# FIRST LIGHT

16 August 2022

## RESEARCH

### Astral | Target: Rs 2,205 | +11% | HOLD

Good performance amid challenges; cut to HOLD post rally

### BOB Economics Research | CPI and IIP

CPI moderates, IIP growth weakens

### BOB Economics Research | Monsoon Update

Monsoon and sowing progress

### Aurobindo Pharma | Target: Rs 695 | +17% | BUY

Healthy growth but margin pressure persists

### Divi's Labs | Target: Rs 4,250 | +14% | HOLD

No respite in sight for margins

**Daily macro indicators**

| Indicator | 10-Aug | 11-Aug | Chg (%) |
|---|---|---|---|
| US 10Y yield (%) | 2.78 | 2.89 | 11bps |
| India 10Y yield (%) | 7.31 | 7.27 | (4bps) |
| USD/INR | 79.52 | 79.64 | (0.2) |
| Brent Crude (US$/bbl) | 97.4 | 99.6 | 2.3 |
| Dow | 33,310 | 33,337 | 0.1 |
| Hang Seng | 19,611 | 20,082 | 2.4 |
| Sensex | 58,817 | 59,333 | 0.9 |
| **India FII (US$ mn)** | **08-Aug** | **10-Aug** | **Chg ($ mn)** |
| FII-D | (13.8) | 89.5 | 103.3 |
| FII-E | 197.7 | 308.8 | 111.1 |

Source: Bank of Baroda Economics Research

## SUMMARY

### Astral

- Consolidated Q1 revenue grew 73% YoY with plumbing/paints & adhesives up 74%/72%; pipe volumes increased 49%
- Operating margin declined 435bps YoY to 14.2% due to inventory loss of Rs 250mn, high employee cost and expenses toward new products
- Retain TP of Rs 2,205, valuing ASTRA at 62x FY24E P/E, but downgrade from BUY to HOLD given the 30% stock rally in the last 2.5 months

Click here **for the full report.**

**BOBCAPS Research**
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## India Economics: CPI and IIP

Headline CPI cooled off to 6.9% in Jul’22 from 7% in Jun’22. Food inflation eased to 6.8% (7.7% in Jun’22) led by vegetables, meat and fish and oils and fats. Core inflation eased further to 5.7% in Jul’22 on the back of softening of prices for transport and communications, personal care and health. Despite cooling-off, CPI remains above RBI’s target level. On the other hand, industrial growth decelerated to 12.3% in Jun’22 (19.6% in May’22) led by broad based moderation across manufacturing, mining and electricity sectors. Going ahead, investors will monitor geopolitical tensions emerging from China-Taiwan as this could impact global demand.

Click here **for the full report.**

## India Economics: Monsoon Update

As South-West monsoon picked up pace, resulting in cumulative rainfall of 8% above LPA as of 12 Aug 2022. The actual rainfall (weekly distribution) for this period is also higher than the past year levels. However, Eastern region continues to receive deficient rainfall. The impact of scanty rainfall is already been visible in the lower sowing area. Acreage of pulses and oilseeds have declined. Rice sowing is expected to be hit further. Out of 36 subdivisions, 6 have received deficient rainfall during this period and 6 states are in the deficient zone. On storage levels, the southern states have recorded highest storage levels compared with other regions. The higher storage levels bodes well for rabi sowing.

Click here **for the full report.**

## Aurobindo Pharma

- Q1 revenue of Rs 62bn came in 5% above consensus as US business outperformed; however, EBITDA margin slid 570bps YoY to 15.5%
- Management confident of double-digit growth annually in specialty business to reach revenue of US$ 650mn-700mn by FY24
- TP revised to Rs 695 (vs. Rs 680) as we adjust FY23-FY24 EPS by -9%/+2%; maintain BUY

Click here **for the full report.**

## Divi's Labs

- Q1 revenue broadly in line with consensus at Rs 22.5bn (+15% YoY/-10% QoQ), but EBITDA 10% below
- Gross/EBITDA margins contracted 320bps/590bps YoY on sustained cost pressure
- Our estimates already bake in margin stress; we retain HOLD and our TP of Rs 4,250 based on 26x FY24E EV/EBITDA

Click here **for the full report.**

RESULT REVIEW

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**HOLD**

**TP: Rs 2,205 | ⮝ 11%**

**ASTRAL** | Plastic Products | 12 August 2022

# Good performance amid challenges; cut to HOLD post rally

- **Consolidated Q1 revenue grew 73% YoY with plumbing/paints & adhesives up 74%/72%; pipe volumes increased 49%**
- **Operating margin declined 435bps YoY to 14.2% due to inventory loss of Rs 250mn, high employee cost and expenses toward new products**
- **Retain TP of Rs 2,205, valuing ASTRA at 62x FY24E P/E, but downgrade from BUY to HOLD given the 30% stock rally in the last 2.5 months**

**Ruchitaa Maheshwari**
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**Strong topline:** ASTRA's consolidated Q1FY23 revenue grew 73% YoY to Rs 12.1bn, with the plumbing/paints & adhesives segments up 74%/72% on a low base. Standalone revenue increased 74% YoY on better PVC pipe realisations (Rs 246/kg vs. Rs 210/kg YoY due to the addition of water tanks & valves) and a 49% jump in volumes. Profit was under pressure due to a forex loss of Rs 117mn and a Rs 70mn amortisation charge on consolidation of the Gem Paints business.

**Margin contracts due to one-offs:** Consolidated EBITDA margin contracted 435bps YoY to 14.2% due to one-offs from high-cost inventory (loss of ~Rs 250mn), elevated A&P spends, high employee cost (Rs 50mn) for the new product division, and expenses toward launch events in the faucetware and sanitaryware segments. EBITDA margin in plumbing fell 525bps YoY to 14.7% owing to higher raw material cost (+765bps). The paints & adhesives segment maintained its EBITDA margin of 13.8% aided by the Gem Paints business (unlike in Q1FY22).

**Better placed than peers:** ASTRA's volumes posted a 3Y CAGR of 3.8% in Q1 vs. declines of 7.2% and 2.3% for peers FNXP and SI respectively. Per management, PVC price volatility has hurt volumes with prices plunging from as high as Rs 162/kg in Oct'21 to ~Rs 90/kg currently. ASTRA expects PVC prices to stabilise which together with increasing construction activity would aid volumes going forward.

**EBITDA/kg to decline further in Q2:** ASTRA incurred an inventory loss of ~Rs 250mn in Q1 due to the falling PVC prices. This pulled down EBITDA/kg to Rs 36.2 vs. Rs 42 in Q1FY22 and Rs 39.5 in Q4FY22. PVC prices are under pressure (currently ~Rs 90/kg from Rs 119/kg in Q1) and channel partners are maintaining a lean inventory, which will put pressure on Q2 margins.

**Limited upside; cut to HOLD:** We like ASTRA for its strong growth prospects, market leadership, net debt-free balance sheet, wide distribution and healthy return ratios. However, the stock has rallied 30% since Jun'22 and offers limited upside at current valuations of 56x FY24E P/E. We downgrade from BUY to HOLD with an unchanged TP of Rs 2,205, set at 62x FY24E EPS (vs. its 5Y median of ~71x).

## Key changes

| Target | Rating |
|---|---|
| ◀ ▶ | ▼ |

| | |
|---|---|
| Ticker/Price | ASTRA IN/Rs 1,986 |
| Market cap | US$ 5.0bn |
| Free float | 44% |
| 3M ADV | US$ 6.3mn |
| 52wk high/low | Rs 2,525/Rs 1,582 |
| Promoter/FPI/DII | 56%/16%/28% |

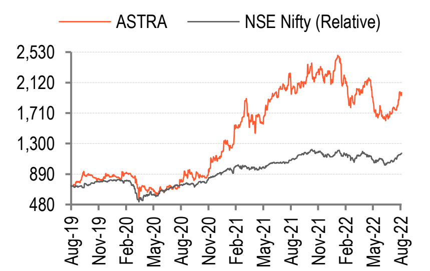
Source: NSE | Price as of 12 Aug 2022

## Key financials

| Y/E 31 Mar | FY22A | FY23E | FY24E |
|---|---|---|---|
| Total revenue (Rs mn) | 43,940 | 52,095 | 59,596 |
| EBITDA (Rs mn) | 7,553 | 9,159 | 10,781 |
| Adj. net profit (Rs mn) | 4,906 | 5,839 | 7,141 |
| Adj. EPS (Rs) | 24.4 | 29.1 | 35.5 |
| Consensus EPS (Rs) | 24.4 | 30.7 | 38.2 |
| Adj. ROAE (%) | 23.2 | 22.5 | 22.7 |
| Adj. P/E (x) | 81.3 | 68.3 | 55.9 |
| EV/EBITDA (x) | 52.6 | 43.0 | 36.3 |
| Adj. EPS growth (%) | 20.9 | 19.0 | 22.3 |

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance




Source: NSE

## CPI AND IIP

12 August 2022

# CPI moderates, IIP growth weakens

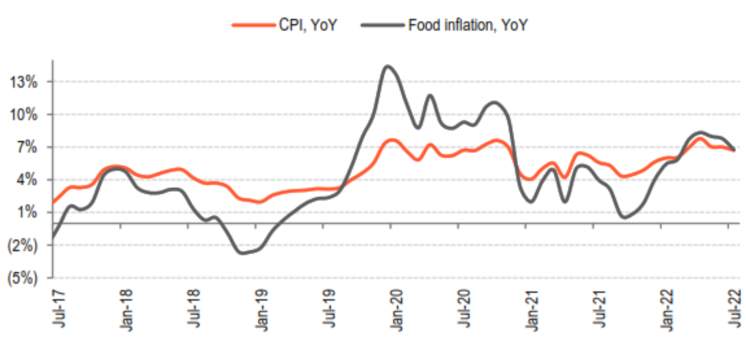
Sonal Badhan
Economist

Jahnavi
Economist

**Headline CPI cooled off to 6.9% in Jul'22 from 7% in Jun'22. Food inflation eased to 6.8% (7.7% in Jun'22) led by vegetables, meat and fish and oils and fats. Core inflation eased further to 5.7% in Jul'22 on the back of softening of prices for transport and communications, personal care and health. Despite cooling-off, CPI remains above RBI's target level. On the other hand, industrial growth decelerated to 12.3% in Jun'22 (19.6% in May'22) led by broad based moderation across manufacturing, mining and electricity sectors. Going ahead, investors will monitor geopolitical tensions emerging from China-Taiwan as this could impact global demand.**

CPI inflation begins to ease: Against our estimate of 6.9%, CPI came in slightly lower at 6.7% in Jul'22, also down from 7% in Jun'22. Food inflation moderated further to 6.8% from 7.7% in Jun'22. This was supported by softening prices of vegetables (10.9% in Jul'22 versus 17.3% in Jun'22), meat and fish (3% versus 8.6%), oils & fats (7.5% versus 9.4%) and milk &milk products (5.8% versus 6.1%). On the other hand, prices of fruits (6.4% versus 3.1%), cereals (6.9% versus 5.7%), sugar (4.8% versus 4.2%) and spices (12.9% versus 11%) inched even higher in Jul'22. Prices of eggs contracted less sharply (-3.8% versus -5.5%) and that of pulses (0.2% versus -1%) increased after falling in the previous two months. However, outlook for food inflation in the coming months might get some comfort from retailers agreeing to reduce prices of edible oils and a normal monsoon (8% above LPA).

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




Source: CEIC, Bank of Baroda Research

**Core inflation continues to ease:** Core inflation edged down by 30bps to 5.7% in Jul'22 from 6% in Jun'22, on YoY basis. Moderation was on account of sharp dip in transport and communication inflation (5.6% from 6.9% in Jun'22), followed by personal care and effects (6% versus 6.7%) and health (5.4% versus 5.5%).

MONSOON UPDATE

12 August 2022

# Monsoon and sowing progress

**Jahnavi Prabhakar**
Economist

**As South-West monsoon picked up pace, resulting in cumulative rainfall of 8% above LPA as of 12 Aug 2022. The actual rainfall (weekly distribution) for this period is also higher than the past year levels. However, Eastern region continues to receive deficient rainfall. The impact of scanty rainfall is already been visible in the lower sowing area. Acreage of pulses and oilseeds have declined. Rice sowing is expected to be hit further. Out of 36 subdivisions, 6 have received deficient rainfall during this period and 6 states are in the deficient zone. On storage levels, the southern states have recorded highest storage levels compared with other regions. The higher storage levels bodes well for rabi sowing.**

### Where does Kharif sowing stand?

As of 12th Aug 2022, sown area of pulses (4%) and oilseeds (0.8%) has declined compared with last year. Within pulses, significant drop in son area has been registered in Arhar (11.7%) and Urad (4.6%). Area sown for Jute and Mesta has also declined by 1%. Total sown area of rice had also registered a dip in the previous week. On the other hand, acreage of cotton and sugarcane had improved by 5.3% and 0.2% respectively.

**Table 1: Kharif Sowing**

| | Area sown in 2022-23 (mn ha) | Area sown in 2021-22 (mn ha) | Growth (YoY %) |
|---|---|---|---|
| Cereals | 37.4 | 40.2 | (7.1) |
| Rice | 23.2 | 26.7 | (13.3) |
| Pulses* | 12.2 | 12.7 | (4.0) |
| Oilseeds* | 18.0 | 18.2 | (0.8) |
| Cotton | 11.8 | 11.2 | 5.3 |
| Sugarcane | 5.5 | 5.4 | 0.2 |
| Jute and Mesta | 0.7 | 0.7 | (1.0) |

Source: CEIC, Bank of Baroda | *Data as of 12 Aug 2022. For cereals, rice, cotton and Sugarcane-5 Aug 2022. For others, data as of 29 Jul 2022

### Monsoon:

For the period 1 Jun 2022 to 12 Aug 2022, South West Monsoon is 8% above LPA compared with last year.

- For Fig 1, states in the Eastern Region such as Uttar Pradesh, Bihar, Jharkhand, West Bengal and Manipur continue to receive much lower rainfall. Delhi too has been receiving end of the deficient rains.
- On the other hand, Western region including states such as Rajasthan, Gujarat and Maharashtra is witnessing excess rainfall. States in the Southern region have also received heavy rainfall, during this period.

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**BUY**
**TP: Rs 695 | ⮝ 17%**

**AUROBINDO PHARMA** | Pharmaceuticals | 12 August 2022

# Healthy growth but margin pressure persists

- **Q1 revenue of Rs 62bn came in 5% above consensus as US business outperformed; however, EBITDA margin slid 570bps YoY to 15.5%**
- **Management confident of double-digit growth annually in specialty business to reach revenue of US$ 650mn-700mn by FY24**
- **TP revised to Rs 695 (vs. Rs 680) as we adjust FY23-FY24 EPS by -9%/+2%; maintain BUY**

Saad Shaikh
research@bobcaps.in

**Healthy growth led by US sales and ARV recovery:** ARBP reported Q1FY23 revenue of Rs 62.4bn, up 9% YoY (+7% QoQ) and 5% ahead of consensus on the back of above-expected growth in the US business (+11% YoY/9% QoQ). The company also saw strong recovery in antiretrovirals (ARV: +28% YoY/+61% QoQ), further aided by a spillover of business from the previous quarter. Europe revenue declined 2% YoY (flat QoQ) due to depreciation of the Euro against the USD. Emerging markets posted strong 31% YoY growth to Rs 4.3bn led by the Canada business and India formulation sales of Rs 456mn. APIs grew 12% YoY due to improved demand for few key products.

**US business posts positive surprise:** US market revenue rose 6.2% QoQ CC to US$ 386mn on account of higher volumes. Price erosion stood at ~3% in Q1 (vs. 11% in Q4), but management expects stabilisation only after a couple of quarters.

**Margins guided to improve:** ARBP reported EBITDA margin contraction of 570bps YoY to 15.5% due to a 480bps slippage in gross margin alongside higher freight and other costs, plus additional expenses of Rs 600mn on account of production rescheduling. Other expenses were also higher owing to integration of the acquired domestic business. Management expects gross margin to improve from hereon.

**Earnings call highlights:** (1) Net organic capex of ~US$ 61mn for the quarter includes investment of ~US$ 8mn in a PLI project. (2) ARBP currently has 190 ANDAs under review.

**Retain BUY:** We revise margin assumptions post Q1, leading to a change of -9%/+2% in our FY23-FY24 EPS estimates. Our new TP is at Rs 695 (vs. Rs 680), based on an unchanged FY24E EV/EBITDA multiple of 7x (10.3x 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 7.5x/6.3x FY23E/FY24E EV/EBITDA – 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 593 |
| Market cap | US$ 4.4bn |
| Free float | 48% |
| 3M ADV | US$ 13.2mn |
| 52wk high/low | Rs 822/Rs 503 |
| Promoter/FPI/DII | 52%/22%/16% |

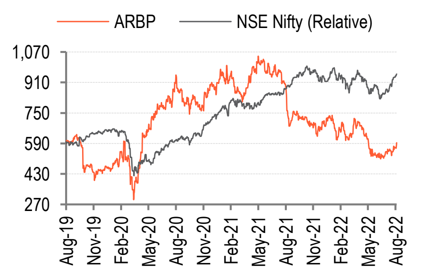
Source: NSE | Price as of 12 Aug 2022

## Key financials

| Y/E 31 Mar | FY22P | FY23E | FY24E |
|---|---|---|---|
| Total revenue (Rs mn) | 2,34,555 | 2,50,134 | 2,65,089 |
| EBITDA (Rs mn) | 43,868 | 46,613 | 54,823 |
| Adj. net profit (Rs mn) | 27,062 | 27,271 | 33,560 |
| Adj. EPS (Rs) | 46.2 | 46.5 | 57.3 |
| Consensus EPS (Rs) | 46.2 | 54.3 | 62.4 |
| Adj. ROAE (%) | 11.6 | 10.5 | 11.7 |
| Adj. P/E (x) | 12.8 | 12.7 | 10.4 |
| EV/EBITDA (x) | 8.2 | 7.3 | 5.9 |
| Adj. EPS growth (%) | 12.0 | 0.8 | 23.1 |

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

## Stock performance




Source: NSE

**HOLD**

**TP: Rs 4,250 | ⮝ 14%**

**DIVI'S LABS** | Pharmaceuticals | 13 August 2022

## No respite in sight for margins

- **Q1 revenue broadly in line with consensus at Rs 22.5bn (+15% YoY/ -10% QoQ), but EBITDA 10% below**
- **Gross/EBITDA margins contracted 320bps/590bps YoY on sustained cost pressure**
- **Our estimates already bake in margin stress; we retain HOLD and our TP of Rs 4,250 based on 26x FY24E EV/EBITDA**

**Saad Shaikh**
research@bobcaps.in

**Custom synthesis drives growth, generics continue to struggle:** DIVI's Q1 revenue increased 15% YoY, driven by 22% growth in the custom synthesis business. Sequentially, however, custom synthesis revenue fell 38% QoQ due to the absence of Covid product sales (Molnupiravir). In generic APIs, DIVI reported muted 4% YoY growth, though management expects to maintain the generic-to-custom synthesis mix at 50:50. Management guides for double-digit topline growth in FY23 on the back of new products, contrast media and recovery in the generics business.

**Elevated costs continue to strain margins:** Higher raw material and solvent costs led to gross margin contraction of 320bps YoY (-270bps QoQ). Elevated freight and power costs put added pressure on EBITDA margin which contracted 590bps YoY (-630bps QoQ). To mitigate the cost burden, the company is passing on some RM price hikes to customers on a case-by-case basis and is confident in achieving 40% EBITDA margin (including other income) for the year.

**Earnings call highlights:** (1) DIVI has completed capacity expansion in the generic API segment. (2) Management does not expect capex to go beyond Rs 5bn-6bn in FY23. (3) The company is still waiting for a response from the Andhra Pradesh government on the Kakinada plant (4) Company received a contract from big pharma company for 1 contrast media API and is under validation (5) Contrast media to be a major growth engine in next two years.

**Maintain HOLD:** Given the current high base, high ~83% capacity utilisation, delays at new plants, reduced margins, and the absence of abnormal pandemic-driven growth, we maintain our HOLD rating on the stock with an unchanged TP of Rs 4,250, based on an FY24E EV/EBITDA multiple of 26x – in line with the stock's 1Y forward multiple.

### Key changes

| Target | Rating |
|---|---|
| ◀ ▶ | ◀ ▶ |

| | |
|---|---|
| Ticker/Price | DIVI IN/Rs 3,726 |
| Market cap | US$ 12.4bn |
| Free float | 48% |
| 3M ADV | US$ 26.2mn |
| 52wk high/low | Rs 5,425/Rs 3,366 |
| Promoter/FPI/DII | 52%/21%/16% |

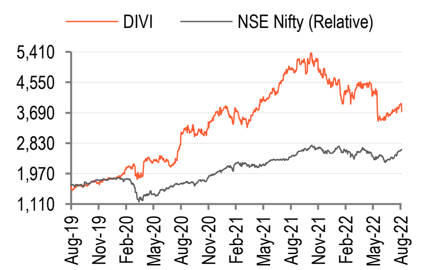
Source: NSE | Price as of 12 Aug 2022

### Key financials

| Y/E 31 Mar | FY22P | FY23E | FY24E |
|---|---|---|---|
| Total revenue (Rs mn) | 89,598 | 98,075 | 1,09,046 |
| EBITDA (Rs mn) | 38,819 | 38,265 | 42,545 |
| Adj. net profit (Rs mn) | 29,604 | 27,427 | 30,552 |
| Adj. EPS (Rs) | 111.5 | 103.3 | 115.1 |
| Consensus EPS (Rs) | 111.5 | 100.7 | 114.3 |
| Adj. ROAE (%) | 28.2 | 22.6 | 22.7 |
| Adj. P/E (x) | 33.4 | 36.1 | 32.4 |
| EV/EBITDA (x) | 25.1 | 25.2 | 22.4 |
| Adj. EPS growth (%) | 49.2 | (7.4) | 11.4 |

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

### 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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