

FIRST LIGHT

RESEARCH

Reliance Industries | Target: Rs 1,895 | -10% | SELL

Cyclicals and retail sink; RJio saves the day - downgrade to SELL

Ajanta Pharma | Target: Rs 1,730 | +14% | BUY

Solid beat on margins – set to normalise in coming quarters

SUMMARY

Reliance Industries

Key highlights from Reliance Industries' (RIL) Q1FY21 results: (a) EBITDA below estimates at Rs 169bn (-21% YoY), (b) cyclicals mixed – GRM at US\$ 6.3/bbl outperformed estimates while petchem EBITDA at Rs 44bn (-50% YoY) fell short, (c) retail EBITDA underperformed at Rs 10.8bn (-47% YoY) whereas RJio EBITDA was higher at Rs 78bn (+59% YoY) on better ARPU. RIL's valuation has run up to 18.5x FY22E EPS, pricing in the deleveraging. Downgrade from REDUCE to SELL, with a new Sep'21 TP of Rs 1,895 (vs. Rs 1,820) on rollover.

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

Ajanta Pharma

Ajanta Pharma (AJP) posted Q1 revenue/EBITDA growth of 9%/33% YoY to Rs 6.7bn/Rs 2.2bn. EBITDA margin expanded both YoY and QoQ to 33.4% due to higher gross margins and temporary reduction in SGA spends (lower travel/promotional costs amid lockdown). US and branded Africa sales were a beat while India/Asia was in line. Reported PAT stood at Rs 1.5bn. AJP is guiding for healthy operating leverage starting Q3. We retain BUY and roll over to a higher TP of Rs 1,730 (earlier Rs 1,650), based on 16x Sep'22E EV/EBITDA.

[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	780

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 (%)	0.57	0bps	(7bps)	(144bps)
India 10Y yield (%)	5.84	(1bps)	(8bps)	(53bps)
USD/INR	74.80	0.1	1.1	(8.7)
Brent Crude (US\$/bbl)	43.75	1.2	6.7	(32.9)
Dow	26,540	0.6	6.1	(1.2)
Shanghai	3,295	2.1	10.6	12.3
Sensex	38,071	(1.1)	8.2	1.6
India FII (US\$ mn)	28 Jul	MTD	CYTD	FYTD
FII-D	(33.0)	(210.0)	(14,492.0)	(4,732.5)
FII-E	24.5	1,124.7	(1,316.8)	5,286.2

Source: Bank of Baroda Economics Research

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SELL

TP: Rs 1,895 | ▼ 10%

RELIANCE INDUSTRIES

Oil & Gas

31 July 2020

Cyclicals and retail sink; RJio saves the day – downgrade to SELL

Key highlights from Reliance Industries' (RIL) Q1FY21 results: (a) EBITDA below estimates at Rs 169bn (-21% YoY), (b) cyclicals mixed – GRM at US\$ 6.3/bbl outperformed estimates while petchem EBITDA at Rs 44bn (-50% YoY) fell short, (c) retail EBITDA underperformed at Rs 10.8bn (-47% YoY) whereas RJio EBITDA was higher at Rs 78bn (+59% YoY) on better ARPU. RIL's valuation has run up to 18.5x FY22E EPS, pricing in the deleveraging. Downgrade from REDUCE to SELL, with a new Sep'21 TP of Rs 1,895 (vs. Rs 1,820) on rollover.

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Cyclical earnings remain under pressure: Reported GRMs outperformed at US\$ 6.3/bbl as RIL maximised utilisation and raised light distillate output. Benchmark GRMs remain negative, implying another muted quarter in Q2 – this raises downside risk to our US\$ 9/bbl GRM estimate for FY21. Demand erosion due to the Covid-19 pandemic continues to pressurise cyclicals. Petchem EBITDA at Rs 44bn underperformed estimates due to lower polyester chain deltas. We remain cautious on cyclicals as margin recovery may be pushed back to FY22 (from earlier expectations of H2FY21).

Ticker/Price	RIL IN/Rs 2,109
Market cap	US\$ 190.5bn
Shares o/s	6,762mn
3M ADV	US\$ 526.8mn
52wk high/low	Rs 2,199/Rs 876
Promoter/FPI/DII	49%/24%/27%

Source: NSE

RJio earnings surge; retail slumps: ARPU expansion to Rs 140.3 (+7% QoQ) with in-line subscriber additions (9.9mn) led to higher EBITDA for RJio at Rs 78bn. A rise in average data consumption (~9% QoQ) during the lockdown was a primary factor in ARPU expansion. Retail business EBITDA at Rs 10.8bn (-47% YoY) was in line, slumping due to a decline in revenues for the fashion & lifestyle and consumer electronic segments.

STOCK PERFORMANCE



Deleveraging well priced in: We need to see earnings traction from RIL to justify the recent surge in stock price. While the company's Rs 2tn fund raise (of which Rs 1.5tn was from RJio) is extraordinary, delay in the oil-to-chemicals stake sale to Aramco is a dampener. The outlook can change significantly if RIL is able to execute RJio-style strategic stake sales for its retail business.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	5,830,940	6,116,450	3,785,945	4,794,554	4,604,317
EBITDA (Rs mn)	841,670	882,170	938,561	1,412,455	1,729,258
Adj. net profit (Rs mn)	400,860	443,240	484,225	771,058	1,016,206
Adj. EPS (Rs)	59.3	65.6	71.6	114.0	150.3
Adj. EPS growth (%)	13.6	10.6	9.2	59.2	31.8
Adj. ROAE (%)	11.7	11.1	10.5	13.8	15.9
Adj. P/E (x)	35.6	32.2	29.4	18.5	14.0
EV/EBITDA (x)	19.2	18.6	18.1	11.9	9.5

Source: Company, BOBCAPS Research



BUY

TP: Rs 1,730 | ▲ 14%

AJANTA PHARMA

Pharmaceuticals

30 July 2020

Solid beat on margins – set to normalise in coming quarters

Ajanta Pharma (AJP) posted Q1 revenue/EBITDA growth of 9%/33% YoY to Rs 6.7bn/Rs 2.2bn. EBITDA margin expanded both YoY and QoQ to 33.4% due to higher gross margins and temporary reduction in SGA spends (lower travel/promotional costs amid lockdown). US and branded Africa sales were a beat while India/Asia was in line. Reported PAT stood at Rs 1.5bn. AJP is guiding for healthy operating leverage starting Q3. We retain BUY and roll over to a higher TP of Rs 1,730 (earlier Rs 1,650), based on 16x Sep'22E EV/EBITDA.

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US/Africa branded sales beat estimates; India/Asia in line: India sales declined 10% YoY due to the Covid-19 impact on the acute portfolio, especially in dermatology and ophthalmology (guided to recover from Q3 onward). In export formulations, branded Africa/Asia sales grew at a healthy 17%/28% YoY. We continue to see good visibility in exports with two blocks operationalised in Q4. US sales were at US\$ 20mn (flat QoQ) despite the Ranitidine recall.

Ticker/Price	AJP IN/Rs 1,512
Market cap	US\$ 1.8bn
Shares o/s	88mn
3M ADV	US\$ 3.8mn
52wk high/low	Rs 1,580/Rs 825
Promoter/FPI/DII	71%/9%/9%

Source: NSE

EBITDA margin beat partly sustainable: Q1 gross margin surged 3ppt QoQ to 77% and includes positive forex impact of 1.5ppt. Also, SGA/R&D cost fell 12%/23% YoY due to lower activity during the Covid lockdown. This led to a strong EBITDA margin of 33.4% (24.8% est.). Margins would moderate from Q2 as lockdown restrictions ease and travel/promotional spends normalise.

STOCK PERFORMANCE



Retain BUY: We expect a stable brand franchise (India and EM), US operating leverage and capex moderation to drive a 15%+ EPS CAGR for AJP over FY20-FY23. With over 75% of FY21/FY22 EPS estimated to accrue from the branded business, improving FCF and 30%+ ROIC beyond FY22E, the stock has scope for valuation upsides. We marginally tweak FY21/FY22 EPS estimates on higher tax guidance of 28% (vs. 26% earlier) and roll forward to a TP of Rs 1,730.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	20,553	25,878	27,680	31,375	35,364
EBITDA (Rs mn)	5,653	6,944	7,437	8,676	10,029
Adj. net profit (Rs mn)	3,869	4,082	4,767	5,981	7,263
Adj. EPS (Rs)	44.1	46.6	54.4	68.2	82.8
Adj. EPS growth (%)	(17.4)	5.5	16.8	25.5	21.4
Adj. ROAE (%)	17.8	16.6	16.7	18.2	19.1
Adj. P/E (x)	34.3	32.5	27.8	22.2	18.3
EV/EBITDA (x)	23.3	19.0	17.7	15.0	12.8

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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