

RESEARCH

SUN PHARMA | TARGET: Rs 1,130 | +18% | BUY

gRevlimid yields margin surprise; raise to BUY post correction

BOB ECONOMICS RESEARCH | RBI ANNUAL REPORT

Key macroeconomic highlights

MAHINDRA & MAHINDRA | TARGET: Rs 1,665 | +25% | BUY

Healthy performance; strong show to continue

SUMMARY

SUN PHARMA

- Q4 revenue in line but adj. PAT 9% above consensus at Rs 21.8bn (+46% YoY) on account of strong margins
- Better product mix and gRevlimid launch led to a beat on gross/EBITDA margins which expanded 630bps/280bps YoY
- TP revised to Rs 1,130 (vs. Rs 1,100) on rollover; upgrade to BUY from HOLD given 8% stock correction over the last 6M

[Click here for the full report.](#)

INDIA ECONOMICS: RBI ANNUAL REPORT

Global economic outlook both for CY23 and CY24 looks benign on account of lagged impact of tighter financial conditions, subdued private investment, and geo economic shifts impacting capital flows and persistent elevated inflation. The report pointed out that 'the pace of global disinflation, however, remains less than desirable', reflecting some upside risks to global inflation as is still visible in US, UK.

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MAHINDRA & MAHINDRA

- Robust Q4 volume growth of 22% YoY despite slow tractor sales; prudent product mix aids realisation gains of 13%
- Gross margin improved 135bps YoY to 25% helped by a better mix and pricing
- We raise FY24/FY25 EPS 6%/7% and roll forward to a new TP of Rs 1,665 (vs. Rs 1,496), based on 17x FY25E P/E (vs. 18x)

[Click here for the full report.](#)

Daily macro indicators

Ticker	26-May	29-May	Chg (%)
US 10Y yield (%)	3.82	3.80	(2bps)
India 10Y yield (%)	7.01	7.03	2bps
USD/INR	82.57	82.63	(0.1)
Brent Crude (US\$/bbl)	77.0	77.1	0.2
Dow	32,765	33,093	1.0
Hang Seng	18,747	18,551	(1.0)
Sensex	62,502	62,846	0.6
India FII (US\$ mn)	25-May	26-May	Chg (\$ mn)
FII-D	138.6	49.6	(89.0)
FII-E	303.5	216.4	(87.2)

Source: Bank of Baroda Economics Research

BOBCAPS Research
 research@bobcaps.in



BUY
 TP: Rs 1,130 | ▲ 18%

SUN PHARMA

Pharmaceuticals

30 May 2023

gRevlimid yields margin surprise; raise to BUY post correction

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Saad Shaikh

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Broad-based growth: SUNP posted a strong topline performance in Q4FY23 with growth across geographies, further supported by specialty ramp-up and the gRevlimid launch. Consolidated revenue increased 16% YoY (-3% QoQ) to Rs 109bn led by the US (+21% YoY), India (+9%), EM (+18%), and ROW (+17%).

Ilumya now accounts for over half of global specialty business: Specialty business revenue grew 32% YoY to US\$ 244mn (including milestone payment of US\$ 6.8mn), led by Ilumya, Cequa and Winlevi. For the full year, global Ilumya sales climbed 51% YoY to US\$ 477mn, accounting for 55% of global specialty business in FY23 (vs. 47% in FY22). The company launched gRevlimid in the US during the quarter and saw a meaningful revenue contribution. Total US sales grew 10% YoY CC to US\$ 430mn (+15% YoY and flat QoQ ex-Taro). Taro sales increased 7% QoQ to US\$ 147mn.

India business continues to beat the market: India revenue grew 9% YoY (10% ex-Covid sales in the base quarter). On account of recent field force addition and new launches (24 in India during Q4), management expects India business to continue to grow above the market.

Better product mix and gRevlimid launch buoy margins: Gross/EBITDA margin expanded 630bps/280bps YoY to 79.4%/25.9%, supported by a better product mix from higher specialty sales and the gRevlimid launch. Management expects gross margin to normalise in Q1FY24.

Valuations attractive; raise to BUY: Management has guided for higher single digit growth in revenue for FY24 and normalization in gross margin down from Q4FY23 levels. On tweaking our estimates considering management guidance, our FY24 EPS estimate is lowered by 9%. On rolling valuations forward to FY25E, our TP stands revised to Rs 1,130 (vs. Rs. 1,100), based on an unchanged 18.5x FY25E EV/EBITDA multiple – a 20% premium to the 5Y average. The stock has corrected ~8% over the past six months and is currently trading at attractive levels of 17.9x/15.5x FY24E/FY25E EV/EBITDA. Thus, upgrade from HOLD to BUY.

Key changes

Target	Rating
▲	▲

Ticker/Price	SUNP IN/Rs 960
Market cap	US\$ 28.0bn
Free float	45%
3M ADV	US\$ 27.0mn
52wk high/low	Rs 1,072/Rs 790
Promoter/FPI/DII	54%/12%/22%

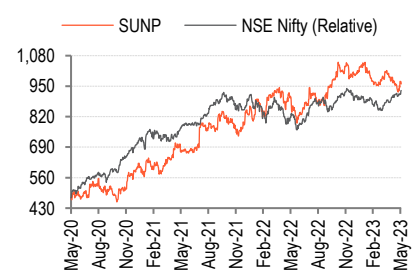
Source: NSE | Price as of 30 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	4,32,789	4,83,062	5,32,693
EBITDA (Rs mn)	1,16,468	1,21,416	1,39,218
Adj. net profit (Rs mn)	86,451	93,113	1,08,130
Adj. EPS (Rs)	36.0	38.8	45.1
Consensus EPS (Rs)	36.0	38.2	44.5
Adj. ROAE (%)	15.7	14.7	15.1
Adj. P/E (x)	26.6	24.7	21.3
EV/EBITDA (x)	18.5	17.7	15.3
Adj. EPS growth (%)	12.5	7.7	16.1

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

Stock performance



Source: NSE



RBI ANNUAL REPORT

30 May 2023

Key macroeconomic highlights

Global economic outlook both for CY23 and CY24 looks benign on account of lagged impact of tighter financial conditions, subdued private investment, and geo economic shifts impacting capital flows and persistent elevated inflation. The report pointed out that ‘the pace of global disinflation, however, remains less than desirable’, reflecting some upside risks to global inflation as is still visible in US, UK.

Dipanwita Mazumdar
Economist

Highlights of Macro economy:

- The RBI is confident on India's macro stability, sound policy environment and strong and healthy balance sheet of banks. Further it has pointed out that demographic dividend, digital revolution and service sector competitiveness will boost India's growth prospects in the medium term.
- Taking into account softer global commodity and food prices, good rabi crop prospects, sustained buoyancy in contact-intensive services, the government's continued thrust on capex, higher capacity utilization in manufacturing, double digit credit growth, receding drag on purchasing power from high inflation and rising optimism among businesses and consumers, real GDP growth for 2023-24 is projected at 6.5% with risks evenly balanced.
- The cumulative increase in policy repo rate by 250 bps last year would steer the disinflationary process, along with supply side measures to address transient demand-supply mismatch due to food and energy shocks.
- The inflation trajectory is expected to move down over 2023-24, with headline inflation edging down to 5.2% from the average level of 6.7% recorded last year.
- Robust balance sheets of corporates and banks, coupled with high capacity utilization, would aid in strengthening the momentum in private investment.
- Traction in construction activity is likely to be sustained as reflected in steady expansion in its proximate indicators: steel consumption and cement production.
- The crowding-in effects of sustained increase in government capex over recent years is expected to spur higher private investment in 2023-24.
- The outlook for services sector remains positive in 2023-24. Real estate and construction have witnessed a revival post-pandemic and are expected to perform well in this year also as both demand for and supply of housing remain buoyant.
- In the external sector, the current account deficit (CAD) is expected to remain moderate, drawing strength from robust services exports and the salubrious impact of moderation in commodity prices of imports. With global uncertainties persisting, foreign portfolio investment (FPI) flows may remain volatile.



BUY
 TP: Rs 1,665 | ▲ 25%

MAHINDRA & MAHINDRA | Automobiles

30 May 2023

Healthy performance; strong show to continue

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- We raise FY24/FY25 EPS 6%/7% and roll forward to a new TP of Rs 1,665 (vs. Rs 1,496), based on 17x FY25E P/E (vs. 18x)

Milind Raginwar | Yash Thakur
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Strong topline: MM's Q4FY23 revenue grew 31% YoY (+4% QoQ) to Rs 225.7bn driven by blended volume gains of 22% YoY (-1% QoQ). Net blended realisation per vehicle (NRPV) stood at Rs 810.9k, up 13%/5% YoY/QoQ, helped by price hikes and a healthy product mix.

Gross margin improves, EBITDA margin slips slightly QoQ: Raw material cost softened to 75% of sales from 76.3% in Q4FY22 as realisations moved up, aiding gross margin gains of 135bps/100bps YoY/QoQ to 25%. Opex increased 37%/31% YoY/QoQ due to Q4-specific expenses, negating the benefits of positive operating leverage. EBITDA grew 45% YoY (-1% QoQ) to Rs 27.9bn and the margin rose 115ps YoY but dipped 60bps QoQ to 12.4% due to a weak performance in the farm equipment segment and higher other expenses. Adj. PAT grew 80% YoY (-5% QoQ) to Rs 20.6bn.

Auto segment healthy; FES weaker QoQ: The automotive segment continued to dominate revenue, growing by 36%/11% YoY/QoQ. However, revenue for the farm equipment segment (FES) post a sequential decline of 11% (+29% YoY) due to a 15% QoQ drop in volumes (+23% YoY), and margins remained under pressure. MM is targeting 10-fold growth in farm machinery revenue by FY27. Automotive segment EBIT grew by 82%/20% YoY/QoQ and FES grew 38% YoY but declined 10% QoQ.

Capacity expansion plans: MM has capacity of 39k units per month but remains short of optimal utilisation by 10% due to the semiconductor shortage. A further 49k units of capacity is due to be added by Feb'24 (ex-BEV but including XUV400).

Maintain BUY: New capacity and high-end launches are likely to boost MM's revenue even as moderating cost, a prudent product mix and improving realisations should support margin gains and mitigate supply chain issues. We raise our FY24/FY25 EPS estimates by 6%/7% to factor in the same. We now value MM's core business at 17x EPS (from 18x) and roll valuations over to FY25E, yielding a new SOTP-based TP of Rs 1,665 (vs. Rs 1,496) that includes Rs 282 as the value of subsidiaries.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MM IN/Rs 1,328
Market cap	US\$ 20.2bn
Free float	81%
3M ADV	US\$ 36.1mn
52wk high/low	Rs 1,397/Rs 973
Promoter/FPI/DII	19%/37%/29%

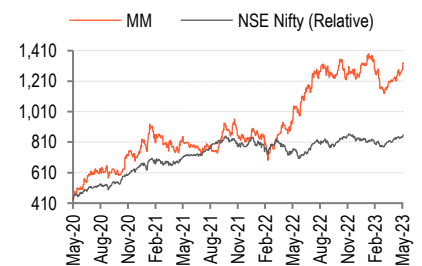
Source: NSE | Price as of 30 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	8,49,603	9,37,850	10,39,378
EBITDA (Rs mn)	1,04,424	1,30,440	1,45,782
Adj. net profit (Rs mn)	65,486	87,775	97,379
Adj. EPS (Rs)	54.7	73.3	81.3
Consensus EPS (Rs)	51.9	72.5	83.0
Adj. ROAE (%)	15.9	18.8	18.0
Adj. P/E (x)	24.3	18.1	16.3
EV/EBITDA (x)	15.4	12.5	11.2
Adj. EPS growth (%)	37.6	34.0	10.9

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

Stock performance



Source: NSE



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BUY – Expected return >+15%

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Note: Recommendation structure changed with effect from 21 June 2021

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