

FIRST LIGHT

RESEARCH

BOB Economics Research | Trade

Oil and gold imports rise

Lupin | Target: Rs 850 | +9% | ADD

Q4 in line; Tax guidance disappoints

Pidilite Industries | Target: Rs 1,080 | -7% | REDUCE

Disappointing operating performance

SUMMARY

India Economics: Trade

India's trade deficit widened to US\$ 15.3bn in Apr'19 from US\$ 10.9bn in Apr'19 as gold (54% YoY) and oil (9%) imports increased. Exports were relatively muted at US\$ 26bn (0.6%). Non-oil-non-gold imports continued to moderate as domestic demand remains weak. Capital goods imports contracted. The recent uptick in trade deficit is in-line with backdrop of weak export growth and relatively higher imports as oil and gold prices remain elevated. We expect trade deficit to rise to US\$ 196bn in FY20 from US\$ 183bn in FY19.

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

Lupin

Core EBITDA was a marginal 4% beat adjusted for low R&D spends for the quarter. LPC gave no guidance on sales growth or margins but expects further cost optimisation in FY20 (staff & R&D). Solosec ramp-up, Levothyroxine, 20 ANDA launches (incl. gProAir, 1 depo injectable in H2) along with India business will drive momentum. Tax rate guidance at 40% was a key negative, driving a 15% cut in FY20 EPS. Hereon, FDA inspection outcome for Goa is critical to stock performance. We cut our Mar'20 TP to Rs 850 (vs. Rs 930).

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

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	620
GAIL	Buy	515
ONGC	Buy	225
TCS	Buy	2,390
HPCL	Sell	145

MID-CAP IDEAS

Company	Rating	Target
Balkrishna Ind	Buy	1,310
Future Supply	Buy	780
Greenply Industries	Buy	230
Laurus Labs	Buy	495
PNC Infratech	Buy	210

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	2.41	1bps	(15bps)	(66bps)
India 10Y yield* (%)	7.46	(2bps)	(11bps)	(45bps)
USD/INR	70.46	0.1	(1.9)	(3.5)
Brent Crude (US\$/bbl)	25,532	0.8	(3.3)	3.3
Dow	2,884	(0.7)	(9.6)	(9.7)
Shanghai	37,319	0.6	(3.7)	5
Sensex	71.24	1.4	(0.4)	(9.2)
India FII (US\$ mn)	13 May	MTD	CYTD	FYTD
FII-D	(27.6)	(615.7)	(917)	(1,933.4)
FII-E	(135.6)	12.3	9,779.6	1,484.9

Source: Bank of Baroda Economics Research

*Based on 7.17% GS 2028

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Pidilite Industries

Pidilite Industries (PIDI) reported below-expected consolidated revenue growth of 10.3% YoY, with consumer & bazaar (CBP) segment volumes up 3.6%. Operating margins contracted 143bps YoY to 17%, a 16-quarter low, resulting in low 1.8% YoY EBITDA growth. Management expects margin pressure to lift due to easing RM costs and has guided for double-digit volume growth in the medium term. We maintain REDUCE on rich valuations, while rolling forward to a revised Mar'20 TP of Rs 1,080 (from Rs 1,035).

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

TRADE

15 May 2019

Oil and gold imports rise

India's trade deficit widened to US\$ 15.3bn in Apr'19 from US\$ 10.9bn in Apr'19 as gold (54% YoY) and oil (9%) imports increased. Exports were relatively muted at US\$ 26bn (0.6%). Non-oil-non-gold imports continued to moderate as domestic demand remains weak. Capital goods imports contracted. The recent uptick in trade deficit is in-line with backdrop of weak export growth and relatively higher imports as oil and gold prices remain elevated. We expect trade deficit to rise to US\$ 196bn in FY20 from US\$ 183bn in FY19.

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Exports decelerate: India's export growth decelerated to 0.6% in Apr'19 from a 5-month high of 11% in Mar'19. The deceleration in exports is led by decline in gems and jewellery sector at (-) 13.4%, followed by engineering goods at (-) 7%. Cotton yarn and man-made fibres too reported a contraction on YoY basis. On the other hand, oil exports increased by 30.7%. Given the global backdrop of worsening growth, exports are likely to remain muted for now.

Imports inch up: India's imports rose by 4.5% in Apr'19 compared with an increase of 1.4% in Mar'19. The acceleration in imports is led by higher oil and gold imports which rose by 9.3% and 54% respectively. Non-oil-non-gold imports remained lukewarm at (-) 2.2% in Apr'19. Capital goods imports declined by (-) 5.5% in Apr'19. So was the case with agri imports at (-) 9.9%. Electronic goods imports rose by 4% compared with an increase of 8.9% in FY19. With a cyclical slowdown underway in India we believe non-oil-non-gold imports are likely to remain muted.

IMD says monsoon to arrive on 6 June: The Indian Meteorological department (IMD) today released its forecast for onset of monsoon today which says that onset of monsoon is likely to be delayed to June 6, 2019 compared with May 29 last year. IMD believes monsoon will be normal this year while Skymet a private forecaster says it will be below normal.

Trade deficit to increase in FY20: The uptick in trade deficit in Apr'19 is on track as trade deficit in FY20 is likely to widen to US\$ 196bn from US\$ 183bn in FY19. The increase will be led by higher oil imports and muted exports as global economy slows down. While Indian economy is also slowing down, it will still grow much faster than pace of global expansion. In addition, the US-China trade war is not good for exports and global growth outlook.

KEY HIGHLIGHTS

- Export growth decelerated to 0.6% in Apr'19 from 11% in Mar'19.
- Imports rose by 4.5% in Apr'19 versus 1.4% in Mar'19.
- Trade deficit widened to US\$ 15.3bn in Mar'19 from US\$ 10.9bn in Mar'19.



ADD

TP: Rs 850 | ▲ 9%

LUPIN

Pharmaceuticals

16 May 2019

Q4 in line; Tax guidance disappoints

Core EBITDA was a marginal 4% beat adjusted for low R&D spends for the quarter. LPC gave no guidance on sales growth or margins but expects further cost optimisation in FY20 (staff & R&D). Solosec ramp-up, Levothyroxine, 20 ANDA launches (incl. gProAir, 1 depo injectable in H2) along with India business will drive momentum. Tax rate guidance at 40% was a key negative, driving a 15% cut in FY20 EPS. Hereon, FDA inspection outcome for Goa is critical to stock performance. We cut our Mar'20 TP to Rs 850 (vs. Rs 930).

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Q4 results: Revenue was in line at Rs 44bn (+9% YoY, -2.2% QoQ), led by two months of Ranexa exclusivity sales (US\$ 40mn sales with 70-80% gross margin, we believe). PAT came in at only Rs 2.9bn due to high tax. Lower R&D cost drove a major part of the EBITDA beat (9% vs. 9.5% in FY19). LPC has guided for flattish to mid-single digit growth in R&D in FY20. US base business stabilised further in Q4 and reported sales of US\$ 247mn (+25.5% QoQ).

Ticker/Price	LPC IN/Rs 782
Market cap	US\$ 5.0bn
Shares o/s	453mn
3M ADV	US\$ 22.2mn
52wk high/low	Rs 986/Rs 720
Promoter/FPI/DII	47%/25%/12%

Source: NSE

Earnings call takeaways: (1) Management expects peak market share of 15-20% in Solosec with breakeven at 10k weekly prescriptions (1.9k in Mar'19) and net price of <US\$ 170. (2) Launch timeline of H2FY20 retained for gEnbrel in the EU and Pro-Air. (3) Industry growth outlook for Japan weak at 1.3% CAGR and ROW at 3-6% over 2020-23. (4) gBrovana COPD drug - US\$ 250mn in branded sales was filed in FY19; patent expires in 2022. (5) >30 complex injectable products filed including 10 in depo form. (6) gSpiriva at best a FY23 US launch - FTF status confirmed.

STOCK PERFORMANCE



Source: NSE

Maintain ADD: While we believe the series of weak earnings has bottomed, Goa plant resolution will be the next key event for the stock. We expect 22% EPS growth over FY19-FY21. A deepening US product pipeline and high share of branded generics are other key long-term positives. Retain ADD.

KEY FINANCIALS

Y/E 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Adj. net profit (Rs mn)	29,296	17,137	9,597	10,465	14,372
Adj. EPS (Rs)	64.7	37.9	21.2	23.1	31.8
Adj. EPS growth (%)	34.9	(41.5)	(44.0)	9.1	37.3
Adj. ROAE (%)	23.7	12.6	7.0	7.5	10.0
Adj. P/E (x)	12.1	20.7	36.9	33.8	24.6
EV/EBITDA (x)	8.6	12.9	15.0	13.6	12.0

Source: Company, BOBCAPS Research



REDUCE

TP: Rs 1,080 | ▼ 7%

PIDILITE INDUSTRIES

Construction Materials

15 May 2019

Disappointing operating performance

Pidilite Industries (PIDI) reported below-expected consolidated revenue growth of 10.3% YoY, with consumer & bazaar (CBP) segment volumes up 3.6%. Operating margins contracted 143bps YoY to 17%, a 16-quarter low, resulting in low 1.8% YoY EBITDA growth. Management expects margin pressure to lift due to easing RM costs and has guided for double-digit volume growth in the medium term. We maintain REDUCE on rich valuations, while rolling forward to a revised Mar'20 TP of Rs 1,080 (from Rs 1,035).

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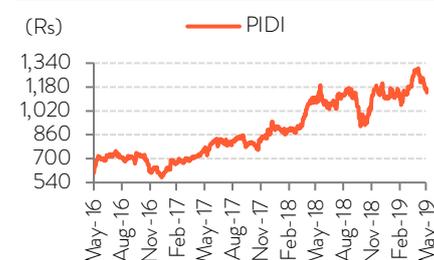
Modest revenue growth: PIDI's consolidated Q4 revenues grew 10.3% YoY to Rs 16.4bn, with 8.4% constant currency growth in overseas subsidiaries (excluding US-based Cyclo). Standalone revenues increased 8.2% YoY to Rs 13.8bn, led by volume growth of 2.5% (3.6% in the CBP segment while industrial volumes dipped 1.1%). Management has guided for sustainable double-digit volume growth in the medium term, but indicated near-term (Q1FY20) demand to be lower primarily due to the ongoing general elections.

Ticker/Price	PIDI IN/Rs 1,165
Market cap	US\$ 8.4bn
Shares o/s	508mn
3M ADV	US\$ 10.6mn
52wk high/low	Rs 1,313/Rs 895
Promoter/FPI/DII	70%/12%/19%

Source: NSE

Margins and PAT decline: PIDI's consolidated operating margin declined by 143bps YoY to 17%, largely due to lower gross margins (-180bps), resulting in EBITDA growth of just 1.8% YoY and a 2.2% decline in adj. PAT to Rs 1.9bn. Gross margins contracted due to higher raw material prices. Management expects margins to normalise as RM prices have come off their peaks and has guided for standalone operating margins in the range of 21-24% going ahead.

STOCK PERFORMANCE



Source: NSE

Maintain REDUCE: PIDI's Q4 results were weaker than expected due to soft operating margins, though easing RM prices should offer some respite. While we like the company for its strong franchise and broad portfolio, valuations at 43x FY21E P/E are rich given demand headwinds in the near term. Maintain REDUCE with a revised Mar'20 TP of Rs 1,080, set at 40x one-year fwd P/E.

KEY FINANCIALS

Y/E 31 Mar	FY17A	FY18A	FY19P	FY20E	FY21E
Adj. net profit (Rs mn)	8,600	9,159	8,899	11,666	13,657
Adj. EPS (Rs)	16.8	18.0	17.5	23.0	26.9
Adj. EPS growth (%)	13.8	7.5	(2.8)	31.1	17.1
Adj. ROAE (%)	27.5	26.0	23.0	26.1	26.4
Adj. P/E (x)	69.4	64.5	66.4	50.7	43.3
EV/EBITDA (x)	46.9	44.1	43.2	33.0	28.4

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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