

FIRST LIGHT

RESEARCH

[Initiation] Minda Corporation | Target: Rs 100 | +43% | BUY

Key beneficiary of BSVI implementation – initiate with BUY

Bajaj Auto | Target: Rs 2,750 | -8% | SELL

Margin disappoints; 3Ws worst hit after CVs – cut to SELL

Alembic Pharma | Target: Rs 1,130 | +13% | BUY

Strong beat (ex-India) drives earnings upgrade

SUMMARY

Minda Corporation

Minda Corp (MDA) is a leading manufacturer of auto components with a diverse product slate. Revenue from wiring harnesses for auto OEMs forms 46% of the mix and is expected to surge 25% in FY21 as demand spikes to meet new BSVI norms – we estimate that MDA's per-unit realisation from 2W/CV wiring harnesses will rise 100%/35% (vs. BSIV). A strong order book of >Rs 43bn across segments and steady exports will cushion growth (FY20-FY23E revenue/PAT CAGR: 3%/19%) amid the auto industry downturn, aiding return ratios. Initiate with BUY; Sep'21 TP Rs 100.

[Click here for the full report.](#)

Bajaj Auto

Bajaj Auto's (BJAUT) Q1FY21 EBITDA margin disappointed, coming in at 13.3% vs. ~17% expected, despite better gross margins. We expect downtrading in the motorcycle segment given lower incomes amid Covid-19. This along with weaker 3W sales will continue to hurt BJAUT's sales mix in the near term. We model for a muted 3% earnings CAGR during FY20-FY23. On rolling valuations over, we have an unchanged Sep'21 TP of Rs 2,750, set at 15x one-year forward EPS. Downgrade to SELL (from REDUCE).

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	690
GAIL	Buy	150
Petronet LNG	Buy	305
Tech Mahindra	Buy	690

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,950
Chola Investment	Buy	200
Laurus Labs	Buy	630
Transport Corp	Buy	240
Mahanagar Gas	Sell	710

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.60	(1bps)	(9bps)	(148bps)
India 10Y yield (%)	5.83	3bps	(2bps)	(63bps)
USD/INR	74.75	0.2	1.9	(8.4)
Brent Crude (US\$/bbl)	44.32	2.4	5.0	(30.6)
Dow	26,840	0.6	3.7	(1.9)
Shanghai	3,321	0.2	11.9	14.5
Sensex	37,930	1.4	9.2	(0.1)
India FII (US\$ mn)	20 Jul	MTD	CYTD	FYTD
FII-D	49.1	86.4	(14,195.6)	(4,436.1)
FII-E	219.8	(217.7)	(2,659.2)	3,943.8

Source: Bank of Baroda Economics Research

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Alembic Pharma

Alembic Pharma (ALPM) reported another strong quarter with a 36% EBITDA beat. US, ROW and API sales were a solid beat while India business was in line. This along with sharp R&D cost reduction and a temporary drop in SG&A spend led to a 30% EBITDA margin. ALPM's fund raise plan to pursue organic opportunities in US complex generics is marginally ROCE dilutive. We raise FY21/ FY22 EPS by 21%/8%. Maintain BUY as we roll to a Sep'21 TP of Rs 1,130 (vs. Rs 810). Expect some near-term consolidation in the stock post a strong rally.

[Click here](#) for the full report.

BUY

TP: Rs 100 | ▲ 43%

MINDA CORPORATION

Auto Components

22 July 2020

Key beneficiary of BSVI implementation – initiate with BUY

Minda Corp (MDA) is a leading manufacturer of auto components with a diverse product slate. Revenue from wiring harnesses for auto OEMs forms 46% of the mix and is expected to surge 25% in FY21 as demand spikes to meet new BSVI norms – we estimate that MDA's per-unit realisation from 2W/CV wiring harnesses will rise 100%/35% (vs. BSIV). A strong order book of >Rs 43bn across segments and steady exports will cushion growth (FY20-FY23E revenue/PAT CAGR: 3%/19%) amid the auto industry downturn, aiding return ratios. Initiate with BUY; Sep'21 TP Rs 100.

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BSVI implementation a key growth trigger: Wiring harnesses, a crucial component to meet stricter regulations under BSVI norms, now comprise 46% of MDA's revenues vs. 30% in FY20E, following insolvency filing of its plastics division. We expect new BSVI norms in India from Apr'20 to drive up the per-unit realisation of 2W wiring harnesses from the current Rs 415 to Rs 900, more than doubling MDA's segmental revenues from an estimated Rs 3.6bn in FY20 to Rs 8.3bn by FY23. Similarly, per-unit realisation for wiring harnesses used in CVs is expected to rise 35%.

Favourable sales mix to aid financial performance: The plastics division (~21% of FY20 revenues) has recently filed for insolvency, affecting the overall revenue CAGR. Despite loss of revenue from this division and muted volume sales growth over FY20-FY23, we believe MDA's recalibrated sales mix, strong domestic order book of >Rs 43bn (as of FY20) and robust die casting exports will ensure steady growth – we model for a revenue/EBITDA/PAT CAGR of 3%/13%/19% and expect ROCE/ROE of 11%/13% in FY23.

Initiate with BUY: We value the company at 15x one year- forward EPS, in line with its five-year average multiple, to arrive at a Sep'21 TP of Rs 100. BUY.

Ticker/Price	MDA IN/Rs 70
Market cap	US\$ 212.8mn
Shares o/s	227mn
3M ADV	US\$ 1.6mn
52wk high/low	Rs 77/Rs 59
Promoter/FPI/DII	68%/9%/5%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	30,920	28,131	22,558	28,244	30,759
EBITDA (Rs mn)	2,941	2,499	2,348	3,287	3,626
Adj. net profit (Rs mn)	1,692	935	801	1,435	1,561
Adj. EPS (Rs)	7.5	4.1	3.5	6.3	6.9
Adj. EPS growth (%)	8.9	(44.8)	(14.3)	79.2	8.7
Adj. ROAE (%)	17.5	8.6	7.9	13.0	12.9
Adj. P/E (x)	9.4	16.9	19.8	11.0	10.2
EV/EBITDA (x)	5.4	5.0	4.1	3.8	4.0

Source: Company, BOBCAPS Research



SELL

TP: Rs 2,750 | ▼ 8%

BAJAJ AUTO

Automobiles

22 July 2020

Margin disappoints; 3Ws worst hit after CVs – cut to SELL

Bajaj Auto's (BJAUT) Q1FY21 EBITDA margin disappointed, coming in at 13.3% vs. ~17% expected, despite better gross margins. We expect downtrading in the motorcycle segment given lower incomes amid Covid-19. This along with weaker 3W sales will continue to hurt BJAUT's sales mix in the near term. We model for a muted 3% earnings CAGR during FY20-FY23. On rolling valuations over, we have an unchanged Sep'21 TP of Rs 2,750, set at 15x one-year forward EPS. Downgrade to SELL (from REDUCE).

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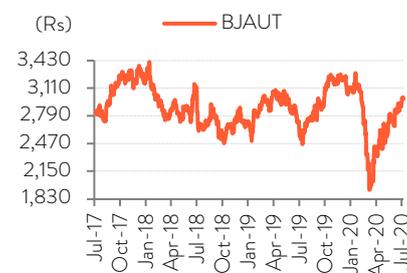
Q1 below estimates: At Rs 30.8bn, Q1 revenue dropped 60% YoY led by a 65% volume decline. Revenue from the motorcycle segment plunged 63% YoY while 3W sales slumped 74% YoY. The average blended realisation for the quarter came in at ~Rs 69,500, up 12% YoY due to BSVI changes and favourable forex realisation. EBITDA margin at 13.3% was much lower than our estimate of 17.3%. Reported PAT at Rs 5.3bn fell 53% YoY.

Ticker/Price	BJAUT IN/Rs 2,985
Market cap	US\$ 11.6bn
Shares o/s	289mn
3M ADV	US\$ 35.7mn
52wk high/low	Rs 3,315/Rs 1,789
Promoter/FPI/DII	54%/14%/9%

Source: NSE

Unfavourable sales mix to weigh on margins: Management stated that gross profit/vehicle might not be sustainable at current levels of Rs 22.8k as domestic demand rises (earning lower realisations than exports). Also, downtrading risk in the motorcycle segment along with lower 3W sales will continue to weaken the sales mix in the near term.

STOCK PERFORMANCE



Source: NSE

Downgrade to SELL: Assuming a decline in FY21 sales, we project a volume CAGR of 2% over FY20-FY23. BJAUT's margins are likely to sustain at ~17%, and we build in a revenue/EBITDA/PAT CAGR of 5%/6%/3% over our forecast period, with ROE and ROCE of ~22% each by FY23. The stock currently trades at 17.3x FY22E EPS. On rolling valuations over, we have an unchanged Sep'21 TP of Rs 2,750 – downgrade to SELL.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	302,500	299,187	245,472	314,498	346,451
EBITDA (Rs mn)	49,820	50,962	40,732	53,843	59,845
Adj. net profit (Rs mn)	46,752	51,000	38,791	49,955	56,067
Adj. EPS (Rs)	152.2	176.2	134.1	172.6	193.8
Adj. EPS growth (%)	14.9	9.1	(23.9)	28.8	12.2
Adj. ROAE (%)	22.9	24.5	18.6	21.7	21.8
Adj. P/E (x)	19.6	16.9	22.3	17.3	15.4
EV/EBITDA (x)	17.2	16.7	20.7	15.7	14.3

Source: Company, BOBCAPS Research



BUY

TP: Rs 1,130 | ▲ 13%

ALEMBIC PHARMA

Pharmaceuticals

22 July 2020

Strong beat (ex-India) drives earnings upgrade

Alembic Pharma (ALPM) reported another strong quarter with a 36% EBITDA beat. US, ROW and API sales were a solid beat while India business was in line. This along with sharp R&D cost reduction and a temporary drop in SG&A spend led to a 30% EBITDA margin. ALPM's fund raise plan to pursue organic opportunities in US complex generics is marginally ROCE dilutive. We raise FY21/FY22 EPS by 21%/8%. Maintain BUY as we roll to a Sep'21 TP of Rs 1,130 (vs. Rs 810). Expect some near-term consolidation in the stock post a strong rally.

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ROW/API pick-up a key positive, US steady: ROW sales surged 62% YoY in Q1FY21 as EU supply began to normalize after serialisation issues while the China disruption-related opportunity aided exceptional API sales +54% YoY (led by Azithromycin). ALPM expects the API business to grow 15-18% in FY21. US sales were steady QoQ at US\$ 81mn with stable contribution from the sartans franchise (15 products) despite higher competition. We continue to expect US sales of US\$ 390mn by FY23 (+20% CAGR over FY20 ex-sartans).

Ticker/Price	ALPM IN/Rs 1,000
Market cap	US\$ 2.5bn
Shares o/s	189mn
3M ADV	US\$ 6.6mn
52wk high/low	Rs 1,045/Rs 435
Promoter/FPI/DII	73%/10%/6%

Source: NSE

Temporary cost decline boosts margins; QIP planned: Lower R&D and SG&A spends due to the lockdown more than offset low gross margins, fuelling a large EBITDA margin beat. The company is planning fresh investments in the US, mainly in complex generics (injectables and 505 b (2) products) via a ~Rs 9bn QIP. We continue to believe that the deep US pipeline opportunity, best US margin (ex-R&D) track record of ~60% vs. Indian peers, and nimble supply chain would ensure healthy ROCE on the fresh US allocation in the long run.

STOCK PERFORMANCE



Source: NSE

Earnings call takeaways: (1) India sales: more positives of strategic intervention to reflect from Q2. (2) US sales are guided at US\$ 400mn-500mn in the next three years. (3) QIP funds will be used to expand capacity in the Jarod injectable block, expand APIs and repay debt. (4) Net debt totals Rs 12bn.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	39,350	46,050	51,705	56,084	63,163
EBITDA (Rs mn)	8,737	12,223	12,807	13,475	16,078
Adj. net profit (Rs mn)	5,938	8,718	8,875	8,602	10,558
Adj. EPS (Rs)	31.0	46.3	47.1	45.6	56.0
Adj. EPS growth (%)	32.6	49.2	1.8	(3.1)	22.7
Adj. ROAE (%)	23.4	29.4	24.9	20.0	20.7
Adj. P/E (x)	32.3	21.6	21.2	21.9	17.9
EV/EBITDA (x)	21.9	16.1	15.7	15.0	12.2

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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