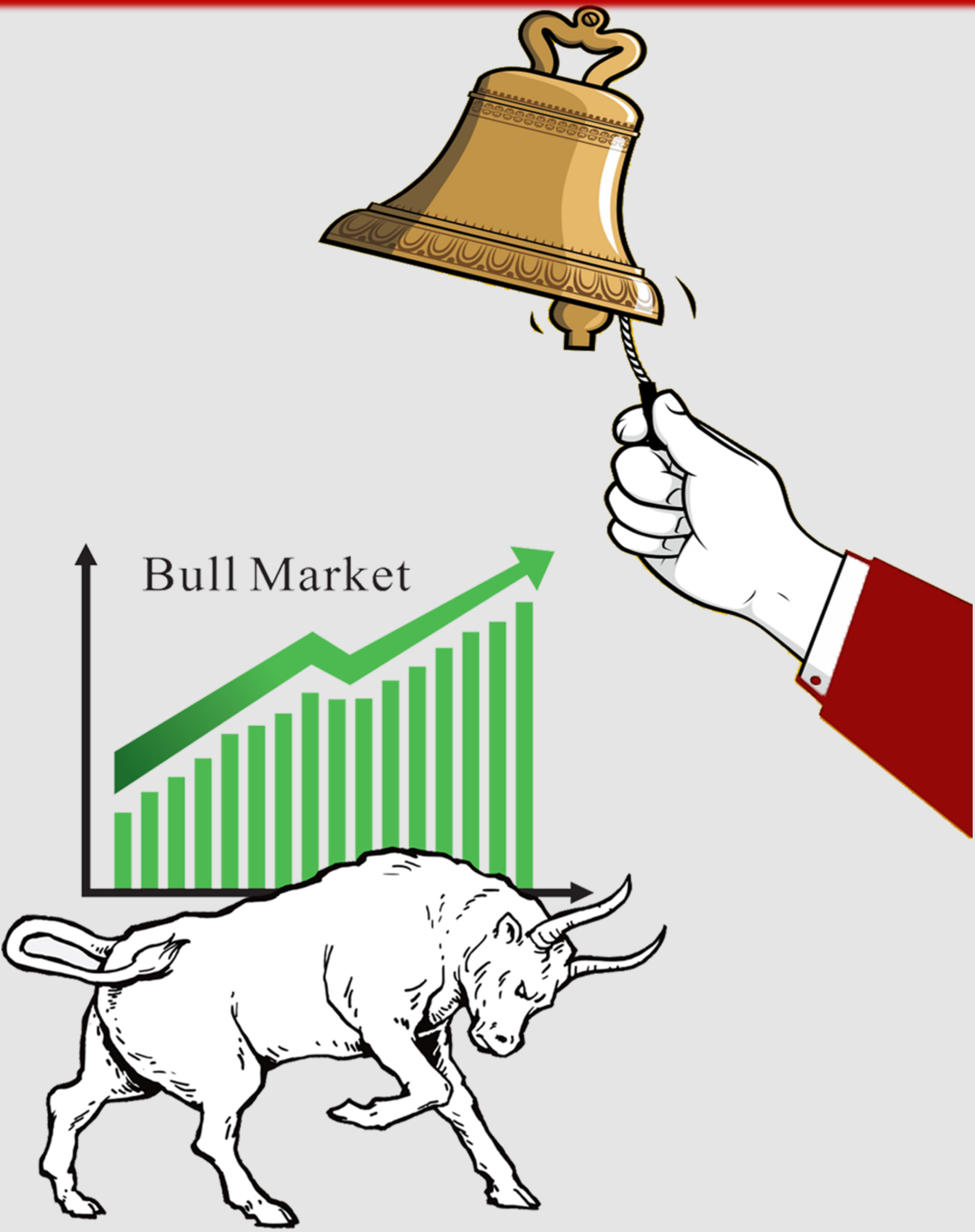
श्री LAKSHMISHREE

Gateway to your Financial Goals

BREAKOUT?

This May Impact Your Investments!!



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Behind Pharma's Rebound Is A Good Balancing Act By Drug Producers

Pharma companies impressed the Street in the September 2023 quarter, reporting a healthy expansion in revenues and earnings. The sector saw decent earnings upgrades which sent the Nifty pharma index to a new high this week.

The results show no major reduction in the competition scenario in the US, a key market for most large drug companies. Sun Pharma, the largest drug company by sales, maintains that it is not seeing a huge change in the environment for the generic drugs business. Industry data analysed by Antique Stock Broking shows a 10 percent erosion in generic drug prices in the last twelve months, not vastly lower than in 2022 calendar year.

Yet, Sun Pharma and other major companies have clocked a decent expansion in revenues in the first half of the current fiscal year. "Pharma companies on the most part reported strong revenue, in line with our estimates," Elara Securities said in a September quarter review note.

So, what is driving the performance? Complex generics, limited competition drugs and specialty products.

Pharma companies are able to strike a good balance between pure generics drugs business and relatively high value products. They are overcoming the price erosion in the base generic drug business by adding new products and launching higher value products.

"Continued niche launches, momentum from gRevlimid and gSpiriva supported (the performance of US business)," analysts at Prabhudas Lilladher said in a note. Generic Revlimid and Spiriva are oncology and respiratory drugs.

The changing business strategies are reflective in generic drug applications at the US drug regulator.

For the period ending August 2023 (annualised) as much as 16 percent of the applications received by the US drug regulator pertains to relatively better priced complex products, points out Nomura. "Generic companies are more selective in terms of product filings and are targeting relatively high value or differentiated products," analysts at Nomura said in a note.

Complex generics are difficult to copy products and have better realisations. As it turns out, the pricing environment in this class of drugs is also better.

For instance, inhalers and injectables saw pricing improvement on a trailing twelve months basis, shows analysis by Antique Stock Broking. See the second chart. While the strategy is powering pharma companies' revenues and helping them offset the business softness in India, continuation of the momentum in new product launches will be important for earnings and stock returns.

Why Have Loan Rates Eased Amid Tight RBI Policy?

Between May 2022 and February 2023, the Reserve Bank of India (RBI) hiked its repo rate by 250 basis points and during that same period the weighted average lending rate (WALR) on fresh loans climbed 187 bps. A basis point is one hundredth of a percentage point. During the same period, short-term market interest rates have inched up as well, all in response to a tightening monetary policy, which is the logical outcome.

But for the past few months, there has been a twist in this tale of transmission. In the one-year ended September 2023, India's banks have reduced their lending rates for retail and small businesses as seen by at least 70 basis points fall in the WALR. This, when the monetary policy continued to be tight, and the RBI has progressively tightened liquidity conditions for the banks.

There are two broad components in the calculation of interest rate on a loan product by banks. One is the borrowing cost of the bank itself, or in the case of the external benchmark-based lending rate (EBLR) this would be the policy repo rate. This rate has increased by 250 bps between May 2022 and February 2023 and has remained steady thereafter. Ergo, there is no downward pressure on lending rates from this component. Note that banks are mandated to price all their loans to retail and small businesses off the EBLR.

The second component is the spread that the bank charges over the policy rate to cover for the various risks and costs that a bank takes on while giving out a loan. Broadly, these are the term spread and the credit risk spread. The first is for covering the bank's risk of giving a multi-year loan and the second is to cover for the risk of non-repayment by the borrower, also called credit risk.

As evident from the chart, banks have reduced the spreads they charge over the repo rate to borrowers, thereby bringing down the final lending rate. The biggest drop has been in personal loans. The tenure of retail or small business loans hasn't changed dramatically. That leaves the credit risk premium part of the spread.

Have bankers begun to perceive these loans as safer than before? While that could be one of the possible reasons, this perception is also coloured by how much banks need retail business or how intense the competition is from others.

Most banks have pursued retail loans in the absence of robust growth in corporate loans. That means competition has increased for retail and the festival season only elevated it. Banks, wishing to strike while the growth iron is hot, may have pushed retail loans aggressively during the festival season by reducing the final interest rates charged through spread compression.

That brings us to the recent warnings and measures of the RBI towards tempering unsecured retail lending. There has been a mad scramble towards unsecured retail lending in the past decade and though the intensity may have reduced, large lenders have continued to pursue this segment single-mindedly. Credit bureau data has shown that at times, banks have underwritten riskier loans than what they did before. The fact that the WALR of personal loans has fallen shows that banks are mispricing these loans as well. That explains the RBI's worry and the recent measures on risk weights.

Banks must price loans appropriately and sacrificing the credit risk spread to get topline growth could bite them later on.

Look What Our Research Analyst Has To Say...

Nifty on the hourly charts is forming a bullish Inverse Head & Shoulder pattern and has closed right at the neckline of the pattern. Any sustain mve above 19800-19835 zone will head to test 20100 levels initially and above that fresh all time high will be the logical target. On the downside the immedate supports are placed at 19700 and below that 19540 will be the next support for the bulls. Overall the index is bullishly poised with lots of inflows from domestic funds sustaining and maintaining the liquidity.

Anshul Jain

Sr. Research Analyst

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Wealth Bagger Stock Picks For The Week

Axis Bank

About The Company

Axis Bank, ranking as India's third-largest private sector bank, provides a comprehensive range of financial services to diverse customer segments, including large and mid-corporates, MSMEs, agriculture, and retail businesses. Complementing its robust market presence across various categories, the bank operates subsidiaries offering a wide array of financial services. As of September 2023, the bank's domestic branch network spans 5,152 locations, and it boasts a Capital Adequacy Ratio (CAR) of 16.56%.

Particulars

Market Cap.	EPS	Net Profit	Promoter Holding	52 Week H / L
₹ 3,10,881 Cr.	₹ 42.6	₹ 13,224 Cr	8.22%	1,048 / 814

Outlook & Valuation

Axis Bank has undergone significant cultural and risk framework changes, ensuring resilience across economic cycles and positioning itself as a versatile franchise. With a strategic focus on high-yield opportunities and consistent market share expansion, sustained growth remains a priority. The bank's substantial investments in transformative tech projects now showcase accelerated digital platform scaling, resulting in increased growth, higher yields, fee income, and reduced operational costs compared to physical channels. Notably, this success spans personal loans, retail loans, credit cards, savings accounts, term deposits, forex cards, and mutual fund investments.

Moreover, the bank's asset-side emphasis on Small Business Banking, SMEs, Mid Corporates, Rural loans, Personal loans, and credit card advances has yielded satisfactory asset quality performance. There's a deliberate push to outpace industry growth while establishing a diversified, granular book spanning sectors and geographies. Siddhi, the Super App, empowers bank employees by providing comprehensive customer insights pre-interaction, enhancing service delivery tailored to customer needs. This innovative tool effectively measures and boosts employee productivity and customer engagement.

HONEYWELL AUTOMATION

About The Company

Honeywell stands at the forefront of offering comprehensive automation and software solutions, encompassing process solutions and building solutions. With an extensive product range covering environmental controls, combustion controls, and sensing and control systems, the company leads in these domains. Additionally, Honeywell extends its expertise through engineering services in automation and control to a global clientele. As a Fortune India 500 entity, Honeywell operates with over 3,000 employees spread across nine offices in India, situated in Pune, Vadodara, Bengaluru, Hyderabad, Mumbai, Chennai, Gurgaon, Kolkata, and Jamshedpur.

Particulars

Market Cap.	EPS	Net Profit	Promoter Holding	52 Week H / L
₹ 32,498 Cr	₹ 502	₹ 443 Cr	75%	44,150 / 34,343

Outlook & Valuation

Honeywell showcased stronger revenues, up 39% year-on-year at Rs. 1104 crore in Q2FY2024, propelled primarily by domestic market growth. Despite disappointing operating profit margins (OPM), reduced expenses balanced lower gross margins. The company's revenue surge resulted in aligned profits after tax (PAT). This growth was driven by robust domestic execution, while long-term contracts faced pressure from rising input costs in a competitive environment.

The focus remains on doubling India's GDP growth, gradually reviving export growth, and prioritizing industrial digitalization, automation, and sustainability. Honeywell's strategic emphasis on diversified product development, expansion into new markets, and addressing the mid-market segment is poised to sustain healthy earnings growth. Additionally, the company anticipates benefiting from India's long-term growth catalysts, including Smart City development, railway and metro projects, airport expansions, regulatory reforms (RERA, GST), IIoT, and 'Make in India' initiatives.

THANK YOU

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