

RESEARCH

[Initiation] UPL | Target: Rs 710 | +73% | BUY

Deleveraging to aid potential rerating – initiate with BUY

BOB Economics Research | Wholesale Inflation

WPI eases

BOB Economics Research | Weekly Wrap

Weekly Wrap: RBI likely to ease by 50bps

Bajaj Finance | Target: Rs 5,200 | +32% | BUY

Management meet takeaways – Business prospects robust

SUMMARY

UPL

We explore UPL's stock potential under three scenarios and find a convincing case for +100%/200% returns in our base/bull case over the next three years. UPL should continue to gain further market leadership and transform into a significantly underlevered company by FY23, unlocking value and paving the way for a rerating. We expect strong execution, high Arysta synergies, >20% EPS growth, and cash flows to aid substantial deleveraging. Initiate with BUY and a Mar'21 TP of Rs 710 (implied 7.5x EV/EBITDA, 30% below 5Y mean).

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

India Economics: Wholesale Inflation

WPI inflation edged down to 2.3% in Feb'20 from 3.1% in Jan'20 led by food inflation (7.8% in Feb'20 vs 11.5% in Jan'20). Manufactured inflation was steady at 0.4% in Feb'20 (0.3% in Jan'20). Fuel & power inflation (3.4% in Jan'20) remained unchanged as electricity prices went up and negated impact of lower crude prices. We expect WPI and CPI inflation to moderate going forward due to falling commodity prices and lower demand. Against this backdrop, we expect RBI to cut rates by 50bps, perhaps today itself.

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	5,200
Cipla	Buy	570
Eicher Motors	Buy	25,000
Petronet LNG	Buy	400
Reliance Industries	Buy	1,860

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	205
Laurus Labs	Buy	510
Transport Corp	Buy	355
Ashok Leyland	Sell	64

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.96	16bps	(67bps)	(163bps)
India 10Y yield (%)	6.32	9bps	(15bps)	(102bps)
USD/INR	73.90	0.4	(3.6)	(7.0)
Brent Crude (US\$/bbl)	33.85	1.9	(39.3)	(49.6)
Dow	23,186	9.4	(21.5)	(10.3)
Shanghai	2,887	(1.2)	(1.3)	(4.4)
Sensex	34,103	4.0	(18.0)	(10.3)
India FII (US\$ mn)	12Mar	MTD	CYTD	FYTD
FII-D	(403.0)	(1,602.4)	(3,169.5)	(225.4)
FII-E	(243.0)	(2,909.5)	(1,122.6)	6,266.6

Source: Bank of Baroda Economics Research

BOBCAPS Research

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India Economics: Weekly Wrap

In a surprise move, US Fed reduced policy rate by 1% and announced US\$ 700bn of bond purchases. US yields are likely to open lower. So is the case with equity markets. Data released from China shows retail sales falling by (-) 21%, industrial production by (-) 14% and fixed assets by (-) 25%. With most global economies now going into some form of quarantine, economic impact is likely to play out in Q2CY20. We see RBI cutting rates by 50bps in Apr'20 policy along with measures to boost durable liquidity.

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Bajaj Finance

Key takeaways from our meeting with the Bajaj Finance (BAF) management: (1) customer additions to be at 2-2.2mn per quarter, (2) addition of a second credit card partner on the cards, (3) mortgage business will largely cater to the salaried class, and (4) credit cost to hold steady, with management seeing downside bias to our 200-210bps estimate through to FY22. We expect BAF's customer relationship value (i.e. profit divided by cross-sell franchise) to log a 16% CAGR for FY19-FY22. Maintain BUY.

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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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BUY

TP: Rs 710 | ▲ 73%

UPL

| Agrochemicals

| 16 March 2020

Deleveraging to aid potential rerating – initiate with BUY

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Vivek Kumar

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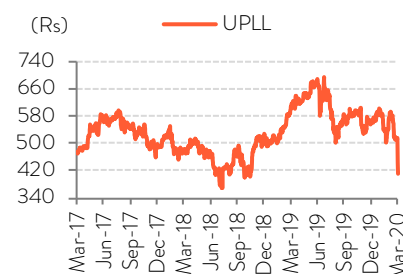
Gaining market share: We believe UPL's strong execution record, backed by an integrated model, innovation, wide portfolio and market reach led by LATAM, would continue to fuel 12% sales growth and market share gains (from ~9.7% to 13.9%) over FY20-FY24. The top 6 molecules and biosolutions are key drivers, accounting for >25% of expected FY24 sales. EBITDA margin levers are scale efficiency, cost synergy from Arysta, a higher branded mix and lower competitive intensity, aiding +200bps margin expansion and 21% EPS growth.

Ticker/Price	UPLL IN/Rs 411
Market cap	US\$ 4.2bn
Shares o/s	765mn
3M ADV	US\$ 25.3mn
52wk high/low	Rs 709/Rs 377
Promoter/FPI/DII	28%/44%/10%

Source: NSE

Deleveraging to aid rerating: Within the next three years, we expect improving operating results, a calibrated decrease in working capital and strong annual FCF of US\$ 690mn+ to draw net debt/EBITDA down from 3.5x to 1.6x/1.1x by FY23/FY24. Releveraging of the balance sheet at 1.1x could allow UPL to buy back the 22% minority interest held by TPG/ADIA in or around FY24, rerating the equity materially with doubling of the ~11% ROCE. In our bull case, the stock would trade at a relevered FY23E EV/EBITDA of 10.1x (vs. 7-12x band for 5Y).

STOCK PERFORMANCE



Source: NSE

Initiate with BUY: We believe near-term concerns of a stressed balance sheet are in the price and current valuations are attractive at 6.6x FY21E EV/EBITDA. Our Mar'21 TP of Rs 710 is probability weighted (50% wt. for base case, 40% for bull, 10% for bear); the implied 7.5x fwd EV/EBITDA is 30% below the 5Y mean.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20E	FY21E	FY22E	FY23E
Total revenue (Rs mn)	218,350	352,239	397,941	447,344	494,410
EBITDA (Rs mn)	38,110	74,316	86,846	100,230	113,800
Adj. net profit (Rs mn)	18,140	25,367	30,754	38,365	46,747
Adj. EPS (Rs)	23.7	33.2	40.2	50.2	61.1
Adj. EPS growth (%)	0.6	39.8	21.2	24.7	21.8
Adj. ROAE (%)	13.5	13.8	15.3	17.0	18.3
Adj. P/E (x)	17.3	12.4	10.2	8.2	6.7
EV/EBITDA (x)	9.2	6.2	6.6	5.6	4.7

Source: Company, BOBCAPS Research



WHOLESALE INFLATION

16 March 2020

WPI eases

WPI inflation edged down to 2.3% in Feb'20 from 3.1% in Jan'20 led by food inflation (7.8% in Feb'20 vs 11.5% in Jan'20). Manufactured inflation was steady at 0.4% in Feb'20 (0.3% in Jan'20). Fuel & power inflation (3.4% in Jan'20) remained unchanged as electricity prices went up and negated impact of lower crude prices. We expect WPI and CPI inflation to moderate going forward due to falling commodity prices and lower demand. Against this backdrop, we expect RBI to cut rates by 50bps, perhaps today itself.

Sameer Narang

Jahnvi | Sonal Badhan

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Moderation in food prices: Food inflation eased to a 5-month low of 7.8% in Feb'20 from 11.5% in Jan'20 led by softening of vegetable prices. The drop in vegetable inflation is on the back of onion prices which have increased by 162% in Feb'20 versus 293% in Jan'20. Cereal inflation also cooled off to 5.2% in Feb'20 compared with 7.7% in Jan'20. Prices of both rice (3.7% vs 4.2% in Jan'20) and wheat (6.4% vs 8.9% in Jan'20) edged down in Feb'20. Prices of pulses also eased to an 11-month low of 11.4% (12.8% in Jan'20) in Feb'20. On the other hand, price of milk continued to rise at a steady pace of 4.5% in Feb'20 from 3.7% in Jan'20. While prices of eggs slipped by (-) 1.9% in Feb'20, those of meat and fish accelerated.

Fuel inflation unfazed: Fuel and power inflation remained steady at 3.4% in Feb'20, unchanged from Jan'20, as electricity prices rose sharply. The electricity price index jumped by 9% versus (-) 0.6% in Jan'20. Coal prices remained steady at 2.3% in Feb'20. Mineral oil index moderated to 1.1% from 5.8% Jan'20, as average international crude prices fell by (-) 14% on YoY basis. We expect headline fuel inflation to moderate in Mar'20 as international oil prices have slumped by (-) 37.4% on YoY basis (MTD) on the back of faltering global demand owing to COVID-19 contagion.

Deflation in core continues: Core deflation was at (-) 0.8% in Feb'20 compared with (-) 1% in Jan'20. Manufactured inflation rose for the second consecutive month in Feb'20, up by 0.4% versus 0.3% in Jan'20. Of the 22 items in core index, 13 saw increase in prices, with sharpest increase seen in other manufacturing items (10% vs 5.8%), pharma products (3.4% vs 1.3%) and transport equipment (6.7% vs 5.1%). This is in divergence with global trend as international commodity prices have declined sharply in Feb'20 on a YoY basis by (-) 4.3% from (-) 2.1% in Jan'20. In Mar'20, commodity prices have contracted at a faster pace of (-) 7.6%.



WEEKLY WRAP

16 March 2020

RBI likely to ease by 50bps

In a surprise move, US Fed reduced policy rate by 1% and announced US\$ 700bn of bond purchases. US yields are likely to open lower. So is the case with equity markets. Data released from China shows retail sales falling by (-) 21%, industrial production by (-) 14% and fixed assets by (-) 25%. With most global economies now going into some form of quarantine, economic impact is likely to play out in Q2CY20. We see RBI cutting rates by 50bps in Apr'20 policy along with measures to boost durable liquidity.

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Markets

- **Bonds:** Asian yields have opened lower after a surprise 1% rate cut by US Fed. RBNZ too reduced rates by 50bps. US 10Y futures are trading lower at 0.67%. Among other central banks, BoE, ECB and PBOC too infused liquidity over the week. Oil prices fell sharply in the week by (-) 25% (US\$ 34/bbl) as Saudi Arabia and UAE exerted downward pressure on prices. India's 10Y yield is trading lower by 10bps today, following Fed action. System liquidity surplus was at Rs 2.7tn as on 13 Mar 2020 vs Rs 3tn in the previous week.
- **Currency:** DXY rose by 2.8% last week after falling to a 1-year low. Global currencies closed lower on the back of risk-off. AUD depreciated by (-) 6.5% in the week. INR also fell by (-) 0.2% on the back of FII outflows (US\$ 3bn). Despite US Fed cutting rates by 1%, Asian currencies are trading mixed today. JPY is trading higher today by 0.5%.
- **Equity:** Global equity indices fell last week as investors assess economic impact of COVID-19. Dax (-20%) slumped the most followed by FTSE (-17%) and Nikkei (-16%). Though US markets closed 9% up on Friday, US futures are trading at lower circuit even as Fed surprised with 1% rate cut on Sunday. Sensex fell by (-) 9.2% last week and is trading 5% lower today. Real estate and tech stocks were the worst affected.
- **Upcoming key events:** In the current week, markets will closely watch policy decisions by BoJ, Indonesia, Philippines, Taiwan and incoming data such as US existing home sales, advance retail sales and Germany's economic expectation survey.



BUY

TP: Rs 5,200 | ▲ 32%

BAJAJ FINANCE

| NBFC

| 16 March 2020

Management meet takeaways – Business prospects robust

Key takeaways from our meeting with the Bajaj Finance (BAF) management: (1) customer additions to be at 2-2.2mn per quarter, (2) addition of a second credit card partner on the cards, (3) mortgage business will largely cater to the salaried class, and (4) credit cost to hold steady, with management seeing downside bias to our 200-210bps estimate through to FY22. We expect BAF's customer relationship value (i.e. profit divided by cross-sell franchise) to log a 16% CAGR for FY19-FY22. Maintain BUY.

Shubhramshu Mishra

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Data mining, geographic expansion to augment client base: Management expects customer additions to rise to 2.0-2.2mn per quarter (~8.5mn p.a.) backed by geographic expansion, a pre-approved customer base and deeper mining of existing accounts. Assuming 60% conversion of new customers to the cross-sell franchise, we expect a 19% CAGR in cross-sell client base during FY19-FY22 to ~35mn. Customer relationship value would thus log a ~16% CAGR to ~Rs 3,100.

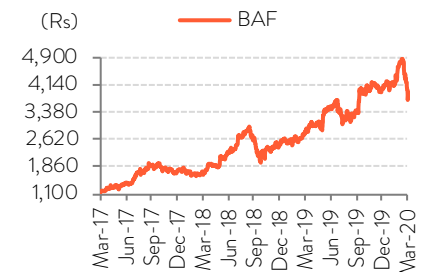
Outlook on credit cards: Under the BAF-RBL Bank arrangement, BAF receives sourcing and other fees related to the cards business and RBL Bank absorbs the entire credit loss. BAF aims to be among the top-3 card issuers by FY24. Management has indicated that a new sourcing partner for credit cards is likely in the near term.

Credit cost estimates: BAF's average credit cost was 240bps over FY11-FY19 and 150bps over FY15-FY19. We conservatively model for 200-210bps during FY20-FY22 – management believes costs could come in below our estimates.

Ticker/Price	BAF IN/Rs 3,953
Market cap	US\$ 32.1bn
Shares o/s	602mn
3M ADV	US\$ 100.0mn
52wk high/low	Rs 4,923/Rs 3,281
Promoter/FPI/DII	56%/22%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	69,716	97,252	133,404	171,479	219,988
NII growth (%)	42.2	39.5	37.2	28.5	28.3
Adj. net profit (Rs mn)	24,964	39,950	59,646	81,848	106,032
EPS (Rs)	43.4	69.3	99.1	136.0	176.2
P/E (x)	91.1	57.1	39.9	29.1	22.4
P/BV (x)	14.3	11.6	7.1	5.9	4.8
ROA (%)	3.4	3.8	4.0	4.2	4.3
ROE (%)	20.1	22.5	22.4	22.1	23.4

Source: Company, BOBCAPS Research



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