

RESEARCH

Alembic Pharma | Target: Rs 1,180 | +17% | BUY

Good beat (ex-US) fuels earnings upgrade

Coforge | Target: Rs 2,630 | +7% | ADD

Executable order book hits record high

Bajaj Auto | Target: Rs 2,750 | -9% | SELL

Hazy near-term 2W outlook, 3Ws continue to lag

SUMMARY

Alembic Pharma

Alembic Pharma (ALPM) reported a 12% EBITDA beat, with strong growth in ROW, API and India while US sales were in line. Despite high gross margins QoQ, EBITDA margin at 30% delivered a limited beat as spends returned to pre-Covid levels. ALPM expects a healthy H2 despite pricing pressure in sartans, and is guiding for FY21/FY22 EPS of Rs 60/Rs 50 (which bakes in a hit of Rs 22/sh from new plant commissioning). We raise FY21-FY23 EPS by 11-30% and maintain BUY with a new Sep'21 TP of Rs 1,180 (vs. Rs 1,130).

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

Coforge

Coforge (erstwhile NIIT Tech) reported a robust Q2FY21 performance, marked by 8.1% QoQ CC revenue growth that was broad-based across verticals. Operating margin at 13.8% rose 220bps QoQ. Management's FY21 outlook was positive backed by its highest ever executable order book of US\$ 489mn. We raise FY21-FY23 EPS by 6-8% and roll forward to a new Sep'21 TP of Rs 2,630 (from Rs 2,110). Our target P/E stands revised from 18.5x to 21.5x backed by a robust deal pipeline and diversified revenue mix. Maintain ADD.

[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 (%)	0.82	4bps	13bps	(94bps)
India 10Y yield (%)	5.91	(2bps)	(10bps)	(60bps)
USD/INR	73.59	(0.2)	(0.2)	(3.8)
Brent Crude (US\$/bbl)	41.73	(3.3)	(3.3)	(31.8)
Dow	28,211	(0.3)	2.0	5.1
Shanghai	3,325	(0.1)	(0.4)	13.0
Sensex	40,707	0.4	4.8	4.2
India FII (US\$ mn)	20 Oct	MTD	CYTD	FYTD
FII-D	77.7	316.0 (14,363.8)	(4,604.3)	
FII-E	249.7	1,713.2	5,753.2	12,356.2

Source: Bank of Baroda Economics Research

BOBCAPS Research

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Bajaj Auto

Bajaj Auto's (BJAUT) Q2FY21 operating performance was in line with our estimates, but adj. PAT fell short (-19% YoY to Rs 11.4bn) owing to below-expected other income. Our 2W channel checks suggest a flattish festive season ahead – this along with weakening 3W sales could hurt BJAUT's profitability. We remain cautious and continue to model for a muted 3% earnings CAGR for the company during FY20-FY23. Our Sep'21 TP stays unchanged at Rs 2,750, set at 15x one-year forward EPS. Maintain SELL.

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

BUY

TP: Rs 1,180 | ▲ 17%

ALEMBIC PHARMA

Pharmaceuticals

22 October 2020

Good beat (ex-US) fuels earnings upgrade

Alembic Pharma (ALPM) reported a 12% EBITDA beat, with strong growth in ROW, API and India while US sales were in line. Despite high gross margins QoQ, EBITDA margin at 30% delivered a limited beat as spends returned to pre-Covid levels. ALPM expects a healthy H2 despite pricing pressure in sartans, and is guiding for FY21/FY22 EPS of Rs 60/Rs 50 (which bakes in a hit of Rs 22/sh from new plant commissioning). We raise FY21-FY23 EPS by 11-30% and maintain BUY with a new Sep'21 TP of Rs 1,180 (vs. Rs 1,130).

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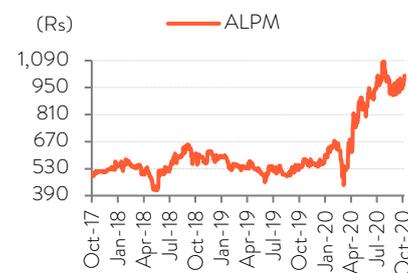
Extrapolating guidance, FY21-FY23 core EPS to grow 20%: FY21 guided EPS of Rs 60 includes several one-time benefits, in our view, totaling Rs 12/sh (Covid-related Rs 5, Sartans Rs 4, Azithromycin Rs 3). FY22 EPS of Rs 50 includes a one-time cost hit of Rs 22 (Rs 4.5bn) on three new units. We believe all of this cost should not reflect in FY22 – thus, core EPS can be ~Rs 55 after assuming a ~75% cost hit, implying 15% growth over FY21. Operating leverage from new units should kick in from FY23, driving a 20% EPS CAGR over FY21-FY23.

Ticker/Price	ALPM IN/Rs 1,012
Market cap	US\$ 2.7bn
Shares o/s	197mn
3M ADV	US\$ 6.7mn
52wk high/low	Rs 1,129/Rs 435
Promoter/FPI/DII	73%/10%/6%

Source: NSE

India beat; ROW/API pickup continue to surprise: India business posted 6% YoY growth led by strong antibiotic and gastro sales. ROW sales surged 84% YoY (73% in H1) led by market share gains. The China disruption-related opportunity aided API sales (+29% YoY) led by Azithromycin (+40% in H1). While ALPM expects this momentum to sustain in H2, we see growth challenges in FY22 over a high base. US sales grew by a muted US\$ 79mn QoQ as sartans saw pricing headwinds post new entrants. Given the large sartans franchise and several niche launches planned, we do not see material risk to sales.

STOCK PERFORMANCE



Source: NSE

Earnings call takeaways: (1) India sales: confident to retain Azithral share gains. (2) US sales guidance retained at US\$ 400mn-500mn in three years. (3) API capacity expansion underway. (4) Net debt at Rs 2.7bn (vs. Rs 12bn in Q1).

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	39,350	46,050	53,845	57,311	64,511
EBITDA (Rs mn)	8,737	12,223	15,436	14,166	16,877
Adj. net profit (Rs mn)	5,938	8,718	11,085	9,205	11,355
Adj. EPS (Rs)	31.0	46.3	58.8	48.8	60.2
Adj. EPS growth (%)	32.6	49.2	27.1	(17.0)	23.4
Adj. ROAE (%)	23.4	29.4	27.5	17.5	18.6
Adj. P/E (x)	32.6	21.9	17.2	20.7	16.8
EV/EBITDA (x)	23.1	16.9	13.7	14.7	11.7

Source: Company, BOBCAPS Research



ADD

TP: Rs 2,630 | ▲ 7%

COFORGE

| IT Services

| 22 October 2020

Executable order book hits record high

Coforge (erstwhile NIIT Tech) reported a robust Q2FY21 performance, marked by 8.1% QoQ CC revenue growth that was broad-based across verticals. Operating margin at 13.8% rose 220bps QoQ. Management’s FY21 outlook was positive backed by its highest ever executable order book of US\$ 489mn. We raise FY21-FY23 EPS by 6-8% and roll forward to a new Sep’21 TP of Rs 2,630 (from Rs 2,110). Our target P/E stands revised from 18.5x to 21.5x backed by a robust deal pipeline and diversified revenue mix. Maintain ADD.

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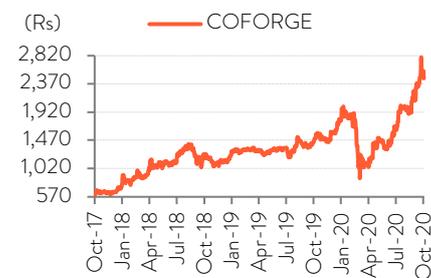
Strong Q2 growth: Coforge’s revenue grew by a stellar 8.1% QoQ CC vs. our estimate of 7%, driven by better utilisation and revenue mix diversification. Growth was broad-based across verticals, especially insurance. Travel recovered, growing 9.1% QoQ (INR terms) to form 19% of total revenue (with 5.5-6% coming from airlines). Revenue share of digital and product/IP-based business stood at 43% vs. 40% in Q1. EBIT margin at 13.8% (post-RSU) was broadly in line with estimates (13.5%), rising 220bps QoQ. Margins expanded on strong topline momentum, despite higher employee and SG&A costs.

Ticker/Price	COFORGE IN/Rs
	2,457
Market cap	US\$ 2.1bn
Shares o/s	62mn
3M ADV	US\$ 19.2mn
52wk high/low	Rs 2,814/Rs 735
Promoter/FPI/DII	70%/13%/17%

Source: NSE

Record-high TTM executable order book: Fresh order intake stood at US\$ 201mn with a record-high US\$ 489mn executable order book (up 5% QoQ, 21% YoY) over the next 12 months. Of the US\$ 201mn order book, US\$ 121mn came from the US, US\$ 58mn from EMEA and US\$ 21mn from RoW. Two large deals were signed in the insurance (worth US\$ 32mn) and BFS verticals.

STOCK PERFORMANCE



Source: NSE

Upbeat outlook: After delivering on Q2FY21 revenue and margin guidance, management expects FY21 organic growth to be at least 6% QoQ CC. EBIT margin guidance for the year has been maintained at 17.8% (before RSU cost). Coforge expects inorganic growth to also contribute in FY21.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	36,762	41,839	48,112	58,954	66,339
EBITDA (Rs mn)	6,453	7,431	8,414	10,641	11,761
Adj. net profit (Rs mn)	4,089	4,539	4,985	7,149	7,811
Adj. EPS (Rs)	66.2	73.5	80.7	115.7	126.4
Adj. EPS growth (%)	45.9	11.0	9.8	43.4	9.3
Adj. ROAE (%)	20.3	18.7	17.9	22.5	21.3
Adj. P/E (x)	37.1	33.4	30.4	21.2	19.4
EV/EBITDA (x)	23.0	19.6	16.8	12.8	11.2

Source: Company, BOBCAPS Research



SELL

TP: Rs 2,750 | ▼ 9%

BAJAJ AUTO

Automobiles

22 October 2020

Hazy near-term 2W outlook, 3Ws continue to lag

Bajaj Auto's (BJAUT) Q2FY21 operating performance was in line with our estimates, but adj. PAT fell short (-19% YoY to Rs 11.4bn) owing to below-expected other income. Our 2W channel checks suggest a flattish festive season ahead – this along with weakening 3W sales could hurt BJAUT's profitability. We remain cautious and continue to model for a muted 3% earnings CAGR for the company during FY20-FY23. Our Sep'21 TP stays unchanged at Rs 2,750, set at 15x one-year forward EPS. Maintain SELL.

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Q2 performance hit by lower other income: At Rs 71.6bn, Q2 revenue dipped 7% YoY, in line with our estimate. Despite BSVI changes and favourable forex tailwinds, the average blended realisation for the quarter inched up only 3% YoY to ~Rs 67.9k due to an adverse sales mix (lower 3W volumes). EBITDA margin at 17.7% was slightly lower than our projection of 18.7%. Adj. PAT was also short of estimates, falling 19% YoY to Rs 11.4bn due to lower other income (Rs 2.8bn vs. Rs 3.6bn est.) as investment yields declined.

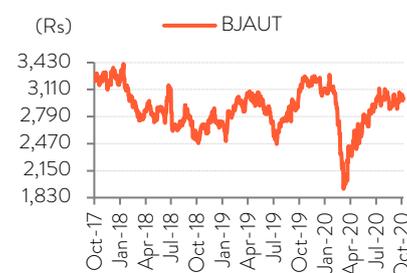
Remain cautious on near-term demand: BJAUT currently has 45-48 days of 2W inventory. We believe 2W festive sales in the domestic market would remain flattish at best. Lower 3W sales visibility is likely to result in a weaker sales mix in the near term and could adversely impact operating performance.

Maintain SELL: Assuming a 17% decline in FY21 sales, we project a volume CAGR of 1% for BJAUT over FY20-FY23. Operating margins are likely to sustain at ~17%, and we build in a revenue/EBITDA/PAT CAGR of 4%/6%/3% over our forecast period. The stock currently trades at 17.6x/15.6x FY22E/FY23E EPS. We retain our Sep'21 TP of Rs 2,750, set at an unchanged 15x one-year forward EPS. Maintain SELL.

Ticker/Price	BJAUT IN/Rs 3,006
Market cap	US\$ 11.8bn
Shares o/s	289mn
3M ADV	US\$ 39.1mn
52wk high/low	Rs 3,315/Rs 1,789
Promoter/FPI/DII	54%/14%/9%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	302,500	299,187	265,586	308,932	340,320
EBITDA (Rs mn)	49,820	50,962	46,179	53,885	60,551
Adj. net profit (Rs mn)	46,752	50,999	43,584	49,286	55,780
Adj. EPS (Rs)	152.2	176.2	150.6	170.3	192.8
Adj. EPS growth (%)	14.9	9.1	(14.5)	13.1	13.2
Adj. ROAE (%)	22.9	24.5	18.2	15.0	13.1
Adj. P/E (x)	19.8	17.1	20.0	17.6	15.6
EV/EBITDA (x)	17.3	16.8	17.3	13.6	11.4

Source: Company, BOBCAPS Research



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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