# FIRST LIGHT

02 February 2022

## RESEARCH

### India Strategy | FY23 Budget Review

Focus on investment

### BOB Economics Research | Union Budget Analysis

### BOB Economics Research | Union Budget 2022-23

Investment focused budget

### Tech Mahindra | Target: Rs 1,940 | +29% | BUY

Mixed bag - growth outperforms, margin disappoints

### Ajanta Pharma | Target: Rs 2,655 | +21% | BUY

Strong revenue growth but margins contract

**Daily macro indicators**

| Indicator | 31-Jan | 28-Jan | Chg (%) |
|---|---|---|---|
| US 10Y yield (%) | 1.78 | 1.77 | 1 |
| India 10Y yield (%) | 6.68 | 6.75 | (7) |
| USD/INR | 74.62 | 75.04 | 1 |
| Brent Crude (US$/bbl) | 91.2 | 90 | 1.3 |
| Dow | 35,132 | 34,725 | 1.2 |
| Hang Seng | 23,802 | 23,550 | 1.1 |
| Sensex | 58,014 | 57,200 | 1.4 |
| **India FII (US$ mn)** | **28-Jan** | **27-Jan** | **Chg ($ mn)** |
| FII-D | 122.9 | 0.2 | 122.7 |
| FII-E | (675.2) | (734.4) | 59.3 |

Source: Bank of Baroda Economics Research

## SUMMARY

### India Strategy | FY23 Budget Review

- India's FY23 budget continues a series of themes from previous budgets, including elevated capex outlay and easing of regulations
- Crypto assets now brought under the tax net; scope of implementation will likely be clearer once a consultation paper is published
- Budget proposals are positive for infrastructure, capital goods and consumption sectors

Click here **for the full report.**

### India Economics: Union Budget Analysis

- Budget for FY23 is an investment oriented budget, with major thrust given to government capex.
- Capex target is set at Rs 7.5tn in FY23(BE), up from Rs 6tn in FY22(RE). As % of GDP, the ratio will jump to 2.9% in FY23, highest since FY05.
- In order to meet the spending targets, government has projected sharp rise in gross borrowings to Rs 14.95tn in FY23(BE) from Rs 10.47tn in FY22(RE).

Click here **for the full report.**

**BOBCAPS Research**
researchreport@bobcaps.in

## India Economics: Union Budget 2022-23

Union budget for FY23 is an investment oriented budget, with focus on boosting government capex and reviving private sector spending. While the fiscal deficit target of 6.4% is higher than our expectation (6-6.25%), we still believe that government is on track to achieve its fiscal consolidation target by FY26. To boost consumption, few measures were announced and we expect this to be a drag on growth. Steep rise in borrowings will also imply that 10Y yield will come under pressure this year (est.: ~7%).

**Click here for the full report.**

## Tech Mahindra

- Q3 revenue growth robust at 4.1% QoQ USD, outperforming our estimate of 3.6%, driven by the CME vertical
- EBIT margin of 14.8% came in below estimates due to higher employee and subcontractor costs
- We cut FY22-FY24 EPS by 3-8% on lower margin forecasts. Maintain BUY with a revised TP of Rs 1,940 (vs. Rs 1,970)

**Click here for the full report.**

## Ajanta Pharma

- Q3 revenue up 12% YoY spurred by branded formulations business in India and Africa; US sales down 14% QoQ to US$ 22mn
- US price erosion, rising RM and SG&A expense reduced EBITDA margin by 370bps YoY, marginally offset by higher branded formulation sales
- We retain earnings estimates but cut our EV/EBITDA multiple to 17x (vs. 19x). On rollover, our TP moves to Rs 2,655 (vs. Rs 2,800); retain BUY

**Click here for the full report.**

## FY23 BUDGET REVIEW

01 February 2022

# Focus on investment

- **India's FY23 budget continues a series of themes from previous budgets, including elevated capex outlay and easing of regulations**
- **Crypto assets now brought under the tax net; scope of implementation will likely be clearer once a consultation paper is published**
- **Budget proposals are positive for infrastructure, capital goods and consumption sectors**

**Kumar Manish | Aseem Madan**
researchreport@bobcaps.in

**Realistic assumptions:** The government presented the FY23 Union Budget on 1 Feb 2022. The budget pegs the FY23 fiscal deficit at 6.4%, which is largely in line with market expectations. Long-running themes of ease of living and ease of doing business remain in focus. Growth in India's FY23 gross tax receipts is pegged at a modest 9.6% over FY22 revised estimates. This is easily achievable given the 8-8.5% GDP growth assumption as per the Economic Survey. Notably, there was no increase in income tax rates. The FM later clarified that the government did not want to effect any increase in personal tax during the pandemic.

**Elevated capital outlay:** The government has also continued with elevated capital expenditure, allotting Rs 7.5tn for FY23 (a 36% increase YoY), which along with grants-in-aid for the creation of capital assets is tantamount to Rs 10.7tn.

**Support for MSMEs extended:** The Emergency Credit Line Guarantee Scheme (ECLGS) has helped both MSMEs and banks tide over potential stress in MSME sectors. This scheme has now been extended to Mar'23 and additional outlay has been earmarked for the hospitality sector, which continues to be affected by Covid-19.

**Crypto brought under tax net:** The FM has clarified that a digital item can be termed as currency only if it has been issued by the central bank. We believe all other crypto assets will likely be termed virtual digital assets. All transactions in virtual digital assets will attract 1% TDS while any income from their transfer will be taxed at a flat 30% rate. However, full clarity on the types of assets that will be taxed will only emerge once the relevant consultation paper is issued by the government. This apart, RBI will issue a blockchain-based digital currency during FY23.

**Sector view:** Higher outlay on infrastructure along with the construction target of 8mn affordable houses in FY23 will likely mean increased demand for building materials, including cement and steel. Robust allocation on MSP (minimum support price) will support rural consumption. We also believe higher outlay will bolster the capital goods and construction sectors. Easing of SEZ regulations can catalyse private capex.

## UNION BUDGET ANALYSIS

01 February 2022

**Madan Sabnavis**
Chief Economist

**Sonal Badhan | Jahnavi**
**Dipanwita Mazumdar | Aditi Gupta**
Economists

- Budget for FY23 is an investment oriented budget, with major thrust given to government capex.
- Capex target is set at Rs 7.5tn in FY23(BE), up from Rs 6tn in FY22(RE). As % of GDP, the ratio will jump to 2.9% in FY23, highest since FY05.
- In order to meet the spending targets, government has projected sharp rise in gross borrowings to Rs 14.95tn in FY23(BE) from Rs 10.47tn in FY22(RE).
- Fiscal deficit (as % of GDP) is also projected at 6.4%, compared with 6.9% in FY22(RE).
- Revenue growth is expected to normalize with net revenues projected to increase by 6%, following 27.2% in FY22(RE). Within this, tax revenues are estimated to rise by 9.6% (23.8% in FY22RE).

| Rs bn | FY20 | FY21 | FY22RE | FY23BE | FY22 (% chg) | FY23 (% chg) |
|---|---|---|---|---|---|---|
| Total tax revenue | 20,101 | 20,271 | 25,161 | 27,578 | 24.1 | 9.6 |
| Total non-tax revenue | 3,272 | 2,076 | 3,138 | 2,697 | 51.1 | (14.1) |
| Centre's revenue (net) | 16,841 | 16,339 | 20,789 | 22,044 | 27.2 | 6.0 |
| Total capital receipts | 10,023 | 18,831 | 15,169 | 17,397 | (19.4) | 14.7 |
| Total receipts | 26,863 | 35,170 | 35,958 | 39,442 | 2.2 | 9.7 |
| Total expenditure | 26,863 | 35,098 | 37,700 | 39,449 | 7.4 | 4.6 |
| Revenue expenditure | 23,506 | 30,835 | 31,673 | 31,947 | 2.7 | 0.9 |
| Capital expenditure | 3,357 | 4,263 | 6,027 | 7,502 | 41.4 | 24.5 |
| Revenue deficit (% of GDP) | 3.3% | 7.3% | 4.7% | 3.8% | - | - |
| Fiscal deficit (% of GDP) | 4.6% | 9.2% | 6.9% | 6.4% | - | - |

*Source: Union Budget documents, Bank of Baroda Research*

UNION BUDGET 2022-23

01 February 2022

# Investment focused budget

Sonal Badhan
Economist

Dipanwita Mazumdar
Economist

**Union budget for FY23 is an investment oriented budget, with focus on boosting government capex and reviving private sector spending. While the fiscal deficit target of 6.4% is higher than our expectation (6-6.25%), we still believe that government is on track to achieve its fiscal consolidation target by FY26. To boost consumption, few measures were announced and we expect this to be a drag on growth. Steep rise in borrowings will also imply that 10Y yield will come under pressure this year (est.: ~7%).**

**FY22 fiscal deficit at 6.9%:** In line with our view, the revised fiscal deficit target for FY22 is now at 6.9% (BoB est.: ~7%), higher than the budgeted estimate of 6.8%. This is mainly owing to higher than projected expenditure (7.4% in FY22 (RE) versus 1% rise projected in BE). This is driven by both revenue spending and capex. Robust revenue collections, supported by rebound in economic activity have allowed fiscal slippage to be minimal. Centre's tax revenues are expected to rise by 23.8% in RE to Rs 17.7tn from Rs 15.5 in BE. Non-tax revenues are also expected to overshoot the BE by Rs 700bn. Thus, net revenue collections are expected to come in Rs 2.9tn higher than the BE at Rs 20.8tn.

**FY23 fiscal deficit at 6.4%:** Fiscal deficit target for FY23 (BE) at 6.4% is higher than our expectations (6-6.25%). However, considering much of the fiscal space has been used to boost investments, we would term this fiscal deficit target as being more realistic. In terms of income, government expects normalisation of revenues, and projects tax revenues to increase by Rs 2.4tn to Rs 27.6tn (9.6%) in FY23 (BE). On the other hand, non-tax revenues are estimated to ease to Rs 2.7tn from Rs 3.1tn in FY22 (RE), as dividends and profit growth stabilizes. Disinvestment receipts are also more realistically targeted at Rs 650bn versus Rs 780bn in FY22 (RE). Centre's net revenue is projected to be up by 6% versus 27.2% in FY22.

**Focus on capex:** Centre's capex spending is expected to increase by 41.4% in FY22RE to Rs 6.02tn against 27% increase seen in FY21. Even in FY23, capex is expected to shoot up by 24.5%. This year's focus has been to improve the investment demand (GFCF/GDP: 29.6%), through enhanced public spending on infra which would crowd in private investment. On the other hand, revenue spending is expected to ease, noting only 2.7% increase in FY22RE to Rs 31.7tn compared with 31.2% increase in FY21. Even in FY23, revenue spending is estimated to increase by only 0.9%. Thus consumption demand (PFCE/GDP=57.5% of GDP) would still be a laggard in FY23.

**BUY**
**TP: Rs 1,940 | ⮝ 29%**

**TECH MAHINDRA** | Technology & Internet | 01 February 2022

# Mixed bag – growth outperforms, margin disappoints

- **Q3 revenue growth robust at 4.1% QoQ USD, outperforming our estimate of 3.6%, driven by the CME vertical**
- **EBIT margin of 14.8% came in below estimates due to higher employee and subcontractor costs**
- **We cut FY22-FY24 EPS by 3-8% on lower margin forecasts. Maintain BUY with a revised TP of Rs 1,940 (vs. Rs 1,970)**

Ruchi Burde | Seema Nayak
researchreport@bobcaps.in

**Growth beats estimates:** TECHM grew 4.1% QoQ USD, surpassing our 3.6% estimate. CME (communication, media and entertainment) vertical revenue grew 6.2% QoQ USD, outpacing enterprise business growth (of 2.7%). Network services is dominating CME growth. Within enterprise, retail helmed the growth at 13.5% QoQ USD. HLS (health and life sciences) also performed well whereas other verticals were sluggish. Geography-wise, North America was in the lead. Clients moved up the revenue ladder with 6 clients added QoQ in the US$ 10mn+ bucket, 4 in the US$ 5mn+ and 14 in the US$ 1mn+ bucket.

**EBIT margin underperforms:** EBIT margin at 14.8% (-40bps QoQ) was below our estimate of 15.3% as gross margin contracted 160bps QoQ. Subcontracting expense at 16.4% of revenue (+110bps QoQ) was TECHM's highest ever. This was to backfill the attrition rate of 24%, up 300bps QoQ, again TECHM's highest ever. To contain attrition, management intends to hire from tier-II cities and nearshore locations such as Mexico, Costa Rica, Romania, Latvia and Belarus. The company added 3,874 employees QoQ.

**Deal wins stable QoQ:** TCV stood at a decent US$ 704mn, down 6% QoQ and up 55% YoY, with US$ 226mn/US$ 478mn coming from CME/enterprise. This is the fourth straight quarter of US$ 700mn+ deal wins. The new engagements are spread across cloud, drone technology and automation, product design and engineering programme support.

**5G to gain momentum:** TECHM's 5G positioning is directed towards system integration, design and the digital cloud aspect of 5G, apart from network deployment. Integration of the 5G network with the cloud and driving network management will form some of the company's focus areas.

**Maintain BUY:** The demand outlook is strong and 5G outlook positive. SG&A is expected to remain below 13% of revenue going forward. We cut FY22/FY23/FY24 EPS estimates by 5%/8%/3% as we lower margin estimates. Our TP stands revised to Rs 1,940 (vs. Rs 1,970), set at an unchanged Dec'23E P/E of 22.5x. BUY.

## Key changes

| Target | Rating |
|---|---|
| ▼ | ◄ ► |

| | |
|---|---|
| Ticker/Price | TECHM IN/Rs 1,506 |
| Market cap | US$ 17.6bn |
| Free float | 64% |
| 3M ADV | US$ 59.5mn |
| 52wk high/low | Rs 1,838/Rs 915 |
| Promoter/FPI/DII | 36%/39%/25% |

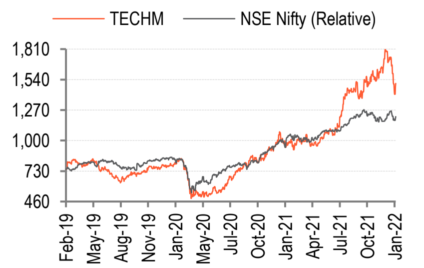
Source: NSE | Price as of 1 Feb 2022

## Key financials

| Y/E 31 Mar | FY21A | FY22E | FY23E |
|---|---|---|---|
| Total revenue (Rs mn) | 378,551 | 444,100 | 524,128 |
| EBITDA (Rs mn) | 68,471 | 80,701 | 98,655 |
| Adj. net profit (Rs mn) | 44,281 | 55,011 | 65,693 |
| Adj. EPS (Rs) | 50.4 | 62.6 | 74.7 |
| Consensus EPS (Rs) | 50.4 | 63.9 | 72.7 |
| Adj. ROAE (%) | 18.7 | 20.6 | 21.9 |
| Adj. P/E (x) | 29.9 | 24.1 | 20.2 |
| EV/EBITDA (x) | 19.1 | 16.2 | 13.1 |
| Adj. EPS growth (%) | 4.2 | 24.2 | 19.4 |

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance




Source: NSE

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TRUST | INNOVATION | EXCELLENCE

**BUY**
**TP: Rs 2,655 | ⮝ 21%**

**AJANTA PHARMA** | Pharmaceuticals | 01 February 2022

## Strong revenue growth but margins contract

- **Q3 revenue up 12% YoY spurred by branded formulations business in India and Africa; US sales down 14% QoQ to US$ 22mn**
- **US price erosion, rising RM and SG&A expense reduced EBITDA margin by 370bps YoY, marginally offset by higher branded formulation sales**
- **We retain earnings estimates but cut our EV/EBITDA multiple to 17x (vs. 19x). On rollover, our TP moves to Rs 2,655 (vs. Rs 2,800); retain BUY**

**Surajit Pal | Saad Shaikh**
researchreport@bobcaps.in

**Growth driven by branded formulation business:** AJP's Q3FY22 performance was largely in line with consensus estimates. Revenue growth of 12% YoY (-5% QoQ) to Rs 8.4bn was 1% higher than consensus. Growth was primarily supported by branded formulations in India (+16% YoY) and Africa (+87% YoY). Supernormal growth of branded generics in the US benefitted from the lower base in the continent. Asia sales declined 1% YoY due to supply chain disruptions with unpredictable lockdowns in key economies.

**Domestic growth momentum continues:** AJP posted healthy domestic growth, outperformed the market in key therapies. It grew 12% YoY in cardiology (vs. segment growth of 11%), 29% in ophthalmology (vs. 22%), 18% in dermatology (vs. 12%) and 34% in pain management (vs. 20%).

**US business declines:** US revenue decreased 14% QoQ to US$ 22mn due to severe pricing pressure and a lack of new launches. The company plans to file around seven ANDAs in Q4 in order to regain launch momentum.

**Rising costs hit EBITDA margin; branded sales support gross margin:** EBITDA margin for Q3 dropped 370bps YoY to 28.6% because of rising input costs and higher SG&A expenses. Despite higher price erosion in the US, the company was able to sustain its gross margin at 77.4% (+370bps QoQ) due to the higher branded business contribution from India and Africa.

**Reiterate BUY:** We find current valuations attractive at 15x FY24E EV/EBITDA as AJP's stable brand franchise (India/EM), US operating leverage, lower tax burden and capex moderation are likely to drive a brisk 15% EPS CAGR over FY21-FY24. Further, improving FCF, 38%+ ROIC beyond FY24E and a steady pace of launches (21 brands launched in India in FY21) should support upsides in key fundamentals. We broadly retain our earnings estimates but are wary of margin pressure (9MFY22 EBITDA margin contracted 540bps) and hence trim our EV/EBITDA multiple to 17x (vs. 19x). Rolling over to FY24 valuations, our TP reduces to Rs 2,655 (vs. Rs 2,800). We retain BUY.

### Key changes

| Target | Rating |
|---|---|
| ▼ | ◄ ► |

| | |
|---|---|
| Ticker/Price | AJP IN/Rs 2,201 |
| Market cap | US$ 2.6bn |
| Free float | 31% |
| 3M ADV | US$ 2.2mn |
| 52wk high/low | Rs 2,435/Rs 1,660 |
| Promoter/FPI/DII | 70%/9%/12% |

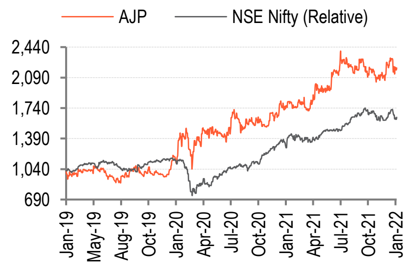
Source: NSE | Price as of 31 Jan 2022

### Key financials

| Y/E 31 Mar | FY21A | FY22E | FY23E |
|---|---|---|---|
| Total revenue (Rs mn) | 28,897 | 33,007 | 37,456 |
| EBITDA (Rs mn) | 9,990 | 10,108 | 11,834 |
| Adj. net profit (Rs mn) | 6,534 | 7,659 | 8,852 |
| Adj. EPS (Rs) | 74.5 | 87.3 | 100.9 |
| Consensus EPS (Rs) | 74.5 | 83.2 | 99.5 |
| Adj. ROAE (%) | 22.9 | 22.9 | 22.1 |
| Adj. P/E (x) | 29.5 | 25.2 | 21.8 |
| EV/EBITDA (x) | 19.0 | 18.8 | 15.9 |
| Adj. EPS growth (%) | 38.5 | 17.2 | 15.6 |

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

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