

**RESEARCH**
**BOB Economics Research | June MPC Minutes**

MPC to emphasise on inflation in next meeting

**RPG Life Sciences | NOT RATED**

Annual investor conference takeaways

**SUMMARY**
**India Economics Research: June MPC Minutes**

MPC members believe impact of second wave is lower than the first wave during the national lockdown. With sharp reduction in infections, activity is normalising. Growth will be led by government's capex, exports and a normal monsoon. However, a few members spoke of being data dependent on inflation risks getting generalised. With inflation above 6% in May'21, MPC is likely to discuss inflation trajectory in even greater detail in next meeting. We expect policy normalisation in Q4FY22 and repo rate hike in early FY23

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**RPG Life Sciences**

- RPGL reported revenue growth, margin expansion and debt reduction in FY21 despite Covid-led disruptions in the acute portfolio
- Performance gains were driven by an improving product mix in favour of chronic/specialty business and better operating efficiency
- India (60% of sales) remains a focus market and growth driver, marked by repositioning of business from generics to specialty/chronic therapies

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**Daily macro indicators**

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.50	(7bps)	(14bps)	80bps
India 10Y yield (%)	6.02	(3bps)	4bps	20bps
USD/INR	74.08	(1.0)	(1.2)	2.7
Brent Crude (US\$/bbl)	73.08	(1.8)	5.2	76.1
Dow	33,823	(0.6)	(1.5)	29.7
Shanghai	3,526	0.2	0.2	19.9
Sensex	52,323	(0.3)	5.5	53.0
India FII (US\$ mn)	16-Jun	MTD	CYTD	FYTD
FII-D	16.5	(248.0)	(2,828.6)	(801.3)
FII-E	(120.8)	1,516.1	8,102.2	775.9

Source: Bank of Baroda Economics Research

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## JUNE MPC MINUTES

18 June 2021

### MPC to emphasise on inflation in next meeting

MPC members believe impact of second wave is lower than the first wave during the national lockdown. With sharp reduction in infections, activity is normalising. Growth will be led by government's capex, exports and a normal monsoon. However, a few members spoke of being data dependent on inflation risks getting generalised. With inflation above 6% in May'21, MPC is likely to discuss inflation trajectory in even greater detail in next meeting. We expect policy normalisation in Q4FY22 and repo rate hike in early FY23.

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**Impact of second wave to be limited:** MPC members stated that while the second wave did derail economic recovery, its impact is far less than last year. Dr. Goyal pointed out that "since the impact on demand is more than supply, output gap has widened". At the same time, Prof. Varma cautioned against the rise in precautionary savings which might keep demand subdued. Dr. Saggiar pointed out that the policies laid out in the Budget focus on investment. RBI Governor, Shri Shaktikanta Das said that 30.5% increase in capital expenditure by Centre should reignite the investment cycle. MPC members agreed that exports and a normal monsoon bode well for the growth outlook in FY22.

**Supply side pressure on inflation:** MPC members agreed inflation risks are supply driven. Prof. Varma pointed "The only source of comfort is that inflation is being driven not by domestic demand, but by supply side factors". Even Dr. Patra pointed out "In the absence of strong demand, the pass-through to retail inflation is likely to be incomplete". Shri Das said "the fragile demand conditions could help limit the pass-through of input cost pressures". However, few members also spoke on being data dependent.

**Focus on growth delays normalisation:** Dr. Saggiar summed up that "But for extraordinary circumstances that prevail, we would have moved to a neutral stance long back". He added that "Clear signs of generalisations in CPI inflation setting in could be a tipping point where growth-inflation dynamics could alter". Shri Das explained that "to revive" phrase has been brought in to strengthen forward guidance and demonstrate unambiguous commitment of MPC to revive and sustain growth process. We expect GDP growth at 9.7% in FY22 (RBI at 9.5%). Inflation forecast is at 5.5% for FY22 (RBI at 5.1%) on the back of rising core inflation. US FOMC members are now pencilling in a rate hike in CY23. We believe RBI will be normalising monetary policy in Q4FY22.

#### KEY HIGHLIGHTS

- MPC members agree impact of second wave on growth is lower than first wave.
- Supply side pressure to inflation. Demand side pressures absent.
- MPC statement added "to revive" to emphasise on forward guidance.



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RATED**
**RPGL LIFE SCIENCES**

| Pharmaceuticals

| 18 June 2021

## Annual investor conference takeaways

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- **Performance gains were driven by an improving product mix in favour of chronic/specialty business and better operating efficiency**
- **India (60% of sales) remains a focus market and growth driver, marked by repositioning of business from generics to specialty/chronic therapies**

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**Focus on specialty and chronic therapies:** RPGL was a generic-focused company but is now positioning itself as a specialty/chronic player. The company is a leader in immunosuppressants which contribute 35% of its turnover (including domestic, international and API sales). Azathioprine (flagship brand) currently forms 70-75% of the immunosuppressant portfolio. The company expects the share of other brands such as Mycophenolate to improve significantly going forward.

RPGL has launched four monoclonal antibodies or mAbs (Trastuzumab, Adalimumab, Bevacizumab, Rituximab) in the biosimilar specialty space (8-9% of India sales) and two gliptins (Vildagliptin, Teneigliptin) in the chronic therapy space over the last few years. The mAbs portfolio is seeing good traction and productivity initiatives should aid growth.

**Growth in FY21 despite Covid headwinds:** RPGL's FY21 revenue grew 4% (despite a predominantly acute portfolio that saw weak demand amid the pandemic) and EBITDA grew 18% with 230bps margin expansion to 18% – the highest level in five years. Margin gains aided 38% PAT growth and were led by a better product mix in favour of chronic & specialty sales and higher operating efficiency. Covid-2.0 has hit demand, particularly in the specialty segment due to reduced hospital visits, but the supply side remains smooth due to the company's proactive measures.

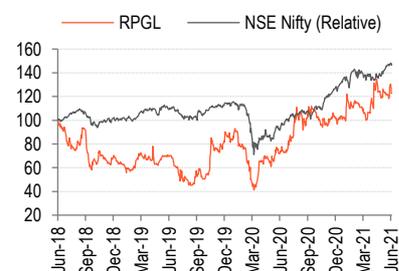
**Debt reduction fortifies balance sheet:** RPGL has repaid ~Rs 470mn in debt over FY18-FY21, resulting in a strong balance sheet with D/E at 0.01x in FY21. The company closed FY21 with nominal total debt of Rs 13mn vs. Rs 66mn in FY20. It has also improved its EBITDA-to-FCF conversion significantly, with average FCF/EBITDA for the last three years in excess of 70%.

**Five pillars of domestic growth:** RPGL is targeting above-industry growth via: (1) rejuvenating the product portfolio via chronic & specialty launches, (2) building strategic brand assets through life cycle management by introducing line extensions, (3) deepening customer coverage in targeted therapies by field force expansion and digital deployment, (4) raising sales force efficacy by building competencies and productivity, and (5) improving profitability by opex control and efficient manufacturing.

Ticker/Price	RPGL IN/Rs 448
Market cap	US\$ 99.8mn
Free float	28%
3M ADV	US\$ 0.8mn
52wk high/low	Rs 509/Rs 260
Promoter/FPI/DII	72%/0%/0%

Source: NSE | Price as of 18 Jun 2021

## Stock performance



Source: NSE



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