FIRST LIGHT

15 December 2020

RESEARCH

[Initiation] Eris Lifesciences | Target: Rs 700 | +30% | BUY

Chronic franchise, FCF growth underappreciated; initiate with BUY

SpiceJet | Target: Rs 85 | –17% | SELL

Valuations full – downgrade to SELL

BOB Economics Research | Weekly Wrap

Inflation, RBI minutes in focus

BOB Economics Research | Wholesale Inflation

Core inflation drives WPI higher

BOB Economics Research | Inflation

Food inflation moderates, core persists

SUMMARY

Eris Lifesciences

Eris Lifesciences' (ERIS) earnings are at inflection point and we expect a 16% EBITDA CAGR over FY21-FY24 (vs. 8%, FY18-FY21). Presence in fast-growing therapies, improving chronic share amid patent expiry upsides, and better field force output are key growth levers. Organic portfolio margins have risen sharply. ERIS could rerate closer to branded multiples over 12 months led by an undervalued chronic franchise (>75% of EBITDA) plus strong FCF (20% of MCap) and 1.5x ROIC expansion by FY24E. BUY, Mar'22 TP Rs 700 (20x EV/EBITDA).

Click here for the full report.

SpiceJet

Easing of Covid restrictions (incl. international travel) and likely reinstatement of Boeing 737s into the fleet will remain growth catalysts for SpiceJet (SJET), though rising crude prices could impede earnings. The stock has rallied >100% in the last month due to the improving macro climate, international clearance for grounded Boeing aircraft, and SJET's partnership for vaccine transport. We believe most optimism is in the price and downgrade from BUY to SELL with an unchanged Sep'21 TP of Rs 85. Our cautious stand is also due to a possible Jet Airways revival.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	900
GAIL	Buy	155
Petronet LNG	Buy	330
TCS	Buy	3,180
Tech Mahindra	Buy	1,040

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Greenply Industries	Buy	150
Laurus Labs	Buy	410
Transport Corp	Buy	300
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.9	(1.0bps)	1.5bps	(92.6bps)
India 10Y yield (%)	6.0	4.0bps	5.5bps	(82.6bps)
USD/INR	73.65	0	1.3	(4.0)
Brent Crude (US$/bbl)	49.97	(0.6)	14.8	(23.4)
Dow	30,046	0.2	3.3	6.8
Shanghai	3,347	(0.8)	0.3	12.8
Sensex	46,099	0.3	6.3	12.4
India FII (US$ mn)	**10 Dec**	**MTD**	**CYTD**	**FYTD**
FII-D	41.5	345.8	(14,273.4)	(4,513.9)
FII-E	476.9	3,290.3	19,396.1	25,999.0

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

India Economics: Weekly Wrap

10Y yield in UK and US declined due to uncertainty over Brexit and US stimulus. GBP too weakened against the US$. The global rally in commodity prices was favourable for AUD. Indian 10Y yield increased by 6bps with inflation looking to remain elevated in Nov'20 as well. RBI minutes this week will give a sense of direction. Indian equity markets continue to gain traction led by FPI inflows of US$ 2bn in the week and positive economic data. While global Covid-19 cases are accelerating, India continues to see a dip.

Click here for the full report.

India Economics: Wholesale Inflation

WPI inched up to a 9-month high of 1.6% in Nov'20 from 1.5% in Oct'20 led by manufactured inflation which increased to 3% in Nov'20 (2.1% in Oct'20). Fuel and power index declined at a slower pace of 9.9% in Nov'20 (10.9% in Oct'20). More importantly, food prices showed further moderation at 4.3% in Nov'20 (5.8% in Oct'20, 7.2% in Sep'20), led by vegetables, eggs, meat and fish and grains. While a base effect implies a dip in WPI inflation in coming months, higher oil and global commodity prices implies it will inch up from Feb'21.

Click here for the full report.

India Economics: Inflation

CPI eased to a 3-month low of 6.9% in Nov'20 (7.6% in Oct'20) driven by lower food inflation at 9.4% (11% in Oct'20). Within food, vegetable inflation dropped the most. Core remains sticky at 5.9% led by retail fuel and gold prices. Domestic pump prices have increased further in Dec'20. While near-term outlook for inflation is favourable on the back of a high base and recent decline in food inflation, it is still estimated to remain above RBI's target of 4% in the foreseeable future thus leaving no room for a rate cut.

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BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 700 | ⮝ 30%

ERIS LIFESCIENCES | Pharmaceuticals | 14 December 2020

Chronic franchise, FCF growth underappreciated; initiate with BUY

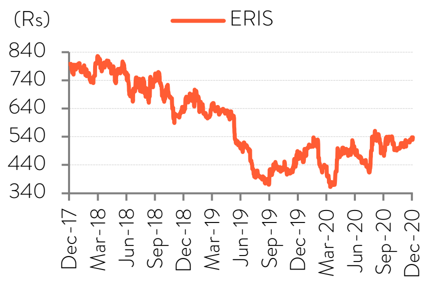
Vivek Kumar
research@bobcaps.in

Eris Lifesciences' (ERIS) earnings are at inflection point and we expect a 16% EBITDA CAGR over FY21-FY24 (vs. 8%, FY18-FY21). Presence in fast-growing therapies, improving chronic share amid patent expiry upsides, and better field force output are key growth levers. Organic portfolio margins have risen sharply. ERIS could rerate closer to branded multiples over 12 months led by an undervalued chronic franchise (>75% of EBITDA) plus strong FCF (20% of MCap) and 1.5x ROIC expansion by FY24E. BUY, Mar'22 TP Rs 700 (20x EV/EBITDA).

Ticker/Price	ERIS IN/Rs 538
Market cap	US$ 990.7mn
Shares o/s	136mn
3M ADV	US$ 1.2mn
52wk high/low	Rs 595/Rs 321
Promoter/FPI/DII	54%/11%/11%

Source: NSE

STOCK PERFORMANCE



Source: NSE

Focus on fast-growing diabetes, cardiac, VMN segments; acute has bottomed out: ERIS is a pure India pharma market play, ranked among the top 5 by prescription share among diabetologists and cardiologists. Its top 15 brands formed 78% of FY20 sales with the top 3 together drawing >Rs 1bn. Strong product selection has enabled >75% of sales to come from growth markets. Emerging off-patent upsides in cardio-diabetes, Zomelis launch, prescription penetration in the cardiac & vitamin-mineral-nutrient (VMN) portfolios, and acute portfolio tailwinds are expected to drive a ~12% sales CAGR over FY21-FY24 (>15% in chronic).

Skilled organic portfolio execution: Our evaluation of organic portfolio strength based on sales and profitability over two time periods suggests that while sales have grown 7-8%, ERIS has substantially scaled aggregate margins on older brands to 40% over FY17-FY20 (vs. 24% in FY14-FY16). M&A success has been decent.

Strong FCF, ROIC outlook merit rerating: We expect 16% EBITDA growth over FY21-FY24 (organic portfolio + Zomelis to contribute >85% of delta). Barring FY17-FY20, FCF conversion was strong at 65%. High FCF will help ERIS boost its India presence. After 50% downside vs. the healthcare index in the last 2Y, the stock could rerate led by an underappreciated chronic franchise and 1.5x ROIC expansion by FY24E. Better capital allocation presents added optionality.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	9,822	10,741	11,903	13,349	14,987
EBITDA (Rs mn)	3,449	3,684	4,174	4,862	5,603
Adj. net profit (Rs mn)	2,908	2,965	3,346	4,013	4,721
Adj. EPS (Rs)	21.4	21.8	24.6	29.6	34.8
Adj. EPS growth (%)	(1.1)	2.0	12.9	19.9	17.6
Adj. ROAE (%)	31.1	26.5	25.7	25.5	24.8
Adj. P/E (x)	25.1	24.6	21.8	18.2	15.5
EV/EBITDA (x)	21.2	20.0	17.1	14.5	12.1

Source: Company, BOBCAPS Research

SELL
TP: Rs 85 | ∨ 17%

SPICEJET | Airlines | 14 December 2020

Valuations full – downgrade to SELL

Easing of Covid restrictions (incl. international travel) and likely reinstatement of Boeing 737s into the fleet will remain growth catalysts for SpiceJet (SJET), though rising crude prices could impede earnings. The stock has rallied >100% in the last month due to the improving macro climate, international clearance for grounded Boeing aircraft, and SJET's partnership for vaccine transport. We believe most optimism is in the price and downgrade from BUY to SELL with an unchanged Sep'21 TP of Rs 85. Our cautious stand is also due to a possible Jet Airways revival.

Mayur Milak | Nishant Chowhan, CFA
research@bobcaps.in

Strong growth outlook but rising fuel cost a concern: Key factors that favour SJET's growth outlook over the next three years are expected improvement in capacity utilisation over the coming quarters together with reinstatement of its grounded Boeing 737 aircraft. Also, the recently announced logistics partnership to carry Covid-19 vaccines will continue to bolster its cargo business. However, rising crude oil prices could act as a deterrent to earnings. Every US$ 1 change in crude price impacts the company's operating margins by ~60bps.

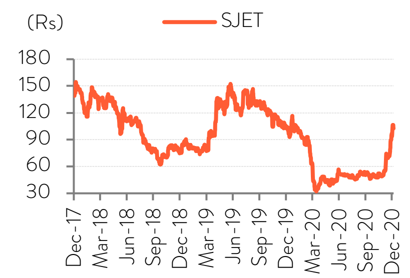
Macro benefits largely factored in: The stock has rallied sharply by over 100% in the last month due to the improving macro climate following easing of lockdown restrictions, international approvals for Boeing to fly its grounded 737 Max aircraft, and SJET's partnership for vaccine transportation. However, we remain cautious on the company due to its weak balance sheet (negative net worth) as well as expected revival at competitor Jet Airways.

Downgrade to SELL: We have assumed crude oil at US$ 45/bbl for FY21 and FY22 (US$ 50/bbl for FY23) and a USDINR rate of Rs 75 for all three years. We continue to value the stock at 5.2x Sep'22E EV/EBITDAR. Following the sharp rally, we believe most positives are priced in and hence downgrade SJET to SELL with an unchanged Sep'21 TP of Rs 85.

Ticker/Price	SJET IN/Rs 103
Market cap	US$ 836.9mn
Shares o/s	600mn
3M ADV	US$ 8.1mn
52wk high/low	Rs 119/Rs 31
Promoter/FPI/DII	60%/1%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	91,215	123,586	68,564	123,435	160,227
EBITDA (Rs mn)	(572)	4,964	(899)	18,939	23,793
Adj. net profit (Rs mn)	(3,024)	(9,348)	(11,149)	2,394	9,277
Adj. EPS (Rs)	(5.0)	(15.6)	(18.6)	4.0	15.5
Adj. EPS growth (%)	NA	NA	NA	NA	287.4
Adj. ROAE (%)	86.4	59.2	41.4	(9.8)	(60.8)
Adj. P/E (x)	(20.3)	(6.6)	(5.5)	25.7	6.6
EV/EBITDA (x)	(107.7)	12.7	(76.3)	3.9	3.2

Source: Company, BOBCAPS Research

WEEKLY WRAP

14 December 2020

Inflation, RBI minutes in focus

Sameer Narang | Dipanwita Mazumdar
chief.economist@bankofbaroda.com

10Y yield in UK and US declined due to uncertainty over Brexit and US stimulus. GBP too weakened against the US$. The global rally in commodity prices was favourable for AUD. Indian 10Y yield increased by 6bps with inflation looking to remain elevated in Nov'20 as well. RBI minutes this week will give a sense of direction. Indian equity markets continue to gain traction led by FPI inflows of US$ 2bn in the week and positive economic data. While global Covid-19 cases are accelerating, India continues to see a dip.

Markets

- **Bonds:** UK 10Y yield fell the most by 18bps (0.17%) amidst Brexit uncertainty. US 10Y yield fell by 7bps (0.9%) amidst weak labour market scenario (jobless claims at 3-month high). Oil prices rose by 1.5% (US$ 50/bbl). India's 10Y yield rose by 6bps (5.96%) amidst inflationary concerns. System liquidity surplus swelled to Rs 6.2tn as on 11 Dec 2020 compared with Rs 5.8tn in the previous week.

- **Currency:** DXY rose by 0.3% in the week. GBP fell by 1.6% on the back of inconclusive Brexit negotiations. CNY (0.2%) and EUR (0.1%) too dragged lower. On the other hand, JPY and AUD rose by 0.1% and 1.5% respectively. INR appreciated by 0.2% supported by US$ 2bn of FII inflows. Equity inflows into India in FYTD21 are now at US$ 26bn.

- **Equity:** Barring Sensex, other global indices ended the week lower amidst the ongoing uncertainty over Brexit and US stimulus. Shanghai Comp (2.8%) declined the most followed by Dax (1.4%) and Dow (0.6%). However, Sensex (2.3%) ended the week in green for the 6th week led by real estate and power stocks.

- **Covid-19 tracker:** Global cases rose by 5.2mn in the week ending 13 Dec 2020 compared with 4.3mn in the previous week led by US and Europe. India added 180k cases this week compared with 246k in earlier week.

- **Upcoming key events:** In current week, markets will watch US FOMC and BoE rate decision, flash PMIs of major economies and industrial production, retail sales data in China. On the domestic front, headline CPI, RBI's minutes and progress of Covid-19 cases will be tracked.

WHOLESALE INFLATION

14 December 2020

Core inflation drives WPI higher

Sameer Narang
Jahnavi | Sonal Badhan
chief.economist@bankofbaroda.com

WPI inched up to a 9-month high of 1.6% in Nov'20 from 1.5% in Oct'20 led by manufactured inflation which increased to 3% in Nov'20 (2.1% in Oct'20). Fuel and power index declined at a slower pace of 9.9% in Nov'20 (10.9% in Oct'20). More importantly, food prices showed further moderation at 4.3% in Nov'20 (5.8% in Oct'20, 7.2% in Sep'20), led by vegetables, eggs, meat and fish and grains. While a base effect implies a dip in WPI inflation in coming months, higher oil and global commodity prices implies it will inch up from Feb'21.

Food inflation moderates: Food inflation eased to a 5-month low of 4.3% in Nov'20 from 5.8% in Oct'20. This was led by moderation in vegetable prices to 12.2% in Nov'20 compared with 25.2% in Oct'20 on the back of sharp drop in prices of onion (declined by 7.6% in Nov'20 from an increase of 8.5% in Oct'20). Cereal prices contracted at an accelerated pace of 5.5% in Nov'20 led by sharp decline in wheat prices (10.1% in Nov'20 from 8.1% in Oct'20). Prices of pulses also moderated to 13% in Nov'20 (15.9% in Oct'20). Other protein based items such as eggs, meat and fish too edged downwards to 0.6% in Nov'20. While milk prices remained unchanged.

Deceleration in fuel and power slows: Fuel and power inflation contracted by 9.9% in Nov'20 after a 10.9% drop in Oct'20. This was due to lower pace of contraction in mineral oil index, which fell by 16% in Nov'20 compared with a 17.9% dip in Oct'20. This was led by pick-up in prices of petroleum coke and furnace oil. Prices of Kerosene, ATF and Bitumen contracted less sharply. Electricity prices fell by 4.3% in Nov'20 and coal prices remained flat, after 0.1% drop in Oct'20. International oil prices are down by 22.9% in Dec'20 (YoY) versus 29.9% decline in Nov'20. Thus deflation in fuel and power is likely to ease going forward.

Core inflation hardens: Core inflation rose to 2.6% in Nov'20 from 1.7% in Oct'20. Manufactured inflation too picked up to 3% from 2.1% in Oct'20. Of the 22 commodities, prices of 16 commodities rose, with basic metals, textile, rubber and plastic products and other manufacturing items taking the lead. With improvement in global demand and roll out of Covid-19 vaccine, international commodity prices were up by 10.9% in Nov'20 on YoY basis versus an increase of 5.2% seen in Oct'20.

INFLATION

14 December 2020

Food inflation moderates, core persists

Sameer Narang
Dipanwita Mazumdar | Jahnavi
chief.economist@bankofbaroda.com

CPI eased to a 3-month low of 6.9% in Nov'20 (7.6% in Oct'20) driven by lower food inflation at 9.4% (11% in Oct'20). Within food, vegetable inflation dropped the most. Core remains sticky at 5.9% led by retail fuel and gold prices. Domestic pump prices have increased further in Dec'20. While near-term outlook for inflation is favourable on the back of a high base and recent decline in food inflation, it is still estimated to remain above RBI's target of 4% in the foreseeable future thus leaving no room for a rate cut.

CPI moderates: CPI inflation eased to 6.93% in Nov'20 from 7.61% in Oct'20. This was on the back of 160bps drop in food inflation. Core inflation remained firm at 5.9%.

Food inflation decelerates: Food inflation edged down to 9.4% in Nov'20 from 11% in Oct'20 led by deceleration in vegetable inflation to 15.6% in Nov'20 (22.1% in Oct'20), cereal inflation to 2.3% in Nov'20 (3.5% in Oct'20), meat and fish to 16.7% in Nov'20 (18.6% in Oct'20), eggs to 20.3% in Nov'20 (21.7% in Oct'20) and sugar to 0.9% (1.5% in Oct'20). However, non-alcoholic beverages increased to 10.1% (8.4% in Oct'20) and oil & fats to 17.9% (15.2% in Oct'20).

Core inflation remained firm: CPI excluding food and fuel was sticky at 5.9% in Nov'20 (same as Oct'20). Health inflation inched up to 5.5% from 5.2% in Oct'20. Education too increased to 2.4% from 2.1% in Oct'20. Transport and communication at 11.1% and personal care items at 12% remained elevated. A broader demand driven metric of core inflation is relatively muted at 3.6%. Supply side factors have become more adverse in Dec'20 as seen in increase in global commodity prices, in particular oil, which will be reflected in domestic pump prices and pass-through in other prices.

Near-term outlook positive: The near-term outlook is looking better because of an elevated base and recent dip in food prices. However, certain food items such as edible oils, pulses, meat and eggs are continuing to see inflation in double digits. Petrol and diesel prices have gone up by 3.8% and 6.5% respectively in the current month over Nov'20. Thus, we don't see RBI cutting policy rates any further. 10Y yield is likely to remain range bound between 5.8-6%. The focus now moves to Union Budget which will decide the trajectory of government borrowing in FY22 and thus yields.

KEY HIGHLIGHTS

- CPI moderated to 6.9% in Nov'20 from 7.6% in Oct'20.
- Food inflation fell by 160bps to 9.4% led by vegetable.
- Core inflation remains elevated at 5.9%.

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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