

RESEARCH
BOB Economics Research | Monetary Policy Review

RBI signals banks to lend

Indraprastha Gas | Target: Rs 620 | +19% | BUY

Margins expand, volume growth stable

Lupin | Target: Rs 790 | +9% | ADD

Weak result; healthy FY21 outlook

V-Mart Retail | Target: Rs 2,320 | -3% | REDUCE

Margins surprise positively

Greenpanel Industries | Target: Rs 64 | +22% | BUY

Strong performance marred by forex losses

Sun Pharma | Target: Rs 445 | +3% | REDUCE

Q3 a tad lower – US (ex-Taro) ramp-up subdued; REDUCE

Eicher Motors | Target: Rs 25,000 | +23% | BUY

Steady operational performance

Hero MotoCorp | Target: Rs 2,540 | +5% | REDUCE

Decent Q3 but outlook challenging

PNC Infratech | Target: Rs 245 | +25% | BUY

Strong execution; order inflows holds key for growth beyond FY21

Cera Sanitaryware | Target: Rs 3,100 | +18% | BUY

Q3 marginally better than estimates

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	2,290
Future Supply	Buy	680
Greenply Industries	Buy	210
Laurus Labs	Buy	510
Ashok Leyland	Sell	68

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.65	5bps	(16bps)	(104bps)
India 10Y yield (%)	6.51	0bps	(6bps)	(85bps)
USD/INR	71.22	0.1	1.0	0.5
Brent Crude (US\$/bbl)	55.28	2.4	(19.8)	(11.8)
Dow	29,291	1.7	2.0	15.4
Shanghai	2,818	1.3	(8.6)	7.6
Sensex	41,143	0.9	1.1	11.3
India FII (US\$ mn)	4 Feb	MTD	CYTD	FYTD
FII-D	(546.0)	(517.7)	(2,086.5)	857.6
FII-E	129.7	388.3	1,760.9	9,150.1

Source: Bank of Baroda Economics Research

BOBCAPS Research

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SUMMARY

India Economics: Monetary Policy Review

MPC members kept policy rate and stance unchanged and reiterated room for further rate cuts. We expect next rate cut in Oct'20. More importantly, RBI announced significant changes in its liquidity framework by withdrawing 1% ceiling of banks to borrow from RBI and introduced LTROs. It also incentivized banks to deduct auto, mortgage and MSME loans from CRR computation and extended sops to commercial real estate projects (1-year extension). We believe these measures are structurally positive and send signal to banks to lend.

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

Indraprastha Gas

Indraprastha Gas' (IGL) Q3FY20 EBITDA was in line at Rs 3.9bn (+23% YoY, Rs 6.4/scm). Volumes at 6.7mmcmd (+13.5% YoY) also met estimates as CNG/PNG sales grew 9.2%/18.7% YoY. EBITDA margins at Rs 6.4/scm over 9MFY20 prompt us to revise our long-term estimates to ~Rs 7/scm (from Rs 6/scm over five years), considering IGL's margins still trend well below CGD peers with a similar volume mix. Post estimate revision and rollover, we have a new Mar'21 DCF-based TP of Rs 620 (from Rs 455).

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

Lupin

Lupin (LPC) reported a 40% miss on Q3 EBITDA while one-offs dented PAT (incl. US\$ 222mn Gavis impairment). Further, disclosures (ex-Kyowa) imply a weaker EBITDA margin profile for the standalone business – ~200bps lower than the 17% estimated for FY20 – driving a ~14% cut in our FY21/FY22 EPS. Revenue was a 9% miss and adj. margin for Q3 was 12% (17.4% est.). LPC is guiding for healthy operating leverage in FY21 starting Q4. Downside risk to growth and reasonable valuations keep us at ADD; TP revised to Rs 790 (vs. Rs 840).

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

V-Mart Retail

V-Mart Retail (VMART) reported below-expected Q3FY20 revenue growth of 21% YoY to Rs 5.6bn, with SSSg of 1%. Management indicated that it is yet to see green shoots of demand recovery but expects some uptick in the medium term. Operating margins (adj. for Ind-AS 116) increased 105bps YoY to 16.8% vs. 15.3% expected, resulting in healthy EBITDA/PBT growth of 29%/27% YoY. We marginally raise FY20-FY22 PAT by 1-2% and roll over to a Mar'21 target price of Rs 2,320 (vs. Rs 2,030). Maintain REDUCE.

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

Greenpanel Industries

Greenpanel Industries' (GREENP) Q3FY20 consolidated revenue grew 46% YoY aided by an 85%/37% increase in the plywood/MDF segments. Operating margins (ex-forex loss) expanded 350bps YoY to 15.3% on better plywood margins and higher MDF utilisation. Management maintained FY20 guidance of ~60% utilisation in MDF with ~17% margins. Plywood guidance is at ~Rs 2.2bn in revenues (earlier Rs 2bn) and 13% margins. We upgrade FY20-FY22 EPS by 9-43%, leading to a new Mar'21 TP of Rs 64 (vs. Rs 58).

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

Sun Pharma

Sun Pharma (SUNP) reported a 6% EBITDA miss, largely driven by higher other expense (up 8% QoQ) and despite better gross margins (up 110bps QoQ) & lower R&D (6.4% of sales). The US ex-Taro sales miss was offset by stronger India sales (+12.6% YoY). SUNP expects higher R&D cost in FY21 (but <9% of sales) due to trials for new indications (psoriatic arthritis) in Ilumya. Global specialty sales rose 30% QoQ to US\$ 118mn on increased contribution from Absorica & Levulan. We retain FY21/FY22 EPS of Rs 23/Rs 26 and roll to a TP of Rs 445 (vs. Rs 430).

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

Eicher Motors

Eicher Motors' (EIM) consolidated Q3FY20 EBITDA at Rs 5.9bn (-14% YoY) was in line with estimates. Royal Enfield's (RE) performance was steady despite the tough demand environment and its proactive efforts to transition to BS-VI. Modest inventory and palatable BS-VI price hikes bode well for EIM amid likely cyclical recovery from H2FY21. Transition to new emission norms should aid market share gains for the VECV business given its edge as a long-time supplier of Euro-VI engines to Volvo. Retain BUY.

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

Hero MotoCorp

Hero Moto (HMCL) posted an operational beat in Q3FY20 led by healthy gross margins. Current BS-IV inventory stands at five weeks. The company plans to stop BS-IV production by mid-Feb and smoothly transition to BS-VI. With a 12-15% cost rise in price-sensitive segments, the near-term volume outlook looks challenging. Inability to increase presence in scooters and exports along with risk of 2W demand saturation over 5-10 years are structural concerns for HMCL. Maintain REDUCE with a revised TP of Rs 2,540 (vs. Rs 2,575).

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

PNC Infratech

PNC Infratech's (PNCL) Q3FY20 revenue grew 68% YoY. EBITDA margin stood at 14.1% (13.8% est.), while PAT at Rs 771mn was up 63% YoY but below our estimate of Rs 889mn due to higher interest cost. The Dec'19 order backlog stood at Rs 107bn or 2.3x TTM revenues (incl. L1 projects). Gross debt declined QoQ to Rs 3.5bn led by mobilisation advances and claim proceeds. We trim FY20/FY21 earnings by 1%/3% and maintain BUY with an unchanged Mar'21 TP of Rs 245.

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

Cera Sanitaryware

Cera Sanitaryware (CRS) reported a dull Q3FY20 with standalone revenue growth of 1% YoY to Rs 3.2bn, as the sanitaryware segment declined ~11%. Operating margins contracted 105bps YoY to 13.4% despite a 305bps drop in other expense, as gross margins fell 375bps. EBITDA/PBT thus decreased 7%/13% YoY. Management expects the sanitaryware segment to return to growth in FY21. We broadly maintain estimates and roll forward to a revised Mar'21 TP of Rs 3,100 (earlier Rs 3,040).

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

MONETARY POLICY REVIEW

06 February 2020

RBI signals banks to lend

MPC members kept policy rate and stance unchanged and reiterated room for further rate cuts. We expect next rate cut in Oct'20. More importantly, RBI announced significant changes in its liquidity framework by withdrawing 1% ceiling of banks to borrow from RBI and introduced LTROs. It also incentivised banks to deduct auto, mortgage and MSME loans from CRR computation and extended sops to commercial real estate projects (1-year extension). We believe these measures are structurally positive and send signal to banks to lend.

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Status quo by MPC: As expected MPC members kept policy rate and stance unchanged as CPI inflation is at 7.4% versus RBI's target of 4%. Given that Q3FY20 CPI at 5.8% is higher than RBI's Oct'19 projection by 70bps, CPI forecast for Q4 has been revised upwards to 6.5% from 3.7% and for H1FY21 the revised projection is 5.2% (3.9% earlier). While vegetable prices are easing, milk and pulses are likely to sustain on the higher side. On an overall basis, rabi sowing is higher by 9% which gives us optimism that food inflation will ebb.

Negative output gap: RBI expects GDP growth to recover to 6% in FY21 from 5% in FY20 on the back of 1) higher rabi sowing and better terms of trade for agriculture, 2) improved transmission of earlier rate cuts, 3) government spending on infrastructure, and 4) higher consumption after rationalisation of personal income tax. However, the outbreak of coronavirus may impinge on global demand and thus exports. Output gap remains negative and there is room for 40bps rate cuts in 2020 as inflation falls, in our view.

Liquidity and credit policy changes: RBI announced significant changes in liquidity framework and credit policy. On liquidity front, the ceiling of 1% of NDTL has been withdrawn and now banks can borrow as much as they need from RBI to on-lend. In addition, long term repos (LTROs) of Rs 1tn upto 3 years have been announced. This will inject durable liquidity at a low cost.

On the credit front, to incentivise lending to auto, residential real estate and MSMEs, new loans up to Jul'20 will be deducted from NDTL for CRR purpose. MSME loan restructuring has been extended. Medium enterprises will qualify for external benchmark loans. For commercial real estate sector, a one year extension has been given for date of completion. Overall, these measures are signal to spur banks to lend to retail, MSME and real estate sectors.

KEY HIGHLIGHTS

- Inflation forecast for H1FY21 revised upward to 5.2 from 3.9% earlier.
- GDP growth to recover to 6% in FY21.
- Scope remains for further accommodation.



BUY

TP: Rs 620 | ▲ 19%

INDRAPRASTHA GAS

Oil & Gas

06 February 2020

Margins expand, volume growth stable

Indraprastha Gas' (IGL) Q3FY20 EBITDA was in line at Rs 3.9bn (+23% YoY, Rs 6.4/scm). Volumes at 6.7mmcmd (+13.5% YoY) also met estimates as CNG/PNG sales grew 9.2%/18.7% YoY. EBITDA margins at Rs 6.4/scm over 9MFY20 prompt us to revise our long-term estimates to ~Rs 7/scm (from Rs 6/scm over five years), considering IGL's margins still trend well below CGD peers with a similar volume mix. Post estimate revision and rollover, we have a new Mar'21 DCF-based TP of Rs 620 (from Rs 455).

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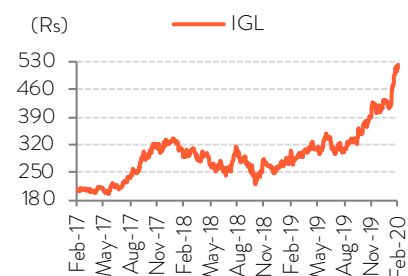
Volume growth remains robust: At 13.5% YoY in Q3, IGL's volume growth is trending well above its long-term average (~10%). Volumes continue to be driven by the CNG segment (+9% YoY) and could sustain as the company expands CNG stations on national highways. PNG growth was fuelled by steady expansion in the industrial segment (+35YoY), while domestic volumes surged as well (+16%). Management expects to sustain >10% CAGR in volumes over 2-3 years, mostly driven by CNG (~65 stations to be added annually).

Ticker/Price	IGL IN/Rs 522
Market cap	US\$ 5.1bn
Shares o/s	700mn
3M ADV	US\$ 15.5mn
52wk high/low	Rs 527/Rs 258
Promoter/FPI/DII	45%/23%/32%

Source: NSE

Volume traction from new areas: Management stated that the annual capex run-rate has been raised to ~Rs 11bn as the company's CGD network has been expanded into new areas (~3mmcmd volume potential from geographical areas (GA) in Uttar Pradesh – Meerut, Muzaffarnagar, Kanpur and Agra).

STOCK PERFORMANCE



Source: NSE

Margin expansion looks sustainable: Q3 EBITDA margins were in line at Rs 6.4/scm, but still trend below CGD peer MAHGL (Rs 10/scm in H1) and its JV subsidiary MNGL (~Rs 9/scm in FY19). Sustained low spot LNG prices and the cut in domestic gas prices from Oct'19 could help IGL sustain margins. We raise our long-term average margin estimates to Rs 7/scm from Rs 6/scm.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	45,921	57,648	66,502	78,858	92,813
EBITDA (Rs mn)	11,144	12,570	15,936	17,911	20,484
Adj. net profit (Rs mn)	7,217	8,739	11,876	13,350	15,868
Adj. EPS (Rs)	10.3	12.5	17.0	19.1	22.7
Adj. EPS growth (%)	19.0	21.1	35.9	12.4	18.9
Adj. ROAE (%)	21.7	21.7	24.1	22.1	21.5
Adj. P/E (x)	50.7	41.8	30.8	27.4	23.0
EV/EBITDA (x)	32.3	28.6	22.6	20.1	17.3

Source: Company, BOBCAPS Research



ADD

TP: Rs 790 | ▲ 9%

LUPIN

Pharmaceuticals

06 February 2020

Weak result; healthy FY21 outlook

Lupin (LPC) reported a 40% miss on Q3 EBITDA while one-offs dented PAT (incl. US\$ 222mn Gavis impairment). Further, disclosures (ex-Kyowa) imply a weaker EBITDA margin profile for the standalone business – ~200bps lower than the 17% estimated for FY20 – driving a ~14% cut in our FY21/FY22 EPS.

Revenue was a 9% miss and adj. margin for Q3 was 12% (17.4% est.). LPC is guiding for healthy operating leverage in FY21 starting Q4. Downside risk to growth and reasonable valuations keep us at ADD; TP revised to Rs 790 (vs. Rs 840).

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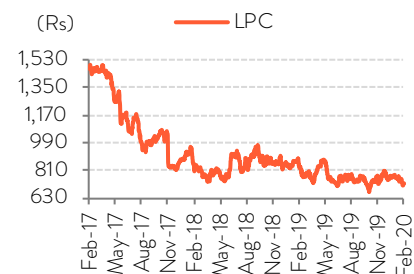
Weak margins (ex-Kyowa) a negative surprise: Based on disclosures for the quarter, we note that Kyowa had ~28% margins (Fig 1)– this implies underlying EBITDA margins of 14-15% for LPC in Q3FY19/Q2FY20 (includes licensing income) and 12% in Q3FY20 (adj. for one-offs), which is weaker than anticipated. The underperformance is due to a higher other expense base. Also, Q3 saw a revenue miss across most regions (US, APAC, EMEA, API). India grew 9% YoY.

Ticker/Price	LPC IN/Rs 722
Market cap	US\$ 4.6bn
Shares o/s	453mn
3M ADV	US\$ 15.3mn
52wk high/low	Rs 884/Rs 646
Promoter/FPI/DII	47%/25%/12%

Source: NSE

Guiding for a better FY21: Management has guided for healthy operating leverage, led by topline growth and cost control (flat R&D over FY20 and marginal increase in SG&A). Most of this depends on the US (full-year impact of Levo, inj. portfolio, Solosec, gProAir). LPC has reached half of the 20% target share in Levo which should reflect from Q4. The company expects 15+ launches without assuming any site clearance (incl. Albuterol launch – approved in H1).

STOCK PERFORMANCE



Source: NSE

Earnings call takeaways: (1) Solosec sales up 48% QoQ and prescriptions up 4%. (2) Expects to launch gEnbrel in Q1FY21 in the EU. (3) One-offs in Q3: Rs 7bn in tax, pretax gain of US\$ 181mn on Kyowa divesture and Rs 400mn in other expense. (4) Highest number of ANDAs pending from Nagpur site. (5) Effective tax rate of 45% for FY20 and <40% for FY21. (6) Somerset and Goa site reinspection in next few months.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	158,021	167,010	163,006	172,994	185,703
EBITDA (Rs mn)	31,453	27,020	25,035	30,205	33,881
Adj. net profit (Rs mn)	17,137	9,464	8,353	12,682	14,687
Adj. EPS (Rs)	37.9	20.9	18.5	28.0	32.5
Adj. EPS growth (%)	(41.5)	(44.8)	(11.7)	51.8	15.8
Adj. ROAE (%)	12.6	6.9	6.2	9.5	10.4
Adj. P/E (x)	19.1	34.5	39.1	25.8	22.2
EV/EBITDA (x)	12.2	14.0	15.1	12.2	10.3

Source: Company, BOBCAPS Research



REDUCE

TP: Rs 2,320 | ▼ 3%

V-MART RETAIL

Retail

06 February 2020

Margins surprise positively

V-Mart Retail (VMART) reported below-expected Q3FY20 revenue growth of 21% YoY to Rs 5.6bn, with SSSg of 1%. Management indicated that it is yet to see green shoots of demand recovery but expects some uptick in the medium term. Operating margins (adj. for Ind-AS 116) increased 105bps YoY to 16.8% vs. 15.3% expected, resulting in healthy EBITDA/PBT growth of 29%/27% YoY. We marginally raise FY20-FY22 PAT by 1-2% and roll over to a Mar'21 target price of Rs 2,320 (vs. Rs 2,030). Maintain REDUCE.

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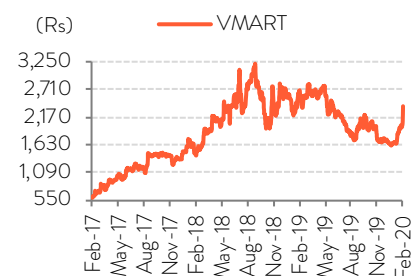
Below-expected revenue growth: VMART reported revenue growth of 21% YoY with same-store sales growth of 1% (volume SSSg down 3%). Revenue growth was aided by area addition of ~24% YoY whereas SSSg was hit by tepid market conditions during festivals and delayed onset of winter. Management intends to continue adding ~25% more area every year in light of the large market opportunity and is hopeful of recovery in SSSg in the medium term.

Margins up 100bps: VMART's operating margins (adj. for Ind-AS 116) rose 105bps YoY to 16.8% primarily due to lower raw material prices (-78bps YoY) and employee expenses (-22bps YoY). Consequently, EBITDA/PBT grew 29%/27% YoY. Gross margins at 36.3% were the highest in any quarter since listing as the company sold higher inventory at full price and reduced promotions and offers during the period. Management indicated that due to lower SSSg in FY20, the company would end the year with 8-9% margins.

Maintain REDUCE: We marginally raise FY20-FY22 PAT estimates by 1-2% and roll to a Mar'21 TP of Rs 2,320. We like VMART for its strong growth potential but see near-term demand headwinds. Valuations at 30.9x FY22E P/E offer limited upside and we would look for a better entry point into the stock.

Ticker/Price	VMART IN/Rs 2,389
Market cap	US\$ 608.5mn
Shares o/s	18mn
3M ADV	US\$ 0.8mn
52wk high/low	Rs 2,864/Rs 1,604
Promoter/FPI/DII	52%/26%/22%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	12,224	14,337	17,605	22,032	27,763
EBITDA (Rs mn)	1,332	1,336	1,492	1,894	2,394
Adj. net profit (Rs mn)	768	724	866	1,109	1,400
Adj. EPS (Rs)	42.4	39.9	47.8	61.2	77.2
Adj. EPS growth (%)	101.0	(5.8)	19.7	28.1	26.3
Adj. ROAE (%)	24.9	19.1	19.2	20.4	21.1
Adj. P/E (x)	56.4	59.9	50.0	39.1	30.9
EV/EBITDA (x)	32.3	32.1	28.7	22.6	17.8

Source: Company, BOBCAPS Research



BUY

TP: Rs 64 | ▲ 22%

**GREENPANEL
INDUSTRIES**

Construction Materials

06 February 2020

Strong performance marred by forex losses

Greenpanel Industries' (GREENP) Q3FY20 consolidated revenue grew 46% YoY aided by an 85%/37% increase in the plywood/MDF segments. Operating margins (ex-forex loss) expanded 350bps YoY to 15.3% on better plywood margins and higher MDF utilisation. Management maintained FY20 guidance of ~60% utilisation in MDF with ~17% margins. Plywood guidance is at ~Rs 2.2bn in revenues (earlier Rs 2bn) and 13% margins. We upgrade FY20-FY22 EPS by 9-43%, leading to a new Mar'21 TP of Rs 64 (vs. Rs 58).

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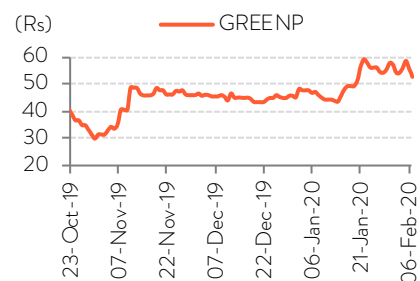
Strong revenue growth: GREENP's revenue grew 46% YoY to Rs 2.4bn in Q3, with MDF/plywood up 85%/37%. In the MDF business, volumes grew 47% YoY on better utilisation of new capacity while realisations fell 8% partly due to higher exports and some trial-production sales. In plywood, volumes increased 58.5% YoY off a low base and realisations rose 13.5% due to a better product mix. Management has guided for MDF utilisation of ~78% in FY21 (vs. ~60% in FY20), with exports to form 31-32% of MDF volumes.

Margins swell 350bps YoY: EBITDA margins (ex-forex loss) expanded 350bps YoY (-30bps QoQ) to 15.3% aided by higher plywood profitability and better MDF plant utilisation. MDF margins contracted 420bps YoY to 17.2% due to higher exports (24% vs. 14% YoY) which have lower margins and also price cuts taken earlier. Plywood margins rose ~190bps YoY to 11.5% on a better mix and higher volumes. Management has guided for 18%/13% MDF/plywood margins in FY21. Unhedged euro exposure led to an MTM loss of Rs 118mn in Q3.

Maintain BUY: We raise FY20-FY22 EBITDA estimates by 2-7% post the Q3 beat. The PAT upgrade is higher at 9-43% due to a lower base. We continue to like GREENP for its strong growth prospects, debt reduction and improving return ratios. Maintain BUY with a revised TP of Rs 64 (13x forward P/E).

Ticker/Price	GREENP IN/Rs 52
Market cap	US\$ 90.3mn
Shares o/s	123mn
3M ADV	US\$ 0.1mn
52wk high/low	Rs 61/Rs 28
Promoter/FPI/DII	52%/11%/37%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	5,991	8,447	9,884	11,225
EBITDA (Rs mn)	774	1,279	1,558	1,823
Adj. net profit (Rs mn)	228	161	382	599
Adj. EPS (Rs)	1.9	1.3	3.1	4.9
Adj. EPS growth (%)	NA	(29.2)	137.0	56.7
Adj. ROAE (%)	7.1	2.5	5.6	8.2
Adj. P/E (x)	28.2	39.9	16.8	10.7
EV/EBITDA (x)	NA	7.2	7.6	6.1

Source: Company, BOBCAPS Research



REDUCE

TP: Rs 445 | ▲ 3%

SUN PHARMA

Pharmaceuticals

07 February 2020

Q3 a tad lower – US (ex-Taro) ramp-up subdued; REDUCE

Sun Pharma (SUNP) reported a 6% EBITDA miss, largely driven by higher other expense (up 8% QoQ) and despite better gross margins (up 110bps QoQ) & lower R&D (6.4% of sales). The US ex-Taro sales miss was offset by stronger India sales (+12.6% YoY). SUNP expects higher R&D cost in FY21 (but <9% of sales) due to trials for new indications (psoriatic arthritis) in Ilumya. Global specialty sales rose 30% QoQ to US\$ 118mn on increased contribution from Absorica & Levulan. We retain FY21/FY22 EPS of Rs 23/Rs 26 and roll to a TP of Rs 445 (vs. Rs 430).

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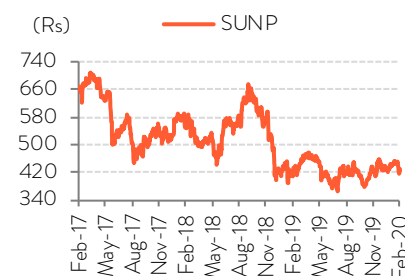
Higher opex sets off gross margin gains: Promotion spends on the specialty business largely shaved off benefits from better gross margins (healthy India business), leading to 20.4% EBITDA margins (70bps miss) for Q3. However, SUNP’s ex-Taro margins improved marginally by 50bps QoQ to 17.6% following better seasonality and Cequa launch, in our view. Given challenges in the generics market, SUNP will continue to focus on cost control across businesses. Also, it now expects to spend <8% on R&D for FY20 (6.1% in 9M).

Ticker/Price	SUNP IN/Rs 431
Market cap	US\$ 14.5bn
Shares o/s	2,399mn
3M ADV	US\$ 33.2mn
52wk high/low	Rs 484/Rs 345
Promoter/FPI/DII	54%/17%/16%

Source: NSE

India strong, US ex-Taro falls short: US sales ex-Taro increased by US\$ 25mn QoQ, slightly lower than expected. SUNP commented that this was led by higher contribution from seasonal products (Absorica, Levulan), followed by Ilumya/Cequa stocking. India/ROW grew 13%/6% YoY. The company is evaluating DTC promotion on Cequa to reach a fair share of the market. Management stated that the US generic market remains competitive.

STOCK PERFORMANCE



Source: NSE

Other takeaways: (1) Specialty R&D spend was US\$ 18mn (\$26mn in H1). (2) Net debt ex-Taro stood at US\$ 410mn. (3) Some of the complex generic filings have seen progress with the FDA review. (4) SUNP has already responded to the SEBI forensic audit and no fresh query has been raised so far.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	260,680	286,906	325,880	359,740	400,315
EBITDA (Rs mn)	55,630	60,746	73,200	82,929	91,855
Adj. net profit (Rs mn)	33,666	36,484	47,500	55,534	62,602
Adj. EPS (Rs)	14.0	15.2	19.8	23.1	26.1
Adj. EPS growth (%)	(50.7)	8.4	30.2	16.9	12.7
Adj. ROAE (%)	8.1	8.4	10.1	10.8	11.1
Adj. P/E (x)	30.7	28.3	21.8	18.6	16.5
EV/EBITDA (x)	17.2	15.7	13.3	11.6	10.0

Source: Company, BOBCAPS Research



BUY

TP: Rs 25,000 | ▲ 23%

EICHER MOTORS

Auto Components

07 February 2020

Steady operational performance

Eicher Motors' (EIM) consolidated Q3FY20 EBITDA at Rs 5.9bn (-14% YoY) was in line with estimates. Royal Enfield's (RE) performance was steady despite the tough demand environment and its proactive efforts to transition to BS-VI. Modest inventory and palatable BS-VI price hikes bode well for EIM amid likely cyclical recovery from H2FY21. Transition to new emission norms should aid market share gains for the VECV business given its edge as a long-time supplier of Euro-VI engines to Volvo. Retain BUY.

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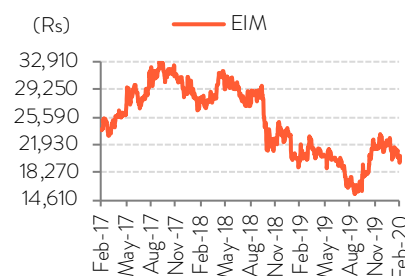
Steady Q3: Standalone topline inched up 1% YoY as a 6% drop in volumes was offset by a 7% rise in ASP. EBITDA at Rs 5.95bn (-14% YoY) was largely in line with estimates. RE's Q3 performance partly assuages concerns over the adverse effect of low-priced models on margins. VECV was weak but met our subdued expectations, with topline/EBITDA/PAT down 23%/28%/61% YoY.

Ticker/Price	EIM IN/Rs 20,391
Market cap	US\$ 7.8bn
Shares o/s	27mn
3M ADV	US\$ 42.6mn
52wk high/low	Rs 23,450/Rs 15,200
Promoter/FPI/DII	49%/32%/7%

Source: NSE

Focus on volumes and EBITDA/vehicle: RE has been proactive in BS-VI transition efforts which has helped it bring down BS-IV inventory to ~10days; overall inventory stands at two weeks. The company is rapidly expanding its studio store count from 500 stores as at end-Q3 to 750 stores by end-FY20. Attractive pricing of de-contented models has aided higher footfalls and led to a positive rub-off effect on the balance portfolio. RE reckons that the BS-VI led price hike has been accepted by customers and with pass-through of cost on a portfolio basis, the focus is on maintaining steady EBITDA/vehicle.

STOCK PERFORMANCE



Source: NSE

Maintain BUY: EIM remains our top pick in the auto space given its long runway for growth. We retain our estimates and SOTP-based TP of Rs 25,000 based on Rs 23,500 for RE (24x FY22E P/E) and Rs 1,500 for VECV.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	89,650	97,971	96,026	112,737	127,776
EBITDA (Rs mn)	28,076	29,031	23,957	27,194	31,591
Adj. net profit (Rs mn)	21,797	22,203	20,816	23,372	27,868
Adj. EPS (Rs)	799.6	813.9	763.1	856.7	1,021.6
Adj. EPS growth (%)	27.0	1.8	(6.2)	12.3	19.2
Adj. ROAE (%)	31.0	24.9	19.6	18.7	18.9
Adj. P/E (x)	25.5	25.1	26.7	23.8	20.0
EV/EBITDA (x)	18.9	17.8	21.0	18.1	15.2

Source: Company, BOBCAPS Research



REDUCE

TP: Rs 2,540 | ▲ 5%

HERO MOTOCORP

| Automobiles

| 07 February 2020

Decent Q3 but outlook challenging

Hero Moto (HMCL) posted an operational beat in Q3FY20 led by healthy gross margins. Current BS-IV inventory stands at five weeks. The company plans to stop BS-IV production by mid-Feb and smoothly transition to BS-VI. With a 12-15% cost rise in price-sensitive segments, the near-term volume outlook looks challenging. Inability to increase presence in scooters and exports along with risk of 2W demand saturation over 5-10 years are structural concerns for HMCL. Maintain REDUCE with a revised TP of Rs 2,540 (vs. Rs 2,575).

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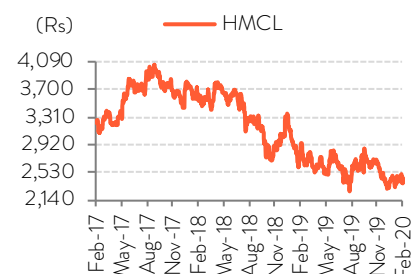
Margins ahead of estimates: Q3 revenues were in line with estimates at Rs 69.9bn (-11% YoY). Gross margins surprised positively with 110bps QoQ improvement led by a lagged impact from benign commodity costs and HMCL's cost-cutting efforts. EBITDA at Rs 10.4bn (-6% YoY) beat estimates by ~6%, aided by 80bps YoY/30bps QoQ margin expansion to 14.8%. A lower tax rate supported adj. PAT growth of ~15% YoY.

Ticker/Price	HMCL IN/Rs 2,411
Market cap	US\$ 6.8bn
Shares o/s	200mn
3M ADV	US\$ 27.0mn
52wk high/low	Rs 3,023/Rs 2,226
Promoter/FPI/DII	35%/36%/18%

Source: NSE

Tepid volume and margin outlook: HMCL hopes that good monsoons and higher finance penetration will partly mitigate demand headwinds. However, with a 12-15% cost rise across its models on account of BS-VI transition, the demand outlook appears bleak given a bulk of its volumes come from price-sensitive segments. Competitive intensity is likely to remain elevated with players such as Bajaj Auto adopting electronic injection systems (similar to e-carb) to enhance market share in lower-end segments. Limited pricing power and cost push from BS-VI transition are likely to dent margins.

STOCK PERFORMANCE



Maintain REDUCE: Current valuations at 15x FY21E EPS are at -1 SD of the five-year average. We trim our FY20-FY22 estimates by 1-2% as volume cuts offset higher margin assumption. We bake in a 6% earnings CAGR over FY20-FY22 – underwhelming after two years of decline.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	322,305	336,505	305,212	345,898	371,622
EBITDA (Rs mn)	52,802	49,301	44,551	43,622	48,972
Adj. net profit (Rs mn)	36,974	33,849	32,352	32,380	36,285
Adj. EPS (Rs)	185.1	169.5	162.0	162.1	181.7
Adj. EPS growth (%)	9.5	(8.5)	(4.4)	0.1	12.1
Adj. ROAE (%)	31.4	26.3	21.8	20.3	21.0
Adj. P/E (x)	13.0	14.2	14.9	14.9	13.3
EV/EBITDA (x)	8.3	8.6	9.6	9.9	8.7

Source: Company, BOBCAPS Research



BUY

TP: Rs 245 | ▲ 25%

PNC INFRA TECH

Infrastructure

07 February 2020

Strong execution; order inflows holds key for growth beyond FY21

PNC Infratech's (PNCL) Q3FY20 revenue grew 68% YoY. EBITDA margin stood at 14.1% (13.8% est.), while PAT at Rs 771mn was up 63% YoY but below our estimate of Rs 889mn due to higher interest cost. The Dec'19 order backlog stood at Rs 107bn or 2.3x TTM revenues (incl. L1 projects). Gross debt declined QoQ to Rs 3.5bn led by mobilisation advances and claim proceeds. We trim FY20/FY21 earnings by 1%/3% and maintain BUY with an unchanged Mar'21 TP of Rs 245.

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Healthy pace of execution: Revenue grew 68% YoY to Rs 12.2bn (Rs 12.9bn est.) as execution picked up pace on the HAM projects of Aligarh- Kanpur/ Jhansi Pkg I and the Mumbai-Nagpur Expressway/Purvanchal Expressway EPC contracts. We expect a revenue CAGR of 28% over FY19-FY22, with management guiding for 60%/20% growth in FY20/FY21.

Margin beat: A favourable revenue mix aided EBITDA margins of 14.1% in Q3 vs. 13.8% estimated. Employee cost saw a sharp rise of 55% YoY/46% QoQ to Rs 853mn due to payment of arrears for 11 months on account of wage revision. Interest cost also grew sharply by 114% YoY/62% QoQ to Rs 401mn due to interest on mobilisation advances.

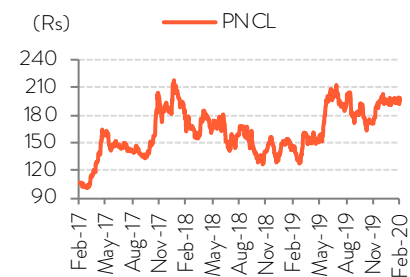
Leverage at comfortable levels: Led by receipt of mobilisation advances and proceeds from claims, PNCL's gross debt position improved to Rs 3.5bn as on Dec'19 vs. Rs 3.8bn as on Sep'19 (net cash position of Rs 900mn with cash & bank balance at Rs 4.4bn). Management has guided for gross debt of ~Rs 3.9bn as on Mar'20 (Rs 3.7bn as on Mar'19).

Maintain BUY: We downgrade our FY20/FY21 EPS estimates by 1%/3% (no material change for FY22) to factor in higher interest cost and taxes. Our Mar'21 SOTP-based TP remains at Rs 245.

Ticker/Price	PNCL IN/Rs 196
Market cap	US\$ 705.4mn
Shares o/s	257mn
3M ADV	US\$ 0.8mn
52wk high/low	Rs 219/Rs 126
Promoter/FPI/DII	56%/6%/21%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	17,983	30,716	50,147	61,309	64,378
EBITDA (Rs mn)	2,606	4,320	6,918	8,471	8,892
Adj. net profit (Rs mn)	1,604	2,326	3,400	4,275	4,552
Adj. EPS (Rs)	6.3	9.1	13.3	16.7	17.7
Adj. EPS growth (%)	(13.0)	45.0	46.2	25.8	6.5
Adj. ROAE (%)	9.5	11.9	14.4	15.2	14.1
Adj. P/E (x)	31.3	21.6	14.8	11.7	11.0
EV/EBITDA (x)	19.3	11.8	7.3	6.2	6.2

Source: Company, BOBCAPS Research



BUY

TP: Rs 3,100 | ▲ 18%

CERA SANITARYWARE

Construction Materials

06 February 2020

Q3 marginally better than estimates

Cera Sanitaryware (CRS) reported a dull Q3FY20 with standalone revenue growth of 1% YoY to Rs 3.2bn, as the sanitaryware segment declined ~11%. Operating margins contracted 105bps YoY to 13.4% despite a 305bps drop in other expense, as gross margins fell 375bps. EBITDA/PBT thus decreased 7%/13% YoY. Management expects the sanitaryware segment to return to growth in FY21. We broadly maintain estimates and roll forward to a revised Mar'21 TP of Rs 3,100 (earlier Rs 3,040).

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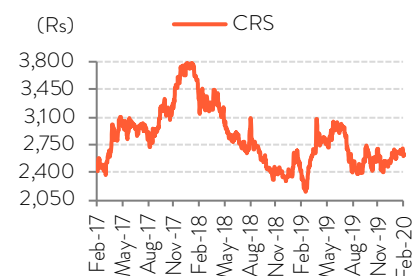
Flattish revenue growth due to decline in sanitaryware segment: CRS reported a 1% YoY increase in standalone revenue to Rs 3.2bn in Q3. The sanitaryware segment fell 11% YoY whereas faucets/tiles grew 8.5%/22% YoY. As per management, revenue performance was undermined by a lacklustre demand climate. Management believes the sanitaryware segment will return to growth in FY21 due to the new SKU launches, demand from affordable housing and improving liquidity.

Ticker/Price	CRS IN/Rs 2,626
Market cap	US\$ 479.4mn
Shares o/s	13mn
3M ADV	US\$ 0.2mn
52wk high/low	Rs 3,195/Rs 2,144
Promoter/FPI/DII	54%/8%/38%

Source: NSE

Weak product mix takes a toll on margins: CRS's standalone operating margins declined 105bps YoY to 13.4% due to lower gross margins (-375bps YoY) and higher employee expenses (+37bps YoY), which were only partly offset by lower other expenditure (-305bps YoY) – this caused EBITDA/PBT to contract 7%/13% YoY. Gross margin slippage stemmed from an adverse product mix, marked by a reduced share of high-margin sanitaryware products in the quarter (46% vs. 52% YoY). Other expenditure declined YoY aided by lower sales & marketing expenses.

STOCK PERFORMANCE



Source: NSE

Maintain BUY: Q3 was marginally better than expected. We broadly maintain estimates and roll to a revised Mar'21 TP of Rs 3,100 (earlier Rs 3,040), set at an unchanged 26x one-year forward P/E.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	11,776	13,444	13,451	14,798	16,419
EBITDA (Rs mn)	1,699	1,917	1,816	2,057	2,315
Adj. net profit (Rs mn)	970	1,010	1,162	1,352	1,548
Adj. EPS (Rs)	74.6	77.7	89.3	103.9	119.1
Adj. EPS growth (%)	0.9	4.1	15.0	16.4	14.5
Adj. ROAE (%)	17.2	15.5	15.5	15.9	16.0
Adj. P/E (x)	35.2	33.8	29.4	25.3	22.1
EV/EBITDA (x)	20.0	17.6	18.4	16.3	14.5

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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