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FIRST LIGHT

01 June 2022

RESEARCH

BOB Economics Research | FY22 GDP Growth

GDP growth stands at 8.7% in FY22

BOB Economics Research | Fiscal Update

Fiscal deficit at 6.7% in FY22

Aurobindo Pharma | Target: Rs 680 | +28% | BUY

Launch momentum to gather pace; valuations attractive

Daily macro indicators

Indicator	27-May	30-May	Chg (%)
US 10Y yield (%)	2.75	2.74	(1bps)
India 10Y yield (%)	7.35	7.41	6bps
USD/INR	77.57	77.54	0.0
Brent Crude (US$/bbl)	119.4	121.7	1.9
Dow	32,637	33,213	1.8
Hang Seng	20,697	21,124	2.1
Sensex	54,885	55,926	1.9
India FII (US$ mn)	**26-May**	**27-May**	**Chg ($ mn)**
FII-D	51.5	(37.0)	(88.4)
FII-E	(72.7)	(403.9)	(331.2)

Source: Bank of Baroda Economics Research

SUMMARY

India Economics: FY22 GDP Growth

Indian economy rose by 8.7% in FY22 after declining by (-6.6%) FY21. The recovery is led by mining (11.5% versus -8.6%), construction (11.5% versus -7.3%) and public administration & other services (12.6% versus -5.5%). Going ahead, we expect the economy to clock 7.2% growth in FY23 with downward bias against the risk of global slowdown, elevated global inflation print, thin corporate margin,. However, a mix of fiscal and monetary policy is expected to boost growth prospects.

Click here **for the full report.**

India Economics: Fiscal Update

Centre's fiscal position in FY22 improved more than anticipated as the government was able to lower its fiscal deficit (% of GDP) to 6.7% from budgeted 6.9%. However, this was mainly on account of upward revision to FY22 nominal GDP. Although some key notable trends in FY22 were: significant jump in centre's net revenue (excess of Rs 90,000 crore), sharp miss in disinvestment proceeds and marginal uptick in subsidy and revenue spending. We maintain our fiscal deficit forecast for FY23 at 6.6%.

Click here **for the full report.**

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Aurobindo Pharma

- Q4 EBITDA margin stable QoQ at 16.8% but down 450bps YoY with 335bps YoY contraction in gross margin
- Management confident of double-digit growth annually in specialty business to reach revenue of US$ 650mn-700mn by FY24
- TP revised to Rs 680 (vs. Rs 850) as we cut FY23-FY24 EBITDA 8-15% and pare our target EV/EBITDA multiple to 7x; maintain BUY

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FY22 GDP Growth

31 May 2022

GDP growth stands at 8.7% in FY22

Indian economy rose by 8.7% in FY22 after declining by (-6.6%) FY21. The recovery is led by mining (11.5% versus -8.6%), construction (11.5% versus -7.3%) and public administration & other services (12.6% versus -5.5%). Going ahead, we expect the economy to clock 7.2% growth in FY23 with downward bias against the risk of global slowdown, elevated global inflation print, thin corporate margin,. However, a mix of fiscal and monetary policy is expected to boost growth prospects.

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GVA growth decelerates by 3.9% for Q4FY22: India's growth moderated in Q4FY22 by 3.9% compared with an increase of 4.7% in Q3FY22. The slowdown was led by moderation in services activity including trade, transport on the back of pandemic induced restrictions. Contracting in manufacturing activity (-0.2% from 3.7% in Q3) added to the pain, as the conflict between Russia-Ukraine (Feb-onwards) resulted in global supply shortage and pushed global commodity prices to an all-time high. Further, mining sector decelerated by 6.7% (9.2% in Q3FY22). Additionally, significant moderation was seen for public admin and defence activity (7.7% against 16.7% in Q3FY22). Agriculture remained the only bright spot at it clocked 4.1% growth in Q4 as against 2.5% in Q3FY22.

On expenditure side, consumption spending was severely impacted with growth moderating to 1.8% in Q4FY22 as the economy battled the 3rd variant of Covid-19. Both exports and imports also slowed by 16.95 and 18% respectively. However, pace of government spending improved in order to meet their budget targets (5.1% from 2.1% in Q3FY22). Investment too registered an uptick at 5.1% in Q4FY22 (2.1% in Q3).

GVA rebounds in FY22: India's overall GVA growth bounced back in FY22 to 8.1% following a (-) 4.8% decline in FY21. Sharp recovery was on the back of revival in all sectors, except agriculture and allied activities where growth slowed marginally from 3.3% in FY21 to 3% in FY22. Amongst other sectors, mining (11.5% versus -8.6%), construction (11.5% versus -7.3%) and public administration & other services (12.6% versus -5.5%) improved the most. Manufacturing (9.9% versus -0.6%) and trade and related services (11.1% versus -20.2%) also picked up. Relaxation in local Covid-19 restrictions, re-opening of global economy, pick up in the pace of vaccination and pent-up consumer demand have supported these sectors. Utilities (7.5% versus -3.6%) and finance and real estate (4.2% versus 2.2%) related sectors too showed signs of recovery in FY22.

FY22 GDP growth at 8.7%: After contracting by 6.6% in FY21, India's economy recovered and rose by 8.7% in FY22. On expenditure side, improvement in consumption expenditure (7.9% against -6% in FY21), investment (15.8% from -10.4% in FY2021), have contributed the most. Both exports (24.3% compared with -9.2% in FY21) and imports (35.5% from -13.8%) have clocked double digit growth in FY22 after contracting in FY21. We expect economy to moderate by 7.2% in FY22 against the headwinds of global economic slowdown, with downside risk to projections from surge in inflation print, ongoing Russia-Ukraine conflict, reducing corporate margin and aggravating heat wave conditions.

FISCAL UPDATE

31 May 2022

Fiscal deficit at 6.7% in FY22

Centre's fiscal position in FY22 improved more than anticipated as the government was able to lower its fiscal deficit (% of GDP) to 6.7% from budgeted 6.9%. However, this was mainly on account of upward revision to FY22 nominal GDP. Although some key notable trends in FY22 were: significant jump in centre's net revenue (excess of Rs 90,000 crore), sharp miss in disinvestment proceeds and marginal uptick in subsidy and revenue spending. We maintain our fiscal deficit forecast for FY23 at 6.6%.

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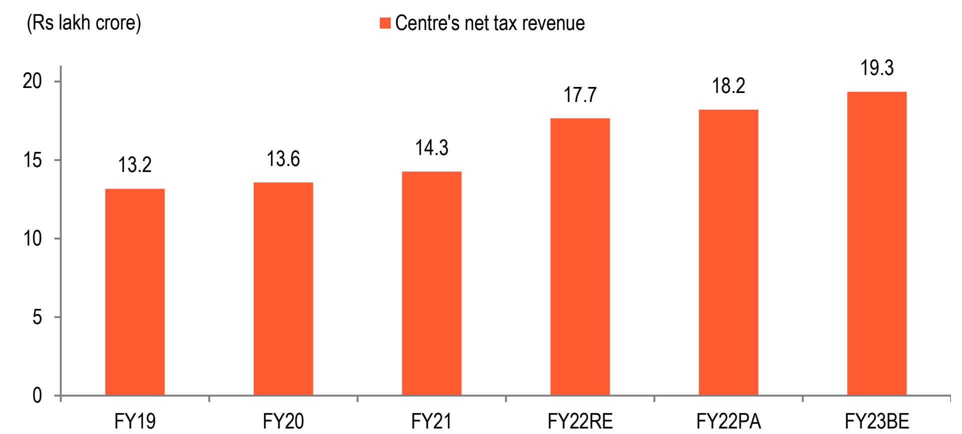
Fiscal Deficit lower at 6.7% in FY22: Centre's fiscal deficit came in at 6.7% of GDP in FY22 versus 6.9% projected (revised estimates) in the budget. In absolute terms, fiscal deficit was at Rs 15.87 lakh crore (99.7% of the target) compared with Rs 15.91 lakh crore, implying that better than expected nominal GDP print helped lower the gap. In the budget, government had assumed a nominal GDP of Rs 232.1 lakh crore, which is now projected at Rs 236.8 lakh crore (additional Rs 4.6 lakh crore). Lowering the deficit was only partly supported by higher than anticipated receipts growth - mainly revenue receipts. Centre's total receipts rose by Rs 28,723 crore, while expenditure overshot by Rs 24,171 crore, implying a saving of only Rs 4,552 crore in the fiscal deficit target.

Higher than expected receipt growth: Centre's overall receipts rose to Rs 22.1 lakh crore in FY22 compared with government's revised estimates (RE) of Rs 21.8 lakh crore. Within this, revenue receipts for FY22 have come in at Rs 21.7 lakh crore, compared with RE of Rs 20.8 lakh crore, implying an excess of ~90,000 crore. Both tax and non-tax receipts posted better than projected growth. Net tax revenue receipts are up at Rs 18.2 lakh crore (27.6% YoY) versus RE of Rs 17.7 lakh crore (23.8%), while non-tax revenue settled at Rs 3.5 lakh crore (67.6%) versus RE of Rs 3.1 lakh crore (51.1%).

Fig 1 – Trajectory of Centre's net tax revenues



Source: CEIC, Bank of Baroda Research

Lower non-debt capital receipts: Overall non-debt receipts have come in sharply lower at Rs 39,208 crore compared with Rs 99,975 crore estimated in the revised estimates of the budget. The shortfall is mainly on account of significant miss in the disinvestment target. Disinvestment proceeds for FY22 have come in at Rs 8,432 crore compared with RE of Rs 78,000. This miss was mainly on account of delay in LIC's IPO.

RESULT REVIEW

BUY
TP: Rs 680 | ⮝ 28%

AUROBINDO PHARMA | Pharmaceuticals | 31 May 2022

Launch momentum to gather pace; valuations attractive

- **Q4 EBITDA margin stable QoQ at 16.8% but down 450bps YoY with 335bps YoY contraction in gross margin**
- **Management confident of double-digit growth annually in specialty business to reach revenue of US$ 650mn-700mn by FY24**
- **TP revised to Rs 680 (vs. Rs 850) as we cut FY23-FY24 EBITDA 8-15% and pare our target EV/EBITDA multiple to 7x; maintain BUY**

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Strong sequential growth in ARVs offset by decline in other businesses: ARBP reported Q4FY22 revenue/EBITDA of Rs 58.1bn/Rs 9.7bn, below consensus by 2%/5% and down 3%/4% QoQ (-3%/-24% YoY). Strong growth in ARVs (+52% QoQ) was negated by a decline in Europe (-9%) and API businesses (-10%). APIs, however, grew YoY by 15% on account of improved demand for some key products. ARBP was able to pass on 60-70% of the increased costs for APIs sold externally (55% of segment revenue), but absorbed higher costs for those used in-house.

US prices yet to stabilise: US revenue for the quarter at US$ 363mn fell 1% QoQ CC on account of continued price erosion in the generic portfolio – this nullified new launch benefits as well as the 11% QoQ growth in injectables. Price erosion stood at 11% in Q4 (9% in FY22), and management expects these high levels to continue until excess inventory is rationalised.

Launch momentum to increase from FY23: ARBP's global specialty portfolio, mainly Eugia oncology/immunology and hormonal injectables, clocked revenue of US$ 438mn in FY22 with 11 new launches. Management has guided for 15 launches in FY23 and annual launches of 20 products from the specialty portfolio from FY24 onwards. It expects to reach US$ 650-700mn in revenue by FY24.

Maintain BUY: We reduce our FY22/FY23 EBITDA estimates by 8%/15% to factor in the FY22 performance, US price erosion and a new base for the API business – retain BUY with a revised TP of Rs 680 (Rs 850 earlier), set at a lower 7.0x FY24E EV/EBITDA multiple (7.5x earlier), implying a P/E of 12x. Our target 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 6.3x/5.7x FY23E/FY24E EV/EBITDA – we maintain BUY rating as we see limited downside from here and are optimistic of traction in specialty sales and increased launch momentum in coming years.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ARBP IN/Rs 531
Market cap	US$ 4.0bn
Free float	48%
3M ADV	US$ 18.3mn
52wk high/low	Rs 1,018/Rs 514
Promoter/FPI/DII	52%/22%/16%

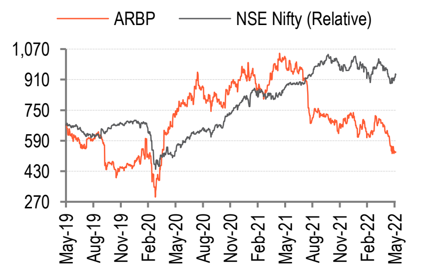
Source: NSE | Price as of 31 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	2,34,555	2,49,104	2,63,993
EBITDA (Rs mn)	43,868	50,174	53,865
Adj. net profit (Rs mn)	27,062	29,941	32,976
Adj. EPS (Rs)	46.2	51.1	56.3
Consensus EPS (Rs)	46.2	54.3	62.4
Adj. ROAE (%)	11.6	11.5	11.4
Adj. P/E (x)	11.5	10.4	9.4
EV/EBITDA (x)	7.4	6.0	5.2
Adj. EPS growth (%)	12.0	10.6	10.1

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

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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