

**RESEARCH**
**BOB Economics Research | FY20 GDP**

Gradual revival seen in FY21

**Pharmaceuticals | Q3FY20 Preview**

Q3 strong for DRRD, LPC, SUN, Alkem & Laurus

**SUMMARY**
**India Economics: FY20 GDP**

India's growth is estimated at 5% in FY20 (6.8% in FY19). The dip in growth is led by decline in both investment and consumption demand. Even global demand has not been helpful. However, we do expect growth to revive in FY21 to 5.7% on the back of higher government capex, expansion of global demand and transmission of earlier rate cuts by RBI. Government's privatisation plan will give it room to spend on proposed infra pipeline of Rs 102tn over next five years. In addition, we expect RBI to cut rates further in FY21 to boost growth.

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**Pharmaceuticals: Q3FY20 Preview**

DRRD, LPC, Sun & Alkem to report strong quarters both for US and India. DRRD benefits from deferred sales in US and SG&A normalization from Q2 while Sun benefits from Cequa launch, Dusa/Absorica seasonality, LPC from Levo/better flu season. Cipla, ARBP, ALPM should be stabilising quarters. Sequential pick-up in the Ilumya, Solosec is weak. India growth is healthy ~10% YoY and Alkem's EBITDA is forecast to grow 17% YoY. Laurus will have another strong quarter while DIVI is non-event. EM fx/US\$ is stable QoQ.

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**TOP PICKS**
**LARGE-CAP IDEAS**

Company	Rating	Target
<a href="#">Cipla</a>	Buy	570
<a href="#">ONGC</a>	Buy	210
<a href="#">Petronet LNG</a>	Buy	400
<a href="#">Reliance Industries</a>	Buy	1,860
<a href="#">TCS</a>	Add	2,230

**MID-CAP IDEAS**

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	2,290
<a href="#">Future Supply</a>	Buy	680
<a href="#">Greenply Industries</a>	Buy	210
<a href="#">Laurus Labs</a>	Buy	480
<a href="#">PNC Infratech</a>	Buy	245

Source: BOBCAPS Research

**DAILY MACRO INDICATORS**

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.81	2bps	(3bps)	(89bps)
India 10Y yield (%)	6.57	6bps	(10bps)	(107bps)
USD/INR	71.94	(0.2)	(1.0)	(3.2)
Brent Crude (US\$/bbl)	68.91	0.5	7.0	20.2
Dow	28,703	0.2	2.5	22.0
Shanghai	3,083	0	5.9	21.7
Sensex	40,677	(1.9)	0.6	13.5
India FII (US\$ mn)	2 Jan	MTD	CYTD	FYTD
FII-D	(181.2)	(370.5)	(370.5)	2,573.7
FII-E	181.6	384.5	384.5	7,773.7

Source: Bank of Baroda Economics Research

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## FY20 GDP

07 January 2020

### Gradual revival seen in FY21

India's growth is estimated at 5% in FY20 (6.8% in FY19). The dip in growth is led by decline in both investment and consumption demand. Even global demand has not been helpful. However, we do expect growth to revive in FY21 to 5.7% on the back of higher government capex, expansion of global demand and transmission of earlier rate cuts by RBI. Government's privatisation plan will give it room to spend on proposed infra pipeline of Rs 102tn over next five years. In addition, we expect RBI to cut rates further in FY21 to boost growth.

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**GDP growth at 5% in FY20:** India's GDP growth in FY20 is estimated at its lowest since FY09 at 5% versus 6.8% in FY19. The dip in growth is led by sharp deceleration in investment demand (1% in FY20 versus 10% in FY19) and private consumption (5.8% in FY20 versus 8.1% in FY19). Decline in global demand has contributed to lower exports at (-) 2% in FY20 versus an increase of 12.5% in FY19. Government spending is the driver of growth at 10.5% in FY20 (9.2% in FY19) which is the case in H1FY20 as well with government spending increasing by 12.2%.

**Manufacturing dragging GVA to 4.9%:** GVA is expected to increase at 4.9% in FY20 compared with 6.6% in FY19. This is driven by dip in manufacturing growth to 2% in FY20 versus 6.9% in FY19. During H1FY20 manufacturing growth is (-) 0.2%. Electricity output is tepid as well at 0.7% in FY20 and expected at 5.4% in FY20 (7% in FY19). Construction output is estimated to increase only by 3.2% in FY20 versus 8.7% in FY19. Services activity is also expected to moderate to 6.9% in FY20 vs 7.5% in FY19 with slower pace of expansion in trade, hotels & financial services. On the other hand, public administration and defence services is estimated to grow by 9.1% in FY20 compared with 8.6% in FY19.

**Lower rates and government spending to boost growth:** The current cyclical slowdown is quite broad based. Both investment and consumption demand has taken a hit. Global demand is soft as well. With capacity utilisation at 69%, private sector capex is likely to be lacklustre. Government capex would also be subdued this year as tax revenues are muted. However, government has an aggressive privatisation roadmap and infra pipeline (Rs 102tn over next five years). This along with better global demand and transmission of earlier rate cuts will lead to revival of GDP growth to 5.7% in FY21 from 5% in FY20.



## Q3 strong for DRRD, LPC, SUN, Alkem & Laurus

DRRD, LPC, Sun & Alkem to report strong quarters both for US and India. DRRD benefits from deferred sales in US and SG&A normalization from Q2 while Sun benefits from Cequa launch, Dusa/Absorica seasonality, LPC from Levo/better flu season. Cipla, ARBP, ALPM should be stabilising quarters. Sequential pick-up in the Ilumya, Solosec is weak. India growth is healthy ~10% YoY and Alkem's EBITDA is forecast to grow 17% YoY. Laurus will have another strong quarter while DIVI is non-event. EM fx/US\$ is stable QoQ.

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**Key to watch:** (1) **Alembic:** EU sales recovery, India commentary. (2) **Aurobindo (ARBP):** update on Sandoz FTC approval (guided for Jan'20), FDA update on Unit IV & VII inspection. (3) **Cipla:** Progress on Goa 483s, update on key respiratory assets (gAdvair filing & gProventil launch). (4) **Dr Reddy's (DRRD):** inventory write off risk post generics entry in Nuvaring, Srikakulam/CTO6 re-inspection, Duvvada EIR update. (5) **Divi's (DIVI):** Gross margin QoQ, capex progress. (6) **Lupin (LPC):** Incremental generics in Levo, Solosec update, Remediation progress (Goa, Indore-2, Somerset). (7) **Laurus:** Formulation offtake, gross margin QoQ, ARV commentary. (8) **Sun Pharma (SUNP):** higher R&D spends in 2H (vs 1H of 5.5% of Sales), update on Halol 483s, Ilumya, and Cequa.

### KEY RECOMMENDATIONS

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

### FIG 1 – Q3FY20: US REVENUE EXPECTATIONS

(US\$ mn)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20E	QoQ (%)	YoY (%)
ALPM	60	43	44	49	77	66	(14.5)	54.0
ALKEM	69	74	69	69	76	79	4.0	6.2
ARBP	318	338	352	384	405	400	(1.3)	18.4
CIPLA	108	118	162	160	136	128	(6.2)	8.2
DRRD	210	209	212	233	204	238	16.8	13.9
LPC	178	197	247	220	189	213	12.6	8.2
SUNP (ex-Taro)	183	186	264	259	179	210	17.5	13.1
TARO	159	176	180	161	161	165	2.6	(6.4)

Source: Company, BOBCAPS Research

### FIG 2 – Q3FY20 PREVIEW: GOOD FOR DRRD, LPC, SUNP, ALKEM, LAURUS; STABILISING FOR OTHERS

Companies	Sales (Rs mn)			EBITDA (Rs mn)			PAT (Rs mn)			EBITDA margin (%)		
	Q3FY20E	YoY (%)	QoQ (%)	Q3FY20E	YoY (%)	QoQ (%)	Q3FY20E	YoY (%)	QoQ (%)	Q3FY20E	Q3FY19	Q2FY20
ALPM	11,576	13.7	(6.7)	2,821	16.5	(18.4)	1,865	9.9	(24.3)	24.4	23.8	27.9
ALKEM	21,219	10.2	(6.3)	3,650	17.1	(19.3)	2,435	20.2	(34.3)	17.2	16.2	20.0
ARBP	59,410	12.7	6.1	12,302	13.2	5.4	7,107	3.4	4.6	20.7	20.6	20.8
CIPLA	43,835	9.4	(0.3)	8,360	18.1	(8.1)	4,055	21.7	(14.0)	19.1	17.7	20.7
DRRD	43,228	12.3	(10.0)	9,684	18.7	(31.2)	4,654	(4.1)	(67.9)	22.4	21.2	29.3
LPC	41,211	(8.5)	(5.5)	7,166	(4.8)	(2.0)	2,494	31.5	(41.0)	17.4	16.7	16.8
SUNP	82,565	7.8	3.9	17,459	(5.0)	8.6	11,877	17.8	12.5	21.1	24.0	20.2
DIVI	15,162	12.9	8.0	5,503	(2.5)	13.4	3,883	(7.7)	14.2	36.3	42.0	34.6
LAURUS	6,803	28.5	(4.5)	1,352	54.2	(1.9)	485	171.7	(14.5)	19.9	16.6	19.4
<b>Sector Agg.</b>	<b>325,010</b>	<b>8.0</b>	<b>(0.7)</b>	<b>68,298</b>	<b>6.6</b>	<b>(5.7)</b>	<b>38,854</b>	<b>10.6</b>	<b>(23.7)</b>	<b>21.0</b>	<b>21.3</b>	<b>22.1</b>

Source: Company, BOBCAPS Research



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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

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

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

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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