FIRST LIGHT

16 May 2022

RESEARCH

BOB Economics Research | Petrol Prices

How high is the price of petrol in India?

BOB Economics Research | Trade

Trade deficit widens

Alkem Labs | Target: Rs 3,400 | +17% | BUY

Q4 revenue in line; margin guidance weak

Tech Mahindra | Target: Rs 1,940 | +61% | BUY

In-line performance; Communication TCV strong

Amber Enterprises | Target: Rs 3,500 | +4% | HOLD

Components business remains in focus

Daily macro indicators

Indicator	11-May	12-May	Chg (%)
US 10Y yield (%)	2.92	2.85	(7bps)
India 10Y yield (%)	7.22	7.24	3bps
USD/INR	77.24	77.43	(0.2)
Brent Crude (US$/bbl)	107.5	107.5	(0.1)
Dow	31,834	31,730	(0.3)
Hang Seng	19,825	19,380	(2.2)
Sensex	54,088	52,930	(2.1)
India FII (US$ mn)	**10-May**	**11-May**	**Chg ($ mn)**
FII-D	(201.3)	3.0	204.3
FII-E	(449.4)	(388.7)	60.6

Source: Bank of Baroda Economics Research

SUMMARY

India Economics: Petrol Prices

Rising fuel prices in India has led to considerable debate on which government, state or central, should be lowering their taxes to keep prices under control. The rise in fuel prices is mainly due to the global price of crude going up. Governments have acted differently in various countries on fuel pricing. Further, a stronger dollar has added to the cost of crude oil which is refined by the OMCs. Just how high are the prices in India compared to other countries?

Click here for the full report.

India Economics: Trade

India's trade deficit expanded to US$ 20.1bn in Apr'22 from US$ 18.5bn in Mar'22. While headwinds for exports have risen as the global growth outlook remains marred by concerns over monetary policy tightening, Russia-Ukraine war and China's Covid-19 situation. On the other hand, imports are likely to remain high amidst elevated commodity prices, specially oil. We thus expect India's trade deficit to widen further in FY23. We expect CAD at 2.5% of GDP. This will put further pressure on INR.

Click here for the full report.

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Alkem Labs

- Q4 revenue of Rs 24.8bn broadly in line with our estimate; PAT reduced 55% to Rs 1.1bn on account of prior years' tax
- FY23 gross margin guided to contract 150-170bps amid RM inflation and US price erosion; some signs of easing in the latter
- We cut FY23-FY24 EBITDA 3-9% and pare our EV/EBITDA multiple to 15x (vs. 17x) for a new TP of Rs 3,400 (vs. Rs 4,000); retain BUY

Click here for the full report.

Tech Mahindra

- Q4 revenue growth in line at 4.9% QoQ USD, spearheaded by the enterprise segment; TCV robust at US$ 1.01bn
- EBIT margin declined 80bps QoQ to 13.2%, impacted by higher employee cost
- We maintain FY23/FY24 EPS estimates and retain BUY with an unchanged TP of Rs 1,940

Click here for the full report.

Amber Enterprises

- Q4 topline strong but higher RM and operating costs dent margins and bottomline
- Diversification into non-AC segment, rising focus on components and new customer acquisition to underpin future growth
- PLI scheme a key positive driver while higher RM costs and hence ASPs pose a threat to demand recovery; HOLD, TP Rs 3,500

Click here for the full report.

PETRAL PRICES

13 May 2022

How high is the price of petrol in India?

Sonal Badhan
Economist

Rising fuel prices in India has led to considerable debate on which government, state or central, should be lowering their taxes to keep prices under control. The rise in fuel prices is mainly due to the global price of crude going up. Governments have acted differently in various countries on fuel pricing. Further, a stronger dollar has added to the cost of crude oil which is refined by the OMCs. Just how high are the prices in India compared to other countries?

In the table below we have juxtaposed petrol prices as of May 9 in various countries with the per capital income. The latter would indicate further whether citizens get impacted more or less due to these high prices.

For a set of 106 countries for which data is available, the price in India at $ 1.35/litre is 42nd in rank. Hence there are over 50 countries where the price is higher. This should provide some comfort that in absolute terms India is not an outlier. The median price was around $ 1.22/litre.

The table provides prices for some major economies where Indian price can be meaningfully compared. Fuel prices in India are at par with those in Australia, Turkey, and South Korea. However, the price is very high in case of Hong Kong, Finland, Germany, Italy, Netherlands, Greece, France, Portugal and Norway where it above $ 2/litre.

Amongst comparable countries (per capita wise), prices are much lower in Vietnam, Kenya, Ukraine, Bangladesh, Nepal, Pakistan, Sri Lanka, Venezuela. Countries that are major oil producers have much lower prices.

India's petrol price does not now look too much out of place. However, when juxtaposed with the per capita income, it can be seen that wherever prices are higher, the per capita income is much higher than in India. Therefore, the economic pain caused is much higher for countries with low per capita income as its direct and indirect effect on inflation is higher which in turn impacts the lower income groups the most. In the table, Philippines has comparable petrol price but has a per capita income higher than India by over 50%. Countries which have a lower per capita income like Kenya, Bangladesh, Nepal, Pakistan, and Venezuela have much lower price of petrol and hence are impacted less than India.

Therefore there is still a strong case for the government to consider lowering the taxes on fuel to protect the interest of the people.

TRADE

13 May 2022

Trade deficit widens

Aditi Gupta
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India's trade deficit expanded to US$ 20.1bn in Apr'22 from US$ 18.5bn in Mar'22. While headwinds for exports have risen as the global growth outlook remains marred by concerns over monetary policy tightening, Russia-Ukraine war and China's Covid-19 situation. On the other hand, imports are likely to remain high amidst elevated commodity prices, specially oil. We thus expect India's trade deficit to widen further in FY23. We expect CAD at 2.5% of GDP. This will put further pressure on INR.

Exports grow at a healthy pace: India's exports rose by 30.7% in Apr'22, compared with 19.8% in Mar'22 on a YoY basis. This was led by a pickup in both oil (127.5% versus 115.4% in Mar'22) and non-oil (17.7% in Apr'22 versus 8.9% in Mar'22) exports. Within non-oil exports, exports of engineering goods witnessed an improvement to 22% in Apr'22 from 17% in Mr'22. Other items such as drugs and pharmaceuticals (9.5% in Apr'22 versus 4.2% in Mar'22), organic and inorganic chemicals (32.3% in Apr'22 from 22% in Mar'22) also accelerated. Exports of agricultural products increased by 4.2% in Apr'22, after declining by 3% in Mar'22. On the other hand, exports of gems and jewellery (2.6% in Apr'22 from 4.6% in Mar'22) and textiles (13.8% in Apr'22 from 19.5% in Mar'22) decelerated.

Imports too accelerate: Import growth also accelerated to 31% in Apr'22 from 24.2% in Mar'22. This was led by an increase in oil imports to 87.5% in Apr'22 from 83% in Mar'22. Even gold imports declined at a slower pace of 72.4% in Apr'22 compared with a decline of 87.7% in Mar'22. Reflecting the impact of higher commodity prices, India's imports rose to a fresh record-high of US$ 60.7bn in Mar'22 from US$ 55.4bn in Feb'22. On the other hand, non-oil-non-gold imports lost some momentum and rose by 32.2% in Apr'22 compared with 35.7% in Mar'22. While import of vegetable oils and coal decelerated on a YoY basis, it continues to remain elevated amidst high domestic demand. Vegetable oil imports rose by 35.5% (61.1% in Mar'22) and coal imports rose by 146.3% (164.7%). Other categories showing a marked decline were: pearls and precious stones (5% in Apr'22 from 34.6% in Mar'22), electronic goods (32.9% in Apr'22 from 45.5% in Mar'22) and agriculture products (33.6% in Apr'22 from 56.4% in Mar'22). Capital goods imports declined for the third-straight month albeit at a slower pace of 0.1% compared with a decline of 3.2% in Mar'22. Within this, imports of transport equipment declined sharply by 21.2% in Apr'22 versus a decline of 8.1% in Mar'22. On the other hand, imports of machinery and project goods showed improvement.

Trade deficit widens again: India's trade deficit widened to US$ 20.1bn in Apr'22 from US$ 18.5bn in Mar'22. Sequentially while exports dipped by US$ 2bn, imports remained steady, leading to the widening of trade deficit. Non-oil exports declined. While export growth remained buoyant in FY22, possible slowdown in global growth remains a key headwind for exports going forward. On the other hand, Overall, we expect India's trade deficit at ~US$ 240bn in FY23 (7.1% of GDP) compared with US$ 194.3bn in FY22 (6.1% of GDP). Higher receipts on account of services exports and remittances will offer some support. Even so, CAD is likely to expand to 2.5% of GDP in FY23 from xx% of GDP in FY22. This is likely to put further pressure on INR.

RESULT REVIEW

BUY

TP: Rs 3,400 | ⮝ 17%

ALKEM LABS | Pharmaceuticals | 14 May 2022

Q4 revenue in line; margin guidance weak

- **Q4 revenue of Rs 24.8bn broadly in line with our estimate; PAT reduced 55% to Rs 1.1bn on account of prior years' tax**
- **FY23 gross margin guided to contract 150-170bps amid RM inflation and US price erosion; some signs of easing in the latter**
- **We cut FY23-FY24 EBITDA 3-9% and pare our EV/EBITDA multiple to 15x (vs. 17x) for a new TP of Rs 3,400 (vs. Rs 4,000); retain BUY**

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Domestic and ROW markets lead growth in Q4: Alkem's Q4FY22 revenue growth (13% YoY, -5% QoQ) was led by India (+17% YoY) and ROW markets (+35%) while the US remained flat. Domestic (~70% contribution) growth primarily came from acute therapies such as anti-infectives, VMN, gastrointestinal and pain management therapies, further aided by Covid-19 tailwinds. Trade generics contributed 32% in Q4 and branded formulations 68%. The chronic-to-acute breakup of branded formulations was 80:20. Management expects field force addition, the respiratory foray and improving productivity to drive 10-12% growth for the domestic business in FY23.

Elevated price erosion hurt US business: US revenue for the quarter declined ~6% QoQ to US$ 72mn due to significant pricing pressure in the generic market. Management indicated that pricing pressure is easing and expects 10-12% growth in FY23 based on new launches and stabilising prices. Currently, 50% of the company's 160 ANDAs are yet to be commercialised while it also expects to achieve full potential in 15 of its launched products, which would drive core business in FY23.

FY23 gross margin guided to contract 150-170bps; tax rate to be 13-14%: As seen across the industry, soaring raw material and logistics costs impacted Alkem's gross/EBITDA margin by 350bps/550bps QoQ, resulting in a lower EBITDA margin of 13.6% in Q4 vs. 19.0%/13.3% in Q3FY22/Q4FY21. Management expects a contraction of 150-170bps at the gross margin level in FY23.

Maintain BUY; reduce TP to Rs 3,400: We cut our FY23-FY24 EBITDA estimates by 3-9% and trim our FY24E EV/EBITDA multiple to 15x (earlier 17x) in light of the reduced margin guidance amid persisting cost headwinds and US price erosion. Our TP thus reduces to Rs 3,400 (earlier Rs 4,000). The stock has corrected ~15% in the last one month and is attractively valued at 12x FY24E EV/EBITDA – we thus retain BUY.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ALKEM IN/Rs 2,906
Market cap	US$ 4.5bn
Free float	39%
3M ADV	US$ 4.2mn
52wk high/low	Rs 4,070/Rs 2,832
Promoter/FPI/DII	59%/5%/14%

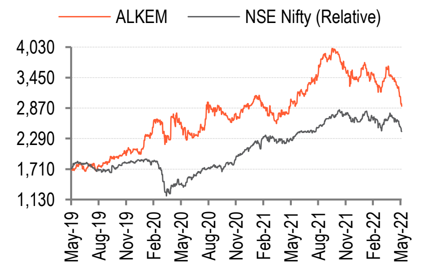
Source: NSE | Price as of 13 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	1,06,342	1,21,297	1,35,977
EBITDA (Rs mn)	20,529	21,851	26,585
Adj. net profit (Rs mn)	16,606	16,385	21,051
Adj. EPS (Rs)	138.9	137.1	176.1
Consensus EPS (Rs)	138.9	158.5	179.0
Adj. ROAE (%)	24.4	20.6	22.4
Adj. P/E (x)	20.9	21.2	16.5
EV/EBITDA (x)	16.9	15.8	12.6
Adj. EPS growth (%)	4.8	(1.3)	28.5

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

Stock performance



Source: NSE

FLASH NOTE

BUY

TP: Rs 1,940 | ⮝ 61%

TECH MAHINDRA | Technology & Internet | 13 May 2022

In-line performance; Communication TCV strong

- **Q4 revenue growth in line at 4.9% QoQ USD, spearheaded by the enterprise segment; TCV robust at US$ 1.01bn**
- **EBIT margin declined 80bps QoQ to 13.2%, impacted by higher employee cost**
- **We maintain FY23/FY24 EPS estimates and retain BUY with an unchanged TP of Rs 1,940**

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In-line performance: TECHM's Q4FY22 revenue grew 4.9% QoQ USD, in keeping with our estimate of 5%. The telecom/enterprise segments grew 4.1%/ 5.4% QoQ USD. Within the enterprise segment, TME/BFSI led the way at 16.1%/18.5% QoQ USD. Manufacturing, RCPG and others were laggards. Geography-wise, Europe posted the highest uptick of 8.6% QoQ USD aided by some changes in leadership. A total of 22 new clients were added in the >US$ 1mn bucket.

Margin declines: EBIT margin fell 160bps QoQ to 13.2%, slightly below our estimate of 14%. While SG&A remained flat QoQ as a percentage of revenue, employee cost increased 70bps QoQ (salary and retention-related impacts). Lower utilisation at 83% (-100bps QoQ) and offshoring at 38% (-100bps QoQ) weighed on margins. Q4 saw a higher forex gain and lower tax rate as TECHM moved to the new tax regime. The company plans to hire more freshers and increase offshoring to stabilise margins. It hired ~6k employees QoQ and reported a flat sequential attrition rate of 24%. TECHM will have another wage hike cycle in July.

Strong TCV uptick: Total TCV stood at US$ 1.01bn, up 43.6% QoQ. TCV was split between CME and enterprise business as US$ 645mn and US$ 366mn respectively. Most large deals were concentrated in the CME and BFSI verticals, which signals strong traction in the communication vertical in upcoming quarters.

FY23 outlook: TECHM indicated that it will continue to focus on organic growth, higher EBIT margins (~15%) and the metaverse going forward. The company aims to move away from low-margin geographies to reduce margin impact. Management expects the technology vertical to boost growth in a major way.

Other takeaways: The board has recommended a final dividend of Rs 15/sh. DSO stood at 97, down 4 days QoQ, improving from last quarter.

Retain BUY: Given the in-line performance, we keep our FY23/FY24 EPS estimates unchanged. Maintain BUY with a TP of Rs 1,940, based on an unchanged P/E of 22.5x.

Ticker/Price	TECHM IN/Rs 1,203
Market cap	US$ 13.6bn
Free float	64%
3M ADV	US$ 49.3mn
52wk high/low	Rs 1,838/Rs 941
Promoter/FPI/DII	36%/39%/25%

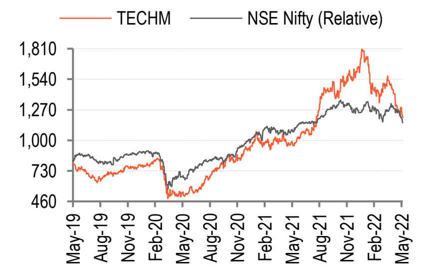
Source: NSE | Price as of 13 May 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	446,460	536,667	622,673
EBITDA (Rs mn)	80,201	102,366	120,807
Adj. net profit (Rs mn)	55,662	65,565	77,652
Adj. EPS (Rs)	63.3	74.6	88.3
Consensus EPS (Rs)	63.9	72.7	80.1
Adj. ROAE (%)	21.2	22.5	23.6
Adj. P/E (x)	19.0	16.1	13.6
EV/EBITDA (x)	13.0	10.0	8.4
Adj. EPS growth (%)	25.7	17.8	18.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 3,500 | ⮝ 4%

AMBER ENTERPRISES | Consumer Durables | 13 May 2022

Components business remains in focus

- **Q4 topline strong but higher RM and operating costs dent margins and bottomline**
- **Diversification into non-AC segment, rising focus on components and new customer acquisition to underpin future growth**
- **PLI scheme a key positive driver while higher RM costs and hence ASPs pose a threat to demand recovery; HOLD, TP Rs 3,500**

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Higher costs dent bottomline: Amber's Q4FY22 revenue increased 21% YoY to Rs 19.4bn on the back of strong volumes and higher price realisations. Gross margin declined 210bps YoY to 13.8% as the company was not able to completely pass on the rising raw material prices. EBIT margin contracted 250bps YoY to 4.9% as higher operating leverage was negated by lower gross margins as well as increased depreciation, staff cost and other expenses. Adj. net income fell 24% YoY to Rs 572mn.

Diversification into non-AC segment to underpin growth: Amber is the largest third-party ODM (original design manufacturer) for room ACs (RAC). Through strategic acquisitions, the company has not only strengthened its backward integration in RACs but also expanded its horizon in newer markets such as mobility applications, printed circuit boards (PCB) for refrigerators and washing machines, as well as wearables and hearables for BoAT. In FY15-FY16, non-RAC contribution was negligible, but recent acquisitions have taken revenue share from this business to 25% in FY22.

Focus on components: Amber has been making constant efforts to raise the mix of AC components in total sales and these now contribute 50% vs. 25% in FY15. As the component proportion rises, the company has shifted its focus toward gaining value rather than volumes. It currently holds 26.5% market share in components by value and aims to improve its share by a further 100bps in FY23.

Rising RM cost a key risk for contractors…: This year's intense summer season augurs well for the AC industry as a whole and all OEM players are expected to make the most of it after two washout summers due to Covid. Further, the government's PLI schemes are expected to bring about a structural change in the industry. Even so, rising RM cost can dampen the demand recovery, leading to a softening of the order book for third-party contract manufacturers such as Amber.

…HOLD, TP Rs 3,500: We value Amber at 40x FY24E EPS, a 21% premium over its 4Y average, and assume coverage with HOLD. Key positive drivers include potential PLI incentives and export opportunities. Downside risks include RM inflation hurting AC sales recovery and more OEMs setting up own manufacturing units in India.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	AMBER IN/Rs 3,379
Market cap	US$ 1.5bn
Free float	60%
3M ADV	US$ 3.5mn
52wk high/low	Rs 4,026/Rs 2,684
Promoter/FPI/DII	40%/28%/9%

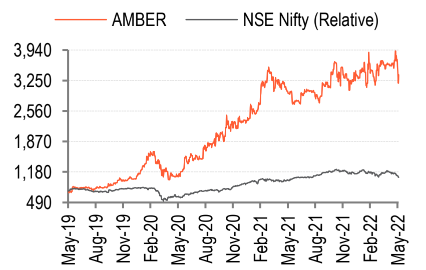
Source: NSE | Price as of 13 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	42,064	58,361	74,154
EBITDA (Rs mn)	2,734	4,372	5,827
Adj. net profit (Rs mn)	984	1,893	2,867
Adj. EPS (Rs)	30.1	57.9	87.7
Consensus EPS (Rs)	30.1	78.0	105.8
Adj. ROAE (%)	5.8	10.4	13.9
Adj. P/E (x)	112.3	58.4	38.5
EV/EBITDA (x)	42.2	26.7	20.6
Adj. EPS growth (%)	39.0	92.5	51.4

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

Stock performance



Source: NSE

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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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