FIRST LIGHT

09 May 2023

RESEARCH

BOB ECONOMICS RESEARCH | BOB-ECI

BoB Essential Commodities Index

FEDERAL BANK | TARGET: Rs 165 | +29% | BUY

Strong PAT on higher other income and lower provisions

ALEMBIC PHARMA | TARGET: Rs 615 | +4% | HOLD

No respite yet

SUMMARY

INDIA ECONOMICS: BOB-ECI

Inflation indices in India are presented on a monthly basis at both the wholesale and retail levels. The 12th of every month normally has the CPI release where we get an idea of how retail inflation has played out. BoB Essential Commodities Index (BoB-ECI) looks at a sub-set of the CPI and presents how their cumulative prices have moved for the basket for the month. It is in a way a leading indicator of the food component of the CPI.

Click here for the full report.

FEDERAL BANK

- Higher other income plus lower provisions aided 67% YoY PAT growth in Q4; NIM contracted due to deposit repricing
- Quarter in line with midterm guidance of high-teens growth in business and stable asset quality
- Expect discount to peers to narrow as return ratios improve; we assume coverage with BUY for a TP of Rs 165

Click here for the full report.

Daily macro indicators

Ticker	04-May	05-May	Chg (%)
US 10Y yield (%)	3.38	3.44	6bps
India 10Y yield (%)	7.01	7.01	1bps
USD/INR	81.83	81.80	0.0
Brent Crude (US$/bbl)	72.5	75.3	3.9
Dow	33,128	33,674	1.7
Hang Seng	19,949	20,049	0.5
Sensex	61,749	61,054	(1.1)
India FII (US$ mn)	**02-May**	**03-May**	**Chg ($ mn)**
FII-D	(126.6)	(139.5)	(12.8)
FII-E	365.9	169.7	(196.2)

Source: Bank of Baroda Economics Research

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ALEMBIC PHARMA

- ALPM reported in-line Q4 revenue at Rs 14bn (flat YoY), though negative tax and lower R&D expense resulted in a PAT beat
- Gross margin contracted 350bps YoY; EBITDA margin expanded optically as Q4FY22 had Aleor-related charges
- We cut FY24 EBITDA by 14% given incremental costs. On rollover to FY25, our TP remains unchanged at Rs 615; retain HOLD

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BOB-ECI

08 May 2023

BoB Essential Commodities Index

Dipanwita Mazumdar
Economist

Inflation indices in India are presented on a monthly basis at both the wholesale and retail levels. The 12th of every month normally has the CPI release where we get an idea of how retail inflation has played out. BoB Essential Commodities Index (BoB-ECI) looks at a sub-set of the CPI and presents how their cumulative prices have moved for the basket for the month. It is in a way a leading indicator of the food component of the CPI.

BoB-ECI is a weighted average composite Index of commodities considered 'essential' by the government and are part of the CPI. Department of Consumer Affairs publishes prices of 20 essential commodities which are included in the index. To maintain comparability with the CPI the same base year is chosen and the BoB-ECI calculated.

In Apr'23, BoB Essential Commodity Index has moderated to 2.8% in Apr'23 from 3.5% in Mar'23, on YoY basis. The H1FY24, CPI prints would get comfort from favourable elevated base.

Price picture using BoB Essential Commodity Index:

- Department of Consumer Affairs publishes data on essential commodities on a daily basis. This includes data on retail, wholesale prices, spot and future prices. The data is collected from 340 market centres spread across the country.
- In an attempt to capture the price scenario, we have constructed the BoB Essential Commodity Index. This Index is a weighted average index of 20 commodities tracked by Department of Consumer Affairs, with a weight of 22.8% in overall CPI basket. The base has been in alignment with CPI (2012=100). It captures 58.3% weight in the overall food basket of the CPI index and hence can be used as a leading indicator of prices.
- In our administered 135 period of study since Jan'12 (on YoY basis), there has not been much divergence between the BoB-ECI and Consumer Food Price Index and directionally both exhibit the same trend. Our back testing results show, only in 33 period out of 135, the difference between the two series has been more than 2% points.
- The top 10 items (in terms of weight in the CPI basket) of the BoB-ECI include Milk, Rice, Atta, Mustard oil (Packed), Sugar, Tea loose, Potato, Tur/Arhar dal, Soya oil (Packed), Sunflower oil (Packed).
- On YoY basis, the BoB-ECI moderated to 2.8% in Apr'23 from 3.5% in Mar'23. From a peak of 8.5% in Oct'22 in FY23, BoB-ECI has considerably dropped to 2.8% in Apr'23 and for the 7-days in May'23, it has fallen further to 1.3%.

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 165 | ⮝ 29%

FEDERAL BANK | Banking | 08 May 2023

Strong PAT on higher other income and lower provisions

- **Higher other income plus lower provisions aided 67% YoY PAT growth in Q4; NIM contracted due to deposit repricing**
- **Quarter in line with midterm guidance of high-teens growth in business and stable asset quality**
- **Expect discount to peers to narrow as return ratios improve; we assume coverage with BUY for a TP of Rs 165**

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Strong PAT: FB posted strong Q4FY23 net profit of Rs 9bn, up 67% YoY, buoyed by higher other income along with lower provisions. An increased cost of funds (up 36bps QoQ vs. a 13bps rise in yield on assets) led to a 24bps QoQ decline in NIM to 3.2%. NII dipped 2% QoQ but other income rose 37% QoQ (58% YoY) due to treasury gains. Employee expenses reduced YoY in the absence of one-time family pension expense for employees, aiding a 1,000bps drop in C/I ratio. Lower provisions (Rs 1.2bn vs. Rs 2bn in Q3) further boosted PAT.

Deposit repricing peaking out: Credit grew 4% QoQ (20% YoY) in Q4 aided by both the retail and corporate books. Deposits increased 6% QoQ led by term deposits, with CASA down 156bps to 32.7%. Management indicated that deposit repricing is peaking out and already 80% factored in. GNPA/NNPA/PCR at 2.4%/ 0.7%/71.2% improved 7bps/4bps/82bps QoQ.

Unsecured lending to sustain NIM: FB is broadly moving in line with its midterm guidance of high-teens growth in business, NIM of ~3.3% and a gradual decline in C/I ratio by 100bps each over FY24-FY25. We expect the retail business to underpin a credit CAGR of 18% over FY22-FY25 and pencil in a 16% deposit CAGR with a 33% CASA ratio. The focus on retail lending is likely to aid margins, though we conservatively bake in lower NIM than guided for FY25, at 3.2%, considering high, sticky deposit rates. We model for a 19% PPOP CAGR on healthy core and non-core income.

Asset quality stable: We believe the bank's focus on risk-adjusted margins coupled with controlled slippages and higher recoveries will support stable asset quality (GNPA/NNPA/PCR of 2.3% 0.7%/71% over FY24-FY25E). As against credit cost of 47bps in FY23, we conservatively estimate 60bps each for FY24/FY25 considering the growing unsecured book. FB's restructured book stood at Rs 34.7bn as at Q4.

BUY, TP Rs 165: The stock is currently trading at 1x FY25E P/ABV, cheaper than most large-cap peers. We expect FB to gradually improve its return ratios (ROE/ROA 14.5%/ 1.2% in FY25E), narrowing the gap with peers and aiding a rerating. We thus assume coverage with BUY for a TP of Rs 165, set at 1.3x FY25E ABV (Gordon Growth Model).

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	FB IN/Rs 128
Market cap	US$ 3.3bn
Free float	100%
3M ADV	US$ 15.1mn
52wk high/low	Rs 143/Rs 83
Promoter/FPI/DII	0%/27%/73%

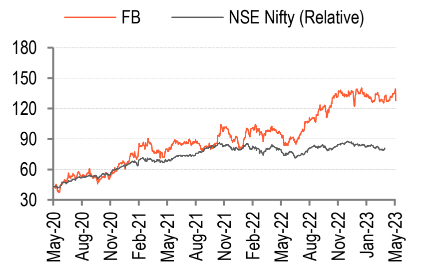
Source: NSE | Price as of 5 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Net interest income	72,322	84,473	95,642
NII growth (%)	21.3	16.8	13.2
Adj. net profit (Rs mn)	30,106	33,137	37,552
EPS (Rs)	14.3	15.7	17.7
Consensus EPS (Rs)	14.3	16.1	18.8
P/E (x)	9.0	8.2	7.2
P/BV (x)	1.3	1.1	1.0
ROA (%)	1.3	1.2	1.2
ROE (%)	14.9	14.5	14.6

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

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 615 | ⮝ 4%

ALEMBIC PHARMA | Pharmaceuticals | 08 May 2023

No respite yet

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- **Gross margin contracted 350bps YoY; EBITDA margin expanded optically as Q4FY22 had Aleor-related charges**
- **We cut FY24 EBITDA by 14% given incremental costs. On rollover to FY25, our TP remains unchanged at Rs 615; retain HOLD**

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Lacklustre Q4; US recovery key for revival: As expected, ALPM reported flat Q4FY23 revenue at Rs 14bn, though PAT beat consensus estimates on account of negative tax. EBITDA growth was optically higher at 33% YoY as Q4FY22 had Aleor-related charges under various heads of R&D expense (i.e. employee benefits, material cost and other expenses). Barring the US which declined 36% YoY (25% contribution), other businesses performed well with India/ROW/API growing 9%/32%/41% YoY.

Weak product mix, negative operating leverage hurt margins: Continued low-double-digit price erosion in US generics and a change in product mix resulted in gross margin contraction of 350bps YoY to 69.3%. The company stated that freight and raw material costs have cooled sequentially but are still above pre-Covid levels.

Earnings call highlights: (1) ALPM has guided for 10-12% YoY growth in India sales and 10% YoY growth in API sales for FY24, with a ~15% EBITDA margin. (2) Overall expense of Rs 650mn (including depreciation) was charged to P&L from new injectable facilities. (3) The company impaired Rs 11.5bn of capital work in progress (CWIP) related to capitalised pre-operative expenses of three new facilities with no impact on the income statement as general reserve was transferred to P&L.

Estimates pruned: We believe meaningful approvals, revenue growth in the US as new facilities come online and expected outperformance in the domestic market could aid ALPM's margins, though commercialisation of the new units would continue to carry additional costs. We cut our FY24 EBITDA estimate by 14% (FY25 unchanged) to factor in incremental operating costs arising from the expansion and to incorporate management's cautious guidance.

Retain HOLD: Despite estimate revision, our TP remains at Rs 615 as we roll over to FY25 valuations and continue to ascribe the stock an 11x EV/EBITDA multiple, a 25% discount to the 5-year average. At our TP, the stock offers just 4% upside – retain HOLD. Faster approvals along with weaker competition and better pricing in generics represent upside risks to our estimates.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ALPM IN/Rs 593
Market cap	US$ 1.4bn
Free float	31%
3M ADV	US$ 1.1mn
52wk high/low	Rs 775/Rs 462
Promoter/FPI/DII	70%/5%/13%

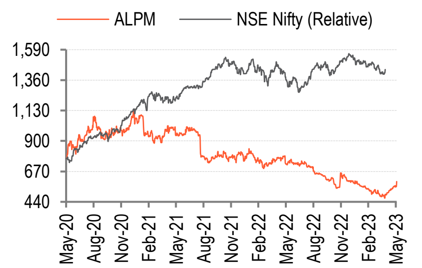
Source: NSE | Price as of 8 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	56,526	62,006	69,238
EBITDA (Rs mn)	7,083	9,528	11,495
Adj. net profit (Rs mn)	3,729	5,016	6,633
Adj. EPS (Rs)	17.4	25.5	33.7
Consensus EPS (Rs)	17.4	27.1	34.9
Adj. ROAE (%)	7.2	11.4	13.9
Adj. P/E (x)	34.1	23.2	17.6
EV/EBITDA (x)	17.0	12.9	10.6
Adj. EPS growth (%)	(34.4)	46.7	32.2

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

Stock performance



Source: NSE

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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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