BOBCAPS
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FIRST LIGHT

31 January 2022

RESEARCH

Reliance Industries | Target: Rs 2,520 | +8% | HOLD

Broader growth canvas; raise to HOLD

Laurus Labs | Target: Rs 570 | +14% | HOLD

PAT declines 44% on negative operating leverage

Eris Lifesciences | Target: Rs 890 | +28% | BUY

Cardio-metabolic segment headwinds hamper growth

SUMMARY

Reliance Industries

- Q3 results a mixed bag – retail and oil & gas performed well but digital services and O2C delivered muted sequential growth
- RIL looks primed for a commendable 25% EBITDA CAGR over FY21-FY24E, new energy business may involve longer gestation periods
- TP revised to Rs 2,520 (from Rs 2,090); upgrade to HOLD given 8% upside potential

Click here for the full report.

Laurus Labs

- Inventory destocking in ARV API/FDF led to 20% YoY decline in revenue; guided to normalise from Q4
- Growth momentum continues in CDMO and non-ARV business. Management expects 30% EBITDA margin from FY22 onwards
- We cut FY22-FY24 EBITDA 26-27% and downgrade the stock from BUY to HOLD; on rollover, we have a revised TP of Rs 570 (vs. Rs 715)

Click here for the full report.

Daily macro indicators

Indicator	27-Jan	26-Jan	Chg (%)
US 10Y yield (%)	1.80	1.86	(6)
India 10Y yield (%)	6.75	6.66	9
USD/INR	75.0688	74.78	(0.4)
Brent Crude (US$/bbl)	89.3	90	(0.7)
Dow	34,161	34,168	0.0
Hang Seng	23,807	24,290	(2.0)
Sensex	57,277	57,858	(1.0)
India FII (US$ mn)	**25-Jan**	**24-Jan**	**Chg ($ mn)**
FII-D	(8.5)	138.6	(147.1)
FII-E	(931.2)	(522.8)	(408.4)

Source: Bank of Baroda Economics Research

BOBCAPS Research
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Eris Lifesciences

- Industry-wide slowdown in cardiometabolic segment (59% revenue share for ERIS) affected Q3 growth
- Better product mix and operating leverage lifted EBITDA margin by 210bps YoY to 36.6%
- We cut FY23-FY24 EBITDA by 10-12%. On rolling valuations over to FY24, we have a new TP of Rs 890 (vs. Rs 975); retain BUY

Click here for the full report.

COMPANY UPDATE

HOLD
TP: Rs 2,520 | ⮝ 8%

RELIANCE INDUSTRIES | Oil & Gas | 28 January 2022

Broader growth canvas; raise to HOLD

- **Q3 results a mixed bag – retail and oil & gas performed well but digital services and O2C delivered muted sequential growth**
- **RIL looks primed for a commendable 25% EBITDA CAGR over FY21-FY24E, new energy business may involve longer gestation periods**
- **TP revised to Rs 2,520 (from Rs 2,090); upgrade to HOLD given 8% upside potential**

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Q3 marginally ahead of consensus: RIL's Q3FY22 segmental EBITDA increased only 13% QoQ as stronger growth in retail (31%) and oil & gas (90% off a low base) was offset by a muted uptick in the digital (7%) and oil-to-chemicals (O2C: 6%) businesses. While the retail business leveraged its expanded presence with recovery from Covid and the festive season, the oil & gas division benefitted from a 69% QoQ increase in gas realisation. On the other hand, subscriber rationalisation weighed on digital services, whereas higher feedstock and energy prices suppressed O2C growth.

Geared for significant profit expansion…: We expect a 25% CAGR in EBITDA over FY21-FY24. Growth in cyclical businesses is likely to be front-loaded (44% in FY22 and 6% CAGR over FY23-FY24) with recovery in margins, restoration of O2C throughput and ramp-up of gas production. In contrast, we expect consumer-facing businesses to see only a modest recovery of 15% in FY22 but to accelerate to a 31% CAGR over FY23-FY24.

…but also long gestation periods: RIL has successfully transitioned from its legacy of an old-economy industrial business house to a consumer conglomerate, achieving leadership in both digital and retail ventures. It now aims to broaden its growth canvas to include new energy. This transformation would require absorption of early-stage technologies and nurturing of evolving green technologies. The shift also exposes RIL to the complex integration of new capabilities with legacy business to sustain growth momentum. We believe current valuations adequately capture both the risks and rewards with these new technologies that would entail long gestation periods.

Upgrade to HOLD: We have a revised TP of Rs 2,520 for RIL (up from Rs 2,090) with an SOTP valuation for the refining (7.5x FY24E EV/EBITDA), petrochemicals (8.5x), telecom (Jio Infocomm: 10x) and retail (32x) businesses. Our TP includes Rs 111 for the value of its venture into digital services and Rs 47 for the new energy division. We upgrade our rating from REDUCE to HOLD given 8% upside potential from the current market price.

Key changes

Target	Rating
▲	▲

Ticker/Price	RIL IN/Rs 2,336
Market cap	US$ 210.4bn
Free float	49%
3M ADV	US$ 209.9mn
52wk high/low	Rs 2,751/Rs 1,830
Promoter/FPI/DII	50%/25%/14%

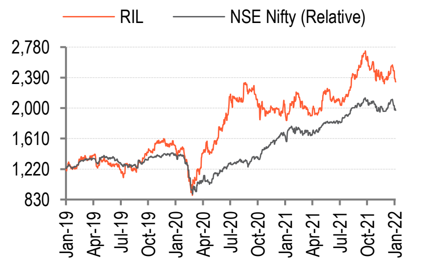
Source: NSE | Price as of 28 Jan 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	46,69,240	68,85,377	79,00,553
EBITDA (Rs mn)	8,07,370	11,38,765	13,75,862
Adj. net profit (Rs mn)	4,36,628	5,82,093	7,18,765
Adj. EPS (Rs)	67.7	90.3	106.2
Consensus EPS (Rs)	67.7	87.7	112.3
Adj. ROAE (%)	7.6	8.0	9.1
Adj. P/E (x)	34.5	25.9	22.0
EV/EBITDA (x)	23.0	16.1	13.2
Adj. EPS growth (%)	(0.3)	33.3	17.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

HOLD
TP: Rs 570 | ⮝ 14%

LAURUS LABS | Pharmaceuticals | 29 January 2022

PAT declines 44% on negative operating leverage

- **Inventory destocking in ARV API/FDF led to 20% YoY decline in revenue; guided to normalise from Q4**
- **Growth momentum continues in CDMO and non-ARV business. Management expects 30% EBITDA margin from FY22 onwards**
- **We cut FY22-FY24 EBITDA 26-27% and downgrade the stock from BUY to HOLD; on rollover, we have a revised TP of Rs 570 (vs. Rs 715)**

Surajit Pal | Saad Shaikh
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Revenue affected by channel destocking of ARV drugs: Laurus reported a 20% YoY drop in Q3FY22 revenue because of lower sales of ARV APIs and formulations (60% of revenue). ARV APIs declined 64% YoY while generic FDF fell 13% YoY. Management expects the sharper-than-expected slowdown to be transient and to normalise from Q4FY22.

Momentum in custom synthesis; strong growth in non-ARV APIs: Laurus's continued focus on non-ARV APIs and CDMO synthesis is paying off, with higher contribution and growth of 63% YoY in CDMO, 37% in other APIs and 33% in oncology APIs. Expansion of CDMO capability is on track and the company has a strong outlook for the business.

Negative operating leverage squeezes EBITDA: Gross margin for the quarter improved by 400bps YoY and 300bps QoQ to 58.8% due to a better product mix. A lack of operating leverage caused EBITDA margin to contract 540bps YoY and 100bps QoQ to 27.7%. With ongoing brownfield and greenfield capacity expansion, 25% of gross block remains non-operational which increases operating costs without revenue contribution. Global inflation in APIs and solvents also affected gross margin in Q3. Management is, however, optimistic of maintaining 30% EBITDA margins in FY22 and beyond.

Downgrade to HOLD, TP reduced to Rs 570: Given high industry-wide channel inventory and slower demand for ARV formulations and APIs, we cut our FY22-FY24 EBITDA estimates by 26-27% and downgrade the stock to HOLD from BUY. On rollover, we have a revised TP of Rs 570 (from Rs 715) based on 17x FY24E EV/EBITDA. Laurus is investing Rs 15bn-17bn over the next two years to expand capacity in the CDMO/non-ARV business. While we are positive on prospects of the non-ARV portfolio, the benefits are likely to be back-ended. In the interim, we expect a fall in return ratios and asset-turnover ratios.

Key changes

Target	Rating
▼	▼

Ticker/Price	LAURUS IN/Rs 500
Market cap	US$ 3.6bn
Free float	74%
3M ADV	US$ 19.7mn
52wk high/low	Rs 724/Rs 333
Promoter/FPI/DII	27%/23%/5%

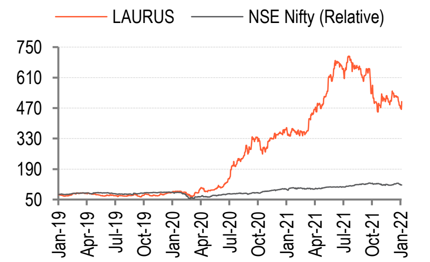
Source: NSE | Price as of 28 Jan 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	48,135	46,690	54,392
EBITDA (Rs mn)	15,331	13,540	15,774
Adj. net profit (Rs mn)	9,660	7,771	9,000
Adj. EPS (Rs)	18.0	14.5	16.8
Consensus EPS (Rs)	18.0	19.1	25.2
Adj. ROAE (%)	44.2	26.5	24.5
Adj. P/E (x)	27.8	34.5	29.8
EV/EBITDA (x)	18.2	20.8	17.9
Adj. EPS growth (%)	276.6	(19.6)	15.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 890 | ⮝ 28%

ERIS LIFESCIENCES | Pharmaceuticals | 29 January 2022

Cardio-metabolic segment headwinds hamper growth

- **Industry-wide slowdown in cardiometabolic segment (59% revenue share for ERIS) affected Q3 growth**
- **Better product mix and operating leverage lifted EBITDA margin by 210bps YoY to 36.6%**
- **We cut FY23-FY24 EBITDA by 10-12%. On rolling valuations over to FY24, we have a new TP of Rs 890 (vs. Rs 975); retain BUY**

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Industry-wide slowdown in cardiometabolic segment: ERIS reported modest 7% YoY (-8% QoQ) growth in Q3FY22 revenue primarily due to a broad slowdown in the cardiometabolic segment (59% of revenue). Shift in preference for class of molecules by medical practitioners in the cardiometabolic market cause only 6% YoY (-7% QoQ) growth in the segment, albeit still ahead of the market. Management believes this slowdown is temporary and expects recovery in the next 2-3 quarters. Key drug Zomelis continues to perform better than expectations and is clocking a run-rate of Rs 70mn a month.

Robust therapy-wise performance: ERIS outperformed the IPM in all its top five key therapeutic areas: oral anti-diabetes (revenue up 18% YoY vs. 6% for the IPM), cardiology (17% vs. 9%), VMN (12% vs. 7%), CNS (17% vs. 8%) and women's health (13% vs. 8%).

Margin improves despite modest revenue growth: EBITDA margin expanded 210bps YoY to 36.6% on the back of improving MR productivity, a better product mix and operating leverage. Gross margin in 3Q for the quarter was largely stable at 81.5%.

India insulin foray in Q4 to compliment diabetes portfolio: ERIS plans to expand in the anti-diabetes segment by venturing into injectable insulin after an in-licensing agreement with MJ Pharma. It will initially launch human insulin and an insulin pen cartridge in the Indian market in Feb'22, followed by the long-acting Glargine in CY23, and then Aspart and insulin analogue.

Maintain BUY: We cut our revenue/EBITDA estimates for FY23 by 6%/12% and for FY24E by 7%/10% to build in cardiometabolic market headwinds. We also lower our target EV/EBITDA multiple to 19x (23x implied P/E) from 20x – a 15% discount to MNC pharma peers who trade at an average of 22.6x – and roll valuations forward to FY24. Retain BUY with a revised TP of Rs 890 (vs. Rs 975) as we continue to like ERIS for its focused presence in the chronic space and superior physician reach.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ERIS IN/Rs 696
Market cap	US$ 1.3bn
Free float	27%
3M ADV	US$ 1.0mn
52wk high/low	Rs 863/Rs 474
Promoter/FPI/DII	53%/13%/10%

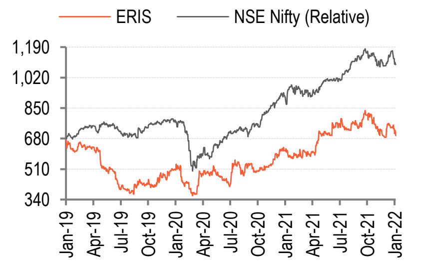
Source: NSE | Price as of 28 Jan 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	12,119	13,446	14,901
EBITDA (Rs mn)	4,306	5,020	5,436
Adj. net profit (Rs mn)	3,551	4,073	4,448
Adj. EPS (Rs)	26.2	30.0	32.8
Consensus EPS (Rs)	26.2	29.9	34.8
Adj. ROAE (%)	27.3	25.8	23.5
Adj. P/E (x)	26.6	23.2	21.3
EV/EBITDA (x)	21.6	18.6	17.0
Adj. EPS growth (%)	19.8	14.7	9.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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