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FIRST LIGHT

24 January 2025

RESEARCH

POLYCAB INDIA | TARGET: Rs 8,090 | +29% | BUY

Growth momentum continues; eyes on Project Spring

ULTRATECH CEMENT | TARGET: Rs 13,137 | +15% | BUY

Geared for growth momentum; maintain BUY

COFORGE | TARGET: Rs 7,072 | -23% | SELL

On the journey to becoming a Tier-1

ZENSAR TECHNOLOGIES | TARGET: Rs 700 | -16% | SELL

Headed towards double digit growth in FY26

DR REDDY'S LABS | TARGET: Rs 1,427 | +11% | HOLD

NRT business to require huge marketing spend

SUMMARY

POLYCAB INDIA

- Healthy revenue growth at 20% YoY; EBITDAM expands on better W&C margins and reduced FMEG losses
- Project Leap has achieved its targets ahead of schedule, and the company has now set its sights on Project Spring for FY30
- We maintain our EPS estimate for FY26 and raise FY27 by 2%. We value POLYCAB at 45x Dec'26E P/E, with new TP of Rs 8,090. Upgrade to BUY

Click here for the full report.

ULTRATECH CEMENT

- Healthy 10% YoY volume growth aids flat topline despite 9% dent in realisations in a challenging Q3; capacity utilisation at ~76%
- Operating cost per tonne fell to 7% YoY, partially offsetting weak realisations. EBITDA/t rebound to ~Rs 982 in weak demand scenario
- Revise FY25 EBITDA estimates downwards, tweak FY26/FY27. Value UTCEM at 17x EV/EBITDA and revise TP to Rs 13,137, retain BUY rating

Click here for the full report.

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COFORGE

- 3QFY25 was blockbuster quarter 8.4% growth QoQ in CC terms (our estimate-2.8%. Belied seasonality)
- Our math indicates ~15% organic growth for FY25 compared to ~10% hinted at 9 months back. Would still fall short of Persistent on this
- Retain sell rating on valuation despite increasing EPS and Target PE multiple

Click here **for the full report.**

ZENSAR TECHNOLOGIES

- Delivered better-than-expected revenue and margin. Revenue grew 0.7% QoQ and was better than our estimate of 1% decline. The EBIT margin at 13.8% came in better than our estimate of 13.1%
- Believe TMT pain which had dragged growth has hit a bottom. EBITDA margin expected to be ~15% as the company re-invests
- EBIT margin estimates lowered to take care of investments in SGA and in AI/Gen AI. Retain ‘SELL’ despite raising Target PE multiple

Click here **for the full report.**

DR REDDY'S LABS

- Revenue/EBITDA/PAT grew by 16%/14%/2.5%, in line with our and street estimates. Ex NRT business, sales grew by 7%
- North America sales missed our estimates and reported US$ 395mn in 3QFY25 vs US$ 445mn in 2QFY25 impacted by gRevlimid
- We remain wary of margins due to higher SG&A spend in OTC. Maintain HOLD, ascribe 18x P/E on Dec’26 rollover to arrive at TP of Rs 1,427

Click here **for the full report.**

RESULT REVIEW

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BUY
TP: Rs 8,090 | ⅄ 29%

POLYCAB INDIA | Consumer Durables | 23 January 2025

Growth momentum continues; eyes on Project Spring

- **Healthy revenue growth at 20% YoY; EBITDAM expands on better W&C margins and reduced FMEG losses**
- **Project Leap has achieved its targets ahead of schedule, and the company has now set its sights on Project Spring for FY30**
- **We maintain our EPS estimate for FY26 and raise FY27 by 2%. We value POLYCAB at 45x Dec'26E P/E, with new TP of Rs 8,090. Upgrade to BUY**

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In-line topline, margins beat: POLYCAB delivered a strong performance in Q3, with revenue growing 20% YoY to Rs 52bn (slightly below our estimate of Rs 53bn). This marked the highest-ever third-quarter revenue in the company's history. Despite strong top-line growth, gross margin contracted by 130bps due to raw material price volatility. On the positive side, EBITDA margin improved by 70bps to 13.8%, driven by better margins in the wires and cables segment and reduced losses in the FMEG business. As a result, APAT grew by 11% to Rs 4.5bn.

W&C stable, FMEG shines: POLYCAB's wires and cables (W&C) segment saw moderate 12% YoY growth in Q3FY25, bolstered by strong domestic cable performance, although temporarily impacted by high channel inventory and falling copper prices. With inventory levels normalising and copper prices rising, we expect a rebound in wire sales in Q4FY25. The international business grew 62% YoY, contributing 8.3% to the company's topline. The FMEG segment surged 45% YoY, driven by strategic efforts in channel expansion, product improvements, and influencer management. The fan segment continued to grow, and the lights and luminaries segment rebounded strongly after a period of decline.

Project Leap achieved ahead of time; new Project Spring set for FY30: POLYCAB's Project Spring aims to grow its W&C business 1.5x the industry growth rate, with a target domestic EBITDAM of 11-13% and expand international revenue to 10% of total sales, supported by Rs 60bn-80bn capex over five years, ensuring 4x-5x asset turnover. The FMEG business, poised for 8-10% market growth, targets 1.5x to 2x faster expansion while maintaining its focus on existing products and aiming for EBITDAM of 8-10% by FY30. Healthy cashflows from both segments will fund increased capex, and facilitate a dividend payout increase to 30% by FY30.

Upgrade to BUY: We remain optimistic about POLYCAB's growth, supported by its leadership in W&C and improving prospects in the FMEG segment. Following its strong Q3FY25 performance, we raise our FY27 EPS estimate by 2% and value the stock at 45x P/E upon roll forward to Dec'26E, and revise our TP to Rs 8,090 (from Rs 7,700). Given the recent stock price correction, we upgrade to BUY from HOLD.

Key changes

Target	Rating
▲	▲

Ticker/Price	POLYCAB IN/Rs 6,251
Market cap	US$ 10.8bn
Free float	37%
3M ADV	US$ 23.7mn
52wk high/low	Rs 7,605/Rs 4,125
Promoter/FPI/DII	63%/12%/8%

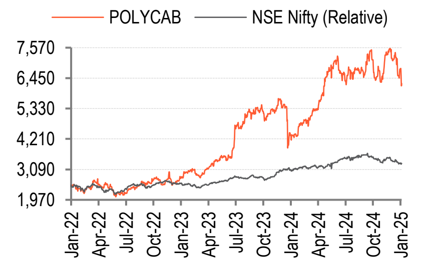
Source: NSE | Price as of 23 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	180,394	212,463	250,555
EBITDA (Rs mn)	24,918	27,622	34,242
Adj. net profit (Rs mn)	17,840	18,691	23,673
Adj. EPS (Rs)	118.9	124.5	157.7
Consensus EPS (Rs)	118.9	128.0	160.0
Adj. ROAE (%)	24.1	21.0	22.4
Adj. P/E (x)	52.6	50.2	39.6
EV/EBITDA (x)	37.5	33.9	27.3
Adj. EPS growth (%)	40.5	4.8	26.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 13,137 | ⮝ 15%

ULTRATECH CEMENT | Cement | 24 January 2025

Geared for growth momentum; maintain BUY

- **Healthy 10% YoY volume growth aids flat topline despite 9% dent in realisations in a challenging Q3; capacity utilisation at ~76%**
- **Operating cost per tonne fell to 7% YoY, partially offsetting weak realisations. EBITDA/t rebound to ~Rs 982 in weak demand scenario**
- **Revise FY25 EBITDA estimates downwards, tweak FY26/FY27. Value UTCEM at 17x EV/EBITDA and revise TP to Rs 13,137, retain BUY rating**

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Healthy volume growth ahead of industry: UTCEM reported flat YoY revenue (~10% down QoQ) at ~Rs 163.3bn in Q3FY25 backed by healthy volume. Volumes (excluding white cement segment of 0.51mn tonnes) were at ~28.3mn tonnes, a double-digit ~10.6%/9% gain YoY/QoQ aided by pan-India presence. However, grey cement realisation fell ~10% YoY, flat QoQ at Rs 4,984/t (adjusted for incentives). UTCEM's capacity utilisation was ~76% even in a weak Q3FY25.

Cost savings of 7% commendable: Operating cost/tonne fell 7%/4% YoY/QoQ in Q3 to Rs 4,788/t, partially offsetting the impact of the decline in realisations. Fuel cost (raw material adjusted) fell 8%/2%% YoY/QoQ to Rs 2,389/t with blended import fuel consumption declining YoY/QoQ 17%/6% to US$ 125/t. Logistic cost fell 5%/3% YoY/QoQ indicating UTCEM was aided by lower lead distance. Other expenditure jumped 6% to Rs 22.6bn well checked due to operating leverage.

Expansion on course: UTCEM's expansion projects are on track and it will commission 9.1mt of capacity in Q4FY25, taking the total to ~185mt by FY25. UTCEM aims to create capacity of 209mt by FY27. UTCEM is awaiting mines transfer approvals from the state authorities of Telangana and Karnataka with regard to Kesoram Cement. The financials of Kesoram Cement will be consolidated with UTCEM in FY25. ICEM's consolidation will likely take ~4-6 quarters.

Valuation outlook: We cut our FY25 estimates for EBITDA by 9%, but maintain FY26/FY27 with minor changes. Consequently EPS changes follow. Our FY24-FY27E EBITDA/PAT CAGR is baked in at 19%/24%. UTCEM is well geared for short-term industry challenges, in our view. However, we feel recovery in FY27 to be handy and, hence, our revisions are marginal. Given effective cost management, healthy growth and a strong balance sheet, we continue to value UTCEM at 17x 1-year forward EV/EBITDA to arrive at a TP of Rs 13,137 (from Rs 12,469) and maintain our BUY rating on the stock.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	UTCEM IN/Rs 11,421
Market cap	US$ 38.1bn
Free float	40%
3M ADV	US$ 39.3mn
52wk high/low	Rs 12,145/Rs 9,250
Promoter/FPI/DII	60%/15%/17%

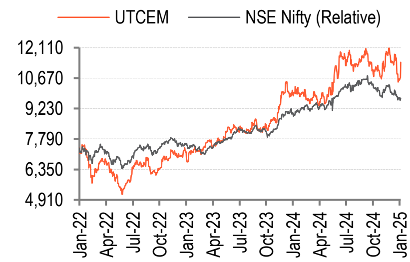
Source: NSE | Price as of 23 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	6,86,406	6,98,930	8,51,131
EBITDA (Rs mn)	1,35,678	1,28,720	1,82,604
Adj. net profit (Rs mn)	69,769	61,487	98,353
Adj. EPS (Rs)	241.7	213.0	340.7
Consensus EPS (Rs)	241.7	231.0	323.8
Adj. ROAE (%)	12.4	10.0	14.4
Adj. P/E (x)	47.3	53.6	33.5
EV/EBITDA (x)	24.0	25.3	17.6
Adj. EPS growth (%)	41.9	(11.9)	60.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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SELL
TP: Rs 7,072 | ∀ 23%

COFORGE | IT Services | 24 January 2025

On the journey to becoming a Tier-1

- **3QFY25 was blockbuster quarter 8.4% growth QoQ in CC terms (our estimate-2.8%. Belied seasonality)**
- **Our math indicates ~15% organic growth for FY25 compared to ~10% hinted at 9 months back. Would still fall short of Persistent on this**
- **Retain sell rating on valuation despite increasing EPS and Target PE multiple**

Girish Pai
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Robust revenue growth and margin outperformance: It was up 8.4% QoQ in CC terms (our estimate - 2.8%) with revenue growth being broad based across geography, industry verticals, and service lines. The revenue run rate grew 60% in under two years, from US$1bn to US$1.6bn. EBITDA margin for 3Q was 17.8%, up 122bps sequentially, beating our estimate of 17.3%.

Strong order book and deal momentum: Four large deals were closed in 3Q, including one within the Cigniti client portfolio. The 12-month signed order book reached US$1.37bn, up 40.1% YoY. Order intake for 3Q was US$501mn, marking the second consecutive quarter over US$500mn. The deal pipeline remains strong, with larger deals driven by legacy modernization and AI-based solutions.

Positive Commentary on Demand Environment: Travel: The sector shows resilience despite inflationary pressures, driven by strong growth in travel tech, loyalty platforms, legacy modernization, and airline network expansion. Airports are transforming into digital hubs. **BFS**: Demand continues to be strong across key areas, particularly operational resilience and regulatory compliance, supporting sector stability. Same is seen across **Government** vertical too. **Insurance**: Expected to see sustained demand in the coming year, driven by the ongoing transformation of the SMB market.

Retain sell: We have upgraded the EPS and Target PE multiple on better-than-expected execution. We think Coforge is addressing a broader market post-acquisition of Cigniti as it gets in healthcare, retail, Hi-Tech and Manufacturing. That is the positive we see in Coforge versus Persistent systems. However, executing better on organic growth and on ROIC. The cross-sell opportunities are immense. The larger deals in BFS it is getting is probably at the expense of incumbents. As it attains US$2bn in size it might get invited to more deals.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	COFORGE IN/Rs 9,196
Market cap	US$ 7.1bn
Free float	99%
3M ADV	US$ 46.6mn
52wk high/low	Rs 10,027/Rs 4,287
Promoter/FPI/DII	0%/43%/48%

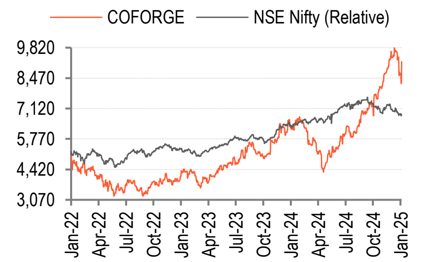
Source: NSE | Price as of 23 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	91,790	1,23,319	1,54,968
EBITDA (Rs mn)	14,960	18,601	26,530
Adj. net profit (Rs mn)	8,084	8,420	14,854
Adj. EPS (Rs)	131.4	127.1	214.4
Consensus EPS (Rs)	131.4	151.0	204.4
Adj. ROAE (%)	24.1	17.0	22.5
Adj. P/E (x)	70.0	72.3	42.9
EV/EBITDA (x)	40.9	33.0	23.0
Adj. EPS growth (%)	15.5	(3.2)	68.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

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SELL
TP: Rs 700 | ∀ 16%

ZENSAR TECHNOLOGIES | IT Services | 24 January 2025

Headed towards double digit growth in FY26

- **Delivered better-than-expected revenue and margin. After a mid-single digit FY25, revenue growth in double digits in FY26 likely**
- **Believe TMT pain which had dragged growth has hit a bottom. EBITDA margin expected to be ~15% as the company re-invests**
- **EBIT margin estimates lowered to take care of investments in SGA and in AI/Gen AI. Retain 'SELL' despite raising Target PE multiple**

Girish Pai
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Delivered better-than-expected revenue and margin. Revenue grew 0.7% QoQ and was better than our estimate of 1% decline. The EBIT margin at 13.8% came in better than our estimate of 13.1%

TMT which had been a drag on growth in FY25 will likely not be a headwind in FY26. The sharp reduction in contribution from the segment at 21.4% in 3QFY25 compared to 25.9% in the base quarter tells us the story of weakness. While the top Hi-Tech client has been weak, the company is seeking to diversify beyond that client in the vertical

Order inflow has been strong: Zensar saw the second consecutive quarter >US$200mn order inflow. The deal pipeline is strong, but it has slightly reduced as many deals have been converted into the order book. This reduction is viewed positively, as it reflects a strong order book and improved win rates over the last few quarters

Zensar is actively working to reduce its reliance on discretionary spending, which has historically been a source of revenue fluctuations. The company has been focusing on increasing annuity revenues to smoothen revenue fluctuations. This is being achieved through large deals and a focus on Cloud and Infrastructure Services, where Zensar has seen sequential growth.

Reiterate sell: We have tweaked the EPS estimates by increasing the US revenue while lowering the EBIT margins. We have also reduced the discount to the benchmark Target PE multiple of TCS from 25% to 20% to get to a Target PE multiple of 19.7x. We would continue to give it a lower PE multiple compared to Persistent and Coforge as there is a shorter history of sustained performance. While the first year of Manish Tandon, CEO, was focused on margin expansion, the second year had to be a balance between margin and revenue growth. We need a few more quarters of sustained revenue performance to gain that confidence.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	ZENT IN/Rs 837
Market cap	US$ 2.2bn
Free float	50%
3M ADV	US$ 10.7mn
52wk high/low	Rs 870/Rs 515
Promoter/FPI/DII	49%/15%/20%

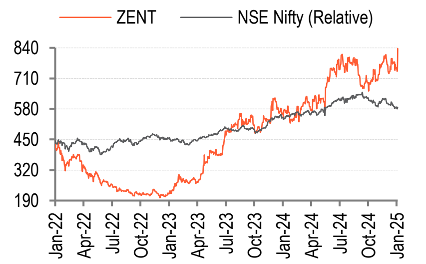
Source: NSE | Price as of 23 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	49,018	53,124	60,575
EBITDA (Rs mn)	8,716	8,247	9,691
Adj. net profit (Rs mn)	6,650	6,388	7,088
Adj. EPS (Rs)	29.1	28.0	31.2
Consensus EPS (Rs)	29.1	28.2	32.9
Adj. ROAE (%)	20.9	17.9	18.1
Adj. P/E (x)	28.7	29.9	26.8
EV/EBITDA (x)	20.9	22.1	19.0
Adj. EPS growth (%)	102.6	(3.8)	11.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

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HOLD
TP: Rs 1,427 | ⮝ 11%

DR REDDY'S LABS | Pharmaceuticals | 24 January 2025

NRT business to require huge marketing spend

- **Revenue/EBITDA/PAT grew by 16%/14%/2.5%, in line with our and street estimates. Ex NRT business, sales grew by 7%**
- **North America sales missed our estimates and reported US$ 395mn in 3QFY25 vs US$ 445mn in 2QFY25 impacted by gRevlimid**
- **We remain wary of margins due to higher SG&A spend in OTC. Maintain HOLD, ascribe 18x P/E on Dec'26 rollover to arrive at TP of Rs 1,427**

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In-line earnings amidst inclusion of NRT numbers: DRRD delivered in-line numbers with our and consensus estimates on all fronts, where sales grew by 15.9% (2% above our estimate) and EBITDA by 14% YoY (3.9% above our estimate) and PAT by 2.5% YoY (in-line with our estimate of Rs 14bn). Earnings was driven by 143% YoY growth in the Europe region which includes Nicotine Replacement Therapy (NRT) sales but was offset by 1% growth in the North America region. Ex of NRT, sales grew by 7% YoY to Rs 77.5bn.

Europe sales ex of NRT sales to sustain 20% plus growth: Europe, ex of NRT sales, reported growth of 23% YoY to Rs 6bn driven by operations in five countries. The company intends to penetrate five more countries followed by new product launches and volume growth. As more than 65% of NRT sales is driven from the European region we continue to include NRT sales in the European region. Hence, we expect Europe to clock sales CAGR of 22% from FY25-27E.

NRT portfolio unlikely to be margin accretive due to higher investments in near term: During Q3FY25 NRT PBT margin stood at 20%. As there are no interest costs, we expect EBITDA margin for the segment to be ~25%. From Apr'25, we expect NRT integration to resume in 30 countries which would take 12-18 months to complete. DRRD expects to invest in SG&A to make brands bigger and eventually bring them to the Indian market. Hence, we believe EBITDA margin for NRT sales would hover at ~25% till FY27E as against the core business margin of ~27%.

Retain HOLD: We remain wary of fluctuating core margins, slowdown in North America business post gRevlimid going off patent in CY26, and the lack of new product launches in the US region before the launch of Abatacept in CY27. The company is likely to incur huge promotional spend on an OTC business like Nestle and NRT portfolio to build brands, which would take many years to scale up, hence we maintain our HOLD rating. We ascribe a P/E of 18x, and roll forward our valuations to Dec'26 to retain our TP at Rs 1,427.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	DRRD IN/Rs 1,289
Market cap	US$ 12.4bn
Free float	73%
3M ADV	US$ 28.9mn
52wk high/low	Rs 1,421/Rs 1,120
Promoter/FPI/DII	27%/27%/23%

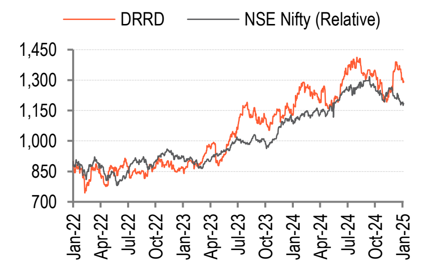
Source: NSE | Price as of 23 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	279,164	319,210	338,275
EBITDA (Rs mn)	78,377	86,187	89,643
Adj. net profit (Rs mn)	55,684	53,972	52,919
Adj. EPS (Rs)	66.9	64.9	63.6
Consensus EPS (Rs)	66.9	72.0	58.0
Adj. ROAE (%)	22.5	18.3	15.3
Adj. P/E (x)	19.3	19.9	20.3
EV/EBITDA (x)	13.3	11.8	11.0
Adj. EPS growth (%)	21.7	(3.1)	(2.0)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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