BOBCAPS
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FIRST LIGHT

01 August 2022

RESEARCH

India Strategy | Monthly Wrap

India remains better placed than most markets

BOB Economics Research | Monsoon Update

Monsoon and sowing progress

SBI Life | Target: Rs 1,523 | +28% | BUY

Standout performance by the market leader; BUY

Ajanta Pharma | Target: Rs 1,500 | +17% | BUY

Margin stress continues despite strong revenue growth

Zydus Wellness | Target: Rs 2,185 | +35% | BUY

First normal quarter post-Covid; retain BUY

V-Guard Industries | Target: Rs 250 | +11% | HOLD

Margin blip in Q1

Daily macro indicators

Indicator	27-Jul	28-Jul	Chg (%)
US 10Y yield (%)	2.78	2.68	(11bps)
India 10Y yield (%)	7.34	7.33	(1bps)
USD/INR	79.90	79.76	0.2
Brent Crude (US$/bbl)	106.6	107.1	0.5
Dow	32,198	32,530	1.0
Hang Seng	20,670	20,623	(0.2)
Sensex	55,816	56,858	1.9
India FII (US$ mn)	**26-Jul**	**27-Jul**	**Chg ($ mn)**
FII-D	22.7	(67.4)	(90.1)
FII-E	(160.1)	(11.8)	148.4

Source: Bank of Baroda Economics Research

SUMMARY

India Strategy | Monthly Wrap

- Nifty 50 rose 8.2% in Jul'22 with mid-caps outperforming large- and small-caps. Index valuation is now broadly in line with historical average
- IMF has downgraded the global growth forecast including India's, but India remains better placed to overcome global headwinds
- We prefer retail-focused lenders, IT and staples near term, are cautious on utility & energy, and largely neutral on other sectors

Click here **for the full report.**

BOBCAPS Research
research@bobcaps.in

India Economics: Monsoon Update

South-West monsoon picked up pace and registered above normal rainfall at 9% above LPA till 29 Jul 2022. Sown area of pulses and oilseeds have inched up, however deficient rainfall in the Eastern region remains a concern. The actual rainfall for this period has exceeded and moved past the normal range. Out of 36, 7 subdivisions have received deficient rainfall during this period and 7 states are in the deficient zone. On storage levels, Southern region continue to record higher storage levels as the region continued to receive bountiful rains. Coming weeks remain crucial in terms of distribution of rainfall and impact of the same will be reflected on kharif sowing.

Click here **for the full report.**

SBI Life

- Stellar growth as Q1 gross premium increased 35% YoY with NBP up 67% and renewal premium up 14%
- APE grew ~80% YoY to Rs 29bn led by savings (+83%) and protection (+45%) products; VNB margin expanded 665bps YoY to 30.4%
- We assume coverage with BUY and a TP of Rs 1,523 (2.7x FY24E P/EV) based on market leadership, high growth and healthy margins

Click here **for the full report.**

Ajanta Pharma

- Q1 revenue growth robust at 27% YoY (13% ahead of consensus), supported by a low base in Asia/Africa and momentum in India
- EBITDA margin down 610bps YoY to 23.3% owing to tight US pricing, RM inflation and inventory write-offs
- TP revised to Rs 1,500 (vs. Rs 2,050) as we cut FY23/FY24 EBITDA by 10%/8% and reset to 12x FY24E EV/EBITDA (vs. 15x); retain BUY

Click here **for the full report.**

Zydus Wellness

- Q1 revenue grew 17% YoY (9% QoQ) to Rs 6.9bn aided by price hikes and 10.3% volume growth
- Higher RM and A&P costs saw EBITDA margin fall 225bps YoY to 21.3%; gross margin improved QoQ by 340bps on price hikes and a better mix
- Retain BUY and TP of Rs 2,185 led by product innovation, distribution expansion and Heinz India merger synergies

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V-Guard Industries

- Q1 EBITDA margin hit by A&P spend and write-offs; ECD/electronics margins guided to recover to ~7%/16% in FY23
- Electronics (mainly stabilisers) posted muted 3Y revenue CAGR of 2%, while ECD growth came at the cost of margins
- Profitability in stabilisers and ECD will be key even as further non-South expansion is necessary to derisk revenue; maintain HOLD, TP Rs 250

Click here for the full report.

MONTHLY WRAP | Volume #6 | 29 July 2022

India remains better placed than most markets

- **Nifty 50 rose 8.2% in Jul'22 with mid-caps outperforming large- and small-caps. Index valuation is now broadly in line with historical average**
- **IMF has downgraded the global growth forecast including India's, but India remains better placed to overcome global headwinds**
- **We prefer retail-focused lenders, IT and staples near term, are cautious on utility & energy, and largely neutral on other sectors**

Kumar Manish | Aseem Madan
research@bobcaps.in

Nifty 50 rose 8.2% in July: Nifty has rebounded from a slump to -1SD of its 5Y average forward P/E band. Large-cap stocks underperformed mid-caps but beat small-caps in the month of July. Indian indices outperformed other developed market indices. The run-up was broad-based across sectors with metals, realty and banks rallying the most while IT and pharma lagged.

Takeaways from Bank of Baroda's 'Banking beyond Tomorrow' Conference 2022: According to the RBI governor (keynote speaker), rising inflation due to food and energy prices is a concern, but India is better placed to handle external pressure than global peers. The central bank has ample foreign reserves to deal with currency volatility. Economists at the conference expect India's real GDP growth to be at 6-7% for FY23.

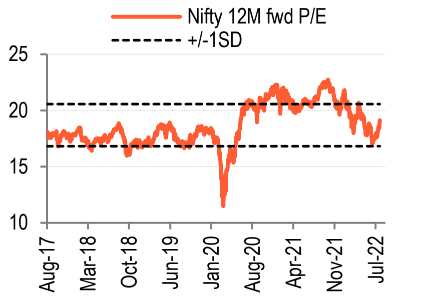
IMF downgrades global growth forecast: In yet another downgrade, the IMF cut its global growth forecast to 3.2% this year (from 3.6%). The forecast was at 4.4% at the start of the year. India's growth has been cut to 7.4% (from 8.2%). High US inflation, Covid-associated slowdown in China and the spillover impact of war in East Europe have contributed to incremental negative developments in the global economy.

Fed and ECB hike rates: The ECB effected a 50bps hike last month due to inflationary concerns, taking its benchmark deposit rate to 0% after eight years of negative rates. The US Fed also hiked rates by another 75bps to 2.25-2.50% and indicated that further rate action would be data driven.

Inflation hasn't dampened earnings so far in Q1FY23: A total of 618 companies have reported earnings thus far. Revenue and expenses both rose by 32-33% YoY. However, the net profit margin has increased to ~12% from 9% a year ago.

India better placed but sharp recovery a few quarters away: While there are early signs of private capex pickup, a meaningful uptick is a few quarters away in our view. We, therefore, remain conservative in our investment approach near term and continue to like retail-focused lenders, life insurers and FMCG. Given the recent correction in valuation coupled with structural digitisation tailwinds, we turn positive on the IT sector. We are moderately cautious on energy and utility given ongoing uncertainty on pricing, while staying largely neutral on other sectors. Note that moderating commodity prices will be helpful to Indian companies (ex-metals & mining), but we expect oil & gas prices to remain elevated. Even so, higher gas output in the KG basin and sourcing of Russian oil will likely cushion the adverse impact on India.

Valuations have rebounded from bottom range of P/E band



Source: Bloomberg, BOBCAPS Research

MONSOON UPDATE

29 July 2022

Monsoon and sowing progress

Jahnavi Prabhakar
Economist

South-West monsoon picked up pace and registered above normal rainfall at 9% above LPA till 29 Jul 2022. Sown area of pulses and oilseeds have inched up, however deficient rainfall in the Eastern region remains a concern. The actual rainfall for this period has exceeded and moved past the normal range. Out of 36, 7 subdivisions have received deficient rainfall during this period and 7 states are in the deficient zone. On storage levels, Southern region continue to record higher storage levels as the region continued to receive bountiful rains. Coming weeks remain crucial in terms of distribution of rainfall and impact of the same will be reflected on kharif sowing.

Where does Kharif sowing stand?

Sown area of pulses (2.9%) and oilseeds (0.8%) has improved. Within pulses, sown area of moong has grown by 15.7%, while that of Arhar had declined by 13.5%. Amongst coarse cereals, the sowing area of crops such as Bajra and Jowar has risen by 28.5% and 2.6% respectively. Area sown for oilseeds have also inched up by 0.8%. However, sowing area of jute and mesta has dropped lower by 1.4%.

Table 1: Kharif Sowing

	Area sown in 2022-23 (mn ha)	Area sown in 2021-22 (mn ha)	Growth (YoY %)
Coarse Cereals	22.2	24.3	(8.3)
Rice	12.9	15.6	(17.4)
Pulses	10.6	10.3	2.9
Oilseeds	16.4	16.3	0.8
Cotton	10.3	9.7	6.5
Sugarcane	5.3	5.4	(0.7)
Jute and Mesta	0.7	0.7	(1.4)

Source: CEIC, Bank of Baroda | Data as of 29 Jul 2022 for coarse cereals, pulses, oilseeds and Jute and Mesta. For other crops, data as of 15 Jul 2022

Monsoon:

For the period 1 Jun 2022 to 29 Jul 2022, South West Monsoon is 9% above LPA compared with last year.

- Western region of India including states such as Rajasthan, Gujarat and Maharashtra have received excess rainfall. Furthermore states such as Telangana, Karnataka, Tamil Nadu and Jammu and Kashmir too have registered excess rainfall.
- North Eastern region and other states such as Madhya Pradesh, Andhra Pradesh, Chhattisgarh, Punjab, Haryana, and Odisha have received normal rainfall.

BUY

TP: Rs 1,523 | ⮝ 28%

SBI LIFE | Insurance | 29 July 2022

Standout performance by the market leader; BUY

- **Stellar growth as Q1 gross premium increased 35% YoY with NBP up 67% and renewal premium up 14%**
- **APE grew ~80% YoY to Rs 29bn led by savings (+83%) and protection (+45%) products; VNB margin expanded 665bps YoY to 30.4%**
- **We assume coverage with BUY and a TP of Rs 1,523 (2.7x FY24E P/EV) based on market leadership, high growth and healthy margins**

Mohit Mangal
research@bobcaps.in

Strong growth: SBI Life's APE grew ~80% YoY to Rs 29bn in Q1FY23 wherein savings APE, which constituted 89% of the total, grew 83%. The company bucked the industry trend in the protection business and grew 45% YoY, with both individual and group products registering handsome growth. Management expects continued momentum in the non-par savings business with 'Platina Assure' and 'Smart Platina Assure' gaining traction. Gross premium grew 35% YoY to Rs 113bn with NBP/renewal premium up 67%/14%. We factor in a 15% CAGR in APE over FY22-FY25 to Rs 220bn.

VNB margin a positive surprise: VNB increased 130% YoY to Rs 8.8bn in Q1 with a margin of 30.4%, up 665bps YoY. Considering the robust Q1 performance, we model for a 17% CAGR in VNB over FY22-FY25 to Rs 59bn and factor in margins of 27-28% over our forecast period.

Channel mix largely stable: Based on overall APE, the share of the bancassurance channel remained stable at 63% in Q1. Agency was also steady at 26%. A similar trend was seen in individual NBP but when compared to overall NBP, we see that the banca share is lower at 52% and agency was at 17%, whereas others (comprising brokers, corporate agents, direct, etc.) had a share of 31%.

Persistency improves but cost ratios elevated: Persistency in some cohorts improved significantly – for instance, the 25th month increased from 75.3% in Q1FY22 to 78.7% in Q1FY23 and the 49th month from 66.3% to 70.3%. Other cohorts held stable or saw improvement. However, as the company focused on a high-margin product mix and thus better payout to agents, it posted a higher commission ratio of 4.6% at end-Q1FY23 vs. 3.2% in Q1FY22 and a total expense ratio of 11.2% vs. 10.4%, despite opex ratio falling 66bps YoY.

BUY, TP Rs 1,523: The stock is trading at 2.1x FY24E P/EV. Given strong growth, market leadership, healthy solvency margins and high persistency ratios, we value the company at 2.7x FY24E P/EV – around its long-term mean. This translates to a TP of Rs 1,523, offering 28% upside potential – BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SBILIFE IN/Rs 1,191
Market cap	US$ 15.0bn
Free float	45%
3M ADV	US$ 14.8mn
52wk high/low	Rs 1,293/Rs 1,004
Promoter/FPI/DII	55%/24%/21%

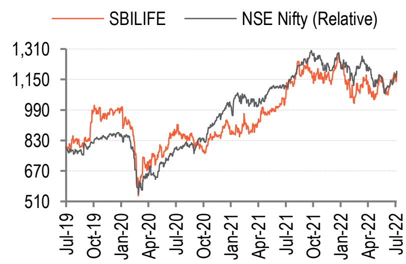
Source: NSE | Price as of 28 Jul 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
NBP (Rs mn)	2,54,574	2,82,325	3,27,497
APE (Rs mn)	1,43,000	1,63,549	1,89,717
VNB (Rs mn)	37,037	45,794	51,223
Embedded Value (Rs mn)	3,96,030	4,76,002	5,67,801
VNB margin (%)	25.9	28.0	27.0
EVPS (Rs)	395.5	475.2	566.8
EPS (Rs)	15.0	15.9	17.1
Consensus EPS (Rs)	15.0	18.7	22.9
P/EV (x)	3.0	2.5	2.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

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BUY

TP: Rs 1,500 | ⮝ 17%

AJANTA PHARMA | Pharmaceuticals | 29 July 2022

Margin stress continues despite strong revenue growth

- **Q1 revenue growth robust at 27% YoY (13% ahead of consensus), supported by a low base in Asia/Africa and momentum in India**
- **EBITDA margin down 610bps YoY to 23.3% owing to tight US pricing, RM inflation and inventory write-offs**
- **TP revised to Rs 1,500 (vs. Rs 2,050) as we cut FY23/FY24 EBITDA by 10%/8% and reset to 12x FY24E EV/EBITDA (vs. 15x); retain BUY**

Saad Shaikh
research@bobcaps.in

Domestic business on strong footing: Momentum continued in AJP's domestic formulations business which grew 22% YoY to Rs 2.8bn in Q1FY23, backed by new product launches (seven in Q1), market share gains and price increases. Trade generics (~12% share in India business) grew 22% YoY to Rs 330mn. Africa/Asia business also posted strong growth of 38%/46% YoY on a low pandemic-hit base. Management expects slight moderation in these geographies going forward.

US business hovering at ~US$ 23mn: US business remained slow in Q1, growing at a modest 1.5% QoQ to US$ 23mn. Management indicated that the intensity of price erosion has subsided and expects to see growth going forward given 10-12 ANDA filings in FY23. The company has guided for ~5% growth in the existing US business in FY23 to be further supported by tailwinds from INR depreciation against the USD.

Targeting 26-27% EBITDA margins: AJP's Q1 gross margin contracted 650bps YoY to 70.5% and EBITDA margin fell 610bps YoY to 23.3% due to US pricing pressure, RM inflation and inventory write-offs. Management is looking to improve the FY23 operating margin by 300bps to 26-27% aided by easing price erosion intensity (expect to normalize around 5-6%) as well as significant launches such as Chantix and Vimovo in the US, along with mid-teens' growth in India.

Retain BUY; TP cut to Rs 1,500: In light of the continued fall in EBITDA margin to 23% in Q1FY23 vs. an average of ~30% until recently, we lower our margin estimates by 250-300bps to 25-26% for FY23-FY24. This results in an 8-10% cut in EBITDA. We also pare our target EV/EBITDA multiple to 12x from 15x (20% discount to last 5-year average multiple), translating to a reduced TP of Rs 1,500 (vs. Rs 2,050). We maintain BUY as we believe margins have bottomed out and sustained growth in the domestic market alongside planned US launches would fuel stock upsides.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	AJP IN/Rs 1,279
Market cap	US$ 2.1bn
Free float	31%
3M ADV	US$ 2.0mn
52wk high/low	Rs 2,390/Rs 1,165
Promoter/FPI/DII	70%/9%/12%

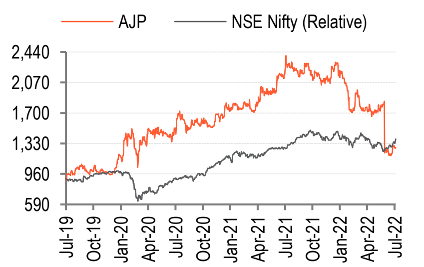
Source: NSE | Price as of 29 Jul 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	33,410	37,465	40,741
EBITDA (Rs mn)	9,293	9,379	10,607
Adj. net profit (Rs mn)	7,127	6,442	7,373
Adj. EPS (Rs)	83.0	50.1	57.4
Consensus EPS (Rs)	83.0	58.0	67.2
Adj. ROAE (%)	22.5	18.1	17.9
Adj. P/E (x)	15.4	25.5	22.3
EV/EBITDA (x)	17.5	17.3	15.2
Adj. EPS growth (%)	7.2	(39.6)	14.4

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

Stock performance



Source: NSE

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BUY
TP: Rs 2,185 | ⮝ 35%

ZYDUS WELLNESS | Consumer Staples | 29 July 2022

First normal quarter post-Covid; retain BUY

- **Q1 revenue grew 17% YoY (9% QoQ) to Rs 6.9bn aided by price hikes and 10.3% volume growth**
- **Higher RM and A&P costs saw EBITDA margin fall 225bps YoY to 21.3%; gross margin improved QoQ by 340bps on price hikes and a better mix**
- **Retain BUY and TP of Rs 2,185 led by product innovation, distribution expansion and Heinz India merger synergies**

Ruchitaa Maheshwari
research@bobcaps.in

Revenue up 17% YoY: ZYWL's consolidated Q1FY23 revenue grew 17% YoY to Rs 6.9bn led by strong growth in summer season brands, robust distribution and marketing efforts across the brand portfolio, and price hikes. Volumes rose 10% YoY. The company had taken a 7.5% price increase over the last couple of quarters, the benefit of which was visible in Q1.

EBITDA margin contracts: Higher input cost inflation, mainly palm oil, milk, aspartame and crude oil exerted pressure on margins. Gross margin contracted 110ps YoY to 54.3% though calibrated price hikes, cost improvement measures and a better product mix sequentially supported QoQ improvement of 340bps. EBITDA margin fell 225bps YoY to 21.3%.

Sitarganj plant one-offs: ZYWL incurred one-off expenses of Rs 29mn on the account of cessation of Sitarganj plant operations to maintain a cleaner environment. This plant was under the normal tax regime.

Strong outlook for international business: ZYWL's Sugar Free and Complan brands constitutes 93% of its international business. The company launched new extensions to Sugar Free – D'lite Cookies and D'lite Chocolate Spread – in international markets during FY22 and entered new geographies such as Hong Kong, Lebanon, Zimbabwe, Muscat, Ethiopia and Australia. Per management, the top 5 markets constitute ~80% of business. 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 from this business in the next 4-5 years from ~4% in FY22.

Revival underway; retain BUY: ZYWL is trading at 23.3x 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 1,618
Market cap	US$ 1.3bn
Free float	35%
3M ADV	US$ 1.0mn
52wk high/low	Rs 2,477/Rs 1,430
Promoter/FPI/DII	65%/3%/25%

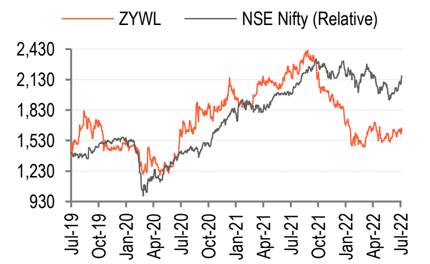
Source: NSE | Price as of 29 Jul 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	20,091	22,045	24,534
EBITDA (Rs mn)	3,448	4,056	4,711
Adj. net profit (Rs mn)	3,098	3,657	4,442
Adj. EPS (Rs)	48.4	57.4	69.5
Consensus EPS (Rs)	48.4	60.9	70.4
Adj. ROAE (%)	5.9	6.9	7.8
Adj. P/E (x)	33.4	28.2	23.3
EV/EBITDA (x)	32.5	26.1	21.9
Adj. EPS growth (%)	(19.3)	18.0	21.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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HOLD
TP: Rs 250 | ⮝ 11%

V-GUARD INDUSTRIES | Consumer Durables | 29 July 2022

Margin blip in Q1

- **Q1 EBITDA margin hit by A&P spend and write-offs; ECD/electronics margins guided to recover to ~7%/16% in FY23**
- **Electronics (mainly stabilisers) posted muted 3Y revenue CAGR of 2%, while ECD growth came at the cost of margins**
- **Profitability in stabilisers and ECD will be key even as further non-South expansion is necessary to derisk revenue; maintain HOLD, TP Rs 250**

Vinod Chari | Tanay Rasal
research@bobcaps.in

Demand weakens but guidance upbeat: Q1FY23 revenue at Rs 10bn grew at a 3Y CAGR of 13%. Demand has slowed since the second half of Q1, particularly for weather-sensitive products in the non-South region. Electronics, which remains a significant segment, has been muted with a 3Y revenue CAGR of just 2%, while electricals & consumer durables (ECD) segment growth has been impacted by weak demand for fans and pumps. However, management remains optimistic about a swift recovery fuelled by a favourable season, and has guided for a 10-15% increase in overall ECD volumes in FY23.

Margin blip: Q1 EBITDA margin was relatively muted at 8.1% (vs. 10.5% in Q4FY22), due to higher A&P spend at 2.1% of revenue (vs. 1.2% in Q4) and a Rs 100mn write-off for copper losses. Electronics margin (14.1%, -330bps QoQ) was impacted due to the inverter & battery business as well as an unfavourable product mix. Consumer durables margin (1.3%, -40bps QoQ) was hit by the rise in aluminium prices for fans. VGRD expects margins to return to normal by Q3 and anticipates ECD/electronics margins of 7%/15-16% in FY23. Adj. PAT came in at Rs 534mn (+109% YoY, -40% QoQ), with a flat 3Y CAGR.

Softening of RM cost to offset need for price hikes: VGRD raised prices by 2-2.5% in Q1FY23. Due to the recent moderation in RM prices, management does not see the need for major price hikes in the future (barring a few segments in ECD).

Expansion beyond core market: The company*APOS*s efforts to expand its presence have been visible in recent quarters, with two-thirds of its distribution network now located outside the southern region. In Q1, it more than doubled revenue from non-South markets YoY with their share in the mix rising to 46.9% (vs. 43.2% in Q1FY22).

Maintain HOLD: VGRD is a leader in stabiliser segment, but margins remain under pressure despite good growth in end-user ACs. Profitability in the consumer durables segment has also been muted. We maintain HOLD with an unchanged TP of Rs 250, based on 35x FY24E EPS *ENDASH* a 7.5% discount to the

Key changes

Target	Rating
◄►	◄►

Ticker/Price	VGRD IN/Rs 224
Market cap	US$ 1.2bn
Free float	44%
3M ADV	US$ 1.0mn
52wk high/low	Rs 275/Rs 181
Promoter/FPI/DII	56%/12%/18%

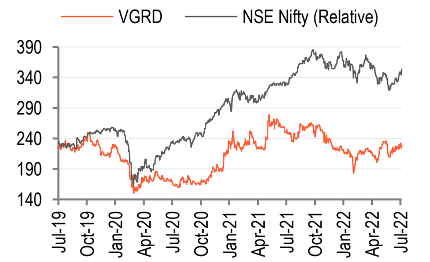
Source: NSE | Price as of 28 Jul 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	34,982	40,229	44,496
EBITDA (Rs mn)	3,382	4,151	4,742
Adj. net profit (Rs mn)	2,277	2,732	3,089
Adj. EPS (Rs)	5.3	6.3	7.2
Consensus EPS (Rs)	5.3	6.2	7.1
Adj. ROAE (%)	17.4	18.0	17.7
Adj. P/E (x)	42.5	35.4	31.3
EV/EBITDA (x)	28.6	23.3	20.4
Adj. EPS growth (%)	13.4	20.0	13.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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