

# FIRST LIGHT

## RESEARCH

### Cipla | Target: Rs 630 | +14% | BUY

Good beat; key drivers tracking well for FY20 – retain BUY

### Astral Polytechnik | Target: Rs 1,140 | –4% | REDUCE

Anaemic operational performance

### Somany Ceramics | Target: Rs 505 | +38% | BUY

Tepid quarter but guidance upbeat

## SUMMARY

### Cipla

Cipla reported a 13% beat on sales and EBITDA adjusting for gSensipar contribution in the US (US\$ 40mn per management) during Q4. The beat was led by recovery in Europe & South Africa (private market), a higher US DTM mix and India growth. Cipla sees low litigation risk in the gSensipar at-risk launch and is guiding for an improved FY20, with double-digit growth in the US (incl. one inhaler launch). FY19 reported EPS is Rs 19 (Rs 2 from non-core gSensipar). We raise FY20/FY21 EPS by 8%/2% and revise our Mar'20 TP to Rs 630 (vs. Rs 620).

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

### Astral Polytechnik

Astral Poly Technik (ASTRA) reported below-expected consolidated revenue growth of 21% YoY in Q4FY19. Growth was aided by the acquisition of Rex Poly in Q2 (growth ex-Rex was at 12.8% YoY). Standalone revenue in the PVC pipes segment grew 11.6% (ex-Rex) and adhesives grew 18.8%. EBITDA margins shrank 317bps YoY to 15.4% due to lower margins in adhesives, leading to flat EBITDA and a 12.9% drop in adj. PAT. We cut FY20/FY21 PAT estimates by 4%/5%; on rolling forward to Mar'20, our TP remains at Rs 1,140.

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

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Cipla</a>	Buy	630
<a href="#">GAIL</a>	Buy	515
<a href="#">ONGC</a>	Buy	225
<a href="#">TCS</a>	Buy	2,390
<a href="#">HPCL</a>	Sell	210

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Balkrishna Ind</a>	Buy	1,290
<a href="#">Future Supply</a>	Buy	780
<a href="#">Greenply Industries</a>	Buy	230
<a href="#">Laurus Labs</a>	Buy	495
<a href="#">PNC Infratech</a>	Buy	210

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	2.43	1bps	(16bps)	(63bps)
India 10Y yield (%)	7.30	1bps	(17bps)	(51bps)
USD/INR	69.72	0	(0.1)	(2.5)
Brent Crude (US\$/bbl)	72.18	0.3	(2.5)	(9.3)
Dow	25,877	0.8	(2.4)	4.2
Shanghai	2,906	1.2	(9.6)	(9.6)
Sensex	38,970	(1.0)	0.8	12.5
India FII (US\$ mn)	20 May	MTD	CYTD	FYTD
FII-D	(1.8)	(174.6)	(476.0)	(1,492.3)
FII-E	231.0	(476.2)	9,291.1	996.5

Source: Bank of Baroda Economics Research

## BOBCAPS Research

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## Somany Ceramics

Somany Ceramics (SOMC) reported a 4% YoY dip in Q4FY19 consolidated revenue to Rs 5.2bn with tile volumes falling 3.3%. Consolidated operating margins rose 210bps YoY to 13.6% due to higher gross margins (+198bps), aiding EBITDA/PBT growth of 13.4%/16.6% YoY. Management has guided for double-digit volume growth in tiles, with stronger margins in FY20. We trim FY20-FY21 PAT estimates by ~4% each and roll over to a new Mar'20 TP of Rs 505 (from Rs 495).

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

**BUY**

TP: Rs 630 | ▲ 14%

**CIPLA**

Pharmaceuticals

22 May 2019

## Good beat; key drivers tracking well for FY20 – retain BUY

Cipla reported a 13% beat on sales and EBITDA adjusting for gSensipar contribution in the US (US\$ 40mn per management) during Q4. The beat was led by recovery in Europe & South Africa (private market), a higher US DTM mix and India growth. Cipla sees low litigation risk in the gSensipar at-risk launch and is guiding for an improved FY20, with double-digit growth in the US (incl. one inhaler launch). FY19 reported EPS is Rs 19 (Rs 2 from non-core gSensipar). We raise FY20/FY21 EPS by 8%/2% and revise our Mar'20 TP to Rs 630 (vs. Rs 620).

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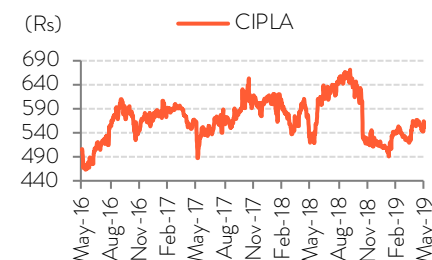
**Q4 ahead of estimates:** Stocking of gSensipar in US was a key driver, roughly adding ~Rs 2bn in Q4 EBITDA. Netting off higher provisions in other expenses (litigation fees, receivables, plant-related), we estimate a 13% beat over our adj. EBITDA forecast of Rs 6.7bn. Cipla has guided for EBITDA margin expansion over normalised FY19 margins (18% in our view) and aims to file 12+ ANDAs.

Ticker/Price	CIPLA IN/Rs 553
Market cap	US\$ 6.4bn
Shares o/s	806mn
3M ADV	US\$ 19.5mn
52wk high/low	Rs 678/Rs 484
Promoter/FPI/DII	37%/26%/13%

Source: NSE

**Key highlights:** Key respiratory filings are progressing and Cipla is on track to file two products in the US in FY20 including Advair. gAlbuterol can be a good late-FY20 opportunity despite three authorised generics due to cost competitiveness. Management expects some destocking risk in the generic trade business (1/3<sup>rd</sup> of prescription) within domestic formulations. Total investment in Tramadol and Pulmazole could be in the US\$ 150mn-180mn range over 3-4 years; Tramadol Phase 3 trial readouts are likely in Q1FY20. US DTM share rose to 43% in FY19 (from 23% in FY18), CGA revenues dropped 36% to US\$ 70mn, and Cipla has taken Invagen write off of US\$ 29mn in Q4. FY20 tax rate is pegged at 27-29%.

### STOCK PERFORMANCE



Source: NSE

**Retain BUY:** We value one-time gSensipar at non-core multiples and remain watchful of litigation progress (7-8 filers, Teva settled & Piramal withdrew after launch). Retain BUY on a strong India franchise, improving US pipeline and reasonable valuations. Delays in high-value US launches are a key risk to estimates.

### KEY FINANCIALS

Y/E 31 Mar	FY17A	FY18A	FY19E	FY20E	FY21E
Adj. net profit (Rs mn)	12,361	12,340	15,079	16,316	18,238
Adj. EPS (Rs)	15.3	15.3	18.7	20.3	22.6
Adj. EPS growth (%)	0.8	(0.2)	22.2	8.2	11.8
Adj. ROAE (%)	9.7	8.9	10.1	10.2	10.5
Adj. P/E (x)	36.0	36.1	29.5	27.3	24.4
EV/EBITDA (x)	19.6	16.7	15.0	13.7	12.1

Source: Company, BOBCAPS Research



**REDUCE**

TP: Rs 1,140 | ▼ 4%

**ASTRAL POLY TECHNIK**

Plastic Products

22 May 2019

**Anaemic operational performance**

**Astral Poly Technik (ASTRA) reported below-expected consolidated revenue growth of 21% YoY in Q4FY19. Growth was aided by the acquisition of Rex Poly in Q2 (growth ex-Rex was at 12.8% YoY). Standalone revenue in the PVC pipes segment grew 11.6% (ex-Rex) and adhesives grew 18.8%. EBITDA margins shrank 317bps YoY to 15.4% due to lower margins in adhesives, leading to flat EBITDA and a 12.9% drop in adj. PAT. We cut FY20/FY21 PAT estimates by 4%/5%; on rolling forward to Mar'20, our TP remains at Rs 1,140.**

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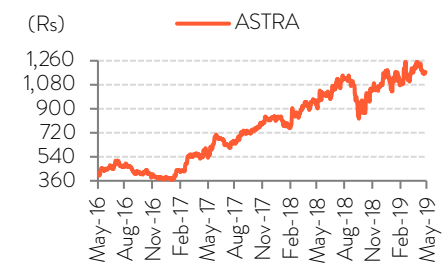
**Rex Poly acquisition boosts revenue growth:** ASTRA reported Q4FY19 consolidated revenue growth of 21.3% YoY to Rs 7.7bn, aided by the Rex Polyextrusion buyout. PVC pipe standalone revenues grew 22.6% YoY (11.6% YoY ex-Rex) and the adhesives business was up 18.8% (subsidiaries Resinova/Seal-IT grew 14.8%/30.1% YoY). Volume growth in the pipe segment was 8.2% ex-Rex in FY19, among the lowest levels seen in many years. Management has guided for ~15% volume growth in piping, with revenue growth of 25-30% in Rex and 20% in adhesives for FY20.

**Consolidated margins decline >300bps:** ASTRA's operating margins contracted 317bps YoY to 15.4% due to lower adhesive margins, resulting in flat EBITDA YoY and adj. PAT slipping 12.9% YoY to Rs 608mn. Adhesive operating margins plunged 720bps YoY to 13.6% due to lower margins in Resinova (-970bps YoY) which had higher A&P costs. Management has guided for 15-17% operating margin in pipes and a better showing in adhesives for FY20.

**Maintain REDUCE:** Post a dull Q4, we cut FY20/FY21 PAT estimates by 4%/5%. Though we like ASTRA for its strong brand name, wide reach and robust pipes portfolio, valuations at 44.1x FY21E P/E are rich. Our TP of Rs 1,140 is set at 42x FY21E EPS.

Ticker/Price	ASTRA IN/Rs 1,194
Market cap	US\$ 2.1bn
Shares o/s	121mn
3M ADV	US\$ 1.1mn
52wk high/low	Rs 1,295/Rs 816
Promoter/FPI/DII	58%/19%/22%

Source: NSE

**STOCK PERFORMANCE**

Source: NSE

**KEY FINANCIALS**

Y/E 31 Mar	FY17A	FY18A	FY19P	FY20E	FY21E
Adj. net profit (Rs mn)	1,416	1,697	1,994	2,644	3,262
Adj. EPS (Rs)	11.7	14.1	16.5	21.9	27.1
Adj. EPS growth (%)	30.7	19.9	17.5	32.6	23.4
Adj. ROAE (%)	18.2	18.2	17.4	19.1	20.2
Adj. P/E (x)	101.6	84.8	72.2	54.4	44.1
EV/EBITDA (x)	55.1	46.1	37.8	30.9	26.0

Source: Company, BOBCAPS Research



**BUY**

TP: Rs 505 | ▲ 38%

**SOMANY CERAMICS**

Construction Materials

22 May 2019

## Tepid quarter but guidance upbeat

**Somany Ceramics (SOMC)** reported a 4% YoY dip in Q4FY19 consolidated revenue to Rs 5.2bn with tile volumes falling 3.3%. Consolidated operating margins rose 210bps YoY to 13.6% due to higher gross margins (+198bps), aiding EBITDA/PBT growth of 13.4%/16.6% YoY. Management has guided for double-digit volume growth in tiles, with stronger margins in FY20. We trim FY20-FY21 PAT estimates by ~4% each and roll over to a new Mar'20 TP of Rs 505 (from Rs 495).

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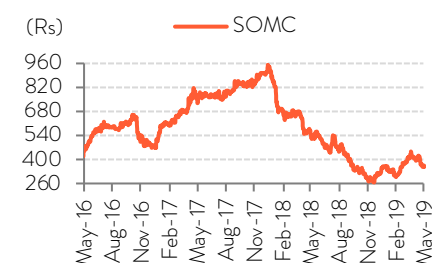
**Modest revenue growth:** SOMC reported a 4.1% YoY decline in consolidated revenue, with revenue from tiles down 4% (as volumes/realisations fell 3.3%/1%) and sanitaryware revenues up ~10%. Management stated that volumes were affected by the company's tight leash on debtors, which has resulted in a reduction in debtor cycle by ~18 days in FY19. SOMC has guided for at least double-digit volume growth in tiles and 25-30% revenue growth in sanitaryware for FY20, along with further improvement in working capital.

Ticker/Price	SOMC IN/Rs 365
Market cap	US\$ 221.9mn
Shares o/s	42mn
3M ADV	US\$ 0.2mn
52wk high/low	Rs 578/Rs 270
Promoter/FPI/DII	52%/5%/44%

Source: NSE

**Operating margins improve:** Consolidated operating margins expanded by 210bps YoY to 13.6% primarily due to higher gross margins (+198bps) and a decline in other expenses (-80bps). EBITDA/adj. PAT increased 13.4%/26.3% YoY. Reported PAT was down 7% YoY owing to a loss of Rs 158.6mn on account of misappropriation of funds by an employee. Management has guided for improvement in FY20 operating margins on the back of higher volumes and a better product mix, provided gas prices remain largely stable at current levels.

## STOCK PERFORMANCE



Source: NSE

**Maintain BUY:** We continue to like SOMC for its significant presence in tier-2/3 cities and believe margin headwinds have subsided due to lower gas prices. Retain BUY with a rolled over Mar'20 TP of Rs 505 (earlier Rs 495).

## KEY FINANCIALS

Y/E 31 Mar	FY17A	FY18A	FY19P	FY20E	FY21E
Adj. net profit (Rs mn)	969	730	590	726	982
Adj. EPS (Rs)	22.9	17.2	13.9	17.1	23.1
Adj. EPS growth (%)	37.7	(24.7)	(19.2)	23.2	35.1
Adj. ROAE (%)	20.4	13.2	9.9	11.2	13.5
Adj. P/E (x)	16.0	21.2	26.2	21.3	15.8
EV/EBITDA (x)	7.1	10.7	12.0	10.5	8.6

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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