

FIRST LIGHT

RESEARCH

Reliance Industries | Target: Rs 1,515 | +3% | ADD

RJio, Retail drive earnings; cut to ADD on limited upside

Tech Mahindra | Target: Rs 570 | +4% | REDUCE

Miss on all counts

Laurus Labs | Target: Rs 630 | +23% | BUY

Good beat; firm FY21 outlook - target raised to Rs 630

Building Materials

Gulf anti-dumping levy to hit ceramic tile producers

SUMMARY

Reliance Industries

Key highlights from Reliance Industries' (RIL) Q4FY20 results: (a) Reported GRMs surprised on the higher side, at US\$ 8.9/bbl (US\$ 7.1 estimated), while petchem EBITDA underperformed. (b) EBITDA for retail missed estimates; RJio was in line. RIL reassured investors of its commitment to deleveraging, outlining plans to raise Rs 1tn (Rs 540bn rights issue, Rs 430bn Facebook deal). We reset our Mar'21 TP from Rs 1515 (from 1550) to factor in the equity dilution and higher debt reduction. The recent stock run-up caps upsides; cut from BUY to ADD.

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

Tech Mahindra

Tech Mahindra (TECHM) posted a 4.3% QoQ dollar revenue decline and 200bps EBITDA margin contraction to round off a disappointing Q4FY20 performance. The communication vertical had its worst sequential decline since the GFC. The company continues to underperform peers, revealing a subpar revenue portfolio and operational vulnerability. We crop FY21/FY22 EPS by 28%/19% amid Covid-19 volatility, trim our target P/E to 11x (vs. 13x), and move to a new Mar'21 TP of Rs 570 (vs. Rs 840). Reiterate REDUCE.

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	570
Eicher Motors	Buy	18,100
Petronet LNG	Buy	330
Reliance Industries	Add	1,515

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	145
Laurus Labs	Buy	630
Transport Corp	Buy	255
Ashok Leyland	Reduce	43

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.63	1bps	(5bps)	(187bps)
India 10Y yield (%)	6.12	(1bps)	(2bps)	(129bps)
USD/INR	75.67	0.7	(1.0)	(8.8)
Brent Crude (US\$/bbl)	22.54	10.2	(9.6)	(68.8)
Dow	24,634	2.2	13.9	(6.8)
Shanghai	2,822	0.4	1.8	(8.3)
Sensex	32,720	1.9	9.7	(16.2)
India FII (US\$ mn)	28 Apr	MTD	CYTD	FYTD
FII-D	(82.4)	(747.7)	(10,507.2)	(747.7)
FII-E	6.4	(503.4)	(7,106.4)	(503.4)

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



Laurus Labs

Laurus Labs reported a strong operational beat of 8%/20%/41% on sales/EBITDA/ PBT in Q4. Key drivers were the synthesis and other API businesses, alongside stable gross margins of 50%. EBITDA stood at Rs 1.9bn with 22.8% margins. Benefit of HCQS supplies will reflect from Q1. Overall, Laurus expects to sustain the momentum in FY21, backed by strong order visibility in formulations. Focus on margins, return ratios and positive FCF continues. We raise FY21/FY22 EBITDA 4-5% and revise our Mar'21 TP from Rs 510 to Rs 630 (10x FY22E EV/EBITDA).

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

Building Materials

The GCC today imposed anti-dumping duty on ceramic tile imports from India and China from 6 June 2020 for five years. The duty on India is in the range of 17.6% to 106% with most companies at 41.2%; for China, this is between 23.5% and 76% with most players at 23.5%. The comparatively higher duty on India will dent competitiveness and potentially affect 35-40% (~Rs 40bn) of total exports from ceramic hub Morbi to Gulf countries, creating possible pricing pressure in domestic markets.

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

ADD

TP: Rs 1,515 | ▲ 3%

RELIANCE INDUSTRIES

Oil & Gas

02 May 2020

RJio, Retail drive earnings; cut to ADD on limited upside

Key highlights from Reliance Industries' (RIL) Q4FY20 results: (a) Reported GRMs surprised on the higher side, at US\$ 8.9/bbl (US\$ 7.1 estimated), while petchem EBITDA underperformed. (b) EBITDA for retail missed estimates; RJio was in line. RIL reassured investors of its commitment to deleveraging, outlining plans to raise Rs 1tn (Rs 540bn rights issue, Rs 430bn Facebook deal). We reset our Mar'21 TP from Rs 1515 (from 1550) to factor in the equity dilution and higher debt reduction. The recent stock run-up caps upsides; cut from BUY to ADD.

Rohit Ahuja | Harleen Manglani

research@bobcaps.in

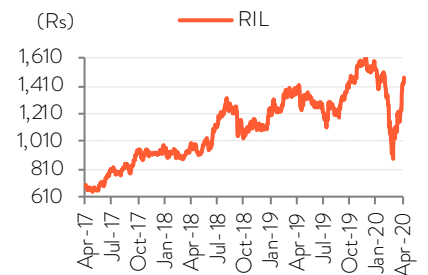
Inventory loss hits cyclical business earnings: Reported GRMs outperformed at US\$ 8.9/bbl as RIL maximised utilisation and raised light distillate output. However, GRMs do not factor in inventory loss of US\$ 4.3/bbl (reported in exceptional items below EBITDA). Adj. GRMs could therefore be well below our estimates, reflecting demand erosion due to the Covid-19 pandemic. A crash in polymer and polyester spreads has induced a decline in petchem EBITDA to Rs 59bn (-18% QoQ), coming in much below our estimates. Q1FY21 would likely be worse for cyclicals given the global economic shutdown.

Ticker/Price	RIL IN/Rs 1,466
Market cap	US\$ 122.6bn
Shares o/s	6,339mn
3M ADV	US\$ 292.7mn
52wk high/low	Rs 1,618/Rs 876
Promoter/FPI/DII	50%/24%/26%

Source: NSE

Robust performance across consumer businesses: RJio ARPU improved to Rs 131 (+1.7% QoQ), with slightly better subscriber additions (~18mn), leading to in-line EBITDA. Rising data consumption (~25%) during the economic lockdown could boost Q1FY21 earnings. Retail business EBITDA at Rs 26bn (+33% YoY) underperformed marginally. Q1 is expected to be worse for retail, with only the grocery segment running partial operations during the lockdown.

STOCK PERFORMANCE



Source: NSE

Fundraising plans put deleveraging on track: RIL plans to raise Rs 540bn through a rights issue. This coupled with the Rs 430bn Facebook and Rs 70bn BP deals offers assurance of a ~Rs 1tn fund raise in Q1FY21. We thus increase our FY21 debt reduction estimate by Rs 500bn. In an update on the US\$ 15bn Saudi Aramco stake sale, RIL stated that due diligence was being conducted.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	4,082,650	5,830,940	6,116,450	3,697,210	4,507,796
EBITDA (Rs mn)	641,760	841,670	882,170	948,636	1,378,438
Adj. net profit (Rs mn)	352,869	400,860	443,240	421,312	748,947
Adj. EPS (Rs)	52.2	59.3	65.6	62.3	110.8
Adj. EPS growth (%)	17.4	13.6	10.6	(4.9)	77.8
Adj. ROAE (%)	12.7	11.7	11.1	9.2	13.6
Adj. P/E (x)	28.1	24.7	22.4	23.5	13.2
EV/EBITDA (x)	17.4	13.3	13.0	12.6	8.8

Source: Company, BOBCAPS Research



REDUCE

TP: Rs 570 | ▲ 4%

TECH MAHINDRA

| IT Services

| 01 May 2020

Miss on all counts

Tech Mahindra (TECHM) posted a 4.3% QoQ dollar revenue decline and 200bps EBITDA margin contraction to round off a disappointing Q4FY20 performance. The communication vertical had its worst sequential decline since the GFC. The company continues to underperform peers, revealing a subpar revenue portfolio and operational vulnerability. We crop FY21/FY22 EPS by 28%/19% amid Covid-19 volatility, trim our target P/E to 11x (vs. 13x), and move to a new Mar'21 TP of Rs 570 (vs. Rs 840). Reiterate REDUCE.

Ruchi Burde | Seema Nayak

research@bobcaps.in

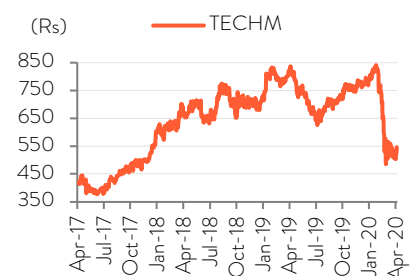
Dull quarter: TECHM reported a disappointing Q4 operating performance with a hefty miss on revenue and operating margins. Revenue at US\$ 1.3bn declined 4.3% QoQ – marking the highest sequential contraction since the 2008 crisis. EBITDA margin at 14.2% was down 200bps QoQ, erasing all recovery progress made after the Mar'17 quarter (when margins had dropped to 12%). We highlight that margin contraction is despite a ~290bps QoQ tailwind from subcontract expense reduction.

Worst communication business performance since GFC: Revenue from the communication vertical contracted 8.4% QoQ – the highest sequential decline post-GFC. BFSI revenue growth at 10.9% QoQ was the only pocket of strength, supported by ramp-up of the Jackson Life Insurance contract won in the Dec'19 quarter. Top 5 client revenue contracted 8.2% QoQ, reflecting communication vertical weakness.

Subdued deal wins: Q4FY20 TCV stood at US\$ 505mn. Deal wins normalised after two quarters of record US\$ 1bn+ figures. Management expects delays in deal ramp-ups and more pronounced operational weakness in the Jun'20 quarter.

Ticker/Price	TECHM IN/Rs 546
Market cap	US\$ 6.3bn
Shares o/s	873mn
3M ADV	US\$ 31.0mn
52wk high/low	Rs 847/Rs 471
Promoter/FPI/DII	36%/39%/25%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	3,07,729	3,47,421	3,68,677	3,68,578	4,04,408
EBITDA (Rs mn)	47,169	63,368	57,261	58,237	71,811
Adj. net profit (Rs mn)	38,001	42,975	42,505	35,646	45,614
Adj. EPS (Rs)	42.7	47.7	48.3	40.5	51.9
Adj. EPS growth (%)	33.6	11.9	1.2	(16.1)	28.0
Adj. ROAE (%)	21.0	21.4	19.8	15.4	18.0
Adj. P/E (x)	12.8	11.4	11.3	13.5	10.5
EV/EBITDA (x)	9.7	7.4	8.2	8.1	6.4

Source: Company, BOBCAPS Research



BUY

TP: Rs 630 | ▲ 23%

LAURUS LABS

Pharmaceuticals

30 April 2020

Good beat; firm FY21 outlook – target raised to Rs 630

Laurus Labs reported a strong operational beat of 8%/20%/41% on sales/EBITDA/PBT in Q4. Key drivers were the synthesis and other API businesses, alongside stable gross margins of 50%. EBITDA stood at Rs 1.9bn with 22.8% margins. Benefit of HCQS supplies will reflect from Q1. Overall, Laurus expects to sustain the momentum in FY21, backed by strong order visibility in formulations. Focus on margins, return ratios and positive FCF continues. We raise FY21/FY22 EBITDA 4-5% and revise our Mar'21 TP from Rs 510 to Rs 630 (10x FY22E EV/EBITDA).

Vivek Kumar

research@bobcaps.in

FY20 impressive but FY21/FY22 can see equally strong growth: The shift towards a high-margin product mix led to an operationally strong FY20, with 58% EBITDA growth, 20% margins (+400bps over FY19) and 13% ROCE (+5ppt). This momentum is expected to sustain and predictability in the business has also risen substantially with the ex-ARV sales mix at 64% (vs. 39% in FY19). Further, a strong order book in FDF and non-ARV APIs (oncology, cardio-diabetic), TLE400/600mg FDA approvals in H1FY21, and offtake in non-Aspen CDMO contracts are key levers, driving ~20% EBITDA growth for FY20E-FY23E.

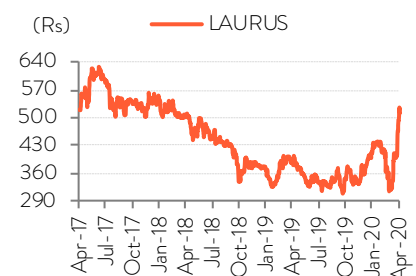
Formulations (FDF) execution remains key: In our view, FDF clocked >20% EBITDA margins in FY20 – we see expansion potential of at least 3-4ppt over the next 2-3 years as sales shift from EM-LMIC tenders to US and EU generics. With solid orders in hand, Laurus is doubling FDF capacity by FY22 via brownfield expansion (incurring Rs 3.3bn in capex for FY21 – ATR could be 1.5-2x). We expect US\$ 140mn/160mn of FDF sales in FY21/FY22.

Earnings call highlights: (1) Expect growth recovery in ARV business in FY21 as pricing has stabilised. (2) Strong Q4 margin led by product mix and volumes. (3) Working on Favipiravir APIs and formulations with a partner. (4) Oncology API sales growth to normalise from H1FY21. (5) announced stock split of 1:5.

Ticker/Price	LAURUS IN/Rs 513
Market cap	US\$ 726.3mn
Shares o/s	106mn
3M ADV	US\$ 2.0mn
52wk high/low	Rs 536/Rs 295
Promoter/FPI/DII	32%/37%/5%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	20,562	22,919	28,301	33,002	37,403
EBITDA (Rs mn)	4,134	3,560	5,607	6,768	7,973
Adj. net profit (Rs mn)	1,483	937	2,582	2,968	3,587
Adj. EPS (Rs)	13.9	8.8	24.3	27.9	33.7
Adj. EPS growth (%)	(10.8)	(36.8)	175.5	14.9	20.9
Adj. ROAE (%)	10.5	6.2	15.4	15.3	16.0
Adj. P/E (x)	36.8	58.2	21.1	18.4	15.2
EV/EBITDA (x)	15.5	18.1	11.6	9.8	8.4

Source: Company, BOBCAPS Research



BUILDING MATERIALS

30 April 2020

Gulf anti-dumping levy to hit ceramic tile producers

The GCC today imposed anti-dumping duty on ceramic tile imports from India and China from 6 June 2020 for five years. The duty on India is in the range of 17.6% to 106% with most companies at 41.2%; for China, this is between 23.5% and 76% with most players at 23.5%. The comparatively higher duty on India will dent competitiveness and potentially affect 35-40% (~Rs 40bn) of total exports from ceramic hub Morbi to Gulf countries, creating possible pricing pressure in domestic markets.

Tile exports to Gulf countries to face pressure: Higher anti-dumping duty (ADD) of ~41% on most Indian ceramic tile players vs. ~24% for a bulk of Chinese players imposed by the Gulf Cooperation Council (GCC) will make Indian exporters less competitive and lead to market share losses in Gulf countries such as Saudi Arabia, UAE, Bahrain, Kuwait, Oman and Qatar. The ADD imposed on Indian companies is broadly similar to the levies proposed in Nov'19 despite industry representation to the council.

Morbi players to feel the heat: GCC countries account for 35-40% of the total exports (~Rs 120bn as per industry reports) from India's largest tile manufacturing hub of Morbi in Gujarat. About 400 of the ~850 units in Morbi are estimated to sell to Gulf countries. Rising exports from India had enabled Morbi players to stay afloat despite recent headwinds from lower domestic demand, the ban on coal gasifiers (leading to higher cost of production), and increased compliance requirements. Now with exports to GCC also facing pressure due to higher ADD, many Morbi players would be hit hard.

Domestic tile prices may weaken: Morbi players have been focusing on exports to markets outside the GCC such as the US and Indonesia for a while now, but it may not be possible to immediately replace the loss in demand from Gulf countries. Some companies may thus look to sell their production in India, creating pricing pressure in a market that is already seeing subdued demand, whereas others could shut shop as business becomes unviable. However, most Morbi producers do not have a wide distribution network and thus we see limited pricing pressures on bigger organised, branded players such as Kajaria Ceramics and Somany Ceramics.

Arun Baid

research@bobcaps.in

KEY RECOMMENDATIONS

Ticker	Rating
KJC IN	BUY
SOMC IN	BUY



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 30 April 2020, out of 91 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 57 have BUY ratings, 17 have ADD ratings, 9 are rated REDUCE, 7 are rated SELL and 1 is UNDER REVIEW. 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.