

RESEARCH
[Sector Report] Pharmaceuticals

mRNA technology a threat to anti-HIV players

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State elections: Economic status of states

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Exports and imports moderate in Jan'22

Greenply Industries | Target: Rs 260 | +35% | BUY

New capacities to cater the growing demand

SUMMARY
[Sector Report] Pharmaceuticals

- HIV vaccine development boosted by inclusion of the mRNA platform following its track record of rapid Covid-19 jab rollout
- Moderna recruiting volunteers for phase-1 trial of its mRNA HIV vaccine; experts expect successful outcome as early as CY23
- New vaccine likely to be prophylactic initially but may cause disruptions for Indian ARV majors LAURUS, ARBP and CIPLA

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India Economics: States Update

With 5 states (13.2% of India's GDP) entering their Assembly elections, it is interesting to see how they stack up in relative terms on economic and social indicators. Understandably, the economic indicators may not quite have a bearing on voting patterns, but such a comparison will not only show the progress made between the last two Elections but point to the tasks on hand for the new government that comes to power. Notably, growth in larger States such as UP, Punjab have not picked up much.

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

Daily macro indicators

| Indicator | 11-Feb | 14-Feb | Chg (%) |
|------------------------|---------|--------|-------------|
| US 10Y yield (%) | 1.94 | 1.99 | 5 |
| India 10Y yield (%) | 6.7 | 6.67 | (3) |
| USD/INR | 75.38 | 75.60 | (0.3) |
| Brent Crude (US\$/bbl) | 94.4 | 96.5 | 2.2 |
| Dow | 34,738 | 34,566 | (0.5) |
| Hang Seng | 24,907 | 24,557 | (1.4) |
| Sensex | 58,153 | 56,406 | (3.0) |
| India FII (US\$ mn) | 10-Feb | 11-Feb | Chg (\$ mn) |
| FII-D | (4.7) | (7.3) | (2.6) |
| FII-E | (225.9) | 46.6 | 272.5 |

Source: Bank of Baroda Economics Research

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India Economics: Trade

India's trade deficit in FYTD22 has surged to US\$ 154.8bn from US\$ 73.6bn in FYTD21. This has been due to higher imports led by revival in domestic activity and higher commodity prices. Exports too have remained buoyant at US\$ 338bn in FYTD22, and are likely to exceed the government's target of US\$ 400bn in FY22. However, rising oil prices (above ~US\$ 90/bbl currently) are likely to inflate the oil import bill. This will put pressure on trade deficit and INR.

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Greenply Industries

- Consolidated Q3 revenue grew 24% YoY backed by 11% increase in plywood volumes and 7% rise in price realisation for India operations
- Consolidated operating margin stood at 10.2% (11% excluding non-cash ESOP cost of Rs 30mn; down 130bps YoY)
- Reiterate BUY with an unchanged TP of Rs 260 based on 22x FY24E EPS

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

PHARMACEUTICALS

15 February 2022

mRNA technology a threat to anti-HIV players

- HIV vaccine development boosted by inclusion of the mRNA platform following its track record of rapid Covid-19 jab rollout
- Moderna recruiting volunteers for phase-1 trial of its mRNA HIV vaccine; experts expect successful outcome as early as CY23
- New vaccine likely to be prophylactic initially but may cause disruptions for Indian ARV majors LAURUS, ARBP and CIPLA

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Strong potential for mRNA to transform vaccinology market: Given the frequent emergence of novel virus-led diseases such as Zika, Ebola, avian flu, swine flu, MERS, SARS and now SARS NCov-2 (Covid-19), a new platform to expedite vaccine development was the need of the hour as the traditional process takes over a decade. Further, diseases such as AIDS and herpes remain unaddressed since the 70s due to viral immune evasion. The advent of the flexible and efficient mRNA platform commercially and successfully used by companies such as Moderna to combat Covid fills this void. Both Pfizer/BioNtech and Moderna rolled out Covid vaccines using the mRNA platform within less than 12 months of genome sequence release by China.

mRNA application for HIV a natural corollary: With a massive cache of knowledge from a plethora of failed experiments in HIV vaccine development, mRNA technology offers the perfect platform to empower the human immune system to identify and raise a protective shield against HIV. This platform has the potential to match the agility and flexibility of the AIDS virus as it is fully equipped with the genome structure of all existing mutations, as chronicled by research foundations across nations.

Moderna begins trial of first mRNA HIV vaccine with key sponsors: Moderna has started recruiting volunteers for its phase-1 clinical trial of an mRNA HIV vaccine. It plans to enrol 56 healthy volunteers to test the safety of two variants of the same vaccine (mRNA-1644 and mRNA-164V2-Core), in collaborations with IAVI (International AIDS Vaccine Initiative) and BMGF (Bill and Melinda Gates Found.).

Headwinds for LAURUS, ARBP, CIPLA, Hetero if Moderna succeeds: Experts expect a successful outcome from Moderna trials as early as CY23. A potential HIV vaccine is likely to cause disruptions for large antiretroviral (ARV) majors such as LAURUS, ARBP, CIPLA (listed) and Hetero Drugs (unlisted). ARV sales with multilateral organisations and governments contribute 8-10% of revenues for Indian listed majors while the stakes are higher for Hetero and LAURUS (40-60% contribution from HIV drugs). However, we believe these threats are back-ended and expect CIPLA and ARBP to scale up their non-ARV sales in the interim. Maintain BUY on CIPLA (TP: Rs 1,160) and ARBP (TP: Rs 850) and HOLD on LAURUS (TP: Rs 570).

Recommendation snapshot

| Ticker | Price | Target | Rating |
|-----------|-------|--------|--------|
| ARBP IN | 680 | 850 | BUY |
| CIPLA IN | 955 | 1,160 | BUY |
| LAURUS IN | 528 | 570 | HOLD |

Price & Target in Rupees | Price as of 14 Feb 2022



STATES UPDATE

15 February 2022

State elections: Economic status of states

- With 5 states (13.2% of India's GDP) entering their Assembly elections, it is interesting to see how they stack up in relative terms on economic and social indicators. Understandably, the economic indicators may not quite have a bearing on voting patterns, but such a comparison will not only show the progress made between the last two Elections but point to the tasks on hand for the new government that comes to power. Notably, growth in larger States such as UP, Punjab have not picked up much.

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We have done a comparative analysis of these States in terms of economic and social indicators. Indicators such as project announcements, capital outlay/total expenditure, and credit metrics show to an extent the impact of lockdown.

Growth: UP and Punjab have the highest share in overall GSDP at 8.2% and 2.5% respectively. A CAGR analysis have shown that UP recorded a lower growth of 1.9% between FY27-FY21 as against 6.9% between FY12-17. Sector wise, share of services has picked up for UP, Uttarakhand and Goa, while share of industry has fallen for all the states. Even the share of agriculture has fallen except for Manipur.

Eliminating Covid-19 period: Interestingly, if we compare the CAGR between FY17-20 with the same period in previous election cycle (FY12-15), we get similar results. Growth has been better in smaller states such as Goa (1.2% versus -1.8%) and Manipur (6.6% versus 5.7%), while it was constant at 5.4% for Punjab. In case of UP, it was at 4.9% against 4.8%.

Inflation pressure reigns: In FY21, CPI inflation in States such as Uttarakhand (8.1%), Goa (6.9%) have remained elevated (national average: 6.2%). In UP, it was at 6.1% in FY21. In FYTD22 as well, inflation has picked up in all States (except Manipur). It was at 6% in Uttarakhand, 5.2% in Goa, and 5.1% in Punjab and UP (national average: 5.2%).

Investment: Investment has been a cause of worry for States. New Project announcements have fallen in FY21 compared with FY17, due to the pandemic. The capital outlay to total expenditure ratio has fallen sharply for UP in FY21 to 16.4% from 22.2% in FY17. Notably, for FY22, all States are expected to witness an increase in capital outlay/total expenditure, which may be growth positive.

Social indicators: Except UP, unemployment ratio has increased in all States in FYTD22 against FY12. Per capita income rose the most for Goa followed by Uttarakhand, compared to FY17. Social spending have moderated across the board (except Manipur).



TRADE

15 February 2022

Exports and imports moderate in Jan'22
Aditi Gupta
 Economist

India's trade deficit in FYTD22 has surged to US\$ 154.8bn from US\$ 73.6bn in FYTD21. This has been due to higher imports led by revival in domestic activity and higher commodity prices. Exports too have remained buoyant at US\$ 338bn in FYTD22, and are likely to exceed the government's target of US\$ 400bn in FY22. However, rising oil prices (above ~US\$ 90/bbl currently) are likely to inflate the oil import bill. This will put pressure on trade deficit and INR.

Export pace weakens in Jan'22: India's exports moderated to US\$ 34.5bn in Jan'22 (25.3% YoY) from a record-high of US\$ 37.8bn in Dec'21 (38.9%). Oil exports moderated more than non-oil exports. In FYTD22 (Apr-Jan), India's exports have increased at a solid pace of 47.8% to US\$ 338bn, compared with a decline of 13.4% in the same period last year. Improvement in global demand has contributed to the strong export performance. Oil exports have risen sharply by 150% in FYTD22 compared with a dip of 44.4% in FYTD21. In comparison, non-oil exports have risen by 38% compared with a decline of 8.6% in FYTD21. Within non-oil exports, significant improvement can be seen in the exports of gems and jewellery (62.9% in FYTD22 versus -29.3% in FYTD21), textiles (46.9% versus -9.2%), engineering goods (50.8% versus 0.8%) and chemicals (33.2% versus 7.1%). On the other hand, exports of agricultural products (14.6% from 17.5%) and drugs and pharmaceuticals (0.5% from 28.8%) has decelerated. *Compared with FY20, India's exports have increased at a robust pace of 28% during Apr'21-Jan'22.*

Imports elevated: Imports growth too moderated to an 11-month low of 23.6% in Jan'22 from 38.5% in Dec'21. While oil and gold imports dipped in Jan'22, non-oil-non-gold imports were broadly stable. On FYTD22 basis, imports have increased by 63% compared with a decline of 25.4% in FYTD21. In the same period, gold imports have increased by 94.1% versus a decline of 15.5% in FYTD21. It must be noted that gold prices declined by 1.9% in FYTD22 compared with an increase of 27.9% in FYTD21. Oil imports too have increased sharply by 97.3% after declining by 42.3% in FYTD21. Oil prices on an average were up 78.6% in FYTD22 compared with a decline of 34.5% in the same period last year. Non-oil-non-gold imports have also done well and risen by 50.1% in FYTD22 as domestic demand improved. The increase was broad-based. Maximum improvement can be seen in imports of coal (83.5% compared with -30.5% in FYTD21). *This can be attributed to higher coal prices amidst the global energy crisis and higher domestic demand as the economy opened up.* Even imports of edible oil imports have shown a sharp jump of 74.4% in FYTD22 (from 12.7%) due to high global prices. Further, imports of pearls and precious stones (75.2% from -24.9%) and ores and minerals (99.6% from -16.4%) have also shown improvement. Capital goods imports too have shown pickup and increased by 26% in FYTD22 compared with a decline of 26.4% in FYTD21. Within this, imports of machinery and transport equipments have improved. On the other hand, imports of project goods has continued to decline. In comparison, imports of machinery at 39.9% has remained muted. It must be noted that the government has announced measures to boost domestic production of capital goods by raising import duties on some equipment and machinery in the Union Budget.

Trade deficit: India's trade deficit is tracking higher at US\$ 154.8bn in FYTD22 compared with US\$ 73.6bn in FYTD21 as imports have risen at a faster pace than exports. Oil imports have almost doubled to US\$ 125bn from US\$ 63bn in FYTD22 led both by higher prices as well as improved demand as the economy revived. With oil prices now hovering above US\$ 90/bbl, import bill is likely to remain elevated. **We estimate that a US\$ 10/bbl increase in oil prices will increase oil imports by ~US\$ 2-3bn/month.** This will have an adverse impact on the trade deficit and hence USD/INR.



BUY

TP: Rs 260 | ▲ 35%

GREENPLY INDUSTRIES

Construction Materials

15 February 2022

New capacities to cater the growing demand

- Consolidated Q3 revenue grew 24% YoY backed by 11% increase in plywood volumes and 7% rise in price realisation for India operations
- Consolidated operating margin stood at 10.2% (11% excluding non-cash ESOP cost of Rs 30mn; down 130bps YoY)
- Reiterate BUY with an unchanged TP of Rs 260 based on 22x FY24E EPS

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Steady revenue growth: Greenply (GIL) reported consolidated Q3FY22 revenue growth of 24% YoY to Rs 4.2bn, with India business up 20% as plywood volumes grew 11% and price realisation increased 7% to Rs 235/sqm. Gabon subsidiary revenue climbed 58% YoY, aided by a low base.

Modest operating margin: The company took a price hike of ~8% in Q3 to mitigate the rise in input cost but this was implemented with a lag, resulting in sequential gross margin contraction of 335bps YoY to 38.7% in Q3. Operating margin stood at 10.2% (11% adjusted for non-cash ESOP cost) and EBITDA was at Rs 428mn (adj. Rs 458mn). India business also had a 10.2% EBITDA margin (adj. 11%) with gross margin down 400bps YoY. Management has taken a further ~2.5% price hike in Q4 to mitigate the rising inflation in some raw materials from the start of February.

MDF foray to cost Rs 5.5bn: GIL plans to foray into MDF manufacturing and is setting up a capacity of 800cbm per day at a cost of Rs 5.5bn for an estimated revenue potential of Rs 6.5bn at peak utilisation. This capacity is slated to come up in Gujarat by Q4FY23 and will be funded via debt and internal accruals. Per management, this will be the first MDF facility in Western India, giving the company a freight advantage over peers when catering to demand in the region. With this foray, GIL will be able to broaden its wood panel portfolio and deepen its presence in a growing market.

Expect strong plywood recovery: GIL is geared for a rebound in plywood volumes aided by (a) considerable balance sheet strengthening post Covid driven by the company's stricter control on receivables (which is likely to continue in the near term), and (b) strong recovery in the secondary real estate market, resulting in higher occupation rates of premises which will propel demand for plywood. Also, its strong presence in the plywood industry will facilitate a smooth entry into MDF.

Maintain BUY: The stock is trading at 16.3x FY24E P/E compared to its five-year median of 21.4x. We maintain our target FY24E P/E multiple at 22x for a TP of Rs 260 on the back of the anticipated revival in plywood, GIL's entry into the high-margin MDF business, strong brand and pan-India distribution network. Retain BUY.

Key changes

| Target | Rating |
|--------|--------|
| ◀ ▶ | ◀ ▶ |

| | |
|------------------|----------------|
| Ticker/Price | MTLM IN/Rs 192 |
| Market cap | US\$ 313.1mn |
| Free float | 48% |
| 3M ADV | US\$ 0.8mn |
| 52wk high/low | Rs 255/Rs 157 |
| Promoter/FPI/DII | 52%/4%/44% |

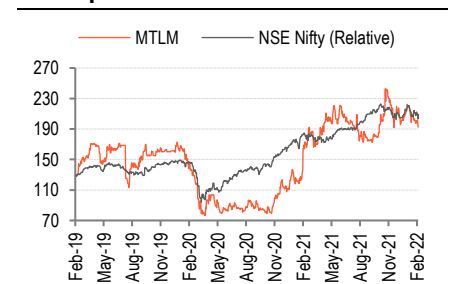
Source: NSE | Price as of 15 Feb 2022

Key financials

| Y/E 31 Mar | FY21A | FY22E | FY23E |
|-------------------------|--------|--------|--------|
| Total revenue (Rs mn) | 11,653 | 14,217 | 16,230 |
| EBITDA (Rs mn) | 1,167 | 1,617 | 2,088 |
| Adj. net profit (Rs mn) | 609 | 947 | 1,251 |
| Adj. EPS (Rs) | 5.0 | 7.7 | 10.2 |
| Consensus EPS (Rs) | 5.0 | 8.8 | 11.0 |
| Adj. ROAE (%) | 15.0 | 19.7 | 21.4 |
| Adj. P/E (x) | 38.7 | 24.9 | 18.8 |
| EV/EBITDA (x) | 22.3 | 15.6 | 11.9 |
| Adj. EPS growth (%) | (27.6) | 55.5 | 32.1 |

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

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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