and margin performance, update on China supply disruption. (7) **Lupin (LPC):** US recovery QoQ, approval timeline on gFostair in EU (Q3FY21), FDA reinspection for Somerset/Goa sites. (8) **Laurus:** TLE400 scale-up timeline, ARV demand outlook. (9) **Sun Pharma (SUNP):** Ramp-up in specialty products, cost control, update on Halol OAI.

RECOMMENDATION SNAPSHOT

Ticker	Rating
AJP IN	BUY
ALPM IN	BUY
ALKEM IN	BUY
ARBP IN	BUY
CIPLA IN	BUY
DIVI IN	REDUCE
DRRD IN	ADD
LAURUS IN	BUY
LPC IN	ADD
SUNP IN	REDUCE

FIG 1 – Q2FY21: US REVENUE EXPECTATIONS

(US\$ mn)	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21E	QoQ (%)	YoY (%)
AJP	9	11	15	16	22	20	20	22	9.3	38.7
ALPM	43	44	49	77	72	81	79	81	1.4	4.6
ALKEM	74	69	69	76	82	84	89	91	2.0	19.8
ARBP	338	352	384	405	418	415	414	427	3.1	5.4
CIPLA	118	162	160	136	133	119	136	141	3.5	3.5
DRRD	209	212	233	204	225	251	230	242	4.9	18.6
LPC	197	247	220	189	193	219	162	183	12.9	(3.3)
SUNP (ex-Taro)	186	264	259	179	203	202	167	182	8.9	1.9
TARO	176	180	161	161	148	175	118	130	10.5	(19.2)

Source: Company, BOBCAPS Research

FIG 2 – Q2FY21 PREVIEW: EXPECT GOOD QUARTER FOR CIPLA, ALEMBIC, LAURUS AND ALKEM

Companies	Sales (Rs mn)			EBITDA (Rs mn)			PAT (Rs mn)			EBITDA margin (%)		
	Q2FY21E	YoY (%)	QoQ (%)	Q2FY21E	YoY (%)	QoQ (%)	Q2FY21E	YoY (%)	QoQ (%)	Q2FY21E	Q2FY20	Q1FY21
AJP	7,035	9.5	5.3	2,143	20.6	(4.1)	1,464	24.4	(1.1)	30.5	27.7	33.4
ALPM	13,611	9.7	1.5	3,946	14.2	(3.3)	2,617	6.2	(13.4)	29.0	27.9	30.4
ALKEM	23,887	5.5	19.2	5,344	18.1	0.2	4,234	14.2	0.3	22.4	20.0	26.6
ARBP	60,601	8.2	2.3	12,729	9.0	1.2	7,773	14.4	2.5	21.0	20.8	21.2
CIPLA	44,412	1.0	2.2	10,063	10.6	(4.1)	5,684	20.5	(1.7)	22.7	20.7	24.1
DRRD	46,051	(4.1)	4.2	10,783	(23.4)	(3.1)	6,341	(56.2)	9.4	23.4	29.3	25.2
LPC	38,773	(11.1)	9.9	6,078	(16.9)	24.5	2,392	(43.4)	124.4	15.7	16.8	13.8
SUNP	80,006	0.6	7.1	16,841	4.8	2.3	11,088	5.0	(41.8)	21.0	20.2	22.0
DIVI	16,285	16.0	(4.8)	6,290	29.6	(10.0)	4,370	28.5	(10.2)	38.6	34.6	40.9
LAURUS	10,457	46.8	7.3	3,076	123.0	10.4	1,925	239.4	11.9	29.4	19.4	28.6

Source: Company, BOBCAPS Research

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Company-wise expectations

AJP: Q2 soft on subdued India/EM sales and reversal of currency/cost benefit; H2 US launches key to watch

We expect Q2 results to improve YoY (EBITDA +21%, margins +3ppt) but to stay soft on a sequential basis due to reversal of currency benefits and increased SG&A spends over Q1. EBITDA margin is estimated at 31% (vs. 33.4% in Q1). India business (-3% YoY) has seen marginal improvement from Q1, led by subdued recovery in the acute portfolio (dermatology, ophthalmology) while the chronic segment is doing well.

US sales are expected at US\$ 22mn (+9% QoQ) and the business could see key launches in H2 (incl. Tamiflu suspension and Divalproex DR – both 4-5-player markets). Branded business (Asia, Africa) is facing stiff resistance due to Covid-19 restrictions; hence growth could be subdued YoY.

ALPM: Steady Q2 led by US/EU; India sales to be depressed

We estimate US sales of US\$ 81mn (+1% QoQ) for Q2 on the back of new launches and stable volumes/prices in the Sartan franchise. ALPM has gained market share in Famotidine QoQ (from 19% to 21%), as per Symphony data. We believe EU sales would sustain the Q1 momentum. India sales are forecast to dip 4% YoY while API could decline 15% QoQ as China supply lines return (curtailing API prices). Sequentially, higher SG&A spends on the India branded portfolio could limit EBITDA margins to 29% (vs. 30.4% in Q1) but this still represents 100bps expansion YoY.

Key to watch: Update on US business, QIP money utilisation, India growth recovery

ALKEM: Better acute seasonality to drive Q2; margins to expand YoY

We expect sales/EBITDA growth of 6%/18% YoY. Promotional/marketing spends have risen significantly QoQ owing to better Q2 seasonality in India, but we believe EBITDA margin expansion would still be healthy at >200bps YoY to ~22%. India business is expected to grow 1-2% YoY mainly led by continued double-digit growth momentum in the trade generic business. US sales are likely to remain steady at US\$ 90mn (+2% QoQ) backed by a stable base portfolio.

Key to watch: India business outlook, cost control sustainability

ARBP: Flat EBITDA despite sequential recovery in US; expect better H2

We expect US sales of US\$ 427mn (+3% QoQ) backed by an increase in injectable sales (+US\$ 10mn) following revival in hospital footfalls/elective surgeries and stable market share in base products such as Rosuvastatin, Aripiprazole and Pantoprazole. On a sequential basis, Q2 should absorb the impact of withdrawal of export incentives w.e.f. Aug'20 (Rs 400mn-450mn) and rupee appreciation (USDINR moved from Rs 75 to Rs 74.4 on average QoQ), leading to flat EBITDA growth and margins of ~21%.

EU sales are expected to stabilise (+6% QoQ) while growth momentum is likely to continue in the ARV business with migration toward TLD. Overall, H2 could be better on a further step-up in Auromedic sales, commissioning of the new injectable unit and flu seasonality.

Key to watch: Unit VII remediation/reinspection update, US injectables recovery

CIPLA: India, gProventil US sales and cost control can lead to surprises

Q2 EBITDA should stay steady QoQ at Rs 10bn but we could see some outperformance on this front, per our interaction with the company. This is mainly led by (1) India business – Remdesivir launch traction, momentum in the trade generics/OTC portfolio, and (2) cost optimisation driving lower R&D and SGA spends QoQ. Despite Albuterol channel destocking, US sales should also remain robust at US\$ 141mn (+3% QoQ). In Albuterol, Cipla's Rx share was 11% for the week ending 25 September (+4ppt WoW post Perrigo recall, vs. +6% in Aug'20) and unit price is stable.

The gMigranal CGT launch (share at 14%, up 5% MoM) and Esomeprazole OS should also contribute to sales. Underlying market share in base products (including Gabapentin and Wellbutrin XL) is holding stable. These are expected to drive Q2 margins of 23% (vs. 20.7% YoY).

Key to watch: India formulations QoQ growth, Goa facility remediation, respiratory filings

DRRD: Good sales growth but Wockhardt cost base to impact margins; expect stronger US sales in H2

We expect US sales to increase marginally to US\$ 242mn (+5% QoQ) led by (1) a stable base portfolio (including Suboxone at ~18% Rx share and Toprol XL at ~28%), and (2) the gCiprodox launch (2-player market) which can add US\$ 4mn-5mn. Contribution from other Q1 launches such as gZytiga and gColcrys has been muted so far. DRRD has introduced nine products in Q2 with roughly seven launched in September (incl. two injectables – Faslodex, Precedex – two OTC, and Tecfidera) which should help H2 sales.

Outside the US, we expect India sales to grow ~3% YoY, PSAI and EU to be in line, and EM to be weak due to further currency devaluation. The ruble has weakened by 4% QoQ against the rupee and the USDINR has appreciated. This along with higher SGA spends (high cost base on Wockhardt + promotional spends) will partly impact EBITDA margins which we estimate at ~23% vs. 25% in Q1.

Key to watch: Update on Nuvaring/Copaxone CRL, Vascepa launch timeline, gross margin outlook, PSAI segment demand outlook

DIVI: Q2 to be lumpy over high Q1 base; update on demand outlook key

DIVI is likely to post a sequential decline in operational performance due to lumpiness in the generic business. We estimate a sales/EBITDA decline of 5%/10% QoQ on a high Q1 base (but YoY growth of 16%/30%). EBITDA margin is forecast at ~38% (+400bps YoY, -200bps QoQ), factoring in adverse forex movement.

Key to watch: QoQ sales and margin performance, update on China supply disruption, progress on capex

LAURUS: Strong performance to continue; margins can scale new high

Core operating results should remain strong driven by (1) strong execution on the formulation order book, partly led by HCQS profit share, (2) improving growth in Other APIs (cardio-diabetic and oncology), and (3) demand recovery in the ARV portfolio (TLD and EFA). Besides this, the synthesis business is expected to grow 30% YoY. We estimate EBITDA margins will improve further to ~29% (+10ppt YoY, ~100bps QoQ), with EBITDA of Rs 3bn (+120% YoY).

Key to watch: Progress on formulation capex, TLE400 scale-up timeline, ARV business demand outlook

LPC: gProAir stocking, India sales, subdued cost to drive QoQ results

We expect LPC to report sequential improvement in Q2 over a weak Q1 base. US sales are estimated at US\$ 180mn (+13% QoQ), led by gProair stocking (US\$ 7mn-10mn) and increased contribution from Levo (+2ppt Rx share MoM to 12%), Apriso AG and Myfortic DR. LPC had 8-9 launches in Q2, including 4 key assets towards the end of Sep'20 – Divalproex S, Fosaprepitant injectable, Lapatinib, Glumetza (relaunch). Hence, this would meaningfully reflect in Q3. Weekly Rx on Solosec continues to drop (1k in Sep vs 2.5k pre-Covid).

Besides the US, we expect good performances in Europe (+28% QoQ; launch of bEnbrel in Germany, and Namuscla) and India (+8-9% QoQ, 2-3% YoY). Staff cost rationalisation and slow SG&A increase QoQ should aid EBITDA and margin recovery.

Key to watch: US recovery QoQ, approval timeline on gFostair in the EU (Q3FY21), FDA reinspection for Somerset/Goa sites

SUNP: Muted Q2; margin benefit from increased Taro/specialty sales offset by acute recovery and SGA spend

SUNP is likely to report a subdued EBITDA recovery QoQ as the Taro/specialty sales delta gets offset by recovery in the India acute business and increased SGA spend. India sales are expected to grow ~5% YoY. US ex-Taro sales could see 9% growth sequentially mainly from recovery in the specialty portfolio, given continued pricing pressure in generics. Levulan Rx is estimated to rise 28% MoM but this is still 50% below pre-Covid levels. Ilumya Rx pick-up has been subdued QoQ.

With no major launches in Q2 and the impact from generic pricing, pressure on SUNP's base portfolio could continue. We expect Taro sales to increase 11% QoQ, led by normalisation in demand post Covid and new launches

Key to watch: Commentary on specialty products, cost control and margin recovery, update on Halol OAI

Avg. USDINR rate at Rs 74.4 in Q2 (vs. Rs 75.8 QoQ)

EM currencies: RUB, BRL have weakened 4%, 2% resp.; ZAR has strengthened by 4% on average

FIG 3 – CROSS-CURRENCY MOVEMENT

Quarter End	Closing rate					Average rate				
	USDINR	EURINR	BRLINR	RUBINR	ZARINR	USDINR	EURINR	BRLINR	RUBINR	ZARINR
Sep 2018	72.5	84.0	17.90	1.11	5.13	70.1	81.5	17.76	1.07	4.99
Dec 2018	69.8	80.0	17.92	1.01	4.84	72.1	82.3	18.93	1.08	5.04
Mar 2019	69.2	77.7	17.68	1.06	4.78	70.5	80.1	18.71	1.07	5.03
Jun 2019	69.0	78.5	17.91	1.09	4.89	69.6	78.2	17.74	1.08	4.84
Sep 2019	70.8	77.3	17.00	1.09	4.67	70.3	78.2	17.74	1.09	4.80
Dec 2019	71.4	80.0	17.72	1.15	5.08	71.2	78.9	17.31	1.12	4.85
Mar 2020	75.5	82.3	14.47	0.96	4.22	72.5	79.8	16.31	1.09	4.73
Jun 2020	75.5	84.8	13.81	1.06	4.35	75.8	83.6	14.15	1.05	4.23
Sep 2020	73.7	86.5	13.15	0.95	4.10	74.4	86.9	13.83	1.01	4.40

Source: Bloomberg, BOBCAPS Research

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BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

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