

## FIRST LIGHT

23 May 2022

### RESEARCH

#### Lupin | TARGET: Rs 600 | -6% | SELL

Operationally poor quarter; further weighed down by one-offs

#### V-Guard Industries | Target: Rs 250 | +11% | HOLD

Margin pressure continues

#### BOB Economics Research | Crop Production

3rd Advance Estimates – Rabi and Kharif production

#### Dr Reddy's Labs | Target: Rs 4,450 | +5% | HOLD

Operating performance in line; impairment weighs down profit

### SUMMARY

#### Lupin

- LPC booked a loss of Rs. 5.2 bn in Q4 with weak operating performance and contraction in margins, EBITDA was ~50% below consensus
- Resumption of USFDA inspection significant as ~50 products are awaiting regulatory clearance, 1HFY23 to remain sluggish as well
- We reduce our FY23-24 EBITDA by 4-10% and reduce FY24 EV/EBITDA multiple to 10x (earlier 11x) to yield TP of Rs 600. Downgrade to SELL. "

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

#### V-Guard Industries

- Q4 revenue growth strong at 24% YoY on the back of higher sales in electrical and consumer durables segments, but margins remain stressed
- Expansion into non-southern markets and greater focus on inhouse manufacturing remain key for VGRD
- Slow growth in base business and higher competition in consumer durables weaken outlook; assume coverage with HOLD, TP Rs 250

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

#### Daily macro indicators

Indicator	18-May	19-May	Chg (%)
US 10Y yield (%)	2.88	2.84	(5bps)
India 10Y yield (%)	7.35	7.32	(3bps)
USD/INR	77.58	77.73	(0.2)
Brent Crude (US\$/bbl)	109.1	112	2.7
Dow	31,490	31,253	(0.8)
Hang Seng	20,644	20,121	(2.5)
Sensex	54,209	52,792	(2.6)
India FII (US\$ mn)	17-May	18-May	Chg (\$ mn)
FII-D	11.3	8.1	(3.2)
FII-E	(214.1)	(116.1)	98.0

Source: Bank of Baroda Economics Research

**BOBCAPS Research**

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### India Economics: Crop Production

According to the 3rd advance estimates, India's foodgrains production is expected to be up by 23.8mn tonne than average production of last 5-years. However, the pace of improvement has decelerated by 1.3% (314.5mn tonne) in the agriculture year 2021-22 compared with growth of 4.5% in 2020-21 (310.74mn tonne). This is led by Rabi's production declining by 0.4% in AY 2021-22 compared with an increase of 4.2% last year.

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

### Dr Reddy's Labs

- India, Russia, US and one-off opportunities drove 15% YoY sales growth in Q4; non-core brands divested in Russia and India
- Price erosion in core US/Europe portfolio offset by new launches; prudent cost management remains vital to sustain margins
- We cut FY23-FY24 EBITDA estimates by 5-9%, leading to a lower TP of Rs 4,450 (vs. Rs 4,700); maintain HOLD

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

**SELL**

TP: Rs 600 | ▼ 6%

**LUPIN**

| Pharmaceuticals

| 22 May 2022

## Operationally poor quarter; further weighed down by one-offs

- LPC booked a loss of Rs. 5.2 bn in Q4 with weak operating performance and contraction in margins, EBITDA was ~50% below consensus
- Resumption of USFDA inspection significant as ~50 products are awaiting regulatory clearance, 1HFY23 to remain sluggish as well
- We reduce our FY23-24 EBITDA by 4-10% and reduce FY24 EV/EBITDA multiple to 10x (earlier 11x) to yield TP of Rs 600. Downgrade to SELL.

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**Muted sales and one-off lead to loss in the quarter:** LPC reported Rs. 38.8bn in revenue in Q4FY22, a modest 3% YoY growth (5% below consensus) while it booked a loss of Rs. 5.2bn with gross and EBITDA margin contracting 720/1200bps to 58%/7% on account of negative operating leverage, price erosion and inflationary RM environment. Company also booked an impairment on account of Gavis at Rs. 1.3bn and incurred litigation expenses related to Solosec during the quarter.

**Modest growth in India and sharp decline in US revenues:** US revenue declined 11% QoQ to USD 188mn due to continued double digit price erosion in the US, recall of Losartan (USD 11mn impact) and low volume of Albuterol. India sales though up 5% YoY, declined 8% QoQ to Rs 13.5bn. India prescription business grew in double digit but lumpiness in trade generics business weighed down on the overall growth. During the quarter, company completed the acquisition of Anglo-French and set up new divisions for diabetics, CNS and Anti Infective. Anglo-French has started contributing from April 1, 2022.

**Strong traction in Growth markets while API Sale continues to decline:** Growth markets reported a strong uptick of 26%/12% YoY/QoQ to Rs. 3.8bn (10% contribution) during 4QFY22 while EMEA recorded a growth of 9%/19% YoY/QoQ.

**Expect slower 1HFY23:** Management has highlighted 1HFY23 to also remain weak despite 10-12% growth expectation in domestic market. Resumption of USFDA inspection is crucial for the company as most of its products (~50) are awaiting regulatory clearance. Management is also contemplating a rationalization of its US portfolio in the face of current pricing environment.

**Valuation:** We cut our FY23-FY24 EBITDA estimates by 4-10% each with tepid 4Q and soft near-term outlook. We have a new TP of Rs 600 (vs. Rs 800) based on a lower EV/EBITDA multiple of 10x (implied P/E of 19x) from 11x earlier. Our target multiple factors in near-term operational and industry challenges and is at a 35% discount to the aggregate of frontline players such as SUNP, DRRD and CIPLA; downgrade from HOLD to SELL.

## Key changes

Target	Rating
▼	▼

Ticker/Price	LPC IN/Rs 638
Market cap	US\$ 3.7bn
Free float	53%
3M ADV	US\$ 12.6mn
52wk high/low	Rs 1,268/Rs 620
Promoter/FPI/DII	47%/16%/24%

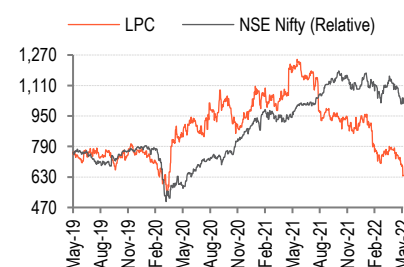
Source: NSE | Price as of 20 May 2022

## Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	1,64,055	1,70,106	1,81,518
EBITDA (Rs mn)	21,656	24,601	29,682
Adj. net profit (Rs mn)	10,580	10,892	14,308
Adj. EPS (Rs)	23.4	24.1	31.6
Consensus EPS (Rs)	23.4	26.5	37.7
Adj. ROAE (%)	8.2	8.9	10.9
Adj. P/E (x)	27.3	26.5	20.2
EV/EBITDA (x)	13.0	12.1	10.6
Adj. EPS growth (%)	(13.0)	3.0	31.4

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

## Stock performance



Source: NSE



**HOLD**

TP: Rs 250 | ▲ 11%

**V-Guard Industries**

Consumer Durables

20 May 2022

## Margin pressure continues

- Q4 revenue growth strong at 24% YoY on the back of higher sales in electrical and consumer durables segments, but margins remain stressed
- Expansion into non-southern markets and greater focus on inhouse manufacturing remain key for VGRD
- Slow growth in base business and higher competition in consumer durables weaken outlook; assume coverage with HOLD, TP Rs 250

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**Stellar topline but increased RM cost impacts bottomline:** VGRD's Q4FY22 revenue grew 24% YoY to Rs 10.6bn backed by 32% growth in both the electrical and consumer durables segments. Gross margin declined 265bps YoY to 29.1% owing to higher raw material prices. EBIT margin fell 225bps YoY to 9.3% as higher operating leverage was more than offset by lower gross margins. PBT was flat YoY at Rs 1bn but because the company opted for a lower tax regime, net income rose 31% YoY to Rs 896mn. Cash flow from operations turned negative for FY22 due to higher inventory. Management expects inventory days to normalise post June.

**Non-south expansion and base business recovery hold key:** VGRD has a +40% market share in the stabiliser business, which is heavily dependent on the sale of summer products such as ACs and refrigerators. Given the recent heatwaves and power outages across India, we do expect stabiliser sales to surge but the long-term segment growth outlook looks moderate. Further, the company is predominantly focused on South India where it derives ~58.5% of its total revenue and hence expansion beyond this market continues to hold the key to future growth.

**In-house manufacturing to aid cost efficiencies:** The company has historically used outsourced manufacturing for new product categories. Once it acquires some market share in the new category, it starts manufacturing inhouse. As of FY22, ~60% of manufacturing was inhouse vs. 40% in FY16. Management remains confident that raising own manufacturing coupled with premiumisation of products will help it improve gross margins by 100bps every year, once inflationary headwinds subside.

**HOLD, TP Rs 250:** Since the pandemic began in Mar'20, VGRD's stock has underperformed the Nifty 50 by 48%. While the stabiliser business is steady due to healthy room AC demand and efforts to raise penetration in non-southern regions, we believe the company still lags peers when it comes to market share and margins. We assume coverage with a HOLD rating and a TP of Rs 250, based on 35x FY24E EPS – a 7.5% discount to the stock's 4Y average. Faster-than-expected improvement in non-southern markets represents a key upside risk to our estimates, while failure to navigate the rising input cost pressures poses a downside risk.

## Key changes

Target	Rating
▼	▼

Ticker/Price	VGRD IN/Rs 225
Market cap	US\$ 1.2bn
Free float	44%
3M ADV	US\$ 1.3mn
52wk high/low	Rs 285/Rs 181
Promoter/FPI/DII	56%/13%/17%

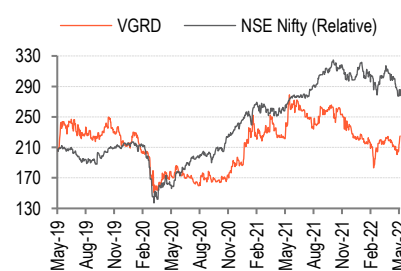
Source: NSE | Price as of 20 May 2022

## Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	34,982	39,664	43,120
EBITDA (Rs mn)	3,329	4,034	4,482
Adj. net profit (Rs mn)	2,277	2,707	3,074
Adj. EPS (Rs)	5.3	6.3	7.1
Consensus EPS (Rs)	5.3	6.9	7.7
Adj. ROAE (%)	17.4	17.9	17.6
Adj. P/E (x)	42.7	35.9	31.6
EV/EBITDA (x)	28.6	23.7	21.3
Adj. EPS growth (%)	12.0	18.9	13.5

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

## Stock performance



Source: NSE



## CROP PRODUCTION

20 May 2022

### 3<sup>rd</sup> Advance Estimates: Rabi and Kharif production

**Jahnvi Prabhakar**  
Economist

According to the 3rd advance estimates, India's foodgrains production is expected to be up by 23.8mn tonne than average production of last 5-years. However, the pace of improvement has decelerated by 1.3% (314.5mn tonne) in the agriculture year 2021-22 compared with growth of 4.5% in 2020-21 (310.74mn tonne). This is led by Rabi's production declining by 0.4% in AY 2021-22 compared with an increase of 4.2% last year.

Within Rabi, production of wheat (106.41 mn tonne for AY2021-22) is estimated to have registered sharp decline by 2.9% and is much lower than the target level (110 mn tonne). Lower Rabi output has been attributed to early onslaught of summer and extreme heat wave conditions. Notably, production of gram (17.4% from 7.5% last year), rapeseed and mustard (15.1% from 11.9%) and linseed (17.1% from -8.3% last year) have improved in the AY2021-22.

Production of kharif crops moderated to 2.9% (4.7% previous year) for the same time period. Rice output has moved up by 4.3% compared with a growth of 4.6% in AY2020-21. Overall production of pulses has clocked double digit growth at 11% in AY22 from 8.6% in AY21. Production of groundnut (-1.9% from +1.7% in AY21) and niger seed (-14.3% from 2.4% in AY21) declined in AY22, while that of castor seed improved marginally (-8.6% from -10.6%). Output of cotton is also expected to fall sharply by (-) 10.5% in AY22 compared with a decline of (-) 2.3% in AY21, which has manifested itself in the higher price of cotton today.

### Inflation

Global food prices (FAO) had reached an-all time high in Mar'22 led by a surge in both cereal and vegetable oil prices. International price of wheat has continued to edge upwards amidst accelerated concerns due to the prevailing geopolitical tensions. The government had recently restricted exports of wheat. Global commodity prices soared on the back of global supply disruptions due to ongoing Russia-Ukraine conflict. Further, extreme heat wave conditions due to climate change has added to farmers' woes. Wheat inflation (WPI) in India reached a 13-month high in Mar'22 at 14%. Since Apr'22, global prices have retreated from their record high levels. Even wheat prices have moderated marginally. However, the average inflation print for the last 6-months (from Nov'21 onwards) is at 11.3% compared with 0.9% for the previous 6-months.



**HOLD****TP: Rs 4,450 | ▲ 5%****DR REDDY'S LABS**

Pharmaceuticals

20 May 2022

## Operating performance in line; impairment weighs down profit

- India, Russia, US and one-off opportunities drove 15% YoY sales growth in Q4; non-core brands divested in Russia and India
- Price erosion in core US/Europe portfolio offset by new launches; prudent cost management remains vital to sustain margins
- We cut FY23-FY24 EBITDA estimates by 5-9%, leading to a lower TP of Rs 4,450 (vs. Rs 4,700); maintain HOLD

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**One-off opportunities helped maintain growth in EMs:** DRRD delivered a 6% topline beat over consensus in Q4FY22, posting 15% YoY consolidated revenue growth to Rs 54.4bn. QoQ growth was flattish due to a decline in India formulations (-6%) and proprietary products (-51%). Russia sales grew 47% QoQ following the divestment of non-core brands for Rs 1.8bn. Ex-divestments in India & Russia, sales growth stood at Rs 52.2bn, up 10% YoY. Reported PAT declined 76% YoY due to impairment of ~7.5bn in Q4 while OPM remained stable with 100bps decline.

**New launches offset higher price erosion:** The US business grew 6% QoQ CC to US\$ 264mn backed by new product launches and volume traction in some products, which countered higher price erosion. Per the management, price erosion in the US is in double digits (high-teens) as compared to normal single-digit levels. DRRD launched 17 new products in NA in FY22 and expects to launch a 20-25 in FY23.

**Traction in volume growth and new products aid Europe and EM sales:** Europe growth of 12% YoY and 10% QoQ was due to new products, partly set off by price erosion. EMs grew 36% YoY with volume traction from launches in Russia and CIS regions despite the war.

**gRevlimid revenues could disappoint:** We find consensus expectations of the gRevlimid opportunity overstated and expect revenue of US\$ 100mn in FY23 and US\$ 170mn in FY24 vs. US\$ 200m p.a. for consensus. Note that execution has fallen short of market expectations on several fronts in the recent past – viz. gVascepa, Sputnik vaccine, gSuboxone, gNuvaring and gCopaxone.

**TP revised to Rs 4,450, retain HOLD:** We cut our FY23-FY24 EBITDA estimates by 5-9% considering lower visibility on non-gRevlimid products in the US, uncertainties in Eastern EU, Russia and CIS due to the ongoing war, and delayed approvals. While our target FY24E EV/EBITDA multiple remains at 12.5x (unchanged), revised EBITDA estimates translate to a reduced TP of Rs 4,450 (from Rs 4,700). Current valuations offer 5% upside and hence we retain HOLD.

## Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	DRRD IN/Rs 4,249
Market cap	US\$ 9.1bn
Free float	73%
3M ADV	US\$ 31.1mn
52wk high/low	Rs 5,615/Rs 3,654
Promoter/FPI/DII	27%/29%/16%

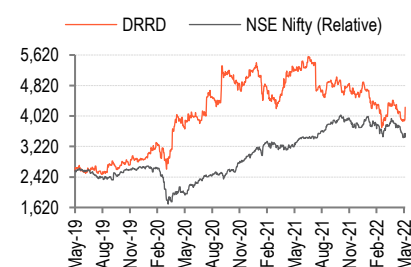
Source: NSE | Price as of 20 May 2022

## Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	2,14,391	2,41,446	2,60,353
EBITDA (Rs mn)	44,889	52,635	58,579
Adj. net profit (Rs mn)	29,387	31,650	35,969
Adj. EPS (Rs)	177.0	190.7	216.7
Consensus EPS (Rs)	175.2	217.4	261.2
Adj. ROAE (%)	17.2	16.5	16.3
Adj. P/E (x)	24.0	22.3	19.6
EV/EBITDA (x)	15.6	13.3	11.8
Adj. EPS growth (%)	11.2	7.7	13.6

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

## 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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