FIRST LIGHT

15 November 2022

RESEARCH

BOB ECONOMICS RESEARCH | CPI

Inflation begins to cool down

BOB ECONOMICS RESEARCH | WPI

WPI cools down to 19-month low

TVS MOTOR | TARGET: Rs 1,068 | –3% | HOLD

Strong quarter but positives in the price

AUROBINDO PHARMA | TARGET: Rs 635 | +30% | BUY

Margin slippage continues; launches key for growth

ALEMBIC PHARMA | TARGET: Rs 615 | –4% | HOLD

Broad-based growth; margin crunch persists

LIC | NOT RATED

Strong growth; focused on raising persistency

Daily macro indicators

Indicator	10-Nov	11-Nov	Chg (%)
US 10Y yield (%)	4.09	3.81	(28bps)
India 10Y yield (%)	7.35	7.31	(4bps)
USD/INR	81.81	80.82	1.2
Brent Crude (US$/bbl)	93.7	96.0	2.5
Dow	33,715	33,748	0.1
Hang Seng	16,081	17,326	7.7
Sensex	60,614	61,795	1.9
India FII (US$ mn)	**09-Nov**	**10-Nov**	**Chg ($ mn)**
FII-D	33.9	(24.5)	(58.5)
FII-E	67.1	(47.4)	(114.5)

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: CPI

Headline CPI moderated to 6.8% in Oct'22 from 7.4% in Sep'22, led by food, fuel and core inflation. Food inflation decelerated to 7% from 8.6% in Sep'22, led by vegetables, fruits, oils and pulses. Core inflation too softened to 5.9% from 6.1%, due to dip in transport & communication segment, as fuel prices cooled down. However, it is expected to remain sticky in the same range as domestic demand indicators remain healthy, also supported by the festive/holiday season. MoM trends in food inflation are showing that risks to food inflation still persist and will have to be watched closely in the coming months. We also expect RBI to continue hiking rates till repo rate reaches 6.5%, with 35bps hike in Dec'22.

Click here **for the full report.**

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INDIA ECONOMICS: WPI

WPI cools off further (5th consecutive month) to 8.4% in Oct'22(10.7% Sep'22), supported by broad-based moderation in food, fuel and manufactured product inflation. Within food, prices of fruits, tomato and onion contributed to the moderation. However, there is an uptick in prices of cereal and protein based items. Globally, wheat prices have also registered an upswing due to uncertainties related to Ukraine exports. Core WPI softened further to 4.7% in Oct'22 from 7% in Sep'22 led by dip in manufactured inflation (4.4% from 6.3% in Sep'22). Fuel inflation was down in Oct'22. Going further, on the back of moderation in global prices, WPI is expected to ease further.

Click here **for the full report.**

TVS MOTOR

- Q2 revenue at Rs 72bn (+29% YoY) backed by higher ASP (Rs 69.3k, +13%) and volumes (+14%)
- Healthy realisation gains on the back of premium bike sales and price hikes, keeping gross margin intact at ~24%
- Stock offers limited upside post recent run-up; we assume coverage with HOLD for a TP of Rs 1,068

Click here **for the full report.**

AUROBINDO PHARMA

- Q2 revenue dipped 3% YoY (-8% QoQ) to Rs 57bn as decline in US/ Europe outweighed growth in other businesses
- EBITDA margin slipped for sixth straight quarter. Specialty business guidance of US$ 650mn-700mn delayed by a year to FY25
- We cut FY23-FY24 EBITDA by 8-9% and lower our TP to Rs 635 (Rs 695 earlier); retain BUY

Click here **for the full report.**

ALEMBIC PHARMA

- Q2 revenue increased 14% YoY supported by growth across businesses; commissioning of new facilities in Q4 to further propel topline
- Challenging US price environment and elevated raw material and freight cost keep up pressure on margins
- We cut FY23/FY24 EBITDA 25%/20% amid margin headwinds; reiterate HOLD with reduced TP of Rs 615 (vs. Rs 770)

Click here **for the full report.**

LIC

- Net premium grew 24% YoY to Rs 2.3tn in H1FY23, lifting NBP market share from 64.5% to 68.3%
- Focus on non-par and other profitable businesses saw net VNB margin expand 530bps YoY to 14.6% in H1
- 61st month persistency moved up but the 13th month ratio declined; improvement remains in focus

Click here for the full report.

CPI

14 November 2022

Inflation begins to cool down

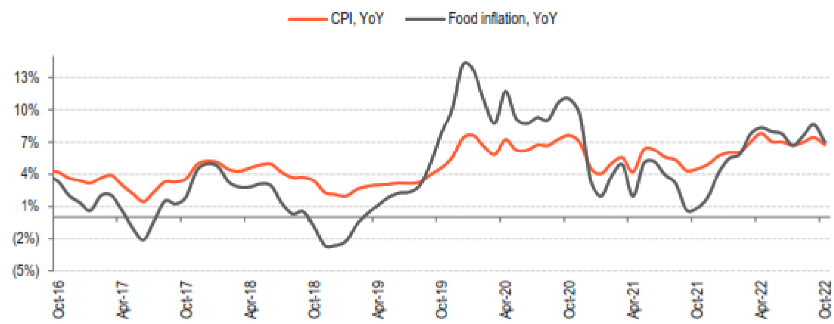
Sonal Badhan
Economist

Headline CPI moderated to 6.8% in Oct'22 from 7.4% in Sep'22, led by food, fuel and core inflation. Food inflation decelerated to 7% from 8.6% in Sep'22, led by vegetables, fruits, oils and pulses. Core inflation too softened to 5.9% from 6.1%, due to dip in transport & communication segment, as fuel prices cooled down. However, it is expected to remain sticky in the same range as domestic demand indicators remain healthy, also supported by the festive/holiday season. MoM trends in food inflation are showing that risks to food inflation still persist and will have to be watched closely in the coming months. We also expect RBI to continue hiking rates till repo rate reaches 6.5%, with 35bps hike in Dec'22.

CPI inflation cooling down:

In line with our expectations, CPI for Oct'22 came in at 6.8%, down from 7.4% in Sep'22. Food inflation has come down, primarily on account of significant dip in vegetable inflation (7.8% in Oct'22 versus 18.2% in Sep'22), followed by easing prices of oils & fats (-2.2% versus 0.4%), fruits (5.2% versus 5.7%) and pulses (2.8% versus 3%). On the other hand, pressure buildup is visible in cereal inflation (12.1% versus 11.5%), meats & fish (3.1% versus 2.5%), milk & milk products (7.7% versus 7.1%) and eggs (-0.2% versus -1.8%). Going forward, while base effect will be conducive for food inflation, final impact of unseasonal rains on sowing and harvest, movement in international food prices will have to be closely watched.

Figure 1: CPI falls below 7%, aided by food inflation



Source: CEIC, Bank of Baroda Research

Core inflation eases:

Core CPI (excl. food and fuel) edged down to 5.9% in Oct'22 from 6.1% in Sep'22. Even RBI's preferred measure of core CPI (core excl. pan, tobacco and intoxicants) eased, albeit at a slower pace of 6.2% versus 6.3% in Sep'22. This was on account of moderation in inflation index for transportation & communication (4.6% in Oct'22 versus 5.4% in Sep'22) and recreation & amusement (6.1% versus 6.3%). On the other hand, inflation index for clothing and footwear (10.2%), housing (4.6%), household goods and services (7.6%) remained unchanged in Oct'22.

WPI

14 November 2022

WPI cools down to 19-month low

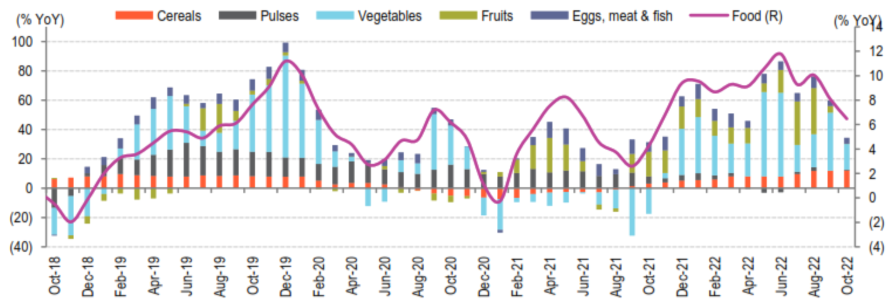
Jahnavi
Aditi Gupta
Economist

WPI cools off further (5th consecutive month) to 8.4% in Oct'22(10.7% Sep'22), supported by broad-based moderation in food, fuel and manufactured product inflation. Within food, prices of fruits, tomato and onion contributed to the moderation. However, there is an uptick in prices of cereal and protein based items. Globally, wheat prices have also registered an upswing due to uncertainties related to Ukraine exports. Core WPI softened further to 4.7% in Oct'22 from 7% in Sep'22 led by dip in manufactured inflation (4.4% from 6.3% in Sep'22). Fuel inflation was down in Oct'22. Going further, on the back of moderation in global prices, WPI is expected to ease further.

Food inflation softens:

Headline WPI eased to 19-month low of 8.4% (BoB est.: 9%) in Oct'22 from 10.7% in Sep'22. Food inflation in Oct'22 slipped to 1-year low of 6.5% from 8.1% in Sep'22. This was on the back of moderation in prices of both fruits and vegetables. Vegetable inflation cooled-off by 17.6% in Oct'22 compared with 39.7% in Sep'22, led by tomato (5.3% versus 65.3%), potato (45% versus 49.8%). Onion prices declined further by 30% in Oct'22. Fruit prices were also down by 0.2% in Oct'22 compared with 4.5% in Sep'22. On the other hand, prices of protein based items such as eggs, meat and fish inched up in Oct'22 (4% versus 3.6% in Sep'22). Egg prices had contracted at much slower pace (-10% versus -13.75). Milk prices remained steady. Cereal inflation edged up a tad bit by 12% in Oct'22, with prices of paddy (6.6% vs 5.8%), wheat (16.2% versus 16.1%) and pulses (0.4% versus -0.3%) all registering an increase in Oct'22. Globally, Food price index too has cooled-off in Oct'22 and remains below its all-time high registered in Mar'22.

Figure 1: Food inflation dips in Oct'22



Source: CEIC, Bank of Baroda Research

Fuel and power inflation decelerates further:

Fuel and power inflation moderated to an 18-month low of 23.2% in Oct'22 from 32.6% in Sep'22. This was led a dip in the mineral oil index to 29.1% (19-month low) from 46% in Sep'22. It must be noted after peaking at 74.6% in Apr'22, mineral oils index has since been moderating. There was a broad based slowdown in mineral oil inflation with ATF (58.7% versus 91.8%), HSD (43.1% versus 66%) and kerosene oil (84.6% versus 104.9%) registering moderation in Oct'22.

RESULT REVIEW

HOLD

TP: Rs 1,068 | ⩔ 3%

TVS MOTOR | Automobiles | 14 November 2022

Strong quarter but positives in the price

- **Q2 revenue at Rs 72bn (+29% YoY) backed by higher ASP (Rs 69.3k, +13%) and volumes (+14%)**
- **Healthy realisation gains on the back of premium bike sales and price hikes, keeping gross margin intact at ~24%**
- **Stock offers limited upside post recent run-up; we assume coverage with HOLD for a TP of Rs 1,068**

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Robust topline: TVSL's Q2FY23 net sales came in at Rs 72.2bn with net realisation per vehicle (NRPV) rising 13% YoY to Rs 69.3k and volumes up 14%. The strong uptick in volumes was largely contributed by the domestic two-wheeler segment that offset challenges in the export market. Realisation growth came from the high-end motorcycle segment.

Margins stable: Raw material inflation continued with a jump of 29% YoY on a high base, but management indicated that prices are nearly at their peak. Gross margin at 23.9% was flat YoY and QoQ. EBITDA grew 31% YoY to Rs 7.4bn and the operating margin held at 10.2% (10% in Q2FY22) despite higher marketing cost incurred on new launches ('Ronin' and 'i-Qube'). Adj. PAT rose 47% YoY to Rs 4.1bn, translating into a PAT margin of 5.5% (4.9% in Q2FY22).

Healthy demand outlook: The demand outlook remains robust as semiconductor supply chain concerns fade. Management is confident of the company's outperformance vis-à-vis the industry and indicated that its thrust on premiumisation will continue, led by high-end motorcycles such as 'Raider', 'Apache' and 'Ronin'. The company believes muted demand in overseas markets (owing to inflation and currency devaluation) will be offset by a healthy pickup in rural demand.

Focus on EVs: TVSL aims to ramp up electric vehicle (EV) volumes to 10k units/month by end-Q3FY23 and to 25k units/month by end-Q4. This confident outlook stems from a strong response to 'I-Qube' (current order book of 25k units). Management has planned a series of EV launches over the medium term.

Limited upside potential; HOLD: We believe TVSL will continue to beat industry growth as launches in the high-end EV/traditional segments will further revamp the product portfolio. The focus on premiumisation would safeguard margins and any easing of raw material cost offers added cushioning. However, the recent 15% run-up in the stock in past 1 quarter leaves limited upside and hence we recommend HOLD. with a TP of Rs 1,068 for TVSL based on 25x FY24E EPS for the core business (inline with 10-year average) and the addition of Rs 33/sh (consensus value) for TVS Credit.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TVSL IN/Rs 1,101
Market cap	US$ 6.4bn
Free float	48%
3M ADV	US$ 20.9mn
52wk high/low	Rs 1,177/Rs 513
Promoter/FPI/DII	52%/13%/25%

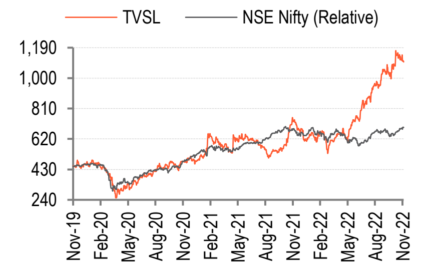
Source: NSE | Price as of 14 Nov 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	207,905	257,636	302,735
EBITDA (Rs mn)	19,617	26,630	33,972
Adj. net profit (Rs mn)	9,237	14,522	19,676
Adj. EPS (Rs)	18.8	30.6	41.4
Consensus EPS (Rs)	18.8	31.8	42.0
Adj. ROAE (%)	19.2	24.9	26.9
Adj. P/E (x)	58.5	36.0	26.6
EV/EBITDA (x)	26.2	19.5	15.3
Adj. EPS growth (%)	46.0	62.5	35.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 635 | ⮝ 30%

AUROBINDO PHARMA | Pharmaceuticals | 14 November 2022

Margin slippage continues; launches key for growth

- **Q2 revenue dipped 3% YoY (-8% QoQ) to Rs 57bn as decline in US/ Europe outweighed growth in other businesses**
- **EBITDA margin slipped for sixth straight quarter. Specialty business guidance of US$ 650mn-700mn delayed by a year to FY25**
- **We cut FY23-FY24 EBITDA by 8-9% and lower our TP to Rs 635 (Rs 695 earlier); retain BUY**

Saad Shaikh
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Slowdown in US and Europe mars quarter: ARBP reported a revenue decline of 3% YoY (-8% QoQ) to Rs 57.4bn in Q2FY23, pulled down by US (-11% YoY/QoQ) and Europe sales (-9% YoY, -2% QoQ). This offset YoY and QoQ growth in other businesses barring antiretrovirals (ARV: -57% QoQ).

US business dynamics remain weak: US revenue fell 14% QoQ in constant currency terms to US$ 331mn on account of a volume drop (~20%), price erosion (single-digit) and shelf stock adjustments for Vasopressin. Oral solids as well as injectables witnessed lower offtake due to inventory adjustments at wholesalers and distributors. Management views this as a temporary blip and expects normalcy to return in coming quarters. With a robust pipeline and ~40 planned launches over the next 12 months, management expects US business to grow hereon.

Specialty business guidance delayed: Given the sluggish offtake and oversupply, ARBP's near-term outlook on the US market remains weak. Hence, its earlier guidance of specialty sales reaching US$ 650mn-700mn by FY24 stands delayed by a year.

No respite for margins: ARBP reported its sixth straight quarter of EBITDA margin contraction, hitting 14.6% in Q2 (-540bps YoY, -90bps QoQ). This can be attributed to gross margin slippage of 260bps YoY (+155bps QoQ) owing to pricing pressure in the US and a 20% YoY increase in SG&A spend, which nullified the 31% YoY cut in R&D spend for the quarter to 4.8% of revenue.

Retain BUY: We revise margin assumptions post H1FY23, leading to a reduction of 8-9% in our FY23-FY24 EBITDA estimates. Our new TP stands at Rs 635 (vs. Rs 695), based on an unchanged FY24E EV/EBITDA multiple of 7x (12x implied P/E). Our multiple reflects a continued 55% discount to other frontline stocks (SUNP, CIPLA, DRRD) due to ARBP's low branded sales and high US exposure. The stock is trading at attractive valuations of 6.4x/5.2x FY23E/FY24E EV/EBITDA – we maintain BUY as we see limited downside and are optimistic of traction in specialty sales and rising launch momentum.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	ARBP IN/Rs 487
Market cap	US$ 3.5bn
Free float	48%
3M ADV	US$ 10.7mn
52wk high/low	Rs 742/Rs 457
Promoter/FPI/DII	52%/22%/16%

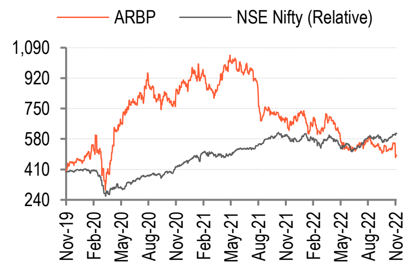
Source: NSE | Price as of 14 Nov 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	2,34,555	2,44,058	2,58,778
EBITDA (Rs mn)	43,868	43,114	49,730
Adj. net profit (Rs mn)	27,062	25,677	30,681
Adj. EPS (Rs)	46.2	43.8	52.4
Consensus EPS (Rs)	46.2	43.3	53.3
Adj. ROAE (%)	11.6	9.9	10.8
Adj. P/E (x)	10.6	11.1	9.3
EV/EBITDA (x)	6.8	6.4	5.2
Adj. EPS growth (%)	12.0	(5.1)	19.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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HOLD
TP: Rs 615 | ▼ 4%

ALEMBIC PHARMA | Pharmaceuticals | 14 November 2022

Broad-based growth; margin crunch persists

- **Q2 revenue increased 14% YoY supported by growth across businesses; commissioning of new facilities in Q4 to further propel topline**
- **Challenging US price environment and elevated raw material and freight cost keep up pressure on margins**
- **We cut FY23/FY24 EBITDA 25%/20% amid margin headwinds; reiterate HOLD with reduced TP of Rs 615 (vs. Rs 770)**

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US growth supported by one-offs and launches: ALPM reported 14% YoY revenue growth to Rs 14.8bn in Q2FY23 supported by growth across segments. US business increased 20% YoY (+14% QoQ) on the back of one-off opportunities. The company launched five products during the quarter (10 in H1) and reiterated base US guidance of US$ 45mn-50mn. ALPM's new formulation facilities (F-2/F-3) are likely to be commercialised in Q4FY23, which should fuel US business given the brisk pace of product approvals from these facilities.

Healthy India growth: Domestic branded business grew 8% YoY and 14% QoQ (+11% YoY excluding one-time sale in Q2FY22). The acute segment grew 11% YoY, outperforming the industry (+6%), and specialty revenue rose 10%, boosted by gynaecology, anti-diabetes and ophthalmology therapies. Active pharma ingredient (API) growth of 23% YoY was underpinned by high offtake and a better product mix. ALPM expects good growth in API business through FY23 backed by a strong order book. ROW business increased 9% YoY (+18% QoQ) and management indicated a strong demand outlook.

Margin pressure to stay: ALPM's gross margin shrank 430bps YoY to 70% in Q2 (flat sequentially) due to continued price erosion in the US (high teens) and elevated raw material & freight cost. Other expenses rose 31% YoY during the quarter. However, various employee cost-cutting measures and R&D spend optimisation (post Aleor integration) limited EBITDA margin contraction to 270bps YoY at 15.8%. Management expects to commercialise the two new brownfield facilities by Q4 which would result in expensing of capitalised cost for these facilities, further dampening margins.

Maintain HOLD, TP cut to Rs 615: We scale back our FY23/FY24 EBITDA estimates by 25%/20% and reiterate HOLD considering margin pressures arising from pricing issues in the US, rising operational costs as well as expensing of facility capitalization costs (expected in Q4). Our TP stands revised to Rs 615 (vs. Rs 770), set at an unchanged FY24E EV/EBITDA multiple of 11x (implied P/E of 19x), which is at 25% discount to the stock's 5Y historical average.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ALPM IN/Rs 640
Market cap	US$ 1.5bn
Free float	31%
3M ADV	US$ 1.4mn
52wk high/low	Rs 849/Rs 540
Promoter/FPI/DII	69%/6%/11%

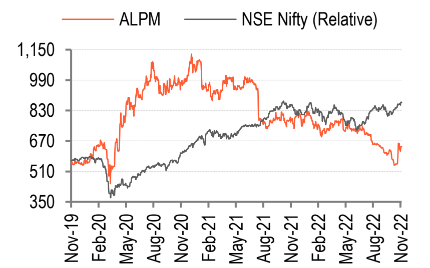
Source: NSE | Price as of 14 Nov 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	53,060	57,135	63,172
EBITDA (Rs mn)	8,744	7,594	11,077
Adj. net profit (Rs mn)	5,406	3,890	6,401
Adj. EPS (Rs)	27.8	19.8	32.6
Consensus EPS (Rs)	27.8	22.0	33.0
Adj. ROAE (%)	10.6	7.3	11.3
Adj. P/E (x)	23.0	32.3	19.7
EV/EBITDA (x)	15.4	17.1	11.9
Adj. EPS growth (%)	(56.5)	(28.7)	64.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

NOT RATED

LIC | Insurance | 14 November 2022

Strong growth; focused on raising persistency

- **Net premium grew 24% YoY to Rs 2.3tn in H1FY23, lifting NBP market share from 64.5% to 68.3%**
- **Focus on non-par and other profitable businesses saw net VNB margin expand 530bps YoY to 14.6% in H1**
- **61st month persistency moved up but the 13th month ratio declined; improvement remains in focus**

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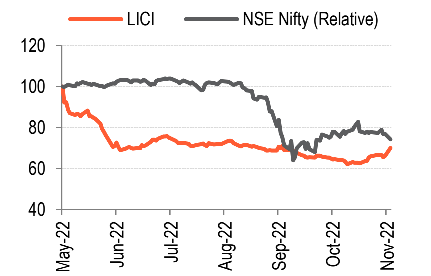
Ticker/Price	LICI IN/Rs 665
Market cap	US$ 52,095mn
Free float	3.5%
3M ADV	US$ 10.5mn
52wk high/low	Rs 920/Rs 588
Promoter/FPI/DII	96.5%/0.2%/0.9%

Source: NSE | Price as of 14 Nov 2022

Stock performance



Source: NSE

Strong growth: LIC (Not Rated) posted 24% YoY growth in net premium to Rs 2.3tn in H1FY23, led by the group business which increased 55% YoY and constituted 45% of the total (individual business grew 7%). This elevated New Business Premium (NBP) market share from 64.5% at end-H1FY22 to 68.3% at end-H1FY23. Annual premium equivalent (APE) grew 48% YoY to Rs 252bn in H1FY23, wherein group business (42% of total) rose 96% YoY. Individual non-par business also gained traction to grow 75% YoY but only constitutes 5% share. To expand its non-par business, LIC has introduced a slew of products focused on annuities in FY23 thus far. It now has a bouquet of 19 non-par and 16 par products.

VNB margin rises: Aided by a focus on non-par and other profitable businesses, the net margin on value of new business (VNB) grew 530bps YoY to 14.6% in H1FY23. The individual non-par gross VNB margin has come down from 118% in H1FY22 to 79.5% because LIC has repriced some annuity products to make them more attractive. VNB margin benefited from a change in assumptions in H1FY23 but was negatively affected by a change in product mix.

EV remains flat: Embedded value (EV) was flat at Rs 5.44tn in H1FY23 vs. Rs 5.41tn at end-FY22. Market movements pulled down EV, but the unwinding and VNB had a positive impact. Looking at the constituents of EV, we note a decline in value of in-force (VIF) business and an increase in adjusted net worth (ANW). This stems from a movement of funds from VIF to ANW, albeit not very significant. Going forward, the company expects that the continued strong operating performance will drive EV higher.

Raising persistency a focus area: LIC's 13th month persistency has declined 115bps YoY to 77.6% in H1FY23. The company has revised prices of its top selling products to improve persistency ratios. The 61st month ratio improved 220bps YoY to 62.8%. Management reiterated that it intends to improve persistency ratios across cohorts.

Valuation: LIC is trading at 0.8x H1FY23 EV. We do not have a rating on the stock.

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Disclaimer

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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