25 October 2022

RESEARCH

Laurus Labs | Target: Rs 540 | +11% | HOLD

CDMO scale-up masks otherwise dismal Q2; cut to HOLD

Amber Enterprises | Target: Rs 2,100 | –2% | HOLD

Structural growth overhang persists

Glenmark Life Sciences | Target: Rs 535 | +31% | BUY

Slowdown in parent-led business weakens revenue

SBI Life | Target: Rs 1,512 | +21% | BUY

Strong margin trajectory; better H2 expected

HDFC Life | Target: Rs 691 | +28% | BUY

Merger with Exide Life completed; focus on growth

Daily macro indicators

Indicator	19-Oct	20-Oct	Chg (%)
US 10Y yield (%)	4.13	4.23	9bps
India 10Y yield (%)	7.45	7.48	3bps
USD/INR	82.99	82.76	0.3
Brent Crude (US$/bbl)	92.4	92.4	0.0
Dow	30,424	30,334	(0.3)
Hang Seng	16,511	16,280	(1.4)
Sensex	59,107	59,203	0.2
India FII (US$ mn)	**18-Oct**	**19-Oct**	**Chg ($ mn)**
FII-D	37.6	16.1	(21.5)
FII-E	104.4	(46.2)	(150.6)

Source: Bank of Baroda Economics Research

SUMMARY

Laurus Labs

- Q2 revenue grew 31% YoY (+2% QoQ) led by synthesis division and other APIs; FDF revenue at record-low of Rs 1.5bn
- Better product mix mitigated impact of FDF revenue loss on EBITDA margin (28.5%, -100bps QoQ); ARV pricing pressure continues
- TP revised to Rs 540 (vs. Rs 645) as we pare FY23/FY24 EBITDA 7%/11% and lower our target EV/EBITDA to 16x (vs. 17x); cut from BUY to HOLD

Click here for the full report.

Amber Enterprises

- Q2 topline meets estimates but bottomline disappoints with net loss of Rs 30mn owing to higher finance/forex cost
- Share of component business rising on seasonality in room AC business; however, structural threat from OEM insourcing persists
- TP revised to Rs 2,100 (vs. Rs 2,300) as we cut FY23/FY24 EPS 6%/16% and reset our target P/E to 27x (vs. 30x); retain HOLD

Click here for the full report.

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Glenmark Life Sciences

- Q2 revenue fell 9% YoY led by a 10% decline in API business owing to lower sales to parent Glenmark Pharma (-33% YoY)
- Tepid Covid portfolio contribution and the geopolitical-led slowdown in Europe exacerbated topline pressure
- We cut FY23/FY24 EBITDA 9%/8%, translating to a revised TP of Rs 535 (vs. Rs 560); maintain BUY

Click here **for the full report.**

SBI Life

- VNB growth strong with margin at 31% in H1FY23, leading us to raise margin estimates through FY25
- Healthy H1 premium growth despite below-expected Q2; H2 seasonally a strong period
- We tweak FY23/FY24 premium forecasts, leading to a change in TP to Rs 1,512 (vs. Rs 1,523); retain BUY

Click here **for the full report.**

HDFC Life

- H1 gross premium grew 13% YoY; however, Q2 gross premium missed our estimate by 7%
- VNB margin remained high at 27.6% pre-merger with Exide Life (26.2% post-merger); we expect ~28% margins over FY23-FY25
- We trim estimates marginally and revise our TP to Rs 691 (vs. Rs 701); retain BUY

Click here **for the full report.**

RESULT REVIEW

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HOLD

TP: Rs 540 | ⮝ 11%

LAURUS LABS | Pharmaceuticals | 22 October 2022

CDMO scale-up masks otherwise dismal Q2; cut to HOLD

- **Q2 revenue grew 31% YoY (+2% QoQ) led by synthesis division and other APIs; FDF revenue at record-low of Rs 1.5bn**
- **Better product mix mitigated impact of FDF revenue loss on EBITDA margin (28.5%, -100bps QoQ); ARV pricing pressure continues**
- **TP revised to Rs 540 (vs. Rs 645) as we pare FY23/FY24 EBITDA 7%/11% and lower our target EV/EBITDA to 16x (vs. 17x); cut from BUY to HOLD**

Saad Shaikh
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Synthesis remains at the helm: Laurus reported 31% YoY growth in Q2FY23 revenue to Rs 15.8bn primarily led by the synthesis division which grew 4.6x YoY (+25% QoQ) and contributed ~46% of revenue (vs. 37%/13% in Q1FY23/Q2FY22). Per management, growth was broad-based and supported by strong demand from existing clients, favourable contracting trends in general, and new project execution (possibly Paxlovid).

Generic APIs post strong growth: Generic API revenue grew 29% YoY (+17% QoQ) backed by new contract supplies, launches in the other API segment and volume-led growth in ARVs. Oncology APIs fell 36% YoY and 26% QoQ due to lower offtake in one key product. Management expects improvement from H2.

Dismal FDF performance; better mix masks margin impact: A product mix in favour of the high-margin synthesis business masked the impact of negative operating leverage from a steep drop in FDF revenue to Rs 1.5bn (-70% YoY, -57% QoQ in Q2; -51% in H1). FDF revenue was at its lowest in the last 12 quarters due to depressed pricing on account of high channel inventory, continued weak procurement from global agencies, a lack of long-term ARV formulation contracts and slower regulatory approvals for non-ARV formulations. Management expects improvement from Q3 with the potential grant of a supply contract from a global fund.

FY23 revenue target reduced; margins maintained: Given the depressed ARV pricing & demand uptick, Laurus now expects to achieve ~90% of its earlier guidance of US$ 1bn in FY23. EBITDA margin guidance has been maintained at ~30%.

Downgrade to HOLD: Considering the steep decline in FDF performance, ARV pricing uncertainty, and management's revised topline guidance, we cut FY23-FY24 EBITDA estimates by 7-11% and lower our target FY24E EV/EBITDA multiple to 16x (vs. 17x) – in line with last 5-year average. This yields a reduced TP of Rs 540 (vs. Rs 645) – downgrade from BUY to HOLD.

Key changes

Target	Rating
▼	▼

Ticker/Price	LAURUS IN/Rs 486
Market cap	US$ 3.2bn
Free float	74%
3M ADV	US$ 9.3mn
52wk high/low	Rs 626/Rs 437
Promoter/FPI/DII	27%/23%/5%

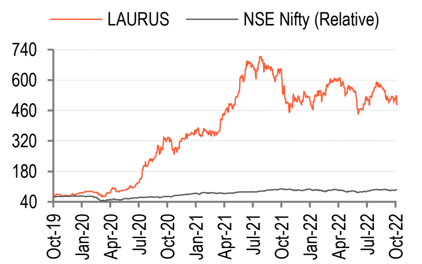
Source: NSE | Price as of 21 Oct 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	49,360	56,581	65,135
EBITDA (Rs mn)	14,229	16,409	18,889
Adj. net profit (Rs mn)	8,284	9,105	10,069
Adj. EPS (Rs)	15.4	17.0	18.8
Consensus EPS (Rs)	15.4	22.2	25.1
Adj. ROAE (%)	27.8	24.2	21.8
Adj. P/E (x)	31.5	28.7	25.9
EV/EBITDA (x)	19.3	17.0	14.8
Adj. EPS growth (%)	(14.3)	9.9	10.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD

TP: Rs 2,100 | ⩔ 2%

AMBER ENTERPRISES | Consumer Durables | 22 October 2022

Structural growth overhang persists

- **Q2 topline meets estimates but bottomline disappoints with net loss of Rs 30mn owing to higher finance/forex cost**
- **Share of component business rising on seasonality in room AC business; however, structural threat from OEM insourcing persists**
- **TP revised to Rs 2,100 (vs. Rs 2,300) as we cut FY23/FY24 EPS 6%/16% and reset our target P/E to 27x (vs. 30x); retain HOLD**

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Inflated finance cost drags down bottomline: Amber incurred a net loss of Rs 30mn in Q2FY23 vs. our/consensus estimates of net profit of Rs 113mn/ Rs 103mn, amidst a seasonally challenging period and higher interest expenses. Finance cost quadrupled YoY on account of capacity expansion. Additionally, the company clocked higher other expenses (9.8% of sales vs. 3Y average run-rate of 6.9%) on account of forex losses, which weighed on profitability.

Guidance maintained: Management expects industry room AC volumes to cross the 8.5mn mark in FY23 (7mn in pre-pandemic FY20) and log a 12-15% CAGR thereafter, laying a strong growth foundation for AC players. The deep under-penetration of ACs in India offers a vast opportunity, and Amber expects to exceed industry growth. Management is targeting an EBITDA and PAT CAGR of 25-30% over next few years.

Efforts to broaden seasonality via components business: Although room ACs remain the core thrust area for Amber, the revenue contribution from its component business has risen to ~30%. This helps cushion the company's overall performance against seasonality in AC sales and also garners higher margins.

Capex drive sustained amidst uncertainty: Management affirmed that the Sri City (Andhra Pradesh) greenfield expansion will come online in Q3FY23. Capex for FY23 is pegged at Rs 6bn and investments related to production-linked incentives (PLI) are on schedule, which would bring in incentives worth Rs 150mn and Rs 300mn for Amber in the next couple of years. Capacity addition by OEMs to avail of PLI benefits had raised uncertainty over Amber's growth trajectory, but the company's continued capex drive helps to partly alleviate this concern.

Maintain HOLD: Amber is attempting to fortify its position in the AC industry (market share of ~26% in room ACs & components), besides diversifying into component manufacture. Stiff competition in room ACs has been exacerbated by the insourcing plans of OEMs. We cut FY23/FY24 EPS estimates 6%/16% to factor in the Q2 upset and lower our target P/E to 27x (vs. 30x) given the structural growth overhang – this leads to a new TP of Rs 2,100 (vs. Rs 2,300) as we roll valuations over to Sep'24E.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	AMBER IN/Rs 2,150
Market cap	US$ 875.5mn
Free float	60%
3M ADV	US$ 2.1mn
52wk high/low	Rs 4,026/Rs 2,040
Promoter/FPI/DII	40%/36%/4%

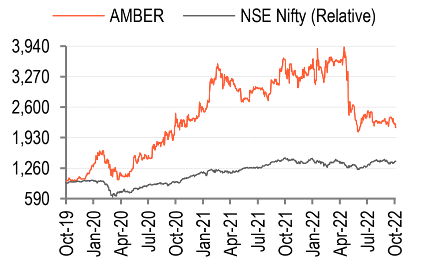
Source: NSE | Price as of 21 Oct 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	42,064	57,923	73,729
EBITDA (Rs mn)	2,754	4,043	5,239
Adj. net profit (Rs mn)	1,113	1,737	2,203
Adj. EPS (Rs)	33.0	51.6	65.4
Consensus EPS (Rs)	33.0	53.7	83.0
Adj. ROAE (%)	6.7	9.6	11.1
Adj. P/E (x)	65.1	41.7	32.9
EV/EBITDA (x)	26.3	17.9	13.8
Adj. EPS growth (%)	33.7	56.0	26.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 535 | ⮝ 31%

GLENMARK LIFE SCIENCES

| Pharmaceuticals | 22 October 2022

Slowdown in parent-led business weakens revenue

- **Q2 revenue fell 9% YoY led by a 10% decline in API business owing to lower sales to parent Glenmark Pharma (-33% YoY)**
- **Tepid Covid portfolio contribution and the geopolitical-led slowdown in Europe exacerbated topline pressure**
- **We cut FY23/FY24 EBITDA 9%/8%, translating to a revised TP of Rs 535 (vs. Rs 560); maintain BUY**

Saad Shaikh
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Generic API decline weighs on topline: GLS reported a 9% YoY drop in Q2FY23 revenue to Rs 4.8bn on account of a 33% YoY (-19% QoQ) decline in API business from parent Glenmark Pharma (GPL: to 26% total revenue share vs. 41%/34% in Q2FY22/ Q1FY23). The decline was exacerbated by weak Covid portfolio contribution. Generic API declined 10% YoY (+2% QoQ) in Q2 and CDMO dropped 37% while recovering sequentially (+27% QoQ) as the impact of inventory rationalisation ebbed. Excluding Covid-led sales in the base quarter, the company reported a 4% YoY decline in overall revenue.

Strong India business; US remined muted: Geography-wise, LATAM, Japan and India business (ex-GPL) continued the strong growth momentum in generic API and Europe picked up, whereas US business witnessed muted demand.

Healthy growth in business ex-GPL: External business (ex-GPL) was the key driver for the quarter, growing 13% YoY and 16% QoQ. This was backed by healthy growth in regulated markets (75% revenue share) and a strong rise in CDMO business.

Update on capex: GLS completed API capex at its Dahej (Gujarat) plant and has commenced commercial production from Q3FY23. This has added 240KL of capacity to the generic API segment from Q3FY23, increasing the total capacity by 30%. Also, brownfield expansion at Dahej for the oncology plant has been completed and product trials/exhibit batches have already begun for some of the products.

Maintain BUY: Anticipating higher costs related to commissioning of the new facility at Dahej and given the H1FY23 revenue/EBITDA decline of 11% YoY each, we cut our FY23/FY24 EBITDA estimates by 8-10%. Our two-stage DCF model thus yields a revised TP of Rs 535 (vs. Rs 560), an implied FY24E P/E of 14x – ~20% discount to the peer group average. We continue to like GLS for its strong market position in key APIs and focus on product value over volumes, which translates to a superior margin profile. Maintain BUY.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	GLS IN/Rs 408
Market cap	US$ 604.7mn
Free float	17%
3M ADV	US$ 0.7mn
52wk high/low	Rs 667/Rs 370
Promoter/FPI/DII	83%/8%/1%

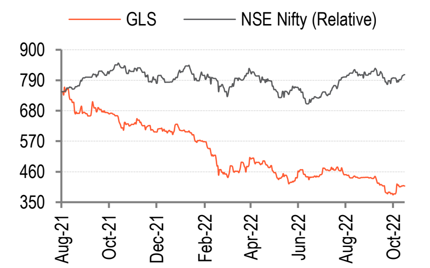
Source: NSE | Price as of 21 Oct 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	21,232	20,034	22,404
EBITDA (Rs mn)	6,160	5,562	6,733
Adj. net profit (Rs mn)	4,187	4,024	4,767
Adj. EPS (Rs)	34.2	32.8	38.9
Consensus EPS (Rs)	34.2	38.3	43.8
Adj. ROAE (%)	31.0	19.5	20.1
Adj. P/E (x)	11.9	12.4	10.5
EV/EBITDA (x)	9.7	9.4	6.7
Adj. EPS growth (%)	4.8	(3.9)	18.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 1,512 | ⮝ 21%

SBI LIFE | Insurance | 22 October 2022

Strong margin trajectory; better H2 expected

- **VNB growth strong with margin at 31% in H1FY23, leading us to raise margin estimates through FY25**
- **Healthy H1 premium growth despite below-expected Q2; H2 seasonally a strong period**
- **We tweak FY23/FY24 premium forecasts, leading to a change in TP to Rs 1,512 (vs. Rs 1,523); retain BUY**

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VNB margin remains strong: SBI Life's VNB rose 54% YoY to Rs 21.2bn in H1FY23 with a 31% margin (+630bps YoY). Considering the robust H1, we model for an 18% CAGR in VNB over FY22-FY25 to Rs 60bn (vs. Rs 59bn). We also raise VNB margin assumptions from 27-28% to 28-30% over our forecast period.

Premium growth tapers in Q2 but still healthy in H1: Gross premium grew 13% YoY to Rs 166bn in Q2FY23 (+21% YoY to Rs 280bn in H1), missing our estimate by 9%. NBP/renewal premium was up 8%/17% while single premium growth held strong at 20% YoY in Q2. APE grew at a robust 22% YoY to Rs 68bn in H1 despite a 2% YoY decline in Q2 to Rs 39bn. H1 savings APE, which constituted 89% of the total, grew 21%. The company also had a decent run in the protection business (+22% YoY in H1), with group products doing comparatively better than individual plans. We factor in a 15% CAGR in APE over FY22-FY25 to Rs 216bn (vs. Rs 220bn earlier).

Channel mix largely stable: Based on overall APE, the share of the bancassurance channel was stable at 63% in H1. The banking channel has performed well even if we were to exclude SBI. Agency was also steady at 25%, but management expects a better H2 as (i) it has recruited more agents and (ii) did not fire any agents for lower productivity over the last 1-1.5 years. Other channels (comprising brokers, corporate agents, direct) had a share of 12%.

Persistency and cost ratios improve: Persistency in all cohorts improved – for instance, the 61st month cohort increased to 52.5% in H1 from 48.8% in the year-ago period. The cost ratio plummeted sequentially in Q2, with opex ratio declining to 5% vs. 6.6% in Q1. Commission ratio declined to 4.4% vs. 4.6%. An annual comparison shows opex to be flat whereas the commission ratio stayed high in Q2.

Maintain BUY: The stock is trading at 2.2x FY24E P/EV. Given SBI Life's strong growth, market leadership, healthy solvency margins and high persistency ratios, we value the stock at 2.7x FY24E P/EV, which is close to its long-term mean. At the same time, given disappointment in Q2 premium growth, we lower our FY23-FY25 gross premium estimates by ~1% each and reduce our TP from Rs 1,523 to Rs 1,512. BUY.

Key changes

Target	Rating
▼	◄►

Ticker/Price	SBILIFE IN/Rs 1,246
Market cap	US$ 15.1bn
Free float	45%
3M ADV	US$ 18.0mn
52wk high/low	Rs 1,340/Rs 1,004
Promoter/FPI/DII	55%/24%/16%

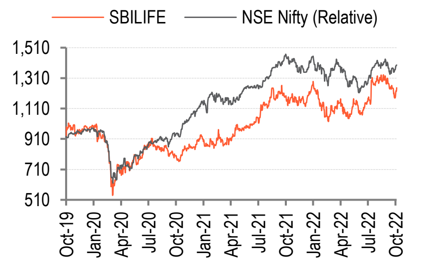
Source: NSE | Price as of 21 Oct 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
NBP (Rs mn)	2,54,574	2,90,407	3,39,601
APE (Rs mn)	1,43,000	1,58,064	1,86,024
VNB (Rs mn)	37,037	47,419	52,087
Embedded Value (Rs mn)	3,96,030	4,77,627	5,70,420
VNB margin (%)	25.9	30.0	28.0
EVPS (Rs)	395.5	475.2	566.8
EPS (Rs)	15.0	16.3	16.2
Consensus EPS (Rs)	15.0	19.5	22.4
P/EV (x)	3.2	2.6	2.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

BUY
TP: Rs 691 | ⮝ 28%

HDFC LIFE | Insurance | 21 October 2022

Merger with Exide Life completed; focus on growth

- **H1 gross premium grew 13% YoY; however, Q2 gross premium missed our estimate by 7%**
- **VNB margin remained high at 27.6% pre-merger with Exide Life (26.2% post-merger); we expect ~28% margins over FY23-FY25**
- **We trim estimates marginally and revise our TP to Rs 691 (vs. Rs 701); retain BUY**

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Below-expected Q2: At end-H1FY23, HDFC Life's gross premium grew 13% YoY to Rs 217bn pre-merger with Exide Life and stood at Rs 232bn post-merger. For Q2FY23, gross premium at Rs 133bn missed our estimate by 7% as a fall in single premiums offset renewal growth (+37% YoY). While we expect H2FY23 growth to surpass H1, we trim gross premium estimates by ~2% for FY23-FY25. Integration benefits with Exide Life and market share gains are key medium-term monitorables.

Balanced product mix: HDFC Life is focused on a balanced product mix with par/non-par savings forming 26%/31% of APE (merged entity), ULIP/protection at 18%/16% and annuity/group products at 7%/2% at end-H1FY23. Although the company admits to a retail protection weakness (also an industry phenomenon), the growth in its group credit life and annuity business has seen an uptick.

VNB margins high: VNB increased 16% YoY to Rs 12.6bn in H1 (pre-merger) with a margin of 27.6% (+120bps YoY). Although the post-merger margin is 26.2%, management believes that the merger would be margin-neutral in 12 months' time. We continue to model for a 16% CAGR in VNB over FY22-FY25 to Rs 41bn and factor in margins of ~28% over our forecast period. The opex ratio of 13.8% in Q2 has moderated vs. Q1FY23. Commission ratio remained high at 5.1%.

Business through HDFC Bank expected to increase: Based on individual APE, the share of the bancassurance channel increased to 61% at end-H1FY23 vs. 60% in H2FY22, whereas the direct channel dipped from 21% to 17%. Agency also saw traction with its share in individual business up from 13% last year to 15%. Management expects the proportion of business written through HDFC Bank to increase from H2FY23.

Retain BUY: HDFC Life is trading at 2.8x FY24E P/EV. We remain positive owing to healthy solvency margins, high persistency ratios, and its positioning as a top-3 life insurer. However, we lower our implied multiple from 3.6x to 3.5x FY24E P/EV (~1SD below the long-term mean), given the parent's impending merger (with HDFC Bank) and below-expected growth. Our TP thus moves to Rs 691 (vs. Rs 701). BUY.

Key changes

Target	Rating
▼	◄►

Ticker/Price	HDFCLIFE IN/Rs 542
Market cap	US$ 13.9bn
Free float	48%
3M ADV	US$ 27.2mn
52wk high/low	Rs 724/Rs 497
Promoter/FPI/DII	52%/26%/8%

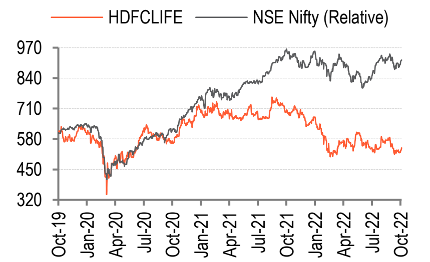
Source: NSE | Price as of 21 Oct 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
NBP (Rs mn)	2,41,548	2,77,250	3,22,225
APE (Rs mn)	97,580	1,12,407	1,29,356
VNB (Rs mn)	26,737	31,056	36,265
Embedded Value (Rs mn)	3,00,470	3,52,829	4,12,730
VNB margin (%)	27.4	27.6	28.0
EVPS (Rs)	146.8	166.6	194.8
EPS (Rs)	5.9	5.7	7.0
Consensus EPS (Rs)	5.9	8.3	9.9
P/EV (x)	3.7	3.3	2.8

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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