FIRST LIGHT

01 February 2021

RESEARCH

BOB Economics Research | Economic Survey 2020-21
Double digit growth in FY22

BOB Economics Research | 1st Re of National Income
FY20 growth revised to 4%

ICICI Bank | Target: Rs 675 | +26% | BUY
Stress manageable and provisioning comfortable

Sun Pharma | Target: Rs 630 | +7% | ADD
EBITDA beat ex-Taro; sustaining specialty recovery is key

Cipla | Target: Rs 1,000 | +21% | BUY
All-round beat; India delivers key surprise

IndusInd Bank | Target: Rs 1,100 | +30% | BUY
Gearing for growth; asset quality outlook improving

UPL | Target: Rs 725 | +29% | BUY
Mixed Q3; LATAM sales pushed to Q4 – growth tailwinds strong

Laurus Labs | Target: Rs 480 | +34% | BUY
Solid margins despite higher API mix – TP raised to Rs 480

Persistent Systems | Target: Rs 1,260 | –17% | SELL
IP business seasonality bolsters growth

eClerx Services | Target: Rs 950 | –4% | REDUCE
Upbeat quarter led by organic growth

Mahindra Logistics | Target: Rs 555 | +18% | BUY
Topline growth makes a stellar comeback

Pidilite Industries | Target: Rs 1,365 | –18% | SELL
Margin headwinds expected in the near future

Tech Mahindra | Target: Rs 1,130 | +18% | BUY
Communication leads growth driven by large 5G deal win

Dr Reddy's Labs | Target: Rs 5,200 | +13% | ADD
US sales weak; gVascepa and margin recovery near-term triggers

Lupin | Target: Rs 1,070 | +2% | ADD
In-line Q3; several near-term catalysts

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
GAIL	Buy	155
Petronet LNG	Buy	330
TCS	Buy	3,710
Tech Mahindra	Buy	1,130

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Greenply Industries	Buy	150
Laurus Labs	Buy	480
Transport Corp	Buy	300
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.04	3bps	12bps	(54bps)
India 10Y yield (%)	5.89	(2bps)	1bps	(67bps)
USD/INR	73.04	(0.2)	0.6	(2.2)
Brent Crude (US$/bbl)	55.53	(0.5)	9.2	(4.7)
Dow	30,603	1.0	0.7	6.0
Shanghai	3,505	(1.9)	3.2	17.8
Sensex	46,874	(1.1)	(1.0)	14.6
India FII (US$ mn)	**27 Jan**	**MTD**	**CYTD**	**FYTD**
FII-D	(134.5)	(504.2)	(504.2)	(4,597.8)
FII-E	(92.4)	3,091.2	3,091.2	33,067.0

Source: Bank of Baroda Economics Research

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SUMMARY

India Economics: Economic Survey 2020-21

Economic Survey estimates growth to improve to 11% in FY22 after contracting by 7.7% in FY21, on the back of a low base, PLI scheme, infra investments and roll-out of vaccine drive. The Survey postulates a counter cyclical fiscal policy with larger role for government during economic downturns, as fiscal multiplier tends to be higher. It also highlights the need for expanding health spending from 1% of GDP to 2.5-3% of GDP. Notably, it calls for withdrawing banking forbearance once the economy recovers and recommends immediate AQR.

Click here for the full report.

India Economics: 1st Re of National Income

CSO has revised FY20 growth to 4% from 4.2%. However, FY19 growth has been revised upwards to 6.5% (6.1% earlier). The downward revision in FY20 is led by lower government spending and lower manufacturing activity. Public investment fell considerably. So did real estate. With lower investment and consumption, India's saving rate increased in FY20 to 31.4% of GDP (30.6% in FY19). Investment and consumption have fallen further in FY21. Thus the Budget will look at kickstarting public and private investment cycle.

Click here for the full report.

ICICI Bank

ICICI Bank's (ICICIBC) Q3FY21 PAT at Rs 49.3bn (+19% YoY) beat estimates on strong 17% growth in operating profit. Collections improved QoQ and overdue loans remain manageable across portfolios. The Covid-related restructuring pool remains low at 0.4% with no risk of spillover in Q4. The bank utilised Rs 18bn in Covid-related provisions in Q3 but maintains a healthy provisioning buffer at 1.4% of loans. We upgrade EPS estimates post Q3 and assign the stock a higher 2.2x core P/BV multiple – on rollover, we have a new Mar'22 TP of Rs 675 (vs. Rs 500).

Click here for the full report.

Sun Pharma

Sun Pharma (SUNP) reported a healthy ex-Taro EBITDA beat of 5% in Q3FY21. Sequentially, EBITDA margin sustained higher at 26% despite 100bps gross margin dip (onetime charge in Taro), led by softness in SGA and R&D spends. US sales ex-Taro beat estimates due to strong specialty and India business. Global specialty sales hit a record high of US$ 148mn (+37% QoQ). Higher SGA/R&D spends from Q4 and the generic threat in Absorica are key near-term risks. We raise FY22/ FY23 EPS 3% each and roll over to new Mar'22 TP of Rs 630.

Click here for the full report.

Cipla

Cipla reported a Q3 sales/EBITDA beat of 8%/14% steered by (1) India (Rx up 25% YoY), EU & ROW sales, and (2) cost control (–10% YoY, flat QoQ). EBITDA contribution from the Covid portfolio has normalised QoQ to <4%. Margins were strong at 23.8% (22% ex-Albuterol). Cost optimisation and ROI improvement remain priorities. Albuterol ramp-up, Advair approval (TAD Jun'22) and a strong India franchise are key stock catalysts in the medium term. We raise FY21-FY23 EPS by ~10% each and roll to a new Mar'22 TP of Rs 1,000 (vs. Rs 900).

Click here for the full report.

IndusInd Bank

IndusInd Bank (IIB) reported higher PAT of Rs 8.3bn (Rs 6.1bn est.) on below-estimated provisions. Proforma slippages stood at 1.2% of loans and the restructured pool was at 1.8%. IIB prudently carries excess provisions worth ~Rs 22bn (1.1% of loans) and is also expected to benefit from a few corporate resolutions. Management expects loan growth to pick up and NIM is guided at 4.15-4.25%. We raise FY21-FY23 EPS 3-12%, roll to Mar'23 valuations and reset our target P/BV higher to 1.6x – our TP thus rises to Rs 1,100 (vs. Rs 700).

Click here for the full report.

UPL

UPL reported a mixed Q3 with in-line EBITDA and a 9% sales miss. Gross margin uptick to 54.9% was a key positive, offsetting the sales impact, and stemmed from price hikes, a favourable product mix and cost synergies. Revenue grew 3% YoY led by 7% volume growth (forex –5%, price +1%) and market share gains. Q4 is guided to remain strong given healthy agronomic conditions and sustained price hikes. FY21 revenue/EBITDA growth guidance remains at 6-8%/10-12% with 23% margins over the next three years. We roll to a Mar'22 TP of Rs 725 (vs. Rs 650).

Click here for the full report.

Laurus Labs

Laurus Labs reported another solid beat in Q3FY21 fuelled by strong growth in the API and synthesis segments. Revenue and EBITDA beat estimates by 14% each. EBITDA grew 188% YoY (14% QoQ) with margins at 33%, aided by a better mix and operating leverage. Formulation (FDF) sales grew 47% YoY, ARVs 50% QoQ, oncology API 37% YoY, and synthesis 62% YoY. Laurus expects to sustain Q3 margins and has retained FY21-FY22 capex at Rs 12bn on order visibility. We raise FY21-FY23 EPS 8-10% and roll to a new Mar'22 TP of Rs 480 (vs. Rs 410).

Click here for the full report.

Persistent Systems

Persistent Systems (PSYS) reported a surprisingly strong set of numbers in Q3FY21, with dollar revenue growth at 7.4% QoQ. Both the IP-led and services businesses grew sequentially. Operating margin at 12.7% was up 60bps QoQ. We increase FY21/FY22/FY23 EPS by 6%/2%/4% and raise our target P/E to 19x (from 13.5x) to bake in a better revenue and margin outlook. Rolling valuations over, we have a revised Dec'21 TP of Rs 1,260 (from Rs 840). Given IP revenue volatility and heady valuations, we reiterate SELL.

Click here for the full report.

eClerx Services

eClerx (ECLX) reported a substantial topline beat in Q3FY21 backed partly by Personiv revenues flowing in and robust CLX business. Dollar revenue grew 9.9% QoQ, ahead of our estimate led by growth in managed services. We raise FY21/FY22/FY23 EPS by 27%/15%/8% to factor in the upbeat Q3 performance. On rollover, we have a new Dec'21 TP of Rs 950 (vs. Rs 800). Maintain REDUCE as we see limited growth potential beyond FY22 despite faster CLX recovery and synergy from the Personiv acquisition.

Click here for the full report.

Mahindra Logistics

Mahindra Logistics' (MLL) Q3FY21 consolidated revenue grew by a strong 15% YoY led by SCM (+24%) while the mobility segment lagged (–60%). MLL's focus on offering an integrated solutions basket is bearing fruit, as evident from steady new client wins and strong traction in new initiatives. The cyclical upturn in auto volumes also bodes well for the anchor client segment. An improving growth outlook prompts us to raise FY22/FY23 EPS by 6%/10% and reset our target P/E to 33x (vs. 29x). On rollover, we have a new Mar'22 TP of Rs 555 (vs. Rs 420).

Click here for the full report.

Pidilite Industries

Pidilite Industries (PIDI) reported healthy Q3FY21 consolidated revenue growth of 19% YoY, supported by a 22%/12% rise in standalone C&B/B2B volumes. Operating margins expanded 385bps YoY to 27.9% due to lower RM and employee/other expenses-to-sales, aiding EBITDA/PBT growth of 38%/32% YoY. Margins are expected to come under pressure given a surge in RM cost. We raise our FY21 PAT estimate by 9% and roll over to a revised Mar'22 TP of Rs 1,365 (vs. Rs 1,310). Retain SELL as current valuations of 51.4x FY23E P/E look rich.

Click here for the full report.

Tech Mahindra

Tech Mahindra (TECHM) posted 2.8% QoQ CC revenue growth and 150bps EBITDA margin expansion, bettering our estimates for Q3FY21. The telecom vertical has continued to recover (+4.5% QoQ USD). Traction in the retail and manufacturing segments aided 2.3% QoQ CC growth in the enterprise business. TCV was strong at US$ 455mn. We raise FY21-FY23 EPS by 3-4% to bake in the Q3 performance and roll over to a revised Dec'21 TP of Rs 1,130 (vs. Rs 1,040), based on an unchanged target P/E of 15.7x. Reiterate BUY.

Click here for the full report.

Dr Reddy's Labs

Dr Reddy's (DRRD) reported a Q3 operational miss after a strong H1. EBITDA was a 13% miss (18% ex-onetime income) and margins were lower at 23% partly on one-off spends. An unexpected fall in US sales (–5% QoQ) was a key negative as was a drop in PSAI (–18% QoQ). India sales rose by 26% YoY (8% ex-Wockhardt), Russia/CIS by 11% QoQ and EM 16% QoQ. PAT missed the mark on an added impairment charge of Rs 6bn. DRRD is confident of retaining ~25% margins. We cut FY22/FY23 EPS ~4% and roll to a new Mar'22 TP of Rs 5,200 (vs. Rs 5,320).

Click here for the full report.

Lupin

Lupin's (LPC) EBITDA was boosted by one-time licensing income (Rs 700mn est.). Adj. EBITDA was in line at Rs 7.1bn on controlled cost. The miss on US sales (weak flu season) was offset by an EM beat. LPC retains guidance of 20-22% margins in the mid-term, baking in full benefits of gProAir, Glumetza and stable India profits. Near-term growth catalysts (gProAir, Fortamet launch, Fostair/ Spiriva approval, cost levers) and a strong FY22 US filing pipeline will enhance stock upsides. On rollover, we have a new Mar'22 TP of Rs 1,070 (vs. Rs 990).

Click here for the full report.

ECONOMIC SURVEY 2020-21

29 January 2021

Double digit growth in FY22

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Economic Survey estimates growth to improve to 11% in FY22 after contracting by 7.7% in FY21, on the back of a low base, PLI scheme, infra investments and roll-out of vaccine drive. The Survey postulates a counter cyclical fiscal policy with larger role for government during economic downturns, as fiscal multiplier tends to be higher. It also highlights the need for expanding health spending from 1% of GDP to 2.5-3% of GDP. Notably, it calls for withdrawing banking forbearance once the economy recovers and recommends immediate AQR.

Growth estimated at 11% for FY22: Economic Survey estimates a V-shaped recovery with GDP growth at 11% in FY22 following a 7.7% contraction in FY21. Nominal GDP growth is estimated at 15.4% in FY22. Recovery will be led by infrastructure investments by government, boost to manufacturing sector through PLI Schemes, recovery of pent-up demand for services sector, increase in discretionary consumption subsequent to roll-out of the vaccine and pick up in credit given adequate liquidity and low interest rates.

Debt-sustainability analysis: Amidst a global pandemic, debate on debt sustainability has resurfaced. Survey highlights that countries, such as India, which have negative Interest Rate Growth Differential (IRGD) can be allowed to increase their public debt levels in order to pursue countercyclical fiscal policy to push growth. A nominal growth above nominal interest rates implies debt will automatically become sustainable. Simulations also showed that even assuming the worst case scenario (real GDP growth of 4% in the next 10 years), India's debt is estimated to be sustainable.

Focus on Healthcare: The Survey highlights the importance of healthcare infrastructure and inter linkages with other sectors. It notes that hiking the public healthcare spending by 1% to 2.5%-3% of GDP will decrease the out-of-pocket expenditure from 65% to 35% of total healthcare spending. It has also suggested appointing a regulator to cater to the market failures due to asymmetric information.

AQR after forbearance is withdrawn: The Survey notes that forbearance should be withdrawn once economy recovers. It should be immediately followed up by an Asset Quality Review to recognise the extent of bad loans and provide for them. Judicial process should be strengthened for faster recovery.

1ST RE OF NATIONAL INCOME

29 January 2021

FY20 growth revised to 4%

CSO has revised FY20 growth to 4% from 4.2%. However, FY19 growth has been revised upwards to 6.5% (6.1% earlier). The downward revision in FY20 is led by lower government spending and lower manufacturing activity. Public investment fell considerably. So did real estate. With lower investment and consumption, India's saving rate increased in FY20 to 31.4% of GDP (30.6% in FY19). Investment and consumption have fallen further in FY21. Thus the Budget will look at kickstarting public and private investment cycle.

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GDP growth for FY20 estimated at 4%: GDP growth for FY20 was revised lower to 4% from 4.2% estimated earlier. However, FY19 growth has been revised up from 6.1% to 6.5%. In addition, government final consumption expenditure increased by 7.9% as against 11.8% estimated earlier in FY20. Apart from this, valuables and inventory drawdown too was a drag on growth. In contrast o this, GVA growth for FY20 was revised upwards to 4.1% versus 3.9% earlier led by upward revision in agriculture (now at 4.3% versus 4% earlier) and services (now at 7.2% versus 5.5% earlier). Industrial sector saw downward revision to growth estimates led by manufacturing (-2.4% now versus flat earlier) and mining (-2.5% versus 3.1% earlier).

Investment demand falls...: Investment demand as measured by nominal GFCF moderated from 14.5% in FY19 to 6.1% in FY20. Public investment moderated from 16.4% in FY19 to 5.5% in FY20. Private corporate investment increased by 9% instead of 11.8% in FY19. Even household investment has risen by only 4% compared with 15.7% in FY19, within which real estate investments contracted by 1.1% from an increase of 19.3% in FY19. Investments have fallen further in FY21 and require step-up led by public investment in the Budget.

...Savings rate went up, thus current account deficit fell: India's savings rate rose to 31.4% of GDP in FY20 from 30.6% in FY19. This was led by increase in government savings from 2.2% to 2.9% followed by household savings from 19.3% to 19.6%. Net financial savings were higher at 8% from 7.2% in FY19. Concurrently, the current account deficit fell to 0.9% in FY20 from 2.1% in FY19. In FY21, India will see a current account surplus in the range of 1-1.5% of GDP. The above backdrop also calls for kickstarting private and public investment cycle through higher public capex, in part funded by monetization of existing assets.

KEY HIGHLIGHTS

- GDP growth for FY19 revised higher to 6.5% from 6.1%; GVA growth estimated lower at 5.9% versus 6%.
- GDP growth in FY20 estimated lower at 4% from 4.2%; GVA growth revised up to 4.1% versus 3.9% estimated earlier.
- Both investment and consumption demand fell in FY2, thus savings rate increased.

BUY
TP: Rs 675 | ⮝ 26%

ICICI BANK | Banking | 30 January 2021

Stress manageable and provisioning comfortable

ICICI Bank's (ICICIBC) Q3FY21 PAT at Rs 49.3bn (+19% YoY) beat estimates on strong 17% growth in operating profit. Collections improved QoQ and overdue loans remain manageable across portfolios. The Covid-related restructuring pool remains low at 0.4% with no risk of spillover in Q4. The bank utilised Rs 18bn in Covid-related provisions in Q3 but maintains a healthy provisioning buffer at 1.4% of loans. We upgrade EPS estimates post Q3 and assign the stock a higher 2.2x core P/BV multiple – on rollover, we have a new Mar'22 TP of Rs 675 (vs. Rs 500).

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Asset quality in check: ICICIBC's proforma GNPA ratio increased marginally to 5.42% (vs. 5.36% in Q2) as loans worth ~Rs 83bn (~90% from retail) were not classified as NPAs given the SC ruling. The Covid-related restructuring book at ~Rs 25.5bn (0.4% of loans) remained manageable and management believes it is unlikely to increase. Overdue loans for <90 days were (a) 1.5% higher than pre-Covid levels in the retail EMI product and credit card portfolios (vs. 4% in Q2), (b) at pre-Covid levels in the SME/business banking segments, and (c) at <2% in the domestic and overseas corporate loan books.

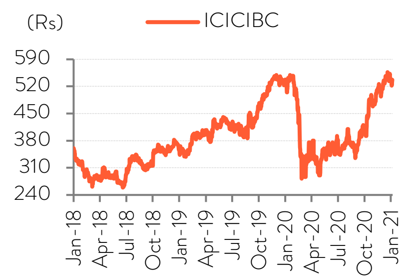
Retail disbursements pick up: ICICIBC's loan book grew 7% QoQ backed by strong 7%/16% growth in retail/SME advances. Disbursal across retail products such as mortgages and auto loans increased QoQ but remained below normal levels in CVs and personal loans. NIM improved QoQ to ~3.7% despite interest reversals and is expected to remain strong as yield correction has bottomed and excess liquidity runs out. The liability franchise gained momentum with deposits rising 5% QoQ aided by an 8% increase in CASA deposits.

Maintain BUY: We raise FY21-FY23 EPS by 32-46% to adjust for lower operating expense and credit cost assumptions. We value the core book at 2.2x P/BV (1.8x earlier) and roll over to a new Mar'22 SOTP-based TP of Rs 675.

Ticker/Price	ICICIBC IN/Rs 537
Market cap	US$ 47.7bn
Shares o/s	6,476mn
3M ADV	US$ 186.0mn
52wk high/low	Rs 561/Rs 268
Promoter/FPI/DII	0%/45%/55%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	270,148	332,671	390,229	466,257	564,798
NII growth (%)	17.3	23.1	17.3	19.5	21.1
Adj. net profit (Rs mn)	33,633	79,308	168,788	207,708	276,786
EPS (Rs)	5.2	12.3	25.2	30.1	40.1
P/E (x)	102.8	43.7	21.3	17.9	13.4
P/BV (x)	3.2	3.0	2.6	2.3	2.0
ROA (%)	0.4	0.8	1.4	1.5	1.8
ROE (%)	3.2	7.1	12.9	13.4	15.7

Source: Company, BOBCAPS Research

ADD
TP: Rs 630 | 7%

SUN PHARMA | Pharmaceuticals | 30 January 2021

EBITDA beat ex-Taro; sustaining specialty recovery is key

Sun Pharma (SUNP) reported a healthy ex-Taro EBITDA beat of 5% in Q3FY21. Sequentially, EBITDA margin sustained higher at 26% despite 100bps gross margin dip (onetime charge in Taro), led by softness in SGA and R&D spends. US sales ex-Taro beat estimates due to strong specialty and India business. Global specialty sales hit a record high of US$ 148mn (+37% QoQ). Higher SGA/R&D spends from Q4 and the generic threat in Absorica are key near-term risks. We raise FY22/ FY23 EPS 3% each and roll over to new Mar'22 TP of Rs 630.

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Best-ever specialty sales; India growth rebounds: US sales ex-Taro rose 19% QoQ due to record sales in the specialty segment (Ilumya, Cequa, Odomzo, Absorica). Per a new disclosure, global Ilumya sales for 9M have already crossed FY20 levels. Levulan has recovered from H1 levels but is yet to fully normalise. India business grew 9% YoY led by the chronic/semi-chronic portfolio while acute recovery remains weak. EM sales grew 12% YoY. With an improving doctor call rate and 25 launches per quarter, we expect SUNP to revert to 12-13% growth.

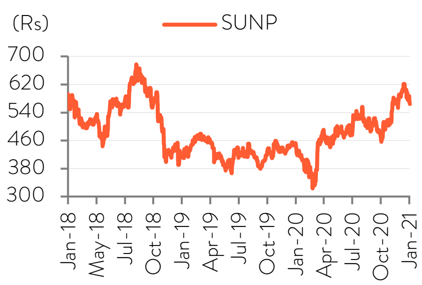
Uptick in marketing spends to reverse margin gains: Operating leverage in the US specialty business and subdued expenses aided healthy Q3 margins of 26% (25.6% est.). Other expenses have risen 2% QoQ but are still down 7% YoY. R&D was lower at 6.4% of sales (–6% QoQ). SUNP commented that savings on marketing spends (India+US specialty) and R&D are not structural and should normalise in the next 2-3 quarters as lockdowns ease. R&D should move to 7% of sales as clinical trials resume for new indications (Ilumya, Odomzo).

Other takeaways: (1) Q3 specialty R&D cost at US$ 19mn (–37% QoQ). (2) No visibility on generic competition in Absorica for now. (3) Face-to-face patient interaction at 40% of pre-covid levels for US brand market. (4) Net debt ex-Taro at US$ 250mn; repaid US$ 490mn in 9M. (5) Limited progress on Halol remediation.

Ticker/Price	SUNP IN/Rs 586
Market cap	US$ 19.3bn
Shares o/s	2,399mn
3M ADV	US$ 75.4mn
52wk high/low	Rs 628/Rs 312
Promoter/FPI/DII	54%/17%/16%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	286,906	323,880	335,599	382,176	428,675
EBITDA (Rs mn)	60,746	69,823	87,404	91,181	103,795
Adj. net profit (Rs mn)	36,484	40,453	68,834	62,760	73,414
Adj. EPS (Rs)	15.2	16.9	28.7	26.2	30.6
Adj. EPS growth (%)	8.4	10.9	70.2	(8.8)	17.0
Adj. ROAE (%)	8.4	8.7	14.0	11.9	12.6
Adj. P/E (x)	38.5	34.8	20.4	22.4	19.2
EV/EBITDA (x)	21.9	19.2	15.2	14.3	12.3

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,000 | ⮝ 21%

CIPLA | Pharmaceuticals | 29 January 2021

All-round beat; India delivers key surprise

Vivek Kumar | Saad Shaikh
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Cipla reported a Q3 sales/EBITDA beat of 8%/14% steered by (1) India (Rx up 25% YoY), EU & ROW sales, and (2) cost control (–10% YoY, flat QoQ). EBITDA contribution from the Covid portfolio has normalised QoQ to <4%. Margins were strong at 23.8% (22% ex-Albuterol). Cost optimisation and ROI improvement remain priorities. Albuterol ramp-up, Advair approval (TAD Jun'22) and a strong India franchise are key stock catalysts in the medium term. We raise FY21-FY23 EPS by ~10% each and roll to a new Mar'22 TP of Rs 1,000 (vs. Rs 900).

Strong beat led by India, EU, ROW; US in line: India sales grew 26% YoY (Rx up 25%) aided by traction in the respiratory and acute portfolios; trade generics grew 7%. OTC products continued to gain pace (~5% of India sales). US sales were in line at US$ 141mn led by Albuterol (~US$ 15mn). Cipla disclosed that the US respiratory franchise clocked sales of US$ 100mn+ in 9M (24% of US mix). Cipla believes it can increase its share across Albuterol brands from ~12% and expects meaningful launches in the next 12-18 months. EU/ROW sales grew 33%/51% YoY on robust demand, SAGA grew 10% and API 22% on a low base.

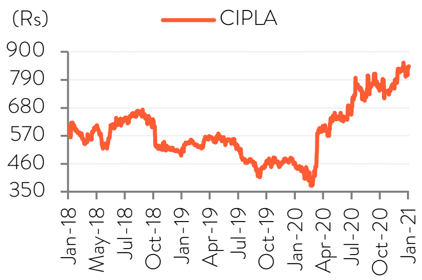
Margin beat; cost savings tracking ahead of FY21 target: EBITDA margin beat estimates at 23.8% supported by (1) lower SGA (–4% YoY), and (2) lower R&D-to-sales of 4.3% (–28% YoY). We believe R&D could rise to 6% of sales by Q1FY22 due to Advair trials. Cipla is tracking far ahead of its targeted FY21 cost savings of Rs 4bn-5bn and expects a majority of these savings to continue for the next two years at least, with a goal to sustain 23-24% EBITDA margins.

Earnings call takeaways: (1) US quarterly sales targeted to reach US$ 250mn in next five years, incl. Revlimid, Abraxane and Advair. (2) gAdvair under active review; TAD in Jun'22. (3) Can defend Albuterol share given cost edge. (4) US margins close to company level in 9M. (5) Net cash at Rs 9.4bn (Rs 4.2bn in Q2).

Ticker/Price	CIPLA IN/Rs 826
Market cap	US$ 9.1bn
Shares o/s	806mn
3M ADV	US$ 69.2mn
52wk high/low	Rs 865/Rs 355
Promoter/FPI/DII	37%/26%/13%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	163,621	171,243	192,962	206,712	223,685
EBITDA (Rs mn)	30,973	32,574	44,032	45,820	48,135
Adj. net profit (Rs mn)	13,426	15,858	24,463	25,286	27,381
Adj. EPS (Rs)	16.7	19.7	30.4	31.4	34.0
Adj. EPS growth (%)	8.8	18.1	54.3	3.4	8.3
Adj. ROAE (%)	9.0	10.0	13.8	12.7	12.3
Adj. P/E (x)	49.6	42.0	27.2	26.3	24.3
EV/EBITDA (x)	22.2	21.0	15.3	14.3	13.3

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 1,100 | ▲ 30%

INDUSIND BANK | Banking | 29 January 2021

Gearing for growth; asset quality outlook improving

IndusInd Bank (IIB) reported higher PAT of Rs 8.3bn (Rs 6.1bn est.) on below-estimated provisions. Proforma slippages stood at 1.2% of loans and the restructured pool was at 1.8%. IIB prudently carries excess provisions worth ~Rs 22bn (1.1% of loans) and is also expected to benefit from a few corporate resolutions. Management expects loan growth to pick up and NIM is guided at 4.15-4.25%. We raise FY21-FY23 EPS 3-12%, roll to Mar'23 valuations and reset our target P/BV higher to 1.6x – our TP thus rises to Rs 1,100 (vs. Rs 700).

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Stress remains manageable across portfolios: IIB's proforma GNPA ratio increased ~60bps QoQ to 2.9% owing to slippages worth Rs 25bn (1.2% of loans). The vehicle finance (VF) and MFI portfolios contributed 20% each of the slippages while the secured retail, unsecured retail and corporate segments contributed 15%, 30% and 15% respectively. The total restructured portfolio, including invoked accounts, stood at 1.8% of loans which we believe is manageable. Collection efficiency improved across the VF (96.9%), MFI (95.5%) and gems & jewellery (99.9%) portfolios.

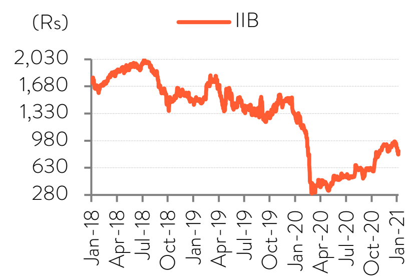
Gearing up for growth: IIB's loan book was flat in Q3 as corporate lending declined 7% YoY following a conscious reduction in exposure worth Rs 40bn. However, management expects 15-18% loan growth in FY22-FY23. VF is displaying strong traction with 73% QoQ growth in disbursements. IIB expects the MFI business to gather pace as exposure to stressed pockets is limited, even as the corporate book has bottomed and is guided to grow in FY22. Interest reversals had a 4bps impact on NIM which declined to ~4.1% in Q3.

Maintain BUY: We raise FY21-FY23 EPS by 3-12% to factor in higher loan growth and marginally lower credit costs. Valuing the bank at 1.6x P/BV (1.1x earlier), we roll forward to a new Mar'22 TP of Rs 1,100 (Rs 700 earlier).

Ticker/Price	IIB IN/Rs 846
Market cap	US$ 8.8bn
Shares o/s	757mn
3M ADV	US$ 186.6mn
52wk high/low	Rs 1,346/Rs 236
Promoter/FPI/DII	15%/52%/33%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	88,462	120,587	134,649	155,632	188,785
NII growth (%)	18.0	36.3	11.7	15.6	21.3
Adj. net profit (Rs mn)	33,011	44,579	29,554	59,552	77,213
EPS (Rs)	54.9	68.8	40.7	78.6	102.0
P/E (x)	15.4	12.3	20.8	10.8	8.3
P/BV (x)	1.9	1.7	1.5	1.4	1.2
ROA (%)	1.3	1.5	0.9	1.7	2.0
ROE (%)	13.1	14.5	7.7	13.5	15.5

Source: Company, BOBCAPS Research

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 725 | ⮝ 29%

UPL | Agrochemicals | 30 January 2021

Mixed Q3; LATAM sales pushed to Q4 – growth tailwinds strong

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UPL reported a mixed Q3 with in-line EBITDA and a 9% sales miss. Gross margin uptick to 54.9% was a key positive, offsetting the sales impact, and stemmed from price hikes, a favourable product mix and cost synergies. Revenue grew 3% YoY led by 7% volume growth (forex –5%, price +1%) and market share gains. Q4 is guided to remain strong given healthy agronomic conditions and sustained price hikes. FY21 revenue/EBITDA growth guidance remains at 6-8%/10-12% with 23% margins over the next three years. We roll to a Mar'22 TP of Rs 725 (vs. Rs 650).

Europe/India helm growth; LATAM revenue delayed to Q4: Strong growth in Europe (+30% YoY) was fueled by new launches (esp. biologic product Argos). LATAM sales declined 8% YoY due to a drought in Brazil, delayed soybean planting and BRL devaluation. Commodity prices and recent rains support a positive Q4 outlook. ROW sales grew 6% YoY (China acceleration, Glufosinate demand) and India grew 21% (robust herbicide sales despite market slowdown).

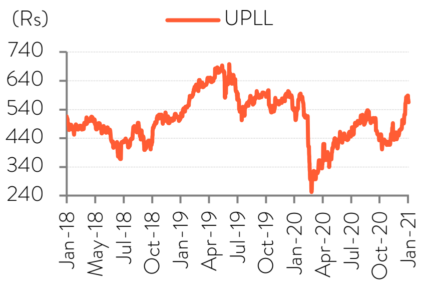
In-line EBITDA but healthy gross margin uptick: Despite currency headwinds in LATAM, the reported Q3 gross margin was strong at 54.9% (+470bps YoY) due to price hikes, COGS savings, a favourable product mix and synergy benefits. EBITDA margin expansion was limited to 50bps YoY at 24% due to higher staff bonus provisions. UPL continues to hike prices and is confident of further fixed-cost optimisation to support margins over the next two years.

Earnings call takeaways: (1) Capex at Rs 13.6bn in 9M (Rs 10.2bn for total assets); FY21 to end at Rs 17.5bn. (2) Net debt at Rs 242bn in Q3 vs. Rs 239bn in Q2. (3) Lower net working capital at 117 days (–19 days YoY) led by account payables; set to reduce further in Q4, taking FY21 below FY20 levels. (4) On track to achieve net debt/EBITDA of ~2x by FY21. (5) Cost/Revenue synergy from Arysta at Rs 2.6bn/4.1bn in Q3. Cumulative synergy at US$ 188mn/354mn.

Ticker/Price	UPLL IN/Rs 561
Market cap	US$ 5.9bn
Shares o/s	765mn
3M ADV	US$ 73.1mn
52wk high/low	Rs 601/Rs 240
Promoter/FPI/DII	28%/44%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	218,350	357,560	381,968	421,409	459,804
EBITDA (Rs mn)	38,110	66,910	75,912	89,197	101,318
Adj. net profit (Rs mn)	18,140	23,981	26,233	33,927	42,028
Adj. EPS (Rs)	23.7	31.3	34.3	44.3	54.9
Adj. EPS growth (%)	0.6	32.2	9.4	29.3	23.9
Adj. ROAE (%)	13.5	13.2	13.5	15.8	17.5
Adj. P/E (x)	23.6	17.9	16.3	12.6	10.2
EV/EBITDA (x)	12.2	8.7	8.8	7.3	6.3

Source: Company, BOBCAPS Research

BUY
TP: Rs 480 | ↑ 34%

LAURUS LABS | Pharmaceuticals | 29 January 2021

Solid margins despite higher API mix – TP raised to Rs 480

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Laurus Labs reported another solid beat in Q3FY21 fuelled by strong growth in the API and synthesis segments. Revenue and EBITDA beat estimates by 14% each. EBITDA grew 188% YoY (14% QoQ) with margins at 33%, aided by a better mix and operating leverage. Formulation (FDF) sales grew 47% YoY, ARVs 50% QoQ, oncology API 37% YoY, and synthesis 62% YoY. Laurus expects to sustain Q3 margins and has retained FY21-FY22 capex at Rs 12bn on order visibility. We raise FY21-FY23 EPS 8-10% and roll to a new Mar'22 TP of Rs 480 (vs. Rs 410).

Solid execution: With execution gaining momentum, we raise FY21-FY23 EPS estimates by ~10%. ARV API sales delivered a strong beat led by higher volumes in first-line products (EFA & DTG) and stable pricing. The Q3 API base is sustainable, per management. Synthesis sales reported a 20% beat (+62% YoY, +10% QoQ), led by uptake in commercial supplies for four products. The order book across high-margin segments of formulations, synthesis (non-Aspen CDMO) and APIs is intact. Laurus expects phase-1 of brownfield expansion to start from Aug'21 and has added several new customers under CMO programs.

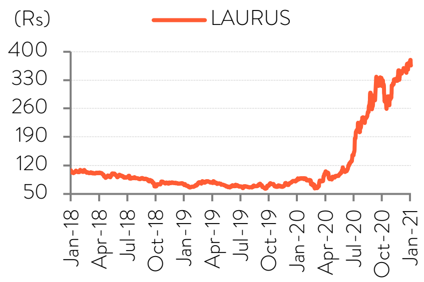
Margins hold strong despite high ARV API mix: Q3 and 9MFY21 gross margins were strong at 55% each. EBITDA margins came in at 33% and 31.5% respectively despite higher ARV API contribution (44% of sales in Q3 vs. 33% in Q2), reflecting improvement in pricing and volumes. Per Laurus, 9M margins should sustain over the next two years. Strong margins were underpinned by a favourable FDF/synthesis mix and operating leverage across segments.

Earnings call highlights: (1) ARV FDF sustaining strong multi-month dispensing trend. (2) Capex of Rs 4.3bn incurred in 9M (incl. CWIP). (3) Laurus has highest market share in DTG APIs and third highest in formulations; not worried about competition. (4) Commenced marketing of in-licensed products in the US.

Ticker/Price	LAURUS IN/Rs 358
Market cap	US$ 2.6bn
Shares o/s	535mn
3M ADV	US$ 18.5mn
52wk high/low	Rs 386/Rs 59
Promoter/FPI/DII	29%/24%/3%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	22,919	28,317	45,300	51,103	58,292
EBITDA (Rs mn)	3,560	5,645	14,442	16,463	19,071
Adj. net profit (Rs mn)	937	2,553	9,270	10,864	12,892
Adj. EPS (Rs)	1.8	4.8	17.3	20.3	24.1
Adj. EPS growth (%)	(36.8)	172.3	263.2	17.2	18.7
Adj. ROAE (%)	6.2	15.3	42.5	35.2	30.9
Adj. P/E (x)	204.3	75.0	20.7	17.6	14.9
EV/EBITDA (x)	56.5	35.8	14.0	12.4	10.6

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 1,260 | ∀ 17%

PERSISTENT SYSTEMS | IT Services | 29 January 2021

IP business seasonality bolsters growth

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Persistent Systems (PSYS) reported a surprisingly strong set of numbers in Q3FY21, with dollar revenue growth at 7.4% QoQ. Both the IP-led and services businesses grew sequentially. Operating margin at 12.7% was up 60bps QoQ. We increase FY21/FY22/FY23 EPS by 6%/2%/4% and raise our target P/E to 19x (from 13.5x) to bake in a better revenue and margin outlook. Rolling valuations over, we have a revised Dec'21 TP of Rs 1,260 (from Rs 840). Given IP revenue volatility and heady valuations, we reiterate SELL.

Strong traction in IP business: PSYS reported 7.4% QoQ dollar revenue growth in Q3, ahead of our optimistic estimate of 5%. IP revenue grew strongly by 20.7% while services grew 5%. IP revenue was strong due to seasonality. Revenue from capiot acquisition also came through in Q3. Europe business bounced back with 24% sequential growth. The healthcare/tech-emerging verticals grew 6%/13% QoQ while BFSI remained flat. Top client concentration decreased to 18.5% from 19.4% in Q2FY21. Despite salary hikes, EBIT margin was up 60bps QoQ to 12.7% (12% est.) due to increased offshoring and reduced SG&A costs.

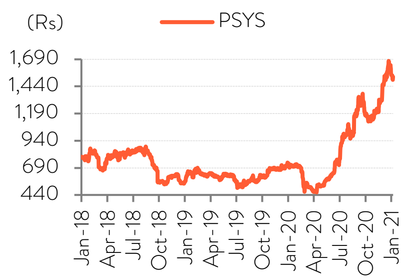
Healthy deal wins: The deal pipeline looks healthy going into Q4FY21 with several multimillion-dollar engagements across the BFSI, healthcare, hi-tech and industrial verticals. TCV at US$ 302mn was disclosed for the first time.

Upbeat management outlook: Management stated that digital projects continued their momentum in Q3. The Alliance segment pipeline has increased owing to the expanded relationship with IBM. Hi-tech is expected to remain the strongest growth vertical going forward. BFSI has slowed QoQ but management expects a recovery as a large multiyear deal has already been signed in the vertical. This apart, interim dividend of Rs 14/sh was announced in Q3.

Ticker/Price	PSYS IN/Rs 1,524
Market cap	US$ 1.7bn
Shares o/s	80mn
3M ADV	US$ 3.1mn
52wk high/low	Rs 1,700/Rs 420
Promoter/FPI/DII	30%/26%/44%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	33,659	35,658	42,454	51,027	56,251
EBITDA (Rs mn)	5,805	4,930	6,828	7,894	9,189
Adj. net profit (Rs mn)	3,516	3,403	4,206	4,550	5,438
Adj. EPS (Rs)	43.9	42.7	52.7	57.0	68.2
Adj. EPS growth (%)	8.8	(2.9)	23.6	8.2	19.5
Adj. ROAE (%)	15.7	14.1	16.1	15.7	16.9
Adj. P/E (x)	34.7	35.7	28.9	26.7	22.4
EV/EBITDA (x)	20.7	24.3	17.6	15.1	12.8

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

REDUCE
TP: Rs 950 | ∀ 4%

ECLERX SERVICES | IT Services | 29 January 2021

Upbeat quarter led by organic growth

eClerx (ECLX) reported a substantial topline beat in Q3FY21 backed partly by Personiv revenues flowing in and robust CLX business. Dollar revenue grew 9.9% QoQ, ahead of our estimate led by growth in managed services. We raise FY21/FY22/FY23 EPS by 27%/15%/8% to factor in the upbeat Q3 performance. On rollover, we have a new Dec'21 TP of Rs 950 (vs. Rs 800). Maintain REDUCE as we see limited growth potential beyond FY22 despite faster CLX recovery and synergy from the Personiv acquisition.

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Strong organic growth: Dollar revenue at US$ 53.3mn (US$ 49mn est.) increased 9.9% QoQ and 9.5% CC (1.1% CC contributed by Personiv at ~US$ 0.5mn). Demand recovery has also been faster than management expected, driven by (1) improvement in CLX and managed services business, and (2) increased utilisation (+210bps QoQ to 81.2%) post stabilisation in the 'work-from-home' environment. EBIT margin at 24.7% (23.7% est.) was up 20bps QoQ as offshoring increased 9% QoQ and efficiency improved across other levers. A full wage hike was carried out in Q3.

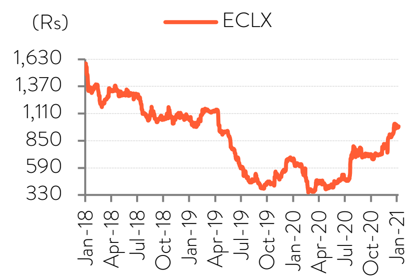
CLX recovery continues: CLX business had recovered sharply last quarter following a 20-30% QoQ drop in Q1FY21. During Q3, Europe grew 9.9% QoQ as CLX business continued to revive. Management does not expect the current restrictions in Europe to affect operations as these are mostly for discretionary activities. Nevertheless, we remain wary of the volatile nature of the CLX business.

Margins guided to decline: Management expects the current EBIT margin of ~24% to decline as some of the costs e.g. non-people SG&A costs, travel and facilities cost start to normalize. We expect FY21 margin levels to remain high as revenue shoots up following the Personiv acquisition.

Ticker/Price	ECLX IN/Rs 988
Market cap	US$ 510.1mn
Shares o/s	38mn
3M ADV	US$ 1.7mn
52wk high/low	Rs 1,034/Rs 320
Promoter/FPI/DII	50%/25%/25%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	14,305	14,376	16,626	23,048	23,866
EBITDA (Rs mn)	3,092	3,249	4,810	5,915	6,350
Adj. net profit (Rs mn)	2,283	2,087	2,963	3,658	3,963
Adj. EPS (Rs)	60.1	55.5	86.6	106.9	115.8
Adj. EPS growth (%)	(19.4)	(7.7)	56.2	23.5	8.3
Adj. ROAE (%)	20.2	17.5	21.2	24.0	23.6
Adj. P/E (x)	16.5	17.8	11.4	9.2	8.5
EV/EBITDA (x)	10.8	10.6	7.2	5.7	5.4

Source: Company, BOBCAPS Research

BUY
TP: Rs 555 | 18%

MAHINDRA LOGISTICS | Logistics | 30 January 2021

Topline growth makes a stellar comeback

Mahindra Logistics' (MLL) Q3FY21 consolidated revenue grew by a strong 15% YoY led by SCM (+24%) while the mobility segment lagged (–60%). MLL's focus on offering an integrated solutions basket is bearing fruit, as evident from steady new client wins and strong traction in new initiatives. The cyclical upturn in auto volumes also bodes well for the anchor client segment. An improving growth outlook prompts us to raise FY22/FY23 EPS by 6%/10% and reset our target P/E to 33x (vs. 29x). On rollover, we have a new Mar'22 TP of Rs 555 (vs. Rs 420).

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SCM segment prints stellar recovery: Both anchor (+20% YoY) and non-anchor (+28%) verticals shone in Q3, a first in several quarters, catalysing strong SCM growth. The non-auto, non-anchor segment grew 32% YoY by dint of a festive season-led demand uptick in key client verticals (e-com, consumer), deeper penetration at existing clientele and traction in new accounts. Cyclical volume recovery in the anchor client's tractor and auto verticals boosted auto segment growth (+20% YoY). New initiatives – B2B express (+40% YoY) and freight forward (+90%) – continue to gather steam.

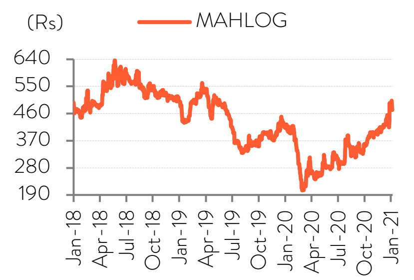
EBITDA margin ticks up: Operating leverage benefits stemming from sturdy topline growth lifted EBITDA margin by 39bps YoY to 5.1%, despite a 45bps contraction in gross margin. Supply-side challenges – higher fuel cost, liquidity issues of transporters – added to cost pressure and dented gross margins. Adj. PAT rose 17% YoY, slower than EBITDA (+25%) as depreciation (+29%) and finance cost (+28%) shot up following higher right-of-use assets/lease liabilities.

Solid growth foundation, raise target multiple: We expect MLL to sustain its Q3 growth momentum driven by both the auto and non-auto segments. Thus, we raise our FY22/FY23 EPS estimates by 6%/10%. We also raise our target P/E multiple to 33x (vs. 29x) and assign a revised Mar'22 TP of Rs 555. BUY.

Ticker/Price	MAHLOG IN/Rs 472
Market cap	US$ 462.1mn
Shares o/s	71mn
3M ADV	US$ 0.6mn
52wk high/low	Rs 544/Rs 195
Promoter/FPI/DII	58%/20%/8%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	38,513	34,711	32,774	40,052	46,440
EBITDA (Rs mn)	1,512	1,583	1,501	2,293	2,788
Adj. net profit (Rs mn)	856	551	424	904	1,197
Adj. EPS (Rs)	12.0	7.7	5.9	12.6	16.7
Adj. EPS growth (%)	33.2	(35.7)	(23.0)	113.0	32.3
Adj. ROAE (%)	18.7	10.6	7.5	14.5	17.1
Adj. P/E (x)	39.3	61.2	79.5	37.3	28.2
EV/EBITDA (x)	21.8	20.7	21.9	14.6	12.0

Source: Company, BOBCAPS Research

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 1,365 | ∀ 18%

PIDILITE INDUSTRIES | Construction Materials | 29 January 2021

Margin headwinds expected in the near future

Pidilite Industries (PIDI) reported healthy Q3FY21 consolidated revenue growth of 19% YoY, supported by a 22%/12% rise in standalone C&B/B2B volumes. Operating margins expanded 385bps YoY to 27.9% due to lower RM and employee/other expenses-to-sales, aiding EBITDA/PBT growth of 38%/32% YoY. Margins are expected to come under pressure given a surge in RM cost. We raise our FY21 PAT estimate by 9% and roll over to a revised Mar'22 TP of Rs 1,365 (vs. Rs 1,310). Retain SELL as current valuations of 51.4x FY23E P/E look rich.

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Healthy revenue growth: PIDI's consolidated Q3 revenue grew 19% YoY to Rs 23bn (16% ex-Hunstman) with 21% constant currency growth in overseas subsidiaries. Standalone revenue increased 18% YoY to Rs 19.6bn aided by a tepid base last year and volume growth of 19% YoY (+22% in the consumer & bazaar (C&B) segment and 12% in B2B). Management stated that demand growth spanned across categories and was fuelled by continued momentum in rural areas along with strong recovery in urban markets including metros.

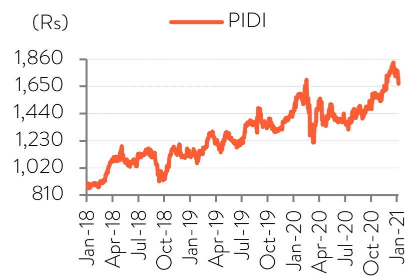
Margin expansion unsustainable: Consolidated operating margins rose 385bps YoY to 27.9% due to a decline in raw material cost (–97bps), employee cost (–93bps) and other expenses (–194bps). Consequently, EBITDA/PBT grew 38%/32% YoY. Gross margins increased as RM prices softened, whereas other expenses reduced due to lower A&P. Management stated that RM prices have been hardening in Q4 (VAM is currently at US$ 1300/mt from a Q3 average of US$ 875) and that margins are likely to revert to the guided range of 21-24%.

Valuations expensive; SELL: We increase our FY21 PAT estimate by 9% to factor in the 9MFY21 beat. On rollover, we have a new Mar'22 TP of Rs 1,365, based on an unchanged 42x FY23E P/E. Though we like PIDI's business model, current valuations look rich at 51.4x FY23E – maintain SELL.

Ticker/Price	PIDI IN/Rs 1,670
Market cap	US$ 11.6bn
Shares o/s	508mn
3M ADV	US$ 21.9mn
52wk high/low	Rs 1,842/Rs 1,186
Promoter/FPI/DII	70%/11%/18%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	70,787	72,945	69,275	89,678	1,03,628
EBITDA (Rs mn)	13,682	15,760	15,864	20,895	24,145
Adj. net profit (Rs mn)	8,901	11,590	10,607	14,166	16,499
Adj. EPS (Rs)	17.5	22.8	20.9	27.9	32.5
Adj. EPS growth (%)	(2.9)	30.2	(8.5)	33.5	16.5
Adj. ROAE (%)	23.1	26.9	22.7	27.4	28.4
Adj. P/E (x)	95.3	73.2	80.0	59.9	51.4
EV/EBITDA (x)	62.0	53.8	53.3	40.6	35.3

Source: Company, BOBCAPS Research

BUY
TP: Rs 1,130 | ⮝ 18%

TECH MAHINDRA | IT Services | 30 January 2021

Communication leads growth driven by large 5G deal win

Tech Mahindra (TECHM) posted 2.8% QoQ CC revenue growth and 150bps EBITDA margin expansion, bettering our estimates for Q3FY21. The telecom vertical has continued to recover (+4.5% QoQ USD). Traction in the retail and manufacturing segments aided 2.3% QoQ CC growth in the enterprise business. TCV was strong at US$ 455mn. We raise FY21-FY23 EPS by 3-4% to bake in the Q3 performance and roll over to a revised Dec'21 TP of Rs 1,130 (vs. Rs 1,040), based on an unchanged target P/E of 15.7x. Reiterate BUY.

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Strong growth momentum: Revenue growth of 3.4% USD/2.8% CC QoQ exceeded our estimate of 2% USD/1.7% CC. Communication growth was upbeat at 3.6% QoQ CC, followed by the enterprise segment at 2.3%. Within enterprise, manufacturing and retail transport and logistics revived the most. Europe grew 8.4% USD on account of 5G rollout deals. EBIT margin at 15.9% was up 170bps QoQ on lower employee cost. Margin tailwinds arose from offshoring and better utilisation (+80bps), with the balance coming from automation and delivery optimisation.

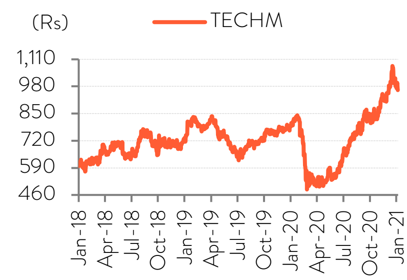
Large 5G deal win: Net new TCV stood at US$ 455mn (+8% QoQ), nearly back to pre-Covid levels. Q3 TCV included a large 5G network rollout deal from a UK-based service provider, signaling that demand in the 5G ecosystem is finally panning out. Numerous smaller deals have also come through in the communication vertical with an increasing 5G and network services component. Per TECHM, the deal funnel is currently at an all-time high.

Upbeat management outlook: Management expects the large-deal pipeline to accelerate, especially in AI, cloud, 5G ecosystems and cost optimisation. The pipeline remains strong around 5G network services. We are confident of TECHM achieving the higher end of its guided EBIT margin range of 14-15% in FY22.

Ticker/Price	TECHM IN/Rs 961
Market cap	US$ 11.5bn
Shares o/s	873mn
3M ADV	US$ 58.7mn
52wk high/low	Rs 1,082/Rs 471
Promoter/FPI/DII	36%/39%/25%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	347,421	368,677	383,744	455,172	528,885
EBITDA (Rs mn)	63,368	57,261	68,156	86,904	102,092
Adj. net profit (Rs mn)	42,975	42,505	46,694	56,251	66,692
Adj. EPS (Rs)	47.7	48.3	53.1	64.0	75.8
Adj. EPS growth (%)	11.9	1.2	9.9	20.5	18.6
Adj. ROAE (%)	21.4	19.8	19.9	21.3	22.4
Adj. P/E (x)	20.1	19.9	18.1	15.0	12.7
EV/EBITDA (x)	13.2	14.6	12.2	9.4	7.6

Source: Company, BOBCAPS Research

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ADD
TP: Rs 5,200 | ⮝ 13%

DR REDDY'S LABS | Pharmaceuticals | 30 January 2021

US sales weak; gVascepa and margin recovery near-term triggers

Dr Reddy's (DRRD) reported a Q3 operational miss after a strong H1. EBITDA was a 13% miss (18% ex-onetime income) and margins were lower at 23% partly on one-off spends. An unexpected fall in US sales (–5% QoQ) was a key negative as was a drop in PSAI (–18% QoQ). India sales rose by 26% YoY (8% ex-Wockhardt), Russia/CIS by 11% QoQ and EM 16% QoQ. PAT missed the mark on an added impairment charge of Rs 6bn. DRRD is confident of retaining ~25% margins. We cut FY22/FY23 EPS ~4% and roll to a new Mar'22 TP of Rs 5,200 (vs. Rs 5,320).

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US and PSAI sales a drag: DRRD's Q3 sales missed estimates by 5% as: (1) US sales declined 5% QoQ to US$ 237mn due to price erosion in some key molecules and slowdown in hospital-based products due to Covid, and (2) PSAI sales moderated after higher stocking in H1. The company launched four ANDAs in Q3 (19 in 9M), including several niche products. A potential Q1FY22 launch for gVascepa (~US$ 50mn sales opportunity) should aid growth in coming quarters. DRRD retains its +30-launch target for FY21. Russia/CIS grew 11% QoQ and EM was up 16% on volume recovery. We expect US sales of US$ 1.4bn by FY23 (20% CAGR over FY21, 5% ex-Copaxone, Vascepa).

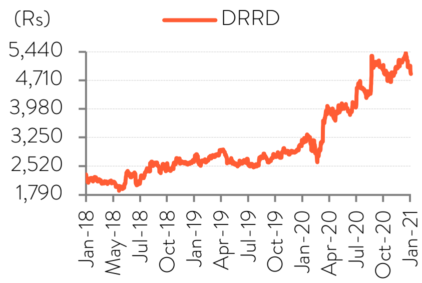
Weak Q3 margins likely to recover: EBITDA margin of 23% (H1: 25%) shrank 200bps QoQ due to higher SG&A spends (+14% QoQ on one-offs incurred to build digital capabilities across plants besides higher freight) and a 1ppt impact from export incentive withdrawal. We expect margin recovery as the SG&A base moderates, US sales recover and new incentive schemes come in.

Earnings call takeaways: (1) DRRD remains positive on PSAI opportunities. (2) Target of 125mn dose capacity in Sputnik-V vaccine over time; phase-3 trial completion by May'21. (3) Proprietary product sales grew 147% QoQ (incl. milestone income of Rs 500mn). (4) Nuvaring impairment charge: Rs 3.2bn.

Ticker/Price	DRRD IN/Rs 4,603
Market cap	US$ 10.5bn
Shares o/s	166mn
3M ADV	US$ 82.8mn
52wk high/low	Rs 5,513/Rs 2,495
Promoter/FPI/DII	27%/27%/18%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	153,852	174,601	192,164	215,621	250,231
EBITDA (Rs mn)	31,333	40,942	46,655	51,230	63,361
Adj. net profit (Rs mn)	17,895	32,248	27,196	31,353	41,295
Adj. EPS (Rs)	107.8	194.3	163.8	188.9	248.8
Adj. EPS growth (%)	90.3	80.2	(15.7)	15.3	31.7
Adj. ROAE (%)	13.8	23.1	18.0	18.1	20.1
Adj. P/E (x)	42.7	23.7	28.1	24.4	18.5
EV/EBITDA (x)	25.3	19.2	16.5	14.5	11.3

Source: Company, BOBCAPS Research

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ADD
TP: Rs 1,070 | ▲ 2%

LUPIN | Pharmaceuticals | 29 January 2021

In-line Q3; several near-term catalysts

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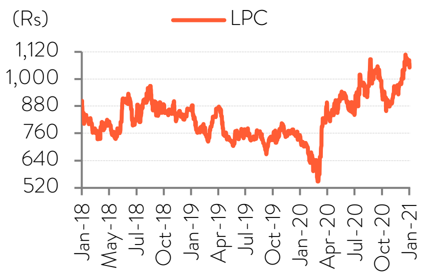
Lupin's (LPC) EBITDA was boosted by one-time licensing income (Rs 700mn est.). Adj. EBITDA was in line at Rs 7.1bn on controlled cost. The miss on US sales (weak flu season) was offset by an EM beat. LPC retains guidance of 20-22% margins in the mid-term, baking in full benefits of gProAir, Glumetza and stable India profits. Near-term growth catalysts (gProAir, Fortamet launch, Fostair/ Spiriva approval, cost levers) and a strong FY22 US filing pipeline will enhance stock upsides. On rollover, we have a new Mar'22 TP of Rs 1,070 (vs. Rs 990).

Ticker/Price	LPC IN/Rs 1,049
Market cap	US$ 6.5bn
Shares o/s	453mn
3M ADV	US$ 47.2mn
52wk high/low	Rs 1,122/Rs 505
Promoter/FPI/DII	47%/25%/12%

Source: NSE

STOCK PERFORMANCE



Source: NSE

US miss offset by APAC/ROW/API sales beat: US sales were a tad short of estimates at US$ 196mn (+3% QoQ) due to a weak flu season, but the business saw good contribution from gProAir (4% market share), the Lapatinib launch (US$ 5mn), Apriso AG and Myfortic DR. Upsides from gGlumetza, Divalproex S and Fosaprepitant should reflect from Q4. Levo market share gains were gradual (~14%). India sales rebounded by 5% YoY (flattish in Q2) and APAC+ROW was a beat (+27% QoQ). EMEA momentum sustained led by NaMuscla ramp-up and the gEnbrel launch in new markets (France). LPC expects 35 US filings and 25 approvals in FY22 (incl. 6+ filings in complex injectables & 4 in inhalers).

Adj. margins steady; 20-22% guidance retained: EBITDA margins improved QoQ to 19.4% (18% ex-one-off vs. 16.8% estimated), aided by cost calibration – R&D spends dropped to 8.7% of sales (LPC targets 9% for FY21 vs. 9.6% in 9M) and staff cost+SGA declined 3% YoY. Management expects 20-22% margins in the mid-term led by operating leverage and sustained cost control.

Earnings call takeaways: (1) gProAir ramping up supply. (2) Spiriva remains FY23 US launch opportunity – LPC expects district court decision in a year. (3) FDA inspection to start from H2FY22. (4) Q3 low tax rate on better subsidiary results; ETR expected in mid-30s for FY21. (5) Generic pricing stable for FY22.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	167,010	153,528	159,884	180,636	196,620
EBITDA (Rs mn)	27,020	23,330	25,408	31,309	36,586
Adj. net profit (Rs mn)	9,464	3,541	8,761	12,691	15,599
Adj. EPS (Rs)	20.9	7.8	19.4	28.0	34.5
Adj. EPS growth (%)	(44.8)	(62.6)	147.4	44.9	22.9
Adj. ROAE (%)	6.9	2.6	6.6	9.3	10.8
Adj. P/E (x)	50.2	134.1	54.2	37.4	30.4
EV/EBITDA (x)	19.5	22.5	20.0	15.6	13.2

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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