

FIRST LIGHT

RESEARCH

Bharat Petroleum Corp | Target: Rs 470 | +32% | BUY

Inventory losses sink earnings

Aurobindo Pharma | Target: Rs 900 | +19% | BUY

Strong Q4; upside risk to EPS can support higher multiple

Lupin | Target: Rs 960 | +6% | ADD

Lupin/Mylan win approval for biosimilar Enbrel in Europe

Transport Corp of India | Target: Rs 240 | +50% | BUY

Difficult Q4; growth recovery a few quarters away

SUMMARY

Bharat Petroleum Corp

BPCL reported a Q4FY20 EBITDA loss of Rs 6.2bn owing to inventory/forex losses of Rs 49bn/Rs 121bn. Adj. GRMs outperformed at US\$ 7.2/bbl (ex-inventory loss) while adj. marketing segment EBITDA – inferred after factoring in GRM data – was in line at Rs 21bn. We cut FY21/FY22 earnings by ~17% each on higher interest costs due to a surge in working capital. Our Mar'21 TP remains unchanged at Rs 470. BPCL's fundamentals could see a sharp revival from Q2FY21. Reiterate BUY on attractive valuations.

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

Aurobindo Pharma

Revenue/EBITDA beat estimates by 2%/9% led by strong sales (ex-US) and gross margin expansion. Injectable sales fell QoQ but should recover Q1 onwards. Net debt has reduced further by US\$ 84mn (~US\$ 350mn in FY20). Management sees limited impact from Covid-19 in FY21 and believes overall US momentum and gross margins of 58-59% would sustain. FDA inspection of Unit 7 and Eugia are key near-term events. We increase FY21/FY22 EPS by 11-17%. Retain BUY with a revised Mar'21 TP of Rs 900 based on 10x EV/EBITDA (7x earlier).

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

TOP PICKS

LARGE-CAP IDEAS

| Company | Rating | Target |
|-------------------------------|--------|--------|
| Bajaj Finance | Buy | 3,000 |
| Cipla | Buy | 690 |
| Eicher Motors | Buy | 18,100 |
| GAIL | Buy | 140 |
| Petronet LNG | Buy | 330 |

MID-CAP IDEAS

| Company | Rating | Target |
|-------------------------------------|--------|--------|
| Alkem Labs | Buy | 2,870 |
| Greenply Industries | Buy | 145 |
| Laurus Labs | Buy | 630 |
| Muthoot Finance | Buy | 950 |
| Transport Corp | Buy | 240 |

Source: BOBCAPS Research

DAILY MACRO INDICATORS

| Indicator | Current | 2D (%) | 1M (%) | 12M (%) |
|------------------------|---------|---------|------------|-----------|
| US 10Y yield (%) | 0.77 | 9bps | 5bps | (141bps) |
| India 10Y yield (%) | 6.03 | 3bps | (7bps) | (94bps) |
| USD/INR | 75.48 | (0.2) | (0.6) | (9.1) |
| Brent Crude (US\$/bbl) | 38.92 | 0.1 | 44.9 | (37.5) |
| Dow | 26,270 | 2.0 | 7.4 | 2.6 |
| Shanghai | 2,923 | 0.1 | 1.9 | 0.9 |
| Sensex | 34,110 | 0.8 | (1.2) | (17.3) |
| India FII (US\$ mn) | 2 Jun | MTD | CYTD | FYTD |
| FII-D | 14.6 | 37.6 | (14,017.7) | (4,258.2) |
| FII-E | 918.5 | 1,962.4 | (2,952.2) | 3,650.8 |

Source: Bank of Baroda Economics Research

BOBCAPS Research

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Lupin

Lupin (LPC) and partner Mylan have secured centralised marketing approval for Nepexto (biosimilar Etanercept) for European markets. This features among the key product catalysts for LPC and forms part of our FY21 estimates. LPC expects to launch Nepexto in H2CY20. The addressable market size of the Enbrel brand (Etanercept) for Europe is estimated at ~US\$ 1.5bn (2019). So far, two biosimilars have already been approved: Biogen (2016) and Sandoz (2017). LPC will be the third player to enter this market. With low probability of early follow-on competition in EU markets, this could be a good limited competition opportunity for LPC for the next 12-18 months at least, in our view. Our model assumes roughly US\$ 40mn in annualised sales potential for the company.

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

Transport Corp of India

Transport Corp's (TRPC) Q4FY20 consolidated revenue/EBITDA declined 10%/ 26% YoY, in line with our estimates. Movement restrictions imposed in late-March had a ~Rs 1bn impact on the Q4 topline, per management, and are likely to exact a heavier toll in Q1FY21. Notwithstanding near-term hurdles, we expect TRPC to benefit from (1) the shift towards alternate modes of transport (rail, shipping), (2) its unparallel multi-modal capabilities, and (3) rising logistics outsourcing. We lower our TP to Rs 240 (vs. Rs 255) as we prune FY21-FY22 EPS 5-6%.

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

BUY

TP: Rs 470 | ▲ 32%

**BHARAT PETROLEUM
CORP**

| Oil & Gas

| 04 June 2020

Inventory losses sink earnings

BPCL reported a Q4FY20 EBITDA loss of Rs 6.2bn owing to inventory/forex losses of Rs 49bn/Rs 121bn. Adj. GRMs outperformed at US\$ 7.2/bbl (ex-inventory loss) while adj. marketing segment EBITDA – inferred after factoring in GRM data – was in line at Rs 21bn. We cut FY21/FY22 earnings by ~17% each on higher interest costs due to a surge in working capital. Our Mar'21 TP remains unchanged at Rs 470. BPCL's fundamentals could see a sharp revival from Q2FY21. Reiterate BUY on attractive valuations.

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GRMs outperform: BPCL's GRMs came in ahead of expectations at US\$ 7.2/bbl (ex-inventory loss of US\$ 6.4/bbl), beating the Singapore benchmark. This was driven by US\$ 5-7/bbl of discounts on the Middle East crude purchase portfolio (~60% of total crude purchase) received in Feb-Mar'20. Most of the inventory losses could be reversed in Q1FY21 considering the recent rally in oil prices. While benchmark global GRMs remain muted, margins for BPCL (and other OMC peers) may continue to outperform given repeat discounts on crude in the Apr-May'20 period.

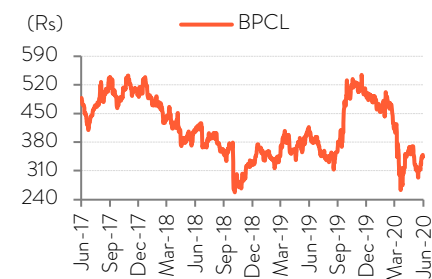
Marketing business earnings muted: Q4 marketing business earnings (implied from GRM data) were muted at Rs 21bn (~Rs 1,890/mt, ex-Rs 19bn of inventory loss). Recent hikes in excise duties and the surge in oil price have reversed the extraordinarily high margins seen in Apr-May'20. Sale volumes were in line at 10.73mmt (-5.5% YoY vs. -3.1% for industry), with market share losses in diesel and other industrial products. Margin trends are in line with our FY21/FY22 estimates.

Maintain BUY: At 7.4x FY22E EBITDA, BPCL's valuations remain at a premium to OMC peers, but the stock looks lucrative given potential cash proceeds from divestment of Numaligarh Refinery (Rs 15bn PAT in FY20) in Dec'20E.

| | |
|------------------|----------------|
| Ticker/Price | BPCL IN/Rs 357 |
| Market cap | US\$ 9.3bn |
| Shares o/s | 1,967mn |
| 3M ADV | US\$ 45.4mn |
| 52wk high/low | Rs 549/Rs 252 |
| Promoter/FPI/DII | 53%/12%/35% |

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

| Y/E 31 Mar | FY18A | FY19A | FY20P | FY21E | FY22E |
|-------------------------|-----------|-----------|-----------|-----------|-----------|
| Total revenue (Rs mn) | 2,357,698 | 2,982,256 | 2,845,719 | 2,162,306 | 2,623,385 |
| EBITDA (Rs mn) | 151,727 | 151,122 | 83,490 | 141,962 | 157,886 |
| Adj. net profit (Rs mn) | 97,919 | 85,278 | 34,851 | 88,533 | 92,917 |
| Adj. EPS (Rs) | 49.8 | 43.4 | 17.7 | 45.0 | 47.2 |
| Adj. EPS growth (%) | 3.0 | (12.9) | (59.1) | 154.0 | 5.0 |
| Adj. ROAE (%) | 29.0 | 21.8 | 8.8 | 22.8 | 22.5 |
| Adj. P/E (x) | 7.2 | 8.2 | 20.2 | 7.9 | 7.6 |
| EV/EBITDA (x) | 6.4 | 7.0 | 13.1 | 8.5 | 8.6 |

Source: Company, BOBCAPS Research



BUY

TP: Rs 900 | ▲ 19%

AUROBINDO PHARMA

Pharmaceuticals

04 June 2020

Strong Q4; upside risk to EPS can support higher multiple

Revenue/EBITDA beat estimates by 2%/9% led by strong sales (ex-US) and gross margin expansion. Injectable sales fell QoQ but should recover Q1 onwards. Net debt has reduced further by US\$ 84mn (~US\$ 350mn in FY20). Management sees limited impact from Covid-19 in FY21 and believes overall US momentum and gross margins of 58-59% would sustain. FDA inspection of Unit 7 and Eugia are key near-term events. We increase FY21/FY22 EPS by 11-17%. Retain BUY with a revised Mar'21 TP of Rs 900 based on 10x EV/EBITDA (7x earlier).

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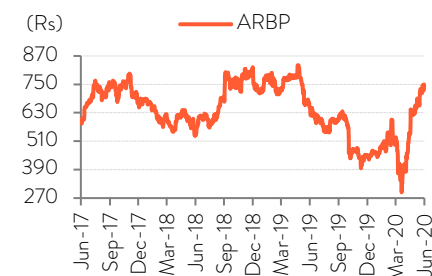
Strong sales ex-US, sharp uptick in gross margins – key positives: While headline US sales were in line at US\$ 415mn (flat QoQ), adjusting for lower injectable sales, oral solid dosage business increased 4-5% driven by baseline products. EU and EM (up 26-30% YoY) were a beat partly due to pre-buying. EBITDA margin expanded to 21.8% as gross margin stood strong at 59%, up 285bps QoQ (product mix, forex benefit, lower RM cost). Injectable sales fell 21% QoQ to US\$ 59mn due to fewer surgeries and Ertapenem competition.

| | |
|------------------|----------------|
| Ticker/Price | ARBP IN/Rs 759 |
| Market cap | US\$ 5.9bn |
| Shares o/s | 586mn |
| 3M ADV | US\$ 63.2mn |
| 52wk high/low | Rs 791/Rs 289 |
| Promoter/FPI/DII | 52%/19%/15% |

Source: NSE

Outlook intact: US sales should see decent growth in FY21 led by volume uptick in existing products and 50 (incl. injectable) launches excluding affected units. Next 2-3 years, company expect 50 filings annually with Gross margin of 58-59% in FY21. Net debt-free target revised to FY22 (from FY23). Demerged Biologics entity should start reflecting revenues from FY22. CAPA for Unit 7 was submitted yesterday and expect desktop reviews for Units 1, 9 and 11.

STOCK PERFORMANCE



Premium sustainable – BUY: Stock valuation has expanded ~50 % in last 2 months after Sandoz deal called-off (see our Apr'20 [Upgrade to BUY](#) report) and is now trading at 9x FY21E EBITDA (5Y band of 5-12x), ~20% above global peers. Strong US pipeline execution, wider portfolio and nimble supply chain can drive further upsides to our EPS, supporting a higher valuation multiple in the medium term.

KEY FINANCIALS

| Y/E 31 Mar | FY18A | FY19A | FY20P | FY21E | FY22E |
|-------------------------|---------|---------|---------|---------|---------|
| Total revenue (Rs mn) | 164,630 | 195,634 | 230,986 | 247,942 | 258,193 |
| EBITDA (Rs mn) | 37,718 | 39,519 | 48,640 | 50,916 | 53,049 |
| Adj. net profit (Rs mn) | 24,227 | 24,126 | 28,911 | 29,966 | 31,173 |
| Adj. EPS (Rs) | 41.3 | 41.2 | 49.3 | 51.1 | 53.2 |
| Adj. EPS growth (%) | 5.3 | (0.4) | 19.8 | 3.7 | 4.0 |
| Adj. ROAE (%) | 23.1 | 18.8 | 18.7 | 16.4 | 14.8 |
| Adj. P/E (x) | 18.4 | 18.4 | 15.4 | 14.8 | 14.3 |
| EV/EBITDA (x) | 12.7 | 12.1 | 10.0 | 9.5 | 8.8 |

Source: Company, BOBCAPS Research



ADD

TP: Rs 960 | ▲ 6%

LUPIN

Pharmaceuticals

04 June 2020

Lupin/Mylan win approval for biosimilar Enbrel in Europe

Event: Lupin (LPC) and partner Mylan have secured centralised marketing approval for Nepexto (biosimilar Etanercept) for European markets. This features among the key product catalysts for LPC and forms part of our FY21 estimates. The drug is approved for complete indications of the reference product, including moderate-to-severe rheumatoid arthritis, chronic moderate-to-severe plaque psoriasis and active psoriatic arthritis. LPC expects to launch Nepexto in H2CY20. The company earlier received a positive CHMP (Committee for Medicinal Products for Human Use) opinion on the product in Mar'20.

Product potential: The addressable market size of the Enbrel brand (Etanercept) for Europe is estimated at ~US\$ 1.5bn (2019). Currently, two biosimilars have already been approved: Biogen (2016) and Sandoz (2017). LPC will be the third player to enter this market.

With low probability of early follow-on competition in EU markets, this could be a good limited competition opportunity for LPC, in our view, at least for the next 12-18 months. Our model assumes roughly US\$ 40mn in annualised sales potential for the company. The calculation is based on 50% price erosion on the brand and a gradual 10% market share by FY22, implying sales of US\$ 80mn for Mylan. LPC has 50% share in the partnership.

Our view: We see multiple stock catalysts for FY21 which should support earnings and stock momentum in the midterm. These include (1) Levo ramp-up, (2) Albuterol approval in the US (expected in H1FY21), gFostair approval in the EU (expected in H2FY21), and (3) facility clearance for Gavis/Goa. Retain ADD with a Mar'21 TP of Rs 960 based on an EV/EBITDA multiple of 13x FY22E (implied P/E of 28x).

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| | |
|------------------|---------------|
| Ticker/Price | LPC IN/Rs 908 |
| Market cap | US\$ 5.4bn |
| Shares o/s | 453mn |
| 3M ADV | US\$ 43.5mn |
| 52wk high/low | Rs 919/Rs 505 |
| Promoter/FPI/DII | 47%/25%/12% |

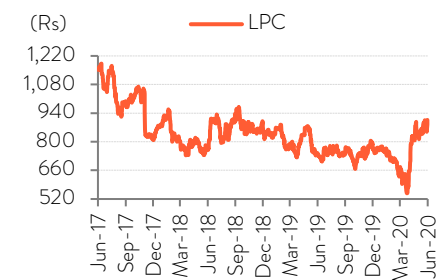
Source: NSE

KEY FINANCIALS

| Y/E 31 Mar | FY20P | FY21E | FY22E |
|-------------------------|---------|---------|---------|
| Total revenue (Rs mn) | 152,062 | 170,057 | 186,113 |
| EBITDA (Rs mn) | 23,578 | 28,123 | 33,501 |
| Adj. net profit (Rs mn) | 3,518 | 11,830 | 15,141 |
| Adj. EPS (Rs) | 7.8 | 26.1 | 33.5 |
| Adj. EPS growth (%) | (62.8) | 236.3 | 28.0 |
| Adj. ROAE (%) | 2.6 | 8.7 | 10.6 |
| Adj. P/E (x) | 116.7 | 34.7 | 27.1 |
| EV/EBITDA (x) | 19.6 | 15.4 | 12.0 |

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

[Click here for our last detailed report](#)


BUY

TP: Rs 240 | ▲ 50%

**TRANSPORT CORP OF
INDIA**

Logistics

04 June 2020

Difficult Q4; growth recovery a few quarters away

Transport Corp's (TRPC) Q4FY20 consolidated revenue/EBITDA declined 10%/26% YoY, in line with our estimates. Movement restrictions imposed in late-March had a ~Rs 1bn impact on the Q4 topline, per management, and are likely to exact a heavier toll in Q1FY21. Notwithstanding near-term hurdles, we expect TRPC to benefit from (1) the shift towards alternate modes of transport (rail, shipping), (2) its unparalleled multi-modal capabilities, and (3) rising logistics outsourcing. We lower our TP to Rs 240 (vs. Rs 255) as we prune FY21-FY22 EPS 5-6%.

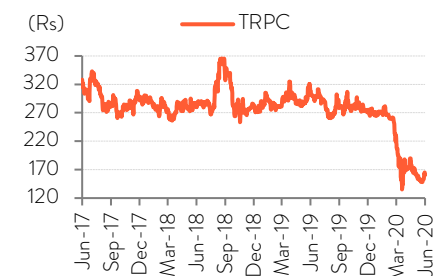
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Pain across segments: Freight/SCS/seaways revenue fell 2%/21%/4% YoY in Q4. Amid tough externalities, freight was relatively resilient as the topline drop was lower than peers (TCI Express: -10%). Plummeting volumes of the key auto vertical (~80% of topline) marred the SCS segment. Despite adding a ship in Q3 (28,500dwt), seaways revenue declined due to lower freight availability and pricing pressure owing to stiff competition on the west coast.

| | |
|------------------|----------------|
| Ticker/Price | TRPC IN/Rs 161 |
| Market cap | US\$ 162.7mn |
| Shares o/s | 77mn |
| 3M ADV | US\$ 0.1mn |
| 52wk high/low | Rs 315/Rs 122 |
| Promoter/FPI/DII | 67%/2%/9% |

Source: NSE

Margin contraction: EBITDA margin contracted 180bps YoY to 8.8% as operating expenses (+100bps YoY) and staff costs (+160bps) increased as a percentage of sales. Rising LTL share cushioned the EBIT margin drop in the freight segment (-50bps YoY). Seaways margin plummeted 550bps YoY as fuel costs rose 10-15% under the IMO 2020 regime. SCS margin contracted 270bps YoY to 5%, a multi-year low, due to lower absorption of fixed costs following a topline plunge.

STOCK PERFORMANCE

Source: NSE

Near-term headwinds: TRPC's Q1FY21 print is also likely to be marred by the lockdown-induced slowdown. Breakeven requires ~50% of the Q1FY20 topline which looks difficult even if TRPC achieves its targeted 15%/30%/60% activity in Apr/May/Jun. We expect growth recovery to begin in H2FY21 followed by a strong revival in FY22 (revenue/EBITDA growth of 18%/30%).

KEY FINANCIALS

| Y/E 31 Mar | FY18A | FY19A | FY20P | FY21E | FY22E |
|-------------------------|--------|--------|--------|--------|--------|
| Total revenue (Rs mn) | 23,499 | 27,536 | 27,178 | 25,117 | 29,545 |
| EBITDA (Rs mn) | 2,165 | 2,495 | 2,405 | 2,070 | 2,693 |
| Adj. net profit (Rs mn) | 1,238 | 1,460 | 1,531 | 958 | 1,401 |
| Adj. EPS (Rs) | 16.2 | 19.0 | 19.9 | 12.5 | 18.2 |
| Adj. EPS growth (%) | 52.4 | 17.7 | 4.6 | (37.4) | 46.3 |
| Adj. ROAE (%) | 17.6 | 17.7 | 16.0 | 9.0 | 12.0 |
| Adj. P/E (x) | 9.9 | 8.4 | 8.1 | 12.9 | 8.8 |
| EV/EBITDA (x) | 7.2 | 6.5 | 6.9 | 7.9 | 5.9 |

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)

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