FIRST LIGHT

29 July 2022

RESEARCH

BOB Economics Research | FOMC

US Fed hikes rate again

BOB Economics Research | Employment Study

Job scene in India Inc.

SBI Card | Target: Rs 1,227 | +32% | BUY

Ticks most boxes; maintain BUY

Laurus Labs | Target: Rs 645 | +23% | BUY

Synthesis business saves the day

Daily macro indicators

Indicator	26-Jul	27-Jul	Chg (%)
US 10Y yield (%)	2.81	2.78	(2bps)
India 10Y yield (%)	7.37	7.34	(3bps)
USD/INR	79.78	79.90	(0.2)
Brent Crude (US$/bbl)	104.4	106.6	2.1
Dow	31,762	32,198	1.4
Hang Seng	20,906	20,670	(1.1)
Sensex	55,268	55,816	1.0
India FII (US$ mn)	**25-Jul**	**26-Jul**	**Chg ($ mn)**
FII-D	(115.3)	22.7	137.9
FII-E	(72.0)	(160.1)	(88.2)

Source: Bank of Baroda Economics Research

SUMMARY

India Economics: FOMC

In line with market expectations, US Fed hiked policy rate by 75 bps in its latest meeting. Hence, Fed funds rate now stands in the range of 2.5%-2.75%. The FOMC statement noted that inflation remains elevated and labour market conditions remain tight thus necessitating the rate action, even though economic activity appears to have slowed down. Against this backdrop, the RBI meets next week to deliberate on the monetary policy. We believe that the MPC may hike rates by only 25 bps, instead of a front-loaded hike of 50 bps or higher. Inflation trajectory has evolved much in line with RBI's projections, and in absence of any fresh shocks is likely to moderate in the coming quarters. Softening oil prices and a stabilizing currency will also help ease pressure on the inflation outlook.

Click here for the full report.

India Economics: Employment Study

FY22 was a year when the economy got back on its feet. Growth in GDP was 8.7% this year which came over a negative number in FY21. Compared with FY20 growth was 1.5% in FY22. Against this background the discussion on employment is important. While recovery was witnessed in most sectors and the services segments too did operate at fuller capacity the question is whether or not companies were hiring more people?.

Click here for the full report.

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SBI Card

- Q1 credit card spends grew 79% YoY and cards in force 19% YoY, with strong asset quality
- Expect earnings to log a 35% CAGR over FY22-FY25, aiding ~7% ROAA and 27-29% ROAE in the medium term
- We raise FY23-FY25 EPS by 7-12%, yielding a higher TP of Rs 1,227 vs. Rs 1,137; maintain BUY given structural story and strong fundamentals

Click here for the full report.

Laurus Labs

- Q1 revenue/EBITDA came in 5%/8% above consensus and grew 20%/ 15% YoY to Rs 15.4bn/Rs 4.5bn
- Stellar CDMO performance (+196% YoY) led growth while FDF declined 33% YoY; a better mix sustained margins
- Maintain BUY with a TP of Rs 645 based on an unchanged 17x FY24E EV/EBITDA multiple

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FOMC

28 July 2022

US Fed hikes rate again

Aditi Gupta
Economist

In line with market expectations, US Fed hiked policy rate by 75 bps in its latest meeting. Hence, Fed funds rate now stands in the range of 2.5%-2.75%. The FOMC statement noted that inflation remains elevated and labour market conditions remain tight thus necessitating the rate action, even though economic activity appears to have slowed down. Against this backdrop, the RBI meets next week to deliberate on the monetary policy. We believe that the MPC may hike rates by only 25 bps, instead of a front-loaded hike of 50 bps or higher. Inflation trajectory has evolved much in line with RBI's projections, and in absence of any fresh shocks is likely to moderate in the coming quarters. Softening oil prices and a stabilizing currency will also help ease pressure on the inflation outlook.

Fed statement:

In its latest policy meet the Federal Reserve Open Market Committee (FOMC), raised policy rates by 75 bps. This followed a 75 bps increase in the last policy meet and was the 4th rate hike this year. Cumulatively in CYTD22, the Fed has now raised rates by 225 bps, to combat record-high inflation. It must be noted that US inflation surged to a more than 40-year high of 9.1% in Jun'22. It further noted that, labour conditions remain tight and economic momentum has softened.

Some important observations are:

- FOMC seeks to achieve maximum employment and inflation at the rate of 2% over the longer run.
- In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet that were issued in May.
- The Committee is strongly committed to returning inflation to its 2% objective.
- In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook.
- It would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals.

Impact on RBI policy:

While the Federal Reserve has raised by 225 bps in CY22, RBI has raised repo rate by 90 bps. Aggressive rate hike by Fed are feeding expectations that the RBI may also front load its rate hikes. However, conditions in India do not warrant an aggressive stance by RBI. This is because domestic inflationary pressures have shown signs of stabilization.

EMPLOYMENT STUDY

28 July 2022

Job scene in India Inc.

Dipanwita Mazumdar
Economist

FY22 was a year when the economy got back on its feet. Growth in GDP was 8.7% this year which came over a negative number in FY21. Compared with FY20 growth was 1.5% in FY22. Against this background the discussion on employment is important. While recovery was witnessed in most sectors and the services segments too did operate at fuller capacity the question is whether or not companies were hiring more people?.

Employment data from Annual Reports of companies provide useful clues when aggregated across industries. As companies are still in the process of publishing their Annual Reports the foregoing study looks at a sample of 675 companies which had an aggregate of 4.12 mn employees and analyses the changes in employment across over 30 sectors. These are early indications, given the size of the sample, but may point to broad trends.

Total employment for the sample companies increased from 3.74 mn in FY21 to 4.12 mn in FY22. In FY21 growth was flat as headcount in FY20 was 3.73 mn. Hence growth of 10.2% is quite impressive.

Table 1 below shows how employment has moved across various sectors. Interestingly out of the net increase of 3.82 lakhs in employment witnessed for the sample companies, 93% was accounted for by the IT, banking and finance sectors. Therefore growth was not broad based. If these sectors were excluded growth in employment would be just 1.8%.

It must be pointed out here that these three sectors were operating largely in a normal manner during the lockdown with substantial activity being conducted in these businesses. The IT sector did not get into the hiring mode in FY21 but more than made up in FY22. Banks have maintained growth of 4-5% with the private sector banks taking a major lead in hiring of staff. For NBFCs, employment declined in FY21 and then recovered in FY22 to grow by double digits.

Some highlights:

- 10 industries registered substantial increase in their employment numbers in FY22 while 8 others showed positive growth.
- Insurance industry also witnessed continued increase in employment as the businesses continued on an expansion drive especially in the rural hinterland.
- Infrastructure, iron and steel and retailing witnessed double digit growth after declining in FY21
- Textiles and FMCG just about recovered after falling in FY21. In absolute terms FMCG has not yet compensated for the fall in headcount in FY21.

RESULT REVIEW

BUY

TP: Rs 1,227 | ⮝ 32%

SBI CARD | NBFC | 28 July 2022

Ticks most boxes; maintain BUY

- **Q1 credit card spends grew 79% YoY and cards in force 19% YoY, with strong asset quality**
- **Expect earnings to log a 35% CAGR over FY22-FY25, aiding ~7% ROAA and 27-29% ROAE in the medium term**
- **We raise FY23-FY25 EPS by 7-12%, yielding a higher TP of Rs 1,227 vs. Rs 1,137; maintain BUY given structural story and strong fundamentals**

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Strong traction in card spends/cards in force: SBI Card's Q1FY23 credit card spends grew 79% YoY to Rs 597bn, with retail constituting 76% share and growing by 68%. Corporate spends grew 130%. Online spends formed 55% of the total. The credit card industry has clocked a record Rs 1tn in monthly spends. The company's cards in force grew 19% YoY to 14mn with new card addition up 48%. We revise card spends for SBI Card upwards by ~15% to end FY23/FY24/FY25 at Rs 2.6tn/Rs 3.1tn/Rs 3.5tn. Management remains positive on Rupay credit card usage on the UPI platform as it has over 1mn cards on the Rupay platform.

Asset quality strong: Credit cost which averaged at 6% during FY16-FY19 and deteriorated during the Covid era came in at 5.8% for Q1FY23 vs. 11.1% in Q1FY22, which indicates business as usual. We lower credit cost estimates to 7.0%/6.8%/6.5% for FY23/FY24/FY25 (vs 7.7%/7.2%/7.0%). GNPA/NNPA remained stable at 2.2%/ 0.8% at end-Q1FY23. We expect GNPA/NNPA to be <3%/<1% over FY23-FY25.

Return ratios healthy: Led by growth in fee income and card spends along with lower credit costs, the company has generated ~7% ROAA and ~30% ROAE for two consecutive quarters. The cost-to-income ratio stood at 56.3% for Q1 and we forecast a 54-55% C/I for FY23-FY25. We bake in 7% ROAA and 27-29% ROAE for FY22-FY25.

NIM at 12.7%% in Q1; expected to grow to 14% by FY25: The increase in cost of funds is likely to be more visible in Q2FY23, but management aims to protect margins. Revolvers in the receivables mix increased from 25% in FY22 to 26% in Q1FY23. We bake in NIM expansion to 14% by FY25; FY23 could end at ~13%.

Maintain BUY: We raise FY23/FY24/FY25 EPS estimates by 12%/8%/7%to factor in higher card spends and lower credit costs, leading to a new TP of Rs 1,227 (vs. Rs 1,137), based on an unchanged ~36x FY24E P/E (-1sd from the long-term mean). The stock is currently trading at an attractive valuation of 27x FY24E P/E. Maintain BUY for a potential upside of 32%. Our residual income model assumes COE of 11.9% and terminal growth of 5.5%.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	SBICARD IN/Rs 929
Market cap	US$ 11.1bn
Free float	30%
3M ADV	US$ 15.5mn
52wk high/low	Rs 1,165/Rs 656
Promoter/FPI/DII	70%/8%/22%

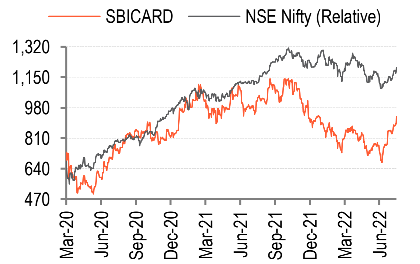
Source: NSE | Price as of 28 Jul 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Net interest income (Rs	38,387	48,008	60,875
NII growth (%)	(1.7)	25.1	26.8
Adj. net profit (Rs mn)	16,161	25,838	32,403
EPS (Rs)	17.0	27.2	34.1
Consensus EPS (Rs)	17.0	24.3	31.4
P/E (x)	54.6	34.2	27.3
P/BV (x)	11.4	8.7	6.8
ROA (%)	5.2	6.7	6.9
ROE (%)	23.0	28.9	28.0

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

Stock performance



Source: NSE

RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 645 | ⮝ 23%

LAURUS LABS | Pharmaceuticals | 28 July 2022

Synthesis business saves the day

- **Q1 revenue/EBITDA came in 5%/8% above consensus and grew 20%/15% YoY to Rs 15.4bn/Rs 4.5bn**
- **Stellar CDMO performance (+196% YoY) led growth while FDF declined 33% YoY; a better mix sustained margins**
- **Maintain BUY with a TP of Rs 645 based on an unchanged 17x FY24E EV/EBITDA multiple**

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Synthesis business drives beat despite drop in FDF revenue: Laurus's Q1FY23 revenue grew 20%/15% YoY (+8%/15% QoQ) to Rs 15.4bn/Rs 4.5bn, spurred by steep growth of 196% YoY in the synthesis business. Contribution from synthesis rose to 37% in Q1FY23 (vs. 15% in the year-ago quarter), with growth coming from existing as well as new business. Per management, the division had no one-off revenue flows and growth momentum is guided to continue.

ARV business continues to see challenges but signs of easing: Continued challenges in ARV prices saw ARV API revenue decline 8% YoY, though sequential improvement during the last two quarters hints at some stabilisation. Moreover, the company hasn't seen much of a decline in volumes. Other APIs grew at a strong 82% YoY while moderating sequentially (-19% QoQ) on a high base.

Better mix compensates for FDF revenue drop and higher overheads: A product mix tilt towards high-margin CDMO led to an improved gross margin (+90bps YoY to 57.6%), despite a decline in formulations revenue from pricing pressure and elevated RM costs. Overhead cost rose 38.5% YoY to 18.2% of sales (vs. 15.1%/15.8% of sales in Q4FY22/Q1FY22) – the cost increase stemmed from additional expenses incurred due to power shortage (~Rs 330mn) and forex losses, in turn resulting in 140bps YoY EBITDA margin contraction to 29.5%.

Net profit for the quarter grew only 4% YoY (+9% QoQ) as recently commissioned capacities resulted in higher depreciation (+21% YoY) and a change in SEZ exemption led to a higher tax rate (29% vs. 24% in Q1FY22).

Maintain BUY, TP unchanged at Rs 645: We retain our FY23/FY24 estimates in light of (a) Laurus's strong performance in CDMO backed by growth in existing business, new contracts as well as capacity expansion, (b) expected stabilisation in ARV business, (c) commissioning of FDF capacity, and (d) confidence shown by management in achieving US$ 1bn in sales by FY23. Our TP remains at Rs 645, based on an unchanged 17x FY24E EV/EBITDA multiple. BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	LAURUS IN/Rs 525
Market cap	US$ 3.5bn
Free float	74%
3M ADV	US$ 9.2mn
52wk high/low	Rs 724/Rs 437
Promoter/FPI/DII	27%/23%/5%

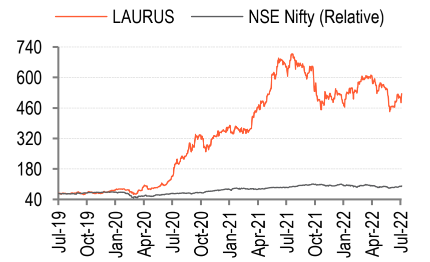
Source: NSE | Price as of 28 Jul 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	49,360	63,206	73,092
EBITDA (Rs mn)	14,229	17,698	21,197
Adj. net profit (Rs mn)	8,284	10,071	11,800
Adj. EPS (Rs)	15.4	18.8	22.0
Consensus EPS (Rs)	15.4	21.1	26.1
Adj. ROAE (%)	27.8	26.5	24.6
Adj. P/E (x)	34.0	28.0	23.9
EV/EBITDA (x)	20.7	16.9	14.3
Adj. EPS growth (%)	(14.3)	21.6	17.2

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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