

RESEARCH

Top picks

- **Large-cap ideas**
 - ONGC replaced by **Eicher Motors**
(see [Mixed signals – prefer PVs, two-wheelers, 20Jan20](#))
- **Mid-cap ideas**
 - PNC Infratech replaced by **Ashok Leyland**
(see [Mixed signals – prefer PVs, two-wheelers, 20Jan20](#))

Axis Bank | Target: Rs 900 | +26% | BUY

Stressed book still elevated

Alembic Pharma | Target: Rs 680 | +15% | BUY

Good beat – we raise EPS estimates by 5-7%

SUMMARY

Axis Bank

Axis Bank's (AXSB) Q3FY20 PAT at ~Rs 18bn missed estimates due to above-expected provisions. Asset quality was a major disappointment as slippages surged to Rs 62bn while the outstanding stressed BB- &-below pool remained elevated at Rs 97bn (1.8% of loans). An HFC account slipped into NPA from the BB- &-below book and two accounts (telecom & broking) were downgraded into the pool. Management highlighted potential pressure on NIM and credit costs in Q4. We cut FY20-FY22 EPS by 5-35% and roll to a Mar'21 TP of Rs 900 (vs. Rs 950).

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	570
Eicher Motors	Buy	25,000
Petronet LNG	Buy	400
Reliance Industries	Buy	1,860
TCS	Add	2,390

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,290
Future Supply	Buy	680
Greenply Industries	Buy	210
Laurus Labs	Buy	480
Ashok Leyland	Sell	68

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.77	(5bps)	(14bps)	(96bps)
India 10Y yield (%)	6.64	(1bps)	4bps	(67bps)
USD/INR	71.21	(0.1)	(0.1)	0.3
Brent Crude (US\$/bbl)	64.59	(0.9)	(2.3)	5.0
Dow	29,196	(0.5)	2.6	19.6
Shanghai	3,052	(1.4)	1.6	18.3
Sensex	41,324	(0.5)	(0.9)	13.4
India FII (US\$ mn)	20 Jan	MTD	CYTD	FYTD
FII-D	13.1	(1,558.1)	(1,558.1)	1,386.0
FII-E	183.2	1,698.1	1,698.1	9,087.3

Source: Bank of Baroda Economics Research

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Alembic Pharma

Alembic Pharma (ALPM) reported a 15% EBITDA beat in Q3 driven by a sales beat and stable opex despite an additional expense hit from Aleor-Derma unit commercialisation. Solid US sales at US\$ 72mn, healthy ROW revenue and controlled SG&A were key positives. India reported a subdued Q3, but ALPM retained its growth recovery guidance from Q1FY21. Sartan/combination shortages in the US will continue to drive growth over the next 3-6 months. We raise FY21/FY22 EPS by 5-7% led by the Q3 beat. Retain BUY; TP revised to Rs 680.

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

BUY

TP: Rs 900 | ▲ 26%

AXIS BANK

| Banking

| 22 January 2020

Stressed book still elevated

Axis Bank's (AXSB) Q3FY20 PAT at ~Rs 18bn missed estimates due to above-expected provisions. Asset quality was a major disappointment as slippages surged to Rs 62bn while the outstanding stressed BB-&-below pool remained elevated at Rs 97bn (1.8% of loans). An HFC account slipped into NPA from the BB-&-below book and two accounts (telecom & broking) were downgraded into the pool. Management highlighted potential pressure on NIM and credit costs in Q4. We cut FY20-FY22 EPS by 5-35% and roll to a Mar'21 TP of Rs 900 (vs. Rs 950).

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Higher slippages dent asset quality: Gross slippages increased to Rs 62bn vs. Rs 50bn in Q2 due to higher retail and corporate slippages. However, the outstanding stressed BB-&-below pool remained elevated at Rs 97bn (1.8% of loans) due to downgrades of a telecom and a broking account into the pool. NNPA in the retail book stood at <0.5% but slippages were higher due to stress in the CV segment. AXSB is also witnessing increasing risk in its MFI book, largely from Assam and Karnataka (together <10% of its MFI portfolio).

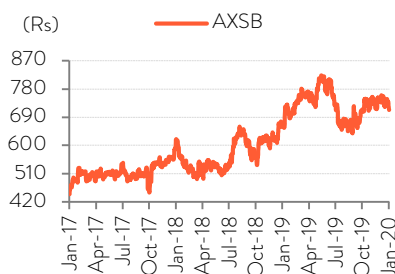
Ticker/Price	AXSB IN/Rs 713
Market cap	US\$ 26.2bn
Shares o/s	2,620mn
3M ADV	US\$ 88.8mn
52wk high/low	Rs 828/Rs 623
Promoter/FPI/DII	26%/50%/24%

Source: NSE

Asset quality divergence for FY19 was below disclosure levels while the SMA-2 book stood at 0.35%. Credit cost for Q4 hinges on recoveries from large case resolution and provision coverage levels.

STOCK PERFORMANCE

Loan growth stable; NIM improves: AXSB's loan book grew 16% YoY driven by 25%/16% growth in the retail/domestic corporate segments. Guidance of FY20 domestic loan growth being 5-7% higher than industry was maintained. NIM improved 6bps QoQ on better spreads and benefits of the recent capital raise.



Source: NSE

Maintain BUY: We cut FY20/FY21/FY22 EPS by 35%/2%/5% to build in higher provisions and roll over to a revised Mar'21 TP of Rs 900 (vs. Rs 950). Maintain BUY as we believe normalisation in credit costs is a few quarters away.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	186,177	217,082	245,413	304,064	378,806
NII growth (%)	2.9	16.6	13.1	23.9	24.6
Adj. net profit (Rs mn)	2,757	46,766	56,263	149,051	186,092
EPS (Rs)	1.1	18.2	20.9	52.9	66.1
P/E (x)	641.3	39.1	34.1	13.5	10.8
P/BV (x)	2.9	2.7	2.3	2.0	1.8
ROA (%)	0.0	0.6	0.6	1.4	1.5
ROE (%)	0.5	7.2	7.4	16.1	17.5

Source: Company, BOBCAPS Research



BUY

TP: Rs 680 | ▲ 15%

ALEMBIC PHARMA

Pharmaceuticals

22 January 2020

Good beat – we raise EPS estimates by 5-7%

Alembic Pharma (ALPM) reported a 15% EBITDA beat in Q3 driven by a sales beat and stable opex despite an additional expense hit from Aleor-Derma unit commercialisation. Solid US sales at US\$ 72mn, healthy ROW revenue and controlled SG&A were key positives. India reported a subdued Q3, but ALPM retained its growth recovery guidance from Q1FY21. Sartan/combination shortages in the US will continue to drive growth over the next 3-6 months. We raise FY21/FY22 EPS by 5-7% led by the Q3 beat. Retain BUY; TP revised to Rs 680.

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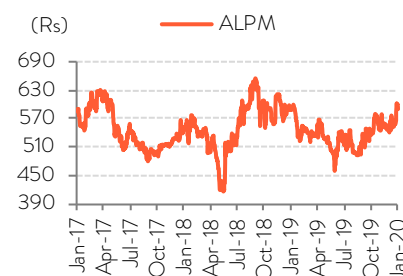
US – solid beat; we raise estimates: US sales were 10% ahead of our estimates at US\$ 72mn (-6% QoQ), led by seven launches and stable contribution/pricing from the sartan franchise. Opportunities within sartans should continue for the next 3-6 months at least; ALPM expects 23 launches (17 for 9M) in FY20. We raise US sales estimates by 10% and now expect US\$ 330mn in sales by FY23. We believe ALPM is best placed to participate in the US\$ 20bn worth of LOE (loss of exclusivity) in the next five years (read our Dec'19 [Initiation report](#) for details).

Ticker/Price	ALPM IN/Rs 590
Market cap	US\$ 1.6bn
Shares o/s	189mn
3M ADV	US\$ 1.3mn
52wk high/low	Rs 612/Rs 530
Promoter/FPI/DII	73%/10%/6%

Source: NSE

Key earnings call takeaways: (1) On a like-to-like basis, India business grew 10% YoY in Q3 and margins continued to improve. (2) Q3 gross margin of 75.3% benefitted from sartan shortages but we expect 68-70% margins in the long term. (3) Capex incl. opex capitalised was Rs 1.8bn for Q3 (Rs 5.5bn for 9M incl. Rs 2bn opex capitalised). (4) Net debt as on date stands at Rs 13.5bn.

STOCK PERFORMANCE



Source: NSE

Retain BUY based on doubling of EPS by FY24E, strong FCF: In the next 6-9 months, we believe markets will start to look favourably at ALPM's quality US product lineup (for 2022-26) and with capex turning productive, we see +20% EPS growth visibility over FY21-FY25. ROIC at 23% is higher than large/mid-sized generic players and the strong growth outlook could fuel a rerating. We revise our TP to Rs 680 based on 12x FY22E EV/EBITDA (21x implied P/E).

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	31,310	39,350	43,547	47,304	52,787
EBITDA (Rs mn)	6,711	8,737	10,312	9,950	11,391
Adj. net profit (Rs mn)	4,489	5,928	6,869	6,247	7,223
Adj. EPS (Rs)	23.4	31.0	36.4	33.1	38.3
Adj. EPS growth (%)	11.0	32.4	17.7	(9.1)	15.6
Adj. ROAE (%)	21.0	23.4	22.7	17.5	17.7
Adj. P/E (x)	25.2	19.1	16.2	17.8	15.4
EV/EBITDA (x)	16.3	13.0	11.5	11.9	10.1

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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