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FIRST LIGHT

14 February 2023

RESEARCH

BOB ECONOMICS RESEARCH | CPI

CPI above RBI's upper band

ABB INDIA | TARGET: Rs 3,220 | +5% | HOLD

Q4 beat; retain HOLD on full valuations

ALKEM LABS | TARGET: Rs 3,000 | –9% | SELL

Quarter buoyed by seasonal tailwinds

THERMAX | TARGET: Rs 2,200 | +3% | HOLD

Scaling back on large project bids

LIC | NOT RATED

Strong 9MFY23 growth but margins moderate

Daily macro indicators

Indicator	09-Feb	10-Feb	Chg (%)
US 10Y yield (%)	3.66	3.73	7bps
India 10Y yield (%)	7.34	7.36	2bps
USD/INR	82.52	82.50	0.0
Brent Crude (US$/bbl)	84.5	86.4	2.2
Dow	33,700	33,869	0.5
Hang Seng	21,624	21,190	(2.0)
Sensex	60,806	60,683	(0.2)
India FII (US$ mn)	**08-Feb**	**09-Feb**	**Chg ($ mn)**
FII-D	(150.9)	(152.5)	(1.7)
FII-E	(55.2)	4.0	59.2

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: CPI

Discomfort again appeared from an elevated CPI print in Jan'23.We were also expecting an above 6% print. What poses concern is the dissemination of price pressure in majority food items. Now it is not limited to vegetable inflation, but 6 out of 12 broad group of food and beverage items noticed inflation above 6%. Even in Feb'23, price pressure exists for majority of vegetables such as garlic, ginger, potato and tomato which constitute major share of the vegetable basket. Excl. the volatile component of CPI as well, it remains well above RBI's 6% target. Core also poses considerable risk from higher gold prices and rising housing inflation. Going forward stickiness in core would persist from higher discretionary spending and pass through of input costs to output prices which is yet to materialize. We expect CPI to average around 6.5% in FY23 and 5.7% in FY24. RBI would be highly cautious of this discomforting print and be in a wait and watch mode till Q4FY23. Any large deviation from its forecast will be viewed with caution.

Click here for the full report.

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ABB INDIA

- Q4CY22 robust with revenue up 16% YoY and margins buoyed by motion and industrial automation businesses
- After attaining Rs 100bn of order inflows, management aims to achieve Rs 100bn in revenue and a 10% PAT margin in medium term
- We broadly retain estimates and roll over to a new TP of Rs 3,220 (vs. Rs 3,100); maintain HOLD as positives are largely priced in

Click here for the full report.

ALKEM LABS

- Q3 revenue grew 16% YoY to Rs 30bn led by double-digit growth across markets; flu season drove US sales of US$ 92mn
- Gross margin contracted but EBITDA margin stable at 19.7% as cost control mitigated raw material and US price erosion pressures
- On rollover, we revise our TP to Rs 3,000 (vs. Rs 2,700), based on 15x EV/EBITDA; maintain SELL

Click here for the full report.

THERMAX

- Transitioning to smaller orders in a bid to eliminate lumpiness in large projects and lift profitability
- International business looking up; overseas subsidiaries guided to break even in 4-5 quarters
- Change in bid strategy could undermine revenue; we retain HOLD and roll forward to a revised TP of Rs 2,200 (vs. Rs 2,100)

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LIC

- 9MFY23 net premium grew 21% YoY to Rs 3.4tn, lifting NBP market share 400bps YoY to 65.4%
- VNB margin stable at 14.6% vs. H1FY23 but down from 15.1% in FY22 owing to a higher ULIP share
- Agency channel stable while bancassurance moved up in the individual NBP mix; persistency ratios largely steady

Click here for the full report.

CPI

13 February 2023

CPI above RBI's upper band

Dipanwita Mazumdar
Economist

Discomfort again appeared from an elevated CPI print in Jan'23.We were also expecting an above 6% print. What poses concern is the dissemination of price pressure in majority food items. Now it is not limited to vegetable inflation, but 6 out of 12 broad group of food and beverage items noticed inflation above 6%. Even in Feb'23, price pressure exists for majority of vegetables such as garlic, ginger, potato and tomato which constitute major share of the vegetable basket. Excl. the volatile component of CPI as well, it remains well above RBI's 6% target. Core also poses considerable risk from higher gold prices and rising housing inflation. Going forward stickiness in core would persist from higher discretionary spending and pass through of input costs to output prices which is yet to materialize. We expect CPI to average around 6.5% in FY23 and 5.7% in FY24. RBI would be highly cautious of this discomforting print and be in a wait and watch mode till Q4FY23. Any large deviation from its forecast will be viewed with caution.

CPI inflation inched up

CPI inflation edged up: CPI inflation data again posed concern as it edged up to 6.5% in Jan'23, after dropping to a 13-month low of 5.7% in Dec'22. This is despite a favourable base of 6% seen in Jan'22. Food inflation noted considerable uptick; a jump of around 180bps. Stickiness of core (inflation excl. food and fuel) continued to persist.

Food inflation poses upside risk: CPI food index rose to 5.9% in Jan'23 from 4.2% in Dec'22, on YoY basis. Amongst major food items, sharpest pace of increase was led by vegetable prices where pace of disinflation went down from -15.1% in Dec'22 to -11.7% in Jan'23. Other than this, cereals and product also rose to 16.1% from 13.8% in Dec'22. Egg inflation also rose to 8.8% from 6.9%. Even inflation in meat and fish category also rose to 6% from 5.1% in Dec'23. Notably, 6 out of 12 broad group of food and beverage noticed inflation above 6%, with double digit inflation being noticed in cereal and spices category.

On MoM basis, vegetables (-3.8% from -12.7% in Dec'22), fruits (0.1% from -1.7% in Dec'22), cereal (2.6% in Jan'23 from 1.1% in Dec'22) and meat and fish (0.8% from -0.2% in Dec'22) items pose considerable risk. The pickup in momentum of vegetable prices has resulted from items such as ginger, garlic, chilly, brinjal and cabbage. Rise in wheat prices (as per Department of Consumer Affairs data) have exhibited considerable risk on cereal inflation. Going forward, the risk of adverse weather might weigh on cereal prices and the outlook on food inflation still remains uncertain.

Core CPI (excl. food and fuel) remained sticky at 6.1% in Jan'23 as well. Excl. Pan and tobacco, the print of core inflation further goes up to 6.3% in Jan'23 from 6.2% in Feb'22. Amongst major items of core, housing inflation rose to 4.6% in Jan'23 from 4.5% in Jan'22. Health inflation rose to 6.4% from 6.2% in Dec'22.

HOLD

TP: Rs 3,220 | ▲ 5%

ABB INDIA | Capital Goods | 13 February 2023

Q4 beat; retain HOLD on full valuations

- **Q4CY22 robust with revenue up 16% YoY and margins buoyed by motion and industrial automation businesses**
- **After attaining Rs 100bn of order inflows, management aims to achieve Rs 100bn in revenue and a 10% PAT margin in medium term**
- **We broadly retain estimates and roll over to a new TP of Rs 3,220 (vs. Rs 3,100); maintain HOLD as positives are largely priced in**

Vinod Chari | Tanay Rasal
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Q4 beats estimates: ABB reported a stellar Q4CY22 backed by robust volumes, a favourable product mix, efficient supply chain management, and pricing power. Revenue increased 16% YoY to Rs 24.3bn (Rs 23.5bn est.), led by broad-based growth of 15% in robotics (to Rs 628mn), 23% in the motion division (Rs 9.4bn), 12% in electrification (Rs 9.5bn), and 8% in industrial automation (Rs 5.1bn). EBITDA margin at 15% expanded 620bps YoY, beating our estimate of 10.1%, aided by strong margin gains across divisions. Adj. PAT thus grew 92% YoY to Rs 3.1bn (Rs 1.8bn est.).

Optimistic guidance; inorganic growth focus: Given that order inflows have crossed Rs 100bn, management has guided for revenue of Rs 100bn, gross margin of 35-37%, and PAT margin of 10% in CY23. The company remains focused on growth with capital earmarked for inorganic expansion and a strong pipeline of potential investment and acquisition targets, both global and local. This includes investments towards digitalisation (for partnerships that enhance the core portfolio and drive value-add for customers) as well as growth in energy and energy-efficiency sectors.

Order pipeline intact: ABB's order inflows stood at Rs 26bn, a dip of 4% YoY in Q4CY22 as the base quarter had Rs 3.1bn of large orders. The company did not receive any big-ticket contracts in Q4, securing only base flows, but indicated that it has a strong funnel of potential inflows. ABB aims to secure ~Rs 23bn of base orders every quarter. Additionally, a rejig of the robotics and discrete automation portfolio along with improved offerings in the logistics sector has boosted margins (EBITDA margin up 620bps YoY to 15% in Q4), and the company is looking to stay at these levels

Retain HOLD: We expect a revenue/EBITDA/PAT CAGR of 20%/18%/24% over CY22-CY24. Though bullish on ABB's structural growth story, we think current valuations price in most positives, leading us to retain HOLD. We continue to value the stock at 65x P/E – in line with the 5Y mean – but roll valuations forward to Dec'24E, yielding a revised TP of Rs 3,220 (earlier Rs 3,100).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ABB IN/Rs 3,080
Market cap	US$ 7.9bn
Free float	25%
3M ADV	US$ 14.5mn
52wk high/low	Rs 3,446/Rs 1,945
Promoter/FPI/DII	75%/4%/9%

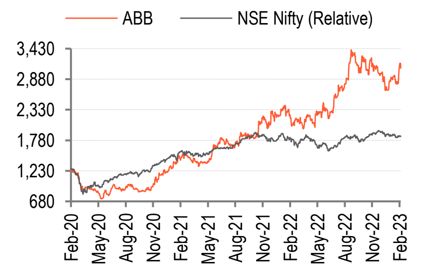
Source: NSE | Price as of 13 Feb 2023

Key financials

Y/E 31 Dec	CY21A	CY22E	CY23E
Total revenue (Rs mn)	69,340	85,675	1,02,044
EBITDA (Rs mn)	5,567	9,619	10,423
Adj. net profit (Rs mn)	4,433	6,864	8,267
Adj. EPS (Rs)	20.9	32.4	39.0
Consensus EPS (Rs)	20.9	31.8	40.3
Adj. ROAE (%)	11.6	15.3	15.6
Adj. P/E (x)	147.2	95.1	78.9
EV/EBITDA (x)	117.2	67.8	62.6
Adj. EPS growth (%)	138.4	54.8	20.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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SELL
TP: Rs 3,000 | ⩒ 9%

ALKEM LABS | Pharmaceuticals | 13 February 2023

Quarter buoyed by seasonal tailwinds

- **Q3 revenue grew 16% YoY to Rs 30bn led by double-digit growth across markets; flu season drove US sales of US$ 92mn**
- **Gross margin contracted but EBITDA margin stable at 19.7% as cost control mitigated raw material and US price erosion pressures**
- **On rollover, we revise our TP to Rs 3,000 (vs. Rs 2,700), based on 15x EV/EBITDA; maintain SELL**

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US flu season leads growth: Alkem reported 16% YoY revenue growth to Rs 30.4bn in Q3FY23 driven primarily by strong growth in US business, supported by healthy sales in India (+10%) and ROW (+17%) markets. US sales rose 24% QoQ to US$ 92mn owing to the flu season, which is expected to fade away in Q4. Though the company continues to see double-digit price erosion in the US, the pace of erosion has slowed with new launches (eight in 9MFY23) helping to mitigate the price impact some extent. Growth in ROW was led by Chile and Kazakhstan.

Outperformed India pharma market in key therapies: Alkem witnessed double-digit growth in India business at 10% YoY supported by outperformance in anti-infectives, VMN, pain management and gastrointestinal therapies in the acute space, and anti-diabetic and neurology/CNS therapies in the chronic segment. Trade generics, which form ~20% of the domestic business, reported mid-single-digit growth. Management expects India business to grow in single digits in FY23.

High input cost and US price erosion continues to dampen margins: Gross margin contracted 300bps YoY to 58.9% due to continued elevated raw material costs and US price erosion. Though input prices have moderated, they are yet to return to pre-Covid levels. Savings in operating cost (R&D, other expenses) headed off steeper gross margin contraction and helped sustain the EBITDA margin at 19.7% (+65bps YoY). Sequentially, lower US price erosion and the flu season aided gross margin gains of 140bps. This along with cost saving measures drove Alkem's EBITDA margin up 500bps QoQ. The company expects margins to improve 2-2.5ppt in FY24.

Maintain SELL: Relentless price erosion in the US market and elevated input cost, along with higher marketing spends, continue to take a toll on margins though Q3 did see some positive impacts from cost optimisation measures. We expect US business to be sluggish as investments are recalibrated amid challenges to growth. On rollover to FY25 valuations, we revise our TP Rs 3,000 (vs. Rs 2,700), based on an unchanged 15x EV/EBITDA – a discount of 15% to the stock's 5Y average. Given 9% downside potential from the current stock price, we maintain SELL.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	ALKEM IN/Rs 3,293
Market cap	US$ 4.8bn
Free float	39%
3M ADV	US$ 3.3mn
52wk high/low	Rs 3,725/Rs 2,828
Promoter/FPI/DII	59%/5%/14%

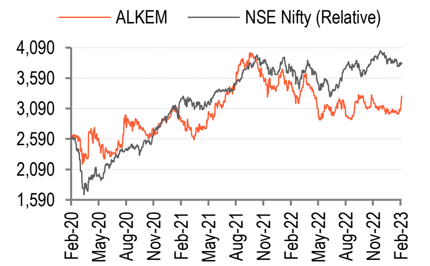
Source: NSE | Price as of 10 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,06,342	1,16,707	1,32,180
EBITDA (Rs mn)	20,529	17,679	21,184
Adj. net profit (Rs mn)	16,606	12,997	16,124
Adj. EPS (Rs)	138.9	108.7	134.9
Consensus EPS (Rs)	138.9	102.7	137.7
Adj. ROAE (%)	24.4	16.7	18.3
Adj. P/E (x)	23.7	30.3	24.4
EV/EBITDA (x)	19.2	22.1	18.3
Adj. EPS growth (%)	4.8	(21.7)	24.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

HOLD
TP: Rs 2,200 | 3%

THERMAX | Capital Goods | 13 February 2023

Scaling back on large project bids

- **Transitioning to smaller orders in a bid to eliminate lumpiness in large projects and lift profitability**
- **International business looking up; overseas subsidiaries guided to break even in 4-5 quarters**
- **Change in bid strategy could undermine revenue; we retain HOLD and roll forward to a revised TP of Rs 2,200 (vs. Rs 2,100)**

Vinod Chari | Tanay Rasal
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Q3 strong: TMX's Q3FY23 revenue grew 27% YoY to Rs 20.5bn (3Y CAGR: 13%), with the energy business up 27% to Rs 14.8bn, environment up 29% to Rs 4.4bn, and chemicals business rising 6% to Rs 1.6bn. Led by the strong sales momentum, EBITDA grew 42% YoY to Rs 1.6bn (3Y CAGR: 12%) and EBITDA margin expanded 85bps to 7.9%. Adj. PAT came in at Rs 1.2bn, up 59% YoY.

Moving to smaller orders: TMX's pipeline of large projects (>Rs 8bn) has flagged in the last two quarters, especially in the petrochemicals sector where the company has consciously taken a step back from quoting lower prices on two major projects. Over the cycle, TMX expects to manage this shift through smaller orders in the Rs 500mn-1bn range.

Energy transition and steel driving demand: Per management, the energy transition and steel sectors continue to fuel demand, while the sugar and distillery verticals are expected to remain strong for the next 12 months. TMX is also seeing cement capacities being added, with the tail end of waste heat recovery systems and a decent performance in the chemicals, pharma, and food & beverage sectors. However, management anticipates weaker growth in refinery and petrochemicals.

International business looking up: Over the past six months, TMX has seen a positive trend in the international market with improved numbers and better visibility. The company expects both subsidiaries, Danstoker and PTTI, to be profitable in the next 15 months, with PTTI guided to break even in the next 4-5 quarters. European subsidiaries have reported improvement, and gas-related challenges have receded.

Retain HOLD: Potential moderation in revenue considering TMX's shift toward small-ticket projects, coupled with a weaker margin outlook in the chemicals division and the likelihood of back-ended returns from new clean energy businesses, drives our cautious view on the company. We retain HOLD and roll valuations forward to Dec'24E for a TP of Rs 2,200 (earlier Rs 2,100), set at an unchanged 40x P/E multiple, in line with the stock's 5Y average.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	TMX IN/Rs 2,143
Market cap	US$ 3.1bn
Free float	32%
3M ADV	US$ 1.3mn
52wk high/low	Rs 2,679/Rs 1,651
Promoter/FPI/DII	62%/12%/16%

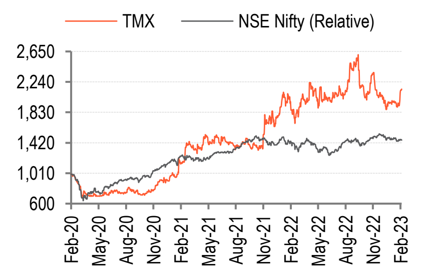
Source: NSE | Price as of 13 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	61,283	75,317	88,633
EBITDA (Rs mn)	4,214	5,264	6,695
Adj. net profit (Rs mn)	3,123	4,141	5,160
Adj. EPS (Rs)	26.2	34.8	43.3
Consensus EPS (Rs)	26.2	38.5	53.1
Adj. ROAE (%)	9.3	11.4	13.1
Adj. P/E (x)	81.8	61.7	49.5
EV/EBITDA (x)	64.7	49.6	39.2
Adj. EPS growth (%)	20.5	32.6	24.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

NOT RATED

LIC | Insurance | 13 February 2023

Strong 9MFY23 growth but margins moderate

- **9MFY23 net premium grew 21% YoY to Rs 3.4tn, lifting NBP market share 400bps YoY to 65.4%**
- **VNB margin stable at 14.6% vs. H1FY23 but down from 15.1% in FY22 owing to a higher ULIP share**
- **Agency channel stable while bancassurance moved up in the individual NBP mix; persistency ratios largely steady**

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Strong growth: LIC (Not Rated) posted 21% YoY growth in net premium to Rs 3.4tn in 9MFY23, led by the group business which increased 50% YoY (individual business grew 6%) and constituted 41% of the total. This elevated NBP market share from 61.4% at end-9MFY22 to 65.4% at end-9MFY23. APE stood at Rs 375bn in 9MFY23, wherein group business constituted 38% share. To expand its non-participating business, LIC has introduced six products in FY23 YTD. The company now has a bouquet of 19 non-par and 16 par products.

VNB margin softens: LIC's net VNB margin stood at 14.6% in 9MFY23, flat vs. H1FY23 but down from 15.1% in FY22 owing to a shift in product mix (-170bps impact), partly offset by a change in assumptions (+120bps). Individual par/non-par segment margins (net) stood at 11%/63.6% vs. 10.6%/68.7%. The group segment margin moderated to 12.3% vs. 12.9% in H1FY23.

Agency share stable, bancassurance rises: The agency channel, with 52.3% market share by no. of agents, remains an important component of LIC's network. On individual NBP basis, agency share dipped marginally from 96.5% in 9MFY22 to 96.0% at end-9MFY23; bancassurance and alternate channels improved from 2.6% to 3.5%. Management stated that IDBI Bank is its main banking partner.

Persistency improved: LIC's 13th month persistency increased 77bps YoY to 77.6% in 9MFY23 and the 61st month ratio also improved 82bps YoY to 62.7%.

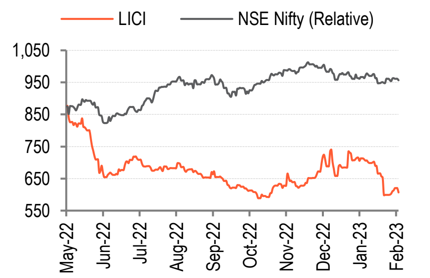
Budget impact minimal: Management reiterated that only 1.8% of its APE is contributed by policies over Rs 0.5mn. Thus, the impact of the FY24 budget proposal to restrict tax exemption on big-ticket life insurance policies will be minimal. Moreover, LIC has 200mn policyholders, which is 3x the taxpaying population, implying that not all customers take policies solely to garner tax deductions (see our report, **Budget spoils the insurance party**, for the impact on private insurers).

Valuation: LIC is trading at 0.7x H1FY23 EV. We do not have a rating on the stock.

Ticker/Price	LICI IN/Rs 607
Market cap	US$ 46.4bn
Free float	3.5%
52wk high/low	Rs 920/Rs 582
Promoter/FPI/DII	96.5%/0.2%/0.9%

Source: NSE | Price as of 13 Feb 2023

Stock performance



Source: NSE

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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

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