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FIRST LIGHT

18 April 2022

RESEARCH

Pharmaceuticals | Q4FY22 Preview

Domestic business to lead growth in Q4

Infosys | Target: Rs 2,130 | +22% | BUY

Subpar quarter; FY23 guidance robust

BOB Economics Research | Trade

Record-high exports

SUMMARY

Pharmaceuticals | Q4FY22 Preview

- With no meaningful FDA approvals, US generic sales growth for our pharma coverage to be tepid in Q4; Russia-Ukraine war to hurt ROW/EM sales
- Tailwinds in acute therapies and sustained growth in chronic drugs to boost India formulation sales
- Higher crude and RM prices amid geopolitical tensions to impact gross margin; lifting of lockdown to increase overheads and curtail EBITDA

Click here **for the full report.**

Infosys

- Q4 revenue growth muted at 0.7% QoQ USD, below our (4.1%) and street estimates. TCV robust at US$ 2.3bn
- EBIT margin down 200bps QoQ to 21.5%, below our estimate of 22.8% due to lower efficiency and higher visa costs
- FY23/24 EPS cut 6.5%/4%; on rollover, our TP reduces to Rs 2,130 (vs. Rs 2,250). Maintain BUY on strong guidance and robust demand climate

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Daily macro indicators

Indicator	11-Apr	12-Apr	Chg (%)
US 10Y yield (%)	2.78	2.72	(6bps)
India 10Y yield (%)	7.15	7.19	4bps
USD/INR	75.96	76.14	(0.2)
Brent Crude (US$/bbl)	98.5	104.6	6.3
Dow	34,308	34,220	(0.3)
Hang Seng	21,208	21,319	0.5
Sensex	58,965	58,576	(0.7)
India FII (US$ mn)	**08-Apr**	**11-Apr**	**Chg ($ mn)**
FII-D	(6.1)	(41.5)	(35.4)
FII-E	(52.2)	(192.7)	(140.5)

Source: Bank of Baroda Economics Research

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India Economics: Trade

India's trade deficit narrowed to US$ 18.5bn in Mar'22 from US$ 20.9bn in Feb'22 as exports rose at a much faster pace than imports on a MoM basis. In FY22, exports have increased by 42.8%, while imports have increased by 55.4%. Oil imports have increased by 93.1%, reflecting a sharp recovery in oil prices. With global commodity prices continuing an upward momentum, import bill is likely to remain elevated even in FY23. We expect CAD at 2.5% of GDP. Higher oil prices remain a key risk.

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PHARMACEUTICALS | Q4FY22 Preview | 13 April 2022

Domestic business to lead growth in Q4

- **With no meaningful FDA approvals, US generic sales growth for our pharma coverage to be tepid in Q4; Russia-Ukraine war to hurt ROW/EM sales**
- **Tailwinds in acute therapies and sustained growth in chronic drugs to boost India formulation sales**
- **Higher crude and RM prices amid geopolitical tensions to impact gross margin; lifting of lockdown to increase overheads and curtail EBITDA**

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India formulations business to remain primary growth driver: We expect 9% YoY revenue growth from pharmaceutical companies under our coverage in Q4FY22. This will largely come from tailwinds in acute therapies, providing benefits to companies such as CIPLA, SUNP, DRRD, ALKEM and ALPM that have acute-heavy portfolios and hence should deliver mid-teen topline growth on average. Chronic therapies have also seen sustained growth in Q4, unlike in Q3.

Weak approvals a drag on US sales: We expect muted US sales growth in the range of 1-3% QoQ CC for our coverage considering the challenging environment in terms of deeper price erosion and lower volumes (especially in the hospital segment) in comparison to pre-Covid levels. While SUNP's specialty sales are likely to improve with better traction in Winlevi, the lack of meaningful USFDA product approvals has led to lacklustre sales growth in US generics for most players.

Geopolitical tensions, costly RM and high base to squeeze earnings: We expect earnings for our coverage universe to decline 23% QoQ given headwinds from the Russia-Ukraine war, higher crude prices (and hence higher prices of benzene-based raw materials), weaker API sales, overhead cost rise post pandemic (marketing, staff, distribution), and lower realisations on Covid drugs. All costs items are experiencing inflation which was absent in both Q3 and the year-ago quarter. While a few players believe the increased marketing costs will largely be offset by online marketing, we are observing a swift return to offline industry practices with the lifting of lockdown measures.

Long-term prospects intact; valuations reasonable post price correction: The pharma index has underperformed benchmark indices following a strong correction since January. While the Nifty Pharma index has beaten the benchmark over the past 24 months (69% vs. 48%), the recent transient headwinds on multiple fronts pose challenges to earnings growth in the medium term, which is being reflected in valuations. In our view, long-term growth prospects for the sector remain intact and we retain our positive view. Based on the recent correction and our EPS estimate revision (Fig 6), our targets for LPC/CIPLA change from Rs 815/Rs 1,160 to Rs 800/Rs 1,200 (ratings remain at HOLD/BUY) while our rating for ALKEM stands upgraded from HOLD to BUY (TP stays at Rs 4,000).

Recommendation snapshot

Ticker	Price	Target	Rating
AJP IN	1,724	2,655	BUY
ALKEM IN	3,420	4,000	BUY
ALPM IN	770	905	BUY
ARBP IN	684	850	BUY
CIPLA IN	1,017	1,200	BUY
DIVI IN	4,499	5,250	BUY
DRRD IN	4,299	4,700	HOLD
ERIS IN	703	890	BUY
LAURUS IN	603	570	HOLD
LPC IN	773	800	HOLD
SUNP IN	937	1,100	BUY

Price & Target in Rupees | Price as of 13 Apr 2022

BUY
TP: Rs 2,130 | ⮝ 22%

INFOSYS | Technology & Internet | 13 April 2022

Subpar quarter; FY23 guidance robust

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- **Q4 revenue growth muted at 0.7% QoQ USD, below our (4.1%) and street estimates. TCV robust at US$ 2.3bn**
- **EBIT margin down 200bps QoQ to 21.5%, below our estimate of 22.8% due to lower efficiency and higher visa costs**
- **FY23/24 EPS cut 6.5%/4%; on rollover, our TP reduces to Rs 2,130 (vs. Rs 2,250). Maintain BUY on strong guidance and robust demand climate**

Slow growth: INFO reported underwhelming growth of 0.7% QoQ USD in Q4FY22, well below our estimate of 4.1% due to fewer working days. BFSI saw soft growth at 0.1% QoQ USD while life sciences posted a sharp drop of 11.4%. Management is confident of strong BFSI demand in FY23. Digital business formed 59% of quarterly revenues. EBIT margin contracted 200bps QoQ to 21.5%, underperforming our estimate of 22.8% due to lower efficiency and high visa costs.

Demand environment robust: TCV at US$ 2.3bn was robust (-9.1% QoQ USD). The overall demand climate remains strong, as indicated by strong hiring. Cybersecurity has emerged as a high-demand area due to increased threat perception. INFO aims to expand its cloud and digital work and strengthen its employee value proposition.

Attrition at all-time high: INFO added 22,000 net employees in Q4 amid record attrition of 27.7%. Utilisation remained high at 87.5%. The company will be rolling out another round of salary hikes (onsite and offshore), promotions and bonuses.

Guidance robust: INFO has guided for robust 13-15% CC growth in FY23 based on the strong demand environment and robust deal pipeline. Management does not expect any slowdown in Eastern Europe. Operating margin guidance stood at 21-23% for FY23. Despite slightly lower TCV (-9.1% QoQ in Q4FY22), management is confident on its FY23 guidance, which factors in the upcoming Q1 wage hike as well as higher travel and facility costs. INFO is planning investments in the areas of cloud and automation. It intends to hire >50,000 campus recruits in FY23.

Other takeaways: The board has recommended an interim dividend of Rs 16/sh. INFO has decided to transfer the small delivery centre (with ~100 employees) in Russia to other global centres.

Retain BUY: Factoring in the muted Q4 numbers, we cut our FY23/FY24 EPS estimates by 7%/4%. On rollover to Jun'24 valuations, we have a revised TP of Rs 2,130 (vs. Rs 2,250 earlier) based on an unchanged 33.5x P/E. Maintain BUY on strong growth and margin guidance.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	INFO IN/Rs 1,749
Market cap	US$
Free float	3,319%
3M ADV	US$ 162.5mn
52wk high/low	Rs 1,954/Rs 1,311
Promoter/FPI/DII	13%/33%/54%

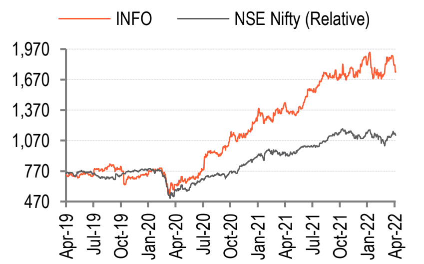
Source: NSE | Price as of 13 Apr 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	1,004,730	1,216,410	1,393,561
EBITDA (Rs mn)	279,350	314,820	341,856
Adj. net profit (Rs mn)	193,990	223,210	246,986
Adj. EPS (Rs)	45.5	53.0	58.7
Consensus EPS (Rs)	45.5	52.8	59.5
Adj. ROAE (%)	27.2	29.3	30.6
Adj. P/E (x)	38.4	33.0	29.8
EV/EBITDA (x)	26.0	23.0	21.2
Adj. EPS growth (%)	16.7	16.5	10.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

TRADE

13 April 2022

Record-high exports

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Exports touch record-high in Mar'22: India's exports rose to a historic-high of US$ 42.2bn in Mar'22 from US$ 34.6bn in Feb'22. In FY22, exports have risen to US$ 416.3bn, surpassing the government's target of US$ 400bn and well above US$ 291.6bn in FY21. On a YoY basis, exports increased by 42.8% in FY22 compared with a decline of 6.9% in FY21. This was led by a sharp jump in oil exports (144% in FY22 versus decline of 37.5% in FY21). Non-oil exports too rose by 32.9% in FY22 from a decline of 2.3% in FY21. Within this, exports of gems and jewellery (50.2% versus decline of 27.3% in FY21), engineering goods (45% versus decline of 2.6% in FY21) and textiles (41.2% versus decline of 13.4% in FY21) showed maximum improvement. On the other hand, exports of drugs and pharmaceuticals moderated to 0.7% from 18% in FY21. Overall, compared with pre-pandemic period (FY20), exports have posted a solid increase of 32.9% in FY22.

Imports too accelerate: 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. Imports have increased to US$ 609bn in FY22 (55.4% rise on a YoY basis), from US$ 392bn in FY21. Oil imports rose by 93.1% in FY22 compared with a dip of 36.7% in FY21. Notably, oil prices increased by 74.4% in FY22, on a YoY basis. Gold imports too surged to US$ 46.2bn in FY22 (33.6% increase) compared with US$ 34.6bn in FY21. Even non-oil-non-gold imports saw a steep increase of 46.7% in FY22 following a decline of 13% in FY21. Apart from higher commodity prices, a part of the increase can also be attributable to improved demand as the economy recovered. Improvement was seen across the board, with coal (94.9% in FY22 versus decline of 27.6%), ores and minerals (92.9% in FY22 versus decline of 8.9%) and vegetable oils (71.5% in FY22 versus 14.7% in FY21) showing maximum traction. Imports of capital goods too recovered to 32.5% in FY22 after declining by 20.2% in FY21. Electronic imports rose by 35.3% in FY22 compared with a decline of 0.3% in FY21. Imports are now higher by 28.3% compared with pre-pandemic levels, led by gold (63.8%) imports. Non-oil-non-gold imports are higher by 26.7%, while oil imports too are higher by 22.2% over a 2-year period.

Trade deficit narrows: India's trade deficit narrowed to US$ 18.5bn in Mar'22 from US$ 20.9bn in Feb'22 as exports (+US$ 7.7bn) increased at a faster pace than imports (+US$ 5.3bn MoM). However, at US$ 192.7bn in FY22 (6.1% of GDP), India's trade deficit is almost double the level seen in FY21 (US$ 100.4bn). It must be noted that a large part of the increase in trade deficit can be traced to higher oil imports. In fact, India's oil deficit has jumped to US$ 96.7bn in FY22 from US$ 56.9bn in FY21. With oil prices continuing to trade above ~US$ 100/bbl, import bill is likely to remain elevated. For FY23, we expect CAD at 2.3% of GDP assuming oil prices at US$ 100/bbl. However, higher oil prices remain a key risk to our view. We estimate that a US$ 10/bbl increase in oil prices, leads to a US$ 14-15bn (0.4% of GDP) rise in trade deficit. This will also put pressure on INR. However, buoyant remittances and services receipts are likely to provide some relief.

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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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