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TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

09 August 2019

RESEARCH

Petronet LNG | Target: Rs 350 | +49% | BUY

HIGH CONVICTION

Margins normalise, volumes improve

Tech Mahindra | Target: Rs 660 | –2% | REDUCE

Subsidiary troubles afresh; cut to REDUCE

Aurobindo Pharma | Target: Rs 700 | +26% | BUY

Good beat; progress on facility issues & Sandoz are key catalysts

Lupin | Target: Rs 870 | +11% | ADD

Adj. EBITDA in line; US base trend to improve

Hexaware Technologies | Target: Rs 390 | +6% | ADD

Strong margin showing

SUMMARY

Petronet LNG

Petronet LNG (PLNG) reported a mixed Q1FY20 due to the new Ind-AS 116 lease standards, which led to higher EBITDA (Rs 10.3bn, +10% YoY) but lower PAT (Rs 5.6bn, –4.5% YoY). Volumes outperformed at 226tbtu (+2.6% YoY) on higher service offtake (+17% YoY). Excluding the new lease norms, per-unit EBITDA was in line at Rs 40/mmbtu and so was earnings at ~Rs 5.9bn. We trim FY20/FY21 EPS by 7%/9% to build in the Ind-AS 116 impact, and move forward to a revised Sep'20 TP of Rs 350 (from Rs 315).

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	595
GAIL*	Buy	245
ONGC	Buy	230
TCS	Add	2,360
HPCL	Sell	200

*GAIL target price is adjusted for the 1:1 bonus issue

MID-CAP IDEAS

Company	Rating	Target
Balkrishna Ind	Buy	1,290
Future Supply	Buy	715
Greenply Industries	Buy	245
Laurus Labs	Buy	480
PNC Infratech	Buy	235

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.71	(2bps)	(34bps)	(125bps)
India 10Y yield (%)	6.37	3bps	(20bps)	(141bps)
USD/INR	70.89	(0.1)	(3.3)	(3.3)
Brent Crude (US$/bbl)	56.23	(4.6)	(12.4)	(22.2)
Dow	26,007	(0.1)	(2.9)	1.7
Shanghai	2,769	(0.3)	(5.4)	0.9
Sensex	36,691	(0.8)	(5.3)	(3.2)
India FII (US$ mn)	**6 Aug**	**MTD**	**CYTD**	**FYTD**
FII-D	(44.0)	(73.5)	2,580.4	2,035.8
FII-E	(263.6)	(1,157.5)	8,247.1	1,401.9

Source: Bank of Baroda Economics Research

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Tech Mahindra

Tech Mahindra (TECHM) subsidiary Pininfarina (PINF) was a harbinger of growth for the company over the past two years, bringing in 16% of incremental FY19 revenue. PINF now expects revenue to shrink ~10% in CY19 with operating losses from the suspension of some auto deals amid global weakness. In our view, this will add to TECHM's struggles in the enterprise business and sharpen downside risks to growth We move from ADD to REDUCE and cut our Jun'20 TP to Rs 660 (vs. Rs 710) on a lower target P/E of 12x (vs. 13x).

Click here for the full report.

Aurobindo Pharma

Q1FY20 revenue/EBITDA beat estimates by 8%/10% spurred by strong US sales at US$ 384mn and 260bps gross margin expansion YoY and QoQ. Net debt has reduced by US$ 131mn QoQ following a drop in working capital in the US. Injectable sales were flat QoQ which should improve from Q3. Reinspection for three API units will take place post Dec'19 (CAPAs under implementation). We cut FY20/FY21 EPS by 2-3% to Rs 48/Rs 51, trim our EV/EBITDA multiple to 9x (vs. 10x) on FDA worries, and reset TP to Rs 700 (vs. Rs 810).

Click here for the full report.

Lupin

Q1 core EBITDA was in line at Rs 6bn, normalised for a temporary drop in SG&A spends and Ranexa FTF. As per LPC, US base revenue has stabilised at ~US$ 180mn for the last 3-4 quarters, with a likely uptick ahead from scale-up in Levo and 15 launches (incl. gProAir in Q4, a depo injectable in H2). India growth should continue at the Q1 rate of 10%; price disruption from Jan Aushadhi/ E-pharmacy should be limited at least for next 2 years. Goa/Indore remediation should take six months. Retain ADD with a revised TP of Rs 870 (vs. Rs 850).

Click here for the full report.

Hexaware Technologies

Hexaware's (HEXW) operating margins outperformed at 14.6% (+90bps QoQ vs. −30bps est.), taking the Jun'19 quarter ahead of expectations. Management pointed to stability in the BFSI segment as against a dull outlook earlier, though constraints in one large mortgage account led to a cut in CY20 revenue growth guidance from 20% to 19%. We tweak CY19/CY20/ CY21 EPS estimates by +5%/−1%/−1% and raise our TP to Rs 390 (Rs 370 earlier) on rolling valuations over to Jun'21. Retain ADD.

Click here for the full report.

BUY
TP: Rs 350 | ⮝ 49%

PETRONET LNG | Oil & Gas | 08 August 2019

Margins normalise, volumes improve

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Petronet LNG (PLNG) reported a mixed Q1FY20 due to the new Ind-AS 116 lease standards, which led to higher EBITDA (Rs 10.3bn, +10% YoY) but lower PAT (Rs 5.6bn, –4.5% YoY). Volumes outperformed at 226tbtu (+2.6% YoY) on higher service offtake (+17% YoY). Excluding the new lease norms, per-unit EBITDA was in line at Rs 40/mmbtu and so was earnings at ~Rs 5.9bn. We trim FY20/FY21 EPS by 7%/9% to build in the Ind-AS 116 impact, and move forward to a revised Sep'20 TP of Rs 350 (from Rs 315).

Buoyant volume outlook: PLNG's Q1 volumes beat estimates following a surge in service volumes (113tbtu, +16.5% YoY), while spot LNG offtake remained muted at 6tbtbu despite spot prices crashing 27% QoQ. Spot contracts were avoided by the company in a falling price environment to limit inventory losses.

The incremental 2.5mmtpa capacity at Dahej (commissioned in Jun'19) is operating at ~100%, benefitting from shutdown of the Dabhol LNG terminal (owned by GAIL) during the monsoons and low spot LNG prices. PLNG plans to unlock another 2mmtpa of capacity at Dahej in phases from 2021, through rollout of two storage tanks by FY23 (~Rs 6bn capex) and a third jetty by FY24.

EBITDA margins normalise; contracts lend floor to earnings: EBITDA surged 44% QoQ to Rs 9bn or Rs 40/mmbtu (on excluding ~Rs 1.2bn gain from Ind-AS 116). Beyond the existing ~17mmtpa of long-term contracts, PLNG has short-term contracts with OPAL (~0.5mmtpa) and Essar (~0.3mmtpa), yielding ~18mmtpa of volume visibility at Dahej. Kochi ramp-up to ~1.5mmtpa/2.2mmtpa is likely in FY20/FY21 post Kochi-Mangalore pipeline commissioning in Sep'19.

Maintain BUY: PLNG's fundamentals remain sound with structural improvement in EBITDA/mmbtu and 25%+ ROE over FY20-FY22E.

Ticker/Price	PLNG IN/Rs 236
Market cap	US$ 5.0bn
Shares o/s	1,500mn
3M ADV	US$ 9.5mn
52wk high/low	Rs 255/Rs 203
Promoter/FPI/DII	50%/26%/24%

Source: NSE

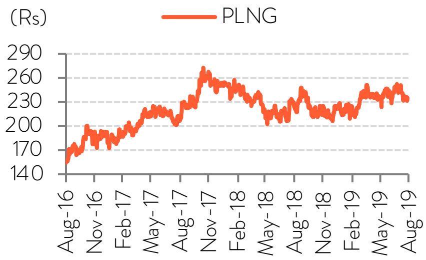
HIGH CONVICTION

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	20,779	21,554	26,455	30,123	36,796
Adj. EPS (Rs)	13.9	14.4	17.6	20.1	24.5
Adj. EPS growth (%)	21.8	3.7	22.7	13.9	22.2
Adj. ROAE (%)	23.3	21.6	24.5	25.2	27.1
Adj. P/E (x)	17.0	16.4	13.4	11.7	9.6
EV/EBITDA (x)	11.2	10.9	7.6	6.6	5.8

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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REDUCE
TP: Rs 660 | ⩒ 2%

TECH MAHINDRA | IT Services | 09 August 2019

Subsidiary troubles afresh; cut to REDUCE

Tech Mahindra (TECHM) subsidiary Pininfarina (PINF) was a harbinger of growth for the company over the past two years, bringing in 16% of incremental FY19 revenue. PINF now expects revenue to shrink ~10% in CY19 with operating losses from the suspension of some auto deals amid global weakness. In our view, this will add to TECHM's struggles in the enterprise business and sharpen downside risks to growth We move from ADD to REDUCE and cut our Jun'20 TP to Rs 660 (vs. Rs 710) on a lower target P/E of 12x (vs. 13x).

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Pininfarina – the erstwhile growth engine... Acquired in Dec'15, PINF has been a lynchpin of growth for TECHM over the last two years as its revenues increased at a 30.9% CAGR in dollar terms over FY17-FY19 vs. 6.9% for the company. Despite a relatively low revenue share (2.6% in FY19), we note that PINF accounted for ~16% of TECHM's incremental revenue in FY19 and more than a third of incremental revenue for the manufacturing vertical.

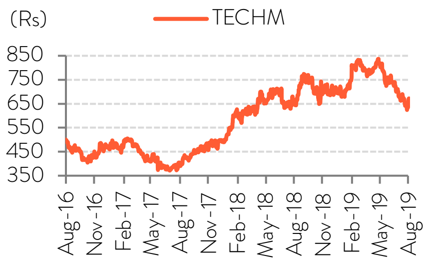
...now losing steam: While PINF started the year with a strong outlook, the suspension of some orders dented its H1CY19 performance – euro revenues declined 16% YoY accompanied by operational losses (EBIT margins of −4.09%). Consequently, it has cut its CY19 outlook and now expects a 10% revenue decline for the year with operational losses, against its earlier guidance of "consolidating the CY18 performance" (when euro revenues rose 21% YoY).

Slower enterprise growth recovery: The absence of growth traction in the manufacturing vertical (a third of enterprise business) raises the risk of laggardly recovery in the enterprise vertical (58.8% of FY19 revenues; down 2.2% YoY in Q1FY20, marking a second quarter of YoY decline). Considering the downside risks to growth as well as operating margins, we pare our target one-year forward P/E multiple to 12x (vs. 13x) and downgrade the stock to REDUCE.

Ticker/Price	TECHM IN/Rs 674
Market cap	US$ 8.3bn
Shares o/s	873mn
3M ADV	US$ 29.6mn
52wk high/low	Rs 847/Rs 607
Promoter/FPI/DII	36%/39%/25%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	38,001	42,975	40,882	46,456	53,065
Adj. EPS (Rs)	42.7	47.7	46.4	52.8	60.3
Adj. EPS growth (%)	33.6	11.9	(2.7)	13.6	14.2
Adj. ROAE (%)	21.0	21.4	18.6	19.0	19.4
Adj. P/E (x)	15.8	14.1	14.5	12.8	11.2
EV/EBITDA (x)	12.3	9.3	9.7	7.9	6.5

Source: Company, BOBCAPS Research

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BUY
TP: Rs 700 | ⮝ 26%

AUROBINDO PHARMA | Pharmaceuticals | 08 August 2019

Good beat; progress on facility issues & Sandoz are key catalysts

Q1FY20 revenue/EBITDA beat estimates by 8%/10% spurred by strong US sales at US$ 384mn and 260bps gross margin expansion YoY and QoQ. Net debt has reduced by US$ 131mn QoQ following a drop in working capital in the US. Injectable sales were flat QoQ which should improve from Q3. Reinspection for three API units will take place post Dec'19 (CAPAs under implementation). We cut FY20/FY21 EPS by 2-3% to Rs 48/Rs 51, trim our EV/EBITDA multiple to 9x (vs. 10x) on FDA worries, and reset TP to Rs 700 (vs. Rs 810).

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Strong gross margins backed by US sales: Aurobindo Pharma (ARBP) reported strong US sales of US$ 384mn, up 9% QoQ, led by higher volumes in OSDs and Valsartan. Spectrum contributed US$ 25mn in Q1. Gross margins were strong, rising 260bps to 57.8% (vs. 55.5% in FY19) on higher US contribution. Injectable sales stayed flat QoQ at US$ 67mn and management has guided for similar Q2 sales, but improvement in H2. Further, ARBP believes Eugia ramp-up and new approvals from Unit 4 should counter the generic impact in Ertapenem (another generic expected besides Apotex that launched in May'19).

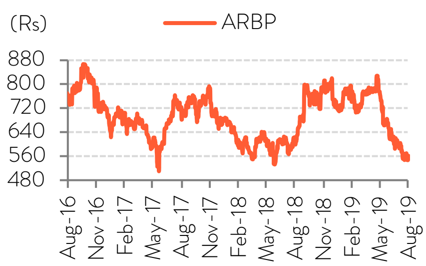
FDA worries could weigh on stock: We lower our EV/EBITDA multiple to 9x from 10x earlier and EPS estimates by 2-3% for FY20/FY21 to account for potential disruption in US sales from facility resolution delays. This results in a revised TP of Rs 700 (Rs 810 earlier). We retain BUY on favourable risk-reward as the stock appears to be pricing in the worst of the facility risk and some part of Unit 3 escalation. Overall, we expect US sales (ex-Sandoz) to log an ~8% CAGR for FY19-FY21, with combined sales of US$ 2.2bn in FY21.

Near-term downside risks: (1) adverse outcome of FDA inspection at formulation Unit 7 (10% of topline) and Unit 3, (2) Sandoz consolidation delays, (3) penalty risk from Aceto supply-chain sabotage claim (in District court).

Ticker/Price	ARBP IN/Rs 555
Market cap	US$ 4.6bn
Shares o/s	586mn
3M ADV	US$ 26.8mn
52wk high/low	Rs 838/Rs 537
Promoter/FPI/DII	52%/19%/15%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	24,227	24,126	28,087	29,815	30,290
Adj. EPS (Rs)	41.3	41.2	47.9	50.9	51.7
Adj. EPS growth (%)	5.3	(0.4)	16.4	6.2	1.6
Adj. ROAE (%)	23.1	18.8	18.5	16.8	14.8
Adj. P/E (x)	13.4	13.5	11.6	10.9	10.7
EV/EBITDA (x)	9.4	9.1	7.6	7.8	7.4

Source: Company, BOBCAPS Research

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ADD
TP: Rs 870 | 11%

LUPIN | Pharmaceuticals | 08 August 2019

Adj. EBITDA in line; US base trend to improve

Q1 core EBITDA was in line at Rs 6bn, normalised for a temporary drop in SG&A spends and Ranexa FTF. As per LPC, US base revenue has stabilised at ~US$ 180mn for the last 3-4 quarters, with a likely uptick ahead from scale-up in Levo and 15 launches (incl. gProAir in Q4, a depo injectable in H2). India growth should continue at the Q1 rate of 10%; price disruption from Jan Aushadhi/ E-pharmacy should be limited at least for next 2 years. Goa/Indore remediation should take six months. Retain ADD with a revised TP of Rs 870 (vs. Rs 850).

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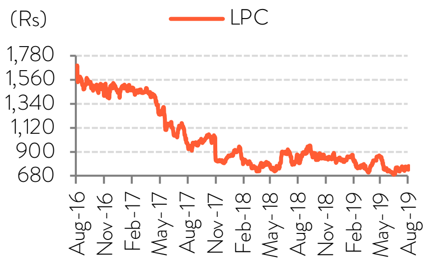
Ticker/Price	LPC IN/Rs 782
Market cap	US$ 5.0bn
Shares o/s	453mn
3M ADV	US$ 17.8mn
52wk high/low	Rs 986/Rs 697
Promoter/FPI/DII	47%/25%/12%

Source: NSE

STOCK PERFORMANCE



Source: NSE

Adj. EBITDA in line; launches to uplift US base trend: Revenue was a 3% beat, led by one month of Ranexa exclusivity sales (US$ 30mn sales). PAT was below estimates at Rs 3bn due to high tax. Postponement of SG&A spends drove a headline EBITDA beat of 16%. Adj. EBITDA, normalising for lower SG&A cost (Rs 700mn) and Ranexa, was in line at Rs 6bn. The US base business run-rate of US$ 180mn in Q1 should improve in the remaining 9M with additional capacity planned in Levo (expect 20% market share by Mar'20 from <5%), plus launch of the injectable portfolio from Sep'19 (incl. Fosaprepitant) and ProAir.

Earnings call takeaways: (1) Lupin has a direct-to-patient promotion strategy for Solosec to create awareness and hopes to break even in the next two years; it believes 15% market share is doable. (2) Launch timelines are delayed for gEnbrel in the EU to Q1FY21 (due to the need for additional PK studies) and ProAir to Q4FY20. (3) Additional work on OS investigation is in progress for the Goa/ Indore units – reinspection after Dec'19. (4) gSpiriva TAD is in Nov'20; at best an FY23 US launch, (5) US branded sales were US$ 5mn, up 40% QoQ.

Maintain ADD: We tweak estimates post Q1 and lower our target EV/EBITDA from 13x to 12x Sep'21E (implied P/E of 25x), as we align our multiple for India business to sector peers. We expect 25% EPS growth over FY19-FY21. ADD.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	17,137	9,464	10,319	14,809	17,125
Adj. EPS (Rs)	37.9	20.9	22.8	32.7	37.8
Adj. EPS growth (%)	(41.5)	(44.8)	9.0	43.5	15.6
Adj. ROAE (%)	12.6	6.9	7.4	10.3	11.3
Adj. P/E (x)	20.6	37.4	34.3	23.9	20.7
EV/EBITDA (x)	12.9	15.0	13.4	11.6	10.2

Source: Company, BOBCAPS Research

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ADD
TP: Rs 390 | ⮝ 6%

HEXAWARE TECHNOLOGIES

| IT Services | 09 August 2019

Strong margin showing

Hexaware's (HEXW) operating margins outperformed at 14.6% (+90bps QoQ vs. –30bps est.), taking the Jun'19 quarter ahead of expectations. Management pointed to stability in the BFSI segment as against a dull outlook earlier, though constraints in one large mortgage account led to a cut in CY20 revenue growth guidance from 20% to 19%. We tweak CY19/CY20/CY21 EPS estimates by +5%/–1%/–1% and raise our TP to Rs 390 (Rs 370 earlier) on rolling valuations over to Jun'21. Retain ADD.

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Beat on margins: HEXW's EBIT margins at 14.6% improved 90bps QoQ vs. our estimate of a 30bps QoQ decline. Revenue at US$ 188.5mn (+4.7% QoQ and 5% QoQ CC) was largely on par with our estimates, aided by ~US$ 3.5mn (or 190bps) in inorganic income.

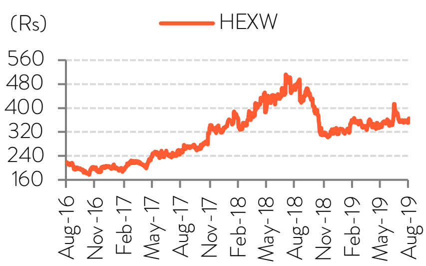
CY20 outlook pruned: Management lowered its CY19 revenue growth guidance a notch to 19% from 20% earlier to factor in rising challenges at one of its large secondary-mortgage industry clients. HEXW is still optimistic about achieving CY19 organic growth within its earlier stated range of 12-14%. Management expects Q3CY19 growth (including organic revenue) to be better than that in Q2 and hinted at the possibility of lower seasonal softness in Q4 as contracts won in recent quarters scale up.

Secular BFSI weakness subsides: Management sees improvement in the capital market and secondary mortgage segments after broad-based weakness had delayed budgetary allocation and slowed decision-making last quarter. At the moment, only one large secondary mortgage client is facing continued challenges due to internal top leadership changes. Management expects the non-BFSI vertical to accelerate further in H2CY19, surpassing the 17.3% YoY dollar revenue growth clocked in H1CY19.

Ticker/Price	HEXW IN/Rs 368
Market cap	US$ 1.6bn
Shares o/s	301mn
3M ADV	US$ 4.5mn
52wk high/low	Rs 501/Rs 294
Promoter/FPI/DII	71%/15%/14%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Dec	CY17A	CY18A	CY19E	CY20E	CY21E
Adj. net profit (Rs mn)	4,993	5,833	6,521	7,160	8,079
Adj. EPS (Rs)	16.6	19.3	21.6	23.7	26.7
Adj. EPS growth (%)	21.1	16.6	11.5	9.8	12.8
Adj. ROAE (%)	26.9	26.5	24.9	23.1	22.2
Adj. P/E (x)	22.2	19.0	17.0	15.5	13.8
EV/EBITDA (x)	16.2	14.4	12.2	10.0	8.4

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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