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Top picks and view on Indian equities during Q1FY19 earnings season..

Aug. 11, 2018

With regards to ongoing Q1FY19 earnings season, the results have been above our expectations and were impressed by the numbers reported. Going forward, street participants would have an eye on global developments especially the US-China trade war, progress of the monsoon, macroeconomic data, investment by foreign portfolio investors (FPIs) and domestic institutional investors (DIIs), movement of the rupee against the dollar and crude oil price movement that impacts raw material cost of many companies and Indian economy's Fiscal deficit.

After the recent hike by RBI, investors will have a close look on Consumer price index (CPI) inflation will be released on Monday while Wholesale price index (WPI) Inflation and trade data for July will be announced on Tuesday.

Nearly 1,800 companies will declare their quarterly earnings in the coming week. Most of these will be out in the first two sessions of the week itself. Tata Steel, Tata Chemicals, Cadila Healthcare, CARE Ratings, Godrej Industries, DHFL, Oil India, Ashoka Buildcon and Hotel Leela Venture will announce their numbers on Monday, while Sun Pharmaceutical Industries, IDBI Bank, Allahabad Bank, Grasim Industries, Indiabulls Real Estate, HDIL and Dilip Buildcon will declare results on Tuesday. Indian stock market will remain shut on Wednesday, August 15, on account of Independence Day.

We believe, at the current juncture, valuations of many midcaps and smallcaps look appealing after recent destruction in the stock prices.

Cipla

CMP: Rs. 621, Target price: Rs. 750, Upside: 21%

We are bullish on Cipla and were happy with its decent performance in Q1FY19 result. Under its new CEO, Umang Vohra, the Company is doing well and has transformed itself into robust entity which was lacking a sharp bite in the previous years.

The Company recently received final approval for its abbreviated new drug application (ANDA) for Atazanavir Caps 100mg, 150mg, 200mg, and 300mg from the United States Food and Drug Administration (USFDA). According to IQVIA (IMS Health), Reyataz and its generic equivalents had US sales of approximately \$324mn for the 12-month period ending April 2018. Cipla's Atazanavir Caps 100mg, 150mg, 200mg, and 300mg are an AB-rated generic therapeutic equivalent version of Bristol-Myers Squibb Pharma Company's, Reyataz. It is a protease inhibitor indicated for use in combination with other antiretroviral agents for the treatment of HIV-1 infection in patients aged 6 years and older and weighing at least 15 kg.

In Q1FY19, the Company's India business that constitutes around 39 percent of Cipla's revenues grew 22 percent to Rs 1,544 crore on yoy basis. The YoY India business growth was aided by low base in Q1FY18, as business was impacted to GST rollout, in addition to strong performance in Respiratory, Urology, Cardiology, and CNS segments. On quarter-on-quarter, revenues witnessed a rise of 14 percent.

During the first quarter, the company launched cancer biologic drugs Bevacizumab, Trastuzumab and Rituximab in partnership with Roche. Cipla also partnered with Eli Lilly to market and distribute insulin glargine injection (Basaglar) in India.



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Sales of North America generics that contribute 17 percent of revenues grew 4 percent to Rs. 670 crores on yoy basis. However on sequential basis, North America, sales dropped 1 percent.

The company said it focusing on gross margin improvement driven by product rationalization and ramp-up of new launches. The company took a US\$ 5 million hit due to rationalisation of low-margin products.

Cipla filed 5 abbreviated new drug applications (ANDAs) in Q1 and is on track to file 20 more in FY19.

In South Africa that constitutes 15 percent of Cipla overall sales posted 23 percent growth to Rs. 575 crores led by continued market beating performance. In private market Cipla grew at 15 percent above the industry growth of 7 percent.

The emerging markets business was flat in Q1FY19 at Rs 469 crore. The company said it working on in-licensing deals to launch a portfolio of biosimilar products in US. It signed deals in Australia, New Zealand, Colombia and Malaysia to market breast cancer drug Trastuzumab: deal.

"I am pleased with our performance in the quarter which demonstrates our strong foothold and continued growth momentum in our home markets," said Umang Vohra, MD and Global CEO of Cipla. Vohra said the limited competition launches in the US were in-line with expectations and the company is looking forward to more interesting launches in the coming weeks. For the near to mid term growth - the company said it is banking on recent business development efforts such as India partnership with Roche and Eli Lilly, in-licensing of biosimilars in emerging markets and the proposed acquisition of Mirren in the South African OTC space. "These efforts will help drive portfolio build-up and sustainable growth in these markets," Vohra said.

At CMP of Rs. 621 (Face Value: 2), the stock trades at a P/E of 34 x on trailing 12 months EPS which looks slightly expensive as against peers. However, we are confident that the Company is going from strength to strength as evident of its recent approvals from USFDA and decent show in Q1FY19. We expect further approvals for products like gToprol XL, gWelchol which can do well in US.

We recommend a "BUY" with a target price of Rs. 750 by FY19 end (34x at FY19 estimated EPS of Rs. 22) implying an upside of 21 percent.

APL Apollo Tubes Ltd.

CMP: Rs. 1,761, Target price: Rs. 2,100, Upside: 19%

APL Apollo Tubes Limited (APL Apollo) is India's leading branded steel tubes manufacturer. Headquartered at Delhi NCR, the Company operates six manufacturing facilities with a total capacity of 1.8 Million MTPA. It has a PAN-Indian presence with units strategically located in Sikandarabad (3 units), Bangalore, Raipur, Hosur and Murbad. APL Apollo's multi-product offerings include over 500 varieties of MS Black pipes, Galvanized Tubes, Pre-Galvanized Tubes, Structural ERW Steel tubes and Hollow Sections.

With state-of-the-art-manufacturing facilities, APL Apollo serves as a 'one-stop shop' for a wide spectrum of steel products, catering to an array of industry applications such as urban infrastructures, housing, irrigation, solar plants, greenhouses and engineering. The Company's vast 3-tier distribution network of over 600 dealers is spread all across India, with warehouses cum- branch offices in over 20 cities.

The Company's Q1 FY2019 Sales Volume (excluding Trading & Scrap) improved by 14% to 3.02 Lac Tons; Net Revenues increased by 45% to Rs. 1,677 crore; EBITDA higher by 38% to Rs. 109 crore; PBT stood at Rs. 71



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crore, higher by 21% YoY; Net Profit after Tax at Rs. 47 crore compared to Rs. 39 crore. The Company's Q4 FY2018 Sales Volume (excluding Trading & Scrap) improved by 28% to 3.01 Lac Tons; Net Revenues increased by 40% to Rs. 1,519 crore; EBITDA stood at Rs. 103 crore, higher by 20%; PBT stood at Rs. Rs. 67 crore, higher by 19% YoY.

Performance Review for FY18 vs. FY17

Sales Volume improved by 21% to 11.30 lakh tons from 9.32 lakh tons

Net Revenues increased by 36% to Rs. 5,334.8 crore compared to Rs. 3,923.9 crore

EBITDA rose by 11% on yoy basis to Rs. 371.1 crore compared to Rs. 333.0 crore

PAT witnessed a rise of 5% to Rs. 160.0 crore in FY18 on yoy basis.

The Company has made significant progress towards most of its strategic and operating objectives. The Company commissioned 6 DFT (Direct Forming Technology) lines in FY18 across existing facilities of Raipur, Hosur, and Murbad. DFT products are witnessing a successful run across market segments, especially in the OEMs and Exports markets. These technologically-advanced and highly-customizable products continue to enjoy a strong response across multiple target sectors such as Building Material, Construction & Infrastructure, Solar, Automobile, Telecom to name a few. The Management believes that this along with the new brand launches in focused markets will help it to expand its presence and product offerings across value-added business segments. On the operational front, the Company is nearing the completion of the remaining two DFT lines in its facilities at Sikandarabad and Hosur. With the operationalization of all 8 DFT lines, the Company is aiming at a total installed capacity of 2 million MTPA.

The Company has outlined a two pronged approach to improve the visibility and strength of 'APL Apollo' brand, which includes,

- 1) Increase Top-of-Mind-Awareness across B2B/B2C Customers via different formats such as Print, Electronic, Social, Outdoor, etc
- 2) Strong focus towards arranging and hosting dealer & distributor engagement activities like Architect Meets, Exhibitions, Fabricators meets, Van activities, Chai pe Charcha to continue

The commissioning of all DFT lines along with its other business initiatives such as increased branding activities, cost-effective measures and strong focus towards innovation should enable the Company to emerge as one of the largest steel tube manufactures in the world. The improving macro-environment combined with its innovation capabilities and robust product offerings should enable it to deliver healthy performance going forward as well which has been robust in the past.

At CMP of Rs. 1761 (Face value: Rs. 10), the stock trades at a P/E of 25x on trailing 12 months EPS. We recommend a "Buy" with a target price of Rs. 2100 by FY19 end (25x at estimated FY19EPS of Rs. 84) implying an upside of 19 percent.



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