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TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

29 January 2025

RESEARCH

CIPLA | TARGET: Rs 1,800 | +27% | BUY

Lower dependence on highly competitive GLP products

BAJAJ AUTO | TARGET: Rs 9,438 | +12% | HOLD

Striking balance between growth and earnings; Maintain HOLD

TVS MOTOR | TARGET: Rs 2,502 | +7% | HOLD

Steady show; aiming at structural strength; maintain HOLD

FEDERAL BANK | TARGET: Rs 236 | +28% | BUY

Higher provisioning impacts earnings, long-term story intact

APOLLO PIPES | TARGET: Rs 450 | +8% | HOLD

Mixed quarter; maintain HOLD on weak ROE profile

SUMMARY

CIPLA

- Revenue/EBITDA/PAT surpassed our Q3 estimates by 3%/3%/22% respectively. PAT was higher due to lower tax rate of 17%
- Strong complex respiratory and injectables portfolio to largely offset gRevlimid sales in FY27 in the North America region
- Due to sustainable growth across regions, we upgrade the stock to BUY from HOLD ascribing a P/E of 24x on Dec'26 rollover

Click here **for the full report.**

BAJAJ AUTO

- BJAUT's Q3FY25 revenue growth was muted at 6% YoY (down 2% QoQ) to Rs 128bn on account of slow volume and realisation growth
- Higher raw materials cost lowered the gross margins by 130bps YoY to ~28% (flat QoQ) , EBITDA margin listless at 20.2% flat YoY/QoQ
- We revise down FY25E/FY26E/FY27E EPS by 4%/8%/9%, now valuing the stock at 24x 1-year forward earnings, TP at Rs 9,438. Maintain HOLD

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TVS MOTOR

- Q3 revenue grew in double digits at 10% YoY (flat QoQ) to Rs 90.97bn, backed by volume growth of 10% YoY (flat QoQ) to ~1.21mn units
- EBITDA margin rose 70bps/20bps YoY/QoQ to 11.9%; soft commodity prices helped raise gross margin to 28.4% (210bps YoY/flat QoQ)
- We maintain earnings estimates for FY25/FY26/FY27 and continue to value TVS at 30x core business. Raise TP to Rs 2,502, retain HOLD

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FEDERAL BANK

- PAT declined 10% QoQ due to high provisions, credit cost at 58bps vs. 30bps in Q2FY25
- New management implemented a reorientation programme where both assets and liabilities witnessed changes
- We assume coverage on FB with a BUY rating and TP of Rs 236, assigning 1.6x Dec'26 ABV

Click here for the full report.

APOLLO PIPES

- Despite strong volume (+43% YoY), PAT de-grew by 31.6% YoY in Q3FY25 due to margin pressure and higher capital charge
- Over-optimistic guidance as the company targets to grow its volume at 25% CAGR and improve ROCE to 25% over the next two years
- Maintain HOLD with revised TP of Rs 450 due to weak ROE profile on rising competitive intensity and margin-dilutive KML acquisition

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BUY

TP: Rs 1,800 | ▲ 27%

CIPLA | Pharmaceuticals | 29 January 2025

Lower dependence on highly competitive GLP products

- **Revenue/EBITDA/PAT surpassed our Q3 estimates by 3%/3%/22% respectively. PAT was higher due to lower tax rate of 17%**
- **Strong complex respiratory and injectables portfolio to largely offset gRevlimid sales in FY27 in the North America region**
- **Due to sustainable growth across regions, we upgrade the stock to BUY from HOLD ascribing a P/E of 24x on Dec'26 rollover**

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Earnings exceed our Q3 estimates: CIPLA reported strong numbers and surpassed our and Bloomberg estimates on all fronts. Sales grew by 7% YoY driven by strong growth across geographies ex of the North America region. Better product mix resulted in 68% gross margin and 28.1% EBITDA margin. Healthy operations, higher other income and a significantly lower tax rate resulted in 25.6% YoY growth in PAT. Geographically, growth of 10% YoY in the domestic region, 10% YoY in the SAGA region and 21.5% YoY in the international market offset the 1% decline in the US market.

Lanreotide supply to ramp up from 1QFY26: North America sales declined by 1% YoY primarily due to supply issues in Lanreotide. Lanreotide's supply has resumed to 40-50% and full supply is expected to normalise from the end of 4QFY25 and ramp up from 1QFY26. Management expects an additional 20% of extra supply in FY26 in Lanreotide from new capacity that is currently being installed.

Strong pipeline of Respiratory portfolio in US market: CIPLA has a new meaningful product pipeline of Respiratory products to be launched by FY27E which includes gAdvair, gAbraxane, Symbicort and Qvar. The timelines for gAdvair and gAbraxane have been extended based on plant inspections. We believe gAbraxane will be launched swiftly as the Goa plant has received VAI (Voluntary Action Indicated) status. This meaningful new product launch should largely mitigate sales from gRevlimid. From its existing new products, the company expects the gAlbuterol market share to sustain at the current highest level of 21% and Lanreotide sales to ramp up by an additional ~20% in FY26 from its 2QFY25 peak.

India business to continue to outperform IPM: During the quarter, India region sales grew by 10% driven by both Branded generics and Trade generics. In Branded prescription, growth was driven by key therapies like the Respiratory, Urology and Acute segments which outpaced IPM growth. CIPLA has ~26 brands that are worth over Rs 1bn and Foracort remains the Indian Pharma Market's (IPM) topmost brand. During Q3, volume grew 2% which is expected to increase further with deeper penetration. We expect India sales to grow at a CAGR of 8% from FY25-27.

Key changes

Target	Rating
▲	▲

Ticker/Price	CIPLA IN/Rs 1,421
Market cap	US$ 13.2bn
Free float	65%
3M ADV	US$ 39.5mn
52wk high/low	Rs 1,702/Rs 1,312
Promoter/FPI/DII	33%/26%/24%

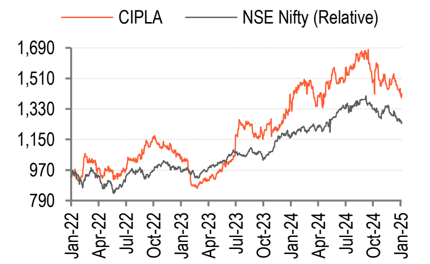
Source: NSE | Price as of 28 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	257,741	278,472	299,967
EBITDA (Rs mn)	62,911	71,597	80,955
Adj. net profit (Rs mn)	43,164	50,730	58,484
Adj. EPS (Rs)	53.6	63.0	72.6
Consensus EPS (Rs)	53.6	57.4	64.1
Adj. ROAE (%)	17.5	17.7	17.4
Adj. P/E (x)	26.5	22.6	19.6
EV/EBITDA (x)	17.7	15.4	13.3
Adj. EPS growth (%)	44.6	17.5	15.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

HOLD
TP: Rs 9,438 | ⮝ 12%

BAJAJ AUTO | Automobiles | 29 January 2025

Striking balance between growth and earnings; Maintain HOLD

- **BJAUT's Q3FY25 revenue growth was muted at 6% YoY (down 2% QoQ) to Rs 128bn on account of slow volume and realisation growth**
- **Higher raw materials cost lowered the gross margins by 130bps YoY to ~28% (flat QoQ) , EBITDA margin listless at 20.2% flat YoY/QoQ**
- **We revise down FY25E/FY26E/FY27E EPS by 4%/8%/9%, now valuing the stock at 24x 1-year forward earnings, TP at Rs 9,438. Maintain HOLD**

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Volume growth muted, realization follows suite: BJAUT's Q3FY25 revenue increased ~6% YoY (down 3% QoQ) to Rs 128bn checked by muted volume growth of 2% YoY to 1.22mn units (flat QoQ). Domestic markets declined by ~9% YoY and exports markets grew by 22% in Q3FY25. Average realisation per vehicle gains was 4% YoY (down 3% QoQ) to Rs 104k following its focus on the EV segment.

RM cost inflation, cost inflation keeps EBITDA margins listless: Raw material as a percentage of sales rose to 71.3% vs ~70% QoQ (flat YoY) due to commodity cost inflation. Effectively, the gross margin fell YoY by 130 bps at ~28.7% (flat QoQ). Further, the EBITDA margin stayed listless at 20.2% flat YoY/QoQ, due to cost rationalisation. Other expenditure increased by 3% YoY (5.6% of sales) and staff cost QoQ was flat. EBITDA in 3Q rose 6% YoY (down 3% QoQ) to Rs 25.8bn.

Exports improve: Exports volume grew in volumes by 22% in Q3FY25. LATAM is now the largest emerging market region for motorcycles, with exports growing by over 40%. Nigeria market was steady with a market share of 55%. Bajaj Brazil is operating at peak capacity and the management has approved a further expansion of capacity to 50k units p.a. to be commissioned by Q4FY26.

Bajaj Freedom early response tapers off: Freedom 125 was launched in Q1FY25. BJAUT clocked retail sales of 10k units of Bajaj Freedom till September however the earlier strong response has slowed down considerable due to lack of fuel infrastructure (refill pumps).

Cut our earnings estimates: We lower our FY25/FY26/FY27 EPS estimates by 4%/8%/9% to factor in BJAUT's 2W electric vehicle (EV) focus that will dilute earnings and slowing domestic market growth in the key motorcycle segment. Also, we have reduced our volume estimates to factor in tepid growth in 9MFY25. Factoring in the slow growth momentum in domestic markets, slow response to the CNG segment and earnings dilution from the EV segment, we now value the stock at 24x P/E (26x earlier) 1-year forward and arriving at a TP of Rs 9,438 (from Rs 11,088). We maintain HOLD rating on the stock

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	BJAUT IN/Rs 8,398
Market cap	US$ 28.1bn
Free float	46%
3M ADV	US$ 50.5mn
52wk high/low	Rs 12,774/Rs 7,480
Promoter/FPI/DII	54%/10%/13%

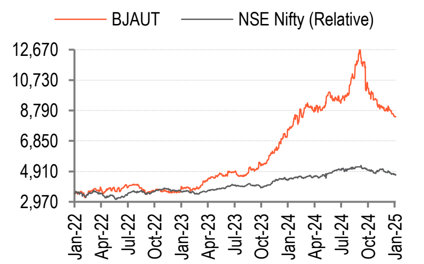
Source: NSE | Price as of 28 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	4,46,852	5,17,458	6,04,969
EBITDA (Rs mn)	88,229	1,02,068	1,20,458
Adj. net profit (Rs mn)	74,788	85,600	1,00,293
Adj. EPS (Rs)	267.9	306.6	359.2
Consensus EPS (Rs)	267.7	311.4	366.0
Adj. ROAE (%)	30.1	24.8	25.1
Adj. P/E (x)	31.4	27.4	23.4
EV/EBITDA (x)	27.4	23.4	20.0
Adj. EPS growth (%)	35.4	14.5	17.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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HOLD
TP: Rs 2,502 | ⮝ 7%

TVS MOTOR | Automobiles | 29 January 2025

Steady show; aiming at structural strength; maintain HOLD

- **Q3 revenue grew in double digits at 10% YoY (flat QoQ) to Rs 90.97bn, backed by volume growth of 10% YoY (flat QoQ) to ~1.21mn units**
- **EBITDA margin rose 70bps/20bps YoY/QoQ to 11.9%; soft commodity prices helped raise gross margin to 28.4% (210bps YoY/flat QoQ)**
- **We maintain earnings estimates for FY25/FY26/FY27 and continue to value TVS at 30x core business. Raise TP to Rs 2,502, retain HOLD**

Milind Raginwar
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Healthy topline supported by double-digit volume gains: TVSL's Q3FY25 revenue grew in double digits at 10% YoY (flat QoQ) to Rs 90.97bn, backed by volume growth of 10% YoY (flat QoQ) to ~1.21mn units. Net realisation per vehicle (NRPV) was flat at Rs 75.1k YoY. Healthy product mix kept realisations flat YoY.

Soft commodity costs aided EBITDA margin: Raw material cost increased 7% YoY to Rs 64.5bn, softening to ~71.6% of sales from 73.7% YoY (flat QoQ) However, EBITDA rose 17% YoY (flat QoQ) to Rs 10.8bn and margins by ~70bps YoY (20bps QoQ) to 11.9%. Other expenditure increased ~20% YoY (down ~4% QoQ) to Rs 10.0bn owing to technology-related expenses and other digital and innovation-related expenses. Employee cost too increased due to investments in high-end engineering and design talent.

Product development: The TVS iQube 2.2kWh battery variant was launched in Nepal and Sri Lanka. TVSL launched the 125cc motorcycle segment – the TVS Raider (iGO Variant). It also launched TVS Apache RTR 160 4V.

Maintain estimates: Factoring 9MFY25 performance into challenging business conditions we feel TVSL's earnings will deliver in FY25E following a steady revival in the 2W/3W business, distinctly rural demand recovery and prudent handling of raw material costs inflation. However, the electric vehicles (EV) segment will continue to impact overall show. We factor this into our earnings estimates, and retain FY25/FY26/FY27 estimates, baking in a 3Y EBITDA/PAT CAGR of 19%/24%.

Revise TP; maintain HOLD: We estimate a healthy outlook for high-end products such as Apache and benefits from the revival in export markets to offset the drag from the EV segment. We believe the focus on premiumisation will continue to balance the motorcycle portfolio across segments. We maintain our target P/E for core business at 30x – a marginal premium to TVSL's long-term average, and arrive at a new TP of Rs 2,502 (from Rs 2,441) following roll-forward to December 2026 with the core business valued at Rs 2,469 and Rs 33/sh for TVS Credit Services. Maintain HOLD as current valuations factor in the positives.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TVSL IN/Rs 2,336
Market cap	US$ 12.8bn
Free float	48%
3M ADV	US$ 18.3mn
52wk high/low	Rs 2,958/Rs 1,873
Promoter/FPI/DII	52%/13%/25%

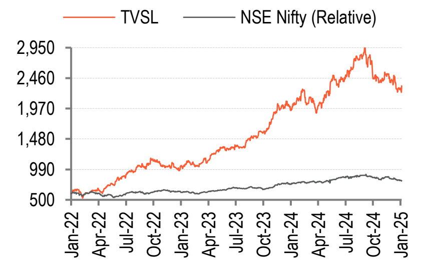
Source: NSE | Price as of 28 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	3,17,764	3,66,756	4,44,284
EBITDA (Rs mn)	35,141	43,416	53,497
Adj. net profit (Rs mn)	20,830	27,489	35,139
Adj. EPS (Rs)	43.8	57.9	74.0
Consensus EPS (Rs)	43.8	55.7	70.0
Adj. ROAE (%)	26.9	26.9	26.2
Adj. P/E (x)	53.3	40.4	31.6
EV/EBITDA (x)	31.7	25.5	20.7
Adj. EPS growth (%)	39.7	32.0	27.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

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BUY
TP: Rs 236 | ⮝ 28%

FEDERAL BANK | Banking | 28 January 2025

Higher provisioning impacts earnings, long-term story intact

- **PAT declined 10% QoQ due to high provisions, credit cost at 58bps vs. 30bps in Q2FY25**
- **New management implemented a reorientation programme where both assets and liabilities witnessed changes**
- **We assume coverage on FB with a BUY rating and TP of Rs 236, assigning 1.6x Dec'26 ABV**

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Muted earnings growth: FB reported muted business momentum with advances growth of 16% YoY (11% QoQ), while deposits rose 11% YoY (declined 1% QoQ). This was due to the reorientation programme where both the bank's asset and liability sides of the balance sheet were reoriented. NII came in at Rs 24.3bn, up 15% YoY (3% QoQ) primarily led by lower advances growth. Other income growth was muted at 6% YoY (down 5% QoQ). Yield on advances expanded by 19bps QoQ. CoF increased by 16bps QoQ. This led to a decrease in NIMs by 1bp QoQ to 3.11%.

Change in the strategy by new management team: The new management team implemented a new strategy which includes changes in the assets and liabilities of the bank. Under the new strategy the bank now plans to focus on granular retail deposits growth instead of high value, expensive deposits. CASA constitutes ~30% of the total deposits whereas term deposits form ~70% of the total mix. Through this orientation on the liability side term deposits growth decreased 12% YoY. On the assets side, management plans to adopt a deliberate and calculated approach and does not want to accelerate growth in unsecured lending and would wait for the credit cost environment to stabilise. Further, there was transition of auto loans to fixed rate book with 80% of the book now fixed rate book along with price changes in some LAP and other products. This resulted in a small rise in yields during the quarter. With respect to MFI loans and PL, the bank intends to adopt a cautious approach but would expand the credit cards business rapidly going forward.

Assume coverage on FB with a BUY: The bank implemented a new strategy targeting changes in assets and liabilities and created additional provisions in high-yielding specific assets which we believe would cushion the bank from any unfavourable events. We expect these developments to take time to bear fruit and would be watchful in the coming two quarters. We model advances growth CAGR of 14% over FY24-27E. We value the bank at 1.6x Dec'26 ABV and assume coverage with a BUY rating and TP of Rs 236 (from Rs 242).

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	FB IN/Rs 184
Market cap	US$ 5.2bn
Free float	100%
3M ADV	US$ 26.0mn
52wk high/low	Rs 217/Rs 140
Promoter/FPI/DII	0%/29%/45%

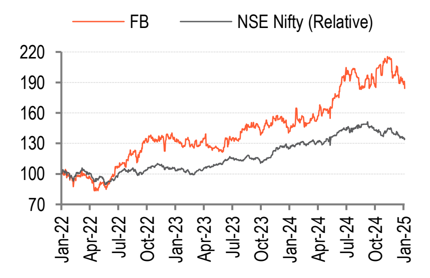
Source: NSE | Price as of 28 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
NII (Rs mn)	82,935	96,590	1,10,558
NII growth (%)	14.7	16.5	14.5
Adj. net profit (Rs mn)	37,206	41,063	48,461
EPS (Rs)	16.3	16.8	19.7
Consensus EPS (Rs)	16.3	17.4	20.1
P/E (x)	11.3	11.0	9.3
P/BV (x)	1.5	1.4	1.2
ROA (%)	1.3	1.2	1.3
ROE (%)	14.7	13.3	14.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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HOLD
TP: Rs 450 | ⮝ 8%

APOLLO PIPES | Building Materials | 28 January 2025

Mixed quarter; maintain HOLD on weak ROE profile

- **Despite strong volume (+43% YoY), PAT de-grew by 31.6% YoY in Q3FY25 due to margin pressure and higher capital charge**
- **Over-optimistic guidance as the company targets to grow its volume at 25% CAGR and improve ROCE to 25% over the next two years**
- **Maintain HOLD with revised TP of Rs 450 due to weak ROE profile on rising competitive intensity and margin-dilutive KML acquisition**

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Mixed quarter: APOLP beats our topline estimates (+2%) for Q3FY25 due to higher volume (+43% YoY vs +33% estimate), but it missed our EBITDA (-6%)/APAT (-14%) estimates due to margin contraction (-153bps YoY to 7.6% vs 8.2% estimate). Overall, APOLP revenue/EBITDA grew by 39.0%/15.6% YoY due to consolidation of Kisan Moulding's (KML) operations, but APAT de-grew by 31.6% YoY in Q3FY25.

Key highlights (Standalone): Despite higher volume (+12.8%), APOLP standalone EBITDA grew by only 4.4% YoY in Q3FY25 on account of contraction in EBITDA margin (-19 bps QoQ to 7.6%) due to inferior product mix. Standalone PAT was down for the fourth straight quarter (-34.2% YoY) due to higher capital charge.

Capex: APOLP plans to aggressively grow its pipe capacity from 216ktpa at present to 360-370ktpa over the next 2-3 years. The company has incurred capex of Rs 1.3bn in 9MFY25 and plans to spend another Rs 4bn over the next 3 years, which would be funded out of a fresh equity issue of Rs 1.1bn (at an exercise price of Rs 550 per share) and the remaining through internal accruals.

Over-optimistic guidance: APOLP targets its volume to grow at 25% CAGR over the next 2-3 years. Standalone EBITDA per unit is expected to improve to Rs 11-12/kg in FY26 (vs Rs 9.9/kg in Q3FY25) and KML EBITDA per unit to Rs 6-7/kg (vs Rs 3.9/kg in Q3FY25) over the next 2.0-2.5 years. The company targets to improve its ROCE to 25% over the next 2 years.

Maintain HOLD; TP cut to Rs 450: We expect APOLP's sales volume to grow at a strong 22.4% CAGR over FY24-FY27E, but we maintain our HOLD rating on the stock due to its weak ROE profile (6.1%-10.3% for FY25E-FY27E) in view of rising competition in the sector and the margin-dilutive acquisition of KML. At CMP, the stock trades at 30.2x on 1Y forward P/E vs 5Y average of 48.8x. We have cut our TP to Rs 450 (earlier Rs 550) due to the earnings downgrade (-18.7%/-15.7%/-11.5% for FY25E/FY26E/ FY27E) based on the weak Q3FY25 result. We have valued APOLP at 27x on Dec'26 EPS estimates (Sep'26 earlier).

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	APOLP IN/Rs 416
Market cap	US$ 198.6mn
Free float	54%
3M ADV	US$ 0.3mn
52wk high/low	Rs 799/Rs 402
Promoter/FPI/DII	46%/4%/15%

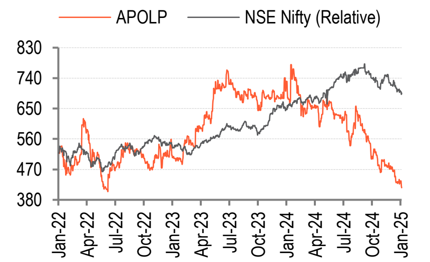
Source: NSE | Price as of 28 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	9,869	12,266	15,342
EBITDA (Rs mn)	958	1,076	1,597
Adj. net profit (Rs mn)	426	394	681
Adj. EPS (Rs)	10.8	8.9	14.8
Consensus EPS (Rs)	10.8	9.5	15.5
Adj. ROAE (%)	8.3	6.1	8.4
Adj. P/E (x)	38.4	46.5	28.1
EV/EBITDA (x)	17.9	15.9	10.6
Adj. EPS growth (%)	78.1	(17.5)	65.3

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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