

RESEARCH

BOB Economics Research | Weekly Wrap

Central Banks on hold, India expands fisc support

Ajanta Pharma | Target: Rs 1,900 | +18% | BUY

NDR takeaways – Earnings drivers tracking well

HCL Technologies | Target: Rs 920 | +15% | BUY

Acquisition spree on; DWS to expand footprint in Australia

SUMMARY

India Economics: Weekly Wrap

Major central banks kept the policy rates on hold with US Fed likely to keep ultra-low rates till 2023. On the other hand, BoE hinted at negative rates with downside risks to growth. Global yields and equities ended the week mixed. US\$ continued to depreciate. On the domestic front, Government sought Parliamentary approval for additional spending of Rs 1.69tn. Even so, India's 10Y yield fell by 3bps as RBI announced OMO purchase of Rs 100bn. Borrowing calendar will be published towards end of the month.

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

Ajanta Pharma

We hosted investor meetings with the management of Ajanta Pharma (AJP). AJP expects significant earnings acceleration over the next 3-4 years (>25% CAGR per our estimates). Key drivers include brand franchise recovery (India+EM), high-teens growth in the US, operating leverage from the new facility and capex tailwinds. We expect these factors to bolster operating margins to 30% by FY23 (27% in FY20), aiding a stock rerating. Raise FY21-FY23 EPS by 3-5% and Sep'21 TP to Rs 1,900 (vs. Rs 1,730). BUY.

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	850
GAIL	Buy	155
Petronet LNG	Buy	310
Tech Mahindra	Buy	910

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Chola Investment	Buy	280
Laurus Labs	Buy	1,200
Transport Corp	Buy	270
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.69	1bps	3bps	(103bps)
India 10Y yield (%)	6.02	(2bps)	6bps	(77bps)
USD/INR	73.45	0.3	1.8	(3.5)
Brent Crude (US\$/bbl)	43.15	(0.3)	(5.1)	(32.9)
Dow	27,657	(0.9)	(0.4)	2.7
Shanghai	3,338	2.1	(3.3)	11.0
Sensex	38,846	(0.3)	0.8	2.2
India FII (US\$ mn)	17 Sep	MTD	CYTD	FYTD
FII-D	(36.3)	310.9	(14,779.1)	(5,019.6)
FII-E	(17.8)	563.0	5,370.4	11,973.3

Source: Bank of Baroda Economics Research

BOBCAPS Research

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HCL Technologies

HCL Technologies (HCLT) acquired Australian IT firm DWS for US\$115.8mn. This acquisition serves the purpose of expanding HCLT's reach in Australia and New Zealand (ANZ) and brings in marquee ANZ clientele. DWS has domain expertise in BFSI and Govt. and defence verticals, together forming 72% of its revenues. These verticals are a safe bet during the ongoing pandemic. For the long term, this acquisition looks EPS accretive, though the gains will be negligible. Retain BUY.

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WEEKLY WRAP

21 September 2020

Central Banks on hold, India expands fisc support

Major central banks kept the policy rates on hold with US Fed likely to keep ultra-low rates till 2023. On the other hand, BoE hinted at negative rates with downside risks to growth. Global yields and equities ended the week mixed. US\$ continued to depreciate. On the domestic front, Government sought Parliamentary approval for additional spending of Rs 1.69tn. Even so, India's 10Y yield fell by 3bps as RBI announced OMO purchase of Rs 100bn. Borrowing calendar will be published towards end of the month.

Sameer Narang | Jahnavi

chief.economist@bankofbaroda.com**Markets**

- **Bonds:** US 10Y yield rose by 3bps (0.69%) as Fed projected better growth outlook in CY20 (3.7% contraction against 6.5% contraction, estimated earlier). However, dot plot showed policy rate will be near zero till CY23. UK 10Y was flat (0.18%) as BoE hinted at negative rates. Oil prices rose by 8.3% (US\$ 43/bbl) due to supply disruption from Hurricane Sally. India's 10Y yield fell by 3bps (6.02%), supported by RBI's OMO purchase announcement of Rs 100bn. System liquidity surplus was at Rs 2.6tn as on 18 Sep 2020 compared with Rs 3.6tn in the previous week.
- **Currency:** Except EUR other global currencies closed higher against the dollar. DXY fell by 0.4% this week as US macro data remained weaker than anticipated (industrial production, retail sales and housing starts). JPY rose by 1.5% to a 6-month high on safe haven demand. GBP also rose by 0.9% even as BoE hinted at negative rates. INR rose by 0.1% in the week supported by FII inflows of US\$ 527mn.
- **Equity:** Global indices ended mixed as major central banks kept the policy rates on hold. Fed expects the rate to remain at current level till CY23. Shanghai Comp (2.4%) surged the most led by acceleration in industrial profits and retail sales. On other hand, Sensex ended flat with real estate gaining the most and banking stocks under-performing the most.
- **Upcoming key events:** In the current week, markets will await flash PMI data of major economies, along with US housing and jobless claims data. On the domestic front, government's H2 borrowing calendar is awaited and markets will also look for further direction from RBI to control yield curve.



BUY

TP: Rs 1,900 | ▲ 18%

AJANTA PHARMA

Pharmaceuticals

21 September 2020

NDR takeaways – Earnings drivers tracking well

We hosted investor meetings with the management of Ajanta Pharma (AJP). AJP expects significant earnings acceleration over the next 3-4 years (>25% CAGR per our estimates). Key drivers include brand franchise recovery (India+EM), high-teens growth in the US, operating leverage from the new facility and capex tailwinds. We expect these factors to bolster operating margins to 30% by FY23 (27% in FY20), aiding a stock rerating. Raise FY21-FY23 EPS by 3-5% and Sep'21 TP to Rs 1,900 (vs. Rs 1,730). BUY.

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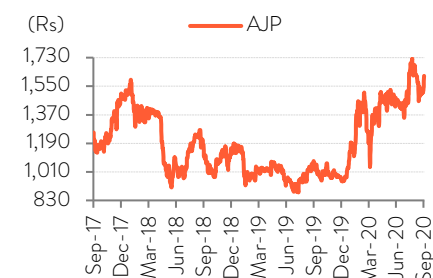
India business; FY21 decline but >10% growth from FY22: Sales improved marginally in Q1FY21 led by gradual recovery in the acute portfolio (dermatology, ophthalmology). The chronic business is doing well, and MR activity has returned to normal. Trade generic share has picked up from 3% in Q1 to ~5% now and is likely to be capped at this level. In Jul/Aug'20, India sales grew 9.4%/8% vs. 0.2%/-2.2% for industry, per AIOCD. AJP expects a 5-6% decline in FY21 sales and >10% growth beyond.

Ticker/Price	AJP IN/Rs 1,613
Market cap	US\$ 1.9bn
Shares o/s	88mn
3M ADV	US\$ 4.4mn
52wk high/low	Rs 1,760/Rs 903
Promoter/FPI/DII	71%/9%/9%

Source: NSE

US business- key 2H launches: Some of the key H2 launches planned for the US are Tamiflu suspension and Divalproex DR (both 4-5-player markets). AJP pegs revenue potential for each at US\$ 5mn-6mn and expects >20% US growth in FY21. Strong pipeline visibility should drive high-teens growth in the next 3-4 years. Management expects US EBITDA margins of >25% by FY23.

STOCK PERFORMANCE



EM – facing resistance: Branded EM business (Asia, Africa) is slowing due to Covid restrictions; hence growth for the rest of Q2 could be moderate (Q1: >23% YoY). AJP expects EM growth of 7-8% in FY21. Tender business outlook in Africa markets is muted at least in next two years.

...(continued in next page)

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	20,553	25,878	27,199	31,046	35,317
EBITDA (Rs mn)	5,653	6,944	7,597	8,870	10,434
Adj. net profit (Rs mn)	3,869	4,082	4,888	6,147	7,599
Adj. EPS (Rs)	44.1	46.6	55.7	70.1	86.6
Adj. EPS growth (%)	(17.4)	5.5	19.7	25.7	23.6
Adj. ROAE (%)	17.8	16.6	17.1	18.7	19.8
Adj. P/E (x)	36.6	34.7	28.9	23.0	18.6
EV/EBITDA (x)	24.9	20.3	18.5	15.7	13.1

Source: Company, BOBCAPS Research



BUY

TP: Rs 920 | ▲ 15%

HCL TECHNOLOGIES

| IT Services

| 21 September 2020

Acquisition spree on; DWS to expand footprint in Australia

HCL Technologies (HCLT) acquired Australian IT firm DWS for US\$115.8mn. This acquisition serves the purpose of expanding HCLT's reach in Australia and New Zealand (ANZ) and brings in marquee ANZ clientele. DWS has domain expertise in BFSI and Govt. and defence verticals, together forming 72% of its revenues. These verticals are a safe bet during the ongoing pandemic. For the long term, this acquisition looks EPS accretive, though the gains will be negligible. Retain BUY.

Ruchi Burde | Seema Nayak

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A tuck-in acquisition: DWS has extensive capabilities in the BFSI and Govt./Federal verticals which form ~72% of its total revenues. These verticals have been more resilient vs. the rest during the pandemic. Its management expects the good growth to continue driven by assured federal projects and state govt. work. DWS' FY20 annual revenue stood at AU\$167.9mn, which is roughly 1%+ of HCLT's FY20 revenue. EBITDA margin excluding one off acquisition costs stands at 15-17%. Despite the pandemic, its revenue grew by 2.7% and underlying EBITDA margin by 80bps, YoY. Though its revenue growth has fluctuated over the years, its 5-year CAGR stood strong at 12% over FY15-20.

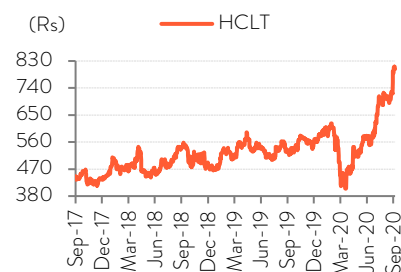
Geographical diversification: DWS' strong presence in Australia across Melbourne, Sydney, Canberra, Brisbane and Adelaide will help HCLT in geographic diversification. Out of its 150k employees, HCLT has only 1600 employees working in Australia. DWS will add its 700 employees to HCLT.

EPS accretive: Through small scale, this acquisition will be EPS accretive in our view. This acquisition will enhance HCLT's presence in Australia and New Zealand region especially in BFSI and Govt./defence segment creating potential for cross selling led synergies. Also, HCLT's robust track record with acquisitions is a plus.

Ticker/Price	HCLT IN/Rs 803
Market cap	US\$ 29.6bn
Shares o/s	2,713mn
3M ADV	US\$ 69.7mn
52wk high/low	Rs 850/Rs 375
Promoter/FPI/DII	60%/27%/13%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	6,04,280	7,06,780	7,52,867	8,42,502	9,21,977
EBITDA (Rs mn)	1,40,020	1,66,930	1,96,347	2,17,607	2,41,057
Adj. net profit (Rs mn)	99,757	1,10,940	1,24,938	1,35,450	1,53,388
Adj. EPS (Rs)	36.7	40.9	46.0	49.9	56.5
Adj. EPS growth (%)	16.3	11.5	12.6	8.4	13.2
Adj. ROAE (%)	25.2	23.5	22.5	21.8	22.0
Adj. P/E (x)	21.9	19.6	17.4	16.1	14.2
EV/EBITDA (x)	15.5	13.0	11.0	9.8	8.5

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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