FIRST LIGHT

30 January 2023

RESEARCH

AIA ENGINEERING | TARGET: Rs 3,300 | +27% | BUY

Stellar quarter despite challenging macro

GLENMARK LIFE SCIENCES | TARGET: Rs 585 | +50% | BUY

Sequential recovery in API business

ADITYA BIRLA SUN LIFE AMC | TARGET: Rs 488 | +14% | HOLD

Challenges persist, maintain HOLD

SUMMARY

AIA ENGINEERING

- Strong all-round beat; Q3 EBITDA margin boosted to 29.8% by a better mix and one-offs, with 20-22% levels seen as sustainable
- Volume guidance maintained at 294-300k mt for FY23 and an added 30-35k mt for FY24
- FY23/FY24 EPS raised 30%/14% to bake in the Q3 beat; TP revised to Rs 3,300 (vs. Rs 3,100) post rollover – retain BUY

Click here for the full report.

GLENMARK LIFE SCIENCES

- Q3 revenue up 6% QoQ to Rs 5.4bn supported by sequential recovery in API business to parent and PLI benefits
- EBITDA margin down 130bps QoQ to 26.9% on a higher share of acute therapies in the mix
- FY23-FY24 EPS raised 3-7% to bake in the 9M print; retain BUY with a revised TP of Rs 585 (vs. Rs 535)

Click here for the full report.

Daily macro indicators

Indicator	25-Jan	26-Jan	Chg (%)
US 10Y yield (%)	3.44	3.49	5bps
India 10Y yield (%)	7.35	7.35	0bps
USD/INR	81.72	81.59	0.2
Brent Crude (US$/bbl)	86.1	87.5	1.6
Dow	33,744	33,949	0.6
Hang Seng	22,045	22,567	2.4
Sensex	60,979	60,205	(1.3)
India FII (US$ mn)	**23-Jan**	**24-Jan**	**Chg ($ mn)**
FII-D	3.8	134.1	130.3
FII-E	27.6	(14.0)	(41.6)

Source: Bank of Baroda Economics Research

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ADITYA BIRLA SUN LIFE AMC

- Market share declines to 7% as Q3 QAAUM falls 6% YoY to Rs 2.8tn vs. 5% growth for the industry
- Net profit down 11% YoY to Rs 1.7bn owing to weaker revenue and higher operating expense
- Retain HOLD with an unchanged TP of Rs 488, set at 18x FY25E EPS, offering 14% upside

Click here for the full report.

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BUY
TP: Rs 3,300 | ▲ 27%

AIA ENGINEERING | Capital Goods | 27 January 2023

Stellar quarter despite challenging macro

- **Strong all-round beat; Q3 EBITDA margin boosted to 29.8% by a better mix and one-offs, with 20-22% levels seen as sustainable**
- **Volume guidance maintained at 294-300k mt for FY23 and an added 30-35k mt for FY24**
- **FY23/FY24 EPS raised 30%/14% to bake in the Q3 beat; TP revised to Rs 3,300 (vs. Rs 3,100) post rollover – retain BUY**

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Q3 above estimates: AIAE's Q3FY23 print exceeded our estimates with robust revenue growth of 45% YoY to Rs 12.3bn (Rs 11bn est.), backed by volume/realisation growth of 23%/18% YoY. EBITDA margin spiked 11ppt YoY to 29.8% thanks to a favourable product mix and a Rs 400mn one-off gain in treasury income. Management pegs sustainable margins in the range of 20-22%. PAT grew 155% YoY to Rs 3.5bn, well ahead of our estimate of Rs 2.1bn.

Guidance retained: AIAE maintained its earlier forecast of achieving incremental sales volume of 30,000-35,000mt for FY24, totaling ~330,000mt. The majority of this increase is expected to come from new customers. Additionally, management has reiterated its guidance for FY23, which predicts sales of 294,000-300,000mt.

Unfazed by weak macro environment: AIAE indicated that core industries remain strong and it does not anticipate any major macroeconomic challenges for its customers in the next 12 months. The company's strategy has undergone a paradigm shift, with a focus on enhancing productivity via downstream efficiencies and mill lining solutions, rather than predatory pricing.

Disciplined capex to capture further growth: To capitalise on the mining industry's conversion of forged media to high chrome mill internals, AIAE plans to expand capacity from 440,000mt to 520,000mt by FY24, through brownfield capex of Rs 2bn. The company has a healthy balance sheet (net cash of Rs 22bn) with negligible leverage and strong free cash flow generation. We believe this will help ROCE sustain above 15%.

Retain BUY: We upgrade our FY23/FY24 EPS estimates by 30%/14% to incorporate the Q3 beat and also roll forward to Dec'24E valuations, translating to a revised TP of Rs 3,300 (from Rs 3,100). Our target is set at an unchanged 32x P/E multiple – a 30% premium to the 5Y average. We retain BUY as we remain positive on AIAE's structural growth story, with expectations of a revenue/PAT CAGR of 12%/17% over FY22-FY25.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AIAE IN/Rs 2,599
Market cap	US$ 3.0bn
Free float	42%
3M ADV	US$ 2.0mn
52wk high/low	Rs 2,875/Rs 1,475
Promoter/FPI/DII	59%/18%/21%

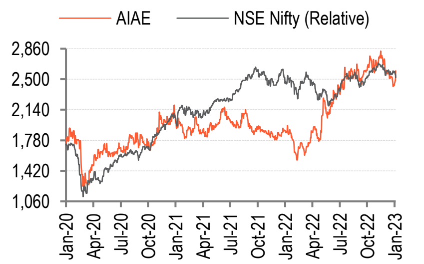
Source: NSE | Price as of 27 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	35,665	48,584	51,725
EBITDA (Rs mn)	7,209	12,181	11,777
Adj. net profit (Rs mn)	6,196	10,224	9,804
Adj. EPS (Rs)	65.7	108.4	103.9
Consensus EPS (Rs)	65.7	84.9	93.0
Adj. ROAE (%)	13.8	19.8	16.6
Adj. P/E (x)	39.6	24.0	25.0
EV/EBITDA (x)	33.7	20.1	20.8
Adj. EPS growth (%)	9.4	65.0	(4.1)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

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BUY
TP: Rs 585 | ⮝ 50%

GLENMARK LIFE SCIENCES | Pharmaceuticals | 27 January 2023

Sequential recovery in API business

- **Q3 revenue up 6% QoQ to Rs 5.4bn supported by sequential recovery in API business to parent and PLI benefits**
- **EBITDA margin down 130bps QoQ to 26.9% on a higher share of acute therapies in the mix**
- **FY23-FY24 EPS raised 3-7% to bake in the 9M print; retain BUY with a revised TP of Rs 585 (vs. Rs 535)**

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Sequential recovery in API business: GLS's Q3FY23 revenue grew 6% QoQ (+3.5% YoY) to Rs 5.4bn on the back of sequential recovery (+19%) in generic API business from parent Glenmark Pharma (GPL), further aided by 2% QoQ growth in external business. Higher other operating revenue due to production-linked incentive (PLI) scheme benefits further supported growth.

CDMO remains sluggish: The contract development and manufacturing (CDMO) business remained weak in Q3, declining 10% QoQ (-31% YoY) as one project continue to be stalled due to regulatory delays at the customer's end. Management expects a strong pickup from Q4FY23. CDMO business has declined by over 20% YoY in each of the last four quarters.

Sequential margin contraction due to higher acute mix: GLS's product mix changed significantly from last quarter as the acute segment grew 46% QoQ (+20% YoY), taking its share in API business to ~39% from 29% in Q2. This change in mix resulted in gross/EBITDA margin contraction of 190bps/130bps QoQ. On a YoY basis, gross margin remained stable, but EBITDA margin fell 100bps owing to a rise in operating expenses.

Brownfield expansion nears completion: GLS has completed the 240kl brownfield expansion for generic API products at Dahej (Gujarat) as well as the oncology expansion. The 400kl intermediate manufacturing block at the Ankleshwar plant is expected to be completed in Q4FY23, with the first module due for commissioning in that quarter. This additional capacity, with gradual ramp-up will lend a fillip to growth as company is running at 85-90% utilization levels.

Maintain BUY: The stock is trading at attractive valuations of 9.7x/8.3x FY24E/ FY25E P/E and 5.9x/4.7x EV/EBITDA. We raise our FY23-FY24 earnings estimates by 3-7% to factor in the 9MFY23 performance. Our two-stage DCF model thus yields a revised TP of Rs 585 (vs. Rs 535), implying an FY24E P/E of 14.6x – ~20% discount to the peer group average (Neuland Labs, Shilpa Medicare, Aarti Drugs and Solara Active Pharma). Maintain BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	GLS IN/Rs 389
Market cap	US$ 584.3mn
Free float	17%
3M ADV	US$ 0.4mn
52wk high/low	Rs 581/Rs 370
Promoter/FPI/DII	83%/8%/1%

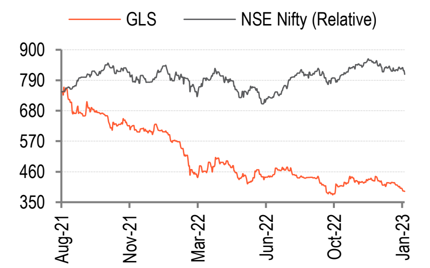
Source: NSE | Price as of 27 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	21,232	20,850	23,061
EBITDA (Rs mn)	6,160	5,909	6,729
Adj. net profit (Rs mn)	4,187	4,319	4,920
Adj. EPS (Rs)	34.2	35.2	40.2
Consensus EPS (Rs)	34.2	33.4	38.5
Adj. ROAE (%)	31.0	20.8	20.5
Adj. P/E (x)	11.4	11.0	9.7
EV/EBITDA (x)	9.3	8.4	6.4
Adj. EPS growth (%)	4.8	3.2	13.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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HOLD
TP: Rs 488 | ⮝ 14%

ADITYA BIRLA SUN LIFE AMC | NBFC | 28 January 2023

Challenges persist, maintain HOLD

- **Market share declines to 7% as Q3 QAAUM falls 6% YoY to Rs 2.8tn vs. 5% growth for the industry**
- **Net profit down 11% YoY to Rs 1.7bn owing to weaker revenue and higher operating expense**
- **Retain HOLD with an unchanged TP of Rs 488, set at 18x FY25E EPS, offering 14% upside**

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Challenges to growth continue: ABSL AMC's QAAUM declined 6% YoY to Rs 2.8tn at end-Q3FY23 vs. 5%+ industry growth, which led to a decline in the company's market share to 7% from 7.8% in the year-ago quarter (and 7.2% in Q2). Equity QAAUM fell 2% YoY to Rs 1.2tn with its share in the mix increasing to 42.6%. The debt segment registered industrywide outflows as bank deposits turned more lucrative, but management expects its strong product suite to hold the company in good stead. The company is looking to further strengthen the alternative business and has four new products in the pipeline.

Net profit tepid: Net profit declined 11% YoY to Rs 1.7bn as (a) revenue from operations at Rs 3.1bn fell 6% YoY and revenue yield (calculated) dipped marginally YoY to 45bps, while (b) operating expenses increased 8% YoY with higher fee and commission expense towards a Rs 3.5bn commitment for a newly launched AIF.

Passive funds gaining traction: The company's passive AUM has grown 4x YoY to Rs 216bn at end-Q3FY23 from Rs 53bn in Q3FY22, with a 35+ product suite and five schemes in the pipeline. About 0.48mn investor folios are serviced with an emphasis on smart beta (alternate weighting) strategies for ETFs, FOFs and index funds.

Retail thrust with sticky SIP book: The monthly SIP book grew 6% YoY to Rs 9.4bn with total SIP accounts at 3.3mn at end-Q3. SIP AUM totaled Rs 530bn. As of Q3, 90% of the company's SIPs have a tenure of over five years and 82% have been running for over 10 years, indicating long-tenured inflows. The company launched Turbo SIP during the quarter which gives customers flexibility in terms of payments.

Maintain HOLD: We maintain HOLD as we monitor the company's ability to rebuild market share and rejuvenate its asset mix (further towards equity) and equity scheme performance. We believe competitive pressure would remain a headwind. The stock is currently trading at 16x FY25E earnings. We continue to value it at 18x FY25E EPS, 1SD below the long-term multiple, leading to an unchanged TP of Rs 488 which carries 14% upside.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ABSLAMC IN/Rs 427
Market cap	US$ 1.5bn
Free float	7%
3M ADV	US$ 0.5mn
52wk high/low	Rs 560/Rs 375
Promoter/FPI/DII	87%/2%/4%

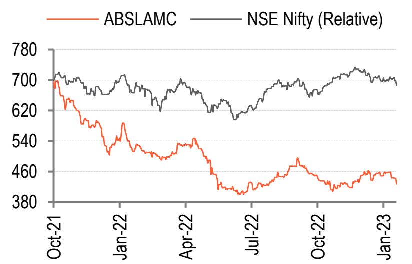
Source: NSE | Price as of 27 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Core PBT (Rs mn)	7,791	7,438	7,788
Core PBT (YoY)	39.6	(4.5)	4.7
Adj. net profit (Rs mn)	6,728	6,354	7,136
EPS (Rs)	23.3	22.0	24.7
Consensus EPS (Rs)	23.3	21.5	26.5
MCap/AAAUM (%)	4.2	4.0	3.7
ROAAAUM (bps)	22.7	20.8	21.7
ROE (%)	34.5	27.3	27.5
P/E (x)	18.3	19.4	17.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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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