

RESEARCH
BOB Economics Research | Fuel Taxes

Understanding the economics of fuel taxes

RPG Life Sciences | NOT RATED

Investor day takeaways - Chronic and specialty launch focus

SUMMARY
India Economics: Fuel Taxes

Fuel taxes have been a contentious issue in India especially at a time when inflation has been increasing. The central government has lowered the excise duty on petrol and diesel and nudged states to lower their VAT rates. Some have, though most have let it be, on grounds of their fiscal balances being affected. On the other side there has been an increase in prices of other fuel products like LPG and ATF.

Therefore there are some prices which are going up while others are moving down, albeit gradually. At the same time the global price of crude oil has been volatile and presently is around US\$ 90/barrel while it tested the US\$ 120/bbl level when the Ukraine war was at its peak. There have been pertinent arguments made that when the crude oil price had crashed to low levels during the pandemic the benefit was not transmitted fully to the consumer as taxes were increased. Hence, the economics of fuel taxes is complex.

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

RPG Life Sciences

- EBITDA margin up 10ppt from FY19 levels to ~20% in FY22 as efforts to improve operational efficiency pay off
- FY19-FY22 revenue CAGR at 10% (+13% in FY22) underpinned by domestic formulations business
- Chronic/specialty focus in domestic formulations to sustain growth momentum backed by launches and productivity gains

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Daily macro indicators

Indicator	14-Sep	15-Sep	Chg (%)
US 10Y yield (%)	3.40	3.45	4bps
India 10Y yield (%)	7.12	7.20	8bps
USD/INR	79.44	79.70	(0.3)
Brent Crude (US\$/bbl)	94.1	90.8	(3.5)
Dow	31,135	30,962	(0.6)
Hang Seng	18,847	18,930	0.4
Sensex	60,347	59,934	(0.7)
India FII (US\$ mn)	13-Sep	14-Sep	Chg (\$ mn)
FII-D	93.9	30.4	(63.5)
FII-E	578.5	(172.7)	(751.2)

Source: Bank of Baroda Economics Research

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FUEL TAXES

16 September 2022

Understanding the economics of fuel taxes

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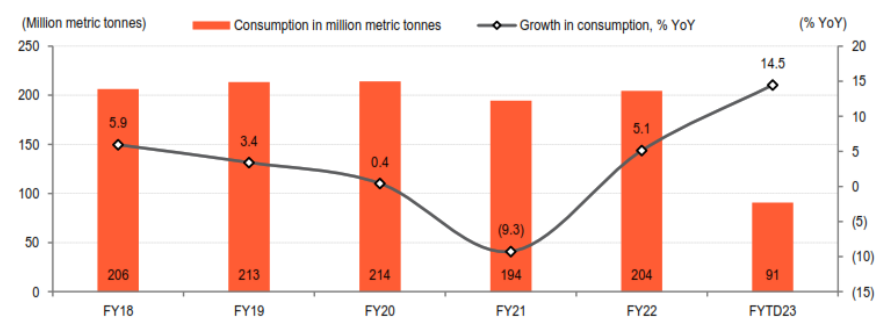
Aditi Gupta
Economist

The foregoing analysis takes an ex-post view on fuel taxes where we look at aggregate consumption of all fuel products and juxtapose the same with the aggregate tax revenue garnered by both the centre and state. This will give an idea on whether as consumers we pay higher effective taxes on fuel products through various cycles of crude oil prices.

Trends in domestic petroleum consumption:

Petroleum consumption in India increased from about 206 metric tonnes (MT) in FY18 to 214 MT in FY20. In terms of YoY growth, petroleum consumption in India has been moderating in the past few years. From 5.9% in FY18, growth in petroleum consumption decelerated to 0.4% in FY20. In FY21, it declined to 194 MT (-9.3%) due to the lockdown restrictions in place during the Covid-19 pandemic. Petroleum consumption rose by 5.1% in FY22 to 204 MT, amidst a pickup in economic activity and increased mobility as the country emerged from the pandemic. However, it still continued to trail the pre-pandemic level by ~5%.

Figure 1: Petroleum consumption in India improving



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RPGL LIFE SCIENCES

| Pharmaceuticals

| 16 September 2022

Investor day takeaways: Chronic and specialty launch focus

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Key takeaways from RPGL's (Not Rated) investor day held on 14 September:

Thrust on specialty and chronic therapies: Chronic and specialty therapies remain focus areas for RPGL with a raft of product launches in FY22, including IroHigh, Azilta, DPO, DPO-M, Mirasman-S, Solifirst and Tamflo DFZ. The company is a leader in immunosuppressants which contribute 35% of its turnover (including domestic, international and API sales). Azathioprine (flagship brand) currently forms 70-75% of the immunosuppressant portfolio. Management expects the share of other brands such as Mycophenolate to improve significantly going forward.

Five pillars for domestic growth: RPGL continues to target above-industry growth by (1) rejuvenating the product portfolio via chronic and specialty launches, (2) building strategic brand assets through lifecycle management by introducing line extensions, (3) deepening customer coverage in targeted therapies via field-force expansion and digital deployment, (4) raising salesforce efficacy by building competencies and productivity, and (5) improving profitability through opex control and efficient manufacturing.

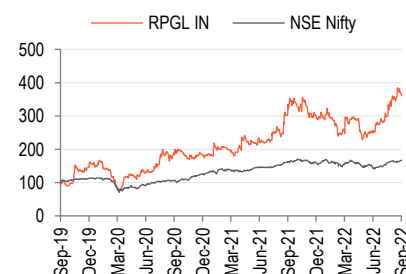
Healthy revenue growth in FY22: RPGL's revenue/EBITDA grew 13%/23% in FY22 with 165bps EBITDA margin expansion to ~20%. Domestic formulations contributed 75% to incremental growth amid sustained prescription generation, portfolio augmentation through launches and extensions, and plugging of sales leakages via better control over product returns and inventory. APIs contributed 18% of revenue led by higher sales of some of the company's key products. Margin gains aided 29% PAT growth and were led by a better product mix in favour of chronic & specialty sales and higher operating efficiency. International formulations declined ~3% in FY22 due to political unrest in the key market of Myanmar.

Strong balance sheet: RPGL has a sound debt-free balance sheet and a cash of Rs. 703mn as of FY22.

Ticker/Price	RPGL IN/Rs 738
Market cap	US\$ 154mn
Free float	28%
3M ADV	US\$ 0.5mn
52wk high/low	Rs 804/Rs 450
Promoter/FPI/DII	72%/0%/0%

Source: NSE | Price as of 16 Sep 2022

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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