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TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

09 November 2020

RESEARCH

Divi's Labs | Target: Rs 3,520 | +9% | ADD
Flawless execution drives Q2 beat – upgrade to ADD

Balkrishna Industries | Target: Rs 1,600 | +10% | ADD
Upbeat volume outlook – upgrade to ADD

Cipla | Target: Rs 900 | +14% | BUY
Comprehensive Q2 beat; India drives good surprise

Astral Poly Technik | Target: Rs 1,180 | +1% | REDUCE
Reasonably good quarter; outlook improving

Inox Leisure | Target: Rs 315 | +18% | BUY
Cost control mitigates Q2 losses; content push awaited

Somany Ceramics | Target: Rs 280 | +23% | BUY
Good operational performance; sharp balance sheet improvement

Pidilite Industries | Target: Rs 1,310 | –18% | SELL
Margin gains to be neutralised by hardening RM prices

Alkem Labs | Target: Rs 3,600 | +31% | BUY
H1 gross margin beat sustainable; FCF to support rerating

Container Corp of India | Target: Rs 360 | –12% | SELL
Licensing fee jolt eclipses revival in operating performance

MRF | Target: Rs 73,200 | +7% | ADD
Strong Q2; earnings estimates raised

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	900
GAIL	Buy	155
Petronet LNG	Buy	310
TCS	Buy	3,180
Tech Mahindra	Buy	980

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 (%)	0.76	0bps	(2bps)	(115bps)
India 10Y yield (%)	5.86	(3bps)	(14bps)	(65bps)
USD/INR	74.39	0.5	(1.5)	(4.8)
Brent Crude (US$/bbl)	40.93	(0.7)	(0.9)	(34.3)
Dow	28,390	1.9	0.9	2.6
Shanghai	3,320	1.3	3.2	11.5
Sensex	41,340	1.8	6.1	1.7
India FII (US$ mn)	**4 Nov**	**MTD**	**CYTD**	**FYTD**
FII-D	(144.2)	20.1	(14,209.6)	(4,450.1)
FII-E	22.4	345.2	6,891.7	13,494.6

Source: Bank of Baroda Economics Research

BOBCAPS Research
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SUMMARY

Divi's Labs

Divi's Labs (DIVI) retained its strong execution in Q2, reporting an 18% EBITDA beat. Gross/EBITDA margins of 67%/43% hit multi-year highs, rising 420bps/ 260bps QoQ on better operating leverage and backward integration benefits. Generic API and CS sales mix was flat QoQ. DIVI is cautiously optimistic on H1 sales and margins but conservatively expects to sustain >60% gross margin. Fresh capex in CS is backed by strong order visibility. We raise FY21-FY23 EPS 3-9% and our Sep'21 TP to Rs 3,520 (vs. Rs 2,850). Upgrade to ADD (vs. REDUCE).

Click here for the full report.

Balkrishna Industries

Balkrishna Industries (BIL) posted strong volume growth of 36% YoY to 61.2k MT in Q2FY21, ahead of our projections. Revenue increased 47% YoY and EBITDA margin stood at 34% (+900bps YoY), beating our estimates. We raise volume assumptions by 4% each for FY21-FY23 and bake in better operating margins, leading to an earnings upgrade of 17%/9%/18% for FY21/ FY22/FY23. Our revised Sep'21 TP stands at Rs 1,600 (Rs 1,300 earlier) set at a higher 25x one-year fwd EPS (23x earlier). Upgrade to ADD from REDUCE.

Click here for the full report.

Cipla

Cipla reported a Q2 sales/EBITDA beat of 13%/17% led by (1) outperformance in India (Covid portfolio contributed ~5% sales/EBITDA) and CGA sales, and (2) cost control (–13% YoY). Excluding one-offs in trade generics, the EBITDA beat was still healthy at 10%. Margins were solid at 23.4% (22% ex-Albuterol). Steady cost optimisation and ROI improvement remain priorities. Albuterol ramp-up, Advair approval and a strong India franchise are key stock catalysts. We raise FY22-FY23 EPS by 7-13% and our Sep'21 TP to Rs 900 (vs. Rs 850).

Click here for the full report.

Astral Poly Technik

Astral Poly Technik's (ASTRA) consolidated revenue grew 10% YoY in Q2FY21, aided by 31% growth in the adhesives segment whereas pipes grew 4% (volumes up 2%). EBITDA margins expanded 170bps YoY to 19.2% led by the pipe business, supporting EBITDA/PBT growth of 21%/31% YoY. Management expects margins to improve and also guided for better growth in H2 based on a strong October performance. We raise FY21-FY23 EBITDA estimates by 10-27% and roll to a new Dec'21 TP of Rs 1,180 (from Rs 975). Maintain REDUCE on limited upside.

Click here **for the full report.**

Inox Leisure

A tight leash on operating cost and rent waivers helped Inox Leisure (INOL) mitigate its operating/net loss to Rs 318mn/Rs 679mn, in the absence of any revenue in Q2. About 85% of total screens have received permission to open, but INOL is grappling with weak footfall and operating metrics due to a lack of fresh content. Footfall ramp-up will take a few weeks as new movies trickle in, but a rise in opex is likely to fuel operating losses in Q3 as well. We lower FY22/FY23 EBITDA by 6%/7% and roll to a Dec'22 TP of Rs 315 (vs. Rs 330).

Click here **for the full report.**

Somany Ceramics

Somany Ceramics (SOMC) reported above-expected consolidated revenue of Rs 4.2bn (flat YoY) in Q2FY21, aided by a 3% uptick in tile volumes. Operating margins expanded 105bps YoY to 11.7%, fuelling 10%/55% YoY growth in EBITDA/ PBT. Consolidated debt reduced by ~Rs 1.2bn in FY21 YTD. Management expects a better Q3 and further balance sheet improvement, leading us to reset our target P/E to 15x (from 12x). We raise FY21-FY23 EBITDA estimates by 10-26% and roll forward to a revised Dec'21 TP of Rs 280 (from Rs 160).

Click here **for the full report.**

Pidilite Industries

Pidilite Industries (PIDI) reported in-line consolidated Q2FY21 revenue growth of 4% YoY, led by a 7% increase in C&B volumes. B2B volumes, however, dipped 7%. Operating margins expanded 690bps YoY to 27.3% due to lower RM and other expense, aiding EBITDA/PBT growth of 39%/35% YoY. Management is seeing an improving demand scenario with unlocking. We tweak FY21-FY23 PAT estimates and raise our target P/E to 42x from 40x. On rollover, we have a revised Dec'21 TP of Rs 1,310 (earlier Rs 1,195). Retain SELL on rich valuations.

Click here for the full report.

Alkem Labs

Alkem Labs posted a Q2 EBITDA beat of 12% led by lower SGA spends (–29% YoY) while sales were in line. Gross margin was healthy at 60.5% and EBITDA margin was at 25.4%. Part of cost savings are structural and hence H2 margins could expand further YoY. India trade generics grew a strong >20% YoY. US sales declined 4% QoQ. Alkem is cautiously optimistic of achieving early double-digit growth for India sales in H2 and is confident of >150bps EBITDA margin expansion in three years. Retain BUY; Sep'21 TP unchanged at Rs 3,600.

Click here for the full report.

Container Corp of India

Container Corp's (CCRI) Q2FY21 print was in line with our estimates. Revenue/ EBITDA declines eased to 14%/27% YoY (–27%/–61% in Q1), aided by a lower volume drop of 9% (vs. –21%). However, operational resilience was overshadowed by IR's steep LLF claim of Rs 13bn for 13 leased terminals vs. CCRI's assessment of Rs 4.7bn. Though management is confident of its calculation, the uncertainty remains a key overhang till the policy is finalised. We maintain estimates but move to a new Dec'21 TP of Rs 360 (vs. Rs 345) on rollover. Maintain SELL.

Click here for the full report.

MRF

MRF delivered a positive surprise on Q2FY21 revenue and earnings, led by strong replacement demand in Indian markets and above-expected operating efficiency. Revenue was up 6% YoY and operating margin expanded 670bps YoY. We raise FY21/FY22/FY23 earnings by 8%/3%/6% to bake in strong replacement demand, OEM segment revival and better margins, yielding a higher Sep'21 TP of Rs 73,200 (vs. Rs 67,000), set at 23x one-year fwd EPS (22x earlier). Maintain ADD as the 13% rally over the past month limits upsides.

Click here for the full report.

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ADD
TP: Rs 3,520 | ⮝ 9%

DIVI'S LABS | Pharmaceuticals | 07 November 2020

Flawless execution drives Q2 beat – upgrade to ADD

Vivek Kumar
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Divi's Labs (DIVI) retained its strong execution in Q2, reporting an 18% EBITDA beat. Gross/EBITDA margins of 67%/43% hit multi-year highs, rising 420bps/ 260bps QoQ on better operating leverage and backward integration benefits. Generic API and CS sales mix was flat QoQ. DIVI is cautiously optimistic on H1 sales and margins but conservatively expects to sustain >60% gross margin. Fresh capex in CS is backed by strong order visibility. We raise FY21-FY23 EPS 3-9% and our Sep'21 TP to Rs 3,520 (vs. Rs 2,850). Upgrade to ADD (vs. REDUCE).

Strong sales and multi-year high margins: Robust execution coupled with China supply derisking led to strong Q2 sales (+22% YoY), but margins were a bigger surprise. EBITDA margin scaled new highs QoQ to 43.5% (41% in Q1 and 34% in FY20), led mainly by gross margin expansion to 67% from 63% (backward integration benefit). Management has advised not to extrapolate Q2 given lumpiness in the business. In dollar terms, CS business grew 13% YoY (40% of the mix) and generic APIs 18% YoY. DIVI's order book has risen and operating leverage has improved; we raise FY21-FY23 EPS by 3-9%.

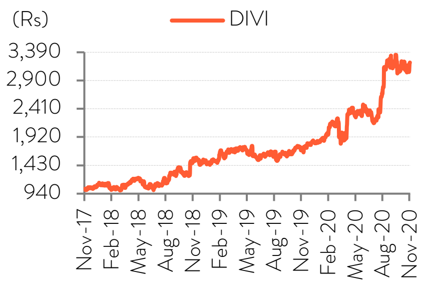
Capex on fast track and other takeaways: (1) Commercial benefit of new capex worth Rs 4bn in CS segment to start Jul/Aug'21. (2) Brownfield expansion for Unit 1/2 could be completed by FY21-end – all integration projects related to leadership molecules Naproxen and Gabapentin completed in Q2. (3) Kakinada site work to start from Dec'20 – ROI to take three years. (4) Q2 capitalisation stood at Rs 6.2bn (H1: Rs 8.3bn). (5) Q2 had Rs 123mn forex loss.

Upgrade to ADD: DIVI has the best execution record in the CDMO space. With Big Pharma outsourcing gaining momentum and a strong cost edge, its valuation premium can sustain. The stock is at 22x FY23E EBITDA (vs. 3Y band of 13-27x). We raise our TP to Rs 3,520 (set at 26x EV/EBITDA vs. 25x earlier).

Ticker/Price	DIVI IN/Rs 3,237
Market cap	US$ 11.6bn
Shares o/s	266mn
3M ADV	US$ 59.3mn
52wk high/low	Rs 3,389/Rs 1,626
Promoter/FPI/DII	52%/18%/17%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	49,462	54,088	67,089	79,175	92,122
EBITDA (Rs mn)	18,719	18,150	26,901	31,747	38,321
Adj. net profit (Rs mn)	13,219	12,903	18,697	22,269	27,187
Adj. EPS (Rs)	49.8	48.6	70.4	83.9	102.4
Adj. EPS growth (%)	55.8	(2.4)	44.9	19.1	22.1
Adj. ROAE (%)	20.6	18.2	23.6	23.9	25.0
Adj. P/E (x)	65.0	66.6	46.0	38.6	31.6
EV/EBITDA (x)	45.0	46.3	31.4	26.7	22.1

Source: Company, BOBCAPS Research

ADD
TP: Rs 1,600 | ▲ 10%

BALKRISHNA INDUSTRIES

| Auto Components | 07 November 2020

Upbeat volume outlook – upgrade to ADD

Balkrishna Industries (BIL) posted strong volume growth of 36% YoY to 61.2k MT in Q2FY21, ahead of our projections. Revenue increased 47% YoY and EBITDA margin stood at 34% (+900bps YoY), beating our estimates. We raise volume assumptions by 4% each for FY21-FY23 and bake in better operating margins, leading to an earnings upgrade of 17%/9%/18% for FY21/FY22/FY23. Our revised Sep'21 TP stands at Rs 1,600 (Rs 1,300 earlier) set at a higher 25x one-year fwd EPS (23x earlier). Upgrade to ADD from REDUCE.

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Volume growth drives Q2 performance: Buoyed by 36% YoY volume growth and 9% improvement in ASP, revenue at Rs 15.8bn (+47% YoY) came in ahead of our estimate. Better efficiencies further supported operating performance, leading to 900bps YoY EBITDA margin expansion to 34%. EBITDA doubled to Rs 5.4bn while adj. PAT increased 17% YoY to Rs 3.4bn (Q2FY20 had one-off tax reversal gains).

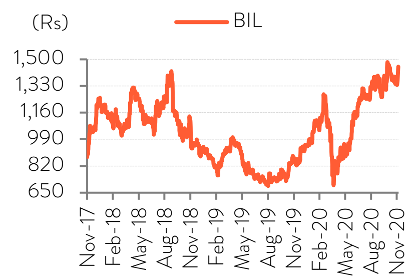
Robust business model: BIL mainly caters to the higher-margin segments (off-road vehicle and agricultural tyres) and benefits from a range of SKUs, its export focus and price advantage over rivals. A bulk of revenue (~77%) arises from exports, largely to replacement markets in Europe and the US. The company leverages cost benefits from its India manufacturing base to price products cheaper than competitors while still earning healthy 28-31% EBITDA margins.

Upgrade to ADD: We raise our volume growth estimates by 4% each for FY21-23. With better ASP, higher gross margins and improved operating efficiencies, we also expect a better EBITDA margin profile. We thus revise our FY21/FY22/FY23 earning forecast upwards by 17%/9%/18% and now expect the company to clock a revenue/EBITDA/PAT CAGR of 13%/18%/12%. Upgrade to ADD with a higher Sep'21 TP of Rs 1,600.

Ticker/Price	BIL IN/Rs 1,453
Market cap	US$ 3.8bn
Shares o/s	193mn
3M ADV	US$ 14.8mn
52wk high/low	Rs 1,515/Rs 679
Promoter/FPI/DII	58%/12%/18%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	52,445	47,825	52,225	61,860	68,479
EBITDA (Rs mn)	13,125	12,494	16,445	18,349	20,373
Adj. net profit (Rs mn)	7,820	9,450	9,877	11,343	13,248
Adj. EPS (Rs)	40.5	48.9	51.1	58.7	68.5
Adj. EPS growth (%)	5.8	20.8	4.5	14.8	16.8
Adj. ROAE (%)	16.7	18.8	16.7	16.6	16.8
Adj. P/E (x)	35.9	29.7	28.4	24.8	21.2
EV/EBITDA (x)	22.2	23.1	17.6	15.7	14.0

Source: Company, BOBCAPS Research

BOBCAPS
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BUY
TP: Rs 900 | ⮝ 14%

CIPLA | Pharmaceuticals | 07 November 2020

Comprehensive Q2 beat; India drives good surprise

Cipla reported a Q2 sales/EBITDA beat of 13%/17% led by (1) outperformance in India (Covid portfolio contributed ~5% sales/EBITDA) and CGA sales, and (2) cost control (–13% YoY). Excluding one-offs in trade generics, the EBITDA beat was still healthy at 10%. Margins were solid at 23.4% (22% ex-Albuterol). Steady cost optimisation and ROI improvement remain priorities. Albuterol ramp-up, Advair approval and a strong India franchise are key stock catalysts. We raise FY22-FY23 EPS by 7-13% and our Sep'21 TP to Rs 900 (vs. Rs 850).

Vivek Kumar
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All-round sales beat led by India; US in line: India sales grew 20% YoY (branded +14% YoY boosted by Covid portfolio). Trade generics saw bunching up in Q2 and hence should moderate. Consumerisation product trends continue to gain pace from the trade generics to OTC switch (contributed ~5% of sales). The Covid portfolio formed ~5% of sales – of this, ~30% is sustainable, per Cipla. US sales were led by Albuterol (~US$ 20mn). Cipla has clocked 84% of prescription share in Proventil (Proventil market share up to 10% from 6%). CGA tender sales grew 65% QoQ on a robust order book, EU 30% YoY and API 20% on a low base.

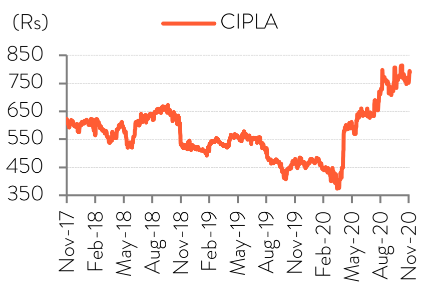
Margin beat; tracking ahead on targeted FY21 cost savings: Adj. EBITDA margin came in ahead of estimates at 22% led by (1) lower SGA (–13% YoY) due to cost optimisation, and (2) lower R&D-to-sales of 4.5% (could rise to 6% by Q4 on incremental Advair trials). Cipla is tracking ahead of the targeted Rs 4bn-5bn of cost savings from digital initiatives in FY21 and a majority of these savings are expected to continue at least for the next two years.

Earnings call takeaways: (1) US business margins trending close to company level in H1. (2) Albuterol: Cipla clocked 8% share of weekly Rx across brands. Share gains to be gradual; pricing stable. (3) Net cash at Rs 4.5bn (vs. net debt of Rs 8.1bn in Mar'20). (4) Remdesivir supplies commenced for multiple EMs.

Ticker/Price	CIPLA IN/Rs 790
Market cap	US$ 8.6bn
Shares o/s	806mn
3M ADV	US$ 90.9mn
52wk high/low	Rs 829/Rs 355
Promoter/FPI/DII	37%/26%/13%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	163,621	171,243	186,103	198,465	213,811
EBITDA (Rs mn)	30,973	32,574	40,824	42,938	44,812
Adj. net profit (Rs mn)	13,426	15,858	22,122	23,200	24,864
Adj. EPS (Rs)	16.7	19.7	27.5	28.8	30.9
Adj. EPS growth (%)	8.8	18.1	39.5	4.9	7.2
Adj. ROAE (%)	9.0	10.0	12.6	11.8	11.4
Adj. P/E (x)	47.4	40.1	28.8	27.4	25.6
EV/EBITDA (x)	21.3	20.1	15.7	14.6	13.6

Source: Company, BOBCAPS Research

REDUCE
TP: Rs 1,180 | ▲ 1%

ASTRAL POLY TECHNIK | Plastic Products | 07 November 2020

Reasonably good quarter; outlook improving

Astral Poly Technik's (ASTRA) consolidated revenue grew 10% YoY in Q2FY21, aided by 31% growth in the adhesives segment whereas pipes grew 4% (volumes up 2%). EBITDA margins expanded 170bps YoY to 19.2% led by the pipe business, supporting EBITDA/PBT growth of 21%/31% YoY. Management expects margins to improve and also guided for better growth in H2 based on a strong October performance. We raise FY21-FY23 EBITDA estimates by 10-27% and roll to a new Dec'21 TP of Rs 1,180 (from Rs 975). Maintain REDUCE on limited upside.

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Adhesives growth strong, pipes subdued: ASTRA's Q2 consolidated revenue grew 10% YoY to Rs 7.5bn, aided by growth in the adhesives segment. PVC pipe standalone revenues increased 4% YoY (volumes up 2%), but the adhesives business grew 31% due to benefits arising out of a change in distribution model undertaken in FY20. Management expects a better H2FY21 due to opening up of the economy. October was a strong month with pipes/ adhesives witnessing 85%/55% YoY growth.

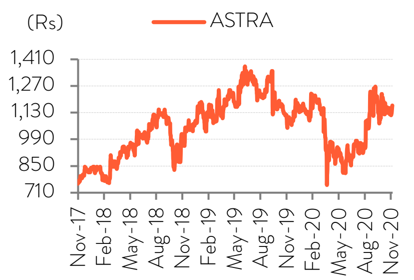
Piping business bolsters margins: ASTRA's operating margins swelled 170bps YoY to 19.2% in Q2, aided by a superior showing in the piping segment, which fuelled EBITDA/PBT growth of 21%/31% YoY. Pipe margins increased ~200bps YoY to 20.3% backed by rising PVC prices, and management expects profitability to remain robust. Adhesive margins increased ~135bps to 15.1% due to operating leverage. Management believes margins in the adhesive segment can improve further due to operating leverage.

Maintain REDUCE: We raise FY21-FY23 EBITDA estimates by 10-27% due to better margin guidance in both segments. Our PAT forecasts rise by 13-41% for the period. Though we like ASTRA for its strong brand name, wide reach and robust balance sheet, valuations at 39.6x FY23E P/E leave limited upside.

Ticker/Price	ASTRA IN/Rs 1,166
Market cap	US$ 2.4bn
Shares o/s	151mn
3M ADV	US$ 2.3mn
52wk high/low	Rs 1,315/Rs 746
Promoter/FPI/DII	56%/18%/26%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	25,073	25,779	27,829	33,729	39,545
EBITDA (Rs mn)	3,853	4,441	4,742	5,842	6,972
Adj. net profit (Rs mn)	1,992	2,498	2,793	3,647	4,439
Adj. EPS (Rs)	13.2	16.6	18.5	24.2	29.5
Adj. EPS growth (%)	17.4	25.4	11.8	30.6	21.7
Adj. ROAE (%)	17.4	18.0	17.5	20.0	21.1
Adj. P/E (x)	88.2	70.3	62.9	48.2	39.6
EV/EBITDA (x)	46.1	39.9	37.3	30.1	25.0

Source: Company, BOBCAPS Research

RESULT REVIEW

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BUY
TP: Rs 315 | ⮝ 18%

INOX LEISURE | Media | 07 November 2020

Cost control mitigates Q2 losses; content push awaited

A tight leash on operating cost and rent waivers helped Inox Leisure (INOL) mitigate its operating/net loss to Rs 318mn/Rs 679mn, in the absence of any revenue in Q2. About 85% of total screens have received permission to open, but INOL is grappling with weak footfall and operating metrics due to a lack of fresh content. Footfall ramp-up will take a few weeks as new movies trickle in, but a rise in opex is likely to fuel operating losses in Q3 as well. We lower FY22/FY23 EBITDA by 6%/7% and roll to a Dec'22 TP of Rs 315 (vs. Rs 330).

Sayan Das Sharma
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Content push awaited, expansion plans on track: Currently, 528 out of INOL's 626 screens are operational (incl. in Maharashtra from 5 Nov). But the absence of new movies has compelled INOL to show library content. This, despite heavy discounts on ticket prices (35-40%) and F&B, has failed to attract audiences. Per management, fresh content availability should gain traction now that Maharashtra screens are reopening, which would raise occupancy – as evident in W. Bengal during the festive season. INOL maintains a target of 41 new screen openings in FY21 and a long-term pipeline of 1,000 screens.

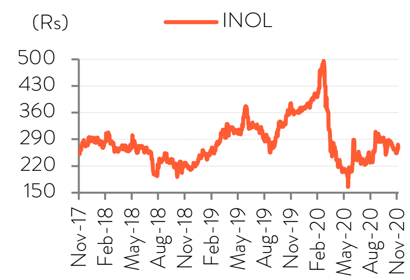
Stringent cost control, comfortable liquidity: INOL has lowered its opex burn slightly to Rs 106mn/month in Q2 vs. Rs 120mn in Q1. It has reached a settlement with 60-70% of landlords for a complete waiver of rent for the shutdown phase and is in discussions to move to a revenue-sharing model for H2FY21. Opex burn is likely to rise in Q3 as screens open and electricity & housekeeping costs kick in even as footfall rises slowly, awaiting a content push. INOL's liquidity remains healthy with Rs 940mn of cash including bank limits.

TP reduced: We cut FY22/FY23 EBITDA estimates by 6%/7% owing to delays in screen reopening in key states and weak occupancies. Rolling valuations over, we lower our Dec'21 TP to Rs 315 (vs. Rs 330). Maintain BUY.

Ticker/Price	INOL IN/Rs 266
Market cap	US$ 384.5mn
Shares o/s	107mn
3M ADV	US$ 3.2mn
52wk high/low	Rs 512/Rs 158
Promoter/FPI/DII	52%/11%/21%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	16,922	18,974	4,602	18,423	22,604
EBITDA (Rs mn)	3,092	5,968	(917)	5,611	7,281
Adj. net profit (Rs mn)	1,385	150	(3,343)	527	1,546
Adj. EPS (Rs)	13.5	1.5	(31.2)	4.9	14.5
Adj. EPS growth (%)	5.4	(89.2)	(2237.1)	(115.8)	193.2
Adj. ROAE (%)	17.0	1.9	(66.1)	11.9	25.9
Adj. P/E (x)	19.7	182.2	(8.5)	54.0	18.4
EV/EBITDA (x)	10.1	5.1	(32.2)	5.4	4.2

Source: Company, BOBCAPS Research

BUY

TP: Rs 280 | ⮝ 23%

SOMANY CERAMICS | Construction Materials | 06 November 2020

Good operational performance; sharp balance sheet improvement

Arun Baid
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Somany Ceramics (SOMC) reported above-expected consolidated revenue of Rs 4.2bn (flat YoY) in Q2FY21, aided by a 3% uptick in tile volumes. Operating margins expanded 105bps YoY to 11.7%, fuelling 10%/55% YoY growth in EBITDA/ PBT. Consolidated debt reduced by ~Rs 1.2bn in FY21 YTD. Management expects a better Q3 and further balance sheet improvement, leading us to reset our target P/E to 15x (from 12x). We raise FY21-FY23 EBITDA estimates by 10-26% and roll forward to a revised Dec'21 TP of Rs 280 (from Rs 160).

Healthy volume growth: SOMC reported a flat consolidated topline in Q2, with revenue from the tiles segment increasing 1.4% YoY (volumes up 2.9%, realisations down 1.4%), whereas sanitaryware & allied revenue declined 8.6% YoY due to availability issues. Management indicated that demand during the quarter was driven by tier-2 cities and below. The company expects a better Q3 as all plants are now operating at 100% capacity and sanitaryware availability has normalised.

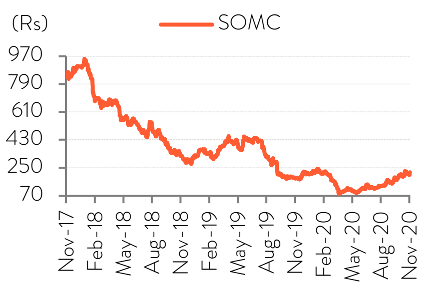
Operating margins expand: Though gross margins contracted 250bps YoY due to a weaker product mix, consolidated operating margins increased 105bps YoY to 11.7% due to lower employee/other expenses (–195bps/–160bps YoY). EBITDA/PBT for the quarter grew 10%/55% YoY. Management believes operating leverage would keep margins healthy despite some increase in gas cost.

Maintain BUY: SOMC has reduced consolidated debt by ~Rs 1.2bn YTD via better working capital control. We hike our FY21 PAT estimate four-fold (on a low base) and FY22/FY23 forecasts by ~30% each, accompanied by a reset in target one-year forward P/E multiple to 15x from 12x in light of the company's stronger balance sheet position. Maintain BUY as we roll forward to a revised Dec'21 TP of Rs 280.

Ticker/Price	SOMC IN/Rs 227
Market cap	US$ 129.7mn
Shares o/s	42mn
3M ADV	US$ 0.4mn
52wk high/low	Rs 253/Rs 77
Promoter/FPI/DII	55%/2%/44%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	17,110	16,030	15,093	17,862	20,025
EBITDA (Rs mn)	1,576	1,299	1,354	1,797	2,063
Adj. net profit (Rs mn)	490	220	311	636	836
Adj. EPS (Rs)	11.6	5.2	7.3	15.0	19.7
Adj. EPS growth (%)	(32.9)	(55.1)	41.5	104.3	31.4
Adj. ROAE (%)	8.2	3.6	5.0	9.6	11.4
Adj. P/E (x)	19.6	43.7	30.9	15.1	11.5
EV/EBITDA (x)	8.9	10.7	10.4	7.4	6.0

Source: Company, BOBCAPS Research

SELL
TP: Rs 1,310 | ⮟ 18%

PIDILITE INDUSTRIES | Construction Materials | 06 November 2020

Margin gains to be neutralised by hardening RM prices

Pidilite Industries (PIDI) reported in-line consolidated Q2FY21 revenue growth of 4% YoY, led by a 7% increase in C&B volumes. B2B volumes, however, dipped 7%. Operating margins expanded 690bps YoY to 27.3% due to lower RM and other expense, aiding EBITDA/PBT growth of 39%/35% YoY. Management is seeing an improving demand scenario with unlocking. We tweak FY21-FY23 PAT estimates and raise our target P/E to 42x from 40x. On rollover, we have a revised Dec'21 TP of Rs 1,310 (earlier Rs 1,195). Retain SELL on rich valuations.

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Ticker/Price	PIDI IN/Rs 1,597
Market cap	US$ 10.9bn
Shares o/s	508mn
3M ADV	US$ 20.0mn
52wk high/low	Rs 1,710/Rs 1,186
Promoter/FPI/DII	70%/11%/19%

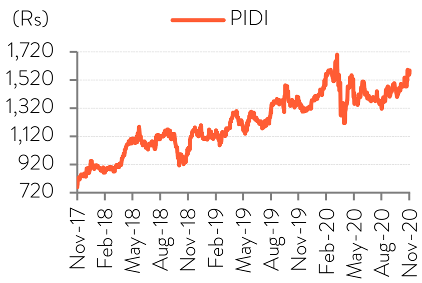
Source: NSE

Revenue growth driven by C&B: PIDI's consolidated Q2 revenue grew 4.1% YoY to Rs 18.8bn, with 19% constant currency growth in overseas subsidiaries. Standalone revenue increased 3.7% YoY to Rs 16.3bn, as volumes grew 3.6% YoY (+7.4% in the consumer & bazaar (C&B) segment and –7.2% in the B2B segment). Management indicated that the demand climate is improving though performance in metros is yet to reach pre-Covid levels. In Q3, the company acquired 100% stake in Huntsman Advanced Material Solutions Pvt Ltd (HAMSPL) for Rs 21bn, making it the largest domestic epoxy player.

Operating margins expand: Consolidated operating margins rose 690bps YoY to 27.3% due to lower raw material cost (–256bps) and other expenses (–422bps)– consequently, EBITDA/PBT grew 39%/35% YoY. Gross margins increased as RM prices softened, whereas other expenses reduced due to cost optimisation. Management stated that RM prices have been hardening and margins are likely to revert to the guided range of 21-24% going ahead.

Valuations expensive; SELL: We tweak PAT estimates to factor in the HAMSPL acquisition and also raise our target P/E to 42x (from 40x), in line with the stock's 5Y average. On rollover, our new Dec'21 TP stands at Rs 1,310. Current valuations appear rich at 49.4x FY23E P/E. Maintain SELL.

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	70,787	72,945	65,827	87,454	1,01,049
EBITDA (Rs mn)	13,682	15,760	14,219	20,377	23,545
Adj. net profit (Rs mn)	8,901	11,590	9,689	13,975	16,408
Adj. EPS (Rs)	17.5	22.8	19.1	27.5	32.3
Adj. EPS growth (%)	(2.9)	30.2	(16.4)	44.2	17.4
Adj. ROAE (%)	23.1	26.9	20.8	27.2	28.5
Adj. P/E (x)	91.1	70.0	83.7	58.0	49.4
EV/EBITDA (x)	59.3	51.4	56.8	39.8	34.6

Source: Company, BOBCAPS Research

BUY
TP: Rs 3,600 | ⮝ 31%

ALKEM LABS | Pharmaceuticals | 06 November 2020

H1 gross margin beat sustainable; FCF to support rerating

Alkem Labs posted a Q2 EBITDA beat of 12% led by lower SGA spends (–29% YoY) while sales were in line. Gross margin was healthy at 60.5% and EBITDA margin was at 25.4%. Part of cost savings are structural and hence H2 margins could expand further YoY. India trade generics grew a strong >20% YoY. US sales declined 4% QoQ. Alkem is cautiously optimistic of achieving early double-digit growth for India sales in H2 and is confident of >150bps EBITDA margin expansion in three years. Retain BUY; Sep'21 TP unchanged at Rs 3,600.

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Trade generics continue to grow >20% YoY; India/US set to rebound: Growth in the trade generics business remains strong and prescription sales have rebounded sequentially, leading to slight moderation in generics share to 27% (from 28% in Q1). This is expected to normalise to 20% levels by Q4. India sales were flat YoY but Alkem expects 8-10% growth in H2. US sales fell QoQ to US$ 85mn on fewer launches and incremental competition in Q1 rollouts. Sales should pick up in H2 – management retains its 20% US growth guidance for FY21. Over FY20-FY23, we expect a US/India sales CAGR of 17%/8%.

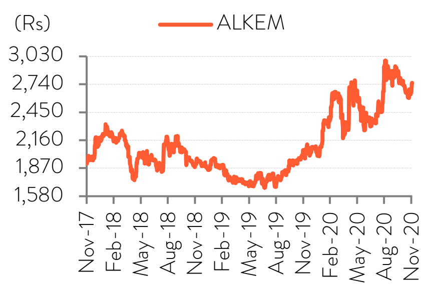
Gross margin sustainable; promotion spends to remain below pre-Covid levels: Q2 gross margin at 60.5% (62% in H1 adj. for one-time research income) was in line but down QoQ due to recovery in acute portfolio growth. Chronic business remains slow. Alkem stated that it can sustain ~62% gross margins in coming quarters. SGA spends are tracking below pre-Covid levels due to structural savings, implying healthy EBITDA margins in H2 (guided for 23% in FY21).

Earnings call highlights: (1) Market share gains by companies in larger brands during Covid unlikely to reverse soon, drastic drop in vitamins portfolio (H1: 20% growth) not expected. (2) RM prices stable in Q2; should stay benign for next few months. (3) Capex for next three years at ~Rs 3.5bn annually.

Ticker/Price	ALKEM IN/Rs 2,753
Market cap	US$ 4.4bn
Shares o/s	120mn
3M ADV	US$ 8.0mn
52wk high/low	Rs 3,090/Rs 1,881
Promoter/FPI/DII	62%/4%/11%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	73,558	82,983	91,288	101,943	113,526
EBITDA (Rs mn)	11,135	14,730	20,767	21,621	24,768
Adj. net profit (Rs mn)	7,298	11,270	15,960	16,662	19,276
Adj. EPS (Rs)	61.0	94.3	133.5	139.4	161.2
Adj. EPS growth (%)	15.7	54.4	41.6	4.4	15.7
Adj. ROAE (%)	16.3	22.7	27.4	23.6	22.8
Adj. P/E (x)	45.1	29.2	20.6	19.8	17.1
EV/EBITDA (x)	29.6	22.4	15.9	15.1	12.7

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 360 | ∀ 12%

CONTAINER CORP OF INDIA | Logistics | 06 November 2020

Licensing fee jolt eclipses revival in operating performance

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Container Corp's (CCRI) Q2FY21 print was in line with our estimates. Revenue/ EBITDA declines eased to 14%/27% YoY (–27%/–61% in Q1), aided by a lower volume drop of 9% (vs. –21%). However, operational resilience was overshadowed by IR's steep LLF claim of Rs 13bn for 13 leased terminals vs. CCRI's assessment of Rs 4.7bn. Though management is confident of its calculation, the uncertainty remains a key overhang till the policy is finalised. We maintain estimates but move to a new Dec'21 TP of Rs 360 (vs. Rs 345) on rollover. Maintain SELL.

Sharp sequential rise in volumes: Handling volumes declined at a slower pace of 9% YoY in Q2 and rose by a sturdy 21% QoQ. Higher empty share, lower lead and selective discounts dragged realisation down 5% YoY. Per management, container freight has picked up, led by higher exports and domestic demand – CCRI even posted a YoY rise in Sep'20 volumes. Hence, management now expects a volume decline of ~10% in FY21 vs. earlier guidance of a 20% drop.

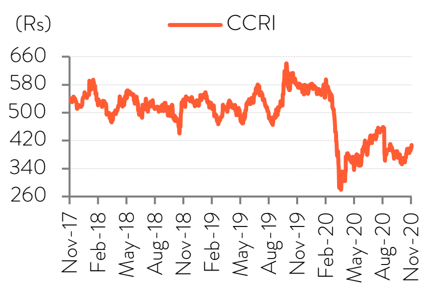
In-line EBITDA: EBITDA declined 27% YoY, largely in line with our estimate. Despite IR's recent 5% discount on haulage charges of laden containers, EBITDA margin contracted 365bps YoY to 20.8% (+745bps QoQ), weighed down by realisation decline, higher YoY land licensing fee (LLF: Rs 1.1bn in Q2) and staff cost (+83bps). Volumes are likely to recover in H2FY21 but we expect margins to remain under pressure due to increased LLF and a high base.

Another LLF jolt: Indian Railways (IR) has claimed LLF of Rs 12.8bn for 13 terminals (out of 28 leased terminals), valuing the underlying land at ~Rs 210bn vs. earlier expectations of a total of Rs 150-160bn. CCRI has made an LLF provision of Rs 2.3bn, as per its internal assessment, and is confident that it will finally prevail in discussions with the IR to be finalised by end-FY21. Till resolved, we believe the higher LLF claim will remain a stock overhang.

Ticker/Price	CCRI IN/Rs 407
Market cap	US$ 3.4bn
Shares o/s	609mn
3M ADV	US$ 13.0mn
52wk high/low	Rs 603/Rs 263
Promoter/FPI/DII	55%/27%/14%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	65,098	64,738	58,802	75,697	87,869
EBITDA (Rs mn)	14,078	16,749	13,339	19,457	22,992
Adj. net profit (Rs mn)	12,154	12,574	8,188	12,890	15,255
Adj. EPS (Rs)	19.9	20.6	13.4	21.2	25.0
Adj. EPS growth (%)	14.5	3.5	(34.9)	57.4	18.4
Adj. ROAE (%)	12.3	12.3	7.9	11.6	12.8
Adj. P/E (x)	20.4	19.7	30.3	19.3	16.3
EV/EBITDA (x)	16.3	14.4	18.0	11.5	9.6

Source: Company, BOBCAPS Research

ADD
TP: Rs 73,200 | ⮝ 7%

MRF | Auto Components | 06 November 2020

Strong Q2; earnings estimates raised

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MRF delivered a positive surprise on Q2FY21 revenue and earnings, led by strong replacement demand in Indian markets and above-expected operating efficiency. Revenue was up 6% YoY and operating margin expanded 670bps YoY. We raise FY21/FY22/FY23 earnings by 8%/3%/6% to bake in strong replacement demand, OEM segment revival and better margins, yielding a higher Sep'21 TP of Rs 73,200 (vs. Rs 67,000), set at 23x one-year fwd EPS (22x earlier). Maintain ADD as the 13% rally over the past month limits upsides.

Healthy Q2: MRF's revenue came in 7% ahead of our estimate at Rs 41.9bn (+6% YoY). Gross margin was better than expected, improving 370bps YoY (+430bps QoQ), while better operating efficiencies further supported EBITDA performance (+58% YoY to Rs 8.5bn). EBITDA margin expanded 670bps YoY and was ahead of our estimate at 20.4% (16.8% est.). Adj. PAT increased 83% YoY to Rs 4bn.

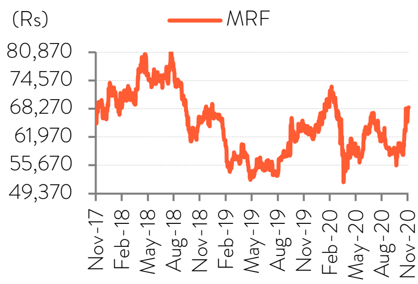
Replacement demand to fuel growth: We expect MRF to post a 9% revenue CAGR during FY20-FY23, anchored by its strong brand, >70% revenue share from the replacement segment and expected recovery in auto sector demand. We estimate a healthy volume CAGR of 10% in MHCV and LCV tyres (60% of domestic revenues) and 9% in PV tyres (21% share) for the company over our forecast period, alongside stable EBITDA margins of 15-16%.

Upgrade earnings, maintain ADD: Restrictions on Chinese tyre imports should fuel strong replacement demand, aiding margins. We raise FY21/FY22/FY23 earnings by 8%/3%/6% and increase our Sep'21 TP to Rs 73,200, based on a higher 23x target P/E. The stock has rallied 13% over the last one month, taking valuations to 23x/20x FY22E/FY23E EPS which limits upsides. Retain ADD.

Ticker/Price	MRF IN/Rs 68,517
Market cap	US$ 3.9bn
Shares o/s	4mn
3M ADV	US$ 18.3mn
52wk high/low	Rs 73,566/Rs 49,915
Promoter/FPI/DII	28%/5%/14%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	158,370	159,911	154,695	188,628	208,497
EBITDA (Rs mn)	22,504	23,237	24,959	29,060	32,483
Adj. net profit (Rs mn)	10,969	13,950	10,689	12,792	14,222
Adj. EPS (Rs)	2,587.0	3,290.0	2,520.9	3,017.0	3,354.3
Adj. EPS growth (%)	0.4	27.2	(23.4)	19.7	11.2
Adj. ROAE (%)	10.3	11.6	8.2	8.9	9.1
Adj. P/E (x)	26.5	20.8	27.2	22.7	20.4
EV/EBITDA (x)	13.5	13.1	11.9	10.0	9.1

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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