

RESEARCH

Bajaj Finance | Target: Rs 3,000 | +29% | BUY

Covid-19 to hurt loan growth; recovery only in H2FY22

Pharmaceuticals | Q4FY20 Preview

Good Q4 for DRRD, LPC, DIVI, Laurus; FY21 guidance key to watch

SUMMARY

Bajaj Finance

We expect the Covid-19 crisis to disrupt credit growth in FY21 as lenders turn cautious and customers pare discretionary spends. Growth for Bajaj Finance (BAF) could taper to 11% in FY21 and normalise only by H2FY22, in our view. Pricing power and spreads should remain stable, but we expect higher opex and delinquencies in the next 12-15 months, leading us to raise FY21/FY22 credit cost estimates to 330bps/280bps. We cut FY20/FY21/FY22 earnings by 4%/31%/26% and revise our Mar'21 TP down to Rs 3,000 (vs. Rs 5,200).

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

Pharmaceuticals: Q4FY20 Preview

We expect DRRD, LPC (Levo ramp-up + Losartan/HCTZ), and DIVI (leverage post FDA audit) to report a good quarter, with higher margins QoQ for LPC/DIVI (decline for DRRD on R&D cost increase). US sales QoQ should rise 7-13% for DRRD/LPC, stay stable for ARBP/SUNP, and fall 7% for Cipla. Q4 is seasonally soft for India sales; expect 10% YoY growth. The Covid-19 impact across markets could reflect from Q1FY21. Laurus should see its best-ever quarter. On forex (avg. basis), the USD is favourable (+3% QoQ); EMs are weak (RUB -3%, ZAR -8%).

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	570
Eicher Motors	Buy	25,000
Petronet LNG	Buy	330
Reliance Industries	Buy	1,500

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	205
Laurus Labs	Buy	510
Transport Corp	Buy	355
Ashok Leyland	Sell	64

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.71	4bps	(5bps)	(179bps)
India 10Y yield (%)	6.42	11bps	23bps	(96bps)
USD/INR	75.63	0.7	(2.5)	(9.1)
Brent Crude (US\$/bbl)	31.87	(3.6)	(29.6)	(54.9)
Dow	22,654	(0.1)	(12.4)	(13.4)
Shanghai	2,821	2.1	(7.0)	(12.9)
Sensex	30,067	9.0	(20.0)	(22.8)
India FII (US\$ mn)	3 Apr	MTD	CYTD	FYTD
FII-D	(160.9)	(160.9)	(9,920.4)	(160.9)
FII-E	(296.5)	(296.5)	(6,899.5)	(296.5)

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



BUY

TP: Rs 3,000 | ▲ 29%

BAJAJ FINANCE

| NBFC

| 08 April 2020

Covid-19 to hurt loan growth; recovery only in H2FY22

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Shubhramshu Mishra

research@bobcaps.in

Weak FY21; growth to normalise in H2FY22: We forecast 11%/23% AUM growth for BAF in FY21/FY22 vs. 30%/30% earlier. In our view, the coronavirus impact would be felt over FY21-H1FY22, impeding both supply (as lenders turn cautious) and demand for credit (as customers defer or curb discretionary spend).

Stable pricing power and spreads: Despite stricter credit screens in FY21, we expect BAF to maintain pricing power across segments (ex-mortgages) as competition weakens. We model for stable spreads of ~9% through to FY22 due to the company's diverse sources of funding and surplus systemic liquidity.

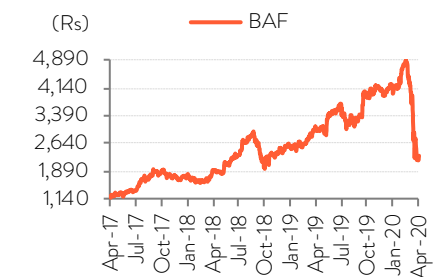
Higher opex and credit cost: BAF's collection infrastructure is robust but designed for 7-10% bounce rates. Amid the current crisis, the company has seen a 2.5x surge in bounce rates and hence will have to spend more for collections – this will more than nullify the guided 7-8% reduction in fixed cost. We raise FY21/FY22 credit cost estimates to 330bps/280bps and lower PAT to Rs 57bn/Rs 78bn.

Maintain BUY: While we cut FY20/FY21/FY22 earnings estimates by 4%/31%/26%, we repose confidence in the BAF management which has weathered the retail NPA crisis of FY09-FY10 and demonstrated the ability to make timely course corrections.

Ticker/Price	BAF IN/Rs 2,333
Market cap	US\$ 18.4bn
Shares o/s	602mn
3M ADV	US\$ 128.0mn
52wk high/low	Rs 4,923/Rs 2,082
Promoter/FPI/DII	56%/22%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	69,716	97,252	130,454	155,022	186,367
NII growth (%)	42.2	39.5	34.1	18.8	20.2
Adj. net profit (Rs mn)	24,964	39,950	57,440	56,722	78,442
EPS (Rs)	43.4	69.3	95.5	94.3	130.4
P/E (x)	53.7	33.7	24.4	24.7	17.9
P/BV (x)	8.5	6.8	4.2	3.7	3.1
ROA (%)	3.4	3.8	4.0	3.2	3.8
ROE (%)	20.1	22.5	21.7	15.9	18.8

Source: Company, BOBCAPS Research



Good Q4 for DRRD, LPC, DIVI, Laurus; FY21 guidance key to watch

We expect DRRD, LPC (Levo ramp-up + Losartan/HCTZ), and DIVI (leverage post FDA audit) to report a good quarter, with higher margins QoQ for LPC/DIVI (decline for DRRD on R&D cost increase). US sales QoQ should rise 7-13% for DRRD/LPC, stay stable for ARBP/SUNP, and fall 7% for Cipla. Q4 is seasonally soft for India sales; expect 10% YoY growth. The Covid-19 impact across markets could reflect from Q1FY21. Laurus should see its best-ever quarter. On forex (avg. basis), the USD is favourable (+3% QoQ); EMs are weak (RUB -3%, ZAR -8%).

Vivek Kumar

research@bobcaps.in

Key to watch: FY21 guidance is key amidst Covid-19 disruptions. **(1) Alembic:** EU recovery, update on Sartans shortage. **(2) Aurobindo (ARBP):** Unit IV remediation, reinspection timelines for Unit 10/Eugia. **(3) Cipla:** Progress on Goa warning letter, update on key respiratory assets (gAdvair filing). **(4) Dr Reddy's (DRRD):** Cost control, China business, Srikulam/CTO6 remediation. **(5) Divi's (DIVI):** Covid-19 supply disruption, progress on capex, and CS ramp-up. **(6) Lupin (LPC):** Sequential EBITDA increase, update on Solosec, bEnbrel and gFostair in the EU (H1FY21), on gProAir (H1FY21), and FDA reinspection for Somerset/Goa sites. **(7) Laurus:** Hydroxychloroquine supply potential. **(8) Sun Pharma (SUNP):** Halol OAI update, specialty products, cost control.

RECOMMENDATION SNAPSHOT

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

FIG 1 – Q4FY20: US REVENUE EXPECTATIONS

(US\$ mn)	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20E	QoQ (%)	YoY (%)
ALPM	45	34	60	43	44	49	77	72	66	(8.9)	49.5
ALKEM	63	63	69	74	69	69	76	82	78	(5.1)	12.9
ARBP	272	283	318	338	352	384	405	418	415	(0.8)	17.8
CIPLA	104	101	108	118	162	160	136	133	123	(7.4)	(24.1)
DRRD	223	237	210	209	212	233	204	225	240	6.8	13.0
LPC	233	177	178	197	247	220	189	193	218	12.8	(11.8)
SUNP (ex-Taro)	200	225	183	186	264	259	179	203	210	3.0	(20.5)
TARO	175	155	159	176	180	161	161	148	155	5.0	(13.8)

Source: Company, BOBCAPS Research

FIG 2 – Q4FY20 PREVIEW: STRONG FOR DRRD, LPC, DIVI, LAURUS; IN-LINE FOR OTHERS

Companies	Sales (Rs mn)			EBITDA (Rs mn)			PAT (Rs mn)			EBITDA margin (%)		
	Q4FY20E	YoY (%)	QoQ (%)	Q4FY20E	YoY (%)	QoQ (%)	Q4FY20E	YoY (%)	QoQ (%)	Q4FY20E	Q4FY19	Q3FY20
ALPM	11,198	20.8	(7.4)	2,501	40.4	(23.1)	1,603	29.4	(31.7)	22.3	19.2	26.9
ALKEM	19,985	7.8	(8.4)	3,074	30.7	(32.2)	2,121	26.6	(44.5)	15.4	12.7	20.8
ARBP	60,619	14.5	2.8	12,366	16.6	2.4	7,264	16.2	2.3	20.4	20.0	20.5
CIPLA	43,159	(2.0)	(1.3)	7,385	(23.2)	(8.7)	3,389	(7.8)	(15.5)	17.1	21.8	18.5
DRRD	43,999	9.5	0.4	9,927	21.1	(2.6)	4,993	14.9	(33.5)	22.6	20.4	23.2
LPC	39,314	(10.8)	4.3	5,279	(39.5)	23.0	1,620	(43.6)	42.8	13.4	19.8	11.4
SUNP	81,774	16.1	1.7	14,930	56.8	(9.2)	9,096	31.2	9.3	18.3	13.5	20.4
DIVI	14,599	16.2	5.0	5,515	31.9	11.0	3,792	28.0	10.6	37.8	33.3	35.7
LAURUS	7,750	22.0	6.2	1,600	43.0	7.9	668	54.9	(9.2)	20.6	17.6	20.3
Sector Agg.	322,397	8.1	0.8	62,577	11.6	(4.2)	34,544	13.7	(10.0)	19.4	18.8	20.4

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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