BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

29 January 2021

RESEARCH

InterGlobe Aviation | Target: Rs 1,100 | –31% | SELL
Rising fuel costs to burn earnings; cut to SELL

Canara Bank | Target: Rs 150 | +14% | ADD
Earnings beat but asset quality risks persist

RBL Bank | Target: Rs 195 | –9% | SELL
Weak asset quality; elevated provisions – maintain SELL

Maruti Suzuki | Target: Rs 6,900 | –9% | SELL
Operational performance along expected lines; maintain SELL

TVS Motor | Target: Rs 350 | –34% | SELL
Valuations rich; maintain SELL

Coforge | Target: Rs 2,800 | +16% | BUY
Travel recovery and BFS drive growth

Eris Lifesciences | Target: Rs 730 | +17% | BUY
Healthy Q3; chronic franchise and FCF growth to unlock value

SUMMARY

InterGlobe Aviation

InterGlobe Aviation's (IndiGo) Q3FY21 RASK stood at Rs 3.2. EBITDA was at Rs 6.4bn but higher interest & depreciation led to a net loss of Rs 6.2bn. While IndiGo is poised for a revenue rebound given the easing of lockdowns, its market leadership (~55% share), ready capacity, sound balance sheet and firmer footing vis-à-vis peers, we believe the surge in crude costs will dent profits. We downgrade the stock from BUY to SELL as we cut FY23 PAT 45%, reset our EV/EBITDAR multiple down to 6.5x and roll over to a new Mar'22 TP of Rs 1,100 (vs. Rs 1,750).

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	900
GAIL	Buy	155
Petronet LNG	Buy	330
TCS	Buy	3,710
Tech Mahindra	Buy	1,040

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 (%)	1.02	(2bps)	9bps	(57bps)
India 10Y yield (%)	5.91	(1bps)	2bps	(67bps)
USD/INR	72.92	0	0.8	(2.3)
Brent Crude (US$/bbl)	55.81	(0.2)	8.8	(6.7)
Dow	30,303	(2.0)	0.3	5.5
Shanghai	3,573	0.1	5.2	20.1
Sensex	47,410	(1.9)	0.9	15.1
India FII (US$ mn)	**25 Jan**	**MTD**	**CYTD**	**FYTD**
FII-D	55.3	(369.7)	(369.7)	(4,463.3)
FII-E	40.7	3,183.6	3,183.6	33,159.4

Source: Bank of Baroda Economics Research

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Canara Bank

Canara Bank's (CBK) Q3 PAT of Rs 7bn beat our estimate on strong 47% YoY growth in operating profit. Reported GNPA ratio declined to 7.5% but the proforma number stood at ~9%. The SMA-1 & 2 pool increased to 2.2% of loans (vs. 0.7% in Q2) and the overall implemented restructured book stood at 2.5%. Loan growth stayed subdued at 6% YoY. CBK's CASA ratio improved 60bps QoQ to 33.4%. We upgrade EPS estimates post Q3 and assign the stock a higher 0.5x P/BV multiple – on rollover, we have a new Mar'22 TP of Rs 150 (vs. Rs 115).

Click here for the full report.

RBL Bank

RBL Bank's (RBK) PAT was largely in line at Rs 1.5bn. Proforma GNPA ratio rose ~100bps QoQ to 4.6% driven by slippages of ~Rs 15bn, largely retail-led. RBK has adequately provided for the same by using contingent provisions. Stress in the micro banking and business loan portfolios is proving higher than anticipated. The restructured book stood at 0.9% and is guided to rise to 1.5% by Q4. We raise our TP to Rs 195 (vs. Rs 150) as we hike FY21-FY23 EPS 8-15%, roll to Mar'23 valuations and now assign the stock a 0.8x P/BV multiple.

Click here for the full report.

Maruti Suzuki

Maruti (MSIL) reported Q3FY21 earnings of Rs 19bn backed by higher other income and a lower tax rate. Revenue was slightly below estimates at Rs 235bn while EBITDA margin at 9.5% was in line. With expected revival and planned relaunch of diesel variants in FY22, we expect a monthly sales run-rate of ~150,000 vehicles in FY22. But the sharp spike in input costs is likely to exert heavy pressure on margins in the near-to-mid-term. We estimate a revenue/ PAT CAGR of 22%/35% over FY21-FY23 and retain our Mar'22 TP of Rs 6,900.

Click here for the full report.

TVS Motor

TVS Motor's (TVSL) Q3FY21 revenue was marginally better than estimated due to above-expected ASP. PAT came in at Rs 2.7bn vs. Rs 1.7bn forecast. Strong rural growth is expected to boost moped and motorcycle sales, though our channel checks suggest 3W sales have been badly hit and recovery may take longer than expected. We continue to bake in a volume CAGR of 11% during FY21-FY23, leading to a revenue/PAT CAGR of 13%/32%. Maintain SELL with an unchanged Mar'22 TP of Rs 350, based on 24x Mar'23E EPS.

Click here for the full report.

Coforge

Coforge reported a robust Q3FY21 performance, marked by 3.3% QoQ CC revenue growth led by the BFS and travel verticals. Operating margin was in line at 13% (–77bps QoQ). Management's FY21 outlook was positive backed by its highest ever executable order book of US$ 501mn. We raise FY23 EPS by 4%, keeping FY22 EPS unchanged, and roll forward to a revised Dec'21 TP of Rs 2,800 (from Rs 2,690). Our target P/E stays unchanged at 22x given a robust deal pipeline and diversified revenue mix. Maintain BUY.

Click here for the full report.

Eris Lifesciences

Eris Lifesciences (ERIS) reported a healthy Q3 with a 3% revenue beat led by superior execution on the core cardio-metabolic and VMN portfolios (~78% of sales). Growth rebound in the acute portfolio (15% YoY vs. –1% for the covered market), upcoming high-value launches in Q4 and reduction in debtors were highlights. EBITDA margin stood at 34.5% (+572bps YoY on low base). ERIS expects 15% topline growth and margin expansion in FY22. We retain BUY and raise Mar'22 TP to Rs 730 (vs. Rs 700) as we tweak EPS estimates.

Click here for the full report.

SELL
TP: Rs 1,100 | ⮟ 31%

INTERGLOBE AVIATION | Airlines | 28 January 2021

Rising fuel costs to burn earnings; cut to SELL

InterGlobe Aviation's (IndiGo) Q3FY21 RASK stood at Rs 3.2. EBITDA was at Rs 6.4bn but higher interest & depreciation led to a net loss of Rs 6.2bn. While IndiGo is poised for a revenue rebound given the easing of lockdowns, its market leadership (~55% share), ready capacity, sound balance sheet and firmer footing vis-à-vis peers, we believe the surge in crude costs will dent profits. We downgrade the stock from BUY to SELL as we cut FY23 PAT 45%, reset our EV/EBITDAR multiple down to 6.5x and roll over to a new Mar'22 TP of Rs 1,100 (vs. Rs 1,750).

Mayur Milak | Nishant Chowhan, CFA
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Disappointing Q3: Revenue plunged 51% YoY to Rs 49.1bn in Q3. RASK was in line with our estimate at Rs 3.2 (excluding other income). Management mentioned that while the earlier part of the quarter reported strong RASK, the latter period saw some pressure which impacted profitability. EBITDA totalled Rs 6.4bn but IndiGo reported an adjusted net loss of Rs 6.2bn owing to higher interest and depreciation costs.

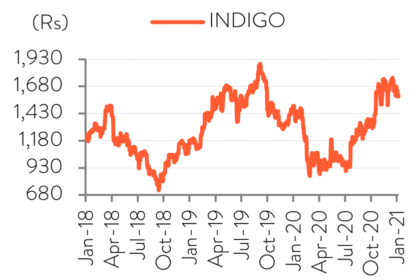
Expect steady growth recovery but rising fuel costs to erode profits: We believe IndiGo is in a sweet spot for growth over the next two years given a benign USDINR, the vulnerability of most of its peers (in terms of negative net worth and massive cash burn), and a strong balance sheet. Nevertheless, the sharp jump in crude cost is expected to severely erode profitability in the near-to-mid-term.

Cut to SELL: Despite assuming sharp traffic growth and improvement in RASK, surging crude prices prompt us to slash our FY23 PAT estimate by 45%. We now value IndiGo at 6.5x adj. EV/EBITDAR (earlier 9x) and roll valuations forward to Mar'23, translating to a reduced target price of Rs 1,100 (earlier Rs 1,750). Downgrade from BUY to SELL.

Ticker/Price	INDIGO IN/Rs 1,593
Market cap	US$ 8.4bn
Shares o/s	385mn
3M ADV	US$ 39.0mn
52wk high/low	Rs 1,787/Rs 771
Promoter/FPI/DII	75%/15%/7%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	284,968	357,560	150,742	332,082	427,555
EBITDA (Rs mn)	(5,354)	40,382	(1,555)	42,059	65,151
Adj. net profit (Rs mn)	(2,283)	(2,482)	(52,717)	(6,675)	14,636
Adj. EPS (Rs)	(5.9)	(6.4)	(137.0)	(17.3)	38.0
Adj. EPS growth (%)	NA	NA	NA	NA	
Adj. ROAE (%)	(3.3)	(4.2)	(892.4)	78.9	(272.5)
Adj. P/E (x)	(268.2)	(247.0)	(11.6)	(91.8)	41.9
EV/EBITDA (x)	(102.8)	13.0	(333.5)	14.2	9.8

Source: Company, BOBCAPS Research

ADD
TP: Rs 150 | 14%

CANARA BANK | Banking | 28 January 2021

Earnings beat but asset quality risks persist

Canara Bank's (CBK) Q3 PAT of Rs 7bn beat our estimate on strong 47% YoY growth in operating profit. Reported GNPA ratio declined to 7.5% but the proforma number stood at ~9%. The SMA-1 & 2 pool increased to 2.2% of loans (vs. 0.7% in Q2) and the overall implemented restructured book stood at 2.5%. Loan growth stayed subdued at 6% YoY. CBK's CASA ratio improved 60bps QoQ to 33.4%. We upgrade EPS estimates post Q3 and assign the stock a higher 0.5x P/BV multiple – on rollover, we have a new Mar'22 TP of Rs 150 (vs. Rs 115).

Vikesh Mehta
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Proforma GNPAs rise sharply: CBK's proforma GNPA ratio stood at ~9%, marking a high divergence of ~150bps from the reported figure owing to proforma slippages worth ~Rs 100bn. The bank has conservatively reversed interest worth Rs 4bn and provided ~Rs 19bn on proforma slippages. Collection efficiency stood at 95% in Q3. The SMA-1 & 2 pool swelled to 2.2% of loans, and CBK's restructured book stood at ~Rs 160bn (2.5% of loans) with a large portion driven by corporates, especially a big steel account.

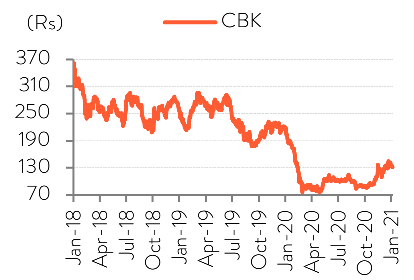
Growth remains subdued: Loan growth stood at ~6% YoY given lacklustre 2% growth in the corporate portfolio. However, the RAM (retail + agri + MSME) portfolio grew 9%. Management expects credit growth to hover between 6% and 8% in FY21. Of the overall sanctioned pool of Rs 100bn, CBK has disbursed ~Rs 95bn under ECLGS. Deposits grew 8% YoY with ~15% growth in CASA deposits but an ~11% decline in bulk funds.

Maintain ADD: We raise our FY21-FY23 EPS sharply to factor in the Q3 beat but continue to believe that elevated provisions will keep ROA/ROE subdued at ~0.3%/~5% by FY23. Valuing the stock at 0.5x P/BV (vs. 0.4x earlier), we roll over to a new Mar'22 TP of Rs 150. Maintain ADD.

Ticker/Price	CBK IN/Rs 131
Market cap	US$ 2.6bn
Shares o/s	1,454mn
3M ADV	US$ 44.5mn
52wk high/low	Rs 212/Rs 74
Promoter/FPI/DII	79%/3%/18%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	144,781	131,239	246,481	272,365	303,356
NII growth (%)	19.0	(9.4)	87.8	10.5	11.4
Adj. net profit (Rs mn)	3,470	(22,357)	21,238	22,715	27,556
EPS (Rs)	4.7	(25.1)	14.3	11.7	14.2
P/E (x)	28.1	(5.2)	9.2	11.2	9.3
P/BV (x)	0.3	0.3	0.4	0.4	0.4
ROA (%)	0.1	(0.3)	0.2	0.2	0.2
ROE (%)	1.0	(5.9)	4.3	3.7	4.3

Source: Company, BOBCAPS Research

SELL
TP: Rs 195 | ∨ 9%

RBL BANK | Banking | 28 January 2021

Weak asset quality; elevated provisions – maintain SELL

Vikesh Mehta
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RBL Bank's (RBK) PAT was largely in line at Rs 1.5bn. Proforma GNPA ratio rose ~100bps QoQ to 4.6% driven by slippages of ~Rs 15bn, largely retail-led. RBK has adequately provided for the same by using contingent provisions. Stress in the micro banking and business loan portfolios is proving higher than anticipated. The restructured book stood at 0.9% and is guided to rise to 1.5% by Q4. We raise our TP to Rs 195 (vs. Rs 150) as we hike FY21-FY23 EPS 8-15%, roll to Mar'23 valuations and now assign the stock a 0.8x P/BV multiple.

Stress on asset quality yet to run its course: RBK's proforma GNPA ratio climbed sharply to 4.6% (vs. 3.5% in Q2) owing to elevated slippages worth Rs 14.7bn emerging primarily from the retail portfolio (Rs 13bn). Proforma GNPA ratio in the credit card portfolio was at 5.7% and the bank expects it to remain stable in Q4. But the micro banking/business loan portfolios could see increases from 2.6%/4.5% currently to ~5.5%/6% in Q4. The bank has used ~50% of its Q2 contingency buffer to the extent of ~Rs 3bn. Collection efficiency is back to pre-Covid levels in the credit card portfolio, stable in the micro banking business at 92%, and at 96% of normal levels in business loans.

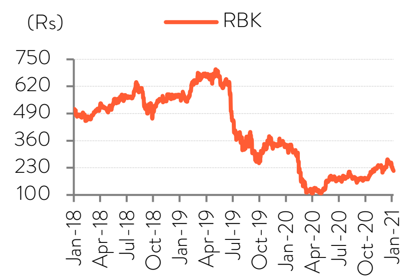
Growth remains elusive: RBK's loan book declined 5% YoY given a 25% drop in the wholesale portfolio. Retail advances grew 16% YoY with 30% growth in the credit card portfolio. The new card business has returned to pre-Covid levels and its market share has improved to 4.8%. However, the bank remains cautious on growth in the micro banking and business loan portfolios. NIM declined 15bps QoQ to 4.2% due to interest reversals.

Maintain SELL: We continue to believe that higher credit costs will keep ROE subdued (at ~10% by FY23E). Valuing the stock at 0.8x P/BV (0.6x earlier), we roll to a new Mar'22 TP of Rs 195.

Ticker/Price	RBK IN/Rs 215
Market cap	US$ 1.5bn
Shares o/s	509mn
3M ADV	US$ 60.1mn
52wk high/low	Rs 347/Rs 102
Promoter/FPI/DII	0%/29%/71%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	25,395	36,296	37,809	42,195	49,320
NII growth (%)	43.8	42.9	4.2	11.6	16.9
Adj. net profit (Rs mn)	8,670	5,057	5,570	10,622	14,604
EPS (Rs)	20.5	10.8	10.1	17.8	24.4
P/E (x)	10.5	19.9	21.4	12.1	8.8
P/BV (x)	1.2	1.0	1.0	1.0	0.9
ROA (%)	1.2	0.6	0.6	1.0	1.2
ROE (%)	12.2	5.6	4.8	8.1	10.4

Source: Company, BOBCAPS Research

SELL
TP: Rs 6,900 | ∀ 9%

MARUTI SUZUKI | Automobiles | 28 January 2021

Operational performance along expected lines; maintain SELL

Maruti (MSIL) reported Q3FY21 earnings of Rs 19bn backed by higher other income and a lower tax rate. Revenue was slightly below estimates at Rs 235bn while EBITDA margin at 9.5% was in line. With expected revival and planned relaunch of diesel variants in FY22, we expect a monthly sales run-rate of ~150,000 vehicles in FY22. But the sharp spike in input costs is likely to exert heavy pressure on margins in the near-to-mid-term. We estimate a revenue/ PAT CAGR of 22%/35% over FY21-FY23 and retain our Mar'22 TP of Rs 6,900.

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In-line operating performance: At Rs 234.6bn (+13% YoY), MSIL's revenue was ~3% lower than our estimate, affected by softer ASP due to higher sales promotion expenses. EBITDA margin at 9.5% was in line with our projection, leading to EBITDA growth of 6% YoY to Rs 22.3bn. Adj. PAT for Q3 grew ahead of estimates at 24% YoY to Rs 19.4bn due to higher-than-expected treasury income and a lower tax rate of 21% (~25% estimated).

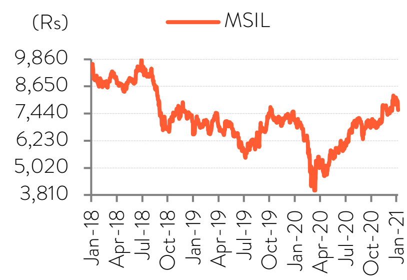
Spike in input costs to depress margins: Steel forms ~60% of the raw material used in a car. Since Sep'20, steel prices have surged >90% (from ~US$ 540/t to >US$ 1,000), which can have a devastating impact on margins. Even if steel averages at US$ 750-800, MSIL will need to hike prices by over 15% to maintain Q2FY21 margins (10.3%).

Maintain SELL: Our revenue forecasts are higher than the street, limiting any positive surprise from volume growth. After the steep >10% price increase taken by most automakers due to BSVI transition, we see little scope for further sharp hikes, implying the raw material cost burden will erode margins in the near-to-medium term. The street's view of gross margin expansion in FY22 and FY23 looks overstated. We maintain our Mar'22 TP of Rs 6,900 set at 26x FY23E EPS and recommend SELL.

Ticker/Price	MSIL IN/Rs 7,589
Market cap	US$ 31.4bn
Shares o/s	302mn
3M ADV	US$ 117.9mn
52wk high/low	Rs 8,329/Rs 4,001
Promoter/FPI/DII	56%/21%/17%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	860,203	756,106	688,350	927,746	1,027,015
EBITDA (Rs mn)	109,993	73,026	53,144	87,940	101,416
Adj. net profit (Rs mn)	91,700	56,506	43,697	68,497	79,834
Adj. EPS (Rs)	193.0	187.1	144.7	226.8	264.3
Adj. EPS growth (%)	(8.9)	(3.1)	(22.7)	56.8	16.6
Adj. ROAE (%)	13.3	11.9	8.8	12.9	13.7
Adj. P/E (x)	39.3	40.6	52.5	33.5	28.7
EV/EBITDA (x)	20.8	31.2	42.9	26.0	22.6

Source: Company, BOBCAPS Research

SELL
TP: Rs 350 | ⮟ 34%

TVS MOTOR | Automobiles | 28 January 2021

Valuations rich; maintain SELL

TVS Motor's (TVSL) Q3FY21 revenue was marginally better than estimated due to above-expected ASP. PAT came in at Rs 2.7bn vs. Rs 1.7bn forecast. Strong rural growth is expected to boost moped and motorcycle sales, though our channel checks suggest 3W sales have been badly hit and recovery may take longer than expected. We continue to bake in a volume CAGR of 11% during FY21-FY23, leading to a revenue/PAT CAGR of 13%/32%. Maintain SELL with an unchanged Mar'22 TP of Rs 350, based on 24x Mar'23E EPS.

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Beat on margins: Q3 revenue grew 31% YoY to Rs 53.9bn as ASPs increased 9% led by BSVI upgrades while volumes rose 20%. Despite the steep increase in raw material prices, TVSL posted gross margin expansion QoQ coupled with better operating efficiency, which supported an EBITDA margin beat (9.5% vs. 7.7% est.). EBITDA grew 41% YoY to Rs 5.1bn and adj. PAT was up 35% YoY to Rs 2.7bn (Rs 1.7bn est.)

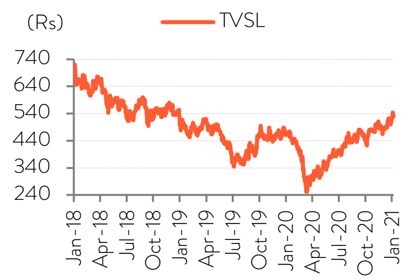
Consensus margins at high risk of downgrade: Our revenue forecasts are similar to the street. After the recent price increases taken due to BSVI transition and cost escalation, we see little scope for further sharp hikes, implying the raw material cost burden will erode margins in the near-to-medium term. The general view of gross margin expansion in FY22 and FY23 leaves us skeptical of current valuations, which are running much ahead of long-term averages. We expect sharp downgrades to consensus estimates as commodity prices stabilise.

Valuations expensive: ROCE/ROE are forecast at 12%/14% by FY23. At CMP, the stock is trading at 37x FY23E EPS which looks rich. Our TP remains unchanged at Rs 350 and is based on 24x FY23E EPS; maintain SELL.

Ticker/Price	TVSL IN/Rs 529
Market cap	US$ 3.4bn
Shares o/s	475mn
3M ADV	US$ 21.6mn
52wk high/low	Rs 556/Rs 240
Promoter/FPI/DII	57%/11%/22%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	182,099	164,233	159,070	185,461	203,829
EBITDA (Rs mn)	14,332	13,459	11,736	14,657	16,201
Adj. net profit (Rs mn)	6,701	6,246	3,952	5,902	6,861
Adj. EPS (Rs)	14.1	12.5	8.3	12.4	14.4
Adj. EPS growth (%)	3.9	(11.8)	(33.3)	49.4	16.2
Adj. ROAE (%)	20.0	17.3	10.1	13.6	14.3
Adj. P/E (x)	37.4	42.4	63.6	42.6	36.6
EV/EBITDA (x)	17.6	18.7	21.1	16.8	15.4

Source: Company, BOBCAPS Research

BUY
TP: Rs 2,800 | ⮝ 16%

COFORGE | IT Services | 28 January 2021

Travel recovery and BFS drive growth

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Coforge reported a robust Q3FY21 performance, marked by 3.3% QoQ CC revenue growth led by the BFS and travel verticals. Operating margin was in line at 13% (–77bps QoQ). Management's FY21 outlook was positive backed by its highest ever executable order book of US$ 501mn. We raise FY23 EPS by 4%, keeping FY22 EPS unchanged, and roll forward to a revised Dec'21 TP of Rs 2,800 (from Rs 2,690). Our target P/E stays unchanged at 22x given a robust deal pipeline and diversified revenue mix. Maintain BUY.

Growth and margins in line: Coforge declared revenue growth of 3.3% QoQ CC, meeting our estimate. Growth was driven by a ~9% QoQ increase in both the BFS and travel verticals, marking a strong rebound in travel. Insurance was weak with a decline of 2.9% QoQ in reported terms, following accelerated growth of 12.5% in Q2FY21. EBIT margin was in line at 13%, down 77bps QoQ due to lower utilisation and selective wage hikes to control attrition.

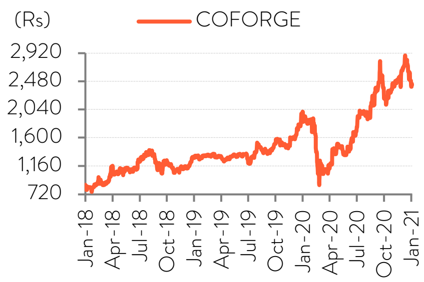
Strong order intake: Fresh order intake totalled US$ 193mn, leading to a record-high US$ 501mn executable order book (+2% QoQ, +18% YoY) over the next 12 months – crossing the US$ 500mn mark for the first time. Of the US$ 193mn order book, US$ 116mn came from the US, US$ 45mn from EMEA and US$ 32mn from RoW. Two large deals were signed – one each in the insurance space (worth US$ 45mn) and healthcare vertical.

Upbeat outlook: After a robust revenue growth and margin performance in Q3, management expects FY21 growth to be at least 6.3% CC. EBIT margin guidance for the year has been revised slightly upwards to 18% from 17.8% earlier (before RSU cost). This guidance includes the impact from impending wage hikes for the rest of the staff.

Ticker/Price	COFORGE IN/ Rs 2,420
Market cap	US$ 2.0bn
Shares o/s	62mn
3M ADV	US$ 15.6mn
52wk high/low	Rs 2,910/Rs 735
Promoter/FPI/DII	70%/13%/17%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	36,762	41,839	47,097	59,263	68,540
EBITDA (Rs mn)	6,453	7,431	8,124	10,352	11,937
Adj. net profit (Rs mn)	4,089	4,539	4,803	7,142	8,102
Adj. EPS (Rs)	66.2	73.5	77.7	115.6	131.1
Adj. EPS growth (%)	45.9	11.0	5.8	48.7	13.4
Adj. ROAE (%)	20.3	18.7	17.3	22.6	22.1
Adj. P/E (x)	36.6	32.9	31.1	20.9	18.5
EV/EBITDA (x)	22.6	19.3	17.1	13.0	10.9

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 730 | ⮝ 17%

ERIS LIFESCIENCES | Pharmaceuticals | 28 January 2021

Healthy Q3; chronic franchise and FCF growth to unlock value

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Eris Lifesciences (ERIS) reported a healthy Q3 with a 3% revenue beat led by superior execution on the core cardio-metabolic and VMN portfolios (~78% of sales). Growth rebound in the acute portfolio (15% YoY vs. –1% for the covered market), upcoming high-value launches in Q4 and reduction in debtors were highlights. EBITDA margin stood at 34.5% (+572bps YoY on low base). ERIS expects 15% topline growth and margin expansion in FY22. We retain BUY and raise Mar'22 TP to Rs 730 (vs. Rs 700) as we tweak EPS estimates.

Strong FY22 sales guidance backed by organic portfolio: Q3 revenue growth of 16.5% YoY came on the back of a 14%/37% rise in the cardio-metabolic and VMN segments. ZAC D (launched in Q2) led to stellar growth in VMN. ERIS is guiding for 15% sales growth in FY22 steered by the organic portfolio (new launches, doctor reach expansion, higher MR productivity). It has launched three brands in Q3 (incl. Dapagliflozin in the SGLT 2 segment, Rivaroxaban) and expects Rs 1bn in sales each over five years. We continue to believe strong product selection, emerging off-patent upsides in cardio-diabetes, Zomelis scale-up and Rx penetration in the cardiac and VMN segments would support ~13% sales CAGR over FY21-FY24 (>16% in chronic).

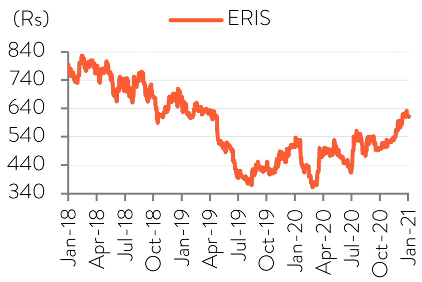
Q3 margins set to expand; OCF conversion stays strong: Gross margins expanded 120bps QoQ to 82% and EBITDA margins were at 34.5% (–330bps QoQ) on higher SGA spends. Management expects to retain margins in Q4 but to see operating leverage from launches in FY22. The Guwahati plant is utilised ~40% on a 3-shift basis. OCF/EBITDA conversion was at 93%.

Earnings call takeaways: (1) Expect three launches in Q4 (incl. Dapagliflozin + Metformin combo). (2) Debtors at 43 days in Q3; target of 30 days by FY22. (3) Zomelis tracking at Rs 400mn annually. (4) Limited M&A bandwidth.

Ticker/Price	ERIS IN/Rs 623
Market cap	US$ 1.2bn
Shares o/s	136mn
3M ADV	US$ 1.4mn
52wk high/low	Rs 643/Rs 321
Promoter/FPI/DII	54%/11%/11%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	9,822	10,741	11,903	13,566	15,355
EBITDA (Rs mn)	3,449	3,684	4,174	4,971	5,806
Adj. net profit (Rs mn)	2,908	2,965	3,346	4,113	4,910
Adj. EPS (Rs)	21.4	21.8	24.6	30.3	36.2
Adj. EPS growth (%)	(1.1)	2.0	12.9	22.9	19.4
Adj. ROAE (%)	31.1	26.5	25.7	26.0	25.5
Adj. P/E (x)	29.1	28.5	25.3	20.6	17.2
EV/EBITDA (x)	24.5	23.1	19.9	16.5	13.6

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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