# FIRST LIGHT

12 February 2024

## RESEARCH

### LIC | TARGET: Rs 1,140 | +5% | HOLD

Solid quarter; valuations overdone – cut to HOLD

### ALKEM LABS | TARGET: Rs 4,800 | -10% | SELL

Good quarter; cut to SELL on stretched valuations

### BOB ECONOMICS RESEARCH | MONTHLY CHARTBOOK

Fiscal consolidation to hold key

### POWER GRID CORP | TARGET: Rs 320 | +17% | BUY

In-line quarter, FY25 capex hiked; maintain BUY

### TATA CONSUMER PRODUCTS | TARGET: Rs 1,330 | +18% | BUY

Strong run continues

### DIVI'S LABS | TARGET: Rs 3,000 | -18% | SELL

Healthy margin recovery, heady valuations

### TORRENT POWER | TARGET: Rs 1,140 | -3% | HOLD

Dull quarter; high valuations – maintain HOLD

### ESCORTS | TARGET: Rs 2,389 | -19% | SELL

Weakness persists – maintain SELL

### THE RAMCO CEMENTS | TARGET: Rs 728 | -19% | SELL

Tepid quarter, high capex overhang – retain SELL

### METALS & MINING

Ferrous read-across: Steel recovery in CY24 – ArcelorMittal

**Daily macro indicators**

| Indicator | 07-Feb | 08-Feb | Chg (%) |
|---|---|---|---|
| US 10Y yield (%) | 4.12 | 4.15 | 3bps |
| India 10Y yield (%) | 7.07 | 7.08 | 1bps |
| USD/INR | 82.97 | 82.96 | 0.0 |
| Brent Crude (US$/bbl) | 79.2 | 81.6 | 3.1 |
| Dow | 38,677 | 38,726 | 0.1 |
| Hang Seng | 16,082 | 15,878 | (1.3) |
| Sensex | 72,152 | 71,428 | (1.0) |
| **India FII (US$ mn)** | **06-Feb** | **07-Feb** | **Chg ($ mn)** |
| FII-D | 380.6 | 78.0 | (302.6) |
| FII-E | (56.9) | (193.0) | (136.1) |

Source: Bank of Baroda Economics Research

**BOBCAPS Research**
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## SUMMARY

### LIC

- VNB margin improved 200bps YoY to 16.6% at end-9M, leading us to increase our FY24-FY26 estimates by 100-150bps
- Q3 APE growth of 7% YoY could not arrest 9M decline, but focus on profitable non-par plans remains a positive
- TP raised to Rs 1,140 (vs. Rs 965) on a 4-5% increase in our FY24-FY26 EV; downgrade to HOLD as recent rally caps upside

**Click here for the full report.**

### ALKEM LABS

- Revenue grew 9% YoY in Q3 backed by strong India and ROW growth that offset lower US business
- EBITDA margin expanded 160bps YoY on a better mix, favourable input prices and reduced intensity of US price erosion
- Downgrade to SELL given 25% rally in 3M; TP raised to Rs 4,800 (vs. Rs 3,850) on higher 18x EV/EBITDA multiple (vs. 16x)

**Click here for the full report.**

### INDIA ECONOMICS: MONTHLY CHARTBOOK

India's growth resilience continued with high frequency macro indicators such as non-oil-non-gold and electronic imports, power demand, GST collections and credit demand, holding up well. Rabi sowing has also been higher than estimates which faded some bit of inflationary concerns. Fiscal prudence shown in the Union Budget by progressively bringing down fiscal deficit ratio, finely tuned revenue spending and quality capex, have been major positives. As a response, domestic yields inched down despite global yields showing fluctuations from an expectation of delayed start to the global rate cut cycle. On monetary front, RBI's policy remained on expected lines. Inflation projections indicate that some breathing space would be available for policy easing in Q2. On external front, India's growth picture remained favourable for INR.

**Click here for the full report.**

### POWER GRID CORP

- Q3 PAT met estimates at Rs 40bn; 20% bump-up in FY25 capex target to Rs 150bn a key positive
- FY24 capex and capitalisation targets maintained at Rs 100bn and Rs 85bn respectively
- Maintain BUY with revised TP of Rs 320 (vs. Rs 250) as we increase our target P/B to 2.7x (vs. 2.1x) on higher outlay

**Click here for the full report.**

## TATA CONSUMER PRODUCTS

- Sustained revenue growth (+ 9% YoY) and margin expansion in Q3, propelled by robust India business
- Acquisitions of Capital Food and Organic India will bridge portfolio gaps and likely to be margin-accretive
- Continued growth momentum leads us to upgrade target multiples; maintain BUY with revised TP of Rs 1,330 (vs. Rs 1,038)

**Click here for the full report.**

## DIVI'S LABS

- Q3 revenue grew 9% YoY on 25% rise in custom synthesis business; API and nutraceuticals stayed soft
- Healthy margin recovery owing to a richer mix, softening raw material costs and low base of last year
- FY24-FY26 EBITDA estimates trimmed 7-13%; on rollover, our TP rises to Rs 3,000 (vs. Rs 2,800) – retain SELL on high valuations

**Click here for the full report.**

## TORRENT POWER

- Q3 topline flattish with PAT contraction on lower RLNG trading gains; bright spots from higher PLFs and lower T&D losses
- RE expansion on track – 300MW of solar capacity expected in Q1FY25; 175MW hybrid addition in FY26
- We lower FY24-FY26 EPS 22-26%; TP rises to Rs 1,140 (vs. Rs 800) on higher target P/B of 3.6x (vs. 2.3x) but valuations full – retain HOLD

**Click here for the full report.**

## ESCORTS

- Q3 tractor volumes dipped 7% YoY, with loss of domestic share as fall was higher than industry decline
- Lower commodity cost supported gross/EBITDA margin expansion despite tepid revenue growth of 3% YoY
- Expect volumes to remain weak; retain SELL with slight change in TP to Rs 2,389 (vs. Rs 2,343) on rollover

**Click here for the full report.**

## THE RAMCO CEMENTS

- Q3 revenue growth muted at 6% YoY due to poor demand; pricing pressure dampens realisations
- Lower fuel cost aids EBITDA margin expansion to 18.8%, but earnings pickup came mainly off a soft base
- FY24/FY25 EBITDA estimates pared ~4% with deeper PAT cuts; TP revised to Rs 728 (vs. Rs 661) on rollover – maintain SELL

**Click here for the full report.**

## METALS & MINING

- MT attributes weak Q4 to severe destocking in several markets; looks for spread recovery in Q1 from unsustainably low levels
- Management expects rebound in CY24 with apparent demand growth of 3-4% outside China on inventory rebuild and 0-2% in China
- Read-across in line with our mid-cycle margin call for FY25; we remain constructive on earnings growth of Indian players

**Click here for the full report.**

**HOLD**
**TP: Rs 1,140 | ⮝ 5%**

**LIC** | Insurance | 09 February 2024

# Solid quarter; valuations overdone – cut to HOLD

- **VNB margin improved 200bps YoY to 16.6% at end-9M, leading us to increase our FY24-FY26 estimates by 100-150bps**
- **Q3 APE growth of 7% YoY could not arrest 9M decline, but focus on profitable non-par plans remains a positive**
- **TP raised to Rs 1,140 (vs. Rs 965) on a 4-5% increase in our FY24-FY26 EV; downgrade to HOLD as recent rally caps upside**

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**VNB margin improves:** LIC's net VNB margin expanded 200bps YoY to 16.6% as of 9MFY24 because of the positive impact from a better product mix (4.9%) and favourable change in assumptions (0.7%), partly offset by a negative impact (3.6%) from product benefits. We increase our FY24/FY25/FY26 margin estimates by 100-150bps each to 17%/17.5%/18% to reflect the nine-month performance.

**Recouping ground:** Although 9MFY24 APE declined 5% YoY to Rs 358bn, Q3 showed 7% YoY growth. Within this, individual APE (constituting 66% share) was flat YoY at end-9M, whereas group business fell 13% YoY. Management reiterated that the lumpy fund management business has contracted, whereas other categories such as term and annuity plans grew. NBP dropped 16% YoY at end-9M, though net premium declined by a lower 6%. We reduce our premium estimates by 1-3% over our forecast period to factor in severe competition from private peers.

**Focus on profitable products:** The company has introduced four non-par products during 9MFY24, indicating a sustained focus on the segment. The share of non-par business in individual APE has improved from 9.45% in 9MFY23 to 14.04% in 9MFY24, tracking management's guidance of at least 15% share put out at the time of listing (May'22). Persistency ratios were broadly stable.

**Agency channel dominates:** LIC's agency channel continues to contribute a higher share of individual NBP (96%) at end-9MFY24. The bancassurance and alternate channels grew 5% YoY for the period to Rs 14.2bn.

**Downgrade to HOLD post run-up:** The stock is currently trading at 0.85x FY26E EV and we value LIC at a higher 0.9x multiple (vs. 0.8x earlier), an unchanged ~60% discount to peers. We raise our embedded value (EV) estimates by 4-5% for FY24-FY26 assuming a positive MTM impact from equities and now anticipate an 11% CAGR in EV over FY23-FY26 to Rs 8tn. Based on our revised estimates, our TP rises to Rs 1,140 (vs. Rs 965). Though we remain positive on LIC given its entrenched brand equity and market leadership, the recent 30%+ rally leaves just 5% upside and compels us to downgrade the stock from BUY to HOLD.

## Key changes

| Target | Rating |
|---|---|
| ▲ | ▼ |

| | |
|---|---|
| Ticker/Price | LICI IN/Rs 1,081 |
| Market cap | US$ 83.2bn |
| Free float | 4% |
| 3M ADV | US$ 58.2mn |
| 52wk high/low | Rs 1,175/Rs 530 |
| Promoter/FPI/DII | 97%/0%/1% |

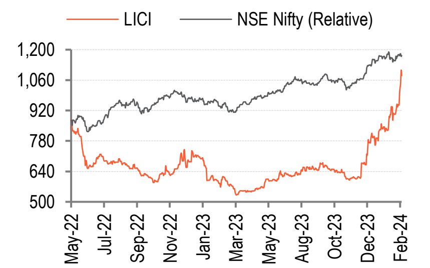
Source: NSE | Price as of 9 Feb 2024

## Key financials

| Y/E 31 Mar | FY23A | FY24E | FY25E |
|---|---|---|---|
| NBP (Rs mn) | 23,20,506 | 20,81,135 | 23,54,997 |
| APE (Rs mn) | 5,83,860 | 5,52,887 | 5,97,512 |
| VNB (Rs mn) | 91,560 | 93,991 | 1,04,565 |
| Embedded Value (Rs mn) | 58,22,440 | 66,12,613 | 72,74,366 |
| VNB margin (%) | 16.2 | 17.0 | 17.5 |
| EVPS (Rs) | 920.5 | 1,045.6 | 1,150.2 |
| EPS (Rs) | 57.6 | 39.9 | 58.1 |
| Consensus EPS (Rs) | 57.6 | 42.0 | 55.3 |
| P/EV (x) | 1.2 | 1.0 | 0.9 |

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance




Source: NSE

**SELL**
**TP: Rs 4,800 | ∀ 10%**

**ALKEM LABS** | Pharmaceuticals | 10 February 2024

## Good quarter; cut to SELL on stretched valuations

- **Revenue grew 9% YoY in Q3 backed by strong India and ROW growth that offset lower US business**
- **EBITDA margin expanded 160bps YoY on a better mix, favourable input prices and reduced intensity of US price erosion**
- **Downgrade to SELL given 25% rally in 3M; TP raised to Rs 4,800 (vs. Rs 3,850) on higher 18x EV/EBITDA multiple (vs. 16x)**

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**Strong India growth makes up for US decline:** Alkem reported a strong Q3FY24 with 9% YoY revenue growth to Rs 33.2bn. India business grew 12% YoY and ROW markets 47%, compensating for a 10% fall in US revenue. Though price erosion has reduced, US business contracted due to a weaker flu season than last year.

**India rebounds after two quarters, ROW growth sustainable:** After two quarters of mid-single-digit growth, domestic business rebounded 12% YoY in Q3, driven by the gastrointestinal, anti-diabetic and vitamin & mineral portfolios. Alkem's anti-diabetic segment continued to grow ahead of the market (by close to 3x). Trade generics fared well too. The 47% uptick in ROW stemmed from a strong international showing, especially in LATAM and Europe, and a low base. Growth was also supported by the launch of limited-competition products in key markets. Management highlighted that Q3 had no one-time sales and current levels of business should sustain.

**Better mix and favourable costs boost margins:** A decline in low-margin US business and high growth in the India and ROW markets that offer better margins, along with moderating raw material prices, helped Alkem to improve gross/EBITDA margins by 180bps/160bps YoY to 60.8%/21.3% in Q3 (60.6%/18.9% in 9MFY24). Management expects to end FY24 at a lower 17% operating margin considering a seasonally weak fourth quarter and anticipated higher US sales in the product mix.

**Earnings call highlights:** (1) Cash generation stood at Rs 6bn in Q3. (2) Biosimilar business is guided to break even in FY24. (3) The tax rate is guided to remain low till FY26 due to a tax holiday at the Sikkim facility. (4) Management expects an annual capex run-rate of Rs 3bn-3.5bn at most.

**Downgrade to SELL on stretched valuations:** We retain FY24-FY26 estimates but raise our target FY26E EV/EBITDA multiple from 16x to 18x – in line with stock's 5Y average – to reflect the rebound in India business. On rolling over to FY26E valuations, our TP rises to Rs 4,800 (vs. Rs 3,850). The stock has rallied 25% over the past three months and current valuations look expensive at 22.9x/19.5x FY25E/FY26E EV/EBITDA. We thus downgrade our rating from HOLD to SELL.

### Key changes

| Target | Rating |
|---|---|
| ▲ | ▼ |

| | |
|---|---|
| Ticker/Price | ALKEM IN/Rs 5,328 |
| Market cap | US$ 7.8bn |
| Free float | 41% |
| 3M ADV | US$ 15.8mn |
| 52wk high/low | Rs 5,420/Rs 3,042 |
| Promoter/FPI/DII | 57%/6%/16% |

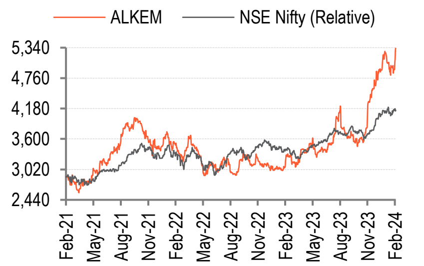
Source: NSE | Price as of 9 Feb 2024

### Key financials

| Y/E 31 Mar | FY23A | FY24E | FY25E |
|---|---|---|---|
| Total revenue (Rs mn) | 115,993 | 131,776 | 145,807 |
| EBITDA (Rs mn) | 16,095 | 22,365 | 26,943 |
| Adj. net profit (Rs mn) | 10,872 | 17,786 | 21,426 |
| Adj. EPS (Rs) | 90.9 | 148.8 | 179.2 |
| Consensus EPS (Rs) | 90.9 | 141.4 | 163.1 |
| Adj. ROAE (%) | 14.4 | 21.4 | 22.2 |
| Adj. P/E (x) | 58.6 | 35.8 | 29.7 |
| EV/EBITDA (x) | 39.4 | 28.1 | 22.9 |
| Adj. EPS growth (%) | (34.5) | 63.6 | 20.5 |

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance




Source: NSE

# Fiscal consolidation to hold key

**India's growth resilience continued with high frequency macro indicators such as non-oil-non-gold and electronic imports, power demand, GST collections and credit demand, holding up well. Rabi sowing has also been higher than estimates which faded some bit of inflationary concerns. Fiscal prudence shown in the Union Budget by progressively bringing down fiscal deficit ratio, finely tuned revenue spending and quality capex, have been major positives. As a response, domestic yields inched down despite global yields showing fluctuations from an expectation of delayed start to the global rate cut cycle. On monetary front, RBI's policy remained on expected lines. Inflation projections indicate that some breathing space would be available for policy easing in Q2. On external front, India's growth picture remained favourable for INR.**

**Strengthening of domestic demand:** Early signs of recovery in consumption demand has been visible as reflected by high frequency indicators including pick up in non-oil-non-gold and electronic imports and power demand. Additionally pickup in GST collections and steady growth in E-way bills augers well for the economy. On rural front, demand for MGNREGA work has been increasing slowly. The acreage levels for Rabi crops have been higher this year than last year indicating support to the agriculture sector. As per the Advance Estimates, production of horticulture crops (2.3% in 2022-23) led by fruits and vegetables is higher than the estimate for 2021-22.

**Health of centre's finances:** Centre's fiscal deficit ratio (% of GDP, 12MMA) settled at 5.9% as of Dec'23 compared with 5.8% as of Nov'23. As per revised estimates announced in the Union Budget for 2024-25, fiscal deficit ratio will be brought down to 5.8% by the end of FY24 and further to 5.1% in FY25. In FYTD24 (Apr-Dec'23), centre's overall spending momentum was maintained with growth at 8.4% versus 8.6% as of Nov'23. Marginal softening was due to easing seen in revenue spending (2.3% versus 3.6%). Capex growth on the other hand accelerated (37.5% versus 31%). On the income side, centre's net revenue receipt growth eased to 15.4%, compared with 20.9% growth seen as of Nov'23. This was due to slowdown in both direct (23.2% versus 24.8%) and indirect tax collections (4.6% versus 5.1%). Within direct taxes, both income and corporate tax collections moderated.

**India's 10Y yield likely to remain rangebound:** In Jan'24, India's 10Y yield fell by 3bps, whereas in Feb'24 (till 8th Feb), it has fallen by 7bps. Much of the fall in yields was post the Budget announcement. Fiscal prudence, less reliance on market borrowings, attested to government's credibility, which was positive for yields. RBI's recent policy though maintained status quo on policy rate and stance. Inflation forecasts for FY25 suggest there is some space for easing of policy rate in Q2. Thus, downward bias to domestic yields persist. On liquidity front, we expect deficit to continue as accretion of currency in circulation has started gaining pace.

**INR to continue to trade in a tight range:** INR was the best performing major currency against the dollar in Jan'24. Strong macrofundamentals along with a comfortable external position have contributed to INR's strength, even as other major currencies came under pressure due to a resurgence in dollar strength. We believe INR to appreciate gradually in the near term. Trajectory of Fed rates and jump in oil prices due to ongoing tensions in Middle-East remain a key risk. We anticipate a range of 82.5-83/$ in the next fortnight.

**Note: The source for all exhibits is 'CEIC and Bank of Baroda' unless otherwise specified**



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BOBCAPS
TRUST | INNOVATION | EXCELLENCE

**BUY**
**TP: Rs 320 | ⮝ 17%**

**POWER GRID CORP** | Power | 09 February 2024

## In-line quarter, FY25 capex hiked; maintain BUY

- **Q3 PAT met estimates at Rs 40bn; 20% bump-up in FY25 capex target to Rs 150bn a key positive**
- **FY24 capex and capitalisation targets maintained at Rs 100bn and Rs 85bn respectively**
- **Maintain BUY with revised TP of Rs 320 (vs. Rs 250) as we increase our target P/B to 2.7x (vs. 2.1x) on higher outlay**


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**In-line quarter, FY24 capex on track:** PWGR posted flat consolidated Q3FY24 revenue of Rs 107bn and 7% YoY growth in PAT to Rs 40bn. Capex for the quarter stood at Rs 34.4bn and capitalisation at Rs 17.8bn, taking the FY24 YTD totals to Rs 87bn and Rs 58bn respectively. Management maintained its FY24 targets for capex at Rs 100bn and capitalisation at Rs 85bn, split equally between projects awarded under the regulated tariff mechanism (RTM) route and those awarded under tariff-based competitive bidding (TBCB). Outlay to date stands at Rs 87bn.

**Capex outlook for FY25 ramped up with strong FY26 guidance:** Management has planned capex of Rs 150bn, vs. Rs 125bn guided earlier, and capitalisation of Rs 170bn for FY25. Works in hand total Rs 777bn, of which TBCB projects stand at Rs 414bn and the remainder are under RTM. For FY26, PWGR has guided for even stronger capex of Rs 200bn. Further, management indicated scope for further upward revision as further clarity on projects emerges over the next six months. Longer term, the company has a Rs 2.1tn capex pipeline for the next decade.

**Discount to private peers to narrow as capex picks up:** Power stocks have rallied in the past three months, with the BSE Power index up ~50% and both public and private sector utilities showing strong gains. However, the valuation gap between the two is still at 60%, with the TTM P/B of major private players averaging 3.2x vs. 2.1x for PSUs. Given PWGR's buoyant capex pipeline and its execution track record, we believe the company should enjoy valuations closer to private sector peers.

**TP raised to Rs 320, maintain BUY:** We raise our target P/B multiple for PWGR to 2.7x on Dec'25E BV (from 2.1x on Sep'25E earlier) – still conservative compared to private sector peers – and maintain BUY for a higher TP of Rs 320 (vs. Rs 250). We believe PWGR warrants this multiple given its superior ROE of 15-19%, healthy dividend yield and low risk profile.

### Key changes

| Target | Rating |
|---|---|
| ▲ | ◀ ▶ |

| | |
|---|---|
| Ticker/Price | PWGR IN/Rs 273 |
| Market cap | US$ 30.9bn |
| Free float | 49% |
| 3M ADV | US$ 59.6mn |
| 52wk high/low | Rs 289/Rs 159 |
| Promoter/FPI/DII | 51%/33%/16% |

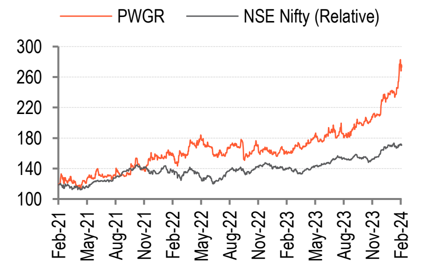
Source: NSE | Price as of 9 Feb 2024

### Key financials

| Y/E 31 Mar | FY23A | FY24E | FY25E |
|---|---|---|---|
| Total revenue (Rs mn) | 4,33,431 | 4,27,211 | 5,16,573 |
| EBITDA (Rs mn) | 3,72,738 | 3,76,286 | 4,56,738 |
| Adj. net profit (Rs mn) | 1,53,330 | 1,56,694 | 1,83,857 |
| Adj. EPS (Rs) | 16.5 | 16.8 | 19.8 |
| Consensus EPS (Rs) | 16.5 | 15.6 | 16.8 |
| Adj. ROAE (%) | 19.3 | 18.0 | 18.9 |
| Adj. P/E (x) | 16.6 | 16.2 | 13.8 |
| EV/EBITDA (x) | 10.4 | 10.1 | 8.0 |
| Adj. EPS growth (%) | (10.3) | 2.2 | 17.3 |

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance




Source: NSE

BUY
TP: Rs 1,330 | ▲ 18%

# TATA CONSUMER PRODUCTS

| Consumer Staples | 09 February 2024

## Strong run continues

- **Sustained revenue growth (+ 9% YoY) and margin expansion in Q3, propelled by robust India business**
- **Acquisitions of Capital Food and Organic India will bridge portfolio gaps and likely to be margin-accretive**
- **Continued growth momentum leads us to upgrade target multiples; maintain BUY with revised TP of Rs 1,330 (vs. Rs 1,038)**

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**Sustained growth across portfolios:** TCPL maintained its growth trajectory, registering an increase of 9.5% YoY (8% CC) in revenue to Rs 38bn in Q3FY24, driven by 10% growth in India business, 6% CC growth in international business and 4% in non-branded business. EBITDA was up 26% YoY accompanied by margin expansion of 190bps YoY (+60bps QoQ) to 15%. India EBITDA increased 22% YoY with 170bps margin expansion, and international EBITDA grew 19% CC YoY with margin expansion of 130bps to 12.7% led by softer input prices.

**Growth businesses continue upward trajectory:** Tata Sampann, Tata Soulfull and NourishCo collectively grew 42% YoY, forming 17% of India business compared to 13% in Q3FY24. Soulfull expanded its dry fruits range with the launch of salted and roasted nuts and seed mixes. NourishCo's revenue grew 34% YoY to Rs 1.6bn, and the Himalayan, Tata Gluco+ and Tata Copper+ brands continued to record strong growth.

**Bridging portfolio gaps through acquisitions:** During Q3FY24, TCPL announced two large acquisitions of Capital Foods (*Ching's Secret* and *Smith & Jones*) and Organic India. The company acquired a 75% stake (25% in next 3 years) in Capital Foods and 100% in Organic India for a combined enterprise value of Rs 70bn (Rs 51bn and Rs 19bn respectively). Management expects both deals to be margin-accretive for the company and to open up double-digit growth opportunities in domestic as well as international markets.

**Maintain BUY:** TCPL continues to deliver strong growth across markets in a difficult environment, backed by a thrust on launches, premiumisation, rural network expansion and digitisation. The new acquisitions will further enrich the portfolio and augment TCPL's addressable market. The stock is trading at 63.2x/53.5x FY25E/FY26E EPS. We roll valuations over to FY26E and bake in the robust outlook by raising our target EV/EBITDA multiples for the India business to 46x (from 39.7x) and international business to 16.3x (from 15.5x). Our SOTP-based TP thus rises to Rs 1,330 (from Rs 1,038) – BUY.

### Key changes

| Target | Rating |
|---|---|
| ▲ | ◀▶ |

| | |
|---|---|
| Ticker/Price | TATACONS IN/Rs 1,129 |
| Market cap | US$ 13.1bn |
| Free float | 64% |
| 3M ADV | US$ 20.7mn |
| 52wk high/low | Rs 1,191/Rs 687 |
| Promoter/FPI/DII | 34%/25%/41% |

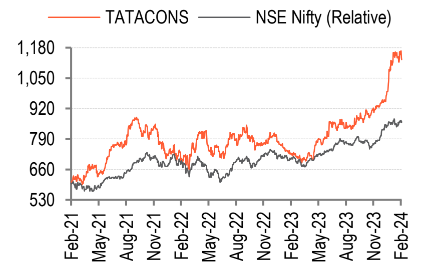
Source: NSE | Price as of 9 Feb 2024

### Key financials

| Y/E 31 Mar | FY23A | FY24E | FY25E |
|---|---|---|---|
| Total revenue (Rs mn) | 137,832 | 153,571 | 175,339 |
| EBITDA (Rs mn) | 18,565 | 22,417 | 27,444 |
| Adj. net profit (Rs mn) | 10,443 | 14,004 | 16,598 |
| Adj. EPS (Rs) | 11.3 | 15.1 | 17.9 |
| Consensus EPS (Rs) | 11.3 | 15.2 | 18.1 |
| Adj. ROAE (%) | 5.2 | 8.4 | 8.8 |
| Adj. P/E (x) | 99.7 | 74.9 | 63.2 |
| EV/EBITDA (x) | 58.0 | 48.0 | 39.2 |
| Adj. EPS growth (%) | (5.5) | 69.6 | 9.8 |

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance




Source: NSE

**SELL**
**TP: Rs 3,000 | ⮟ 18%**

## DIVI'S LABS | Pharmaceuticals | 10 February 2024

# Healthy margin recovery, heady valuations

- **Q3 revenue grew 9% YoY on 25% rise in custom synthesis business; API and nutraceuticals stayed soft**
- **Healthy margin recovery owing to a richer mix, softening raw material costs and low base of last year**
- **FY24-FY26 EBITDA estimates trimmed 7-13%; on rollover, our TP rises to Rs 3,000 (vs. Rs 2,800) – retain SELL on high valuations**

Saad Shaikh
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**Custom synthesis leads growth:** DIVI reported 9% YoY revenue growth in Q3FY24 to Rs 18.6bn, coming in 7% short of Bloomberg consensus. Generic active pharma ingredient (API) as well as nutraceutical business declined both YoY and QoQ, but custom synthesis grew at a healthy 25% YoY (+12% QoQ) as two big projects were commercialised and started supplies during the quarter. Management expects larger benefits in the coming quarters as volumes and shipments scale up.

**Pricing pressure in generic API persists:** Generic API/nutraceutical revenues declined 2%/5% YoY and 10%/25% QoQ due to persistent stress on prices. Management highlighted that the company has maintained market share despite pricing pressure and even gained 300-500bps of share in most high-volume products. DIVI expects the generic business to stabilise over the next 2-3 quarters.

**Margins expand but still short of historical levels:** A higher share of custom synthesis revenue at 46% (vs. 40% each in Q2FY24/Q3FY23) and easing raw material prices enabled gross margin improvement of 400bps YoY (300bps QoQ) to 60.7%. Expansion also came off a low base as the year-ago quarter saw one of the lowest ever margins. The soft base also benefitted EBITDA margin, which climbed 300bps YoY (130bps QoQ) to 27%.

**Earnings call highlights:** (1) DIVI is actively working on GLP-1 building blocks with innovators and envisages a good market opportunity. (2) As of 31 Dec 2023, the company has cash of Rs 39bn on its books. (3) Generic to Custom synthesis revenue breakup was 54:46 in Q3. (4) API business is guided to take a few quarters to normalise.

**Maintain SELL:** Given that DIVI's 9MFY24 EBITDA margin of 27% remains well below historical levels, we scale back our margin assumptions and trim FY24/FY25/FY26 EBITDA estimates by 12%/7%/6%. The stock is trading at FY25E/FY26E EV/EBITDA valuations of 32x/30x which appear rich. We continue to ascribe the stock a 22x EV/EBITDA multiple (implied P/E of 35x), which is a 10% discount to the 10Y average, and roll valuations over to FY26E. This translates to a revised TP of Rs 3,000 (from Rs 2,800) that carries 18% downside – maintain SELL.

### Key changes

| Target | Rating |
|---|---|
| ▲ | ◀ ▶ |

| | |
|---|---|
| Ticker/Price | DIVI IN/Rs 3,652 |
| Market cap | US$ 11.8bn |
| Free float | 48% |
| 3M ADV | US$ 20.6mn |
| 52wk high/low | Rs 4,074/Rs 2,730 |
| Promoter/FPI/DII | 52%/15%/22% |

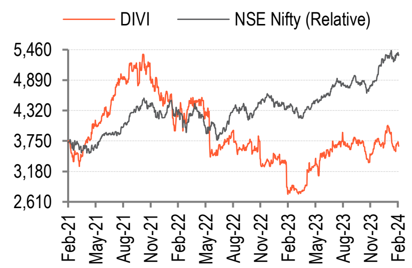
Source: NSE | Price as of 9 Feb 2024

### Key financials

| Y/E 31 Mar | FY23A | FY24E | FY25E |
|---|---|---|---|
| Total revenue (Rs mn) | 77,675 | 78,114 | 89,401 |
| EBITDA (Rs mn) | 23,678 | 23,792 | 29,197 |
| Adj. net profit (Rs mn) | 16,990 | 17,520 | 19,472 |
| Adj. EPS (Rs) | 64.0 | 66.1 | 73.3 |
| Consensus EPS (Rs) | 64.0 | 63.6 | 84.4 |
| Adj. ROAE (%) | 13.9 | 13.6 | 14.3 |
| Adj. P/E (x) | 57.1 | 55.2 | 49.8 |
| EV/EBITDA (x) | 39.9 | 39.2 | 31.6 |
| Adj. EPS growth (%) | (41.8) | 3.4 | 10.9 |

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance




Source: NSE

**HOLD**
**TP: Rs 1,140 | ∀ 3%**

**TORRENT POWER** | Power | 09 February 2024

## Dull quarter; high valuations – maintain HOLD

- **Q3 topline flattish with PAT contraction on lower RLNG trading gains; bright spots from higher PLFs and lower T&D losses**
- **RE expansion on track – 300MW of solar capacity expected in Q1FY25; 175MW hybrid addition in FY26**
- **We lower FY24-FY26 EPS 22-26%; TP rises to Rs 1,140 (vs. Rs 800) on higher target P/B of 3.6x (vs. 2.3x) but valuations full – retain HOLD**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**Slow quarter as bottomline slumps…:** TPW posted flattish revenue at Rs 63.7bn, with a 46% YoY decline in PAT to Rs 3.7bn during Q3FY24. This drop can be largely attributed to strategic gains realised by the company in the year-ago quarter on trading of RLNG when gas prices were high. At the time, management deemed it fit to trade in the fuel and pay nominal penalties vis-à-vis the production of gas-based power. We estimate a gas price range of US$ 10-15/mmbtu as the threshold for power production, beyond which the company may simply trade in gas instead.

**…though operational performance remains strong:** TPW posted strong operational numbers in Q3 with average thermal PLF rising to 23%, as opposed to 13.4% in QFY23. The company generated 1,994MU of power as against 1,233MU in Q3FY23, a 62% increase YoY. PLF at the DGEN plant, which constitutes 100% merchant power, stood at 5.1% (vs. 0% in Q3FY23).

**Distribution business continues to fare well…:** The transmission and distribution (T&D) division clocked 19% YoY topline growth and lower T&D losses during the quarter. For 9MFY24, all licensed and franchised distribution areas posted lower T&D losses YoY, except Ahmedabad which posted a marginal 39bps rise.

**…with sizeable plans in renewable energy (RE):** TPW expects to commission its 300MW solar plant earlier than expected, by Apr'24, with an improved return profile given the recent reduction in solar module prices. Additionally, the 175MW hybrid project is on track to be commissioned by Dec'25 and will cater to 100% merchant sales, like the DGEN plant.

**Valuations full – maintain HOLD:** We cut our FY24/FY25/FY26 earnings estimates by 22%/24%/26% and BVPS forecasts by 4%/8%/11% to account for the lower profits on RLNG trading. Our TP moves to Rs 1,140 (from Rs 800) as we roll valuations forward to Dec'25E and now value the stock at 3.6x P/B (2.3x earlier), maintaining our multiple at a 15% discount to the current P/B of 4.1x on FY25E. TPW has run up ~50% over the last quarter. Considering the high valuations, we maintain HOLD.

### Key changes

| Target | Rating |
|---|---|
| ▲ | ◄ ► |

| | |
|---|---|
| Ticker/Price | TPW IN/Rs 1,173 |
| Market cap | US$ 6.9bn |
| Free float | 35% |
| 3M ADV | US$ 9.5mn |
| 52wk high/low | Rs 1,215/Rs 447 |
| Promoter/FPI/DII | 54%/6%/40% |

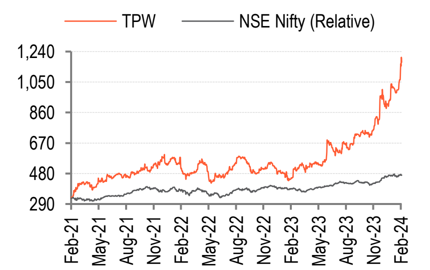
Source: NSE | Price as of 9 Feb 2024

### Key financials

| Y/E 31 Mar | FY23A | FY24E | FY25E |
|---|---|---|---|
| Total revenue (Rs mn) | 2,56,941 | 2,68,513 | 3,00,445 |
| EBITDA (Rs mn) | 47,587 | 44,293 | 49,863 |
| Adj. net profit (Rs mn) | 21,647 | 18,458 | 21,185 |
| Adj. EPS (Rs) | 45.0 | 38.4 | 44.1 |
| Consensus EPS (Rs) | 45.0 | 50.2 | 58.4 |
| Adj. ROAE (%) | 20.7 | 15.8 | 16.1 |
| Adj. P/E (x) | 26.1 | 30.6 | 26.6 |
| EV/EBITDA (x) | 13.6 | 14.9 | 13.4 |
| Adj. EPS growth (%) | 23.1 | (14.7) | 14.8 |

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance




Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

**SELL**
**TP: Rs 2,389 | ⩔ 19%**

**ESCORTS** | Automobiles | 09 February 2024

## Weakness persists – maintain SELL

- **Q3 tractor volumes dipped 7% YoY, with loss of domestic share as fall was higher than industry decline**
- **Lower commodity cost supported gross/EBITDA margin expansion despite tepid revenue growth of 3% YoY**
- **Expect volumes to remain weak; retain SELL with slight change in TP to Rs 2,389 (vs. Rs 2,343) on rollover**

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**Tractor volumes remain subdued:** Escorts' Q3FY24 revenue grew only 3% YoY (+13% QoQ) to Rs 23.2bn as tractor volumes remained weak, largely offsetting realisation gains. Tractor volumes fell 7% YoY (+18% QoQ) to ~26k units, underperforming the industry which fell 6% YoY (+11% QoQ) to ~261.3k units due to deficient rains and a delayed crop harvest. Net realisation per vehicle in the segment grew 5%/1% YoY/QoQ to Rs 0.64mn on the back of price hikes taken by Escorts in Q1-Q2FY24.

**AM, RE fall but CE segment robust YoY:** Revenue from the agriculture machinery (AM) segment fell 3% YoY in Q3 due to weak tractor volumes. The railways equipment (RE) segment contracted 18% YoY due to a lower supply schedule from the railway department, while construction equipment (CE) grew 49%. Segmental EBIT margin stood at 13.8% for AM (8.3% in Q3FY23), 18.4% for RE (13.1%) and 8.3% for CE (2.2%). The three segments contributed 71%, 9% and 20% of revenue respectively.

**Easing input cost aids margin gains:** Raw material cost (inventory adjusted) fell 5%/+16% YoY/QoQ to Rs 16.1bn, but management sees little scope for further respite. Gross margin rose 520bps YoY (-170bps QoQ) to 30.6% and EBITDA margin expanded 460bps (+60bps) to 13.5%. Adj. PAT grew 41%/18% YoY/QoQ to Rs 2.8bn.

**Amalgamation nod likely by Q1FY25:** Amalgamation of Escorts Kubota India and Kubota Agricultural Machinery India has received all the necessary approvals and a final order from National Company Law Tribunal (NCLT) is expected in 2-3 months.

**Maintain SELL:** Escorts' tractor volumes have slipped 3% YoY in 9MFY24, and the company has ceded domestic market share in all tractor segments and two of three CE categories during the December quarter. The full benefit of Kubota integration on export sales is likely to flow only after 3-4 years. We pare FY24/FY25 EPS estimates by 2%/6% and introduce FY26 forecasts, baking in a revenue/EBITDA/PAT CAGR of 12%/27%/25% for Escorts over FY23-FY26. Given sustained growth headwinds, we retain SELL, while revising our TP to Rs 2,389 (vs. Rs 2,343) as we roll valuations over to FY26E. Our target P/E stays at 20x – in line with the stock's long-term mean.

### Key changes

| Target | Rating |
|---|---|
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| | |
|---|---|
| Ticker/Price | ESCORTS IN/Rs 2,933 |
| Market cap | US$ 4.7bn |
| Free float | 63% |
| 3M ADV | US$ 11.6mn |
| 52wk high/low | Rs 3,440/Rs 1,808 |
| Promoter/FPI/DII | 37%/22%/8% |

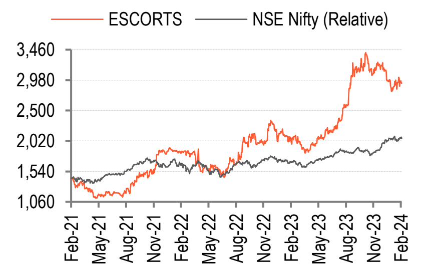
Source: NSE | Price as of 8 Feb 2024

### Key financials

| Y/E 31 Mar | FY23A | FY24E | FY25E |
|---|---|---|---|
| Total revenue (Rs mn) | 84,287 | 89,341 | 1,00,481 |
| EBITDA (Rs mn) | 7,775 | 12,257 | 13,921 |
| Adj. net profit (Rs mn) | 6,897 | 10,364 | 11,756 |
| Adj. EPS (Rs) | 52.3 | 93.8 | 106.4 |
| Consensus EPS (Rs) | 52.3 | 100.0 | 119.0 |
| Adj. ROAE (%) | 8.4 | 11.4 | 11.5 |
| Adj. P/E (x) | 56.1 | 31.3 | 27.6 |
| EV/EBITDA (x) | 48.7 | 31.7 | 27.2 |
| Adj. EPS growth (%) | (6.4) | 79.4 | 13.4 |

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance




Source: NSE

RESULT REVIEW

SELL

TP: Rs 728 | ∀ 19%

THE RAMCO CEMENTS | Cement | 09 February 2024

# Tepid quarter, high capex overhang – retain SELL

- **Q3 revenue growth muted at 6% YoY due to poor demand; pricing pressure dampens realisations**
- **Lower fuel cost aids EBITDA margin expansion to 18.8%, but earnings pickup came mainly off a soft base**
- **FY24/FY25 EBITDA estimates pared ~4% with deeper PAT cuts; TP revised to Rs 728 (vs. Rs 661) on rollover – maintain SELL**

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**Revenue muted:** TRCL's Q3FY24 revenue growth was muted at 6% YoY (-10% QoQ) to Rs 21.1bn as volumes grew just 10% YoY (-13% QoQ) to 4mt amid heavy rainfall, cyclones and festive holidays in key operating markets. The volume mix of southern and eastern markets was maintained at 75:25. Realisations fell 4% YoY (+4% QoQ) to Rs 5,272/t due to pricing pressure in both regions.

**Cost savings aid margins:** Operating cost/t moved down 10% YoY (+2% QoQ) to Rs 4,282/t as raw material-adjusted energy cost fell 18%/5% YoY/QoQ to Rs 2,207/t due to lower fuel cost and captive use of wind power. Logistics cost was flat YoY (+5% QoQ) at Rs 1,075/t as the impact of busy season railway surcharge was offset by lower lead distance. EBITDA grew 39% YoY (flat QoQ) to Rs 4bn and the margin jumped to 18.8% on a weak base. EBITDA/t grew 28%/14% YoY/QoQ to Rs 965.

**Expansion plans:** TRCL expanded clinker capacity by 0.65mt and 0.35mt at the Kurnool (Andhra Pradesh) and Ariyalur (Tamil Nadu) plants respectively in Q3FY24. It has also unlocked further plans to reach 26mt/19mt of cement/clinker capacities by FY26, indicating that its aggressive capex mode continues unabated. Capex includes a 0.9mt Odisha grinding unit line II (Q4FY24) and doubling of cement/ clinker capacities in Kurnool to 3mt/6.3mt coupled with 15MW of additional WHRS capacities by Q4FY26.

**Earnings cut, retain SELL:** Factoring in the weak 9MFY24 performance, we lower our FY24/FY25 EBITDA estimates by ~4% each and cut PAT forecasts by a third. A relentless capex drive has elevated TRCL's net debt to EBITDA to 3.2x as of Q3FY24, even as we expect the company to exhibit low return ratios and volatile margins in an oversupplied market. Considering these negatives, we find the stock's current 12x EV/EBITDA multiple on FY26E unjustified and continue to apply an unchanged 10x target multiple. On rolling valuations over to FY26E, we have a revised TP of Rs 728 (earlier Rs 661). This implies a replacement cost of Rs 8.1bn/mt – a 10% premium to the industry mean.

## Key changes

| Target | Rating |
|---|---|
| ▲ | ◄► |

| | |
|---|---|
| Ticker/Price | TRCL IN/Rs 902 |
| Market cap | US$ 2.6bn |
| Free float | 58% |
| 3M ADV | US$ 5.8mn |
| 52wk high/low | Rs 1,058/Rs 702 |
| Promoter/FPI/DII | 42%/7%/32% |

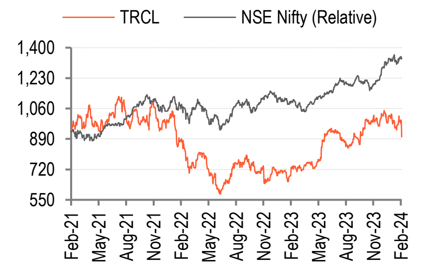
Source: NSE | Price as of 9 Feb 2024

## Key financials

| Y/E 31 Mar | FY23A | FY24E | FY25E |
|---|---|---|---|
| Total revenue (Rs mn) | 81,004 | 93,710 | 1,06,694 |
| EBITDA (Rs mn) | 11,156 | 15,427 | 18,837 |
| Adj. net profit (Rs mn) | 3,435 | 4,013 | 5,271 |
| Adj. EPS (Rs) | 14.5 | 17.0 | 22.3 |
| Consensus EPS (Rs) | 14.5 | 23.0 | 34.0 |
| Adj. ROAE (%) | 5.2 | 5.8 | 7.2 |
| Adj. P/E (x) | 62.0 | 53.1 | 40.4 |
| EV/EBITDA (x) | 22.4 | 16.6 | 13.6 |
| Adj. EPS growth (%) | (61.6) | 16.8 | 31.3 |

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance




Source: NSE

## METALS & MINING

09 February 2024

# Ferrous read-across: Steel recovery in CY24 – ArcelorMittal

- **MT attributes weak Q4 to severe destocking in several markets; looks for spread recovery in Q1 from unsustainably low levels**
- **Management expects rebound in CY24 with apparent demand growth of 3-4% outside China on inventory rebuild and 0-2% in China**
- **Read-across in line with our mid-cycle margin call for FY25; we remain constructive on earnings growth of Indian players**

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We summarise the read-across from ArcelorMittal's (MT, Not Rated) December quarter results to assess the global steel sector outlook.

**Weak quarter impacted by destocking:** MT's EBITDA declined sharply by 32% QoQ to US$ 1.3bn in Q4CY23, mainly on account of a 30% fall in EBITDA/t to US$ 95/t and a 3% decline in shipments due to sharp destocking in several markets.

**Steel markets ex-China to recover in Q1CY24:** MT expects spreads to recover in North America and, to some extent, in Europe from unsustainably low levels. This will likely be supported by a price increase in the second half of Q4CY23, a relatively tighter supply-demand balance and somewhat muted imports impacted by disruptions in the Red Sea.

**Rebuilding of stocks to support growth:** Recovery in real steel demand is at different stages across regions, with Europe at the weakest end of the scale and India at the strongest. Despite continued headwinds to real demand, MT expects a rebound in apparent steel demand outside China to 3-4% growth in CY24 as inventory is rebuilt in the wake of destocking in H2CY23.

**Strong India profitability:** AMNS India's result stood out within MT's portfolio, with strong EBITDA of US$ 499mn, down only 6% QoQ. Apparent profitability of US$ 267/t was much higher than other Indian peers, likely due to lower effective energy costs supported by a pullback in natural gas prices.

**Increasing focus on capturing India growth:** MT aims to nearly double its capacity in India from 8.6mt to 15mt by CY26 and to scale up to 20mt by the end of the decade. Separately, it is looking at options to raise capacity to 24mt on the country's west coast and to reach 40mt via greenfield options in east India.

**Read-across for Indian ferrous sector:** MT's outlook of recovery in CY24 lends support to our view of mid-cycle margins for the steel sector in FY25. We remain constructive on earnings growth from Indian players on delivery on expansion projects.

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

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