

Larsen & Toubro

Capital Goods | November 04, 2019

Background & Business

Larsen & Toubro (L&T) is the largest engineering and construction company in India with a wide range of services including IT and Finance. We believe L&T is well-placed to benefit from the several big-ticket projects, as it satisfies all basic requirements i.e. balance-sheet size, unblemished track record, technical expertise and adequate liquidity.

Investment Rationale

- ▶ **Strong Order Book:** Its order book stood at Rs3,032bn (2.1x of TTM revenue). In 1HFY20, order intake increased by 16% YoY to Rs870bn led by 52% YoY rise in order inflow in international business to Rs257bn, while domestic order inflow increased by 6% YoY. The Company has maintained diversified order book, which is well-distributed across sectors. L&T is looking at order prospects of ~Rs5.5trln in 2HFY20 led by infrastructure at ~Rs4.5trln.
- ▶ **Strong 2QFY20 Performance:** L&T has delivered a healthy performance in 2QFY20 despite challenging domestic environment. Consolidated revenue grew by ~15% YoY to Rs353bn mainly led by strong revenue growth in Hydrocarbon (+21% YoY) and IT&TS (led by inclusion of Mindtree). Notably, EBITDA rose by 14% YoY to Rs40.2bn despite higher staff cost, while EBITDA margin remained strong at 11.4%.
- ▶ **RoE Improvement Bodes Well:** L&T has consistently been improving its RoE for last couple of quarters and is moving ahead to achieve its RoE target of 18% by FY21E. Notably, it has further improved its RoE by 80bps in 2QFY20 to 15.8%, which offers comfort.

Outlook & Valuation

Considering >Rs5.3trln opportunity in 2HFY20 and 45% achievement in 1HFY20, we expect L&T to easily meet inflow guidance. In order to meet its lower range of revenue growth guidance it has to deliver 18% growth in 2HFY20. We continue to view L&T as the best infrastructure play in India considering huge opportunity, proven execution track record and strong diversification.

Risk

- ▶ Delay in finalisation of new orders.
- ▶ Slowdown in order execution.

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenues	1,410,071	1,580,328	1,784,998
EBITDA	163,232	178,577	204,739
EBITDA Margin (%)	11.6	11.3	11.5
Adj.PAT	100,167	112,106	129,829
ROE (%)	17.1	17.1	17.8

Source: Company, RSec Research Estimate

Reco Range	Stop Loss	Target
1,449	1,365	1,630

1 Year Stock Price Performance



Key Figure

Market Cap (Rsbn/US\$mn)	2037.9/286.6
Current Price	1449
Target Price	1630
Promoters / Public & Others	0/100.0
FY21E P/E (x)	15.6
Revenues CAGR (FY19-21 %)	12.5%
PAT CAGR (FY19-21 %)	13.8%

Key Ratios	FY19	FY20E	FY21E
P/E (x)	20.3	18.1	15.6
P/BV (x)	3.3	2.9	2.6
EV/EBITDA (x)	18.4	17.7	15.5

Aurobindo Pharma

Pharmaceutical | November 4, 2019

Background & Business

Aurobindo Pharma (ARBP) is a mid-sized Indian pharma company with one of the largest product portfolios in the US market. ARBP's product portfolio is comprised of 6 major therapeutic categories i.e. antibiotics, anti-retrovirals (ARVs), CVS, CNS, gastroenterological, pain management and anti-allergic. It will also enter complex areas like peptides, inhalers and biosimilars.

Investment Rationale

- ▶ **Injectable Biz & ANDAs:** ARBP has delivered stable revenue performance its injectable business (excluding Spectrum contribution). ARBP expects similar sales in 2QFY20 but better performance in 2HFY20. ARBP has already started validation batches for bag line (expect improvement in overall profitability of the company). Currently, 45 ANDAs are pending in injectable space (total filed 107).
- ▶ **Negatives Priced in for Unit VII:** The US FDA has issued Form 483 with seven observations to its Unit-VII facility, which contributes ~20% to its US sales with 139 final approvals and 33 pending ANDAs (including tentative approvals). As per the Management, as there is no data integrity issue, the possibility of import alert is very minimal. However, it is unlikely to have any impact on existing sales contribution.
- ▶ **Net Debt Guidance & Capex:** The Management expects to reduce level by US\$150-200mn by FY20. Capex is earmarked at US\$200mn for FY20 (biosimilar facility, expansion of API derma facilities).

Outlook and Valuation

At current levels with catalyst from FTC approval for Sandoz deal, commentary on Sandoz synergies and strong earnings growth from domestic and US business would witness positive re-rating for the stock.

Risk

- ▶ Inordinate delay in getting approval for new products in the US.
- ▶ Escalation to pending USFDA issues.

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenues	195,635	236,908	282,518
EBITDA	39,525	48,515	58,533
Ebitda Margin %	20.2	20.5	20.7
Adj.PAT	23,647	26,620	33,692
ROE(%)	18.1	16.2	17.2

Source: Company, RSec Research

Reco Range	Stop Loss	Target
480	448	550

1 Year Stock Price Performance



Key Figure

Market Cap (Rsbn/US\$m)	281.5/39.5
Current Price	480
Target Price	550
Promoters / Public & Others	51.9/48.1
FY21E P/E (x)	8.3
Revenues CAGR (FY19-21 %)	20.2%
PAT CAGR (FY19-21 %)	19.4%

Key Ratios	FY19	FY20E	FY21E
P/E (x)	11.2	10.6	8.3
P/BV (x)	2.0	1.7	1.4
EV/EBITDA (x)	8.1	7.8	6.1

Recommendations Summary

Total Recommendations	Numbers
STOCKS	122
CLOSED	120
POSITIVE	79
NEGATIVE	41
OPEN	2
Strike Rate on closed calls	66%

- ▶ We do not keep open positions more than four at any point of time.
- ▶ Assuming Rs1 lakh investment in every stock, the cumulative investment stand at Rs4 lakh.
- ▶ Till date, our closed calls have given profit to the tune of Rs213,892 since inception date 21st June 2016.

Amount	Returns	% Return
400000	213892	53.5%

Open Positions

Stock Symbol	Sector	Reco Date	Reco Price	CMP	SL	Target	Remarks
LT	Cap Goods	04-Nov-19	1449	1449	1365	1630	BUY
AUROPHARMA	Pharma	04-Nov-19	480	480	448	550	BUY

Note: *CMP as on November 1, 2019

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Senior Analyst

Vikas Jain

Contact : (022) 2685 7022

Email : vikas.i.jain@relianceada.com

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Closed Positions

Stock Symbol	Sector	Reco Date	Reco Price	Exit Price	Exit Date	Return %	Remarks
ITC	FMCG	18-Oct-19	245	261	1-Nov-19	6.5%	Booked Profit
ENGINERSIN	CAPGOODS	18-Oct-19	108	115	30-Oct-19	6.5%	Booked Profit
HEXAWARE	IT	27-Sep-19	371	348	24-Oct-19	-6.2%	Booked Loss
CIPLA	PHARMA	27-Sep-19	438	410	7-Oct-19	-6.4%	Booked Loss
ITC	FMCG	11-Sep-19	245	255.7	24-Sep-19	4.4%	Booked Profit
SBIN	Banking	11-Sep-19	278	306.5	20-Sep-19	10.3%	Booked Profit
HDFC BANK	Banking	21-Aug-19	1105	1196	20-Sep-19	8.2%	Booked Profit
LT	Cap Goods	21-Aug-19	1300	1372	27-Aug-19	5.5%	Booked Profit
INDIACEM	CEMENT	12-Jul-19	95	89	30-Jul-19	-6.3%	Booked Loss
MARUTI	AUTO	12-Jul-19	6031	5675	29-Jul-19	-5.9%	Booked Loss
M&M	AUTO	9-Apr-19	667	625	2-May-19	-6.3%	Booked Loss
CADILAHC	Pharma	9-Apr-19	342	320	2-May-19	-6.6%	Booked Loss
TATAELXI	IT	20-Mar-19	985	920	2-May-19	-6.6%	Booked Loss
TATACHEM	CHEMICALS	7-Mar-19	577	609	8-Apr-19	5.5%	Booked Profit
HDFCLIFE	BFSI	20-Mar-19	364	391	3-Apr-19	7.3%	Booked Profit
KOTAKBANK	BANKS	7-Mar-19	1241	1328	15-Mar-19	7.0%	Booked Profit
M&M	AUTO	19-Feb-19	635	675	7-Mar-19	6.3%	Booked Profit
RAMCOCEM	Cement	19-Feb-19	605	647	21-Feb-19	6.9%	Booked Profit
HCLTECH	IT	20-Dec-18	957	976	28-Jan-19	2.0%	Booked Profit
ULTRATECH	Cement	15-Jan-19	3810	3600	25-Jan-19	-5.5%	Booked Loss
KEC	Capital Goods	15-Jan-19	280	260	23-Jan-19	-7.1%	Booked Loss
EMAMILTD	FMCG	7-Dec-18	416	439	14-Jan-19	5.6%	Booked Profit
HDFCLIFE	Insurance	20-Nov-18	384	408	11-Jan-19	6.3%	Booked Profit
BHARATFORG	AUTO	20-Dec-18	522	493	24-Dec-18	-5.6%	Booked Loss
M&M	Auto	7-Dec-18	711	758	13-Dec-18	6.6%	Booked Profit
CROMPTON	Capital Goods	20-Nov-18	204	219	29-Nov-18	7.1%	Booked Profit
HDFCBANK	Banks	8-Oct-18	1958	2031	26-Nov-18	3.7%	Booked Profit
AMBUJACEM	Cement	31-Oct-18	191	205	6-Nov-18	7.4%	Booked Profit
LICHSGFIN	NBFC	31-Oct-18	401	433	2-Nov-18	7.9%	Booked Profit
LT	Capital Goods	8-Oct-18	1233	1274	30-Oct-18	3.3%	Booked Profit
MARUTI	Auto	19-Sep-18	8399	7975	21-Sep-18	-5.0%	Booked Loss
HDFCLIFE	Insurance	19-Sep-18	411	384	21-Sep-18	-6.6%	Booked Loss
HDFC	NBFC	24-Aug-18	1906	1815	21-Sep-18	-4.8%	Booked Loss
KEC	Capital Goods	24-Aug-18	309	288	11-Sep-18	-6.8%	Booked Loss
LT	Capital Goods	5-Aug-18	1290	1358	24-Aug-18	5.3%	Booked Profit
TECHM	IT	5-Aug-18	663	706	21-Aug-18	6.5%	Booked Profit
EQUITAS	NBFC	5-Jul-18	139	146	2-Aug-18	5.0%	Booked Profit
ABB	Capital Goods	21-Jun-18	1204	1145	20-Jul-18	-4.9%	Booked Loss
AMBUJACEM	Cement	5-Jul-18	201	189	17-Jul-18	-6.0%	Booked Loss

Continued...

Closed Positions

Stock Symbol	Sector	Reco Date	Reco Price	Exit Price	Exit Date	Return %	Remarks
ASHOKLEY	Auto	21-Jun-18	137	129	27-Jun-18	-5.8%	Booked Loss
HDFC	NBFC	25-May-18	1806	1895	25-Jun-18	4.9%	Booked Profit
CADILAHC	Pharma	7-Jun-18	350	374	12-Jun-18	6.9%	Booked Profit
FEDERALBANK	Banks	7-Jun-18	83	90	11-Jun-18	7.7%	Booked Profit
NTPC	Power	3-May-18	170	160	5-Jun-18	-5.9%	Booked Loss
CROMPTON	Capital Goods	25-May-18	236	222	30-May-18	-5.9%	Booked Loss
CDSL	Depository	3-May-18	285	270	22-May-18	-5.3%	Booked Loss
YESBANK	Banking	17-Apr-18	310	327	25-Apr-18	5.5%	Booked Profit
ABB	Capital Goods	17-Apr-18	1258	1352	24-Apr-18	7.5%	Booked Profit
ITC	Consumer	3-Apr-18	258	271	18-Apr-18	5.1%	Booked Profit
ASIANPAINT	Consumer	8-Feb-18	1121	1165	13-Apr-18	3.9%	Booked Profit
GLENMARK	Pharma	1-Mar-18	545	568	10-Apr-18	4.3%	Booked Profit
TORNTPOWER	Power	3-Apr-18	234	248	6-Apr-18	5.8%	Booked Profit
HDFCBANK	Banks	8-Feb-18	1873	1933	2-Apr-18	3.2%	Booked Profit
CROMPTON	Capital Goods	1-Mar-18	233	241	22-Mar-18	3.4%	Booked Profit
LICHSGFIN	NBFC	4-Jan-18	567	535	31-Jan-18	-5.6%	Booked Loss
KOTAKBANK	Banks	19-Dec-17	1023	1045	19-Jan-18	2.2%	Booked Profit
ABB	Capital Goods	19-Dec-17	1389	1490	12-Jan-18	7.3%	Booked Profit
CDSL	Depository	4-Jan-18	350	370	11-Jan-18	5.7%	Booked Profit
HCLTECH	IT	17-Nov-17	852	866	20-Dec-17	1.6%	Booked Profit
CADILAHC	Pharma	17-Nov-17	443	415	8-Dec-17	-6.3%	Booked Loss
POWERGRID	Power	1-Nov-17	212	199	5-Dec-17	-6.1%	Booked Loss
JKTYRE	Tyres	1-Nov-17	146	136	4-Dec-17	-6.8%	Booked Loss
TORNTPHARM	Pharma	4-Oct-17	1246	1327	18-Oct-17	6.5%	Booked Profit
BAJAJCORP	FMCG	4-Oct-17	399	425	17-Oct-17	6.5%	Booked Profit
HCLTECH	IT	4-Sep-17	866	903	9-Oct-17	4.3%	Booked Profit
INDIANBANK	Banking	18-Sep-17	283	266	25-Sep-17	-6.0%	Booked Loss
GLENMARK	Pharma	18-Sep-17	603	639	22-Sep-17	6.0%	Booked Profit
BANKBARODA	Banking	4-Sep-17	138	145	14-Sep-17	5.1%	Booked Profit
ITC	FMCG	2-Aug-17	288	270	7-Sep-17	-6.3%	Booked Loss
INDIACEM	Cement	17-Aug-17	185	173	29-Aug-17	-6.5%	Booked Loss
CADILAHC	Pharma	17-Aug-17	483	502	28-Aug-17	3.9%	Booked Profit
NIITTECH	IT	2-Aug-17	506	472	10-Aug-17	-6.7%	Booked Loss
BAJAJ-AUTO	Auto	17-Jul-17	2810	2933	8-Aug-17	4.4%	Booked Profit
NTPC	Power	17-Jul-17	167	177	7-Aug-17	5.8%	Booked Profit
GLENMARK	Pharma	4-Jul-17	639	678	11-Jul-17	6.2%	Booked Profit
CANBK	Banking	4-Jul-17	332	356	10-Jul-17	7.3%	Booked Profit
TECHM	IT	2-Jun-17	398	375	6-Jul-17	-5.7%	Booked Loss

Continued...

Closed Positions

Stock Symbol	Sector	Reco Date	Reco Price	Exit Price	Exit Date	Return %	Remarks
JSWENERGY	Power	2-Jun-17	63	67	22-Jun-17	6.0%	Booked Profit
ASHOKLEY	Auto	17-May-17	87	93	29-May-17	7.5%	Booked Profit
HINDZINC	Metals	17-May-17	250	233	24-May-17	-6.8%	Booked Loss
BAJAJ-AUTO	Auto	2-May-17	2895	3014	12-May-17	4.1%	Booked Profit
MOIL	Metals	2-May-17	319	336	9-May-17	5.2%	Booked Profit
PIDILITIND	FMCG	5-Apr-17	703	738	5-May-17	5.0%	Booked Profit
EMAMILTD	FMCG	18-Apr-17	1023	1054	3-May-17	3.0%	Booked Profit
EQUITAS	Banking	18-Apr-17	165	173	21-Apr-17	5.1%	Booked Profit
AUROPHARMA	Pharma	2-Mar-17	678	665	19-Apr-17	-2.0%	Booked Loss
NIITTECH	IT	17-Feb-17	424	442	7-Apr-17	4.1%	Booked Profit
JSWENERGY	Power	5-Apr-17	64	68	6-Apr-17	6.0%	Booked Profit
DABUR	FMCG	3-Feb-17	274	281	22-Mar-17	2.4%	Booked Profit
NCC	Construction	2-Mar-17	83	78	9-Mar-17	-6.0%	Booked Loss
ABFRL	Retailing	17-Feb-17	150	160	28-Feb-17	6.9%	Booked Profit
HCLTECH	IT	3-Feb-17	827	854	22-Feb-17	3.3%	Booked Profit
INOXWIND	Capital Goods	17-Jan-17	182	173	17-Feb-17	-5.2%	Booked Loss
JUBLFOOD	FMCG	17-Jan-17	833	866	31-Jan-17	4.0%	Booked Profit
ASIANPAINT	FMCG	4-Jan-17	897	958	17-Jan-17	6.8%	Booked Profit
CROMPTON	Capital Goods	1-Dec-16	148	156	13-Jan-17	5.5%	Booked Profit
CADILAHC	Pharma	4-Jan-17	355	377	6-Jan-17	6.2%	Booked Profit
ASHOKLEY	Auto	16-Dec-16	78	80	30-Dec-16	3.2%	Booked Profit
TITAN	FMCG	16-Dec-16	315	327	30-Dec-16	4.0%	Booked Profit
FEDERALBANK	Banking	1-Dec-16	71	65	23-Dec-16	-8.5%	Booked Loss
CADILAHC	Pharma	16-Nov-16	358	386	23-Nov-16	7.7%	Booked Profit
TECHM	IT	16-Nov-16	431	454	17-Nov-16	5.2%	Booked Profit
AMBUJACEM	Cement	3-Oct-16	252	238	3-Nov-16	-5.6%	Booked Loss
INFY	IT	17-Oct-16	1027	980	2-Nov-16	-4.6%	Booked Loss
ABFRL	Retailing	3-Oct-16	138	148	21-Oct-16	6.9%	Booked Profit
ASHOKLEY	Auto	17-Oct-16	81	85	20-Oct-16	5.1%	Booked Profit
BAJAJCORP	Consumer	1-Sep-16	400	406	14-Oct-16	1.4%	Booked Profit
SUNPHARMA	Pharma	17-Aug-16	783	733	29-Sep-16	-6.4%	Booked Loss
NAVKARCORP	Logistics	16-Sep-16	200	184	29-Sep-16	-8.0%	Booked Loss
AUROPHARMA	Pharma	16-Sep-16	783	859	23-Sep-16	9.6%	Booked Profit
INFY	IT	1-Sep-16	1036	1064	19-Sep-16	2.7%	Booked Profit
KEC	Capital Goods	30-Jul-16	143	133	7-Sep-16	-7.0%	Booked Loss
MGL	Oil-Gas	17-Aug-16	537	595	23-Aug-16	10.8%	Booked Profit
ABFRL	Retailing	30-Jul-16	145	162	18-Aug-16	11.6%	Booked Profit
PFS	NBFC	2-Jul-16	39	38	16-Aug-16	-2.1%	Booked Loss
UPL	Agrochemicals	15-Jul-16	566	616	29-Jul-16	8.9%	Booked Profit
CROMPTON	Capital Goods	15-Jul-16	144	156	28-Jul-16	8.6%	Booked Profit
SUNPHARMA	Pharma	2-Jul-16	763	801	21-Jul-16	5.0%	Booked Profit
PERSISTENT	IT	21-Jun-16	696	650	18-Jul-16	-6.6%	Booked Loss
NBCC	Infrastructure	21-Jun-16	186	213	7-Jul-16	14.3%	Booked Profit