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FIRST LIGHT

13 January 2023

RESEARCH

BOB ECONOMICS RESEARCH | CPI AND IIP
CPI cools, IIP growth improves

INFOSYS | TARGET: Rs 1,760 | +19% | BUY
Cobalt to drive near-term growth

HCL TECHNOLOGIES | TARGET: Rs 1,240 | +16% | BUY
Profit beat in seasonally weak quarter

CHEMPLAST SANMAR | NOT RATED
Uptick in PVC prices could aid margin recovery

PHARMACEUTICALS
Sustained IPM growth momentum in December

Daily macro indicators

Indicator	10-Jan	11-Jan	Chg (%)
US 10Y yield (%)	3.62	3.54	(8bps)
India 10Y yield (%)	7.31	7.29	(2bps)
USD/INR	81.79	81.58	0.3
Brent Crude (US$/bbl)	80.1	82.7	3.2
Dow	33,704	33,973	0.8
Hang Seng	21,331	21,436	0.5
Sensex	60,115	60,106	0.0
India FII (US$ mn)	**09-Jan**	**10-Jan**	**Chg ($ mn)**
FII-D	61.2	16.4	(44.8)
FII-E	7.0	(222.0)	(229.0)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: CPI AND IIP

Comfort came in from both India's growth and inflation print. While headline CPI came in below consensus estimate and in line with our estimate, industrial production rose at a faster pace. On production front, manufacturing, capital goods and consumer goods remained buoyant. On inflation, relief came in because of sharp plunge in vegetable prices. However, worry persists with regard to stickiness of core which is still at an elevated level. Going forward we expect CPI to settle at around 6.5% in FY23. H1FY24 would be benefited from statistical base. RBI would be watchful of the core inflation data and would go for another 245bps hike in its upcoming policy.

Click here **for the full report.**

INFOSYS

- Q3 revenue growth in line at 2.4% QoQ CC, supported by vendor consolidation
- EBIT margin flat QoQ at 21.5%, marginally below our forecast; order book robust with 36% contribution from net new deal wins
- Maintain BUY and TP of Rs 1,760, set at 20.5x FY25E EPS

Click here **for the full report.**

BOBCAPS Research
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HCL TECHNOLOGIES

- Q3 revenue growth at 5% QoQ CC beat consensus as well as our estimates
- EBIT margin held strong at 19.6% backed by improvement in services business and seasonal gains in software business
- Maintain BUY and TP of Rs 1,240, set at 18.7x FY25E EPS

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CHEMPLAST SANMAR

- Management expects to see benefit of PVC price recovery from Q4 after a muted Q3
- CSL poised to grow custom manufacturing business with phase-1 expansion delivery in Q2FY24 and plans to expedite phase-2
- Management focused on accelerating growth in specialty segment and conserving cash for growth capital

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PHARMACEUTICALS

- IPM grew 6.5% YoY in Dec'22 on MAT basis (12.7% for the month) on the back of price- (5.1%) and launch-led growth (2.3%)
- Gynaecology (+15%), pain (+12%) and gastrointestinal (+11%) therapies steered growth
- CIPLA and ERIS remain our top picks in the sector

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CPI AND IIP

12 January 2023

CPI cools, IIP growth improves

Dipanwita Mazumdar
Economist

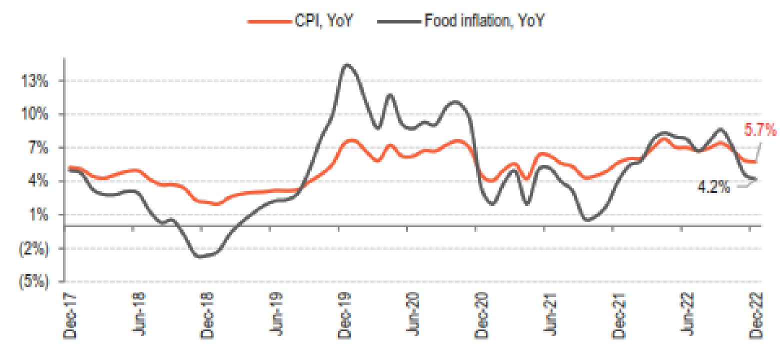
Comfort came in from both India's growth and inflation print. While headline CPI came in below consensus estimate and in line with our estimate, industrial production rose at a faster pace. On production front, manufacturing, capital goods and consumer goods remained buoyant. On inflation, relief came in because of sharp plunge in vegetable prices. However, worry persists with regard to stickiness of core which is still at an elevated level. Going forward we expect CPI to settle at around 6.5% in FY23. H1FY24 would be benefited from statistical base. RBI would be watchful of the core inflation data and would go for another 245bps hike in its upcoming policy.

CPI inflation moderates.

CPI inflation eased: CPI inflation eased to a 13-month low of 5.7% in Dec'22 from 5.9% in Nov'22. This was on account of favourable base (5.7% in Dec'21 from 4.9% in Nov'21) and 50bps decline in food inflation. Core however still remained sticky.

Food inflation: CPI food index moderated to 4.2% in Dec'22 from 4.7% in Nov'22. This is led by sharp fall in vegetable prices by 15% in Dec'22 from 8.1% decline in Nov'22. Even fruit prices moderated to 2% from 2.7% in Nov'22. Other items of food inflation however noted an upsurge on YoY basis. These are egg inflation (6.9% from 4.9% in Nov'22), meat and fish (5.1% from 3.9%) and cereal products (13.8% from 13%). To avoid the base, the sequential picture gives a better understanding. Thus on MoM basis, vegetables, pulses, oils and fat, milk, sugar and cereals all have shown moderation in Dec'22.

Figure 1: CPI cools down; led by food



Source: CEIC, Bank of Baroda Research

Core CPI (excl. food and fuel) remained sticky at 6% in Dec'22 as well. The major driver have been increase in personal care and items inflation to 8.1% in Dec'21 from 7% in Nov'22. This was on account of 3.1% MoM increase in gold prices in Dec'22. Apart from this, even health inflation rose to 6.2% from 5.8%. Other item such as transport and communication showed some moderation to 4.9% from 5.3%.

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BUY
TP: Rs 1,760 | ⮝ 19%

INFOSYS

| Technology & Internet | 12 January 2023

Cobalt to drive near-term growth

- **Q3 revenue growth in line at 2.4% QoQ CC, supported by vendor consolidation**
- **EBIT margin flat QoQ at 21.5%, marginally below our forecast; order book robust with 36% contribution from net new deal wins**
- **Maintain BUY and TP of Rs 1,760, set at 20.5x FY25E EPS**

Saptarshi Mukherjee
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Revenue robust; FY23 growth guidance raised to 16-16.5%: Despite the seasonally weak quarter, INFO reported 2.4% QoQ CC revenue growth to US$ 4.7bn in Q3FY23. Growth was led by digital revenue (+21.7% YoY CC), whereas core services witnessed a modest uptick (+2.4%). Management indicated accelerated deal wins in core services backed by increased demand for cost efficiency programmes and automation, but is seeing weakness in the retail, hi-tech, financial (mortgage & investment bank), and telecom verticals. Manufacturing/energy, natural resources and utilities grew 36.8%/25.9% YoY CC, with strong numbers in Europe as well as the US.

Strong traction in deal TCV despite global macro weakness: Large deal TCV was up ~22% QoQ in Q3FY23 to US$ 3.3bn (36% from net new deals), aided by a strong pickup in cost optimisation-related work, automation and digital analytics. INFO bagged 32 new contracts during the quarter, ahead of consensus expectations in a challenging time.

Net employee addition moderated to ~2.6k vs. ~10k in Q2 and is guided to achieve the ~50k mark of fresher hiring by the year-end. The emphasis on fresher hiring has significantly increased the company's bench strength and should support the cost of the employee pyramid in the long run.

Margin guidance retained in the range of 21-22%: EBIT margin was flat QoQ at 21.5% in Q3FY23, supported by forex gains (+40bps) and cost optimisation (+70bps), partly offset by SG&A and third-party expenses (-30bps). Management maintained its FY23 margin guidance at 21-22%, similar to Q2, and we believe the lower end is achievable

Maintain BUY: The stock is trading at 20.3x/17.4x FY24E/FY25E EPS. Despite INFO's cautious outlook on a few verticals, we believe its strength in managing the twin journeys of digital transformation (Cobalt) and cost takeout will drive growth leadership. We retain BUY and continue to value the stock at 20.5x FY25E EPS, translating to an unchanged TP of Rs 1,760.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	INFO IN/Rs 1,481
Market cap	US$ 76.3bn
Free float	3,319%
3M ADV	US$ 101.3mn
52wk high/low	Rs 1,954/Rs 1,355
Promoter/FPI/DII	15%/36%/49%

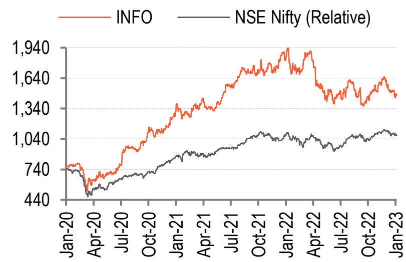
Source: NSE | Price as of 12 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	12,16,410	14,93,753	17,29,592
EBITDA (Rs mn)	3,14,820	3,57,354	4,39,059
Adj. net profit (Rs mn)	2,21,210	2,47,056	3,07,276
Adj. EPS (Rs)	52.8	58.7	73.0
Consensus EPS (Rs)	52.8	59.5	66.3
Adj. ROAE (%)	29.0	30.6	33.5
Adj. P/E (x)	28.1	25.2	20.3
EV/EBITDA (x)	19.1	16.8	13.7
Adj. EPS growth (%)	15.9	11.3	24.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 1,240 | ⮝ 16%

HCL TECHNOLOGIES | Technology & Internet | 12 January 2023

Profit beat in seasonally weak quarter

- **Q3 revenue growth at 5% QoQ CC beat consensus as well as our estimates**
- **EBIT margin held strong at 19.6% backed by improvement in services business and seasonal gains in software business**
- **Maintain BUY and TP of Rs 1,240, set at 18.7x FY25E EPS**

Saptarshi Mukherjee
research@bobcaps.in

Stellar Q3 driven by P&P segment: HCLT's Q3FY23 revenue at US$ 3.2bn (+5% QoQ, +13% YoY CC) was marginally higher than our estimate. The company pared FY23 revenue growth guidance by 50bps to 13.5-14% CC, with services now likely to grow by 16-16.5%. While management pointed to ramp-downs of certain projects by vendors and reprioritisation of spending by clients, it sees robust growth in the areas of cost optimisation, business model transformation and cloud migration. Growth in Q3 was led by engineering and research & development (ERD) and IT & business services that rose 2.5% and 2.1% QoQ CC respectively. The software business (products & platforms or P&P) and Mode-2 services also witnessed tailwinds in Q3.

Strong deal wins to buoy growth across geographies: HCLT booked net-new TCV of US$ 2.3bn (+10% QoQ, ACV up by 1.9% YoY), which included 17 large deal wins (7 in services and 10 in software). Due to furloughs and delayed decision-making in Europe, the company experienced a hit in the BFSI segment but indicated that the pipeline remains healthy with deal conversion expected in Q4. The majority of deals wins are related to cost takeout/cloud adoption, but the three latest large contracts were mainly spurred by vendor consolidation and product operation.

Margin guidance narrowed to 18-18.5% for FY23: EBIT margin for Q3 was at 17.9%, supported by forex gains (+70bps), pyramid optimisation (+40bps), realisation and other efficiency gains (+30bps), partially offset by furloughs and the holiday season (-60bps). Margins in IT services grew 5bps QoQ, ERD 25bps and P&P 1,230bps. The guidance band for FY23 was revised from 18-19% to 18-18.5%.

Maintain BUY: The stock is trading at 17.8x/16.2x FY24E/FY25E EPS. Given its deep capabilities in the IMS space and strategic partnerships alongside continued investments in cloud/digital capabilities, we expect HCLT to emerge stronger on the back of rising demand from enterprises. Strong sequential growth within IT services, robust headcount addition, healthy deal wins and a solid pipeline indicate an improved outlook. We retain BUY and continue to value the stock at 18.7x FY25E EPS, translating to an unchanged TP of Rs 1,240

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HCLT IN/Rs 1,072
Market cap	US$ 35.6bn
Free float	38%
3M ADV	US$ 37.8mn
52wk high/low	Rs 1,359/Rs 877
Promoter/FPI/DII	61%/17%/22%

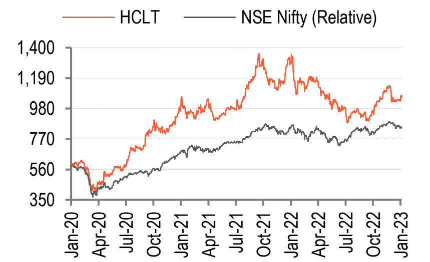
Source: NSE | Price as of 12 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	8,56,510	10,14,355	11,31,246
EBITDA (Rs mn)	2,01,920	2,24,451	2,59,888
Adj. net profit (Rs mn)	1,35,560	1,41,181	1,62,773
Adj. EPS (Rs)	49.8	52.0	60.0
Consensus EPS (Rs)	49.8	56.7	63.5
Adj. ROAE (%)	21.9	21.7	22.3
Adj. P/E (x)	21.5	20.6	17.9
EV/EBITDA (x)	14.3	12.8	11.0
Adj. EPS growth (%)	3.9	4.6	15.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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NOT RATED

CHEMPLAST SANMAR | Oil & Gas | 12 January 2023

Uptick in PVC prices could aid margin recovery

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- **CSL poised to grow custom manufacturing business with phase-1 expansion delivery in Q2FY24 and plans to expedite phase-2**
- **Management focused on accelerating growth in specialty segment and conserving cash for growth capital**

Kirtan Mehta, CFA
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We hosted N Muralidharan, Chief Financial Officer of Chemplast Sanmar (CSL, Not Rated). Key takeaways:

PVC recovery faster than expected: While CSL's Q3FY23 results are likely to be muted due to the effect of 14 successive price cuts between Apr'22 and Nov'22, management indicated that recovery has set in from Dec'22. With stronger domestic demand, the pace of recovery was faster than CSL's expectation in Dec'22, marked by five price hikes in suspension PVC (S-PVC) cumulating to Rs 14k/t (or ~15%) and three in paste PVC (P-PVC) cumulating to Rs 17.5k/t. With a lag in absorbing raw material prices, gross margin has started inching up. Recovery in China post lunar holidays will provide additional support and is likely to outweigh the slowdown in the western world. Restart of carbide-based capacity in China is not seen as a major risk.

PVC market deficit to persist even after expansion: With new expansion likely to add 2.5mt of capacity in phases to the industry's existing 1.5mt capacity, and domestic demand expected to climb to 4.5-5.0mt over the next 3-4 years, deficit is likely to persist in the Indian market. The impact of material carbide-based capacity addition will depend upon cost economics for imported coal.

Customs manufacturing poised for growth: After raising FY23 topline growth guidance to 30% YoY last quarter, CSL confirmed that it is on track to deliver bigger phase-1 expansion in Q2FY24 and further ramp-up over two years. With advancing of civil works, management plans to expedite phase-2 delivery within 10-12 months of startup. The company is focusing on agrochemical innovators for further growth and highlighted its elevation of vendor status with one large customer.

Expansion benefits from FY24: Management aims to deliver 41kt of S-PVC expansion in H2FY24 with ramp-up to full capacity within 3-4 months, and 20kt of chlorine restoration in H1FY24 with ramp-up by year-end.

Targeting accelerated growth in specialty segment: CLS is looking to spur growth in the specialty segment and is conserving capital for additional growth projects.

Ticker/Price	CHEMPLAS IN/Rs 425
Market cap	US$ 0.8bn
Free float	44%
3M ADV	US$ 0.1mn
52wk high/low	Rs 685/Rs 358
Promoter/FPI/DII	55%/26%/8%

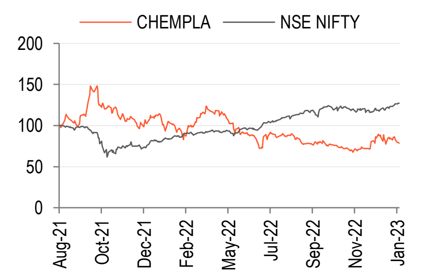
Source: NSE | Price as of 12 Jan 2023

Key financials

Y/E 31 Mar	FY20A	FY21E	FY22E
Total revenue (Rs mn)	12,577	37,987	58,920
EBITDA (Rs mn)	3,181	9,615	11,968
Adj. net profit (Rs mn)	461	4,101	6,351
Adj. EPS (Rs)	2.04	30.59	42.75
Consensus EPS (Rs)			
Adj. ROAE (%)	-	-	2.09
Adj. P/E (x)	-	-	15.2
EV/EBITDA (x)	-	-	8.5
Adj. EPS growth (%)	-	-	39.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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PHARMACEUTICALS

12 January 2023

Sustained IPM growth momentum in December

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- **CIPLA and ERIS remain our top picks in the sector**

Saad Shaikh
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IPM Dec'22 MAT growth healthy at 6.5%: Continuing with the double-digit growth momentum from Nov'22, the Indian pharma market (IPM) grew 12.7% YoY in Dec'22, per IQVIA sales data. Growth was led by the anti-infective (+22%), respiratory (+21%) and pain (+16%) therapies. Barring the anti-diabetic (+6%) and dermatology (+6%) segments, the top 10 therapies grew in double digits. On MAT basis, IPM grew 6.5% primarily on the back of price-led growth (+5.1%) and new introductions (+2.3%) while volumes declined 0.9% on a high base (MAT Dec'21 volume growth of 9.1%).

Gastro and pain therapies continued to do well despite high base: On MAT Dec'22 basis, the top performing therapies were gynaecology (+15% vs. +19% last year), pain (+12% vs. +21%) and gastrointestinal (+11% vs. 19%). Anti-infectives (+3% vs. +29% last year), VMN (vitamins, minerals, nutrients: +3% vs. 29%) and dermatology (+4% vs. +13%) were laggards. Gastrointestinal and pain therapies continued to post double-digit growth despite a high base.

Pickup in anti-infectives, respiratory and VMN on monthly basis: After muted growth in September-October, the IPM rebounded in November, climbing 14.5% YoY, followed by double-digit growth in December as well (+12.7% YoY, -1.3% MoM). Though underperformers on MAT basis, the anti-infective, respiratory, pain and VMN therapies were growth drivers for the month.

ALKEM, AJP and ALPM lead growth in Q3: For Q3FY23, the IPM grew 10% YoY driven by the gynaecology (+14%), respiratory (+13%) and pain (+12%) segments, while anti-diabetic (+6%) and dermatology (+7%) therapies were sluggish. From our coverage universe, IQVIA data indicates double-digit Q3 sales growth for ALKEM (+17%), AJP (+16%), ALPM (+14%), CIPLA (+13%) and SUNP (+10%), but a muted showing for LPC (+8%), ERIS (+6%) and DRRD (+4%).

Top picks: CIPLA (BUY, TP Rs 1,320) and ERIS (BUY, Rs 970) remain our top picks in the pharma sector.

Recommendation snapshot

Ticker	Price	Target	Rating
AJP IN	1,190	1,470	HOLD
ALKEM IN	3,061	2,700	SELL
ALPM IN	557	615	HOLD
CIPLA IN	1,061	1,320	BUY
DRRD IN	4,311	4,700	HOLD
ERIS IN	639	970	BUY
LPC IN	754	700	HOLD
SUNP IN	1,033	1,100	HOLD

Price & Target in Rupees | Price as of 12 Jan 2023

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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