

## RESEARCH

### Wipro | Target: Rs 290 | -23% | SELL

Upbeat Q2 but mid-term growth outlook weak

### Automobiles | Q2FY21 Preview

Inventory buildup ahead of festive season; reduce exposure

### Pharmaceuticals | Q2FY21 Preview

Good Q2 for Cipla, Alembic, Alkem, Laurus

### Building Materials | Q2FY21 Preview

Unlocking to revive operational performance

## SUMMARY

### Wipro

Wipro (WPRO) delivered an upbeat QoQ performance in Q2FY21 with 2% CC revenue growth, ahead of our estimate of 1%. Operating margin at 19.2% came in below estimates. Given WPRO's past record of sluggish growth and CEO transition, we remain skeptical about mid-term prospects. Buyback-driven spike in share price does not look sustainable at current multiples. We increase FY21/FY22 EPS by 19%/12% to bake in new guidance and buyback. Reiterate SELL as we roll forward to a Sep'21 TP of Rs 290 (Rs 246 earlier).

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

### Automobiles: Q2FY21 Preview

During Q2FY21, most OEMs have built up dealer inventory on hopes of a strong revival in the upcoming festive season. With higher quarterly dispatches, we expect revenues and margins to expand on account of low-cost inventories and better operating efficiency. Our dealer checks suggest that Q2 retail sales were not very encouraging but hopes are pinned on flattish YoY festive season demand. After a sharp rally, we recommend booking profits in most OEMs. We have SELL ratings on AL, BJAUT, EIM, ESC, MM and TVSL; REDUCE on HMCL.

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

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Bajaj Finance</a>	Buy	4,000
<a href="#">Cipla</a>	Buy	850
<a href="#">GAIL</a>	Buy	155
<a href="#">Petronet LNG</a>	Buy	310
<a href="#">Tech Mahindra</a>	Buy	910

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,600
<a href="#">Chola Investment</a>	Buy	280
<a href="#">Laurus Labs</a>	Buy	1,200
<a href="#">Transport Corp</a>	Buy	270
<a href="#">Mahanagar Gas</a>	Sell	750

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.77	0bps	11bps	(96bps)
India 10Y yield (%)	5.90	(4bps)	(14bps)	(59bps)
USD/INR	73.27	(0.2)	0.4	(2.9)
Brent Crude (US\$/bbl)	28,838	0.9	4.2	7.7
Dow	3,358	2.6	3.0	11.7
Shanghai	40,594	0.2	4.5	6.2
Sensex	41.72	(2.6)	4.7	(29.7)
<b>India FII (US\$ mn)</b>	<b>9 Oct</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-D	399.4	(63.2)	(14,743.0)	(4,983.5)
FII-E	(171.4)	579.9	4,619.9	11,222.9

Source: Bank of Baroda Economics Research

## BOBCAPS Research

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## Pharmaceuticals: Q2FY21 Preview

We expect positive Q2 surprises from Cipla (led by gProventil, Remdesivir), ALPM (US, EU), Laurus and Alkem (better seasonality). A depressed cost base will aid margins YoY, but expect contraction QoQ on adverse forex and higher promotional spends. DRRD and ARBP should have a better H2 while Q2 looks stable with US sales up 3-5% QoQ. LPC (gProAir stocking, Enbrel) can show QoQ recovery but SUNP could be muted. India growth can deliver some surprise YoY. We expect AJP's Q2 to be weak and DIVI to see lumpy sales but strong margins.

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

## Building Materials: Q2FY21 Preview

We expect building material companies under our coverage to witness significant operational improvement QoQ given the gradual easing of Covid restrictions. MDF and pipe players are likely to post YoY revenue growth but the tiles and plywood segments are both projected to decline. Barring plywood companies, we forecast margin gains across the board backed by higher sales (pipes/MDF) and lower input & other costs (tile/sanitaryware). Management commentary on expected business pickup in H2 will be a key monitorable.

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

**SELL**

TP: Rs 290 | ▼ 23%

**WIPRO**

| IT Services

| 13 October 2020

## Upbeat Q2 but mid-term growth outlook weak

Wipro (WPRO) delivered an upbeat QoQ performance in Q2FY21 with 2% CC revenue growth, ahead of our estimate of 1%. Operating margin at 19.2% came in below estimates. Given WPRO's past record of sluggish growth and CEO transition, we remain skeptical about mid-term prospects. Buyback-driven spike in share price does not look sustainable at current multiples. We increase FY21/FY22 EPS by 19%/12% to bake in new guidance and buyback. Reiterate SELL as we roll forward to a Sep'21 TP of Rs 290 (Rs 246 earlier).

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**Topline beat; margin disappoints:** WPRO's 2% CC/3.7% USD topline growth outperformed our estimate of 1% CC/2.4% USD growth. Barring technology, growth was broad-based across verticals, spearheaded by telecom, retail and BFSI. However, the 19.2% operating margin for IT services fell short of our estimate of 19.6% due to higher employee cost. Tailwinds from operational efficiency (80bps) were offset by a 60bps impact from increased hiring, rupee appreciation and lower attrition.

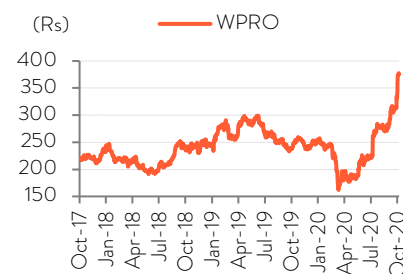
**Upbeat management outlook:** Management reinstated its guidance of 1.5-3.5% QoQ revenue growth for Q3FY21, taking into account headwinds from furloughs. Operating margin is also expected to be steady at ~19% despite the wage hike and bonus cycle in Q3. This guidance comes on the back of a robust order pipeline.

**New strategy unlikely to bridge growth gap with peers:** CEO Thierry Delaporte's prime focus will be on growth from existing accounts, expanding scale, partnerships, innovation and simplifying the operating model. The company expects this strategy coupled with a focus on next-gen services – cloud, AI, Digital, IoT and 5G – to drive growth. We see little difference from the previous CEO's four-pillared roadmap which failed to help WPRO bridge the gap with peers.

Ticker/Price	WPRO IN/Rs 376
Market cap	US\$ 29.3bn
Shares o/s	5,715mn
3M ADV	US\$ 86.7mn
52wk high/low	Rs 382/Rs 159
Promoter/FPI/DII	74%/9%/17%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	589,060	613,401	626,098	704,410	764,813
EBITDA (Rs mn)	121,661	124,867	134,541	139,668	156,617
Adj. net profit (Rs mn)	90,074	95,295	99,662	98,271	112,784
Adj. EPS (Rs)	14.9	16.7	17.7	17.4	20.0
Adj. EPS growth (%)	12.3	11.6	6.1	(1.4)	14.8
Adj. ROAE (%)	17.1	16.9	17.9	16.5	16.4
Adj. P/E (x)	25.2	22.5	21.3	21.6	18.8
EV/EBITDA (x)	18.4	17.3	15.5	15.1	13.5

Source: Company, BOBCAPS Research



**AUTOMOBILES**

Q2FY21 Preview

13 October 2020

**Inventory buildup ahead of festive season; reduce exposure**

During Q2FY21, most OEMs have built up dealer inventory on hopes of a strong revival in the upcoming festive season. With higher quarterly dispatches, we expect revenues and margins to expand on account of low-cost inventories and better operating efficiency. Our dealer checks suggest that Q2 retail sales were not very encouraging but hopes are pinned on flattish YoY festive season demand. After a sharp rally, we recommend booking profits in most OEMs. We have SELL ratings on AL, BJAUT, EIM, ESC, MM and TVSL; REDUCE on HMCL.

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**Inventory built up ahead of Oct-Dec festive season:** While the markets have cheered a strong revival in auto sales in Q2FY21 (primary sales from OEMs to dealers), most OEMs have built up dealer inventory – from 18-22 days as of Jun-end to 32-35 days as of Sep-end – on hopes of a strong demand revival in the upcoming festive season.

**Mixed sales outlook:** For Q2, we expect positive YoY revenue growth for Maruti Suzuki (MSIL), Hero Moto (HMCL), TVS Motor (TVSL), M&M (MM), Escorts (ESC), Swaraj Engines (SWE) and VST Tillers (VSTT). In contrast, we expect negative growth for Bajaj Auto (BJAUT), Eicher Motor (EIM) and Ashok Leyland (AL). Most players are likely to post stronger gross margins due to low-cost inventory and increased operating efficiencies.

**Channel checks suggest YoY sales contraction:** While monthly dispatches have been better than Q1, we remain cautious. Our channel checks with dealers in Rajasthan, Uttar Pradesh and Madhya Pradesh – constituting ~25% of the auto market – suggest that Q2 retail sales have not been very encouraging. Dealers pointed to significant pandemic-related stress across industries such as hotels, aviation, textiles, jewellery and mining. Agriculture demand remains strong and dealers are hoping for flattish festive period sales YoY.

**Maintain cautious view:** We believe stable festive sales augur well for the industry. Current inventories are not alarming and we have factored in a significant revival in demand from H2FY21 onwards. However, most auto stocks have rallied sharply in the recent past on strong dispatches and continue to be richly valued – much ahead of their long-term P/E multiples. Despite healthy festive demand expectations, we see no meaningful upside from current levels and hence recommend booking profits in most OEMs. We reiterate SELL on AL, BJAUT, EIM, MM, ESC and TVSL; HMCL remains REDUCE.

**RECOMMENDATION SNAPSHOT**

Ticker	Rating
APTY IN	BUY
AL IN	SELL
BJAUT IN	SELL
BIL IN	REDUCE
CEAT IN	REDUCE
EIM IN	SELL
ESC IN	SELL
HMCL IN	REDUCE
JKI IN	BUY
MM IN	SELL
MSIL IN	ADD
MDA IN	BUY
MRF IN	ADD
SWE IN	SELL
SRTY IN	BUY
TVSL IN	SELL
VSTT IN	BUY



## Good Q2 for Cipla, Alembic, Alkem, Laurus

We expect positive Q2 surprises from Cipla (led by gProventil, Remdesivir), ALPM (US, EU), Laurus and Alkem (better seasonality). A depressed cost base will aid margins YoY, but expect contraction QoQ on adverse forex and higher promotional spends. DRRD and ARBP should have a better H2 while Q2 looks stable with US sales up 3-5% QoQ. LPC (gProAir stocking, Enbrel) can show QoQ recovery but SUNP could be muted. India growth can deliver some surprise YoY. We expect AJP's Q2 to be weak and DIVI to see lumpy sales but strong margins.

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**Key to watch:** (1) **Alembic (ALPM):** Update on US business, QIP money utilisation, India growth recovery. (2) **Alkem:** Cost control sustainability. (3) **Aurobindo (ARBP):** US injectable sales recovery. (4) **Cipla:** Remdesivir upside, India outlook, Goa warning letter remediation, respiratory filings. (5) **Dr Reddy's (DRRD):** PSAI segment demand outlook, Copaxone CRL, Vascepa launch timeline. (6) **Divi's (DIVI):** QoQ sales and margin performance, update on China supply disruption. (7) **Lupin (LPC):** US recovery QoQ, approval timeline on gFostair in EU (Q3FY21), FDA reinspection for Somerset/Goa sites. (8) **Laurus:** TLE400 scale-up timeline, ARV demand outlook. (9) **Sun Pharma (SUNP):** Ramp-up in specialty products, cost control, update on Halol OAI.

### RECOMMENDATION SNAPSHOT

Ticker	Rating
AJP IN	BUY
ALPM IN	BUY
ALKEM IN	BUY
ARBP IN	BUY
CIPLA IN	BUY
DIVI IN	REDUCE
DRRD IN	ADD
LAURUS IN	BUY
LPC IN	ADD
SUNP IN	REDUCE

### FIG 1 – Q2FY21: US REVENUE EXPECTATIONS

(US\$ mn)	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21E	QoQ (%)	YoY (%)
AJP	9	11	15	16	22	20	20	22	9.3	38.7
ALPM	43	44	49	77	72	81	79	81	1.4	4.6
ALKEM	74	69	69	76	82	84	89	91	2.0	19.8
ARBP	338	352	384	405	418	415	414	427	3.1	5.4
CIPLA	118	162	160	136	133	119	136	141	3.5	3.5
DRRD	209	212	233	204	225	251	230	242	4.9	18.6
LPC	197	247	220	189	193	219	162	183	12.9	(3.3)
SUNP (ex-Taro)	186	264	259	179	203	202	167	182	8.9	1.9
TARO	176	180	161	161	148	175	118	130	10.5	(19.2)

Source: Company, BOBCAPS Research

### FIG 2 – Q2FY21 PREVIEW: EXPECT GOOD QUARTER FOR CIPLA, ALEMBIC, LAURUS AND ALKEM

Companies	Sales (Rs mn)			EBITDA (Rs mn)			PAT (Rs mn)			EBITDA margin (%)		
	Q2FY21E	YoY (%)	QoQ (%)	Q2FY21E	YoY (%)	QoQ (%)	Q2FY21E	YoY (%)	QoQ (%)	Q2FY21E	Q2FY20	Q1FY21
AJP	7,035	9.5	5.3	2,143	20.6	(4.1)	1,464	24.4	(1.1)	30.5	27.7	33.4
ALPM	13,611	9.7	1.5	3,946	14.2	(3.3)	2,617	6.2	(13.4)	29.0	27.9	30.4
ALKEM	23,887	5.5	19.2	5,344	18.1	0.2	4,234	14.2	0.3	22.4	20.0	26.6
ARBP	60,601	8.2	2.3	12,729	9.0	1.2	7,773	14.4	2.5	21.0	20.8	21.2
CIPLA	44,412	1.0	2.2	10,063	10.6	(4.1)	5,684	20.5	(1.7)	22.7	20.7	24.1
DRRD	46,051	(4.1)	4.2	10,783	(23.4)	(3.1)	6,341	(56.2)	9.4	23.4	29.3	25.2
LPC	38,773	(11.1)	9.9	6,078	(16.9)	24.5	2,392	(43.4)	124.4	15.7	16.8	13.8
SUNP	80,006	0.6	7.1	16,841	4.8	2.3	11,088	5.0	(41.8)	21.0	20.2	22.0
DIVI	16,285	16.0	(4.8)	6,290	29.6	(10.0)	4,370	28.5	(10.2)	38.6	34.6	40.9
LAURUS	10,457	46.8	7.3	3,076	123.0	10.4	1,925	239.4	11.9	29.4	19.4	28.6

Source: Company, BOBCAPS Research



## Unlocking to revive operational performance

We expect building material companies under our coverage to witness significant operational improvement QoQ given the gradual easing of Covid restrictions. MDF and pipe players are likely to post YoY revenue growth but the tiles and plywood segments are both projected to decline. Barring plywood companies, we forecast margin gains across the board backed by higher sales (pipes/MDF) and lower input & other costs (tile/sanitaryware). Management commentary on expected business pickup in H2 will be a key monitorable.

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**Tiles & Sanitaryware – improving sales trend:** The unlocking of Covid restrictions has led to an improving sales trend in tiles and sanitaryware, mainly in tier-2 cities and below. In the tiles segment, we expect revenues for Kajaria Ceramics/Somany Ceramics to contract at a slower pace of 12%/9% YoY (vs. -60%/-57% in Q1), whereas Cera Sanitaryware could clock a stable topline aided by traction in the sanitaryware and faucet segments. Operating margins are projected to improve or remain stable for all players under coverage aided by cost control and lower raw material cost.

**Plywood – still languishing; MDF – strong growth YoY:** Plywood sales are likely to return to ~70% of year-ago levels in Q2, steered by demand from markets beyond the top-10 cities. Operating margins in the plywood segment are likely to be weighed down by negative operating leverage. Greenply Industries' Gabon operations are expected to deliver robust revenue growth due to higher exports to Europe and Southeast Asia. In MDF, Greenpanel Industries and Century Plyboards are projected to post ~20% YoY revenue growth accompanied by margin expansion due to better capacity utilisation.

**Pipes & Adhesives – set for YoY growth:** We forecast revenue growth in the pipe segment aided by demand from the housing sector and also higher PVC resin prices. Operating margins are expected to expand for all players under our coverage, viz. Supreme Industries, Astral Poly (ASTRA) and Finolex Industries due to cost control initiatives during the pandemic and inventory gains on account of rising PVC resin prices. In adhesives, we anticipate topline growth for Pidilite Industries and ASTRA aided by the unlocking of markets, with operating margin expansion arising from lower RM cost.

**Watch for:** We await management commentary on the H2FY21 demand outlook in the wake of unlocking.

### RECOMMENDATION SNAPSHOT

Ticker	Rating
KJC IN	ADD
SOMC IN	BUY
CRS IN	ADD
PIDI IN	SELL
MTLM IN	BUY
CPBI IN	BUY
ASTRA IN	REDUCE
FNXP IN	BUY
SI IN	REDUCE
GREENP IN	BUY



## 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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