

FIRST LIGHT

RESEARCH

Ajanta Pharma | Target: Rs 1,650 | +15% | BUY

Near-term growth concerns but demand outlook intact

Dr Reddy's Labs | Target: Rs 4,210 | +8% | ADD

EBITDA miss; risk-reward fair - TP raised to Rs 4,210

Bajaj Auto | Target: Rs 2,690 | +5% | ADD

Strong operational performance

L&T Infotech | Target: Rs 2,110 | +18% | BUY

Impressive show despite challenging times

SUMMARY

Ajanta Pharma

Ajanta Pharma (AJP) posted strong Q4 revenue/EBITDA growth of 32%/31% YoY to Rs 6.8bn/Rs 1.7bn. However, margins declined both YoY and QoQ to 24.4% due to higher other costs (as the Dahej oral dosage unit & Pithampur block were operationalised). Region-wise, India and US sales were steady while Asia made a strong return to normalised growth. Reported PAT stood at Rs 1.3bn. AJP is guiding for healthy operating leverage in FY21, starting Q3. We assume coverage with BUY and a Mar'21 TP of Rs 1,650, based on 16x FY22E EV/EBITDA.

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Dr Reddy's Labs

Q4 EBITDA of Rs 9.4bn (-8% QoQ) was a miss despite a strong beat in the US and Europe, cost control, and net forex benefits. India (+5% YoY) and Russia/ROW (+6-8%) were weak. Gross margins shed 260bps QoQ on a softer product mix and inventory provisions. Core FY20 EPS totals Rs 130; we expect Rs 154/Rs 170 for FY21/FY22. Reported profit of Rs 7.6bn was boosted by MAT credits and DTA. Management continues to target 25% margins and ROCE in coming years. We raise our TP to Rs 4,210 (vs. Rs 3,350) set at 14x FY22E EV/EBITDA (12x earlier).

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	690
Eicher Motors	Buy	18,100
GAIL	Buy	140
Petronet LNG	Buy	330

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	145
Laurus Labs	Buy	630
Muthoot Finance	Buy	950
Transport Corp	Buy	255

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.70	(3bps)	(11bps)	(175bps)
India 10Y yield (%)	6.03	(2bps)	(42bps)	(128bps)
USD/INR	75.64	0.4	0.9	(7.6)
Brent Crude (US\$/bbl)	34.98	0.5	9.8	(55.0)
Dow	24,207	(1.6)	(1.1)	(8.1)
Shanghai	2,899	0.8	1.5	(0.5)
Sensex	30,196	0.6	1.3	(18.0)
India FII (US\$ mn)	18 May	MTD	CYTD	FYTD
FII-D	(201.7)	(2,264.5)	(13,608.2)	(3,848.7)
FII-E	(332.2)	1,263.6	(5,369.9)	1,233.1

Source: Bank of Baroda Economics Research

BOBCAPS Research

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Bajaj Auto

Bajaj Auto's (BJAUT) Q4 operating performance was well ahead of estimates. At Rs 12.5bn, EBITDA rose 8% YoY aided by a sharp sequential uptick in ASP and healthy gross margins. Management expects a subdued first half, but a pickup in H2FY21 aided by pent-up demand and preference for personal mobility. BJAUT has been astutely tweaking its 2W product mix, aiding profitability. While we pare volume forecasts, our EPS estimates has seen a modest rise as we build in higher ASP and margins. Maintain ADD with a revised TP of Rs 2,690 (vs. Rs 2,630).

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L&T Infotech

L&T Infotech (LTI) reported 4.7% QoQ CC revenue growth in Q4FY20, well ahead of estimates. Operating margins also bettered expectations. Revenue growth was broad-based across verticals and supported by healthy non-Top 20 client contribution. LTI also won two large deals with aggregate TCV of US\$ 100mn+. Given pandemic-led risks, we trim FY21/FY22 EPS by 9%/5% and pare out TP to Rs 2,110 (vs. Rs 2,230). We reiterate BUY given LTI's strong sales engine, 'outcome-focused' digital capabilities, client mining skills and robust leadership.

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

BUY

TP: Rs 1,650 | ▲ 15%

AJANTA PHARMA

Pharmaceuticals

20 May 2020

Near-term growth concerns but demand outlook intact

Ajanta Pharma (AJP) posted strong Q4 revenue/EBITDA growth of 32%/31% YoY to Rs 6.8bn/Rs 1.7bn. However, margins declined both YoY and QoQ to 24.4% due to higher other costs (as the Dahej oral dosage unit & Pithampur block were operationalised). Region-wise, India and US sales were steady while Asia made a strong return to normalised growth. Reported PAT stood at Rs 1.3bn. AJP is guiding for healthy operating leverage in FY21, starting Q3. We assume coverage with BUY and a Mar'21 TP of Rs 1,650, based on 16x FY22E EV/EBITDA.

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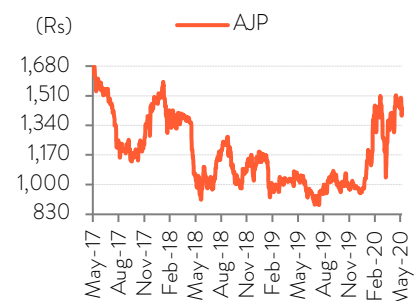
BUY with TP of Rs 1,650: We expect a stable brand franchise (India & EM), US operating leverage and capex moderation to drive a 15%+ EPS CAGR for AJP over FY20-FY23. With over 75% of FY21/FY22 EPS estimated to accrue from the branded business, improving FCF and 30%+ ROIC beyond FY22E, we see scope for valuation upsides. We assume coverage with BUY and a Mar'21 TP of Rs 1,650 set at 16x FY22E EV/EBITDA (24x implied P/E). We like AJP for its (1) rational capital allocation, (2) capable management, (3) robust brand franchise, (4) flawless cGMP compliance, and (5) resilient margins & return ratios.

Ticker/Price	AJP IN/Rs 1,439
Market cap	US\$ 1.7bn
Shares o/s	88mn
3M ADV	US\$ 3.7mn
52wk high/low	Rs 1,580/Rs 825
Promoter/FPI/DII	71%/9%/9%

Source: NSE

Near-terms concerns for India business: India sales grew 11% YoY in Q4 with dermatology and ophthalmology showing some sluggishness due to Covid-19 challenges. AJP believes the extended lockdown could hurt India growth in the near term, but that export formulations should continue to drive visibility with two blocks being operationalised in Q4. US sales were at US\$ 20mn (-10% QoQ) while Asia grew 46% YoY (on a low base) and 32% QoQ.

STOCK PERFORMANCE



Source: NSE

Other takeaways: (1) FY20 debtors spiked 68% or Rs 3.1bn due to increased US business. (2) Other income includes Rs 450mn forex gain. (3) FY21 capex is at Rs 2bn (incl. Rs 1bn maintenance capex). (4) Plans to file 10-12 ANDAs in FY21.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	21,320	20,553	26,183	27,684	31,339
EBITDA (Rs mn)	6,581	5,653	6,996	7,389	8,602
Adj. net profit (Rs mn)	4,686	3,869	4,412	4,915	6,047
Adj. EPS (Rs)	53.4	44.1	50.3	56.0	68.9
Adj. EPS growth (%)	(9.8)	(17.4)	14.0	11.4	23.0
Adj. ROAE (%)	25.8	17.8	17.9	17.3	18.4
Adj. P/E (x)	26.9	32.6	28.6	25.7	20.9
EV/EBITDA (x)	19.2	22.2	17.9	16.9	14.4

Source: Company, BOBCAPS Research



ADD

TP: Rs 4,210 | ▲ 8%

DR REDDY'S LABS

Pharmaceuticals

20 May 2020

EBITDA miss; risk-reward fair – TP raised to Rs 4,210

Q4 EBITDA of Rs 9.4bn (–8% QoQ) was a miss despite a strong beat in the US and Europe, cost control, and net forex benefits. India (+5% YoY) and Russia/ROW (+6-8%) were weak. Gross margins shed 260bps QoQ on a softer product mix and inventory provisions. Core FY20 EPS totals Rs 130; we expect Rs 154/Rs 170 for FY21/FY22. Reported profit of Rs 7.6bn was boosted by MAT credits and DTA. Management continues to target 25% margins and ROCE in coming years. We raise our TP to Rs 4,210 (vs. Rs 3,350) set at 14x FY22E EV/EBITDA (12x earlier).

Vivek Kumar

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India miss offset by US and EU: US sales rose 12% QoQ to US\$ 251mn led by Covid-related stock refills and scale-up in base products. Dr Reddy's (DRRD) has been witnessing a normalised primary sales trend in the US post Covid-19 vs. a decline reported by IQVIA for Apr-May'20. It launched 27 products in FY20 and expects 25 more in FY21. Strong sales growth in Europe at 80% YoY was led by Germany and injectable launches in Spain, France and Italy. Management expects to build further on the FY20 base. The US and EU offset weakness in India and PSAI sales (logistics issues). We expect US sales of US\$ 1.1bn by FY22 (10% CAGR over FY20, 5% ex-Copaxone, Nuvaring).

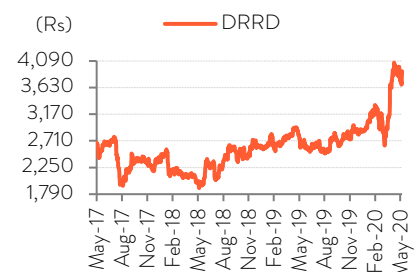
Margins disappoint: EBITDA margin stood at 21.2% (vs. 22.6% est.), as gross margins declined while SG&A control was strong (flat YoY, +4% QoQ). Gross margins weakened partly due to a high share of Europe sales and decline in the branded business (India, EM), apart from inventory write-offs. Global generics margin dropped 230bps QoQ to 55.9% and PSAI margin fell 160bps to 28.4%.

Earnings call takeaways: (1) gNuvaring/Copaxone Complete Response letter (CRL) likely in the near term. (2) FY21 outlook: Capex of >Rs 10bn vs. Rs 4.8bn in FY20 (towards product development and injectable capacities), ETR of 22%, R&D spends to sales of 9-10%. (3) Focus on China to continue.

Ticker/Price	DRRD IN/Rs 3,910
Market cap	US\$ 8.6bn
Shares o/s	166mn
3M ADV	US\$ 59.8mn
52wk high/low	Rs 4,132/Rs 2,351
Promoter/FPI/DII	27%/27%/18%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	142,028	153,852	174,802	186,243	203,625
EBITDA (Rs mn)	22,869	31,333	40,934	40,792	46,249
Adj. net profit (Rs mn)	9,404	17,895	35,774	25,627	30,416
Adj. EPS (Rs)	56.7	107.8	215.5	154.4	183.2
Adj. EPS growth (%)	(20.1)	90.3	99.9	(28.4)	18.7
Adj. ROAE (%)	7.7	13.8	24.8	15.8	16.3
Adj. P/E (x)	69.0	36.3	18.1	25.3	21.3
EV/EBITDA (x)	28.9	21.7	16.4	15.9	13.4

Source: Company, BOBCAPS Research



ADD

TP: Rs 2,690 | ▲ 5%

BAJAJ AUTO

Automobiles

21 May 2020

Strong operational performance

Bajaj Auto's (BJAUT) Q4 operating performance was well ahead of estimates. At Rs 12.5bn, EBITDA rose 8% YoY aided by a sharp sequential uptick in ASP and healthy gross margins. Management expects a subdued first half, but a pickup in H2FY21 aided by pent-up demand and preference for personal mobility. BJAUT has been astutely tweaking its 2W product mix, aiding profitability. While we pare volume forecasts, our EPS estimates has seen a modest rise as we build in higher ASP and margins. Maintain ADD with a revised TP of Rs 2,690 (vs. Rs 2,630).

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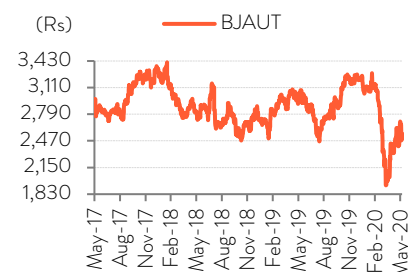
Large operational beat: While Q4 volumes dropped 17% YoY, the decline in net sales was restricted to 8% YoY due to a strong 8% QoQ jump in ASP. EBITDA margin at 18.4% expanded 270bps YoY aided by healthy gross margins. A solid product mix and favourable currency movement spurred margin performance. Above-expected other income (partly boosted by Rs 1.1bn of dividend income from KTM) drove a 23% YoY rise in adj. PAT.

Ticker/Price	BJAUT IN/Rs 2,558
Market cap	US\$ 9.8bn
Shares o/s	289mn
3M ADV	US\$ 26.7mn
52wk high/low	Rs 3,315/Rs 1,789
Promoter/FPI/DII	54%/14%/9%

Source: NSE

Subdued near-term outlook but expect pickup in H2: Current retail run-rate stands at ~ 25%/35% for domestic/export against normal. Healthy farm-level income, pent-up demand and a shift towards personal mobility should aid demand recovery in H2FY21. While the company expects downtrading, the same is likely in variants and not between engine (CC) segments. BJAUT believes that small 3W demand should gain at the expense of larger sized 3Ws given sharp BS-VI-led price hikes and the social distancing norms that will prevail for some time to come.

STOCK PERFORMANCE



Source: NSE

Maintain ADD: While we cut our volume forecasts for FY21-FY22 by 3-4%, our EPS estimates have seen a modest increase due to higher ASP and margin estimates following a solid Q4 performance. We continue to like BJAUT for its low fixed cost structure and strong balance sheet.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	251,649	302,500	299,187	279,728	316,607
EBITDA (Rs mn)	47,834	49,820	50,962	42,067	51,338
Adj. net profit (Rs mn)	40,921	44,187	51,000	41,574	49,387
Adj. EPS (Rs)	141.4	153.3	176.2	143.7	170.7
Adj. EPS growth (%)	6.9	8.4	15.0	(18.5)	18.8
Adj. ROAE (%)	22.1	21.2	23.9	19.4	20.7
Adj. P/E (x)	18.1	16.7	14.5	17.8	15.0
EV/EBITDA (x)	13.0	11.8	11.0	13.3	10.9

Source: Company, BOBCAPS Research



BUY

TP: Rs 2,110 | ▲ 18%

L&T INFOTECH

| IT Services

| 21 May 2020

Impressive show despite challenging times

L&T Infotech (LTI) reported 4.7% QoQ CC revenue growth in Q4FY20, well ahead of estimates. Operating margins also bettered expectations. Revenue growth was broad-based across verticals and supported by healthy non-Top 20 client contribution. LTI also won two large deals with aggregate TCV of US\$ 100mn+. Given pandemic-led risks, we trim FY21/FY22 EPS by 9%/5% and pare out TP to Rs 2,110 (vs. Rs 2,230). We reiterate BUY given LTI's strong sales engine, 'outcome-focused' digital capabilities, client mining skills and robust leadership.

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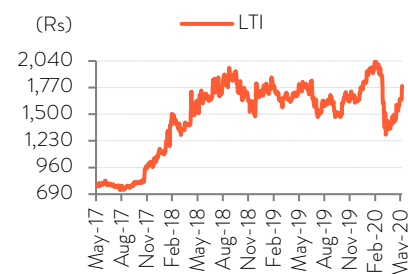
Impressive Q4: LTI reported 4.7% QoQ CC revenue growth (3.9% QoQ in USD terms), well ahead of our estimate (2.7% QoQ CC) and the highest March quarter growth among peers. Reported EBIT margins rose 50bps QoQ to 16.7%. Excluding a Rs 180mn donation to PM Cares Fund, adj. EBIT margins at 17.3% (+110bps QoQ) were ahead of our estimate of 17%. LTI continued to win large deals, bagging two contracts with a combined TCV of >US\$ 100mn.

Ticker/Price	LTI IN/Rs 1,784
Market cap	US\$ 4.1bn
Shares o/s	176mn
3M ADV	US\$ 3.1mn
52wk high/low	Rs 2,050/Rs 1,210
Promoter/FPI/DII	75%/8%/10%

Source: NSE

Healthy growth composition: Revenue growth was spread across verticals with the exception of insurance (-1.9% QoQ in dollar terms). Among services, IMS led the way (+13.9% QoQ). Revenue from the non-top 20 clients grew the fastest at 9.9% QoQ while the top 10/20 brackets increased by 1.7%/0.2% QoQ (top 5 clients flattish). Management highlighted the absence of client-specific challenge in its top accounts.

STOCK PERFORMANCE



Source: NSE

Management outlook: As with peers, LTI's Jun'20 quarter is guided to be weak due to Covid-19 challenges. Management cautioned that the energy/manufacturing verticals (18%/11% of Q4 revenue) could see near-term Covid-led headwinds, but expects relative strength for CPG & pharma (which along with retail contributed 11% of revenue). Management sees unchanged demand dynamics for BFS but hinted at potential challenges after a two-quarter lag.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	73,064	94,458	108,786	122,330	134,092
EBITDA (Rs mn)	11,875	18,835	20,291	22,951	26,050
Adj. net profit (Rs mn)	11,124	15,157	15,198	16,329	18,560
Adj. EPS (Rs)	63.5	86.5	86.4	92.8	105.5
Adj. EPS growth (%)	(8.2)	36.1	0.0	7.4	13.7
Adj. ROAE (%)	31.8	34.6	29.5	27.8	26.9
Adj. P/E (x)	28.1	20.6	20.6	19.2	16.9
EV/EBITDA (x)	26.2	16.5	15.3	13.6	12.0

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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