FIRST LIGHT

12 November 2024

RESEARCH

BOB ECONOMICS RESEARCH | MONTHLY CHARTBOOK

Markets brace for Trump presidency

BOB ECONOMICS RESEARCH | US ECONOMY

Trumponomics

THE RAMCO CEMENTS | TARGET: Rs 726 | -17% | SELL

No respite from challenges; maintain SELL

ZYDUS WELLNESS | TARGET: Rs 1,941 | +1% | HOLD

Broad-based sales growth is a positive or a concern?

STAR CEMENT | TARGET: Rs 201 | +3% | HOLD

Clinker unit stabilisation issues impact performance in Q2

AUROBINDO PHARMA | TARGET: Rs 1,728 | +34% | BUY

The worst is over for Eugia plant

SUMMARY

INDIA ECONOMICS: MONTHLY CHARTBOOK

In the run-up to Presidential elections in the US, market volatility was heightened as it was presumed to be a close race between Trump and Harris. In the end, President elect Trump emerged as a clear winner. Elevated rates and higher inflation can be expected as he assumes power. On the domestic front, GDP data for Q2 is awaited, and we expect growth at 6.9% versus 6.7% in Q1. With festive season starting from Sep'24 and running upto Oct'24 end, high frequency indicators have shown a revival in demand. Air passenger traffic volume picked up pace and services PMI improved. Toll collections, vehicle registrations, non-oil-non-gold imports, government spending (states and centre) also regained momentum towards the end of Q2/start of Q3. Price data for Oct suggests persistent pressures. In view of this and growth indicators, we expect no change in rates by RBI in Dec'24 meeting and a cut in Feb'25.

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INDIA ECONOMICS: US ECONOMY

A sweeping victory has brought back Donald Trump to the White House for the second time. There are a range of intentions made during the election campaign and the victory of the President-Elect will have implications on issues ranging from immigration to growth and inflation. These polices are part of the 'America first' agenda. This note attempts to take a quick look at these core issues and their impact on US economy and their implications for India.

Click here **for the full report.**

THE RAMCO CEMENTS

- Q2 revenue declined ~13% due to tepid volume growth and pricing pressures affecting realisations (down by 10%/5% YoY/QoQ)
- Lower cost structure, led by power and fuel, partially offset the dent in realisation, and supported EBITDA margin to stay at ~15% YoY
- We lower our FY25/FY26/FY27 EBITDA estimates by 8%/8%/2%, apply 10x (no change) target multiple and cut our TP to Rs 726. Maintain SELL

Click here **for the full report.**

ZYDUS WELLNESS

- Underlying EBITDA +62% YoY. Sales was +12% with EBITDA margin expanding 20bps to 4.0%
- Strong sales growth at least partly driven by Quick Commerce with Traditional also growing ahead of the market
- We see risk of excess inventory in the Traditional channel. We value Zydus at 33x 12M to Sep'26 EPS with a Rs 1,941 TP. HOLD

Click here **for the full report.**

STAR CEMENT

- Revenue rose 10% backed by healthy 9% volume gains and realisations remained flat YoY/QoQ at Rs 6,560/t with improved regional mix
- EBITDA fell ~3%/18% YoY/QoQ to Rs 956bn as overall operating cost increased by ~3% YoY to Rs 5,583/t, which was a negative surprise
- We cut FY25/FY26/FY27 earnings estimates to factor in weak 1HFY25. Maintain HOLD at 9x 1-year EV/EBITDA with TP of Rs 201 (from Rs 205)

Click here **for the full report.**

AUROBINDO PHARMA

- 2QFY25 earnings were marginally below our estimates due to supply issues from Eugia plant affecting Global Specialty/Injectable sales
- Supplies for existing products from Unit 3 to normalise in H2FY25; we expect ARBP to achieve global injectable sales of ~US$ 700mn in FY26
- We maintain BUY and ascribe a P/E of 19x on Sep FY26E, a 30% premium to historical mean P/E of 14.7x, to yield a TP of Rs 1,728

Click here for the full report.

MONTHLY CHARTBOOK

11 November 2024

Markets brace for Trump presidency

Economic Research Department
Dipanwita Mazumdar | Sonal Badhan
Aditi Gupta | Jahnavi
Economist

In the run-up to Presidential elections in the US, market volatility was heightened as it was presumed to be a close race between Trump and Harris. In the end, President elect Trump emerged as a clear winner. Elevated rates and higher inflation can be expected as he assumes power. On the domestic front, GDP data for Q2 is awaited, and we expect growth at 6.9% versus 6.7% in Q1. With festive season starting from Sep'24 and running upto Oct'24 end, high frequency indicators have shown a revival in demand. Air passenger traffic volume picked up pace and services PMI improved. Toll collections, vehicle registrations, non-oil-non-gold imports, government spending (states and centre) also regained momentum towards the end of Q2/start of Q3. Price data for Oct suggests persistent pressures. In view of this and growth indicators, we expect no change in rates by RBI in Dec'24 meeting and a cut in Feb'25.

Early signs of improvement: Bouyed by festive demand, there has been some recovery in consumption. This is supported by improvemnt in high frequency indicators such as digital payments, auto sales and non-oil-non-gold imports. Pick up in both manufracturing and services PMI is positive. RBI's consumer confidence in Sep'24 has remained steady. However, moderation in credit growth across sectors has to be monitored.On rural front, two wheeler and tractor sales have also rebounded. According to 1st advance estimates, kharif foodgrain production is estimated at a record high in 2024-25.

Central government finances: Centre's fiscal deficit eased to 4.5% as of Sep'24 (12MMA basis) from 4.7% in Aug'24, as revenue growth held ground and spending remained weak. In H1FY25 (FYTD basis), total expenditure was lower by (-) 0.4% compared with 16.2% increase registered in H1FY24. This was due to steeper decline in capex (-15.4% versus 43.1%). Revenue spending also noted some moderation (4.2% versus 10%). In contrast, on the income side, Centre's net revenue growth held ground as it rose by 16.1% versus 19.5% last year, supported by indirect tax collections (10% versus 6.6%) and non-tax receipts (50.9% versus 50.2%). Direct tax collections eased slightly. We expect pickup in spending in H2 to meet budgeted targets.

Yields to witness upside pressure: India's 10Y yield has risen in Oct in line with major global yields. During the same period US 10Y yield has jumped by 50bps in the run up to the elections. However, post Republican Party's win some correction was witnessed as frontloading happened earlier.

US ECONOMY

11 November 2024

Trumponomics

Jahnavi Prabhakar
Economist

A sweeping victory has brought back Donald Trump to the White House for the second time. There are a range of intentions made during the election campaign and the victory of the President-Elect will have implications on issues ranging from immigration to growth and inflation. These polices are part of the 'America first' agenda. This note attempts to take a quick look at these core issues and their impact on US economy and their implications for India.

US economy remains resilient, growing at a solid pace with a strong growth of 2.8% registered in Q3CY24 on the back of the uptick in consumer spending. PCE inflation have cooled off to 1.5% in Q3 compared with 2.5% in Q2 and is lower than the Fed's target mark of 2%.

So where is growth and inflation headed?

In order to boost the economy, President Trump has proposed lowering of taxes, specifically the corporate tax down from 21% to 15%. The tax cuts enacted back in 2017 during his first tenure could also possibly become permanent. Furthermore, the President-elect has suggested to bring back the unlimited itemized deduction for SALT (state and local taxes). Additionally, there are plans of exempting taxes on social security payment, overtime pay and provide interest deduction on auto loans.

On tariff, it has been proposed to levy 60% to 100% on products from China and a tariff of 10% to 20% will be levied on goods from rest of the world. Moreover, he has proposed to even revoke the trade status of Most Favored Nation given to China by steadily phasing out imports on essential goods from China and restricting China form purchasing any land in US. This could result in resurfacing of the US-Sino tensions.

US economy at the current juncture has been performing well with robust growth and lower unemployment level. The proposed tax cuts would result in higher demand, while the higher tariff will turn out to be inflationary. He has suggested different measures to 'defeat' inflation, including lowering the oil prices by allowing companies to drill in a lot more places and push for speedy production. Overall, such policies will strengthen dollar, push bond yield higher given the expansionary fiscal measures and could even drive capital inflows.

The inflationary measures can put a break to the Fed's easing cycle. The Central Bank has already cut rates by 75bps since the beginning of the cycle. President-elect had suggested the Federal Reserve should also be subjected to more presidential powers though there are no details offered on the same.

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 726 | ▼ 17%

THE RAMCO CEMENTS | Cement | 12 November 2024

No respite from challenges; maintain SELL

- **Q2 revenue declined ~13% due to tepid volume growth and pricing pressures affecting realisations (down by 10%/5% YoY/QoQ)**
- **Lower cost structure, led by power and fuel, partially offset the dent in realisation, and supported EBITDA margin to stay at ~15% YoY**
- **We lower our FY25/FY26/FY27 EBITDA estimates by 8%/8%/2%, apply 10x (no change) target multiple and cut our TP to Rs 726. Maintain SELL**

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Weak demand impacts growth: TRCL's Q2FY25 revenue declined by 13% YoY to Rs 20.4bn due to volume decline of 3% YoY to ~4.5mt amid weak demand in key regions. Volumes for the southern and eastern India markets were at 82:18. Despite better mix, realisations fell 10% YoY to Rs 4,539/t due to weak cement prices. Premium products share was 27%/23% (fell/flat YoY) for South/East India regions.

Cost savings only partially offset weak realisations: Operating cost/t declined ~8%/5% YoY/QoQ to Rs 3,844/t. Power and fuel cost/tonne in Q2FY25 fell sharply by ~18% YoY to Rs 1,121 (Rs 1,358 in Q2FY24) while logistics cost was flat YoY (down 4% QoQ) despite fall in lead distance. EBITDA fell by 21%/2% YoY/QoQ to Rs 3.1bn and margin slid 220bps YoY but remained flat QoQ to 15.3%. EBITDA/t fell 20%/5% YoY/QoQ to Rs 673/t.

Expansion plans: TRCL remains on track to achieve 30mtpa of cement capacity by FY26 by commissioning the second line in Kolimigundla by taking some de-bottlenecking initiatives. Line-2 in Kolimigundla consists of a 3.15mtpa clinker and 1.5mtpa cement grinding unit with a 15MW waste heat recovery system which is expected to be commissioned by FY26. Further, an 18MW thermal power plant was commissioned in Jul'24 and a railway siding is expected to be commissioned by Sep'24. In H1/Q2FY25, TRCL incurred a capex of Rs 5.4bn/2.6bn and has guided for a capex of Rs 12bn for FY25 which includes maintenance capex.

EBITDA revised downward; maintain SELL: We lower our FY25/FY26/FY27 EBITDA estimates by 8%/8%/2%, but rationalise depreciation and interest leading to EPS revisions of Rs 16.4/Rs 21.8/Rs 29.2 (earlier Rs 20/Rs 26/Rs 30). The aggressive capex drive has elevated TRCL's net debt to EBITDA to ~2.6x/2.5x FY24/FY25-end and is likely to stay elevated in the medium term. TRCL's cost savings measures are commendable and offer respite to EBITDA margins. However, TRCL's current valuation of 11.0x FY27E EV/EBITDA is at a premium. We continue to apply an unchanged 10x target multiple and revise our TP to Rs 726 (previously Rs 737) implying a replacement cost of Rs 8.1bn/mnt – a 10% premium to the industry mean. Maintain SELL rating.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	TRCL IN/Rs 870
Market cap	US$ 2.4bn
Free float	58%
3M ADV	US$ 6.1mn
52wk high/low	Rs 1,058/Rs 700
Promoter/FPI/DII	42%/7%/32%

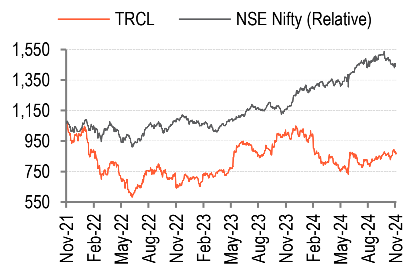
Source: NSE | Price as of 11 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	93,223	1,00,461	1,17,247
EBITDA (Rs mn)	15,250	16,977	19,985
Adj. net profit (Rs mn)	3,950	3,879	5,159
Adj. EPS (Rs)	16.7	16.4	21.8
Consensus EPS (Rs)	16.7	17.3	27.6
Adj. ROAE (%)	5.7	5.3	6.7
Adj. P/E (x)	52.1	53.0	39.9
EV/EBITDA (x)	16.3	14.9	12.7
Adj. EPS growth (%)	26.6	(1.8)	33.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD

TP: Rs 1,941 | ⮝ 1%

ZYDUS WELLNESS | Consumer Staples | 11 November 2024

Broad-based sales growth is a positive or a concern?

- **Underlying EBITDA +62% YoY. Sales was +12% with EBITDA margin expanding 20bps to 4.0%**
- **Strong sales growth at least partly driven by Quick Commerce with Traditional also growing ahead of the market**
- **We see risk of excess inventory in the Traditional channel. We value Zydus at 33x 12M to Sep'26 EPS with a Rs 1,941 TP. HOLD**

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EBITDA +62% YoY: On a YoY basis, sales was +12% with underlying EBITDA margin expanding 20bps to 4.0%. A&P as a proportion of sales was up to support new launches in health food drinks, cheese and cookies. Sales growth was driven by both Food (+10%) and Personal Care (+26%). Household penetration increased for Glucose (+21% MAT) and Prickly Heat Powder (+26% MAT). Zydus continued to lose share but given its current large share, it remained a net beneficiary.

Is above-average, broad-based sales growth a positive or a concern? Sales growth was strong across channels with Modern Trade and Quick Commerce being the main drivers. Traditional trade also performed ahead of the industry. The company noted "well rounded" performance and attributed it to strong execution by its staff. We suspect channel filling given traditional trade should have slowed with the acceleration in Quick Commerce. 2Q is a seasonally small quarter but a strong performance in two consecutive quarters partly driven by Quick Commerce should have ideally resulted in some drag on sales due to channel shift.

Naturelle to be EPS accretive in Year 2: Zydus acquired Naturelle for Rs 3.90bn and the transaction will be completed in Jan'25. FY24 turnover was Rs 1.19bn with sales increasing 20+% YoY. Zydus is looking to scale up the business keeping a stable portfolio. Year 1 will be focused on distribution expansion with the business becoming EPS accretive in Year 2.

Our view: Rural recovery is a positive for Zydus given its ~30% rural sales exposure. However, there is risk on inventory position and clarity will likely emerge in 4Q as 3Q is also a seasonally weak quarter. While Zydus has retained its double-digit topline and high teens margin targets over the next couple of years, there is risk given exposure to categories (glucose, talcum) that are highly sensitive to weather changes. The impending La Niña will bring cooler and wetter weather that can adversely impact 4Q performance. We value Zydus at 33x 12M to Sep'26 EPS using P/E relative to the NIFTY 50 index. We retain HOLD and reduce TP to Rs 1,941 from Rs 2,596.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ZYWL IN/Rs 1,930
Market cap	US$ 1.5bn
Free float	21%
3M ADV	US$ 1.0mn
52wk high/low	Rs 2,484/Rs 1,440
Promoter/FPI/DII	69%/3%/28%

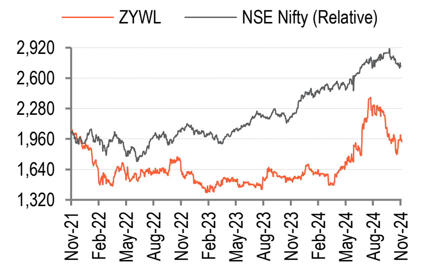
Source: NSE | Price as of 11 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	23,278	26,725	29,558
EBITDA (Rs mn)	3,082	4,051	4,531
Adj. net profit (Rs mn)	2,852	3,984	4,221
Adj. EPS (Rs)	44.8	62.6	66.3
Consensus EPS (Rs)	44.8	62.1	73.3
Adj. ROAE (%)	5.3	7.0	7.1
Adj. P/E (x)	43.1	30.8	29.1
EV/EBITDA (x)	39.8	30.3	27.1
Adj. EPS growth (%)	(8.2)	39.7	5.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

HOLD
TP: Rs 201 | ⮝ 3%

STAR CEMENT | Cement | 12 November 2024

Clinker unit stabilisation issues impact performance in Q2

- **Revenue rose 10% backed by healthy 9% volume gains and realisations remained flat YoY/QoQ at Rs 6,560/t with improved regional mix**
- **EBITDA fell ~3%/18% YoY/QoQ to Rs 956bn as overall operating cost increased by ~3% YoY to Rs 5,583/t, which was a negative surprise**
- **We cut FY25/FY26/FY27 earnings estimates to factor in weak 1HFY25. Maintain HOLD at 9x 1-year EV/EBITDA with TP of Rs 201 (from Rs 205)**

Milind Raginwar
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Revenue jumps 10% in challenging quarter driven by volume: STRCEM's revenue rose ~10% YoY to Rs 6.4bn in Q2FY25 (down ~15% QoQ). The volume was 9% higher YoY at 0.98mn tonnes. The realisation too stayed flat YoY/QoQ at Rs 6,560/t and was commendable. Northeast India volume was 78% (74% in Q1FY25) and eastern India's volume contributed 22%.

Fall in EBITDA as operating cost spikes: Overall cost increased by ~3%2% YoY/QoQ to Rs 5,583/t driven by inventory-adjusted raw material cost that shot up by ~20% YoY to Rs1,609/t YoY owing to clinker stabilisation issues. This is likely to be non-recurring expenses and normalise gradually over a period. Raw material (RM) cost-adjusted energy expenses stayed flat YoY at Rs 2,801 (6% decline QoQ) due to softening fuel cost. Logistic cost hardened by ~8% YoY to Rs 1,091/t versus Rs 1,007/t that requires further management clarity. EBITDA fell by ~10% YoY to ~Rs 1.2bn and EBITDA margin fell by 150bps to 15.5% from 17% in 2QFY24. EBITDA/t fell ~10% YoY to ~ Rs 1,006 in Q2FY25.

Capex guidance revised downwards: STRCEM plans to add a 2mnt grinding unit (GU) at Silchar (Assam) in Q3FY26 and 2mnt in Jorhat beyond FY27. Capex guidance for FY26 was Rs 4.5bn towards the Silchar GU and new clinker plant WHRS. STRCMT has reduced its capex guidance for FY25 from Rs 8.35bn.

Growth prospects intact: We cut FY25/FY26/FY27 EBITDA estimates by 12%/3%/2% to factor in a weak 1HFY25. However, the government's focus on infrastructure in STRCEM's core Northeast India market will boost volumes for STRCEM, in our view. Effectively, our EBITDA/PAT three-year CAGR is 21%/14%. We assign 9x (unchanged) 1-year EV/EBITDA to the stock, which gives us a revised TP of Rs 201 (from Rs 210). As the current valuations of 10x/9x FY26E/FY27E EV/EBITDA cap upside potential we maintain our HOLD rating. Our TP implies replacement cost valuation of Rs 7.5bn/mnt – in line with the industry average.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	STRCEM IN/Rs 195
Market cap	US$ 968.5mn
Free float	33%
3M ADV	US$ 1.2mn
52wk high/low	Rs 256/Rs 155
Promoter/FPI/DII	67%/1%/6%

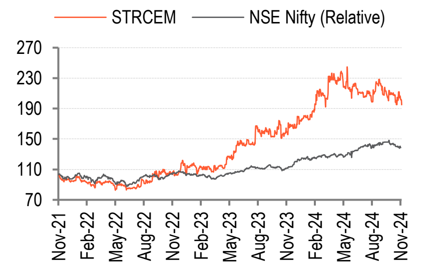
Source: NSE | Price as of 11 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	28,882	32,782	40,436
EBITDA (Rs mn)	5,388	5,546	7,885
Adj. net profit (Rs mn)	2,776	2,425	4,035
Adj. EPS (Rs)	6.6	5.8	9.6
Consensus EPS (Rs)	6.6	7.8	10.0
Adj. ROAE (%)	10.9	8.7	13.2
Adj. P/E (x)	29.4	33.7	20.3
EV/EBITDA (x)	15.3	15.0	10.2
Adj. EPS growth (%)	12.1	(12.6)	66.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 1,728 | ⮝ 34%

AUROBINDO PHARMA | Pharmaceuticals | 11 November 2024

The worst is over for Eugia plant

- **2QFY25 earnings were marginally below our estimates due to supply issues from Eugia plant affecting Global Specialty/Injectable sales**
- **Supplies for existing products from Unit 3 to normalise in H2FY25; we expect ARBP to achieve global injectable sales of ~US$ 700mn in FY26**
- **We maintain BUY and ascribe a P/E of 19x on Sep FY26E, a 30% premium to historical mean P/E of 14.7x, to yield a TP of Rs 1,728**

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Decent earnings amidst Eugia woes: ARBP earnings was marginally below our estimate; revenue grew 8% YoY to Rs 77.9bn driven primarily by Europe and growth markets, while the US reported muted growth affected by price erosion pressure and supply issues in Eugia's Unit 3 plan and lower gRevlimid sales. Revenue growth seen across businesses was due to volume gains, new product launches and market expansion.

The worst is over for Eugia's injectables business: Specialty & Injectables revenue in the US was reported at ~US$ 81mn, while Global Specialty & Injectables revenue performance was ~US$ 121mn affected by supply issues in the Eugia Unit 3 plant. Management confirmed the worst was over for the Eugia Unit 3 plant, and supplies have resumed. However, due to affected supplies in H1FY25, the full-year guidance of achieving revenue of US$ 600mn would be affected by +/-5%. However, we feel due to new product launches, gRevlimid and normalised supplies, ARBP would achieve Specialty sales of US$ 700mn in FY26E.

Pen-G plant to increase margins in FY26: ARBP has commercialised the Pen-G plant and started using it for captive purposes. Management expects the Pen-G plant to turn profitable from 4QFY25. Hence, we believe the normalised Eugia Unit 3 plant and Pen-G plant will raise EBITDA margins to 22% in FY25.

Eugia-III overhang after WL; Vizag to act as backup facility: Warning Letter (WL) status received on Eugia-III will remain a major overhang as this is a critical facility for injectable products (~30 pending approvals). The company will invite the USFDA for inspection by 3QFY26, hence, until then ARBP can use Vizag as a backup facility to mitigate the impact and will go in for dual filing, which is yet to start.

Maintain BUY with TP of Rs 1,728: ARBP has several growth levers in place: (1) a strong generics pipeline, (2) commercialising the Pen-G project, (3) growing the injectables business, and (4) 14 biosimilar products in the pipeline. We maintain our FY25E EPS at Rs 69 and FY26E at 83. Hence, we ascribe a P/E of 19x on Sep FY26E, a 30% premium to historical mean P/E of 14.7x, to yield a TP of Rs 1,728.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ARBP IN/Rs 1,289
Market cap	US$ 8.9bn
Free float	48%
3M ADV	US$ 21.5mn
52wk high/low	Rs 1,592/Rs 959
Promoter/FPI/DII	52%/18%/23%

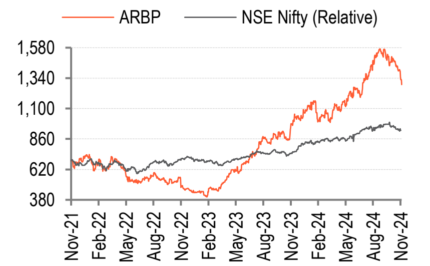
Source: NSE | Price as of 11 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	290,000	324,596	360,449
EBITDA (Rs mn)	58,411	70,243	81,691
Adj. net profit (Rs mn)	33,990	40,401	48,831
Adj. EPS (Rs)	58.0	69.0	83.3
Consensus EPS (Rs)	58.0	64.8	74.1
Adj. ROAE (%)	12.2	13.1	13.9
Adj. P/E (x)	22.2	18.7	15.5
EV/EBITDA (x)	12.7	10.7	9.1
Adj. EPS growth (%)	69.8	18.9	20.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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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