FIRST LIGHT

08 August 2022

RESEARCH

Alkem Labs | Target: Rs 3,220 | +3% | HOLD

Higher expenses and forex loss dent margins; cut to HOLD

Cera Sanitaryware | Target: Rs 5,225 | +11% | HOLD

Strong Q1; upside capped post rally – cut to HOLD

BOB Economics Research | Monetary Policy Review

RBI front-loading rate hikes

BOB Economics Research | Monsoon Update

Monsoon and sowing progress

Glenmark Life Sciences | Target: Rs 560 | +25% | BUY

Margins improve despite revenue decline

Blue Star | Target: Rs 1,100 | +11% | HOLD

Commendable margin performance

Daily macro indicators

Indicator	03-Aug	04-Aug	Chg (%)
US 10Y yield (%)	2.70	2.69	(2bps)
India 10Y yield (%)	7.24	7.16	(8bps)
USD/INR	79.16	79.47	(0.4)
Brent Crude (US$/bbl)	96.8	94.1	(2.7)
Dow	32,813	32,727	(0.3)
Hang Seng	19,767	20,174	2.1
Sensex	58,351	58,299	(0.1)
India FII (US$ mn)	**02-Aug**	**03-Aug**	**Chg ($ mn)**
FII-D	(17.7)	5.0	22.6
FII-E	211.5	503.2	291.7

Source: Bank of Baroda Economics Research

SUMMARY

Alkem Labs

- Q1 revenue declined 6% YoY (+4% QoQ) to Rs 25.7bn on a high base, and EBITDA dropped 66% on weak margins
- EBITDA margin contracted 1,400bps on account of forex loss and higher expenses toward marketing, distribution and travelling
- We cut FY23/FY24 EBITDA 9%/5% amid margin pressure, leading to a new TP of Rs 3,220 (vs. Rs 3,400) – downgrade from BUY to HOLD

Click here for the full report.

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Cera Sanitaryware

- Consolidated Q1 revenue grew 74% YoY backed by high demand from home renovation projects, real estate launches and price hikes
- EBITDA margin expanded 670bps YoY to 15.8% on a favourable mix and lower costs, with EBITDA tripling to Rs 628mn
- Retain TP at Rs 5,225 (32x FY24E EPS) but downgrade from BUY to HOLD as the recent 20% stock rally leaves limited upside

Click here for the full report.

India Economics: Monetary Policy Review

RBI continued with hawkish policy as repo rate was hiked (3rd time in a row) by 50bps and is back to the pre-pandemic level. Elevated inflation and resilience in domestic market prompted MPC to hike rates. It also took the view that further calibrated monetary action is needed. GDP and CPI forecast for FY23 has been retained at 7.2% and 6.7% respectively. Inflationary pressures are broad based and remains uncomfortably high and above RBI's upper tolerance level. We expect another 50bps rate hike in the current cycle.

Click here for the full report.

India Economics: Monsoon Update

Advancement of South-West monsoon has resulted in cumulative rainfall at 6% above LPA as of 5 Aug 2022. The actual rainfall for this period is though less than the past year levels. There is a growing concern as Eastern region continues to receive deficient rainfall. Sown area of pulses and oilseeds have declined. Even rice is lagging behind on the back of geographical disparities. Out of 36, 6 subdivisions have received deficient rainfall during this period and 6 states are in the deficient zone. On storage levels, the southern states continue to record higher storage levels as the region continues to receive bountiful rains. The higher storage levels is good for rabi sowing.

Click here for the full report.

Glenmark Life Sciences

- Q1 revenue fell 7% YoY on a high base (+6.5% ex-Covid portfolio) with CDMO/ API down 38%/7%; RM relief and PLI incentives boosted gross margin
- Client inventory rationalisation hit CDMO business; APIs contracted due to weak Covid-driven sales (+7% YoY ex-Covid products)
- We trim revenue estimates but keep margins intact, leading to ~15% cut in FY23/FY24 EPS; our TP reduces to Rs 560 (vs. Rs 620) – retain BUY

Click here for the full report.

Blue Star

- Q1 EBIT margin in cooling business relatively strong at 8.1%, outperforming peers
- Among the few companies to take price hikes in Q1, enabled by balanced approach to market share growth and margins
- Retain HOLD with revised TP of Rs 1,100 (vs. Rs 1,200) as we lower our target P/E to 38x (vs. 40x) amid rising competitive intensity

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HOLD

TP: Rs 3,220 | ▲ 3%

ALKEM LABS | Pharmaceuticals | 06 August 2022

Higher expenses and forex loss dent margins; cut to HOLD

- **Q1 revenue declined 6% YoY (+4% QoQ) to Rs 25.7bn on a high base, and EBITDA dropped 66% on weak margins**
- **EBITDA margin contracted 1,400bps on account of forex loss and higher expenses toward marketing, distribution and travelling**
- **We cut FY23/FY24 EBITDA 9%/5% amid margin pressure, leading to a new TP of Rs 3,220 (vs. Rs 3,400) – downgrade from BUY to HOLD**

Saad Shaikh
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Revenue declines on high base of last year: ALKEM's Q1FY23 revenue dipped 6% YoY (+4% QoQ) to Rs 25.7bn primarily led by a 7% fall in domestic revenue on a high Covid-led base. Nevertheless, the company outperformed the Indian pharma market on secondary sales (stable YoY vs. 1.8% decline for IPM). This outperformance was mainly driven by acute therapies in the anti-infectives, respiratory and gastrointestinal segments. Pain management and gastrointestinal therapies witnessed good double-digit growth even on a high base of last year.

Elevated price erosion continues to hurt US business: US revenue for the quarter declined 8% YoY (+3% QoQ) in rupee terms and was flat QoQ in constant currency terms. The company continues to face significant pricing pressure in the US generic market. Price erosion in Q1 was 20% vs. 14% in Q4FY22. Management has guided for 8-10 product launches in the US for FY23.

Strong margin headwinds; guidance muted: Continued headwinds from US price erosion alongside soaring industrywide RM and logistics costs impacted ALKEM's gross margin, which declined 240bps YoY (-100bps QoQ). EBITDA margin contracted 14ppt YoY to 7.9% due to additional expenses of ~Rs 250mn towards marketing, travelling and distribution (17.6% ex-added expense). ALKEM also incurred a forex loss of ~Rs 500mn which further hit margins. Management has guided for an FY23 gross margin of ~59% but expressed apprehensions over achieving its earlier guided EBITDA margin of 18%.

Earnings call highlights: (1) The chronic-to-acute breakup of branded formulations was 84:16. (2) ALKEM is a leader in trade generics (TGx) in India and ranks first or second. TGx contributed 20% of revenue in Q1, and most of this business is outsourced. (3) Biosimilars will be an important growth engine for ALKEM in future.

Downgrade to HOLD: We cut our FY23/FY24 EBITDA estimates by 9%/5% in light of the muted margin guidance amid persisting cost headwinds and US price erosion. Our TP thus reduces to Rs 3,220 (vs. Rs 3,400), based on an unchanged 15x FY24E EV/ EBITDA multiple – 12% discount to the 5Y average. Downgrade from BUY to HOLD.

Key changes

Target	Rating
▼	▼

Ticker/Price	ALKEM IN/Rs 3,113
Market cap	US$ 4.7bn
Free float	39%
3M ADV	US$ 4.4mn
52wk high/low	Rs 4,070/Rs 2,828
Promoter/FPI/DII	59%/5%/14%

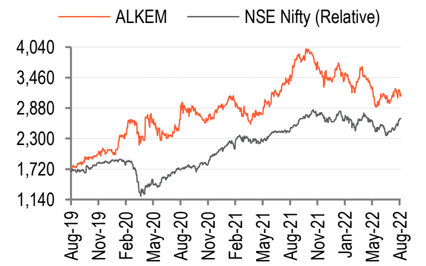
Source: NSE | Price as of 5 Aug 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	1,07,563	1,21,375	1,36,054
EBITDA (Rs mn)	21,750	19,957	25,303
Adj. net profit (Rs mn)	17,827	14,719	19,866
Adj. EPS (Rs)	149.1	123.1	166.2
Consensus EPS (Rs)	149.1	138.0	166.0
Adj. ROAE (%)	26.2	18.6	21.5
Adj. P/E (x)	20.9	25.3	18.7
EV/EBITDA (x)	17.1	18.5	14.3
Adj. EPS growth (%)	4.5	(17.4)	35.0

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

Stock performance



Source: NSE

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HOLD

TP: Rs 5,225 | 11%

CERA SANITARYWARE | Construction Materials | 05 August 2022

Strong Q1; upside capped post rally – cut to HOLD

- **Consolidated Q1 revenue grew 74% YoY backed by high demand from home renovation projects, real estate launches and price hikes**
- **EBITDA margin expanded 670bps YoY to 15.8% on a favourable mix and lower costs, with EBITDA tripling to Rs 628mn**
- **Retain TP at Rs 5,225 (32x FY24E EPS) but downgrade from BUY to HOLD as the recent 20% stock rally leaves limited upside**

Ruchitaa Maheshwari
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Sharp rise in consolidated revenue: CRS's consolidated Q1FY23 revenue increased 74% YoY (-3.1% QoQ) to ~Rs 4bn owing to strong demand from home upgrades, real estate launches and price hikes of 3% in sanitaryware and 5% in faucetware by CRS during mid-May. Standalone revenue grew 78% YoY to Rs 3.9bn.

Better mix and lower cost drove margin gains: Consolidated gross margin declined 550bps YoY to 53.5%. However, a higher revenue contribution of sanitaryware and faucetware at 89% in Q1FY23 vs. 81% in Q1FY22 had a positive bearing on operating margin. This coupled with price hike benefits and lower employee & other expenses spurred EBITDA margin gains of 670bps YoY (-360bps QoQ) to 15.8%. Standalone gross margin rose 210bps YoY to 53.7% and EBITDA margin was up 655bps to 15.5%.

Higher gas cost had limited impact: In Q1, ~49% of CRS's gas requirement was met by GAIL where prices increased to Rs 25.69/cbm from Rs 13.26/cbm in Mar'22. The balance 51% was met via Sabarmati Gas where prices declined to Rs 73.58/ cbm for the quarter from Rs 75.01/cbm in Mar'22. Gas cost is just 3.06% of the company's topline.

Healthy demand outlook: Management has guided for a 50-75bps rise in EBITDA margin each year. In addition, the company is confident of doubling revenue within the next three-and-a-half years from five years earlier.

Strong growth prospects…: The recent capacity debottlenecking and 40-50% expansion announced (to commence in 12-36 months) would lead the next leg of growth. CRS's timely capacity expansion plan, focus on improving product mix, extensive distribution, healthy balance sheet and rising return ratios bode well for sustainable earnings growth. Further, the company is growing at 1.5x the industry.

…but priced in post rally; downgrade to HOLD: CRS is trading at 29x FY24E EPS after rallying 20% in the last three months, leaving only 11% upside potential from the current price. We thus downgrade our rating to HOLD from BUY while retaining our TP of Rs 5,225, set at 32x FY24E EPS (vs. its 5Y median of 36.2x).

Key changes

Target	Rating

Ticker/Price	CRS IN/Rs 4,725
Market cap	US$ 775.4mn
Free float	46%
3M ADV	US$ 1.1mn
52wk high/low	Rs 6,450/Rs 3,515
Promoter/FPI/DII	54%/18%/27%

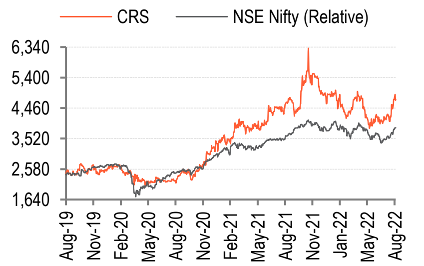
Source: NSE | Price as of 5 Aug 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	14,458	16,850	19,634
EBITDA (Rs mn)	2,287	2,694	3,202
Adj. net profit (Rs mn)	1,568	1,802	2,124
Adj. EPS (Rs)	120.6	138.5	163.3
Consensus EPS (Rs)	120.6	135.4	158.4
Adj. ROAE (%)	16.6	16.7	17.5
Adj. P/E (x)	39.2	34.1	28.9
EV/EBITDA (x)	26.6	22.6	19.2
Adj. EPS growth (%)	55.6	14.9	17.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

MONETARY POLICY REVIEW

05 August 2022

RBI front-loading rate hikes

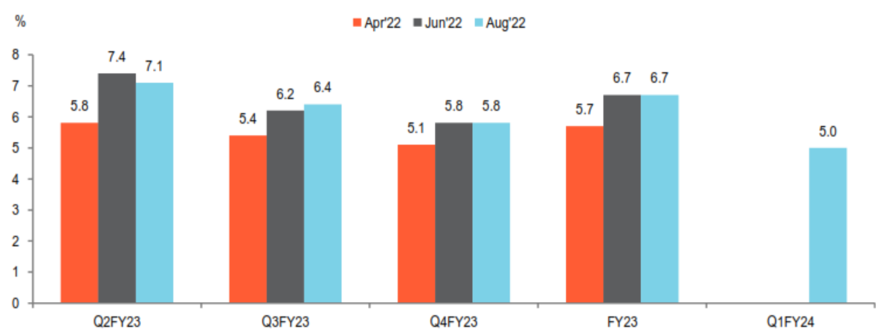
Aditi Gupta | Jahanvi
Economist

RBI continued with hawkish policy as repo rate was hiked (3rd time in a row) by 50bps and is back to the pre-pandemic level. Elevated inflation and resilience in domestic market prompted MPC to hike rates. It also took the view that further calibrated monetary action is needed. GDP and CPI forecast for FY23 has been retained at 7.2% and 6.7% respectively. Inflationary pressures are broad based and remains uncomfortably high and above RBI's upper tolerance level. We expect another 50bps rate hike in the current cycle.

Policy decision: RBI in its current policy unanimously raised repo rate by 50bps to 5.4%. Accordingly, the upper and lower bound of policy rate stand at 5.15% and 5.65% respectively. Stance is retained and continues to focus 'on withdrawal of accommodation'. RBI will remain vigilant on liquidity

Inflation trajectory at a decisive point: RBI in the statement noted that the volatility in global market is leading to imported inflation. The spillover from geopolitical shocks have resulted in uncertainty to inflation trajectory. Global commodity, metal and food prices have eased off from recent peaks, however they still remain elevated. On domestic front, higher sowing of Kharif crops bodes well for food price outlook. The shortfall in paddy sowing is being monitored closely, even though rice stock remain above buffer norms. Secondly, RBI survey pointed to softening of cost pressure across sectors in H2. Yet, transmission of input cost pressure might create fresh price pressures. Based on these factors and assuming the crude oil price at US$ 105/bbl along with normal monsoon, inflation projection for FY23 has been retained at 6.7% in FY23. For Q2, headline CPI is expected to be 20bps higher at 6.4% from 6.2% earlier, for Q3 and Q4, the projections remain unchanged at 5.8% and 6.7% respectively as estimated earlier. The risks remain balanced. For Q1FY24, RBI expects CPI at 5%.

Figure 1: RBI's headline CPI forecasts



Source: Bloomberg, Bank of Baroda Research

MONSOON UPDATE

06 August 2022

Monsoon and sowing progress

Jahnavi Prabhakar
Economist

Advancement of South-West monsoon has resulted in cumulative rainfall at 6% above LPA as of 5 Aug 2022. The actual rainfall for this period is though less than the past year levels. There is a growing concern as Eastern region continues to receive deficient rainfall. Sown area of pulses and oilseeds have declined. Even rice is lagging behind on the back of geographical disparities. Out of 36, 6 subdivisions have received deficient rainfall during this period and 6 states are in the deficient zone. On storage levels, the southern states continue to record higher storage levels as the region continues to receive bountiful rains. The higher storage levels is good for rabi sowing.

Monsoon: Where does Kharif sowing stand?

As of 5th Aug 2022, sown area of cotton (5.3%) and oilseeds (0.6%) has improved compared with last year. Total sown area of coarse cereals has also risen by 3.9% led by Bajra (15%). For pulses, sowing area has declined by 2.5% from last year. Within pulses, Arhar (-10.4%) and Urad (-6%) sowing area has registered a dip, while that of Moong (2.5%) has improved. Area sown for Jute and Mesta has also declined by 1%.

Table 1: Kharif Sowing

	Area sown in 2022-23 (mn ha)	Area sown in 2021-22 (mn ha)	Growth (YoY %)
Cereals	37.4	40.2	(7.1)
Rice	23.2	26.7	(13.3)
Pulses	11.6	11.9	(2.5)
Oilseeds	17.5	17.4	0.6
Cotton	11.8	11.2	5.3
Sugarcane	5.5	5.4	0.2
Jute and Mesta	0.7	0.7	(1.0)

Source: CEIC, Bank of Baroda | Data as of 5 Aug 2022 for pulses, oilseeds, cotton and Jute and Mesta. For others, data as of 29 Jul 2022

Monsoon:

For the period 1 Jun 2022 to 5 Aug 2022, South West Monsoon is 6% above LPA compared with last year.

- North Eastern Belt and the Northern region including Punjab, Himachal Pradesh, Jammu & Kashmir have received normal rainfall. Kerala too have been receiving normal rains.
- Western region of India including states such as Rajasthan, Gujarat and Maharashtra have received excess rainfall. Furthermore states such as Telangana, Karnataka, and Tamil Nadu too have registered excess rainfall.

RESULT REVIEW

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BUY
TP: Rs 560 | 25%

GLENMARK LIFE SCIENCES | Pharmaceuticals | 05 August 2022

Margins improve despite revenue decline

- **Q1 revenue fell 7% YoY on a high base (+6.5% ex-Covid portfolio) with CDMO/API down 38%/7%; RM relief and PLI incentives boosted gross margin**
- **Client inventory rationalisation hit CDMO business; APIs contracted due to weak Covid-driven sales (+7% YoY ex-Covid products)**
- **We trim revenue estimates but keep margins intact, leading to ~15% cut in FY23/FY24 EPS; our TP reduces to Rs 560 (vs. Rs 620) – retain BUY**

Saad Shaikh
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India, LATAM and ROW continue to drive API growth; Europe soft: GLS's overall Q1FY23 revenue fell 7% YoY to Rs 4.9bn (+6.5% ex-Covid portfolio) on a high base. Region-wise, growth was led by India, LATAM and ROW but Europe remained week due to supply chain issues. The chronic portfolio formed ~73% of revenue. From a therapy perspective, cardiovascular, CNS, pain and diabetes were the major drivers. Growth was mainly volume-driven (ex-Covid portfolio), barring a few instances where price increases were passed on.

CDMO share guided to hold at 8-9% of revenue: CDMO revenue declined 38% YoY in Q1 to Rs 243mn (5% revenue share) due to the adverse impact of client API inventory rationalisation. Management expects the business to bounce back to 8-9% of the mix.

RM relief and PLI incentives supported margins: Gross margin for the quarter improved 115bps YoY and 200bps QoQ to 51.2% mainly driven by the booking of PLI scheme incentives, a better product mix and cost optimisation efforts. Though prices have fallen for a large number of solvents, some raw material prices remain elevated (especially ones dependent on lithium, sodium, phosphorus and iodine). Price erosion has flattened out in the US, but GLS continues to see demand challenges in sartans.

Earnings call highlights: (1) Revenue share for parent Glenmark Pharma was 35%. (2) Q1 capex was at Rs 410mn with a total of ~Rs 2bn planned for FY23. (3) Working capital days stood at 168 due to strategic buildup of inventory to mitigate supply chain issues. (4) Cash balance was Rs 4.8bn. (5) The API pipeline consists of 36 APIs. (6) GLS has submitted a list of 85 APIs under group-A for the PLI scheme. (7) Three new DMFs were filed in major markets with plans to file 8-10 more in FY23.

Maintain BUY: We trim our FY23/FY24 revenue estimates by ~14% each while keeping margin assumptions largely unchanged, which results in a 14%/15% EPS cut. Our two-stage DCF model thus yields a revised TP of Rs 560 (vs. Rs 620) at an implied FY24E P/E of 13x – ~20% discount to the peer group average. BUY.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	GLS IN/Rs 449
Market cap	US$ 694.6mn
Free float	17%
3M ADV	US$ 0.3mn
52wk high/low	Rs 799/Rs 410
Promoter/FPI/DII	83%/8%/0%

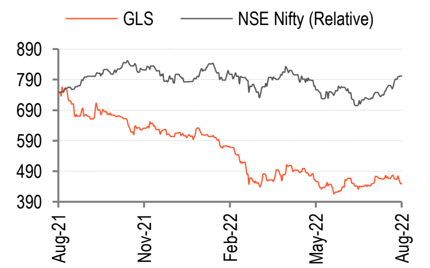
Source: NSE | Price as of 5 Aug 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	21,232	20,927	24,307
EBITDA (Rs mn)	6,160	6,148	7,305
Adj. net profit (Rs mn)	4,180	4,385	5,168
Adj. EPS (Rs)	34.1	35.8	42.2
Consensus EPS (Rs)	34.1	38.6	44.6
Adj. ROAE (%)	31.0	21.1	21.5
Adj. P/E (x)	13.2	12.6	10.7
EV/EBITDA (x)	10.5	9.4	7.0
Adj. EPS growth (%)	4.6	4.9	17.9

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

Stock performance



Source: NSE

HOLD
TP: Rs 1,100 | ⮝ 11%

BLUE STAR | Consumer Durables | 05 August 2022

Commendable margin performance

- **Q1 EBIT margin in cooling business relatively strong at 8.1%, outperforming peers**
- **Among the few companies to take price hikes in Q1, enabled by balanced approach to market share growth and margins**
- **Retain HOLD with revised TP of Rs 1,100 (vs. Rs 1,200) as we lower our target P/E to 38x (vs. 40x) amid rising competitive intensity**

Vinod Chari | Tanay Rasal
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Good quarter: BLSTR's Q1FY23 revenue stood at Rs 19.7bn, up 87% YoY, led by strong growth in the unitary cooling (UCP) and electromechanical project (EMP) segments at 122% and 57% YoY respectively. This translates to a 3Y CAGR of 7% in UCP vs. 7%/19% for VOLT/Lloyd. Notably, despite cost pressure, BLSTR was able to navigate Q1 relatively well, maintaining its EBITDA margin at 6.3% – stable QoQ vs. a decline for competitors. Adj. PAT was at Rs 744mn (3Y CAGR of -0.7%).

Commendable margins in UCP: EBIT margin in the UCP business rose 110bps QoQ to 8.1% led by improved operating leverage, price hikes, and a favourable product mix following introduction of the affordable segment from Jan'22. In comparison, VOLT's UCP division reported a 7.7% (-300bps QoQ) EBIT margin, while Lloyd reported losses. In a key positive, BLSTR's management remained optimistic about keeping UCP margins in the 8-10% range in H2FY23.

EMP segment gaining traction: The EMP segment grew 57% YoY in Q1 with an EBIT margin of 5.7%. Commercial AC sales performed well in the retail, builder and entertainment segments. The order pipeline remains healthy owing to an uptick in the construction cycle (airport, metro, railways, healthcare), rising manufacturing capex and data centre expansion. Overall, management is aiming for a 6% margin in EMP, with a focus on cash flows.

Balanced approach to market share: BLSTR maintained its market share at 13.25% in Q1FY23, similar to FY22. The company has taken a judicious approach to managing market share growth and margins, with its share increasing gradually from 13% at end-FY21. Notably, it is one of the few companies that raised prices in Q1. Management expects market share to increase to 15% by FY25.

Competition rising; retain HOLD: BLSTR has navigated Q1 well amid RM inflation and slowing demand towards the quarter-end. However, we note that Q2 and Q3FY23 are seasonally soft quarters for the AC industry. Further, in light of the rising competitive intensity, we value the stock at a lower 38x FY24E EPS (40x earlier), which yields a revised TP of Rs 1,100 (Rs 1,200 earlier); retain HOLD.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	BLSTR IN/Rs 991
Market cap	US$ 1.2bn
Free float	61%
3M ADV	US$ 1.4mn
52wk high/low	Rs 1,225/Rs 758
Promoter/FPI/DII	39%/12%/22%

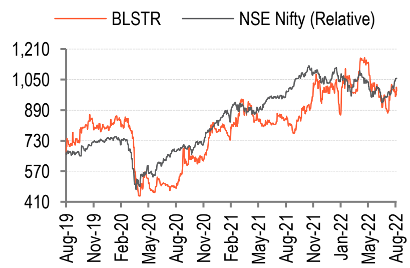
Source: NSE | Price as of 5 Aug 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	60,456	70,045	80,432
EBITDA (Rs mn)	3,465	4,225	5,008
Adj. net profit (Rs mn)	1,677	2,481	2,781
Adj. EPS (Rs)	17.4	25.8	28.9
Consensus EPS (Rs)	17.4	27.8	36.1
Adj. ROAE (%)	17.6	22.8	22.4
Adj. P/E (x)	56.9	38.5	34.3
EV/EBITDA (x)	27.5	22.6	19.1
Adj. EPS growth (%)	67.1	48.0	12.1

Source: Company, Bloomberg, BOBCAPS Research

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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