

RESEARCH

BOB Economics Research | Monthly Chartbook

India's Covid curve tapering off

BOB Economics Research | IIP

Broad based expansion in industrial activity

L&T Infotech | Target: Rs 3,860 | +19% | BUY

Strong pipeline to carry the momentum

Cipla | Target: Rs 900 | +19% | BUY

Revlimid settlement: Cipla gains but limited NPV loss for Dr Reddy's

SUMMARY

India Economics: Monthly Chartbook

India's Covid-19 curve is showing signs of tapering off with 7-day average additions of 50k compared with a 30-day and 90-day average of 56k and 65k respectively. This gives us optimism that consumption will see signs of improvement as seen in pick-up in air traffic and non-oil-non-gold imports. On the other hand, industrial activity is showing some signs of tapering off. Government investment too remains weak as seen in 27.8% drop in state government capex despite a 40% increase in borrowings. At the same time, inflationary pressure continues to build up with higher oil and commodity prices leaving no room for RBI to cut rates. In fact, RBI may have to lower the durable liquidity in the system sometime next year.

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	900
GAIL	Buy	155
Petronet LNG	Buy	330
TCS	Buy	3,180
Tech Mahindra	Buy	1,040

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Greenply Industries	Buy	150
Laurus Labs	Buy	410
Transport Corp	Buy	300
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.91	(3bps)	(2bps)	(99bps)
India 10Y yield (%)	5.92	0bps	4bps	(86bps)
USD/INR	73.67	(0.1)	0.6	(4.0)
Brent Crude (US\$/bbl)	50.25	2.8	18.5	(21.7)
Dow	29,999	(0.2)	2.9	6.6
Shanghai	3,373	0	0	15.7
Sensex	45,960	(0.3)	7.9	13.3
India FII (US\$ mn)	9 Dec	MTD	CYTD	FYTD
FII-D	10.6	304.3	(14,314.9)	(4,555.4)
FII-E	496.4	2,813.4	18,919.2	25,522.1

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



India Economics: IIP

India's industrial output surprised positively in Oct'20 at 3.6% from an increase of 0.5% in Sep'20. Consumer durables output jumped by 17.6%, a 5-year high, infra goods by 7.8% and FMCG by 7.5%. Even capital goods output increased by 3.3%, first expansion since Jan'19. While high frequency indicators suggest marginal cooling off in Nov'20 as seen in domestic PMIs, E-Way bills, exports and electricity generation. However, government spending is likely to pick-up thus driving growth upwards.

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

L&T Infotech

L&T Infotech's (LTI) analyst meet focused on cloud and data products which are expected to be the new growth engines. The order pipeline remains strong despite the slump in H1FY21, with LTI bagging seven large deals of US\$ 456mn TCV in the last 12 months. The ~US\$ 207mn contract with Middle East-based cloud provider Injazat was the highlight. Management is committed to keeping PAT margin in the 14-15% band, indicating strong profitable growth. We raise FY22/FY23 EPS by 6%/7% and our Sep'21 TP to Rs 3,860 (vs. Rs 3,590). BUY.

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

Cipla

In our view, the gRevlimid settlement is positive for Cipla's stock given the market was not factoring in potential upside sooner from this opportunity. Importantly, this enhances confidence in Cipla's capability and focus toward maximising the value opportunity in complex generics. It is not yet clear whether the settlement terms are similar to DRRD's, but based on average 10% market share (FY23 to Jan'26) and 70% price erosion, we arrive at an NPV of ~US\$ 300mn (Rs 30-35/sh) for Cipla. DRRD's NPV impact is not straightforward – management believes this could be neutral event. Our worst-case estimate of Rs 250-300/sh for DRRD's Revlimid NPV should remain largely protected.

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

India's Covid curve tapering off

India's Covid-19 curve is showing signs of tapering off with 7-day average additions of 50k compared with a 30-day and 90-day average of 56k and 65k respectively. This gives us optimism that consumption will see signs of improvement as seen in pick-up in air traffic and non-oil-non-gold imports. On the other hand, industrial activity is showing some signs of tapering off. Government investment too remains weak as seen in 27.8% drop in state government capex despite a 40% increase in borrowings. At the same time, inflationary pressure continues to build up with higher oil and commodity prices leaving no room for RBI to cut rates. In fact, RBI may have to lower the durable liquidity in the system sometime next year.

Gradual recovery continues: India's industrial recovery is showing some signs of tapering off with manufacturing PMI at (56.3 in Nov'20), electricity output at 3.5% (12.1% in Oct'20) and core index at (-) 2.5% versus (-) 0.1%. On the other hand, the decline in Covid-19 curve has opened up room for uptick in consumption and services activity such as air travel (-56.8% in Oct'20 versus -65.1% in Sep'20). FMCG firms and RBI's consumer survey shows essentials driving spending. Rural economy is resilient with agri credit and wages showing upward momentum.

States cut their spending: General government fiscal deficit (12M sum basis) eased further to 9.6% in Oct'20 from 10% in Sep'20 led by spending restrictions. While centre's capex is lower by 1.9%, states have cut capex by 27.8%. Centre's tax collections are far better with indirect tax collections (excise on petroleum products and GST) looking up. State

spending is likely to remain muted this year. Gross borrowings of centre and states has increased by 67.3% and 48% this year and is on course to reach Rs 21tn this year.

Inflationary pressure remains firm: In Dec'20 petrol and diesel prices have increased by 3.8% and 6.5% MoM respectively given international crude prices have risen by 3.5% in Dec'20 and 5.9% in Nov'20. Global commodity prices have also risen (4.6% MoM increase). Pass through into domestic prices is inevitable. In addition, as many as 6 out of 12 food items are showing inflation in double digits. 10Y yield which has risen by 1bps in Dec'20. The sharp upward revision in inflation estimate by RBI leaves no room for rate cuts.

10Y yield in a tight range: India's 10Y yield is in a tight range with RBI and SCBs supporting the market. The spread of 3Y corporate bonds over relevant Gsec has fallen to 20bps in Nov'20 from 25bps in Oct'20. The 19bps and 23bps upturn in 1Y and 5Y OIS curve respectively implies yields are likely to go up.

Appreciating bias for INR: INR appreciated by 0.1% in Nov'20 as FII inflows picked up sharply to US\$ 9.2bn. Trade deficit too increased to US\$ 10bn from US\$ 8.7bn in Oct'20. A normalisation of economic activity implies imports will pick-up while exports will be muted due to economic impact of lockdowns in Europe and US. A current account surplus in FY21 bodes well for INR in the near-term.



Broad based expansion in industrial activity

India's industrial output surprised positively in Oct'20 at 3.6% from an increase of 0.5% in Sep'20. Consumer durables output jumped by 17.6%, a 5-year high, infra goods by 7.8% and FMCG by 7.5%. Even capital goods output increased by 3.3%, first expansion since Jan'19. While high frequency indicators suggest marginal cooling off in Nov'20 as seen in domestic PMIs, E-Way bills, exports and electricity generation. However, government spending is likely to pick-up thus driving growth upwards.

Sameer Narang

Jahnvi | Sonal Badhan

chief.economist@bankofbaroda.com

IIP bounces back: Industrial output jumped to eight month high of 3.6% in Oct'20 compared with 0.5% increase seen in Sep'20. This was driven by sharp pick-up in electricity and manufacturing (both at 8 month high). Electricity production rose by 11.2% from 4.9% in Sep'20 and manufacturing output was up by 3.5% from a 0.2% contraction seen in Sep'20. Only mining output fell, by 1.5% in Oct'20 after increasing by 1.4% last month.

Consumer durables output accelerates: Consumer durables output expanded to a 5-year high of 17.6% in Oct'20 from 3.4% in Sep'20. Both FMCG and infra goods registered sharp growth at 7.5% and 7.8% respectively in Oct'20. So is the case with capital goods which rose by 3.3% in Oct'20 compared with a decline of 1.3% in Sep'20. Even intermediate goods registered positive growth at 0.8% in Oct'20 (decline of 1% in Sep'20). However, growth in primary goods contracted further to 3.3% in Oct'20 from a decline of 1.5% in Sep'20 led by coke and refined petroleum products.

Recovery will be tad slower: While Oct'20 industrial output has surprised positively, growth is showing some signs of tapering off. High frequency indicators such as e-way bills (8.1% in Nov'20 against 21.4% in Oct'20), lower manufacturing PMI (56.3 in Nov'20 from 58.9 in Oct'20), merchandise exports at (-) 9.1% in Oct'20 versus (-) 5.1% in Oct'20 and electricity output (3.5% in Nov'20 against 12.1% in Oct'20) confirms this. However, there is room for upward surprise in government spending which can drive GDP growth. Hence, we believe there is a high probability of upward revision to our GDP growth forecast of (-) 8.2% in FY21.

KEY HIGHLIGHTS

- IIP growth at 3.6% in Oct'20.
- Manufacturing output at 8-month high at 3.5% in Oct'20.
- Consumer durable output rises sharply. Capital goods expands after 21 months.



BUY

TP: Rs 3,860 | ▲19%

L&T INFOTECH

| IT Services

| 11 December 2020

Strong pipeline to carry the momentum

L&T Infotech's (LTI) analyst meet focused on cloud and data products which are expected to be the new growth engines. The order pipeline remains strong despite the slump in H1FY21, with LTI bagging seven large deals of US\$ 456mn TCY in the last 12 months. The ~US\$ 207mn contract with Middle East-based cloud provider Injazat was the highlight. Management is committed to keeping PAT margin in the 14-15% band, indicating strong profitable growth. We raise FY22/FY23 EPS by 6%/7% and our Sep'21 TP to Rs 3,860 (vs. Rs 3,590). **BUY.**

Ruchi Burde | Seema Nayak

research@bobcaps.in

Traction in large deal pipeline: LTI's deal pipeline grew 62% YoY TTM (vs. ~42% last year), consisting of both existing and new logos. Management expects deal conversion to pick up in H2FY21. Most large contracts are in the areas of cloud, data, digital and vendor consolidation. Middle East and Central Europe are seeing better large-deal growth. The company has signed a six-year AED 760mn cloud partnership contract with Injazat (top cloud provider in the UAE with 50+ clients in the region), which will lend support to revenue growth. LTI will take over Injazat's ERP and infrastructure services to begin with, besides assisting in digital, cloud and ERP transformation projects.

Cloud and data products to be new growth engines: Cloud is LTI's US\$ 1bn bet. AWS, GCP, Azure and core digitisation have been the source of large cloud-based deals. LTI's business with hyperscalers is currently at US\$ 180mn+ and rising. Half of its 150+ clients are already on their cloud migration journey.

The company plans to have dedicated business units for different hyperscalers. It is building a cloud preference model based on verticals, platforms and functions (C4X) and investing heavily in cloud in the form of manpower training. It will also have a dedicated business unit for data products. SaaS versions of products have been launched to democratise these products for clients.

Ticker/Price	LTI IN/Rs 3,251
Market cap	US\$ 7.8bn
Shares o/s	176mn
3M ADV	US\$ 21.7mn
52wk high/low	Rs 3,513/Rs 1,210
Promoter/FPI/DII	75%/8%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	94,458	108,786	126,518	157,762	182,252
EBITDA (Rs mn)	18,835	20,291	26,839	32,670	37,778
Adj. net profit (Rs mn)	15,157	15,198	18,404	22,919	26,657
Adj. EPS (Rs)	86.5	86.4	104.9	130.6	151.9
Adj. EPS growth (%)	36.1	0.0	21.4	24.5	16.3
Adj. ROAE (%)	34.6	29.5	31.0	32.1	31.1
Adj. P/E (x)	37.6	37.6	31.0	24.9	21.4
EV/EBITDA (x)	30.2	28.0	21.3	17.5	14.9

Source: Company, BOBCAPS Research



BUY

TP: Rs 900 | ▲ 19%

CIPLA

Pharmaceuticals

12 December 2020

Revlimid settlement: Cipla gains but limited NPV loss for Dr Reddy's

Event: Cipla has announced settlement of the US patent litigation with Celgene for Revlimid (lenalidomide capsules). The settlement allows Cipla to manufacture and market limited volumes of gRevlimid after Mar'22, subject to USFDA approval, and unlimited volumes beginning 31 Jan 2026. The specific volume-limited licence date and percentages agreed upon are confidential.

gRevlimid settlement positive – estimate US\$ 300mn NPV: In our view, the gRevlimid settlement is positive for Cipla's stock given the market was not factoring in potential upside sooner from this opportunity. Importantly, this enhances confidence in Cipla's capability and focus toward maximising the value opportunity in complex generics. The company is the fourth player to settle on gRevlimid (US\$ 8bn brand sales in the US) after Natco/Teva, Alvogen, and Dr Reddy's (DRRD). It is not yet clear whether the settlement terms are similar to DRRD's, but based on average 10% market share (FY23 to Jan'26) and 70% price erosion, we arrive at an NPV of ~US\$ 300mn (Rs 30-35/sh) for Cipla.

Competition visibility: There are seven other players in litigation on the polymorphic forms (Sun, Apotex, Hetero, Cadila, Mylan, Aurobindo, Lupin). Mylan's trial date is in Oct'21; the court is yet to set trial dates for the others.

DRRD's NPV impact not straightforward – management believes this could be neutral event: Our worst-case estimate of Rs 250-300/sh for DRRD's Revlimid NPV should remain largely protected, in our view, due to fixed volume market share under the settlement and likely pricing discipline by players till Jan'26. We have assumed all eight players entering together in FY23 (worst case). With more players settling, our base-case NPV of US\$ 900mn (Rs 400/sh) could move to the worst case, which still implies a marginal 2-3% hit on the stock rather than any major impact.

Our interaction with DRRD's management suggests a neutral impact from the Cipla settlement given that Cipla will take share from Celgene and not generics. Also, there is a good chance that the launch dates for both players would differ by 3-6 months.

Vivek Kumar

research@bobcaps.in

Ticker/Price	CIPLA IN/Rs 756
Market cap	US\$ 8.3bn
Shares o/s	806mn
3M ADV	US\$ 86.7mn
52wk high/low	Rs 829/Rs 355
Promoter/FPI/DII	37%/26%/13%

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY21E	FY22E	FY23E
Total revenue (Rs mn)	186,103	198,465	213,811
EBITDA (Rs mn)	40,824	42,938	44,812
Adj. net profit (Rs mn)	22,122	23,200	24,864
Adj. EPS (Rs)	27.5	28.8	30.9
Adj. EPS growth (%)	39.5	4.9	7.2
Adj. ROAE (%)	12.6	11.8	11.4
Adj. P/E (x)	27.5	26.2	24.5
EV/EBITDA (x)	15.1	14.0	13.0

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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


Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

Rating distribution

As of 30 November 2020, out of 87 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 44 have BUY ratings, 15 have ADD ratings, 5 are rated REDUCE and 23 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS’s prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS’s associates may have financial interest in the subject company. BOBCAPS’s associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.