

RESEARCH

eClerx Services | Target: Rs 450 | + 4% | REDUCE

Cost control saves margins; no respite from structural challenges

Greenpanel Industries | Target: Rs 48 | + 37% | BUY

Healthy quarter; better capacity utilisation to fuel growth

Sun Pharma | Target: Rs 430 | +0% | REDUCE

Headline beat on low R&D, US base ex-Taro weaker; REDUCE

Indraprastha Gas | Target: Rs 455 | + 16% | BUY

Margins expand, volume growth robust

IT Services

Infosys and HCL Tech - Analyst meet takeaways

SUMMARY

eClerx Services

eClerx (ECLX) reported a margin beat for Q2FY20 (EBIT margin at 16.9%), albeit backed largely by marketing cuts, while dollar revenue was a miss (-1.6% QoQ). We see no respite from structural challenges as the onsite revenue mix continues to inch up and the risk of offshore revenue contraction heightens. We thus cut our target P/E multiple to 7.2x (from 8.1x), rolling forward to a reduced Sep'20 TP of Rs 450 (from Rs 490). Post the 20%+ correction over the last three months, we up our rating a notch to REDUCE from SELL.

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

Greenpanel Industries

Greenpanel Industries (GREENP), the newly demerged entity of Greenply Industries, reported consolidated revenue growth of 44% YoY in Q2FY20 aided by a 53%/40% upswing in the plywood/MDF segments. Operating margins swelled 11ppt YoY due to better profitability in both businesses. Management has guided for ~60% utilisation in MDF with ~16% margins in FY20. Plywood guidance was maintained at ~Rs 2bn in revenues and 13% margins. Post-demergers, we value the stock at 13x P/E and roll to a new Sep'20 TP of Rs 48 (vs. Rs 54).

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	570
GAIL	Buy	200
HPCL	Buy	400
ONGC	Buy	200
TCS	Add	2,230

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,230
Future Supply	Buy	680
Greenply Industries	Buy	200
Laurus Labs	Buy	480
PNC Infratech	Buy	250

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.83	(3bps)	30bps	(141bps)
India 10Y yield (%)*	6.69	(3bps)	0bps	(111bps)
USD/INR	70.99	(0.4)	(0.2)	2.7
Brent Crude (US\$/bbl)	61.74	(1.9)	5.8	(14.3)
Dow	27,493	0	3.5	5.0
Shanghai	2,979	(0.4)	2.5	12.8
Sensex	40,470	0.6	7.4	14.8
India FII (US\$ mn)	5 Nov	MTD	CYTD	FYTD
FII-D	31.4	411.8	5,098.6	4,554.0
FII-E	56.4	322.8	10,545.6	3,700.4

Source: Bank of Baroda Economics Research | *7.26% GS 2029

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Sun Pharma

Sun Pharma (SUNP) delivered a 10% EBITDA beat largely driven by lower R&D (6% of sales vs. 8-9% guided). Normalising for R&D, adj. EBITDA was Rs 15bn, a marginal beat but 10% lower than consensus. The US ex-Taro sales miss was offset by higher India sales (+35% YoY; underlying growth trending at 12% YoY). H2 R&D should be higher, and the Absorica lifecycle extension product launch is likely in Q4. Global specialty sales were flat QoQ at US\$ 91mn. H1 adj. EPS is Rs 10; we retain FY20/FY21 estimates of Rs 20/23 and our Sep'20 TP of Rs 430.

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Indraprastha Gas

Indraprastha Gas' (IGL) Q2FY20 EBITDA was above estimates at Rs 3.9bn (+27.5% YoY; Rs 6.5/scm). Volumes at 6.6mmscmd (+11.6% YoY) were in line as CNG/PNG sales grew 10.3%/11.8% YoY. EBITDA margin expansion stemmed from price hikes across products in Jul/Aug'19, in anticipation of INR weakness. IGL's margins still trend well below its CGD peers with a similar volume mix. We maintain our earnings estimates and Sep'20 DCF-based target price of Rs 455.

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IT Services

At analyst meetings hosted separately by INFO and HCLT, we noted evolving digital capabilities and growing digital contract sizes at both players. Talent reskilling, a partner ecosystem of mature and niche tech players, and a consultative approach to solutions appears to have become the accepted playbook for the digital business. HCLT emphasised its strategic focus on the products & platforms business, while corporate governance took prominence at INFO. We prefer HCLT (BUY) and TCS (ADD) among large-caps.

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REDUCE

TP: Rs 450 | ▲ 4%

ECLERX SERVICES

| IT Services

| 08 November 2019

Cost control saves margins; no respite from structural challenges

eClerx (ECLX) reported a margin beat for Q2FY20 (EBIT margin at 16.9%), albeit backed largely by marketing cuts, while dollar revenue was a miss (-1.6% QoQ). We see no respite from structural challenges as the onsite revenue mix continues to inch up and the risk of offshore revenue contraction heightens. We thus cut our target P/E multiple to 7.2x (from 8.1x), rolling forward to a reduced Sep'20 TP of Rs 450 (from Rs 490). Post the 20%+ correction over the last three months, we up our rating a notch to **REDUCE** from **SELL**.

Ruchi Burde

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Revenue miss; steep cost control aids margin improvement: Dollar revenue contracted sequentially by 1.6% QoQ, falling short of our estimate of 1.4% QoQ growth. However, ECLX reported above-expected operating margins on the back of material cost optimisation. EBIT margins excluding hedging gains increased by 240bps QoQ (vs. ~170bps estimated), largely due to sales and marketing expense reduction (-220bps QoQ as a % of revenue; -13.6% QoQ in absolute terms). Gross margin expansion was limited to 60bps QoQ.

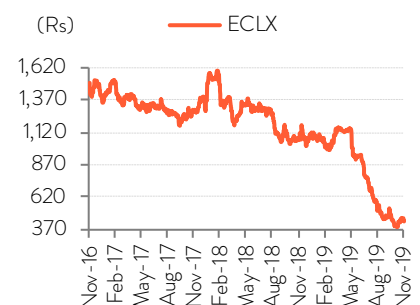
Ticker/Price	ECLX IN/Rs 432
Market cap	US\$ 229.1mn
Shares o/s	38mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 1,230/Rs 388
Promoter/FPI/DII	50%/25%/25%

Source: NSE

No respite from structural challenges: In Q2FY20, onsite revenues increased by 7% QoQ to contribute 25% of revenues while higher-margin offshore revenues declined by 4% QoQ (in dollar terms).

Muted top 10 client outlook: Revenues from the company's top 10 clients (65.5% share) contracted for the third consecutive quarter, clocking a 2.5% QoQ decline. Management shared a soft outlook for the top 10 accounts driven by an increasing preference for automation over outsourcing among larger clients.

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	13,651	14,305	14,372	16,119	18,066
EBITDA (Rs mn)	3,668	3,092	2,979	3,541	4,053
Adj. net profit (Rs mn)	2,887	2,283	1,748	2,240	2,506
Adj. EPS (Rs)	74.5	60.1	46.4	59.5	66.6
Adj. EPS growth (%)	(15.7)	(19.4)	(22.7)	28.2	11.8
Adj. ROAE (%)	23.9	20.2	16.1	19.2	19.9
Adj. P/E (x)	5.8	7.2	9.3	7.3	6.5
EV/EBITDA (x)	3.5	3.9	4.6	3.6	3.0

Source: Company, BOBCAPS Research



BUY

TP: Rs 48 | ▲ 37%

**GREENPANEL
INDUSTRIES**

Construction Materials

07 November 2019

Healthy quarter; better capacity utilisation to fuel growth

Greenpanel Industries (GREENP), the newly demerged entity of Greenply Industries, reported consolidated revenue growth of 44% YoY in Q2FY20 aided by a 53%/40% upswing in the plywood/MDF segments. Operating margins swelled 11ppt YoY due to better profitability in both businesses. Management has guided for ~60% utilisation in MDF with ~16% margins in FY20. Plywood guidance was maintained at ~Rs 2bn in revenues and 13% margins. Post-demerger, we value the stock at 13x P/E and roll to a new Sep'20 TP of Rs 48 (vs. Rs 54).

Arun Baid

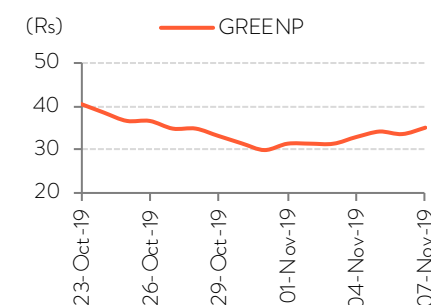
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Strong revenue growth: GREENP (demerged from Greenply in Jul'19 and listed on 23 Oct) posted revenue growth of 44% YoY in Q2, with MDF/plywood up 53%/40%. The company primarily houses Greenply's MDF business, where volumes grew 67% YoY on better utilisation of new capacity while realisations fell 12.5% partly due to higher exports. In plywood, volumes grew 43% YoY off a low base and realisations inched up 2%. Management has guided for MDF utilisation of ~60%, with exports forming 35% of MDF volumes in FY20, and 16% margins.

Ticker/Price	GREENP IN/Rs 35
Market cap	US\$ 60.5mn
Shares o/s	123mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 38/Rs 28
Promoter/FPI/DII	51%/11%/38%

Source: NSE

Operating margins surge: Operating margins expanded 11ppt YoY to 15.6% aided by higher profitability in both MDF and plywood. MDF margins increased 15ppt YoY (+660bps QoQ) to 19.6% due to a low base, better plant utilisation and a 3-5% price increase in North India during Q2. Plywood margins rose ~110bps YoY to 12.1% on account of a better product mix and higher volumes.

STOCK PERFORMANCE

Source: NSE

BUY for 37% upside: GREENP is the leader in India's MDF market and is expected to log a revenue/EBITDA CAGR of 22%/32% over FY19-FY22 (led by expanded capacity), with improving return ratios. Post demerger, we now value the stock on P/E basis at 13x (~30% discount to plywood companies due to lower return ratios) and roll to a Sep'20 TP of Rs 48 (earlier Rs 54, valued at 0.9x BV).

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	5,991	8,077	9,427	10,999
EBITDA (Rs mn)	774	1,185	1,451	1,774
Adj. net profit (Rs mn)	228	107	309	534
Adj. EPS (Rs)	1.9	0.9	2.5	4.4
Adj. EPS growth (%)	NA	(53.3)	189.8	73.0
Adj. ROAE (%)	7.1	1.6	4.6	7.5
Adj. P/E (x)	18.8	40.3	13.9	8.0
EV/EBITDA (x)	NA	8.4	6.5	4.9

Source: Company, BOBCAPS Research



REDUCE

TP: Rs 430 | ▲ 0%

SUN PHARMA

Pharmaceuticals

07 November 2019

Headline beat on low R&D, US base ex-Taro weaker; REDUCE

Sun Pharma (SUNP) delivered a 10% EBITDA beat largely driven by lower R&D (6% of sales vs. 8-9% guided). Normalising for R&D, adj. EBITDA was Rs 15bn, a marginal beat but 10% lower than consensus. The US ex-Taro sales miss was offset by higher India sales (+35% YoY; underlying growth trending at 12% YoY). H2 R&D should be higher, and the Absorica lifecycle extension product launch is likely in Q4. Global specialty sales were flat QoQ at US\$ 91mn. H1 adj. EPS is Rs 10; we retain FY20/FY21 estimates of Rs 20/23 and our Sep'20 TP of Rs 430.

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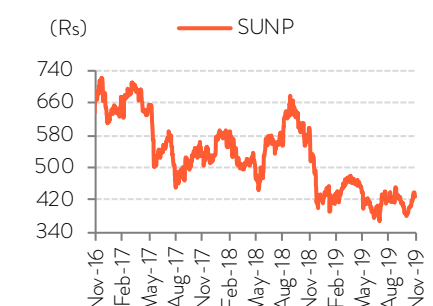
Adj. EBITDA margins ex-Taro down QoQ: SUNP's ex-Taro EBITDA margins for Q2 were flat QoQ at 17.1%, excluding one-time US sales of US\$ 70mn booked in Q1 at 50% assumed margins. But normalising for the lower R&D spends in Q2 (roughly Rs 1bn lower than estimates), the base margin is 16%, down 100bps sequentially. Adj. EBITDA for Q2 was Rs 15bn, a marginal beat on our estimates but 10% lower than consensus.

Ticker/Price	SUNP IN/Rs 428
Market cap	US\$ 14.5bn
Shares o/s	2,399mn
3M ADV	US\$ 40.5mn
52wk high/low	Rs 605/Rs 345
Promoter/FPI/DII	54%/17%/16%

Source: NSE

US ex-Taro sales weakness compensated by strong India/ROW: US sales ex-Taro fell by US\$ 80mn QoQ (vs. +US\$ 50mn est.). The quantum decline even after stripping away one-time sales in Q1 suggests the base business has moderated by 5% QoQ, in contrast to SUNP's commentary of a steady base. Management mentioned that US generic pricing for the broad portfolio has not improved. Weakness in the US was masked by a solid India/ROW beat (+35%/20% YoY). Q2/Q3 has seen some positive seasonality of anti-infectives in India. Specialty sales are likely to improve in H2 led by Ilumya, Cequa & Odomzo.

STOCK PERFORMANCE



Source: NSE

Other takeaways: (1) OOI includes Rs 500mn of out-licensing fees. (2) Specialty R&D spend was US\$ 17mn (\$9mn in Q1). (3) Net debt reduced Rs 13bn from Mar-Sep. (4) FY20 R&D is slightly lowered from 8-9% (1H 5.6%).

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	260,680	286,906	325,880	359,740	400,315
EBITDA (Rs mn)	55,630	60,746	73,200	82,929	91,855
Adj. net profit (Rs mn)	33,666	36,484	47,500	55,534	62,602
Adj. EPS (Rs)	14.0	15.2	19.8	23.1	26.1
Adj. EPS growth (%)	(50.7)	8.4	30.2	16.9	12.7
Adj. ROAE (%)	8.1	8.4	10.1	10.8	11.1
Adj. P/E (x)	30.5	28.1	21.6	18.5	16.4
EV/EBITDA (x)	17.0	15.7	13.3	11.2	9.7

Source: Company, BOBCAPS Research



BUY

TP: Rs 455 | ▲ 16%

INDRAPRASTHA GAS

Oil & Gas

07 November 2019

Margins expand, volume growth robust

Indraprastha Gas' (IGL) Q2FY20 EBITDA was above estimates at Rs 3.9bn (+27.5% YoY; Rs 6.5/scm). Volumes at 6.6mmscmd (+11.6% YoY) were in line as CNG/PNG sales grew 10.3%/11.8% YoY. EBITDA margin expansion stemmed from price hikes across products in Jul/Aug'19, in anticipation of INR weakness. IGL's margins still trend well below its CGD peers with a similar volume mix. We maintain our earnings estimates and Sep'20 DCF-based target price of Rs 455.

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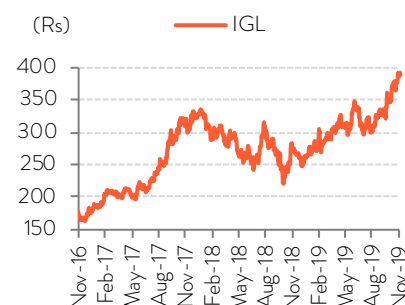
Volume growth remains robust: IGL's volume growth is trending in line with its long-term average (~10%). CNG volumes remain strong (+10% YoY) and could sustain as the company expands CNG stations on national highways. PNG growth was driven by steady expansion in the industrial segment (+14% YoY), while domestic volumes surged as well (+22% YoY).

Ticker/Price	IGL IN/Rs 393
Market cap	US\$ 3.9bn
Shares o/s	700mn
3M ADV	US\$ 8.4mn
52wk high/low	Rs 396/Rs 241
Promoter/FPI/DII	45%/23%/32%

Source: NSE

Margin expansion looks sustainable: EBITDA margins improved to Rs 6.5/scm in Q2, but still trend below CGD peer MAHGL (Rs 10/scm in Q1) and its JV subsidiary MNGL (~Rs 9/scm in FY19). Sustained low spot LNG prices and the cut in domestic gas prices from Oct'19 make a favourable case for IGL to sustain margins.

STOCK PERFORMANCE



Source: NSE

New areas offer near-term volume traction: IGL's management stated that annual capex could be raised to ~Rs 11bn (from Rs 6bn) as the company's CGD network is expanded into new areas. We estimate ~3mmscmd of volume potential from geographical areas (GA) in Uttar Pradesh – Meerut, Muzaffarnagar, Kanpur – and others such as Karnal and Ajmer. Management sees no immediate threat to volume growth from electric vehicles, as three-wheelers (~15% of CNG demand) are likely to form the bulk of EV conversions in the initial stage.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	45,921	57,648	65,585	77,866	91,746
EBITDA (Rs mn)	11,144	12,570	15,020	16,919	19,417
Adj. net profit (Rs mn)	7,217	8,739	11,396	13,302	16,210
Adj. EPS (Rs)	10.3	12.5	16.3	19.0	23.2
Adj. EPS growth (%)	19.0	21.1	30.4	16.7	21.9
Adj. ROAE (%)	21.7	21.7	23.3	22.2	22.1
Adj. P/E (x)	38.1	31.5	24.2	20.7	17.0
EV/EBITDA (x)	24.2	21.5	18.0	15.6	13.1

Source: Company, BOBCAPS Research




IT SERVICES

07 November 2019

Infosys and HCL Tech: Analyst meet takeaways

At analyst meetings hosted separately by INFO and HCLT, we noted evolving digital capabilities and growing digital contract sizes at both players. Talent reskilling, a partner ecosystem of mature and niche tech players, and a consultative approach to solutions appears to have become the accepted playbook for the digital business. HCLT emphasised its strategic focus on the products & platforms business, while corporate governance took prominence at INFO. We prefer HCLT (BUY) and TCS (ADD) among large-caps.

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Similar playbook for digital business: The digital playbooks of both Infosys (INFO) and HCL Tech (HCLT) focus on (1) talent reskilling, (2) building an ecosystem of technology partners – both mature and niche (150+ at HCLT), and (3) adopting a consultative approach to offer innovative solutions. IT vendors are investing on dedicated innovation labs for collaborative client engagement and fostering new digital capabilities.

INFO – reiterates commitment to corporate governance: Board chairman Nandan Nilekani assured investors of transparent corporate governance and announced that a summary of the investigation into recent whistleblower complaints against INFO would be shared once it reached a conclusion.

Large deals and digital services to catalyse growth: INFO's management is targeting a combination of digital services and large deals to serve as building blocks for topline growth, while value and cost optimisation initiatives will serve to improve margins. A centralised team to spearhead big-ticket contract wins and proactive participation of senior leaders has led to healthy deal traction (+77% YoY in H1FY20).

HCLT – comprehensive strategy in products & platforms business: In contrast to most enterprise software product companies, HCLT aims to emphasise 'customer delight' as a key principle driving the product roadmap. A strong foundation (large product slate, 400+ sales team, 1,750 R&D team, 600+ customer support team) and a ~90% annuity revenue mix safeguard the downside, while successful execution holds the key to potential upsides.

Prefer HCLT, TCS among large-caps: We expect revenue growth to moderate for Indian IT services players in H2FY20 and hence stay selective. HCLT (rated BUY) and TCS (rated ADD) are our preferred stocks among large-caps.

KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
INFO IN	720	860	ADD
HCLT IN	1,148	1,260	BUY

Price & Target in Rupees



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)

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