

Lupin, Sun, Dr Reddy's to report strong Q3

We expect a strong Q3 for LPC (flu, India recovery), SUNP (specialty) and DRRD (US launches) with QoQ growth in EBITDA and margins, partly aided by cost savings. US sales growth is forecast at 4-9% QoQ. Results for Cipla (ex-onetime trade generic gains) and ARBP (ex-Natrol) should be healthy. We expect a stable quarter from Alkem, ERIS and ALPM while cost reversal may weigh on AJP. India growth overall can surprise YoY. DIVI could see lumpy sales; Laurus's strong margins should sustain. EM currencies have recovered as at end-Q3.

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Key to watch: (1) Ajanta Pharma (AJP): India/EM commentary. (2) Alembic (ALPM): India growth recovery. (3) Alkem: Cost control sustainability, API prices. (4) Aurobindo (ARBP): US injectable recovery. (5) Cipla: India outlook, Goa warning letter remediation, respiratory filings. (6) Dr Reddy's (DRRD): Copaxone CRL, Vascepa launch timeline. (7) Divi's (DIVI): QoQ sales and margins, progress on ongoing capex. (8) Lupin (LPC): US recovery QoQ, EU approval timeline on gFostair (Q3FY21), FDA reinspection for Goa site. (9) Laurus: TLE400 scale-up timeline, margin sustainability. (10) 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	ADD
DRRD IN	ADD
ERIS IN	BUY
LAURUS IN	BUY
LPC IN	ADD
SUNP IN	ADD

FIG 1 – Q3FY21: US REVENUE EXPECTATIONS

(US\$ mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21E	QoQ (%)	YoY (%)
AJP	11	15	16	22	20	20	21	20	(5.2)	(11.9)
ALPM	44	49	77	72	81	79	79	80	0.4	10.0
ALKEM	69	69	76	82	84	89	85	88	2.9	6.8
ARBP	352	384	405	418	415	414	434	418	(3.7)	(0.1)
CIPLA	162	160	136	133	119	136	143	141	(1.2)	6.1
DRRD	212	233	204	225	251	230	249	270	8.4	20.3
LPC	247	220	189	193	219	162	190	208	9.3	7.6
SUNP (ex-Taro)	264	259	179	203	202	167	196	205	4.2	0.5
TARO	180	161	161	148	175	118	143	143	0.0	(3.3)

Source: Company, BOBCAPS Research

FIG 2 – Q3FY21 PREVIEW: EXPECT GOOD QUARTER FOR LPC, SUNP, DRRD

Companies	Sales (Rs mn)			EBITDA (Rs mn)			PAT (Rs mn)			EBITDA margin (%)		
	Q3FY21E	YoY (%)	QoQ (%)	Q3FY21E	YoY (%)	QoQ (%)	Q3FY21E	YoY (%)	QoQ (%)	Q3FY21E	Q3FY20	Q2FY21
AJP	6,778	4.1	(5.3)	2,117	13.7	(22.9)	1,376	27.3	(19.3)	31.2	28.6	38.3
ALPM	14,112	16.7	(3.1)	4,143	27.4	(6.6)	2,826	20.4	(15.3)	29.4	26.9	30.4
ALKEM	23,486	7.6	(0.6)	5,281	16.5	(12.0)	4,062	6.3	(14.0)	22.5	20.8	25.4
ARBP	62,607	6.2	(3.4)	12,970	7.4	(9.5)	7,980	12.4	(0.1)	20.7	20.5	22.1
CIPLA	47,879	9.5	(5.0)	10,846	34.2	(7.8)	6,752	68.3	1.5	22.7	18.5	23.4
DRRD	51,869	18.3	5.9	12,952	27.1	6.0	7,822	4.3	(6.9)	25.0	23.2	24.9
ERIS	3,004	12.8	(9.0)	1,088	41.7	(12.8)	924	45.3	(14.2)	36.2	28.8	37.8
LPC	40,032	6.2	4.4	6,742	57.1	16.0	2,769	133.1	31.4	16.8	11.4	15.2
SUNP	87,847	9.3	3.9	22,514	37.0	1.6	15,443	85.6	(20.0)	25.6	20.4	26.2
DIVI	16,638	19.7	(2.9)	6,600	32.8	(11.4)	4,572	33.4	(13.0)	39.7	35.7	43.5
LAURUS	11,344	55.5	(0.4)	3,744	152.5	0.1	2,455	233.8	1.3	33.0	20.3	32.8

Source: Company, BOBCAPS Research

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Company-wise expectations

AJP: Cost benefit reversal to mar sequential results; India growth should recover

We expect a muted Q3 for AJP as EBITDA margin gains could be reversed in H2 due to higher raw material cost and promotional spends (virtually nil in Q2) as well as slower branded EM business (Asia, Africa) from Covid restrictions. Operating margins are estimated at 31% (vs. 36% in H1). India business (+7% YoY) has seen good improvement owing to gradual recovery in the acute portfolio (dermatology, ophthalmology) while the chronic segment is doing well. US sales expected to decline 5% QoQ at US\$ 20mn on weak Tamiflu sales. Contribution from Divalproex DR will reflect fully in Q4 (launched in mid-Dec).

Key to watch: India/EM commentary, commercialisation of new blocks

ALPM: Q3 to be steady led by India, US and EU

Sequentially, US sales are projected to remain stable at US\$ 80mn on the back of new launches and steady volumes/pricing in the Sartan franchise. Contribution from niche launches such as Tavorole topical and Asenapine sublingual tablets should be visible from Q4 (both under shared exclusivity, cumulative brand sales of US\$ 280mn). We believe EU and API sales would sustain the momentum seen in Q2 and India sales can grow at ~5% YoY. Sequentially, higher raw material prices would lower EBITDA margins to 29% (vs. 30.4% in Q2) but we expect YoY expansion of 200bps.

Key to watch: India business momentum, US pricing pressure

ALKEM: Stable quarter led by India recovery and sustained cost saving

We expect sales/EBITDA growth of 8%/16% YoY for Alkem. Led by acute sales and continued trade generics momentum, India business should see healthy recovery to ~8% YoY growth (management earlier guided for 9% growth in H2). US sales are likely to remain steady at US\$ 88mn (+3% QoQ), backed by new launches (seven approvals received in Q3) and a stable base portfolio. Other expenses may not reach pre-Covid levels due to structural savings on marketing spends, implying healthy EBITDA margins of 23% (+170bps YoY).

Key to watch: Cost control sustainability, update on API prices

ARBP: Stable Q3; expect 3% QoQ growth in US sales (ex-Natrol)

ARBP's Q3 results will bear the impact of two months of sales loss from the Natrol divestment (US\$ 30mn in US sales) and a full-quarter hit from export incentive withdrawal (~Rs 700mn). Hence, reported EBITDA is expected to decline QoQ; normalising for the same, sequential EBITDA and margins should remain steady (margin estimated at ~21%).

We expect slower US sales of US\$ 418mn (-4% QoQ on Natrol impact) but incremental injectable sales plus flu seasonality and a stable market share in the base business should support adjusted US sales growth of ~3% QoQ. The injectable mix is likely to improve ahead of two key launches – Dexmedetomidine (currently in short supply in the US) and Acetaminophen in Q4. Momentum in Europe looks strong while ARV sales could exhibit some lumpiness though the trends in TLD migration remain healthy.

Key to watch: AuroMedics sales, commissioning of new injectable unit, update on warning letter for Aurolife

CIPLA: Healthy Q3; US can surprise positively on market share gains

We expect Q3 EBITDA to taper marginally QoQ to Rs 10.8bn due to a high Q2 base (marked by onetime trade generic sales). Adjusting for this one-off, growth should be strong. India business growth is estimated at 11% YoY led by traction in Remdesivir and momentum in the trade generics/OTC portfolio. Cost optimisation on digital initiatives should continue.

Conservatively, we expect US sales at US\$ 140mn (flat QoQ). In Albuterol, Cipla's prescription share has improved further to ~11% in Dec'20 (+3ppt from Sep'20) and unit price is stable; gMigranal share has picked up to 20% (+5ppt MoM). Scale-up in some niche Q3 launches such as Tecfidera and Icatibant injectable has been slow. Market share in base products (incl. Gabapentin, Wellbutrin XL) is holding stable which is likely to drive Q3 margins of 22.7% (vs. 18.5% YoY).

Key to watch: Goa facility remediation, respiratory filings

DIVI: Q3 to be lumpy; demand visibility on new capex is key

DIVI is likely to post a sequential decline in operational results due to lumpiness in the generics business. Integration of multiple raw material projects should support a gross margin range of 64-65%. We estimate a sales/EBITDA decline of 3%/11% QoQ on a high Q2 base but growth of 20%/33% YoY. We model for EBITDA margins of ~40% (+390bps YoY, -370bps QoQ).

Key to watch: QoQ sales and margins, progress on ongoing capex

DRRD: Multiple launches to fuel strong US growth; margins stable

DRRD's US sales are expected to increase 8% QoQ to US\$ 270mn supported by a stable base portfolio and higher contribution from Q3 launches (Faslodex injectable, Precedex injectable, two OTC drugs and Tecfidera), apart from gCiprodex, gZytiga and gColcrys.

Outside the US, India is projected to grow 18% YoY (due to Wockhardt) and PSAI sales are likely to normalise after a strong H1 but should remain positive on growth opportunities. Russia/CIS continue to see good volume traction QoQ and a supportive currency with the Ruble rising 4% QoQ against the rupee. EBITDA margins are forecast to remain stable at ~25% factoring in the negative export incentive impact.

Key to watch: Update on Nuvaring/Copaxone CRL, Vascepa launch timeline, Sputnik-V vaccine progress

ERIS: Growth momentum to continue; launch upside to reflect from Q4

ERIS's operational results should show good improvement YoY; conservatively, we expect sales/EBITDA growth of 13%/42% with steady margins of 36%. The company is tracking 15% growth as per AIOCD (Dec'20) led by the cardio-metabolic portfolio. ERIS also has launches of 2-3 products scheduled in Dec'20 (incl. Rivaroxoban), the upside from which should reflect Q4 onwards.

Key to watch: Traction in Zomelis and acute portfolio, new launch momentum

LAURUS: Another upbeat quarter with stable margins

We anticipate a healthy Q3 for Laurus driven by (1) strong execution on the formulation order book, (2) improving growth in other APIs (cardio-diabetic and oncology), and (3) stable demand in the ARV portfolio (TLD). Further, synthesis is forecast to grow 35% YoY. We estimate EBITDA margins will remain strong at ~33% (+13ppt YoY, stable QoQ) with EBITDA at Rs 3.7bn (+150% YoY).

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

LPC: Operationally strong; full benefits of key US launches yet to reflect

LPC’s US sales are estimated to rise 9% QoQ to US\$ 208mn led by flu seasonality (Tamiflu, Cephalosporins), Lapatinib launch contribution (US\$ 4mn-5mn), and gradual market share pickup in gProAir (up 1ppt to 3.5% MoM), gGlumetza, Divalproex S, Fosaprepitant injectable and Myfortic DR. Upsides from most of these launches are yet to fully reflect, in our view. Levo share gain is weak and weekly Solosec prescriptions have fallen to 0.8k in December (1k in Sep, 2.5k pre-Covid).

Besides the US, India sales can bounce back to 6% YoY growth (flattish in Q2) backed by the chronic portfolio and bigger brands in the acute business. EU momentum should sustain with Namuscla ramping up and bEnbrel being launched into new regions (Belgium, France). This along with controlled cost can drive EBITDA margin expansion of ~170bps QoQ to 17%.

Key to watch: US recovery, gFostair approval timeline in the EU (Q3FY21), FDA reinspection at Goa site

SUNP: Higher specialty sales and cost control key catalysts

We expect SUNP to report healthy EBITDA recovery QoQ on the back of higher specialty sales and lower SG&A spends. India growth should also revive to ~9% YoY with acute sales recovery. US ex-Taro sales could grow 5% QoQ mainly from recovery in the specialty portfolio. Within specialty, prescriptions are up 80% QoQ for Levulan and 10% for Ilumya – both close to pre-Covid levels. US generic sales are likely to remain flattish in the absence of any material launches and continued pricing pressure. We expect stable Taro sales QoQ given normalisation post Covid and new launches from Q2 which should set off the price erosion impact.

Key to watch: Specialty portfolio recovery and commentary, cost control and margin recovery, Halol OAI, Absorica generic competition

Avg. USDINR rate at Rs 73.8 in Q3 (vs. Rs 74.4 QoQ)

EM currencies – RUB, BRL ZAR – have recovered on closing basis by 4%, 7% and 13% respectively

FIG 3 – CROSS-CURRENCY MOVEMENT

Quarter End	Closing rate					Average rate				
	USDINR	EURINR	BRLINR	RUBINR	ZARINR	USDINR	EURINR	BRLINR	RUBINR	ZARINR
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
Dec 2020	73.1	89.7	14.06	0.99	4.97	73.8	88.0	13.68	0.97	4.73

Source: Bloomberg, BOBCAPS Research

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BUY – Expected return >+15%

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

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