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FIRST LIGHT

19 January 2023

RESEARCH

MAHANAGAR GAS | TARGET: Rs 1,030 | +19% | BUY

Healthy medium-term outlook

ICICI PRUDENTIAL LIFE | TARGET: Rs 601 | +24% | BUY

VNB strong but premium growth disappoints

ERIS LIFESCIENCES | TARGET: Rs 810 | +28% | BUY

Oaknet continues to drive revenue growth

Daily macro indicators

Indicator	16-Jan	17-Jan	Chg (%)
US 10Y yield (%)	3.50	3.55	4bps
India 10Y yield (%)	7.33	7.33	0bps
USD/INR	81.62	81.77	(0.2)
Brent Crude (US$/bbl)	84.5	85.9	1.7
Dow	34,303	33,911	(1.1)
Hang Seng	21,747	21,578	(0.8)
Sensex	60,093	60,656	0.9
India FII (US$ mn)	**13-Jan**	**16-Jan**	**Chg ($ mn)**
FII-D	146.8	50.3	(96.5)
FII-E	(459.2)	193.0	652.2

Source: Bank of Baroda Economics Research

SUMMARY

MAHANAGAR GAS

- Management aims to double the annual growth run-rate to 6% in the medium term by accelerating network buildout
- Our GA-wise analysis indicates that network expansion in GA2 is driving faster growth in CNG, domestic and commercial volumes
- We assume coverage with BUY and a TP of Rs 1,030

Click here for the full report.

ICICI PRUDENTIAL LIFE

- 9MFY23 VNB grew 23% YoY to Rs 17.1bn with margin profile strong at 32%
- Q3 gross premium increased just 5% YoY to Rs 98bn (8% below est.), with NBP growth muted at 3% and loss of market share
- FY24/FY25 gross premium estimates cut 7%/11% on weak Q3, leading to lower TP of Rs 601 from Rs 645; retain BUY

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ERIS LIFESCIENCES

- Q3 consolidated revenue grew 27% YoY led by Oaknet, but standalone growth modest at 9%
- Announced the acquisition of Glenmark's derma portfolio (Rs 850mn annual turnover) for Rs 3.4bn, to be funded by debt
- We cut FY23/FY24 EBITDA 8%/5% and revise our TP to Rs 810 (vs. Rs 970), based on 17x 1Y fwd EV/EBITDA vs. 19x earlier

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COMPANY UPDATE

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BUY
TP: Rs 1,030 | ▲ 19%

MAHANAGAR GAS | Oil & Gas | 18 January 2023

Healthy medium-term outlook

- **Management aims to double the annual growth run-rate to 6% in the medium term by accelerating network buildout**
- **Our GA-wise analysis indicates that network expansion in GA2 is driving faster growth in CNG, domestic and commercial volumes**
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Trades at a discount to peers…: MAHGL has been trading at a significant discount to peers over the past 3Y/5Y with mean 1Y forward PE at 11.4x/12.4x vs. 18.4x/20.2x for IGL and 22.8x/21.2x for GUJGA on consensus estimates. The discount has widened recently with MAHGL trading at 10.8x whereas IGL and GUJGA are at 18.3x and 19.8x respectively.

…given slower volume growth but outlook now improving: We believe the valuation discount is attributable to the company's slower volume growth – at a CAGR of 3.1% over FY17-FY22 which compares unfavourably with 8.8% for IGL and 14.6% for GUJGA. Going forward, we expect stronger momentum at 19.8% YoY for MAHGL in FY23 on the back of a post-Covid recovery and an improved 7.0% CAGR over FY24-FY25 as benefits of network expansion become visible.

GA2 showing promise of accelerated growth: MAHGL has expedited network buildout and aims to add 0.15-0.20mn domestic consumers and 30 new CNG stations, with an equal number of upgrades in FY23. We note that network expansion in GA2 is helping to accelerate growth in CNG and other segments. With the implementation of a city gas station, growth in GA3 could also rise as the ecosystem of 23 CNG stations is converted to an online station and new industrial customers are tapped.

Targeting 6% growth in medium term: Over the next five years, MAHGL aims to add 1mn domestic households and 100 CNG stations (for a total of 400), while expanding its pipeline network to 600km of steel and 7,500km of PE pipeline.

BUY, TP Rs 1,030: We expect MAHGL's EBITDA to clock a 13.4% CAGR mainly driven by 11.1% growth in volumes over FY22-FY25. EBITDA margin is forecast to stabilise around ~Rs 9/scm. Our DCF-based TP of Rs 1,030 is based on cost of equity of 11%, volume CAGR of ~5% over FY23-FY33 (we are conservative than MAHGL's target), average EBITDA margin of Rs 8.4/scm, and terminal growth of 2.5%. Our TP implies an FY24E P/E of 12.7x, marginally above the mean 1Y forward P/E of 12.4x on an improving medium-term outlook. Implementation of recommendations by the Parikh Committee is a key positive catalyst for the sector.

Key changes

Target	Rating
▲	▲

Ticker/Price	MAHGL IN/Rs 863
Market cap	US$ 1.0bn
Free float	58%
3M ADV	US$ 4.2mn
52wk high/low	Rs 925/Rs 666
Promoter/FPI/DII	43%/30%/16%

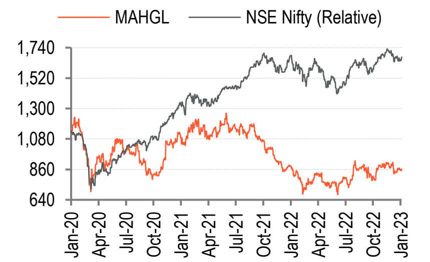
Source: NSE | Price as of 18 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	35,602	64,697	62,188
EBITDA (Rs mn)	9,243	10,853	12,597
Adj. net profit (Rs mn)	5,970	6,954	7,995
Adj. EPS (Rs)	60.4	70.4	80.9
Consensus EPS (Rs)	60.4	70.6	83.7
Adj. ROAE (%)	17.5	18.4	19.2
Adj. P/E (x)	14.3	12.3	10.7
EV/EBITDA (x)	8.9	7.5	6.4
Adj. EPS growth (%)	(3.7)	16.5	15.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY

TP: Rs 601 | 24%

ICICI PRUDENTIAL LIFE | Insurance | 18 January 2023

VNB strong but premium growth disappoints

- **9MFY23 VNB grew 23% YoY to Rs 17.1bn with margin profile strong at 32%**
- **Q3 gross premium increased just 5% YoY to Rs 98bn (8% below est.), with NBP growth muted at 3% and loss of market share**
- **FY24/FY25 gross premium estimates cut 7%/11% on weak Q3, leading to lower TP of Rs 601 from Rs 645; retain BUY**

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Strong VNB growth and margins; persistency ratios improve: IPRU's VNB grew 20% YoY to Rs 6.2bn in Q3FY23 (+23% to Rs 17.1bn in 9MFY23). The 9MFY23 VNB margin at 32% (vs. 28% in FY22) stems from a focus on higher margin products. We raise our VNB margin estimates for FY23/FY24/FY25 to 31%/29%/29% vs. 30%/28%/28% earlier. Persistency improved across cohorts with the 13th month ratio improving from 84.8% at end-8MFY22 to 86.1% at end-8MFY23 and 61st cohort rising from 52.7% to 64.2%.

APE falls short but protection growth strong: APE declined 6% YoY to Rs 18bn in Q3, falling short of our estimates, but grew 4% YoY to Rs 53bn in 9MFY23. Protection APE (19% share) rose 11% in Q3 and 23% YoY in 9M. Savings APE declined 9% YoY to Rs 14.8bn (flat in 9M) due to deceleration in linked products. Annuity remained a silver line, rising 33% YoY to Rs 1bn (+56% in 9M). Non-linked products rose 10% YoY (+18% in 9M).

Premium growth disappoints: NBP grew 3% YoY to Rs 40bn, coming in 12% below our estimate, with NBP market share down from 13% at end-FY22 to 11.1% at end-Q3FY23. Gross premium increased by a meagre 5% YoY to Rs 98bn, 8% short of our forecast, leading us to pare FY25 gross premium 11% to Rs 440bn. VNB is now expected to log a 9% CAGR over FY22-FY25 vs. 15% earlier owing to a cut in our APE estimates. IPRU's total cost ratio, though stable QoQ at 14.7%, increased 120bps YoY and missed our estimates by 90bps as the company invested in distribution capacity.

Group channel scores high in distribution mix: Bancassurance share in APE dipped from 40% in Q3FY22 to 28% in Q3FY23 (ICICIBC saw a 50% decline), while the group channel posted robust growth with its share rising to 18% from 13%.

Maintain BUY: The stock currently trades at 1.5x FY25E P/EV. Given high persistency and strong VNB growth, partly offset by a decline in market share, we value the company at 1.8x FY25E P/EV – (average of -1SD and -2SD). On rollover, we have a revised TP of Rs 601 (vs. Rs 645), which offers 24% upside – retain BUY.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	IPRU IN/Rs 485
Market cap	US$ 8.5bn
Free float	5%
3M ADV	US$ 10.9mn
52wk high/low	Rs 649/Rs 430
Promoter/FPI/DII	73%/17%/5%

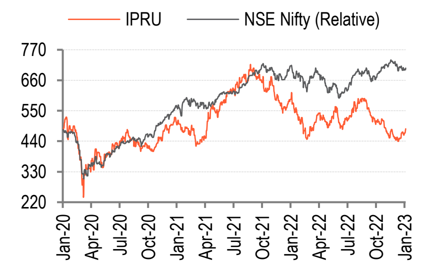
Source: NSE | Price as of 17 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
NBP (Rs mn)	1,55,022	1,65,184	1,81,702
APE (Rs mn)	77,330	79,556	87,482
VNB (Rs mn)	21,652	24,662	25,370
Embedded Value (Rs mn)	3,16,250	3,63,747	4,15,514
VNB margin (%)	28.0	31.0	29.0
EVPS (Rs)	220.2	253.2	289.3
EPS (Rs)	5.3	6.1	7.8
Consensus EPS (Rs)	5.3	7.0	8.6
P/EV (x)	2.2	1.9	1.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 810 | ⮝ 28%

ERIS LIFESCIENCES | Pharmaceuticals | 18 January 2023

Oaknet continues to drive revenue growth

- **Q3 consolidated revenue grew 27% YoY led by Oaknet, but standalone growth modest at 9%**
- **Announced the acquisition of Glenmark's derma portfolio (Rs 850mn annual turnover) for Rs 3.4bn, to be funded by debt**
- **We cut FY23/FY24 EBITDA 8%/5% and revise our TP to Rs 810 (vs. Rs 970), based on 17x 1Y fwd EV/EBITDA vs. 19x earlier**

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Oaknet aids strong print YoY; standalone growth in single digits: ERIS reported modest standalone Q3FY23 revenue growth of 9% YoY owing to the absence of one Covid-related product (Zac-D: ~Rs 300mn in Q3FY22) and of Zayo (~Rs 300mn) which is under a court injunction. On a consolidated basis, incremental revenue from Oaknet helped the company post strong YoY growth of 27%. Oaknet posted Q3 revenue of Rs 597mn (-12% QoQ), while the insulin business contributed Rs 62mn.

Guidance lowered; levers in place for margin improvement: Given the delays in launches/ramp-up of a few products and the impact of Zac-D product returns (~Rs 200mn in 9MFY23), management has lowered FY23 revenue and EBITDA growth guidance to 25-26% (vs. 30%) and 14-15% (vs. 16-17%) respectively. Owing to the addition of ~200 people to the field force and change in product/therapy mix, consolidated gross/EBITDA margins contracted YoY to 79%/32.4% (-250bps/ -420bps), though gross margin improved QoQ by ~200bps.

On a standalone basis, gross margin improved 230bps QoQ to 82.5% while EBITDA margin contracted 160bps to 38.1%. We expect the full-year impact of new launches, increased contribution from acquired/JV brands and increasing productivity to aid margin improvement.

Acquisition to deepen dermatology presence: ERIS proposes to acquire Glenmark Pharma's portfolio of nine dermatology brands for ~Rs 3.4bn at a valuation of 4x TTM sales. Acquired brands such as Onabet, Halovate and Sorvate are ranked #1 in their respective segments, while Demelan, Dosetil and Aceret rank among the top-3. The acquired portfolio had an annual revenue base of ~Rs 850mn. The deal will be financed through borrowings at a cost of ~8%.

Maintain BUY: We lower our FY23/FY24 EBITDA estimates by 8%/5% considering the reduced guidance and margin pressures arising from a change in mix, employee addition and higher other costs. These headwinds also lead us to pare our target one-year forward EV/EBITDA multiple from 19x to 17x – a 10% discount to the 5Y average, yielding a revised TP of Rs 810 (from Rs 970 earlier). Maintain BUY.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ERIS IN/Rs 633
Market cap	US$ 1.1bn
Free float	27%
3M ADV	US$ 0.4mn
52wk high/low	Rs 768/Rs 600
Promoter/FPI/DII	53%/13%/10%

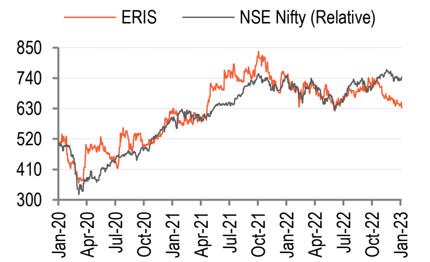
Source: NSE | Price as of 18 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	13,470	16,955	19,478
EBITDA (Rs mn)	4,849	5,518	6,622
Adj. net profit (Rs mn)	4,060	3,950	4,734
Adj. EPS (Rs)	29.9	29.1	34.9
Consensus EPS (Rs)	29.9	29.0	36.0
Adj. ROAE (%)	25.9	19.8	19.4
Adj. P/E (x)	21.2	21.7	18.1
EV/EBITDA (x)	17.5	15.4	13.3
Adj. EPS growth (%)	14.3	(2.7)	19.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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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