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FIRST LIGHT

04 May 2022

RESEARCH

LIC | SUBSCRIBE

Insurance colossus with sharp growth focus – SUBSCRIBE

Alembic Pharma | Target: Rs 770 | –2% | HOLD

Mixed quarter; cut to HOLD amid rising margin pressure

BOB Economics Research | Currency Outlook

INR to remain range-bound

BOB Economics Research | Employment Study

What employment data suggests?

BOB Economics Research | Monthly Economic Buffet

Economic Round-up: April 2022

Metals & Mining

Ferrous – Read-across from Baosteel and Vale analyst calls

Daily macro indicators

Indicator	28-Apr	29-Apr	Chg (%)
US 10Y yield (%)	2.82	2.93	11bps
India 10Y yield (%)	7.16	7.14	(2bps)
USD/INR	76.49	76.43	0.1
Brent Crude (US$/bbl)	107.6	109.3	1.6
Dow	33,916	32,977	(2.8)
Hang Seng	20,276	21,089	4.0
Sensex	57,521	57,061	(0.8)
India FII (US$ mn)	**27-Apr**	**28-Apr**	**Chg ($ mn)**
FII-D	(21.8)	(155.1)	(133.3)
FII-E	(364.1)	246.7	610.8

Source: Bank of Baroda Economics Research

SUMMARY

LIC

- Steadfastly retains >60% market share despite stiff competition and is well positioned to capture opportunities in a growing industry
- Strong force of 1.33mn agents generates ~95% of its individual NBP and is more productive than peers
- Par policies dominate the portfolio but plans to diversify towards non-par and protection products should augment margins

Click here **for the full report.**

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Alembic Pharma

- Q4 revenue growth at 11% YoY led by broad-based domestic uptick and 17% growth in the US; ROW declined 19% YoY
- Review of R&D assets of now wholly-owned subsidiary Aleor resulted in additional charge of Rs 1.9bn, impacting margins
- We cut FY23-FY24 EBITDA 14-17% amid margin headwinds; downgrade from BUY to HOLD with reduced TP of Rs 770 (vs. Rs 905)

Click here for the full report.

India Economics: Currency Outlook

Global currencies depreciated against the dollar in the last fortnight. Concerns over global growth and inflation, as well as expectations of aggressive rate hikes by Fed, underpin the recent strength in US$. In fact, DXY index surged to a 20-year high in Apr'22. Other major currencies languished near multi-year lows, weighed down by increased policy divergence between Fed and other global central banks. GBP, EUR, CNY and JPY were the biggest losers. As a result, volatility in the forex market also increased. INR depreciated by 0.2% between 18-29 Apr 22 amidst higher oil prices and FII outflows. We continue to believe that the rupee will trade the range of Rs 76-77/$ in the next fortnight.

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Employment is one of the leading indicators of growth as an increase in the same is a signal that more jobs are being created which will generate income and demand. However, the concept is amorphous given the high level of informality in the economy. Various approaches have been taken to capture the job scene which is through surveys or data from the EPFO.

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War between Russia and Ukraine continues to keep global commodity prices elevated. On the other hand, rise in Covid-19 cases in China has slowed the momentum. However, major global central banks are still on track to tighten their monetary policies, despite weakening prospects of global growth. We expect RBI will also follow the same path. It has already begun policy normalisation with the introduction of SDF and implicit reduction in the LAF corridor.

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Metals & Mining

- China’s steel demand recovery delayed to end-Q2CY22 but full-year growth outlook still achievable
- China’s policy of balancing demand-supply means steel margin could stabilise in H2CY22 with improvement in coking coal/iron ore supply
- Steel industry transformation plan to high-quality development positive for healthy regional margins

Click here for the full report.

SUBSCRIBE

LIC | Insurance | 02 May 2022

Insurance colossus with sharp growth focus – SUBSCRIBE

- **Steadfastly retains >60% market share despite stiff competition and is well positioned to capture opportunities in a growing industry**
- **Strong force of 1.33mn agents generates ~95% of its individual NBP and is more productive than peers**
- **Par policies dominate the portfolio but plans to diversify towards non-par and protection products should augment margins**

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Well positioned for growth: LIC remains the undisputed leader in India's life insurance sector, commanding a market share of over 60% in both NBP and gross premium despite intense competition from private players. The industry is expected to clock a brisk 14-15% CAGR over FY21-FY26 to Rs 12.4tn. In our view, LIC is primed to benefit from upcoming growth opportunities given its entrenched branding, large agency workforce and new strategic roadmap aimed at increasing bancassurance, enhancing the product mix and tapping into cross-sales.

Agency-driven model: LIC's massive army of agents numbering at 1.33mn (55% of the industry total) generates 95% of its individual NBP. Moreover, they are highly productive with an average NBP of Rs 412,934 per agent vs. a median of Rs 124,892 for the top 5 private players (end-FY21). LIC intends to further strengthen its omnichannel distribution network, which currently covers 91% of India's districts, with a focus on raising the share of the bancassurance channel.

Diversifying towards a more profitable mix: Although participating (par) products dominate the company's portfolio (63% share of non-linked), LIC plans to augment its focus on non-participating and protection products, which are margin accretive. Already, the share of non-participating products in the non-linked portfolio has risen from 33% in FY19 to 37.2% as at end-9MFY22.

Proven track record as largest asset manager: LIC has proven its mettle over the years with its NBP growing from Rs 70bn at end-FY01 to Rs 1.8tn at end-FY21. The company manages India's largest AUM of ~Rs 40tn (3.2x that of private insurers combined). Net profit on sale/redemption of policyholders' investments was Rs 398bn at end-FY21 and Rs 365bn at end-9MFY22.

Valuations attractive – SUBSCRIBE: LIC's IPO is priced at 1.1x Sep'21 embedded value (upper band), a steep discount to the 2.5-4.1x multiple range of major listed peers. Given its market leadership, robust distribution backbone, profitable product focus, improving persistency ratios and healthy solvency margins, we find valuations attractive and recommend that investors SUBSCRIBE to the offer.

Key financials

Y/E 31 Mar	FY19A	FY20A	FY21A
Net premium (Rs tn)	3.3	3.8	4.0
APE (Rs bn)	406	479	456
Cost ratio (%)	14.3	14.6	14.2
AUM (Rs tn)	32.7	33.4	36.9
Solvency (%)	160	155	176
EV (Rs bn)	NA	465	956

Issue highlights

Issue size net (Rs bn)	195.2 - 205.6
Fresh issue	-
Offer for sale (Rs bn) *	205.6
No. of shares	221mn
Face value	Rs 10
Price band	Rs 902-949
Bid lot	15 shares
Issue opens on	04 May 2022
Issue closes on	09 May 2022
Employee reservation	0.7%
Employee discount	Rs 45

*On upper band

Shareholding pattern

Category (%)	Pre-issue	Post-issue
Promoter	100.0	96.5
Public	0.0	3.5
Total	**100.0**	**100.0**

Source: LIC RHP

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HOLD
TP: Rs 770 | ∀ 2%

ALEMBIC PHARMA | Pharmaceuticals | 02 May 2022

Mixed quarter; cut to HOLD amid rising margin pressure

- **Q4 revenue growth at 11% YoY led by broad-based domestic uptick and 17% growth in the US; ROW declined 19% YoY**
- **Review of R&D assets of now wholly-owned subsidiary Aleor resulted in additional charge of Rs 1.9bn, impacting margins**
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Broad-based domestic growth; expect sluggish FY23 off high base: ALPM reported 11% YoY growth in Q4FY22 revenue led by domestic (+25% YoY) and US business (+17%), partially offset by a decline in ROW revenue (-19%). India business growth was broad-based, wherein the acute portfolio rose 51% YoY and the specialty portfolio was up 17%. Considering the high base of FY22, we expect FY23 growth to be sluggish.

One-off opportunities boost US sales: US revenue grossed US$ 75mn in Q4 (core sales of US$ 55mn), surprising positively because of one-time opportunities, market share gains in a few products and stock adjustments. ALPM launched its first inhalation product in Q4 and expects to file 15+ products in FY23.

Sequentially stable gross margin; one-time charge impacts EBITDA margin: ALPM reported a 72.7% gross margin (flat QoQ, -270bps YoY), but a review of R&D assets at Aleor led to an additional charge of Rs 1.9bn during the quarter (Rs 650mn in amortisation expense and the balance under various heads of R&D expense, i.e. employee benefits, material cost and other expenses). EBITDA margin for the quarter thus contracted 15ppt to 11.3%. We expect ALPM to post EBITDA margins in the range of 17-21% over FY23-FY24.

Downgrade to HOLD: The stock is trading at 15.5x/11.x FY23E/FY24E EV/EBITDA (24.5x/17x P/E). We cut our FY23-FY24 EBITDA estimates by 14-17% and downgrade the stock from BUY to HOLD considering margin pressures amid pricing issues in the US, rising costs as well as additional integration costs for Aleor. Our TP stands revised to Rs 770 (vs. Rs 905), set at an unchanged FY24E EV/EBITDA multiple of 11x (implied P/E of 17x). Our target multiple is at 15% discount to peers such as ALKEM and AJP.

Key changes

Target	Rating
▼	▼

Ticker/Price	ALPM IN/Rs 787
Market cap	US$ 2.0bn
Free float	31%
3M ADV	US$ 2.6mn
52wk high/low	Rs 1,035/Rs 678
Promoter/FPI/DII	69%/6%/11%

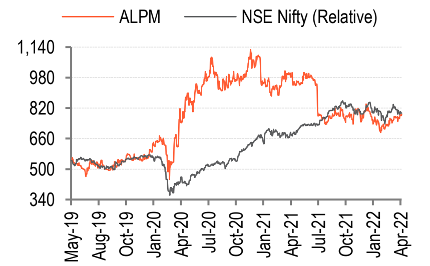
Source: NSE | Price as of 2 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	53,067	57,362	63,832
EBITDA (Rs mn)	8,751	10,178	13,831
Adj. net profit (Rs mn)	5,413	6,299	9,027
Adj. EPS (Rs)	27.8	32.0	45.9
Consensus EPS (Rs)	34.5	39.8	48.4
Adj. ROAE (%)	10.6	11.5	15.0
Adj. P/E (x)	28.3	24.5	17.1
EV/EBITDA (x)	18.7	15.6	11.6
Adj. EPS growth (%)	(56.5)	15.2	43.3

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

Stock performance



Source: NSE

CURRENCY OUTLOOK

02 May 2022

INR to remain range-bound

Global currencies depreciated against the dollar in the last fortnight. Concerns over global growth and inflation, as well as expectations of aggressive rate hikes by Fed, underpin the recent strength in US$. In fact, DXY index surged to a 20-year high in Apr'22. Other major currencies languished near multi-year lows, weighed down by increased policy divergence between Fed and other global central banks. GBP, EUR, CNY and JPY were the biggest losers. As a result, volatility in the forex market also increased. INR depreciated by 0.2% between 18-29 Apr amidst higher oil prices and FII outflows. We continue to believe the rupee will trade at Rs 76-77/$ in the next fortnight.

Aditi Gupta
Economist

How have currencies fared?

Barring Philippines peso (PHP), other global currencies depreciated against the dollar in last fortnight of Apr'22 (18 Apr-29 Apr 2022). DXY strengthened by 2.1% in this period, to a two-decade high, despite an unexpected decline in US Q1CY22 GDP. Expectations of aggressive policy tightening by Fed have contributed to the broad-based dollar strength. Apart from this, concerns over global growth amidst a surge in Covid-19 cases in China have also contributed to the safe-haven's appeal. Chinese yuan (CNY) fell sharply by 3.7%, to its lowest level since Nov'20 as a flare up in Covid-19 infections in major cities threaten to derail growth recovery. However, the currency found some comfort from People's Bank of China's (PBOC) decision to cut foreign reserve requirement ratio. The government has also pledged support for the economy. JPY depreciated by 2.1% to a 20-year low, as Bank of Japan (BoJ) reaffirmed its ultra-dovish policy stance. This policy divergence between BoJ and Fed has widened the yield differential between dollar and yen, weighing on JPY.

Amongst other advanced economies, EUR depreciated by 2.2% in the fortnight, to trade near a 5-year low amidst surging inflation and slowing growth. Russia's ban on gas supply to Poland and Bulgaria threatens the energy security of the region and further fuel inflationary pressures, thus weighing on the EUR. GBP too depreciated by 3.5% as UK's macro data was weaker than expected. GfK's consumer confidence index declined sharply in Apr'21, and retail sales declined more than expected. New Zealand and Australian dollar too fell amidst a risk-off sentiment in global markets. Emerging market currencies fell by 2.2%. This was led by 6.4% decline in Brazilian real (BRL). Political tensions weighed on the currency.

INR depreciated by 0.2% in the last fortnight led by higher oil prices and FII outflows. While oil prices increased by 1.9%, FII outflows were US$ 3.2bn. In Apr'22, INR depreciated by 0.8%.

EMPLOYMENT STUDY

02 May 2022

What employment data suggests?

Dipanwita Mazumdar
Economist

Employment is one of the leading indicators of growth as an increase in the same is a signal that more jobs are being created which will generate income and demand. However, the concept is amorphous given the high level of informality in the economy. Various approaches have been taken to capture the job scene which is through surveys or data from the EPFO. Company annual reports provide accurate numbers on the headcount as of the end of the year and can be used to measure the growth in employment over a period of time. Our study uses this approach to gauge how employment has moved in the last 5-6 years.

We have taken a sample of 2,019 companies and looked at the employment trend since Mar'16. The CAGR of past 5 years has been only 1.9% against CAGR of real GDP of 3.5% during the same period. Excluding the Covid induced slowdown which was visible in Mar'21 print, CAGR of employment has been 2.5%.

Contact intensive sectors such as hospitality, retail, media and entertainment have been impacted the most due to Covid. Notably only 9 out of 27 industries (finance, real estate, IT, banks and healthcare, amongst others) which we evaluated posted better growth in employment numbers in CAGR terms (5 years) compared to industry as a whole. In compensation terms, per employee cost has registered a CAGR growth (5 years) of 5.7%, higher than average CPI of 4.5% during the same period.

Admittedly this approach looks at the organized sector only and using yearend data which can have limitations. Attrition is common but it is assumed that in the overall scheme workers move from one industry to another or within the same industry and the numbers would be subsumed in the aggregate numbers. The sample evens out data by removing the impact of mergers as this can skew the picture.

How employment has fared in past 6 years?

In absolute terms, number of employees increased only marginally from 54.5 lacs in March 2016 to 59.8 lacs in march 2021. The past 5-year CAGR in employment has been just 1.9% against real GDP CAGR growth of 3.5% during this same period.

There is a clear pinch in employment seen due to Covid induced slowdown which is reflected especially in the Mar'21 which went down from 60.3 lacs in Mar'20 to 59.8lacs in Mar'21. Thus Mar'21 is the only period where actual employment number has fallen in these past 6 years. If we exclude Mar'21, the CAGR growth of employment increases slightly to 2.5%.

MONTHLY ECONOMIC BUFFET

02 May 2022

Economic Round-up: April 2022

Sonal Badhan
Economist

War between Russia and Ukraine continues to keep global commodity prices elevated. On the other hand, rise in Covid-19 cases in China has slowed the momentum. However, major global central banks are still on track to tighten their monetary policies, despite weakening prospects of global growth. We expect RBI will also follow the same path. It has already begun policy normalisation with the introduction of SDF and implicit reduction in the LAF corridor.

Global growth dented: The war between Russia and Ukraine has dented global growth prospects and has led to IMF and World Bank slashing their global growth forecasts for 2022 to 3.6% and 3.2%, respectively. Building up of price pressures, translating into higher global inflation and withdrawal of monetary policy support by major central banks is also expected. US Fed is likely to hike rates in its upcoming May'22 meeting. Elevated CPI will take precedence over contraction in Q1CY22 GDP. Currently, international crude price are hovering near US$ 109/bbl with 10% (MoM) increase since the war started. Prices of food and edible oil too remain elevated.

Deviation in global Central Banks: While US Fed has indicated aggressive policy tightening in the coming months, ECB is also expected to follow the same path soon, It has hinted at ending its bond purchase program, and raising rates soon. On the other hand, BoJ and PBOC continue to maintain accommodative monetary policy. While BoJ has vowed unlimited bond buying, PBOC has announced RRR cuts to stimulate growth.

Key macro data releases: Latest data shows that India's eight core industries eased to 4.3% in Mar'22 compared with a growth of 6% in Feb'22. This was led by moderation in refinery products, natural gas, and steel output. Separately, 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. India's trade deficit narrowed to US$ 18.5bn in Mar'22 from US$ 20.9bn in Feb'22.

CPI inflation rose to 13-month high to 7% in Mar'22 from 6.1% in Feb'22 surpassing RBI mandate for the second straight month. Food inflation quickened to 16-month high of 7.7% in Mar'22 from 5.9% in Feb'22. Core inflation also rose by 40bps to 6.3% in Mar'22. RBI expects inflation average 5.7% in FY23, while we maintain our forecast of 5.5-6%. We thus expect at least a 50bps repo rate hike in FY23.

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METALS & MINING

02 May 2022

Ferrous: Read-across from Baosteel and Vale analyst calls

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- **China's policy of balancing demand-supply means steel margin could stabilise in H2CY22 with improvement in coking coal/iron ore supply**
- **Steel industry transformation plan to high-quality development positive for healthy regional margins**

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Recovery delayed but CY22 growth outlook still achievable: While China's steel demand is running below expectations over March-May, Baosteel anticipates a pickup in demand from late Q2 onward supported by pent-up demand, and still considers China's annual GDP growth target of 5.5% to be achievable. Separately, politburo statements also signify strong commitment to the annual targets and the possibility of a stimulus to counter the effect of zero-Covid. Vale also highlighted improving iron ore demand from China with an uptick in blast furnace utilisation.

China may not disrupt ex-China market balance in 2022: China has explicitly reiterated plans for demand-supply balancing in its 7 Feb 2022 policy. Further, on 19 April, central agency NDRC announced its plan to continue with a YoY cut in steel production to drive emission reductions. While Baosteel sees the possibility of a rise in exports near-term from muted levels in Q1 (13.2mt, -25% YoY), China still targets a slight decline in exports YoY.

Potential steel margin stabilisation in H2: Baosteel's average profit per tonne of steel improved to US$ 73/t over January-March from US$ 23/t in October-December but was still below US$ 97/t a year ago. The company expects margins to stabilise as demand recovers, prices ease for iron ore and steel scrap as the wet season draws to an end in Australia and Brazil, and alloy prices come off peaks. However, Baosteel still sees a tight balance in the coke market.

China transformation in progress: Baosteel's 2022-27 strategy targets consolidation, upgrading the steel industry and delivering on China's target of low-carbon steel. It focuses on M&A to drive growth, development of advanced steel materials and sets material emission reduction targets, well ahead of China's deadline.

Read-across for Indian ferrous players: Measures to support recovery and control exports reinforce our outlook on healthy Indian steel margins. The transformation of China's steel industry focus from volume growth to high-quality development is also positive to support long-term regional steel margins in a healthy range.

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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

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Note: Recommendation structure changed with effect from 21 June 2021

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