

# FIRST LIGHT

## RESEARCH

### BOB Economics Research | Q4FY20 GDP

FY20 GDP growth drops; Q4 surprises positively

### BOB Economics Research | Fiscal update

FY20 fiscal deficit at 4.6% of GDP

### Lupin | Target: Rs 960 | +10% | ADD

In-line quarter; broader FY21 outlook intact

## SUMMARY

### India Economics: Q4FY20 GDP

India's FY20 growth slipped to 4.2% from 6.1% due to lower consumption and investment demand. Growth for Q4 moderated to 3.1% from 4.1% in Q3. Agriculture did well. Government spending held up with fiscal deficit at 4.6% of GDP in FY20. The start to the year has been much worse with cement, steel and electricity output contracting by 86%, 84% and 23% respectively. We expect GDP to decline by 4.7% in FY21 led by private consumption and investment demand. We expect RBI to reduce rate by 25bps in next policy.

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

### India Economics: Fiscal update

India's FY20 fiscal deficit at 4.6% of GDP is higher than FY20RE of 3.8%. This was led by decline of 3.4% in gross tax collections. Direct taxes fell by 7.8% due to reduction in corporate tax rate. FY21 too will see a large decline in corporate tax collections on account of COVID-19. We believe Centre would like to maintain spending at FY21BE level as was the case in FY20. Thus fiscal deficit may be higher at 6.5% of GDP from earlier estimate of 6%. This will not change borrowing calendar as Centre will use other sources to raise cash.

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

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Bajaj Finance</a>	Buy	3,000
<a href="#">Cipla</a>	Buy	690
<a href="#">Eicher Motors</a>	Buy	18,100
<a href="#">GAIL</a>	Buy	140
<a href="#">Petronet LNG</a>	Buy	330

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	2,870
<a href="#">Greenply Industries</a>	Buy	145
<a href="#">Laurus Labs</a>	Buy	630
<a href="#">Muthoot Finance</a>	Buy	950
<a href="#">Transport Corp</a>	Buy	255

Source: BOBCAPS Research

### DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.69	1bps	3bps	(152bps)
India 10Y yield (%)	5.99	2bps	(16bps)	(115bps)
USD/INR	75.76	(0.1)	0.6	(8.4)
Brent Crude (US\$/bbl)	35.29	1.6	76.5	(47.2)
Dow	25,401	(0.6)	5.2	0.9
Shanghai	2,846	0.3	1.1	(2.1)
Sensex	32,201	1.9	1.4	(19.2)
<b>India FII (US\$ mn)</b>	<b>27 May</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-D	(324.4)	(2,679.2)	(14,022.9)	(4,263.4)
FII-E	(22.3)	1,296.2	(5,337.4)	1,265.6

Source: Bank of Baroda Economics Research

### BOBCAPS Research

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## Lupin

Lupin's (LPC) EBITDA was in line at Rs 5.3bn (+22% QoQ) despite a slight miss on sales. Ex-Kyowa, EBITDA is down 33% YoY due to Ranexa FTF in the base. QoQ, gross margin was subdued while EBITDA margin was a beat. LPC expects a soft Q1 and 18-20% margins in FY21. Multiple catalysts in FY21 (Levo ramp-up, Albuterol launch and facility clearance for Gavis/Goa) should support earnings and stock momentum in the midterm. We adjust FY21/FY22 EPS by -7%/+3% and revise our TP to Rs 960 (vs. Rs 790) based on 13x FY22E EBITDA (11.5x earlier).

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## Q4FY20 GDP

29 May 2020

### FY20 GDP growth drops; Q4 surprises positively

India's FY20 growth slipped to 4.2% from 6.1% due to lower consumption and investment demand. Growth for Q4 moderated to 3.1% from 4.1% in Q3. Agriculture did well. Government spending held up with fiscal deficit at 4.6% of GDP in FY20. The start to the year has been much worse with cement, steel and electricity output contracting by 84%, 86% and 23% respectively. We expect GDP to decline by 4.7% in FY21 led by private consumption and investment demand. We expect RBI to reduce rate by 25bps in next policy.

Sameer Narang

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**Q4 growth slips to 3.1%:** GDP growth in Q4FY20 fell to 3.1%, higher than our estimate of 1.6%, from 4.1% in Q3. The positive surprise is due to Centre maintaining its spending by increasing fiscal deficit to 4.6% of GDP (FY20RE at 3.8%). Even so, consumption demand dipped to 2.7% in Q4 from 6.6% in Q3 and investment contracted by 6.5% in Q4 versus a decline of 5.2% in Q3. GVA growth was also lower at 3% in Q4 as against 3.5% in Q3. Manufacturing at (-) 1.4% (-0.8% in Q3), construction at (-) 2.2% (0% in Q3), Trade, hotels etc at 2.6% (4.3% in Q3) and financial, real estate etc. at 2.4% (3.3% in Q3) led the decline. Agriculture, mining and electricity did better in Q4.

**FY20 growth at 4.2%:** GDP growth in FY20 is now estimated to have increased by 4.2% compared with 6.1% in FY19, lowest since FY09. The decline is led by investment demand at (-) 2.8% from an increase of 9.8%. Even consumption has slipped to 5.3% in FY20 from 7.2% in FY19. Data for growth in previous three quarters (Apr'19-Dec'19) has been revised lower to 4.6% from 5.1% led by large downward revisions in financial services, real estate etc. (200bps) and trade, hotels etc. (180bps). Only agriculture sector and government spending has held up in the year.

**Outlook for FY21:** We expect GDP to contract by 4.7% in FY21 led by sharp decline in private consumption and investment demand. Only agriculture and public spending (general government deficit at 10%) will hold up. The extent of impact in Apr'20 when there was complete lockdown shows exports contracting by 60%, steel output by 84%, cement by 86% and electricity by 23%. These numbers will see a gradual improvement in the months ahead. Thus maximum impact will be felt in Q1 when growth will contract by more than 20% before returning to positive trajectory in Q3. However, discretionary demand will take longer to revive as consumer confidence will take time to recover.

#### KEY HIGHLIGHTS

- GDP growth slipped down to 3.1% in Q4FY20 led by private consumption and investment.
- GVA growth decelerated to 3% in Q4FY20 led by manufacturing and private services.
- Agriculture and government spending to support growth in the near-term.



## FISCAL UPDATE

30 May 2020

**FY20 fiscal deficit at 4.6% of GDP**

**India's FY20 fiscal deficit at 4.6% of GDP is higher than FY20RE of 3.8%. This was led by decline of 3.4% in gross tax collections. Direct taxes fell by 7.8% due to reduction in corporate tax rate. FY21 too will see a large decline in corporate tax collections on account of COVID-19. We believe Centre would like to maintain spending at FY21BE level as was the case in FY20. Thus fiscal deficit may be higher at 6.5% of GDP from earlier estimate of 6%. This will not change borrowing calendar as Centre will use other sources to raise cash.**

Sameer Narang

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**Tax revenues miss estimates in FY20:** Centre's gross tax revenues declined by 3.4% in FY20 versus an increase of 4% projected in FY20RE. In FY19, gross tax revenues had shown an increase of 8.4%. The decline in FY20 is led by contraction of 7.8% in direct taxes. Indirect taxes increased by only 1.8%. Within direct taxes, corporate taxes declined by 16.1% (corporate tax rate reduced to 25%). Income tax collections rose by only 4% versus target of 18.3% (13.1% in FY19). Non-tax revenues too fell short of target. Disinvestment receipts remained lacklustre at Rs 503bn compared with FY20RE of Rs 650bn. With non-tax revenues higher by 38.3% on account of RBI dividend, Centre's net revenues rose by 8.3% in FY20.

**Spending momentum maintained:** Total expenditure rose at a robust pace of 16% in FY20 versus 8.1% in FY19, in-line with projected in FY20RE (16.6%). Revenue expenditure increased at 17% compared with 6.8% in FY19. Capex moderated to 9.7% in FY20 from 17% in FY19. The overall increase in total expenditure was led by agriculture (79.2% increase over FY19) and petroleum and natural gas spending (32.3% increase).

**FY21 deficit can be higher at 6.5%:** We had projected fiscal deficit to increase to 6% of GDP in FY21 on the back of lower tax collections due to COVID-19. Centre's net tax revenues are estimated to fall by 9.7% in FY21 versus BE of an increase of 9.2%, resulting in a shortfall of ~Rs 5tn. Disinvestment receipts will also be muted at Rs 750bn compared with BE of Rs 2.1tn. Government would like to maintain its spending in FY21 at the budgeted level of Rs 30.4tn. Revenue spending is estimated at 9.3% and capex at 7.3%. Thus fiscal deficit can go to 6.5% of GDP. This will not change borrowing maths and government may look at alternate sources to finance the same.

**KEY HIGHLIGHTS**

- Fiscal deficit widened in FY20 to 4.6% (of GDP), and will inch up further in FY21 to 6.5%
- Tax revenues record sharp dip in FY20, trend to continue in FY21.
- Spending growth steady in FY20, large spending cuts unlikely in FY21.



**ADD**

TP: Rs 960 | ▲ 10%

**LUPIN**

Pharmaceuticals

29 May 2020

## In-line quarter; broader FY21 outlook intact

Lupin's (LPC) EBITDA was in line at Rs 5.3bn (+22% QoQ) despite a slight miss on sales. Ex-Kyowa, EBITDA is down 33% YoY due to Ranexa FTF in the base. QoQ, gross margin was subdued while EBITDA margin was a beat. LPC expects a soft Q1 and 18-20% margins in FY21. Multiple catalysts in FY21 (Levo ramp-up, Albuterol launch and facility clearance for Gavis/Goa) should support earnings and stock momentum in the midterm. We adjust FY21/FY22 EPS by -7%/+3% and revise our TP to Rs 960 (vs. Rs 790) based on 13x FY22E EBITDA (11.5x earlier).

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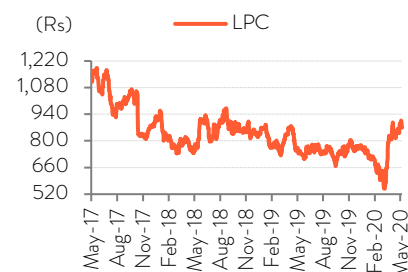
**Subdued gross margin QoQ, EBITDA margin improves:** Sequentially, EBITDA margins expanded 230bps to 13.7% aided by better cost control, though gross margins dipped 40bps QoQ to 63.5%. R&D spend was lower at 9% of sales (10% in 9M) and SG&A spend was flat QoQ. India (+13.3% YoY) and US sales at US\$ 219mn (+13% QoQ) were in line while APAC (-16%) and LATAM (-25%) underperformed on adverse currency movement.

Ticker/Price	LPC IN/Rs 870
Market cap	US\$ 5.2bn
Shares o/s	453mn
3M ADV	US\$ 41.3mn
52wk high/low	Rs 919/Rs 505
Promoter/FPI/DII	47%/25%/12%

Source: NSE

**Outlook intact but expect soft Q1:** Though Q1 could be soft due to Covid-19, LPC expects healthy operating leverage in coming quarters led by a stabilising US base business. Levo has clocked 13% market share in Q4 (vs. 5% in Q3), with adequate capacity to reach 20% in FY21. LPC has retained its H1FY20 launch timeline for Albuterol based on FDA interactions (Albuterol has >50% share of prescribed generics incl. AG). Depo-injectable filing should start from CY21. LPC expects a tax rate of 35% for FY21 which should progressively come down.

## STOCK PERFORMANCE



Source: NSE

**Earnings call takeaways:** (1) Facility clearance order guided as follows: Gavis unit, Goa, and Pithampur II – LPC expects reinspection in nearterm. (2) Covid impact on Solosec prescriptions has begun to stabilise from April; cost optimisation measures in specialty business should reduce cost by >50%. (3) Approval for gFostair/gEnbrel in EU expected in H2FY21. (4) Capex at >Rs 5bn for FY21.

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	158,021	167,010	152,062	170,057	186,113
EBITDA (Rs mn)	31,453	27,020	23,578	28,123	33,501
Adj. net profit (Rs mn)	17,137	9,464	3,518	11,830	15,141
Adj. EPS (Rs)	37.9	20.9	7.8	26.1	33.5
Adj. EPS growth (%)	(41.5)	(44.8)	(62.8)	236.3	28.0
Adj. ROAE (%)	12.6	6.9	2.6	8.7	10.6
Adj. P/E (x)	23.0	41.6	111.9	33.3	26.0
EV/EBITDA (x)	14.3	16.5	18.9	14.8	11.5

Source: Company, BOBCAPS Research



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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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