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TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

11 November 2024

RESEARCH

LUPIN | TARGET: Rs 2,438 | +16% | BUY

In-line quarter; EBITDAM guidance increased to 25%

SAIL | TARGET: Rs 120 | +2% | HOLD

Volatile profitability despite structural improvements

BOB ECONOMICS RESEARCH | MONTHLY ECONOMIC BUFFET

Economic Round-up: October 2024

DIVI'S LABS | TARGET: Rs 5,253 | -12% | SELL

Healthy Q2; rich valuations

ASHOK LEYLAND | TARGET: Rs 279 | +26% | BUY

Cost respite aids steady show; recovery in sight. Retain BUY

GUJARAT STATE PETRONET | TARGET: Rs 415 | +9% | HOLD

Group reorganisation and GUJGA CGD are key value drivers

JK LAKSHMI CEMENT | TARGET: Rs 661 | -14% | SELL

Challenges galore leading to weak show; maintain SELL

PRINCE PIPES & FITTINGS | TARGET: Rs 650 | +40% | BUY

Mixed Q2FY25; market share gain at the cost of inferior margin

SUMMARY

LUPIN

- LPC's earnings were in line with our estimates but beat street's estimates. EBITDA margin was 23% in Q2FY25
- US sales were lower at US$ 220mn, hit by higher competition in Suprep and Doxil. LPC expects US sales to rise to ~US$ 250mn from FY26
- Upgrade to BUY due to complex product pipeline. Ascribe P/E of 29x to LPC and roll forward to Sep'26, with new TP of Rs 2,438 (from Rs 1,600)

Click here **for the full report.**

BOBCAPS Research
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SAIL

- While Q2 benefitted from prior-period rail revenue, underlying profitability was weak and lagged peers
- Despite structural improvements and higher plant utilisation, profitability remains volatile. Leverage also remains a concern
- Raise FY25 estimates factoring in prior-period rail revenue and increase TP to Rs 120 (from Rs 110). Upgrade rating to HOLD from SELL

Click here for the full report.

INDIA ECONOMICS: MONTHLY ECONOMIC BUFFET

US Presidential election results gave a clear mandate to Trump. President Trump has advocated for tax concession to companies and introducing tariffs on all imported goods. China and Europe will be impacted the most if these tariffs come into effect. Disinflation process in the US will also be at risk, as a loose fiscal policy is inflationary in nature. As a result, for now, markets are expecting a pause from Fed in Jan'25 meeting, after cutting rates for the third time in Dec'24. Fed has highlighted that economy is growing steadily, and inflation is slowing, but it still remains elevated.

Click here for the full report.

DIVI'S LABS

- DIVI reported healthy 2QFY25 earnings which was a beat on our estimates. Exports contributed 87% of sales and the US 71%
- EBITDA margin increased 500bps YoY to 30.6% in 2Q. We expect EBITDA margin to climb to 38% by FY27 on the GLP opportunity
- We maintain SELL and ascribe a higher P/E of 52x (five-year mean of 32x) and roll forward to Sep'26, with new TP of Rs 5,253 (from Rs 3,000)

Click here for the full report.

ASHOK LEYLAND

- Q2FY25 revenue grew 9% YoY to Rs 87.6bn (up 2% QoQ), helped by flat realisations YoY while volume fell by 9%
- EBITDA margin rose to 11.6% compared to 10.6% in Q1FY25 and 11.2% in Q2FY24 largely driven by commodity cost savings measures
- We cut our earnings for FY25E/FY26E/FY27E by 7%/4%1%, retain BUY rating for a revised 1-year forward SOTP-based TP of Rs 279 (vs Rs 283)

Click here for the full report.

GUJARAT STATE PETRONET

- Q2 EBITDA declined 54% YoY primarily on sharp tariff cut from May'24; GIGL called on GUJS for cash deficit support under sponsor agreement
- With core transmission value not materially linked to volume growth, GUJS value is effectively linked to the GSPC group reorganisation
- Retain HOLD with a lowered TP of Rs 415 (from Rs 480) factoring in the recent derating of CGD business after deallocation of APM gas

Click here for the full report.

JK LAKSHMI CEMENT

- Q2 revenue fell sharply by 21% YoY/QoQ each dragged by low volume growth, down 14%/20%, and weak realisations that fell by 9% YoY
- Operating cost fell ~2% to Rs 5,788/t aided by lower energy cost which provided little respite as EBITDA/t slipped to a low of Rs 330/t
- We value JKLC at 9x EV/EBITDA 1-year forward earnings (unchanged) with a new TP of Rs 661 (vs Rs 687) on revised earnings. Retain SELL

Click here for the full report.

PRINCE PIPES & FITTINGS

- PRINCPIP appears to have gained market share in Q2FY25 even after tightening the credit period for its dealers
- EBITDA margin to remain weak in the near future due to aggressive pricing strategy; but medium-term guidance of 12-13% remains intact
- Maintain BUY on strong earnings prospects and reasonable valuations; TP cut by 13% to Rs 650

Click here for the full report.

RESULT REVIEW

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BUY
TP: Rs 2,438 | ⅄ 16%

LUPIN | Pharmaceuticals | 09 November 2024

In-line quarter; EBITDAM guidance increased to 25%

- **LPC's earnings were in line with our estimates but beat street's estimates. EBITDA margin was 23% in Q2FY25**
- **US sales were lower at US$ 220mn, hit by higher competition in Suprep and Doxil. LPC expects US sales to rise to ~US$ 250mn from FY26**
- **Upgrade to BUY due to complex product pipeline. Ascribe P/E of 29x to LPC and roll forward to Sep'26, with new TP of Rs 2,438 (from Rs 1,600)**

Foram Parekh
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Strong India business and stable US growth: LPC delivered an in-line performance in Q2 with +12%/+42% YoY growth in Sales/EBITDA to Rs 56.7bn/Rs 13bn (-1.6%/-3.4% below our estimates), while PAT grew 74% YoY to Rs 8.5bn. Growth in revenue was spearheaded by strong execution across regions where India (19% YoY) and EMEA (20% YoY) growth was offset by North America (5.6% YoY) followed by raw material cost rationalisation resulting in EBITDA margin increasing 485bps YoY to 23.1%.

Highest-ever growth rate in India segment: LPC's India business grew by 19% YoY driven by the India formulations business and global tender wins. India formulations sales grew by 10.9% vs IPM's 8%, driven by (1) the Chronic portfolio's (62% of domestic sales) outperformance vs IPM, (2) deeper medical representatives reach (7,700 MRs) and (3) strong basket of innovative and in-licence products.

Constant currency US sales run rate expected to inch up to US$ 1bn: LPC's US sales in Q2 grew by 6% YoY to Rs 19.7bn. In CC terms, it grew 3% YoY but fell 3% sequentially to US$ 220mn. The drop was due to competition in key products like Suprep and Doxycycline and phasing the inventory load in Mirabegron offset and Pred Forte exclusivity. Going forward, we expect complex generic (expected to reach 50% of US sales from current 40%) launches like Tolvaptan and 40 injectable products to raise the US$ run rate to US$ 250mn vs the current US$ 220mn.

EBITDA margin to inch up to 25%: LPC's 23.1% EBITDA margin was driven by healthy product mixes in India and the US region and followed by raw material cost rationalisation. We believe new launches in the complex generics portfolio, which includes 40 injectables and a healthy Respiratory pipeline, and a healthy domestic formulations business, will drive EBITDA margin to 25.5% by FY27.

Upgrade to BUY with higher TP of Rs 2,438: We increase our EPS estimates by 17% for FY25 and 19% for FY26 on a healthy product pipeline of complex products in the US. Hence, we ascribe a higher P/E of 29x (five-year average of 24x), and roll forward our valuations to Sep'26, with a new TP of Rs 2,438 (from Rs 1,600).

Key changes

Target	Rating
▲	▲

Ticker/Price	LPC IN/Rs 2,105
Market cap	US$ 11.3bn
Free float	53%
3M ADV	US$ 31.2mn
52wk high/low	Rs 2,312/Rs 1,154
Promoter/FPI/DII	46%/14%/29%

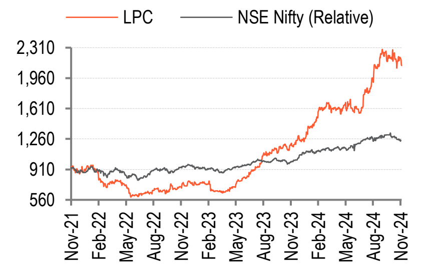
Source: NSE | Price as of 8 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	200,106	219,253	242,151
EBITDA (Rs mn)	38,105	51,215	59,158
Adj. net profit (Rs mn)	19,145	28,829	35,133
Adj. EPS (Rs)	42.3	63.7	77.6
Consensus EPS (Rs)	42.3	52.3	63.7
Adj. ROAE (%)	14.2	18.9	20.3
Adj. P/E (x)	49.7	33.0	27.1
EV/EBITDA (x)	25.7	19.0	16.1
Adj. EPS growth (%)	345.1	50.6	21.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
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HOLD
TP: Rs 120 | ▲ 2%

SAIL | Metals & Mining | 11 November 2024

Volatile profitability despite structural improvements

- **While Q2 benefitted from prior-period rail revenue, underlying profitability was weak and lagged peers**
- **Despite structural improvements and higher plant utilisation, profitability remains volatile. Leverage also remains a concern**
- **Raise FY25 estimates factoring in prior-period rail revenue and increase TP to Rs 120 (from Rs 110). Upgrade rating to HOLD from SELL**

Kirtan Mehta, CFA
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Q2 benefitted from prior-period rail revenue: Q2 EBITDA at Rs 29.1bn was up 31% QoQ benefitting from Rs 16.4bn of FY23 rail revenue recovery. Excluding the same, adj EBITDA margin slid Rs 2.4k/t to Rs 3.1k/t. Sales was down 15% YoY to 4.1mt, impacted by higher domestic competition amid weaker exports by industry.

Lagged peers: SAIL's adj EBITDA margin of Rs 3.1k/t was the weakest among its peers – JSTL India (Rs 8.4k/t), JSP (Rs 11.5k/t) and TATA India (Rs 13.5kt).

Operational improvements: (a) Billet caster at Bhilai operationalised, (b) share of structural in product mix increased to 16% (from 9-10% run rate) indicating better utilisation of new structure mills, however, its margin benefit was not evident yet, (c) coke usage reduced to 526kg/thm from 440kg/thm in FY24.

Leverage remains a concern: While gross debt remained elevated at Rs 356bn in H1 on account of increase in coking coal stocks, SAIL guides for Rs 45bn-50bn reduction to Rs 290bn by the end of FY25.

Slowly progressing expansions: SAIL has tendered out eight out of 14 packages for the 3.8mtpa IISCO expansion, received stage 1 approval from the board to commence tendering for the 2.5mtpa Durgapur expansion, and continues to work on finalising the Detailed Project Report (DPR) for the 2.4mtpa Bokaro expansion.

Tweak estimates: SAIL lowered its FY25 steel sales guidance to 18mt (from 19.2mt). Factoring in prior-period rail revenue, we raise FY25E EBITDA by 6% and continue to build in 9% CAGR over FY24-27E on the back of 3% ramp-up in sales with the usage of Bhilai caster. We do not account for debottlenecking projects.

Upgrade to HOLD: Rolling forward to Sep'25, we raise our TP to Rs 120 (from Rs 110) with an unchanged 1Y fwd EV/EBITDA target multiple of 5.5x. The multiple is at a discount to peers and reflects SAIL's weak profitability and pause in capex programme over the past three years. With 25% correction in the stock's price since July, we upgrade the rating on SAIL to HOLD from SELL.

Key changes

Target	Rating
▲	▲

Ticker/Price	SAIL IN/Rs 118
Market cap	US$ 5.8bn
Free float	35%
3M ADV	US$ 33.8mn
52wk high/low	Rs 175/Rs 86
Promoter/FPI/DII	65%/3%/16%

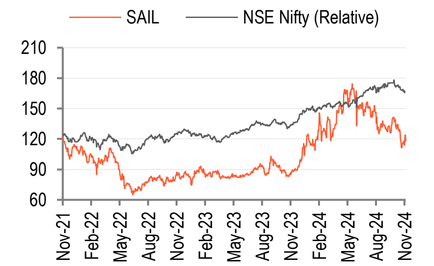
Source: NSE | Price as of 8 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs bn)	1,054	1,064	1,076
EBITDA (Rs bn)	111	123	140
Adj. net profit (Rs bn)	31	36	52
Adj. EPS (Rs)	7.4	8.8	12.6
Consensus EPS (Rs)	7.4	6.6	10.2
Adj. ROAE (%)	5.5	6.2	8.5
Adj. P/E (x)	15.9	13.5	9.4
EV/EBITDA (x)	6.5	6.7	5.8
Adj. EPS growth (%)	40.9	18.1	43.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

MONTHLY ECONOMIC BUFFET

08 November 2024

Economic Round-up: October 2024

Sonal Badhan
Economist

US Presidential election results gave a clear mandate to Trump. President Trump has advocated for tax concession to companies and introducing tariffs on all imported goods. China and Europe will be impacted the most if these tariffs come into effect. Disinflation process in the US will also be at risk, as a loose fiscal policy is inflationary in nature. As a result, for now, markets are expecting a pause from Fed in Jan'25 meeting, after cutting rates for the third time in Dec'24. Fed has highlighted that economy is growing steadily, and inflation is slowing, but it still remains elevated.

High frequency indicators for US signal that services sector continues to record improvement, supported by higher employment and new business. Consumer confidence is also up, on hopes of improved job prospects in the next 6 months. On the other hand, manufacturing sector continues to reel under pressure. Situation is similar in Eurozone. Germany recorded continued deterioration in manufacturing activity, albeit at a slower pace. Services activity gained momentum. In China, after noting slowdown in the previous 2 quarters, economy is beginning to show signs of rebound from Sep'24 onwards. Retail sales, industrial production, PMIs have picked up pace. Government is soon expected to announce fiscal measures to further propel growth and achieve 5% GDP target. India will also report Q2FY25 GDP numbers later this month, and we expect 6.9% growth, up from 6.7% in Q1.

Global Central Banks: In Oct/Nov'24, in line with market expectations, major central banks (US Fed, BoE, and ECB) lowered their policy rates. US Fed delivered a 25bps rate cut, keeping in view softening labour market conditions. However, Fed cautioned against elevated levels of inflation and unstainable fiscal policy. Markets are now pricing in another 25bps cut in Dec'24 meeting and a pause in Jan'25. BoE aso lowered its policy rate by 25bps, 2nd rate cut in 4 years. Relatively loose labour market conditions and ongoing progress made in disinflation process helped the central take this call. Accounting for recent budget announcements, inflation projections for CY25 were raised to 2.7% from 2.5% in CY24 and growth is also estimated to be higher at 1.5% in CY25 (1% estimated earlier). No more cuts are expected this year, and next year as well, 2-3 cuts being priced in, compared with 4 rate cuts expected earlier. In contrast, BoJ maintained its policy rates unchanged and the statement appeared to be hawkish. New wage settlement deals are expected to push wage growth even higher. BoJ is confident of achieving 2% inflation target in the coming years. A rate hike in Dec'24 remains uncertain.

Key macro data releases: India's trade deficit narrowed down to US$ 20.8bn in Sep'24 compared to US$ 29.7bn deficit seen in Aug'24. This is attributable to faster pace of decline in imports.

RESULT REVIEW

SELL
TP: Rs 5,253 | ⋎ 12%

DIVI'S LABS | Pharmaceuticals | 10 November 2024

Healthy Q2; rich valuations

- **DIVI reported healthy 2QFY25 earnings which was a beat on our estimates. Exports contributed 87% of sales and the US 71%**
- **EBITDA margin increased 500bps YoY to 30.6% in 2Q. We expect EBITDA margin to climb to 38% by FY27 on the GLP opportunity**
- **We maintain SELL and ascribe a higher P/E of 52x (five-year mean of 32x) and roll forward to Sep'26, with new TP of Rs 5,253 (from Rs 3,000)**

Foram Parekh
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Earnings exceed our estimates on all fronts: DIVI's earnings beat our estimates on all fronts where sales grew by 22% YoY to Rs 23.3bn (6.5% ahead of our estimate), EBITDA by 46% YoY to Rs 7.1bn (8.7% ahead of our estimate) and PAT by 42% YoY to Rs 5.1bn (12% above our estimate).

Custom synthesis drives growth, generics witness pricing pressure: DIVI's Q2 revenue growth was driven by higher interest and customer engagements. During the quarter, Custom Synthesis to Generics contribution sustained at 51%:49%. In generic APIs, DIVI reported 4% YoY growth despite facing price erosion pressure across the portfolio, which was offset by volume growth.

Margins increase amid elevated logistic costs: During Q2, raw material costs increased by 20% YoY and 14% QoQ due to the delay in transit days from 45 days to 70 days. However, it was offset by healthy CS sales and marginal decline in other expenses due to backward integration and better production efficiencies which resulted in EBITDA margin increasing by 500bps YoY and 130bps QoQ to 30.6%.

To participate in GLP opportunity in fragmented manner: Currently DIVI has 500 litres of reactors capacity in the qualification stage to participate in the GLP opportunity. It was supplying to innovator drug through liquid phase, however has now started investments for oral phase. DIVI is to supply only to innovator, and not generic, companies post patent expiry.

High demand for supply of peptides: DIVI is facing much demand for the supply of peptides and is working with customers whose products are in Phase 2 and 3 stages of development. DIVI has a decent order pipeline and expects to be a major player in this segment in the long term.

Maintain SELL: DIVI's generics segment is facing price erosion pressure and expects to supply GLP products in fragments, thereby margins unable to reach its peak of 40%. Hence, we maintain SELL, however ascribe higher P/E of 52x and roll forward our valuations to Sep'26, with a new TP of Rs 5,253 (from Rs 3,000).

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	DIVI IN/Rs 5,950
Market cap	US$ 18.7bn
Free float	48%
3M ADV	US$ 43.8mn
52wk high/low	Rs 6,276/Rs 3,350
Promoter/FPI/DII	52%/15%/22%

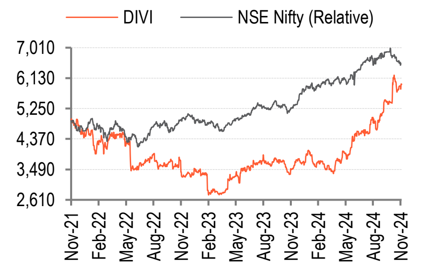
Source: NSE | Price as of 8 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	78,450	89,779	101,568
EBITDA (Rs mn)	22,050	28,289	34,035
Adj. net profit (Rs mn)	15,700	18,790	22,914
Adj. EPS (Rs)	59.1	70.8	86.3
Consensus EPS (Rs)	59.1	75.9	95.0
Adj. ROAE (%)	11.9	13.7	15.6
Adj. P/E (x)	100.6	84.1	68.9
EV/EBITDA (x)	69.9	54.4	45.4
Adj. EPS growth (%)	(7.6)	19.7	21.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
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BUY
TP: Rs 279 | 26%

ASHOK LEYLAND | Automobiles | 09 November 2024

Cost respite aids steady show; recovery in sight. Retain BUY

- **Q2FY25 revenue grew 9% YoY to Rs 87.6bn (up 2% QoQ), helped by flat realisations YoY while volume fell by 9%**
- **EBITDA margin rose to 11.6% compared to 10.6% in Q1FY25 and 11.2% in Q2FY24 largely driven by commodity cost savings measures**
- **We cut our earnings for FY25E/FY26E/FY27E by 7%/4%1%, retain BUY rating for a revised 1-year forward SOTP-based TP of Rs 279 (vs Rs 283)**

Milind Raginwar
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Revenue slips as volume weakens: Q2FY25 revenue fell 9% YoY to Rs 87.6bn (up by 2% QoQ) dragged by ~9% YoY volume decline to 45.6k units, while the net realisation per vehicle (NRPV) stayed flat YoY (-2% QoQ) at ~Rs 1,921k. Despite heavy monsoon particularly in the eastern and southern regions of India and overall limited revival in MHCV volume, QoQ grew by 4% (helped by discounts). AL's domestic MHCV volume fell by 14% (market share retained at ~31%) while the Bus segment market share was at ~33.3%. AL's domestic LCV volume was 16.6k units, flat over Q2FY24. The export volume in Q2FY25 was 14% higher YoY.

Lower commodity cost aided margins gain: Raw material cost (adjusted for inventory) improved to 71.2% in Q2FY25, down 230bps/100bps YoY/QoQ of net sales, to Rs 61.8bn, which aided gross margin expansion to 28.8% from 26.5% YoY (100bps QoQ). Other expenses were checked at a 1.4% rise YoY to ~Rs 9.1bn and offset the jump in employee expenses of 5% YoY. EBITDA margin rose 40bps/100bps YoY/QoQ. APAT rose 12% YoY to Rs 5.2bn (Rs 4.1bn in Q2FY24).

EV expansion on track: In the EV segment, AL delivered its first eLCV, the LeV4, in Q1FY25 and launched LeV2 in the eLCV space recently. Next year AL will launch a 15-metre front-engine bus competing in the high end intracity movement segment. It will also launch 12-metre ultra-low floor buses in Delhi and Bangalore.

Revise estimates: We cut FY25E/FY26E/FY27E earnings by 7%/4%1%, to factor in mixed momentum, late recovery in the MHCV segment and limited overall growth. We forecast EBITDA/PAT CAGR of 9%/13% for FY24-FY27. We think AL will deliver on new launches, beat industry growth in CVs, maintain its leadership in buses and improve on the MHCV space. We believe LCV recovery and inroads into EVs will broaden its portfolio. Optimal fleet utilisation rates/cost control offer further comfort.

Valuation outlook: We reiterate our BUY rating for a revised 1-year forward SOTP-based TP of Rs 279 (from Rs 283). We continue to assign 22x P/E to the standalone business factoring in strong structural health, and value the vehicle finance arm at Rs 12/sh.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	AL IN/Rs 222
Market cap	US$ 7.7bn
Free float	49%
3M ADV	US$ 24.5mn
52wk high/low	Rs 265/Rs 158
Promoter/FPI/DII	52%/17%/15%

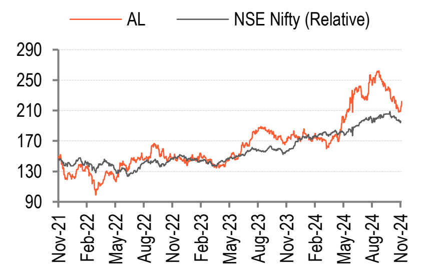
Source: NSE | Price as of 8 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	3,83,670	3,91,675	4,36,979
EBITDA (Rs mn)	46,066	46,571	52,935
Adj. net profit (Rs mn)	27,116	28,633	33,268
Adj. EPS (Rs)	8.9	9.8	11.3
Consensus EPS (Rs)	8.9	9.6	10.8
Adj. ROAE (%)	30.8	30.8	32.7
Adj. P/E (x)	24.9	22.7	19.6
EV/EBITDA (x)	14.5	13.4	11.9
Adj. EPS growth (%)	109.3	5.6	16.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 415 | ▲ 9%

GUJARAT STATE PETRONET | Oil & Gas | 09 November 2024

Group reorganisation and GUJGA CGD are key value drivers

- **Q2 EBITDA declined 54% YoY primarily on sharp tariff cut from May'24; GIGL called on GUJS for cash deficit support under sponsor agreement**
- **With core transmission value not materially linked to volume growth, GUJS value is effectively linked to the GSPC group reorganisation**
- **Retain HOLD with a lowered TP of Rs 415 (from Rs 480) factoring in the recent derating of CGD business after deallocation of APM gas**

Kirtan Mehta, CFA
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Q2 reflects full quarter impact of the tariff cut: Q2FY25 EBITDA at Rs 1.9bn was 15% below Bloomberg consensus but in line with our forecasts. EBITDA declined 36% QoQ due to (a) additional one-month impact of a sharp cut in HP Gas grid transmission tariff to Rs 18.1/MMBtu (from Rs 34) from 1 May 2024 and (b) an 18% pullback in volumes from a seasonally strong Q1.

Q3 volume is likely to be stable: Amid higher LNG prices, volumes are likely to be stable in Q3. Morbi gas consumption may pick up to 3.5-4.0mmscmd (vs 2.9 in Q2).

GIGL equity investment is a cash deficit support: GUJS contributed Rs 0.4bn of equity to cover cash losses under sponsor support agreement with lenders. Cash losses have widened with the reduction in volume to 3mmscmd from 5.7mmscmd after resumption of IOCL pipeline. GIGL is working to re-route the pending 1.2km main line and 40km spur line to establish connectivity with two key consumers in Punjab – Guru Gobind Singh Refinery and National Fertiliser.

Limited progress on tariff appeal: In the absence of quorum at the Appellate Tribunal, GUJS has approached Delhi High Court for tariff appeal against HP Gas's Grid Tariff Order by the Petroleum and Natural Gas Regulatory Board.

GUJS valuation levers: GUJS shareholders will get 10 shares of GUJGA and 3.33 shares of GTL for every 13 shares of GUJS upon the completion of the transaction. Based on the post transaction implied per share value of Rs 615 for GUJGA and Rs 236 for GTL, GUJGA's effective value works out to Rs 694/sh prior to the merger and translates to a value of Rs 534 for GUJS.

HOLD with a lowered TP of Rs 415: We lower our SOTP-based TP for GUJS to Rs 415 from Rs 480, factoring in the recent derating of the CGD sector with 20% deallocation of APM gas for the CNG segment. We now value the CGD business of GUJGA at 19x FY26 PE on consensus estimates. Our TP is below the transaction implied value of Rs 534 for GUJS with the value of CGD business at a 32% discount to the transaction value. Given 9% upside; retain HOLD.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	GUJS IN/Rs 381
Market cap	US$ 2.5bn
Free float	51%
3M ADV	US$ 22.7mn
52wk high/low	Rs 470/Rs 260
Promoter/FPI/DII	38%/15%/25%

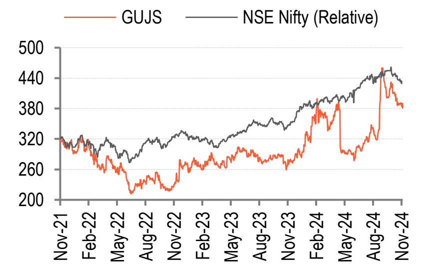
Source: NSE | Price as of 8 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	20,147	11,678	12,834
EBITDA (Rs mn)	14,873	8,831	9,672
Adj. net profit (Rs mn)	12,678	8,557	9,063
Adj. EPS (Rs)	22.5	15.2	16.1
Consensus EPS (Rs)	22.5	15.4	15.4
Adj. ROAE (%)	13.0	8.1	8.1
Adj. P/E (x)	16.9	25.1	23.7
EV/EBITDA (x)	14.2	23.7	21.4
Adj. EPS growth (%)	36.5	(32.5)	5.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 661 | ▼ 14%

JK LAKSHMI CEMENT | Cement | 09 November 2024

Challenges galore leading to weak show; maintain SELL

- **Q2 revenue fell sharply by 21% YoY/QoQ each dragged by low volume growth, down 14%/20%, and weak realisations that fell by 9% YoY**
- **Operating cost fell ~2% to Rs 5,788/t aided by lower energy cost which provided little respite as EBITDA/t slipped to a low of Rs 330/t**
- **We value JKLC at 9x EV/EBITDA 1-year forward earnings (unchanged) with a new TP of Rs 661 (vs Rs 687) on revised earnings. Retain SELL**

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Volumes impacted; realisations stayed weak: JKLC reported ~21% YoY/QoQ decline in revenue growth of ~Rs 11.4bn in 2QFY25. Volumes fell by 14%/20% YoY/QoQ at 1.87mn tonnes (excluding clinker sales) and realisation including RMC sales fell 10%/2% YoY/QoQ to Rs 5,763/t indicating Q2FY25 was impacted by weak demand that impacted volume and realisations. Intense competitive pressure in a weak quarter was the key reason for the overall weakness in the topline.

Operating performance stays rangebound: The overall cost fell only by 1.5% YoY at Rs 5,788/t (+7% QoQ). Raw material cost (+13% YoY) was offset by lower external purchases (-10 % YoY) indicating higher clinker utilisation. Fuel cost fell by ~18% YoY (+15.4% QoQ) and logistic cost by 4% YoY (+4% QoQ). Other expenditure rose by 2% YoY (volume down 14%). EBITDA fell steeply by 66% YoY/QoQ to ~Rs 613mn. EBITDA margin fell from 12.3% to a low of 5% YoY. EBITDA/t fell to a low of Rs 329/t from Rs 822/t YoY.

Capacity expansion on track: JKLC is adding a 1.5mnt grinding unit in Surat by FY25-end. It is expanding its clinker capacity by 2.3mnt at its Durg plant, backed by four cement grinding units aggregating 4.6mnt over the next three years. It will add GUs in Bihar and Jharkhand. Its Northeast India expansion plans await clearances.

JKLC's merger with Udaipur Cement Works awaits clearances: Following the merger announcement of UCWL with JKLC, mandatory clearance procedures are underway and management expects the same to be completed in FY26.

Estimates lowered; maintain SELL: We cut our FY25E/FY26E EBITDA by 27%/8% to factor in the changing dynamics of its operating areas following intense supply pressure from large cement companies. This is specific to Gujarat and East India markets which have seen the entry of big-size competitive play. We pencil in a weak three-year EBITDA/PAT CAGR of 7%, factoring in pricing weakness that may be partially offset by a better cost structure. Retaining lost market share will be a key challenge in key markets. We value JKLC at 9x EV/EBITDA 1-year forward earnings (unchanged) and cut TP to Rs 661 (from Rs 687). Maintain SELL.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	JKLC IN/Rs 766
Market cap	US$ 1.1bn
Free float	54%
3M ADV	US$ 1.6mn
52wk high/low	Rs 1,000/Rs 709
Promoter/FPI/DII	46%/14%/26%

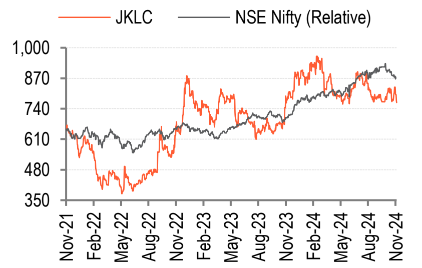
Source: NSE | Price as of 8 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	63,198	61,271	68,200
EBITDA (Rs mn)	8,637	6,115	8,586
Adj. net profit (Rs mn)	4,243	2,567	4,075
Adj. EPS (Rs)	36.1	21.8	34.6
Consensus EPS (Rs)	36.1	39.0	48.0
Adj. ROAE (%)	14.0	7.8	11.9
Adj. P/E (x)	21.3	35.1	22.1
EV/EBITDA (x)	10.5	16.4	9.9
Adj. EPS growth (%)	28.3	(39.5)	58.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 650 | ⮝ 40%

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Mixed Q2FY25; market share gain at the cost of inferior margin

- **PRINCPIP appears to have gained market share in Q2FY25 even after tightening the credit period for its dealers**
- **EBITDA margin to remain weak in the near future due to aggressive pricing strategy; but medium-term guidance of 12-13% remains intact**
- **Maintain BUY on strong earnings prospects and reasonable valuations; TP cut by 13% to Rs 650**

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Result snapshot: PRINCPIP topline came broadly in line with our estimate (-1%), but there was a sharp miss on EBITDA (-32%) for Q2FY25 due to margin pressure (-230bps QoQ to 7.3%) as the company preferred to grow its market share by providing trade incentives of 2% to its dealers in a weak market condition, and booked inventory loss of Rs 120mn-150mn. Overall, PRINCPIP's revenue/EBITDA/APAT de-grew by -5.2%/-51.5%/-77.8% YoY in Q2FY25.

Key highlights: PRINCPIP appears to have gained market share in Q2FY25 as it has posted relatively better volume growth YoY compared to its major peers (APOLP standalone: -17.0%; SI: -0.7%; PRINCPIP: +4.3%; FNXP: +10.2%) even after tightening its collection period (from 71 days in Q4FY24 to 60 in Q1FY25 and 55 in Q2FY25). The company had net debt of Rs 0.81bn in Sep'24 vs net cash position of Rs 0.96bn in Jun'24 due to the sharp increase in inventory (from 70 days in Q1FY25 to 87 days in Q2FY25) and higher capex outlay.

Outlook: The company targets growing its pipe volume at a modest pace of 8-10% YoY in FY25 (vs 8.6% YoY in H1FY25). We believe PRINCPIP's EBITDA margin may remain weak in the near future as it has preferred to grow market share by pursuing aggressive pricing strategy in weak market conditions, but management maintains its EBITDA margin guidance of 12-13% over the medium term. The Bihar greenfield pipe project (with 55ktpa capacity) is expected to be operational by Mar'25 (Jan'25 earlier). Capex guidance for FY25 is Rs 3.3bn-3.5bn. The company expects its ROCE to improve to 15-20% over the medium term.

Maintain BUY; TP cut by 13% to Rs 650: We maintain our BUY rating on the stock due to (a) strong earnings growth prospects (EPS to grow at a healthy 16.3% CAGR over FY24-FY27E), and (b) reasonable valuations (trades at 28.8x on 1Y forward P/E vs 5Y average P/E of 35.6x). We have cut our TP to Rs 650 (from Rs 750) due to the downward revision of our EPS estimates (-31.7%/-21.1%/-18.3% for FY25E/FY26E/FY27E) based on the weak Q2FY25 result. Our target P/E remains unchanged at 30x on Sep'26 estimates (Jun'26 earlier).

Key changes

Target	Rating
▼	◀▶

Ticker/Price	PRINCPIP IN/Rs 465
Market cap	US$ 608.7mn
Free float	39%
3M ADV	US$ 1.2mn
52wk high/low	Rs 776/Rs 461
Promoter/FPI/DII	61%/7%/18%

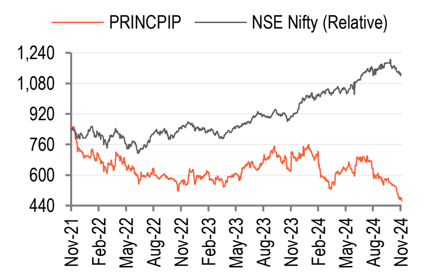
Source: NSE | Price as of 8 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	25,687	27,762	33,362
EBITDA (Rs mn)	3,107	2,813	3,987
Adj. net profit (Rs mn)	1,716	1,331	2,089
Adj. EPS (Rs)	15.5	12.0	18.9
Consensus EPS (Rs)	15.5	16.5	22.7
Adj. ROAE (%)	11.8	8.3	12.0
Adj. P/E (x)	29.9	38.6	24.6
EV/EBITDA (x)	16.7	18.5	12.6
Adj. EPS growth (%)	40.4	(22.4)	56.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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