FIRST LIGHT

19 May 2022

RESEARCH

BOB Economics Research | Investment Trends

Corporate investment in H1-FY22

PI Industries | Target: Rs 3,020 | +15% | BUY

Healthy quarter

Zydus Wellness | Target: Rs 2,185 | +31% | BUY

Revival underway; retain BUY

Daily macro indicators

Indicator	16-May	17-May	Chg (%)
US 10Y yield (%)	2.88	2.99	10bps
India 10Y yield (%)	7.32	7.37	5bps
USD/INR	77.45	77.56	(0.2)
Brent Crude (US$/bbl)	114.2	111.9	(2.0)
Dow	32,223	32,655	1.3
Hang Seng	19,950	20,603	3.3
Sensex	52,974	54,318	2.5
India FII (US$ mn)	**12-May**	**13-May**	**Chg ($ mn)**
FII-D	(43.9)	(272.8)	(228.9)
FII-E	(619.9)	(454.4)	165.5

Source: Bank of Baroda Economics Research

SUMMARY

India Economics: Investment Trends

Since FY20 gross fixed capital formation component of India's GDP has been modest and showed a declining trend from 29.5% in FY19 to 26.6% in FY21. In FY21, it declined by 8.3% in current prices. In H1FY22, GFCF had improved to 27.8% and for the year is expected to be 28.3% as per NSO estimates. The covid induced lockdown that led to significant economic disruption in the economy has been responsible to a large extent for this volatile nature of investment in the economy.

Click here **for the full report.**

PI Industries

- Q4 revenue growth healthy at 17% YoY driven by a 47%/11% increase in the AgChem/CSM segments
- Despite new launches, EBITDA margin improved 290bps YoY to 22%, supported by cost passthrough. Gross margin rose 200bps to 44.1%
- We have a TP of Rs 3,020 set at 25x FY24E EV/EBITDA– 10% premium to stock's 5-year average 1-year forward multiple. Maintain BUY

Click here **for the full report.**

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Zydus Wellness

- Q4 revenue grew 5.6% YoY (65% QoQ) to Rs 6.4bn aided by price hikes; volumes muted
- Higher RM cost saw EBITDA decline 3%% YoY to Rs 1.4bn with 190bps margin contraction to 22.1%
- Retain BUY for a TP of Rs 2,185 led by product innovation, distribution expansion and Heinz India merger synergies

Click here for the full report.

INVESTMENT TRENDS

18 May 2022

Corporate investment in H1-FY22

Dipanwita Mazumdar
Economist

Since FY20 gross fixed capital formation component of India's GDP has been modest and showed a declining trend from 29.5% in FY19 to 26.6% in FY21. In FY21, it declined by 8.3% in current prices. In H1FY22, GFCF had improved to 27.8% and for the year is expected to be 28.3% as per NSO estimates. The covid induced lockdown that led to significant economic disruption has been responsible to a large extent for this volatile nature of investment in the economy. We analyze the trends in corporate investment in capital.

The foregoing study analyzes the trends in corporate investment in capital defined as change in outstanding gross fixed assets which includes property, Plant and Equipment and capital work in progress for a set of 2,241 companies (excluding financial sector). The period looked at is September 2021 over March 2021 which will give an idea of investment taking place in different sectors of the economy during the first half of the year. Data has been taken from the published balance sheets of companies for half year ending September 2021.

Some interesting results:

- In the first 6-months of FY22, net investment in gross fixed assets of the sample companies has increased by Rs 20,058 crore over March. 522 companies had increased the size of their gross fixed assets by Rs 39,419 crore while 812 had reduction of Rs 19,361 crore. The balance 907 companies witnessed no change in gross fixed assets.

- Out of 33 industries, 18 industries have shown positive accretion of investment in assets with aggregate increase of around Rs 24,000 crore. But within these industries only 7 sectors had investment of above Rs 500 crore each.

- Sector wise, crude oil, automobile and industrial gases and fuels comprise the major share in capital formation.

- Other industries where there was noteworthy investment are chemicals, telecom, construction and mining.

- For sectors such as logistics, textiles, iron and steel, media and entertainment and infrastructure sectors, capital accumulation has fallen in the first 6-months of H1FY22.

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BUY
TP: Rs 3,020 | ⮝ 15%

PI INDUSTRIES | Agrochemicals | 19 May 2022

Healthy quarter

- **Q4 revenue growth healthy at 17% YoY driven by a 47%/11% increase in the AgChem/CSM segments**
- **Despite new launches, EBITDA margin improved 290bps YoY to 22%, supported by cost passthrough. Gross margin rose 200bps to 44.1%**
- **We have a TP of Rs 3,020 set at 25x FY24E EV/EBITDA– 10% premium to stock's 5-year average 1-year forward multiple. Maintain BUY**

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New launches and price hikes buoyed growth in Q4: PI's Q4FY22 revenue grew 17% YoY to Rs 13.9bn, 2% ahead of consensus on account of passthrough of input costs (+7% price hike) while volume growth contributed the remaining 10%. The company also benefited from new launches, with 13 horticultural products introduced in FY22 and 9 molecules commercialized in CSM. CSM (+11% YoY) contributed incremental revenue of 55% for the quarter and AgChem (+47% YoY) contributed 45%.

Prudent cost management: Despite operational challenges such as rising input costs, supply chain disruption and volatility from the Russia-Ukraine war, PI was able to prudently manage costs, aiding 200bps/290bps expansion in gross/EBITDA margin. The margin gains also occurred despite additional costs on account of inefficiencies arising from new launches.

FY23 revenue guided to grow 18-20%: Management indicated that demand remains robust and PI continues to see new inquiries. The company has a strong CSM order book of US$ 1.4bn and continues to scale up existing products. On the AgChem front, management expects robust demand for insecticides, fungicides, herbicides and bio-nutrients on the back of normal monsoon forecasts. It aims to launch five new products in FY23 in the AgChem space. PI also has a rich pipeline of 40 products at different stages of development (>20% non-AgChem products).

Maintain BUY, TP Rs 3,020: PI has performed well in FY22 (revenue up 16%) on a higher base and has shown resilience on the margin front despite several headwinds such as higher input costs and fuel prices, pandemic-led disruptions and one-off expenses incurred toward strategic initiatives. It was able to mitigate these headwinds by passing on the additional costs and improving its product mix. We thus maintain BUY rating on the stock with a TP of Rs 3,020, set at 25x EV/EBITDA – 10% premium to stock's 5-year average 1-year forward multiple.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	PI IN/Rs 2,627
Market cap	US$ 5.1bn
Free float	53%
3M ADV	US$ 7.8mn
52wk high/low	Rs 3,535/Rs 2,334
Promoter/FPI/DII	47%/16%/25%

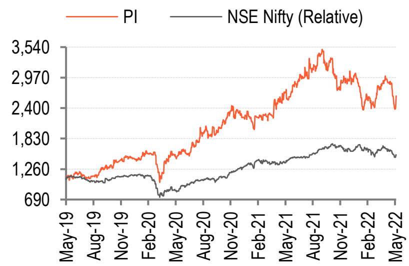
Source: NSE | Price as of 18 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	52,995	60,963	71,351
EBITDA (Rs mn)	11,424	13,832	16,972
Adj. net profit (Rs mn)	8,438	10,858	13,581
Adj. EPS (Rs)	55.7	71.6	89.6
Consensus EPS (Rs)	55.7	69.0	83.8
Adj. ROAE (%)	14.5	16.3	17.6
Adj. P/E (x)	47.2	36.7	29.3
EV/EBITDA (x)	33.7	27.1	22.0
Adj. EPS growth (%)	14.3	28.7	25.1

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

Stock performance



Source: NSE

BUY
TP: Rs 2,185 | ⮝ 31%

ZYDUS WELLNESS | Consumer Staples | 18 May 2022

Revival underway; retain BUY

- **Q4 revenue grew 5.6% YoY (65% QoQ) to Rs 6.4bn aided by price hikes; volumes muted**
- **Higher RM cost saw EBITDA decline 3%% YoY to Rs 1.4bn with 190bps margin contraction to 22.1%**
- **Retain BUY for a TP of Rs 2,185 led by product innovation, distribution expansion and Heinz India merger synergies**

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Revenue up 5.6% YoY: ZYWL's consolidated Q4FY22 revenue grew 5.6% YoY to Rs 6.4bn led by price hikes. Volumes were flat (+0.4% YoY). ZYWL has taken a 7.5% price increase over the last couple of quarters, of which 5.3% has been implemented. The company plans to take further calibrated price hikes to balance the portfolio.

EBITDA margin contracts: Higher input cost inflation, mainly palm oil, and a change in product mix exerted pressure on margins. Gross margin contracted 375bps YoY to 51% though calibrated price hikes supported sequential improvement of 260bps. EBITDA margin fell 190bps YoY to 22.1%.

Multiple product launches in FY22: Launches include (a) new Complan – relaunched with an enhanced proposition, improved chocolate taste and new packaging, supported by fresh TV commercials and consumer offers, (b) new Everyuth Body Lotion range – a strategic extension into the skincare space, (c) Nutralite Doodhshakti Professional Pure Ghee 1l pouch – launched in Mar'22 to expand reach in food services, institutional and catering industry (HoReCa) channels, (d) new variants of Complan Sugar Free D'lite Cookies and Chocolate Spread in international markets.

Strong outlook for international business: ZYWL's Sugar Free and Complan brands constitutes 93% of international business. The company has entered new markets such as Hong Kong, Lebanon, Zimbabwe, Muscat, Ethiopia and Australia in FY22. Management has guided for high-double-digit growth in the international business, likely crossing Rs 1bn in revenue in FY23. The target is to have 8-10% of revenue come from the business in the next 4-5 years from ~4% in FY22.

Revival underway; retain BUY: ZYWL is trading at 29.3x FY24E EPS. We retain BUY and our TP of Rs 2,185, set at 38x FY24E EPS (in line with its 5Y median) on the back of new launches, increasing distribution strength, a broader presence through existing brands, its ability to cater to white spaces, and a strong gross margin which gives it the leeway to spend more on brand building. We are also positive on ZYWL's debt reduction measures, faster FCF generation and superior execution.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ZYWL IN/Rs 1,666
Market cap	US$ 1.4bn
Free float	35%
3M ADV	US$ 0.9mn
52wk high/low	Rs 2,477/Rs 1,430
Promoter/FPI/DII	65%/3%/25%

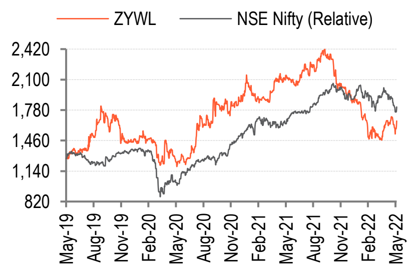
Source: NSE | Price as of 17 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	20,091	22,171	24,815
EBITDA (Rs mn)	3,448	4,412	5,124
Adj. net profit (Rs mn)	3,098	4,014	3,638
Adj. EPS (Rs)	48.4	63.0	56.9
Consensus EPS (Rs)	48.4	63.6	71.1
Adj. ROAE (%)	5.9	7.5	6.5
Adj. P/E (x)	34.4	26.4	29.3
EV/EBITDA (x)	33.4	24.7	20.7
Adj. EPS growth (%)	(19.3)	29.5	(9.5)

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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