BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

28 January 2020

RESEARCH

BOB Economics Research | Weekly Wrap

Awaiting a growth oriented Budget

Dr Reddy's Labs | Target: Rs 3,350 | +5% | ADD

Margin beat to sustain; TP raised to Rs 3,350

SUMMARY

India Economics: Weekly Wrap

Global yields, equities and commodities fell over impact of spread of Coronavirus on economic growth. Manufacturing activity seems to be improving in the Eurozone and Japan. Home sales improved in US. However, consumer confidence was muted in the Euro area. Despite lower oil prices and FPI inflows, INR weakened because of global risk-off. Domestic yields fell. Apart from global markets, investors will look at Budget to kick start growth. Our fiscal deficit estimate is 3.6% and 3.3% in FY20 and FY21 respectively.

Click here for the full report.

Dr Reddy's Labs

Strong cost control and operating leverage led to a Q3 EBITDA beat of 5%. Dr Reddy's (DDRD) maintained growth momentum across India (up 13% YoY), Russia (20%), CIS (29%) and ROW (11%) markets, while Europe (52%) surprised positively. Sustained cost savings are driving the surprise, per management, leading to a 3-13% increase in our FY21/FY22 EPS. Reported loss of Rs 5.7bn was fueled by an impairment charge of Rs 13.2bn. DRRD continues to target 25% margins and ROCE in coming years. We retain ADD; TP raised to Rs 3,350 (vs. Rs 2,960).

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	570
Eicher Motors	Buy	25,000
Petronet LNG	Buy	400
Reliance Industries	Buy	1,860
TCS	Add	2,390

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,290
Future Supply	Buy	680
Greenply Industries	Buy	210
Laurus Labs	Buy	480
Ashok Leyland	Sell	68

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.68	(5bps)	(22bps)	(107bps)
India 10Y yield (%)	6.58	(2bps)	0bps	(75bps)
USD/INR	71.33	(0.1)	(0.1)	(0.2)
Brent Crude (US$/bbl)	60.69	(2.2)	(9.7)	(1.5)
Dow	28,990	(0.6)	1.7	17.2
Shanghai	2,977	(2.7)	(0.2)	14.4
Sensex	41,613	0.5	0.4	15.5
India FII (US$ mn)	**23 Jan**	**MTD**	**CYTD**	**FYTD**
FII-D	35.9	(1,555.5)	(1,555.5)	1,388.6
FII-E	210.1	2,150.6	2,150.6	9,539.8

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

WEEKLY WRAP

27 January 2020

Awaiting a growth oriented Budget

Sameer Narang | Dipanwita Mazumdar
chief.economist@bankofbaroda.com

Global yields, equities and commodities fell over impact of spread of Coronavirus on economic growth. Manufacturing activity seems to be improving in the Eurozone and Japan. Home sales improved in US. However, consumer confidence was muted in the Euro area. Despite lower oil prices and FPI inflows, INR weakened because of global risk-off. Domestic yields fell. Apart from global markets, investors will look at Budget to kick start growth. Our fiscal deficit estimate is 3.6% and 3.3% in FY20 and FY21 respectively.

Markets

- **Bonds:** Global yields closed lower amidst reducing risk appetite over spread of coronavirus. US 10Y yield fell by 14bps (1.68%). Oil prices fell by (-) 6.4% to US$ 61/bbl due to rising shale production. India's 10Y yield fell by 4bps (6.58%), in-line with global yields. System liquidity surplus was at Rs 2.8tn as on 24 Jan 2020 vs Rs 3.1tn in the previous week.

- **Currency:** Except GBP and JPY, other global currencies closed lower this week. DXY rose by 0.3% in the week as US existing home sales and economic data surprised positively. CNY fell by (-) 0.9% on the back of risks emerging from spread of Coronavirus. INR depreciated by (-) 0.4% in the week even as oil prices fell sharply (-6.4% WoW). FII inflows were US$ 651mn.

- **Equity:** Barring Dax, global indices ended lower this week led by concerns over the outbreak of Coronavirus. Shanghai Comp dropped the most (-3.2%) followed by Dow (-1.2%) and FTSE (-1.2%). Sensex (-0.8%) too slipped and ended the week in red owing to weak corporate earnings.

- **Upcoming key events:** In the current week, markets will await durable goods orders and GDP data in the US, manufacturing PMI data in China and retail sales print in Japan. Apart from this, Fed and BoE policy are also scheduled. On the domestic front, first revised estimate of GDP, Economic Survey and Union Budget will the guide markets.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

ADD
TP: Rs 3,350 | ⮝ 5%

DR REDDY'S LABS | Pharmaceuticals | 27 January 2020

Margin beat to sustain; TP raised to Rs 3,350

Strong cost control and operating leverage led to a Q3 EBITDA beat of 5%. Dr Reddy's (DDRD) maintained growth momentum across India (up 13% YoY), Russia (20%), CIS (29%) and ROW (11%) markets, while Europe (52%) surprised positively. Sustained cost savings are driving the surprise, per management, leading to a 3-13% increase in our FY21/FY22 EPS. Reported loss of Rs 5.7bn was fueled by an impairment charge of Rs 13.2bn. DRRD continues to target 25% margins and ROCE in coming years. We retain ADD; TP raised to Rs 3,350 (vs. Rs 2,960).

Vivek Kumar
research@bobcaps.in

US miss and US$ 156mn impairment charge on gNuvaring: US revenue was 5% below estimates at US$ 225mn (up 10% QoQ led by deferred sales from Q2). DRRD launched 22 products in 9M and is on track for 30 launches in FY20 – management commented that while price erosion persists, the product mix has turned healthy. We expect US sales of US$ 1.1bn by FY22 (10% CAGR over FY20, 5% ex-Copaxone, Nuvaring). DRRD has taken a US$ 156mn charge on gNuvaring (83% of acquisition cost) due to generic competition, implying sharp reduction in FY21/FY22 amortisation cost (at least by Rs 7/sh p.a).

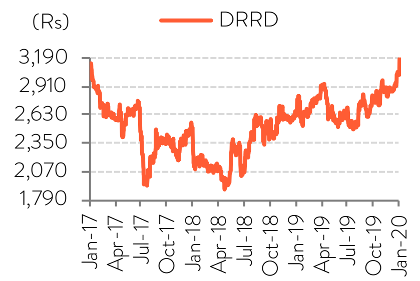
Q3 surprised positively on margins: Continued control over SG&A (up 7% YoY vs. 4% YoY in 9MFY20) and staff cost (up 3% YoY) led to 23.2% EBITDA margins (80bps beat). While the PSAI margin was close to historic highs of 31% (vs. avg. of 22%), the global generics margin expanded 270bps QoQ to 58.2%. Core EPS in Q3/9M was Rs 37/Rs 98 (ex-onetime income and 20% tax).

Earnings call takeaways: (1) Response on gNuvaring/Copaxone CRL likely in the near term. (2) Net carrying value on Nuvaring is US$ 43.2mn. (3) More injectable launches expected in Europe. (4) Strong growth likely in Russia due to combination of both retail/B2B. (5) India business margins have further scope of improvement.

Ticker/Price	DRRD IN/Rs 3,189
Market cap	US$ 7.4bn
Shares o/s	166mn
3M ADV	US$ 25.2mn
52wk high/low	Rs 3,209/Rs 1,873
Promoter/FPI/DII	27%/27%/18%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	142,028	153,852	173,690	184,389	204,225
EBITDA (Rs mn)	22,869	31,333	41,629	41,255	47,244
Adj. net profit (Rs mn)	9,404	17,895	27,912	26,010	30,854
Adj. EPS (Rs)	56.7	107.8	168.1	156.7	185.9
Adj. EPS growth (%)	(20.1)	90.3	56.0	(6.8)	18.6
Adj. ROAE (%)	7.7	13.8	19.1	15.6	16.1
Adj. P/E (x)	56.3	29.6	19.0	20.4	17.2
EV/EBITDA (x)	23.7	17.9	13.2	13.1	10.9

Source: Company, BOBCAPS Research

Disclaimer

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)

Rating distribution

As of 31 December 2019, out of 83 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 50 have BUY ratings, 18 are rated ADD, 9 are rated REDUCE and 6 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities —that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS’s prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS’s associates may have financial interest in the subject company. BOBCAPS’s associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.